

KBC Insurance N.V.

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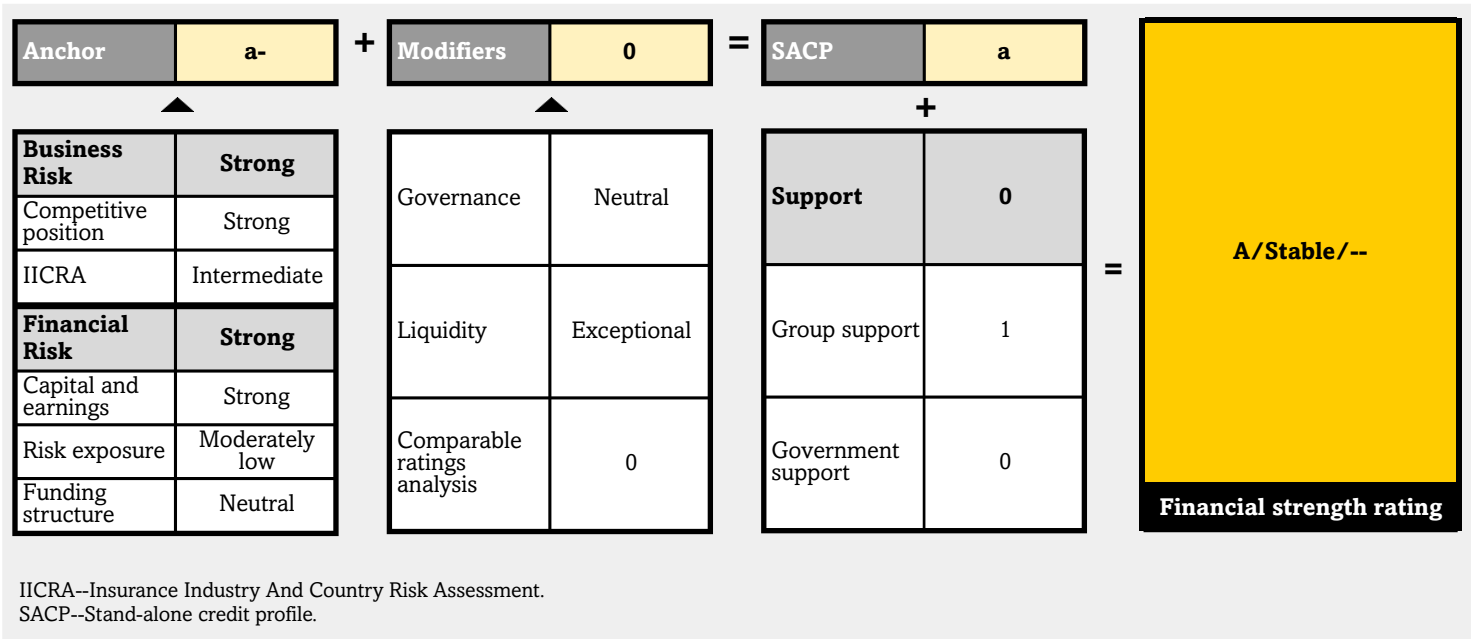
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KBC Insurance N.V.



Credit Highlights

Overview

Key strengths	Key risks
Well-diversified business between life and non-life.	Limited geographical diversification.
Profitable bancassurance business model fostered by significant commercial and operational integration with KBC Bank N.V.	Constrained capital adequacy stemming from capital management at the group level.
Market leader in the unit-linked savings segment and one of the largest insurers in Belgium.	Significant share of traditional savings contract reserves, which have high guaranteed rates.

S&P Global Ratings expects KBC Insurance N.V. to maintain its prominent business position in Belgium. KBC Insurance continues to be the market leader in the unit-linked segment with a 12% share of the Belgian life market and a 9% share of the Belgian non-life market as of year-end 2022. Our ratings on KBC Insurance are also supported by the depth and breadth of its product range and distribution capabilities in the Belgian market. The 'a-' anchor is based on KBC Insurance's higher earnings concentration in Belgium and very recent improvement in capital position.

