**KBL European Private Bankers S.A.**
**43, boulevard Royal**
**L-2955 Luxembourg**

**R.C.S. Luxembourg: B 006.395**

**Financial statements, Management report and Report of the independent auditor**
**as at 31 December 2018**

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The quantitative tables in the following pages may sometimes show small differences due to the use of concealed decimals. These differences, however, do not in any way affect the true and fair view of the financial statements of the Bank. Similarly, the value zero '0' in the following tables indicates the presence of a number after the decimal, while '-' represents the value nil.

# REPORT OF THE REVISEUR D'ENTREPRISES AGREE

To the Board of Directors of
KBL European Private Bankers S.A.
43 boulevard Royal
L-2955 Luxembourg

## Report on the audit of the financial statements

### Opinion

We have audited the financial statements of KBL European Private Bankers S.A. (the "Bank"), which comprise the statement of financial position as at 31 December 2018, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2018, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union.

### Basis for opinion

We conducted our audit in accordance with EU Regulation N° 537/2014, the Law of 23 July 2016 on the audit profession (the "Law of 23 July 2016") and with International Standards on Auditing ("ISAs") as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" ("CSSF"). Our responsibilities under those Regulation, Law and standards are further described in the « Responsibilities of the "réviseur d'entreprises agréé" for the audit of the financial statements » section of our report. We are also independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the financial statements, and have fulfilled our other ethical responsibilities under those ethical requirements. 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 financial statements of the current period. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each key audit matter, a description of how our audit addressed the matter is set out hereafter:

1. <u>Impairment on loans and advances to customers</u>

*Description*

At 31 December 2018, the gross loans and advances to customers of the Bank amount to EUR 838 million against which an impairment allowance of EUR 7 million is recorded (see Note 14 to the financial statements).

We considered this as a key audit matter as the measurement of impairment under IFRS 9 requires complex and subjective judgments and estimates by the Bank's management. The Bank uses the following methods to assess the required impairment allowance:

- For defaulted loans and advances, impairment is assessed individually on a regular basis;
- The expected credit loss (ECL) allowance is measured for all loans and advances based on the principles laid down by IFRS 9 and adapted by the Bank in its ECL calculation process, model and tool.

In particular, the determination of impairment against loans and advance to customers requires:

- The use of judgments and estimates for the allocation of loans and advances within the 3 buckets (stage 1, stage 2, stage 3) foreseen by IFRS 9;
- Accounting interpretations and modelling assumptions used to build the models that serve as a basis to calculate the ECL;
- Inputs and assumptions used to estimate the impact of multiple economic scenarios;
- The use of judgment and assumptions regarding the amount and timing of future cash flows as well as the value and recoverability of related collateral for defaulted loans and advances.
- Refer to the notes 12, 14 and 21 of the financial statements.

*How the matter was addressed in our audit*

We tested the design and operating effectiveness of key controls across the processes relevant to the ECL calculation. This included testing of:

- Entity level controls over the ECL modelling process, including model review and governance;
- Controls over the incorporation of multiple economic scenarios by the Credit committee and the Bank's Executive Committee;
- Controls over allocation of loans and advances into stages, including movements between stages, and the identification of defaulted loans and advances;
- Controls over data accuracy and completeness;

We also performed the following substantive audit procedures:

- We verified that the data used as a basis to calculate the ECL are complete and accurate; we also tested, on a sample basis, extraction of data used in the models including rating of loans and movements between various ratings;
- We tested a sample of loans and advances (including an extended sample of loans included into the Credit Watchlist) to form our own assessment as to whether they are classified in the appropriate bucket (staging methodology);
- With the support of our internal modelling specialists, we tested the assumptions, inputs and formulas used in ECL models. This included assessing the appropriateness of model design and formulas used, considering alternative modelling techniques and recalculating the Probability of Default, Loss Given Default and Exposure at Default for a sample of models, as well as challenging the forward looking macro-economic scenarios;
- We performed an overall assessment of the ECL provision levels by stage to determine if they were reasonable considering the Bank's portfolio, risk profile, credit risk management practices and the macroeconomic environment;

- We performed substantive audit procedures on a sample of defaulted loans and advances, consisting of key items. We examined in a critical manner the assumptions used by the Bank to determine expected cash flows and estimated recovery from any underlying collateral.

2. Impairment on investments in subsidiaries

*Description*
At 31 December 2018, the gross investments in subsidiaries amount to EUR 1,084 million against which an impairment of EUR 209 million is recorded (see Note 39 to the Financial Statements). The basis of impairment of investment in subsidiaries is presented in the accounting policies in Note 2c to the financial statements.

We considered this area as a key audit matter because the determination of recoverable amounts of the Bank's investments in subsidiaries relies on management's estimates of future cash flows and their judgment with respect to the subsidiaries' future performance in accordance with latest available financial forecasts.

*How the matter was addressed in our audit*

We performed the following main procedures:

- We obtained and evaluated the assessment prepared by the Management of the carrying value of investments in subsidiaries, and the calculation of impairment allowances for the investments in subsidiaries where management believes it is required;
- We assessed the forecasts of future cash flows prepared by the Management, evaluated the assumptions and compared the estimates to externally available industry, economic and financial data;
- With the assistance of our valuation specialists, we assessed the assumptions and methodologies used by the Management to determine the recoverable amount of the investment in subsidiaries;
- Additionally, we also compared the carrying values of the Bank's investment in subsidiaries for which audited financial statements were available with their respective net asset values;
- We discussed with Management the subsidiaries' performance and their outlook.

**Other information**

The Board of Directors is responsible for the other information. The other information comprises the information included in the non-consolidated management report and the Corporate Governance Statement but does not include the financial statements and our report of “réviseur d’entreprises agréé” thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report this fact. We have nothing to report in this regard.

**Responsibilities of the Board of Directors and of those charged with governance for the financial statements**

The Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS as adopted by the European Union and Luxembourg legal and regulatory requirements relating to the preparation and presentation of the financial statements, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the Bank’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 Bank or to cease operations, or has no realistic alternative but to do so.

**Responsibilities of the “réviseur d’entreprises agréé” for the audit of the financial statements**

The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report of the “réviseur d’entreprises agréé” that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with EU Regulation N° 537/2014, the Law of 23 July 2016 and with the ISAs as adopted for Luxembourg by the CSSF 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 financial statements.

As part of an audit in accordance with EU Regulation N° 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, 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 Bank’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 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 Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report of the "réviseur d'entreprises agréé" to the related disclosures in the financial statements 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 report of the "réviseur d'entreprises agréé". However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance 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 those charged with governance 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 those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our report unless law or regulation precludes public disclosure about the matter.

**Report on other legal and regulatory requirements**

We have been appointed as "réviseur d'entreprises agréé" by the Board of Directors on 22 March 2018 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is 13 years

The Management's report, which is the responsibility of the Board of Directors, is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

We confirm that the prohibited non-audit services referred to in the EU Regulation No 537/2014 were not provided and that we remain independent of the Bank in conducting the audit.

**Other matter**

The Corporate Governance Statement includes, when applicable, information required by Article 70bis paragraph 1 of the law of 17 June 1992 relating to the annual and consolidated accounts of credit institutions governed by the laws of Luxembourg, as amended.

Ernst & Young
Société anonyme
Cabinet de révision agréé

Jean-Michel Pacaud

Luxembourg, 3 April 2019

## INCOME STATEMENT

| In EUR thousand | Notes | 31/12/2018 | 31/12/2017 |
|---|---|---|---|
| Net interest income | 4, 34 | 44,748 | 50,929 |
| Dividend income | 5, 34 | 37,047 | 64,681 |
| Net gains/losses on financial instruments measured at fair value through profit or loss | 6 | 20,746 | 7,532 |
| Net realised gains/losses on financial assets and liabilities not measured at fair value through profit or loss | 7 | -529 | 10,381 |
| Net fee and commission income | 8, 34 | 43,222 | 55,478 |
| Other net income | 9, 34 | -1,528 | 12,007 |
| **GROSS INCOME** | | **143,706** | **201,008** |
| Operating expenses | 10, 34 | -161,228 | -145,504 |
| Staff expenses | 11, 28, 29 | -101,514 | -99,179 |
| General administrative expenses | 38 | -50,763 | -37,417 |
| Other | 25, 26, 27 | -8,950 | -8,908 |
| Impairment | 12, 20, 21, 34 | -2,943 | -20,241 |
| Gains / (losses) on non-current assets held-for-sale, not qualifying as discontinued operations | 1 | -2,514 | - |
| **PROFIT / (LOSS) BEFORE TAX** | | **-22,978** | **35,264** |
| Income tax (expenses) / income | 13 | 25 | 4,000 |
| **PROFIT / (LOSS) AFTER TAX** | **31** | **-22,953** | **39,264** |

## STATEMENT OF COMPREHENSIVE INCOME

| in EUR thousand | 31/12/2018 | 31/12/2017 |
|---|---|---|
| **PROFIT / (LOSS) AFTER TAX** | **-22,953** | **39,264** |
| **OTHER COMPREHENSIVE INCOME** | **-20,262** | **185** |
| **Items that may be reclassified subsequently to profit or loss** | **-17,901** | **243** |
| Available-for-sale financial assets | - | 243 |
| *Revaluation at fair value* | - | *10,767* |
| *Net realised gains / losses on sales* | - | *-10,438* |
| *Impairment* | - | - |
| *Income tax (expenses) / income* | - | *-85* |
| Debt instruments at fair value through other comprehensive income | -17,901 | - |
| *Revaluation at fair value* | *-24,215* | - |
| *Net realised gains / losses on sales* | *444* | - |
| *Impairment* | - | - |
| *Income tax (expenses) / income* | *5,869* | - |
| **Items that will not be reclassified to profit or loss** | **-2,360** | **-58** |
| Remeasurements of defined benefit pension plans | -1,731 | -58 |
| *Remeasurements (gross)* | *-1,731* | *-58* |
| *Income tax (expense)/income on remeasurements* | - | - |
| Revaluation gains/(losses) on equity instruments at fair value through other comprehensive income | -629 | - |
| *Revaluation at fair value* | *-851* | - |
| *Income tax (expenses) / income* | *221* | - |
| **TOTAL COMPREHENSIVE INCOME** | **-43,215** | **39,449** |

The notes refer to the ‘Notes to the financial statements’, which form an integral part of these financial statements.

# BALANCE SHEET

| ASSETS (In EUR million) | Notes | 31/12/2018 IFRS 9 | 31/12/2017 IAS 39 |
|---|---|---|---|
| Cash and balances with central banks and other demand deposits | 17, 34, 36 | 3,074 | 2,091 |
| Financial assets | 14, 16, 17, 18, 19, 34, 36 | 5,131 | 6,171 |
| Held-for-trading | 14, 16, 22 | 309 | 471 |
| Designated at fair value through profit or loss | 14, 16 | - | 74 |
| Non-trading mandatorily at fair value through profit or loss | 14, 16 | 36 | - |
| At fair value through other comprehensive income | 14, 16 | 2,560 | - |
| Available-for-sale financial assets | 14, 16 | - | 4,022 |
| At amortized cost | 14, 16 | 2,212 | - |
| Loans and receivables | 14, 16 | - | 1,589 |
| Hedging derivatives | 14, 16, 22 | 14 | 15 |
| Tax assets | 24, 36 | 16 | 6 |
| Current tax assets | | - | - |
| Deferred tax assets | | 16 | 6 |
| Investment in subsidiaries and associates | 39 | 875 | - |
| Investment properties | 26 | 11 | 6 |
| Property and equipment | 26 | 57 | 59 |
| Intangible assets | 25 | 104 | 104 |
| Other assets | 23, 36 | 65 | 55 |
| Non-current assets held-for-sale | 1 | 10 | 99 |
| **TOTAL ASSETS** | | **9,342** | **8,592** |

| EQUITY AND LIABILITIES (In EUR million) | | 31/12/2018 IFRS 9 | 31/12/2017 IAS 39 |
|---|---|---|---|
| Financial liabilities | 14, 16, 17, 34 | 8,032 | 7,091 |
| Held-for-trading | 22 | 265 | 328 |
| At amortized cost | | 7,679 | 6,665 |
| Hedging derivatives | 22 | 88 | 97 |
| Provisions | 27, 29 | 12 | 10 |
| Other liabilities | 28 | 142 | 121 |
| **TOTAL LIABILITIES** | | **8,186** | **7,222** |
| **TOTAL EQUITY** | 30 | **1,157** | **1,370** |
| *Out of which Common Equity Tier 1 instruments issued* | | *708* | *708* |
| **TOTAL EQUITY AND LIABILITIES** | | **9,342** | **8,592** |

The notes refer to the ‘Notes to the financial statements’, which form an integral part of these financial statements.

# STATEMENT OF CHANGES IN EQUITY

| In EUR million | Issued and paid-up share capital | Share premium | Revaluation reserve | Remeasu-rement of defined benefit pension plans | Reserves | Profit/ Loss | **Total equity** |
|---|---|---|---|---|---|---|---|
| **2018** | | | | | | | |
| **Balance as at 31/12/2017** | **221.2** | **487.2** | **33.2** | **-6.7** | **595.5** | **39.3** | **1,369.8** |
| Impact of adopting IFRS 9 (Note 2e) | - | - | -9.4 | - | -130.3 | - | -139.7 |
| **Balance as at 01/01/2018** | **221.2** | **487.2** | **23.8** | **-6.7** | **465.2** | **39.3** | **1,230.0** |
| Transfer of previous year result to the reserves | - | - | - | - | 9.2 | -9.2 | - |
| Dividends and profit-sharing | - | - | - | - | - | -30.0 | -30.0 |
| Result on equities at fair value through other comprehensive income option (with no recycling in the profit or loss of the period) | - | - | -0.1 | - | 0.1 | - | 0.0 |
| Total comprehensive income for the year | - | - | -18.4 | -1.7 | - | -23.0 | -43.2 |
| **Balance as at 31/12/2018** | **221.2** | **487.2** | **5.3** | **-8.4** | **474.5** | **-23.0** | **1,156.9** |

| In EUR million | Issued and paid-up share capital | Share premium | Revaluation reserve AFS investments | Remeasu-rement of defined benefit pension plans | Reserves | Profit/ Loss | **Total equity** |
|---|---|---|---|---|---|---|---|
| **2017** | | | | | | | |
| **Balance as at 01/01/2017** | **221.2** | **487.2** | **32.9** | **-6.6** | **566.8** | **28.7** | **1,330.3** |
| Transfer of previous year result to the reserves | - | - | - | - | 28.7 | -28.7 | - |
| Dividends and profit-sharing | - | - | - | - | - | - | - |
| Total comprehensive income for the year | - | - | 0.3 | -0.1 | - | 39.3 | 39.4 |
| **Balance as at 31/12/2017** | **221.2** | **487.2** | **33.2** | **-6.7** | **595.5** | **39.3** | **1,369.8** |

The notes refer to the 'Notes to the financial statements', which form an integral part of these financial statements.

# CASH FLOW STATEMENT

| In EUR million | Notes | 31/12/2018 | 31/12/2017 |
|---|---|---|---|
| Profit /(loss) before tax | | -23.0 | 35.3 |
| Adjustments for: | | | |
| *Impairment of securities, amortisation and depreciation of property and equipment, intangible assets and investment properties* | *10, 12* | *8.1* | *31.2* |
| *Profit/loss on the disposal of investments* | *9* | *0.0* | *-11.8* |
| *Change in impairment for losses on loans and advances* | *12* | *2.8* | *-3.1* |
| *Change in other provisions* | *10* | *1.0* | *1.1* |
| *Unrealised foreign currency gains and losses* | | *-6.0* | *-2.4* |
| **Cash flows from /(used in) operating activities, before tax and changes in operating assets and liabilities** | | **-17.1** | **50.3** |
| Changes in operating assets (1) | | 636.4 | 314.9 |
| Changes in operating liabilities (2) | | -616.1 | 585.0 |
| Income taxes | | -1.6 | -0.8 |
| Adjustement in cash and cash equivalent definition | | - | - |
| **NET CASH FROM/(USED IN) OPERATING ACTIVITIES** | | **1.5** | **949.3** |
| Purchase of subsidiaries or business units | | -20.2 | -36.5 |
| Proceeds from sale of subsidiaries or business units | 1, 9 | 137.4 | - |
| Purchase of intangible assets | 25 | -0.1 | -0.2 |
| Proceeds from sale of intangible asset | 25 | - | 0.0 |
| Purchase of investment property | 26 | -8.1 | - |
| Proceeds from sale of investment property | 9, 26 | - | - |
| Purchase of property and equipment | 26 | -2.4 | -4.5 |
| Proceeds from sale of property and equipment | 9, 26 | 0.8 | 19.8 |
| **NET CASH FLOWS FROM /(USED IN) INVESTING ACTIVITIES** | | **107.5** | **-21.4** |
| Share capital increase | 30 | - | - |
| Purchase/sale of treasury shares | | - | - |
| Issue/repayment of non-subordinated debt | 14 | 14.8 | -52.2 |
| Issue/repayment of subordinated debts | 14 | -1.3 | -0.4 |
| Dividends paid and profit-sharing | | -30.0 | - |
| **NET CASH FLOWS FROM /(USED IN) FINANCING ACTIVITIES** | | **-16.5** | **-52.6** |
| **NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (3)** | | **92.5** | **875.3** |
| **CASH AND CASH EQUIVALENTS AS AT 01/01** | | **1,609.7** | **734.4** |
| Net increase/decrease in cash and cash equivalents | | 92.5 | 875.3 |
| **CASH AND CASH EQUIVALENTS AS AT 31/12** | | **1,702.2** | **1,609.7** |
| **ADDITIONAL INFORMATION** | | | |
| Interest paid during the year | | -92.9 | 97.1 |
| Interest received during the year | | 100.0 | 123.9 |
| Dividends received (including equity method) | 5 | 37.0 | 64.7 |
| **COMPONENTS OF CASH AND CASH EQUIVALENTS** | | **1,702.2** | **1,609.7** |
| Cash and balances with central banks (including mandatory reserve with the central bank) | | 2,891.5 | 1,794.9 |
| Loans and advances to banks repayable on demand | | 480.9 | 835.3 |
| Deposits from banks repayable on demand | | -1,670.1 | -1,020.4 |
| Of which: not available (4) | | 47.6 | 33.9 |

(1) Including Loans and advances to banks and customers, securities, derivatives and other assets.

(2) Including deposits from banks and customers, bonds issued, derivatives and other liabilities.

(3) Cash includes cash and deposits payable on demand; cash equivalents are short-term investments that are very liquid, easily convertible into a known cash amount and subject to a negligible risk of a change in value.

(4) Cash and cash equivalents not available mainly comprise of the mandatory reserve held with the Luxembourg Central Bank and the ‘margin’ accounts held with clearing houses (futures markets, etc.).

The notes refer to the ‘Notes to the financial statements’, which form an integral part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

**Note 1 – General**

KBL European Private Bankers S.A. (hereafter ‘KBL *epb*’ or the ‘Bank’) is specialised in private banking. In support of and complementary to this activity, KBL *epb* has also developed several niche activities specific to its various markets.

The business purpose of KBL *epb* is to carry out all banking and credit activities. In addition, KBL *epb* is allowed to carry out all commercial, industrial or other transactions, including real estate transactions, in order to achieve its main business purpose, either directly or through participation, or in any other manner, these provisions to be understood in the widest manner possible. KBL *epb* may carry out any activity which contributes in any way to the achievement of its business purpose. The Bank’s main activities are described in Note 3a.

KBL *epb* is a public limited liability company (*société anonyme*) incorporated in Luxembourg and having its registered office at: 43, boulevard Royal, L-2955 Luxembourg.

Since July 2012, KBL *epb* group is 99.9% owned by Precision Capital S.A., a Luxembourg-based company governed by Luxembourg law representing the interests of a group of Qatari private investors. The registered office of Precision Capital S.A. is located at 15, boulevard Roosevelt, L-2450 Luxembourg.

The Bank prepares consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, as well as a consolidated management report, which are available at its head office.

The Bank’s consolidated financial statements are consolidated in the Precision Capital’s consolidated financial statements. Precision Capital’s consolidated financial statements and management report are available at its head office. Precision Capital’s consolidated financial statements are consolidated in the Pioneer Holding S.A.’s consolidated financial statements. The registered office of Pioneer Holding S.A. is located at 15, boulevard Roosevelt, L-2450 Luxembourg.

As of 31 December 2018, KBL *epb*’s non-consolidated financial statements include those of the Spanish branch opened on 7 April 2010.

**KBL Richelieu and KBL Monaco Private Bankers**

On 1 December 2017, KBL *epb* signed a preliminary agreement for the sale of its subsidiaries KBL Richelieu in France and KBL Monaco Private Bankers to Société Générale de Banque au Liban, a universal banking group. The transaction has been closed in early July 2018.

In 2018, the sale of both entities has generated a net gain presented in other income, please refer to Note 9.

The participating interests related to KBL Monaco and KBL Richelieu were reclassified and disclosed separately in a single line item as ‘Non-current assets held-for-sale’ as of 31 December 2017. There was no impact on the liability side, income statement or statement of cash flows.

**Non-current assets held-for-sale (HFS) not qualifying as discontinued operations**

In accordance with IFRS 5, two properties owned by the Bank are disclosed separately in a single line item as ‘Non-current assets held-for-sale’ as at 31 December 2018. The Bank has decided to sell those properties within twelve months. The first property, located at Luxembourg, was previously occupied by Puilaetco Dewaay Luxembourg. The second one, located in South of France, is owned by KBL *epb* following a foreclosure.

The valuation of the second property has materially declined in the second half of 2018. The Bank has impaired the assets according to this recent fair valuation in a single line item of the income statement as ‘Gains / (losses) on non-current assets held-for-sale – not qualifying as discontinued operations’.

**Note 2a – Statement of compliance**

The financial statements presented in this report were approved by the Board of Directors of KBL *epb* on 21 March 2019.

KBL *epb*'s financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS). Given its activity, KBL *epb* is not concerned *de facto* by IFRS 4 on insurance contracts.

The financial statements provide comparative information in respect of the previous financial year.

In preparing the financial statements under IFRS, the Board of Directors is required to make estimates and assumptions that affect reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. Use of available information and application of judgement are inherent in the formation of estimates. Actual results in the future could differ from such estimates and the differences may be material to the financial statements.

**Note 2b – Changes in accounting policies since the previous annual publication that may impact KBL *epb***

The accounting policies adopted are consistent with those of the previous financial year, except for the following amendments to IFRS effective for the Bank as of 1 January 2018 (to avoid any doubt, only the new standards, amendments to standards and IFRIC which may have an impact on the Bank's financial statements are mentioned below):

- *IFRS 9 Financial Instruments*

The Bank has adopted IFRS 9 issued by the IASB in July 2014 with a date of transition of 1 January 2018. Please refer to Note 2e.

- *Changes to classification and measurement*

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

The IAS 39 measurement categories of financial assets (fair value through profit or loss (FVPL), available-for-sale (AFS), held-to-maturity and amortized cost) have been replaced by:

- Debt instruments at amortized cost,
- Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to the income statement on derecognition,
- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition,
- Financial assets measured at Fair Value Through Profit or Loss (FVPL).

The accounting for financial liabilities remains largely the same as it was under IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVPL. Such movements are presented in OCI with no subsequent reclassification to the income statement.

The Bank's classification of its financial assets and liabilities is explained in Note 2c. The quantitative impact of applying IFRS 9 as at 1 January 2018 is disclosed in Note 2e.

- *Changes to the impairment calculation*

The adoption of IFRS 9 has fundamentally changed the Bank's accounting for loan loss impairments by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Bank to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset. Details of the Bank's impairment method are disclosed in Note 2c. The quantitative impact of applying IFRS 9 as at 1 January 2018 is disclosed in Note 2e.

- *IFRS 7 R*

To reflect the differences between IFRS 9 and IAS 39, IFRS 7 'Financial Instruments: Disclosures' was updated and the Bank has adopted it, together with IFRS 9, for the year beginning 1 January 2018. Changes include:

- Transition disclosures, as shown in Note 2e,
- Detailed qualitative and quantitative information about the ECL calculations such as the assumptions and inputs used are set out in Note 2c,
- Additional and more detailed disclosures for hedge accounting as set out in Note 6.

- *IFRS 15 Revenue from Contracts with Customers*

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. IFRS 15 establishes a five step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires relevant disclosures.

This standard does not have any impact on the Bank's financial statements.

- *IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations*

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transactions for each payment or receipt of advance consideration.

This Interpretation does not have any impact on the Bank's financial statements.

- *Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions*

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The Bank's accounting policy for cash-settled share based payments is consistent with the approach clarified in the amendments. In addition, the Bank has no share-based payment transaction with net settlement features for withholding tax obligations and had not made any modifications to the terms and conditions of its share-based payment transaction.

These amendments do not have any impact on the Bank's financial statements.

In addition, the following standards which have been adopted but are only applicable for financial years starting on or after 1 January 2019 may have an impact on the financial statements:

- *IFRS 16 Leases*

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operational and financial leases.

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

*Transition to IFRS 16*

The Bank will elect to use the exemptions applicable to the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

During 2018, the Bank has performed an impact assessment of IFRS 16. Those impacts are non material.

- *Amendments to IAS 19: Plan Amendment, Curtailment or Settlement*

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event.

- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in income statement.

An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognised in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Bank.

**Note 2c – Significant accounting policies**

**a. Foreign currency translation**

KBL European Private Bankers S.A.'s financial statements are presented in EUR, which is also its functional currency.

KBL European Private Bankers S.A. maintains a multi-currency accounting system under which any transaction is registered in its original foreign currency.

In preparing the financial statements, assets and liabilities in foreign currencies are translated into EUR. Monetary items denominated in foreign currencies are converted at the closing rate prevailing at the reporting date; differences arising from such conversion are recorded in the income statement. Non-monetary items denominated in foreign currencies that are measured in terms of historical cost are translated at the historical exchange rate prevailing at the date of the transaction. Non-monetary items denominated in foreign currencies measured at fair value are translated using the spot exchange rate at the date when the fair value is determined and translation differences are reported together with changes in fair value.

Income and expense items denominated in foreign currencies are recognised in the income statement using exchange rates that approximate the rates at the dates of the transactions (e.g. average monthly exchange rates).

**b. Financial assets and liabilities**

**b.1. General principles of recognition and derecognition of financial instruments**

A financial instrument is recognised in the balance sheet when and only when the Bank becomes a party to the contractual provisions of the instrument.

A financial asset is derecognised when and only when the contractual rights to receive cash flows from the asset have expired or KBL European Private Bankers S.A. transfers the financial asset.

A financial liability is derecognised when and only when the contractual liability is settled, cancelled or expires.

Transactions whose contractual terms require delivery of the asset within a time frame established by regulation or convention in the marketplace concerned ("regular way purchases and sales of financial assets") are recognised at trade date, which is the date that KBL European Private Bankers S.A. commits to purchase or sell the asset.

Any variation in the fair value of the asset to be received during the period from the transaction date to the payment date is recognised in the same way as for the asset acquired. In other words, the change in value is not recognised for assets measured at cost or at amortized cost; it is recognised in the income statement for assets classified as financial assets at fair value through profit or loss and in equity for those classified as fair valued through other comprehensive income.

Pursuant to the provisions of IFRS 9 on derecognition (which are similar to those of IAS 39 for prior year), the Bank keeps securities lent in its securities portfolio but securities borrowed are not recorded on the balance sheet. Similarly, the securities transferred through repurchase agreements are kept in the securities portfolio but those under reverse repurchase agreements are not recorded on the balance sheet.

*Initial measurement of financial instruments*
The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described hereafter. Financial instruments are initially measured at their fair value, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount. Trade receivables are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the Bank accounts for the Day 1 profit or loss, as described below.

*Day 1 profit or loss*
When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Bank recognises the difference between the transaction price and fair value in profit or loss. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

**b.2. Categories of financial assets and financial liabilities under IFRS 9**

Since 1 January 2018, the Bank applies IFRS 9 and classified its financial assets in the following categories:

- Fair value through profit or loss (FVPL),
- Fair value through other comprehensive income (FVOCI),
- Amortized cost.

The classification requirements for debt and equity instruments are described below:

***b.2.1. Debt instruments***

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds.

Classification and subsequent measurement of debt instrument depend on:

- The Bank's business model for managing the asset,
- The cash flow characteristics of the asset.

Based on these factors, the Bank classifies its debt instrument into one of the following three measurement categories.

- *Financial assets at fair value through profit or loss (FVPL)*

*Financial assets at fair value through profit or loss* include held-for-trading assets, any assets that do not meet the criteria for amortized cost or FVOCI and other financial assets initially designated at fair value through profit or loss. The gain or loss are presented in the period in which it arises within the income statement.

Held-for-trading assets are those acquired principally for the purpose of selling them in the near term and those which are part of a portfolio with indications of recent short-term profit-taking. A gain or loss on a financial instrument measured at fair value through profit or loss that is not part of hedging relationship is recognised in profit or loss and presented in the income statement in the period in which it arises.
All derivative assets are considered as being held-for-trading unless designated as effective hedging instruments. Other assets initially designated at fair value through profit or loss are valued in the same way as held-for-trading assets, even if there is no intention of short-term profit taking. The designation at FVPL for financial assets may be used when application of this option reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

- *Financial assets at Fair value through Other comprehensive Income (*FVOCI)

The Bank applies the new category under IFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets,
- The contractual terms of the financial asset meet the SPPI test.

These instruments largely comprise assets that had previously been classified as Financial Assets available-for-sale under IAS 39.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses are recognised in income statement in the same manner as for financial assets measured at amortized cost. The ECL calculation for debt instruments at FVOCI is explained in Note 2e and 37. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

- *Financial assets at amortized cost*

Financial assets are classidied if both of the following characteristics are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows,
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The details of these conditions are outlined below.

These instruments are mainly composed of debt securities and loans and advance. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as described in Note 37. Interest income from these financial assets is included in interest and similar income using the effective interest rate method. Some financial assets measured at amortized costs are hedged under a fair value hedge strategy and in this case the fair value adjustment is recognised on the carrying amount of the financial asset.

*Business model assessment*
The Bank determines its business model at the level that best reflects how it manages groups of

financial assets to achieve its business objective. That is, whether the Bank's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable, the financial assets are classified as part of other business model and measured at FVPL.

Factors considered by the Bank in determining the business model for a group of assets include part experience on how the cash flows for these assets were collected, how the assets' performance is evaluated and reported to key management personnel, how risk are assessed and managed and how managers are compensated. The Bank business model for all loans and advances is held to collect the contractual cash flows. The ALM portfolio is held under either business model to Hold to collect or collect and sell.

*The SPPI test*
Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the financial instruments cash flows represent solely payments of principal and interest (the 'SPPI' test). In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgement and considers relevant factors such as the currency in which the financial asset is denominated and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

***b.2.2. Equity instruments***

Upon initial recognition, the Bank occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of Equity under IAS 32 'Financial Instruments: Presentation' and are not held-for-trading. Such classification is determined on an instrument by instrument basis.

Gains or losses on these equity instruments are never recycled to profit. Dividends are recognised in income statement when the right of the payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

***b.2.3. Financial liabilities***

- *Financial liabilities at fair value through profit or loss* encompass *held-for-trading liabilities* and *financial liabilities initially designated at fair value through profit or loss*.

*Held-for-trading liabilities* are liabilities held mainly with the intention of repurchasing them in the near term. All derivative liabilities are considered as being held-for-trading unless designated as effective hedging instruments.

- *Financial liabilities initially designated at fair value through profit or loss*

*Financial liabilities initially designated at fair value through profit or loss* are those liabilities accounted for under the 'fair value option'. This category is currently only used for unit-linked financial liabilities of insurance subsidiaries.

- *Other financial liabilities* are all other financial instruments not at fair value through profit or loss.

- *Hedging derivatives* are the derivatives designated in hedging relationships for which hedge accounting is applied.

**<u>b.3. Evaluation of financial instruments under IFRS9</u>**

Financial assets and liabilities are initially recognised at fair value and are then measured in accordance with the principles governing the IFRS 9 (and for prior year IAS 39) in which they are placed.

*Assets measured* at amortized cost using the effective interest rate (hereinafter "EIR") method, that is the rate that precisely discounts the future cash inflows or outflows to obtain the carrying amount. Instruments without a fixed maturity are measured at cost.

The *financial asset at fair value through Other Comprehensive Income* are measured at fair value with changes in fair value recognised in equity (‘Revaluation reserve (available-for-sale financial instruments)’) until the sale or impairment of these instruments. In the latter cases, the cumulative result of the revaluation is transferred from equity to the income statement of the period, except for equity instruments under FVOCI option.

For equity instruments with election of fair value option, there is no reclassification of gains and losses upon disposal. Any impairment losses and reversal of impairment losses are not reported separately from other changes in fair value. Dividends, when representing a return on such investments continue to be recognised in profit of loss as other income when the Bank’s right to receive payment is established.

The *financial assets and liabilities at fair value through profit or loss* are measured at fair value with changes in fair value recognised in the income statement.

**b.4. Impairment under IFRS 9**

***Overview of ECL principles***

As described in Note 2e, the adoption of IFRS 9 has fundamentally changed the Bank’s loan loss impairment method by replacing IAS 39’s incurred loss approach with a forward-looking ECL approach. From 1 January 2018, the Bank has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts, in this section all referred to as ‘financial instruments’. Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months’ expected credit loss (12mECL) as outlined below). The Bank’s policies for determining if there has been a significant increase in credit risk are set out in Note 37.

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments. The Bank’s policy for grouping financial assets measured on a collective basis is explained in Note 37.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument’s credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This is further explained in Note 37.

Based on the above process, the Bank classifies its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

- Stage 1: When loans are first recognised, the Bank recognises an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
- Stage 3: Loans considered credit-impaired (as outlined in Note 37). The bank records an allowance for the LTECLs.
- POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

For financial assets for which the Bank has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

***The calculation of ECLs***

The Bank calculates ECLs based on a four probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The calculation methodology of ECL are outlined in Note 37.

When estimating the ECLs, the Bank considers three scenarios as disclosed in Note 37. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.

With the exception of some revolving facilities, for which the treatment is separately set out below, the maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Bank has the legal right to call it earlier.

Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value.

Provisions for ECLs for undrawn loan commitments are assessed as set out in Note 27. The calculation of ECLs (including the ECLs related to the undrawn element) of revolving facilities is explained below.

The calculation methodology is summarised below:

- Stage 1: The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Bank calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the three scenarios, as explained above.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. The methodology is similar to the one explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.
- Stage 3: For loans considered credit-impaired (as defined in Note 37), the Bank recognises the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.
- Loan commitments and letters of credit: When estimating LTECLs for undrawn loan commitments, the Bank estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability-weighting of the three scenarios. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan. For credit cards and revolving facilities that include both a loan and an undrawn commitment, ECLs are calculated and presented together with the loan. For loan commitments and letters of credit, the ECL is recognised within Provisions.
- Financial guarantee contracts: The Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and the ECL provision. For this purpose, the Bank estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The calculation is made using a probability-weighting of the three scenarios. The ECLs related to financial guarantee contracts are recognised within Provisions.

***Debt instruments measured at fair value through OCI***

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortized cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the income statement upon derecognition of the assets.

***Forward looking information***

In its ECL models, the Bank relies on a broad range of forward looking information as economic inputs (refer to Note 37 for further information).

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material. Detailed information about these inputs and sensitivity analysis are provided in Note 37.

**b.5. Categories of financial assets and financial liabilities for prior year comparatives under IAS 39**

All financial assets and liabilities – including derivatives – were measured on the balance sheet according to their IAS 39 category for prior year. Each category was subject to specific measurement rules.

The IAS 39 categories were:

- *Held-to-maturity Financial Assets* are all non-derivative financial assets with fixed maturities and fixed or determinable payments that KBL European Private Bankers S.A. intends and is able to hold to maturity. The Bank's management has decided not to class financial instruments in this category.
- *Loans and receivables* are all non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.
- *Financial assets at fair value through profit or loss* include held-for-trading assets and any other financial assets initially designated at fair value through profit or loss. Held-for-trading assets are those acquired principally for the purpose of selling them in the near term and those which are part of a portfolio with indications of recent short-term profit-taking. All derivative assets are considered as being held-for-trading unless designated as effective hedging instruments. Other assets initially designated at fair value through profit or loss (frequently referred to as 'the fair value option') are valued in the same way as held-for-trading assets, even if there is no intention of short-term profit taking.

  The 'fair value option' may be used when a contract contains one or more embedded derivatives under certain conditions or when its application produces more pertinent information:
  - either because a group of financial assets/liabilities is managed on a fair value basis and its performance measured on a fair value basis, following a documented investment or risk management strategy,
  - or because the application of this option reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

  This option is mainly used by the Bank firstly for contracts with one or more embedded derivatives and secondly as an alternative to hedge accounting (aligning the valuation of the hedged instrument with that of the hedging instrument).
- *Available-for-sale financial assets* are all non-derivative financial assets which do not fall into one of the above categories.
- *Financial liabilities at fair value through profit or loss* encompass *held-for-trading liabilities* and *financial liabilities initially designated at fair value through profit or loss*. *Held-for-trading liabilities* are liabilities held mainly with the intention of repurchasing them in the near term. All derivative liabilities are considered as being held-for-trading unless designated as effective hedging instruments.
- *Financial liabilities initially designated at fair value through profit or loss* are those liabilities accounted for under the 'fair value option'. No liability is currently recognized under this category in the KBL *epb*'s financial statements.
- *Other financial liabilities* are all other financial instruments not at fair value through profit or loss.
- *Hedging derivatives* are the derivatives designated in hedging relationships for which hedge accounting is applied.

