2020 Annual Report

KBC Group

KBC group passport

Our area of operation

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

Our goal and ambition

Through our activities, we want to help our clients to both realise and protect their dreams and projects.
It is our ambition to be the reference for bank-insurance in all our core markets.

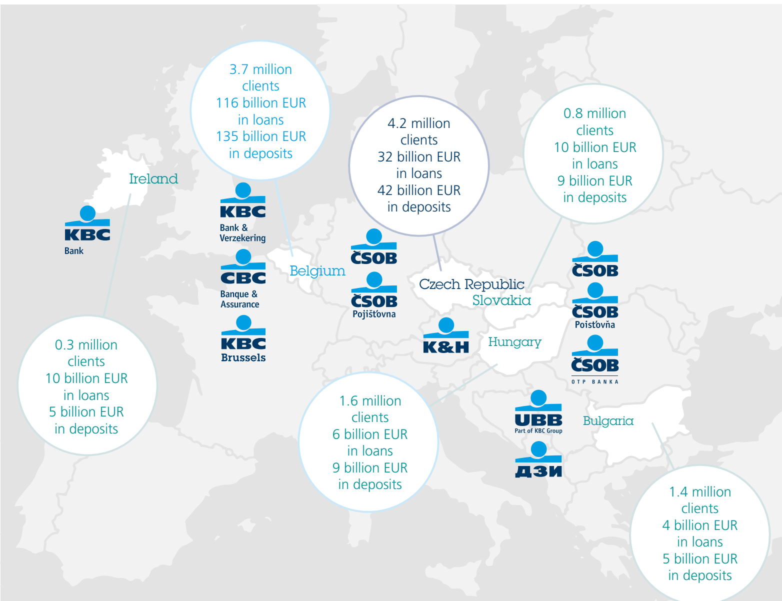
Our clients, staff and network

Clients	12 million
Staff	41 000
Bank branches	1 265
Insurance network	336 agencies in Belgium, various distribution channels in Central and Eastern Europe

Our long-term debt ratings (18-03-2021)

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

Data relates to year-end 2020, unless otherwise indicated. Outlook/watch/review *data* for our ratings is given elsewhere in this report.



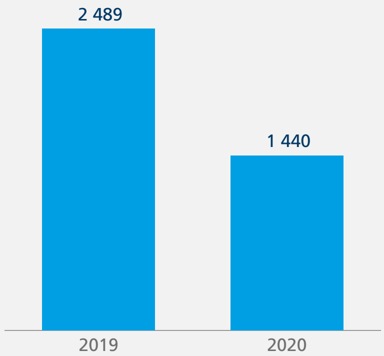
Clients: estimates; loans: see the 'How do we manage our risks?' section; deposits: deposits from customers and debt securities (excluding repos). Data for Belgium includes the limited network of KBC Bank branches abroad.

KBC group in 2020

digital strategy updated and digital assistant Kate launched	1.44 billion EUR in **net profit**	**digital sales boosted** by lockdowns
>13 billion EUR in loans with payment holidays due to coronavirus crisis	**more rigorous** climate-related targets put in place	**significant increase in impairment** charges due to coronavirus crisis
measures taken to safeguard **health of clients and staff**	17.6% fully loaded **common equity ratio**	acquisition of **OTP Banka Slovensko** in Slovakia

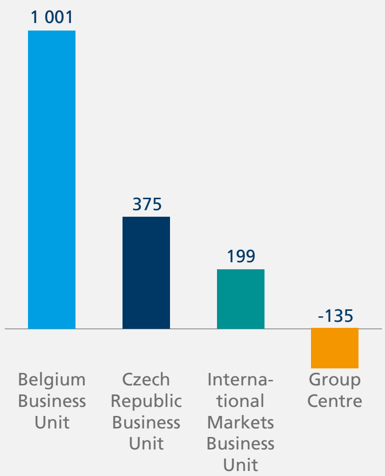
Net result

(in millions of EUR)



Breakdown of net result by business unit

(2020, in millions of EUR)



	2020	2019	2018	2017	2016
Consolidated balance sheet, end of period (in millions of EUR)					
Total assets	320 743	290 591	283 808	292 342	275 200
Loans and advances to customers (excluding reverse repos)	159 621	155 816	147 052	140 999	132 855
Securities	71 784	65 633	62 708	67 743	73 262
Deposits from customers and debt securities (excluding repos)	215 430	203 369	194 291	193 708	177 421
Technical provisions and liabilities under investment contracts, insurance	31 442	32 170	31 273	32 193	32 310
Total equity	21 530	20 222	19 633	18 803	17 357
Consolidated income statement (in millions of EUR)					
Total income	7 195	7 629	7 512	7 700	7 211
Operating expenses	-4 156	-4 303	-4 234	-4 074	-3 948
Impairment	-1 182	-217	17	30	-201
Net result, group share	1 440	2 489	2 570	2 575	2 427
Belgium	1 001	1 344	1 450	1 575	1 432
Czech Republic	375	789	654	702	596
International Markets (Slovakia, Hungary, Bulgaria, Ireland)	199	379	533	444	428
Group Centre	-135	-23	-67	-146	-29
Environment, sustainability and gender diversity					
Own greenhouse gas emissions (in tonnes of CO_2 per FTE)	1.5	2.0	2.3	2.5	2.9
Proportion of renewable energy in loans to energy sector (%)	61%	57%	44%	41%	42%
Volume of SRI funds (in billions of EUR)	17	12	9	7	3
Gender diversity in the workforce (percentage of women)	56%	57%	57%	57%	56%
Gender diversity in the Board of Directors (percentage of women)	38%	31%	31%	31%	31%
KBC share					
Number of shares outstanding, end of period (in millions)	416.7	416.4	416.2	418.6	418.4
Parent shareholders' equity per share, end of period (in EUR)	48.1	45.0	41.4	41.6	38.1
Average share price for the financial year (in EUR)	52.8	60.8	67.4	66.5	51.0
Share price at year-end (in EUR)	57.3	67.1	56.7	71.1	58.8
Gross dividend per share (in EUR)	0.44	1.00	3.50	3.00	2.80
Basic earnings per share (in EUR)	3.34	5.85	5.98	6.03	5.68
Equity market capitalisation, end of period (in billions of EUR)	23.9	27.9	23.6	29.8	24.6
Financial ratios					
Return on equity	8%	14%	16%	17%	18%
Cost/income ratio, banking	60.0%	57.9%	57.5%	54.2%	55%
Combined ratio, non-life insurance	85%	90%	88%	88%	93%
Credit cost ratio, banking	0.60%	0.12%	-0.04%	-0.06%	0.09%
Common equity ratio (Danish compromise method, fully loaded [transitional])	17.6% [18.1%]	17.1%	16.0%	16.3%	15.8%

For definitions and comments, see the analyses and 'Glossary of financial ratios and terms' in this report. Information on the retroactive restatement of certain balance sheet data for 2019 is provided in Note 1.1 of the 'Consolidated financial statements'. The data for previous years has not been restated.

Our key performance indicators (KPIs) at group level for the future*

Client NPS score Target: top 2 at group level by year-end 2023	**Digital sales** Target: share of digital sales ≥ 40% for bank products and ≥ 25% for insurance products by year-end 2023	**Straight-through processing** Target: share of straight-through processing (STP) ≥ 60% and STP potential ≥ 80% by year-end 2023	**Bank-insurance clients** Target: 85% of active clients by year-end 2023	**Stable bank-insurance clients** Target: 27% of active clients by year-end 2023
SRI funds Target: Total SRI funds ≥ 30 billion euros by year-end 2025 and new SRI fund production ≥ 50% of total fund production in 2021	**Renewable energy loans** Target: share of renewable energy sources and biofuels in the energy-sector loan portfolio ≥ 65% in 2030	**Direct coal-related financing** Target: run-down by year-end 2021	**Own CO2e emissions** Target: -80% between 2015 and 2030 and achievement of complete climate neutrality from year-end 2021 by offsetting the difference	**Own green electricity consumption** Target: 100% green electricity by 2030
Total income Target: CAGR for 2020–2023 approx. 2%	**Operating expenses excluding bank taxes** Target: CAGR for 2020–2023 approx. 1%	**Combined ratio** Target: ≤ 92% in 2023	**Dividend payout ratio** Target: ≥ 50%	**Common equity ratio (fully loaded, Danish compromise method)** Target: 14.5% + 1% management buffer

* Taking account of the recent updates in November 2020 and February 2021. KPI definitions and scores are provided in the 'Our strategy' section, as are the key regulatory capital and liquidity ratios.

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Report of the Board of Directors

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

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

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

Translation and versions: the Annual Report is available in Dutch, English and French PDF versions. The Dutch PDF version is the original; the other language translations are unofficial versions. We have used the revised timetable for the introduction of ESEF (European Single Electronic Format) reporting, but we have made unofficial XHTML versions available in Dutch and English. The statutory auditor has not audited these XHTML versions. We have made every reasonable effort to avoid discrepancies between the different language and format versions. However, should such discrepancies exist, the Dutch PDF version will take precedence.

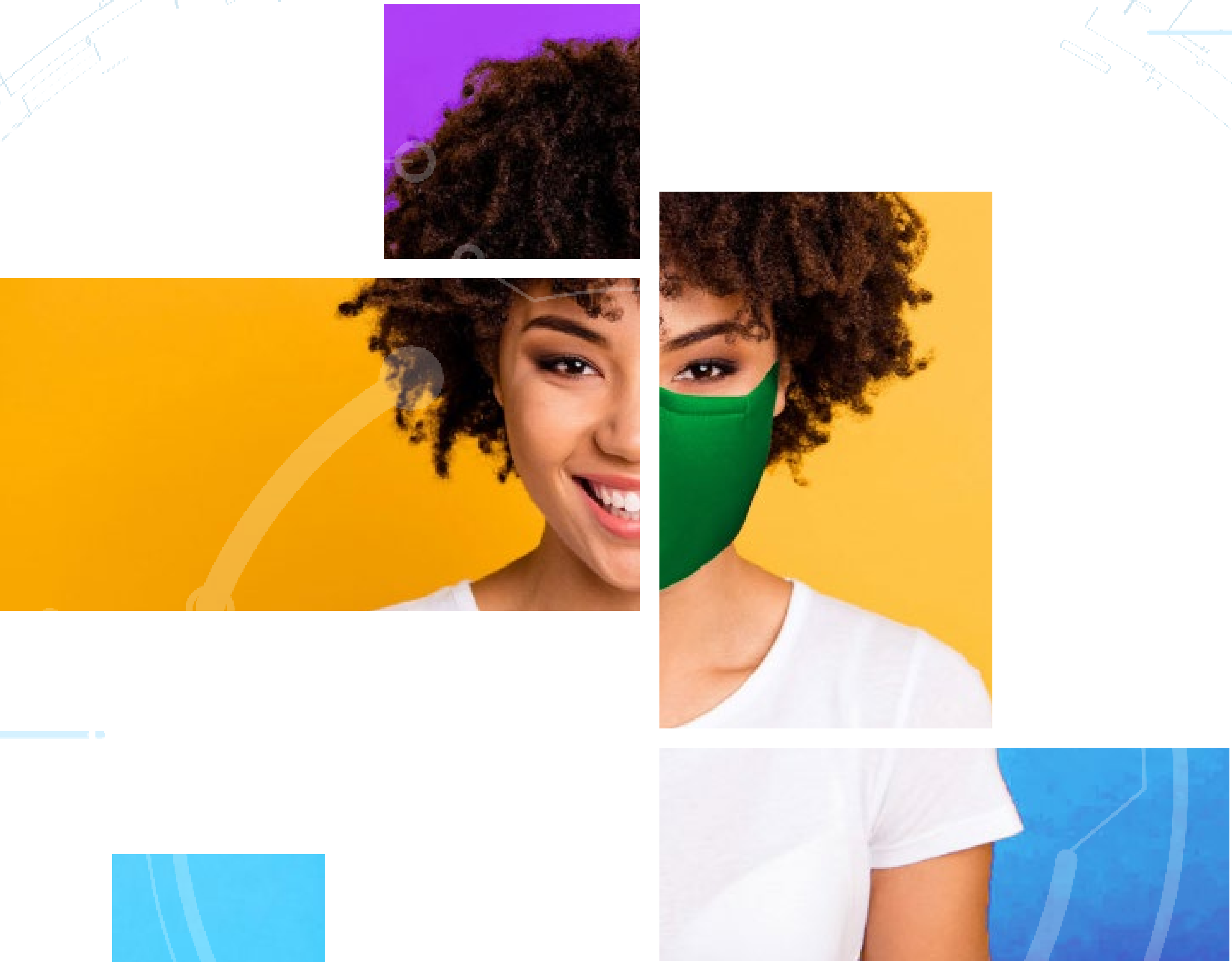
Glossary: a list of the most important financial ratios and terms used (including the alternative performance measures) can be found at the end of this report.

How do we determine what is sufficiently important to mention in our annual report?: We take our cue from relevant legislation and the International Financial Reporting Standards and take as much account as possible of the guidelines issued by the International Integrated Reporting Council, which also inspired the information we provide on value creation. We base our non-financial statement primarily on the GRI (Global Reporting Initiative) Standards. Full application of the GRI Standards (Core option) and the GRI Content Index with the GRI indicators most relevant to our company can be found in our Sustainability Report at www.kbc.com. We also map our material topics using the SASB Standards and have incorporated the relevant standards into the GRI/SASB Content Index. These reporting frameworks emphasise materiality and relevance in reporting. Our efforts to determine which subjects are important to our stakeholders include carrying out a materiality analysis (see 'Stakeholder interaction and materiality analysis'). Information on the scope of consolidation for financial information is provided in Note 6.5 of the 'Consolidated financial statements' section. Our non-financial data is collected through a group-wide process that includes strict hierarchical validation and applies as a minimum to all KBC entities in the core countries.

Disclaimer: the expectations, forecasts and statements regarding future developments that are contained in the annual report are based on the assumptions and assessments we made when drawing up this report at the start of March 2021. By their nature, forward-looking statements involve uncertainty. Various factors, most notably the coronavirus (Covid-19) crisis could cause actual results and developments to differ from the initial statements.

Consolidated financial statements

Company annual accounts and additional information



1 Report of the Board of Directors

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

A year in which the coronavirus took central stage

Johan Thijs: '2020 will go down in history as a year in which a pandemic spread around the world at lightning speed causing immense human suffering. For the first time ever, large swathes of the world went into temporary lockdown, accompanied by an economic downturn that weighed exceptionally heavily on certain sectors. Unprecedented government intervention occurred to mitigate the short and longer-term impact, with the brighter prospect emerging towards the end of 2020 of vaccination in the months that followed. All the same, it remains difficult one year into the crisis to assess its overall human and economic consequences.

When the pandemic first broke out, our first response as an employer and service provider was to act swiftly to safeguard the health of our staff and clients and to guarantee continuity of service. Maximum use was made of teleworking and flexible teams, as well as reorganising workplaces and ensuring they were safe to work in. We set up a special crisis committee to help us keep close track of the situation and to share information. At the same time, we successfully maintained a high level of service to our clients in all our home markets, thanks to the expertise and commitment of all our employees combined with the efforts and investments we have made in recent years on the digital transformation front. We have also cooperated intensively with government bodies since the beginning of the coronavirus crisis to support all clients affected by the pandemic, through the efficient provision of support measures such as loan payment deferrals. In this way, the financial sector has been part of the solution to this crisis.'

Digitalisation more than ever

Johan Thijs: 'The coronavirus crisis has accelerated the digital transition that society was already going through. We had already invested an exceptionally large amount in this transformation over the past few years, which was clearly money well spent when we see how tens of thousands of people have been able to continue working at home during lockdown without any noteworthy incidents, and how we have been able to offer our clients a high-quality service throughout.

More than ever, digital has become the new normal and we intend to go much further in that direction in the future. Our updated strategy, 'Differently: the Next Level' represents another gear-change towards achieving just that. Supported by Artificial Intelligence and data analysis, we aim to work in a solutions-driven way to proactively make life easier for our clients. If they wish, they can now count as standard on Kate, their personal, fully digital assistant. This represents an enormous step forwards in the services we provide, in which making our clients' lives easier will be the leitmotif and which, in addition to traditional bank-insurance solutions, also focuses on offering non-financial solutions. In doing so, we will – as always – put our clients at the centre of everything we do, living up to their choices and preferences.'

Sustainability more than ever

Koenraad Debackere: 'We believe that the world emerging from the coronavirus crisis has to be a more sustainable one and we are working tirelessly to contribute to that scenario. Climate change in particular – besides the coronavirus, obviously – is at the top of society's agenda. We have committed ourselves to various international initiatives in the field of climate change and sustainability, and have significantly tightened our climate ambitions with our strategy update. Our approach to coal financing, for instance, is more stringent and we have also drafted a new policy on biodiversity. We have set ourselves more challenging targets in the area of sustainable investment and the financing of renewable energy. The decision was also taken to reduce our own greenhouse gas emissions by 80% by 2030 and to achieve full climate neutrality by the end of 2021 by offsetting the balance.

In June, meanwhile, we successfully issued our second green bond for an amount of 500 million euros. By issuing green bonds, we aim to create a closer link with socially responsible investors, to provide finance to clients directly involved in sustainable projects and to contribute to the development of a liquid and efficient green bond market. This will enable us to help finance the transition to a low-carbon economy. From our point of view, facilitating climate-related transitions for our clients is an important, client-oriented way to build a bridge to sustainability.

I'm pleased by the growing international recognition for our years of effort to make sustainability a strategic anchor point and for the pioneering role we play in this field.'

A year of ongoing focus

Koenraad Debackere: 'Our core business is and will remain bank-insurance for retail clients in our six core markets of Belgium, the Czech Republic, Slovakia, Hungary, Bulgaria and Ireland. This focus will be as strong as ever, in our updated strategy too. Where it is possible, opportune and attractive, we aim to strengthen our position in those countries further. For instance, following our acquisition in 2019 of the remaining stake in the building savings bank ČMSS in the Czech Republic, we expanded our position in the Slovakian banking market by acquiring 99.44% of OTP Banka Slovensko

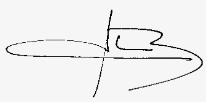
in 2020. The deal bolsters our market share in that country, where we have been present through ČSOB since 2002. We will be able to benefit from economies of scale and increase our visibility in this highly competitive market, to the benefit of all our stakeholders. As such, the transaction is fully in line with our strategy, which focuses on becoming the reference bank-insurance group for retail clients, small and medium-sized enterprises and midcaps in all our core markets. In February 2021, we reached agreement with NN to acquire its Bulgarian pension and life insurance businesses, a move that will enable us to further consolidate our position on our Bulgarian home market.
Geographical focus also means running down non-core activities where possible. In 2020, for instance, we sold our 50% stake in the Slovenian life insurer NLB Vita, marking our complete withdrawal from Slovenia, which is not a core market for us.'

Net profit was impacted by the coronavirus crisis, but our solvency position remained exceptionally robust

Johan Thijs: 'We knew when the pandemic broke out that it would have a considerable impact on the banks. Firstly because, due primarily to the lockdowns, we had to set aside substantially higher loan loss provisions to cover the future impact of the coronavirus crisis. The epidemic also had an indirect negative impact on our net fee and commission income and net interest income. On the other hand, our insurance activities performed well, helped by a lower level of claims during the lockdown periods, and we kept our costs under deliberately tight control, through additional efficiency measures, for example. Together with a few one-off items, this gave us a total net profit for 2020 of 1.4 billion euros, which is obviously lower than the figure of approximately 2.5 billion euros that we had achieved in the previous three years. Our liquidity remained high and our solvency continued to be exceptionally solid, with a common equity capital ratio of 17.6% at year-end 2020, or as much as 18.1% if we include the impact of temporary regulatory easing.'
Koenraad Debackere: 'In line with the ECB's recommendation of 15 December 2020, which places a limit on dividend payments, we will propose to the General Meeting of Shareholders in May 2021 that a gross dividend of 0.44 euros per share be paid in May 2021 for financial year 2020. It is also the intention of the Board of Directors to distribute an additional gross dividend of 2.00 euros per share in the fourth quarter of 2021 for the financial year 2020. The Board's final decision in this regard is subject to the restrictions on dividends being lifted by the ECB.'

The economic environment in 2020 and beyond

Johan Thijs: '2020 was entirely overshadowed by the coronavirus epidemic, which caused the biggest shock since the Second World War and unparalleled economic harm. There is light at the end of the tunnel, however. The availability of effective vaccines and coordinated support through monetary and budgetary policy means that 2021 might well be a year of transition back to a more normal world. All the same, the gravity of the shock is such that the European economy is only likely to return to pre-pandemic levels in the course of 2022.
The past year has proved that under challenging circumstances, we can continue to build not only on our strong foundations and earlier policy decisions but also – and actually more importantly – on the trust that you, our clients, employees, shareholders and other stakeholders have placed in us. I sincerely thank you for that.'
Koenraad Debackere: 'It would be an understatement to say that my first year as Chairman of KBC's Board of Directors has been a riveting one. While KBC has not been spared the consequences of the coronavirus crisis, the position we find ourselves in is strong and, in many respects, enviable, with an updated, focused and data-driven strategy, underpinned by a robust solvency and liquidity position. This encourages me in my belief that our group will continue to live up to its ambition of remaining the reference for bank-insurance in all its core markets in the years ahead too.'



Johan Thijs
Chief Executive Officer

Koenraad Debackere
Chairman of the Board of Directors

Our business model

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

How do we create sustainable value?

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

As a banker, we see to it that our clients are able to save and invest in a well-informed manner and that we actively offer them sustainable investment products. In this way, every client can grow their assets in keeping with their personal wishes and risk profile, and call on our expertise to assist them. We use the money from the deposits our clients entrust to us to provide loans to individuals, businesses and public authorities, thus keeping the economy turning, even in more difficult conditions such as those during the coronavirus crisis. We also hold a portfolio of investments, which means we invest in the economy indirectly too. At the same time, we fund specific sectors and projects, such as the social profit sector and infrastructure projects that have a major impact on the domestic economy.

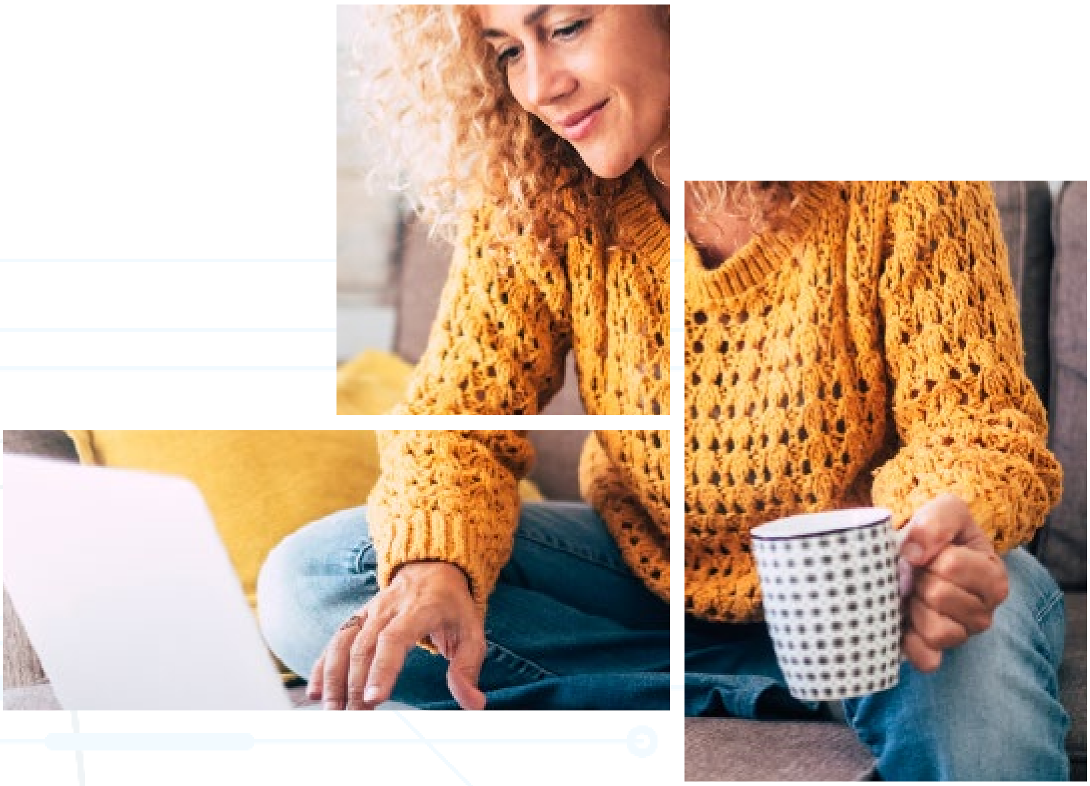
As an insurer, we enable our clients to operate free of worry and to limit their risks. We work hard every day to provide the best insurance cover at a fair price and we invest in a high-quality claims-handling service. What's more, we use our knowledge of the causes of accidents to develop accident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

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

The ultimate intention is to make our clients' financial lives easier in a proactive and individualised way, through an increasingly data-driven and solutions-oriented bank-insurance model, in which we actually go further than traditional banking and insurance products alone. More detailed information in this regard is provided under 'Our strategy'.

In all these activities, we seek to take account of the impact on society and the environment, which we translate into concrete targets. At the same time, we have made a conscious choice to enhance our positive impact on society – where possible – by focusing on areas where we can make a difference as a bank-insurer. The areas in question include financial education, environmental awareness, entrepreneurship and the issue of longevity and health. We also pay close attention in our business operations to areas such as cyber risk, anti-corruption measures and climate change risks.

In the latter case, we as a bank-insurer have a direct influence on climate change through our own energy consumption. More important, however, is our indirect influence, through lending, holding an investment portfolio, providing investments to clients and insuring counterparties who can have a direct impact on the climate. We ourselves also feel the impact of climate change. Examples include higher levels of claims under the insurance we provide and the impact on our loans or investments when relevant counterparties are affected by climate change or the transition to a lower-carbon society. We actively adjust our business model, not only to



The coronavirus crisis has not essentially altered our business model, but it has speeded up its implementation. The focus we had already placed on digital solutions enabled us to continue working seamlessly during the pandemic and to offer our clients a consistent level of service. For their part, clients have shifted to our digital solutions *en masse* during the crisis. Personal contact has naturally remained important, but has temporarily been incorporated within a safer context. Our credo of placing the client at the centre means that we also supported them during the crisis (through loan payment deferrals, for instance – more on which below) and that we followed their changing preferences both during and before the pandemic. Given that we had already been intensively engaged with digital solutions for some considerable time and have adjusted our strategy accordingly, this came as confirmation of the path we had taken and the continuation of our existing policy and business model.

reduce or prevent adverse consequences, but also to contribute actively by launching sustainable products and services. We closely track our performance in this regard, to which end we apply specific targets. Recognition that sustainability will be even more important in a post-pandemic world has led us, meanwhile, to tighten our existing targets in this area even further.

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

The main consequences of the coronavirus crisis are discussed in Note 1.4 of the 'Consolidated financial statements'.

How do we create value?

	Raw materials
Financial capital	Total equity of 21.5 billion euros 215 billion EUR in deposits and debt securities
Staff and brand	Approximately 41 000 employees Strong brands in all core countries, trusted partner Capacity to innovate
Infrastructure	Various electronic distribution platforms, apps, AI and underlying ICT systems 1 265 bank branches, various distribution channels for insurance
Clients and other stakeholders	12 million clients in 6 core countries Suppliers, government, regulators and other stakeholders
Environment and society	Direct use of electricity, gas, water, paper, etc. More important indirect impact through lending, investment portfolio, funds, insurance, etc.

Activities

Goal

offer proactive and data-driven solutions to meet our clients' needs

Core activities

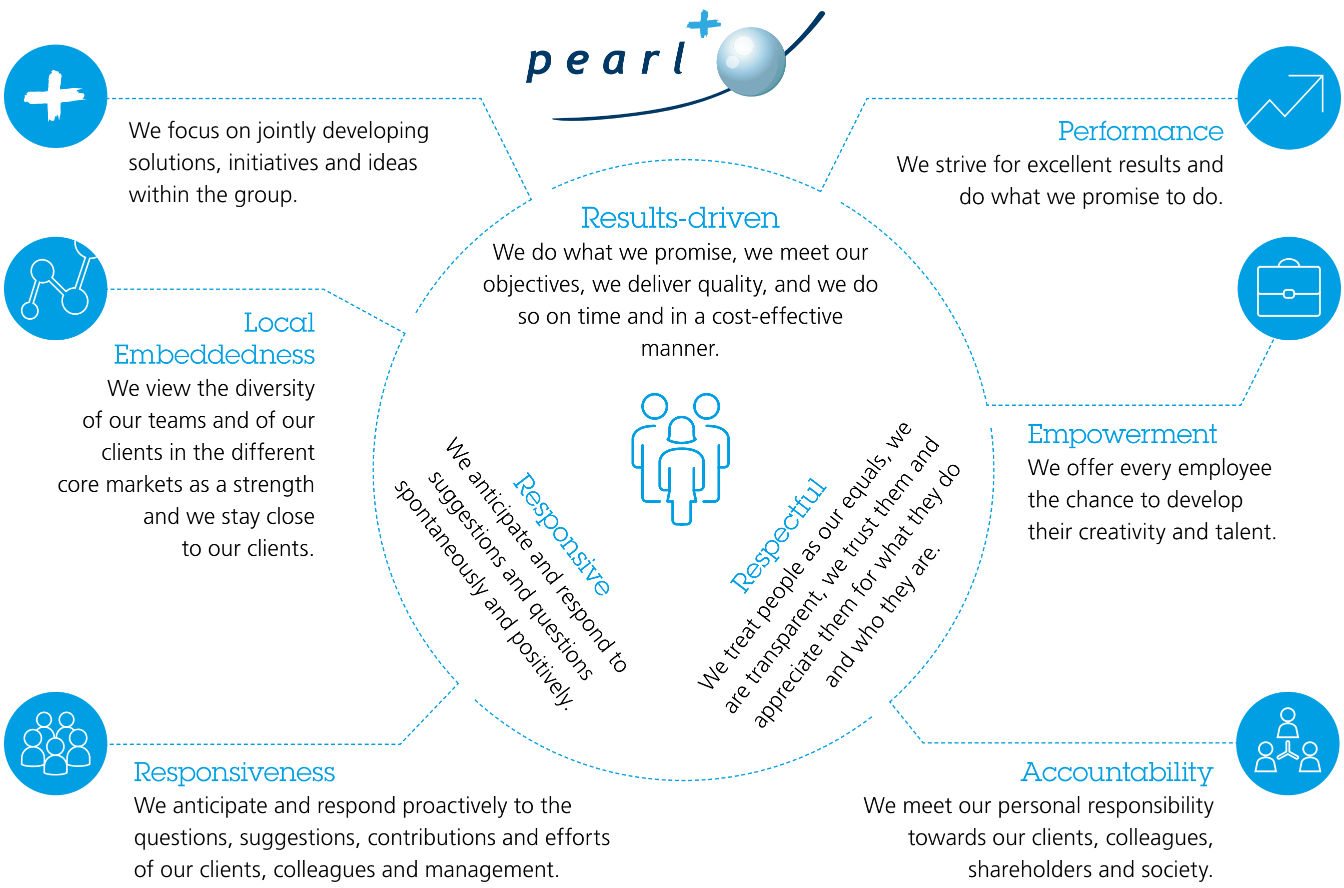
Lending
Deposits
Insurance
Investments
Asset management
Payments
Other financial services

Output and outcomes (selection 2020)	Targets and follow-up (see 'Our strategy')
• Net profit of 1.44 billion euros • Robust capital and liquidity ratios • Cost/income ratio of 60% and combined ratio of 85% • 3% lending growth	• Growth of total income • Growth in operating expenses excluding bank taxes • Combined ratio • Common equity ratio
• 2.3 billion euros in remuneration paid to our staff • Firmly embedded PEARL+ business culture • Team Blue initiatives • Approx. 135 000 training days • Various awards received in our core countries	• Employee engagement surveys
• Innovative digital, AI and data-driven group approach • Launch of digital assistant Kate • Focus on simplification and straight-through processes • 1.4-billion-euro investment in digitalisation in 21-23	• Share of digital sales • Straight-through processing score
• Stakeholder interaction process in each country • Aggregate 0.9 billion euros paid in income taxes and bank taxes • Focus on financial literacy initiatives and promoting entrepreneurship	• Client NPS score • Share of bank-insurance clients • Dividend payout ratio
• Focus on environmental awareness initiatives and the issue of longevity and health care • 17 billion euros in SRI funds • Renewable energy: 61% of lending to energy sector • Own CO_2 emissions, -56% compared to 2015	• Reduction in own CO_2 emissions • Volume of SRI funds • Share of renewable energy loans • Run-down coal financing • Share of green electricity

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

We have added an extra dimension in 2020, namely the ‘+’ sign in PEARL. This means that KBC will increasingly focus on the joint development and smart copying of solutions, initiatives and ideas throughout the group so that they are easy to utilise and deploy throughout the group. This will make it possible to work more efficiently, to respond more quickly to change and make full use of local skills and talents group-wide.

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



What differentiates us from our peers?

Our integrated bank-insurance model

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

Our digital approach

Digital interactions with clients form the basis of our business model in our new strategy, not only in terms of sales and advice, but also in process and product development. In addition to a digital product range, therefore, we also offer our clients digital advice and develop all processes and products as if they had to be sold digitally. Artificial intelligence and data analysis will play an important part in digital sales and advice. Kate, our personal digital assistant will feature prominently in this regard. We pay particular attention to the speed and simplicity with which we can serve our clients and take this into account when adjusting our internal processes.

Our strong geographical focus

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

Our focus on local responsiveness

We want to build sustainable relationships with our local clients in our core countries. The goal is to know and understand our local clients better, pick up signals effectively and respond to them proactively, offer tailored products and services, and focus on the sustainable development of the different communities in which we operate. Where relevant, we cooperate between our core countries to avoid duplicating our efforts and to offer our clients the best solutions.

Our approach to sustainability

Sustainability is an integral part of our overall business strategy, which is anchored in our day-to-day activities. Our sustainability strategy, which is geared towards the local economy and society, consists of three cornerstones: encouraging responsible behaviour on the part of all our employees, increasing our positive impact on society and limiting any adverse social impact we might have.

Our shareholder structure

A special feature of our shareholder structure is the core shareholder syndicate consisting of Cera, KBC Ancora, MRBB and the other core shareholders, which together held roughly 40% of our shares at the end of 2020. These shareholders act in concert, thereby ensuring shareholder stability in our group.

Our strengths

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

Our challenges

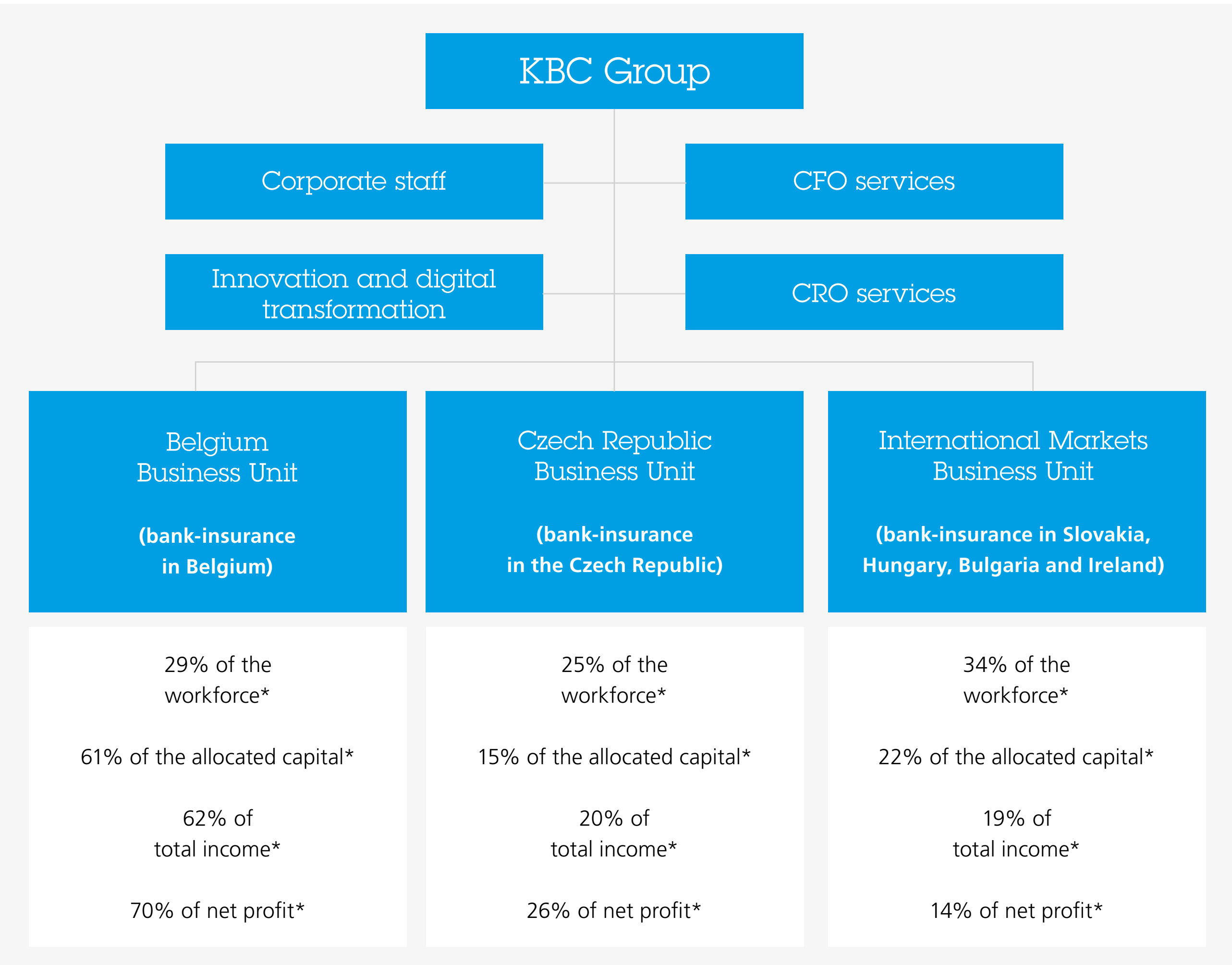
Macroeconomic environment shaped by impact of the coronavirus crisis, low interest rates, demographic ageing and geopolitical and climate-related challenges	Stricter regulation in areas like client protection, solvency and the environment	Changing client behaviour, competition and new players in the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

Information on each business unit and country can be found in the 'Our business units' section.

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

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

The most important matters discussed by the Board in 2020 are summarised in the 'Corporate governance statement'. We also deal there with our remuneration policy for senior management. The principle underpinning this policy – and the remuneration of all our staff – is that good performance deserves to be recognised. It is only fair that every employee who works hard is properly rewarded for their efforts, including by means of limited variable remuneration as part of an attractive and balanced remuneration policy.

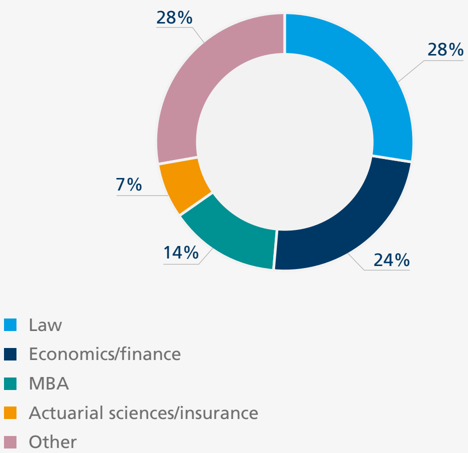


* Figures for 2020. A proportion of our employees work in other countries or in group functions. We also allocate part of our capital to the Group Centre (see below).

Composition of the Board of Directors (year-end 2020)

Members	16
Men/Women	10/6
Nationality	Belgian (14), Hungarian (1), Czech (1)
Independent directors	3
Chairman	Koenraad Debackere
Attendance record	See the 'Corporate governance statement'
Principal qualifications	economics, law, actuarial sciences, management, mathematics, fiscal sciences, etc.

Qualifications held by members of the Board of Directors
(year-end 2020)

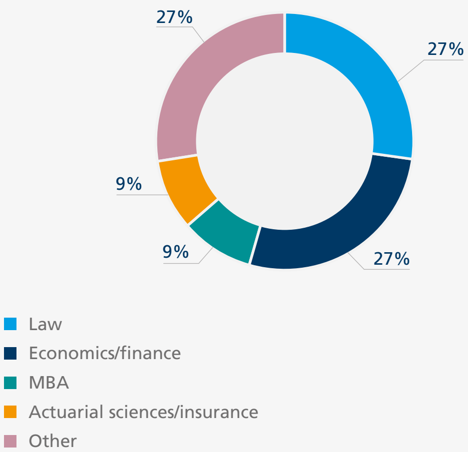


Rough breakdown based on all qualifications (several individuals have more than one degree)

Composition of the Executive Committee (year-end 2020)

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

Qualifications held by members of the Executive Committee
(year-end 2020)



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

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

In what environment do we operate?

The coronavirus pandemic hit the world economy very hard in 2020. The Chinese economy was the first to be affected, while the impact on Europe and the United States only became fully visible in March. The pandemic and the lockdown measures resulted in an enormous global contraction in the second quarter. Services and retail, which depend on domestic demand, suffered most from government-imposed restrictions. The shock suffered by manufacturing, which is governed more by international trade trends, was relatively less severe. Industry was also supported by the fact that the Chinese economy was able to return to positive quarterly growth as early as the second quarter.

The gradual easing of the measures from the end of the second quarter onwards sparked a substantial uptick in third-quarter growth, driven primarily by pent-up demand in the service and retail sectors. The level of economic activity seen prior to the outbreak of the pandemic was not reached, however, in Europe or the United States. What's more, recovery proved short-lived due to a second wave of coronavirus infections, prompting new, albeit more targeted measures in the fourth quarter and exerting pressure again on European and American economic growth. However, the impact of this second wave was clearly less severe than that in the second quarter.

The nature of the pandemic was chiefly such in 2020 as to create a negative demand shock for the world economy, generally resulting in sharply lower inflation. To support the economy in getting through the crisis and to ratchet up inflation, both the ECB and the Fed responded with additional stimulus measures. While policy rates remained at extremely low levels, new quantitative easing programmes were announced. The euro area's Pandemic Emergency Purchase Programme was particularly eye-catching, alongside the preferential long-term funding (TLTROs) available to banks to support their lending. The combination of national support measures and EU budget programmes illustrates the stronger coordination of monetary and budgetary policy to stabilise the European economy during the pandemic and to support the recovery. Low inflation and additional monetary stimuli meant that government bond yields remained very low in 2020.

The unveiling of effective vaccines towards the end of November 2020 and the roll-out since then of the first vaccinations, mean that 2021 is shaping up to be a transitional year. The gradual impact of these vaccination programmes on the pandemic measures and hence the economic recovery is likely to become visible primarily from the second half of 2021. We do not expect the European economy to return to its pre-pandemic level by the end of 2021. What's more, significant risks for Europe's economy will remain even in a post-pandemic environment. Trade relations between the EU and the UK need to be negotiated in more detail, the underlying worldwide trend towards deglobalisation has not ended and global debt problems remain as pressing as ever.

Market conditions in our core markets in 2020[1]

	Belgium	Czech Republic	Slovakia	Hungary	Bulgaria	Ireland
Market environment in 2020[2]						
Change in GDP (real)	-6.3%	-5.6%	-5.2%	-5.1%	-3.8%	3.5%
Inflation (average annual increase in consumer prices)	0.4%	3.3%	2.0%	3.4%	1.2%	-0.5%
Unemployment rate (% of the labour force at year-end; Eurostat definition)	5.8%	3.1%	7.0%	4.1%	4.8%	19.8%
Government budget balance (% of GDP)	-9.7%	-6.7%	-8.0%	-9.0%	-3.0%	-5.0%
Public debt (% of GDP)	114.8%	37.5%	64.0%	80.2%	24.3%	60.0%
Forecast growth in real GDP in years ahead						
2021	4.0%	3.5%	4.6%	4.5%	3.0%	5.0%
2022	4.1%	4.5%	4.2%	5.0%	4.0%	4.0%
KBC's position in each core country						
Main brands	KBC CBC KBC Brussels	ČSOB	ČSOB	K&H	UBB DZI	KBC Bank Ireland
Network	476 bank branches	212 bank branches	175 bank branches	204 bank branches	175 bank branches	12 bank branches
	336 insurance agencies	Insurance sold through various channels	Insurance sold through various channels	Insurance sold through various channels	Insurance sold through various channels	Insurance sold through various channels
	Online channels	Online channels	Online channels	Online channels	Online channels	Online channels
Clients (millions, estimate)	3.7	4.2	0.8	1.6	1.4	0.3
Loan portfolio (in billions of EUR)	116	32	10	6	4	10
Deposits and debt securities (in billions of EUR)	135	42	9	9	5	5
Market share (estimate)						
- banking products	19%	21%	12%	11%	10%	8%[3]
- investment funds	28%	23%	12%	13%	18%	–
- life insurance	13%	8%	3%	3%	28%	–
- non-life insurance	9%	9%	4%	8%	10%	
Contribution to net profit in 2020 (in millions of EUR)	1 001	375	56	114	76	-48

1 Market shares and client numbers: based on own estimates. For bank products: average market share for loans and deposits. In Belgium, the life insurance market share is based on reserves; for the other countries, it is based on premiums. Loan portfolio: see 'How do we manage our risks?'. Deposits and debt securities: deposits from customers and debt securities (excluding repos). The number of bank branches excludes self-service branches and the 11 KBC bank branches established in the rest of Europe, the US and Southeast Asia. Market shares are based on the latest available data (e.g., from the end of September 2020).

2 Data based on estimates at the start of March 2021 and hence different from year-end 2020 data in Note 1.4 of the 'Consolidated financial statements'. Covid-19-adjusted unemployment rate for Ireland (national definition).

3 Retail segment (home loans and deposits for private individuals (excluding demand deposits)).

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

What are our main challenges?

The world economy, global health risks, geopolitical challenges and the environment

The world economy, the financial markets and demographic developments influence our results. Persistently low interest rates have become an important factor in recent years, exerting pressure on income and prompting a search for yield. Geopolitical developments could also have significant implications for the economy and hence our results. The coronavirus crisis, meanwhile, has shown just how overwhelming the impact of health risks can be. The same goes for climate change and the transition to a low-carbon society.

How are we addressing them?

- We ensure in our long-term planning/scenario that our capital and liquidity position is capable of withstanding a negative scenario. We calculate the impact of changes in key parameters and estimate the impact of material events as effectively as possible.
- In the specific case of coronavirus, we took the necessary steps to ensure accessibility and business continuity, enabling us to offer a level of service comparable with that prior to the crisis. The most important coronavirus-related government measures with which we collaborated in each of our core countries is set out in Note 1.4 of the 'Consolidated financial statements'.
- Environment and climate change form an important part of our sustainability strategy. We have translated them into specific and now more stringent targets.
- We constantly adjust our product and service offering. Examples include adjusting our offering to take account of demand for sustainable products like green bonds and sustainable pension saving.
- We aim to diversify our income sources further to include more fee business, for example, alongside interest income.

Topics from our materiality analysis*

- Long-term resilience of our business model
- Sustainable and responsible lending, insurance and advisory service offering
- Sustainable and responsible asset management and investing
- Partner in the transformation to a more sustainable future
- Direct environmental footprint of our business activities
- Corporate citizenship

Shifting client behaviour and competition

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

How are we addressing them?

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

Topics from our materiality analysis*

- Usability of banking and insurance products and services
- Information security and data protection
- Fair, understandable and transparent information to customers
- Inclusive business culture
- Talent attraction and retention
- Long-term resilience of our business model
- Accessible finance

Regulation

Increasing regulation is an issue for the financial sector as a whole. The following trends and regulations will have a significant impact in the period ahead:

- Sustainability: EU measures to mobilise financial resources for sustainable growth.
- Digitality: EU initiatives on the impact of new technologies on the financial services sector and the responsibilities of digital service-providers.
- Privacy: draft Regulation expected in 2021–22, which will include tighter rules on the use of electronic communication data.
- Brexit: potentially diverging legislation in the EU and the United Kingdom on financial-service provision to and by the UK.
- Prudential supervision: further implementation of amendments to the Bank Recovery and Resolution Directive (BRRD2), the Capital Requirements Regulation (CRR2) and Capital Requirements Directive (CRD5) and the Basel IV legislation at both EU and national level; new IFRS, including IFRS 17, which applies to insurance activities and will become effective in a few years' time; revision of the Solvency II Directive and the accompanying Delegated Regulation; complete reform of the regulatory framework for investment firms, including stockbrokers; etc.
- Financial markets and products: reform of the European Market Infrastructure Regulation (EMIR), which will have an operational impact on derivative activities; further implementation of the Benchmark Regulation, which will trigger a fundamental overhaul of the interest-rate benchmarks used for various transactions and products; etc.

How are we addressing them?

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

Topics from our materiality analysis*

- Fair, understandable and transparent information to customers
- Long-term resilience of our business model
- Ethical business conduct and Responsible behaviour
- Sustainable and responsible lending, insurance and advisory service offering
- Sustainable and responsible asset management and investing
- Information security and data protection

Cyber risk and information security

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

How are we addressing them?

- We raise our employees' awareness of cyber risks by providing training in areas like phishing and vishing ('voice phishing'), and fraud in general.
- Teleworking has long been well established at KBC, but it became the norm in 2020 as a result of the coronavirus crisis. The increase in working at home underlined the importance of solid ICT infrastructure and protection against cyber attacks. To enable our employees to access our critical systems and data remotely, we redoubled our commitment to cyber security and IT and developed additional guidelines.
- We work to achieve highly secure and reliable ICT systems and robust data protection procedures, and we constantly monitor our systems and the environment.
- We analyse cyber risks from an IT and business perspective, so that we can offer maximum resistance and are able to remedy attacks swiftly and efficiently. We regularly evaluate our action plans and adapt them.
- Our group-wide Competence Centre for Information Risk Management & Business Continuity tracks all risks relating to data protection, cyber crime and operational IT. The team informs and assists local entities, tests KBC's defence mechanisms and provides training, cyber-awareness and reporting in the group.
- We are members of the Belgian Cyber Security Coalition – a knowledge and consultative platform consisting of around 50 public and private-sector enterprises and academics.
- We also have our entities' cyber risks and defence mechanisms evaluated on an annual basis by internal and external security experts.
- See also 'Non-financial risks' in 'How do we manage our risks?'.