We expect KBC Insurance's capitalization to remain at least at the 'A' level based on our risk-based capital model through 2024. This reflects further change in the product mix to less capital-intensive products and the company's conservatism of its non-life provisions. Out of the proposed dividend of €659 million, KBC insurance has paid the Group an interim dividend of €351 million in fourth-quarter 2022 compared to €524 million in 2021. The parent company KBC Group plans to distribute €4.0 per share, of which it has paid an interim dividend of €1.0 per share in November 2022; it will likely pay the remainder in May 2023. KBC Insurance's dividend policy shows that its strategy is to foster the efficiency of KBC Group's overall capital structure.

Despite the natural catastrophe event in the first quarter of 2022, the combined ratio remains 89%. For full-year 2022, KBC Insurance reported a net income of €560 million compared to €508 million in 2021. Its technical performance in the non-life sector in Belgium has historically been stronger than the market. In line with our expectations, the combined (loss and expense) ratio has remained unchanged at 89% for year-end 2022. We expect KBC Insurance will maintain an average combined ratio of less than 90% in the foreseeable future.

Outlook: Stable

Our stable outlook mirrors that on KBC Group N.V., which is based on our view that the group would remain efficient and profitable over the next two years. Moreover, we estimate that credit loss provisions adequately capture future corporate and small and midsize enterprise defaults in the group's markets. We expect the group will display strong and resilient earnings as it leverages its efficient bank-insurance operating model, involving the sale of insurance and asset-management products to bank customers, which should help alleviate ongoing inflationary pressures.

Downside scenario

We could lower the ratings on KBC Insurance if we revised down our assessment of KBC Group's group stand-alone credit profile (SACP), or if we no longer considered KBC Insurance a core subsidiary of KBC Group.

Upside scenario

We consider the group SACP unlikely to strengthen to 'a+' over the next two years. This would require a more-diverse business model or substantially lower risk exposure. This is a remote possibility, given the group's growth in countries that carry higher risk than Belgium.

Key Assumptions

- Long-term interest rates gradually turning positive, reaching 1.74% in 2022 and 3.39% in 2023 after being -0.01% in 2021.
- Real GDP growth for Belgium contracted to 3.1% in 2022 after a growth of 6.1% in 2021. For year-end 2023, GDP will likely further contract to 0.5% due to unsupportive macro-economic factors.
- Inflation in Belgium increased to 10.4% in 2022 compared to 3.2% in 2021 and could decrease to 4.6% and 2.6% in 2023 and 2024, respectively.
- The unemployment rate for Belgium in 2022 declined to 5.5% from 6.4% in 2021 and is likely to stay in the range of 5.9%-6.0% through 2025.

KBC Insurance N.V.--Key Metrics

	2025f	2024f	2023f	2022	2021	2020
Gross premium written (mil. €)*	>3,200	>3,200	>3,200	3,217	3,101	3,019
P/C: net combined ratio (%)*	<90	<90	<90	90	89	86

KBC Insurance N.V.--Key Metrics (cont.)

	2025f	2024f	2023f	2022	2021	2020
P/C: return on revenue (%)*	15	15	15	15	15	19
Life new business margin (%)*	>5	>5	>5	8.9	7.7	7.2
Net income (mil. €)*	~500	~500	~500	560	508	450
Total shareholder equity*	~2,900	~2,900	~2,900	2,157	3,991	3,815
Return on shareholders' equity (%)*	>10	>10	>10	18.2	13.0	12.5
S&P Global Ratings capital adequacy	Strong	Strong	Strong	Strong	Excellent	Very Strong

f--S&P Global Ratings forecast. *Figures under International Financial Reporting Standard (IFRS) 4.

Business Risk Profile: Strong

KBC Insurance has a leading position in its home country of Belgium, where it derives more than 90% of its gross written premium. The company benefits from a strong distribution network of bank branch and tied agents. KBC Insurance is moving toward a digital solution, but is not a leader in this space.