**b.6. Evaluation of financial instruments under IAS 39**

Financial assets and liabilities are initially recognised at fair value and are subsequently measured in accordance with the principles governing the IAS 39 category in which they are placed.

– General principles –

*Loans and receivables* with a fixed maturity are measured at amortized cost using the effective interest rate (hereinafter "EIR") method, that is the rate that precisely discounts the future cash inflows or outflows to obtain the carrying amount. Instruments without a fixed maturity are measured at cost.

The *available-for-sale financial assets* are measured at fair value with changes in fair value recognised in equity ('Revaluation reserve (available-for-sale financial instruments)') until the sale or impairment of these instruments. In the latter cases, the cumulative result of the revaluation is transferred from equity to the income statement of the period.

Participating interests in subsidiaries, joint ventures and associates are measured at cost, less possible impairment. Other participating interests are valued according to IAS 39 at fair value or at cost less possible impairment if the fair value cannot be measured reliably.

The *financial assets and liabilities at fair value through profit or loss* are measured at fair value with changes in fair value recognised in the income statement.

*Other financial liabilities* are measured at amortized cost. The difference between the amount made available and the nominal amount is recognised in the income statement (net interest income) *prorata temporis*, on an actuarial basis using the EIR method.

– Determination of fair value –
IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price).

When available, published price quotations (unadjusted) on active markets are used to determine the fair value of financial assets or liabilities.

If such quotations are not available fair value can be determined or derived :

- from quoted prices for similar assets or liabilities in active markets and/or from quoted prices for identical assets or liabilities in markets that are not active.
- by using a valuation technique.

When valuation techniques are used to estimate fair value, those techniques incorporate all factors that market participants would consider in setting a price and are consistent with accepted financial methodologies used for pricing financial instruments.
Such techniques encompass discounted cash flow analysis (e.g. for the valuation of interest rate swaps or forward foreign exchange transactions) and option pricing models.
Inputs used in those models (yield curves, exchange rates, volatilities…) are often readily observable on the markets. When measuring fair value, the Bank maximises the use of relevant observable inputs and minimises the use of unobservable inputs.

**<u>b.7. Impairment under IAS 39 for previous year</u>**

Available-for-sale financial assets and loans and receivables are also subject to impairment tests and impairment losses are recognised if evidence of impairment exists on the balance sheet date.

- *Available-for-sale financial assets*

For listed shares, an impairment is recognised if the market value is less than 70% of the purchase value or if the market price of the share is less than the acquisition price over one year. For debt and other equity instruments, the impairment amount is measured from the recoverable value.

Impairment losses are always recognised in the income statement. Impairment reversals are recognised in the income statement for debt instruments and in other comprehensive income (available-for-sale revaluation reserve) for listed shares and other equity instruments.

- *Loans and receivables*

The amount of the impairment loss is the excess of the carrying amount over the recoverable amount of the asset. The Bank firstly evaluates if there is an impairment loss for each individually significant loan or receivable or for each group of loans or receivables not individually significant. If the Bank considers that there is no evidence of an impairment loss for a given loan or receivable, individually significant or not, it includes it in a group of financial assets presenting the same credit risk characteristics and examines the possibility of an impairment loss on a collective basis. The assets evaluated individually and for which an impairment loss is recognised are not examined collectively.

– Embedded derivatives –
Derivatives embedded in financial instruments that are not measured at fair value through profit or loss are separated from the financial instrument and measured at fair value through profit or loss if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.
In practice, financial assets with embedded derivatives are however primarily classified as financial instruments at fair value through profit or loss, making it unnecessary to separate the embedded derivative from the hybrid (combined) instrument, since the entire financial instrument is measured at fair value, with changes in fair value being recognised in the income statement.

**<u>b.8. Hedge accounting</u>**

The Bank has elected to continue to apply the hedge accounting requirements as defined per IAS 39.

The Bank applies micro-hedge accounting when all the following conditions are met: the hedging relationship must be designated at inception and formally documented, the hedge is expected to be highly effective, and it must be possible to reliably measure the effectiveness of the hedge, forecast transactions (for cash flow hedges) must be highly probable and the hedge is measured on an ongoing basis and is determined actually to have been highly effective throughout the periods covered by the financial statements for which the hedge was designated.

Fair value hedge accounting is used by the Bank to cover the exposure of a financial instrument (mainly participating interests in foreign currency, available-for-sale financial assets and certain financial liabilities) to changes in fair value attributable to changes in interest rates or exchange rates. In this case those derivatives designated as hedging instruments (mainly interest rate swaps and cross-currency interest rate swaps) are measured at fair value with changes in fair value recognised in the income statement. Furthermore, the gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the hedged element and is also recognised in the income statement. If the hedged item is an available-for-sale financial asset already measured at fair value under other IFRS requirements, applying hedge accounting leads to splitting the change in the instrument fair value between the portion addressed by the hedge relationship, recognised in the income statement, and the portion that relates to unhedged risks, recognised in the revaluation reserve in equity.

Hedge accounting is discontinued once the hedge accounting requirements are no longer met or if the hedging instrument expires or is sold. In this case, and for debt instruments, the cumulative change to the carrying amount of the hedged instrument (relating to hedged risks) is transferred to the income statement *prorata temporis* until the instrument expires.

Cash flow hedge accounting is used by the Bank to recognise hedges of the exposure to variability in cash flows of highly probable forecast transactions. In this case:

- highly probable forecast transactions are anticipated sales of financial instruments recognised within assets (hedges may relate both to debt and equity instruments);
- hedging instruments are forward sales;
- main hedged risk is interest rate risk.

As from 31 December 2016 there are no hedging operations designated as cash flow hedge.

Hedging instruments are measured at fair value with changes in fair value recognized as follows: the portion of the gain or loss that is determined to be an effective hedge is recognised in other comprehensive income; the ineffective portion is recognised in the income statement.
Hedge accounting is to be discontinued if the hedge accounting criteria are no longer met. In this case, the hedging instruments is to be treated as held-for-trading instruments and measured accordingly.

Foreign currency financing of a net investment in a foreign entity is accounted for as a hedge of that net investment. Translation differences (taking account of deferred taxes) on the financing are recorded in equity, along with translation differences on the net investment.

However, the Bank currently does not hold any net investment in a foreign entity to which this approach is applied.

### c. Intangible assets

Intangible assets acquired are initially measured at cost and subsequently carried at cost less any accumulated amortisation and any accumulated impairment losses.

The purchase of a portfolio of customers generally includes the transfer of the client assets under management to the Bank and the recruitment of all or part of the account officers in charge of client relationships.
This type of intangible assets is amortized on a straight-line basis over its estimated useful life, typically 15 years.

When the recognition criteria are met and when the amounts are not immaterial, software is recognised as an intangible asset. Internal and external expenses incurred during the development phase of internally generated strategic software are recognised in assets and amortized using the straight-line method over the estimated useful life. The average annual rate is 25%. However, the useful life of the core banking system has been estimated at 10 years (average annual rate: 10%).

Research expenses for these projects and all expenses that relate to non-strategic projects are recognised directly in the income statement.

### d. Property and equipment

Property and equipment are initially recognised at cost.

Property and equipment, of which the use is limited in time, are depreciated using the straight-line method over their estimated useful lives.

<u>Overview of average depreciation rates</u>

| *Type of investment* | *Depreciation rate* |
|---|---|
| Land | Non depreciable |
| Buildings | 2%-3% |
| Technical installations | 5%-10% |
| Furniture | 25% |
| IT hardware | 25% |
| Vehicles | 25% |
| Works of art | Non depreciable |

An impairment loss must be recognised if the carrying value exceeds the recoverable value (which is the greater of the asset's value in use and its fair value less costs of disposal).
When property or equipment is sold, the realised gains or losses are recognised in the income

statement. If property or equipment is destroyed, the carrying amount to be written off is immediately recognised in the income statement.

**e. Investment properties**

Investment property is property held to earn rentals or for capital appreciation or both.

Investment property is recognised only when it is probable that future economic benefits associated with the investment property will flow to KBL *epb* and if its cost can be measured reliably.

Investment properties are measured at cost less any accumulated depreciation and impairment. They are depreciated using the straight-line method over their estimated useful life (average rate: 2% - 3%).

**f. Pensions**

In addition to the general and legally prescribed retirement plans, the Bank maintains a certain number of complementary systems in the form of both defined contribution and defined benefit pension plans. Defined benefit plans are those under which the Bank has a legal or constructive obligation to pay further contributions if the pension fund does not hold sufficient assets to pay all employee benefits for the current and past periods. Defined contribution plans are those under which the Bank has no further legal or constructive liability beyond the amount it pays into the fund.

In the case of defined benefit pension plans, the pension cost in the income statement and liability on the balance sheet are calculated in accordance with IAS 19 (as revised in 2011), based on the Projected Unit Credit Method, which sees each period of service as giving rise to an additional unit of benefit entitlement. The calculations are made each year by independent actuaries.

The components of the defined benefit cost are recognized according to the following principles:

(i) Service cost and net interest on the net defined benefit liability / asset are recognized in the income statement,
(ii) Remeasurements of the net defined benefit liability / asset are recognized in other comprehensive income. Remeasurements include:
    - actuarial gains and losses stemming from the remeasurement of the defined benefit obligation,
    - the return of plan assets after deducting the portion included in net interest as determined in (i), and
    - any change in the effect of the asset ceiling – also excluding any amount included in net interest as determined in (i).

    Remeasurements recognized in other comprehensive income are not reclassified to the income statement in subsequent periods.

In the case of defined contribution plans, the contributions payable are expensed when the employees render the corresponding service which generally coincides with the year in which the contributions are actually paid.

**g. Tax assets and tax liabilities**

These balance sheet headings include both current and deferred tax assets and liabilities.

Current tax is the amount expected to be paid or recovered, using the tax rate which has been enacted or substantively enacted at the balance sheet date.

Deferred tax liabilities are recognised for all taxable temporary differences between the carrying amount of an asset or liability and its tax base. They are valued using the tax rates in effect for the periods when the assets are realised or the liabilities settled, on the basis of the tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax assets are recognised for the carryforward of unused tax losses and unused tax credits and for all deductible temporary differences between the carrying value of the assets and liabilities and their tax base, to the extent that it is probable that future taxable profit will be available against which these losses, tax credits and deductible temporary differences can be utilised.

Where required by IAS 12, tax assets and liabilities are offset.

**h. Provisions**

A provision is recognised when and only when the following three conditions are met:
- KBL *epb* has a present obligation (at the reporting date) as a result of a past event,
- it is more likely than not that an outflow of resources embodying economic benefits will be required to settle this obligation, and
- the amount of the obligation can be estimated reliably.

### i. Financial guarantees

Financial guarantees contracts are initially recognised at fair value and subsequently measured at the higher of (i) the amount initially recognized less, when appropriate, cumulative amortisation and (ii) the Bank's best estimate of the expenditure required to settle the present obligation at the reporting date.

The premium received is recognised in the income statement in Net fees and commission income on a straight line basis over the life of the guarantee.

### j. Equity

Equity is the residual interest in the assets of KBL *epb* after all its liabilities have been deducted.

Equity instruments have been differentiated from financial instruments in accordance with the provisions of IAS 32.

The acquisition cost of KBL *epb* treasury shares that have been or are being purchased is deducted from equity. Gains and losses realised on sale or cancellation of treasury shares are recognised directly in equity.

The revaluation reserve for available-for-sale financial assets is included in equity until any impairment or sale. In such a case, the gains and losses are transferred to the income statement of the period.

The "defined benefit remeasurement reserve" relating to the recognition of certain pension costs is also included in equity. This reserve will however never be subsequently recycled into the income statement.

As regards to cash flow hedges and hedges of a net investment in a foreign operation, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity.

### k. write offs

The Bank's accounting policy under IFRS 9 remains the same as it was under IAS 39. Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

### l. Non-current assets held-for-sale

The Bank classifies assets as held-for-sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Assets classified as held-for-sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

The criteria for held-for-sale classification is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Property, plant and equipment and intangible assets once classified as held-for-sale are not depreciated or amortized. The net gain or loss arising from remeasurement and impairments on non-current assets held-for-sale is shown in a single line item of the income statement as 'Assets HFS – not qualifying as discontinued operations'.

The gains/ loss on disposal are presented in Other net income.

### m. Investment in subsidiaries and associates

Subsidiaries and associates are measured at cost following IAS 27 and IAS 28. Impairment tests are performed once a year.

### n. The effective interest rate method

Under both IFRS 9 and IAS 39, interest income is recorded using the EIR method for all financial assets measured at amortized cost, interest rate derivatives for which hedge accounting is applied and the related amortisation/recycling effect of hedge accounting. Similar to interest-bearing financial assets classified as available-for-sale or held to maturity under IAS 39, interest income on interest bearing financial assets measured at FVOCI under IFRS 9 is also recorded using the EIR method. Interest expense is also calculated using the EIR method for all financial liabilities held at amortized cost. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or liability or, when appropriate, a shorter period, to the gross carrying amount of the financial asset.

The EIR (and therefore, the amortized cost of the financial asset) is calculated by taking into account transaction costs and any discount or premium on acquisition of the financial asset, as well as fees and costs that are an integral part of the EIR. The Bank recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, the EIR calculation also takes into account the effect of potentially different interest rates that may be charged at various stages of the financial asset's expected life, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).
If expectations of fixed rate financial assets' or liabilities' cash flows are revised for reasons other than credit risk, then changes to future contractual cash flows are discounted at the original EIR with a consequential adjustment to the carrying amount. The difference from the previous carrying amount is booked as a positive or negative adjustment to the carrying amount of the financial asset or liability on the balance sheet with a corresponding increase or decrease in Interest revenue/expense calculated using the effective interest method.

For floating-rate financial instruments, periodic re-estimation of cash flows to reflect the movements in the market rates of interest also alters the effective interest rate, but when instruments were initially recognised at an amount equal to the principal, re-estimating the future interest payments does not significantly affect the carrying amount of the asset or the liability.

**o. Revenue**

KBL *epb* recognises revenue relating to ordinary activities if and only if the following conditions are met:
- it is probable that the economic benefits associated with the transaction will flow to KBL *epb,* and
- the amount of revenue can be measured reliably.

The specific conditions below must also be met before recognising the related revenue:

<u>Net interest income</u>
Interest is recognised *prorata temporis* using the effective interest rate, which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or liability.

All interests paid and received on financial instruments, including held-for-trading derivatives, are recorded under the heading "Net interest income".

<u>Dividends</u>
Dividends are recognised when the right of the shareholder to receive the payment is established. They are presented under the heading "Dividend income" in the income statement irrespective of the IFRS category of the related assets.

<u>Rendering of services</u>
Revenue from services is recognised by reference to the stage of completion at the balance sheet date. According to this method, the revenue is recognised in the periods when the services are provided.

**p. Reclassifications of prior year figures**

Where necessary, certain prior year figures in the Notes to the financial statements have been reclassified to conform with changes to the current year's presentation for comparative purposes.

**Note 2d – Significant accounting estimates and judgements**

The preparation of financial statements requires the use of accounting estimates, which by definition will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

This note provides an overview of the areas that involve a higher degree of judgment or complexity and major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment within the next financial year.

Detailed information about each of these estimates and judgements is included in the related notes together with information about the basis of calculation for each affected line item in the financial statements.

**Measurement to the expected credit loss allowance**

The measurement of the expected credit loss allowance for financial assets measured at amortized cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour. Explanation of the inputs, assumptions and estimations techniques used in measuring ECL is further detailed in Note 37, which also sets out key sensitivities of the ECL to changes in these elements.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- determining criteria for significant increase in credit risk,
- choosing appropriate models and assumptions for the measurement of ECL,
- establishing the number and relative weightings of forward looking scenarios for each type of product/ market and the associated ECL.

It has been the Bank's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

## Note 2e – IFRS 9 opening balance sheet (transition tables)

The Bank has adopted IFRS 9 issued by the IASB in July 2014 with a date of transition of 1 January 2018. As permitted by the transitional provisions of IFRS 9, the Bank elected not to restate comparative figures.

Any adjustments to the carrying amounts of financial assets and liabilities at transition were recognised in the opening retained earnings and other reserves of the current period. The Bank has elected to continue to apply the hedge accounting requirements of IAS 39 on adopting of IFRS 9.
Details of the specific IFRS 9 accounting policies applied in the current period are described in Note 2c 'Significant accounting policies' (as well as the previous IAS 39 accounting policies applied in the comparative period).

### Classification and measurement of financial instruments

IFRS 9 introduces a principle-based approach to the classification of financial assets based on the nature of the cash flows of the assets and an entity's business model. The new measurement categories replace the existing IAS 39 classifications of FVTPL, AFS, loans and receivables, and held-to-maturity.

The comparison between the measurement category and the carrying amount of financial assets in accordance with IAS 39 as at 31 December 2017 and IFRS 9 as at 1 January 2018 is as follows:

**In EUR million**

| Measurement Category IAS 39 | Net Carrying Amount | Measurement Category IFRS 9 | Net Carrying Amount |
|---|---|---|---|
| **Cash on Hand** | **2.5** | **Cash on Hand** | **2.5** |
| Amortized cost | 2.5 | Amortized cost | 2.5 |
| **Cash balances with central banks** | **1,792.4** | **Cash balances with central banks** | **1,792.3** |
| Amortized costs | 1,792.4 | Amortized cost | 1,792.3 |
| **Demand deposit with credit institutions** | **296.0** | **Demand deposit with credit institutions** | **295.7** |
| Amortized costs | 296.0 | Amortized cost | 295.7 |
| **Debt securities** | **3,340.3** | **Debt securities** | **3,326.9** |
| FVOCI (AFS) | 3,182.8 | FVOCI (Collect & Sell) | 2,423.3 |
| Amortized costs (L&R) | - | Amortized Cost (Hold to Collect) | 744.5 |
| FVPL (Held-for-trading) | 83.4 | FVPL (Held-for-trading) | 83.4 |
| FVPL (Designated) | 74.1 | FVPL (Designated) | 74.1 |
| | | FVPL (Mandatorily) | 1.6 |
| **Equity instruments /Funds** | **46.1** | **Equity instruments /Funds** | **46.1** |
| FVPL (Held-for-trading) | 0.2 | FVPL (Held-for-trading) | 0.2 |
| FVOCI (AFS) | 45.9 | FVOCI option | 1.0 |
| FVPL (Designated) | - | FVPL (Mandatorily) | 44.9 |
| **Loans & Advances** | **1,588.6** | **Loans & Advances** | **1,459.2** |
| Amortized Costs | 1,588.6 | Amortized Costs | 1,459.2 |
| **Derivatives** | **387.0** | **Derivatives** | **387.0** |
| FVPL (Held-for-trading) | 387.0 | FVPL (Held-for-trading) | 387.0 |
| **Derivatives Hedge Accounting** | **14.9** | **Derivatives Hedge Accounting** | **14.9** |
| FVPL | 14.9 | FVPL | 14.9 |
| **TOTAL** | **7,467.8** | **TOTAL** | **7,324.6** |

There were no changes to the classification and measurement of financial liabilities. The Bank has not issued any financial liability measured at fair value through profit or loss and therefore no changes in the fair value attributable to changes in the instrument's credit risk, which shall be presented in other comprehensive income.

## Reconciliation of statement of financial position balances from IAS 39 to IFRS 9

**In EUR million**

| **Total financial assets measured at Amortized Cost (AC)** | **31/12/2017 IAS 39** | Reclassification | Remeasurement | **01/01/2018 IFRS 9** |
|---|---|---|---|---|
| **Cash, cash balances with Central Banks and Demand Deposits with Credit Institutions** | | | | |
| Closing balance under IAS 39 | 2,090.8 | | | |
| Remeasurement: ECL Allowance | | | -0.4 | |
| Opening balance under IFRS 9 | | | | 2,090.4 |
| **Loans & Receivables** | | | | |
| Closing Balance under IAS 39 | 1,588.6 | | | |
| Substraction: to Assets at Amortized Costs **[A]** | | -1,588.6 | | |
| Opening Balance under IFRS 9 | | | | - |
| **Asset at amortized Cost** | | | | |
| Closing Balance under IAS 39 | - | | | |
| Addition: From Loans & Receivable **[A]** | | 1,588.6 | | |
| Addition: From AFS Debt securities **[B]** | | 758.0 | | |
| Remeasurement: from FV to Amortized cost | | | -13.1 | |
| Remeasurement: ECL allowance | | | -129.6 | |
| Opening Balance under IFRS 9 | | | | 2,203.8 |
| **TOTAL AT AMORTIZED COST** | **3,679.4** | **758.0** | **-143.2** | **4,294.2** |

| **Total financial assets measured at Fair Value through Other Comprehensive Income (FVOCI)** | **31/12/2017 IAS 39** | Reclassification | Remeasurement | **01/01/2018 IFRS 9** |
|---|---|---|---|---|
| **Available-for-sale** | | | | |
| Closing balance under IAS 39 | 3,228.7 | | | |
| Substraction: to Assets at FVOCI **[C]** | | -2,424.3 | | |
| Substraction: to Assets mandatorily at FVPL **[D]** | | -46.4 | | |
| Substraction: to Amortized Costs **[B]** | | -758.0 | | |
| Opening Balance under IFRS 9 | | | | - |
| **Financial Instruments at Fair Value through Other Comprehensive Income** | | | | |
| Closing balance under IAS 39 | - | | | |
| Addition: From AFS (Debt) | | 2,424.3 | | |
| Opening balance under IFRS 9 | | | | 2,424.3 |
| **TOTAL AT FVOCI** | **3,228.7** | **-804.4** | | **2,424.3** |

| **Total financial assets measured at Fair value through Profit or loss ( FVPL)** | **31/12/2017 IAS 39** | Reclassification | Remeasurement | **01/01/2018 IFRS 9** |
|---|---|---|---|---|
| **Held-for-trading** | | | | |
| Closing balance under IAS 39 and opening balance under IFRS 9 | 470.6 | | | 470.6 |
| **Financial instrument mandatorily at FVPL** | | | | |
| Closing Balance under IAS 39 | - | | | |
| Addition: From AFS **[D]** | | 46.4 | | |
| Opening Balance under IFRS 9 | | | | 46.4 |
| **Financial instrument at FVPL (designated)** | | | | |
| Closing balance under IAS 39 and opening balance under IFRS 9 | 74.1 | | | 74.1 |
| **Hedging derivatives** | | | | |
| Closing balance under IAS 39 and opening balance under IFRS 9 | 14.9 | | | 14.9 |
| **TOTAL FVPL** | **559.7** | **46.4** | | **606.1** |

**[A] Instruments classified previously as Loans and Receivables under IAS 39 measured at Amortized costs under IFRS 9**

The Loans and receivables mainly are composed of mortgage, term loans and current account overdrafts granted to counterparty other than credit institutions and deposits to credit institutions.
These instruments meet the Solely Payment of Principal and Interest (SPPI) test because their interests are only consideration for credit risk and time value of money on the principal. In addition, they are held under a business model to collect contractual cash flows. As a result, these instruments were classified as Financial assets at amortized costs from the date of initial application.

The Loans and receivable were also including debt securities not quoted which are also classified as Financial assets at amortized costs from the date of initial application.

**[B] Debt Securities classified previously as Available-for-sale under IAS 39 measured at Amortized costs under IFRS 9**

The assessment of business model of debt instruments classified as Available-for-sale (AFS) under IAS 39 has been performed at portfolios level because this best reflects the way the business is managed and information provided to the management. We consider various information for each portfolio such as: the stated objectives and policies for the portfolio, the expectations about future sales activity, the basis for management decision making, the risk parameters under which the portfolios are managed to meet their objectives, the performance evaluation and reporting to the Bank management.

Upon assessing its business model for securities within the ALM portfolios, the Bank has identified portfolios held to collect contractual cash flows at level of each entity within the Bank.

ALM portfolio are composed of basic debt securities meeting the SPPI tests and therefore these portfolios previously amounting to EUR 758.0 million were reclassified at amortized cost from the date of initial application. As a result, the positive fair value adjustments previously recorded were reversed for an amount of EUR 13.1 million.

**[C] Securities classified previously as Available-for-sale under IAS 39 measured at Fair Value through Other Comprehensive income under IFRS 9**

The Group has assessed that the remaining part of debt portfolios previously classified as AFS are SPPI compliant and held under a business model that is to collect contractual cash flows and sell therefore these portfolios were reclassified from AFS to Financial Assets measured at Fair value through OCI for a total amount of EUR 2,424.3 million with no re-measurement.

The Bank has irrevocably elected to apply at transition date the FVOCI option on equity held in small portfolio of non-trading equity securities of ALM portfolio as permitted by IFRS 9 as the criteria are met on an instrument by instrument basis. The realised gains or losses on these equities are no longer be recycled to the income statement when they are disposed of.

**[D] Securities classified previously as Available-for-sale under IAS 39 and measured at Fair Value through profit or Loss under IFRS 9**

The portfolios held by the group include debt instruments that do not pass the SPPI tests since linked to specific index.

These instruments were reclassified to FVPL mandatorily at their fair value and a corresponding reclassification was performed within equity from OCI changes of fair value on AFS instrument to retained earning.

Equity instruments, of which funds and private equity funds, previously classified in AFS were reclassified to mandatorily at fair value through profit or loss given the fact these are not SPPI. Unrealised gains / losses on these equity instruments have been reclassified within equity from revaluation reserve to retained earnings.

There has been no new designation of investments in debt instrument that were previously designated at fair value through profit or loss. The designation is still applicable under IFRS 9 as relating to the mismatch.

### Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

The following table reconciles the prior period's closing impairment measured in accordance with the IFRS 9 expected loss model at 1 January 2018.

| Measurement Category IFRS 9<br>In EUR million | Loan loss allowance under IAS 39 / provisions under IAS 37 | Remeasurement | Loan loss allowance under IFRS 9 |
|---|---|---|---|
| **Cash, cash balances with Central Banks and Demand Deposits with Credit Institutions** | **-** | **-0.4** | **-0.4** |
| Cash balances with central banks | - | -0.1 | -0.1 |
| Demand deposits with credit institutions | - | -0.3 | -0.3 |
| **Assets at Fair Value through OCI** | **-** | **-1.2** | **-1.2** |
| Debt securities at Fair value through OCI | - | -1.2 | -1.2 |
| **Financial assets at Amortized costs** | **-4.9** | **-129.6** | **-134.5** |
| Debt securities at amortized costs | - | -0.3 | -0.3 |
| Loans and advances | -4.9 | -129.4 | -134.2 |
| **Commitments given and guarantees** | **-1.2** | **-0.3** | **-1.6** |
| Commitments given and guarantees | -1.2 | -0.3 | -1.6 |
| **TOTAL** | **-6.1** | **-131.6** | **-137.7** |

The impairment model applies to all financial assets not measured at fair value through profit and loss, including loan commitments and financial guarantees given.

Under IFRS 9, credit loss allowances are measured at the reporting date according to a three-stage expected credit loss model as described in Note 37. To assess whether the credit risk of a financial instrument has increased significantly, a combination of quantitative and qualitative factors are considered. These include the analysis of the term structure of the probability of default as well as watchlist surveillance based on reasonable and supportable information. The latter embeds IFRS 9 backstop rules of 30 (90) days past due for stage 1 to 2 (2 to 3) transitions. The application of backstop rule for transition from stage 1 to stage 2 is however subject to professional judgement for each specific situation as, in some circumstances, it can be demonstrated that even if contractual payments become more than 30 past due this does not represent a significant increase in the credit risk. For instance, it may excludes situations where there are delays due to administrative reasons.The credit risk assessment is symmetrical in nature, allowing financial assets to move back to stage 1 if the variation of credit risk is no longer considered a significant increase or if the financial assets have been forborne (to be assessed case by case).

ECLs are measured as the probability-weighted present value of expected cash shortfalls over the remaining expected life of the financial instrument. The Bank will incorporate three forward-looking macroeconomic scenarios in its ECL calculation process: a base, an upside and a downside scenario.

- Stage 1: are considered as such, financial assets the credit risk of which has not significantly increased since origination, relative to the credit risk level at origination. The loss allowance is recognized equal to the credit losses expected to result from defaults occurring over the 12 months following the reporting date.
- Stage 2: are considered as such, financial assets the credit risk of which has significantly increased since origination, relative to the credit risk level at origination. The loss allowance is recognized equal to the credit losses expected to result from defaults occurring over the remaining lifetime of the instrument after the reporting date.
- Stage 3: are considered as such, credit-impaired financial assets. The loss allowance is recognized equal to the credit losses expected to result from defaults occurring over the remaining lifetime of the instrument following the reporting date. Interest revenue is calculated

based on the carrying amount of the asset, net of the allowance, rather than on its gross carrying amount.

Further information on the measurement of the impairment allowance under IFRS 9 can be found in Note 37.

The impact of transition to IFRS 9 on reserves and retained earnings is, as follows:

| **In EUR million** | **Reserves and retained earnings** |
|---|---|
| **Fair value reserve** | |
| **Closing balance under IAS 39 (31 December 2017)** | **33.2** |
| Reclassification of debt securities from available-for-sale to amortized cost | -13.1 |
| Reclassification of securities (debt and equity) from available-for-sale to FVPL | -1.2 |
| Deferred tax in relation to the above | 3.7 |
| Recognition of expected credit losses under IFRS 9 for debt financial assets at FVOCI | 1.2 |
| **Opening balance under IFRS 9 (1 January 2018)** | **23.8** |
| | |
| **Retained earnings** | |
| **Closing balance under IAS 39 ( 31 December 2017)** | **67.2** |
| Investment securities ( debt and equity) from available-for-sale to FVPL | 1.2 |
| Recognition of IFRS 9 ECLs including those measured at FVOCI ( see below) | -131.6 |
| **Opening balance under IFRS 9 ( 1 January 2018)** | **-63.2** |
| | |
| **TOTAL change in equity due to adoption IFRS 9** | **-139.7** |

**Note 3a – Operating segments by business segment**

Revenue and costs attributed to a segment reflect direct and indirect income from clients as well as allocated costs linked to this segment business as implemented in accounting management in 2018.

KBL *epb* distinguishes between the following primary segments:

- The **'PRIVATE BANKING'** segment includes the wealth management activities provided to KBL *epb* private clients.

- The **'GLOBAL INSTITUTIONAL & PROFESSIONAL SERVICES'** segment includes services provided to institutional clients. This segment includes custodian bank and fund domiciliation and administration activities, paying agent activities, central securities depository Clearstream / Euroclear activities, as well as intermediation and portfolio management services for KBL *epb* institutional clients.

- The '**OWN ACCOUNT & GROUP ITEMS**' segment includes support activity provided by KBL *epb* to the network of subsidiaries, acting in its capacity as parent company, all other elements not directly linked to the previous two segments, and extraordinary elements not directly linked to other business segments. 'Own Account' includes activities such as bullions, bond and structured products own account, ALM free capital portfolio revenues,… (not directly private client-related).

| **Income statement**<br><br>**In EUR million** | **PRIVATE BANKING** | | **GLOBAL INSTITUTIONAL & PROFESSIONAL SERVICES** | | **OWN ACCOUNT & GROUP ITEMS** | | **KBL *epb*** | |
|---|---|---|---|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** | **2018** | **2017** | **2018** | **2017** |
| Net interest income | 14.4 | 18.1 | 16.5 | 14.7 | 13.8 | 18.1 | 44.7 | 50.9 |
| Dividend income | 1.2 | 0.5 | 0.9 | 0.3 | 35.0 | 63.9 | 37.0 | 64.7 |
| Net gains/losses on financial instruments measured at fair value through profit or loss | 3.6 | 3.6 | 5.1 | 4.8 | 12.0 | -0.9 | 20.7 | 7.5 |
| Net realised gains/losses on financial assets and liabilities not measured at fair value through profit or loss | -0.2 | 3.5 | -0.1 | 2.5 | -0.2 | 4.4 | -0.5 | 10.4 |
| Net fee and commission income | 21.5 | 29.1 | 24.1 | 24.2 | -2.5 | 2.1 | 43.2 | 55.5 |
| Other net income | -0.2 | -0.3 | -0.1 | -0.1 | -1.1 | 12.4 | -1.5 | 12.0 |
| **GROSS INCOME** | **40.4** | **54.5** | **46.3** | **46.5** | **56.9** | **100.0** | **143.7** | **201.0** |
| Operating expenses | -39.8 | -47.1 | -32.6 | -37.4 | -88.9 | -61.1 | -161.2 | -145.5 |
| Impairment | -3.2 | 0.4 | 0.0 | 0.2 | 0.3 | -20.8 | -2.9 | -20.2 |
| Assets HFS - not qualifying as disc. opr. | -2.5 | - | - | - | 0.0 | 0.0 | -2.5 | 0.0 |
| **PROFIT/LOSS BEFORE TAX** | **-5.1** | **7.8** | **13.8** | **9.3** | **-31.7** | **18.1** | **-23.0** | **35.3** |
| Income tax (expense) / income | | | | | 0.0 | 4.0 | 0.0 | 4.0 |
| **PROFIT/LOSS AFTER TAX** | **-5.1** | **7.8** | **13.8** | **9.3** | **-31.6** | **22.1** | **-23.0** | **39.3** |

Management monitors the operating results of its operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the annual accounts.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

## Note 3b – Operating segments by geographic sector

The Bank carries out most of its activities in Western Europe.

## Note 4 – Net interest income

| In EUR thousand | 31/12/2018 | 31/12/2017 |
|---|---|---|
| **Breakdown by portfolio** | | |
| **Interest income** | **863,494** | **391,155** |
| Financial assets at fair value through other comprehensive income | 48,645 | - |
| Available-for-sale financial assets | - | 60,308 |
| Financial assets at amortized cost | 20,912 | - |
| Loans and receivables | - | 11,650 |
| Interest income on liabilities at amortized cost (1) | 10,226 | 10,409 |
| Other | - | 153 |
| *Sub-total of interest income from financial instruments not measured at fair value through profit or loss* | *79,783* | *82,519* |
| Financial assets held-for-trading | 763,542 | 267,260 |
| Net interest on hedging derivatives | 20,169 | 41,376 |
| Non-trading financial assets mandatorily at fair value through profit or loss | 0 | - |
| **Interest expense** | **-818,746** | **-340,225** |
| Financial liabilities at amortized cost | -39,301 | -16,966 |
| Interest expense on assets at amortized cost* | -3,182 | -3,179 |
| Other | -23 | - |
| *Sub-total of interest expense on financial instruments not measured at fair value through profit or loss* | *-42,507* | *-20,145* |
| Financial liabilities held-for-trading | -725,863 | -243,147 |
| Net interest on hedging derivatives | -50,376 | -76,934 |
| **Net interest income** | **44,748** | **50,929** |

(1) Negative interests disclosed in “Interest income on liabilities” and “Interest expense on assets” are applicable as from 31/12/2016.

## Note 5 – Dividend income

| In EUR thousand | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Participating interests | 34,102 | 63,491 |
| Equity instruments at fair value through other comprehensive income | 265 | - |
| Non-trading financial assets mandatorily at fair value through profit or loss | 2,680 | - |
| Equity instruments available-for-sale | - | 1,190 |
| **Dividend income** | **37,047** | **64,681** |

## Note 6 – Net gains/losses on financial instruments measured at fair value through profit or loss

| In EUR thousand | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Held-for-trading | 9,293 | 5,858 |
| Non-trading mandatorily at fair value through profit or loss | 11,371 | - |
| Other financial instruments designated at fair value | -12 | 35 |
| Fair value adjustments in hedge accounting (micro-hedging) | 94 | 1,639 |
| *Fair value of hedged items* | *-13,032* | *-29,749* |
| *Fair value of hedging items* | *13,127* | *31,388* |
| **Net gains/losses on financial instruments measured at fair value through profit or loss** | **20,746** | **7,532** |

## Note 7 – Net realised gains/losses on financial assets and liabilities not measured at fair value through profit or loss

| In EUR thousand | 31/12/2018 | 31/12/2017 |
|---|---|---|
| **At fair value through other comprehensive income** | **-447** | - |
| Debt securities | -447 | - |
| **At amortized cost** | **-82** | - |
| Debt securities | -7 | - |
| Loans and advances | -75 | - |
| **Available-for-sale financial assets** | **-** | **10,408** |
| Debt instruments | - | 1,616 |
| Equity instruments | - | 8,792 |
| **Loans and receivables** | **-** | **-27** |
| **Net realised gains/losses on financial assets and liabilities not measured at fair value through profit or loss** | **-529** | **10,381** |

## Note 8 – Net fee and commission income

| In EUR thousand | 31/12/2018 | 31/12/2017 |
|---|---|---|
| **Fee and commission income** | **76,903** | **100,684** |
| Asset management | 57,066 | 75,153 |
| Securities transactions | 17,208 | 21,188 |
| Other | 2,629 | 4,342 |
| **Fee and commission expense** | **-33,681** | **-45,205** |
| Asset management | -28,334 | -39,347 |
| Securities transactions | -4,722 | -4.880 |
| Other | -625 | -978 |
| **Net fee and commission income** | **43,222** | **55,478** |

## Note 9 – Other net income

| In EUR thousand | | 31/12/2018 | 31/12/2017 |
|---|---|---|---|
| **Other net income** | | **-1,528** | **12,007** |
| Of which : | Disposal of subsidiaries : KBL Monaco / KBL Richelieu | 1,988 | - |
| | Wealth tax | -1,091 | -1,050 |
| | Rental compensation related to the sale of real estate in Monaco | -2,452 | - |
| | Sale of real estate | 441 | 11,481 |
| | Net proceeds from precious metals transactions | 312 | 795 |
| | Sales of work of art | - | 292 |

## Note 10 – Operating expenses

Operating expenses include staff costs, amortisation and depreciation of investment properties, amortisation and depreciation of property and equipment and intangible assets, changes in provisions and general administrative expenses.