Topics from our materiality analysis*

- Information security and data protection

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

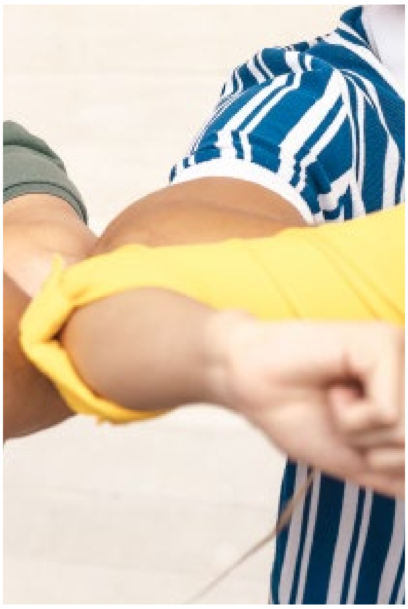
Our employees, capital, network and relationships

Our value creation	Our model	Our environment	Our capitals

Our employees

Main challenges

- Paying due attention to the health and well-being of our employees – a priority during the coronavirus crisis
- Enhancing the resilience and employability of our staff in a rapidly changing environment
- Investing in the right skills within a culture of continuous learning
- Focusing on coaching and inspiring leadership
- Targeting and pursuing specialist profiles



Our HR policy features individual focuses in each country, so that we can respond in an optimum way to the local labour market. Our values group-wide, however, are the same and are founded on our PEARL+ business culture. It is our employees who give it tangible shape each day in all our group's core countries. The 'E' in PEARL+ stands for 'Empowerment', referring to our commitment to give every employee the space they need to develop their talent and creativity and to deploy it towards accomplishing our business strategy. Not only by learning, but also by communicating ideas and taking responsibility.
A '+' sign was added to PEARL in 2020 at the same time as the business strategy was updated. We want to go a step further in our collaboration and the '+' stands for co-creation across national borders and 'smart copying' between us. In this way, we can benefit even more from the wealth and diversity of our group. We actively stimulate the PEARL+ culture amongst our employees. 'Team Blue', for example, is KBC's way of uniting employees from different countries, to make them proud of their team and their company and enable them to draw on each other's experience. The International Inspiration Days are one example of this.

I AM TEAM BLUE

It remains our fixed ambition to 'future-proof' our organisation and employees, and to keep the latter on board as much as possible and enable them to grow with KBC. We are committed to a learning culture, in which learning forms an integral part of our everyday activities. Our company is engaged in a transformation process right now and needs different skills. Take the introduction of 'Kate', for instance (read more in 'We place our clients at the centre of everything we do'). We therefore ask our staff to be flexible and to focus on the skills that are relevant. To achieve all this in a smart way, we launched an AI-driven learning and talent platform in June 2020. StiPPLE, as this intelligent platform is called, enables us to provide employees with the HR information they need to take their career to a higher level. The learning content they receive is tailored not only to the right skills but also the right level of those skills. StiPPLE enables our staff to map their existing skills and to compare them with the skills needed to be able to do their job effectively in the future too. A digital butler helps them focus on the right output and development targets. They discuss these regularly with their line manager and colleagues, using a language shared throughout the organisation. We are also using the new technology to lay the foundations for the future internal matching of vacancies and talent. This will pave the way towards greater transparency and new career opportunities. For the time being, the digital learning and talent platform has only been rolled out in Belgium. The plan is for the other countries to be added systematically in the years ahead.

We realise that good managers are key when it comes to bringing out the best in our employees and implementing our strategy successfully. We invest in the training of all managers through leadership programmes that are regularly tested against developments within our company and society. There is an increased focus, for instance, on coaching and progression management.
To enable them to pursue a common vision, senior managers from across the group take part in the 'KBC University', an ambitious development programme. A two-day module was presented in 2020 on big data and AI. At the same time, we are actively working on a separate policy for top talent management, in which we identify future senior managers and fast-track them to face tomorrow's challenges. The theme of gender will be given special attention in this.

We take the health and well-being of our employees very seriously. The pandemic confronted us with constant uncertainty about health risks in 2020. Absolute priority was thus given during the coronavirus crisis to prevention. Maximum use was made of working at home by both head office and branch and agency staff. Across the group, almost three-quarters of our employees worked from home in March–April 2020, boosting digital collaboration in the process. Particular attention was paid in all core countries to solutions for staff at greater risk from coronavirus. We set up a special Group Crisis Committee to enable us to track the situation closely and to share information about the first lockdown, the relaxation measures and the second peak in the autumn. We reorganised workplaces and physical events and cancelled travel. Each core country took additional decisions based on the local situation to protect its people as effectively as possible. Considerable attention was paid to ongoing communication through corona updates, messages from our CEO and senior management, tips and tricks for well-being, including the importance of taking breaks, exercise and healthy eating. Managers were asked to be even more vigilant about anxiety and stress issues and were trained in the digital coaching of staff. Initiatives were launched such as daily huddles to compensate for lost 'watercooler moments' between colleagues and digital sporting activities. We witnessed immense spontaneous solidarity between colleagues during this difficult period and all sorts of heart-warming initiatives emerged from the grassroots.

To enhance our operational efficiency, we launched a group-wide approach in 2019 to optimise our governance and improve internal processes. Thanks to this exercise, which will run until 2022, our organisation has become more resilient, with fewer management layers and a faster decision-making process in which employees have gained a bigger role. In Belgium, this entailed a reduction in the workforce of 1 400 employees in the period 2019–2022, entirely achieved through internal redeployment and normal staff turnover. In the case of ČSOB in the Czech Republic, it means a rundown of at least 250 employees a year. The planning of this group-wide efficiency exercise is on schedule.

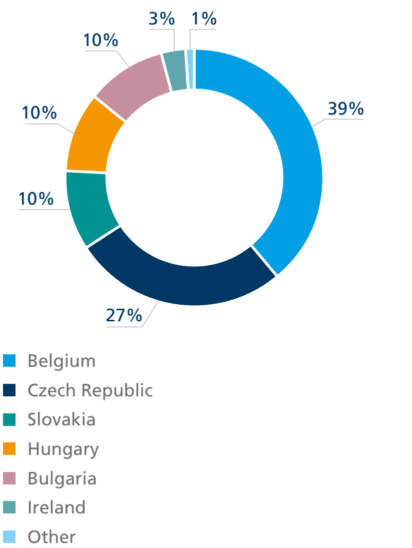
Our employees can rely on a competitive and fair salary plus supplementary benefits. We were able as an employer to keep everyone at work during the coronavirus crisis and to internally redeploy people whose tasks were put on hold. In core countries where teleworking is not yet fully established and people ended up working fewer days, we opted to ensure financial certainty.

We keep close track of our employees' opinions. We carried out a new, group-wide survey on employee engagement in 2020. The scored varied around the 70 percent level. Comparison with the previous data from 2017 is not possible, as we applied new methodology this year.
The response rate in Belgium was 57%, with around 80% of KBC staff stating that they are proud to work for KBC. The key reasons cited were KBC's image, future-oriented vision and innovative approach. The response rate in the Czech Republic was 37%, with 74% of staff reporting that they are proud to be employed by ČSOB. More details can be found in our Sustainability Report at www.kbc.com.
Depending on local needs, the survey of employee engagement was incorporated in some cases in a wider survey. It was integrated at KBC Belgium in a second 'Shape Your Future' survey. In this case, besides engagement, we measured the impact of the strategy update. 82% of staff responded that they had a clear view of the strategic direction KBC is taking. The recently launched hot skills training in StiPPLE was also raised. Based on employee input, new features have already been integrated, such as a skills profile and more training geared to the practical application of hot skills.

We also asked our staff about the impact of the coronavirus situation in the first half of the year via local surveys in several of the group's core countries. The focus of the questions varied slightly between countries, depending on local needs. The most noteworthy finding for Belgium was that 80% of staff felt the same or even better when working in lockdown, that 95% of them found teleworking efficient or highly efficient, and that 92% stated that their manager was clearly engaged with their well-being. Based on these results, we will maintain our commitment to remote working and the further development of the training range.

We do not make any distinction on the grounds of gender, religion, ethnic background or sexual orientation in our HR, recruitment and promotion policies or remuneration systems. Equal treatment of employees is also enshrined in the KBC Code of Conduct and in the various manifestos and charters we have endorsed. As an employer, we want to give a clear signal to society: we treat our employees in a socially responsible manner and that relationship is grounded in mutual trust and respect. We also raise diversity awareness among our employees. New training on unconscious bias, for instance, was developed in 2020. One specific focus of attention is raising the gender diversity at higher levels of our organisation, where women are still insufficiently represented

Breakdown of workforce by country/region
(year-end 2020)



at present (see table). To lend weight to this, each business unit has set short and long-term targets accompanied by a concrete action plan. Progress in this regard is reported to the Executive Committee every six months.

We invest in good social dialogue with employee representatives. This consultation covers a very wide range of themes, such as pay and employment conditions, reorganisation and well-being. It is organised primarily on an individual country and company basis to take account of the local legal and business-specific situations. The process also resulted in collective agreements being concluded in the different countries in 2020. Meanwhile, an annual meeting of the European Works Council has been held at group level for over 20 years now to deal with topics of cross-border importance, so ensuring that there is a forum for discussing the impact of decision-making at group level too.

Number of staff, KBC group	31-12-2020	31-12-2019
Total workforce*		
Absolute number	40 863	41 058
FTEs	37 696	37 854
Breakdown, in % (based on FTEs)*		
Belgium	39%	40%
Central and Eastern Europe	57%	55%
Rest of the world	4%	5%
Belgium Business Unit	29%	31%
Czech Republic Business Unit	25%	25%
International Markets Business Unit	34%	33%
Group Functions and Group Centre	12%	11%
Gender diversity (% of women, based on absolute numbers)		
In total workforce	56%	57%
In middle and junior management	43%	43%
In senior management (top 300)	22%	21%
On the Executive Committee	14%	14%
On the Board of Directors	38%	31%
Additional information		
Proportion of part-time workers (as % of total workforce)	17%	17%
Average age (years)	43	43
Average seniority (years)	13	13
Number of days absent through illness per employee	7	9
Staff turnover (as % of total workforce)	12%	13%
Internal labour mobility (as % of total workforce)	22%	23%
Number of (registered) training days ('000)	135	161
Number of training days per employee	3.5	4.1

* Please note that flexible DPP and DPC contracts (temporary contracts primarily for students) in the Czech Republic and Slovakia have also been included in the totals (but not in 'Gender diversity' or 'Additional information'). The recently acquired OTP Banka Slovensko (630 FTEs) is included in the 'Total workforce' for 2020. The gender diversity figures relate to the period 1 October [t-1]–30 September [t] and thus do not yet include OTP Banka Slovensko.

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

We use an operational risk framework to perform an annual review of key risks in the HR process. The implementation and monitoring of legislation forms an important part of this process and we ensure that it is applied strictly in the area of HR. Examples in this regard include EBA guidelines on outsourcing, a variety of laws on remuneration policy (including the variable wage component) and the General Data Protection Regulation (privacy law). We ensure that all employees are in compliance with the legal training requirements in the various countries in which we are active, in areas such as the distribution of insurance policies, loans and investment products. We also raise risk-awareness among our staff through targeted information campaigns and training.

'People risk' is an important operational risk for human resources, which we closely track in collaboration with our risk department via a 'people risk dashboard'. In a financial sector that is changing very quickly, we would not be able to remain a reference in the European financial sector without the right employees with the right skills.

Our capital

Our activities are only possible if we have a solid capital base. At year-end 2020, our total equity came to 21.5 billion euros and our capital was represented by 416 694 558 shares, an increase of 299 916 shares on the previous year, due to the capital increase reserved for staff in December each year.

Our shares are held by a large number of shareholders in a number of countries. MRBB, Cera, KBC Ancora and the Other core shareholders, constitute KBC's core shareholders (see the 'Corporate governance statement' section for more information). According to the most recent notifications, the core shareholders own 40% of our shares between them.

Dividend policy: see 'We aim to achieve our ambitions within a stringent risk management framework'.

In line with the ECB's recommendation of 15 December 2020, which places a limit on dividend payments (due to the coronavirus crisis), we will propose to the General Meeting of Shareholders in May 2021 that a gross dividend of 0.44 euros per share be paid in May 2021 for financial year 2020. It is also the intention of the Board of Directors to distribute an additional gross dividend of 2.00 euros per share in the fourth quarter of 2021 for financial year 2020 (that amount has not been deducted from the solvency ratios at year-end 2020). The Board's final decision is subject to the restrictions on dividends being lifted by the ECB.

More information about our workforce can be found in our Sustainability Report.

KBC share	2020	2019
Number of shares outstanding at year-end (in millions)	416.7	416.4
Share price for the financial year*		
Highest price (in EUR)	73.3	67.9
Lowest price (in EUR)	38.0	50.9
Average price (in EUR)	52.8	60.8
Closing price (in EUR)	57.3	67.1
Difference between closing price at financial year-end and previous financial year-end	-15%	+18%
Equity market capitalisation at year-end (in billions of EUR)	23.9	27.9
Average daily volume traded on Euronext Brussels (source: Bloomberg)		
In millions of shares	0.8	0.8
In millions of EUR	44	46
Equity per share (in EUR)	48.1	45.0

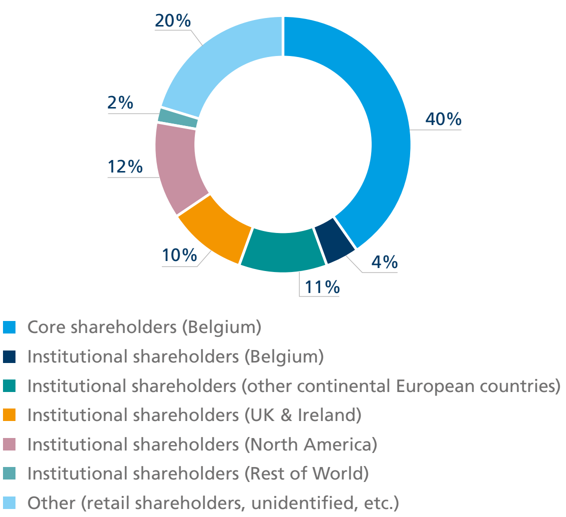
* Based on closing prices and rounded to one decimal place.

Shareholder structure of KBC Group NV (31 December 2020)*	Number of shares at the time of disclosure	Percentage of the current number of shares
KBC Ancora	77 516 380	18.6%
Cera	11 127 166	2.7%
MRBB	47 887 696	11.5%
Other core shareholders	30 601 922	7.3%
Subtotal for core shareholders	167 133 164	40.1%
Free float	249 561 394	59.9%
Total	416 694 558	100.0%

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

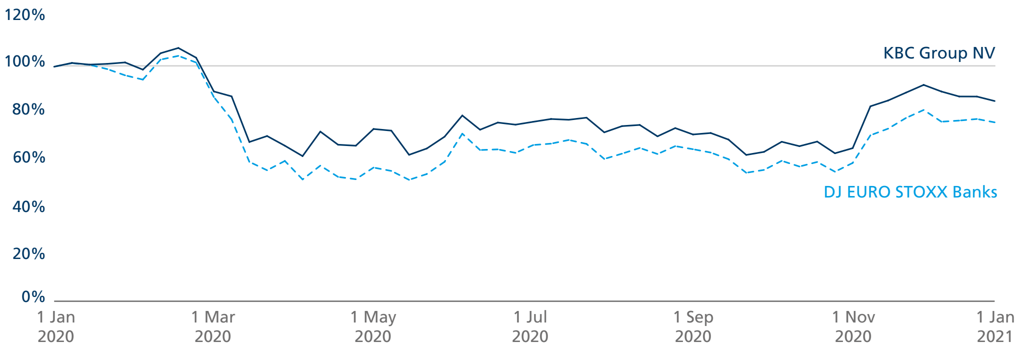
A major part of our activities involves transforming deposits and other forms of funding into loans. For that reason, funding through deposits and debt securities is an important raw material for our group. We have therefore developed a strong retail/mid-cap deposit base in our core markets. We also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

Breakdown of shareholder structure by country/region
(September 2020, own estimates)



KBC share price over one year

(31 December 2019 = 100%, end-of-week prices)



Ratings[1] on 18-03-2021	Long-term debt rating	Outlook/watch/ review	Short-term debt rating
Fitch			
KBC Bank NV	A+	(Negative outlook)	F1
KBC Group NV	A	(Negative outlook)	F1
Moody's			
KBC Bank NV[2]	A1	(Stable outlook)	P-1
KBC Group NV	Baa1	(Stable outlook)	P-2
Standard & Poor's			
KBC Bank NV	A+	(Stable outlook)	A-1
KBC Insurance NV	A	(Negative outlook)	–
KBC Group NV	A-	(Negative outlook)	A-2

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

2 Long-term deposit rating of Aa3

Our network and our relationships

Alongside staff and capital, our network and relationships are especially important to our activities. An overview of our network can be found under 'Market conditions in our core markets in 2020'.

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

Investor relations

Our Investor Relations Office has the mission of providing analysts, investors, rating agencies and other parties with timely, transparent, consistent and relevant information on our business strategy, trends and financial data. This information is widely disseminated and is

accessible to all interested parties. The Investor Relations Office has a direct line to the group's senior management and is in contact with them on a daily basis. It recommends which information to provide to the market, collects data on the market itself (including analysts' opinions on KBC and KBC's shareholder structure) and is involved with briefing senior management on contacts with analysts and investors. The uncertainty and volatility triggered by the coronavirus crisis in 2020 resulted in an exceptionally large number of *ad hoc* (virtual) contacts with investors.

Investor Relations	2020
Number of (virtual) roadshows	Approx. 50
Number of international (virtual) conferences	7
Number of sell-side analysts tracking KBC (at year-end 2020)*	24
Sell-side analysts' recommendations for the KBC share (at year-end 2020)	
Buy/Outperform	67%
Hold/Neutral	21%
Sell/Underperform	12%
KBC Investor Relations app	

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

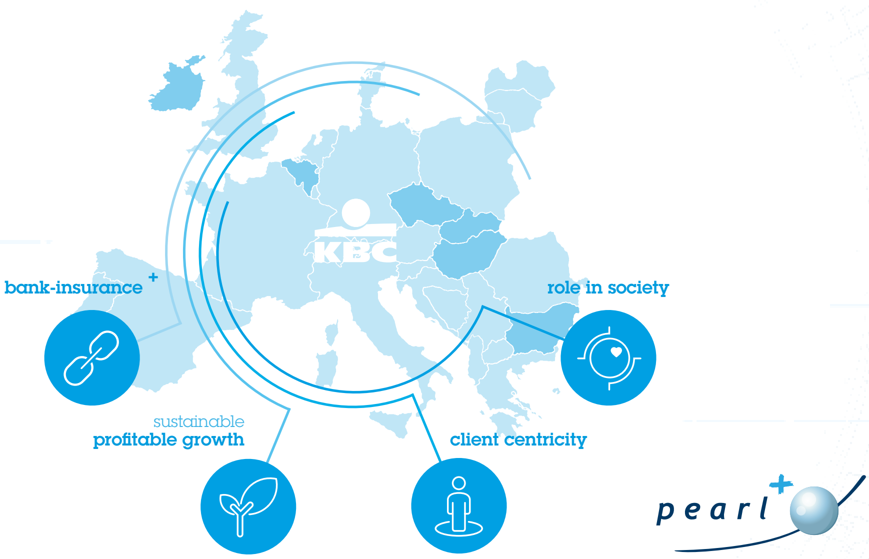
Information about our credit ratings and debt issues can be found at www.kbc.com > Investor Relations.

Our strategy

Our strategy rests on the following principles:

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

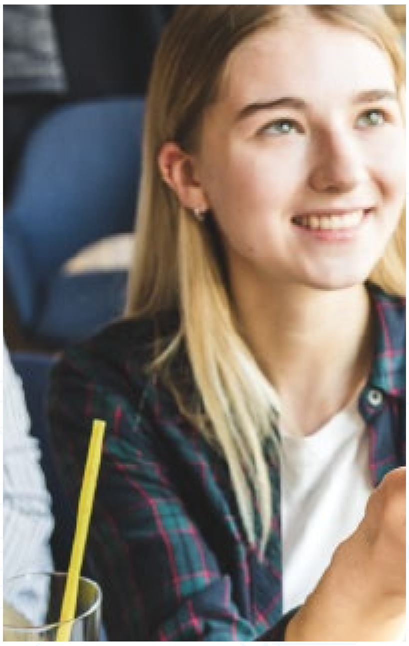
As part of our PEARL+ business culture, we focus on jointly developing solutions, initiatives and ideas within the group.



The client is at the centre of our business culture

client centricity	bank-insurance	sustainable profitable growth	role in society

Within a stringent risk, capital and liquidity management framework



Main challenges

- Ensuring client safety in the face of health risks like coronavirus
- Making client experience central and focusing on operational efficiency
- Offering proactive client-friendly solutions, powered by Artificial Intelligence and qualitative data
- Paying special attention to data protection and privacy and to transparent client communication

Focus on the physical and financial well-being of our clients

We responded to the coronavirus crisis by making our branches in Belgium accessible by appointment only from mid-March onwards. At the same time, we introduced an extensive series of physical precautions (perspex screens, face coverings, hand gels, signage, etc.). It was decided to keep branches open in a number of other core countries while naturally applying strict protective measures. We were able in this way, taking account of the situation in each country, to reconcile maximum service provision with the necessary preventative steps to avoid corona infections among clients and staff. Effective communication was ensured, with live events and meetings being replaced by digital ones. Other country-specific measures included stimulating electronic payments and raising the limits for contactless payments, coronavirus-related adjustments to certain life insurance products, the creation of special teams to assist clients, etc.

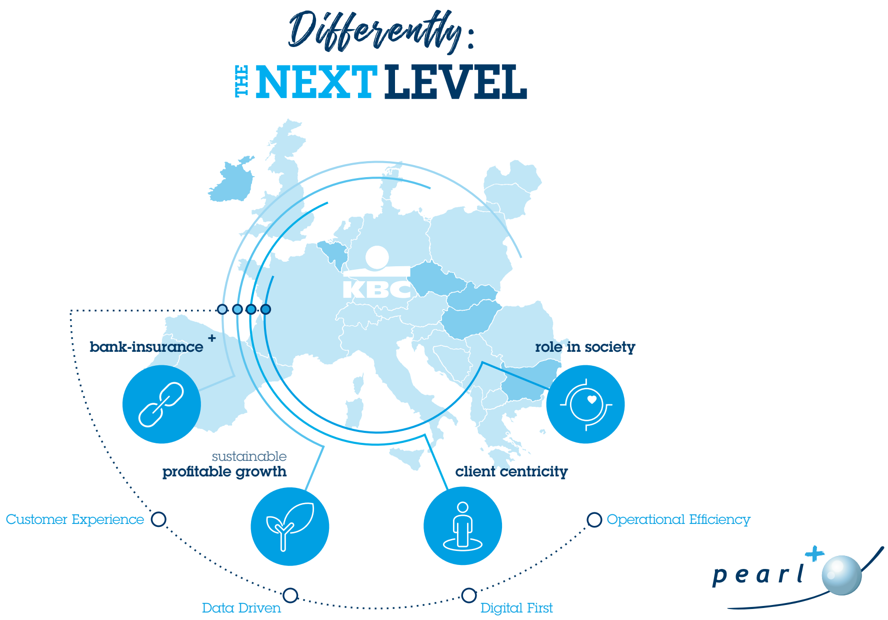
We have also collaborated intensively with government bodies since the beginning of the coronavirus crisis to support all clients affected by the pandemic, through such measures as loan payment deferrals under the various coronavirus-related moratoriums. In our six core countries combined, we granted a total of 13.4 billion euros in loan payment deferrals (according to the EBA definition and still on the balance sheet at year-end 2020) and have also granted a total of 0.8 billion euros' worth of loans under coronavirus-related state guarantee schemes. A substantial proportion of the moratoriums (8.7 billion euros) had already expired by year-end 2020 and payments had fully resumed in the interim for 96% of the amounts no longer covered by them. More information, including a list of the different government measures in our core countries, can be found in Note 1.4 of the 'Consolidated financial statements'.

Access to financial services and solid financial advice for all sections of society contributes to economic development and forms the basis for financial and social integration. We fulfil our responsibility as a bank-insurer in this regard too: we promote financial literacy and seek by means of solid and transparent advice to help our clients make the right decisions. We realised more than ever during the coronavirus crisis just how important digital literacy is and we launched a variety of initiatives and guides, for instance, to help new users familiarise themselves with our mobile apps. Various other examples of our financial literacy initiatives are set out under 'Our role in society' in the 'Our strategy' section of this report. We explore the accessibility of our services to disabled people, for instance, in greater depth in our Sustainability Report.

Differently, the Next Level

Client expectations have evolved enormously in recent years, with fast, simple, proactive and personalised products and services becoming the norm and technology constantly increasingly the possibilities in this regard. For that reason, we have been engaged for several years now in the digitalisation of processes that allow simple, high-quality products to be brought to clients in a smooth and rapid manner. We will take a further step in the future, designing products, services and processes from a 'digital-first' perspective. This implies that they can be modified and adjusted to make them simpler, more user-friendly and scalable and that they allow a fast and appropriate response to our clients' questions and expectations. For clients who so desire, we will use the available data in an intelligent and appropriate manner.

We have already responded to changing client behaviour in recent years with our omnichannel distribution model. Physical and digital channels go hand in hand when it comes to serving all clients, both the growing group of digitally-minded clients and the less digitally-minded ones. As a result of the recent coronavirus lockdown, society received a far-reaching digital boost much faster than expected. Clients switched to our digital solutions *en masse* and digital sales rose significantly. In the space of one year, for instance, the number of active clients – i.e. clients holding at least a current account into which income is regularly paid – using our mobile apps rose by just under 25% for the entire group. Over 90% of our active clients now use our website, mobile or tablet apps (compared to 84% a year ago). The significant investment we have made in digital transformation in recent years is thus clearly bearing fruit and ensured that we have been able to continue to provide our clients with a high level of service.



We will now go a step further with our updated strategy, 'Differently: the Next Level'. It means that will make the interaction with our clients even more future-proof and smarter (i.e. reinforced by Artificial Intelligence) and that we will evolve from an omnichannel distribution model towards a digital-first model. The human factor remains important in both models and our staff and branches will be fully at the disposal of our clients. As is always the case, the client decides which distribution channel, digital or physical, is used to contact KBC. In a digital-first distribution model, digital interactions with clients will form the initial basis. We therefore aim over time to provide all relevant solutions via mobile applications. In addition to a digital product range, we will offer our clients digital advice and develop all processes and products as if they were sold digitally. We plan to invest approximately 1.4 billion euros in digitality in the period 2021-2023.

For clients who so wish, Kate – our new personal digital assistant – will play an important role in digital sales and advisory, so that personalised and relevant solutions can be offered proactively at the right moment. Hence the reason that the operational efficiency of underlying processes is so crucial.

How does Kate work?

Clients themselves can ask Kate questions regarding their basic financial transactions (transferring money, registering insurance claims, etc.). They will also receive regular and proactive proposals at appropriate times from KBC in their mobile app to ensure maximum convenience. Clients are entirely free to choose whether or not to accept a proposal. If they do, the solution will be offered and processed completely digitally. Where clients prefer a non-digital channel, Kate will provide branch staff with insights and even suggest solutions.

Kate will focus in the first phase on the mobile application for retail clients in Belgium and the Czech Republic (KBC Mobile and ČSOB Dokapsy). This will give Kate the opportunity to learn quickly, while KBC will receive feedback and be able to make any necessary adjustments. Clients will notice that Kate is gradually able to answer a wider set of questions. Kate will be rolled out for businesses from 2021 onwards. The digital assistant will also be launched in other core countries of the group in the years ahead.

Employees in the branch network and contact centres continue to function as a beacon of trust for our clients. They will also support, encourage and monitor use of digital processes, assisted by artificial intelligence, data and data analysis. Where clients prefer a non-digital channel, Kate will provide branch staff with insights and even suggest solutions. The human factor – in the shape of relationship managers – will continue to play a crucial role for SMEs and business clients, with data and technology as the most important levers in our ability to deliver a full-service offering.

To guarantee our clients maximum ease of use, to ensure that working with Kate is problem-free and to be able to offer a growing number of possibilities via Kate, changes will also be needed in our internal processes, in the way we supply our products and services, and in how we organise ourselves internally (smart copying, cooperation, straight-through processing). At the same time, this will require a further change in mentality (PEARL+) and in-service training for our staff. The success of products and services will be tracked individually in order to create a feedback loop and feed the machine. This will, in turn, enable Kate to grow further.

Privacy, data protection, communication and inclusion

Privacy and data protection are an integral part of our profession as a bank-insurer. Digitalisation brings us a multiplicity of client, market and risk data, allowing us to know our clients better, advise them more effectively and propose compelling, relevant and personalised bank-insurance solutions to them. But it goes without saying that clients only accept us analysing their data once they already trust us, which is why we have drawn up a carefully thought-out privacy policy. Because privacy and data protection are not only objective concepts, defined by law, they are highly subjective ones too. For that reason, we want to let clients themselves choose what we can do with their data. In the process, we aim to communicate in a transparent way and offer our clients a clear privacy overview, in which they can adjust their choices at any moment. We view smart data analysis allied with effective privacy protection as the ideal opportunity to enhance our clients' trust. The same goes for Kate: clients themselves get to decide whether they want to exchange a small amount of privacy to be able to gain the benefits of additional convenience.
More information on privacy and data protection can be found in our Sustainability Report at www.kbc.com.

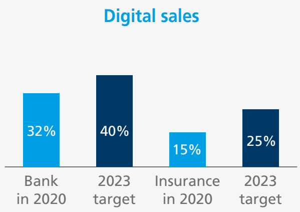
We expect our employees to communicate in an accessible, clear, understandable and transparent way with our clients. This is not easy given the duties imposed on us by the legislator, such as sending out letters on risks, costs and fees. A few years ago, therefore, we launched a project in Belgium to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

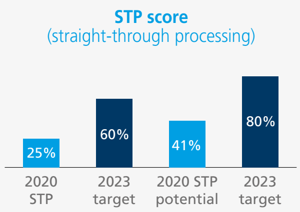
Follow-up

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

<table>
<tr><th>KPI</th><th>Description</th><th>Target and result</th><th></th></tr>
<tr><td>Client NPS score</td><td>A ranking is drawn up based on Net Promoter Scores for each core country. The rankings are aggregated at group level based on active* client numbers.</td><td>Target: top 2 ranking at year-end 2023

2020 result: top 2 (based on the most recently available information)</td><td>
</td></tr>
<tr><td>Digital sales</td><td>Digital sales as a percentage of total sales, based on weighted average of a selection of core products.</td><td>Target: ≥ 40% for bank in 2023 and ≥ 25% for insurance in 2023

2020 result:
32% for bank
15% for insurance</td><td>
</td></tr>
<tr><td>Straight-through processing (STP)</td><td>The STP score is based on analysis of commercial core products. The STP ratio measures how many services that can be offered digitally are processed without human intervention from the moment of the interaction with the client to final agreement by KBC. The STP potential measures what the STP ratio would be if KBC was only to use the digital channel in its interaction with clients for a given process or product.</td><td>Target: STP ratio ≥ 60% in 2023
STP potential ≥ 80% in 2023

2020 result:
STP: 25%
STP potential: 41%</td><td>
</td></tr>
</table>

Because of the new strategy 'Differently, the next level', we have defined new financial and non-financial targets (KPIs) that reflect the key points of the new strategy and replace the earlier KPIs, as reported in previous Annual Reports.

* See also the KPI 'Share of bank-insurance clients'.

We offer our clients a unique bank-insurance experience

client centricity	bank-insurance	sustainable profitable growth	role in society

Within a stringent risk, capital and liquidity management framework

Main challenges

- Ensuring seamless collaboration between data, communication and sales channels
- Operating as a single business and pursue a digital first, lead-driven and AI-led bank-insurer
- Bank-insurance+: expanding offering to include a wider range of economic services
- Driving up commercial synergies and bank-insurance clients

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

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

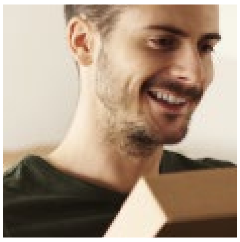
As stated earlier, we do everything we can to integrate our channels (bank branches and insurance agencies, contact centres, self-service terminals, the website, our home banking application and mobile apps). Because we are both a bank and an insurer, we can commit ourselves completely to this integrated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

We have developed a unique bank-insurance cooperation concept within our group, a model that goes much further than a bank that sells insurance products. It is all about complete back-office integration, which delivers operational and commercial optimisation for both the client and for KBC itself. The way we work means, for instance, that we only need one communications department, one marketing department, and so on. It is only the underlying product factories that operate independently, as these are specific professions.
The concept is given clearer form in our 'Differently: the Next Level' strategy: besides operating as a single business, we will work towards being a 'digital first', lead-driven and AI-led organisation. This means fully integrated front and back-end applications designed according to the 'digital only' principle. We are firmly committed to becoming data and AI-led in all our core countries, at their own pace. Kate (see previous section) is the key element within a data-led organisation of this kind.

Bank-insurance+

Previously, we only offered our own bank and insurance products and services through our mobile apps. Open Banking and Insurance (OBI) is now well established. We will continue along our chosen path and will also offer non-financial solutions alongside traditional banking and insurance solutions in all our core countries. We refer to this as bank-insurance+. After all, to remain the reference, it is no longer enough simply to offer clients and prospects banking and insurance products.

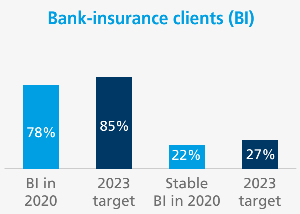
It is also about solutions that help our clients save money (e.g., suggesting that they switch to a cheaper energy supplier), earn money (e.g., 'KBC Deals' discounts in Belgium), making everyday payments easier (e.g., paying automatically for parking) or supporting business activities (e.g., the BrightAnalytics reporting tool). We work with third parties to provide these solutions.



Our bank-insurance model is already enabling us to achieve various commercial synergies. In Belgium, for instance, roughly eight out of ten clients who agreed home loans with KBC Bank in 2020 also took out mortgage protection cover with KBC Insurance, while nine out of ten purchased home insurance. At ČSOB in the Czech Republic, over six out of ten clients who took out home loans in 2020 also purchased home insurance from the group.
To give another example, across the group at year-end 2020, about 78% of active clients held at least one of the group's banking products and one of its insurance products, while roughly 22% actually held at least two banking and three insurance products (3-3 in Belgium). The number of bank-insurance clients of this type grew by 4% (1-1) and 5% (2-2 and 3-3 in Belgium) in 2020 respectively.

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

KPI	Description	Target and result
Share of bank-insurance clients	Share of bank-insurance clients (min.1 bank + 1 insurance product from the group) and stable bank-insurance clients (min. 2 bank and 2 insurance products from the group [3-3 for Belgium]) within total number of active bank clients*.	Target: ≥ 85% bank-insurance clients and ≥ 27% stable bank-insurance clients by 2023 2020 result: 78% bank-insurance clients 22% stable bank-insurance clients



Because of the new strategy 'Differently, the next level', we have defined new financial and non-financial targets (KPIs) that reflect the key points of the new strategy and replace the earlier KPIs, as reported in previous Annual Reports.

* An active bank client is defined as one holding at least a current account into which income is regularly paid (salary, pension, money transfers, etc.).

We focus on sustainable and profitable growth

client centricity

bank-insurance

sustainable profitable growth

role in society

Within a stringent risk, capital and liquidity management framework

Main challenges

- Developing long-term relationships with clients
- Further optimising presence in core countries
- Diversifying income base
- Establishing relevant partnerships and collaborations

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

Sustainable and long-term thinking also means concentrating on the local economies of our core markets. Our geographical footprint remains firmly focused on our core countries. We view our presence in these countries as a long-term commitment and want to consolidate our presence there by means of organic growth or attractive acquisitions, in line with clear and strict strategic and financial criteria. Geographical focus also means that, where possible and opportune, we will dispose of non-core activities.

Recent examples:

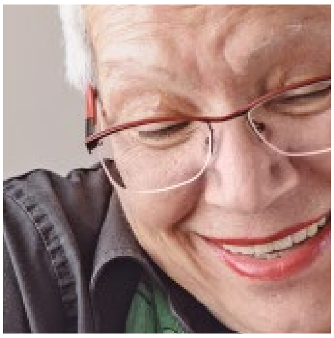
- At the end of May 2019, we acquired the remaining 45% interest in the Czech building savings bank ČMSS. The deal means that ČSOB is now the sole owner of ČMSS. ČMSS will be rebranded as ČSOB Stavební spořitelna in 2021. This will mark the completion of its integration in the ČSOB Group and clients will in future find all housing related services under one roof and one brand.
- At the end of May 2020, we sold our 50% stake in the Slovenian life insurer NLB Vita, marking our complete withdrawal from Slovenia, which is not one of our group's core countries.
- At the end of November 2020, we finalised the agreement for the acquisition of 99.44% of OTP Banka Slovensko, which strengthens our position on the Slovakian banking market. The next logical step is the legal and operational merger of ČSOB in Slovakia and OTP Banka Slovensko, which will further consolidate ČSOB's current number four position on the Slovakian banking market in terms of assets.
- In February 2021, we reached agreement with NN to acquire its Bulgarian pension and life insurance businesses, a move that will enable us to further consolidate our position on our Bulgarian home market.

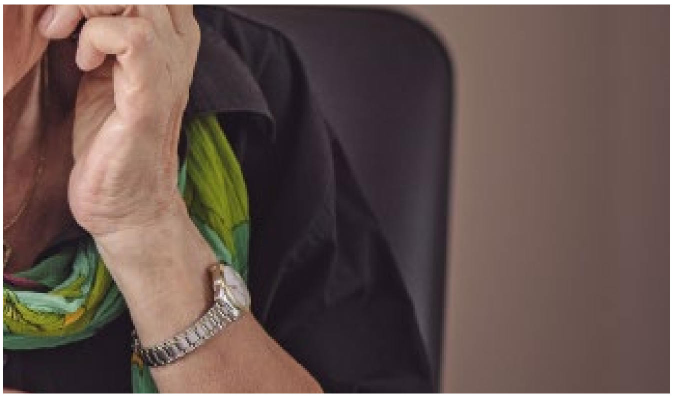
Specifically for Corporate Finance, we have decided to further develop an advisory services franchise tailored to midcap corporate banking clients in our core countries, but also with the possibility of limited expansion to neighbouring countries so that existing clients can be better served.

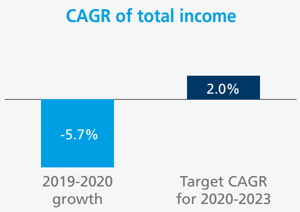
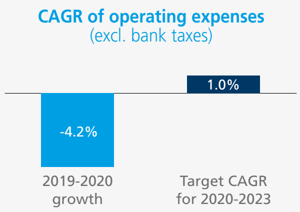
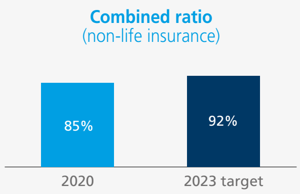
We want to be in a position to deliver all our products and services in a top class manner. In the case of our core activities, we will retain production in-house. But for peripheral activities, we will mostly look to outsourcing or partnerships with (or in some cases acquisition of) specialists, including fintechs. In Belgium, for instance, we collaborate with a fintech that performs energy price comparisons for our clients. This is plainly not a core business of ours, but – besides improving general client satisfaction – it does relate to the resulting financial transactions on our clients' part, which is our core business. If we have access to the details of these transactions, we can generate added value for our clients by analysing and proposing better solutions, thereby saving them money or making their lives easier.

The pursuit of sustainable and profitable growth also coincides with the search for a diversified income base. In that respect, we want to generate more revenue from the fee business (including fees from asset management activities) and insurance activities, alongside our interest income. We are also diversified in geographical terms: 42% of our net profit, for instance, was derived in countries other than the Belgium Business Unit in the past three years.

Moreover, stringent risk management in everything we do is an absolute precondition in terms of guaranteeing sustainability. For more information on this, see 'We aim to achieve our ambitions within a stringent risk management framework'. We monitor our long-term performance and our focus on the real economy and sustainability via a number of Key Performance Indicators (KPIs), the most important of which are listed in the following table.





KPI	Description	Target and result	
CAGR of total income	Compound annual growth rate (CAGR) of total income.	Target: CAGR for 2020–2023 ± 2% CAGR for 2019–2020: -5.7%	
CAGR of operating expenses (excluding bank taxes)	Compound annual growth rate (CAGR) of total operating expenses, excluding special bank taxes	Target: CAGR for 2020–2023 ± 1% CAGR for 2019-2020: -4.2%	
Combined ratio	[Technical insurance charges, including the internal cost of settling claims / earned insurance premiums] + [operating expenses / written insurance premiums] (for non-life insurance, and data after reinsurance).	Target: ≤ 92% in 2023 2020 result: 85%	

Because of the new strategy ‘Differently, the next level’, we have defined new financial and non-financial targets (KPIs) that reflect the key points of the new strategy and replace the earlier KPIs, as reported in previous Annual Reports.

More information on strategy by business unit and country can be found in the ‘Our business units’ section.

Our role in society

client centricity

bank-insurance

sustainable profitable growth

role in society

Within a stringent risk, capital and liquidity management framework

Main challenges

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

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

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

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

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

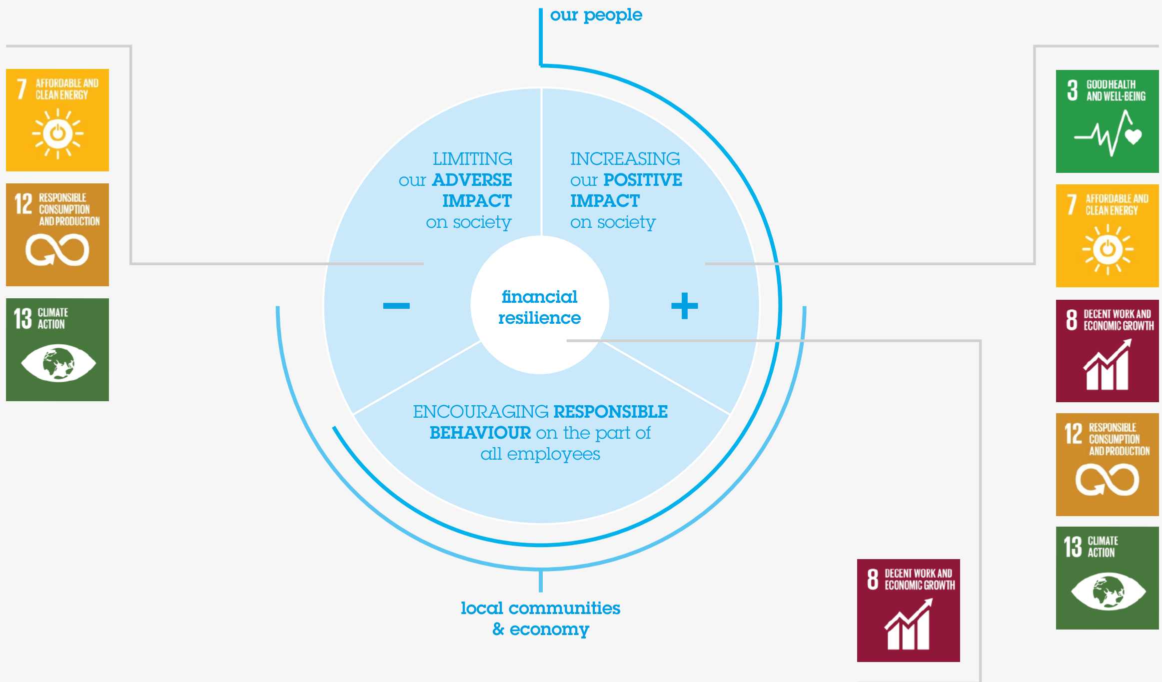
Given the difficulty of defining responsible behaviour, rather than drawing up guidelines for such behaviour we set out the underlying principles. These are presented in 'Compass for Responsible Behaviour'. Responsible behaviour is especially relevant for a bank-insurer when it comes to appropriate advice and sales. We pay particular attention, therefore, to training (including testing) and awareness.
We developed an e-learning course in 2020 to clarify the importance of responsible behaviour and to provide a framework to help our employees take difficult decisions when faced with dilemmas. The course is mandatory for all staff.

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

Sustainable Development Goals (SDGs)

In 2015, the United Nations drew up a development plan with 17 ambitious targets for 2030. These Sustainable Development Goals (SDGs) set the global agenda for governments, businesses and society when it comes to tackling the major challenges in the field of sustainable development, such as ending poverty, protecting the planet and guaranteeing prosperity for all. Although the 17 SDGs are all interconnected and relevant, we have selected five goals on which we can have the greatest impact through our core business (see diagram).

More information on how we engage with stakeholders and how we select the topics on which we report can be found under 'Stakeholder interaction and materiality analysis'.



Good health and well-being

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

Affordable and clean energy

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

Decent work and economic growth

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

Responsible consumption and production

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

Climate action

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

Sustainability ratings, KBC group (31 December 2020)	**2020**	**2019**
S&P Global – RobecoSAM	73/100 85th percentile of 253 banks	72/100
CDP	A- Leadership	A- Leadership
FTSE4Good	4.7/5	4.6/5
ISS ESG	C Prime	C Prime
Sustainalytics (29 January 2021)	Low Risk (16.2) 3rd percentile of 408 banks	86/100
MSCI	AAA	AAA

Aiming to enhance our positive impact on society

We want to enhance our positive impact on society to which end we are focusing on areas in which we, as a bank-insurer, can create added value: financial literacy, entrepreneurship, environmental awareness and longevity and/or health. In doing so, we take account of the local context in our different home markets.

We likewise support social projects that are closely aligned with our policy and through which we can play our role in society. These areas are used to incorporate the SDGs into our sustainability strategy and everyday activities. You can find more information and examples in the following diagram.

See also our Sustainability Report, at www.kbc.com

Our focus areas

Financial literacy

- Helping clients make the right choices through good and transparent advice, and clear communication.
- Improving general public knowledge of financial concepts and products.

Examples

- ‘Get-a-teacher’ at KBC Belgium, which gives schools the opportunity to extend financial knowledge by ‘ordering’ a teacher from KBC.
- Primary and secondary school lessons by ČSOB colleagues in the Czech Republic;
- *Hoedoekda?!* Platform in Belgium through which we teach young people aged between 16 and 24 how to handle money

Entrepreneurship

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

Examples

- Switch to digital support of start-ups during the pandemic (Start it @ČSOB, Start it @KBC) and organisation of extra webinars on topics with which entrepreneurs struggle.
- Partnership with BRS, which supports microfinance and microinsurance businesses in the Global South.
- ‘Women in Tech’ coaching pathway at Start it @KBC, which makes substantial efforts to attract more women entrepreneurs.
- Collaboration between UBB and the Association of Bulgarian Leaders and Entrepreneurs in the ABLE Activator programme, which offers experience-focused entrepreneurship training to 30 students and young professionals under the age of 35

Environmental awareness

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

Examples

- Issue of second green bond
- Launch of Green Lease product by UBB Interlease in Bulgaria.
- Tightened coal-financing policy in the Czech Republic.
- Offering, in collaboration with Olympus Mobility, several highly user-friendly and convenient mobility solutions in Belgium.

Longevity and health

- We have opted for ‘longevity’ as our fourth pillar in Belgium and the Czech Republic. This requires us to adapt our policy and our range of products and services to the fact that people are living longer and to make a positive contribution to the issues surrounding an ageing population by offering specific solutions through our core activities.
- We chose ‘health’ as the fourth pillar in Bulgaria, Slovakia, Hungary and Ireland. These core countries will develop products, services and projects geared towards improving general health, healthcare and quality of life.

Examples

- Assigning a team of operators to help track coronavirus-infected patients in the Czech Republic.
- Donation by K&H in Hungary to hospitals battling the coronavirus, for online purchases and electronic transfers.
- ‘Care calls’ from KBC Bank Ireland to support elderly and vulnerable clients during the coronavirus crisis.

More examples can be found in the ‘Our business units’ section.

Limiting any negative impact we might have on society

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

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

Given that society's expectations towards sustainability and social responsibility are evolving, we work continuously to tighten our sustainability targets and policies. In 2020, for instance, we decided to make our policy on funding and insuring coal-related activities and firms even more stringent and also introduced a new policy on biodiversity. We took the further decision that businesses active in fossil fuels would be fully excluded from KBC Asset Management's SRI funds. Our targets for direct coal-related financing are provided further on in this report.

Coal: KBC does not wish to do business with energy producers:
- For existing clients: with >25% production capacity based on coal (previously: 50%).
- For companies that are not yet clients: with any production capacity based on coal (previously: 25%).
- The threshold will be reduced to zero for all clients in 2030 (previously: 2050).
- Limited ad hoc exceptions will still be possible for, amongst other things, investment in the context of energy transition (all countries) and for social purposes (Czech Republic only).
- The policy will be tightened further from April 2021, when we will require existing clients (i) to submit a plan of how they will phase out coal by 2030 and (ii) to undertake not to establish any new coal projects or increase the capacity of existing coal projects. If a counterparty fails to comply with one of these conditions, we will not allow any further transactions and will end our relationship on completion of the contractual term.

Biodiversity:
- KBC does not wish to be involved with any activities related to or significantly impacting protected areas, UNESCO World Heritage Sites, protected animal and plant varieties, certain fishing practices or similar activities.
- KBC does not wish to be involved in non-conventional oil and gas extraction (e.g., tar sands, shale oil and gas, and Arctic and Antarctic drilling).
- Existing restrictions on forestry, mining and the cultivation of palm oil, soy, cocoa beans, coffee and cane sugar have been tightened.

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

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

Our sustainability governance

We have anchored sustainability at the different levels within our group, guaranteeing that it receives attention from the highest decision-making bodies while also being broadly integrated into our operations. A simplified overview is provided below (for more details, see our Sustainability Report at www.kbc.com). You can find more details later in this report regarding specific governance in respect of climate change.

Sustainability governance

The **Board of Directors** is kept informed by the Executive Committee about the sustainability strategy, including policy on climate change. The Risk & Compliance Committee oversees sustainability-related risks. The Board evaluates the implementation of the sustainability strategy using a Sustainability Dashboard and expresses its opinion on major changes to sustainability policies.

The **Executive Committee** is the highest level with direct responsibility for sustainability, including policy on climate change. It ratifies the decisions of the Internal Sustainability Board and the Sustainable Finance Steering Committee.

The **Internal Sustainability Board (ISB)** is chaired by the CEO and comprises senior managers from all business units and core countries, the CFO and the manager of the Corporate Sustainability department. It is the most important platform for managing sustainability at group level and takes decisions on all matters relating to sustainability.

The **Corporate Sustainability department** has a direct link to the CEO and is responsible for developing, implementing and supervising the sustainability strategy. It reports to the ISB and prepares the Sustainability Dashboard.

The **Sustainable Finance Steering Committee** supervises the Sustainable Finance Programme and is chaired by the CFO. It reports to the Executive Committee and the Board and maintains contact with the ISB.

The **Sustainable Finance Programme Core Team** is headed by a programme manager from the Corporate Sustainability department and is made up of specialists from Finance, Credit Risk, Risk and Data Management as well as sustainability experts. It integrates the climate approach within the group and supports the business side in developing climate resilience in line with the TCFD and the EU action plan.