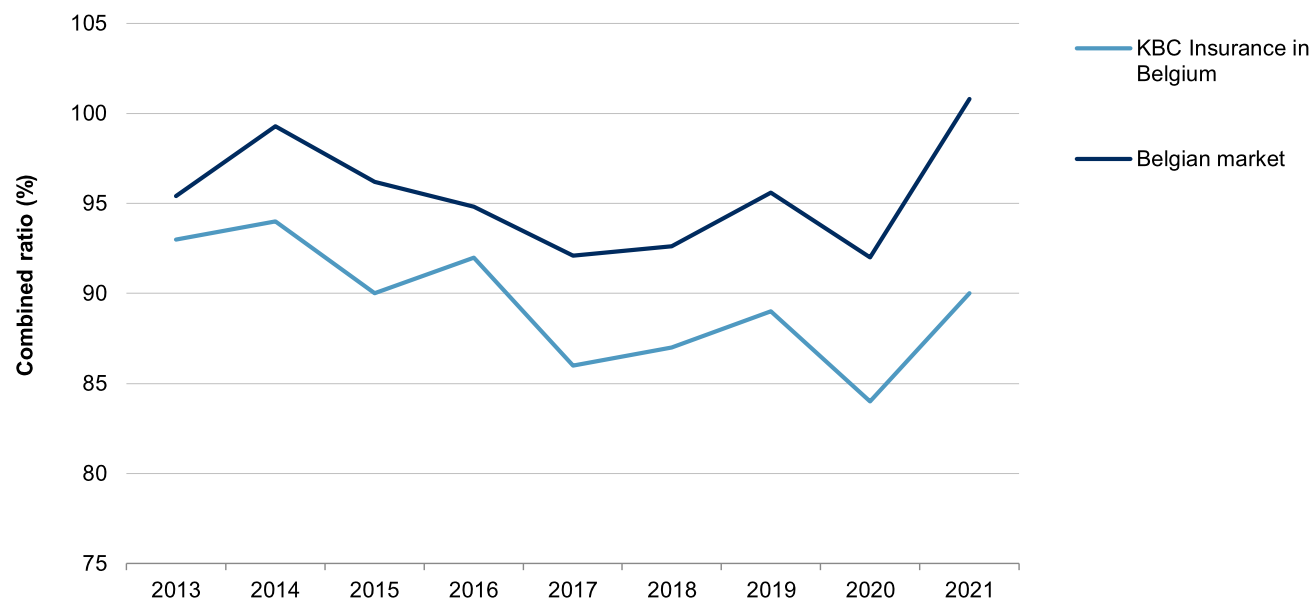
KBC Insurance is the fourth-largest insurer in Belgium, after AG Insurance, AXA Belgium, and Ethias. KBC Insurance is also the market leader in the unit-linked savings segment, where it builds on the group's expertise in asset management. Its share of the property/casualty (P/C) market is limited to 9% because it focuses on the group's bank branch network and tied agents, and has a limited presence within the large, broker-led share of Belgian P/C activity.

For its Belgian activities, the company's combined ratio has been stronger than that of its peers by 6% on average over the past six years (see chart 1). We expect KBC Insurance will continue to outperform the Belgian P/C market, owing to its good knowledge of customers and strict underwriting rules. In 2022, the group published a very good combined ratio of 89% (the lower the combined ratio, the more profitable the insurer. A ratio of more than 100% signifies an underwriting loss). Additionally, the storms that hit Belgium in the first half of 2022 had a limited net impact of €53 million compared to the €87 million in 2021.

Through local subsidiaries, KBC Insurance also writes business in Central and Eastern Europe: in the Czech Republic through CSOB Pojistovna a.s.; in Slovakia through CSOB Poistovna a.s.; in Hungary via K&H Biztosító; and in Bulgaria through DZI Insurance.