General administrative expenses include in particular repair and maintenance expenses, advertising expenses, rent, professional duties, IT costs and various (non-income) taxes.

| (In EUR thousand) | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Staff expenses | -101,514 | -99,179 |
| General administrative expenses | -50,763 | -37,417 |
| Depreciation and amortisation of property and equipment, intangible assets and investment properties | -7,943 | -7,806 |
| Net provision allowances | -1,008 | -1,102 |
| **Operating expenses** | **-161,228** | **-145,504** |

## Note 11 – Staff

| | 31/12/2018 | 31/12/2017 |
|---|---|---|
| **Total average number of persons employed (in full-time equivalents - FTE)** | **630** | **702** |
| Breakdown by business segment (1) | | |
| Private Banking | 259 | 284 |
| Institutional & Professional Services | 186 | 205 |
| Own Account & Group items | 185 | 213 |

(1) The breakdown of commercial, administrative and support staff, which does not include the pre-retirement FTE, has been made on the same basis than for drawing up Note 3a on operating segments by business segment.

## Note 12 – Impairment

| In EUR thousand | 31/12/2018 | 31/12/2017 |
|---|---|---|
| (Impairment)/reversal of impairment of: | | |
| **Cash balances with central banks and other demand deposits** | **-35** | - |
| **At fair value through other comprehensive income** | **-172** | - |
| Stage 1 | -172 | - |
| **At amortized cost** | **-2,736** | - |
| Stage 1 | 68 | - |
| Stage 2 | 22 | - |
| Stage 3 | -2,826 | - |
| **Loans and receivables** | **-** | **3,147** |
| **Available-for-sale financial assets** | **-** | **196** |
| **Investments in subsidiaries** | **-** | **-23,584** |
| **Impairment** | **-2,943** | **-20,241** |

More detailed information on impairment is provided in Note 37.

### Impairment on loans and receivables

| In EUR thousand | 31/12/2017 |
|---|---|
| **Total** | **3,147** |
| **Breakdown by type** | |
| (Impairment)/reversal of impairment | |
| Specific impairment on loans and receivables | 3,249 |
| Portfolio-based impairment | -102 |

See also Note 21 – Impairment on loans and receivables

### Impairment on available-for-sale financial assets

| In EUR thousand | 31/12/2017 |
|---|---|
| **Total** | **196** |
| (Impairment)/reversal of impairment of: | |
| Debt instruments | 196 |
| Equity instruments | - |

See also Note 20 – Impairment on available-for-sale financial assets

### Impairment on investments in subsidiaries

| In EUR thousand | 31/12/2018 | 31/12/2017 |
|---|---|---|
| **Total** | **-** | **-23,584** |
| (Impairment)/reversal of impairment of: | | |
| Equity instruments | - | -23,584 |
| **On participating interests** | **-** | **-23,584** |
| KBL Richelieu | - | -23,584 |

See also Note 20 – Impairment on available-for-sale financial assets

The values of participating interests and purchased portfolios of customers are subject to an impairment test which is performed at least annually, in the course of the fourth quarter.

Recoverable values are primarily measured from a Dividend Discount Model (DDM) valuation method which, in practice, represents an estimation of fair value less costs of disposal (the related fair value estimates correspond to ‘level 3’ fair values under the fair value hierarchy described in IFRS 13).
Other cross-check methods such as the ‘Net asset value + multiple of Assets under management’ might be used to corroborate the results of the DDM method.

**DDM methodology**

Future dividends input in the DDM model are estimated according to the following methodology:

- for the period covering the next five years, dividends are based on the five-year Business Plan presented by the subsidiaries to the Group Executive Committee,
- for the period beyond the fifth year, a terminal value is calculated based on a long term (LT) growth rate of dividends,
- Transformation margin at group level is reallocated to the entities proportionally to the deposits. Proportional capital consumption linked to this transformation activity is also deducted from the valuation.

**Key assumptions**

Key assumptions used in the DDM are the following:

- the Discount rate,
- the LT growth rate.

The Discount rate used in the DDM calculations is determined from the Group current cost of capital as estimated from the *Capital Asset Pricing Model* (CAPM).
The CAPM estimates the cost of capital as the sum of the current risk free rate and an equity premium, the latter being adjusted to reflect current market expectations of the return required for the specific asset ($\beta$ factor).

Inputs used in the model are adjusted to reflect current market situation and relies as much as possible on relevant observable data:

- risk free rates are measured from current long dated (10 years) government bond yields in the country where the participation operates,
- the $\beta$ factor is directly derived from current observable market data for a selection of listed peers,
- consistently with generally accepted market methodologies used in business valuations, the standard Equity Risk premium is estimated from historical data on a country-by-country basis (source Duff & Phelps).

Discount rates used in the 2018 impairment tests range from 6.0% to 8.3%.

LT growth rates used in the DDM have been aligned on ‘Real GDP Growth rates’ (i.e. excluding the inflation component) as published in the European Commission Eurostat database (2020 forecasts by country).

LT growth rates used in the 2018 impairment tests range from 1.2% to 2.7%.

## Note 13 – Income tax (expenses) / income

| In EUR thousand | 31/12/2018 | 31/12/2017 |
|---|---|---|
| **Total** | **25** | **4,000** |
| **Breakdown by type** | **25** | **4,000** |
| Current tax | 25 | - |
| Deferred tax | - | 4,000 |
| *of which: losses carried forward* | - | *4,000* |
| **Breakdown by major components:** | | |
| Result before tax excluding branches | -20,914 | 36,657 |
| Luxembourg income tax rate | 26.01% | 26.01% |
| **Income tax calculated at the Luxembourg income tax rate** | **5,440** | **-9,534** |
| Plus/minus tax effects attributable to: | | |
| Tax-free income | 14,509 | 16,514 |
| Other non-deductible expenses | -1,115 | -855 |
| Adjustments related to prior years | -19,468 | 2 |
| Adjustments opening deferred tax due to change in tax rate | - | - |
| Unused tax losses and unused tax credits | -31,748 | 7,905 |
| Other | 32,407 | -10,032 |
| **Income tax adjustments** | **-5,408** | **13,534** |
| **Total** | **25** | **4,000** |

Details of tax assets are given in Note 24.

In 2002, under Article 164 bis of the Luxembourg Income Tax Law (LIR), the Bank obtained approval for the fiscal consolidation of its subsidiaries: Kredietrust Luxembourg S.A. and KBL Immo S.A.

Further to the approval of the Luxembourg tax authorities dated of June 6, 2017, Banque Puilaetco Dewaay Luxembourg S.A. has also joined the fiscal consolidation group of KBL as from the year 2017.

The deferred tax assets not recognised in the balance sheet of KBL excluding branches as of 31 December 2018 amount to EUR 143.1 million (31 December 2017: EUR 91.6 million).

## Note 14 – Classification of financial instruments: breakdown by portfolio and by product

- Financial instruments are classified into several categories (“portfolios”). Details of these various categories and the valuation rules linked to them are given in Note 2c, point b dealing with financial assets and liabilities (IFRS 9 as from 01/01/2018, IAS 39 previously).
- The balance sheet analyses below have been conducted at the dirty price.

**CARRYING AMOUNTS**
**In EUR million**

**31/12/2018**

| ASSETS | Held-for-trading | Non-trading mandatorily at fair value through profit or loss | At fair value through OCI | At amortized cost | Hedging derivatives | Total |
|---|---|---|---|---|---|---|
| **Loans and advances to credit institutions** | **-** | **-** | **-** | **694** | **-** | **694** |
| **Loans and advances to others than credit institutions** | **-** | **-** | **-** | **831** | **-** | **831** |
| Consumer credits | - | - | - | 4 | - | **4** |
| Mortgage loans | - | - | - | 337 | - | **337** |
| Term loans | - | - | - | 250 | - | **250** |
| Current accounts | - | - | - | 164 | - | **164** |
| Other | - | - | - | 76 | - | **76** |
| **Equity instruments** | **0** | **34** | **17** | **-** | **-** | **51** |
| **Debt instruments issued by** | **68** | **2** | **2,543** | **688** | - | **3,300** |
| - government bodies | - | 0 | 1,771 | 400 | - | **2,171** |
| - credit institutions | 57 | - | 235 | 160 | - | **452** |
| - corporates | 12 | 2 | 537 | 128 | - | **678** |
| **Financial derivatives** | **240** | **-** | **-** | **-** | **14** | **254** |
| **Total** | **309** | **36** | **2,560** | **2,212** | **14** | **5,131** |
| Of which reverse repos | - | - | - | 390 | - | **390** |

**CARRYING AMOUNTS**
**In EUR million**

**31/12/2017**

| ASSETS | Held-for-trading assets | Financial instruments at fair value (FIFV) through profit or loss | Available-for-sale (AFS) financial assets | Loans and receivables (L&R) | Hedging derivatives | Total |
|---|---|---|---|---|---|---|
| **Loans and advances to credit institutions** | **-** | **-** | **-** | **869** | **-** | **869** |
| **Loans and advances to others than credit institutions** | **-** | **-** | **-** | **720** | **-** | **720** |
| Consumer credits | - | - | - | 5 | - | **5** |
| Mortgage loans | - | - | - | 244 | - | **244** |
| Term loans | - | - | - | 178 | - | **178** |
| Current accounts | - | - | - | 292 | - | **292** |
| Other | - | - | - | 0 | - | **0** |
| **Equity instruments** | **0** | **-** | **840** | - | - | **840** |
| **Debt instruments issued by** | **83** | **74** | **3,183** | - | - | **3,340** |
| - government bodies | 3 | 74 | 2,215 | - | - | **2,292** |
| - credit institutions | 52 | - | 419 | - | - | **471** |
| - corporates | 29 | - | 548 | - | - | **578** |
| **Financial derivatives** | **387** | **-** | **-** | **-** | **15** | **402** |
| **Total** | **471** | **74** | **4,022** | **1,589** | **15** | **6,171** |
| Of which reverse repos | - | - | - | 279 | - | **279** |

**CARRYING AMOUNTS**
**In EUR million**

**31/12/2018**

| LIABILITIES | Held-for-trading (HFT) liabilities | Hedging derivatives | Financial liabilities at amortized cost | Total |
|---|---|---|---|---|
| **Deposits from credit institutions** | **-** | **-** | **3,161** | **3,161** |
| **Deposits from others than credit institutions** | - | - | **4,497** | **4,497** |
| Current accounts/demand deposits | - | - | 3,451 | 3,451 |
| Time deposits | - | - | 1,046 | 1,046 |
| Other deposits | - | - | - | **-** |
| **Debt securities issued** | **-** | **-** | **21** | **21** |
| Not subordinated | | | 20 | 20 |
| Certificates of deposits | - | - | 15 | 15 |
| Convertible debt securities | - | - | - | - |
| Non convertible debt securities | - | - | 4 | 4 |
| Other | - | - | - | - |
| Subordinated | - | - | 1 | 1 |
| **Financial derivatives** | **265** | **88** | **-** | **353** |
| **Short sales** | **-** | **-** | **-** | **-** |
| Equity instruments | - | - | - | **-** |
| Debt instruments | - | - | - | **-** |
| **Total** | **265** | **88** | **7,679** | **8,032** |
| Of which repos | - | - | 271 | **271** |

**CARRYING AMOUNTS**
**In EUR million**

**31/12/2017**

| LIABILITIES | Held-for-trading (HFT) liabilities | Hedging derivatives | Financial liabilities at amortized cost | Total |
|---|---|---|---|---|
| **Deposits from credit institutions** | **-** | **-** | **2,908** | **2,908** |
| **Deposits from others than credit institutions** | **-** | **-** | **3,749** | **3,749** |
| Current accounts/demand deposits | - | - | 3,220 | 3,220 |
| Time deposits | - | - | 529 | 529 |
| Other deposits | - | - | - | - |
| **Debt securities issued** | **-** | **-** | **8** | **8** |
| Not subordinated | - | - | 5 | 5 |
| Certificates of deposits | - | - | - | - |
| Convertible debt securities | - | - | - | - |
| Non convertible debt securities | - | - | 5 | 5 |
| Other | - | - | - | - |
| Subordinated | - | - | 3 | **3** |
| **Financial derivatives** | **326** | **97** | **-** | **423** |
| **Short sales** | **3** | **-** | **-** | **3** |
| Equity instruments | - | - | - | **-** |
| Debt instruments | 3 | - | - | **3** |
| **Total** | **328** | **97** | **6,665** | **7,091** |
| Of which repos | - | - | 114 | **114** |

## FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table summarises the carrying amounts and fair values of the financial assets and liabilities not measured at fair value. Loans and advances to credit institutions have a short term maturity (mainly less than 3 months) and loans and advances to other than credit institutions mainly carries a variable interest rate justifying that carrying amounts and fair value of financial assets are considered to be equal.

| In EUR million | Carrying amount | | Fair value | |
|---|---|---|---|---|
| | 31/12/2018 | 31/12/2017 | 31/12/2018 | 31/12/2017 |
| **ASSETS** | | | | |
| **Loans and advances to credit institutions** | **694** | **869** | **694** | **869** |
| **Loans and advances to others than credit institutions** | **831** | **720** | **831** | **720** |
| Consumer credits | 4 | 5 | 4 | 5 |
| Mortgage loans | 337 | 244 | 337 | 244 |
| Term loans | 250 | 178 | 250 | 178 |
| Current accounts | 164 | 292 | 164 | 292 |
| Other | 76 | 0 | 76 | 0 |
| **Debt instruments** | **688** | **-** | **695** | **-** |
| **LIABILITIES** | | | | |
| **Deposits from credit institutions** | **3,161** | **2,908** | **3,161** | **2,908** |
| **Deposits from others than credit institutions** | **4,497** | **3,749** | **4,498** | **3,749** |
| Current accounts/demand deposits | 3,451 | 3,220 | 3,451 | 3,220 |
| Time deposits | 1,046 | 529 | 1,047 | 529 |
| Other deposits | - | - | - | - |
| **Debt securities issued** | **21** | **8** | **21** | **8** |
| Not subordinated | 20 | - | 20 | - |
| Certificates of Deposits | 15 | - | 15 | - |
| Convertible debt securities | - | - | - | - |
| Non-convertible debt securities | 4 | 5 | 4 | 5 |
| Other | - | - | - | - |
| Subordinated | 1 | 3 | 1 | 3 |

## FAIR VALUE HIERARCHY

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) price in active market for identical assets or liabilities;
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;
- Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

**31/12/2018**
**In EUR million**

| ASSETS | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Held-for-trading** | **21** | **276** | **12** | **309** |
| Equity instruments | - | 0 | 0 | **0** |
| Debt instruments | 0 | 56 | 12 | **68** |
| Derivatives | 21 | 219 | - | **240** |
| **Designated at fair value through profit or loss** | **-** | **-** | **-** | **-** |
| **Non-trading mandatorily at fair value through profit or loss** | **-** | **0** | **36** | **36** |
| Equity instruments | **-** | 0 | 34 | **34** |
| Debt instruments | - | - | 2 | **2** |
| **At fair value through other comprehensive income** | **1,391** | **1,152** | **17** | **2,560** |
| Equity instruments | - | - | 17 | **17** |
| Debt instruments | 1,391 | 1,152 | - | **2,543** |
| **Hedging derivatives** | - | **14** | - | **14** |

| LIABILITIES | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Held-for-trading** | **20** | **244** | **-** | **265** |
| Equity instruments | - | - | - | **-** |
| Debt instruments | - | - | - | **-** |
| Derivatives | 20 | 244 | - | **265** |
| **Hedging derivatives** | **-** | **88** | **-** | **88** |

31/12/2017
In EUR million

| ASSETS | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Held-for-trading** | **10** | **457** | **3** | **471** |
| Equity instruments | - | 0 | 0 | **0** |
| Debt instruments | - | 80 | 3 | **83** |
| Derivatives | 10 | 377 | - | **387** |
| **Financial assets at fair value through profit or loss** | **-** | **74** | **-** | **74** |
| **Available-for-sale financial assets** | **110** | **3,075** | **44** | **3,229** |
| Equity instruments (excluding instruments at cost) | - | 4 | 42 | **46** |
| Debt instruments | 110 | 3,072 | 2 | **3,183** |
| **Hedging derivatives** | - | 15 | - | **15** |

| LIABILITIES | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Held-for-trading** | **10** | **318** | **-** | **328** |
| Equity instruments | - | - | - | **-** |
| Debt instruments | - | 3 | - | **3** |
| Derivatives | 10 | 315 | - | **326** |
| **Hedging derivatives** | **-** | **97** | **-** | **97** |

## Transfers between the level 1 and level 2 categories

**31/12/2018**

**In EUR million**

| ASSETS | From Level 1 to Level 2 | From Level 2 to Level 1 |
|---|---|---|
| **Held-for-trading** | **-** | **0** |
| Equity instruments | - | - |
| Debt instruments | - | 0 |
| **At fair value through other comprehensive income** | **2** | **597** |
| Equity instruments | - | - |
| Debt instruments | 2 | 597 |
| **LIABILITIES** | | |
| **Held-for-trading** | **-** | **-** |
| Equity instruments | - | - |
| Debt instruments | - | - |

**31/12/2017**

**In EUR million**

| ASSETS | From Level 1 to Level 2 | From Level 2 to Level 1 |
|---|---|---|
| **Held-for-trading** | **0** | **-** |
| Equity instruments | - | - |
| Debt instruments | 0 | - |
| | | |
| **Available-for-sale financial assets** | **92** | **84** |
| Equity instruments (excluding instruments at cost) | - | - |
| Debt instruments | 92 | 84 |
| **LIABILITIES** | | |
| **Held-for-trading** | **-** | **-** |
| Equity instruments | - | - |
| Debt instruments | - | - |

All transfers between categories (i.e. those between level 1 and level 2 detailed in the above tables and those into or out of level 3 detailed in the tables dedicated to the Level 3 fair value measurements here below) are the result of the internal Fair Value Hierarchy process run by the Bank.

All transfers disclosed are deemed to have occurred at the end of the reporting period. Transfers are thus measured at the closing fair values of the related items.

## Level 3 financial instruments measured at fair value

| In EUR million | Held-for-trading | Non-trading mandatorily at fair value through profit or loss | At fair value through other comprehensive income | Total |
|---|---|---|---|---|
| **Balance as at 01/01/2018** | **3** | **43** | **1** | **47** |
| Changes in fair value for the year | 0 | 11 | -1 | 10 |
| - recognised in the income statement | 0 | 11 | - | 11 |
| - recognised in the other comprehensive income | - | - | -1 | -1 |
| Purchases / Capital increases | 6 | - | - | 6 |
| Sales / Capital decreases | - | -2 | - | -2 |
| Transfers into / out of level 3 | 3 | - | - | 3 |
| Transfer of IFRS category | - | -16 | 16 | 0 |
| **Balance as at 31/12/2018** | **12** | **36** | **17** | **65** |
| Total gains / losses recognised in the income statement, that is attributable to the change in unrealised gains or losses relating to those assets and liabilities held at the end of the reporting period | 0 | 11 | -1 | 10 |

| In EUR million | Financial instruments measured at fair value through profit or loss | Available-for-sale financial assets | Total |
|---|---|---|---|
| **Balance as at 01/01/2017** | **1** | **47** | **48** |
| Changes in fair value for the year | 0 | -3 | -3 |
| - recognised in the income statement | 0 | -3 | -3 |
| - recognised in the other comprehensive income | - | - | - |
| Purchases / Capital increases | 1 | - | 1 |
| Sales / Capital decreases | -1 | - | -1 |
| Transfers into / out of level 3 | 2 | - | 2 |
| **Balance as at 31/12/2017** | **3** | **44** | **47** |
| Total gains / losses recognised in the income statement, that is attributable to the change in unrealised gains or losses relating to those assets and liabilities held at the end of the reporting period | 0 | -3 | -3 |

Level 3 positions mainly include investments in Private Equity structures, holdings in unlisted equity instruments and other participating interests. Most significant positions (which are mandatorily at fair value through P&L except equity investment for which the Bank has elected to present fair value changes in other comprehensive income) are further commented here below.

Private Equity holdings include two main positions whose global fair value recognized in the statement of financial position at year-end amounts to EUR 18.8 million.

The first one (EUR 15.7 million) consists in shares in a company, resulting from the merger in 2018 between an investment fund and its management company, whose investment objective is to build a balanced portfolio of properties in order to derive benefits from changes in the demand for and supply of wood products and biomass. The company currently owns forests and a farm in Eastern Europe. Its net asset value (NAV) is measured on a yearly basis and published in audited financial statements. The valuation of the underlying assets of the fund (i.e. the biological and tangible assets) is performed by two independent appraisers appointed by the Board of Directors of the company (in accordance with the Private Placement Memorandum). Methodologies used by the appraisers to fair value the underlying assets range from ‘market comparison’ approaches (where fair value is derived from most recent valuations / transactions observed on similar assets in the same area, adjusted for the main differences identified between the proxy asset and the target asset to be fair valued) to pure ‘income approaches’ (DCF method). The DCF computation is based on the latest business plan prepared by the company managers and on assumptions, which include, among others, the discounting rate used, inflation rates, exit yield, sales growth targets, crop productivity levels and costs.

DCF Model is based on several assumptions among which (i) expectations that the biomass market will gradually reach maturity over the coming years and (ii) the liberalization of the gas market to take place in the area where the entity operates and which should lead to significant increase of gas prices. Agriculture crop yields are also expected to record a gradual increase in productivity levels, following expected improvement of the soil quality through intensive sub-soiling and plowing activities. Energy crop yields have been estimated based on technical studies. Discount rates used by the appraiser to compute the DCF valuation are based on a weighted average cost of capital set at 8.4% for the forests and 9.3% for the farm activities. For the key assumptions of timber price, biomass price, food and energy crops productivity and discounting rates that have significant impact on fair value of forest properties and farm activities, sensitivity analyses were performed.

Those analyses led to company NAV per share estimates, which ranged from EUR 38.08 to EUR 45.27. The market comparison approach led to a range of NAV valuation from EUR 40.58 to EUR 42.84.

The business model being not fully mature, the break-even point is not yet reached by the company. Therefore, KBL *epb* group management decided adjust the value of this investment to EUR 36.86 per share, which is, consistently with the valuation method applied in 2017, the low value of the DCF valuation disclosed in the audited annual report of the company adjusted to take into accounts the financial impacts of 2018 events.

In 2017, under IAS39, this investment was classified as available-for-sale. Due to its nature at that time, it was booked as a position mandatorily at fair value in the IFRS9 2018 opening balance. However, in the course of the year 2018 the fund merged with its management company and took the legal status of a Public Company limited by shares. Consequently, as this investment in equity instruments became eligible to the option, the Bank irrevocably elected to apply the fair value in OCI option. Cumulated fair value variation booked in IFRS9 opening balance's retained earning remained unchanged, only the fair value variation of the year is recognized in OCI.

The second investment (EUR 3.1 million) is a structure with a fixed maturity, which was extended from 2012 to 2022 in the course of the year. Investment policy is to develop a portfolio of retail parks. Once these assets being fully operational, they are sold to long-term investors and proceeds are returned to shareholders. The majority of the parks currently held by the company are operational and generate revenues. Some are still under development.

This private equity holding is now fully invested and starting its divestment mode: up to now, two retail parks have already been sold with substantial capital gains. Latest information received from the company indicates that business performance is strong in terms of net operating cash flows. After reviewing those business developments, the Group management decided to adjust the fair valuation of its interest in the company to reflect the latest official external valuation (March 2018) adjusted by the subsequent share capital distribution and dividend paid out. This led to a fair value per share of EUR 4.67 at year-end.

Other participating interests mainly include two holdings for a global fair value of EUR 31.1 million.

The first one (EUR 21.6 million) relates to an interest in a company offering securities settlement services. Until 2017, in absence of external observable inputs, the valuation was derived from the net asset value, based on the latest financial information received from the company or market. In 2018, there has been an increased level of information available following significant transactions made by other shareholders. Moreover, the company sent information about its valuation to its shareholders. IFRS13 'Fair value measurement' states that the use of relevant observable inputs should be maximized and the use of unobservable inputs minimized. Consequently, a new valuation method has been developed based on transactions that occurred in 2018. A market multiple is now applied to the latest amount of the net asset value available. This led to a fair valuation of EUR 1,503.12 by share at year-end.

The other position is a participating interest in a stock exchange Group (EUR 9.5 million). For this holding, the Bank retained the valuation performed by an independent valuer appointed by the company. Valuation estimates were computed using three different approaches: a discounted cash flow approach (DCF), a market multiples, and, for a part of its activity, transaction multiples. Average fair value stemming from the different models was then estimated to be EUR 2,534 per share; this figure has been used to fair value the position in the Bank's financial statements as of 31 December 2018. The appraisal report also included a sensitivity analysis under various scenarios for DCF and market multiple models. Under that analysis, computed fair values ranged from EUR 2,124 to EUR 3,155 per share.

## Note 15 – Financial assets at fair value through other comprehensive income and at amortized cost: breakdown by portfolio and quality

| (in EUR million) | At fair value through other comprehensive income | At amortized cost | TOTAL |
|---|---|---|---|
| **31/12/2018** | | | |
| **Equity instruments** | **17** | **-** | **17** |
| **Debt securities** | **2,543** | **688** | **3,231** |
| **Stage 1** | **2,543** | **688** | **3,231** |
| Gross amount | 2,544 | 688 | **3,232** |
| Expected Credit Losses | -1 | 0 | **-2** |
| **Loans and advances** | - | **1,525** | **1,525** |
| **Stage 1** | **-** | **1,464** | **1,464** |
| Gross amount | - | 1,465 | **1,465** |
| Expected Credit Losses | - | -1 | **-1** |
| **Stage 2** | **-** | **50** | **50** |
| Gross amount | - | 50 | **50** |
| Expected Credit Losses | - | 0 | **0** |
| **Stage 3** | **-** | **11** | **11** |
| Gross amount | - | 17 | **17** |
| Expected Credit Losses | - | -6 | **-6** |
| **Total** | **2,560** | **2,212** | **4,772** |

| In EUR million | Available-for-sale (AFS) financial assets | Loans and receivables (L&R) | Total |
|---|---|---|---|
| **31/12/2017** | | | |
| Unimpaired assets | 3,455 | 1,589 | 5,044 |
| Impaired assets | 779 | 4 | 784 |
| Impairment | -212 | -5 | -217 |
| **Total** | **4,022** | **1,589** | **5,611** |

## Note 16 – Financial assets and liabilities: breakdown by portfolio and residual maturity

In EUR million

| ASSETS | Held-for-trading assets | Designated at fair value through profit or loss | Non-trading at fair value through profit or loss | At fair value through other comprehen sive income | At amortized cost | Hedging derivatives | Total |
|---|---|---|---|---|---|---|---|
| **31/12/2018** | | | | | | | |
| Less than or equal to 1 year | 245 | - | **-** | 762 | 1,189 | 2 | **2,198** |
| More than 1 but less than or equal to 5 years | 59 | - | 0 | 1,201 | 755 | 5 | **2,020** |
| More than 5 years | 4 | - | 36 | 596 | 269 | 7 | **912** |
| **Total** | **309** | **-** | **36** | **2,560** | **2,212** | **14** | **5,131** |

| ASSETS | Held-for-trading (HFT) assets | Financial instruments at fair value (FIFV) through profit or loss | Available-for-sale (AFS) financial assets | Loans and receivables (L&R) | Hedging derivatives | Total |
|---|---|---|---|---|---|---|
| **31/12/2017** | | | | | | |
| Less than or equal to 1 year | 399 | 74 | 824 | 986 | 2 | **2,285** |
| More than 1 but less than or equal to 5 years | 58 | - | 1,728 | 274 | 4 | **2,064** |
| More than 5 years | 14 | - | 1,471 | 328 | 8 | **1,821** |
| **Total** | **471** | **74** | **4,022** | **1,589** | **15** | **6,171** |

In EUR million

| LIABILITIES | Held-for-trading (HFT) liabilities | Hedging derivatives | Liabilities at amortized cost | Total |
|---|---|---|---|---|
| **31/12/2018** | | | | |
| Less than or equal to 1 year | 239 | 11 | 7,679 | **7,929** |
| More than 1 but less than or equal to 5 years | 22 | 51 | 0 | **73** |
| More than 5 years | 3 | 26 | - | **30** |
| **Total** | **265** | **88** | **7,679** | **8,032** |
| **31/12/2017** | | | | |
| Less than or equal to 1 year | 312 | 5 | 6,659 | **6,976** |
| More than 1 but less than or equal to 5 years | 11 | 67 | 6 | **83** |
| More than 5 years | 6 | 26 | - | **31** |
| **Total** | **328** | **97** | **6,665** | **7,091** |

## Note 17 – Offsetting of financial assets and liabilities

A financial asset and a financial liability shall be offset and the net amount presented in the balance sheet when, and only when the Bank:

- currently has a legally enforceable right to set off the recognized amounts; and
- intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

The Bank currently has no legally enforceable right which satisfies the above conditions. It follows that all amounts presented on the face of the balance sheet are gross amounts.

The Bank however frequently enters into Master Netting Agreements (“MNA”) with its counterparties to manage the credit risks associated primarily with (i) repurchase and reverse repurchase transactions, (ii) securities borrowing / lending and (iii) over-the-counter derivatives.

These arrangements may also be supplemented by collateral agreements.

Offsetting rights provided for by such MNA are generally conditional upon the occurrence of some specific future events (typically the events of default, insolvency or bankruptcy of the counterparty). They are thus not current, which prevents the Bank from setting the related assets and liabilities off on the balance sheet.
Similarly, the rights of set off relating to the cash and other financial instrument collateral are also conditional upon the default of the counterparty.

The financial impact of the MNA potential offsetting opportunities are disclosed in the following tables. Only Global Master Repurchase Agreements (GMRA) for repurchase agreements and International Swaps and Derivatives Association Master Agreement (ISDA) for over-the-counter derivatives have been considered.

The effect of Master Neeting Agreements relating to securities lending and borrowing has not been reported because, as underlined in the Bank's significant accounting policies (cf. Note 2c), those transactions are not recognized on the balance sheet (i.e. securities lent are not derecognized from the balance sheet and securities borrowed are not recognized within assets). Notes 18 and 19 give additional information on those activities and on the related financial collateral received / pledged.

| **ASSETS (in EUR million)** | **Impact of Master Netting Agreements** | | | |
|---|---|---|---|---|
| **31/12/2018** | Gross amounts of financial assets presented on the balance sheet | Netting potential / financial liabilities | Financial collateral received (securities and cash) | Net amount |
| Cash and balances with central banks and other demand deposits | 3,074 | - | - | 3,074 |
| Financial assets | | | | |
| Hedging and trading derivatives | 254 | -201 | -40 | 14 |
| Held-for-trading assets (excluding derivatives) | 68 | - | - | 68 |
| Designated at fair value through profit or loss | - | | | |
| Non-trading mandatorily at fair value through profit or loss | 37 | - | - | 37 |
| At fair value through other comprehensive income | 2,560 | - | - | 2,560 |
| At amortized cost | 2,212 | | -390 | 1,822 |
| **Total** | **8,204** | **-201** | **-430** | **7,574** |

| **LIABILITIES (in EUR million)** | **Impact of Master Netting Agreements** | | | |
|---|---|---|---|---|
| **31/12/2018** | Gross amounts of financial liabilities presented on the balance sheet | Netting potential / financial assets | Financial collateral pledged (securities and cash) | Net amount |
| Financial liabilities | | | | |
| Hedging and trading derivatives | 353 | -201 | -127 | 25 |
| Held-for-trading liabilities (excluding derivatives) | - | - | - | - |
| Liabilities measured at amortized cost | 7,679 | - | -269 | 7,410 |
| **Total** | **8,032** | **-201** | **-396** | **7,435** |

| ASSETS (in EUR million) | Impact of Master Netting Agreements | | | |
|---|---|---|---|---|
| 31/12/2017 | Gross amounts of financial assets presented on the balance sheet | Netting potential / financial liabilities | Financial collateral received (securities and cash) | Net amount |
| Cash and balances with central banks and other demand deposits | 2,091 | - | - | 2,091 |
| Financial assets | | | | |
| Hedging and trading derivatives | 402 | -315 | -39 | 48 |
| Held-for-trading assets (excluding derivatives) | 84 | - | - | 84 |
| Assets designated at fair value through profit or loss | 74 | - | - | 74 |
| Available-for-sale financial assets | 4,022 | - | - | 4,022 |
| Loans and receivables | 1,589 | - | -271 | 1,317 |
| **Total** | **8,261** | **-315** | **-310** | **7,636** |

| LIABILITIES (in EUR million) | Impact of Master Netting Agreements | | | |
|---|---|---|---|---|
| 31/12/2017 | Gross amounts of financial liabilities presented on the balance sheet | Netting potential / financial assets | Financial collateral pledged (securities and cash) | Net amount |
| Financial liabilities | | | | |
| Hedging and trading derivatives | 423 | -315 | -81 | 26 |
| Held-for-trading liabilities (excluding derivatives) | 3 | - | - | 3 |
| Liabilities measured at amortized cost | 6,665 | - | -113 | 6,552 |
| **Total** | **7,091** | **-315** | **-194** | **6,581** |

## Note 18 – Securities lending and securities given in guarantee

The Bank regularly carries out transactions in which the assets transferred do not qualify for derecognition under IFRS 9. The securities are generally transferred under full ownership and the counterpart is thus able to re-use them in other operations.

This mainly concerns the following operations:

- repurchase agreements ('repo'),
- securities given as collateral (in particular for securities borrowing or to guarantee credit lines received).

These transactions can be broken down as follows:

| **In EUR million 31/12/2018** | **Repo (**)** Debt instruments | **Other (*)** Debt instruments |
|---|---|---|
| Held-for-trading financial assets | - | 4 |
| At fair value through other comprehensive income | 195 | 1,501 |
| At amortized cost | 75 | 385 |
| Designated at fair value through profit or loss | - | - |
| **Total financial assets not derecognised** | **270** | **1,890** |
| Other (*) | - | - |
| **Total** | **270** | **1,890** |

| **In EUR million 31/12/2017** | **Repo (**)** Debt instruments | **Other (*)** Debt instruments |
|---|---|---|
| Held-for-trading financial assets | - | 6 |
| Financial instruments at fair value through profit or loss | - | 74 |
| Available-for-sale financial assets | 113 | 1,903 |
| **Total financial assets not derecognised** | **113** | **1,983** |
| Other (*) | - | - |
| **Total** | **113** | **1,983** |

*(*) The item 'Other' relates to securities borrowed or received as collateral for other operations.*

*(**) The carrying amount of debts associated with repo operations is available in Note 14.*

### Note 19 – Securities received in guarantee

The Bank mainly receives securities as collateral in relation to its reverse repurchase agreement operations and securities lending operations.
These securities are generally transferred under full ownership and the Bank is able to re-use them in other operations.