Corporate Sustainability Country Coordinators in each core country are responsible for integrating the ISB's decisions and the goals of the Sustainable Finance Programme. This ensures that all core countries are sufficiently involved in both the strategic discussions and the implementation of the group-wide sustainability policy.

Country Sustainability departments and CSR Committees: the sustainability departments and committees in each of our core countries are organised in such a way as to support their senior managers, who sit on the Internal Sustainability Board, and the Corporate Sustainability Country Coordinator in integrating our sustainability strategy and organising and communicating local sustainability initiatives. Among other things, the employees and committees involved also supply and validate non-financial information.

The **external advisory bodies** advise KBC on different aspects of sustainability and consist of experts from the academic world. An External Sustainability Board advises the Corporate Sustainability department on sustainability policy and strategy. An SRI Advisory Board supervises the screening of the socially responsible character of KBC Asset Management's SRI funds.

Focus on climate

The climate aspect in our business model

As a bank-insurer, we have an influence on climate change in two ways. Firstly directly: through our own energy consumption, for example. Our dependence on natural resources is relatively limited, but we nevertheless manage our direct greenhouse gas emissions with the goal of steadily reducing them in line with fixed targets.
More important is our indirect influence, through lending, holding an investment portfolio, providing investments to clients and insuring other parties who could have a significant impact (whether positive or negative) on the climate. We limit this indirect negative impact through clear policies, which also entail restrictions on the most polluting activities, and we enhance our positive impact through actions relating to the most climate-sensitive sector portfolios, in keeping with the targets set by the Paris Agreement, by engaging in a sustainability dialogue with our clients, by supporting companies that take account in their investment decisions of environmental, social and governance aspects, and by developing new, innovative business solutions in all our core countries to stimulate a low-carbon and circular economy.

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

We actively adjust our business model, not only to mitigate or avoid negative consequences (see elsewhere for our targets in this regard) and to adapt our policy regarding the most climate-sensitive sectors (see below), but also to respond to the many new opportunities that the transition to a more sustainable and green economy will bring with it. This entails both further expanding our sustainable product and service offering in the field of investment, insurance, leasing and so on, and actively supporting clients in their transition to lower-carbon operations.

The aim is to chart the resilience of our business model going forward, taking account of different climate scenarios and time horizons. This will require advanced measuring and reporting instruments, for which we are collaborating with external parties through pilot projects (see below).

Sustainability integrated into our remuneration policy

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

- The variable remuneration of Executive Committee members is linked to factors including the achievement of a number of collective targets. One such target is specifically related to progress in the area of sustainability, which is evaluated every six months via the KBC Sustainability Dashboard report. The Board of Directors evaluates, via the Remuneration Committee, the criteria by which Executive Committee members are assessed in this regard. More information is provided under 'Remuneration report for financial year 2020' in the 'Corporate governance statement' section.
- Sustainability is also integrated into management's variable remuneration. At least 10% of the variable remuneration received by senior management depends on the achievement of individual targets agreed in advance as part of the group's sustainability policy, including climate policy.
- The non-recurrent results-based bonus paid to employees in Belgium has been partially linked to environmental targets since 2012 (reduced paper consumption, for instance).

Climate governance

Climate governance forms part of our general sustainability governance, as explained in 'Our sustainability governance'.

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

We introduced a new, hybrid organisational structure for sustainability governance in 2020, with strong central direction and clear and strengthened local responsibilities in the core countries. The aim is to ensure that sustainability themes and in particular climate-related decisions and actions within the Sustainable Finance programme are taken at a sufficiently high level and tackled with the necessary priority.

Chaired by the CEO, the Internal Sustainability Board (ISB) has become the most important platform for steering sustainability policy at group level, including our climate approach. The core country representatives sitting on the ISB have a clear responsibility for sustainability and climate. Each member of the ISB representing a core country is supported locally by a Corporate Sustainability Coordinator, who is tasked to direct the business side in that country in accordance with the ISB's decisions and to ensure that the decisions taken are implemented. This ought to result in rapid, group-wide implementation of sustainability and climate themes determined centrally.

The Sustainable Finance programme is directed by a programme manager from Corporate Sustainability, together with a Sustainable Finance Core Team. This team of specialists from Group Corporate Sustainability, Group Risk and Credit Risk was expanded in 2020 to include experts from Group Finance and Data Management. The Core Team is in contact with all relevant group departments.
The Climate Contacts appointed in the core countries in 2019 continue to work closely with the Sustainable Finance Core Team, but will also operate under the Corporate Sustainability Coordinator, who is the most important point of contact in each core country for the Sustainable Finance Core Team.

The programme is overseen by a steering committee. It is chaired by the CFO, who is also a member of the ISB, with permanent representatives from Group Finance, Group Risk and Group Credit Risk, together with Group Corporate Sustainability. All policy-related topics, the climate-related strategy and the measures to be taken are decided within the ISB. The programme's progress is regularly discussed in the Executive Committee and the Board of Directors, with reference, amongst other things, to the KBC Sustainability Dashboard. The Board evaluates the programme's status report once a year. The current status is also discussed annually by the supervisory boards of the key group companies in the different core countries.

An external Sustainability Board advises Group Corporate Sustainability on all sustainability themes, including all aspects of our climate policy.

The environmental and climate aspects of our sustainability policy

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

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

Important elements of our climate and environmental policy include:

- the application and regular revision of a strict policy to limit the negative ecological impact of our activities through measures such as specific policies on energy and other socially sensitive sectors (e.g.,

palm oil, soy, mining and deforestation), abiding by the Equator Principles on project funding and the KBC Blacklist;
- developing specific banking, insurance and investment products and services to support a sustainable, low-carbon and climate-resilient society (see table);
- creating awareness of environmental responsibility amongst our internal (employees) and external (clients, suppliers, etc.) stakeholders;
- adjusting our activities to limit the global temperature increase in line with the Paris Agreement and joining the UN's Collective Commitment to Climate Action;
- tracking TCFD recommendations: we catalogue our climate risks while also responding to the opportunities offered by the green transition. We contribute to the development of methodologies to measure the impact of the climate on our business model with a view to formulating evidence-based targets.

Integrating climate-related risks, opportunities and targets into our sector approach remains a key challenge.
- As a first step, we have begun to analyse our lending book. Analysing our investment and insurance portfolios will occur in a second phase. Based on a materiality assessment, as stipulated in the TCFD, we decided to focus on the sectors representing more than 5% of industrial loans designated as climate-sensitive and carbon-intensive. The aim is to perform a thorough analysis of these sectors from the climate perspective, in order to determine a strategy and objectives that will aid the concrete achievement of our climate commitment in line with the Paris Agreement. We use the term 'white paper' to reflect the open mind with which we embarked on the exercise.
- Based on a thorough analysis of the situation in one of our core countries, the results were then translated to the other countries, taking account of the local context, so that policy decisions can be taken for the entire group portfolio.
- We have drafted white papers for the energy, commercial real estate, agriculture, food production, building and construction, chemicals, transportation and metals sectors, as well as for three retail product lines: home loans, car loans and car leasing. These sectors represent roughly 80% of all greenhouse gas emissions in our core countries.
- The exercises will be extended in 2021 to the group's insurance and investment activities.

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

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

Some examples of recent sustainability-related products and services (KBC group)

Second green bond – June 2020	500-million-euro issue with a term of seven years. The proceeds will be used to finance loans for sustainable investments such as home loans and renewable energy projects. CO2e emissions avoided in this way amount to 120 337 tonnes annually.
SRI funds	Wide range of SRI funds, varying from best-in-class funds and funds with sustainable themes to more recent impact investing funds. Thorough screening is applied to determine which companies and countries belong to the investment universe for sustainable and socially responsible investment solutions. As of this year, moreover, all companies that can be linked to fossil fuels have been excluded from all our sustainable investment funds.
Green project finance	We are actively involved in the financing of renewable energy projects in all core countries. In Belgium, for instance, KBC Securities Project Finance reached the landmark of 1 billion euros in the financing of green energy projects, 900 million of which for wind farms. This places it amongst the leaders in project financing in Belgium. In Hungary, we financed the construction of seven new photovoltaic power stations with a total installed capacity of 28 MWp. The entire project has been developed by a group of Czech investors and represents a fine example of cross-border cooperation between KBC entities in the financing of renewable energy sources.
ČSOB Green Grants	In the Czech Republic, ČSOB helps entrepreneurs prepare energy audits and draw up the associated documentation. Thirty energy-saving projects were supported with Green Grants in 2020 for a total amount of 38 million euros. .
Non-life insurance: climate-related product features	In Belgium, the standard home insurance policy covers all forms of renewable energy, such as solar panels, heat pumps and charging points, as well as the additional costs of rebuilding in accordance with the most recent building regulations in the event of severe damage. The commercial buildings policy provides free limited cover for the same additional costs. KBC clients in Flanders can also insure themselves against damage to crops and fruit caused by extreme and unfavourable weather conditions via so-called ‘broad weather insurance’, with subsidy support from the Flemish government.
Proxy voting by KBC Asset Management	KBC Asset Management lives up to its responsibility to represent clients who invest in companies via our equity funds at shareholders’ meetings.
Green loans and green bonds for corporate clients	KBC Bank is promoting sustainable financial solutions amongst its corporate clients, including by means of Green and Sustainability Bonds and Green Loans and sustainability-linked loans. They are structured in accordance with the ICMA Green/Sustainability Bond Principles and the LMA Green/Sustainability-Linked Loan Principles. In 2020, specifically, KBC acted as arranger, for instance, for sustainability-linked loans for Elia, Euronav and Proximus as well as a new sustainable bond for the Flemish Community and a social bond for the Walloon Region.

We recently shifted our engagement ambitions up a gear. We want to be a partner for our clients in their transformation to a more sustainable future. We launched a project in Belgium in 2019 to support business clients in their transition to a greener economy, in which context we carried out 377 discussions. Based on this approach and the strategic sector projects ('White Papers'), other core countries have drawn up similar programmes, the first step in which consisted of focused training for relationship managers on sustainability and climate issues. The first dialogues with clients then followed. This will be continued in 2021. Client dialogues are geared towards the strategic sustainability approach, positioning KBC as a partner in our clients' sustainable transition, and towards specific themes, such as the impact of the non-financial reporting directive, the EU Taxonomy, green lending, etc.

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

One of the pillars of our sustainability and climate policy is our focus on sustainable investment. Our employees offer sustainable investments alongside traditional ones, thereby raising awareness amongst our clients and enabling them to make properly founded choices. The entire range of KBC SRI funds has been awarded Febelfin 'Towards Sustainability' quality certification for sustainable investment. KBC Asset Management signed up to Climate Action 100+ in 2020. This global initiative among asset managers sets out to raise awareness of climate change among companies with substantial greenhouse gas emissions.

In keeping with our sustainability strategy and actions, we meet our responsibility through various international organisations and initiatives and report on this in our Sustainability Report and elsewhere.

- We endorsed the TCFD recommendations in December 2017.
- We follow and implement the different actions flowing from the EU Action Plan for Sustainable Finance to mobilise private capital in support of a resilient, low-carbon, resource-efficient and inclusive Europe.
- We are a member of the UN Environment Programme Finance Initiative (UNEP FI) and a Founding Signatory of the UNEP FI Principles on Responsible Banking (PRBs). We likewise endorse the Collective Commitment to Climate Action (CCCA) embedded in the PRBs. The CCCA brings together 38 banks, which have thrown their collective weight behind the pursuit of an entirely carbon-neutral economy and society by 2050. We have begun the first pilot projects to further develop shared methodologies that will help map the impact of climate change (see elsewhere in this section).
- We also endorse the UNEP FI Principles for Responsible Insurance and the Principles for Responsible Investment.
- As a board member of the International Capital Markets Association (ICMA), we are playing our part in the ICMA's position with regard to developments in the area of green bonds in the EU.
- We have been a signatory to the Equator Principles since 2004 and have integrated them in our lending policy.

Our climate risk management

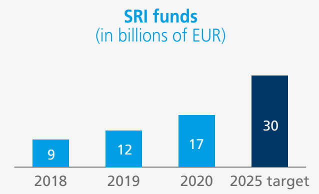
More information on how we address climate-related risks can be found in the 'How do we manage our risks?' section.

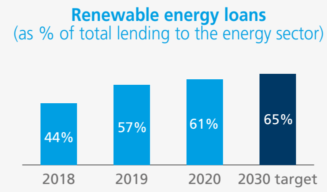
Our benchmarks and targets

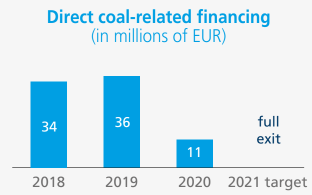
To support the transition to a low-carbon society, we have defined a number of targets in the area of sustainability and climate for several years now. This relates to targets on limiting our own direct environmental impact (reducing our own greenhouse gas emissions and our use of green electricity) as well as targets for our indirect impact (volume of SRI funds, share of loans for renewable energy and the run-down of coal-related lending).

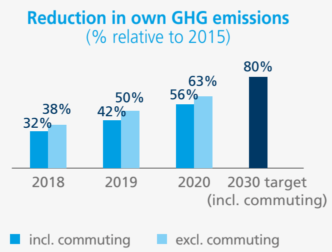
We significantly raised the bar for our climate ambitions in 2020, translating this into the following targets:

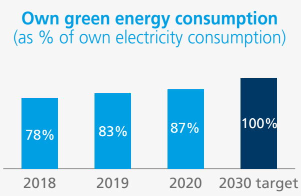
KPI	Description	Target and result
SRI funds	Volume of SRI funds	Target*: total 30 billion euros by year-end 2025 (and new production of SRI funds ≥ 50% total production as of 2021) 2020 result: - total 17 billion euros - 40% of new production
Renewable energy loans	[Amount of loans to businesses in the renewable energy and biofuels sectors] / [total energy-sector loan portfolio]	Target: ≥ 65% by 2030 2020 result: 61%
Direct financing of coal-related activities	Loans to coal-related activities	Target: run-down of direct coal financing by year-end 2021 with support for the transition process of existing clients 2020 result: 11 million euros remaining
Own CO_2e emissions	Reduction in own greenhouse-gas emissions; compared to 2015	Target: 80% reduction between 2015 and 2030 and achievement of complete climate neutrality from year-end 2021 by offsetting the difference 2015–2020 result: -56% including commuter travel; -63% excluding commuter travel;
Own green electricity consumption	[Green electricity] / [total electricity consumption]	Target: 100% green electricity by 2030 2020 result: 87%











Because of the new strategy 'Differently, the next level', we have defined new financial and non-financial targets (KPIs) that reflect the key points of the new strategy and replace the earlier KPIs, as reported in previous Annual Reports. In terms of sustainability, the KPIs are largely unchanged, but the relevant targets have been made more stringent (see our Sustainability Report).
* During 2021, KBC will re-evaluate this target and its definition of SRI in line with the new EU Sustainable Finance Disclosure Regulation

If our ambitions are to be realised, it is crucial that the right measuring instruments and definitions are available and that they are applied consistently by all banks. A great many methodologies have yet to be perfected at this point: not every approach is equally suitable for all sectors, production methods or technologies; some client segments lack the resources or capacity to deliver all the requested data consistently and systematically; and so on. KBC is therefore participating in pilot projects to implement new measuring instruments like PACTA (Paris Agreement Capital Transition Assessment), UNEP Fis TCFD Banking Pilot and PCAF (Partnership for Carbon Accounting Financials). We are already testing the latter intensively on parts of our loan book. PACTA is also used as a more effective methodology for analysing the climate impact of particular sectors and the transition process in the loan portfolio. KBC Asset Management is additionally testing a method provided by TRUCOST for mapping the climate impact of all investment funds on its portfolio.
New data will also be needed to identify green assets (other than renewable energy) based on technical environmental criteria, including the forthcoming EU Taxonomy. We will begin with a structured approach in this case too.

The following table shows a breakdown of the loan portfolio into the main climate-sensitive sectors. Additional information can be found in our Sustainability Report.

Main climate-sensitive sectors[1] – outstanding loan amounts (in billions of EUR)

KBC group	2020	2019
Real estate	11.3	11.2
Building and construction	7.0	6.8
Agriculture, farming, fishing	5.0	4.7
Automotive	4.5	4.6
Energy[2]	3.8	3.9
Food and beverage production[2]	3.9	3.7
Metals	2.5	2.5
Chemicals	2.5	2.2
Total	40.4	39.6

1 Reporting limited to sectors representing over 5% of industrial loans designated as climate-sensitive at year-end 2020. Although climate change could have an impact on all industries and sectors, the climate-sensitive industrial sectors were selected on the basis of a number of factors, including the TCFD recommendations (2017), pending more standardised frameworks and analyses (see the Sustainability Report for more details).

2 Scope extended compared to previous annual report; the figures for 2019 have therefore also been adjusted.

Our own environmental footprint

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

Own environmental footprint, KBC group*	2020	2019
Electricity consumption (in thousands of GJ)	507	548
Gas and heating-oil consumption (in thousands of GJ)	264	295
Commuter and business travel (in millions of km)	267	371
Paper consumption (in tonnes)	2 234	2 821
CO_2e emissions (in thousands of tonnes, see next table)	56	73

* See our Sustainability Report for details of the methodology used. The figures relate to the period 1 October [t-1]–30 September [t] and thus do not yet include OTP Banka Slovensko for 2020.

Own environmental footprint (greenhouse gas emissions in tonnes of CO_2e), KBC group*	**2020**	**2019**
Scope 1 emissions are those from direct energy consumption, coolant emissions and own-fleet emissions from business and commuter travel.	25 200	34 739
Scope 2 emissions are those from indirect energy consumption (electricity, district heating, cooling and steam).	11 748	17 006
Scope 3 emissions as listed here are those from business and commuter travel (excluding those from our own fleet, which are counted under Scope 1 emissions), emissions relating to paper and water consumption and to waste-processing.	18 903	21 024
Total	55 850	72 769
Total per FTE	1.5	2.0
ISO 14001 in each core country	✓	✓

* See our Sustainability Report for details of the methodology used. The figures relate to the period 1 October [t-1]–30 September [t] and thus do not yet include OTP Banka Slovensko for 2020.

Focus on human rights

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

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

KBC views its employees' rights to freedom of association, collective bargaining, a healthy and safe workplace, and freedom from discrimination as fundamental. We are thus fully committed to respecting and upholding our employees' human rights. We likewise expect our employees to apply and respect human rights in the course of their work. These principles are dealt with in more detail in the 'Code of Conduct for KBC Group Employees' (see www.kbc.com). Strict national and international laws and regulations are in place in all our core countries to protect human rights. We expect our employees to act in accordance with the regulations and to behave responsibly in everything they do. We also have specific procedures in place to guarantee compliance and to deal with complaints, including the 'Policy for the Protection of Whistleblowers'. Miscellaneous information on our employees (including various KPIs relating to gender, engagement, sick leave and staff turnover, training, etc.) can be found in the 'Our employees, capital, network and relationships' section.

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

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

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

The Equator Principles apply in the case of international project finance. These are applied by participating financial institutions when defining, assessing and managing the environmental and social risks related to project financing. Where relevant, we ask our clients to demonstrate their compliance with particular industry standards in which respect for human rights is an important aspect. We have developed a specific due diligence process for lending, insurance activities and advice. This likewise incorporates procedures to deal with any infringements that are detected. For instance, businesses can be excluded from all our activities, an exit strategy can be launched or special conditions imposed on existing loans and insurance cover. In the event of doubt, the advice is sought of the Corporate Sustainability department. Our investment activities (asset management and own investments) are also subject to internal screening. SRI funds, moreover, have to meet additional controls.

Strict application of these sustainability rules enables us to oversee the reputational and financial risks arising from potential breaches of human rights and other controversial developments in our core activities. For more information, see 'Business and strategic risks' in the 'How do we manage our risks?' section. Our human rights guidelines, blacklists and other relevant documentation are available at www.kbc.com.

Indicators relating to human rights, KBC group	**2020**	**2019**
Clients		
Project finance subject to Equator Principles (Category A/B/C)*	0/7/15	1/5/11
Number of Corporate Sustainability department recommendations on ESG cases (positive/positive under strict conditions/negative recommendation)	158/22/41	148/6/67
Suppliers		
Number of suppliers that have signed the Code of Conduct for Suppliers	2 553	2 289

* Category A: projects with potential significant adverse environmental and social risks and/or severe impact; Category B: projects with potential limited adverse environmental and social risks and/or impact that are less severe; Category C: risks considered minimal and projects in legal compliance in the country of execution.

We aim to achieve our ambitions within a stringent risk management framework

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

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

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

As a bank-insurer, we are also exposed to the typical risks for the sector, such as credit risk, market risk on both trading and non-trading activities, technical insurance risk, liquidity risk, solvency risk, non-financial risk (including operational, compliance and reputational risk), business and strategic risk, and climate-related and other ESG risk. A list of these risks can be found in the table. A description of each type of risk can be found in the 'How do we manage our risks?' section

Sector-specific risks	How are we addressing them?
Credit risk	• Existence of a robust management framework • Recording impairment charges, taking risk-mitigating measures, optimising the overall credit risk profile, reporting, stress testing, etc. • Limit systems to manage concentration risk in the loan portfolio, etc.
Market risk in non-trading activities	• Existence of a robust management framework • Basis Point Value (BPV), sensitivity of net interest income, sensitivity per risk type, stress tests, limit tracking for crucial indicators, etc.
Non-financial risk (operational risk, compliance risk, reputational risk, business risk, strategic risk)	• Existence of a robust management framework • Group key controls, risk scans, Key Risk Indicators (KRIs), etc. • Risk scans and monitoring of risk signals • Strict acceptance policy, stress tests, monitoring, etc.
Market risk in trading activities	• Existence of a robust management framework • Historical VaR method, BPV and basis risk limits, 'greeks' and scenario limits for products with options, stress tests, etc.
Liquidity risk	• Existence of a robust management framework • Drawing up and testing emergency plans for managing a liquidity crisis • Liquidity stress tests, management of funding structure, etc.
Technical insurance risks	• Existence of a robust management framework • Underwriting, pricing, claims reserving, reinsurance and claims handling policies, etc.
Climate-related and other ESG risks	• Gradual integration in existing management frameworks • Ongoing initiatives within the Sustainable Finance programme • Implementation of risk-mitigating measures, including policies on lending and investment portfolio • Estimation of short and long-term risks based on scenario and sensitivity analyses, etc.

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

Dividend policy

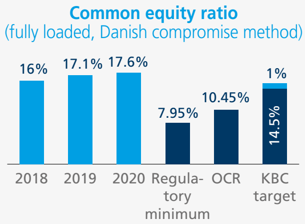
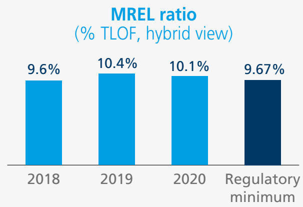
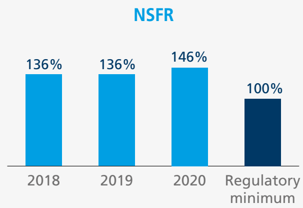
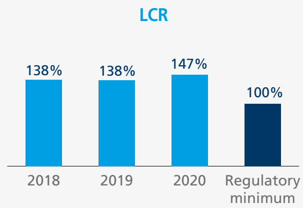
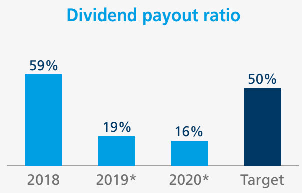
Our dividend policy comprises:

- a payout ratio (i.e. dividend + AT1 coupon) of at least 50% of consolidated profit for the financial year.
- an interim dividend of 1 euro per share (payable in November of the financial year) as an advance on the total dividend for the financial year

We aim to be among the better capitalised financial institutions in Europe, to which end we pursue a (pre-Basel IV) fully loaded common equity ratio of 14.5% (the reference capital position). A management buffer of 1% will be held on top of this reference capital position. When this buffer is used, the Board of Directors will decide, at its discretion, on replenishing the buffer on an annual basis.

On top of the payout ratio of at least 50% of consolidated profit, all capital in excess of the reference capital position plus the 1% management buffer will be considered for distribution to shareholders. Each year, the Board of Directors will take this decision, at its discretion, when announcing the full-year results.

As soon as Basel IV enters into force, the capital deployment plan will be updated (from 1 January 2023 at the earliest).

Regulatory and own ratios	Description	Target and result	
Common equity ratio	[common equity tier-1 capital] / [total weighted risks]. The calculation is fully-loaded and according to the Danish compromise method. See the 'How do we manage our capital?' section.	Own target: 14.5% + 1% management buffer Temporary regulatory minimum: 7.95% Overall capital requirement: 10.45% (see the 'How do we manage our capital?' section) 2020 result: 17.6% (fully loaded)	
MREL ratio	[own funds and eligible liabilities] / [total liabilities and own funds (TLOF)], hybrid view	Regulatory minimum: ≥ 9.67% year-end 2021 2020 result: 10.1%	
Net stable funding ratio (NSFR)	[available amount of stable funding] / [required amount of stable funding]	Regulatory minimum: ≥ 100% 2020 result: 146%	
Liquidity coverage ratio (LCR)	[stock of high-quality liquid assets] / [total net cash outflows over the next 30 calendar days]	Regulatory minimum: ≥ 100% 2020 result: 147%	
Dividend payout ratio	[dividend and coupon to be paid on the additional tier-1 instruments included in equity] / [total consolidated results]	Target: ≥ 50% 2020 result: 16%* * limited dividend following ECB recommendation on dividend payment during the coronavirus crisis.	

Because of the new strategy 'Differently, the next level', we have defined new financial and non-financial targets (KPIs) that reflect the key points of the new strategy and replace the earlier KPIs, as reported in previous Annual Reports.

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

Our financial report

- Consolidated net profit of 1.44 billion euros in 2020
- Significant impact of coronavirus crisis on impairment charges for loans
- Higher contribution made by technical insurance results, lower contribution from other income items
- Growth in lending and deposits, increased sales of non-life insurance and life insurance
- Lower expenses due to efficiency measures
- Robust solvency and liquidity positions maintained

Consolidated income statement, KBC group (simplified, in millions of EUR)	2020	2019
Net interest income	4 467	4 618
Non-life insurance (before reinsurance)	865	756
Earned premiums	*1 777*	*1 721*
Technical charges	*-912*	*-966*
Life insurance (before reinsurance)	10	-6
Earned premiums	*1 223*	*1 323*
Technical charges	*-1 213*	*-1 329*
Ceded reinsurance result	-20	-25
Dividend income	53	82
Net result from financial instruments at fair value through profit or loss[1]	33	181
Net realised result from debt instruments at fair value through other comprehensive income	2	6
Net fee and commission income	1 609	1 734
Other net income	176	282
Total income	7 195	7 629
Operating expenses	-4 156	-4 303
Impairment	-1 182	-217
on financial assets at amortised cost and at fair value through other comprehensive income[2]	*-1 074*	*-203*
Share in results of associated companies and joint ventures	-11	7
Result before tax	1 847	3 116
Income tax expense	-407	-627
Result after tax	1 440	2 489
Result after tax, attributable to minority interests	0	0
Result after tax, attributable to equity holders of the parent (net result)	**1 440**	**2 489**
Return on equity	8%	14%
Result after tax on average total assets	0.5%	0.9%
Cost/income ratio, banking	60.0%	57.9%
Combined ratio, non-life insurance	85%	90%
Credit cost ratio, banking	0.60%	0.12%

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

Key consolidated balance sheet, solvency and liquidity figures, KBC group (in millions of EUR)	2020	2019
Total assets	320 743	290 591
Loans and advances to customers (excluding reverse repos)	159 621	155 816
Securities (equity and debt instruments)	71 784	65 633
Deposits from customers and debt securities (excluding repos)	215 430	203 369
Technical provisions (before reinsurance) and liabilities under investment contracts, insurance	31 442	32 170
Total equity	21 530	20 222
Common equity ratio (Basel III, Danish compromise method): fully loaded [transitional]	17.6% [18.1%]	17.1%
Leverage ratio (Basel III, Danish compromise method): fully loaded	6.4%	6.8%
Liquidity coverage ratio (LCR)	147%	138%
Net stable funding ratio (NSFR)	146%	136%

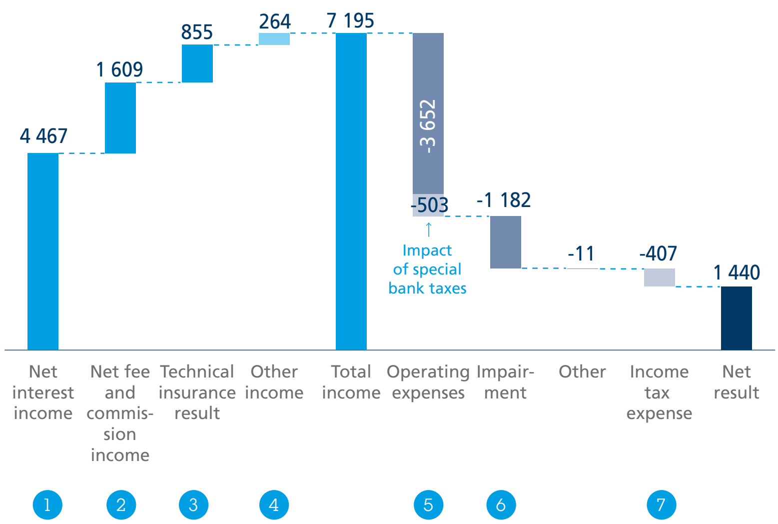
Information on the retroactive restatement of certain balance sheet data for 2019 is provided in Note 1.1 of the 'Consolidated financial statements'.

The growth figures for the volume of loans and deposits have been systematically adjusted for exchange rate effects. 'Unchanged scope' means that no account has been taken of significant changes in the scope of consolidation, namely the inclusion of the Czech building savings bank ČMSS since June 2019 (seven months in the 2019 results and 12 months in the 2020 results, on the balance sheet at 31 December 2019 and at 31 December 2020) and the acquisition of the Slovakian bank OTP Banka Slovensko at the end of November 2020 (not in 2019 or 2020 results, not on the balance sheet at 31 December 2019 but on the balance sheet at 31 December 2020). We refer to this elsewhere in the report as the 'impact of changes in the scope of consolidation'. More information on this matter can be found in Note 6.6 of the 'Consolidated financial statements'.

Note 1.4 of the 'Consolidated financial statements' includes a diagram showing the impact of the coronavirus crisis on our results.

Our financial result

Achievement of net result for 2020
(in millions of EUR)



Net interest income 1

Our net interest income came to 4 467 million euros in 2020, down 3% on its year earlier level. Factors such as the negative impact of interest-rate cuts by the Czech central bank, the depreciation of the Czech koruna and the Hungarian forint against the euro and lower reinvestment yields could not be fully compensated for by the positive effect of a larger loan and bond portfolio, higher margins on new production of home loans than those on the outstanding portfolios in Belgium, the Czech Republic and Slovakia, the effect of TLTRO III, ECB deposit tiering, the impact of changes in the scope of consolidation and a positive one-off effect.

Our loans and advances to customers (excluding reverse repos) went up by 3% in 2020 to 160 billion euros. Adjusted for the impact of the changes in the scope of consolidation, the figure was still 3%, with a 3% increase at the Belgium Business Unit, 1% at the Czech Republic Business Unit and 8% at the

International Markets Business Unit (with growth in all countries). The volume of loans granted with payment deferral under the various coronavirus-related moratoriums amounted to 13.4 billion euros (according to the EBA definition and still on the balance sheet at year-end 2020). The moratorium had already expired by the end of December 2020 for roughly 8.7 billion euros of that amount (with 96% of payments resumed), leaving 4.7 billion euros outstanding at year-end 2020 under the various coronavirus-related moratoriums. In addition to this, we granted some 0.8 billion euros in loans that fall under the various coronavirus-related government guarantee schemes in our home markets. See Note 1.4 of the 'Consolidated financial statements' for more information.

Our total deposit volume (deposits from customers and debt securities, excluding repos) stood at 215 billion euros, an increase of 7% in 2020. Adjusted for the impact of the changes in the scope of consolidation, the figure was 6%, with 4% growth at the Belgium Business Unit, 9% at the Czech Republic Business Unit and 16% at the International Markets Business Unit (with growth in all countries apart from Ireland).

The net interest margin for our banking activities came to 1.84% compared to 1.95% in 2019. It amounted to 1.63% in Belgium, 2.31% in the Czech Republic and 2.60% at the International Markets Business Unit.

Net fee and commission income 2

Our net fee and commission income came to 1 609 million euros in 2020, down 7% on the year-earlier figure. This was primarily attributable to a decline in fees for asset management services (lower management and entry fees for investment funds and unit-linked life insurance products), a reduction in fees for banking services (including for payments, which were down due to the lockdowns, and for loans, the effect of which was only partly offset by higher securities fees) and the depreciation of the Czech koruna and Hungarian forint against the euro.
At the end of 2020, our total assets under management came to approximately 212 billion euros, down 2% on the year-earlier figure, which was almost entirely attributable to a limited net outflow. Most of these assets at year-end 2020 were managed at the Belgium Business Unit (194 billion euros) and the Czech Republic Business Unit (11 billion euros).

Insurance premiums and technical charges 3

Our technical insurance result (earned premiums less technical charges plus the ceded reinsurance result) amounted to 855 million euros.
Non-life insurance contributed 847 million to this result, up 15% on the year-earlier figure, due to growth in premium income (+3%), a slightly higher reinsurance result and lower technical charges (-6%, partly attributable to lower claims during lockdown periods and despite an increase in the ageing reserves). The combined ratio at group level amounted to an excellent 85% compared to 90% the previous year.
Life insurance accounted for 8 million euros of the technical insurance result, compared to the year-earlier figure of -9 million euros. However, in compliance with IFRS, certain types of life insurance (i.e. unit-linked products) have been excluded from the figures for premiums and technical charges in the life insurance business. If the premium income from such products is included, premium income from the life insurance business totalled around 2 billion euros, roughly 8% more than in 2019. The increase occurred primarily in Belgium among unit-linked life insurance products. For the group as a whole, products offering guaranteed rates accounted for 51% of premium income from the life insurance business in 2020, and unit-linked products for 49%.

Other income 4

Other income came to an aggregate 264 million euros, as opposed to 551 million euros in 2019.
The 2020 figure includes 33 million euros in trading and fair value income. The initial impact of the pandemic on this result item was extremely negative, due to the sharp fall of the equity markets, wider credit spreads and lower long-term interest rates (-385 million euros in the first quarter). While some of this was made up again in the three subsequent quarters, the trading and fair value income result for the financial year as a whole was still 149 million euros lower than in 2019. This decline is primarily attributable to the fall in the value of derivatives used for asset/liability management purposes and a lower result from shares at the insurance business, which more than cancelled out the increase in the contribution from dealing room results and the positive effect of various fair value adjustments.

Other income also included 53 million euros in received dividends (lower than the previous year as many companies adjusted their dividend policy in response to the coronavirus crisis), 2 million euros in the net realised result from debt instruments at fair value through other comprehensive income and 176 million euros in other net income. The latter is 106 million euros lower than the previous year, which benefited from the one-off 82-million-euro positive impact of the revaluation of the existing 55% stake in ČMSS when the remaining 45% interest was purchased. More information on this matter can be found in Note 6.6 of the 'Consolidated financial statements'.

Operating expenses 5

Our expenses amounted to 4 156 million euros in 2020, a fall of 3% on the year-earlier figure. Adjusted for bank taxes (503 million euros, up 2% on the previous year) operating costs fell by 4%. The decrease reflected a number of factors such as lower staff expenses (including lower provisions for variable remuneration and a fall in the average number of FTEs), several direct effects of the coronavirus crisis (lower expenses for facility services, marketing, events, travel and professional fees), reduced software expenses (owing to the changed rules for software depreciation – see Note 1.1 of the 'Consolidated financial statements') and the fall in value of the Czech koruna and Hungarian forint against the euro. These items more than offset the negative impact of wage drift, higher ICT costs and the changes in the scope of consolidation, among other things. As a result, the cost/income ratio of our banking activities came to 60.0%, compared to 57.9% in 2019. The ratio was 57.2% for the Belgium Business Unit, 53.3% for the Czech Republic Business Unit and 65.9% for the International Markets Business Unit. If we exclude a number of non-operating and exceptional items (see the 'Glossary of financial ratios and terms' at the end of this report for more information), the cost/income ratio came to 59.1%, compared to 58.3% in 2019.

Impairment 6

There was a net increase in loan loss impairment charges totalling 1 074 million euros in 2020, compared to just 203 million euros in 2019. This increase related chiefly to the fallout of the coronavirus crisis, for which the group set aside 783 million euros in collective impairment. The figure in question was calculated as the sum of 672 million euros obtained through an expert-based calculation ('management overlay' on the basis of certain stress assumptions depending on country, segment, sector and probability-weighted macroeconomic scenarios) and 111 million euros via the ECL models in response to updated macroeconomic variables. More information on this matter can be found in Note 1.4 of the 'Consolidated financial statements'.

The net increase in 2020 comprised 654 million euros for Belgium, 210 million euros for the Czech Republic, 42 million euros for Slovakia, 59 million euros for Hungary, 27 million euros for Bulgaria and 90 million euros for Ireland, as well as a small net reversal for the Group Centre (7 million euros).

As a result, our overall credit cost ratio amounted to 60 basis points in 2020, compared to 12 basis points in 2019. Disregarding the collective coronavirus-related impairment charges, the figure in 2020 would have been 16 basis points.

The proportion of (stage 3) impaired loans (see the 'Glossary of financial ratios and terms' for a definition) in our loan portfolio was 3.3% at year-end 2020, compared to 3.5% for 2019. This breaks down into 2.3% in Belgium, 2.3% in the Czech Republic and 6.9% at International Markets. For the group as a whole, the proportion of impaired loans more than 90 days past due came to 1.8%, compared to the year-earlier figure of 1.9%.

Other impairment charges came to a combined 108 million euros in 2020, and substantially reflected software depreciation and the accounting treatment of the various payment moratoria schemes related to the coronavirus crisis in our core countries ('modification losses' – see note 1.4 of the 'Consolidated financial statements'). In 2019, other impairment charges came to just 14 million euros.

Income tax expense 7

Our income tax expense came to 407 million euros in 2020, compared to a year-earlier figure of 627 million euros. The reduction chiefly reflected the lower result before tax. Besides paying income tax, we pay special bank taxes. These amounted to 503 million euros compared to 491 million euros in 2019 and are included under 'Operating expenses'.

Our balance sheet

Total assets 1

At the end of 2020, our consolidated total assets came to 321 billion euros, up 10% year-on-year. Risk-weighted assets (Basel III, fully loaded) increased by 3% to 102 billion euros. More information in this regard can be found in the 'How do we manage our capital?' section.

Loans and deposits 2

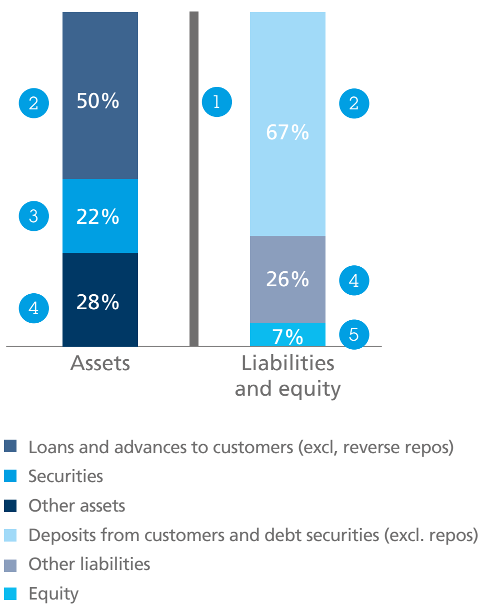
Our core banking business is to attract deposits and use them to provide loans. This clearly explains the importance of the figure for loans and advances to customers on the assets side of our balance sheet (160 billion euros (excluding reverse repos) at year-end 2020). Loans and advances to customers rose by 3% for the group as a whole. Adjusted for the impact of the changes in the scope of consolidation, the figure was also 3%, with 3% growth at the Belgium Business Unit, 1% at the Czech Republic Business Unit and 8% at the International Markets Business Unit (with growth in all countries). The main lending products at group level were again term loans (70 billion euros) and mortgage loans (72 billion euros). For information on payment deferrals due to the coronavirus crisis, see under 'Net interest income'.

On the liabilities side, our customer deposits (deposits from customers and debt securities, excluding repos) grew by 7% to 215 billion euros. Adjusted for the impact of the changes in the scope of consolidation, the figure was 6%, with 4% growth at the Belgium Business Unit, 9% at the Czech Republic Business Unit and 16% at the International Markets Business Unit. The main deposit products at group level were again demand deposits (101 billion euros) and savings accounts (75 billion euros).

Securities 3

We also hold a portfolio of securities at the bank and at the insurer (where it serves primarily as an investment in the insurance context, especially life insurance), which totalled roughly 72 billion euros at year-end 2020 and comprised 3% shares and 97% bonds (with bonds increasing by nearly 7 billion euros in 2020). Roughly 82% of these bonds at year-end 2020 consisted of government paper, the most important being Belgian, Czech, French, Slovak, Hungarian, Spanish and Italian. A detailed list of these bonds is provided in the 'How do we manage our risks?' section.

Balance sheet components
(year-end 2020)



Other assets and other liabilities 4

Other important items on the assets side of the balance sheet were loans and advances to credit institutions and investment firms (6 billion euros, up 1 billion euros on a year earlier), reverse repos (28 billion euros, up 2 billion euros on the year-earlier figure), derivatives (positive mark-to-market valuation of 6 billion euros mainly for interest rate contracts, 0.5 billion higher than in 2019), investment-linked life insurance contracts (14 billion euros, down 1 billion euros year-on-year) and cash, cash balances with central banks and other demand deposits with credit institutions (25 billion euros, 16 billion euros more than at year-end 2019, due primarily to the inclusion of 19.5 billion euros under TLTRO III in 2020).

Other significant items on the liabilities side of the balance sheet were the technical provisions and liabilities under the insurer's investment contracts (an aggregate 31 billion euros, roughly 1 billion euros less year-on-year), derivatives (negative mark-to-market valuation of 7 billion euros, mainly for interest rate contracts, up 0.5 billion euros year-on-year) and deposits from credit institutions and investment firms (35 billion euros, up 16 billion euros year-on-year).

Equity 5

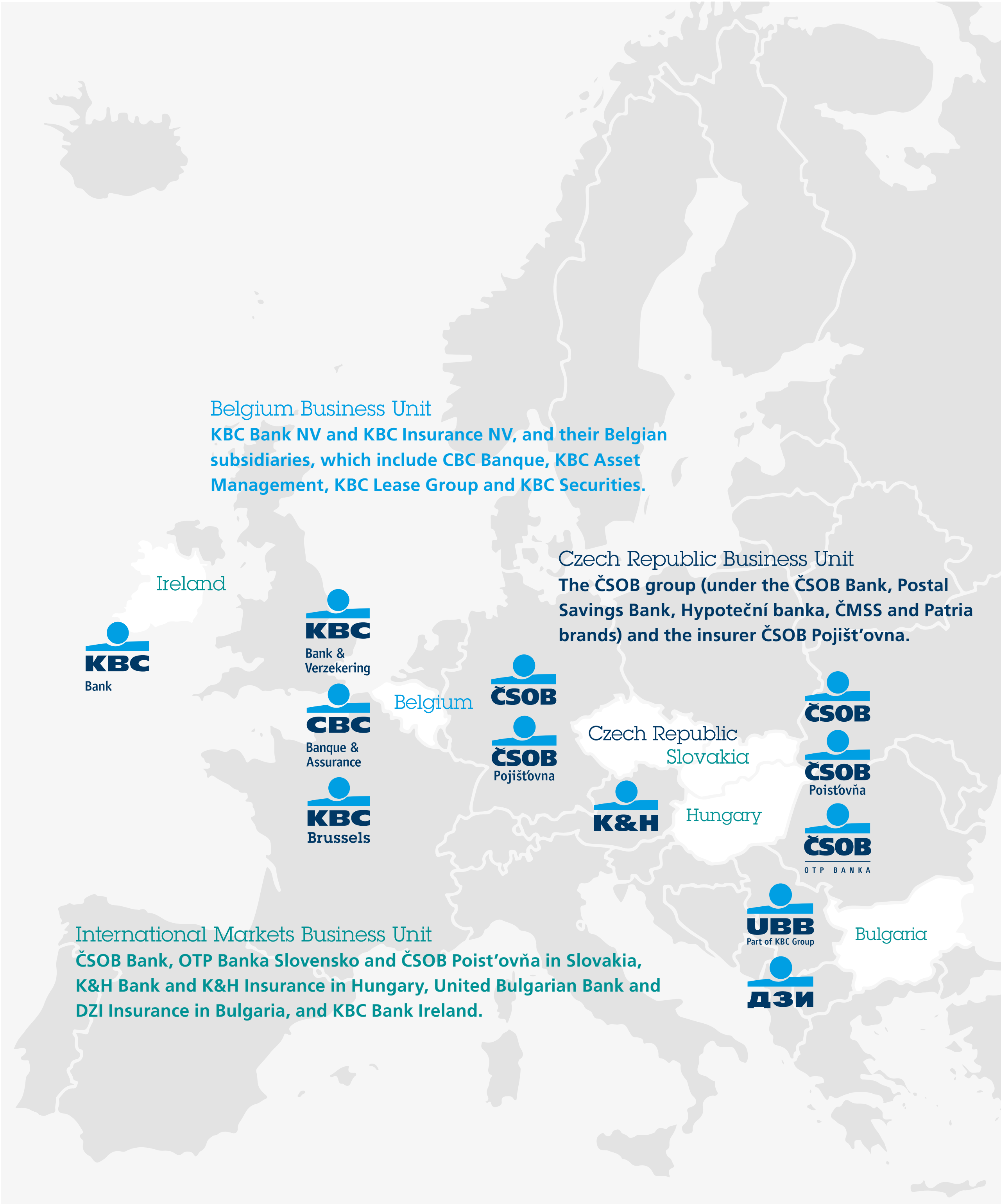
On 31 December 2020, our total equity came to 21.5 billion euros. This figure included 20.0 billion euros in parent shareholders' equity and 1.5 billion euros in additional tier-1 instruments. Total equity rose by 1.3 billion euros in 2020, with the most important components in this respect being the inclusion of the annual profit (+1.4 billion euros), an increase in the revaluation reserves for debt instruments (+0.1 billion euros), translation differences (-0.2 billion euros, due largely to the depreciation in the reporting period of the Czech koruna and the Hungarian forint) and various smaller items.

On 31 December 2020, our common equity ratio (Basel III, under the Danish compromise method) stood at 18.1% (transitional: this includes the impact of temporary regulatory relaxation) or 17.6% (fully loaded), compared to 17.1% in 2019. Our leverage ratio came to 6.4% (fully loaded). Detailed calculations of our solvency indicators are given in the 'How do we manage our capital?' section. The group's liquidity position also remained excellent, as reflected in an LCR ratio of 147% and an NSFR ratio of 146%.

Additional information and guidance

- We review the consolidated results in this section of the annual report. A review of the non-consolidated results and balance sheet is provided in the 'Company annual accounts and additional information' section.
- The overall impact on the net result of fluctuations in the exchange rates of the main non-euro currencies was – on balance – limited.
- Information on financial instruments, hedge accounting and the use thereof is provided in the 'Consolidated financial statements' section (Notes 1.2, 3.3 and 4.1–4.8 among others) and in the 'How do we manage our risks?' section.
- We expect Basel IV (effective from 2023) to increase our risk-weighted assets (RWA) by approximately 8 billion euros (fully loaded, based on year-end 2020 figures). This corresponds with RWA inflation of 8% and a negative impact on the common equity ratio of roughly 1.3 percentage points.
- As regards our dividend policy, see 'Our employees, capital, network and relationships' in the 'Our business model' section.
- For information on significant post-balance-sheet events, see Note 6.8 of the 'Consolidated financial statements'.
- Guidance for 2021:
  - Net interest income: approximately 4.3 billion euros in 2021
  - Operating expenses excluding bank taxes: approximately +2% in 2021 with an unchanged scope of consolidation (i.e. excluding the impact of consolidating OTP Banka Slovensko)
  - Credit cost ratio: at the upper end of the through-the-cycle average of 30–40 basis points.
- As regards our long-term guidance, see the targets in the 'Our strategy' section.

Our business units



Belgium

Macroeconomic context

As elsewhere, the pandemic and the exceptional measures taken in 2020 prompted an unprecedented fall in Belgian GDP. Midway through the year, economic activity was almost 15% lower than in the fourth quarter of 2019. The ensuing recovery in the third quarter, while robust, was far from complete. Moreover, the renewed surge in coronavirus infections in the fourth quarter, and the measures that had to be taken as a consequence, led to a slight contraction in economic activity. The upshot was an annualised fall in real GDP in 2020 of 6.3%. At year-end 2020, there was a shortfall of almost 4.8% compared with the production level at the end of 2019.
In response to the pandemic, the Belgian government introduced a raft of measures aimed at limiting job losses in the short term, including a temporary unemployment scheme for employees and a system of bridging entitlements for the self-employed to cushion the employment shock. These measures helped limit the rise in the number of unemployed job seekers to 4.3% between year-end 2019 and year-end 2020. The Eurostat harmonised unemployment rate for Belgium, which excludes people who are temporarily unemployed, rose from 5.1% in January to 6.6% in September before falling again to 5.8% in December.
Belgian inflation based on the European harmonised consumer price index was very low in 2020, averaging 0.4% across the year, due mainly to a steep year-on-year decline in energy prices. House prices continued to surge ahead in 2020, rising by 3.7% on an annual basis due to strong investment demand.

In the absence of a straightforward exit from the coronavirus crisis, we think growth in real GDP in Belgium will only start to accelerate from mid-2021, in parallel with the roll-out of the vaccine. Figures for forecast GDP growth in 2021 and 2022 can be found under 'Market conditions in our core markets'.

Details of the main government coronavirus measures can be found in Note 1.4 of the 'Consolidated financial statements' section.

- 'Best Bank' and 'Best Private Bank in Belgium' (Euromoney)
- 'Best Bank in Belgium' (International Banker)
- 'Best Private Bank in Belgium' (Financial Times)
- 'Best Digital Bank' and 'Most Innovative Bank' (Spaargids.be)
- 'Most Valuable Brand in Belgium' (Brand Finance)
- KBC Securities: 'Equity Finance House of the Year' (Euronext Brussels Awards)
- 'Best Trade Finance Provider in Belgium' (Global Finance)

Specific objectives

- To continue pursuing our strategy of putting the interests of the client at the heart of all the products and services we develop and at the centre of everything we do. Our focus here is on a 'digital first' approach with a human touch, and on investing in the seamless integration of our various distribution channels. We are working on the further digitalisation of our banking, insurance and asset management services and exploiting new technologies and data to provide our clients with more personalised and proactive solutions. Our digital assistant 'Kate', who was launched in November 2020, is taking this to the next level.
- To support these activities, we are also fully engaged in introducing end-to-end straight-through processing into all our commercial processes, making full use of all technological capabilities such as artificial intelligence.
- To expand our service provision through our own and other channels. We collaborate to this end with partners through 'eco-systems' that enable us to offer our clients comprehensive solutions. We are also integrating a range of selected partners into our own mobile app and making our products and services available in the distribution channels of selected third parties.