Chart 1

KBC insurance historically outperformed peers in non-life technical performance on its domestic market



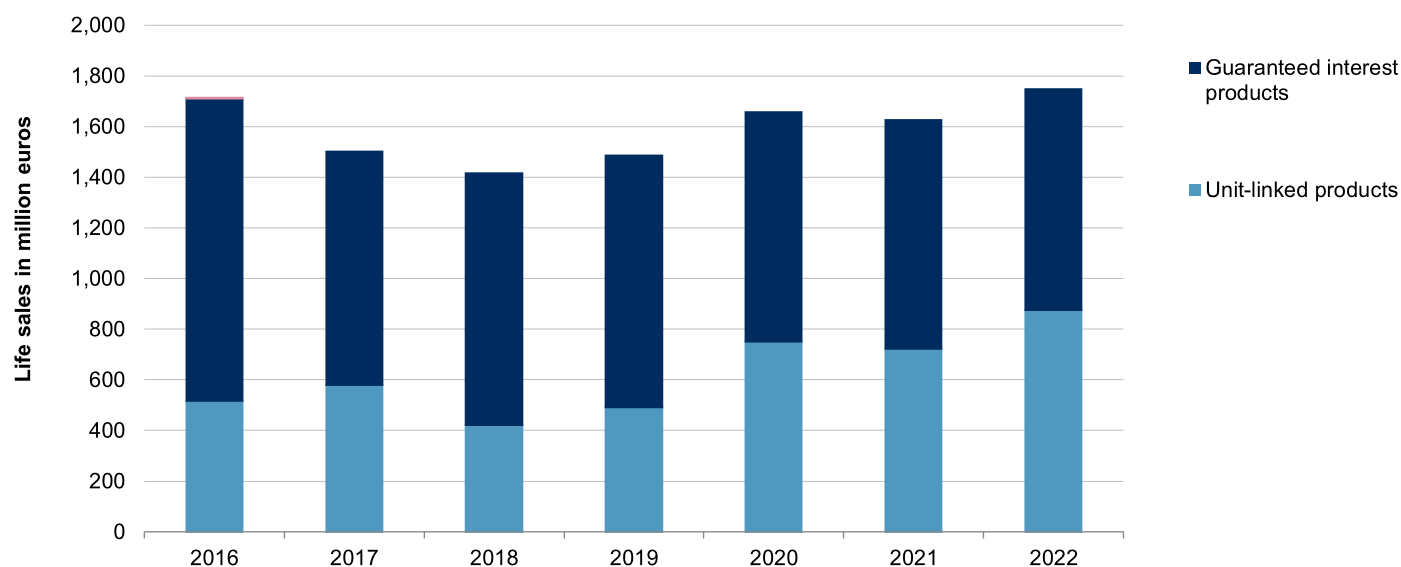
Source: KBC Insurance, Assuralia.

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Financial Risk Profile: Strong

In 2021, KBC Insurance's capital adequacy improved to the 'AAA' confidence level, as measured using our capital model, mainly because of the increase in value-in-force and non-life reserve discount. We expect KBC Insurance's capital adequacy will revert to the 'A' confidence level over the rating horizon, because we assume that it will pay out 100% of profits as dividends between 2023-2025. We also expect it to see moderate balance sheet growth and stable investment risk on the asset side.

After it discontinued the sale of eight-year-maturity guaranteed life insurance products in 2019 to move toward less capital-intensive products, KBC Insurance relaunched them at the end of 2022 following the interest rate increases. In 2022, 26% of KBC Insurance's traditional life insurance reserves had a minimum guaranteed rate above 2.50%, down from 27% in 2021. Given the medium-tailed nature of the guaranteed savings business in Belgium (the guarantee expires after eight years) and the high share of unit-linked business (see chart 2), we do not view this as a long-term threat to the company's balance sheet.

Chart 2**Leader in Unit-Linked business in Belgium, average 40% of life sales over the past six years**

Source: Company's financial report

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KBC Insurance's financial leverage increased temporarily to 18.8% due to the decline in shareholders' equity. The decline followed the revaluation of investments and dividends paid. The financial leverage includes intragroup subordinated debt of €500 million and a limited pension deficit. We do not see the funding structure as a particular risk as we expect financial leverage to return to normal levels of below 15% once the current global economic outlook improves.