The fair value of these guarantees can be broken down as follows:

| In EUR million | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Reverse repurchase agreements | 402 | 271 |
| Collateral received for securities lending | - | - |
| **Total** | **402** | **271** |
| *Of which, transferred to:* | | |
| *Collateralised deposits other than repurchase agreements* | 402 | - |
| *Repurchase agreements* | - | - |

### Note 20 – Impairment of financial assets at fair value through other comprehensive income

| Changes in the ECL amount | Financial assets at fair value through other comprehensive income | | | |
|---|---|---|---|---|
| **In EUR million** | Stage 1 | Stage 2 | Stage 3 | **TOTAL** |
| **Balance as at 01/01/2018** | **1** | **-** | **-** | **1** |
| New assets originated or purchased | 1 | - | - | **1** |
| Assets derecognized or repaid | 0 | - | - | **0** |
| Change in credit risk | 0 | - | - | **0** |
| Amounts written off | - | - | - | **-** |
| Other | 0 | - | - | **0** |
| **Balance as at 31/12/2018** | **1** | **-** | **-** | **1** |

**CHANGES**
**In EUR million**

| | Debt instruments | Equity instruments |
|---|---|---|
| **Balance as at 01/01/2017** | **4** | **412** |
| Changes affecting the income statement | 0 | 24 |
| Allowances | 0 | 24 |
| Reversals | 0 | - |
| Changes not affecting the income statement | 0 | - |
| Use of provision | - | - |
| Other / Change impact | 0 | 0 |
| Transfer to Assets Held-for-Sale | 0 | -227 |
| **Balance as at 31/12/2017** | **3** | **209** |

See Note 12 - Impairment

## Note 21 – Impairment of financial assets at amortized cost

| Changes in the ECL amount (in EUR million) | Financial assets at amortized cost Stage 1 | Stage 2 | Stage 3 | TOTAL |
|---|---|---|---|---|
| **Balance as at 01/01/2018** | 2 | 128 | 4 | **134** |
| New assets originated or purchased | 1 | - | - | **1** |
| Assets derecognized or repaid | -2 | 0 | 0 | **-2** |
| Change in credit risk | 0 | 0 | 3 | **3** |
| Amounts written off | - | - | -1 | **-1** |
| Other | 0 | -128 | 0 | **-128** |
| **Balance as at 31/12/2018** | **2** | **0** | **6** | **7** |

| In EUR million | 31/12/2018 | 31/12/2017 |
|---|---|---|
| **Total (balance sheet)** | **7** | **5** |
| **Breakdown by counterparty** | **7** | **5** |
| Debt securities with credit institutions | 0 | - |
| Debt securities other than with credit institutions | 0 | - |
| Loans and advances with credit institutions | 0 | - |
| Loans and advances other than with credit institutions | 7 | 5 |

**CHANGES**
**In EUR million**

| | Specific impairments on loans and receivables | Collective impairment | Total |
|---|---|---|---|
| **Balance as at 01/01/2017** | **8** | **1** | **8** |
| Changes affecting the income statement | | | |
| Allowances | 1 | 0 | 1 |
| Reversals | -4 | 0 | -4 |
| Changes not affecting the income statement | 0 | - | 0 |
| Use of provision | 0 | - | 0 |
| Other / Change impact | 0 | - | 0 |
| **Balance as at 31/12/2017** | **4** | **1** | **5** |

## Note 22 – Derivatives

The notional value of the foreign exchange contracts represents the nominal to be delivered.

| Held-for-trading | | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | | 2017 | | |
| (in EUR million) | Fair value | | Notional value | Fair value | | Notional value |
| | Assets | Liabilities | | Assets | Liabilities | |
| **Total** | **240** | **265** | **82,412** | **387** | **326** | **45,695** |
| **Interest rate** | **40** | **54** | **68,564** | **21** | **24** | **30,276** |
| OTC options | 0 | 0 | 2 | 0 | 0 | 26 |
| OTC other | 40 | 54 | 68,518 | 21 | 24 | 30,221 |
| Organized market options | - | - | - | - | - | - |
| Organized market other | - | - | 44 | 0 | 0 | 30 |
| **Equity** | **36** | **36** | **717** | **13** | **13** | **660** |
| OTC options | 15 | 15 | 118 | 1 | 1 | 26 |
| OTC other | 0 | 0 | 11 | 2 | 2 | 23 |
| Organized market options | 21 | 20 | 528 | 10 | 10 | 560 |
| Organized market other | - | - | 60 | 0 | 0 | 51 |
| **Foreign exchange and gold** | **164** | **174** | **13,130** | **353** | **288** | **14,759** |
| OTC options | - | - | - | 0 | 0 | 4 |
| OTC other | 164 | 174 | 13,111 | 352 | 287 | 14,748 |
| Organized market options | 0 | 0 | 2 | - | - | - |
| Organized market other | - | - | 17 | 0 | 0 | 7 |
| **Commodity** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Other** | **-** | **-** | **-** | **-** | **-** | **-** |

| Hedging | | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | | 2017 | | |
| (in EUR million) | Fair value | | Notional value | Fair value | | Notional value |
| | Assets | Liabilities | | Assets | Liabilities | |
| **Total Fair value hedges** | **14** | **88** | **1,607** | **15** | **97** | **1,961** |
| **Interest rate** | **10** | **56** | **1,256** | **9** | **61** | **1,637** |
| OTC options | 0 | - | 1 | 0 | - | 1 |
| OTC other | 10 | 56 | 1,255 | 9 | 61 | 1,635 |
| Organized market options | - | - | - | - | - | - |
| Organized market other | - | - | - | - | - | - |
| **Foreign exchange and gold** | **4** | **33** | **351** | **6** | **36** | **325** |
| OTC options | - | - | - | - | - | - |
| OTC other | 4 | 33 | 351 | 6 | 36 | 325 |
| Organized market options | - | - | - | - | - | - |
| Organized market other | - | - | - | - | - | - |

## Note 23 – Other assets

The heading 'Other assets' covers various short-term receivables such as coupons that clients bring to KBL epb to be cashed, the value of which has already been paid, commissions and fees and precious metals assets.

## Note 24 – Tax assets

| In EUR million | 31/12/2018 | 31/12/2017 |
|---|---|---|
| **Current tax assets** | **-** | **-** |
| **Deferred tax assets** | **16** | **6** |
| Losses carried forward | 18 | 37 |
| Provisions | - | -20 |
| Financial instruments at fair value through other comprehensive income | -2 | - |
| Available-for-sale financial instruments | - | -12 |
| Other | - | - |
| **Tax assets** | **16** | **6** |

Details of tax assets are given in Note 13.

Changes in deferred tax assets and liabilities are not equal to the deferred tax charge recognised in the income statement during the year. This is mainly due to the deferred tax linked to the recognition in the revaluation reserve of fair value changes of the instruments FVOCI.

## Note 25 – Intangible assets

**CHANGES**

| In EUR million | Purchased portfolio of customers | Software developed in-house | Software purchased | Total |
|---|---|---|---|---|
| **Balance as at 01/01/2018** | **84** | **19** | **1** | **104** |
| Acquisitions | - | 3 | 0 | **3** |
| Disposals | - | - | - | **-** |
| Depreciation | - | -3 | 0 | **-3** |
| Impairment | - | - | - | **-** |
| Allowances | - | - | - | **-** |
| Reversals | - | - | - | **-** |
| Other | - | - | - | **-** |
| **Balance as at 31/12/2018** | **84** | **20** | **0** | **104** |
| Of which: cumulative amortisation and impairment | - | -4 | -3 | -7 |
| **Balance as at 01/01/2017** | **84** | **2** | **1** | **88** |
| Acquisitions | - | 19 | 0 | **19** |
| Disposals | - | - | 0 | **0** |
| Depreciation | - | -1 | -1 | **-2** |
| Impairment | - | - | - | **-** |
| Allowances | - | - | - | **-** |
| Reversals | - | - | - | **-** |
| Other | - | - | - | **-** |
| **Balance as at 31/12/2017** | **84** | **19** | **1** | **104** |
| Of which: cumulative amortisation and impairment | - | -2 | -2 | -4 |

### Note 26 – Property and equipment and investment properties

| In EUR million | 31/12/2018 | 31/12/2017 |
|---|---|---|
| **Property and equipment** | **57** | **59** |
| **Investment properties** | | |
| Net carrying value | 11 | 6 |
| Fair value | 7 | 15 |
| **Investment properties – Rental income** | **1** | **1** |

Investment properties' fair values disclosed above are based on valuations obtained from independent valuers who hold a recognized and relevant professional qualification and have recent experience in the location and category of the investment properties being valued.

The estimates are primarily derived from recent transactions and other local market data observable in the areas where the properties are located. Related fair values are thus to be classified within the level 2 category under the IFRS 13 fair value hierarchy.

| CHANGES (in EUR million) | Land and buildings | IT equipment | Other equipment | Total property and equipment | Investment properties |
|---|---|---|---|---|---|
| **Balance as at 01/01/2018** | **47** | **3** | **9** | **59** | **6** |
| Acquisitions | 1 | 1 | 0 | **2** | 8 |
| Disposals | -1 | - | - | **-1** | - |
| Depreciation | -3 | -1 | 0 | **-5** | 0 |
| Impairment | - | - | - | **-** | - |
| Allowances | - | - | - | **-** | - |
| Reversals | - | - | - | **-** | - |
| Other | 0 | - | 0 | **0** | -3 |
| **Balance as at 31/12/2018** | **45** | **3** | **9** | **57** | **11** |
| Of which: cumulative amortisation and impairment | | | | | |
| **Balance as at 01/01/2017** | **57** | **2** | **9** | **68** | **6** |
| Acquisitions | 1 | 3 | 0 | **4** | - |
| Disposals | -8 | 0 | 0 | **-8** | - |
| Depreciation | -4 | -1 | -1 | **-5** | 0 |
| Impairment | - | - | - | **-** | - |
| Allowances | - | - | - | **-** | - |
| Reversals | - | - | - | **-** | - |
| Other | 0 | - | 0 | **0** | 0 |
| **Balance as at 31/12/2017** | **47** | **3** | **9** | **59** | **6** |
| Of which: cumulative amortisation and impairment | -49 | -2 | -2 | -53 | -6 |

## Note 27 – Provisions

| Changes (in EUR million) | Pensions & other post employment defined benefit obligation | Other long term employee benefits | ECL on guarantees and credit commitments | Pending legal disputes | Other provisions | Total |
|---|---|---|---|---|---|---|
| **Balance as at 01/01/2018** | **3** | **4** | **2** | **1** | **0** | **10** |
| Changes affecting the income statement | | | | | | **1** |
| Allowances | 0 | 1 | - | 1 | - | **2** |
| Reversals | - | - | - | 0 | 0 | **0** |
| New assets originated or purchased | - | - | 0 | - | - | **0** |
| Assets derecognized or repaid | - | - | 0 | - | - | **0** |
| Change in credit risk | - | - | 0 | - | - | **0** |
| Other changes | 1 | -2 | 0 | 0 | 0 | **0** |
| **Balance as at 31/12/2018** | **5** | **3** | **2** | **2** | **0** | **12** |
| *Of which, Stage 1* | | | *0* | | | *0* |
| *Stage 3* | | | *1* | | | *1* |

| Changes (in EUR million) | Pensions & other post employment defined benefit obligation | Other long term employee benefits | Specific impairment for credit commitments | Pending legal disputes | Other provisions | Total |
|---|---|---|---|---|---|---|
| **Balance as at 01/01/2017** | **3** | **5** | **0** | **1** | **0** | **10** |
| Changes affecting the income statement | 0 | 1 | 1 | 0 | 0 | **2** |
| Allowances | 0 | 4 | 1 | 0 | 0 | **5** |
| Reversals | - | -3 | 0 | - | 0 | **-3** |
| Other changes | 0 | -2 | 0 | 0 | 0 | **-2** |
| **Balance as at 31/12/2017** | **3** | **4** | **1** | **1** | **0** | **10** |

- The net liabilities related to staff pension funds (see Note 29) and restructuration plans are also included in this item.
- Specific impairment for credit commitments: provisions accounted for to cover risk on given guarantees, more precisely on credits for which the Bank acts as sub-participant.
- Provisions for pending legal disputes: provisions recorded to cover legal disputes with private and professional counterparties, including lawyers' fees.
- Other provisions: other provisions than the above-mentioned provisions.

For most of the provisions recorded, no reasonable estimate can be made of when they will be used. The main litigation cases are the following:

**Madoff litigation**

In December 2008, Bernard L. Madoff's massive Ponzi scheme was discovered. Bernard L. Madoff Investment Securities LLC ("BLMIS") and its "feeder funds" were put into liquidation.
The liquidator of BLMIS considers that certain investors in BLMIS knew or should have known that BLMIS was fraudulent. The liquidator therefore launched a claim to recover payments made by BLMIS to these investors (so called "claw-back actions"). As the liquidator started claw-back actions against the feeder funds, the liquidators of these funds have in their turn started similar proceedings against KBL *epb* and other defendants before the New York Courts and the BVI Courts. The BVI Courts rejected the liquidators' restitution claim against KBL *epb* and other defendants judging that they acted in good faith. The liquidators appealed this judgement of the BVI court before the Privy Council in London. The Privy Council rejected the liquidator's appeal on all points subject to the appeal.Therefore the actions before the BVI courts have been dismissed voluntarily by the liquidators. Finally, proceedings before the New York Court are still pending and KBL *epb* as well as the other defendants will now try to dismiss these proceedings. As in these cases the risk is in principle born by the clients, provisions have only be made for the legal costs.

**Litigation with a Dutch client**

InsigerGilissen (IG) and KBL are facing a dispute with a client. In first instance, IG had a favorable judgment. However, in appeal , the judgment was favorable to the client. To date, it is not possible to determine a potential amount of compensation. A future judgment in the course of a new proceeding will have to determine it.

## Note 28 – Other liabilities

The heading ‘Other liabilities’ in particular covers mainly accrued expenses and various items payable in the short term such as coupons and redeemable securities as paying agent.

## Note 29 – Long term employees benefits

### Retirement benefit obligations

In addition to the legally prescribed plans, KBL epb maintains various complementary pension plans, of both the defined contribution and defined benefit kinds.

Defined benefit plans may be either employer-funded or employee funded schemes. The employer-funded plans provide retirement benefits linked to service and final salary. Investment earnings applied to employee contributions are subject to a minimum guaranteed return.
The plans are funded via insurance arrangement with a third party to which the Bank pays regular premiums.

| DEFINED BENEFIT PLANS<br>In EUR million | 31/12/2018 | 31/12/2017 |
|---|---|---|
| **Defined benefit plan obligations** | | |
| Value of obligations as at 01/01 | **16** | **18** |
| Current service cost | 0 | 0 |
| Interest cost | 0 | 0 |
| Past service cost and gains / losses arising from settlements | - | - |
| Actuarial (gains)/losses | 1 | 0 |
| stemming from changes in demographic assumptions | - | - |
| stemming from changes in financial assumptions | 0 | 0 |
| experience adjustments | 1 | 0 |
| Benefits paid | -5 | -2 |
| Out of which: amounts paid in respect of settlements | - | - |
| Plan participant contributions | 0 | 0 |
| Other | - | - |
| Value of obligations as at 31/12 | **13** | **16** |
| **Fair value of plan assets** | | |
| Fair value of assets as at 01/01 | **13** | **14** |
| Actual return on plan assets | 0 | 0 |
| Interest income | 0 | 0 |
| Return on plan assets (excluding interest income) | 0 | 0 |
| Employer contributions | 0 | 0 |
| Plan participant contributions | 0 | 0 |
| Benefits paid | -5 | -1 |
| Out of which: amounts paid in respect of settlements | - | - |
| Other | - | - |
| Fair value of assets as at 31/12 | **9** | **13** |
| **Effect of the asset ceiling** | | |
| Effect of the asset ceiling as at 01/01 | **0** | **0** |
| Interest on the effect of asset ceiling | 0 | 0 |
| Change in the effect of asset ceiling | 0 | 0 |
| Other | **-** | **-** |
| Effect of the asset ceiling as at 31/12 | **0** | **0** |
| **Funded status** | | |
| Plan assets in excess of defined benefit obligations | -4 | -3 |
| Unrecognised assets | 0 | 0 |
| Unfunded accrued / prepaid pension cost | **-4** | **-3** |

| In EUR million | 31/12/2018 | 31/12/2017 |
|---|---|---|
| **Changes in net defined benefit pension liability or asset** | | |
| Unfunded accrued / prepaid pension cost as at 01/01 | **-3** | **-3** |
| Net periodic pension cost recognized in the income statement (excl. tax impact arising from settlements) | 0 | 0 |
| Remeasurements recognized in OCI (excl. change in tax provision) | -1 | 0 |
| Employer contributions | 0 | 0 |
| Pension payments by employer | 0 | 0 |
| Out of which: amounts paid in respect of settlements | - | 0 |
| Unfunded accrued / prepaid pension cost as at 31/12 | **-4** | **-3** |
| | | |
| **Changes in the tax provision relating to current deficits on external plans** | | |
| Recognized provision as at 01/01 | **0** | **0** |
| Change in the provision recognized through OCI | 0 | 0 |
| Pension payments by employer | 0 | 0 |
| Gains and losses arising from settlements | - | - |
| Recognized provision as at 31/12 | **0** | **-** |
| | | |
| **Changes in the remeasurement reserve in equity** | | |
| Recognized reserve as at 01/01 | **-7** | **-7** |
| Remeasurement recognized in OCI | -2 | 0 |
| Transfers | **-** | **-** |
| Recognized reserve as at 31/12 | **-8** | **-7** |
| | | |
| **AMOUNTS RECOGNIZED IN COMPREHENSIVE INCOME** | | |
| **Amounts recognised in the income statement** | | |
| Current service cost | 0 | 0 |
| Net interest on the defined benefit liability/asset | 0 | 0 |
| Past service cost | - | - |
| Gains and losses arising from settlements | - | - |
| Other | - | - |
| **Net pension cost recognized in the income statement** | **0** | **0** |
| | | |
| **Amounts recognized in other comprehensive income** | | |
| Actuarial gains/losses on the defined benefit obligation | -1 | 0 |
| Actual return on plan assets (excluding amounts included in interest income) | 0 | 0 |
| Change in the effect of the asset ceiling | 0 | 0 |
| Change in the tax provision | 0 | 0 |
| **Total other comprehensive income** | **-2** | **0** |
| | | |
| **Actual return on plan assets** | **-1.41%** | **0.70%** |
| | | |
| **Breakdown of plan assets** | **100%** | **100%** |
| Fixed income | | |
| Quoted market price in an active market | 95% | 89% |
| Unquoted | - | - |
| Equities | | |
| Quoted market price in an active market | 1% | 8% |
| Unquoted | - | - |
| Alternatives | | |
| Quoted market price in an active market | - | - |
| Unquoted | - | - |
| Cash | 4% | 2% |
| Other | - | - |

Plan assets do not include any investment in a transferable securities issued by the bank, as in 2017.

| In EUR million | 31/12/2018 | 31/12/2017 |
|---|---|---|
| **Significant actuarial assumptions used:** | | |
| Defined benefit obligation<br>The rate used to discount the post-employment benefit obligations is determined by reference to market yields at the end of the reporting period on high-quality corporate bonds with similar maturities than the pension commitments. | | |
| Discount rate | 0.57% to 1.57% | 0.16% to 1.65% |
| DBO sensitivity to changes in discount rate | | |
| Scenario DR -1% | 1 | 1 |
| Scenario DR +1% | -1 | -1 |
| Expected rate of salary increase (including inflation) | 3.00% | 3.00% |
| Scenario SR -1% | - | - |
| Scenario SR +1% | - | - |
| **Maturity profile of the DBO** | | |
| Weighted average duration of the DBO (in years) | 7 | 7 |
| **Expected contributions for next year** | **0** | **0** |

| Defined contribution plans<br>In EUR million | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Amount recorded in the income statement | -4 | -3 |

### Other long-term benefits

Some senior staff members participate to a Long-Term Incentive Plan (LTIP) set up for selected senior management members. The target group of beneficiaries is defined by the Board Remuneration Committee. This LTIP rewards senior management for the value created over an extended period of 6 to 9 years. Rewards are based on the total return to shareholders above a given hurdle rate. In order to ensure appropriate balance, the maximum pay-out to management is limited to a percentage of the excess value created, and capped at a multiple of annual salary.

Liability recognized as end of 2018 amounts to EUR 0.8 million (2017: EUR 0.9 million).

## Note 30 – Equity

As of 31 December 2018, the subscribed and paid-up capital is EUR 221.2 million (31 December 2017: EUR 221.2 million), represented by 23,794,431 ordinary shares without par value (31 December 2017: 23,794,431) and by 4,336 non-voting preference shares without par value (31 December 2017: 4,336).

Holders of preference shares are entitled to receive an initial dividend of EUR 0.25 per share, as established in the Bank's articles of incorporation, and are therefore guaranteed a minimum annual return. If there are no profits, this dividend entitlement is carried forward to subsequent periods. Any profits remaining once this first dividend has been paid are shared out between all shareholders, whether they hold ordinary or preference shares, in such a way that both categories of shareholders ultimately receive an identical dividend. The Bank is indebted towards preference shareholders for year 2018 (see Note 31).

Article 35 of the Bank's articles of incorporation specifies that the net liquidation profit, after the charges payment, will be used to firstly refund the non-voting preference shareholders. The remaining balance will be allocated on equal basis to ordinary shareholders.

In accordance with the Luxembourg law on limited companies, at least 5% of the profit of the year has to be allocated to the legal reserve. This allocation ceases to be mandatory as soon as the legal reserve amounts to 10% of the capital.

As at 31 December 2018, the legal reserve is EUR 22.1 million (31 December 2017: EUR 22.1 million) representing 10% of the paid-up capital, the free reserves amount to EUR 505.4 million (31 December 2017: EUR 505.0 million), the AGDL reserve amounts to EUR 0.9 million (31 December 2017: EUR 1.3 million), and the reserve for the reduction of net wealth tax is nil (31 December 2017: nil). The retained earnings amount to EUR -53.9 million (31 December 2017: 67.2 million).

| In number of shares | 31/12/2018 | 31/12/2017 |
|---|---|---|
| **Total number of shares issued** | **23,798,767** | **23,798,767** |
| Ordinary shares | 23,794,431 | 23,794,431 |
| Preference shares | 4,336 | 4,336 |
| Of which: those that entitle the holder to a dividend payment | 23,798,767 | 23,798,767 |
| Of which: shares representing equity under IFRS | 23,798,767 | 23,798,767 |

**CHANGES**

| | Ordinary shares | Preference shares | Total |
|---|---|---|---|
| **Balance as at 01/01/2018** | **23,794,431** | **4,336** | **23,798,767** |
| - Movement | - | - | - |
| **Balance as at 31/12/2018** | **23,794,431** | **4,336** | **23,798,767** |

## Note 31 – Result allocation proposal

At its meeting on 21 March 2019, the Board of Directors proposes to allocate the 2018 loss of EUR 22,953,426 in deduction of the retained earnings.

Then, the Board of Directors proposes to allocate the negative retained earnings of EUR 76.8 million to the available reserve of EUR 505.4 million. After approval, the available reserve will amount to EUR 428.5 million.

On 24 April 2019, this allocation will be submitted for the approval of the Annual General Meeting.

## Note 32 – Loans commitments, financial guarantees and other commitments

| In EUR million | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Confirmed irrevocable credits, unused | 175 | 193 |
| Financial guarantees given | 93 | 172 |
| Other commitments given (securities issuance facilities, spot transaction settlement, etc.) | - | - |
| **Total** | **268** | **365** |

## Note 33 – Assets under management and custody

Total assets under management related to clients in the private banking sector (including frozen and low yielding assets) as at 31 December 2018 amount to EUR 5.6 billion (2017: EUR 5.7 billion).

Total assets under custody (investment funds and institutionals) related to 'Institutional & Professional Services' clients as at 31 December 2018 amount EUR 18.1 billion (2017: EUR 18.7 billion).

## Note 34 – Related party transactions

'Related parties' refers to the parent company of KBL *epb,* its subsidiaries and key management personnel. Transactions with related parties are carried out under conditions equivalent to those applicable to transactions subject to conditions of normal competition.

| In EUR million | | 31/12/2018 | 31/12/2017 |
|---|---|---|---|
| **Cash, cash balances with central banks and other demand deposits** | | **30** | **10** |
| *of which financial assets with KBL epb group* | | 30 | 10 |
| **Financial assets** | | **155** | **1,394** |
| *of which financial assets with Pioneer Holding* [(1)] | | *50* | *0* |
| | *with Precision Capital* | *0* | - |
| | *with KBL epb group* | *86* | *1,394* |
| Held-for-trading | | 18 | 13 |
| At amortized cost | | 137 | - |
| Available-for-sale financial assets | | - | 794 |
| Loans and receivables | | - | 588 |
| **Investment in subsidiaries and associates** | | **875** | - |
| **Financial liabilities** | | **3,680** | **3,056** |
| *of which financial liabilities* | *with Pioneer Holding* [(1)] | *1,170* | *668* |
| | *with Precision Capital* | *4* | *10* |
| | *with KBL epb group* | *2,506* | *2,378* |
| Held-for-trading | | 14 | 12 |
| At amortized cost | | 3,665 | 3,044 |
| Hedging derivatives | | - | - |
| **Income statement** | | **29** | **60** |
| *of which income statement* | *with Pioneer Holding* [(1)] | *-6* | *-1* |
| | *with Precision Capital* | *-1* | *0* |
| | *with KBL epb group* | *35* | *61* |
| Net interest income | | -3 | 4 |
| Dividends | | 34 | 63 |
| Net fee and commission income | | -10 | -17 |
| Other net income | | 0 | 0 |
| Operating expenses | | 7 | 10 |
| Impairment of financial assets not measured at fair value through profit or loss | | 0 | - |

(1) Pioneer Holding amounts include transactions with the ultimate beneficial owner as a private client.

| WITH KEY MANAGEMENT PERSONNEL<br>In EUR million | 31/12/2018<br>Amount | 31/12/2018<br>Number of persons | 31/12/2017<br>Amount | 31/12/2017<br>Number of persons |
|---|---|---|---|---|
| Amount of remuneration to key management personnel of KBL *epb* on the basis of their activity, including the amounts paid to former key management personnel | 14 | 21 | 5 | 20 |
| Credit commitments given (undrawn amount outstanding) | - | - | - | - |
| Loans outstanding | 1 | 2 | 3 | 6 |
| Guarantees given outstanding | - | - | - | - |
| Expenses for defined contribution plans | 0 | 9 | 0 | 6 |

## Note 35 – Solvency

The table below gives the solvency ratios calculated in the framework of the EU Parliament & Council, Capital Requirement Regulation (CRR 2013/575).

| In EUR million | 31/12/2018 | 31/12/2017 |
|---|---|---|
| **Regulatory capital** | **1,033** | **1,185** |
| **Tier 1 capital** | **1,032** | **1,185** |
| Capital and reserves | 1,182 | 1,303 |
| Intangible assets | -104 | -104 |
| Result attributable to the owner of the parent | -23 | 39 |
| Year-end result not eligible | - | -39 |
| Remeasurement of defined benefit plans | -8 | -7 |
| Fair value changes of instruments measured at fair value through other comprehensive income | 5 | - |
| Deferred tax assets | -16 | -6 |
| Asset value adjustment | -3 | -1 |
| Significant investments in relevant entities | - | - |
| **Tier 2 capital** | **0** | **0** |
| Preference shares | 0 | 0 |
| Subordinated liabilities | 0 | 0 |
| **Risk weighted assets** | **2,959** | **3,246** |
| Credit risk | 2,418 | 2,720 |
| Market risk | 306 | 272 |
| Credit value adjustment | 16 | 16 |
| Operational risk | 219 | 239 |
| **Solvency ratios** | | |
| **Basic solvency ratio (Tier 1 ratio)** | **34.90%** | **36.50%** |
| **Solvency ratio (CAD ratio)** | **34.90%** | **36.51%** |

## Note 36 – Maximum credit risk exposure and collateral received to mitigate the risk

| Maximum credit risk exposure<br>In EUR million | 31/12/2018 | 31/12/2017 |
|---|---|---|
| **Assets** | **9,168** | **8,419** |
| Balances with central banks and other demand deposits | 3,071 | 2,088 |
| Financial assets | 5,131 | 6,171 |
| Held-for-trading | 309 | 471 |
| Designated at fair value through profit or loss | - | 74 |
| Non-trading mandatorily at fair value through profit or loss | 36 | - |
| At fair value through other comprehensive income | 2,560 | - |
| Available-for-sale financial assets | - | 4,022 |
| At amortized cost | 2,212 | - |
| Loans and receivables | - | 1,589 |
| Hedging derivatives | 14 | 15 |
| Investment in subsidiaries and associates | 875 | - |
| Tax assets | 16 | 6 |
| Other assets | 65 | 55 |
| Non-current assets held-for-sale | 10 | 99 |
| **Off-balance sheet items** | **268** | **365** |
| Confirmed irrevocable credits, unused | 175 | 193 |
| Financial guarantees | 93 | 172 |
| **Maximum credit risk exposure** | **9,435** | **8,784** |

For the instruments measured at fair value, the amounts disclosed above represent the current credit risk exposure and not the maximum credit risk that could apply as a consequence of future changes in the estimates made.

| Collateral and guarantee received to mitigate the maximum exposure to credit risk<br>In EUR million | 31/12/2018 | 31/12/2017 |
|---|---|---|
| **Mortgage loans collateralized by immovable property** | **220** | **160** |
| Residential | 111 | 108 |
| Commercial | 110 | 52 |
| **Other collateralized loans** | **739** | **495** |
| Cash | 109 | 58 |
| Rest (including securities received in reverse repo operations) | 630 | 437 |
| **Financial guarantees received** | **427** | **327** |
| **Collateral and guarantee received to mitigate the maximum exposure to credit risk** | **1,385** | **982** |

The amount and type of collateral required depend on the type of business considered and the Bank's assessment of the debtor's credit risk. The main types of collateral received are as follows:

- cash,
- securities (in particular for reverse repo operations and securities lending),
- other personal and/or collateral guarantees (mortgages).

These guarantees are monitored on a regular basis to ensure their market value remains adequate as regards the assets they are intended to cover. If a guarantee is noted to be insufficient, margin calls are made in accordance with the agreements signed with the various counterparties concerned.

Following the Bank's request, the CSSF has approved an exemption from including in its calculation of the large risks exposures, in accordance with Part IV, article 400 of the EU No 575/2013, the risks to which the Bank is exposed towards its subsidiaries. This exemption is not eligible towards Precision Capital and Pioneer Capital. The exposures on related parties are disclosed in Note 34.

**Note 37 – Risk management**

This note aims to disclose the '*nature and risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risks*', as required by IFRS 7. The information is presented by risk type as proposed by the standards.

**1. Credit risk**

1.1. QUALITATIVE INFORMATION

*1.1.1. Origin of credit risk*

The credit risks arising from financial instruments mainly originate from:

- lending to private clients (mainly Lombard loans and Mortgage loans). Risk in this activity is largely mitigated by a strong collateral policy, implying limited unsecured exposures,
- positions in ALM portfolios,
- uncommitted lines covering the trading activity and counterparty exposures with banks (forex, money markets, swaps, reverse repo, securities lending, derivatives, etc.),
- the granting of uncommitted lines to clients of the Global Institutional & Professional Services (GIPS) Function in Luxembourg (mainly UCI), to cover temporary overdrafts,
- the acceptance of securities used as collateral in securities lending and repo transactions.

*1.1.2. Credit allocation decision-making process / governance*

In Luxembourg, all lending/investment decisions, as all decisions to grant uncommitted lines, are the responsibility of the Executive Committee or one of the other competent bodies designated under the delegation of authority based on specific criteria. This delegation of powers always requires the involvement of at least two people from different entities, to ensure that there is no risk of conflict of interest.

Each new credit proposal submitted to the Luxembourg Credit Committee or Group Credit Committee is accompanied by an opinion issued by Group Credit Risk Control, based on an analysis of the financial situation and creditworthiness of the borrower and of the structure of collateral.

Internal processes ensure the identification of related counterparties, in order to monitor concentration risk on debtors/group of debtors. Group structures are moreover permanently updated by the Group Credit Risk Control.

*1.1.3. Credit policy*

The credit policy defines the framework within which loan activities to customers are managed in the KBL *epb* group. It is reviewed/updated on an annual basis. The last version was validated by the Board Risk Committee[1] ("BRC") in early 2018.

*1.1.4. Measurement/monitoring of credit risk*

Credit risk related to lending activities, investment portfolios or trading activities has to remain within the general framework set in the Risk Appetite Statement validated by the Board Risk Committee. Therefore, specific indicators are monthly reported to the Group Risk Committee (GRC) and quarterly to the BRC. Special attention is set on concentration risk, being on single issuers, single banking counterparties or countries.
Group Credit Risk Control has its own system for country and concentration limits, approved by the Executive Committee and by the Board Risk Committee. This system allows the definition of limits adapted to the size of the Bank and to its risk appetite.

At a regulatory level, KBL *epb* group uses the standardised Basel III methodology to calculate credit risk.

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[1] The Board Risk Committee or BRC is a sub-committee of the Board of Directors dedicated to risk issues

#### 1.1.4.1. Loans

In terms of the day-to-day monitoring of lending transactions, the loan administration systems automatically monitor the loans and guarantees schedule, which allows any overdraft or collateral shortfall to be detected and the appropriate corrective actions to be taken swiftly.

On a quarterly basis, a global reporting of all lending exposures is performed, detailing the portfolio by loan type, customer type, countries, maturities and performing status. It also presents information on the effective loan-to-values for the collateralized exposures.

The files for which a specific monitoring is requested are included in the Watch list that is discussed monthly in the Luxembourg Credit Committee and Group Credit Committee.

#### 1.1.4.2. Investment portfolios

Investment proposals are submitted by the Group ALM Function. All proposals have to respect the concentration limits, defined by issuer type (Sovereigns, Corporates and Banks), as well as the concerned country limits. The Group Credit Risk Control department checks the availability under those limits before any investment and may advise against any investment based on its own credit risk assessment, supported by comments provided by the international rating agencies and analysis of the published financial statements.

Group Risk Control automatically monitors debtors' ratings, as reported by rating agencies, and informs the entities concerned accordingly. Various types of standard or specific reports are also drawn up in order to monitor any deterioration in the quality of the portfolio.

Any overdraft of issuer concentration limits, due to rating downgrades, is communicated monthly to the GRC and quarterly to the BRC.

#### 1.1.4.3. Interbank transactions

The set-up and monitoring of interbank limits, which are mainly concentrated in the Luxembourg Dealing Room, is a major activity of Group Risk Control. It covers:

- The maintenance of maximum limits, in line with principles validated by the BRC.

  This system defines interbank limits which are commensurate with the size of the Bank and its risk appetite. It fully integrates the Large Exposures regulation. Loans outstanding are allocated to lines according to a standard "marked-to-market + add on" approach.

  Their update is triggered by changes in one of the influencing factors (ratings, tier 1 capital...).

- The set-up of operational limits (that can only be smaller than maximum limits) that are necessary to adequately allocate interbank sub-limits across the different products (Money Market, Repo, Securities Lending…) is processed in accordance with the different desks.

  The monitoring of exposures and their compliance with operational limits is monitored on a daily basis by the Group Risk Control department.

#### 1.1.4.4. Collateral monitoring

The management and supervision of collateral received for secured transactions, in addition to contract management, is handled by a dedicated entity of the Function 'Operations'. Specific guidelines, validated by the Executive Committee, set rules on concentration by counterparties and by securities accepted as collateral, as well as risk correlation limits (correlation between the counterparty and the collateral). The respect of these rules is monitored on a daily basis by the Group Risk Control department.

1.1.4.5. Country limits

The framework for the definition and monitoring of country limits covers all types of country risks (in particular that of contagion) and not only the risk of transferability.

Lines are allocated to the Bank for credit activities, bonds investments and trading room activities as and when required. As for counterparty risk, Group Risk Control is responsible for independent monitoring, on a daily basis, of the respect of the country limits.

1.1.4.6. Concentration monitoring

As mentioned here above, issuer concentration limits are defined per individual or group of counterparts. These limits are assigned to sovereigns, banks and corporates, using a methodology derived from the country limit framework and consider additional financial criteria. Issuer concentration limits are divided into sub-limits which preserve diversification both in terms of maturity and products.

The issuer concentration limits are updated by Group Credit Risk Control and monitored.by Group Risk Control. Exception reports are escalated to the GRC.

*1.1.5 Measurement of Credit Risk*

The Bank's independent Credit Risk Department operates its internal Credit quality monitoring process. The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilise supplemental external information that could affect the borrower's behaviour. Expected Credit Losses are computed using methodologies based on materiality and maturities. ECL calculations incorporate forward looking information and the IFRS 9 Stage classification of the exposure. This is repeated for each economic scenarios as appropriate.

1.1.5.1. IFRS 9 stages

The IFRS9 approach is based on the definition of three stages, each associated with the expected risk of default of the instrument and defining a level of impairment provisioning to be booked.

- Stage 1: At the origination of non-impaired instruments, an impairment provision equal to the expect credit loss over the coming 12-month is booked. The instrument is considered as *performing*.
- Stage 2: After a significant increase of the instrument credit risk, the booked impairment provision is increased from the 12-month expected credit loss to the remaining lifetime expected credit loss of the instrument. The instrument is considered as *underperforming*.
- Stage 3: The instrument has incurred losses and is now considered as *non-performing*. The booked impairment provision remains equal to its remaining lifetime expected credit loss.

1.1.5.2. Credit risk grading

For credit risk assessment, two approaches:

- For interbank and debt issuing counterparties, the assessment relies on external rating.
- For the remaining counterparties (the customer base), the assessment is based on the continuous monitoring of the loan book by the Credit Risk Control function and the concept of watch list.

The following credit risk grades are based on “worst of two best” principle, using  external ratings from rating agencies S&P’s and Moody’s.

| Counterparty type | Group’ credit risk grades | Assigned PD (%) |
|---|---|---|
| **Corporate** | | |
| | AAA | 0.01 |
| | AA | 0.02 |
| | A | 0.03 |
| | BBB | 0.16 |
| | BB | 0.77 |
| | B | 4.38 |
| | CCC | 32.87 |
| | D | 100.00 |
| **Financial  Institutions** | | |
| | AAA | 0.01 |
| | AA | 0.02 |
| | A | 0.07 |
| | BBB | 0.37 |
| | BB | 1.00 |
| | B | 3.35 |
| | CCC | 18.18 |
| | D | 100.00 |
| **Sovereigns** | | |
| | AAA | 0.01 |
| | AA | 0.03 |
| | A | 0.08 |
| | BBB | 0.23 |
| | BB | 0.67 |
| | B | 3.26 |
| | CCC | 38.33 |
| | D | 100.00 |

Note for Intragroup IFRS9 approach:

The same Financial Institution approach is used for intragroup IFRS9 exposures valuation. All Group entites are considered as BBB external rating for computation purposes.