- To exploit our potential in Brussels more efficiently via the separate brand, KBC Brussels, which reflects the capital's specific cosmopolitan character and is designed to better meet the needs of the people living there.
- To grow bank-insurance further at CBC in specific market segments and to expand our presence and accessibility in Wallonia.
- To work tirelessly on the ongoing optimisation of our bank-insurance model in Belgium.
- To continue pursuing our ambition to become the reference bank for SMEs and mid-cap enterprises in Belgium based on our thorough knowledge of the client and our personal approach.
- To express our commitment to Belgian society by taking initiatives in areas including environmental awareness, financial literacy, entrepreneurship and population ageing. We actively participate in the mobility debate and develop solutions.

Developments in 2020

client centricity

In the light of the coronavirus pandemic, we decided from the middle of March to restrict access to our branches to 'by appointment' only, and at the same time introduced a raft of physical safety measures (including plexiglass screens, face masks, sanitising gels and signage). This enabled us to combine offering the maximum level of service to our clients with the necessary measures to protect both them and our staff against coronavirus infection. At the same time, we worked intensively with government agencies to support all clients affected by the coronavirus, including by deferring loan payments (see elsewhere in this report).

Use of our digital systems and apps (KBC Touch, KBC Mobile, the Business Dashboard, etc.) has increased substantially in recent years. This trend was reinforced by the lockdowns in 2020, leading very large numbers of our clients to discover new ways of using financial services securely and remotely, and resulting in a marked increase in digital contacts. We once again invested heavily in further expanding these digital systems, with the emphasis on solutions that make our clients' lives easier. The most important achievement in this regard was the launch of Kate, our digital assistant. More information about this can be found in 'The client is at the centre of our business culture'. We also expanded our banking and insurance apps further (e.g., making payments with wearables such as Fitbit Pay, the ability for companies to open a business account digitally, the launch of Apple Pay, the introduction of Matti, the new intelligent investment assistant for our Bolero online stock market platform, etc.) and added a large number of non-banking apps to our offering, including the ability to pay for car parking or public transport tickets, reserve bicycles on bike sharing platforms, enter and leave car parks using number plate recognition and pay automatically, and order cinema tickets. KBC Mobile can now even be used to view the goals and key action in Jupiler Pro League matches in near-live time and to view all the highlights at the end of the weekend's fixtures.

We regularly review the way in which our clients use our different channels and use this information as a basis to continually optimise our physical and digital presence with a view to offering our clients more expertise, better accessibility and a first-class service. Against this backdrop, we decided to transform a number of our bank branches in 2020 and the opening months of 2021 into automated branches and to close a small number of branches because they handle only a relatively limited number of transactions and there are sufficient KBC alternatives in the locality. The staff affected were able to work elsewhere in KBC's branch network or at the KBC Live contact centre. We also announced that we would be working with three other major banks in the coming years to develop an integrated ATM platform offering optimum accessibility.

sustainable profitable growth

Across the business unit as a whole, deposits rose by 4% in 2020. Lending went up by 3%, thanks mainly to a 7% increase in the volume of mortgage loans. For several years now, we have been active in Brussels under the separate KBC Brussels brand, which has a metropolitan, innovative image and a tailored network. We continued to modernise the branch network in 2020 and to bolster the provision of remote advice via KBC Brussels Live. This service has gone down very well with our clientele in the capital, thanks to its ease of use and accessibility. This, together with a range of other initiatives, helped KBC Brussels attract over 4 000 new clients in 2020. We took several important steps in our growth strategy in Wallonia, too, which similarly resulted in the acquisition of over 15 000 new clients and growth in products such as home loans and insurance which outstripped that of the overall Walloon market.

bank-insurance

Our bank-insurance model is already delivering numerous commercial synergies. In 2020, for instance, roughly eight out of ten clients who agreed home loans with KBC Bank also took out mortgage protection cover with KBC Insurance, while nine out of ten purchased home insurance. There was a further increase of approximately 2% in the number of active clients (clients with a current account into which their income is regularly paid) who hold at least one KBC banking product and one KBC insurance product, while the number of active clients with at least three banking and three insurance products from KBC increased by as much as almost 5%. At year-end 2020, bank-insurance clients (with at least one banking and one insurance product from the group) accounted for 85% of the business unit's active clients. Stable bank-insurance clients (i.e. holding three banking and three insurance products) made up 31% of active clients.

role in society

We once again took a variety of initiatives to stimulate entrepreneurship. One example is the 'Women in Tech' coaching programme, launched by Start it @KBC in conjunction with Netwerk Ondernemen and Flanders Innovation & Entrepreneurship (VLAIO). The programme comprises a series of webinars in which female entrepreneurs share their experiences of founding a business and talk about how they overcame the obstacles they encountered on the way. An intensive coaching programme is planned from 2021 on, aimed specifically at female business founders. A good example in the field of financial literacy is *Hoedoekda?!* (How do I do that?!), a platform where we show young people aged between 16 and 24 how to handle money. It addresses a range of different themes, such as budgets, payments, safety and security, work, housing, mobility and travel. We also joined Trooper in 2019 – a platform enabling clubs, societies and charities to raise money easily and in original ways. Members and supporters can support their favourite club or good cause by shopping online via Trooper, without it costing them anything extra.
We also continued to work on the transition to multi-mobility and successfully adapted to the changes in mobility patterns during the coronavirus pandemic, with much fewer journeys being made by car. Together with Olympus Mobility – KBC's mobility partner – we offer our clients a number of very user-friendly and useful mobility solutions, such as car sharing (through Cambio), buying bus or train tickets or paying for parking. Clients have for some time been able to use KBC Mobile for sustainable pension saving and socially responsible investments with advice. From the middle of November, they were also able to set up a socially responsible investment plan and invest sustainably using their spare change. KBC is thus fully committed to facilitating socially responsible investment processes in KBC Mobile.

Contribution to group result

Net result

1 001 million euros
(-26%)

Net interest income
2 579 million euros (+2%)

Technical insurance result
487 million euros (+23%)

Net fee and commission income
1 138 million euros (-4%)

Operating expenses
2 398 million euros (-3%)

Impairment on loans
654 million euros (+171%)

Cost/income ratio
57.2% (57.7%)

Combined ratio
84% (89%)

Credit cost ratio
0.57% (0.22%)

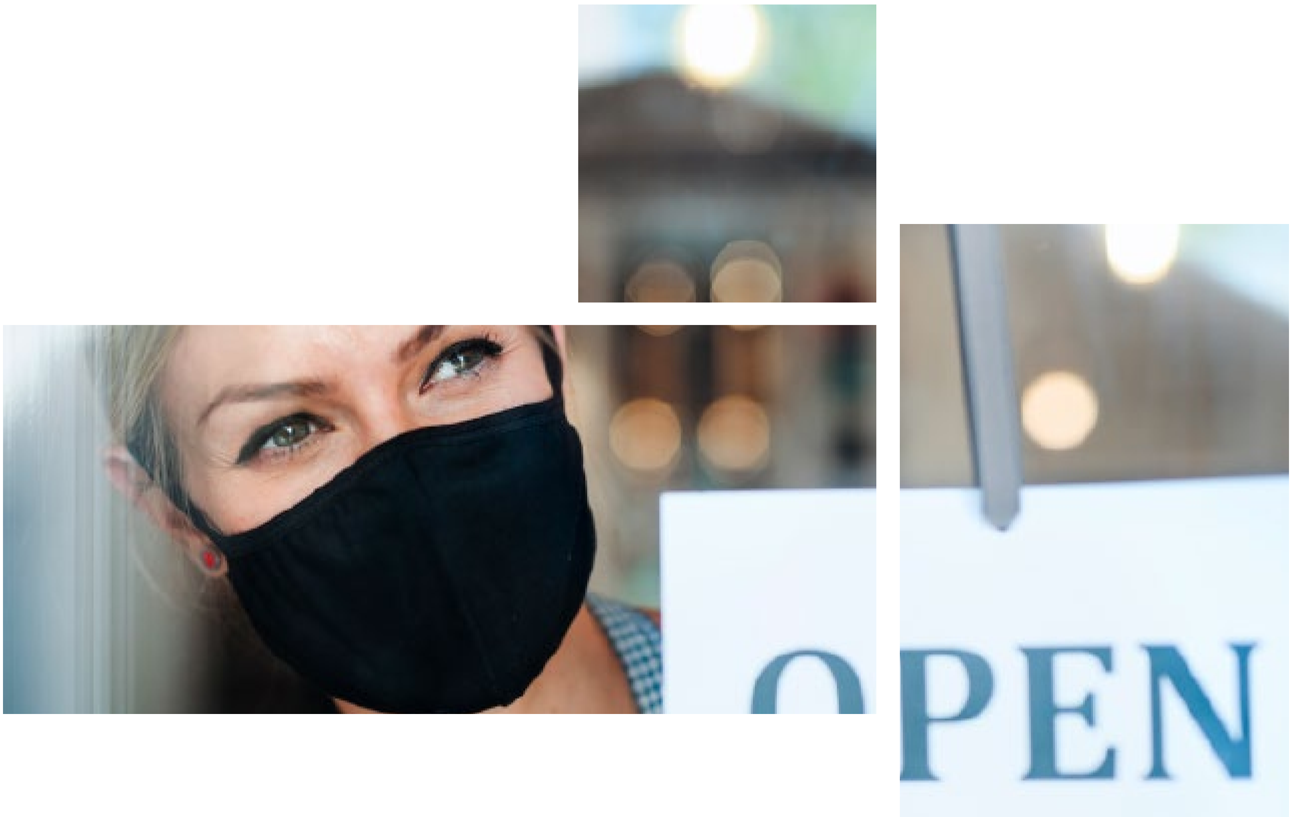
Impaired loans ratio
2.3% (2.4%)

Figures for 2020 (the figures in brackets are for, or indicate the difference compared to, 2019). Technical insurance result = earned premiums - technical charges + ceded reinsurance result. A detailed breakdown of the income statement for each business unit and each country can be found in 'Note 2.2: Results by segment' in the 'Consolidated financial statements' section.

The Belgium Business Unit recorded a net result of 1 001 million euros in 2020, compared with 1 344 million euros a year earlier.

Net interest income (2 579 million euros) rose by 2%, due principally to factors including the positive effect of TLTRO III, ECB tiering, growth in lending volumes and a positive one-off item which more than offset the negative impact of factors such as low reinvestment yields. The net interest margin in Belgium fell from 1.69% in 2019 to 1.63% in 2020. The volume of loans and advances to customers (103 billion euros, excluding reverse repos) rose by 3%, while deposits from customers and debt securities (135 billion euros, excluding repos) went up by 4% (growth rates exclude any changes in the scope of consolidation and currency effects). Information on loan payment deferrals under the various support measures related to the coronavirus crisis can be found in Note 1.4 of the 'Consolidated financial statements'.
At 1 138 million euros, our net fee and commission income fell by 4% year-on-year. On balance, there was a net increase in fees for our banking services (particularly related to securities), but this was cancelled out by the lower contribution made by our asset management activities and higher distribution fees paid for the sale of funds and insurance products.

The technical result from our insurance activities in Belgium came to 487 million euros. In the non-life segment, we saw growth in premium income in combination with a reduction in claims (partly due to the lockdowns) and a fall in the reinsurance result. The combined ratio for our non-life insurance business came to an excellent 84% Our life insurance sales – including investment contracts without a discretionary participation feature, which are excluded from the IFRS figures – amounted to 1.7 billion euros, up 12% on the year-earlier figure. This growth was accounted for entirely by unit-linked life insurance products.
The other income items chiefly comprised dividends received on securities held in our portfolios (47 million euros), trading and fair value income (32 million euros) and other net income (157 million euros, relating mainly to the results of KBC Autolease, VAB, etc. as well as miscellaneous smaller one-off items).
Our costs in Belgium fell by 3% to 2 398 million euros. Excluding bank taxes, the reduction was even greater (-5%) thanks to strict cost control, as reflected in a reduction in average FTEs, lower accruals for variable remuneration, lower marketing, travel, facilities and event costs (the last four items fell as a direct result of the lockdowns) and lower software-related expenses owing to the changed depreciation rules for



software (see Note 1.1 in the 'Consolidated financial statements'), and despite the negative impact of factors including wage drift. As a result, the cost/income ratio of the banking activities came to 57.2%, compared to 57.7% in 2019.

We recorded 654 million euros in loan loss impairment charges, as opposed to 241 million in 2019. This sharp increase came about mainly because of collective impairments being set aside for the coronavirus crisis (413 million euros – see Note 1.4 in the 'Consolidated financial statements'). In terms of our overall loan portfolio, impairment amounted to 57 basis points, compared with 22 basis points in 2019. Approximately 2.3% of the Belgium Business Unit's loan portfolio at year-end 2020 was impaired (see 'Glossary of financial ratios and terms' for definition), compared with 2.4% a year earlier. Impaired loans that were more than 90 days past due accounted for 1.1% of the portfolio (the same as in 2019). Impairment of assets other than loans in 2020 (41 million euros) related primarily to software and the accounting impact of payment moratoria schemes due to the coronavirus crisis.

Czech Republic

Macroeconomic context

The performance of the Czech economy in 2020 was heavily influenced by the coronavirus crisis, which broke out in the Czech Republic in March. The growing restrictions on international trade disrupted the supply chains, which until then had been functioning smoothly. Eventually, these issues forced domestic companies to cut or in some cases even cease production. The restrictions imposed in the face of the pandemic also hit the service sector particularly hard (especially the hospitality and tourism sector) and were the main driver of the economic recession in the first half of the year. The gradual easing of the measures from the end of the second quarter opened the way for a recovery in almost all sectors of the economy, leading to very dynamic economic growth as early as the third quarter. Unfortunately, the autumn wave of the pandemic ushered in a second and third lockdown, which once again had an adverse impact mainly on the service sector. By contrast, the biggest domestic sector – manufacturing industry – proved to be largely immune to this wave of the pandemic.

The government introduced a number of measures to support affected companies and entrepreneurs, negatively impacting the government budget. The most important of these measures, which also proved to be a highly stabilising factor for the labour market, was a temporary unemployment measure, which has been deployed continuously since April. The unemployment rate rose to around 3% over the course of the year, but the vacancy rate also remained high.

In addition, a moratorium was introduced for the repayment of bank loans, as well as a temporary moratorium on rent payments. The Czech National Bank also responded to the exceptional economic situation by cutting its main interest rate by 200 basis points, relaxing mortgage lending criteria and lowering the countercyclical capital buffer for the banking sector. These moves led to a substantial reduction in interest rates and yields on the bond markets, though they did rise again slightly in the fourth quarter. The negative impact of the pandemic was reflected in increased risk aversion, as well as in the weakening of the Czech koruna, which lost up to 10% of its value against the euro within a short space of time. Even so, some of this depreciation was made good over the course of the year.

Figures for forecast GDP growth in 2021 and 2022 can be found under 'Market conditions in our core markets'.

- 'Best Bank in the Czech Republic' (Euromoney, EMEA Finance)
- 'Best Private Bank in the Czech Republic' (Euromoney and The Banker)
- 'Best Investor Relations Bank' (Global Banking & Finance Review)
- 'Best Trade Finance Provider and Best Sub-Custodian Bank in the Czech Republic' (Global Finance)
- 'Best Bank and Most Client-Friendly Bank (Hospodarské noviny Awards)

Details of the main government coronavirus measures can be found in Note 1.4 of the 'Consolidated financial statements' section.

Specific objectives

- To retain our reference position in banking and insurance services by offering our retail, SME and mid-cap clients a hassle-free, no-frills client experience.
- To use data and AI to offer personalised solutions proactively to our clients, including via Kate, our personalised digital assistant.
- To continue the further digitalisation of our services and to introduce new and innovative products and services, including open bank-insurance solutions aimed at boosting the financial well-being of our clients.
- To concentrate on rolling out straight through processing and further simplifying our products, our head office, our distribution model and our branding, in order to enable us to operate even more cost-effectively.
- To unlock business potential through advanced use of data and digital lead management, to leverage our position as market leader in home finance and to focus even more strongly on growing the volume and profitability of our insurance offering.
- To strengthen our business culture and become even more flexible, agile and diverse.
- To express our social engagement by focusing on environmental awareness, financial literacy, entrepreneurship and population ageing.

Developments in 2020

client centricity

We introduced several measures to protect our clients and staff as much as possible against the coronavirus crisis. Where possible, staff worked from home or in small teams, but for the most part our bank branches remained open. Our workplaces were adapted with enhanced health and safety measures, enabling our services to continue as normal. At the same time, we worked intensively with government agencies to support clients affected by the coronavirus, including by deferring loan payments (see elsewhere in this report). We also helped with the staffing of a call centre and with the national contact tracing operation. In the Czech Republic too, the coronavirus crisis and the lockdowns led to accelerated growth in our digital channels. Our Internet banking services are already used by more than one million clients. The number of active users of our mobile banking app has increased by roughly one-third on an annual basis and the number of mobile banking transactions in 2020 almost doubled. We played an important role in the introduction of the bank identity service (electronic identification), which is helping accelerate digitalisation in the country.

We are constantly working to expand, improve and increase the user-friendliness of our platforms, including ČSOB Internet Banking, ČSOB Smart, ČSOB CEB, ČSOB Investment Portal and our DoKapsy app. We also introduced a number of new products and services to enable us to meet our clients' needs better in today's rapidly changing environment. The best example of this being the launch of Kate, our personalised digital assistant (see 'The client is at the centre of our business culture' for more information). New investment products include our successful Indigo app which offers automated algorithm-driven online investment facilities, and ČSOB Drobne, which allows users to invest small amounts by rounding up each payment. We obtained a licence for Mall Pay, our ticket to the world of e-commerce for our banking and insurance services. For our business clients, we offer the We.Trade blockchain platform. RPA and IPA are used to increase the speed and reliability of responses to clients (160 robot apps have already been implemented in various processes). We also combine digitalisation with environmental considerations, as illustrated by the launch of an eco-friendly payment card made from recycled plastic, and use biometric signatures (which is making many of our processes paperless). In addition, we offer our eScribe transcription service to clients with hearing difficulties.

sustainable profitable growth

Despite the coronavirus crisis, we recorded substantial growth in lending in 2020, with the volume of home loans, for example, rising by no less than 6% in the space of a year. Overall, our lending activities rose by 1% in 2020, while our deposits went up by 9%. These growth figures are adjusted for the depreciation of the Czech currency against the euro.

In 2019, we acquired the remaining portion of the building savings bank ČMSS, enabling ČSOB to consolidate its position as the leading institution on the home loan market. ČMSS will be renamed ČSOB Stavební spořitelna during the course of 2021. This change will mean that clients can be offered a range of housing-related services under one roof and one brand.

bank-insurance

Our bank-insurance model is already delivering numerous commercial synergies. For example, around six out of ten ČSOB clients who took out home loans with the bank in 2020 also purchased home insurance from the group.

There was a further increase of approximately 8% in the number of active clients (clients with a current account into which their income is regularly paid) who hold at least one banking product and one insurance product from the group, while the number of active clients with at least two banking and two insurance products from the group increased by 6%. At year-end 2020, bank-insurance clients (with at least one banking and one insurance product from the group) accounted for 80% of the business unit's active clients. Stable bank-insurance clients (i.e. holding two banking and two insurance products) made up 17% of active clients.

role in society

We once again took a number of initiatives in terms of our social engagement, focusing on environmental awareness, financial literacy, entrepreneurship and population ageing.

On the environmental front, we further tightened up our energy policies, including the complete cessation of direct funding of thermal coal activities by the end of 2021. In addition, as a partner in POHO2030 (a project focusing on the reuse and afforestation of mining landscapes), ČSOB is helping with financial advice and publicity for one of the most important sustainability projects in northern Moravia, a region that has been badly affected by coal mining.

As part of the drive for financial literacy, staff from ČSOB have been volunteering since 2016 to visit schools and teach financial literacy. Several of our ambassadors received accreditation from the Ministry of Education in 2020 to provide training to teachers. Since the launch of the scheme, our ambassadors have given lessons to more than 36 000 children. Despite the difficult situation in 2020, more than 700 lessons were delivered to almost 5 000 students (albeit with some of them provided online).
As in previous years, we worked in partnership with a number of social not-for-profit organisations, with the focus this time being on responding rapidly to current needs in the face of the pandemic. For instance, during the coronavirus crisis we donated ICT equipment to vulnerable children and seniors via NGOs and schools. Start it @ČSOB also continued to provide full support to start-ups during the coronavirus period.
Lastly, we are committed to being a bank which offers easy access for everyone. For instance, new software designed for visually impaired clients was installed in our ATMs in the Czech Republic. As stated earlier, we also launched eScribe for clients with hearing difficulties, enabling them to receive transcriptions of communications (also via the call centre).

Contribution to group result

Net result
375 million euros
(-53%)

Net interest income
1 012 million euros (-21%)

Technical insurance result
188 million euros (+15%)

Net fee and commission income
203 million euros (-20%)

Operating expenses
752 million euros (-2%)

Impairment on loans
210 million euros
(up 198 million euros)

Cost/income ratio
53.3% (44.4%)

Combined ratio
87% (94%)

Credit cost ratio
0.67% (0.04%)

Impaired loans ratio
2.3% (2.3%)

Figures for 2020 (the figures in brackets are for, or indicate the difference compared to, 2019). Technical insurance result = earned premiums - technical charges + ceded reinsurance result. A detailed breakdown of the income statement for each business unit and each country can be found in 'Note 2.2: Results by segment' in the 'Consolidated financial statements' section.

In 2020, the Czech Republic Business Unit recorded a net profit of 375 million euros, compared with 789 million euros a year earlier. The average exchange rate of the Czech koruna against the euro fell by 3% compared with the previous year.

Net interest income in the Czech Republic (1 012 million euros) declined by 21%, reflecting a number of negative factors, including the effect of interest rate cuts by the CNB, pressure on margins and the depreciation of the Czech koruna, despite the positive impact of the full consolidation of ČMSS with effect from June 2019 (the 'ČMSS effect'). The net interest margin in the Czech Republic fell from 3.04% in 2019 to 2.31% in 2020. Deposits from customers and debt securities (42 billion euros, excluding repos) went up by 9% year-on-year, whereas loans and advances to customers (29 billion euros, excluding reverse repos) rose by 1% (growth rates exclude any changes in the scope of consolidation and currency effects). Information on loan payment deferrals under the various support measures related to the coronavirus crisis can be found in Note 1.4 of the 'Consolidated financial statements'.

Our net fee and commission income (203 million euros) declined by 20%, The lower contribution from fees for banking services (such as payments) and the negative impact of the depreciation of the Czech koruna were only partially offset by the positive ČMSS effect.

The technical result from our insurance activities in the Czech Republic came to 188 million euros, up 15% on the year-earlier figure. In the non-life segment, we saw growth in premium income, but also a reduction in technical charges (partly due to fewer claims on account of the lockdowns). The combined ratio for the Czech non-life insurance business came to an excellent 87%. Sales of life insurance ended the year at 206 million euros, 10% lower than the previous year, owing primarily to weaker sales of unit-linked life insurance products.

The other income items chiefly comprised trading and fair value income (7 million euros) and other net income (13 million euros). This last item was 90 million euros lower than in 2019, when there was a positive one-off effect of 82 million euros resulting from the revaluation of the existing 55% stake in ČMSS when the remaining 45% stake was acquired.

Costs fell by 2% to 752 million euros in 2020. The negative influence of factors such as wage drift, higher software-related expenses owing to the changed depreciation rules for software (see Note 1.1 of the 'Consolidated financial statements'), the ČMSS effect and higher bank taxes was more than offset by cost savings in the form of lower accruals for variable remuneration, a reduction in the average FTE count, lower marketing, travel, facilities and event costs (the last four items fell as a direct result of the lockdowns) and the lower exchange rate of the Czech koruna. Excluding the currency effect and bank taxes, the level of expenses remained roughly unchanged. Consequently, the cost/income ratio for the banking activities came to 53.3%, as opposed to 44.4% in 2019.

Loan loss impairment charges came to 210 million euros in 2020, compared to a year-earlier figure of 12 million euros. This increase came about mainly because of collective impairments being set aside for the coronavirus crisis (162 million euros – see Note 1.4 in the 'Consolidated financial statements'). In terms of our overall loan portfolio, impairment amounted to 67 basis points, compared with 4 basis points in 2019. Approximately 2.3% of the business unit's loan portfolio at year-end 2020 was impaired, unchanged on its year-earlier level. Impaired loans that were more than 90 days past due accounted for 1.0% of the portfolio (as opposed to 1.3% in 2019). Impairment of assets other than loans in 2020 (16 million euros) related primarily to software and the accounting impact of payment moratoria schemes due to the coronavirus crisis.

International Markets

Macroeconomic context in Slovakia, Hungary, Bulgaria and Ireland

The course of the pandemic was also the biggest determinant of the macroeconomic performance of Slovakia, Hungary and Bulgaria in 2020. A huge downturn in the second quarter as a result of the lockdowns was followed in the third quarter by a pronounced economic recovery in the region. However, despite the strong figures posted in the third quarter, none of the regional economies entirely made good the downturn in the first half of the year. The performance in the fourth quarter was much worse owing to the second wave of the coronavirus and the policy responses to it. The majority of lockdown measures impacted mainly on the demand side of the economy, especially the service sector, while the supply side fared better. This was important for the regional economies, where industry plays a crucial role. As a consequence, industrial output remained relatively strong. The resilience of German industrial output and the new, less stringent pandemic measures during the second wave help explain why the economies of Central Europe were less badly hit at that time.

The Hungarian forint came under pressure during both the first and second waves of the pandemic in 2020. In a bid to support the currency, the National Bank of Hungary (NBH) pursued a more restrictive policy, which had the effect of pushing up money market rates from April and again from October. We believe the weakening of the forint will be temporary.

Bulgaria joined the ERM II system on 10 July 2020, a stepping stone on the way to the eventual introduction of the euro. During its membership of ERM II, Bulgaria will maintain the currency board for the lev against the euro, meaning it will not make use of the exchange rate fluctuation margin that is permitted under ERM II.

With real GDP growth of 3.5%, Ireland was the only KBC core market that recorded positive annual average economic growth in 2020. An important caveat in this regard is that Irish GDP figures are heavily distorted by the activities of large multinationals in the country, which means that underlying economic growth in Ireland is likely to be lower. Against the backdrop of the pandemic and given the importance of multinationals, Irish GDP is also influenced by developments in the pharmaceutical sector in relation to the coronavirus vaccine. In line with the general trend for the European economy, Irish inflation remained at very modest levels in 2020, with annual average inflation even being slightly negative (-0.5%).

Figures for forecast GDP growth in 2021 and 2022 can be found under ‘Market conditions in our core markets’.

Details of the main government coronavirus measures can be found in Note 1.4 of the ‘Consolidated financial statements’ section.

- Number 1 for Retail Banking in Ireland in the BearingPoint 2020 Digital Leaders study
- ‘Best Sub-custodian Bank in Slovakia’ (Global Finance)
- ‘Best Trade Finance Provider in Hungary, Slovakia and Bulgaria’ (Global Finance)
- ‘Safest Bank in Bulgaria’ (Global Finance)
- ‘Insurance Company of the Year in Slovakia’ (TREND)

Specific objectives

- The updated group strategy presents a number of challenges for all countries in the business unit, viz.:
  - To develop new and unique 'bank-insurance+' propositions.
  - To continue digitally upgrading our distribution model.
  - To drive up the volume of straight-through and scalable processing.
  - To increase the capacity in relation to data and AI to enable us to proactively offer relevant and personalised solutions.
  - To selectively expand our activities with a view to securing a top-three position in banking and a top-four position in insurance.
  - To implement a socially responsible approach in all countries, with a particular focus on environmental awareness, financial literacy, entrepreneurship and health.
- Country-specific:
  - To become the undisputed leader in the area of innovation in Hungary. We are aiming to raise profitability by targeting income through vigorous client acquisition in all banking segments and through more intensive cross-selling. We also aim to expand our insurance activities substantially, primarily through sales at bank branches and, for non-life insurance, via both online and traditional brokers.
  - To maintain our robust growth in strategic products in Slovakia (i.e. home loans, consumer finance, SME funding, leasing and insurance), partly through cross-selling to group clients and via digital channels. Other priorities include the sale of funds and increased fee income.
  - To focus – as regards the banking business in Bulgaria – on increasing our share of the lending market in all segments, while applying a robust risk framework. Our insurer, DZI, is likewise maintaining its goal of growing faster than the market in both life and non-life insurance, via the bank and other channels.
  - To focus fully on providing an outstanding client experience in Ireland. We aim to differentiate ourselves through the instant and proactive delivery of products and services and through a high level of accessibility (including mobile and contact centre). We will further develop our strong position in home loans and are fully committed to bank-insurance and to providing asset management products.

Developments in 2020

client centricity

At the peak of the crisis, large numbers of head office staff in the International Markets Business Unit worked from home and/or in small teams, but the bank branches largely remained open. The workplaces were also rapidly adapted to meet the newly imposed health and safety requirements. A system was set up to ensure adequate communication to both staff and clients. Live events and meetings were replaced by digital events and meetings. There was also intensive collaboration with government agencies in the different countries to support all clients affected by the coronavirus, including by deferring loan payments (see elsewhere in this report). Other measures included encouraging electronic payments (in Hungary, for example, a donation was made to hospitals whenever an electronic transaction was carried out), raising the limits for contactless payment cards in Ireland and Hungary, coronavirus-related adjustments to some life insurance products in Hungary and the creation of special teams to help clients in Ireland.

The coronavirus crisis also provided a boost for the use of our digital channels. For instance, the number of users of the mobile banking app in Hungary grew by more than 30% in the space of a year, while in Bulgaria the increase was even more spectacular, at over 50%.

We also developed several new products and services with a clear digital focus in 2020. For example, we launched a fully digital life insurance app in Ireland (see below), brought out a renewed and even more user-friendly online banking app in Slovakia (Moja ČSOB) with a ČSOB SmartToken authorisation tool, unveiled several new functions and features in K&H mobile banking in Hungary (including the ability to purchase various types of non-life insurance and apps that go beyond strict bank-insurance, i.e. having features for buying bus tickets, etc.), as well as rolling out a fully digital onboarding process for new clients and a video meeting service for questions about consumer and home loans in Bulgaria.

sustainable
profitable growth

There was an increase across the business unit in deposits and lending, which went up by 20% and 11% respectively (disregarding the recently acquired OTP Banka Slovensko (see below), the respective figures were +16% and +8%).
We also continued to develop the group's geographic focus. As part of this exercise, we sold our 50% stake in the life insurance company NLB Vita at the end of May 2020, meaning that we have now withdrawn completely from Slovenia, which is not one of our core markets. At the end of November 2020, we completed the acquisition of 99.44% of the shares in OTP Banka Slovensko. This company operates in Slovakia, where it has a share of almost 2% in the market for deposits and loans. This acquisition has bolstered our share of the Slovakian market, where we were already operating through ČSOB (see Note 6.6. in the 'Consolidated financial statements' for more information). The group launched its own life insurance company in Ireland, through which it is offering a range of innovative digital pension products. It is simple, worry-free and offers a tailor-made solution for the client. Lastly, we reached agreement with NN in February 2021 to acquire its Bulgarian pension and life insurance businesses, a move that will enable us to further consolidate our position on our Bulgarian home market.

bank-insurance

Our focus on bank-insurance delivers many commercial synergies. For instance, group fire insurance was sold in conjunction with more than nine out of ten new home loans taken out in Bulgaria and Slovakia, and nearly eight out of ten such loans taken out in Hungary.
The number of active clients (clients with a current account into which their income is regularly paid) who hold at least one banking product and one insurance product from the group grew by a further 1% in 2020, while the number of active clients with at least two banking and two insurance products from the group increased by 3%. At year-end 2020, bank-insurance clients (with at least one banking and one insurance product from the group) accounted for 64% of the business unit's active clients. Stable bank-insurance clients (i.e. holding two banking and two insurance products) made up 17% of active clients.

role
in society

We link our social projects to financial literacy, environmental responsibility, entrepreneurship and health.
In Hungary, for example, K&H is devoting major efforts to media campaigns to show clients how to bank securely online. It also substantially broadened its range of sustainable and socially responsible investments, and the group was actively involved in the financing of green-certified office buildings in Budapest. In Slovakia, ČSOB focused its efforts on securing health gains, with a key role for prevention. As part of this campaign, ČSOB stresses the importance of regular health checks and rewards a healthy lifestyle by incorporating benefits into its life insurance products. In Bulgaria, UBB Interlease launched a Green Lease product for financing electric or hybrid vehicles and all kinds of equipment relating to renewable energy. The collaboration between UBB and The Association of the Bulgarian Leaders and Entrepreneurs (ABLE) was also broadened to incorporate the 'ABLE Activator' programme, which provides unique and intensive experience-oriented training in entrepreneurship to 30 students and young professionals below the age of 35. Lastly, KBC Bank Ireland increased its communications on digital wallets (Fitbit/Garmin/Apple Pay, etc.) during the coronavirus crisis in support of the campaign around safe shopping. It also continued to focus fully on its range of SRI funds.

Contribution to group result

Net result

199 million euros
(-47%)

Slovakia
56 million euros (-30%)

Hungary
114 million euros (-34%)

Bulgaria
76 million euros (-19%)

Ireland
-48 million euros
(down 77 million euros)

Net interest income
894 million euros (+4%)

Technical insurance result
171 million euros (+4%)

Net fee and commission income
273 million euros (-9%)

Operating expenses
894 million euros (-4%)

Impairment on loans
217 million euros increase
(as opposed to an 18-million-euro reversal)

Cost/income ratio
65.9% (69.7%)

Combined ratio
84% (88%)

Credit cost ratio
0.78% (-0.07%)

Impaired loans ratio
6.9% (8.5%)

Figures for 2020 (the figures in brackets are for, or indicate the difference compared to, 2019). Technical insurance result = earned premiums - technical charges + ceded reinsurance result. A detailed breakdown of the income statement for each business unit and each country can be found in 'Note 2.2: Results by segment' in the 'Consolidated financial statements' section.

In 2020, the net result at our International Markets Business Unit amounted to 199 million euros, as opposed to 379 million euros a year earlier. Hungary accounted for 114 million euros of this figure, Slovakia for 56 million euros, Bulgaria for 76 million euros and Ireland for -48 million euros.

Net interest income for the business unit as a whole amounted to 894 million euros in 2020, up 4% on the year-earlier figure, despite the depreciation of the Hungarian forint against the euro and the pressure on lending margins. The business unit's average net interest margin narrowed from 2.64% to 2.60%, although loan and deposit volumes increased. Deposits from customers and debt securities in the business unit (28 billion euros, excluding repos) increased by 16%, with a slight fall in Ireland (-3%) but strong growth in Slovakia (+17%), Hungary (+24%) and Bulgaria (+23%). Loans and advances to customers across the business unit as a whole (27 billion euros, excluding reverse repos) were up 8% on their year-earlier level, with growth in all countries (+3% for Ireland, +6% for Slovakia, +19% for Hungary and +12% for Bulgaria). These growth rates exclude changes in the scope of consolidation and currency effects (if OTP Banka Slovensko is included, loans and advances to customers in the business unit as a whole increased by 11% and deposits by 20%). Information on loan payment deferrals under the various support measures related to the coronavirus crisis can be found in Note 1.4 of the 'Consolidated financial statements'.
Net fee and commission income (273 million euros) fell by 9%, due largely to lower contributions from asset management activities (especially in Hungary) and banking services (mainly in Slovakia) and the depreciation of the Hungarian forint, which were only partially offset by a reduction in distribution fees paid.
The business unit's technical insurance results, which are confined to Hungary, Slovakia and Bulgaria, came to 171 million euros, up 4% on the year-earlier figure. In the non-life segment, we saw growth in premium income accompanied by a reduction in technical charges (partly due to the lower level of claims during the lockdowns). The combined ratio for the business unit's overall non-life activities amounted to an excellent 84%. Sales of life insurance – including investment contracts without a discretionary participation feature, which are excluded from the IFRS figures – came to 128 million euros, down 7% on the year-earlier figure, due primarily to lower sales of unit-linked life insurance products in Slovakia and Hungary.
The other income items chiefly comprised trading and fair value income (43 million euros) and other income (8 million euros, including a number of one-off items, such as -9 million euros in relation to the tracker mortgage review in Ireland (see Note 3.6 in the 'Consolidated financial statements' section)).

Costs fell by 4% to 894 million euros in 2020, thanks to strict cost control measures, the direct impact of the coronavirus crisis (for example, lower marketing, travel, facilities and event expenses) and the depreciation of the Hungarian forint. Consequently, the cost/income ratio for the banking activities came to 65.9%, as opposed to 69.7% in 2019.
There was a 217-million-euro net increase in loan loss impairment charges in 2020, compared with a net reversal of 18 million euros in 2019. This increase came about mainly because of collective impairments being set aside for the coronavirus crisis (208 million euros – see Note 1.4 in the section 'Consolidated financial statements'). At individual country level, loan loss impairment came to 90 million euros in Ireland, 59 million euros in Hungary, 42 million euros in Slovakia and 27 million euros in Bulgaria. In terms of our overall loan portfolio, loan loss impairment charges for the business unit as a whole amounted to 78 basis points compared with -7 basis points in 2019 (the negative figure for 2019 indicates a net reversal of impairment and hence a positive impact on the results). The figures per country were 88 basis points for Ireland, 105 basis points for Hungary, 50 basis points for Slovakia and 73 basis points for Bulgaria. Approximately 6.9% of the business unit's loan portfolio at year-end 2020 was impaired, compared with 8.5% a year earlier. Impaired loans that were more than 90 days past due accounted for 4.2% of the business unit's loan portfolio (as opposed to 5.1% in 2019). Impairment of assets other than loans in 2020 (33 million euros) was related in part to software and the accounting impact of payment moratoria schemes due to the coronavirus crisis.

Group Centre

Besides financial reporting for the three business units, we also report on a separate Group Centre. In 2020, the Group Centre generated a net result of -135 million euros, compared with -23 million euros a year earlier. This consisted of:

- Traditional items, such as the operating expenses of our group's holding company activities, certain costs related to capital and liquidity management and funding and other costs related to the holding of participating interests (-118 million euros in 2020 as opposed to -97 million euros in 2019). The figure for 2019 includes the positive impact of a one-off item under 'Income tax expense', linked to the new hedging policy of foreign exchange participations.
- The results of the remaining companies scheduled for run-down, including the portfolio of the former Antwerp Diamond Bank, KBC Finance Ireland, etc. (-1 million euros in 2020 compared with 24 million euros in 2019). The bulk of this reduction was concentrated in the portfolio of the former Antwerp Diamond Bank (owing to fewer reversals of loan loss impairments).
- Other items: -16 million euros in 2020 compared with 51 million euros in 2019, due in part to the lower value of derivatives used for asset/liability management purposes.

A detailed breakdown of the income statement by country can be found in Note 2.2 of the 'Consolidated financial statements' section.

How do we manage our risks?

Mainly active in banking, insurance and asset management, we are exposed to a number of typical industry-specific risks such as credit risk, movements in interest rates and exchange rates, liquidity risk, insurance underwriting risk, operational and other non-financial risks. In this section, we focus on our risk governance model and the most material risks we face.

Our statutory auditors have audited the information in this section that forms part of the IFRS financial statements, viz.:

- the ‘Risk governance’ section;
- parts of the ‘Credit risk’ section: ‘Managing credit risk’, ‘The building blocks for managing credit risk’, part of the ‘Loan and investment portfolio, banking’ table, ‘Forbearance measures’, the ‘Other credit exposure, banking’ table, the ‘Investment portfolio of KBC group insurance entities’ table and the ‘Credit exposure to (re)insurance companies by risk class’ table;
- parts of the ‘Market risk in non-trading activities’ section: ‘Managing market risk in non-trading activities’, ‘The building blocks for managing market risk in non-trading activities’ and the ‘Exposure to sovereign bonds’ table;
- parts of the ‘Market risk in trading activities’ section: ‘Managing market risk’, ‘The building blocks for managing market risk’ and ‘Risk analysis and quantification’;
- parts of the ‘Liquidity risk’ section: ‘Managing liquidity risk’, ‘The building blocks for managing liquidity risk’ and ‘Maturity analysis’;
- the ‘Technical insurance risk’ section.

Before describing the risk governance and risk-type specifics, we are highlighting two events that have marked the last year. The continuous development of digitalisation and innovation, as well as the coronavirus crisis, have accelerated certain trends and are also reflected in the way we conduct risk management.

Risk innovation, transformation and straight-through processing

With its new data-driven and digital strategy, KBC is responding to fast-changing client behaviour and the competitive environment. This strategy also gives rise to new types of challenges and risks for KBC. Therefore, the risk function is evolving in sync with KBC's overall transformation and the changing environment in order to identify risks more proactively and more dynamically to ensure KBC's risk profile remains in line with the overall risk appetite.

The risk function frequently adapts and further strengthens KBC's Risk Management Framework and its underlying risk management processes. This allows us to properly and proactively assess and mitigate the risks linked to new technologies, products and services (including through a strong product approval process).

In addition, we use new technologies to expand our risk management toolkit and improve the efficiency of our risk management processes, with a particular focus on straight-through processing. As we need to obtain a complete view of the risks for the entire group and individual entities quickly, efficiently and without compromising on quality, we have been focusing in recent years on group-wide tool implementation, process simplification and automation in all risk domains. These straight-through processing initiatives require the use of new technology and solutions, and strong collaboration with other departments. For example, a new group-wide tool has been rolled out to support the product approval process, resulting in overall improved efficiency and transparency of the process, and improved risk management (including more digitised monitoring and more efficient risk data aggregation and reporting).

Moreover, the risk function is also accelerating its efforts to leverage the data available in the risk tools to further improve risk management and further increase efficiency. A group-wide initiative was launched to explore further opportunities with data analytics, machine learning and AI to modernise risk management across the different risk types and so facilitate a shift towards more proactive, continuous and dynamic risk management. In this respect, we are closely collaborating across functions and countries, and with our applied data analytics and IT departments. In addition, the risk function actively explores working with regulatory technology (RegTech) companies to complement the risk toolkit.

Lastly, we also structurally raise awareness about innovation and develop expertise in new trends and technologies. This knowledge is bundled into staff training sessions, such as courses on artificial intelligence and robotic process automation. We continue to invest in knowledge of innovation and technological and other trends to further reinforce our risk management practices, and to ensure our risk professionals acquire the relevant digital skills and can continue to provide expert risk advice.

Coronavirus crisis

While we thoroughly assess risks within the group and underpin these assessments, the worldwide outbreak of the coronavirus pandemic is an unprecedented event that has put this assessment and its underpinnings to the test. Whilst KBC as a whole was exposed to a 'reality readiness' test, the areas of specific relevance were credit risk, liquidity risk and market risk, as well as broader operational resilience. In all areas, we stood the test well. Furthermore, our capital position has remained extremely solid during the crisis.

The worldwide economic challenges resulting from this crisis undoubtedly have the largest impact on credit losses in general, including credit losses incurred by the group, both now and in the years ahead. Such credit losses include, but may not be limited to, credit losses situated in our loan portfolio (see the 'Credit risk' section). In addition to credit risk in general, the coronavirus crisis will also have a negative impact on counterparty credit risk, as certain counterparties will be adversely impacted by this crisis, preventing them from fulfilling their financial obligations towards our group.

Although we may also face potential losses stemming from financial instruments to which we are exposed via our trading and non-trading activities, the risk of incurring such losses is currently not estimated as being particularly higher as a direct consequence of the current coronavirus crisis (see the 'Market risk in non-trading activities' and 'Market risk in trading activities' sections).

Funding and liquidity risk also increase during a crisis as trust between financial institutions might decrease or disappear, which can influence our funding capabilities in the market as well as our liquidity position. However, our liquidity position remained very solid (see the 'Liquidity risk' section).

Other risks, such as operational risk, will also be impacted by the coronavirus crisis, both within KBC and at third parties to which we have outsourced our activities. Other operational risks are related to business continuity management, information security and IT (see the 'Operational risk' section).

The coronavirus crisis has changed the interaction with management and our stakeholders. Therefore, a Group Crisis Committee (GCC) comprising all Country CEOs and the Executive Committee was set up to closely monitor the pandemic in order to swiftly decide on mitigating actions.
The transition to new ways of working due to this crisis (e.g., remotely, from backup locations and home offices) was well organised and without major incident. New information flows were swiftly established to provide management with the most up-to-date and relevant information.

The coronavirus pandemic has also led to regulatory developments in the jurisdictions in which we operate. Examples include the measures and regulations adopted by the Belgian Federal Government regarding the granting of payment deferrals, additional lines of credit and other types of financial relief provided by the Belgian financial sector. Payment deferrals, guarantee schemes and liquidity assistance measures were also adopted by the local governments in our other core countries, in close cooperation with the national regulator.

All these risks have already had, and may continue to have, a negative impact on the profitability and performance of our group.

Risk governance

Main elements in our risk governance model:

- The Board of Directors, assisted by the Risk & Compliance Committee (RCC), which decides on and supervises the risk appetite – including the risk strategy – each year. It is also responsible for the development of a sound and consistent group-wide risk culture, based on a full understanding of the risks the group faces and how they are managed, as well as the group risk appetite.
- The Executive Committee – supported by activity-based risk committees – which is the senior management level committee responsible for integrating risk management with risk appetite, strategy and performance goal setting.
- The CRO Services Management Committee (CRO Services MC) and activity-based risk committees mandated by the Executive Committee.
- Risk-aware business people who act as the first line of defence for conducting sound risk management. This involves allocating sufficient priority and capacity to risk topics, making sure that the quality of self-assessments is adequate, and performing the right controls in the right manner.
- A single, independent risk function that comprises the Group Chief Risk Officer (Group CRO), local CROs, local risk functions and the group risk functions. The risk function acts as (part of) the second line of defence. While adhering to high standards, the risk function develops, imposes and monitors consistent implementation of the Risk Management Framework, describing the processes, methods and tools to identify, measure and report on risks. The third line of defence (internal audit) gives reasonable assurance to the Board of Directors that the overall internal control environment is effective and that effective policies and processes are in place and applied consistently throughout the group.

Relevant risk management bodies:

- Executive Committee:
  - makes proposals to the Board of Directors about risk appetite – including the risk strategy – and the Enterprise Risk Management Framework;
  - decides on the risk-type-specific risk management frameworks and monitors their implementation throughout the group;
  - acts as the leading risk committee, covering material issues that are channelled via its supporting committees;
  - monitors the group's major risk exposure to ensure conformity with the risk appetite.
- Business Committees:
  - The Group ALCO handles matters related to ALM and liquidity risk.
  - The Global IT Committee handles matters related to information technology and information security risk.
  - The Internal Sustainability Board handles matters related to environmental, social and governance (ESG) risks.
- Risk committees:
  - The CRO Services Management Committee supports the Executive Committee in assessing the adequacy of, and compliance with, the KBC Risk Management Framework and defines and implements the vision, mission and strategy for the CRO Services of the KBC group.
  - The activity-based Group Risk Committees (for lending (GLC), markets (GMC) and insurance (GIC), respectively) support the Executive Committee in setting and monitoring limits for these activities at group level. Liquidity and ALM issues related to these activities are addressed by the Group ALCO.
  - The Group Internal Control Committee (GICC) supports the Executive Committee in monitoring and strengthening the quality and effectiveness of KBC's internal control system.

More information on risk management can be found in our Risk Report, which is available at www.kbc.com.

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

Components of sound risk management

Risk management refers to the coordinated set of activities to proactively identify and manage the many risks that can affect the group in its ability to achieve its objectives and in order to support the realisation of the group strategy.

The KBC Risk Management Framework (RMF) sets strict governance and clear rules and procedures on how risk management should be performed throughout the group. It also refers to a set of minimum standards and risk methods, processes and tools that all entities and risk-type specific RMF must adhere to for which Group Risk is primarily responsible.

In the risk management process, the process steps are not strictly sequential and interact with one another.

The generic risk management process steps are dealt with in more detail under each risk type separately in the sections below.

Risk identification

Risk identification is the process of systematically and proactively discovering, recognising, assessing and describing risks, both within and outside KBC, that could negatively impact the group's strategic objectives today and in the future.

One of the tools used for risk identification is the 'New and Active Products Process' (NAPP). This process is set up to identify and mitigate all risks related to new and existing products and services which may negatively impact the client and/or KBC. The NAPP is a formalised process applicable throughout the group. Within the group, no products, processes and/or services can be created, purchased, changed or sold without approval in line with NAPP governance. All NAPP proposals are reviewed on a periodic basis, both by group and local risk in order to assess the impact of these proposals on the group's risk profile.
The process was further optimised in 2020 by improving the risk identification and the logging of risk acceptance, by putting more emphasis on the client perspective and by strengthening the follow-up of NAPP decisions. The process changes will go live in early 2021. A group-wide workflow tool, which supports the entire process up to and including the monitoring and reporting phase, has been rolled out in all material entities of the group.

Risk measurement

Risk measurement aims to quantify the various risks that we are exposed to. Once risks have been identified, certain attributes can be assessed, such as impact, probability of occurrence, size of exposure, etc. with the help of risk measures. Each risk-type-specific framework provides an overview of the risk measures in use within the group (both regulatory and internally defined).

Setting and cascading risk appetite

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



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

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

The risk appetite exercise conducted in 2020 has been marked by two main events: the coronavirus crisis and the launch of the updated strategy 'Differently: the next level'. In spite of these events, the Board decided to keep the risk appetite unchanged compared to last year, indicating that the group does not want to take more risks going forward and emphasising the intent to adequately manage key risks that can negatively impact our strategy (mainly within the operational and compliance risk area).

Risk analysis, reporting and follow-up

Risk analysis and reporting aim to give management an increased level of transparency by ensuring a comprehensive, forward-looking and *ex-post* view of the changing risk profile and the context in which the group operates.
In addition to internal reporting, external reports are prepared for the various stakeholders. As management is expected to take relevant action based on the risk analysis and risk reporting, the output should be complete, well balanced, easy to understand and focus on key messages/proposed actions. It is essential that the proposed actions are tailored to the relevant stakeholders.

Stress testing

Stress testing is a tool that supports the decision-making process and encompasses various techniques used to assess the potential negative impact on KBC's (financial) condition, caused by specific events and/or movements in risk factors ranging from plausible to exceptional or even extreme.

Credit risk

Credit risk is the risk related to non-payment or non-performance by a contracting party, due to that party's insolvency or lack of willingness to pay or perform, or to events or measures taken by the political or monetary authorities of a particular country.