Other Key Credit Considerations

Governance

KBC Insurance's governance reflects the company's ability to set and execute long-term strategic goals that are in line with KBC Group's long-term objectives and within reach.

Liquidity

The company's liquidity level is not a concern, owing to the strength of available liquidity sources and the company's relatively liquid asset portfolio.

Group support

We view KBC Insurance and KBC Group Re as core to KBC Group N.V. We understand from the Belgian banking resolution framework that insurance operations would be outside the scope of a potential bail-in process. We therefore

equalize our ratings on KBC Insurance with KBC Group's 'a' group SACP, which does not include any notches of support from additional loss-absorption capacity. Such support can only apply to the group's banking operating companies.

Environmental, social, and governance

ESG Credit Indicators

E-1	E-2	E-3	E-4	E-5	S-1	S-2	S-3	S-4	S-5	G-1	G-2	G-3	G-4	G-5
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ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumeric 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

ESG factors have no material influence on our credit rating analysis of KBC Insurance.

Accounting considerations

KBC Insurance reports annually under International Financial Reporting Standards. An important share of the company's life insurance revenue stems from investment contracts, which are not booked as insurance premiums.

Related Criteria

- Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Financial Institutions | General: Methodology For Assigning Financial Institution Resolution Counterparty Ratings, April 19, 2018
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Criteria | Financial Institutions | Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Financial Institutions | Banks: Commercial Paper I: Banks, March 23, 2004

Appendix

KBC Insurance N.V.--Credit Metrics History

Ratio/Metric	2022	2021
S&P Global Ratings capital adequacy	Strong	Excellent
Total invested assets	33,135	37,440
Total shareholder equity	2,157	3,991
Gross premiums written	3,217	3,101
Net premiums written	3,215	3,126
Net premiums earned	3,215	3,126
Reinsurance utilization (%)	0.06	(0.81)
EBIT	697	643
Net income (attributable to all shareholders)	560	508
Return on assets (including investment gains/losses) (%)	1.91	1.69
Return on shareholders' equity (reported) (%)	18.22	13.02
P/C: net combined ratio (%)	89.64	89.44
P/C: net expense ratio (%)	33.48	32.19
P/C: return on revenue (%)	15.00	14.67
Life: Net expense ratio (%)	13.53	12.90
EBITDA fixed-charge coverage (x)	31.05	53.10
EBIT fixed-charge coverage (x)	31.05	53.10
Financial obligations / EBITDA adjusted	0.80	0.94
Financial leverage including pension deficit as debt (%)	18.75	11.07
Net investment yield (%)	2.55	1.92
Net investment yield including investment gains/(losses) (%)	2.90	2.41

Business And Financial Risk Matrix

Business risk profile	Financial risk profile							
	Excellent	Very Strong	Strong	Satisfactory	Fair	Marginal	Weak	Vulnerable
Excellent	aa+	aa	aa-	a+	a-	bbb	bb+	b+
Very Strong	aa	aa/aa-	aa-/a+	a+/a	a-/bbb+	bbb/bbb-	bb+/bb	b+
Strong	aa-/a+	a+/a	a/a-	a-/bbb+	bbb+/bbb	bbb-/bb+	bb/bb-	b+/b
Satisfactory	a	a/a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bb+/bb	bb-/b+	b/b-
Fair	a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb/bb-	b+/b	b-
Weak	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b/b-	b-
Vulnerable	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b+/b	b/b-	b-	b-

Note: Where table indicates two possible outcomes, we determine the anchor as follows: For financial risk profiles that we assess as satisfactory or stronger, we consider the relative strength of both the business risk and financial risk profiles within the cell. This is based on a holistic assessment of the relative strengths of the rating factors of the business risk profile and financial risk profile. For financial risk profiles that we assess as fair or weaker, we typically place more weight on the relative strength of the rating factors of the financial risk profile.

Ratings Detail (As Of May 4, 2023)***Operating Company Covered By This Report****KBC Insurance N.V.**

Financial Strength Rating

Local Currency

A/Stable/--

Issuer Credit Rating

Local Currency

A/Stable/--

Domicile

Belgium

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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