1.1.5.3 Significant Increase in Credit Risk

The Bank continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a  portfolio of instruments is subject to 12mECL or LTECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition. The Bank considers an exposure to have significantly increased in credit risk as follows:

- For interbank and debt issuing counterparties, the assessment relies on the term structure of the cumulative probability of default constructed from transition matrices updated with forward-looking estimates of market conditions.
- For the remaining counterparties (the customer base), the assessment is based on the continuous monitoring of the loan book by the Credit Risk Control function and the concept of watch list.

The Bank also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset. Overall, the following indicators are considered:

| **Qualitative & quantitative indicators** | **Debt securities** | | **Loans** | | |
|---|---|---|---|---|---|
| | Corporate | Government | Corporate | Government | Household |
| Relative change in PD | P | P | N | N | N |
| Changes in external credit rating | S | S | N | N | N |
| Practical expedient – 30 days past due rebuttable presumption | N | N | B | B | B |
| Number of days past due – other than 30 days | P | P | B | B | B |
| Modification or forbearance | N | N | S | S | S |
| Watch list | S | S | P | P | P |
| Practical expedient – low credit risk exemption | P | P | P | P | P |

P: is used as a primary indicator, or
S: is used as a secondary indicator, or
B: is used but only as a backstop (application of 30 days backstop remains subject to expert judgement based on consideration of specific facts and circumstances for loans with Corporates and Households), or
N: is not used:

- as explained above, the PD indicators (including external credit rating) are not internally used for loans and advances.
- as explained below, the Bank is using a restrictive indicator than the 30 days past due indicator for debt securities.

1.1.6. Definition of default and credit impaired assets

If the Bank aligned its definition of default and credit impairment with the relevant regulatory requirements, some internal default definitions have been adapted to the specificities of the following counterparty types, notably:

- Market securities

After 10 days past due the expected payment (interest and/or capital), GCRC, based on market and other information available on the bond and the issuer, recommends the classification as defaulted (with 30 days past due as backstop).

- Interbank exposures

After 10 days past due the expected payment (interest and/or capital), GCRC, based on market and other information available on the bond and the issuer, recommends the classification as defaulted (with 30 days past due as backstop subject to expert judgment).

- Non-Interbank exposures

A default with regard to an obligor shall be considered to have occurred when:
- there is an exposure for which the obligor is considered unlikely to pay its credit obligations at any level of the Group without realizing its security, or;
- there is a material exposure where the obligor is past due more than 90 days on any material credit obligation to the Group (the notion of unlikeliness to pay, as per article 178.3 of CRR).

For retail credit facilities, all exposures of an obligor in default may be treated individually; that is, contagion does not necessarily apply to all the obligor's exposures.

*1.2 Expected Credit loss measurement: explanation of inputs, assumptions and estimation techniques*

1.2.1.Measurement of ECL

For the calculation of ECL amounts and rates, three approaches are followed:

- For the most material exposures (investment portfolio and loan portfolio), the ECL is calculated by decomposing the cashflow structure of the exposure and postulating a number of defaults along its lifeline.
- For exposures with undefined maturities, ECL are estimated by postulating a maturity horizon of 12 months, on the basis of the exposure at the reporting date.
- For revolving exposures, a loss rate approach is followed.

These approaches are extended to off-balance sheet exposures, to cover the whole spectrum of exposures in the application range of IFRS 9.

1.2.2. Forward Looking information incorporated in the ECL models

Both the assessment of credit risk (for non-low risk exposures) and the estimation of the expected credit losses (ECL) rely on the term structure of the cumulative default probability that can be constructed from a migration matrix, computed on the basis of three scenarios representing favourable, baseline and unfavorable market conditions, i.e. forward-looking assumptions.

The relative weights given to these scenarios, by a dedicated committee of experts, is in turn used to compute the average migration matrix from which the expected term structure of cumulative probability of default is computed. On that basis, the credit risk will be assessed and the ECL calculated. The weights will be refreshed on a quarterly basis.

Here below are the 12-month probabilities o default, per sector and rating ,per scenario.

| | Banks & Financials | | | Corporates | | | Sovereigns | | |
|---|---|---|---|---|---|---|---|---|---|
| | **P55** | **P75** | **P95** | **P55** | **P75** | **P95** | **P55** | **P75** | **P95** |
| **AAA** | 0.01% | 0.01% | 0.03% | 0.01% | 0.01% | 0.03% | 0.01% | 0.01% | 0.03% |
| **AA** | 0.02% | 0.03% | 0.06% | 0.02% | 0.02% | 0.05% | 0.03% | 0.04% | 0.08% |
| **A** | 0.07% | 0.07% | 0.29% | 0.03% | 0.03% | 0.12% | 0.08% | 0.10% | 0.23% |
| **BBB** | 0.37% | 0.37% | 1.36% | 0.16% | 0.17% | 0.56% | 0.23% | 0.29% | 0.65% |
| **BB** | 1.00% | 1.11% | 3.43% | 0.77% | 0.92% | 2.43% | 0.67% | 0.78% | 2.22% |
| **B** | 3.35% | 3.77% | 11.44% | 4.38% | 5.47% | 11.60% | 3.26% | 4.04% | 9.06% |
| **CCC-C** | 18.18% | 22.41% | 51.93% | 32.87% | 39.98% | 60.32% | 38.33% | 47.12% | 74.25% |

P55, P75 and P95 representing respectively the favourable, baseline and unfavourable scenarios.

1.2.2.Sensitivity analysis

The review and validation of the sensitivity analysis related to the IFRS9 computation are under the responsibility of the Macro Economic Scenarios Committee (MESCo).

Macroeconomic scenarios enter the credit risk assessment and expected credit loss estimates at various levels, depending on the nature of the exposure to be assessed. Three main inputs are decided upon by way of assigning weights to precalibrated scenarios. These are

- the CDS spread levels,
- the returns on financial assets,
- the returns on properties.

- the CDS spread levels

CDS spread levels are indicators of credit risk levels on the reference entity as felt by the market. For the purpose of IFRS 9 calculations, Moody's 5-year median CDS spreads are considered as reflecting the market credit risk on counterparties with a given rating (AAA, AA, A, BBB, BB, B, CCC-C) and belonging to a specific sector (Banks, Corporates, Sovereigns).

- the returns on financial assets

Scenarios describing returns on financial assets as held in portfolios securing loans have been calibrated with the help of the AM department (expert judgment). The parameters listed below have been retained. The favourable and baseline scenarios consider a constant rate of return whereas the negative scenario simulates a market downturn within the coming year. The shock magnitude has deliberately been kept limited to account for the fact that Lombard loans are subject to margin calls which are not simulated in IFRS 9 models.

| Negative scenario parameters | |
|---|---|
| Shock magnitude | -10 % |
| Shock length (yearly basis) | 1 |
| Plateau length (yearly basis) | 3 |
| Recovery speed (yearly basis) | 0.25 |
| Probability of occurrence | 20% |
| **Baseline scenario parameters** | |
| Rate of return | 3 % |
| Probability of occurrence | 30 % |
| **Favourable scenario parameters** | |
| Rate of return | 5% |
| Probability of occurrence | 50 % |

- <u>the returns on properties</u>

Scenarios describing returns on properties, for the main markets on which the Group subsidiaries are exposed, have been calibrated by them based on the available market observations and advice from the local regulator.

| Scenario | Parameter | Luxembourg |
|---|---|---|
| **Negative** | Probability of occurrence | 15% |
| | Shock magnitude | -30% |
| | Shock length (yearly basis) | 2 |
| | Plateau length (yearly basis) | 0.50 |
| | Recovery speed (yearly basis) | 0.25 |
| **Baseline** | Probability of occurrence | 55% |
| | Rate of return | 3.40% |
| **Positive** | Probability of occurrence | 30% |
| | Rate of return | 6% |
| **Sum of probabilities** | | **100%** |

1.2. QUANTITATIVE INFORMATION

*1.2.1. Breakdown of credit risk exposures*

The distribution of the credit risk exposures by products is as follows:

Information on performing and non-performing exposures

| **31/12/2018 In EUR million** | **Total Amounts** | **Performing** | **Non-performing** | ***N-P of which: defaulted*** | ***N-P of which: impaired*** |
|---|---|---|---|---|---|
| **Debt securities** | **687.8** | **687.8** | **-** | **-** | **-** |
| Central banks | - | - | - | - | - |
| General governments | 400.3 | 400.3 | - | - | - |
| Credit institutions | 159.7 | 159.7 | - | - | - |
| Other financial corporations | 71.4 | 71.4 | - | - | - |
| Non-financial corporations | 56.3 | 56.3 | - | - | - |
| **Loans and advances** | **4,603.5** | **4,586.6** | **16.9** | ***16.9*** | ***16.9*** |
| Central banks | 2,888.8 | 2,888.8 | - | - | - |
| General governments | 0.9 | 0.9 | - | - | - |
| Credit institutions | 877.0 | 877.0 | - | - | - |
| Other financial corporations | 358.8 | 351.9 | 6.9 | 6.9 | 6.9 |
| Non-financial corporations | 227.5 | 218.9 | 8.5 | 8.5 | 8.5 |
| Households | 250.5 | 249.0 | 1.5 | 1.5 | 1.5 |
| **Total Debt instruments at Amortised Cost** | **5,291.3** | **5,274.3** | **16.9** | **16.9** | **16.9** |
| **Debt securities** | **2,544.4** | **2,544.4** | **-** | **-** | **-** |
| General governments | 1,772.0 | 1,772 | - | - | - |
| Credit institutions | 235.6 | 235.6 | - | - | - |
| Other financial corporations | 269.7 | 269.7 | - | - | - |
| Non-financial corporations | 267.3 | 267.3 | - | - | - |
| **Loans and advances** | **-** | **-** | **-** | **-** | **-** |
| **Total Debt instruments at Fair Value Through OCI** | **2,544.4** | **2,544.4** | **-** | **-** | **-** |
| **Debt securities** | **1.6** | **1.6** | **-** | **-** | **-** |
| Central banks | - | - | - | - | - |
| General governments | 0 | 0 | - | - | - |
| Credit institutions | - | - | - | - | - |
| Other financial corporations | - | - | - | - | - |
| Non-financial corporations | 1.6 | 1.6 | - | - | - |
| **Loans and advances** | **-** | **-** | **-** | **-** | **-** |
| **Total Debt instruments at strict locom or FVTPL or through Equity not subject to impairment** | **1.6** | **1.6** | **-** | **-** | - |
| **Total Debt Instrument other than held for Trading or trading** | **7,837.3** | **7,820.4** | **16.9** | ***16.9*** | ***16.9*** |
| Loan commitments given | 708.2 | 708.2 | - | - | - |
| Financial guarantees given | 93.3 | 87.6 | 5.8 | *5.8* | - |
| Other Commitments given | - | - | - | - | - |
| **Off Balance Sheet Exposures** | **801.5** | **795.7** | **5.8** | ***5.8*** | - |

| In EUR million<br>AFS<br>31/12/2017 | Amortised cost (before impairment) | | | Fair value (after impairment) | | |
|---|---|---|---|---|---|---|
| | NPL/Impaired | Standard | Total | NPL/Impaired | Standard | Total |
| Bank bonds | - | 401.5 | 401.5 | - | 419.0 | 419.0 |
| Corporate bonds | 4.7 | 519.8 | 524.5 | 1.6 | 546.7 | 548.3 |
| Asset-backed securities | - | - | - | - | - | - |
| Government bonds | - | 2,122.9 | 2,122.9 | - | 2,215.5 | 2,215.5 |
| **Sub-total** | **4.7** | **3,044.2** | **3,048.9** | **1.6** | **3,181.2** | **3,182.8** |
| Equity instruments, funds… | | - | - | - | - | 45.9 |
| **TOTAL** | **4.7** | **3,044.2** | **3,048.9** | **1.6** | **3,181.2** | **3,228.7** |

| In EUR million<br>Loans and receivables<br>31/12/2017 | NPL/Impaired (1) | Standard | Total |
|---|---|---|---|
| Banks and other financial institutions | 36.9 | 666.9 | 703.8 |
| Customers | 4.5 | 292.1 | 296.6 |
| **Sub-total** | **41.5** | **959.0** | **1,000.4** |
| Other L&R and Intercompanies | - | 588.2 | 588.2 |
| **TOTAL** | **41.5** | **1,547.2** | **1,588.6** |

(1) Other impaired and > 90 days

*1.2.2. Specific loan impairment*

The valuation of potential losses and the adjustment of specific impairments are carried out quarterly by Group Credit Risk Control. The Group Credit Committee decides on any adjustment for the first three quarters of the year, while it is the responsibility of the Executive Committee for the fourth quarter.

Below are listed the IFRS9 impairments as at 31 December 2018 :

Debt Securities

| 31/12/2018<br>in EUR million | Assets without significant increase in credit risk since initial recognition (Stage 1) | | | Assets with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2) | | | Credit-impaired assets (Stage 3) | | |
|---|---|---|---|---|---|---|---|---|---|
| | <= 30 days | > 30 days <= 90 days | > 90 days | <= 30 days | > 30 days <= 90 days | > 90 days | <= 30 days | > 30 days <= 90 days | > 90 days |
| **Debt securities** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Central banks | - | - | - | - | - | - | - | - | - |
| General governments | - | - | - | - | - | - | - | - | - |
| Credit institutions | - | - | - | - | - | - | - | - | - |
| Other financial corporations | - | - | - | - | - | - | - | - | - |
| Non-financial corporations | - | - | - | - | - | - | - | - | - |

Loans and advances

| 31/12/2018<br>in EUR million | Assets without significant increase in credit risk since initial recognition (Stage 1) | | | Assets with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2) | | | Credit-impaired assets (Stage 3) | | |
|---|---|---|---|---|---|---|---|---|---|
| | <= 30 days | > 30 days <= 90 days | > 90 days | <= 30 days | > 30 days <= 90 days | > 90 days | <= 30 days | > 30 days <= 90 days | > 90 days |
| **Loans and advances** | ***0*** | ***0*** | ***0*** | ***0*** | ***1.7*** | ***0*** | ***0*** | ***0*** | ***11.1*** |
| Central banks | - | - | - | - | - | - | - | - | - |
| General governments | - | - | - | - | - | - | - | - | - |
| Credit institutions | - | - | - | - | - | - | - | - | - |
| Other financial corporations | - | - | - | - | - | - | - | - | 2.3 |
| Non-financial corporations | - | - | - | - | - | - | - | - | 8.6 |
| Households | - | - | - | - | 1.7 | - | - | - | 0.3 |
| **Loans and advances by product, by collateral and by subordination** | | | | | | | | | |
| On demand [call] and short notice [current account] | - | - | - | - | 0 | - | - | - | 0.1 |
| Credit card debt | - | - | - | - | - | - | - | - | - |
| Trade receivables | - | - | - | - | - | - | - | - | - |
| Finance leases | - | - | - | - | - | - | - | - | - |
| Reverse repurchase loans | - | - | - | - | - | - | - | - | - |
| Other term loans | - | - | - | - | 1.7 | - | - | - | 11.0 |
| Advances that are not loans | - | - | - | - | - | - | - | - | - |
| of which: Loans collateralized by immovable property | - | - | - | - | 1.2 | - | - | - | 11.0 |
| of which: other collateralized loans | - | - | - | - | 0.5 | - | - | - | - |
| of which: credit for consumption | - | - | - | - | - | - | - | - | 0 |
| of which: lending for house purchase | - | - | - | - | 1.2 | - | - | - | 0.2 |
| of which: project finance loans | - | - | - | - | - | - | - | - | - |

Main variations are explained as follows:

| 31/12/2018<br>in Eur million | Opening Balance | Increase due to origination and acquisition | Decrease due to derecognition | Changes due to change in credit risk (net) | Decrease in allowance account due to write-offs | Other adjustments | Closing balance |
|---|---|---|---|---|---|---|---|
| **Allowances for financial assets without increase in credit risk since initial recognition (Stage 1)** | **-2.9** | **-2.2** | **2.0** | **0.1** | - | **0** | **-3.0** |
| **Debt securities** | **-1.5** | **-0.9** | **0.4** | **0.4** | **-** | **0** | **-1.6** |
| General governments | -1.1 | -0.7 | 0.3 | 0.4 | - | **0** | **-1.1** |
| Credit institutions | -0.2 | -0.1 | 0 | 0 | - | **0** | **-0.2** |
| Other financial corporations | -0.1 | -0 | 0 | -0 | - | **0** | **-0.1** |
| Non-financial corporations | -0.1 | -0.1 | 0 | 0 | - | **-0** | **-0.1** |
| **Loans and advances** | **-1.4** | **-1.3** | **1.6** | **-0.3** | **-** | **0** | **-1.3** |
| General governments | 0 | - | 0 | -0 | - | - | **-0** |
| Credit institutions | -0.8 | -0.6 | 1.3 | -0.3 | - | **-0** | **-0.4** |
| Other financial corporations | -0.6 | -0.6 | 0.3 | -0 | - | **0** | **-0.8** |
| Non-financial corporations | -0 | -0 | 0 | -0 | - | **-0** | **-0.1** |
| Households | -0 | -0 | 0 | 0 | - | **-0** | **-0** |
| **Allowances for debt instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)** | **-128.4** | **-** | **0.1** | **-0.1** | - | **128.4** | **-0** |
| Loans and advances | -128.4 | - | 0.1 | -0.1 | - | 128.4 | -0 |
| Credit institutions | -128.4 | - | 0.1 | -0.1 | - | **128.4** | **-** |
| Other financial corporations | -0 | - | 0 | 0 | - | **-0** | **-0** |
| Non-financial corporations | -0 | - | 0 | 0 | - | **-0** | **-** |
| Households | -0 | - | 0 | -0 | - | **0** | **-** |
| **Allowances for credit-impaired debt instruments (Stage 3)** | **-4.4** | **-** | **0.4** | **-3.2** | **1.5** | **0** | **-5.7** |
| Loans and advances | -4.4 | - | 0.4 | -3.2 | 1.5 | 0 | -5.7 |
| Other financial corporations | -1.5 | - | 0.3 | -3.3 | - | **-0** | **-4.5** |
| Non-financial corporations | -1.5 | - | 0 | 0 | 1.5 | **-** | **-0** |
| Households | -1.4 | - | 0.1 | 0.1 | - | **0** | **-1.2** |
| **Total allowance for debt instruments** | **-135.7** | **-2.2** | **2.5** | **-3.2** | **1.5** | **128.4** | **-8.7** |
| Commitments and financial guarantees given (Stage 1) | 0.3 | 0.1 | -0.3 | 0.2 | - | **-0** | **0.3** |
| Commitments and financial guarantees given (Stage 3) | 1.2 | - | - | 0.2 | - | **-** | **1.5** |
| **Total provisions on commitments and financial guarantees given** | **1.6** | **0.1** | **-0.3** | **0.4** | **-** | **-0** | **1.8** |

The loan/loss ratio is as follows:

| Loan/Loss ratio (*) | 2018 | 2017 |
|---|---|---|
| L&R from customers | 34bps | 2bps |
| AFS financial assets | <0% | <0% |

(*) The loan/loss ratio is defined as the net variation of specific and general impairments on average loan portfolio over the year.

### *1.2.3. Concentration of risks*

#### 1.2.3.1. By rating

- **Financial assets designated at fair value through profit or loss**

Book value
**In EUR million**

| Rating<br>**31/12/2018** | **Total Watch list** | **Standard** | **Total** |
|---|---|---|---|
| BBB | 1.6 | - | 1.6 |
| NR | 0.0 | - | 0.0 |
| **Total** | **1.6** | **0.0** | **1.6** |

- **Financial assets at fair value through other comprehensive income**

Book value
**In EUR million**

| Rating<br>**31/12/2018** | **Total Watch list** | **Standard** | **Total** |
|---|---|---|---|
| AAA | - | 107.2 | 107.2 |
| AA+ | - | 42.6 | 42.6 |
| AA | - | 307.0 | 307.0 |
| AA- | - | 253.3 | 253.3 |
| A+ | - | 389.1 | 389.1 |
| A | - | 161.7 | 161.7 |
| A- | - | 308.5 | 308.5 |
| BBB+ | - | 501.6 | 501.6 |
| BBB | - | 38.2 | 38.2 |
| BBB- | 9.9 | 409.8 | 419.7 |
| BB | 13.7 | - | 13.7 |
| NR | - | 0.4 | 0.4 |
| **Total** | 23.6 | 2,519.4 | 2,543.0 |

- **Financial assets at amortised cost (debt securities)**

**In EUR million**

| **Rating 31/12/2018** | ***NPL / Impaired*** | ***Standard*** | ***Total*** |
|---|---|---|---|
| AAA | - | 78.7 | 78.7 |
| AA+ | - | 59.8 | 59.8 |
| AA | - | 113.8 | 113.8 |
| AA- | - | 103.6 | 103.6 |
| A+ | - | 77.0 | 77.0 |
| A | - | 144.8 | 144.8 |
| A- | - | 22.0 | 22.0 |
| BBB+ | - | 71.5 | 71.5 |
| BBB | - | 8.0 | 8.0 |
| BBB- | - | 8.2 | 8.2 |
| **Total** | **-** | **687.5** | **687.5** |

- **Loans and advances**

Loans and advances positions are not rated

**Loans and advances**

| **31/12/2018** | **NPL/Impaired** | **Performing** | **Total** |
|---|---|---|---|
| Banks and other Financial Institutions | 397.0 | 582.1 | 979.1 |
| Customers | 139.5 | 319.8 | 459.4 |
| **Sub_total** | 536.5 | 901.9 | 1,438.5 |
| Other L&R and intercompanies | 49.5 | 37.0 | 86.4 |
| **Total** | **586.0** | **938.9** | **1,524.9** |

**Of which Banks and Financial Institutions**

Book value
**In EUR million**

| Rating **31/12/2018** | **Total Watch list** | **Reverse Repo** | **Total** |
|---|---|---|---|
| A+ | 130.8 | - | 130.8 |
| A | 27.0 | 204.0 | 231.0 |
| A- | 4.8 | 186.5 | 191.3 |
| NR | 426.1 | 0 | 426.1 |
| **Total** | **588.7** | **390.5** | **979.1** |

## 1.2.3.2. Financial Securities by country

Country
**in EUR Million**

| 31/12/2018 | Financial assets at amortised cost (debt securities) | | | Financial assets at fair value through other comprehensive income | | | Financial assets designated at fair value through profit or loss | | |
|---|---|---|---|---|---|---|---|---|---|
| | **On_watchlist** | **Standard** | **Total** | **On_watchlist** | **Standard** | **Total** | **On_watchlist** | **Standard** | **Total** |
| AUSTRALIA | - | - | - | - | 12,6 | 12.6 | - | - | - |
| AUSTRIA | - | 11.2 | 11.2 | - | - | - | - | - | - |
| BELGIUM | - | 18.0 | 18.0 | - | 31.1 | 31.1 | 0.0 | - | 0.0 |
| BERMUDA | - | - | - | - | 31.2 | 31.2 | - | - | - |
| CANADA | - | 50.4 | 50.4 | - | 42.1 | 42.1 | - | - | - |
| CAYMAN ISLANDS | - | - | - | - | 74.6 | 74.6 | - | - | - |
| CHILI | - | - | - | - | 56.2 | 56.2 | - | - | - |
| CHINA | - | - | - | - | 39.7 | 39.7 | - | - | - |
| CZECH REPUBLIC | - | 22.3 | 22.3 | - | 83.7 | 83.7 | - | - | - |
| DENMARK | - | - | - | - | 7.8 | 7.8 | - | - | - |
| FINLAND | - | 22.8 | 22.8 | - | 5.1 | 5.1 | - | - | - |
| FRANCE | - | 136.7 | 136.7 | - | 226.8 | 226.8 | 1.6 | - | 1.6 |
| GERMANY | - | 6.1 | 6.1 | - | 20.4 | 20.4 | - | - | - |
| HONG KONG | - | - | - | - | 13.2 | 13.2 | - | - | - |
| IRELAND | - | 103.3 | 103.3 | - | 53.5 | 53.5 | - | - | - |
| ISRAEL | - | - | - | - | 31.9 | 31.9 | - | - | - |
| ITALY | - | - | - | - | 268.9 | 268.9 | - | - | - |
| JAPAN | - | - | - | - | 55.6 | 55.6 | - | - | - |
| KOREA, REPUBLIC OF | - | 6.3 | 6.3 | - | 54.8 | 54.8 | - | - | - |
| KUWAIT | - | - | - | - | 17.6 | 17.6 | - | - | - |
| LITHUANIA | - | - | - | - | 49.5 | 49.5 | - | - | - |
| LUXEMBOURG | - | 32.0 | 32.0 | - | 27.1 | 27.1 | - | - | - |
| MEXICO | - | 24.1 | 24.1 | 5.0 | 20.8 | 25.7 | - | - | - |
| MONACO | - | - | - | - | - | - | - | - | - |
| NETHERLANDS | - | 25.1 | 25.1 | 5.0 | 95.4 | 100.3 | - | - | - |
| NEW ZEALAND | - | - | - | - | 19.6 | 19.6 | - | - | - |
| NORWAY | - | 11.1 | 11.1 | - | - | - | - | - | - |
| POLAND | - | - | - | - | 120.6 | 120.6 | - | - | - |
| PORTUGAL | - | - | - | - | 124.3 | 124.3 | - | - | - |
| QATAR | - | - | - | - | 116.1 | 116.1 | - | - | - |
| SLOVAKIA | - | 17.4 | 17.4 | - | 46.1 | 46.1 | - | - | - |
| SLOVENIA | - | - | - | - | 35.9 | 35.9 | - | - | - |
| SPAIN | - | 62.2 | 62.2 | - | 344.0 | 344.0 | - | - | - |
| SUPRANATIONAL | - | 47.9 | 47.9 | - | 78.5 | 78.5 | - | - | - |
| SWEDEN | - | 16.7 | 16.7 | - | 23.2 | 23.2 | - | - | - |
| SWITZERLAND | - | - | - | - | - | - | - | - | - |
| Other (below EUR 10 Million) | - | 73.9 | 73.9 | 13.7 | 291.9 | 305.6 | - | 0.0 | 0.0 |
| **Total** | **-** | **687.5** | **687.5** | **23.6** | **2,519.4** | **2,543.0** | **1.6** | **0.0** | **1.6** |

## 1.2.3.3. Loans and advances by Country

**Loans and advances**

| 31/12/2018 | NPL/Impaired | Performing | Total |
|---|---|---|---|
| Banks and other Financial Institutions | 397.0 | 582.1 | 979.1 |
| Customers | 139.5 | 319.8 | 459.4 |
| **Sub_total** | 536.5 | 901.9 | 1,438.5 |
| Other L&R and intercompanies | 49.5 | 37.0 | 86.4 |
| **Total** | **586.0** | **938.9** | **1,524.9** |

**Book value - In EUR million**

| Country | L&R Banks and other Financial Institutions | | **L&R Banks and other Financial Institutions** | **L&R Customers** |
|---|---|---|---|---|
| **31/12/2018** | Other L&R | Reverse Repo | **Total** | **Total** |
| AUSTRALIA | 0.0 | - | **0.0** | **0.0** |
| AUSTRIA | - | - | **-** | **3.4** |
| BELGIUM | 5.8 | - | **5.8** | **53.2** |
| BERMUDA | 0.0 | - | **0.0** | **-** |
| CANADA | - | - | **-** | **0.0** |
| CAYMAN ISLANDS | 0.1 | - | **0.1** | **-** |
| CHINA | - | - | **-** | **0.0** |
| DENMARK | - | 204.0 | **204.0** | **-** |
| FINLAND | - | - | **-** | **-** |
| FRANCE | 75.9 | - | **75.9** | **146.7** |
| GERMANY | 4.8 | - | **4.8** | **0.3** |
| HONG KONG | 0.0 | - | **0.0** | **-** |
| IRELAND | 0.0 | - | **0.0** | **0.0** |
| ISRAEL | - | - | **-** | **0.0** |
| ITALY | 0.0 | - | **0.0** | **0.0** |
| JAPAN | - | - | **-** | **0.0** |
| LUXEMBOURG | 119.0 | - | **119.0** | **42.6** |
| MEXICO | - | - | **-** | **0.0** |
| MONACO | 117.9 | - | **117.9** | **42.4** |
| NETHERLANDS | 19.2 | - | **19.2** | **0.9** |
| NEW ZEALAND | - | - | **-** | **0.0** |
| POLAND | - | - | **-** | **0.0** |
| PORTUGAL | - | - | **-** | **1.5** |
| QATAR | - | - | **-** | **50.0** |
| SLOVAKIA | 0.0 | - | **0.0** | **-** |
| SLOVENIA | - | - | **-** | **-** |
| SPAIN | 45.9 | 186.5 | **232.3** | **100.0** |
| SWEDEN | 0.0 | - | **0.0** | **0.0** |
| SWITZERLAND | 36.4 | - | **36.4** | **4.1** |
| UNITED ARAB EMIRATES | - | - | **-** | **2.0** |
| UNITED KINGDOM | 163.3 | - | **163.3** | **6.3** |
| VENEZUELA | - | - | **-** | **0.0** |
| Other below EUR 10 mln | 0.3 | - | **0.3** | **6.1** |

| | | | | |
|---|---|---|---|---|
| **Total** | **588.7** | **390.5** | **979.1** | **459.4** |

1.2.3.4. Modification of financial assets

Risk of default of such assets after modification is assessed at reporting date and compared with the risk under the original terms at initial recognition.

The following table includes summary information for financial assets with lifetime ECL whose cash flows were modified during the period as part of the Group restructuring activities and their respective effect on the Group financial performance:

| **In EUR million** | Exposures with forbearance measures | Performing exposures with forbearance measures | Non-performing exposures with forbearance measures | Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions |
|---|---|---|---|---|
| **Loans and advances** | **26.7** | **25.5** | **1.2** | **-1.0** |
| Other financial corporations | 25.1 | 24.1 | 1.0 | -1.0 |
| Households | 1.7 | 1.4 | - | -0.0 |
| **Total Debt Instruments other than Held for Trading** | **26.7** | **25.5** | **1.2** | **-1.0** |
| **Loan commitments given** | - | - | - | - |

## 2. Market Risk: Trading Risk

### 2.1. Qualitative information

#### *2.1.1. Origin of trading risk*

KBL *epb* Group trading activities are mainly focused on Treasury activities consisting in the reinvestment of the substantial amount of excess liquidity collected with private banking clients. This activity is framed by a full set of primary and secondary limits.

KBL Dealing Room also acts as an intermediary to support the core business activities (i.e. client flows in terms of debt instruments, equity instruments, structured products, forex and deposits), but this pure intermediation activity carries little trading risk.

In addition to those main activities, some limited positions are authorized in structured products where KBL offers a secondary market to its clients.

#### *2.1.2. Trading risk policy*

The risks incurred are mainly short-term interest rate risk, medium/long-term interest rate risk (bond trading, particularly in EUR), price volatility risk (trading in structured products sold to private clients) and forex risk (spot and forward exchange rates).

Most of the instruments used by the Dealing Room are plain vanilla.

#### *2.1.3. Trading decision making process / governance*

Trading activities are concentrated in Luxembourg. According to the Risk Appetite Statement, the primary limits are granted by the Board Risk Committee.

#### *2.1.4. Measurement and monitoring of trading risk*

The system of primary limits in place at KBL *epb* is based on:

- nominal amounts for the Forex and Structured Products activities,
- 10 bpv, Historical Value at Risk (HVaR) and stressed HVaR limits for activities subject to interest rate risk (Treasury and Bond Desks).

These primary limits are supplemented by a structure of secondary limits allowing a more detailed analysis of the trading risks. Those secondary limits consist in concentration limits by currency and by time bucket as well as in limits by issue and issuer, based on their rating or on their market liquidity.

The whole limit framework is complemented with a diversified HVaR covering all activities and a 30 days rolling Stop Loss trigger set per trading desk.

#### *2.1.5. Concentration Risk*

Issuer concentration risk is strictly governed by conservative limits restricting the trading in non-investment grade debts and in illiquid equities, which leads to a well diversified trading portfolio.

It is worth noting that The bond trading activity was discontinued in the last quarter of 2017.

The evolution of exposures related to each activity compared with their respective limits (primary and secondary), as well as the economic results and highlights, are reported daily to the Heads of ALM & Treasury, Global Markets and Group Risk Control Function. They are also weekly reported to the KBL *epb* Executive Committee, on a monthly basis to the Group Risk Committee (ExCo level) and on a quarterly basis to the Group Board Risk Committee.

2.2. QUANTITATIVE INFORMATION

As at 31 December 2018 and 2017, the usage of limits in the Trading activities is as follows (KBL *epb* group):

| **In EUR million** | | **Limit** | **Outstanding 31/12/2017** | **Maximum observed in 2018** | **Average observed in 2018** | **Outstanding 31/12/2018** |
|---|---|---|---|---|---|---|
| **Treasury** | **[10bpv]**[(1)] | **2.5** | 0.8 | 2.5 | 1.9 | 2.4 |
| | **[HVaR]** | **3** | 0.9 | 3.3 | 2.1 | 1.8 |
| | **[ST-HVaR]** | **7.5** | 1.7 | 3.6 | 2.5 | 2.4 |

(1) BPV 10 bps outstanding corresponds to the sum in abs value of the BPV 10 bps in each currency

| **In EUR million** | **Limit in Nominal Amount** | **Outstanding 31/12/2017** | **Maximum observed in 2018** | **Average observed in 2018** | **Outstanding 31/12/2018** |
|---|---|---|---|---|---|
| **Forex (bullions included)** | **20.0** | 3.6 | 10.3 | 3.5 | 2.4 |
| **Structured Product** | **110.0** | 66.1 | 73 | 64.1 | 71.9 |

Outstanding in each activity remained below the authorised limits over the year 2018, except on 2 occasional cases for the Treasury 10 bpv limit (1 day overrun of EUR 0.2 mln on October 26th and 1 day overrun of EUR 0.1 mln on May 23rd) and 2 occasional cases for the Treasury HvaR limit (3 days overrun of EUR 0.4 mln from June 20th to June 22nd and 1 day overrun of EUR 0.2 mln on July 16th).

## 3. Market Risk: ALM Risk

### 3.1. Qualitative information

#### *3.1.1. Origin of ALM risks*

The core activities of a private bank entails little ALM risk compared to a retail bank: most of the client assets under management are securities or funds which are off-balance sheet items inducing no ALM risks. Most short-term client cash deposits offer variable rates linked with money market rates and the same applies to Lombard/mortgage loans to customers. When fixed rates are granted for loans, hedging swaps are contracted.

As a consequence, ALM risks are mainly entailed by security portfolios set up within the frame of the ALM policy being:

- portfolios of high grade bonds, dedicated to the reinvestment of the free capital, and of the most stable part of fixed rate sight deposits and saving accounts;
- portfolios dedicated to the reinvestment of other stable liquidities, looking for the right balance between interest rate risk, credit spread risk and return.

The ALM equity risk is induced by an investment portfolio invested in direct lines of equities or in UCI shares. The portfolio held in KBL *epb* (Luxembourg) is managed along Group ALCO's guidelines.

KBL *epb* group is not exposed to any ALM forex risk as no active foreign exchange exposure is taken (assets are funded in their respective currencies).

#### *3.1.2. ALM decision making process/governance*

The ultimate responsibility for the ALM activity of KBL *epb* group is held by the monthly Group ALCO Committee, which is an Executive Committee extended to the representatives of the Group ALM & Treasury Function, of the Group Risk Control Function, of Global Markets, of Finance, in addition to the Chief Investment Officer.

The ALCO validates a.o. strategies in terms of management of the gap between resources and utilisations, in terms of Return on Equity enhancement, management of the structural liquidity and mitigation of the related risks.

Those strategies are proposed by the Group ALM & Treasury Function which has the responsibility for the preparation of the ALCO meetings, a.o. for the topics which are submitted to its decisions. The Function is also in charge of the day-to-day implementation of the ALCO decisions. When they have a Group dimension, it has to ensure their implementation within the limits of the governance constraints in place.

Under this structure, the Group Risk Control Function endorses a role of second level control entity, issuing opinions on the proposals and monitoring the risks related to the ALM activity on a recurring basis.

#### *3.1.3. ALM policy*

A document entitled *'Investment Policy and ALM framework*' describes a.o. the ALM objectives, governance and constraints (credit risk, liquidity, …). It is in line with the Risk Appetite Statement expressed by the Board of Directors (see below).

#### *3.1.4. Measurement and monitoring of ALM risks*

The Risk Appetite Statement, at least reviewed on a yearly basis, expresses the Board of Directors' risk appetite for ALM interest rate risk, credit spread risk and equity risk, mainly through limits on Value at Risk indicators, sensitivity measures and global outstanding at KBL *epb* group level.

Regarding the interest rate risk, the following limits apply:

- the regulatory 200 bpv (basis point value) limit for all banking book positions.
- The Interest Rate Value at Risk 99% - 1 year, which amounts to EUR 13.6mln for KBL *epb* as at 31 December 2018 (31 December 2017: EUR 58.1mln). The related Risk Appetite limit has been set for KBL *epb* Group to EUR 150 mln (exposure of EUR 39.8 mln as at 31 December 2018).

Regarding Earnings at Risk, the following limits apply:

(i) an interest earning at risk indicator reflecting the outcome of the worst case scenario (between parallel shifts by 100 bpv, 200 bpv, or scenarios of up, short up, down, short down, steepening, flattening movements) of the interest rate curve, which amounts to EUR -24.9 mln (as at end of 2017) at consolidated level, for a Risk Appetite limit of EUR -60 mln.