Managing credit risk

Credit risk is managed across the group based on strict governance rules and procedures set out in the KBC Credit Risk Management Framework. The Credit Risk Competence Centre situated within the Group Credit Risk Department (GCRD) designs the Credit Risk Management Framework (CRMF) and its underlying building blocks. GCRD ensures the adequacy of the CRMF, as well as compliance with legal and regulatory requirements via group-wide credit risk standards. This is done in close cooperation with the local CROs and local risk departments, which are responsible for the local implementation of the CRMF. Business entities are consulted for those areas of the CRMF that impact business processes and/or governance.

The CRMF is reviewed annually to ensure its relevance and effectiveness going forward. It contains a clear delineation of responsibilities and accountabilities, both at local and group level, between the business in the first line (including credit departments), credit risk departments and internal audit. Credit decisions are made following independent advice and based on acceptance and review processes that consider client knowledge and model-generated output. Material credit decisions are advised and taken at group level within the GCRD.

The building blocks for managing credit risk

A number of group-wide building blocks are defined to ensure proper management of credit risk:

- Risk identification: a vital part of the credit risk identification process is capturing credit risk signals, both at transactional and portfolio level. Both the internal and external environment are scanned for events or developments that have already occurred or could occur and which directly or indirectly have or could have a significant impact on credit quality. Risk signals provide an overview of the identified risk and outline the possible impact for KBC and, if possible, propose remedial actions.
  The appropriate risk management committees are periodically informed of relevant signals or observations. Risk signals that are considered material are reported to the Executive Committee. In addition, thematic and sectorial deep dives are performed to gain further insights into credit risk.
  New and upcoming prudential (capital) credit risk regulation, product or client-specific regulation and legislation is followed up at group or local level to ensure that amended or new regulations are promptly implemented in policy and instructions.
  A specific risk identification process is the leading indicator process designed to identify emerging credit risks that could lead to impairment. The main objective is to have a reliable estimate of impairment for the current quarter at an early stage, thus avoiding surprises. It is part of the quarterly reporting round on loan and bond impairment.
- Risk measurement: credit risk measurement involves a quantitative expression of a credit risk on a portfolio of instruments/exposures by applying a model or methodology. A minimum group-wide set of credit risk measurements is defined and can be complemented with local measurements.
  Central to this is the risk class, with a ranking being made based on the Probability of Default (PD) and the Loss Given Default (LGD). The latter reflects the estimated loss that would be incurred if an obligor were to default. In order to determine the risk class, we have developed various rating models for measuring how creditworthy borrowers are and for estimating the expected loss of various types of transactions. A number of uniform models throughout the group (models for governments, banks, large companies, etc.) are in place, while others have been designed for specific geographic markets (SMEs, private individuals, etc.) or types of transaction. We use the same internal rating scale throughout the group.
  We use the output generated by these models to split the non-defaulted loan portfolio into internal

rating classes ranging from 1 (lowest risk) to 9 (highest risk) for the PD. We assign PD 10 to PD 12 to a defaulted obligor. PD class 12 is assigned when either one of the obligor's credit facilities is terminated by the bank, or when a court order is passed instructing repossession of the collateral. PD class 11 groups obligors that are more than 90 days past due (in arrears or overdrawn), but that do not meet PD 12 criteria. PD class 10 is assigned to obligors for which there is reason to believe that they are unlikely to pay (on time), but that do not meet the criteria for classification as PD 11 or PD 12. 'Defaulted' status is fully aligned with the 'non-performing' and 'impaired' statuses. Obligors in PD classes 10, 11 and 12 are therefore referred to as 'defaulted' and 'impaired'. Likewise, 'performing' status is fully aligned with the 'non-defaulted' and 'non-impaired' statuses.
Impairment losses are recorded according to IFRS 9 requirements (calculated on a lifetime expected credit loss (ECL) basis for defaulted borrowers and on a 12-month or lifetime ECL basis for non-defaulted borrowers, depending on whether there has been a significant increase in credit risk and a corresponding shift from 'Stage 1' to 'Stage 2'). Specific collective IFRS 9 models are used for this purpose, except for material defaulted borrowers, which are assessed individually to estimate ECL. Together with 'probability of default' and 'exposure at default', measures such as 'expected loss' and 'loss given default' form the building blocks for calculating the regulatory capital requirements for credit risk, as KBC has opted to use the Internal Ratings Based (IRB) approach. By the end of 2020, the main group entities and some smaller entities had adopted the IRB Advanced approach, apart from United Bulgarian Bank (UBB) in Bulgaria (Standardised approach) and ČSOB in Slovakia (IRB Foundation approach). 'Non-material' entities will continue to adopt the Standardised approach.

- Setting and cascading risk appetite: the KBC Risk Appetite Statement makes explicit the amount of credit risk KBC is able and willing to accept in pursuit of its strategic objectives. The Credit Risk Competence Centre is responsible for proposing the credit risk appetite objectives in line with the corporate strategy, the underpinning methodology and the credit risk profile. Credit risk appetite is made tangible by assigning credit risk limits and early warning levels to a limited set of credit risk (signal) indicators, which are valid for one year.
  Primary credit risk limits are decided by the Board of Directors or the Executive Committee. These entail limits on Expected Loss (EL), Stressed Credit Loss and Credit Risk Weighted Asset (RWA) – and for new home loan production – Loan-to-Value (LTV) and Debt-Service-To-Income (DSTI). These limits are supplemented by a portfolio limit system (PLS) framework to constrain concentration risk on counterparty groups or authorities and other credit risk limits set at group or local level that include sector and activity limits and limits on risks, such as counterparty credit risk for professional transactions or issuer risk.
  By introducing a safety margin when defining these limits and by installing clear escalation rules in case of limit breaches, they support business to stay a safe distance from positions that may bring KBC into recovery or even resolution mode. Besides the limits defined in the Risk Appetite Statement, the risk playing field is also determined by group-wide risk boundaries defined in Credit Risk Standards, which aim to align risk management of specific credit-risk-related topics throughout the group by defining restrictions and/or recommendations.
- Risk analysis, monitoring, reporting and follow up: the credit portfolio is analysed on a continuous basis. In addition to portfolio analyses performed by business, the local and group credit risk departments analyse the credit risk profile of the loan portfolio in order to obtain an independent view of the evolution of credit risk. Results of the analyses are reported to the appropriate risk committees. Once credit risks have been identified, measured, monitored and reported, it is the responsibility of both line management and the risk committees to respond, i.e. to keep or bring risks in line with the risk appetite. Corrective action plans can be taken to avoid (further) credit risk, reduce it (mitigation), transfer the risk or accept it.
- Stress testing: stress testing is a core component of sound credit risk management and is performed at local and group level.

Impact of the coronavirus crisis on credit risk

The economic impact of the coronavirus pandemic has triggered an extraordinary challenge across the whole

group, but particularly in relation to credit risk management.
At the onset of the coronavirus crisis in March 2020, we developed – amongst other things – supplementary *ad hoc* credit risk reporting for the Group Crisis Committee on requested payment holidays (later changed to granted). Requests for payment holidays are considered primary signals of imminent deterioration of credit quality in the portfolio and thus the primary pool for future PD migration or NPL formation. Subsequently, when the moratoria granted in the initial phase of the crisis were either set to expire or, where applicable, be extended for a certain period of time, this reporting was extended to provide an insight into the extent of the extensions and post-expiry repayment performance (e.g., loans going into arrears or receiving other forbearance treatment).
At year-end 2020, initial post-expiry data for the moratoria did not yet show a distinct trend in the post-payment holiday performance ('cliff effect') or an observable stratification in payment delinquency or other signs of distinct distress among sectors or activities. Obviously, such performance data is being monitored and analysed as the coronavirus crisis evolves. More information on the moratoria is provided in Note 1.4 of the 'Consolidated financial statements'.
As the coronavirus crisis is impacting economic activity unequally and non-traditionally across industrial sectors, we have increased our scrutiny of sectoral vulnerability and have adjusted the risk appetite for new production, incorporating specific sector views. We adopted a more restrictive risk appetite for sectors and sub-sectors considered at risk ('critically vulnerable'), curtailing new production. These critically vulnerable sectors and sub-sectors represent less than 5% of the industrial portfolio and include hospitality, entertainment and leisure, retail fashion and aviation. For a substantial additional part of the industrial portfolio, a guidance for credit underwriting has been one of 'caution' and a drive has been undertaken to select the 'best in class' counterparties within a sector, recognising the range in credit quality in any sector.
Lastly, since the second quarter of 2020, we have provided an estimate of expected credit losses in our existing loan portfolio that cannot be captured by the usual models given the macroeconomic variables underpinning the specific scenarios. Such management overlay is based on validated stress testing methodology and uses a stratified sector vulnerability classification (management overlay). More information in this regard is provided in Note 1.4 of the 'Consolidated financial statements'.

This management overlay constitutes the main financial impact of the coronavirus crisis in the 2020 impairment figures. In terms of staging, our existing approach remained unchanged, implying that no material parts of the portfolio have been forced towards 'Stage 2' and 'Stage 3'. On the other hand, the absolute amount and relative level of forbearance clearly reflect the impact of the coronavirus crisis. Indeed, as some of payment holidays have been granted outside the conditions for EBA-compliant moratoria (e.g., leasing activity in Belgium was not eligible for such general moratoria), these payment holidays were tagged as forbearance in line with prevailing forbearance rules. More information on EBA-compliant moratoria is provided in Note 1.4 of the 'Consolidated financial statements'.

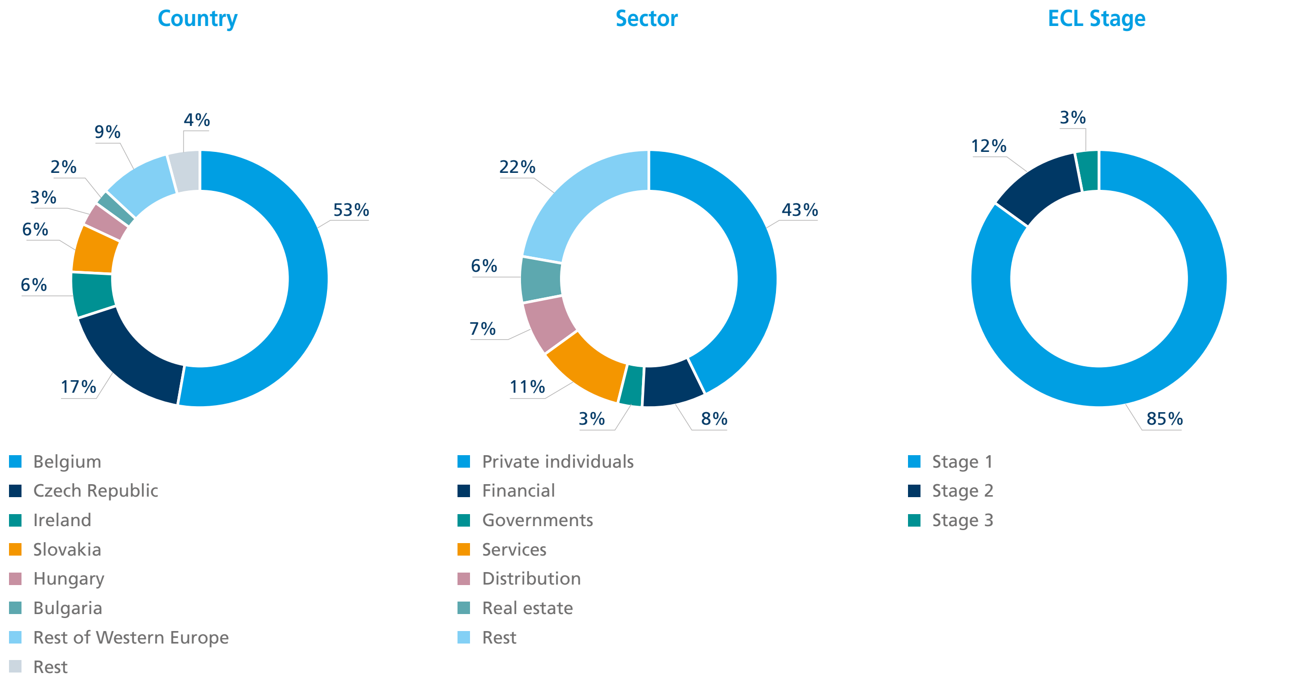
Credit risk exposure in the banking activities arising from lending and investing

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

The loan and investment portfolio as defined in this section differs from 'Loans and advances to customers' in Note 4.1 of the 'Consolidated financial statements' section.

For more information, please refer to the 'Glossary of financial ratios and terms'.

Composition of loan and investment portfolio, 31-12-2020



Loan and investment portfolio, banking

Total loan portfolio	31-12-2020	31-12-2019
Total loan portfolio (in billions of EUR)		
Amount outstanding and undrawn	225	218
Amount outstanding	181	175
Loan portfolio breakdown by business unit (as a % of the outstanding portfolio)[1]		
Belgium[2]	64,0%	64.1%
Czech Republic	17.6%	18.4%
International Markets	16.6%	15.6%
Group Centre	1.8%	2.0%
Total	100.0%	100.0%
Loan portfolio breakdown by counterparty sector (as a % of the outstanding portfolio)[1]		
Private individuals	43.0%	41.7%
Finance and insurance	8.0%	7.6%
Governments	2.9%	2.9%
Corporates	46.1%	47.7%
Services	*10.8%*	*10.9%*
Distribution	*6.9%*	*7.3%*
Real estate	*6.3%*	*6.4%*
Building and construction	*3.9%*	*3.9%*
Agriculture, farming, fishing	*2.7%*	*2.7%*
Automotive	*2.5%*	*2.6%*
Other (sectors < 2%)	*13.0%*	*13.9%*
Total	100.0%	100.0%

Loan and investment portfolio, banking

Loan portfolio breakdown by region (as a % of the outstanding portfolio)[1,3]		
Home countries	86.7%	86.4%
Belgium	*53.2%*	*52.9%*
Czech Republic	*16.6%*	*17.6%*
Ireland	*5.8%*	*5.9%*
Slovakia	*5.7%*	*4.9%*
Hungary	*3.3%*	*3.1%*
Bulgaria	*2.1%*	*2.0%*
Rest of Western Europe	8.9%	8.6%
Rest of Central and Eastern Europe	0.2%	0.4%
North America	1.4%	1.5%
Asia	1.2%	1.5%
Other	1.6%	1.6%
Total	100.0%	100.0%
Loan portfolio breakdown by risk class (as a % of the outstanding portfolio, based on internal rating scale)[1]		
Unimpaired		
PD 1 (lowest risk, default probability ranging from 0.00% up to, but not including, 0.10%)	*26.4%*	*29.3%*
PD 2 (0.10% – 0.20%)	*11.9%*	*7.9%*
PD 3 (0.20% – 0.40%)	*14.9%*	*17.2%*
PD 4 (0.40% – 0.80%)	*12.8%*	*11.7%*
PD 5 (0.80% – 1.60%)	*12.9%*	*13.5%*
PD 6 (1.60% – 3.20%)	*8.7%*	*8.7%*
PD 7 (3.20% – 6.40%)	*4.7%*	*4.5%*
PD 8 (6.40% – 12.80%)	*2.1%*	*1.9%*
PD 9 (highest risk, ≥ 12.80%)	*1.5%*	*1.7%*
Unrated	*0.8%*	*0.2%*
Impaired		
PD 10	*1.5%*	*1.6%*
PD 11	*0.6%*	*0.7%*
PD 12	*1.2%*	*1.3%*
Total	100.0%	100.0%
Loan portfolio breakdown by IFRS 9 ECL Stage[4] (as a % of the outstanding portfolio)[1,7]		
Stage 1 (no significant increase in credit risk since initial recognition)	*85.2%*	*85.2%*
Stage 2 (significant increase in credit risk since initial recognition – not credit impaired) incl. POCI[5]	*11.5%*	*11.3%*
Stage 3 (significant increase in credit risk since initial recognition – credit impaired) incl. POCI[5]	*3.3%*	*3.5%*
Total	100.0%	100.0%

Impaired loan portfolio	31-12-2020	31-12-2019
Impaired loans (PD 10 + 11 + 12; in millions of EUR or %)		
Impaired loans[6]	5 902	6 160
Of which more than 90 days past due	*3 220*	*3 401*
Impaired loans by business unit (as a % of the impaired loan portfolio)[1]		
Belgium[2]	45.0%	43.5%
Czech Republic	12.2%	11.8%
International Markets	35.2%	37.7%
Ireland	*24.3%*	*26.9%*
Slovakia	*3.8%*	*2.3%*
Hungary	*1.9%*	*2.5%*
Bulgaria	*5.1%*	*6.1%*
Group Centre	7.6%	6.9%
Total	100.0%	100.0%

Impaired loan portfolio	31-12-2020	31-12-2019
Impaired loans by sector (as a % of impaired loan portfolio)[1]		
Private individuals	35.4%	38.1%
Distribution	17.8%	18.6%
Services	9.7%	7.9%
Real estate	8.8%	7.8%
Building and construction	4.3%	4.4%
Automotive	3.1%	1.7%
Agriculture, farming, fishing	2.4%	2.4%
Machinery & heavy equipment	2.0%	1.9%
Other (sectors < 2%)	16.5%	17.3%
Total	100.0%	100.0%
Loan loss impairment (in millions of EUR)		
Impairment for Stage 1 portfolio	191	144
Impairment for Stage 2 portfolio, incl. POCI[5] (cured)	998	265
Impairment for Stage 3 portfolio, incl. POCI[5] (still impaired)	2 638	2 584
Of which impairment for impaired loans that are more than 90 days past due	*2 044*	*2 050*
Credit cost ratio		
Belgium Business Unit[2]	0.57%	0.22%
Czech Republic Business Unit	0.67%	0.04%
International Markets Business Unit	0.78%	-0.07%
Ireland	*0.88%*	*-0.32%*
Slovakia	*0.50%*	*0.14%*
Hungary	*1.05%*	*-0.02%*
Bulgaria	*0.73%*	*0.14%*
Group Centre	-0.23%	-0.88%
Total	0.60%	0.12%
Impaired loans ratio		
Belgium Business Unit[2]	2.3%	2.4%
Czech Republic Business Unit	2.3%	2.3%
International Markets Business Unit	6.9%	8.5%
Ireland	*13.9%*	*16.4%*
Slovakia	*2.3%*	*1.7%*
Hungary	*1.9%*	*2.8%*
Bulgaria	*7.7%*	*10.6%*
Group Centre	13.9%	12.4%
Total	3.3%	3.5%
Of which more than 90 days past due	*1.8%*	*1.9%*
Coverage ratio		
Loan loss impairment / impaired loans	44.7%	42.0%
Of which more than 90 days past due	*63.5%*	*60.3%*
Loan loss impairment / impaired loans (excl. mortgage loans)	52.3%	49.7%
Of which more than 90 days past due	*74.8%*	*71.7%*

1 Unaudited figures.

2 Also includes the small network of KBC Bank branches established in the rest of Europe, the US and Southeast Asia. These branches accounted for a total outstanding portfolio of approximately 6.6 billion euros at year-end 2020.

3 A more detailed breakdown by country is available in KBC's quarterly reports (at www.kbc.com).

4 For more information on stages, see Note 1.2 of the 'Consolidated financial statements' section.

5 Purchased or originated credit impaired assets; gross amounts, as opposed to net amounts in the accounting treatment.

6 Figures differ from those appearing in Note 4.2 of the 'Consolidated financial statements' section, due to differences in scope. The 258-million-euro decrease between year-ends 2019 and 2020 breaks down as follows: a decrease of 22 million euros at the Belgium Business Unit, a decrease of 8 million euros at the Czech Republic Business Unit, a decrease of 250 million euros at the International Markets Business Unit and an increase of 22 million euros at the Group Centre.

7 Figures before impact of the overlay approach (for more information, see Note 4.2.1 of the 'Consolidated financial statements' section).

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

Loan portfolio breakdown by IFRS 9 ECL Stage*				31-12-2020				31-12-2019
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Loan portfolio by country/business unit								
Belgium	53.5%	9.1%	1.5%	64.0%	53.7%	8.9%	1.5%	64.1%
Czech Republic	15.9%	1.3%	0.4%	17.6%	16.9%	1.1%	0.4%	18.4%
International Markets	14.3%	1.1%	1.1%	16.6%	13.0%	1.2%	1.3%	15.6%
Ireland	*4.6%*	*0.4%*	*0.8%*	*5.7%*	*4.4%*	*0.4%*	*0.9%*	*5.8%*
Slovakia	*4.9%*	*0.4%*	*0.1%*	*5.5%*	*4.2%*	*0.4%*	*0.1%*	*4.7%*
Hungary	*3.0%*	*0.2%*	*0.1%*	*3.2%*	*2.8%*	*0.2%*	*0.1%*	*3.1%*
Bulgaria	*1.8%*	*0.2%*	*0.2%*	*2.2%*	*1.6%*	*0.2%*	*0.2%*	*2.0%*
Group Centre	1.5%	0.0%	0.2%	1.8%	1.7%	0.1%	0.2%	2.0%
Total	85.2%	11.5%	3.3%	100.0%	85.2%	11.3%	3.5%	100.0%
Loan portfolio by sector								
Private individuals	38.9%	2.9%	1.2%	43.0%	37.5%	2.9%	1.3%	41.7%
Finance and insurance	7.7%	0.2%	0.0%	8.0%	7.2%	0.3%	0.0%	7.6%
Governments	2.9%	0.0%	0.0%	2.9%	2.9%	0.0%	0.0%	2.9%
Corporates	35.7%	8.3%	2.1%	46.1%	37.6%	8.0%	2.1%	47.7%
Total	85.2%	11.5%	3.3%	100.0%	85.2%	11.3%	3.5%	100.0%
Loan portfolio by risk class								
PD 1–4	62.5%	3.6%	–	66.1%	62.7%	3.4%	–	66.0%
PD 5–9	22.7%	7.9%	–	30.6%	22.6%	7.9%	–	30.4%
PD 10–12	–	–	3.3%	3.3%	–	–	3.5%	3.5%
Total	85.2%	11.5%	3.3%	100.0%	85.2%	11.3%	3.5%	100.0%
Total (in millions of EUR)	154 137	20 852	5 902	180 891	149 521	19 751	6 160	175 431

* Figures before impact of the overlay approach (for more information, see Note 4.2.1 of the 'Consolidated financial statements' section).

Impairment broken down by IFRS 9 ECL Stage				31-12-2020				31-12-2019
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Impairment by country/business unit								
Belgium	2.6%	14.0%	31.7%	48.3%	2.2%	4.5%	37.4%	44.0%
Czech Republic	0.9%	6.0%	9.2%	16.1%	1.3%	2.2%	11.5%	15.0%
International Markets	1.5%	6.0%	18.7%	26.1%	1.3%	2.0%	25.4%	28.6%
Ireland	*0.3%*	*1.7%*	*9.8%*	*11.8%*	*0.1%*	*0.4%*	*13.6%*	*14.1%*
Slovakia	*0.5%*	*2.2%*	*4.2%*	*6.9%*	*0.4%*	*1.1%*	*3.3%*	*4.8%*
Hungary	*0.4%*	*1.6%*	*1.5%*	*3.5%*	*0.4%*	*0.3%*	*2.8%*	*3.5%*
Bulgaria	*0.2%*	*0.5%*	*3.2%*	*3.9%*	*0.4%*	*0.3%*	*5.6%*	*6.3%*
Group Centre	0.0%	0.0%	9.4%	9.5%	0.1%	0.2%	12.1%	12.4%
Total	5.0%	26.1%	68.9%	100.0%	4.8%	8.9%	86.3%	100.0%
Impairment by sector								
Private individuals	0.9%	6.3%	17.3%	24.4%	0.8%	2.7%	23.9%	27.3%
Finance and insurance	0.1%	0.9%	1.4%	2.4%	0.1%	0.1%	1.6%	0.4%
Governments	0.0%	0.0%	0.2%	0.3%	0.1%	0.0%	0.3%	0.1%
Corporates	4.0%	18.9%	50.1%	72.9%	3.8%	6.0%	60.5%	72.2%
Total	5.0%	26.1%	68.9%	100.0%	4.8%	8.9%	86.3%	100.0%
Impairment by risk class								
PD 1–4	1.0%	3.4%	–	4.4%	0.9%	0.5%	–	1.4%
PD 5–9	4.0%	22.7%	–	26.6%	3.9%	8.4%	–	12.3%
PD 10–12	–	–	68.9%	68.9%	–	–	86.3%	86.3%
Total	5.0%	26.1%	68.9%	100.0%	4.8%	8.9%	86.3%	100.0%
Total (in millions of EUR)	191	998	2 638	3 827	144	265	2 584	2 994

Forbearance measures

Forbearance measures consist of concessions towards a borrower facing, or about to face, financial difficulties. They may involve:

- lowering or postponing interest or fee payments;
- extending the term of the loan to ease the repayment schedule;
- capitalising arrears;
- declaring a moratorium (temporary principal and/or interest payment holidays);
- providing debt forgiveness.

A client with a loan qualifying as forborne will in general be assigned a PD class that is worse than before the forbearance measure was granted, given the increased risk of default. When that is the case, the client's unlikeliness to pay is also assessed (according to specific 'unlikely to pay' criteria). In accordance with IFRS 9 requirements, a facility tagged as 'forborne' is allocated to 'Stage 2' (if the client/facility is classified as 'non-defaulted') and to 'Stage 3' (if the client/facility is classified as 'defaulted').

KBC applies criteria that are consistent with the corresponding EBA standards to move forborne exposures from 'defaulted' to 'non-defaulted' status and to remove the forbearance status. If a client/facility has been assigned 'defaulted' status (before or at the time forbearance measures are granted), the client/forborne facility (depending on whether defaulted status is assigned at client or facility level) must remain defaulted for at least one year. Only upon strict conditions can the client/facility be reclassified as 'non-defaulted'. A forborne facility with a 'non-defaulted' status will be tagged as 'forborne' for at least two years after the forbearance measure has been granted, or after the client/facility becomes non-defaulted, and can only be removed when strict extra criteria have been met (non-defaulted, regular payments, etc.).
As a forbearance measure constitutes an objective indicator (i.e. impairment trigger) that requires assessing whether impairment is needed, all forbearance measures are subject to an impairment test.

***On-balance-sheet exposures* with forbearance measures** (in millions of EUR) **– movements between opening and closing balances**

		Movements					
Gross carrying value	**Opening balance**	**Loans which have become forborne**	**Loans which are no longer considered to be forborne**	**Repayments**	**Write-offs**	**Other[1]**	**Closing balance**
2020							
Total	3 075	1 912	-535	-355	-31	92	4 158
Of which KBC Bank Ireland	1 668	92	-222	-128	-0	7	1 417
2019							
Total	3 890	277	-712	-253	-137	10	3 075
Of which KBC Bank Ireland	2 195	98	-439	-57	-103	-26	1 668

		Movements					
Impairment	**Opening balance**	**Existing impairment on loans which have become forborne**	**Decrease in impairment because loans are no longer forborne**	**Increase in impairment on forborne loans**	**Decrease in impairment on forborne loans**	**Other[2]**	**Closing balance**
2020							
Total	516	156	-95	169	-82	-18	645
Of which KBC Bank Ireland	224	13	-30	66	-20	-2	251
2019							
Total	655	64	-173	69	-86	-13	516
Of which KBC Bank Ireland	353	22	-127	15	-38	-1	224

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

Forborne loans	As a % of the outstanding portfolio	Breakdown by PD class (as a % of the entity's portfolio of forborne loans)			
		PD 1–8	PD 9	PD 10 (*impaired*, less than 90 days past due)	PD 11–12 (*impaired*, 90 days and more past due)
31-12-2020					
Total	2.4%	31.6%	12.7%	38.1%	17.7%
Of which KBC Bank Ireland	13.7%	0.0%	24.5%	43.5%	32.0%
By client segment[1]					
Private individuals[2]	2.3%	13.2%	20.0%	38.8%	28.0%
SMEs	2.8%	53.6%	8.7%	28.1%	9.5%
Corporations[3]	2.1%	38.5%	5.9%	45.3%	10.3%
31-12-2019					
Total	1.8%	13.2%	18.1%	43.4%	25.3%
Of which KBC Bank Ireland	16.5%	0.0%	24.9%	46.2%	28.9%
By client segment[1]					
Private individuals[2]	2.7%	7.9%	22.5%	42.6%	27.0%
SMEs	1.1%	24.6%	11.8%	35.1%	28.5%
Corporations[3]	1.2%	21.0%	9.9%	49.9%	19.2%

1 Unaudited.
2 97% of the forborne loans total relates to mortgage loans in 2019 (99% in 2019).
3 22% of the forborne loans relates to commercial real estate loans in 2019 (22% in 2019).

Other credit risks in the banking activities

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

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

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

Other credit exposure, banking (in billions of EUR)	31-12-2020	31-12-2019
Issuer risk[1]	0.02	0.05
Counterparty credit risk of derivatives transactions[2]	5.0	5.6

1 Excluding a nominative list of central governments, and all exposure to EU institutions and multilateral development banks.
2 After deduction of collateral received and netting benefits.

Credit risk exposure in the insurance activities

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

Investment portfolio of KBC group insurance entities
(in millions of EUR, market value)[1]

	31-12-2020	31-12-2019
Per asset type (Solvency II)		
Securities	20 466	20 331
Bonds and alike	*19 230*	*18 988*
Shares	*1 231*	*1 341*
Derivatives	*5*	*1*
Loans and mortgages	3 074	3 133
Loans and mortgages to clients	*2 506*	*2 513*
Loans to banks	*568*	*619*
Property and equipment and investment property	315	286
Unit-linked investments[2]	13 831	14 477
Investments in associated companies	242	264
Other investment[5]	12	13
Total	37 939	38 503
Details for bonds and other fixed-income securities		
By external rating[3]		
Investment grade	99%	98%
Non-investment grade	1%	2%
Unrated	0%	0%
By sector[3]		
Governments	65%	64%
Financial[4]	23%	23%
Other	13%	13%
By remaining term to maturity[3]		
Not more than 1 year	8%	11%
Between 1 and 3 years	16%	15%
Between 3 and 5 years	16%	17%
Between 5 and 10 years	30%	31%
More than 10 years	30%	27%

1 The total carrying value amounted to 36 317 million euros at year-end 2020 and to 37 053 million euros at year-end 2019. Figures differ from those appearing in Note 4.1 of the 'Consolidated financial statements' section, due to asset class reporting under Solvency II.

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

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

4 Including covered bonds and non-bank financial companies.

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

Credit exposure to (re)insurance companies by risk class[1]: EAD and EL[2] (in millions of EUR)	**EAD 2020**	**EL 2020**	**EAD 2019**	**EL 2019**
AAA up to and including A-	232	0.09	218	0.09
BBB+ up to and including BB-	21	0.03	11	0.01
Below BB-	0	0	0	0
Unrated	0	0.00	1	0.01
Total	253	0.12	230	0.11

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

Structured credit exposure (banking and insurance portfolios)

The total net portfolio (i.e. excluding de-risked positions) of structured credit products amounted to 0.3 billion euros at year-end 2020 and consisted primarily of European residential mortgage-backed securities (RMBS). It was down 0.2 billion euros on its level at year-end 2019 due to redemptions. No new investments were made in 2020.

Regulatory capital

The regulatory capital requirements for credit risk increased from 6 809 million euros at the end of 2019 to 7 063 million euros at the end of 2020, driven largely by additional regulatory requirements, the acquisition of OTP Banka Slovensko and changes in volume and asset quality of portfolios in the core countries. For more details, please see the ‘Credit risk’ section in KBC’s Risk Report, which is available at www.kbc.com.

Market risk in non-trading activities

Market risk is the risk related to changes in the level or in the volatility of market prices. The process of managing our structural exposure to market risks in the non-trading activities includes interest rate risk, gap risk, basis risk, option risk (such as prepayment risk), currency risk, equity price risk, real estate price risk, credit spread risk and inflation risk. 'Structural exposure' encompasses all exposure inherent in our commercial activity or in our long-term positions (banking and insurance). Trading activities are therefore not included. This process is also known as Asset/Liability Management (ALM).

Managing market risk in non-trading activities

Management of the ALM risk strategy at KBC is the responsibility of the Executive Committee, supported by the CRO Services Management Committee and partly by the Asset and Liability Committee (ALCO). The Executive Committee decides on the non-trading market risk framework, which sets out specific risk guidance.

In order to establish, facilitate, promote and support the solid and efficient integration of all tasks assigned to the local and group departments that are accountable for monitoring non-trading market risk, a management meeting of the group-wide Extended Competence Centre for ALM & Liquidity Risk is convened and chaired by the Treasury CRO. It is referred to as the ALM & Liquidity Risk Council meeting.

The building blocks for managing market risk in non-trading activities

A number of group-wide building blocks are defined to ensure proper management of non-trading market risk:

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

  The following tools are used in the risk identification process for the market risk non-trading: the New and Active Products Process (NAPP), the risk scan, the risk signal and early warning process, the parameter reviews and materiality assessments based on in-depth analysis and deep dives.

- Risk measurements: Group Risk and the local risk departments measure ALM risks and flag current and future risk positions. A common rulebook, which supplements the framework for technical aspects, and a shared group measurement infrastructure ensure that these risks are measured consistently throughout the group. This includes a broad range of risk measurement methods such as:
  - Basis-Point-Value (BPV) for interest rate risk;
  - gap analysis for interest rate risk, gap risk and inflation risk;
  - economic sensitivities for currency risk, equity price risk and real estate price risk;
  - net interest income simulations over a multi-year period which are used in budgeting and risk processes.

- Setting risk appetite: major limits for interest rate risk, equity risk, real estate risk and foreign exchange risk for the consolidated entities are approved by the Board of Directors and limits for each local entity are approved by the Executive Committee.

  The treasury departments, acting as the first line of defence, measure and manage interest rate risk on a playing field defined by the risk appetite and the limits. They take into account measurement of prepayment and other option risks in the banking book and manage a balanced investment portfolio. Management of the positions implies that the treasury function uses derivatives to hedge against imbalances, due to interest rate and foreign exchange risks. To avoid profit and loss volatility that would result from the different accounting treatment of balance sheet investment items and derivatives, hedge accounting techniques are widely applied.

- Risk analysis, response and follow-up: besides regulatory required reporting, structural reporting to the ALCO is performed. The reporting process includes a sign-off process to ensure data accuracy.

- Stress testing: a balanced stress testing programme is prepared on a yearly basis and reported on a quarterly basis. This includes:
  - the back-testing of prepayments;
  - net interest income simulations performed under a variety of market scenarios for interest rate risk. Net interest income impact and sensitivities are also used to measure basis risk;
  - capital sensitivities arising from banking book positions that impact available regulatory capital (e.g., fair value through other comprehensive income) are used for spread risk, interest rate risk and equity risk.

Impact of the coronavirus crisis on non-trading market risk

The coronavirus crisis increased the 'low-for-longer' sentiment, meaning that the expectation is for interest rates to stay at a low level for a longer time. It also added to volatility on the equity markets. As a whole, it formed a very challenging environment for the non-trading activities and affected the capacity to generate net interest income. In 2020, the balanced structure of the banking books, action taken by the treasury departments and ECB measures limited the impact on non-trading market risk and kept our current risk profile low.

The different sub-risk types, including more details and figures, are set out below.

Interest rate risk and gap risk

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

Impact of a parallel 10-basis-point increase in the swap[2] curve for the KBC group (in millions of EUR)	Impact on value[1]	
	2020	**2019**
Banking	-64	-96
Insurance	29	23
Total	-35	-73

1 Full market value, regardless of accounting classification or impairment rules.
2 Based on a risk-free curve (swap curve).

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

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

Swap BPV (10 basis points) of the ALM book, banking activities* (in millions of EUR)	**2020**	**2019**
Average for 1Q	-77	-84
Average for 2Q	-72	-104
Average for 3Q	-76	-94
Average for 4Q	-64	-96
As at 31 December	-64	-96
Maximum in year	-77	-104
Minimum in year	-64	-84

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

In line with European Banking Authority guidelines, we conduct an outlier stress test at regular intervals by applying six different scenarios to the banking books (material currencies). The worst-case scenario is set off against total common equity tier-1 (CET1) capital. For the banking book at KBC group level, this risk came to 3.89% of CET1 capital at year-end 2020. This is well below the 15% threshold, which is monitored by the European Central Bank.

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

Interest sensitivity gap of the ALM book (including derivatives), banking activities
(in millions of EUR)

	≤ 1 month	1–3 months	3–12 months	1–5 years	5–10 years	> 10 years	Non-interest-bearing	Total
31-12-2020	17 408	-26 418	-668	3 781	4 692	1 003	201	0
31-12-2019	2 961	-1 982	945	6 471	6 863	2 419	-17 677	0

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

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

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

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

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

Expected cashflows (not discounted), life insurance activities (in millions of EUR)	0–5 years	5–10 years	10–15 years	15–20 years	> 20 years	Total
31-12-2020						
Fixed-income assets backing liabilities, guaranteed component	6 077	3 809	2 390	1 640	830	14 746
Liabilities, guaranteed component	5 492	3 263	2 213	1 412	3 179	15 559
Difference in expected cashflows	585	546	177	228	-2 349	-813
Mean duration of assets						7.71 years
Mean duration of liabilities						10.33 years
31-12-2019						
Fixed-income assets backing liabilities, guaranteed component	7 073	3 797	1 923	1 875	880	15 548
Liabilities, guaranteed component	5 599	3 602	2 358	1 789	2 978	16 326
Difference in expected cashflows	1 474	195	-435	86	-2 099	-778
Mean duration of assets						7.29 years
Mean duration of liabilities						10.03 years

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

Breakdown of the reserves for non-unit-linked life insurance by guaranteed interest rate, insurance activities	31-12-2020	31-12-2019
5.00% and higher	3%	3%
More than 4.25% up to and including 4.99%	8%	8%
More than 3.50% up to and including 4.25%	4%	5%
More than 3.00% up to and including 3.50%	10%	10%
More than 2.50% up to and including 3.00%	3%	4%
2.50% and lower	70%	69%
0.00%	2%	2%
Total	100%	100%

Credit spread risk

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

Revaluation reserve at fair value through other comprehensive income (FVOCI) at year-end 2020: the carrying value of the total government bond portfolio measured at FVOCI incorporated a revaluation reserve of 1.4 billion euros, before tax (448 million euros for Belgium, 275 million euros for France, 122 million euros for Italy and 513 million euros for the other countries combined).

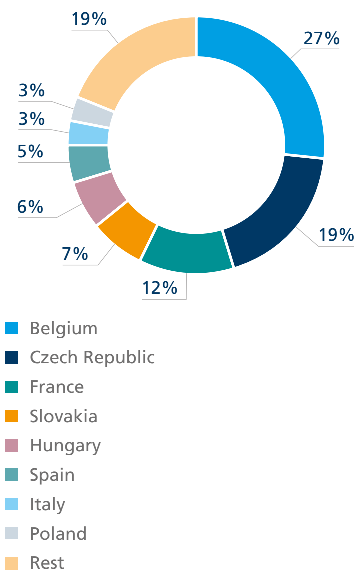
Exposure to sovereign bonds at year-end 2020, carrying value[1] (in millions of EUR)

Total (by portfolio)

	At amortised cost	At fair value through other comprehensive income (FVOCI)	Held for trading	Total	*For comparison purposes: total at year-end 2019*	Economic impact of +100 basis points[3]
KBC core countries						
Belgium	11 437	3 412	751	15 599	*14 991*	-825
Czech Republic	8 661	1 377	1 003	11 041	*7 044*	-679
Hungary	2 780	394	226	3 399	*2 927*	-179
Slovakia	3 286	424	27	3 736	*2 854*	-223
Bulgaria	932	559	33	1 524	*1 282*	-91
Ireland	1 147	232	0	1 379	*1 536*	-84
Other countries						
France	4 403	2 176	51	6 630	*6 388*	-440
Spain	1 960	701	0	2 661	*2 510*	-150
Italy	636	1 143	0	1 779	*1 902*	-75
Poland	1 275	299	31	1 604	*1 701*	-51
US	1 038	0	0	1 038	*1 016*	-45
Rest[2]	4 878	1 585	358	6 821	*6 391*	-249
Total carrying value	42 432	12 301	2 479	57 212	*50 542*	–
Total nominal value	40 795	10 646	2 280	53 721	*47 216*	–

1 The table excludes exposure to supranational entities of selected countries. No material impairment on the government bonds in portfolio.
2 Sum of countries whose individual exposure is less than 1 billion euros at year-end 2020.
3 Theoretical economic impact in fair value terms of a parallel 100-basis-point upward shift in the spread over the entire maturity structure. Only a portion of this impact is reflected in profit or loss and/or equity. Figures relate to non-trading positions in sovereign bonds for the banking and insurance businesses (impact on trading book exposure was quite limited and amounted to -9 million euros, including supranational bonds, at year-end 2020).

Government bonds by country
(carrying value at 31-12-2020)



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

Exposure to non-sovereign bonds at year-end, by rating: economic impact of +100 basis points

(in millions of EUR)	31-12-2020	31-12-2019
Bonds rated AAA	-204	-198
Bonds rated AA+, AA, AA-	-155	-137
Bonds rated A+, A, A-	-112	-112
Bonds rated BBB+, BBB, BBB-	-61	-64
Non-investment grade and non-rated bonds	-40	-36
Total carrying value (excluding trading portfolio)	12 440	12 452

Equity risk

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

Equity portfolio of the KBC group (breakdown by sector, in %)	Banking activities		Insurance activities		Group	
	31-12-2020	31-12-2019	31-12-2020	31-12-2019	31-12-2020	31-12-2019
Financials	56%	58%	16%	23%	23%	28%
Consumer non-cyclical	1%	0%	12%	9%	10%	8%
Communication	0%	0%	4%	3%	3%	2%
Energy	0%	0%	1%	4%	1%	3%
Industrials	5%	26%	37%	43%	32%	41%
Utilities	0%	0%	2%	3%	2%	2%
Consumer cyclical	4%	4%	19%	11%	16%	10%
Materials	0%	0%	4%	4%	3%	4%
Other and not specified	34%	11%	6%	0%	11%	2%
Total	100%	100%	100%	100%	100%	100%
In billions of EUR	0.27	0.26	1.32	1.45	1.58*	1.70
of which unlisted	0.22	0.22	0.05	0.08	0.27	0.31

* The main reason for the difference with the 2.07 billion euros for 'Equity instruments' in Note 4.1 of the 'Consolidated financial statements' section is that shares in the trading book (0.49 billion euros) are excluded above, but included in the table in Note 4.1.

Impact of a 25% drop in equity prices (in millions of EUR)	Impact on value	
	2020	2019
Banking activities	-66	-64
Insurance activities	-329	-362
Total	-395	-426

Non-trading equity exposure (in millions of EUR)	Net realised gains (in income statement)		Net unrealised gains on year-end exposure (in equity)	
	31-12-2020	31-12-2019	31-12-2020	31-12-2019
Banking activities	–	–	12	27
Insurance activities	116	117	337	370
Total	116	117	349	396

Real estate risk

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

Impact of a 25% drop in real estate prices (in millions of EUR)	**Impact on value** 2020	2019
Bank portfolios	-98	-92
Insurance portfolios	-93	-98
Total	-191	-190

Inflation risk

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

The banking activities are not exposed to a significant inflation risk. For the insurance activities, the undiscounted value of the inflation-sensitive cashflows was estimated at 572 million euros, against which a 391-million-euro portfolio of indexed bonds and 30 million euros in direct and indirect real estate was held. In the years ahead, investments in inflation-linked bonds will be increased further.

Foreign exchange risk

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

Since 2019, KBC has focused on stabilising the common equity ratio against foreign exchange fluctuations, which has improved KBC's capacity to cushion external shocks and is beneficial to all stakeholders. This implied a reduction in hedging participations. To ensure consistency between banking and insurance entities, strategic insurance participations are no longer hedged either, as they do not affect the common equity ratio under the Danish compromise.

Impact of a 10% decrease in currency value* (in millions of EUR)	**Impact on value Banking** 31-12-2020	31-12-2019	**Impact on value Insurance** 31-12-2020	31-12-2019
CZK	-232	-200	-18	-17
HUF	-95	-78	-5	-5
BGN	-41	-35	-10	-9
USD	-2	-2	-36	-33

* Exposure for currencies where the impact exceeds 10 million euros in Banking or Insurance.

Hedge accounting

Assets and liabilities management uses derivatives to mitigate interest rate and foreign exchange risks. The aim of hedge accounting is to reduce the volatility in P&L resulting from the use of these derivatives.

KBC decided not to apply hedge accounting to credit and equity risks. When the necessary criteria are met, it is applied to remove the accounting mismatch between the hedging instrument and the hedged item. For more information about hedge accounting, please see 'Notes on the accounting policies' in the 'Consolidated financial statements' section.

Risk categories applying to hedge accounting

Interest rates

Hedging derivatives are used to mitigate an interest rate risk that arises from a difference in the interest rate profile of assets and their funding liabilities. The hedge accounting status of a hedge can be associated with either the asset or the liability item.

Interest rate derivatives can be designated as:

- Hedges of the fair value of recognised assets or liabilities. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The gain or loss relating to the ineffective portion is also recognised in profit or loss.
- Hedges of the cashflow of recognised assets and liabilities which are either certain or highly probable forecasted transactions. The effective portion of changes in the fair value of derivatives that are designated and qualify as cashflow hedges is recognised in the cashflow hedge reserve within equity. The gain or loss relating to the ineffective portion is recognised directly in profit or loss.

KBC uses macro hedge accounting strategies for homogeneous portfolios of smaller items, where the frequency of occurrence or the relatively small size of the average operation renders the one-to-one relationship sub-optimal. This is the case for *inter alia* mortgages, loans to SMEs or customer deposits. Macro hedge strategies may be dynamic and undergo frequent changes based on balancing the portfolio ('open portfolio hedge'), among other things. The micro hedge designation is used when large individual assets or liabilities are hedged. Typical assets are large corporate loans and bond acquisitions for which the credit spread profile is relevant. Liabilities can include KBC's own issues or specific long-term facilities offered by a central bank. Micro hedges are either fair-value or cashflow based.

Foreign exchange

KBC has strategic investments denominated in non-euro currencies. The net asset value of significant participations is partly funded in the local currency by deposits and foreign exchange derivatives, to ensure stability of the CET1 ratio. By using hedges of net investments in foreign operations, the foreign exchange component is reported in equity until realisation (unwinding of funding due to liquidation, dividend payments or other decreases in net asset value).

Hedge effectiveness

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

Effectiveness testing

For interest rates, several prospective and retrospective tests are performed to ensure the relationship between the hedged item and the hedging instrument qualifies for the hedge accounting strategy.
Prospective tests are mostly based either on a sensitivity analysis (verifying if the basis point value of the hedged portfolio relative to the hedging instrument stays within the 80-125% interval) or volume tests (if the principal amount of hedge-eligible items exceeds the notional volume of hedging instruments expected to be repriced or repaid in each specified time bucket).
For macro cashflow hedges, extensive forward-looking analyses assess the sufficient likelihood that the future volume of hedged items will largely cover the volume of hedging instruments. A hedge ratio – measuring the proportion of a portfolio that is hedged by derivatives – is calculated for each hedging strategy.
The retrospective effectiveness test of the hedge relationship is periodically carried out by comparing the change in fair value of the portfolio of hedging instruments relative to the change in fair value of the hedged eligible items imputable to the hedged risk over a given period (the ratio of fair value changes remains within the 80-125% interval).
For foreign exchange hedging, effectiveness is ensured by adjusting the sum of the nominal amount of the funding deals and foreign exchange derivatives to the targeted hedge amount of the strategic participations.

Sources of hedge ineffectiveness

Ineffectiveness for interest rate swaps may occur due to:

- differences in relevant terms between the hedged item and the hedging instrument (it can include discrepancies in interest curves and in periodicity);
- a reduction in volume of the hedged item that would fall under the volume of hedging instruments for any time bucket;

- the credit value adjustment on the interest rate swap not being matched by the loan. However, hedging swaps are fully collateralised or traded through clearing houses and the credit value adjustment is limited.

Regarding the hedge of the net investment in foreign currency, the interest rate component from the hedging instruments can be a source of inefficiency.

Discontinuation of hedge accounting

Hedge accounting strategies failing the effectiveness tests are discontinued. A de-designated hedging instrument can be re-designated in a new hedge relationship. Effective hedge accounting strategies may also be discontinued for technical or strategic reasons. Any impact on profit and loss arising from hedge ineffectiveness and discontinuation is reported to the ALCO.

Interest rate benchmarks

Interest rate benchmarks are reference rates playing a key role in the smooth functioning of the financial markets. They are widely used by banks and other market participants. These benchmarks are currently undergoing in-depth reforms and transitions. In the European Union, the Benchmark Regulation (EU 2016/1011 BMR, scheduled to come into effect by the end of 2021) sets revised guidelines and regulations on the eligibility of a benchmark calculation methodology. The European Security and Markets Association (ESMA) was given the role of overseeing this change.

The interest rate benchmark transition within the KBC group is ongoing and on track in all entities. The process of changing from EONIA to the euro short-term rate (ESTR) was planned and implemented in the systems during 2020 and became effective on 1 January 2021. We will continue updating the documentation with bilateral counterparties throughout 2021 as part of the transition from EONIA to ESTR. For other KBC group entities, there is no or very limited exposure to EONIA. Any such exposures are being renegotiated with clients.

The process of changing from LIBOR to risk-free rates is scheduled to be completed before the deadline of 1 January 2022, even after announcements being made regarding the extension of the USD LIBOR deadline to 2023. During 2020, the central counterparties transitioned from LIBOR to Secured Overnight Financing Rate (SOFR) discounting, and this transition was successfully implemented within KBC Bank. The main exposure to LIBOR is in KBC's Belgian entities. KBC Bank Belgium will implement the transition in the second half of 2021.

KBC Bank currently assumes that the replacement for LIBOR will be a backward-looking compounded rate, though the lookback methodology has still to be determined. However, KBC notes that there have recently been market consultations on potential forward-looking replacements for LIBOR.

Whilst EURIBOR remains EU Benchmark Regulation compliant, KBC notes that recent public consultations and comments from the ECB indicate that the market may eventually move from EURIBOR to a risk-free rate.

Capital sensitivity to market movements

The available capital is impacted when the market is stressed. Stress can be triggered by a number of market parameters, including by swap rates or bond spreads that increase or by equity prices that fall. At KBC, we use this capital sensitivity as a common denominator to measure the vulnerability of the banking book to different market risk shocks. Common equity tier-1 (CET1) capital is sensitive to a parallel increase in bond spreads. This sensitivity is caused by investments in sovereign and corporate bonds whose spread component has not been hedged. The loss in available capital in the event of a fall in equity prices is caused primarily by positions in pension funds that would be hit by such a shock.

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

IFRS impact caused by	31-12-2020	31-12-2019
+100-basis-point parallel *shift* in interest rates	0.3%	0.1%
+100-basis-point parallel shift in spread	-0.2%	-0.2%
-25% in equity prices	-0.3%	-0.3%

Regulatory capital

Regulatory capital for non-trading market activities totalled 17 million euros. It is used to cover foreign exchange exposures only, as KBC does not have any commodity exposures. In line with regulations, other types of non-trading market risk are covered through pillar II assessments.