(ii) an interest earning at risk indicator consecutive to a parallel shift of the interest rate curve by 200 bpv, which amounts to EUR -1.2 mln (as at end of 2017) at consolidated level, for a Risk Appetite limit of EUR -60 mln.

Regarding the equity (price) risk, the Risk Appetite is expressed in terms of maximum Value at Risk and maximum size for listed equities and for alternative equity investments for the whole Group.

The Equity Value at Risk 99% - 1 year amounts to EUR 17.6 mln for KBL *epb* as at 31 December 2018 (31 December 2017: EUR 19.3 mln). The Risk Appetite limit has been set for KBL *epb* Group at EUR 100 mln (for an exposure of EUR 35.1 mln as at 31 December 2018).

## 3.2. Quantitative information

### *3.2.1. Interest rate*

The sensitivity of the economic value of the balance sheet to interest rates (impact of a parallel increase by 1% of the interest risk curve) is as follows for KBL *epb*:

| **In EUR million**<br>**100 bpv as at 31/12/2018** | **Less than 3 months** | **Between 3 months and 1 year** | **Between 1 year and 3 years** | **Between 3 years and 5 years** | **More than 5 years** | **Total 100 bpv** | **Carrying amount** |
|---|---|---|---|---|---|---|---|
| **Financial assets** | **-5** | **-5** | **-21** | **-31** | **-59** | **-120** | **5,131** |
| Held for trading | -1 | -0 | -2 | -6 | -13 | **-22** | 309 |
| Designated at fair value through p/L | - | - | - | - | - | **-** | -0 |
| Non trading assets mandatorily at fair value through P!L | - | -0 | - | - | - | **-0** | 36 |
| Financial assets at fair value through OCI | -0 | -3 | -13 | -15 | -35 | **-67** | 2,560 |
| Financial assets at amortised cost | -1 | -2 | -5 | -9 | -11 | **-28** | 2,212 |
| Hedging Derivatives | -3 | -0 | -0 | - | - | **-3** | 14 |
| **Financial liabilities** | **17** | **3** | **10** | **25** | **52** | **107** | **8,032** |
| Held for trading | 1 | 0 | 2 | 8 | 16 | **27** | 265 |
| Designated at fair value through p/L | - | - | - | - | - | **-** | - |
| Measured at amortised cost | 16 | 3 | - | - | - | **18** | 7,680 |
| Subordinated liabilities | - | - | - | - | - | **-** | - |
| Hedging Derivatives | 0 | 0 | 8 | 17 | 35 | **61** | 88 |
| **Gap** | **12** | **-1** | **-10** | **-6** | **-7** | **-13** | |

| In EUR million<br>100 bpv as at 31/12/2017 | Less than 3 months | Between 3 months and 1 year | Between 1 year and 3 years | Between 3 years and 5 years | More than 5 years | Total 100 bpv | Carrying amount |
|---|---|---|---|---|---|---|---|
| **Financial assets** | **-5** | **-6** | **-18** | **-32** | **-84** | **-145** | **6,171** |
| Held-for-trading | -0 | -0 | -1 | -2 | -4 | **-7** | 471 |
| Designated at fair value through profit or loss | - | -0 | - | - | - | **-0** | 74 |
| Available-for-sale financial assets | -1 | -3 | -17 | -30 | -41 | **-91** | 4,022 |
| Loans and receivables | -1 | -0 | -0 | -1 | -37 | **-40** | 1,589 |
| Hedging derivatives | -3 | -2 | -0 | - | -1 | **-6** | 15 |
| **Financial liabilities** | **19** | **6** | **8** | **23** | **36** | **92** | **7,091** |
| Held-for-trading | 0 | 0 | 1 | 2 | 5 | **9** | 328 |
| Measured at amortised cost (excluding deposits from CB) | 18 | 3 | - | - | - | **21** | 6,662 |
| Subordinated liabilities | - | - | - | - | - | **-** | 3 |
| Hedging derivatives | 0 | 3 | 7 | 21 | 31 | **62** | 97 |
| **Gap** | **14** | **-0** | **-10** | **-9** | **-48** | **-53** | |

The sensitivity of the interest margin of KBL *epb* to the interest rates (impact of a parallel increase by 1% of the interest rate risk curve) is as follows:

| In EUR million<br>Sensitivity 100 bpv Shift 31/12/2018 | Less than 3 months | Between 3 months and 1 year | Between 1 year and 3 years | Between 3 years and 5 years | More than 5 years | Total Impact |
|---|---|---|---|---|---|---|
| Financial assets | 40.0 | 7.2 | 5.9 | 7.7 | 8.6 | 69.5 |
| Financial liabilities | -46.8 | -4.0 | -4.0 | -5.2 | -6.0 | -66.0 |
| **Net Impact** | -6.8 | 3.2 | 1.9 | 2.5 | 2.7 | **3.4** |

| In EUR million<br>Sensitivity 100 bpv Shift 31/12/2017 | Less than 3 months | Between 3 months and 1 year | Between 1 year and 3 years | Between 3 years and 5 years | More than 5 years | Total Impact |
|---|---|---|---|---|---|---|
| Financial assets | 29.7 | 9.8 | 5.4 | 5.9 | 5.6 | **56.3** |
| Financial liabilities | -43.1 | -8.6 | -2.9 | -4.0 | -3.7 | **-62.3** |
| **Net Impact** | **-13.4** | **1.2** | **2.5** | **1.9** | **1.9** | **-5.9** |

*3.2.2. Equity risk*

3.2.2.1. Sensitivity of equity risk

Regarding the equity risk, the impact of a decrease by 25% on both the income statement (impairment) and the equity AFS revaluation reserve (excluding Equity instruments at cost) is as follows for KBL *epb*:

| In EUR thousand<br>31/12/2018 | Current situation [1] | *Impact of a markets' decrease by 25%* | Stock after decrease |
|---|---|---|---|
| **Marked-to-Market value** | 51,081 | *-12,770* | 38,311 |
| **Gain/Loss** | 10,892 | *-12,770* | -1,878 |
| Equity impact (AFS reserve) | -299 | *-4,157* | -4,455 |
| Income statement impact (impairment) | 11,191 | *-8,614* | 2,577 |

[1] *Consolidated participating interests classified as available-for-sale financial assets are not covered here.*

| In EUR thousand<br>31/12/2017 | Current situation [1] | *Impact of a markets' decrease by 25%* | Stock after decrease |
|---|---|---|---|
| **Marked-to-Market value** | 46,081 | *11,520* | 34,560 |
| **Gain/Loss** | 1,716 | *-11,521* | -9,804 |
| Equity impact (AFS reserve) | 1,716 | *-11,475* | -9,759 |
| Income statement impact (impairment) | 0 | *-45* | -45 |

[1] *Consolidated participating interests classified as available-for-sale financial assets are not covered here.*

3.2.2.2. Concentration of equity risk

The decision to increase/decrease the proportion of equity in the ALM portfolio is taken at the ALCO level (within the limits agreed by the BRC) taking into consideration macro and fundamental analysis as well as convictions from the Group Asset Allocation Committee.
Such analysis also influences the relative weights of Europe, USA and Emerging Markets. Within the various regions, an adequate sectorial diversification is looked for. Concentration limits are expressed in absolute amounts and in percentage of daily volume traded.
Next to the strategic investment policy, the Bank also acts as seed investor when new home investment funds are launched.

After a downsize initiated in 2017, he equity portolio represents a total exposure of EUR 51.1 mln as at 31/12/2018 (EUR 46.1 mln as at 31/12/2017).,

In more details :

**In EUR million**

| REGION / NATURE | 31/12/2018 |
|---|---|
| **Europe** (Equity Funds + direct lines) | 32.1 |
| **Europe** (Diversified Funds) | 0.0 |
| **Europe** (Fixed Income Funds) | 0.2 |
| **TOTAL** | 32.3 |
| Other Equities | 18.8 |
| **Total Equities portfolios** | 51.1 |

## 4. Liquidity risk

### 4.1. QUALITATIVE INFORMATION

#### *4.1.1. Origin of Liquidity risk*

The Bank as a Group has a large and stable funding base due to the natural accumulation of deposits from its two core businesses: Private Banking and Global Institutional & Professional Services (GIPS), which on the other hand consume relatively few liquidity resources. The overall funding gap is structurally and globally positive and KBL *epb* group is a net lender recycling structural liquidity positions in the interbank market.

#### *4.1.2. Liquidity decision making process/governance*

Like for Assets and Liabilities Management, the Group ALCO Committee has the final responsibility for the Liquidity Management of the Bank. The Group ALM Function proposes strategies for the management of long term liquidity (putting, a.o. a strong emphasis on ECB eligible as well as Basel III eligible bonds), while the short term liquidity management is delegated to the Treasurer within strict limits (see trading risk above).

The Group Risk Control Function acts as a second level control entity, issuing opinions on investment proposals and monitoring liquidity risk on a daily basis (through a set of indicators briefly described in section 4.1.4).

#### *4.1.3. Liquidity policy*

The current policy applied by KBL *epb* group is to centralise the placement of all liquidity surpluses at the Head Office level. However, when local regulatory constraints exist (large exposures regime, liquidity constraints), the subsidiaries' liquidity is collateralized or is reinvested in local ALM portfolios under the supervision of both Group ALM and Group Risk Control Functions.

At the Head Office, the stable part of global funding is reinvested in ALM portfolios following a conservative strategy (a.o. respecting minimum European Central Bank/Basel III eligibility and rating criteria) and the unstable part of global funding is replaced in the short-term interbank market, largely through reverse repo transactions.

#### *4.1.4. Measurement and monitoring of liquidity risk*

The Board Risk Committee has expressed its Risk Appetite in terms of liquidity risk, by imposing limits on the Basel III ratios (LCR and NSFR), on deposits outflows and on the Liquidity Excess resulting from internal stress tests. The latter are run on a quarterly basis with the aim to assess the ability of KBL *epb* group to survive a severe liquidity crisis during a 3-month time period without affecting its business model.

As the excess liquidity throughout the Group is centralised at KBL *epb*'s Treasury Department (under regulatory constraints), KBL *epb*'s operational liquidity situation is daily monitored by the Market Risk Control department through operational liquidity indicators and reported to the Treasurer. Main operational indicators are:

- a contractual liquidity gap of up to five days, as if the activity was to be continued (no stress test). This report is also sent to the BCL;
- the stock of available liquid assets;
- a daily estimate of the Basel III Liquidity Coverage Ratio, which stood at 136% as at 31 December 2018 (for a regulatory limit of 100%);
- the value of quantitative indicators, which can potentially trigger the Liquidity Contingency Plan (the Plan consists in various actions depending on the gravity - minor, major - of the liquidity crisis).

As far as structural liquidity indicators are concerned, the 'Private Banking customers Loan-to-Deposit ratio (LTD)' is computed on a monthly basis. As at 31 December 2018, it stood at 12%, confirming the excellent liquidity situation of KBL *epb* as natural deposit collector.

## 4.2. Quantitative information

### *4.2.1. Maturity analysis of liquid stock*

The maturity analysis of financial assets held for managing liquidity risk (unencumbered marketable assets) is as follows:

**In EUR million**

| **Marketable assets 31/12/2018** | **Stock of available assets** | **Less than 3 months** | **Between 3 months and 1 year** | **Between 1 year and 3 years** | **Between 3 years and 5 years** | **More than 5 years** |
|---|---|---|---|---|---|---|
| **Initial stock of available assets** | | **1,140.3** | **1,378.3** | **1,148.2** | **618.3** | **310.2** |
| HQLA eligible | 1,074.1 | 244.8 | -215.0 | -500 | -297.9 | -305.9 |
| CB eligible | 1.3 | 0.0 | 0.0 | -0.8 | -0.4 | 0.0 |
| Marketable securities | 64.9 | -6.7 | -15.2 | -29.0 | -9.7 | -4.3 |
| Total | 1,140.3 | 238.0 | -230.2 | -529.9 | -308.1 | -310.2 |
| **Residual stock of available assets** | **1,140.3** | **1,378.3** | **1,148.2** | **618,3** | **310,2** | **0** |

**In EUR million**

| **Marketable assets 31/12/2017** | **Stock of available assets** | **Less than 3 months** | **Between 3 months and 1 year** | **Between 1 year and 3 years** | **Between 3 years and 5 years** | **More than 5 years** |
|---|---|---|---|---|---|---|
| **Initial stock of available assets** | | **1,487.7** | **1,260.3** | **1,093.9** | **655.6** | **274.7** |
| CB eligible | 895.7 | -230.9 | -151.1 | -278.4 | -82.9 | -152.4 |
| Marketable securities | 592.0 | 3.5 | -15.3 | -159.9 | -298.0 | -122.3 |
| Total | 1,487.7 | -227.5 | -166.4 | -438.3 | -380.9 | -274.7 |
| **Residual stock of available assets** | **1,487.7** | **1,260.3** | **1,093.9** | **655.6** | **274.7** | **0.0** |

### *4.2.2. Maturity analysis of financial assets and liabilities*

The analysis by remaining contractual maturity for financial assets and liabilities is as follows:

| **In EUR million 31/12/2018** | **Less than 3 months** | **Between 3 months and 1 year** | **Between 1 year and 3 years** | **Between 3 years and 5 years** | **More than 5 years** | **Undeter mined** | **Total** |
|---|---|---|---|---|---|---|---|
| **Cash and balances with central banks and other demand deposits** | **3,074** | **-** | **-** | **-** | **-** | **-** | **3,074** |
| **Financial assets** | **888** | **1,311** | **1,157** | **863** | **861** | **51** | **5,131** |
| Held-for-trading | 108 | 137 | 32 | 27 | 4 | - | 309 |
| Non-trading financial assets mandatorily at fair value through profit or loss | - | - | 0 | - | 2 | 34 | 36 |
| Designated at fair value through profit or loss | - | - | - | - | - | - | - |
| Financial assets at fair value through other comprehensive income | 72 | 691 | 752 | 449 | 580 | 17 | 2,560 |
| Financial assets at amortised cost | 707 | 482 | 368 | 386 | 269 | - | 2,212 |
| Hedging derivatives | - | 2 | 4 | 1 | 7 | - | 14 |
| **Other assets** | **-** | **-** | **-** | **-** | **-** | **1,138** | **1,138** |
| **TOTAL ASSETS** | **3,962** | **1,311** | **1,157** | **863** | **861** | **1,189** | **9,342** |

| | Less than 3 months | Between 3 months and 1 year | Between 1 year and 3 years | Between 3 years and 5 years | More than 5 years | Undetermined | Total |
|---|---|---|---|---|---|---|---|
| **Financial liabilities** | **7,244** | **686** | **22** | **51** | **30** | **-** | **8,032** |
| Held-for-trading | 127 | 113 | 3 | 19 | 3 | - | 265 |
| Designated at fair value through profit or loss | - | - | - | - | - | - | - |
| Measured at amortised cost (excluding subordinated liabilities) | 7,113 | 567 | 0 | - | - | - | 7,679 |
| Subordinated liabilities | - | - | - | - | - | | |
| Hedging derivatives | 5 | 6 | 18 | 32 | 26 | - | 88 |
| **Other liabilities** | **-** | **-** | **-** | **-** | **-** | **153** | **153** |
| **Shareholders' equity** | **-** | **-** | **-** | **-** | **-** | **1,157** | **1,157** |
| **TOTAL LIABILITIES** | **7,244** | **686** | **22** | **51** | **30** | **1,311** | **9,342** |
| **GAP** | **-3,283** | **625** | **1,135** | **812** | **832** | **-122** | |

Of which derivatives:

**In EUR thousands**
**31/12/2018**

Cashflows by bucket

| | Less than 3 months | Between 3 months and 1 year | Between 1 year and 3 years | Between 3 years and 5 years | More than 5 years | Total | Carrying amount EUR million |
|---|---|---|---|---|---|---|---|
| **Inflows** | **9,610** | **3,582** | **13** | **12** | **11** | **13,229** | **240** |
| Interest rate | 19 | 5 | 13 | 12 | 11 | **62** | **40** |
| Equity | 0 | 0 | - | - | - | **0** | **36** |
| Currency | 9,590 | 3,577 | 0 | - | - | **13,167** | **164** |
| **Outflows** | **-9,562** | **-3,630** | **-** | **-** | **-** | **-13,192** | **-265** |
| Interest rate | -0 | -0 | -0 | - | - | **-1** | **-54** |
| Equity | -0 | -0 | - | - | - | **-** | **-36** |
| Currency | -9,562 | -3,629 | - | - | - | **-13,191** | **-174** |
| **Gap - Derivatives** | **48** | **-48** | **13** | **12** | **11** | **37** | |

| **In EUR million** **31/12/2017** | Less than 3 months | Between 3 months and 1 year | Between 1 year and 3 years | Between 3 years and 5 years | More than 5 years | Undetermined | Total |
|---|---|---|---|---|---|---|---|
| **Cash and balances with central banks and other demand deposits** | **-** | **-** | **-** | **-** | **-** | **-** | **2,091** |
| **Financial assets** | **1,150** | **1,135** | **1,122** | **942** | **981** | **840** | **6,171** |
| Held-for-trading | 214 | 185 | 45 | 12 | 14 | 0 | 471 |
| Designated at fair value through profit or loss | - | 74 | - | - | - | - | 74 |
| Designated at fair value through Other Comprehensive Income | 131 | 692 | 899 | 829 | 631 | 840 | 4,022 |
| Designated at Amortized Cost | 804 | 182 | 176 | 98 | 328 | - | 1,589 |
| Hedging derivatives | - | 2 | 2 | 3 | 8 | - | 15 |
| **Other assets** | **-** | **-** | **-** | **-** | **-** | **330** | **330** |
| **TOTAL ASSETS** | **3,241** | **1,135** | **1,122** | **942** | **981** | **1,071** | **8,592** |

| In EUR million<br>31/12/2017 | Less than 3 months | Between 3 months and 1 year | Between 1 year and 3 years | Between 3 years and 5 years | More than 5 years | Undeter mined | Total |
|---|---|---|---|---|---|---|---|
| **Financial liabilities** | **6,125** | **851** | **44** | **39** | **31** | **-** | **7,091** |
| Held-for-trading | 158 | 154 | 9 | 1 | 6 | - | 328 |
| Designated at fair value through profit or loss | - | - | - | - | - | - | - |
| Measured at amortised cost (excluding subordinated liabilities) | 5,966 | 692 | 5 | - | - | - | 6,662 |
| Subordinated liabilities | 1 | 1 | 1 | - | - | - | 3 |
| Hedging derivatives | 1 | 4 | 29 | 38 | 26 | - | 97 |
| **Other liabilities** | **-** | **-** | **-** | **-** | **-** | **131** | **131** |
| **Shareholders' equity** | **-** | **-** | **-** | **-** | **-** | **1,370** | **1,370** |
| **TOTAL LIABILITIES** | **6,125** | **851** | **44** | **39** | **31** | **1,501** | **8,592** |
| **GAP** | **-2,885** | **285** | **1,077** | **903** | **950** | **-331** | |

Of which derivatives:

| 31/12/2017<br>In EUR thousands | Cashflows by bucket<br>Less than 3 months | Between 3 months and 1 year | Between 1 year and 3 years | Between 3 years and 5 years | More than 5 years | Total | Carrying amount EUR million |
|---|---|---|---|---|---|---|---|
| **Inflows** | **8,137** | **6,982** | **9** | **8** | **9** | **15,145** | **387** |
| Interest rate | 156 | 213 | 9 | 8 | 9 | **395** | 21 |
| Equity | 2 | 0 | 0 | - | - | **2** | 13 |
| Currency | 7,979 | 6,769 | 0 | - | - | **14,748** | 353 |
| Other | - | - | - | - | - | **-** | - |
| **Outflows** | **-8,046** | **-6,809** | **-0** | **-0** | **-** | **-14,856** | **-326** |
| Interest rate | -17 | -17 | -0 | -0 | - | -35 | -24 |
| Equity | -0 | -0 | -0 | - | - | -0 | -13 |
| Currency | -8,029 | -6,792 | -0 | - | - | -14,821 | -288 |
| Other | - | - | - | - | - | - | - |
| **Gap - Derivatives** | **91** | **173** | **9** | **8** | **9** | **290** | |

### *4.2.3. Concentration risk*

The concentration risk the Bank is facing in terms of liquidity is twofold:

- potential concentration in assets in which the excess liquidity is reinvested: this risk is monitored according to the credit risk limit system (as described above);
- potential concentration in funding sources: this risk is monitored through 2 indicators that are quarterly reported to the BRC :

  . relative weight of the top 20 private client deposits for KBL *epb* group,

  . list of all significant counterparties in terms of funding sources (>1% of total liabilities, according to Basel III definition).

## Note 38 – Audit fees

| in EUR thousand | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Standard audit services | 540 | 566 |
| Audit related services | 223 | 91 |
| Other services | - | - |
| **Total** | **763** | **657** |

## Note 39 – Significant subsidiaries

As at 31 December 2018, the list of the consolidated companies in which the Bank has a significant holding of at least 20% of the capital is as follows :

| NAME AND HEAD OFFICE | CAPITAL HELD | EQUITY Excluding result of the year (2) | | RESULT (2) | |
|---|---|---|---|---|---|
| Brown, Shipley & Co, Ltd – U.K. (3) | 100.00% | 88,375,860 | GBP | 4,184,376 | GBP |
| KBL Immo S.A. – Luxembourg | 100.00% | 32,558,332 | EUR | -1,655,126 | EUR |
| Merck Finck Privatbankiers AG – Germany (1) | 100.00% | 80,857,763 | EUR | 123,215 | EUR |
| European Fund Administration S.A. – Luxembourg (1) | 48.58% | 24,781,182 | EUR | -2,544,033 | EUR |
| Kredietrust Luxembourg S.A. – Luxembourg | 100.00% | 7,196,909 | EUR | 4,167,111 | EUR |
| InsingerGilissen Bankiers. – The Netherlands (3) | 100.00% | 229,862,925 | EUR | 10,165,329 | EUR |
| Puilaetco Dewaay Private Bankers S.A. – Belgium | 100.00% | 116,921,345 | EUR | 263,514 | EUR |
| Banque Puilaetco Dewaay Luxembourg S.A. – Luxembourg | 100.00% | 14,516,944 | EUR | 3,253,680 | EUR |
| KBL Espana Asset Management | 100.00% | 2,478,042 | EUR | -866,224 | EUR |
| KBL Espana Capital Markets | 100.00% | 513,063 | EUR | -14,445 | EUR |

(1) : percentage of direct and indirect holdings.
(2) : provisional, social, local GAAP figures.
(3) : Local GAAP = IFRS ; equity excluding reserves on the available-for-sale portfolio and cash flow hedge effects.

## Note 40 – Events after the balance sheet date

There was, after the closing date, no significant event requiring an update of the provided information or adjustments in the financial statements as of 31 December 2018.

## Note 41 – Deposit guarantee scheme

References : Directive 2014/49/EU and Directive 2014/59/EU

These directives are transposed into Luxembourg law by the law of 18 December 2015.

In Luxemburg, the national deposit guarantee scheme (DGS) is represented by the FGDL (Fonds de garantie des dépôts Luxembourg, see the website www.fgdl.lu).

The purpose of the FGDL is to protect clients of the member institutions in case that a bank goes bankrupt.

KBL *epb* is a FGDL member. As a member account holders (natural persons and legal entities) in KBL *epb* Luxembourg and in the KBL Spain branch are protected by the FGDL up to maximum of EUR 100,000 per person/account (additional guarantees are in place for temporary deposits, see the FGDL website for details).

In case of failure, FGDL ensures compensation of depositors within 7 days.

In order to be compliant with the legislation, KBL *epb* has since 31 December 2013 implemented a system which is able to produce a Single Customer View (SCV) file including data about all eligible cash depositors along with the customers references. The KBL system is tested twice a year. This set of information is requested by the CSSF in order to facilitate the reimbursement of depositors in case of the bank's failure.

Each year, KBL *epb* Luxembourg pays a contribution to the FGDL for its financing.

As for the investor protection, the Luxembourg investor compensation scheme (SIIL: Système d'indemnisation des investisseurs Luxembourg) covers investors (natural persons and legal entities) in the scope of the legislation (law of 18 December 2015).

The investment transactions made by the same investor are covered up to an amount equivalent to EUR 20,000.

KBL *epb* Luxembourg is a also SIIL member, in the scope eligible investors in KBL *epb* are covered.

KBL EUROPEAN PRIVATE BANKERS

2018 ANNUAL REPORT

# 5 pillars for the future

AMSTERDAM BRUSSELS LONDON LUXEMBOURG MADRID MUNICH

# 5 pillars for the future

## 1 CLIENT RECOMMENDATION

Invest in better service and performance to become a recommended company by our clients

## 2 TECHNOLOGICAL RELEVANCE

Ensure that we are a technologically relevant company for our clients

## 3 PRODUCTIVITY, COSTS AND PROFITABILITY

Improve productivity, tightly manage costs and drive sustained profitability

## 4 RESPONSIBILITY

As a fully compliant company, ensure that we are a sustainable, trusted and committed partner for our clients, truly integrated in our communities

## 5 COLLABORATION

Work better together as people and markets to the benefit, fun and competence of us all, driving our sustainable company forward

KBL EUROPEAN PRIVATE BANKERS

**Better. Stronger. Together.**

# EUROPEAN NETWORK

BROWN SHIPLEY

Founders Court, Lothbury
London EC2R 7HE
United Kingdom
www.brownshipley.com

PUILAETCO DEWAAY
PRIVATE BANKERS

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B-1160 Bruxelles
Belgium
www.pldw.be

KBL
LUXEMBOURG

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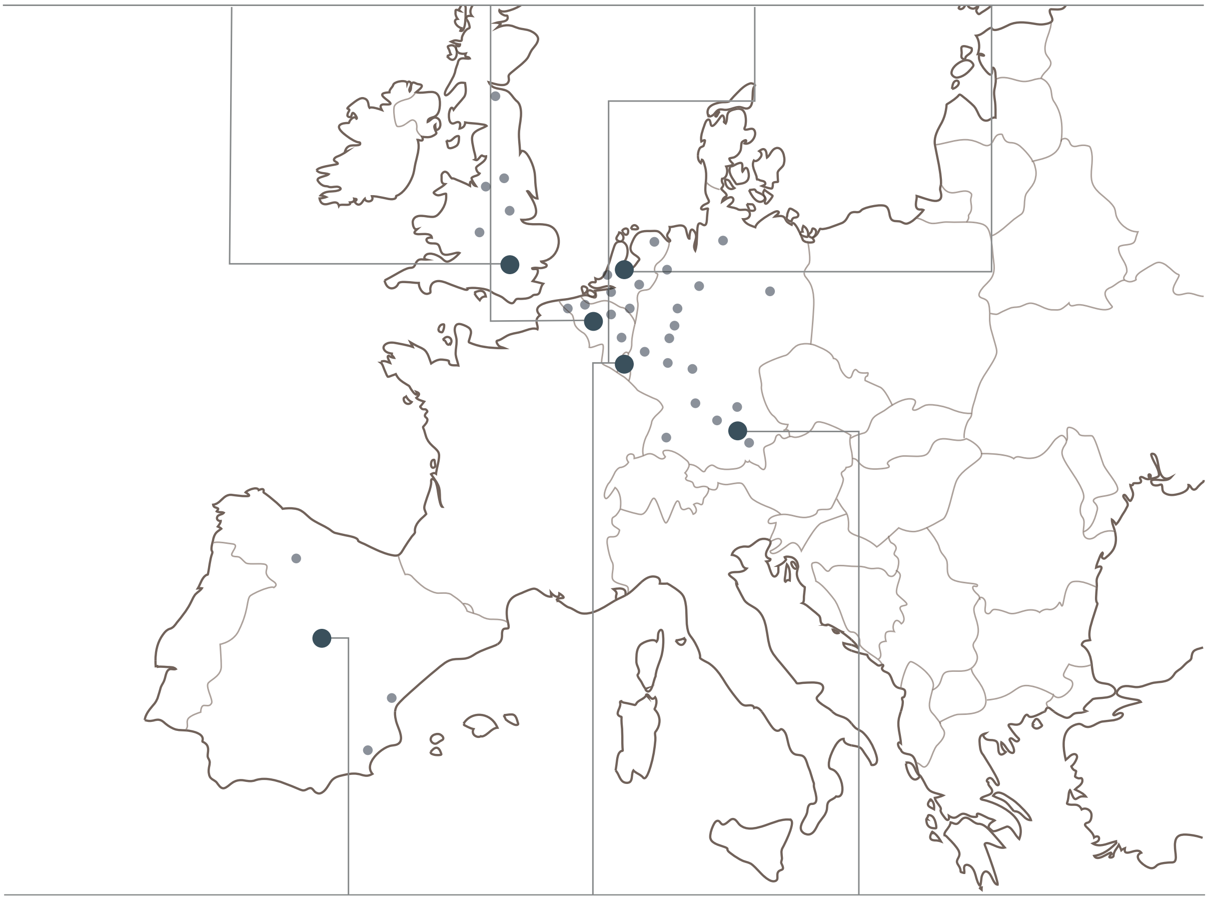
L-2955 Luxembourg
Luxembourg
www.kbl.lu

insinger gilissen

Herengracht 537
1017 BV Amsterdam
The Netherlands
www.insingergilissen.nl



KBL ESPAÑA
EUROPEAN PRIVATE BANKERS

57, Calle Serrano
E-28006 Madrid
Spain
www.kbl-bank.es

Puilaetco Dewaay
PRIVATE BANKERS

163 rue du Kiem
L-8030 Strassen
Luxembourg
www.puilaetco.lu

MERCK FINCK
PRIVATBANKIERS

Pacellistrasse 16
D-80333 Munich
Germany
www.merckfinck.de

KBL EUROPEAN PRIVATE BANKERS

# CONTENTS

# WELCOME FROM THE GROUP CEO

Thank you for your interest in KBL European Private Bankers, a Luxembourg-headquartered network of domestic private banks – each with a rich local heritage and a commitment to proximity, agility and *personalized* service that sets us apart. Our award-winning network includes:

- Brown Shipley (UK)
- InsingerGilissen (Netherlands)
- KBL España (Spain)
- KBL Luxembourg (Luxembourg)
- Merck Finck (Germany)
- Puilaetco Dewaay Private Bankers (Belgium)
- Banque Puilaetco Dewaay (Luxembourg)

Our ambition, everywhere we do business, is not to be the biggest bank but to be a *better* bank, which earns the trust and recommendation of its clients by always putting their needs first.

What does that mean in practice? It starts by sitting *beside* our clients, rather than in front of them; by listening hard and engaging in a serious exchange of ideas, so that the tailor-made solutions we propose reflect the unique history and long-term goals of each individual we have the opportunity to serve.

Those clients include high net worth individuals, entrepreneurs, families and business owners, as well as institutions and professionals such as family offices, foundations and external asset managers.

We meet the evolving needs of private clients through a customized wealth management offering that includes investment management, financial planning and lending. Institutional and professional clients, in turn, benefit from access to tailored investment vehicles, a world-class dealing room, treasury services, independent asset management and a network of sub-custodian banks.

Whatever your needs and wherever you are based, the KBL *epb* group can offer *you* the best of both worlds: deep local insight and – thanks to our ability to share such knowledge across our 50-city network – broader, pan-European perspective.

With the full support of our shareholder – Precision Capital, a Luxembourg-based bank holding company supervised by the European Central Bank – we continue to invest in service and performance to ensure that we can meet our clients' ambitions. That includes adopting new technology that supports our hybrid relationship model and extending lifelong learning opportunities for all our people.

At KBL *epb*, we also take very seriously our obligations as a responsible corporate citizen, which promotes diversity and contributes to the well-being of the community, and as a responsible investor that integrates environmental, social and governance factors in our investment processes.

Today, we have put in place a responsible investment policy that forms the baseline for *all* our investment activities, in every market, including those of Rivertree Investment Funds, our group's in-house fund range.

It's all part of being a *better* private bank – for our clients, our people and every stakeholder in our business.

If we can provide further information about how we can put our insight and experience to work for you, please do not hesitate to contact any of our offices across Europe – or to reach out to me directly. I would be delighted to hear from you!

Sincerely,

Peter Vandekerckhove
Group Chief Executive Officer
& Executive Board Member
Peter.Vandekerckhove@kbl-bank.com

# 1
# Client recommendation

Invest in better service and performance to become a recommended company by our clients

# DIRECTORS & MANAGEMENT

## BOARD OF DIRECTORS

**JAN MAARTEN DE JONG**
Chairman

**GEORGE NASRA**
Vice Chairman

**ALFRED BOUCKAERT**
Director

**ANNE RUTH HERKES**
Director

**MAURICE LAM**
Director

**ANTOINE MARCOLIN**
Director

**MARCO MAZZUCCHELLI**
Director

**ANNE REULAND**
Director

**PETER VANDEKERCKHOVE**
Director

**ALBERT WILDGEN**
Director

## GROUP EXECUTIVE COMMITEE

**PETER VANDEKERCKHOVE**
Group CEO

**SIEGFRIED MARISSENS**
Secretary General

**NICHOLAS HARVEY**
Deputy CEO

**ANTHONY SWINGS**
Group Chief Risk Officer

**CARLO FRIOB**
CEO, KBL Luxembourg

**ERIC MANSUY**
Group COO

## AFFILIATE LEADERSHIP

**OLIVIER DE JAMBLINNE DE MEUX**
Banque Puilaetco Dewaay Luxembourg

**ALAN MATHEWSON**
Brown Shipley

**AMAURY DE LAET**
Puilaetco Dewaay Private Bankers

**MATTHIAS SCHELLENBERG**
Merck Finck

**RAFAEL GRAU**
KBL España

**PETER SIERADZKI**
InsingerGilissen

## GROUP MANAGEMENT

**PHILIPPE AUQUIER**
Group Head of Asset Liability Management & Treasury

**CAROLINE BAKER**
Group Head of Human Resources

**OLIVIER HUBERT**
Group Head of Tax

**CHRISTOPHE MATERS**
Head of Commercial & Digital Development

**FRANÇOIS MONMIGNAUT**
Group Head of MIS & Procurement

**NICHOLAS NESSON**
Group Head of Corporate Communications

**DOMINIQUE ROSSIGNOL**
Head of Group Strategy, Transformation and M&A

**VINCENT SALZINGER**
Group Chief Compliance Officer

**MARK SELLES**
Group CFO

**THIERRY THOUVENOT**
Group Head of Internal Audit

**STEFAN VAN GEYT**
Group CIO

## LUXEMBOURG MANAGEMENT

**VALÉRIE AUBERT**
Head of Compliance, Luxembourg

**ERIC COLUSSI**
Head of Lending, Luxembourg

**GUILLAUME DE GROOT-HERZOG**
Head of Real Estate & Logistics, Luxembourg

**JEAN-NICOLAS DURAND**
Head of Legal, Luxembourg

**RAFIK FISCHER**
Group Head of Global Institutional & Professional Services

**PIERRE-JEAN FROGNET**
Head of Operations, Luxembourg

**BÉNÉDICTE MASSET**
Head of Global Markets

**BERNARD SIMONET**
Head of Human Resources, Luxembourg

**PHILIPPE VAN DOOREN**
Head of Process Management

**QUENTIN VERCAUTEREN DRUBBEL**
Head of Wealth Management, Luxembourg

Independent auditors responsible for external audit: Ernst & Young S.A.

# 2018 IN REVIEW

## JANUARY

KBL *epb* announces three Executive Committee appointments: Nicholas Harvey named Deputy CEO, focusing on strategy and M&A; Secretary General Siegfried Marissens assumes responsibility for Compliance and Regulatory Affairs; Anthony Swings promoted to Group Chief Risk Officer.

InsingerGilissen welcomes a new team of private bankers from Oyens & Van Eeghen.

Brown Shipley appoints Andrew Butler-Cassar as Head of London Office, a newly created role leading client-facing domestic teams.

KBL *epb* unveils its 2018 global investment outlook at a series of press and client events throughout its network.

## FEBRUARY

Puilaetco Dewaay Private Bankers emphasizes the importance of sustainability by launching a campaign focusing on this theme and its unique partnership with Triodos, one of the world's leading sustainable banks.

As part of its long-term partnership with the Philharmonie de Luxembourg, KBL *epb* invites clients and prospects to a concert by world-famous trumpeter Wynton Marsalis.

## MARCH

Brown Shipley signs the HM Treasury Charter, which includes a commitment to increase the number of women in senior management positions to 25% by December 2020.

KBL *epb* celebrates International Women Day and organizes a clothing drive in favor of Dress for Success, a charity that aims to help women escape poverty.

KBL *epb* staff participate in the Relay For Life, organized by the Luxembourg Cancer Foundation.

Merck Finck sponsors the exhibition "Paul Klee. Konstruktion des Geheimnisses" at the Pinakothek der Moderne in Munich and hosts an exclusive preview for 250 guests.

## APRIL

Puilaetco Dewaay Private Bankers is named one of Belgium's top three asset managers by Extel Surveys.

Brown Shipley's Alan Mathewson joins as the bank's new CEO.

KBL *epb* staff take part in World Autism Awareness Day for the sixth consecutive year.

## MAY

KBL *epb* announces its positive 2017 financial results.

KBL *epb* takes part in the International Day for Cultural Diversity.

## JUNE

InsingerGilissen closes the acquisition of the Dutch private banking activities of Lombard Odier.

Puilaetco Dewaay Private Bankers sponsors Trends Summer University, an exclusive meeting of Belgian blue-chip corporate decision-makers.

KBL *epb* unveils its midyear global investment outlook at a series of press and client events throughout its network.

## JULY/AUGUST

Merck Finck Head of Risk Management Olivier Kuetgens is appointed to the bank's Management Board, joining CEO Matthias Schellenberg and Deputy CEO Michael Krume.

Puilaetco Dewaay Private Bankers successfully migrates its activities to a new IT platform, further demonstrating its commitment to "Innovation through tradition."

A team of Brown Shipley and InsingerGilissen staff completes a four-day bicycle ride from London to Amsterdam to raise funds for charity.

## SEPTEMBER

InsingerGilissen lists its sustainable index fund offering on Euronext Amsterdam and signs the UN Principles for Responsible Investment.

Puilaetco Dewaay celebrates its 150th anniversary by hosting more than 3,000 clients at the Africa Museum in Brussels.

KBL *epb* sponsors the Legends Tour tennis tournament in Luxembourg and supports charity run Lëtz Go Gold to finance childhood cancer research.

## OCTOBER

KBL *epb* announces three senior promotions: Group Head of IT & Operations Eric Mansuy promoted to Group COO, Chief Transformation Officer Mark Selles promoted to Group CFO, and Group CIO Stefan Van Geyt promoted to Group Head of Products & Services.

Puilaetco Dewaay Private Bankers hosts "Femmes & Finances" to support female investor education.

Brown Shipley appoints Toby Vaughan as Chief Investment Officer.

Merck Finck serves as the main sponsor of "Hafenkunstkino," an art film project in Düsseldorf.

KBL *epb* is recognized, for the fourth consecutive year, as one of the best private banking groups in Europe at the Private Banker International Global Wealth Awards.

KBL Luxembourg is named the country's best private bank for the third consecutive year at the PWM/The Banker Global Private Banking Awards.

## NOVEMBER

InsingerGilissen is named the best private bank in the Netherlands at the IEX Awards.

Merck Finck earns a "summa cum laude" rating from the Elite Report in cooperation with *Handelsblatt*.

Puilaetco Dewaay serves as the main sponsor of Independent Brussels, the country's largest art fair.

## DECEMBER

Merck Finck hires 20 private bankers to strengthen its activities in southwest Germany.

Brown Shipley's model portfolio service is shortlisted for a Professional Adviser award.

In partnership with the Centre Pompidou-Metz, KBL *epb* invites over 200 clients and prospects to an exclusive visit of the exhibition "Paint the Night."

# KEY CONSOLIDATED FIGURES

| (Consolidated figures as of December 31) | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|
| **RESULTS** (in € million) | | | | |
| Operating income | 547.9 | 465.9 | 487.9 | **444.8** |
| Operating expenses | -449.4 | -451.1 | -446.1 | **-433.6** |
| Impairments | 0.2 | 0.2 | 1.0 | **-1.7** |
| Share in results of associated companies | 0.6 | 1.1 | 0.1 | **-0.1** |
| Gains/(losses) on non-current assets held-for-sale, not qualifying as discontinued operations | - | - | - | **-2.5**[4] |
| Pre-tax profit (from continuing operations) | 99.3 | 16.1 | 42.9 | **7.0** |
| Income taxes | -17.9 | -10.1 | -4.2 | **-6.2** |
| Discontinued operations, net of tax | - | - | -3.6[2] | **-** |
| Net consolidated profit, Group share | 81.3 | 6.0 | 35.2 | **0.8** |
| **FINANCIAL RATIOS** (in %) | | | | |
| Common equity tier one ratio | 13.8% | 16.0%[1] | 17.2% | **17.2%** |
| Tier one ratio | 13.8% | 16.0%[1] | 17.2% | **17.2%** |
| Solvency ratio | 14.0% | 16.0%[1] | 17.2% | **17.2%** |
| Regulatory capital/balance sheet total | 4.8% | 5.9% | 5.3% | **4.6%** |
| Loan-to-deposit ratio | 26.2% | 27.2% | 29.3% | **24.7%** |
| ROAE | 8.7% | 0.6% | 3.2% | **0.1%** |
| ROAA | 0.7% | 0.1% | 0.3% | **0.0%** |
| ROA | 0.7% | 0.1% | 0.3% | **0.0%** |
| Cost/income ratio | 82.0% | 96.8% | 91.4% | **97.5%** |

| (Consolidated figures as of December 31) | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|
| **BALANCE SHEET TOTAL** (in € billion) | 11.1 | 11.0 | 11.5 | **13.0** |
| **ASSETS** | | | | |
| Loans and advances to credit institutions (incl. on demand) | 2.6 | 1.5 | 0.7 | **1.0** |
| Loans and advances to others than credit institutions | 2.7 | 2.1 | 2.5 | **2.6** |
| Equity and debt instruments | 4.6 | 5.4 | 4.3 | **4.4** |
| **LIABILITIES** | | | | |
| Deposits from credit institutions | 0.9 | 1.1 | 0.6 | **0.7** |
| Deposits from others than credit institutions | 8.5 | 8.1 | 8.6 | **10.5** |
| of which, subordinated debt | 0.2 | 0.0 | 0.0 | **0.0** |
| Total equity | 0.9 | 1.1 | 1.1 | **1.1** |
| **PRIVATE BANKING ASSETS UNDER MANAGEMENT** (in € billion) | 35.2 | 36.4 | 45.3 | **39.5** |
| Volume impact | +6.0% | +1.1% | +0.7% | **-0.9%**[3] |
| Price impact | +3.4% | +2.4% | +4.3% | **-6.8%**[3] |
| **ASSETS UNDER CUSTODY** (in € billion) | 47.3 | 26.2 | 27.5 | **26.5** |
| **INSTITUTIONAL ASSETS UNDER MANAGEMENT** (in € billion) | 5.1 | 5.1 | 8.6 | **6.6** |

(1) Simulated ratio including Bank Insinger de Beaufort (see note 44 of the 2016 Consolidated Accounts).
(2) IFRS 5 "Non current Assets Held for Sale and Discontinued Operations" application on former KBL Monaco, KBL Richelieu, S.C.I. KBL Immo I and S.C.I. KBL Immo III (see note 1 and 2d of the 2017 Financial Statements).
(3) Volume/price impact excluding divestment of KBL Richelieu/KBL Monaco.
(4) Please refer to note 1 of the 2018 Financial Statements.

The complete financial statements of KBL *epb* and KBL Group are available on the internet site of KBL *epb*.
The Pillar III disclosures report will be published in first half of 2019 on the internet site of KBL *epb*.
www.kbl.lu

# 2 Technological relevance

Ensure that we are a technologically relevant company for our clients

# CONSOLIDATED MANAGEMENT REPORT

## GENERAL COMMENTS ON THE RESULTS AND THE BALANCE SHEET

At the end of the financial year 2018, KBL group's consolidated balance sheet totalled €13 billion. This increase on 2017 (€11.5 billion) is mainly due to positive developments in client deposits at the parent company.

The preliminary agreement on the sale of its former subsidiaries KBL Richelieu in France and KBL Monaco Private Bankers to Société Générale de Banque au Liban signed at the end of 2017 was closed in early July 2018. This did not materially affect the balance sheet.

KBL Group adopted IFRS 9 with a date of transition of 1 January 2018. The adoption of IFRS 9 has led to a reduction in equity of €13 million. This impact is primarily attributable to a net reduction of other comprehensive income of €17 million as result of changes in valuation methods for reclassified securities. The residual impact is attributable to the allocation for expected credit losses and the reallocation of changes in fair value of equities that increase the group's retained earnings by €4 million.

Despite the impact of IFRS 9 on equity, the group's solvency is solid and remains well above the 12.0% regulatory threshold imposed by the European Central Bank at 17.2%.

2018 was still a year of transformation with continued investments in the IT platform and further staff downsizing. Influenced negatively by low interest rates environment, the unfavourable economic climate and exceptional elements, 2018 closed with a net profit of €0.8 million compared to €35.2 million in 2017.

The net interest margin fell by 8% to €75 million against €81 million in 2017. This was due to the impact of the tightening of financial conditions.

Market volatility and geopolitical uncertainty also weighed on net commissions, which were down 10% (€296 million at the end of 2018 against €330 million at the end of 2017). This fall was particularly marked in client securities and the asset management businesses.

For 2018, we should also note the sale of Monegasque properties, which generated a capital gain of €39 million. In 2017, the Group made a profit of €47 million on a property transaction.

Operating expenses are under control and down almost 3% (€434 million in 2018 compared to €446 million in 2017). In 2018 and 2017, the parent company put in place a plan to downsize the workforce to its target model and its new platform, which negatively affected staff costs, especially marked in 2018. This impact was offset in particular by the synergy created by the merging at the end of 2017 of the two affiliates in the Netherlands, which are now known as "InsingerGilissen."

For detailed figures and further details on the IFRS 9 transition, please refer to the Financial Statements.

## 5 PILLARS FOR THE FUTURE

At KBL *epb*, our ambition is not to be the biggest bank but to be a *better* bank. The 5 pillars of our long-term growth strategy reflect that aspiration and inform everything we do:

1) **Client recommendation:** Invest in better service and performance to become a recommended company by our clients

2) **Technological relevance:** Ensure that we are a technologically relevant company for our clients

3) **Productivity, costs & profitability:** Improve productivity, tightly manage costs and drive sustained profitability

4) **Responsibility:** As a fully compliant company, ensure that we are a sustainable, trusted and committed partner for our clients, truly integrated in our communities

5) **Collaboration:** Work better together as people and markets to the benefit, fun and competence of us all, driving our sustainable company forward

## MISSION

Our mission is clear: to preserve and grow each client's wealth across generations.

Continually adapting to our clients' evolving expectations in an ever-changing world, our long-term approach reflects the asymmetric risk appetite of our clients. Our mission informs every action we take across our 50-city network.

We carry out this mission by providing clients with proximity, agility and personalized service – maintaining close, constant contact, responding quickly to specific needs, and offering tailor-made solutions addressing their unique priorities and long-term goals.

> AT KBL *epb*, OUR AMBITION IS NOT TO BE THE BIGGEST BANK BUT TO BE A *BETTER* BANK

Every day, we put our shared expertise to work for each of our clients, providing customized "one-stop-shop" solutions for individuals, entrepreneurs, families, institutions, family offices and external asset managers.

## VISION

We strive to be recognized as a trusted partner and leading private bank everywhere we operate.

With the full support of our shareholder, Precision Capital (which is supervised by the European Central Bank), our group draws upon a cross-border knowledge base that reflects our commitment to partnering with our clients, as well as our strategy to achieve sustained growth through organic, semi-organic and external initiatives.

As we seek to achieve this ambitious, client-centric goal, five key factors drive us forward: our people, passion, pride, performance and profitability.

## VALUES

Our values are integrity, commitment and excellence, serving as the foundation for how we act and do business, encompassing our core attitudes, beliefs and obligations.

They set standards that shape our actions and inform our vision, guiding us towards our long-term goals.

- **Integrity:** A requirement that all our actions meet or exceed relevant legal and ethical standards and regulations – including by embracing the dual imperatives of transparency and confidentiality

- **Commitment:** An essential quality in our people, who must ensure that each promise we make becomes reality – supported by individual accountability and a broader spirit of interdependence

- **Excellence:** An attitude among all our staff, with an unwavering aspiration to exceed the expectations of our clients and colleagues, founded upon a commitment to making the pursuit of excellence a way of life

## TRAINING & DEVELOPMENT

Training and development are central to further enhancing our client services and improving overall client experience.

That's why we invest in the skills and development of our people and recruit experienced professional staff.

While semi-organic and external initiatives are most visible to the outside world, KBL *epb* firmly believes that staff training and development is no less critical. Indeed, all our people – from the mailroom to the boardroom – are contributing to our ability to better serve each individual client.

In that regard, the group continues to make significant investments in training and development under the auspices of KBL *epb* Group University, an umbrella organization and a long-term, group-wide programme aimed at supporting employee development through a combination of classroom instruction, e-learning and one-to-one mentorship.

Across the group's footprint, and especially in Luxembourg, KBL *epb* continues to promote internal mobility, creating opportunities for relevant staff to transfer their knowledge and skills within the organization.

Likewise, we strongly encourage cross-border cooperation, organizing events that bring together staff from multiple markets. Such meetings facilitate the sharing of local experience and insight – and the creation of shared strategies to better serve all our clients, no matter where they are based.

## SOCIAL COMMITMENT

With nearly 2,000 employees across 50 European cities, our group has a unique opportunity to make a difference in local communities.

Today, we continue to reinforce our commitment to corporate social responsibility, supporting various worthy causes throughout Europe.

At KBL *epb* we believe in doing well for our clients and doing good in our communities. By contributing resources, time and capital to laudable causes and important ideas, we serve as an agent of positive social change.

Our current CSR commitments reflect the distinctly multi-local identity of our group and include support of organizations such as:

- Autism Foundation in Luxembourg
- Birmingham Children's Hospital Charity in the UK
- En avant les enfants in Belgium

We further support various staff-nominated causes across the communities we serve. In Belgium and Germany, we support multiple organizations that work with terminally ill, sick, handicapped and deprived children. KBL *epb* also provides ongoing funding for a broad range of non-profit cultural organizations such as the Luxembourg Philharmonic and the Grand Theater of Luxembourg.

> “WE CONTINUE TO REINFORCE OUR COMMITMENT TO CORPORATE SOCIAL RESPONSIBILITY”

In addition to direct financial support, our group strongly encourages staff to participate in initiatives that benefit local communities. Such staff-supported initiatives include:

- Relay For Life, about 50 employees took part in this 24-hour relay in Luxembourg to raise funds for cancer research
- In August 2018, a team of Brown Shipley and InsingerGilissen colleagues completed a bicycle ride from London to Amsterdam over four consecutive days. The 360 mile bike ride raised £20,000 for multiple charities

## GROUP EMPLOYEES

As of December 31, 2018, the KBL *epb* network included 1,898 individual staff, compared with 2,124 at the end of 2017. Of the group's 1,898 employees, some 66% work in subsidiaries outside Luxembourg.

# OUR CORE BUSINESS: PRIVATE BANKING

At KBL *epb*, our core business is private banking – backed by the group's centuries of collective experience, deep local market knowledge and cross-border capabilities.

Our holistic and personalized approach is founded upon our commitment to minimizing risk while maximizing opportunity. Preserving and growing each client's wealth across generations is at the heart of all of our actions as we aspire to be recognized as a trusted partner and leading private bank everywhere we operate.

Whether by investing in equities, derivatives, fixed-income or structured products, and in-house or third-party funds, we take into account the risk-return potential and tax implications of every investment, in line with each client's specific objectives.

Our experts build long-term client relationships based on mutual understanding and trust. Across our footprint, we seek to grow our core HNWI client base, offering services and products tailored to their individual needs, while continuing to serve affluent clients through a highly efficient delivery model.

Regular communication and constant contact with our clients are prioritized, especially during times of increased volatility – we provide regular, transparent reporting of the performance of each portfolio.

Already firmly established as European leaders, we continue to invest in supporting the professional development of our 400 experienced private bankers serving at 50 offices across Europe. We also selectively recruit highly skilled and motivated relationship managers to ensure the highest level of personalized service.

Moving forward, we will continue to identify further opportunities to grow our private banking operations. In doing so, we will maintain our commitment to client-centricity and, at the same time, favor innovation and diversity.

> "OUR EXPERTS BUILD LONG-TERM RELATIONSHIPS BASED ON MUTUAL UNDERSTANDING AND TRUST"

## CLIENT-CENTRIC APPROACH

Our services – in areas such as Wealth Planning & Structuring and Lending – are direct answers to the needs of the individuals, entrepreneurs and families we serve. Those services are designed to help our clients successfully navigate an evolving and often challenging regulatory environment.

Whether we are managing today's wealth or structuring tomorrow's inheritance, our clients benefit from a suite of open, independent solutions, tailored to their specific needs – backed by our client-centric approach, founded upon offering proximity, agility and personalized service.

# GLOBAL MARKETS, TREASURY, FX AND BULLION

Global Markets is, as a key Group Competence Center, tasked with providing integrated one-stop-shop solutions to meet the financial market needs of KBL *epb* clients across all segments: from affluent, HNWI and UHNWI private clients to external asset managers, family offices and institutions.

In line with this, Global Markets offers trading, sales and execution for a full range of products listed and traded over the counter.

In 2018, the Global Markets business line saw a strategic repositioning with regard to our institutional clients, external asset managers and family offices.

With our expertise, in particular on emerging markets, we completed over 24,000 fixed-income transactions on behalf of private and institutional clients in 2018, while also consolidating our position as a buy-side client with keenly monitored market pricing.

Our fund-execution business remains a key inflection point with our private and institutional clients. We offer our clients a universe of more than 35,000 funds, managed by 500 transfer agents. In 2018, we handled more than 120,000 trades for a volume of over than €11 billion. In addition, we manage high volumes in ETF through our care-order service. We executed almost 100,000 equity and derivative orders for a volume of more than €7.5 billion.

As our asset allocation teams constantly adjust their fund recommendations, Global Markets seeks to deliver efficient and accurate execution through enhanced technology and connectivity.

The Treasury team offers our clients deposit rates on the money markets in a wide range of currencies. It provides advice for business managers, in particular with regard to managing rate risks. It also assists clients in finding, switching and hedging opportunities.

On the currency front, Global Markets' clients mainly trade in the G7 currencies. We nevertheless offer a full range of spot, forward and swap solutions on all currencies, deliverable and non-deliverable, for both private and institutional clients.

Global Markets has longstanding expertise in precious metals. We actively trade gold, silver, platinum and palladium, both physically (bars and coins) and in forward contracts. We also offer secure custody services.

# GLOBAL INSTITUTIONAL & PROFESSIONAL SERVICES

Services to professional and institutional clients have been a pillar of our business for many years. While the institutional and professional segment in Luxembourg is of course especially substantial, our reach extends far beyond the fund industry and the borders of the Grand Duchy. Overall, the institutional and professional services segment is vitally important to our medium and long-term success.

At the beginning of the year, KBL Luxembourg upgraded its organizational structure in order to strengthen its institutional and professional business model. The new business line, Global Institutional & Professional Services (GIPS), unites under the same roof all the marketing and support functions focused on providing full, high-quality custodian and execution services to a sophisticated client base seeking customized solutions.

> “GLOBAL INSTITUTIONAL & PROFESSIONAL SERVICES UNITES UNDER THE SAME ROOF ALL MARKETING AND SUPPORT FUNCTIONS”

This new business line includes all activities and services for non-private clients and consists of several desks and entities which operate together in a highly competitive environment, dominated by dominated by the international anglo-saxon players and marked by ever more stringent regulatory constraints, such as increased supervision of the sub-custodian networks for custodian banks and enhanced monitoring of the activities delegated to management companies. Throughout the year, GIPS, thanks to its client-focused organizational structure, worked hard to provide a comprehensive offering of impeccable and tailor-made services to meet the needs of small and medium-sized management companies, private banks, insurance and life insurance companies, as well as external asset managers and family offices, whether they are based in Luxembourg or elsewhere in the world.

Within GIPS, our Business Development team is the first point of contact for our future institutional and professional clients, with its three desks of multilingual, highly experience specialists who have in-depth knowledge of the client’s needs, whether a fund promoter, an insurer, external asset manager or a family offices. A team of 12 Client Relationship Managers is responsible for day-to-day relationship management and operational support for existing institutional and professional clients, effectively assisted by a back-office known for its experience and competence. Their ability to meet client needs completes the wealth management value chain by positioning KBL Luxembourg as a true “one-stop shop.” Today, Client Relationship Managers serve the needs of more than 350 institutional and professional clients representing more than 5,000 structures and portfolios. It has more than €25 billion in assets under custody.

The Client Support & Monitoring team, responsible in particular for monitoring investment restrictions on the UCI for which KBL Luxembourg is the custodian bank and for supervising the creation and execution of operational workflows, also responds to any operational questions from the client in close collaboration with the operational production lines.

Our offering is not limited to the fund industry. It also includes all the private banking support services and provides external asset managers and family offices with cutting-edge tools such as customized reporting available on specially developed It platform. In addition, we provide small and medium-sized banks with access to the financial markets, financial intermediation and Global Custody services, with recognized excellence in third-party funds and precious metals.

To succeed in a rapidly changing legal environment to which fund promoters must adapt constantly, our Legal

Support team provides high-quality assistance in setting up investment structures and updating legal documentation (full and simplified prospectus, KIID, articles of association, etc.) throughout the entire life cycle of the fund. The team provides the client with its extensive experience and knowledge of the fund industry and helps with the legal analysis of any new product. As a full member of GIPS, the Legal Support team has a comprehensive understanding of the legal needs and constraints facing external asset managers, family offices and banks. It is therefore able to offer assistance that often goes beyond the purely legal framework.

> CLIENT RELATIONSHIP MANAGERS SERVE THE NEEDS OF MORE THAN 350 CLIENTS

# CENTRAL UCI ADMINISTRATION

## LUXEMBOURG, EUROPE'S UNRIVALLED LEADER

On 30 November 2018, the total net assets of collective investment undertakings and specialized investment funds amounted to €4,192 billion compared to €4,136 billion at the end of November 2017, an increase of 1.35%. The increase in the financial centre's net assets was €56 billion.

The number of UCI structures fell by 71 in 2018. However, the number of sub-funds grew by 239 (+2.20%). Like last year, Specialized Investment Funds (SIF) attracted fewer new fund promoters to Luxembourg (-3.08%) while their net assets rose by 10.27% compared to November 2017.

To this can be added the Reserved Alternative Investment Funds (RAIF). Launched on 23 July 2016, this type of alternative investment vehicle has enriched the Luxembourg landscape. Since launch, every investment fund promoter has had the choice between an investment vehicle regulated by the CSSF (SIF, SICAR, Part II funds) or the RAIF, which is regulated and supervised indirectly.

At the end of 2016, six months after its launch, there were 28 RAIF, a number which had risen to 294 at the end of 2017. Since then the number has exploded to reach 575 at the end of November 2018. This success is explained by the fact that the promoter of the vehicle does not need a double level of regulation, i.e. regulation of the vehicle (AIF) and of the manager (AIFM) and that it wants to launch its business quickly. It has the characteristics of specialized investment funds, without having to be regulated by the Commission de Surveillance du Secteur Financier, which sets it apart from the SICAR and the SIF. It is, however, subject to the AIFMD regulation by the supervision of its authorised AIFM. This new vehicle is dedicated to well-informed institutional and professional investors, investing a minimum of €125,000.

Luxembourg remains Europe's unrivalled leader and world's second-largest investment fund domicile (after the United States) with a total of 3,936 structures and 14,952 sub-funds.

The top three countries of origin of fund promoters remain the same as the previous year (market share in % of total net assets): the United States (19.9%), the United Kingdom (18.1%) and Germany (14.4%), followed closely by Switzerland (13.7%).

Thanks to the promotional support of its professional association (ALFI) and the governmental agency for the development of the financial centre (LFF), Luxembourg has successfully positioned itself as the leader for the cross-border distribution of investment funds, with more than 62% of UCITS distributed internationally domiciled in Luxembourg.

Moreover, a growing number of Asian and Latin American countries recognize UCITS as a stable, high-quality, well-regulated investment product with significant levels of investor protection. As a result, the world's most-renowned fund promoters and managers have chosen Luxembourg as a base to domicile or manage their UCITS, with a clearly defined global distribution strategy.

Capitalizing upon the introduction of the AIFMD, alternative funds continue to grow by offering investment strategies in the broader sense, including non-listed companies, real estate, hedge funds, microfinance, alternative energy and socially responsible investments, etc.

## EVOLUTION OF ASSETS ADMINISTERED BY KTL

As at 31 December 2018, the net assets of 71 UCI structures totalling 223 sub-funds were worth €8.77 billion, slightly up on the end of 2017.

During the same period, a significant number of new relationships were established with promoters worldwide. In addition, KTL stepped up its business relations with more than 50 existing client promoters.

## EUROPEAN FUND ADMINISTRATION

Since 1998, KTL has subcontracted its fund accounting, registration and transfer functions to a specialist company called European Fund Administration (EFA), of which KBL *epb* is the principal shareholder.

At the end of 2018, EFA was managing more than 2,800 sub-funds containing total net assets of €122 billion for 188 clients from 23 countries.

For more than 20 years, EFA has been the leader in fund administration. Its mission is to provide a wide range of tailor-made services to a demanding clientele. These services include calculating the NAV, accounting and valuation of portfolios, acting as transfer agent and registrar and also providing tax and reporting solutions for UCITS, UCI and alternative investment funds. In 2007, EFA launched EFA Private Equity, a business line dedicated to real estate and venture capital/ private equity type funds.

> “LUXEMBOURG REMAINS EUROPE’S UNRIVALLED LEADER AND WORLD’S SECOND-LARGEST INVESTMENT FUND DOMICILE”

In June 2018, EFA strengthened this department (now known as Private Asset Services) with the arrival at its head of an expert with 18 years’ experience acquired in various major banks in Luxembourg. In addition, this entity is expanding and concentrating its skills under one roof by focusing on leading-edge services for alternative investment fund equity classes, such as private equity funds, real estate funds and debt funds. This dedicated business line is specialized in all types of private assets, funds and other structures, regulated or non-regulated, in Luxembourg and in any other jurisdiction. EFA Private Asset Services offers middle- and back-office outsourcing solutions for a large range of complex structures. EFA aims to become the benchmark for services offered in the growth sector of private assets by creating real added value that will necessarily require investing in people and technology.

# KTL: ASSET MANAGEMENT ACTIVITIES

Established in Luxembourg in 1987, Kredietrust Luxembourg (KTL) is the 100%-owned asset management subsidiary of KBL *epb*. Based on a diversified model, KTL is particularly active in three areas:

- Management of investment funds under the commercial brand "Rivertree"
- Investment fund services
- Investment research, analysis and recommendations.

**Asset management**
As noted above, Rivertree Investment Funds is the commercial brand that englobes the fund range actively promoted by KBL *epb* at its different affiliates. The fund range consists of sub-funds covering equity, mixed and rate strategies among others through Lux UCITS Rivertree Bond, Rivertree Equity, Rivertree Fd and Rivertree Money Market. In addition, there is a limited fund range of multi-management funds offered under the name "Essential Portfolio Selection".

**Investment fund services**
**Third-party management company**
- Assistance with fund governance
- Provision of customised solutions
- Domiciliation services
- Fund creation
- Fund registration and productions of KIIDs

**Transfer agent**
- Register for account opening, managing KYC documentation, AML procedures, transaction monitoring
- Booking of subscriptions and redemptions, confirmation of execution, estimation of the balance of subscriptions and redemptions recorded
- Booking of corporate actions on funds, management of entry and exit fees
- Transfer of ownership between registrars
- Settlement of amounts confirmed and amounts received

**Administrative agent**
- NAV calculation and verification
- Production and verification of fiscal data

## INVESTMENT RESEARCH, ANALYSIS, STRATEGY AND RECOMMENDATIONS

The following teams, overseen by the Group Chief Investment Officer, are focused on carrying out specific missions to support KBL *epb* investment research activities (members of the teams are split over the different affiliates):

- Group Investment Research (GIR), the coordinating entity for investment research activities throughout the group, including defining the group investment universe
- Group Asset Allocation Committee (GAAC), which oversees the tactical asset allocation process for managed portfolios within the group
- Group Equity Research Team (GERT), which analyzes and issues a list of preferred European small and mid caps; European and US large-cap stock selection has been outsourced to expert external providers
- Group Macroeconomic Team (GMAT), the internal provider of input and insight to the GAAC on macroeconomic trends
- Group Corporate Team (GCOR), which provides bottom-up fixed-income analysis, with a focus on credit
- Group Thematic Ideas Team (GTI), the key internal provider of broad, top-down equity research, such as thematic ideas, regional equity market analysis and overall styles
- Group Fund Selection Team (GFST), clients which focuses on identifying the optimal external funds within their category in order to meet clients' investment needs
- Group Forex and Commodities Team (GFOX), a provider of research and insight on currencies and commodities
- Group Investment Advisory Team (GIAT), a "pivot" in the conviction chain that ensures that ideas and insight are cascaded and incorporated by Group Investment Research

In addition to these services, KTL provides portfolio management for institutional clients.

# 2018 IN REVIEW: AFFILIATES

## INSINGERGILISSEN

Following the merger of Insinger de Beaufort and Theodoor Gilissen, 2018 was the first full calendar year of operations for Amsterdam-headquartered InsingerGilissen. We were able to execute our strategy as planned, generate financial results in line with expectations – and were delighted to be named "Best Private Bank in the Netherlands" at the IEX Gouden Stier Awards.

Based on ongoing client feedback monitoring, average private client satisfaction in 2018 stood at 8 out of 10 and personal service at 8.7. As for our custody banking (EAM) clients, overall satisfaction was rated 8.3 and personal service 8.8.

In January, a team from Oyens & Van Eeghen joined our bank. In June, the acquisition of the Dutch private banking activities of Lombard Odier was successfully closed. Throughout the year, a range of experienced private bankers chose to join us, leading to further growth in assets under management.

Across 2018, we facilitated a number of initiatives to drive staff engagement and foster a corporate culture supportive of our business goals and strategy.

As a leading private and custodian bank, InsingerGilissen effectively and independently guides clients in making important financial decisions during every phase of their life.

By delivering refreshing financial solutions and great service, the bank actively supports clients in shaping their own future, creating new beginnings at each important step they take in their life. In this endeavor, InsingerGilissen helps raise industry standards, step by step and over and over again.

## PUILAETCO DEWAAY PRIVATE BANKERS

In 2018, Puilaetco Dewaay Private Bankers celebrated the 150th anniversary of its founding.

A trusted partner for four generations, our private bank offers high-performance, personalized and responsible wealth management solutions.

Headquartered in Brussels with offices in seven other cities in Belgium, Puilaetco Dewaay believes in innovation through tradition: Building upon a commitment to excellence and high-added-value services that began in 1868, we embrace the spirit of change required by a constantly evolving environment, including by investing in digital solutions.

In this and everything we do, our goal is to preserve and grow the wealth of our clients – today, tomorrow and for generations to come. Puilaetco Dewaay has the vision to become a recognized industry leader, close to its clients thanks to passionate professionals supported by state-of-the-art technology.

Our more than 200 staff provide long-term, holistic wealth management services and open-architecture investment solutions for our HNWI clients, who benefit from a wide range of personalized services, including wealth planning; investment management; credit; fine art collection management; and sustainable investing, through a partnership with Triodos Bank.

A client-focused organization with over €10 billion in assets under management, Puilaetco Dewaay continues to strengthen existing relationships, attract new clients and look to the future with confidence.

insinger gilissen

PUILAETCO DEWAAY
PRIVATE BANKERS

## BROWN SHIPLEY

Brown Shipley is a UK-authorized private bank with a strong heritage dating back to 1810, focused on providing clients with a fully integrated wealth management service offering, incorporating wealth planning, investment management and lending.

In April 2018, Alan Mathewson took over as CEO, following Ian Sackfield's decision to step down from a position he had held for nearly a decade.

Throughout 2018, we continued to grow assets under management via the development of new and existing client relationships. We maintained a strong focus on enhancing client service, including leveraging technological developments to complement the high level of personal service we deliver. This has seen new IT software implemented to manage our wealth planning offering, the launch of a new corporate website, and strong progress made in our preparations to migrate onto the KBL *epb* group-wide IT platform, which is targeted to take place this year.

Elsewhere, in support of our corporate social responsibility priorities, colleagues from Brown Shipley and InsingerGilissen, our Dutch sister bank, completed a four-day bicycle ride from London to Amsterdam. The 360-mile bike ride raised £20,000 for charitable causes.

BROWN SHIPLEY

## MERCK FINCK

Munich-headquartered Merck Finck offers a wide range of solutions for its HNWI clients. With 16 offices and some 300 employees across Germany, we have built strong relationships founded upon mutual trust and nearly 150 years of experience.

2018 was a year of digital development and progress – with both visible achievements and plenty of behind-the-scenes activity, including the development of a new web presence to enhance client communication and overall user experience. As well, a new CRM was implemented, while new portfolio management and electronic account opening systems were developed to improve administrative efficiency and enhance client focus.

2018 was also marked by the arrival of many new colleagues at our branches and headquarters, including in departments such as Investment Management and Project Management.

The quality of our advisory services was again recognized with awards and top rankings from leading media and organizations such as Handelsblatt Elite Report and Fuchsbriefe. The latter ranked Merck Finck as the number-one German private bank over the long term from 2008-2018.

MERCK FINCK
PRIVATBANKIERS

## KBL LUXEMBOURG

KBL Luxembourg, a member of the KBL *epb* group, is a leading private bank in the Grand Duchy staffed by 300 professionals, including 50 private bankers.

For 70 years, we have served as a trusted wealth management partner, with unparalleled cross-border expertise, that strives to meet the evolving needs of our clients each day and for generations to come.

KBL Luxembourg provides a wide range of holistic services, including wealth planning and structuring, credit, asset management, global market access, and institutional and professional services.

> FOR 70 YEARS, WE HAVE SERVED AS A TRUSTED WEALTH MANAGEMENT PARTNER

While clients can always count on a deep, one-to-one relationship with their private banker, a range of services are also available via eKBL, the bank's online platform. In addition to providing 24/7 access to one's portfolio – including detailed and easily customizable information – clients can communicate directly with their relationship manager through a secure messaging system.

In 2018, for the third consecutive year, KBL Luxembourg was named the country's best private bank by the Financial Times Group – reflecting our timeless commitment to proximity, performance and personalized service.

KBL
LUXEMBOURG

## KBL ESPAÑA

Established in 2011 as a branch of KBL *epb*, KBL España is headquartered in Madrid with offices in Murcia, Las Palmas, León and Valencia. We offer clients the flexibility of developing private banking relationships managed from Spain with the ability to domicile assets in the KBL *epb* market of their choice.

In 2018, our seventh full year of operation and despite an increasingly competitive environment, we achieved significant expansion in terms of the number of new clients – a record by volume during the year – as well as growth in assets under management and revenues. Having started as a greenfield operation in the very large Spanish market, we consider that there continue to be important opportunities for future growth.

The majority of our clients are high net worth individuals for whom we aim to provide customized asset management services with the objective of analyzing each client's full profile in order to offer a complete wealth management solution that takes into account more than purely financial factors.

Working closely with our colleagues in Luxembourg and across Europe, we continue to identify further opportunities for cross-border collaboration, enhancing our ability to provide clients with deep insight into the Spanish market combined with broader international perspective.

## BANQUE PUILAETCO DEWAAY LUXEMBOURG

In 2018, Banque Puilaetco Dewaay Luxembourg celebrated the 30th anniversary of its founding in the Grand Duchy.

Last year, markets were particularly volatile, creating industry-wide challenges in client portfolio management and reflecting broader economic and political instability as the world continued to experience profound, sustained change.

In this environment, Banque Puilaetco Dewaay Luxembourg continued to focus on its core business: managing the wealth of its private clients. As part of this, a new private banker was hired in April and a new Head of Estate Planning & Wealth Structuring arrived in August.

In line with regulatory developments, the bank appointed a Head of Risk in October and decided to return to the market for loans, some of which will be insured by the bank itself with a view to the prudent management of its balance sheet. Loans that the bank will not take on its own books will continue to be reviewed and potentially assumed by its shareholder, KBL *epb*.

In May, Banque Puilaetco Dewaay Luxembourg relocated to modern new offices in Strassen – just a few minutes from the city center – that will enable staff to work together even more efficiently.

# 3
# Productivity, costs and profitability

Improve productivity, tightly manage costs and drive sustained profitability

# 4
# Responsibility

As a fully compliant company, ensure that we are a sustainable, trusted and committed partner for our clients, truly integrated in our communities

# NON-FINANCIAL & DIVERSITY INFORMATION

In line with European Commission Directive 2014/95/EU on the disclosure of non-financial and diversity information, KBL *epb* is pleased to provides its annual report of environmental, social and governance-related initiatives and impacts, complementing the information provided in the group's 2018 consolidated and non-consolidated reporting.

Whenever possible, the information and data contained in this report encompasses the activities of the group as a whole.

Given that the group's headquarters are in Luxembourg, where 34% of its staff is based, particular emphasis is placed on KBL *epb*'s environmental, social and governance-related initiatives and impacts in the Grand Duchy.

## SUSTAINABILITY & RESPONSIBILITY

In a period marked by rapid social change and deepening environmental concerns, *sustainability* – in every sense of the word – has never been more important for companies everywhere, no matter where they are based or their sector of activity.

Given the low level of public trust in financial services organizations in particular – especially in the wake of the global financial crisis – such firms have a unique opportunity to demonstrate to their stakeholders (including but not limited to clients, employees and the community at large) that they act *responsibly*.

At KBL *epb*, we are committed to doing well for our clients, doing right by our people and doing good in the communities in which we operate. That commitment is shared across our group, and brought to life by our 2,000 staff based in some 50 European cities. As a fully compliant company, we ensure that we are a sustainable, trusted and committed partner for our clients, truly integrated in our communities – the fifth pillar of our long-term strategy.