Non-financial risks

Operational risk

Operational risk is the risk of inadequate or failed internal processes, people and systems or sudden man-made or natural external events. Operational risks include legal risk but exclude business, strategic, compliance and reputational risk.

Managing operational risk

The Competence Centre for Operational Risk, which consists of independent risk experts at both group and local level, cooperates with other expert functions in specific domains to cover the full spectrum of operational risk. A working environment is created where risk experts meet and cooperate with other experts in specific domains (such as information risk management, business continuity and disaster recovery, anti-fraud, legal, tax, accounting, and model and data quality risk management).

The building blocks for managing operational risks

A number of group-wide building blocks are defined to ensure adequate management of operational risks:

- Risk identification: identifying operational risks involves following up on legislation, as well as using the New and Active Products Process (NAPP), analysing key risk indicators, performing independent control monitoring activities, root cause analysis of near misses and losses and other risk events. A structured, process-based repository of Group Key Risks and related mitigating Group Key Control Objectives (GKCs) is in place to set top-down minimum standards for the risk and control environment. Self-assessments are performed by the first line of defence. The set of GKCs covers the complete process universe of the group and is designed to manage key operational risk types. A review process is in place to keep the repository in line with new or emerging operational risk types. Entities translate these Group Control Objectives into their operational process environment and supplement them with additional, local operational controls, if necessary. Dynamic trigger-based risk assessments are in place, based on the continuous screening of both internal and external risk events.
- Risk measurement: as operational risk is embedded in all aspects of the organisation, unified group metrics and scales are in place to define and support not only the underpinning of the risk profile of an entity, but also individual operational risk levels in the processes. The maturity status of individual control objectives to mitigate those risks in the processes is also defined on a group-wide unified scale. In addition, a group-wide uniform scale is used to express the overall internal control state of each process in each material entity and the overall internal control state of the entity. Group-wide tools are used by the three lines of defence to support the core activities of operational risk management. A standardised, near-miss and loss data collection process is in place, including root cause analysis and appropriate response.
- Setting and cascading risk appetite: the risk appetite for operational risk is set in line with the overall requirements as defined in the Enterprise Risk Management Framework.
- Risk analysis, reporting and follow-up: a uniform approach – strongly based on first line of defence accountability (business side) and challenges by the second line of defence (risk, compliance, legal and other experts) and assurance by the third line of defence (internal audit) – is in place with risk-based follow-up at both local and group level. Minimum standards for the operational risk management reporting process are defined. Besides regulatory required reporting, structural reporting to the group risk committees is performed every quarter. The quality of the internal control environment and related risk exposure is reported to KBC's senior management via a management dashboard and to the NBB, the FSMA and ECB via the annual Internal Control Statement.
- Stress testing: an annual stress test is performed to assess the adequacy of pillar 1 operational risk capital.

The broad spectrum of operational risks is categorised into a number of sub-risk types, in accordance with Basel requirements and industry practice. In 2020, specific attention was paid to the top sub-risk types set out below.

Information risk management

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

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

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

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

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

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

Business continuity management, including crisis management
To ensure the availability of critical services, KBC has an incident management process in place. This ensures regular business impact analysis is performed and recovery time objectives are defined and implemented.
A crisis management process has also been established, with a focus on both prevention and response. Crisis prevention focuses on reducing the probability of a crisis, while crisis response focuses on the effective and efficient handling of a crisis should one occur. To enable this, tested and rehearsed crisis capabilities have been implemented.

Processes are in place to adequately handle disasters which pose a threat to the continuity of critical business operations and availability of information (e.g., a pandemic, partial or full loss of a data centre, a major service disruption due to cyber attacks, etc.).

A dashboard is in place to monitor crisis readiness in each of our core countries.

Operational risk management in the specific context of the coronavirus pandemic

The coronavirus pandemic triggered increased attention for operational risks, mainly with regard to ensuring operational continuity and the safety of our clients and staff at all times. In response to the pandemic, several business continuity measures were taken, e.g., a switch to (partial) homeworking and to remote banking and insurance. Changes related to processes and procedures (including government relief measures) were implemented in a risk-conscious way. The New and Active Products Process (NAPP) proved its effectiveness in managing new and emerging risks triggered by process and product changes in a crisis situation. Frequent crisis monitoring was put in place for all sub-areas of operational risk. This included:

- monitoring IT system performance and employee health to ensure operational continuity and critical services;
- paying increased attention to coronavirus-related fraud and cyber incidents to prevent cyber criminals and other fraudsters from potentially exploiting the crisis and targeting employees and clients, for example, by means

of phishing/smishing, or through malicious coronavirus-like websites;
- monitoring the performance of outsourced activities to prevent KBC from being negatively impacted by coronavirus-related incidents at third parties;
- monitoring the risk and control environment with specific attention being paid to process changes (e.g., implementation of moratoria and relief measures);
- frequently following up loss registrations and trends.

These specific actions with regard to operational risk were combined with effective crisis management. The crisis management procedures worked effectively when activating back-up plans, moving to a new way of working and managing the 'new normal' (within days, the KBC group had managed to facilitate teleworking for a large proportion of its global workforce). This combined effort is proof of the robust operational resilience of KBC.

We continue to closely monitor operational risk in the context of the coronavirus crisis going forward. As of the date of this report, no major issues or incidents have been reported and operational losses remain well under control, due to appropriate actions being taken in all areas of operational risk, including intensified monitoring and management of cyber attacks.

Compliance risk

Compliance risk is the risk of losses or sanctions due to failure to comply with laws and regulations promoting integrity, and with internal policies and codes of conduct reflecting the institution's own values, as defined in the Group Compliance Framework. It includes conduct risk, i.e. the current or prospective risk of losses arising from inappropriate supply of financial services, including cases of wilful or negligent misconduct.

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

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

Significant efforts were concentrated in 2020 on the scalable and future-proof features of the Compliance function. This was achieved by simplifying more processes, fostering group-wide cooperation among the teams and through automation and Artificial Intelligence. Hence, as a first step, a common integrated platform to enhance the management of money laundering – on both the 'Know Your Customer' and the transactions sides – has been made available and rolled out in Belgium and at the Central European entities. Based on modelling and machine learning it allows, among other things, improved detection of unusual behaviours. Resources were doubled in Belgium, enabling a strong reinforcement of the Compliance Monitoring Programme. Group Fraud Management Framework coordination has been developed and is expected to achieve full maturity by 2023, while benefiting at the same time from developments in Artificial Intelligence.

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

The prevention of money laundering and terrorism financing, including embargoes, has been a top priority for the Compliance function during the last two years and will continue to be prioritised in 2021. It is an area where knowledge of the client (Know Your Customer (KYC)), updating their profiles and monitoring transactions (Know Your Transaction (KYT)) are essential. Efforts are continuously made to adapt the organisation to a constantly changing regulatory environment, particularly with regard to clients who present an increased risk and for whom additional information is required. Recent developments regarding KYC utilities (KUBE – KYC Utilities for Banks and Enterprises) that enable large banks to share harmonised KYC data on companies are promising and could facilitate client onboarding by the end of 2021. Similar reflections are ongoing with regard to individuals who use the digital identification app 'itsme' in Belgium.

KBC will also continue its group-wide programme to fine-tune its risk-based approach to take account of the EU's Fourth and Fifth Anti-Money Laundering Directives, while enhancing artificial intelligence modelling to better target unusual transaction patterns.

It goes without saying that the interests of the client come first. Given this position, the control functions ensure that, under the New and Active Products Process, the launch of any new products conforms with the many legal and regulatory provisions in place, such as MiFID II, the Insurance Distribution Directive and other local and EU Regulations, as well as being in line with KBC's values. A key area of focus was the adoption of temporary procedures related to the coronavirus crisis.

Data protection aspects were central in 2019 to maximising conformity with GDPR and highlighting its importance through targeted awareness campaigns. In 2020, efforts were largely concentrated on the launch of voice-activated personal assistant, Kate, while maintaining the right balance between the regulatory requirements in place and the technological developments inherent in a data-driven strategy now and going forward.

Regulatory capital requirements

When calculating operational risk (including compliance risk) capital, we use the Standardised approach under Basel III. Operational risk capital at KBC group level totalled 914 million euros at the end of 2020, compared to 910 million euros at the end of 2019. This increase was the combined effect of the acquisition of OTP Banka Slovensko (resulting in an increase of 6 million euros in operational risk capital) and a slight decrease in average total income compared to its year-earlier level.

Reputational risk

Reputational risk is the risk arising from the loss of confidence by, or negative perception on the part of, stakeholders (such as KBC employees and representatives, clients and non-clients, shareholders, investors, financial analysts, rating agencies, the local community in which it operates, etc.) – be it accurate or not – that can adversely affect a company's ability to maintain existing, or establish new, business and client relationships, and to have continued access to sources of funding.

Reputation is a valuable asset in business and this certainly applies to the financial services industry, which thrives to a large extent on trust. Reputational risk is mostly a secondary or derivative risk since it is usually connected to – and materialises together with – another risk. To manage reputational risk, we remain focused on sustainable and profitable growth, promote a strong corporate culture that encourages responsible behaviour, uphold client centricity and foster trust by treating the client fairly and honestly.

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

Business environment and strategic risks

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

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

To prepare for and adequately address changes in the external environment and manage strategic risk, we have robust and effective strategic processes in place to identify both risks and opportunities (e.g., by drafting a trend book) and to translate these into the KBC strategy and innovation roadmaps which are regularly reviewed.

The updated strategy 'Differently: the next level' is KBC's strategic answer to leverage strengths and opportunities and deal with weaknesses and threats in the fast-changing business environment. The coronavirus crisis has proven that the former strategy 'More of the same but differently' had prepared KBC well for dealing with the crisis – both operationally and in providing services to our clients via digital channels. The updated strategy is intended to bring KBC to the next level.

The general business environment risks (relating to the macroeconomic situation, competition, regulations, etc.) are also described in the 'Our business model' section.

An important economic and political event in the past few years is Brexit, the impact of which is further detailed in the next paragraph.

Brexit

Four and a half years after the UK voted in favour of Brexit, the country left the EU Single Market. A last-minute trade deal was struck on 24 December 2020, allowing zero-tariff trade as of January 2021 – albeit subject to customs and product regulations, health checks, etc.

Although the no-deal scenario – and the subsequent legal uncertainty – is now off the table, the work is nowhere near done yet. The trade deal contains no agreements on financial services or on regulatory equivalence through which the EU recognises the UK regulatory regime and its different rules. This absence of equivalence recognition has its consequences, especially for cross-border financial activities between the UK and the EU.

The initial plan is to have a Financial Services Memorandum of Understanding in place by the end of March 2021, but already there are considerable doubts in the market. Again, tough political negotiations can be expected, with the UK likely aiming to diverge from (parts of) the future regulatory framework, while the EU is expected to wait and see if any material negative consequences arise from the lack of equivalence, taking into account their aim to develop their own financial centres in Paris, Frankfurt and Dublin to compete with London.

Our focus up until the end of 2020 was on operational readiness so as to avoid any surprises in the event of a no-deal scenario.
This entailed following up 13 areas within KBC, with the most important focus points being:

- continuation of KBC London branch activities, with extra efforts being made in specific areas such as deposit guarantee schemes and MiFID transaction and other regulatory reporting to UK supervisors;
- continuation of the work originally started in 2019 to switch from the London Clearing House (LCH) to EUREX Clearing in Frankfurt for the derivatives clearing business;
- possible contagion effects for Ireland in the event of a no-deal outcome (KBC Ireland had a continuous Brexit preparedness working group in place);
- extra focus on loan portfolios, with new sector follow-ups being organised in both the 'Corporate' and 'SME' segments throughout the group;
- continued monitoring of legal risks, with special attention being paid to contract continuity should there be a no deal.

Although negotiations on financial services are likely to be another time-consuming exercise in 2021, KBC does not expect there to be any material impact on its activities. To stay on top of things, our focus has now shifted to following up regulatory equivalence decisions and the possible regulatory divergence that the UK wants to pursue.

Market risk in trading activities

Market risk is the potential negative deviation from the expected value of a financial instrument (or portfolio of such instruments) due to changes in the level or in the volatility of market prices, e.g., interest rates, exchange rates and equity or commodity prices. KBC's market risk in trading activities comes from the mismatch that occurs between the portfolio arising from our bespoke client transactions and the more market-standard hedges carried out in the financial markets.

Managing market risk

The Competence Centre for Trading Market Risk is primarily responsible for defining the Trading Market Risk Management Framework. This framework elaborates on specific suitable measures, methods, tools, the control processes to be implemented, organisational aspects, IT systems, matters regarding information/communication, and the associated governance for market risk in the group's trading books. The focus of our trading activities is on interest-rate instruments, while activity on the foreign exchange markets and in relation to equity has traditionally been limited. These activities are carried out by our dealing rooms in Belgium, the Czech Republic, Hungary, Bulgaria and Slovakia, as well as via a minor presence in the UK and Asia. Wherever possible and practical, the residual trading positions of our foreign entities are systematically transferred to KBC Bank NV, reflecting that the group's trading activity is managed centrally both from a business and a risk management perspective. Consequently, KBC Bank NV holds about 98% of the trading-book-related regulatory capital of KBC Group NV.

The building blocks for managing market risk

A number of group-wide building blocks are defined to ensure proper management of market risks:

- Risk identification: the risk function analyses the results of value and risk calculations, market developments, industry trends, new modelling insights, changes in regulations, etc. and draws up advice for the Group Markets Committee (GMC) with a view to changing or refining measurement methods, limits, hedging methods or positions. Furthermore, before a new or changed dealing room product or activity can be introduced, the risk function screens whether the risk aspects are correctly and sufficiently covered and provides risk advice that includes powers of veto and is part of the NAPP.
- Risk measurement: ownership of the definitions used for the group-wide measurement of trading market risk lies with the risk function. We measure risk via a number of parameters including nominal positions, concentrations, BPV, the so-called 'greeks' and scenario analysis. However, the primary tool we use for measuring and monitoring market risk exposures in the trading book is the Historical Value-at-risk (HVaR) method. VaR is defined as an estimate of the amount of economic value that might be lost on a given portfolio due to market risk over a defined holding period, with a given confidence level. We use the historical simulation method, which does not have to rely on assumptions regarding the distribution of price fluctuations or correlations, but is based on patterns of experience over the previous two years. Our HVaR model is used for both Management HVaR and for the calculation of regulatory capital. Regulatory HVaR is calculated using the relevant CRD IV standards (99% one-sided confidence interval, ten-day holding period). Management HVaR uses the same standards (except a one-day holding period is used), as it is more intuitive for senior management and is also in line with P&L reporting, day-to-day management, stop losses and back-testing.
- Setting and cascading risk appetite: the risk appetite for market risk in trading activities is set in line with the overall requirements as defined in our overarching risk management framework and is overseen by the GMC via a risk limit framework consisting of a hierarchy of limits and early warning indicators. These are defined down to desk level and, in addition to HVaR, include a series of secondary limits, with equity concentration limits, FX concentration limits and basis-point-value limits for interest rate risk and basis risk. The specific risk associated with a particular issuer or country is also subject to concentration limits. There are also scenario analysis limits and – where deemed appropriate – stress scenario limits involving multiple shifts of underlying risk factors.
- Risk analysis, monitoring, reporting and follow-up: in addition to the more proactive elements described under 'Risk identification', this involves compiling the necessary

external and internal reports, issuing advice on business proposals, and monitoring and advising on the risks attached to the positions. We monitor and follow up the risks attached to the positions on a daily basis by means of the risk limit framework. Another important aspect of this building block is prudent valuation. We perform a daily independent middle-office valuation of front-office positions. Whenever the independent nature or the reliability of the valuation process is not guaranteed, we perform a monthly parameter review. Where applicable, we make adjustments to the fair value to reflect close-out costs, mark-to-model-related value adjustments, counterparty risk and liquidity risk. Risk monitoring is also carried out via internal assessments and a large variety of controls, including parameter reviews, daily reconciliation processes, analyses of the material impact of proxies and other periodic controls to ensure sound risk management. The GMC, which meets every four weeks, receives an extensive Core Report as well as periodic and *ad hoc* memos and reports. The GMC also receives a bi-weekly dashboard whose frequency is increased depending on market circumstances (for example we switched to a daily dashboard during the height of the coronavirus crisis). The Executive Committee ratifies the minutes of the GMC meetings and also receives market-risk-related information and risk signals in its monthly Integrated Risk Report.

- Stress testing: in addition to the risk limit framework, we conduct extensive stress tests on our positions on a weekly basis. Whereas the HVaR model captures potential losses under normal market conditions, stress tests show the impact of exceptional circumstances and events with a low degree of probability. The historical and hypothetical stress-test scenarios incorporate both market risk and the liquidity aspects of disruptions in the market. The stress tests are discussed at GMC meetings to enable the members to gain an insight into potential weaknesses in the positions held by the group. Our 2020 review of the stress tests (as regards their mix and checking that they remain up-to-date and relevant) resulted in an additional historical stress test ('Early Covid-19' scenario) and an additional element in our hypothetical stress tests focusing on yield shifts in longer maturities (particularly affected during the turbulent market environment in March/April 2020). For more details about stress testing, please refer to the relevant sub-section of the 'Market risk management' section in KBC's Risk Report, which is available at www.kbc.com.

Impact of the coronavirus crisis on trading market risk

The global acceleration of the coronavirus pandemic hit Europe and the US hard during March, triggering unprecedented measures by governments and central banks, often fuelling already heightened volatility in the financial markets to levels not seen in many decades (with market movements more extreme than those seen at the height of the 2008 banking crisis). Mitigating actions involved trimming down positions where action was needed, but leaving open positions where risk was manageable and losses deemed recoverable. Despite this environment, a moderate loss was recorded in the first quarter of 2020 mainly stemming from valuation adjustments, and the dealing rooms were comfortably back in profit by the end of the second quarter. Due to this market environment, the Group Crisis Committee received a daily report on market developments, position changes and P&L performance, which switched to bi-weekly reporting from mid-May reflecting the calmer markets, and returned to normal market risk reporting from August onwards. Regarding longer term effects, the stress tests have been updated and adapted as mentioned in the above section. Furthermore, some of the aspects covered in reporting to the Group Crisis Committee are now included in our GMC Core Report.

Risk analysis and quantification

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

Market risk (Management HVaR) (in millions of EUR)	2020	2019
Average for 1Q	6	7
Average for 2Q	9	7
Average for 3Q	9	8
Average for 4Q	9	6
As at 31 December	8	5
Maximum in year	11	9
Minimum in year	4	4

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

Breakdown by risk factor of trading HVaR for the KBC group (Management HVaR; in millions of EUR)	Average for 2020	Average for 2019
Interest rate risk	7.9	7.0
FX risk	1.1	0.8
FX options risk	0.7	0.5
Equity risk	1.0	0.7
Diversification effect	-2.5	-2.0
Total HVaR	8.2	7.0

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

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

Regulatory capital

Our low risk appetite for market risk in trading activities is illustrated by the fact that, during 2020, market risk RWA amounted to an average of less than 3% of KBC Group's total RWA. The vast majority of regulatory capital requirements are calculated using our Approved Internal Model which, in addition to HVaR, uses SVaR, which is one of the CRD III Regulatory Capital charges that entered into effect at year-end 2011. The calculation of an SVaR measure is based on the normal VaR calculations and follows the same methodological assumptions, but is constructed as if the relevant market factors were experiencing a period of stress. The period of stress is calibrated at least once a year (checked monthly to ensure the period is still valid) by determining which 250-day period between 2006 and the (then) present day produces the severest losses for the relevant positions. Business lines not included in the internal model calculations are measured according to the Standardised approach.

For more details about regulatory capital and how it developed between 2019 and 2020, please refer to KBC's Risk Report (available at www.kbc.com) which includes a breakdown of regulatory capital requirements for KBC Group's market risk per risk type.

Liquidity risk

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

Managing liquidity risk

The principal objective of our liquidity management is to be able to fund the group and to enable the core business activities of the group to continue to generate revenue, even under adverse circumstances.

The main sub-types of liquidity risk are:

- day-to-day liquidity risk: the risk of not having a sufficient liquid asset buffer available at all times to be able to deal with exceptional liquidity events in which no wholesale funding can be rolled over;
- contingency liquidity risk: the risk that KBC may not be able to attract additional funds or replace maturing liabilities under stressed market conditions;
- structural liquidity risk (commonly referred to as funding risk): the risk that KBC's long-term assets and liabilities might not be (re)financed on time or can only be refinanced at a higher-than-expected cost.

The Group and Local Treasury function acts as the first line of defence and is responsible for KBC's overall liquidity and funding management. The Group Treasury function monitors and steers the liquidity profile on a daily basis and sets the policies and steering mechanisms for funding management (intra-group funding, funds transfer pricing). These policies ensure that local management has an incentive to work towards a sound funding profile. The Group Treasury function also actively monitors its collateral on a group-wide basis. The Risk function is the second line of defence. Given the specifics of the Treasury domain and in support of the Group CRO, a dedicated Treasury CRO was appointed who is accountable for the Treasury activities. The group-wide Extended Competence Centre for ALM & Liquidity Risk is in turn responsible for installing the principles for liquidity risk management, which are laid down in a group-wide Liquidity Risk Management Framework that defines the risk playing field.

The building blocks for managing liquidity risk

A number of group-wide building blocks are defined to ensure proper risk management.

- Risk identification: when relevant, risk signals are presented in Treasury Risk Reports and Integrated Risk Reports. An annual assessment of key risk drivers impacting liquidity is performed.
- Risk measurement: identified liquidity risks are measured by means of both regulatory metrics such as the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR), and internal metrics on, for example, the funding mix and concentration, the composition of the liquid asset buffer and the liquidity gap term structure. In the maturity analysis table below, KBC's structural liquidity risk is illustrated by grouping the assets and liabilities according to the remaining term to maturity (using the contractual maturity date). The difference between the cash inflows and outflows is referred to as the 'net funding gap'.
- Setting and cascading risk appetite: the Group Asset and Liability Committee (GALCO) plays a prominent role in proposing and monitoring liquidity risk limits.
- Risk analysis, reporting and follow-up: to mitigate day-to-day liquidity risk, group-wide trends in funding liquidity and funding needs are monitored continuously by the Group Treasury function. A Liquidity Contingency Plan drafted by the Group Treasury function is in place to address possible liquidity crisis situations and is tested at least annually.
- Stress testing: liquidity stress tests assess KBC's liquidity contingency risk by measuring how the liquidity buffer of the group's bank and insurance entities changes under extreme stressed scenarios. This buffer is based on assumptions regarding liquidity outflows and liquidity inflows resulting from actions to increase liquidity. The liquidity buffer has to be sufficient to cover liquidity needs over (i) a period that is required to restore market confidence in the group following a KBC-specific event, (ii) a period that is required for markets to stabilise after a general market event and (iii) a combined scenario, which takes a KBC-specific event and a general market event into account. This information is fed into the Liquidity Contingency Plan.

Moreover, KBC has an Internal Liquidity Adequacy Assessment Process (ILAAP) in place to ensure it has robust strategies, policies, processes and systems for identifying, measuring, managing and monitoring liquidity risk and funding positions over all appropriate time horizons, in order to maintain adequate levels of liquidity buffers.

Impact of the coronavirus crisis on liquidity risk

Stressed or extreme market conditions can be triggered by crises such as the coronavirus pandemic. So far, KBC's liquidity position has been able to withstand the stress of the coronavirus crisis and remains very strong. A coronavirus stress test indicates that a prolonged stress period can be overcome.

Due to the challenges for the economy posed by the coronavirus crisis, the ECB decided in March 2020 to allow credit institutions to operate temporarily below the LCR targets. KBC participated in the targeted longer-term refinancing operation in June 2020 (TLTRO III), further supporting its LCR and NSFR figures. In July and December 2020, the ECB updated its measures aimed at preserving banks' capacity to absorb losses and to support the economy, specifying that banks are allowed to use their liquidity buffers until at least the end of 2021.

Maturity analysis

Liquidity risk (excluding intercompany deals)[1] (in billions of EUR)	**<= 1 month**	**1–3 months**	**3–12 months**	**1–5 years**	**>5 years**	**On demand**	**Not defined**	**Total**
31-12-2020								
Total inflows	38	9	22	75	95	8	38	284
Total outflows	44	16	10	23	5	161	25	284
Professional funding	28	3	3	1	0	3	0	38
Customer funding	6	8	5	12	2	158	0	192
Debt certificates	6	5	3	9	3	0	0	26
Other	4	0	0	0	0	0	25	29
Liquidity gap (excl. undrawn commitments)	-6	-7	12	52	90	-153	13	0
Undrawn commitments	–	–	–	–	–	–	-40	-40
Financial guarantees	–	–	–	–	–	–	-10	-10
Net funding gap (incl. undrawn commitments)	-6	-7	12	52	90	-153	-37	-50
31-12-2019[2]								
Total inflows	37	9	19	70	88	10	20	254
Total outflows	29	14	8	26	6	146	25	254
Professional funding	14	2	1	2	0	2	0	21
Customer funding	4	5	4	14	2	144	0	174
Debt certificates	7	8	3	10	3	0	0	30
Other	4	0	0	0	0	0	25	29
Liquidity gap (excl. undrawn commitments)	8	-5	10	45	83	-136	-5	0
Undrawn commitments	–	–	–	–	–	–	-38	-38
Financial guarantees	–	–	–	–	–	–	-10	-10
Net funding gap (incl. undrawn commitments)	8	-5	10	45	83	-136	-53	-48

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

2 An upgrade of the data source systems in 2020 improved the allocation of the different inflows and outflows to the correct time buckets. We have therefore restated the maturity analysis table for 2019, to allow for a proper view of changes in the maturity gaps over financial year 2020.

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

Funding information

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

Funding mix	Information	31-12-2020	31-12-2019
Funding from customers[1]	Demand deposits, term deposits, savings deposits, other deposits, savings certificates and debt issues placed in the network	80%	82%
Debt issues *placed* with institutional investors	Including covered bonds[3], tier-2 issues, KBC Group NV senior debt	7%	8%
Net unsecured interbank funding	Including TLTRO[4]	12%	6%
Net secured funding[2]	Repo financing	-10%	-11%
Certificates of deposit	–	2%	5%
Total equity	Including AT1 issues	9%	10%
Total		100%	100%
in billions of EUR		241	214

1 Some 83% of this funding relates to private individuals and SMEs (year-end 2020).

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

3 In November 2012, we announced our 10-billion-euro Belgian residential mortgage covered bonds programme, which was extended to 17.5 billion euros in 2020. This programme gives KBC access to the covered bond market, allowing it to diversify its funding structure and reduce the cost of long-term funding.

4 In 2019, we repaid all TLTRO II funding and participated in TLTRO III for 2.5 billion euros. In 2020, we increased the participation in TLTRO III by almost 19.5 billion euros to just under 22 billion euros.

Liquid asset buffer

At year-end 2020, the KBC group had 64 billion euros' worth of unencumbered central bank eligible assets, 57 billion euros of which in the form of liquid government bonds (89%). The remaining available liquid assets were mainly other ECB/FED-eligible bonds (6%). Most of the liquid assets are expressed in our home market currencies. Available liquid assets were roughly four times the amount of net short-term wholesale funding, while funding from non-wholesale markets was accounted for by stable funding from core customer segments in our core markets.

LCR and NSFR

Two of the main regulatory liquidity measures are the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). Both are defined in the 'Glossary of financial ratios and terms'. At year-end 2020, our NSFR stood at 146%, while our LCR for 2020 came to 147%.

Technical insurance risk

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

Managing technical insurance risk

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

Part of the risk identification process consists of reliably classifying all insurance risks that may be triggered by (re) insurance contracts. Under the Solvency II directive, insurance activities are split up into three main categories, namely Life, Non-Life and Health, each sub-divided into catastrophe and non-catastrophe risks.

The building blocks for managing technical insurance risk

A number of group-wide building blocks are defined to ensure proper management of technical insurance risk:

- Risk identification: adequate identification and analysis of material insurance risks by, *inter alia*, analysing new emerging risks, concentration or accumulation risks, and developing early warning signals. In addition, deep dives are performed to gain further insight into technical insurance and a whole range of subjects. Special attention is paid to the adequacy of the technical provisions (see below).
- Risk measurement: technical insurance risk is measured by means of both regulatory measures, such as Solvency Capital Requirement (SCR) and Best Estimate valuation of insurance liabilities, and internal measures on, for example, economic profitability of insurance portfolios and non-life capital requirements based on internal stochastic models. These measures of insurance risk are used consistently throughout the group.
- Setting and cascading risk appetite: the risk appetite for technical insurance risk is set in line with the overall requirements as defined in our Enterprise Risk Management Framework and is overseen by the Group Insurance Committee (GIC). At the GIC, the defined limits are reviewed and reported. The insurance risk limits are determined and set at group level and further cascaded to the local entities. The necessary compliance checks are conducted.
- Risk analysis, monitoring, reporting and follow-up: if the risk profile is not in line with the risk appetite, the reason has to be identified and analysed (e.g., which lines of business are contributing to the deviating risk profile) and the outcome and corrective action must be discussed at the GIC. Regular reporting and follow-up of the risk measurements is presented in the Insurance Integrated Risk Report (IIRR), which is submitted to the Group Insurance Committee on a quarterly basis. In addition, relevant risk signals and the solvency position of the insurer are reported to the Risk & Compliance Committee and Board of Directors as part of the regular Group Integrated Risk Report.
- Stress testing: stress tests and sensitivity analyses are performed and the outcome of these tests are reported in the annual Own Risk and Solvency Assessment (ORSA) report. In 2020, the coronavirus crisis meant that, in addition to the usual stress tests (regulatory stress tests, spread increases, interest rate changes, impact of natural catastrophes, etc.), KBC also performed mild and severe tests of a pandemic scenario, which confirmed KBC Insurance Group's solid capital position.

Reinsurance

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

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

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

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

Impact of the coronavirus crisis on technical insurance risk

At the onset of the coronavirus crisis in March 2020, a group-wide reporting system was developed to track different key indicators in the insurance business, such as the capital position, business volumes, claims, surrendered policies, etc. The new reports were not only submitted to our own management but also to the NBB on a monthly basis.

Technical insurance risk in the non-life segment was positively impacted by the coronavirus crisis as the frequency of claims dropped significantly during the lockdown periods. This mainly concerned car insurance policies and to a lesser extent to property and travel insurance policies. In the life segment, we only observed a limited negative impact on technical insurance risk.

Adequacy of technical provisions

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

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

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

- the claims-settlement figures incorporate all amounts that can be allocated to individual claims, including the Incurred But Not Reported (IBNR) and Incurred But Not Enough Reserved (IBNER) provisions, and the external claims handling expenses, but do not include internal claims settlement expenses and provisions for amounts expected to be recovered;
- all provisions for claims to be paid at the close of 2020 have been included and are before reinsurance, adjusted to eliminate intercompany amounts related to KBC Group Re. KBC Group Re is the KBC group’s own reinsurance company, which makes it possible to first pool the reinsurance risks internally and then, in a subsequent stage, go to the reinsurance market.

The loss triangles are provided in the table below. The first row in the table shows the total claims burden (claims paid plus provisions) for the claims that occurred during a particular year, as estimated at the end of the year of occurrence. The following rows indicate the situation at the end of the subsequent calendar years. We restated the amounts to reflect exchange rates at year-end 2020.

Loss triangles, KBC Insurance (in millions of EUR)	**Year of occur-rence 2011**	**Year of occur-rence 2012**	**Year of occur-rence 2013**	**Year of occur-rence 2014**	**Year of occur-rence 2015**	**Year of occur-rence 2016**	**Year of occur-rence 2017**	**Year of occur-rence 2018**	**Year of occur-rence 2019**	**Year of occur–rence 2020**
Estimate at the end of the year of occur-rence	749	844	908	984	934	1 018	994	1 065	1 141	1 010
1 year later	658	737	763	874	790	882	875	932	1 011	–
2 years later	616	702	693	819	745	819	842	887	–	–
3 years later	597	678	671	799	714	804	826	–	–	–
4 years later	585	664	667	783	702	800	–	–	–	–
5 years later	578	658	658	775	692	–	–	–	–	–
6 years later	575	651	657	774	–	–	–	–	–	–
7 years later	570	639	654	–	–	–	–	–	–	–
8 years later	561	634	–	–	–	–	–	–	–	–
9 years later	561	–	–	–	–	–	–	–	–	–
Current estimate	561	634	654	774	692	800	826	887	1 011	1 010
Cumulative pay-ments	504	556	578	675	571	622	626	654	678	428
Current provisions	57	79	76	99	121	179	201	233	333	581

Actuarial function

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

The main tasks of the actuarial function are to:

- coordinate the calculation of technical provisions;
- ensure the appropriateness of the methodologies and underlying models used, as well as the assumptions made, in the calculation of technical provisions;
- assess the sufficiency and quality of the data used in the calculation of technical provisions;
- compare best estimates against experience;
- inform the administrative, management or supervisory body of the reliability and adequacy of the calculation of technical provisions;
- oversee the calculation of technical provisions when there is insufficient data of appropriate quality to apply a reliable actuarial method.
- express an opinion on the overall underwriting policy;
- express an opinion on the adequacy of reinsurance arrangements; and
- contribute to the effective implementation of the risk management system, in particular with respect to the risk modelling underlying the calculation of the capital requirements.

Regulatory capital

Solvency II sets out the regulatory capital requirements for the insurance companies. Solvency II results and more detailed information on ratios are provided in our Risk Report, which is available at www.kbc.com.

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

Climate-related and other ESG risks

ESG risks are the risks of (current or prospective) environmental, social or (corporate) governance factors impacting KBC, either directly or via its counterparties/exposures:
- Environmental risk is the risk arising from climate change (climate risk) or from other environmental degradation
- Social risk is the risk arising from changing expectations about relationships with employees, suppliers, clients and society as a whole
- Governance risk is the risk arising from changing expectations about corporate governance (corporate policies, codes of conduct, etc.)

The KBC Enterprise Risk Management Framework also covers Environmental, Social and Governance (ESG) risks, which are being gradually embedded in existing risk management processes.

ESG risks, including climate-related risks, are identified in our risk taxonomy but not defined as a separate risk type. They are a key driver of the external environment, manifesting themselves through (all) other risk areas, such as credit risk, liquidity risk and technical insurance risk.

Over the past year, our main focus has been on climate-related risks. Following the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), we differentiate between:
- transition risks: risks arising from disruptions and shifts associated with the transition to a low-carbon, climate-resilient or environmentally sustainable economy, covering policy changes, legal changes, technological changes/progress or behavioural changes. These risks can affect the creditworthiness of our clients and the stability of our portfolios over a short to medium-term horizon; and
- physical risks: risks related to potential financial implications from physical phenomena associated with both climate trends (chronic) such as changing weather patterns, rising sea levels, increasing temperatures, chronic heat waves, etc. and extreme weather events (acute) including storms, floods, fires, heatwaves or droughts that may disrupt operations, value chains or damage property. These risks can impact KBC's insured losses and may also impact the creditworthiness of our clients, as well as the value of our assets or collateral in the medium to long term.

Governance

KBC's risk management approach is supported by solid risk governance:
- The management of climate-related risks is fully embedded in our existing Risk Management Governance.
- Risk is part of the core team of the Sustainable Finance Programme, which focuses on integrating climate-related matters throughout the group.
- The senior general managers of Group Risk and Group Credit Risk are members of the Sustainable Finance Programme Steering Committee and one of them also has a seat on the Internal Sustainability Board.
- The Board of Directors, the Risk & Compliance Committee and the Executive Committee are the prime recipients of the various outputs of the main risk management processes (e.g., ICAAP/ORSA, Integrated Risk Reporting, Risk Appetite, etc.). Given that climate-related risk has been identified as a top risk, it is included

in all of these risk management processes and reports.

Risk identification

We use a variety of approaches and processes to identify new, emerging and changing risks, including climate-related risks. We continuously scan the internal and external environment for new and emerging risks we are exposed to in the short term (1 to 3 year horizon), in the medium term (4 to 10 year horizon) and in the long term (beyond 10 year horizon). By doing so, we also incorporate a forward-looking perspective. This group-wide process involves all necessary stakeholders, including entities from the business side, corporate sustainability and asset management.

To ensure proactive climate-related risk identification in an integrated environment, we:

- organise internal communication and training for (risk) staff and management;
- follow up new and changing regulations (e.g., the related ECB and EBA publications) through the Sustainable Finance Legal Working Group;
- take into account sustainability and climate-related policies when deciding on new products or services;
- have developed an environmental and social-sectoral heat map;
- regularly report on climate-related risk signals to senior management.

This continuous risk identification process is supplemented by a strategic 'risk scan' exercise aimed at highlighting 'top risks' that can undermine our strategy, financial stability and long-term sustainability, but that also carry a high degree of uncertainty. The identified risks are used as input for several other risk management exercises and tools, such as risk appetite setting, stress testing, scenario analysis, the aligned planning cycle, etc. Climate risk has been identified as a top risk for several years now.

Risk measurement

We are working together with external parties on a series of tools and methodologies to strengthen our ability to measure and analyse climate-related risks (see 'Focus on climate' in the 'Our strategy' section), while keeping a close eye on ongoing regulatory initiatives (e.g., in related ECB and EBA publications).

Setting and cascading risk appetite

Our risk appetite objectives support the group in defining and realising its strategic sustainability goals. These include promoting a strong corporate culture that encourages responsible environmental and social behaviour, achieving long-term sustainable growth, ensuring stable earnings and sound financial figures (capital and liquidity), supported by an adequate promotion and remuneration policy. To be less vulnerable to changes in the external environment – including climate change – we pursue diversity and flexibility in our business mix, client segments, distribution channels and geographies, where we refrain from focusing on short-term gains at the expense of long-term stability. We manage volatility of net results by defining a solid risk management framework and risk appetite to ensure financial and operational resilience in the short, medium and long term.

The high-level risk appetite objectives are further specified for a number of risk types in line with our climate-related policies and will be gradually improved based on new insights:

- A group-wide zero tolerance policy is in place for new business with a company on the KBC blacklist. This policy is fully embedded in the organisation as part of the operational risk management framework.
- Controversial activities (e.g., related to thermal coal, biomass technology, palm oil production, human rights) identified in our standards for sustainable and responsible lending are managed through sound lending and insurance processes, acceptance policies and product characteristics, and are actively

screened by the business side, with quality controls performed by the second and third lines of defence. They also define the playing field for credit and insurance risks.
- KBC has the ambition to keep all its operational, compliance and conduct risks at a low level and aims to be well prepared for a variety of crises (avoiding disruption in services), including ESG and climate-related risks.

Risk analysis, reporting and follow-up

Indicators for climate-related risks and opportunities are integrated into the KBC Sustainability Dashboard, which allow us to monitor progress in the implementation of our sustainability strategy and to make adjustments when necessary. Climate-related risks will be further integrated into our internal risk reports, ICAAP/ORSA and external reports, with a particular focus on stress testing.

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

Forward-looking trends, such as changes in storm and precipitation patterns and changes in the frequency of floods are monitored as part of the Insurance Risk Management Framework and related processes. Physical risks in other regions around the world are also closely monitored as they can have an impact on the global reinsurance market on which KBC relies. Climate change does not represent a significant technical insurance risk for KBC in the short to medium term, due mainly to the well-diversified nature of KBC Insurance's life and non-life activities, the focus on our core markets in Belgium and Central Europe, and the annual renewal of policies and related reinsurance contracts. The medium to long-term effects of changing weather patterns are analysed by means of stress tests and deep dives. The flood risk for our property portfolio in Flanders was also analysed.

A number of initiatives were started to improve our understanding of how to measure ESG and climate-related risks of our loan portfolio. Initially, ESG and climate-related risks are qualitatively assessed, e.g., by developing an environmental and social-sectoral heat map that triggers the business side, risk takers and decision makers to explicitly consider environmental and social risks in their assessments (credit acceptance, NAPP, stress testing, etc.). Significant efforts were also made in the development of quantitative assessments and climate-related valuation methods. The insights gained are part of our quest to further integrate these risks into our credit assessment processes and modelling (including expected credit losses) and to adapt our policies, where necessary. Moreover, management has the ability to overrule the expected credit losses and to capture events that are not part of the financial assessment, such as the growing insights into ESG and climate-related risks. This approach will be more prominently applied in the risk assessment going forward.

Stress testing

As stress testing and sensitivity analysis are essential elements of the risk management toolkit, we are gradually incorporating climate-related risks more actively into these analyses, while also taking consideration of other ESG drivers, such as failure of data protection or operational risk losses from possible cyber hacks.

In addition to a number of more risk-type-specific stresses, such as more extreme natural

catastrophe events or the impact of greenwashing on our liquidity and funding risk, we considered a number of holistic scenarios at group level to assess the impact on capital adequacy and profitability (see our Risk Report, which is available at www.kbc.com).

Due to the current pandemic, society and regulators could well increase their focus on environmental, social and governance considerations, thus speeding up the way towards a more sustainable society.

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

How do we manage our capital?

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

Solvency at KBC group level

Solvency reporting

We report the solvency of the group, the bank and the insurance company based on IFRS data and according to the rules imposed by the regulator. For the KBC group, this implies that we calculate our solvency ratios based on CRR/CRD.

In the context of the coronavirus pandemic, the EU amended the CRR with effect on 27 June 2020 (the so-called 'CRR quick fix'). It included various relief measures to ensure that institutions are able to provide sufficient support to households and corporate borrowers and thus mitigate the economic shock caused by the pandemic. For KBC, the main measures relate to the SME supporting factor (favourable risk weighting of exposures to SMEs, applied from the second quarter of 2020), the prudential treatment of software (prudently valued software is risk weighted at 100% instead of being deducted from own funds, applied from the fourth quarter of 2020) and IFRS 9 transitional measures (applied from the second quarter of 2020). These transitional measures make it possible to add back a portion of the increased impairment charges to common equity capital (CET1), during a transitional period of five years when provisions unexpectedly rise due to a worsening macroeconomic outlook. Initially, the five-year transition period was from 1 January 2018 to 31 December 2022. In the context of the coronavirus pandemic and following a BCBS statement to offer regulatory relief, the transition period has been extended by two years until 31 December 2024.

The general rule under CRR/CRD for insurance participations is that an insurance participation is deducted from common equity at group level, unless the competent authority grants permission to apply a risk weighting instead (Danish compromise). As of the fourth quarter of 2020, the revised CRR/CRD requires the use of the equity method, unless the competent authority allows institutions to apply a different method. KBC Group has received ECB approval to continue to use the historical carrying value (a historical carrying value of 2 469 million euros) for risk weighting, after having deconsolidated KBC Insurance from the group figures.

Solvency requirements

The minimum solvency ratios required under CRR/CRD are 4.5% for the common equity tier-1 (CET1) ratio, 6% for the tier-1 capital ratio and 8% for the total capital ratio (i.e. pillar 1 minimum ratios). In addition, CRR/CRD requires a capital conservation buffer of 2.5%. Due to the coronavirus pandemic, the ECB will not attach any negative judgment to those banks breaching the 2.5% capital conservation buffer. In addition, the ECB will take a flexible approach to approve capital conservation plans that banks are legally required to submit if they breach the combined buffer requirement. This offers significant room to withstand potential stress, in line with the initial intentions of the international standard setter on the usability of the buffers.

As a result of its supervisory review and evaluation process (SREP), the competent supervisory authority (in KBC's case, the ECB) can require that higher minimum ratios be maintained (= pillar 2 requirements) because, for instance, not all risks are properly reflected in the regulatory pillar 1 calculations. Following the SREP cycle for 2020, the ECB formally notified KBC that its 2019 SREP decision (applicable from 1 January 2020) to maintain the pillar 2 requirement (P2R) at 1.75% CET1 and the pillar 2 guidance (P2G) at 1% CET1 would remain in place for 2021. In line with the revised CRR/CRD, the ECB allows banks to satisfy the P2R with additional tier-1 instruments (up to [1.5]/8) and tier-2 instruments (up to 2/8) as from 12 March 2020 – based on the same relative weights as allowed for meeting the 8% Pillar 1 Requirement. KBC currently does not use additional tier-1 or tier-2 instruments to meet the P2R.

The overall capital requirement for KBC is determined not only by the ECB, but also by the decisions of the local competent authorities in its core markets. The most recently announced countercyclical buffer rates by the countries where KBC's relevant credit exposures are located correspond to a countercyclical buffer at KBC group level of 0.20%, down from 0.30% in 2019.

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

Altogether, this brings the fully loaded CET1 requirement (under the Danish compromise) to 10.45%, with an additional pillar 2 guidance (P2G) of 1%. The ECB temporarily allows banks to operate below the P2G and capital conservation buffer and hence to use these buffers to withstand potential stress. This temporarily brings the regulatory minimum to 7.95% (i.e. 10.45% – 2.5%). The ECB does not have any discretion to waive the application of automatic restrictions to distributions (MDA) as they are set out in the CRR/CRD package. Therefore, the capital conservation buffer remains included in the threshold for MDA.

The data above reflect the situation as known on 31 December 2020, without taking into account changes – if any – communicated after that date.

KBC aims to be one of the better capitalised financial institutions in Europe. Therefore, the aim is to achieve a (pre-Basel IV) fully loaded CET1 ratio of 14.5% (= reference capital position). A management buffer of 1% is taken on top of the reference capital position. When this buffer is used, the Board of Directors will decide, on an annual basis and at its discretion, on replenishing the buffer. On top of the payout ratio of at least 50% of consolidated profit, all capital in excess of the reference capital position plus the 1% management buffer will be considered for distribution to shareholders. Each year, the Board of Directors will take this decision, at its discretion, when announcing the full-year results.

Solvency figures under CRR/CRD

Solvency at group level (consolidated; under CRR/CRD, Danish compromise method) (in millions of EUR)	31-12-2020 (fully loaded)	31-12-2020 (transitional)	31-12-2019 (fully loaded)
Total regulatory capital, after profit appropriation	**21 627**	**21 856**	**20 414**
Tier-1 capital	**19 448**	**19 941**	**18 489**
Common equity[1]	**17 948**	**18 441**	**16 989**
Parent shareholders' equity (after deconsolidating KBC Insurance)	18 688	18 688	17 790
Intangible fixed assets, incl. deferred tax impact (-)	-568	-568	-583
Goodwill on consolidation, incl. deferred tax impact (-)	-734	-734	-766
Minority interests	0	0	0
Hedging reserve, cashflow hedges (-)	1 294	1 294	1 331
Valuation differences in financial liabilities at fair value – own credit risk (-)	-13	-13	-9
Value adjustment due to requirements for prudent valuation (-)[2]	-25	-25	-54
Dividend payout (-)	-183	-183	-0
Coupon on AT1 instruments (-)	-12	-12	-11
Deduction with regard to financing provided to shareholders (-)	-57	-57	-57
Deduction with regard to irrevocable payment commitments (-)	-58	-58	-45
Deduction regarding NPL backstops (-)[3]	-11	-11	0
IRB provision shortfall (-)	0	0	-140
Deferred tax assets on losses carried forward (-)	-373	-373	-467
Transitional adjustments to CET1	0	493	–
Limit on deferred tax assets from timing differences relying on future profitability and significant participations in financial entities (-)	0	0	0
Additional going concern capital	**1 500**	**1 500**	**1 500**
CRR-compliant AT1 instruments	1 500	1 500	1 500
Minority interests to be included in additional going concern capital	0	0	0
Tier-2 capital	**2 178**	**1 914**	**1 925**
IRB provision excess (+)	427	427	130
Transitional adjustments to Tier-2 capital	0	-264	–
Subordinated liabilities	1 751	1 751	1 795
Subordinated loans to non-consolidated financial sector entities (-)	0	0	0
Minority interests to be included in tier-2 capital	0	0	0
Total weighted risk volume	**102 111**	**101 843**	**99 071**
Banking	92 903	92 635	89 838
Credit risk	78 785	78 518	75 786
IRB Advanced approach	63 438	63 438	62 055
IRB Foundation approach	2 907	2 907	2 772
Standardised approach	7 131	7 174	6 485
Counterparty credit risk	2 927	2 927	3 049
Other assets	2 382	2 072	1 425
Market risk[4]	2 716	2 716	2 713
Operational risk	11 401	11 401	11 340
Insurance	9 133	9 133	9 133
Holding-company activities and elimination of intercompany transactions	75	75	99
Solvency ratios			
Common equity ratio (or CET1 ratio)	17.6%	18.1%	17.1%
Tier-1 ratio	19.0%	19.6%	18.7%
Total capital ratio	21.2%	21.5%	20.6%

1 Audited figures (excluding 'IRB provision shortfall', 'Value adjustment due to requirements for prudent valuation' and 'Deduction regarding NPL backstops'). In 2020, KBC made a change in accounting policy for intangible assets. Following the requirements of IAS 8, the changes in accounting policy have been applied retroactively for 2019. Consequently, parent shareholders' equity has been retroactively restated, as have intangible fixed assets, including the impact on deferred taxes. There was no impact on the common equity ratio. For more information, see Note 1.1 in the 'Consolidated financial statements'.

2 CRR ensures that prudent valuation is reflected in the calculation of available capital. This means that the fair value of all assets measured at fair value and impacting the available capital (by means of fair value changes in P&L or equity) need to be brought back to their prudent value. The difference between the fair value and the prudent value (also called the 'additional value adjustment' or AVA) must be deducted from the CET1 ratio.

3 NPL backstops refer to the ECB minimum coverage expectations on non-performing loans (applicable as of 31 December 2020). For exposures defaulted after 1 April 2018 but originated before 26 April 2019, KBC will voluntary deduct from CET1 any shortfalls relative to supervisory expectations.

4 The HVAR and SVAR multiplier used for the calculation of market risk is equal to 3.

Solvency at group level (consolidated; CRR/CRD, deduction method) (in millions of EUR)	**31-12-2020** (fully loadedl)	**31-12-2020** (transitional)	**31-12-2019** (fully loaded)
Common equity	17 282	17 775	16 224
Total weighted risk volume	97 481	97 214	94 196
Common equity ratio	17.7%	18.3%	17.2%

Condensed solvency calculations for KBC Bank and KBC Insurance can be found in Note 6.7 of the 'Consolidated financial statements'.