Founded in Luxembourg 70 years ago and with centuries of collective heritage, we know that our group must continue to change with the times to bring that commitment to life. We are therefore pleased to report, for the second time, our environmental, social and governance-related initiatives and impacts – recognizing that such reporting can and must grow richer over time.

## ENVIRONMENTAL IMPACT

In every market in which we operate, the KBL *epb* group is making a sustained effort to reduce its carbon footprint, including by minimizing electricity usage, maximizing the recycling of paper and other waste, privileging public transportation and seeking local solutions insofar as possible.

In Luxembourg, the Real Estate & Logistics department develops, executes and follows up on such environmental impact initiatives, acting under the supervision of the Group COO.

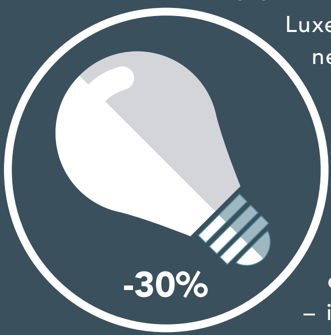

**Carbon footprint:** In September 2016, the group entered into a partnership with Egencia, a business travel solutions provider. Consequently, we are now able to track, trace and seek to reduce our carbon footprint at group level and at each affiliate.

At the same time, our policy is to favor and actively promote business-related travel by public

**FLIGHT CARBON FOOTPRINT BY Co2 EMISSIONS, IN KG, BY KBL *epb* GROUP ENTITY (2018)**

| | 2018 |
|---|---|
| KBL *epb* Luxembourg | 116,171 |
| Merck Finck | 85,702 |
| Brown Shipley | 61,492 |
| InsingerGilissen | 20,494 |
| Puilaetco Dewaay | 13,483 |

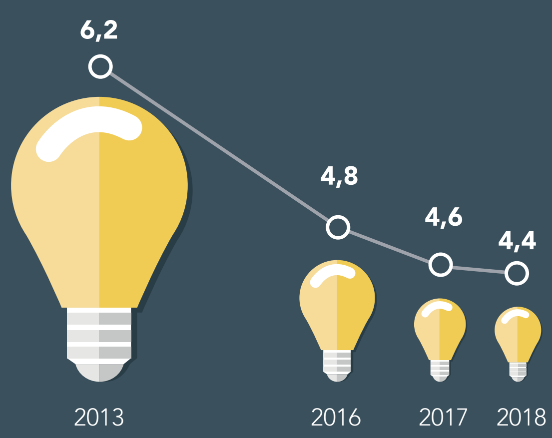
transportation (including train, bus and, on some occasions, ride-sharing), including by subsidizing the cost of daily commuting for employees who opt for such public transportation through, for example, the "M-Pass" programme for KBL *epb* Luxembourg employees based in neighboring countries such as Belgium and France.




**Electricity consumption:** Over the past several years, reflecting increasing awareness of the environmental impact of electricity consumption, KBL *epb* – in Luxembourg and across the group's operations – has put in place measures to reduce such consumption. In Luxembourg, for example, electricity consumption has been reduced by nearly 30% since 2013.

At Merck Finck, the team in Rottweil has relocated to new offices that offer a much more favorable ecological balance. In Frankfurt, the team is preparing to move into new offices, which will have a direct positive impact on the reduction of the bank´s overall energy consumption and $CO_2$ emissions.

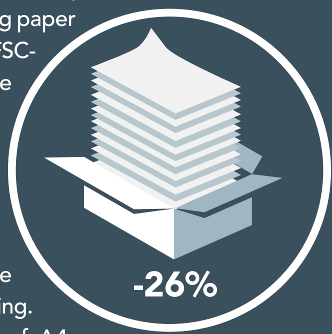
**ELECTRICITY CONSUMPTION, IN KWH, BY KBL *epb* LUXEMBOURG (MILLIONS)**




The new location will be compliant with current environmental standards and meet the flexible spatial needs of a growing team. These measures have already helped materially reduce electricity consumption.

Thanks to other measures – such as the installation of LED light bulbs and movement-sensor detectors, and the optimization of cooling and air-circulation systems – the group's real estate/facilities management departments have broadly succeeded in optimizing electricity consumption.

**Paper usage:** In line with best practices, printers at every group entity are preconfigured to print in black and white and recto-verso, reducing paper and ink usage. All entities also use FSC-certified paper, ensuring that the wood within the product is from FSC-certified material, recycled material or controlled wood. The group also developed and put in place a long-term internal awareness campaign to reduce unnecessary and/or excessive printing. Consequently, the consumption of A4 paper in Luxembourg has declined steadily.




**FSC A4 PAPER CONSUMPTION AT KBL *epb* LUXEMBOURG**

| | 2017 | H1 2018 | H2 2018 |
|---|---|---|---|
| KBL *epb* | 4,300,000 | 2,160,000 | 1,589,000 |

In Luxembourg, we replaced our 185 existing printers with 50 much higher-performance machines with a view to lowering costs by 60-75% and significantly reducing our environmental impact. Moreover, at affiliates and group headquarters, private banking teams have been provided with iPads and tablets to further reduce paper consumption.

**Waste treatment:** In Luxembourg, KBL *epb* earned SuperDrecksKëscht® fir Betriber status a decade ago, reflecting the organization's sustained commitment to the responsible treatment of waste, including the fact that some 50 tons of organic waste is annually converted into a source of industrial heating. This status is conferred by the country's Environmental Administration, the Chamber of Commerce and Chamber of Trades based on the sustainable management of waste in line with environmental standards.

**SINCE 2008, KBL *epb* HAS BEEN RECOGNIZED FOR ITS COMMITMENT TO THE RESPONSIBLE TREATMENT OF WASTE**

SuperDrecksKëscht® fir Betriber status is certified according to the international norm ISO 14024:2000. The treatment and recycling of waste by companies with such certification integrates the requirements of the norm ISO 14024.

**Employee meals:** A number of initiatives were put in place in 2018 to enhance the quality, healthiness and environmental impact of meals served at staff canteens. In Luxembourg, for example, only organic fruit is now served, local produce is privileged and all organic waste generated by the canteen is recycled as a source of heat.

## SOCIAL RESPONSIBILITY

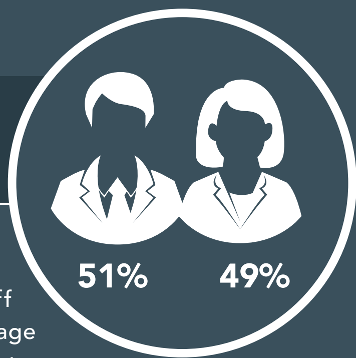
In every market in which we operate, our group recognizes diversity as a source of strength, invests in the life-long professional development of our people, and commits to contributing to the well-being of the local community.

In each of our markets, the local HR department, supported by Group HR, develops, executes and follows up on policies and strategies to measure and promote staff diversity, and also leads staff training and professional development activities. Corporate social responsibility activities are typically led by HR and Corporate Communications, with oversight by senior management and/or a committee dedicated to CSR actions, which must be in line with the established Group CSR Policy. Such budgets are allocated locally.

**Diversity:** KBL *epb* is an equal-opportunity employer, which is committed to ensuring that every employee – no matter their gender, their age, their sexual orientation, the color of their skin or their physical abilities – is treated with the respect and fairness that everyone deserves.

At the group's headquarters, and across our pan-European network, we place special emphasis on improving gender parity, over time, at all levels of the organization.

**APPROXIMATELY 50% OF LUXEMBOURG-BASED STAFF ARE FEMALE**




Approximately 50% of Luxembourg-based staff are female, while an average 42% of staff at each affiliate are women. Meanwhile, staff in Luxembourg are highly multicultural, including 20 different nationalities, led by Belgian (38%), French (36%) and Luxembourgish (14%). On average, affiliates employ staff of 13 different nationalities.

The average age of a KBL *epb* group employee is 45, reflecting the level of experience typically required for staff in this sector of activity; our employees have served at the group, on average, for 11 years.

In 2018, Brown Shipley launched several measures to support workplace diversity, including interviewing both genders for roles that arise by male and female interviewers. In addition, the UK-based bank has signed the Women in Finance Charter and has pledged to achieve 25% of women in senior management by the end of 2020.

At the same time, the group actively seeks to hire, train and promote younger employees. In Luxembourg, relevant actions include an initiative known as the "Kaleidoscope Programme," a two-year, customized integration programme that allows high-achieving recent graduates to explore key departments of the bank and gain a uniquely comprehensive understanding of the financial services sector. This programme, initiated 30 years ago, has produced generations of executives, with some 80 participants having taken part to date.

**COMPOSITION OF KBL *epb* GROUP ENTITIES BY AGE, SENIORITY, GENDER & NATIONALITY**

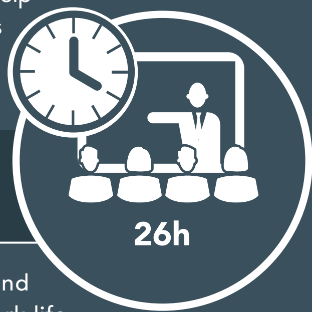
| | Age | Seniority | Men | Women | Nat. |
|---|---|---|---|---|---|
| KBL *epb* | 45.6 | 16.3 | 320 | 307 | 20 |
| Merck Finck | 48 | 13.4 | 154 | 131 | 14 |
| Brown Shipley | 42 | 5.7 | 225 | 154 | 19 |
| Puilaetco Dewaay | 45.6 | 11.3 | 127 | 94 | 6 |
| InsingerGilissen | 47 | 13 | 252 | 113 | 20 |
| KBL España | 41 | 3.5 | 27 | 13 | 1 |

**Training, development & well-being:** Training is an imperative for all KBL *epb* staff, no matter their age or experience, especially given the rapid pace of change in the private banking sector. At KBL *epb*, we provide our people with ongoing opportunities to grow personally and professionally as part of a leading multi-local private banking group. Training offered under the umbrella of KBL *epb* Group University – ranging from IT to soft skills to language learning – ensures that career growth remains continuous.

In 2018, KBL *epb* Luxembourg provided more than 15,000 training hours to 722 staff members. The bank allocated over €470,000 to the ongoing development of its staff.

Since 2008, KBL *epb* Luxembourg has employed a full-time Social Assistant, who, in cooperation with the HR department, works with staff to help them address personal challenges and supports them in developing solutions.

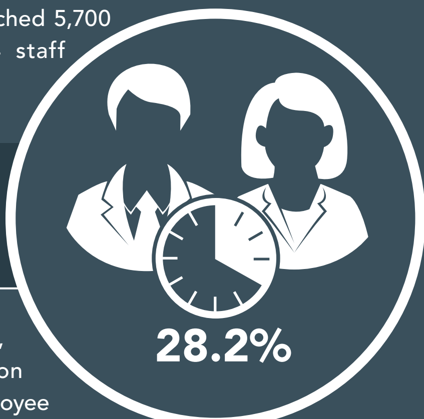
**NUMBER OF ANNUAL TRAINING HOURS, PER EMPLOYEE, AT PUILAETCO DEWAAY (2018)**




KBL *epb* promotes flexibility and recognizes the importance of work-life balance. In Luxembourg, more than one-quarter of all staff work part-time, and remote access is increasingly proposed as a solution – on a periodic basis, in line with relevant regulations – particularly for working parents.

To that end, the bank launched in 2017 a three-month pilot to evaluate opportunities to expand its remote access programme. In July 2018, further to this pilot, KBL *epb* launched a remote-access policy that permits eligible staff to work from home up to 24 days per year (for a full-time employee) regardless of their country of residence. Between July-December 31, 2018, total remote access reached 5,700 working hours by 264 staff members.

**PERCENTAGE OF PART-TIME STAFF AT KBL *epb* IN LUXEMBOURG (2018)**




Across the group, investments are made on an ongoing basis in employee well-being, including significant enhancements to the physical office space in Luxembourg, as well as at the head office of Puilaetco Dewaay in Brussels. Whether it's providing baskets of fresh fruit, employee changing rooms and showers, regular staff movie nights, breakfast discussions with senior management or all-staff holiday parties, the group rewards its people for their hard work, dedication and client-centricity.

**Corporate social responsibility:** With 2,000 employees based in some 50 cities in Europe, the KBL *epb* group has a unique opportunity to make a difference in local communities and to be a benchmark socially responsible financial institution everywhere we operate. Moreover, at KBL *epb*, we believe we meet the needs of all our stakeholders by acting as a positive and effective influence in local communities. By contributing resources and capital to worthy causes and initiatives, we serve as an agent of positive social change.

In 2018, KBL *epb* donated €30,000 to charitable associations in Luxembourg, including the Fondatioun Kriibskrank Kanner, which accompanies children fighting cancer or a rare and life-threatening disease and their families; the Luxembourg Autism Foundation; Jonk Entrepreneuren, which facilitates youth entrepreneurship; Save the Children; Movember for men's health; and many other causes. KBL *epb* also provides ongoing financial support to a broad range of non-profit cultural organizations, such as the Luxembourg Philharmonic and the Grand Theater of Luxembourg. Whenever possible, KBL *epb* facilitates opportunities for its staff to participate in charitable initiatives.

Outside the Grand Duchy, KBL *epb* affiliates are likewise very active in their local community, including by sponsoring children's welfare initiatives (Puilaetco Dewaay), art exhibitions and theater (Merck Finck and InsingerGilissen), and charity races (Brown Shipley).

## COMPLIANCE NORMS & POLICIES

As outlined in Appendix 2, Compliance Risk, Compliance is responsible for implementing all measures designed to prevent KBL *epb* from suffering damage or loss, whether financial or otherwise, due to a failure to comply with existing regulations. The operating procedures of this function – in terms of objectives, responsibilities and powers – are laid down in the Compliance Charter drawn up by the Compliance department and approved by the Executive Committee and the Board of Directors.

The Compliance Charter:

- Defines the position of Compliance in the bank's organizational chart
- Recognizes the right of Compliance to open investigations into any of the bank's activities
- Defines the responsibilities and reporting lines of the Chief Compliance Officer
- Describes the relationships with Risk Management and Internal Audit
- Defines the applicable conditions and circumstances for calling on external experts
- Establishes the right of the Chief Compliance Officer to contact directly and on his own initiative the Chairman of the Board of Directors or, where appropriate, members of the Audit Committee or the Compliance Committee, as well as the CSSF

The core focus of the Compliance function covers:

- The fight against money-laundering and terrorism financing
- Prevention of market abuse and personal transactions
- Integrity of the markets in financial instruments
- Investor protection
- Data protection, including banking secrecy
- Avoidance and management of conflicts of interest
- Prevention of the use of the financial sector by third parties to circumvent their regulatory obligations
- Management of compliance risks linked to cross-border activities
- Professional ethics (codes of conduct, compliance manual, etc.) and the fight against fraud and corruption

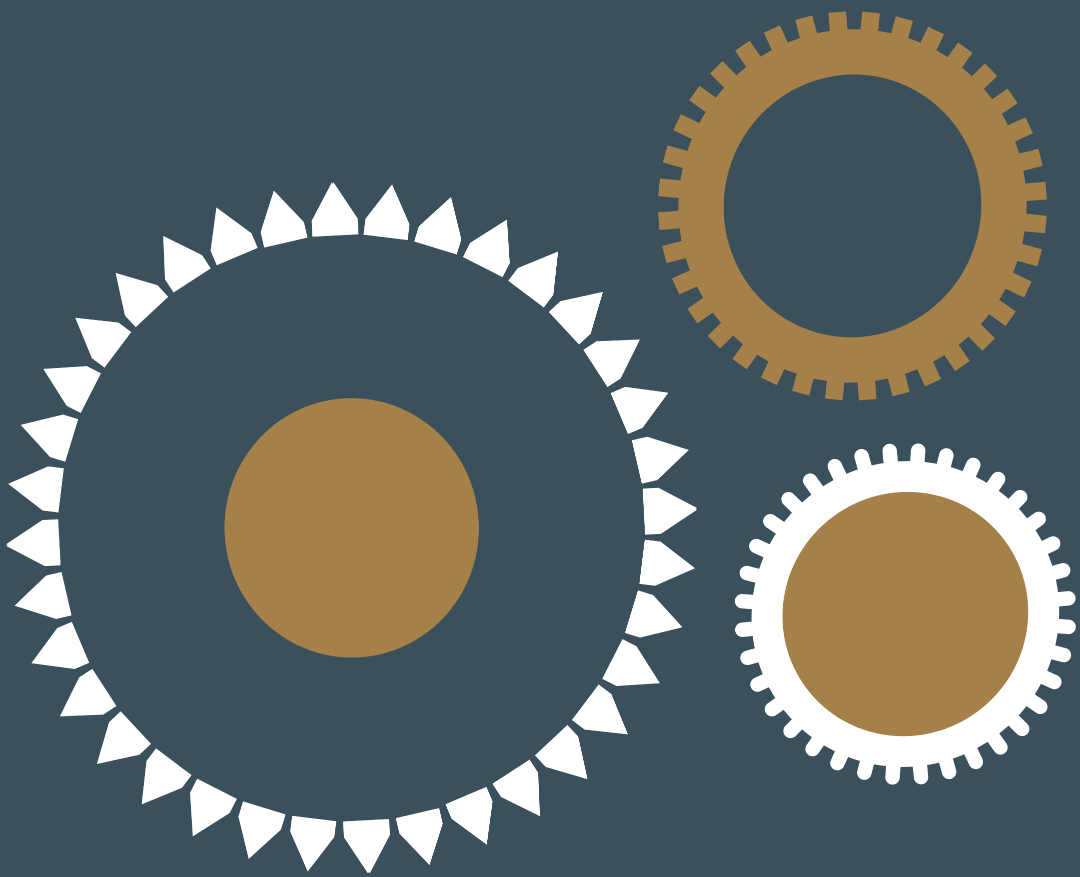
The following primary Compliance policies, guidelines and standards – available via the group's Intranet – are applicable across the KBL *epb* group:

- Compliance Charter
- Compliance Policy
- Code of Protection of Whistle Blowers
- Code of Protection of Whistle Blowers – Annex 1
- Conflict of Interest Policy
- Conduct of Business Policy
- Code of Conduct
- Anti-corruption and Bribery Policy
- Anti-corruption and Bribery Policy Q&A
- Cross-border Policy
- Policy Relating to the Exercise of Mandates by Employees

Via various compulsory training sessions, every KBL *epb* employee has been made fully aware of their role in the fight against money-laundering and terrorism financing. In 2018, 600 staff members participated in total of 150 hours of compulsory training dedicated to anti-fraud measures.

# 5 Collaboration

Work better together as people and markets to the benefit, fun and competence of us all, driving our sustainable company forward



# NON-CONSOLIDATED MANAGEMENT REPORT

## GENERAL COMMENTS ON THE RESULTS AND THE BALANCE SHEET

At the end of the financial year 2018, KBL *epb*'s balance sheet totalled €9.3 billion. This increase of €8.6 billion compared to 2017 is mainly due to positive developments in client deposits.

The preliminary agreement on the sale of its former subsidiaries KBL Richelieu in France and KBL Monaco Private Bankers to Société Générale de Banque au Liban signed at the end of 2017 was closed in early July 2018.

The Bank adopted IFRS 9 with a date of transition of 1 January 2018. The adoption of IFRS 9 has led to a reduction in equity of €140 million. The impact is primarily attributable to the allocation for expected credit losses that reduces the retained earnings of €130 million, of which €128 million on intergroup advances. The residual impact is due to a net reduction of other comprehensive income of €9 million as result of changes in valuation methods for reclassified securities.

Despite the impact of IFRS 9 on equity, the Bank's solvency is solid and remains well above the 11.9% regulatory threshold imposed by the European Central Bank at 34.9%.

2018 was still a year of transformation with continued investments in the IT platform and further staff downsizing. Influenced negatively by low interest rates environment, the unfavorable economic climate and exceptional elements, 2018 closed with a loss of €23.0 million compared to the profit of €39.3 million in 2017.

The net interest margin fell by 12% to €45 million against €51 million in 2017. This was due to the impact of the tightening of financial conditions.

Market volatility and geopolitical uncertainty also weighed on net commissions, which were down 22% (€43 million at the end of 2018 against €55 million at the end of 2017). This fall was particularly marked in client securities and custody businesses.

In 2018, the bank received lower dividends from its subsidiaries, namely €37 million vs. €65 million in 2017, when it received certain one-off dividends related to real-estate transactions within the group.

Operating expenses rose by 11% (€161 million in 2018 against €146 million in 2017). In 2018 and 2017, the bank put in place a plan to downsize the workforce to its target model and its new platform, which negatively affected staff costs, and especially in 2018.

For detailed figures and further details on the IFRS 9 transition, please refer to the Financial Statements.

*For detailed figures, please refer to the Annual Accounts.*

# APPENDICES

## APPENDIX 1
## DEPOSIT GUARANTEE

These directives are transposed into Luxembourg law by the law of 18 December 2015.

In Luxemburg, the national deposit guarantee scheme (DGS) is represented by the FGDL ("Fonds de garantie des dépôts Luxembourg," see the website www.fgdl.lu).

The purpose of the FGDL is to protect clients of the member institutions in case a bank goes bankrupt.

KBL *epb* is an FGDL member. As a member, account holders (natural persons and legal entities) in KBL *epb* Luxembourg and in the KBL Spain branch are protected by the FGDL up to a maximum of €100,000 per person/account (additional guarantees are in place for temporary deposits, see the FGDL website for details).

In case of failure, FGDL ensures compensation of depositors within 7 days.

In order to be compliant with the legislation, KBL *epb* has since December 31, 2013, implemented a system which is able to produce a Single Customer View (SCV) file including data about all eligible cash depositors along with the customers references. The KBL *epb* system is tested twice a year. This set of information is requested by the CSSF in order to facilitate the reimbursement of depositors in case of the bank's failure.

Each year, KBL *epb* Luxembourg pays a contribution to the FGDL for its financing.

In 2018, KBL *epb* Luxembourg paid €391,727 for the FGDL (2017: €425,360) and €2,496,595 for the Luxembourg Resolution Fund (2017: €1,938,444).

Considering the amount paid for the FGDL during the current year, the same amount of €391,727 was transferred back from the unavailable to the available reserves.

As for investor protection, the Luxembourg investor compensation scheme (SIIL: "Système d'indemnisation des investisseurs Luxembourg") covers investors (natural persons and legal entities) in the scope of the legislation (law of 18 December 2015). The investment transactions made by the same investor are covered up to an amount equivalent to €20,000.

KBL *epb* Luxembourg is also an SIIL member, in the scope of which eligible investors in KBL *epb* are covered.

## APPENDIX 2
## COMPLIANCE RISK

Compliance is responsible for implementing all measures designed to prevent KBL *epb* from suffering damage or loss, whether financial or otherwise, due to a failure to comply with existing regulations.

The tasks of Group Compliance encompass the identification and management of compliance risks, as well as the implementation of an awareness-raising policies. Its monitoring includes corrective measures, internal reporting, and liaising with the Public Prosecutor and the CSSF in the field of anti-money laundering. It actively supports management bodies in the control and management of these risks.

Its core focus is:

- Investor protection (MiFID, customer complaints, avoidance and management of conflicts of interest, etc.).
- Prevention of market abuse, money laundering and terrorism financing
- Professional ethics (codes of conduct, compliance manual, etc.) and fraud prevention
- Staff and Group adherence to regulatory obligations
- Prevention and management of compliance risks linked to cross-border business

Advice, prevention and control in these various areas of intervention form the core work of Compliance, which also monitors compliance risks and their management across the whole KBL *epb* network through cooperation between local and Luxembourg-based teams.

Furthermore, the Board Compliance & Legal Committee (BCLC) is informed of, and regularly monitors, the adequacy of Compliance measures. This Committee is delegated by the Board and meets on a quarterly basis.

**2.1. ADVICE AND PREVENTION**

Compliance continues to advise and support the bank's various business lines. It regularly supports commercial initiatives and the questions that can arise from them. Compliance is also involved in the bank's client acceptance and revision procedure.

It should be noted that Compliance takes part in the validating of new products and services for their marketing to clients. The goal of this process, which incorporates support materials such as brochures and term sheets, is to ensure that clients understand products and their risks and make informed investment decisions which comply with existing regulations. This process was strengthened by the entry into force of MiFID II.

Compliance is also associated to various regulatory projects. Compliance participates in the group-wide high-level assessment analysis and provides the workstreams with appropriate regulatory roadmaps, as well as a group regulatory dashboard consolidating all applicable requirements. In 2018, Compliance played a major role in anchoring the systems designed for conformity with the MiFID II and PRIIPs regulations.

In addition to its ongoing monitoring and support of subsidiaries, the Group continued to support the roll out of the Compliance Awareness programme across the whole of KBL *epb*.

This programme is mainly based upon a systematic and structured multi-annual approach with training sessions, depending on the person's level of exposure to Compliance risks. The programme is accompanied by regular information for employees and managers on Compliance risks according to what is topical (internal or external).

The Group Compliance Normative Committee meets regularly. It gathers together a number of local Heads of Compliance to examine new group norms and standards, ensuring best practices. This Committee advises the Group Executive Committee. In 2018, this saw the revision of the current anti-money laundering standard and the strengthening of the policy for managing conflicts of interest.

Compliance continued to strengthen Compliance practices across KBL *epb* through forums, and regular exchanges with Compliance Officers in our European network.

**2.2. CONTROL**

Compliance continues to maintain its Control function. Its second-level control framework is part of the bank's general internal control framework. In addition to refining and strengthening certain tests, the Compliance Monitoring entity continued to oversee its Compliance Monitoring Programme (CMP). This tool maps Compliance risks and regularly checks that these risks are under control. If necessary, suggestions for improving the plan are put forward. Since 2016, the plan has been drawn up based on the results of a Compliance Risk Assessment exercise. This methodology for evaluating compliance risk targets a more refined and better documented risk analysis to better allocate compliance resources to the biggest risks.

The correct execution of these controls by our subsidiaries is monitored from Luxembourg, with support provided as necessary. Specialized anti-money laundering is now in place in all KBL *epb* entities. This solution improves the review processes for the group's clients, whether new or existing, both by analysing client behaviour (before and after), and by screening the client database and international lists of persons subject to legal action or restrictive measures.

In addition, in 2018, the Group continued installing an external professional tool specialised in the detection of market abuse and insider trading. The same tool will be used to automate checks to ensure that the Best Execution policy is adhered to when processing client orders.

KBL *epb* is constantly adapting its control procedures and reiterating to staff the ongoing need to protect clients. Group Compliance carries out regular checks in the group's various subsidiaries.

## APPENDIX 3
## RISK MANAGEMENT

**3.1 MISSION & ACHIEVEMENTS**

A 2018 key event for the Group was the sale of KBL Richelieu and KBL Monaco Private Bankers to Société Générale de Banque au Liban (SGBL).

Also, on July 1st, 2018, a major milestone of the Utopia project – outsourcing of KBL's IT and (part) of Operations to the Swiss private bank Lombard Odier – was achieved with the migration of Puilaetco Dewaay Belgium onto the Lombard Odier IT platform.

In relation to the sales of KBL Richelieu and KBL Monaco, the Risk Control function acted as an active support for the transaction, being involved among others in the establishment of transitional arrangements and SLA.

In 2018, the fifth iteration of the Bank's Group Recovery Plan was submitted to the regulator. The process improvements cover, among others, the interactions and communications between the Head Office and its entities. The reverse stress-tests have been also reinforced for both capital and liquidity, short and long term assessments.

The Group is continuously interacting with the Single Resolution Board (SRB) about its resolution strategy and the elaboration of its resolution plan (i.e. restructuring in order to safeguard public interests, market financial stability and continuity of the Group's critical functions). In 2018, quantitative developments hinged on two axes: (i) the development of the data/computational risk control infrastructure and (ii) regulatory-driven topics. These include a.o. the extension of the Risk Control datawarehouse facilities (automation, data coverage and quality), the setting up of a risk scoring tool to assess compliance of client portfolios with client risk profiles, as well as support to the Group's response to the ECB's EU-wide stress test that required the development of ad-hoc computational tools.

In terms of operational risk, the main improvements in 2018 were the review of the Risk and Control Self-Assessment (RCSA) methodology and of the incidents' handling procedure. In parallel, the specifications for the design of a new operational risk tool have been drafted and its roll-out is expected to occur over the first quarter of 2019: it will cover incidents' management, RCSA and monitoring plan functionalities together with advanced reporting features.

In terms of Information Risk, one of the main achievements was the set up of an independent second line of defense working in close collaboration with IT Security and also with the Data Protection Officer.

Finally, the Group Data Protection program delivered several material achievements:

- Definition and set up of Group Data Protection governance and framework, record processing activities, awareness and Group DPO function nomination
- Launch of Data Protection due diligences.
- IT cartography of applications hosted at KBL versus security measures and data retention directive
- Change management, training of Subject Matter Experts /IT project manager, generic awareness to all the employees, learning curve on new GDPR procedures
- Data Leakage prevention solution tagging for MS office files
- Control monitoring program based on CARPA certification methodology for assessing the design of key controls within the Group.

**3.2 STRUCTURE & ORGANIZATION**

Risk Control entities fulfill a second line of defense role, the first line being assumed by the entities at the source of risk. In this context, they ensure that each key risk the Group may be exposed to is properly identified, measured, monitored and reported.

As of December 31st 2018, Group Risk Control in Luxembourg is organized into five departments with a total of 27.6 full time equivalent employees (FTEs).

In 2018, 2 new departments have been composed to effectively respond to the Group risks universe: (i) Group Information and (ii) Data Protection.

The objective of the Group Information Risk Control department is to act as a second line of defense for controlling risk related to digital assets.

The department (2.8 FTEs) is in charge of developing and maintaining the Information Risk Control Framework, to implement related policies, to monitor control implementation and to ensure adequate reporting over its activities to dedicated instances (Group Information Security & Risk Committee / Board Risk Committee).

At the Group level, the department is in charge of coordinating of Group Information Security Risk management directions amongst the local representatives.

A Group Data Protection Officer (1 FTE) has been appointed at the beginning of 2018, who is in charge of:

- Enforcing the provisions of the European regulation on the protection of personal data ("GDPR") within the Group

- Informing, providing independent advice and guidance to the KBL *epb* group entities and functions
- Monitoring compliance with regulation
- acting as the point of contact for data subject right exercises & complaints
- Acting as the point of contact for the lead supervisory authority (breaches, high-risk notification, projects, audit).

Two departments saw their missions confirmed in 2018: Credit risk control and Operational risk control.

The Credit Risk Control department, with 4 FTEs, is in charge of monitoring credit risk for the Group, which arises from the following activities:

- Lombard & mortgage lending to private clients in support of the Bank's core private banking activity
- Committed and uncommitted credit lines granted to investment funds in support of Institutional & Professional Services activity

The department also covers the monitoring of country risks, is involved in defining and complying with criteria for accepting securities taken as collateral, and acts as secretary for the Group credit committee.

The Lending Management department, with 6.6 FTEs, reports to the Head of Credit Risk Control. Lending Management is in charge of:

- the implementation of loans by the parent company (especially the drafting of the loan documentation, as well as the complete setting up of the securities in accordance with the credit decision)
- the risk monitoring of each parent company loan facility during its lifetime
- the secretarial support for the Luxembourg and Group credit committees and act as secretary for the Luxembourg credit committee.

The **Operational Risk Control department**, with 4.8 FTEs, has the following responsibilities:

- provides Group entities with a loss event reporting tool for recording operational incidents in a database: (i) challenge reporting, root cause analysis and mitigating action plan and (ii) Initiate case study analysis
- conducts/reviews Risk Control Self Assessments
- steers the insurances' program for the Group
- acts as member of various committees involving discussions on operational risks (i.e. the new Operational Risk Committee, the New Product & Service Approval Committee, the Group Information Security Committee, the Business Continuity Management Steering Committee).

Finally, a change of structure within the Group Risk department led to merge three sub-structures into one: **the Financial Risk & Reporting department** (8.4 FTEs) covers various attributions:

- It monitors and escalates the market risk (interest rate, price, currency, real estate, and liquidity risks) carried by the entire balance sheet, including both ALM and Trading activities to the different levels of management from Global Markets/ALM Senior Management to the Board Risk Committee. The Group Liquidity Risk, including the reporting and the interpretation and implementation of the EU regulatory requirements, is also under the Financial Risk & Reporting responsibilities. Among others, the department participates to the local "Asset and Liability Management Committees" (ALCOs) of the different subsidiaries, to ensure that local decisions are taken in compliance with Group ALCO Policy.
- The department is also taking over: (i) the portfolios of fixed-income investments, in the

context of the reinvestment of excess liquidity; (ii) the counterparty risk linked to Money Market transactions contracted between Global Markets and a network of banking counterparties; and (iii) the credit risk carried by the network of sub-custodians.
- The department is in charge of risk modelling and quantitative analysis. It designs and implements all risk models (market, credit and operational VaRs, internal stress test, product scoring, ECL, etc.) and provides quantitative support to other Group and local functions The department is as well responsible for the risk data management, designing and maintaining an efficient risk database and reporting tool.
- The department covers transversal risk matters, such as internal and regulatory risk reporting (i.e. monthly/quarterly risk reports, ICAAP, Recovery Plan etc.) and regulatory watch in addition to the risk-related projects through the Group.

The total resources in KBL Group Risk Management are 59.3 FTEs. In light of the non-materiality of certain risks in the subsidiaries (absence of trading activity; ALM activities tightly framed and controlled by the parent company; limited liquidity risk), the majority of the subsidiaries' resources are dedicated to managing and controlling client, credit and operational risks.

**3.3 BREXIT RISK**

The KBL *epb* group faces limited risk related to the potential exit of the United Kingdom from the European Union.

At the time of writing – ahead of the March 29, 2019, deadline for the enactment of Article 50 of the Lisbon Treaty – a final Brexit agreement had not been reached, leaving open a significant range of outcomes, including so-called "hard Brexit," which would likely represent the most adverse scenario for the financial services sector.

Working with legal counsel in the EU and the UK, the KBL *epb* group has already identified potential impacts and required actions under such an adverse scenario, as required by the European Central Bank.

Following that analysis, it is clear that, even under such an adverse scenario – which could lead to the loss of EU passporting rights for UK banks – the potential impact on the KBL *epb* group and, specifically, Brown Shipley, would remain limited.

While the significant majority of Brown Shipley clients are physically based in the UK, a "hard Brexit" would nevertheless have a potential impact on certain Brown Shipley activities on behalf of clients physically based in the EU. (The loss of passporting rights would limit Brown Shipley's ability to extend advisory services in the EU, impacting the ability of Brown Shipley private bankers to manage client relationships in the EU.)

In that regard, the primary potential impact would be on Brown Shipley's International Office, which serves a number of UK non-domiciled clients. However, the KBL *epb* group is well positioned to offer an alternative solution for such clients.

For the KBL *epb* group, *excluding* Brown Shipley, such an adverse scenario would require a number of mitigating legal and/or regulatory actions related to, for example, General Data Protection Regulations, as well as a number of group agreements and contracts on clearing and settlement (in instances when KBL *epb* currently relies upon a London clearing house).

# RESULT ALLOCATION PROPOSAL

**At its meeting on March 21, 2019, the Board of Directors proposes to allocate the 2018 loss of €22,953,426 in deduction of the retained earnings.**

**Then, the Board of Directors proposes to allocate the negative retained earnings of €76.8 million to the available reserve of €505.4 million. After approval, the available reserve will amount to €428.5 million.**

On April 24, 2019, this allocation will be submitted for the approval of the Annual General Meeting.

# COMPOSITION OF THE BOARD OF DIRECTORS

The Ordinary General Meeting of April 25, 2018, approved the renewal of the mandates of the following directors:

- Jan Maarten de Jong
- George Nasra
- Albert Wildgen

and approved the nomination of the following director:

- Peter Vandekerckhove

The Extraordinary General Meeting of May 28, 2018, approved the nomination of the following director:

- Marco Mazzucchelli

The Board of Directors noted the resignation of Nicholas Harvey on August 1, 2018, and the cooptation of Antoine Marcolin as his replacement.

***This report is available in English and French.***

***Only the English version is authentic.***

# DECLARATION ON THE CONFORMITY OF THE 2018 CONSOLIDATED ACCOUNTS

We, Peter Vandekerckhove, Group Chief Executive Officer, and Mark Selles, Group Chief Financial Officer, confirm, to the best of our knowledge, that the consolidated accounts, which have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the consolidated assets, liabilities, financial position and consolidated profit or loss of KBL *epb* group, and that the consolidated management report includes a fair review of the development and performance of the business and the position of KBL *epb* group together with a description of the principal risks and uncertainties that the Group faces.

Luxembourg; March 21, 2019

**PETER VANDEKERCKHOVE**
Group Chief Executive Officer

**MARK SELLES**
Group Chief Financial Officer

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# 5 pillars for the future

**1**

**CLIENT RECOMMENDATION**

Invest in better service and performance to become a recommended company by our clients

**2**

**TECHNOLOGICAL RELEVANCE**

Ensure that we are a technologically relevant company for our clients

**3**

**PRODUCTIVITY, COSTS AND PROFITABILITY**

Improve productivity, tightly manage costs and drive sustained profitability

**4**

**RESPONSIBILITY**

As a fully compliant company, ensure that we are a sustainable, trusted and committed partner for our clients, truly integrated in our communities

**5**

**COLLABORATION**

Work better together as people and markets to the benefit, fun and competence of us all, driving our sustainable company forward

KBL EUROPEAN PRIVATE BANKERS

**Better. Stronger. Together.**

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