Maximum Distributable Amount

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

Buffer compared to the Overall Capital Requirement (consolidated; under CRR/CRD, Danish compromise method)		**31-12-2020**		**31-12-2019**
	Fully loaded	**Transitional**	**Fully loaded**	**Transitional**
CET1 Pillar 1 minimum	4.50%	4.50%	4.50%	4.50%
Pillar 2 requirement	1.75%	1.75%	1.75%	1.75%
Capital conservation buffer	2.50%	2.50%	2.50%	2.50%
Buffer for systemically important institutions (O-SII)	1.50%	1.50%	1.50%	1.50%
Entity-specific countercyclical buffer	0.20%	0.17%	0.30%	0.43%
Overall Capital Requirement (OCR) (A)[1]	10.45%	10.42%	10.55%	10.68%
CET1 used to satisfy shortfall in AT1 bucket (B)	0.03%	0.03%	0.00%	0.00%
CET1 used to satisfy shortfall in T2 bucket (C)[2]	-0.13%	0.12%	0.05%	0.05%
CET1 requirement for MDA (A+B+C)	10.35%	10.57%	10.60%	10.74%
CET1 capital (in millions of EUR)	17 948	18 441	16 989	16 989
CET1 buffer (= buffer compared to MDA) (in millions of EUR)	7 382	7 681	6 486	6 353

1 Situation as known at 31 December 2020 (not taking into account changes communicated after that date).

2 Available tier-2 capital exceeds the 2% Pillar 1 minimum requirement. The remainder is used to satisfy part of the Pillar 2 requirement under the revised CRR/CRD.

Solvency figures under FICOD

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

Solvency at group level (consolidated; FICOD method) (in millions of EUR)	**31-12-2020 Fully loaded**	**31-12-2020 Transitional**	**31-12-2019 Fully loaded**
Common equity	18 843	19 336	17 661
Total weighted risk volume	114 783	114 515	111 526
Common equity ratio	16.4%	16.9%	15.8%

Leverage ratio

Leverage ratio **at group level (consolidated; under CRR/CRD, Danish compromise method)** (in millions of EUR)	**31-12-2020 Fully loaded**	**31-12-2020 Transitional**	**31-12-2019 Fully loaded**
Tier-1 capital	19 448	19 941	18 489
Total *exposure*	303 069	303 696	272 885
Total assets	320 743	320 743	290 591
Deconsolidation of KBC Insurance	-32 972	-32 972	-33 243
Transitional adjustment	–	628	–
Adjustment for derivatives	-4 158	-4 158	-2 882
Adjustment for regulatory corrections in determining tier-1 capital	-1 825	-1 825	-2 254
Adjustment for securities financing transaction exposures	830	830	638
Off-balance sheet exposures	20 451	20 451	20 035
Leverage ratio	6.4%	6.6%	6.8%

More details, including a description of the processes used to manage the risk of excessive leverage, can be found in KBC's Risk Report, which is available at www.kbc.com (the risk report has not been audited by the statutory auditor).

Minimum requirement for own funds and eligible liabilities (MREL)

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

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

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

At present, the applicable MREL target to be achieved by KBC Group by 31 December 2021 is 9.67% (as a percentage of TLOF under the so-called 'hybrid approach'). This approach excludes MREL-eligible liabilities that have not been issued by KBC Group NV (insofar as they do not constitute own funds) and requires tier-2 capital downstreamed by KBC Group NV to KBC Insurance to be deducted from MREL (in line with the treatment under CRR/CRD).

MREL: hybrid view

(in millions of EUR)	31-12-2020	31-12-2019
Own funds and eligible liabilities (transitional)	28 376	25 939
CET1 capital (consolidated, CRR/CRD, Danish compromise method)	18 441	16 989
AT1 instruments (consolidated, CRR/CRD)	1 500	1 500
T2 instruments (consolidated, CRR/CRD)	1 914	1 925
Subordinated liabilities (issued by KBC Group NV but not included in AT1 & T2)	2	0
Senior debt (issued by KBC Group NV, nominal amount, remaining maturity > 1 year)	6 519	5 525
Total Liabilities and Own Funds (TLOF)	281 268	249 850
MREL as a % of TLOF	10.1%	10.4%
Risk Weighted Assets (RWA)	101 843	99 071
MREL as a % of RWA	27.9%	26.2%
Leverage Ratio Exposure Amount (LRE)	303 696	272 885
MREL as a % of LRE	9.3%	9.5%

The SRB will communicate new targets, expressed as a percentage of risk weighted assets (RWA) and leverage ratio exposure amount (LRE). They will replace the above targets with effect on the date they are announced by the SRB and must be achieved by 1 January 2024 (a binding interim target to be achieved as from 1 January 2022 will also be defined).

ICAAP and ORSA

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

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

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

Once a year, the ICAAP and ORSA processes generate comprehensive reports, which are presented to both top management and the supervisory bodies. In view of the coronavirus pandemic, the ECB allowed for a pragmatic approach to be taken in 2020, but KBC nevertheless submitted a complete report, including an assessment of the impact of the coronavirus crisis on KBC's capital adequacy.

Stress testing

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

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

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

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

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

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

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

The coronavirus crisis impacted the 2020 stress test planning as an ad hoc stress test was performed to assess the impact of the coronavirus crisis on our capital, which confirmed our solid capital position.

Corporate governance statement

The main aspects of our corporate governance policy are set out in the Corporate Governance Charter of KBC Group NV (the 'Charter', which is published at www.kbc.com). We have adopted the 2020 version of the Belgian Corporate Governance Code ('Code 2020') as our benchmark. It can be downloaded at www.corporategovernancecommittee.be.
More factual information regarding corporate governance and on the application of certain statutory provisions is contained in this corporate governance statement.

Unless otherwise indicated, the period dealt with runs from 1 January 2020 to 31 December 2020.

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

Composition of the Board and its committees

The following table shows the members of the Board and its committees on 31 December 2020*. A list of the external offices held by all members of the Board is provided at www.kbc.com, as is a brief CV for each director. The number of meetings attended is shown in the columns relating to the committees.

Name	Primary responsibility	Period served on the Board in 2020	Expiry date of current term of office	Board meetings attended	Non-executive directors	Core shareholders' representatives	Independent directors	EC	AC	RCC	Nomination Committee	Remuneration Committee
Number of meetings in 2020				14					8	9	4	6
Koenraad Debackere	Chairman of the Board[1]	Full year	2023	14	■		■				3 (c)	5 (c)
Philippe Vlerick	Deputy Chairman of the Board CEO, Vlerick Group	Full year	2021	14	■	■					4	6
Johan Thijs	President of the EC and Executive Director, KBC	Full year	2024	14				■ (c)				
Alain Bostoen	CEO, Christeyns Group	Full year	2023	14	■	■						
Katelijn Callewaert	Managing Director, Cera and KBC Ancora	Full year	2021	14	■	■						
Erik Clinck	Executive Director, Enactus Belgium	8 months	2024	7	■	■						
Sonja De Becker	Chairperson, MRBB	Full year	2024	14	■	■					4	
Franky Depickere	Managing Director/CEO, Cera and KBC Ancora	Full year	2023	14	■	■				9 (c)	4	
Frank Donck	Managing Director, 3D	Full year	2023	14	■	■			7	8		
Júlia Király	Professor Emeritus, International Business School of Budapest	Full year	2022	14	■		■		8			6
Liesbet Okkerse	Financial Director, Zoersel Municipality and Public Social Welfare Centre	8 months	2024	7	■	■						
Vladimira Papirnik	Retired Partner, Squire Patton Boggs (US) LLP	Full year	2024	14	■		■		8	9	4	
Theodoros Roussis	CEO, Ravago Group	Full year	2024	14	■	■						
Hendrik (Rik) Scheerlinck	Executive Director, KBC	Full year	2021	14				■				
Christine Van Rijsseghem	Executive Director, KBC	Full year	2022	14				■				
Marc Wittemans	Managing Director/CEO, MRBB	Full year	2022	14	■	■			8 (c)	9		

* Thomas Leysen and Matthieu Vanhove, who were directors until 7 May 2020, attended seven Board meetings.
Statutory auditor: PricewaterhouseCoopers (PwC), represented by Roland Jeanquart and Tom Meuleman.
Secretary to the Board: Wilfried Kupers.
(c) Chairman of this committee.
1. Chairman of the Board with effect on 1 November 2020. Independent director of KBC Group NV and chairman of the Nomination Committee and the Remuneration Committee with effect on 7 May 2020.

Changes in the composition of the Board in 2020

- Thomas Leysen and Matthieu Vanhove resigned from the Board following the General Meeting of 7 May 2020.
- Koenraad Debackere was vested with the authority to act in the capacity of independent director within the meaning of and in line with the criteria set out in Article 7:87 of the CAC and in Code 2020. The Board appointed him as Chairman with effect on 1 November 2020.
- Vladimira Papirnik was re-appointed as an independent director for a new term of four years.
- Sonja De Becker, Theodoros Roussis and Johan Thijs were re-appointed as directors for a new four-year term of office.
- Erik Clinck and Liesbet Okkerse were appointed as directors for a term of four years.

Changes in the composition of the committees of the Board in 2020

- Koenraad Debackere became a member and chairman of the Nomination Committee and the Remuneration Committee with effect on 7 May 2020, replacing Thomas Leysen.

Changes in the composition of the Board proposed to the General Meeting on 6 May 2021

- On the advice of the Nomination Committee, the Board will propose that Philippe Vlerick and Katelijn Callewaert be re-appointed as director for a four-year term of office.
- On the advice of the Nomination Committee, the Board will propose that Luc Popelier be appointed as director for a four-year term of office. Following his appointment as a member of the EC, he will become an executive director, replacing Hendrik Scheerlinck who – after reaching the age limit – will step down as director following the General Meeting of 6 May 2021.

Brief CV for the proposed new director(s):

- Born in Antwerp in 1964, Luc Popelier holds a Master's Degree in Applied Economics (University of Antwerp). He started his career at the Kredietbank in 1988, holding various positions in corporate banking before moving to London in 1995 to take up the post of Associate Director of Credit Risk Management at Warburg Dillon Read. In 1996, he became Director of Corporate Finance at SBC Warburg. He returned to the KBC group in 1999 as Executive Director of Corporate Finance (KBC Securities), before becoming General Manager of the Strategy & Expansion Division (KBC Group NV) in 2002, General Manager of Trade Finance (KBC Bank) in 2008 and a member of the Executive Committee of KBC Asset Management in 2009. He has been a member of the EC of KBC Group NV since September 2009.

Like to know more? The Corporate Governance Charter, CVs for members of the Board and the agenda for the General Meeting of 6 May 2021 can be found at www.kbc.com.

The Group Executive Committee (EC)

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

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

The composition of the EC remained unchanged in 2020.

Changes with effect from 6 May 2021:

- With effect from 6 May 2021, Hendrik Scheerlinck and Daniel Falque will resign as members of the EC. The Board would like to express its gratitude for the contribution they have made to the KBC group over many years
- On the advice of the Nomination Committee, the Board will appoint Peter Andronov and David Moucheron as members of the EC with effect on 6 May 2021.

The following changes in the composition of the EC will be made with effect on 6 May 2021

- Luc Popelier will become CFO (and continue to be responsible for KBC Securities and Markets).
- Peter Andronov will become CEO of the International Markets Business Unit (which no longer includes KBC Securities and Markets).
- David Moucheron will become CEO of the Belgium Business Unit.

Following these appointments and changes, the EC will comprise:

- Johan Thijs, Group CEO (Chief Executive Officer)
- Luc Popelier, CFO (Chief Financial Officer)
- Christine Van Rijsseghem, CRO (Chief Risk Officer)
- Peter Andronov, CEO of the International Markets Business Unit
- John Hollows, CEO of the Czech Republic Business Unit
- Erik Luts, Chief Innovation Officer
- David Moucheron, CEO of the Belgium Business Unit

Brief CV for the new members of the EC:

- Born in Dobrich (Bulgaria) in 1969, Peter Andronov graduated with a Master's Degree in Finance from the University of National and World Economy in Sofia (Bulgaria). After working as an analyst in a number of commercial banks between 1994 and 1997, he moved to the Bulgaria National Bank where he held various positions

from 1997 to 2007 (eventually becoming Head of the Banking Supervision Department). Between 2005 and 2007, he headed up the Basel II project for Bulgaria and was also a member of the Committee of European Banking Supervisors (CEBS) and the ECB's Banking Supervision Committee. He was appointed CRO of CIBANK in 2007 and CEO in 2008. He has been KBC's Country Manager for Bulgaria since 2011 and CEO of United Bulgarian Bank (UBB) since 2017. Peter also has an extensive academic background.
- Born in Mons in 1973, David Moucheron holds a Master's Degree in Law from the Université Catholique de Louvain (Louvain-La-Neuve), a Master's Degree in Tax Law from the EHSAL School of Business (Brussels) and a LL.M. from the Columbia Law School (New York). He started his career as a lawyer with de Bandt, van Hecke & Lagae (now Linklaters) in Brussels, working there between 1996 and 1999, before moving to McKinsey & Company to work as a consultant (2000-2005). Between 2006 and 2008, he was Secretary to the Executive Committee and Chief of Staff of Fortis Group (now BNP Paribas Fortis). He became CEO of bpost bank (Brussels) in 2009 and remained in that position until he moved to the KBC group in 2015 to take up the post of CEO of CBC Banque & Assurance. He has been CEO of K&H Bank and KBC's Country Manager for Hungary since 2017.

Governance model

On 31 December 2020, the Board had 16 members, namely:
- its Chairman, who is an independent director;
- two other independent directors;
- three members of the EC (the Group CEO, the Group CFO and the Group CRO);
- 10 representatives of the core shareholders.

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

The core shareholders (Cera, KBC Ancora, MRBB and the other core shareholders) have concluded a shareholder agreement in order to ensure shareholder stability and a long-term focus for the management of KBC Group NV, as well as to support and co-ordinate its general policy. To this end, the core shareholders act in concert at the General Meeting of KBC Group NV and were represented on its Board by ten directors at year-end 2020.

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

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

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

Diversity policy

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

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

The policy also stipulates that:
- at least one-third of the Board's members must be of a different gender than the other members;
- the members of the Board must be of different nationalities, with due account being taken of the different geographical areas where KBC is active;
- at least three directors must be independent within the meaning of and in line with the criteria set out in Article 7:87 of the CAC;
- three members of the EC must also sit on the Board.

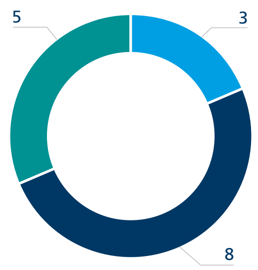
The Board usually holds its meetings together with the Boards of KBC Bank and KBC Insurance. The two additional independent directors on each of these two boards provide extra expertise and diversity.

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

The policy also stipulates that:
- at least one member of the EC must be of a different gender than the other members;
- the EC should strive towards achieving diversity in terms of the nationality and age of its members;

Composition of the Board of Directors

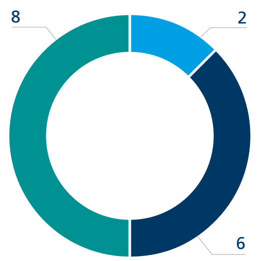
Number of years on the Board



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

(average: 9 years)

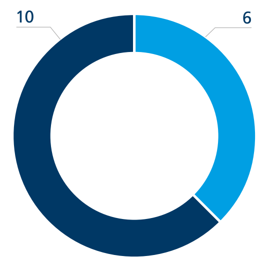
Age



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

(average: 59 years of age)

Gender



- Female
- Male

- all members of the EC have the necessary financial knowledge, professional integrity and management experience, but have followed different career paths.

The Board will see to it that this diversity policy is applied properly when deciding on the profile of a new director or a new member of the EC.

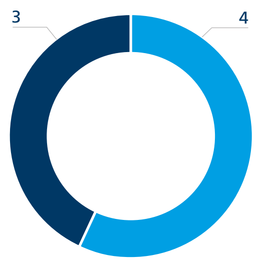
The Nomination Committee regularly checked to see whether this policy was being applied in practice and established that this was the case in 2020. The changes in the composition of the EC described above further increase diversity by adding more Central European-based experience.

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

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

Composition of the Executive Committee

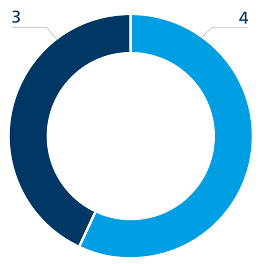
Number of years on the Executive Committee



- 3-10 years
- More than 10 years

(average: 8 years)

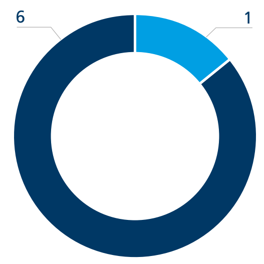
Age



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

(average: 59 years of age)

Gender



- Female
- Male

AC: application of Article 7:99 of the CAC and section 6.2.3 of the Charter

On 31 December 2020, the AC had two independent directors within the meaning of and in line with the criteria set out in Article 7:87 of the CAC and in Code 2020:

- Vladimira Papirnik (independent director), who holds a Juris Doctor Degree (Northwestern University (US), 1982). She was a senior partner in the law firm of Squire Patton Boggs and – until June 2017 – worked in both Prague and Chicago. Ms Papirnik continues to work on projects for the firm and its clients. She focuses her international business practice on banking, project finance and corporate law (mergers and acquisitions, corporate governance).
- Júlia Király (independent director), who is a graduate of the Budapest University of Economics (1980) and holds a Ph.D in Economics from the Hungarian Academy of Sciences. She was Associate Professor of Finance at the Corvinus University of Budapest for 15 years, specialising in risk management, risk measurement, Basel principles in theory and practice, capital budgeting and bank financial management. She was also responsible for risk management at the Hungarian Central Bank. Ms Király was Head of Department at the International Business School of Budapest and Research Associate at the Centre for Economic and Regional Studies of the Hungarian Academy of Sciences until 2020.

The other members of the AC are:

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

It can be concluded on the basis of the profiles and competences of the members of the AC that the committee is constructed and has the requisite skills and experience in accordance with the requirements of Article 7:99 of the CAC and of section 6.2.3 of the Charter.

RCC: application of section 6.3.3 of the Charter

On 31 December 2020, the RCC of KBC Group NV had one independent director within the meaning of and in line with the criteria set out in Article 7:87 of the CAC and in Code 2020:

- Vladimira Papirnik (see CV above).

The other members of the RCC are:

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

It can be concluded on the basis of the profiles and competences of the members of the RCC that the committee is constructed in accordance with the requirements of the Charter and it possesses the requisite skills and experience.

Application of and non-compliance with Code 2020

The corporate governance statement included in the annual report must indicate whether any provisions of Code 2020 have not been complied with and state the reasons for non-compliance (the 'comply-or-explain' principle). This information is provided below.

Provision 4.19 of Code 2020 stipulates that the Board should set up a nomination committee composed of a majority of independent non-executive directors.

On 31 December 2020, the Nomination Committee was composed of five directors, one of whom was the Chairman of the Board (who is also an independent director), a second independent director, and three who represented the core shareholders. Therefore, two independent directors sit on this committee. Furthermore, an independent director of KBC Bank is invited to attend every meeting of the Nomination Committee. In this way, three independent directors are involved in its activities.

When selecting the members of the Nomination Committee, the group takes due account of the specific shareholder structure and, in particular, of the presence of the core shareholders. Given their long-term engagement, the Board considered it appropriate to involve them in a suitable manner in the activities of this committee.

Statutory auditor

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

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

Report on the activities of the Board and its committees in 2020

Board of Directors (Board)

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

- managing the impact of the coronavirus crisis;
- the strategy and operations in the Belgium Business Unit, in Bulgaria and Ireland, and at KBC Securities and KBC Asset Management;
- the IT strategy and digital transformation;
- implementing the insurance strategy;
- reviewing the Sustainable Finance programme (the general sustainability strategy and the policy on climate change);
- the remuneration policy;
- the capital policy and dividend policy;
- the non-financial objectives;
- the ICAAP-ILAAP Report;
- the Risk Appetite Statement;
- the risk reports;
- the compliance reports and the Compliance function;
- the KBC Recovery Plan for 2020 and KBC Resolution Plan.

The EC reported monthly on the trend in the results and the general course of business at the group's various business units. In addition, the Board focused on the strategy and specific challenges for the different areas of activity. Regular training sessions were also organised for all members of the Board (newly appointed directors also followed an extensive induction programme).

Sustainability parameters have been incorporated into the KBC Sustainability Dashboard to enable the situation within the KBC group to be monitored and adjustments to be made, where necessary. The Board assesses the performance of these parameters twice a year. More information in this regard can be found in our Sustainability Report (available at www.kbc.com).

Audit Committee (AC)

The AC is tasked with a number of responsibilities, including advising the Board on the integrity of financial reporting and the effectiveness of the internal control process and risk management. It provides guidance to the internal audit function and oversees the external auditor.
The AC met in the presence of the President of the EC, the Group CRO, the Group CFO, the internal auditor, the compliance officer and the statutory auditors. Besides reviewing the company and consolidated financial statements, the annual report, the half-year and quarterly figures, approving the relevant press releases and discussing the auditor's findings, it also discussed the quarterly reports drawn up by the internal auditor (including the approved annual audit plan).

The AC also examined:

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

Risk & Compliance Committee (RCC)

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

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

In addition, the following special reports were dealt with:

- the statement of effective management with regard to the assessment of internal control systems and the monitoring of the resulting action plans;
- the ICAAP-ILAAP Report for 2020;
- the KBC Recovery Plan for 2020 and KBC Resolution Plan;
- Covid-19 reporting;
- the Risk Appetite Statement;
- Information Security and Cyber Risk;
- the risk-related elements of remuneration policy and the pricing of products offered to clients;
- the results of inspections performed by the supervisory authorities and the action plans drawn up by management;
- the updated Compliance Charter;
- the updated Integrity Policy;
- the Compliance Annual Report to the Board;
- the Data Protection Officer Report.

Nomination Committee

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

The main matters dealt with were:

- nomination of the new Chairman of the Board;
- appointments and re-appointments to the Board;
- succession planning for the Board and the EC;
- evaluation of the operations and composition of the Board.

Remuneration Committee

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

The main matters dealt with were:

- the assessment of the criteria for evaluating the EC in 2019;
- the criteria for evaluating the EC in 2020;
- the annual remuneration review;
- the remuneration paid to members of the EC and the relevant impact of the coronavirus crisis;
- risk-adjusted profit for 2019;
- the changes to the remuneration policy;
- the impact of the Corporate Governance Code, the Shareholder Rights Directive and the amended Companies Code on remuneration, remuneration policy and the remuneration report;
- the remuneration package for the Chairman of the Board;
- the change to equity-related remuneration in the Czech Republic.

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

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

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

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

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

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

Conflicts of interest that fell within the scope of Article 7:115, 7:116 or 7:117 of the CAC

During financial year 2020, the Board's decision to grant discharge to the members of the EC – in implementation of Article 7:109, § 3 of the CAC – required the application of Article 7:115 of the CAC. The proposal was discussed at the Board meeting of 23 April 2020, the relevant minutes of which are provided below:

'It was explained that KBC Group NV has a dual governance model, but that three members of the Executive Committee must also sit on the Board of Directors. Article 7:109, § 3 of the CCA provides that, after adoption of the annual accounts, the Board has to decide on granting discharge to the members of the Executive Committee. The Board had to describe the pecuniary consequences of the proposed decision and justify its decision.
The Board recognised that there was a conflict of interest of a patrimonial nature, but that there were no pecuniary consequences since the Board did not intend to bring a claim for damages against the Executive Committee and its members.
The Board decided to grant discharge to the members of the Executive Committee.'

There were no conflicts of interest that required the application of Article 7:116 or 7:117 of the CAC.

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

None.

Measures regarding insider dealing and market manipulation

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

Main features of the internal control and risk management systems

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

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

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

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

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

The Charter describes the respective responsibilities of both management bodies, their composition and activities, as well as the qualification requirements for their members.

Corporate culture and integrity policy

Ethical behaviour and integrity are essential components of sound business practice. Honesty, integrity, transparency and confidentiality, together with sound risk management, are part of the high ethical standards that KBC stands for – both in the letter and the spirit of the regulations. These principles are set out in the integrity policy, as well as in specific codes, procedures and codes of conduct, and are also incorporated into specific training courses and campaigns for staff. The main policy guidelines and codes of conduct are communicated in a transparent manner and can be found at www.kbc.com > Corporate Sustainability > Setting rules and policies.

One of the topics covered by the integrity policy is 'conduct risk', a concept that identifies the risk arising from the inappropriate provision of financial services. To address this matter, KBC has drawn up a comprehensive policy that includes prevention, monitoring and reporting. Extensive, group-wide communication campaigns and dilemma training ensure that the necessary awareness of this risk is in place. Managing conduct risk is crucial for safeguarding the interests of clients, especially in the areas of investor protection and insurance policyholder protection.

The integrity policy focuses primarily on the following areas, for which – where appropriate – specific group-wide compliance rules have been issued, i.e. for:

- preventing the financial system being used for laundering money and funding terrorism, observing embargoes, and preventing proliferation financing of weapons of mass destruction;
- preventing fiscal irregularities including special mechanisms and DAC 6;
- protecting investors;
- protecting privacy, including banking secrecy, privacy in electronic communication, confidentiality of information and the professional duty of discretion;
- fostering ethics and coordinating fraud prevention;
- protecting insurance policyholders;
- complying with anti-discrimination legislation;
- respecting rules on consumer protection: market practices, payment and lending services, complaints handling by companies, rules on SME funding and Payment Services Directive II;

- respecting the governance aspects of CRD IV, Solvency II and/or local laws, including the separation of duties between executive management and supervisory bodies, the functioning of committees, incompatibility of offices, sound remuneration policy, 'Fit & Proper' requirements, conflicts of interest, loans made to members of the EC and directors (and persons associated with them) and to shareholders with a significant participation, and the provision of advice on outsourcing.

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

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

Combating corruption and bribery

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

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

Combating corruption and avoiding conflicts of interest, in general, are dealt with as part of an authoritative training course, which 510 KBC Bank, KBC Insurance and KBC Asset Management employees in Belgium attended in 2020, along with the tied insurance agents and their staff. 95% of staff working at Commercial Finance likewise received training on how to combat corruption and avoid conflicts of interest. At the group's Central European entities, the anti-corruption course is integrated into compliance training and provided face-to-face or via e-learning. 8 814 members of staff took this course in the Czech Republic, 2 600 in Slovakia and 424 in Hungary. In Bulgaria, training was provided to 1 974 employees and insurance agents. In Ireland, this training formed part of the compliance ethics e-learning course, which is provided each year (1 350 staff members took this course). Furthermore, some 95% of our top 300 senior managers had completed the KBC University training programme on corporate social responsibility.

Another element of the Anti-Corruption & Bribery Policy is the 'policy on gifts, donations and sponsorship' through which KBC endeavours to protect its employees and the other parties involved by means of criteria that have been drawn up to foster transparent and reasonable behaviour. This policy states that gifts, donations or invitations, whose equivalent value exceeds a certain sum (on an annual basis), must be reported to and approved by the competent executive committee/ management level. In 2020, 84 incidents of this kind were approved in Belgium. In Central Europe, too, gifts and donations above a certain value have to be reported (16 such incidents were reported in the Czech Republic, 4 in Hungary, 11 in Slovakia and none in Bulgaria). No incidents of this kind were reported in Ireland.

Anti-money laundering practices

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

Precisely because KBC does not want to be involved in these activities, training courses are provided at regular intervals to all employees, tied agents and their staff. Furthermore, employees, tied agents and their staff are expected to strictly follow established procedures and guidelines and to exercise due vigilance when identifying customers and checking transactions. They are also expected to report anything suspicious to the Compliance function.

In 2020, the focus was on reviewing and updating the data on high-risk clients. Additional information was requested and transactions examined at random using artificial intelligence (AI). An integrated, group-wide AI platform based on models and machine learning was developed and rolled out in Belgium and in the Central European countries where the group operates. The building blocks below show how AML was taken to the next level.

Responsible taxpayer

The basic principle behind the KBC Tax Strategy is that KBC Group NV and all its entities must act as responsible taxpayers, basing themselves on professionally executed compliance with tax laws, legitimate tax planning and supported by valid business objectives that take precedence over tax considerations. KBC does not take aggressive tax positions simply because it wishes to safeguard its reputation as a responsible taxpayer, and it adheres to a strict tax risk management policy based on these principles. KBC staff are not allowed to provide clients with advice of a nature that might prompt them to commit tax fraud. Any tax advice or tax information provided must be legally correct and clearly worded. All of KBC's tax returns and tax payments are filed

correctly and on time. When conducting tax audits, full disclosure in line with prevailing local tax legislation is the guiding principle. KBC reacts in good time to all legislative changes by investing in the necessary IT systems and by adapting its tax processes to ensure they comply with the new rules. Proper governance is in place to follow up and monitor the KBC Tax Strategy. In 2020, efforts were focused on DAC 6 compliance and reviewing the tax fraud prevention policy.

Whistleblower policy
KBC has a policy in place regarding whistleblowers. It expects its employees, tied agents and their staff – when going about their work – to look out for signs of crime, any serious infringements of rules or regulations and other malpractice on the part of employees and clients. All KBC employees, tied agents and their staff have a basic moral duty – and the legal means – to report any suspicions of such conduct. In 2020, the Group Compliance Rules were updated to include the requirements set out in the new EU Directive on whistleblowing.
KBC may report directly and anonymously to the respective supervisors in their areas of competence.
KBC undertakes to protect the identity of whistleblowers and to protect them against any detrimental consequences of acting in good faith to voice their suspicions in the way set out in the internal rules. By doing so, KBC likewise protects and respects the rights of the person about whom concerns are reported. Group Compliance oversees how this policy is implemented in practice. In principle, the local compliance function is the entity where all the reports and files are centralised. It has to inform the Group Compliance's Ethics & Fraud Unit about every whistleblowing file. The whistleblower policy is required to be published internally and externally (available under 'Corporate Sustainability' at www.kbc.com).

Kate and data protection
Digital assistant 'Kate' was launched as part of our digital first strategy. The development of Kate was overseen by the Compliance function given that the related processing of personal data falls under the scope of GDPR.

The 'Three Lines of Defence' model

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

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

2 The Group risk, compliance and actuarial functions, and – for certain matters – Finance, Legal and Tax, constitute the second line of defence
Independent of the business side, the second-line risk and control functions formulate their own opinion regarding the risks confronting KBC. In this way, they can oversee the control environment and the risks taken, without taking over primary responsibility from the first line. In this regard, the second-line functions are tasked to identify, measure and report risks. To ensure that the risk function is respected, the Chief Risk Officers have a veto right, which can be used in the various committees where important decisions are made. The second-line risk and control functions also support the consistent implementation of the risk policy, the risk framework, etc., throughout the group, and supervise how they are applied.

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

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

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

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

In accordance with international professional audit standards, an external entity screens the audit function on a regular basis (the last time this happened was in 2019). The results of that exercise were reported to the EC and the AC.

The AC and RCC play a central role in monitoring the internal control and risk management systems
Each year, the EC evaluates whether the internal control and risk management system is still compliant and reports its findings to the AC and RCC.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1 Capital structure on 31 December 2020

The share capital was fully paid up and was represented by 416 694 558 shares of no nominal value. For more information, see the 'Company annual accounts and additional information' section.

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

Each year, KBC Group NV carries out a capital increase for its employees and the employees of certain of its Belgian subsidiaries. If the issue price of the new shares is less than the set closing price, the employee may not transfer these new shares for two years, starting from the payment date, unless he or she dies. The shares subscribed to by employees under the capital increase decided upon by the Board in November 2020 are blocked until 16 December 2022. The shares issued under the capital increase in 2019 also remain blocked (until 18 December 2021).

3 Holders of any securities with special control rights

None.

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

None.

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

The voting rights attached to the shares held by KBC Group NV and its direct and indirect subsidiaries are suspended. At 31 December 2020, these rights were suspended for 20 795 shares.

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

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

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

- KBC Ancora NV: 77 516 380
- Cera CV: 11 127 166
- MRBB CVBA: 47 887 696
- Other core shareholders: 30 601 922
- Total 167 133 164
  (40.11% of total number of shares at 31 December 2020)

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

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

Appointment and replacement of members of the Board:

Following the approval of or notification to the supervisory authority, proposals to appoint nominated directors or to re-appoint directors are submitted by the Board to the General Meeting for approval. Each proposal is accompanied by a documented recommendation from the Board, based on the advice of the Nomination Committee. Without prejudice to the applicable legal provisions, nominations are communicated as a separate agenda item for the General Meeting at least thirty days before it is held. When nominating an independent director, the Board will state whether the individual meets the independence criteria set out in Article 7:87 of the CAC. The General Meeting appoints directors by a simple majority of votes cast. From among its non-executive members, the Board elects a chairman and one or more deputy chairmen, if necessary. Outgoing directors are always eligible for re-appointment.
If, during the course of a financial year, a directorship falls vacant as a result of decease, resignation, dismissal or for any other reason, the remaining directors may provisionally arrange for a replacement and appoint a new director. In that case, the next General Meeting will proceed to a definitive appointment.

Amendment of the Articles of Association:

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

If an amendment to the Articles of Association pertains to the object of the company, the Board must justify the proposed amendment in a detailed report that is referred to in the agenda. An amendment will then only be adopted if it receives at least four-fifths of the votes cast (Article 7:154 of the CAC).

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

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

On 10 November 2020, the Board decided to use its authorisation to increase capital by issuing shares with preferential subscription rights cancelled to employees at a price of 46.55 euros per share. On 18 December 2020, the issued share capital was increased by 1 052 705.16 euros (represented by 299 916 new shares). For the impact of cancelling preferential subscription rights, see 'Notes to the company annual accounts'.

As a result, the authorised capital amounted to 697 202 561.59 euros at year-end 2020, with the possibility to cancel the preferential subscription rights of existing shareholders being restricted to a maximum 288 202 561.59 euros. Consequently, when account is taken of the accounting par value of the share on 31 December 2020, a maximum of 198 633 208 new shares can still be issued, with the existing shareholders' preferential subscription rights for 82 108 991 of these shares being cancelled (i.e. 47.67% and 19.70%, respectively, of the number of shares in circulation at that time).

Pursuant to Article 7:221 § 2 of the CAC, KBC Bank NV – in its capacity as professional stockbroker – sold 23 096 KBC Group NV shares and purchased 5 284 such shares in 2020.

On 31 December 2020, KBC Group NV and its direct subsidiaries did not hold any KBC Group NV shares, apart from 20 793 shares held by KBC Bank NV in its capacity as professional stockbroker. These shares have an accounting par value of 3.51 euros a share and represent 0.005% of the issued share capital.

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

None.

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

None.

Shareholder structure on 31 December 2020

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

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

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

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

Article 10bis of the Articles of Association of KBC Group NV stipulates the threshold at which individuals must disclose their shareholdings. KBC publishes these notifications on www.kbc.com.

Shareholder structure on 31-12-2020 (based on the most recent notifications received pursuant to the Act of 2 May 2007)	Address	Number of KBC shares/voting rights (as a % of the current number of shares/voting rights)*	Notification relating to
Core shareholders			
KBC Ancora NV	Muntstraat 1, 3000 Leuven, Belgium	77 516 380 / 18.60%	1 December 2014
Cera CV	Muntstraat 1, 3000 Leuven, Belgium	11 127 166 / 2.67%	1 December 2014
MRBB CVBA	Diestsevest 32/5b, 3000 Leuven, Belgium	47 889 864 / 11.49%	1 December 2014
Other core shareholders	C/o Ph. Vlerick, Ronsevaalstraat 2, 8510 Bellegem, Belgium	32 020 498 / 7.68%	1 December 2014
Other shareholders			
BlackRock Inc.	55 East 52nd Street, New York, NY 10055, United States	16 474 105 / 3.95% (20 778 528 / 4.99%)	31 October 2018
FMR LLC	1209 Orange Street, Wilmington, New Castle County, Delaware 19801, United States	12 531 817 / 3.01% (12 531 817 / 3.01%)	6 September 2018

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

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

Within the framework of this law, KBC Group NV received a number of updated disclosures at the end of August 2020. The entities and individuals referred to below act in concert.

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

Shareholder	Shareholding (quantity)	%[2]	Shareholder	Shareholding (quantity)	%[2]
KBC Ancora NV	77 516 380	18.60	Cecan NV	466 002	0.11
MRBB CVBA	47 887 696	11.49	Cecan Invest NV	397 563	0.10
Cera CV	11 127 166	2.67	Robor NV	359 606	0.09
Plastiche Finance NV	4 410 500	1.06	Rodep Comm. VA	305 000	0.07
SAK AGEV	4 112 731	0.99	Beluval NV	281 698	0.07
VIM CVBA	4 012 141	0.96	Bareldam SA	260 544	0.06
3D NV	2 461 893	0.59	Algimo NV	210 000	0.05
Almafin SA	1 623 127	0.39	Gavel NV	200 000	0.05
De Berk BV	1 138 208	0.27	Ibervest	190 000	0.05
SAK PULA	981 450	0.24	Promark International NV	146 000	0.04
Rainyve SA	950 000	0.23	STAK Iberanfra	120 107	0.03
Alia SA	937 705	0.23	Agrobos NV	70 000	0.02
Stichting Amici Almae Matris	912 731	0.22	Wilig NV	42 650	0.01
Alginvest NV	840 901	0.20	Filax Stichting	38 529	0.01
Ceco CVA	666 499	0.16	Hendrik Van Houtte CVA	36 000	0.01
Niramore International SA	569 881	0.14	Kristo Van Holsbeeck BVBA	17 500	0.00
Van Holsbeeck NV	524 001	0.13	IBP Ravago OFP	11 333	0.00
Sereno SA	474 408	0.11			

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

	Shareholding (quantity)	%[2]		Shareholding (quantity)	%[2]
-	884 000	0.21	-	63 562	0.02
-	285 000	0.07	-	61 186	0.02
-	285 000	0.07	-	47 500	0.01
-	250 000	0.06	-	43 446	0.01
-	167 498	0.04	-	40 000	0.01
-	125 200	0.03	-	34 155	0.01
-	102 944	0.03	-	23 131	0.01
-	89 562	0.02	-	19 207	0.00
-	81 212	0.02	-	10 542	0.00
-	75 000	0.02	-	3 431	0.00
-	71 168	0.02	-	470	0.00
-	70 000	0.02			

1 No such disclosures were received.
2 The calculation (%) of the total outstanding number of shares is based on the total number of shares on 31 December 2020.

Remuneration report for financial year 2020

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

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

The European Shareholder Rights Directive (Directive (EU) 2017/828) was implemented in Belgian law by the Act of 28 April 2020. Containing a number of new provisions relating to the content of the remuneration report, this legislation also increases shareholder say in the remuneration process. Not only does the remuneration policy for members of the Board and the EC have to be approved by the General Meeting, the remuneration report also has to be submitted to this meeting and voted on at it. The report must include an explanation on how the remuneration policy took due account of the vote on the previous remuneration report.

The coronavirus pandemic has seen to it that 2020 was far from a run-of-the-mill year in many respects, including in the area of remuneration (see elsewhere in this report).

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

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

Non-compliance with the Corporate Governance Code

- The Corporate Governance Code stipulates that members of the Board should receive a portion of their remuneration in the form of company shares as a way of encouraging them to act as long-term shareholders. The Remuneration Committee conducted an in-depth debate on the application of this rule at KBC. While agreeing with the thinking behind it, the committee did not consider it expedient to follow this rule given KBC's specific shareholder structure, where – with the exception of the independent directors – all non-executive directors at KBC are representatives of the core shareholders. These core shareholders, by their very nature, are long-term shareholders who together hold more than 40% of KBC's shares. Adding a limited number of shares by means of their remuneration would, therefore, not have any impact whatsoever. The Remuneration Committee duly concluded that it was not necessary to implement this rule to achieve the intended objective. The Board followed the committee's advice in this regard.
- The Corporate Governance Code also stipulates that the Board should determine the minimum number of shares that members of the EC may hold in a personal capacity. The reasoning behind this position is to bring the interests of executive management into line with the those of shareholders. The structure of the remuneration package currently in place for members of the EC ensures that their interests correspond with the long-term interests of the shareholders. Not only is payment of 60% of their variable remuneration deferred over a period of five years, half of it is also linked to the value of the KBC share. Continuing good results and a positive share price performance are therefore as important to members of the EC as they are to the shareholders. The additional requirement of having members of the EC hold a package of KBC shares would make an overly large portion of their assets dependent on the KBC share price. Accordingly, the Remuneration Committee advised the Board not to implement this

particular provision of the Code. The Board followed the advice of the committee.

General framework

The policy for remunerating members of the Board and the EC is published in the *Remuneration Policy for the Board of Directors and Members of the Executive Committee*, which will be submitted for approval at the General Meeting of 6 May 2021. It provides details of the remuneration package for the members of the Board and members of the EC (including the principles for setting variable remuneration for members of the EC). The main principles are set out below (a more detailed description is included in the *Remuneration Policy for the Board of Directors and Members of the Executive Committee*):

- Variable remuneration must always comprise a profit-related component (for the EC as a collective body) and a performance-related component (for individual achievements).
- 60% of variable remuneration awarded to members of the EC may not be paid straightaway but its payment is to be spread over a period of five years.
- Half of the total amount of variable remuneration is to be awarded in the form of equity-related instruments (phantom stocks or other instrument specified by a local regulator), so that the longer-term effects of the policy on the value of the KBC group can also be reflected in the variable remuneration component.
- No advance payments may be made in relation to the variable component and clawback/holdback provisions are in place.
- The variable remuneration component may not exceed half of the fixed component.
- Variable remuneration is to be capped at a nominal 750 000 euros.
- The criteria for assessing the performance of the EC member responsible for the risk function may not refer in any way to the results of the KBC group.
- Some of the criteria used for assessing the performance of members of the EC must always relate to risk. The sustainability policy is another element that is taken into account when setting variable remuneration.

Clawback provisions

- As already explained above, payment of the total annual variable remuneration is not only spread over time, half of it is also awarded in the form of phantom stocks that are subject to a retention period of one year (i.e. they are only converted into cash one year after being awarded). The variable remuneration component, including the deferred part, is only acquired when this can be reconciled with the financial situation of the entire institution and justified by the performances of the KBC group and the EC.
- Action can be taken regarding payment of deferred amounts that have still to be acquired (malus arrangement) in certain situations described in the remuneration policy. In exceptional circumstance, some or all of the variable remuneration already awarded can also be clawed back. In this regard, the Board takes a decision each year on the advice of the Remuneration Committee.

Remuneration awarded to non-executive directors

- The remuneration paid to non-executive directors consists solely of an annual fixed component of 20 000 euros (non-performance-related and non-results-based) plus the fee received for each meeting attended (5 000 euros). If meetings coincide with Board meetings of KBC Bank and/or KBC Insurance, the attendance fee will be paid just once to directors sitting on more than one of these Boards. Given his duties, the Deputy Chairman receives a higher fixed component (an additional 30 000 euros). Four additional Board meetings were held in 2020 partly on account of the coronavirus crisis and five information sessions for the Board were also organised. The Board decided to waive the attendance fees for all these additional meetings.
- In light of the considerable time he devotes to the ongoing supervision of KBC group affairs, the Chairman of the Board receives a different remuneration package that comprises solely a fixed component, which is set separately by the Remuneration Committee and approved by the Board. It amounts to 200 000 euros for the chairman of KBC Group NV and to 50 000 euros each for the chairmen of KBC Bank NV and KBC Insurance NV.
- The directors sitting on the AC and/or RCC receive an additional fixed emolument of 30 000 euros for the work they perform in that regard. The rule likewise applies that, if meetings coincide with AC or RCC meetings of KBC Bank and/or KBC Insurance, the emolument will be paid just once to directors sitting on different committees. The chairmen of the AC and RCC receive a higher fixed emolument (an additional 30 000 euros and 100 000 euros, respectively).

Directors sitting on either the Nomination Committee or the Remuneration Committee do not receive additional remuneration for the work they perform in that regard.
- In light of the considerable time required for directors residing outside Belgium to attend Board meetings, additional remuneration (attendance fees) of 2 500 euros is paid to them for each meeting attended. Given that the outbreak of the coronavirus pandemic resulted in all subsequent Board meetings in 2020 being held virtually, the foreign-based directors waived this additional remuneration from March 2020 on.
- KBC Group NV does not grant loans to directors. Loans or guarantees may, however, be granted by KBC Group NV banking subsidiaries pursuant to Article 72 of the Banking Act of 25 April 2014, meaning that loans may be granted at terms applying to clients and approved by the Board.

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

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

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

	Remuneration (for FY 2020)	Remuneration for AC and RCC members (for FY 2020)	Attendance fees (for FY 2020)	Total
Koenraad Debackere*	80 000	-	40 000	120 000
Alain Bostoen	30 000	-	50 000	80 000
Katelijn Callewaert	65 000	-	56 250	121 250
Eric Clinck	20 000	-	30 000	50 000
Sonja De Becker	40 000	-	50 000	90 000
Franky Depickere	65 000	130 000	56 250	251 250
Frank Donck	30 000	30 000	50 000	110 000
Júlia Király	30 000	30 000	55 000	115 000
Liesbet Okkerse	20 000	-	30 000	50 000
Vladimira Papirnik	30 000	30 000	55 000	115 000
Theodoros Roussis	30 000	-	50 000	80 000
Matthieu Vanhove	10 000	-	20 000	30 000
Philippe Vlerick	60 000	-	50 000	110 000
Mark Wittemans	40 000	60 000	50 000	150 000
Thomas Leysen (until 7 May 2020)	176 707	-	-	176 707

* This amount refers to the remuneration received as a director until 31 October 2020 and the remuneration received as chairman from 1 November 2020.

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

- The remuneration of individual EC members is made up of the following components:
  - a fixed monthly emolument;
  - an annual, performance-related variable emolument (the amount of which depends on the performance of the EC as a whole and on the performance of the institution);
  - an annual, individual variable emolument based on the performance by each member of the EC and on the example they set in respecting the group's values;
  - any emolument for offices performed on behalf of KBC Group NV (exceptional).
- A quantitative risk-adjustment mechanism (called a 'risk gateway') is used to set the variable remuneration. It comprises a number of capital and liquidity parameters that have to be met before the variable remuneration component may be awarded. The parameters are set each year by the Board. If one or more of these parameters are not met, not only will this remuneration component not be awarded, but payment of deferred amounts relating to previous years will be suspended in that year, too.
- For members of the EC, the individual variable component is set on the basis of an assessment of the performance of the

member in question. The Remuneration Committee assesses each member of the EC against each of the five aspects of our corporate culture (*Performance, Empowerment, Accountability, Responsiveness and Local Embeddedness*) and the core value of being *Respectful*. On the basis of this assessment, the Remuneration Committee proposes a percentage between 0 and 100% to the Board. The Board then decides on this final score, which ultimately determines the size of the individual variable emolument.

- On the advice of the Remuneration Committee, the Board sets the performance-related variable component on the basis of an assessment of a number of pre-agreed criteria relating to the performances of the EC and the company. These criteria are centred on four broad areas, viz. implementing strategy, realising financial plans, strengthening the risk control environment, and the satisfaction of all stakeholders. The performance of the EC in each of these four areas determines the size of the performance-related component (with each area accounting for 25% of the final outcome).
  - As regards implementing strategy – besides achieving any specific targets – the main focus is on what has been achieved in terms of client centricity, sustainability, encouraging responsible conduct, and innovation.
  - The criteria for assessing whether the financial plans have been achieved comprise a number of financial parameters (return, profit, capital, and cost of credit) and an assessment of the progress made in further implementing the bank-insurance model and income diversification. In view of the coronavirus crisis, the Board – on the advice of the Remuneration Committee – adjusted the Key Performance Indicators (KPIs) for the EC in March 2020, shifting the emphasis from achieving the various financial parameters to ensuring business continuity and minimising the impact of the crisis on the key financial figures.
  - Strengthening the risk control environment is assessed based on liquidity, capital and funding criteria, implementing recommendations made by audit and the regulator, and the degree to which the quality of data has improved.
  - Stakeholder satisfaction is assessed on the basis of the results from the client and employee satisfaction surveys and on the progress made in the area of sustainability. As regards the latter aspect, a sustainability dashboard that contains numerous parameters is used for measuring sustainability in a range of areas, including our banking and insurance activities (e.g., the share of renewable energy loans in the loan portfolio and reducing financing of the coal sector), our role in society (e.g., our own ecological footprint), sustainable growth (e.g., managing risk and creating long-term value), reputation and HR policy.

  This assessment of these criteria is reflected in a percentage between 0% and 100% that is applied to the maximum performance-related variable emolument. The size of the variable emolument, therefore, depends to a very small extent on achieving financial results. Risk management, stakeholder management and sustainability are aspects that are at least equally important in this regard.
- When setting the variable remuneration of the CRO, financial planning achievements are not taken into account, but the relative weighting of risk-related criteria is doubled.
- The remuneration package awarded to members of the EC does not include a long-term bonus.
- Members also benefit from a retirement and survivor’s pension scheme, which comprises a supplementary retirement pension or – if the insured dies while still in employment and leaves a spouse – a survivor’s pension, and also provides cover in the event of disability.

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

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

Relative importance of the different components of remuneration

- The variable component for 2020 is split into a performance-related variable emolument and an individual variable emolument.
- The performance-related variable component for the President of the EC is set between 0 and 455 000 euros and the individual variable component between 0 and 177 000 euros. The limits for these components are 279 000 euros and 110 000 euros, respectively, for the other members of the EC.
- The final amount is set by the Board on the advice of the Remuneration Committee, based on an assessment of the

individual and collective achievements during the previous financial year.

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

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

Pension arrangements, disability cover and death cover

- The members of the EC have a separate defined contribution plan that is funded entirely by KBC. When drawing up this plan, account was taken of the fact that the career of a member (and especially the President) of the EC is shorter than that of an average employee. In the pension formula, therefore, the first ten years that an individual sits on the EC are the ones in which a significant part of the supplementary pension is built up. The contribution that KBC makes to the pension plan amounts to 32% of the fixed emolument (40% for the CEO) during those first ten years, 7% for the next five years (3% for the CEO) and 3% starting from the sixteenth year of plan membership. A minimum return of 0% (capped at 8.25%) is guaranteed on the contributions. During the first ten years, the size of the payment made into the pension fund is rather large, but declines to a fraction of what it had been previously starting from the eleventh year and even more markedly from the sixteenth year.
- The plan applies to all members of the EC who are resident in Belgium. For the members who had joined the EC prior to 1 January 2016, the vested reserves built up (in the previous pension plan) by 31 December 2015 were transferred to the new plan.
- The pension plan includes a death benefit, which equals four times the amount of the fixed emolument (or, if higher, the reserves that have been built at the time of death). Where applicable, there is also an orphan's pension, comprising a one-off benefit of 197 950 euros and an annuity of 6 420 euros per year.
- The invalidity benefit provided under the plan amounts to 762 347 euros per year.

Fixed remuneration for 2020

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

Variable remuneration for 2020

- The Board decided that the members of the EC should be awarded performance-related variable remuneration for 2020 that equalled 96.25% (95.63% for the CRO). The relevant figures are given in the table. The Remuneration Committee established that most of the KPIs set had been met or even exceeded. Despite the unprecedented situation, the EC succeeded in ensuring continuity of the business and also turned in what can only be described as a highly respectable performance under the circumstances. It did not prevent the EC either from making the progress targeted in the area of sustainability, making considerable headway in achieving a sustainable situation in Ireland, updating the Group strategy and continuing to scout for potential acquisitions, completing the integration of ČMSS into ČSOB in the Czech Republic and finalising the acquisition of OTP Banka Slovakia. All the KPIs relating to risk and control were achieved, even though the accuracy of RWA projections could still be improved upon. Client satisfaction improved in virtually every entity, though there was still room for improvement here too. Partly on account of the coronavirus crisis, (phone) access to branches in Belgium was below the required level. The impact of the coronavirus crisis on the overall result was such that the Board decided to follow the advice of the Remuneration Committee and the EC and reduce the 2020 budget for variable remuneration to 75%. The Board decided to act in the same vein and reduced the variable remuneration budget for all senior management in the group.

- A performance-related variable emolument of 328 454 euros and an individual variable emolument of 127 440 euros was awarded to Johan Thijs. A performance-related variable emolument of 201 404 euros was awarded to each of the other members of the EC (200 106 euros for the CRO). The individual variable emolument for each member of the EC is given in the table. Half of the variable remuneration component is paid in cash and the other half is awarded in the form of phantom stocks. As regards the cash component, 40% will be paid in 2021 and the remaining 60% spread equally over the next five years (2022 to 2026, inclusive).
- Phantom stocks for 2020: The number of phantom stocks is calculated on the basis of the average price of the KBC share during the first quarter of 2021. Like the other variable components, 40% will be awarded in 2021 and the remaining 60% spread equally over the next five years. Given that phantom stocks are to be retained for one year, they are paid out in cash one year after being awarded, which means that payment is spread over 2022 to 2027, inclusive. The amounts for which phantom stocks were awarded in this way for 2020 are given in the table below:

Amounts awarded in the form of phantom stocks (in EUR)	**Total**	**Vesting in 2021**	**Vesting in 2022**	**Vesting in 2023**	**Vesting in 2024**	**Vesting in 2025**	**Vesting in 2026**
Johan Thijs	227 947	91 177	27 354	27 354	27 354	27 354	27 354
Daniel Falque	131 640	52 655	15 797	15 796	15 797	15 797	15 797
John Hollows*	134 527	53 812	16 143	16 143	16 143	16 143	16 143
Erik Luts	137 002	54 802	16 440	16 440	16 440	16 440	16 440
Luc Popelier	132 876	53 151	15 945	15 945	15 945	15 945	15 945
Hendrik Scheerlinck	134 527	53 812	16 143	16 143	16 143	16 143	16 143
Christine Van Rijsseghem	135 116	54 046	16 214	16 214	16 214	16 214	16 214

* 50% in the form of virtual investment certificates (VICs) instead of phantom stocks.

Variable remuneration relating to previous years

- A portion of the (deferred) variable remuneration component awarded for 2016, 2017, 2018 and 2019 will be paid in 2021. The amounts paid are given in the table.
- A portion of the phantom stocks awarded for 2015, 2016, 2017 and 2018 was converted into cash at 61.65 euros per share in April 2020. The amounts paid are given in the table.

Other benefits

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

Overview

- The table shows the remuneration paid to the current seven members of the EC.
- Employment status of the members of the EC: self-employed.
- In 2020, the following amounts of deferred remuneration were paid to former members of the EC:
- Luc Gijsens: an individual variable emolument of 5 015 euros, a performance-related variable emolument of 16 487 euros and 45 498 euros in phantom stocks.

Remuneration paid to the EC of KBC Group NV (2020)	**Johan Thijs CEO**		**Daniel Falque**		**John Hollows**		**Erik Luts**		**Luc Popelier**		**Hendrik Scheerlinck**		**Christine Van Rijsseghem**	
	Awarded	Paid	Awarded	Paid	Awarded	Paid	Awarded	Paid	Awarded	Paid	Awarded	Paid	Awarded	Paid
Base remuneration (fixed)	1 266 000	1 266 000	864 000	864 000	864 000	864 000	864 000	864 000	864 000	864 000	864 000	864 000	864 000	864 000
Individual remuneration for financial year (variable)														
- cash	63 720	25 488	30 938	12 375	33 825	13 530	36 300	14 520	32 175	12 870	33 825	13 530	35 063	14 025
- phantom stocks	63 720	–	30 938	–	33 825	–	36 300	–	32 175	–	33 825	–	35 063	–
Performance-related remuneration for financial year (variable)														
- cash	164 227	65 691	100 702	40 281	100 702	40 281	100 702	40 281	100 702	40 281	100 702	40 281	100 053	40 021
- phantom stocks	164 227	–	100 702	–	100 702	–	100 702	–	100 702	–	100 702	–	100 053	–
Remuneration for previous financial years														
- individual variable remuneration	–	32 565	–	17 168	–	18 723	–	13 479	–	17 765	–	12 677	–	18 823
- performance-related variable remuneration	–	93 248	–	57 290	–	57 290	–	40 803	–	57 290	–	40 803	–	57 950
- phantom stocks	–	205 048	–	124 039	–	127 233	–	79 590	–	124 656	–	78 480	–	127 554
Sub-total (variable remuneration)	455 894	422 040	263 280	251 153	269 054	257 057	274 004	188 673	265 754	252 861	269 054	185 771	270 232	258 373
Defined contribution pension plan (contribution) (excl. taxes)	506 400	506 400	276 480	276 480	282 092	282 092	276 480	276 480	276 480	276 480	276 480	276 480	276 480	276 480
Other benefits	17 254	17 254	16 395	16 395	9 200	9 200	12 321	12 321	14 213	14 213	11 656	11 656	13 746	13 746
Total	2 245 548	2 211 694	1 420 155	1 408 028	1 424 346	1 412 349	1 426 805	1 341 474	1 420 447	1 407 554	1 421 190	1 337 907	1 424 458	1 412 599
Ratio of fixed to variable remuneration (%)	80/20	81/19	81/19	82/18	81/19	82/18	81/19	86/14	81/19	82/18	81/19	86/14	81/19	82/18

Top management remuneration in perspective

- To put developments in the remuneration of top management in perspective, we have provided an overview covering the past five years of the total remuneration earned by the current members of the EC, the average salary of KBC Group NV employees (in FTE), the lowest salary of a KBC Group NV employee (in FTE) and certain indicators of KBC's performance.
- The remuneration awarded to non-executive directors has not been included in the overview due to the fact that it has remained unchanged during the past five years.

	2016	2017		2018		2019		2020	
Remuneration paid to EC members (in EUR)			(year-on-year change)		(year-on-year change)		(year-on-year change)		(year-on-year change)
Johan Thijs	1 979 881	2 177 688	+10%	2 298 415	+6%	2 361 493	+3%	2 245 548	-5%
Daniel Falque	1 315 200	1 398 553	+6%	1 452 951	+4%	1 482 938	+2%	1 420 155	-4%
John Hollows	1 313 836	1 397 301	+6%	1 453 772	+4%	1 492 213	+3%	1 424 346	-5%
Erik Luts	–	–	–	1 453 646	-	1 494 112	+3%	1 426 805	-5%
Luc Popelier	1 320 293	1 401 481	+6%	1 456 816	+4%	1 488 162	+2%	1 420 447	-5%
Hendrik Scheerlinck	–	–	–	1 451 527	-	1 490 627	+3%	1 421 190	-5%
Christine Van Rijsseghem	1 313 086	1 401 729	+7%	1 465 071	+5%	1 500 277	+2%	1 424 458	-5%
Average (excluding CEO)	1 315 604	1 399 766	+6%	1 455 630	+4%	1 491 388	+2%	1 422 900	-5%
Average employee salary* (in EUR)									
Average for KBC Group NV employees	86 486	88 579	+2%	90 416	+2%	90 780	+0%	92 124	+1%
Lowest salary in KBC Group NV	37 953	39 564	+4%	42 587	+8%	43 259	+2%	46 448	+7%
Ratio of highest to lowest salary in KBC Group NV	1/52	1/55		1/54		1/55		1/48	
Performance indicators									
Group's net result (in millions of EUR)	2 427	2 575	+6%	2 570	-0%	2 489	-3%	1 440	-42%
Group's total income (in millions of EUR)	7 211	7 700	+7%	7 512	-2%	7 629	+2%	7 195	-6%
Greenhouse gas emissions (in tonnes of CO2e per FTE)	2.89	2.48	-14%	2.27	-8%	1.97	-13%	1.54	-22%
Volume of SRI funds (in billions of EUR)	2.80	7.10	+154%	8.97	+26%	12.02	+34%	16.78	+40%
Common equity ratio (fully loaded)	15.8%	16.3%	+3%	16.0%	-2%	17.1%	+7%	17.6%	+3%

* Belgian employees of KBC Group NV.

Non-financial information statement

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

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

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

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

Consolidated financial statements

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Consolidated income statement

(in millions of EUR)	Note	2020	2019
Net Interest Income	3.1	4 467	4 618
Interest income	*3.1*	*6 264*	*7 244*
Interest expense	*3.1*	*-1 797*	*-2 626*
Non-life insurance (before reinsurance)	3.7	865	756
Earned premiums	*3.7*	*1 777*	*1 721*
Technical charges	*3.7*	*-912*	*-966*
Life insurance (before reinsurance)	3.7	10	-6
Earned premiums	*3.7*	*1 223*	*1 323*
Technical charges	*3.7*	*-1 213*	*-1 329*
Ceded reinsurance result	3.7	-20	-25
Dividend income	3.2	53	82
Net result from financial instruments at fair value through profit or loss	3.3	33	181
of which result on equity instruments (overlay approach)	*3.3*	*-14*	*93*
Net realised result from debt instruments at fair value through OCI	3.4	2	6
Net fee and commission income	3.5	1 609	1 734
Fee and commission income	*3.5*	*2 365*	*2 476*
Fee and commission expense	*3.5*	*-755*	*-741*
Other net income	3.6	176	282
TOTAL INCOME		**7 195**	**7 629**
Operating expenses	3.8	-4 156	-4 303
Staff expenses	*3.8*	*-2 329*	*-2 357*
General administrative expenses	*3.8*	*-1 518*	*-1 595*
Depreciation and amortisation of fixed assets	*3.8*	*-309*	*-351*
Impairment	3.10	-1 182	-217
on financial assets at amortised cost and at fair value through OCI	*3.10*	*-1 074*	*-203*
on goodwill	*3.10*	*0*	*0*
other	*3.10*	*-108*	*-14*
Share in results of associated companies and joint ventures	3.11	-11	7
RESULT BEFORE TAX		**1 847**	**3 116**
Income tax expense	3.12	-407	-627
Net post-tax result from discontinued operations	–	0	0
RESULT AFTER TAX	**–**	**1 440**	**2 489**
attributable to minority interests	–	0	0
of which relating to discontinued operations	*–*	*0*	*0*
attributable to equity holders of the parent	**–**	**1 440**	**2 489**
of which relating to discontinued operations	*–*	*0*	*0*
Earnings per share (in EUR)			
Ordinary	3.13	3.34	5.85
Diluted	3.13	3.34	5.85

- We have dealt with the main items in the income statement in the 'Report of the Board of Directors' under the 'Our financial report' and 'Our business units' sections. The statutory auditor has not audited these sections.
- The breakdown of interest income and interest expense on financial instruments calculated using the effective interest rate method and on other financial instruments (not calculated using the effective interest rate method) is provided in Note 3.1.
- As a result of the acquisition of the remaining 45% stake in the Czech building savings bank Českomoravská stavební spořitelna (ČMSS), now fully owned by KBC through ČSOB, the results of ČMSS have been fully consolidated since June 2019 (before then, it had been recorded according to the equity method). This means that ČMSS was fully consolidated for seven months in 2019 and for 12 months in 2020. As a result of the acquisition of 99.44% of the shares in OTP Banka Slovensko, the results of this Slovakian company will be fully consolidated from 1 January 2021. This means that OTP Banka Slovensko is not included in the 2019 results, nor in the 2020 results (see Note 6.6 for more details).
- Overview of the impact of the overlay approach on the consolidated income statement: this approach has been applied to the equity instruments held by the group's insurance companies. These equity instruments, which have mainly been classified as 'Available for sale' under IAS 39, would be measured at FVPL under IFRS 9. For as long as IFRS 17 is not effective, the overlay approach allows for increased volatility reported in the income statement as a result of applying IFRS 9 to be removed from the income statement to OCI. This increased volatility, which was reclassified out of 'Net result from financial instruments at FVPL' to 'Revaluation reserve (FVPL equity instruments) – overlay approach', relates to -25 million euros in unrealised changes in fair value in 2020 (-27 million euros before tax). That is the difference between (i) the result under IFRS 9 (without applying the overlay approach), i.e. -39 million euros, of which -41 million euros in realised and unrealised changes in fair value recognised in 'Net result from financial instruments at FVPL' and +2 million euros in taxes, and (ii) the result under IAS 39, i.e. -14 million euros, comprising a net realised result of +116 million euros and an impairment of -131 million euros. More details are provided in Note 1.2.

Equity instruments held by the insurer in 2020: Illustration of the overlay approach (in millions of EUR)	Under IAS 39	Under IFRS 9 without overlay (FVPL option)	Impact of overlay	Under IFRS 9 with overlay
Realised results through profit or loss	116	116	–	116
Unrealised results through profit or loss	–	-158	-158	–
Impairment through profit or loss	-131	–	131	-131
Realised and unrealised results through OCI	-27	–	27	-27
Income tax expense (through profit or loss or OCI)	2	2	–	2
Total through profit or loss or OCI	-39	-39	0	-39

Consolidated statement of comprehensive income

(in millions of EUR)	2020	2019
RESULT AFTER TAX	**1 440**	**2 489**
attributable to minority interests	0	0
attributable to equity holders of the parent	1 440	2 489
OCI THAT MAY BE RECYCLED TO PROFIT OR LOSS	**-66**	**510**
Net change in revaluation reserve (FVOCI debt instruments)	138	411
Fair value adjustments before tax	175	544
Deferred tax on fair value changes	-45	-129
Transfer from reserve to net result	8	-4
Impairment	*5*	*-1*
Net gains/losses on disposal	*5*	*0*
Deferred taxes on income	*-2*	*-3*
Net change in revaluation reserve (FVPL equity instruments) – overlay approach	-25	191
Fair value adjustments before tax	-42	288
Deferred tax on fair value changes	2	-4
Transfer from reserve to net result	14	-93
Impairment	*131*	*24*
Net gains/losses on disposal	*-116*	*-117*
Deferred taxes on income	*0*	*0*
Net change in hedging reserve (cashflow hedges)	37	-68
Fair value adjustments before tax	-21	-158
Deferred tax on fair value changes	6	37
Transfer from reserve to net result	53	53
Gross amount	*69*	*71*
Deferred taxes on income	*-17*	*-17*
Net change in translation differences	-291	-18
Gross amount	-291	-18
Deferred taxes on income	0	0
Hedge of net investments in foreign operations	74	3
Fair value adjustments before tax	95	-20
Deferred tax on fair value changes	-21	-13
Transfer from reserve to net result	0	36
Gross amount	*0*	*49*
Deferred taxes on income	*0*	*-13*
Net change in respect of associated companies and joint ventures	0	-6
Gross amount	0	-7
Deferred taxes on income	0	1
Other movements	0	-3
OCI THAT WILL NOT BE RECYCLED TO PROFIT OR LOSS	**-35**	**127**
Net change in revaluation reserve (FVOCI equity instruments)	7	8
Fair value adjustments before tax	8	11
Deferred tax on fair value changes	-1	-3
Net change in defined benefit plans	-46	119
Remeasurements	-57	157
Deferred tax on remeasurements	11	-38
Net change in own credit risk	5	-1
Fair value adjustments before tax	7	-1
Deferred tax on fair value changes	-2	0
Net change in respect of associated companies and joint ventures	-2	0
Remeasurements	-2	1
Deferred tax on remeasurements	0	0
TOTAL COMPREHENSIVE INCOME	**1 339**	**3 126**
attributable to minority interests	0	0
attributable to equity holders of the parent	1 339	3 126

- Revaluation reserves in 2020: the net change in the ‘revaluation reserve (FVPL equity instruments) – overlay approach’ came to -25 million euros and was largely attributable to negative changes in fair value, partly offset by transfers to the net result (impairment charges partly offset by sales). The net change in the ‘revaluation reserve (FVOCI debt instruments)’ rose by 138 million euros, boosted by a general decrease in interest rates. The increase in the hedging reserve (cashflow hedge) of 37 million euros was accounted for by unwinding operations (unwinding the discount), partly offset by lower interest rates. The net change in defined benefit plans (-46 million euros) related mainly to the historically low discount rate for retirement benefit obligations, which failed to be adequately offset by the lower return on plan assets. This was largely compensated for by the impact of reinsurance established as of 2020 for the mortality risk in the KBC pension fund. The net change in translation differences (-291 million euros) was caused primarily by the weakening of the Czech koruna (CZK) and Hungarian forint (HUF) against the euro. This was only partly offset by the hedge of net investments in foreign operations (+74 million euros) because, since mid-2019, the new hedging policy of foreign exchange participations has been aimed at stabilising the group capital ratio (and not the parent shareholders’ equity).
- Revaluation reserves in 2019: the net change in the ‘revaluation reserve (FVPL equity instruments) – overlay approach’ came to +191 million euros and was largely attributable to positive changes in fair value, partly offset by transfers to the net result (gains on sales offset in part by impairment charges). The ‘revaluation reserve (FVOCI debt instruments)’ rose by 411 million euros, boosted by a general decrease in interest rates, which also accounted for the negative net change in the hedging reserve (cashflow hedge) of -68 million euros, partly offset by unwinding operations (unwinding the discount). The net change in defined benefit plans (+119 million euros) related mainly to the positive returns on plan assets, partly offset by the lower discount rate. The net change in translation differences (-18 million euros) was limited on account of relatively stable exchange rates (Czech koruna and Hungarian forint).

Consolidated balance sheet

In millions of EUR	Note	31-12-2020	31-12-2019
ASSETS			
Cash, cash balances with central banks and other demand deposits with credit institutions	–	24 583	8 356
Financial assets	4.0	286 386	273 399
Amortised cost	*4.0*	*243 527*	*230 639*
Fair value through OCI	*4.0*	*18 451*	*19 037*
Fair value through profit or loss	*4.0*	*24 248*	*23 563*
of which held for trading	*4.0*	*8 695*	*7 266*
Hedging derivatives	*4.0*	*160*	*158*
Reinsurers' share in technical provisions, insurance	5.6	145	121
Profit/loss on positions in portfolios hedged against interest rate risk	–	1 360	478
Tax assets	5.2	1 624	1 434
Current tax assets	*5.2*	*125*	*96*
Deferred tax assets	*5.2*	*1 499*	*1 337*
Non-current assets held for sale and disposal groups	5.11	19	29
Investments in associated companies and joint ventures	5.3	24	25
Property and equipment and investment property	5.4	3 691	3 818
Goodwill and other intangible assets	5.5	1 551	1 458
Other assets	5.1	1 361	1 474
TOTAL ASSETS		320 743	290 591
LIABILITIES AND EQUITY			
Financial liabilities	4.0	276 781	248 400
Amortised cost	*4.0*	*254 053*	*224 093*
Fair value through profit or loss	*4.0*	*21 409*	*23 137*
of which held for trading	*4.0*	*7 157*	*6 988*
Hedging derivatives	*4.0*	*1 319*	*1 171*
Technical provisions, before reinsurance	5.6	18 718	18 560
Profit/loss on positions in portfolios hedged against interest rate risk	–	99	-122
Tax liabilities	5.2	498	476
Current tax liabilities	*5.2*	*79*	*98*
Deferred tax liabilities	*5.2*	*419*	*378*
Liabilities associated with disposal groups	5.11	0	0
Provisions for risks and charges	5.7	209	227
Other liabilities	5.8	2 908	2 827
TOTAL LIABILITIES		299 214	270 369
Total equity	5.10	21 530	20 222
Parent shareholders' equity	5.10	20 030	18 722
Additional tier-1 instruments included in equity	5.10	1 500	1 500
Minority interests	–	0	0
TOTAL LIABILITIES AND EQUITY		320 743	290 591

- The increase in the balance sheet total was largely attributable to TLTRO III (see Note 4.1 below).
- As a result of the acquisition of 99.44% of the shares in OTP Banka Slovensko, this Slovakian company was included in the balance sheet on 31 December 2020 (see Note 6.6 for more details).
- As a result of a change in accounting policies for intangible assets in 2020, the 'Deferred tax assets', 'Deferred tax liabilities', 'Goodwill and other intangible assets', and 'Parent shareholders' equity' items were restated retroactively for 2019 (see Note 1.1).

Consolidated statement of changes in equity

(in millions of EUR)	Issued and paid up share capital	Share premium	Treasury shares	Retained earnings	Total revaluation reserves	Parent share-holders' equity	Additional tier-1 instru-ments included in equity	Minority interests	Total equity
2020									
Balance at the beginning of the period	1 458	5 498	-2	11 732	37	18 722	1 500	0	20 222
Net result for the period	0	0	0	1 440	0	1 440	0	0	1 440
Other comprehensive income for the period	0	0	0	0	-102	-102	0	0	-102
Subtotal	0	0	0	1 440	-102	1 339	0	0	1 339
Dividends	0	0	0	0	0	0	0	0	0
Coupon on additional tier-1 instruments	0	0	0	-50	0	-50	0	0	-50
Capital increase	1	17	0	0	0	18	0	0	18
Transfer from revaluation reserves to retained earnings upon realisation	0	0	0	23	-23	0	0	0	0
Purchase/sale of treasury shares	0	0	1	0	0	1	0	0	1
Change in minority interests	0	0	0	0	0	0	0	0	0
Total change	1	17	1	1 414	-125	1 308	0	0	1 308
Balance at the end of the period	1 459	5 514	-1	13 146	-88	20 030	1 500	0	21 530
2019									
Balance at the beginning of the period	1 457	5 482	-3	10 901	-605	17 233	2 400	0	19 633
Change in accounting policies	0	0	0	-143	0	-143	0	0	-143
Restated balance at the beginning of the period	1 457	5 482	-3	10 758	-605	17 090	2 400	0	19 490
Net result for the period	0	0	0	2 489	0	2 489	0	0	2 489
Other comprehensive income for the period	0	0	0	-3	640	637	0	0	637
Subtotal	0	0	0	2 486	640	3 126	0	0	3 126
Dividends	0	0	0	-1 457	0	-1 457	0	0	-1 457
Coupon on additional tier-1 instruments	0	0	0	-52	0	-52	0	0	-52
Issue/repurchase of tier-1 instruments included in equity	0	0	0	-2	0	-2	-900	0	-902
Capital increase	1	15	0	0	0	16	0	0	16
Transfer from revaluation reserves to retained earnings upon realisation	0	0	0	-1	1	0	0	0	0
Change in minority interests	0	0	0	0	0	0	0	0	0
Total change	1	15	0	974	641	1 632	-900	0	732
Balance at the end of the period	1 458	5 498	-2	11 732	37	18 722	1 500	0	20 222

- Some changes were made to the table for the sake of readability. The various items in the 'Total revaluation reserves' column are now shown in a separate table below. An explanation of the changes in the revaluation reserves is provided under 'Consolidated statement of comprehensive income'.
- For information on the change in accounting policies for intangible assets in 2020 (which resulted in 'Parent shareholders' equity' being restated retroactively for 2019), see Note 1.1.
- For information on the shareholder structure, see Note 3 in the 'Company annual accounts and additional information' section and the 'Corporate governance statement' in the 'Report of the Board of Directors' section. For information on capital increases, additional tier-1 instruments, treasury share buybacks and the number of shares, see Note 5.10.
- The 'Dividends' item in 2019 (1 457 million euros) includes the final dividend of 2.50 euros per share for 2018 (paid in May 2019) and an interim dividend of 1 euro per share as an advance on the dividend for 2019. In line with the relevant ECB recommendations, the 'Dividends' item was zero in 2020.
- In accordance with the ECB's recommendation of 15 December 2020, which places a limit on dividend payments, it will be proposed to the General Meeting of Shareholders of May 2021 that a gross dividend of 0.44 euros per share be paid in May 2021 for financial year 2020. The Board of Directors also intends to distribute an additional gross dividend of 2.00 euros per share in the fourth quarter of 2021 for financial year 2020 (that amount has not been deducted from the solvency ratios at year-end 2020). The Board's final decision is subject to restrictions on dividends being lifted by the ECB.

Composition of the 'Total revaluation reserves' column in the previous table (in millions of EUR)	31-12-2020	31-12-2019	01-01-2019
Total	-88	37	-605
Revaluation reserve (FVOCI debt instruments)	1 130	992	586
Revaluation reserve (FVPL equity instruments) – overlay approach	325	350	159
Revaluation reserve (FVOCI equity instruments)	15	32	22
Hedging reserve (cashflow hedges)	-1 294	-1 331	-1 263
Translation differences	-382	-92	-73
Hedge of net investments in foreign operations	163	89	86
Remeasurement of defined benefit plans	-45	0	-119
Own credit risk through equity	1	-4	-3

Consolidated cashflow statement

(in millions of EUR)	Reference[1]	2020	2019
OPERATING ACTIVITIES			
Result before tax	See consolidated income statement	1 847	3 116
Adjustments for:	–		
Result before tax from discontinued operations	*See consolidated income statement*	*0*	*0*
Depreciation, impairment and amortisation of property and equipment, intangible fixed assets, investment property and securities	*3.10, 4.2, 5.4, 5.5*	*586*	*418*
Profit/Loss on the disposal of investments	–	*-16*	*-105*
Change in impairment on loans and advances	*3.10*	*1 069*	*204*
Change in technical provisions (before reinsurance)	*5.6*	*236*	*443*
Change in the reinsurers' share in the technical provisions	*5.6*	*-23*	*1*
Change in other provisions	*5.7*	*2*	*25*
Other unrealised gains/losses	–	*322*	*-599*
Income from associated companies and joint ventures	*3.11*	*11*	*-7*
Cashflows from operating profit before tax and before changes in operating assets and liabilities	–	4 033	3 496
Changes in operating assets (excluding cash and cash equivalents)	–	-6 138	-5 798
Financial assets at amortised cost (excluding debt securities)	*4.1*	*-5 890*	*-4 254*
Financial assets at fair value through OCI	*4.1*	*691*	*-99*
Financial assets at fair value through profit or loss	*4.1*	*-815*	*-1 612*
of which financial assets held for trading	*4.1*	*-1 449*	*-840*
Hedging derivatives	*4.1*	*-4*	*24*
Operating assets associated with disposal groups, and other assets	–	*-120*	*143*
Changes in operating liabilities (excluding cash and cash equivalents)	–	29 034	337
Financial liabilities at amortised cost	*4.1*	*29 524*	*-1 296*
Financial liabilities at fair value through profit or loss	*4.1*	*-636*	*1 697*
of which financial liabilities held for trading	*4.1*	*284*	*1 147*
Hedging derivatives	*4.1*	*129*	*-120*
Technical provisions, before reinsurance	*5.6*	*-6*	*-206*
Operating liabilities associated with disposal groups, and other liabilities	–	*23*	*262*
Income taxes paid	3.12	-560	-498
Net cash from or used in operating activities		26 369	-2 462
INVESTING ACTIVITIES			
Purchase of debt securities at amortised cost	4.1	-11 683	-7 335
Proceeds from the repayment of debt securities at amortised cost	4.1	5 019	5 870
Acquisition of a subsidiary or a business unit, net of cash acquired (including increases in percentage interest held)	6.6	107	439
Proceeds from the disposal of a subsidiary or business unit, net of cash disposed of (including decreases in percentage interest held)	–	0	0
Purchase of shares in associated companies and joint ventures	–	-10	-12
Proceeds from the disposal of shares in associated companies and joint ventures	–	0	0
Dividends received from associated companies and joint ventures	–	0	2
Purchase of investment property	5.4	-86	-45
Proceeds from the sale of investment property	5.4	60	59
Purchase of intangible fixed assets (excluding goodwill)	5.5	-365	-282
Proceeds from the sale of intangible fixed assets (excluding goodwill)	5.5	50	5
Purchase of property and equipment	5.4	-638	-902
Proceeds from the sale of property and equipment	5.4	294	347
Net cash from or used in investing activities		-7 253	-1 854
FINANCING ACTIVITIES			
Purchase or sale of treasury shares	See consolidated statement of changes in equity	1	0
Issue or repayment of promissory notes and other debt securities	4.1	617	1 366
Proceeds from or repayment of subordinated liabilities	4.1	-136	-118
Principal payments under finance lease obligations	–	0	0
Proceeds from the issuance of share capital	See consolidated statement of changes in equity	18	16
Issue of additional tier-1 instruments	See consolidated statement of changes in equity	0	-902
Proceeds from the issuance of preference shares	See consolidated statement of changes in equity	0	0

Dividends paid	See consolidated statement of changes in equity	0	-1 457
Coupon on additional tier-1 instruments	See consolidated statement of changes in equity	-50	-52
Net cash from or used in financing activities		451	-1 148
CHANGE IN CASH AND CASH EQUIVALENTS			
Net increase or decrease in cash and cash equivalents	–	19 566	-5 464
Cash and cash equivalents at the beginning of the period	–	29 118	34 354
Effects of exchange rate changes on opening cash and cash equivalents	–	-891	228
Cash and cash equivalents at the end of the period	–	47 794	29 118
ADDITIONAL INFORMATION			
Interest paid[2]	3.1	-1 797	-2 626
Interest received[2]	3.1	6 264	7 244
Dividends received (including equity method)	3.2, 5.3	53	84
COMPONENTS OF CASH AND CASH EQUIVALENTS			
Cash and cash balances with central banks and other demand deposits with credit institutions	See consolidated balance sheet	24 583	8 356
Term loans to banks at not more than three months (excluding reverse repos)	4.1	1 393	468
Reverse repos up to three months with credit institutions and investment firms	4.1	26 422	24 963
Deposits from banks repayable on demand	4.1	-4 604	-4 669
Cash and cash equivalents belonging to disposal groups	–	0	0
Total	–	47 794	29 118
of which not available	–	*0*	*0*

1 The notes referred to do not always contain the exact same amounts as those included in the cashflow statement, as – among other things – adjustments have been made to take account of acquisitions or disposals of subsidiaries, as set out in IAS 7.
2 'Interest paid' and 'Interest received' in this overview are the equivalent of the 'Interest expense' and 'Interest income' items in the consolidated income statement. Given the large number of underlying contracts that generate interest expense and interest income, it would take an exceptional administrative effort to establish actual cashflows. Moreover, it is reasonable to assume that actual cashflows for a bank-insurance company do not differ much from the accrued interest expense and accrued interest income, as most rate products pay interest regularly within the year.

- KBC uses the indirect method to report on cashflows from operating activities.
- Net cash from or used in operating activities:
  - In 2020, this item included borrowing under TLTRO III (19.5 billion euros), as well as the realised result and higher level of deposits from customers.
  - In 2019, this item included repayment of the amount borrowed under TLTRO II (6.5 billion euros), offset in part by borrowing under TLTRO III (-2.5 billion euros) and the realised result.
- Net cash from or used in investing activities:
  - In 2020, this item included additional investments in debt securities at amortised cost, as well as +107 million euros related to the acquisition of OTP Banka Slovensko (the acquisition price of 64 million euros was more than offset by the available cash and cash equivalents on the OTP Banka Slovensko balance sheet – more details are provided in Note 6.6).
  - In 2019, this item included additional investments in debt securities at amortised cost, partly offset by 439 million euros related to the acquisition of the remaining 45% stake in ČMSS (the acquisition price of 240 million euros was more than offset by the available cash and cash equivalents on the ČMSS balance sheet – more details are provided in Note 6.6).
- Net cash from or used in financing activities:
  - In 2020, this item included:
    - the issue or repayment of promissory notes and other debt securities (KBC IFIMA, KBC Group NV, ČSOB (Czech Republic) and KBC Bank NV accounted for the bulk of the figure for 2020, which related primarily to 3 billion euros' worth of these instruments being issued and 2.3 billion euros being redeemed);
    - the proceeds from or repayment of subordinated liabilities (KBC IFIMA and KBC Group NV accounted for the bulk of the figure for 2020, which related primarily to redemptions).
  - In 2019, this item included:
    - the dividend payout (-1.5 billion euros);
    - the issue and repayment of additional tier-1 (AT1) instruments (on balance, -0.9 billion euros; see Note 5.10);
    - the issue or repayment of promissory notes and other debt securities (KBC IFIMA, KBC Group NV, ČSOB (Czech Republic) and KBC Bank NV accounted for the bulk of the figure for 2019, which related primarily to 2.4 billion euros' worth of these instruments being issued and 0.9 billion euros being redeemed (primarily covered bonds));
    - the proceeds from or repayment of subordinated liabilities (KBC IFIMA, KBC Group NV and KBC Bank NV accounted for the bulk of the figure for 2019, which related primarily to 0.8 billion euros' worth of these instruments being issued and 0.8 billion euros being redeemed).

1.0 Notes on the accounting policies

Note 1.1: Statement of compliance

The consolidated financial statements of KBC Group NV, including all the notes, were authorised for issue on 18 March 2021 by the Board of Directors. They have been prepared in accordance with the International Financial Reporting Standards as adopted for use in the European Union ('endorsed IFRS') and present one year of comparative information. All amounts are shown in millions of euros and rounded to the million (unless otherwise stated).

The following changes in presentation and accounting policies were applied in 2020:
- Under Phase 1 and Phase 2 of the IBOR reform, the IASB made a number of amendments to IAS 39 (and to related standards), which provide temporary relief from adopting specific hedge accounting requirements for hedging relationships directly affected by this reform. Having already early applied the Phase 1 amendments, KBC has now also elected to early apply the Phase 2 amendment. For more information, see the 'How do we manage our risks?' section. The amendments to IAS 39 with regard to IBOR had no significant impact on our hedge accounting, as most hedging derivatives are based on EURIBOR (see Note 4.8.2. for the positions in hedging derivatives).
- The accounting policies for intangible assets were amended in 2020 to provide more relevant information by focusing on relevant and material software developments (relating to our digitalisation strategy from a front-end and/or back-end perspective).Only software above certain threshold levels may be capitalised, while software below them is recognised in operating expenses. This resulted in the derecognition of software with a low carrying value. In line with IAS 8 requirements, this change was applied retroactively (as though the new accounting policies were already in effect). As a result, certain balance sheet items for 2019 were restated retroactively, namely 'Goodwill and other intangible assets' (decrease of 182 million euros), 'Deferred tax assets' (increase of 38 million euros), 'Deferred tax liabilities' (decrease of 2 million euros) and 'Parent shareholders' equity' (decrease of 143 million euros). These changes had an impact on the following tables and notes, viz. the 'Consolidated balance sheet', the 'Consolidated statement of changes in equity', Note 5.2 and Note 5.5. Given the limited impact, the income statement for 2019 was not retroactively restated.

The following IFRS standards were issued but not yet effective in 2020. KBC will apply these standards when they become mandatory.
- IFRS 17: in May 2017, the IASB issued IFRS 17 (Insurance Contracts), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 (Insurance Contracts) that was issued in 2005. IFRS 17 applies to all types of insurance contracts, regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by a specific adaptation for contracts with direct participation features (the variable fee approach) and a simplified approach (the premium allocation approach) mainly for short-duration contracts. IFRS 17 will become effective for reporting periods beginning on or after 1 January 2023 (subject to EU endorsement), with comparative figures being required. KBC launched a group-wide project in 2018 to implement IFRS 17. The project is structured around sub-projects dealing with data delivery, local reporting, the impact on business and strategic consequences, guidance and support, consolidated reporting and the IFRS 17 calculation tool. It is being jointly run by the insurance business side and the Finance function, and involves all the departments and entities at group and local level that are affected. The focus over the past year has been on arriving at a clear interpretation of IFRS 17 and the further implementation of an IFRS-17-compliant process for closing the accounts. Where necessary, the interpretation of IFRS 17 was gradually adjusted when new information became available from external or in-house sources. Changes to the original standard, which were published by the IASB in June 2020, are now also taken into account. In terms of European approval, the European Financial Reporting Advisory Group (EFRAG) issued its draft endorsement advice on 'amended' IFRS 17 at the end of September 2020. Once the stakeholders have provided feedback, EFRAG is expected to submit its final endorsement advice to the European Commission at the end of March 2021.
- Other: the IASB has published several limited amendments to existing IFRSs and IFRICs. They will be applied when they become mandatory, but their impact is currently estimated to be negligible.

The loan portfolio accounts for the largest share of the financial assets. Based on internal management reports, the composition and quality of the loan portfolio is set out in detail in the 'How do we manage our risks?' section (under 'Credit risk'). All parts of that particular section which have been audited by the statutory auditor are listed at the start of the section.

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

Note 1.2: Summary of significant accounting policies

General/Basic principle

The general accounting principles of KBC Group NV ('KBC') are based on the International Financial Reporting Standards (IFRS), as adopted by the European Union, and on the IFRS Framework. The financial statements of KBC are prepared based on the going concern assumption. It presents each material class of similar items separately. Dissimilar items are presented separately unless they are immaterial, and items are only offset when explicitly required or permitted by the relevant IFRS.

Financial assets

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

Financial assets – recognition and derecognition

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

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

Classification of equity instruments and debt instruments

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

Classification and measurement – debt instruments

If KBC concludes that a financial asset is a debt instrument, then – upon initial recognition – it can be classified in one of the following categories:
- Measured at fair value through profit or loss (FVPL);
  - Mandatorily measured at fair value through profit or loss (MFVPL) – this category includes held-for-trading instruments (HFT);
  - Designated upon initial recognition at fair value through profit or loss (FVO);
  - Measured at fair value through profit or loss – overlay approach (FVPL – overlay);
- Measured at fair value through other comprehensive income (FVOCI);
- Measured at amortised cost (AC).

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

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

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated to be measured at FVO:
- the asset is held within a business model whose objective is achieved by both collecting contractual cashflows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cashflows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at AC only if it meets both of the following conditions and is not designated to be measured at FVO:
- the asset is held within a business model whose objective is to hold assets in order to collect contractual cashflows; and
- the contractual terms of the financial asset give rise on specified dates to cashflows that are solely payments of principal and interest on the principal amount outstanding.

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

Business model assessment

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

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

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

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g., liquidity risk and administrative costs), as well as profit margin. In assessing whether contractual cashflows are solely payments of principal and interest, KBC considers the contractual terms of the instrument, which entails assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cashflows such that the instrument would not meet this condition. In making the assessment, KBC considers:
- contingent events that could change the amount and timing of cashflows;
- leverage features;
- prepayment and extension terms;
- terms that limit KBC's claim to cashflows from specified assets (e.g., non-recourse asset arrangements); and
- features that modify consideration of the time value of money (e.g., periodic resets of interest rates).

Reclassifications

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

Classification and measurement – equity instruments

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

KBC can classify equity instruments connected with the insurance business in the 'FVPL – overlay' category until the effective date of IFRS 17. Each equity instrument that KBC's insurance business classifies as 'FVPL – overlay' must meet both of the following criteria:
- it is measured at fair value through profit or loss under IFRS 9, but would not have been measured at fair value through profit or loss in its entirety under IAS 39; and
- it is not held in respect of an activity that is unconnected with insurance contracts.

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

Classification and measurement – derivatives (trading and hedging)

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

Trading derivatives

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

Hedging derivatives

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

Financial assets – impairment

Definition of default

KBC defines defaulted financial assets in the same way as the definition for internal risk management purposes and in line with the guidance and standards of financial industry regulators. A financial asset is considered in default if any of the following conditions is fulfilled:
- there is a significant deterioration in creditworthiness;
- the asset is flagged as non-accrual;
- the asset is forborne and meets the default criteria in accordance with the internal policies for forbearance (for example, when an additional forbearance measure is extended to a forborne asset that did not reach default status within two years of the first forbearance measure being granted, or when a forborne asset becomes more than 30 days past due within the two-year period);
- KBC has filed for the borrower's bankruptcy;
- the counterparty has filed for bankruptcy or sought similar protection measures;
- the credit facility granted to the client has been terminated.

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

Expected credit loss model (ECL model) – general

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

The scope of the ECL model is based on how financial assets are classified. The model is applicable to the following financial assets:
- Financial assets measured at AC and at FVOCI;
- Loan commitments and financial guarantees;
- Finance lease receivables;
- Trade and other receivables.

No ECLs are calculated for investments in equity instruments.

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

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

Significant increase in credit risk since initial recognition

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

Multi-tier approach (MTA) – bond portfolio

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

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

Loan portfolio

For the loan portfolio, KBC uses a five-tier approach. This MTA is a waterfall approach (i.e. if assessing the first tier does not result in a move into 'Stage 2', the second tier is assessed, and so on). In the end, if all tiers are assessed without triggering a migration to 'Stage 2', the financial asset remains in 'Stage 1'.
- Internal rating: this rating is used as the main criterion for assessing an increase in credit risk. It is a relative assessment that compares the PD upon initial recognition to that on the reporting date. KBC does the assessment at the level of the facility (i.e. contract) for each reporting period. The relative change in PD that triggers staging is an increase of two PD notches.
- Forbearance: forborne financial assets are always considered as 'Stage 2' unless they are already defaulted, in which case they are moved into 'Stage 3'.
- Days past due: KBC uses the backstop defined in the standard. A financial asset that is more than 30 days past due is moved into 'Stage 2'.
- Internal rating backstop: KBC uses an absolute level of PD as a backstop for financial assets that have to be moved into 'Stage 2'. This backstop corresponds to the highest PD (i.e. PD 9 based on KBC's internal rating) before a financial asset is considered defaulted.
- Management assessment: lastly, management review and assess the significant increase in credit risk for financial assets at an individual (i.e. counterparty) and portfolio level, when it is concluded that idiosyncratic events are not adequately captured in the first four tiers of the MTA (see above for a number of examples).

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

Measurement of ECL

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

ECL is calculated to reflect:
- an unbiased, probability-weighted amount;
- the time value of money; and
- information about past events, current conditions and forecast economic conditions.

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

KBC uses specific IFRS 9 models for PD, EAD and LGD in order to calculate ECL. As much as possible and to promote efficiency, KBC uses modelling techniques similar to those developed for prudential purposes (i.e. Basel models). That said, KBC ensures that the Basel models are adapted so they comply with IFRS 9. For example:
- KBC removes the conservatism that is required by the regulator for Basel models;
- KBC adjusts how macroeconomic parameters affect the outcome to ensure that the IFRS 9 models reflect a 'point-in-time' estimate rather than one that is 'through the cycle' (as required by the regulator);
- KBC applies forward-looking macroeconomic information in the models.

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

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

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

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

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

Purchased or originated credit impaired (POCI) assets

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

Significant judgements and uncertainties

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

Overlay approach

In accordance with the amendment to IFRS 4 issued in September 2016, KBC uses the overlay approach to overcome the temporary consequences of the different effective dates of IFRS 9 and IFRS 17 (replacing IFRS 4). Accordingly, KBC uses the overlay approach, which means that the extra volatility related to the adoption of IFRS 9 is reclassified from the income statement to OCI. The reclassified amounts are recognised in the overlay reserve in OCI. The overlay approach is applied to those financial assets of KBC's insurance business that are eligible. Eligibility is based on the following criteria:
- Assets that are measured at FVPL under IFRS 9 that would not have been measured at FVPL in their entirety under IAS 39;
- All assets except those held in respect of an activity that is unconnected with contracts within the scope of IFRS 4.

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

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

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

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

Financial liabilities

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

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

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

Financial liabilities – recognition and derecognition

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

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

Financial liabilities – classification and measurement

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

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

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

Financial liabilities – own credit risk

For financial liabilities designated at fair value, IFRS 9 requires the financial liability to be measured at fair value upon initial recognition. Any changes in fair value are subsequently recognised in the income statement, except for those relative to changes in own credit risk, which are presented separately in OCI.
Accordingly, movements in the fair value of the liability are presented in different places: changes in own credit risk are presented in OCI and all other fair value changes are presented in the income statement under 'Net result from financial instruments at fair value through profit or loss'. Amounts recognised in OCI relating to own credit risk are not recycled to the income statement even if the liability is derecognised and the amounts realised. Although recycling is prohibited, KBC does transfer the amounts in OCI to retained earnings within equity upon derecognition. The only situation in which presentation of own credit risk in OCI is not applied is where this would create an accounting mismatch in the income statement. This could arise if there is a close economic relationship between the financial liability designated at fair value (for which the own credit risk is recognised in OCI), while all changes in fair value of the corresponding financial asset are measured and recognised at fair value through profit or loss. This is the case with unit-linked investment contracts, where changes in fair value of the liability position are fully offset by the asset position.

Financial liabilities – financial guarantee contract

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

Reverse repos and repos

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

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

Offsetting

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

Fair value

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

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

Hedge accounting

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

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

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

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

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

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

Insurance contracts

General

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

KBC unbundles the components if both of the following conditions are met:
- measurement of the deposit component is possible (including any embedded surrender options), i.e. without considering the insurance component;
- the accounting policies do not otherwise require recognition of all the obligations and rights arising from deposit accounting.

Unbundling is prohibited if the deposit component cannot be measured separately.
At KBC, insurance contracts other than unit-linked contracts are not unbundled into a deposit component and an insurance component. The insurance component of unit-linked contracts (see below), whether insurance contracts or investment contracts, is treated as an insurance contract. Unit-linked financial instruments without death benefits or a participation feature are classified as 'financial liabilities at fair value through profit or loss' (also referred to as deposit accounting) under IFRS 9 and are consequently measured at fair value.
A unit-linked financial instrument classified at fair value through profit or loss represents the liability towards the policyholder, whose consideration received (i.e. deposit) is invested in an investment fund. The latter is classified as a financial asset 'Mandatorily measured at fair value through profit or loss' (in the 'Investment contracts (insurance)' line in Note 4.1). The valuation of the financial assets relating to unit-linked contracts is mirrored in the adjustments to the related liabilities. Unit-linked contracts are policies whose value or return is determined based on investments or an index, and where the policyholder bears the risk.
Changes in fair value (assets and liabilities), including any component that relates to changes in foreign exchange rates, are recognised in the income statement under 'Net result from financial instrument at fair value through profit or loss'. The unit value is considered to be the fair value. Only the earned management fees and commissions are recognised using margin deposit accounting principles under 'Net fee and commission income' in the income statement.

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

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

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

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

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

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

Technical provisions – insurance contracts

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

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

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

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

Life insurance provisions

This provision relates exclusively to life insurance activities, with the exception of the unit-linked life business. It comprises the actuarially estimated value of KBC's liabilities and the profit share already awarded, less the actuarially estimated value of the liabilities of the policyholders. The acquisition costs are not deducted from the provision.
This item also includes the provision for unearned premiums and unexpired risk, the ageing provision, the provisions for annuities payable but not yet due (including internal claims settlement costs) for supplementary life insurance and the provisions for retirement and survivorship annuities.
Valuation according to the prospective method is applied to (i) the provision for conventional non-unit-linked life insurance, (ii) universal non-unit-linked life insurance policies offering a guaranteed rate of interest on future premium payments, and (iii) the provision for non-statutory benefits for employees in respect of current annuities.
Valuation according to the retrospective method is applied to the provisions for modern non-unit-linked universal life insurance and to the provision for non-statutory benefits for employees in respect of new supplementary premium payments.
The provision is calculated separately for every insurance contract.

Provision for claims outstanding

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

Leasing

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

Equity

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

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

Employee benefits

Short-term employee benefits

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

Post-employment benefits

KBC offers its employees’ pension schemes in the form of defined contribution or defined benefit plans. Under the defined contribution plans, KBC’s statutory or constructive obligation is limited to the amount that it agrees to contribute to the fund. The amount of the post-employment benefit to be received by the employee is determined by the amount of the contributions paid by KBC and the employee him or herself into the post-employment benefit plan, as well as by the investment returns arising from those contributions. The actuarial risk is borne by the employee.
Conversely, under the defined benefit plans, KBC’s obligation is to provide the agreed benefits to current and former employees and, in substance, the actuarial risk and investment risk fall on KBC. This means that if, from an actuarial or investment viewpoint, things turn out worse than expected, KBC’s obligation may be increased.

In Belgium, defined contribution plans have a legally guaranteed minimum return and the actual return can be lower than the legally required return. In addition, these plans have defined benefit plan features and KBC treats them as defined benefit plans.
Liabilities under the defined benefit plans and the Belgian defined contribution plans (or pension liabilities) are included under 'Other liabilities' and relate to the obligations for retirement and survivor's pensions, early retirement benefits and similar pensions and annuities.
The pension obligations for employees under the defined benefit plans are calculated using the projected-unit-credit method, with each period of service granting additional entitlement to pension benefits.
Actuarial valuations are performed every reporting period. The defined benefit liabilities are discounted using rates equivalent to the yields on high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have a maturity similar to the related pension liabilities.
Changes in the net defined benefit liability/asset, apart from cash movements, are grouped into three main categories and recognised in operating expenses (service costs), interest expenses (net interest costs) and other comprehensive income (remeasurements).

Net fee and commission income

Most net fee and commission income falls under the scope of IFRS 15 (Revenue from Contracts with Customers), as it relates to the services that KBC provides to its clients and is outside the scope of other IFRS standards. For the recognition of revenue, KBC identifies the contract and defines the promises (performance obligations) in the transaction. Revenue is recognised only when KBC has satisfied the performance obligation.
The revenue presented under 'Securities and asset management' falls under the scope of IFRS 15 and, in principle, entails KBC keeping assets in a trust for the beneficiary ('fund') and being responsible for investing the amounts received from clients to their benefit. These transactions are straightforward, because KBC provides a series of distinct services which clients use at the same time when receiving the benefits. In return, KBC receives a monthly or quarterly management fee, which is calculated as a fixed percentage of the net asset value, or a subscription fee retained from the beneficiary. The fees do not include a variable component.
Revenue reported as 'Margin on life insurance investment contracts without DPF' represents the amount realised on investment contracts without a discretionary participation feature, i.e. a fixed percentage or fixed amount is withheld from the client's payments, enabling the insurance company to cover its expenses.
Payment services, where KBC charges clients for certain current-account transactions, domestic or foreign payments, payment services provided through ATMs, etc., are usually settled when the actual transaction is carried out, enabling the relevant fee to be recognised directly at that time.

Government grants

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

Levies

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

Income tax

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

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

Current tax assets/liabilities

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

Deferred tax assets/liabilities

Deferred tax liabilities are recognised for all taxable temporary differences between the carrying value of an asset or liability and its tax base. They are measured using the tax rates that are substantively enacted at the reporting date and expected to be in effect on realisation of the assets or settlement of the liabilities to which they relate and that reflect the tax consequences following from the manner in which the entity expects to recover or settle the carrying value of the underlying asset or liability at the balance sheet date.
Deferred tax assets are recognised for all deductible temporary differences between the carrying value of assets and liabilities and their tax base, as well as for the carry forward of unused tax losses and unused tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. KBC calculates deferred tax assets for carry forward unused tax losses. When estimating the period over which tax losses can be set off against future taxable profits, KBC uses projections for a period of eight to ten years.
Deferred tax assets/liabilities that relate to business combinations are recorded directly in goodwill.
Deferred tax assets/liabilities are not discounted.

Tangible fixed assets

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

Investment property

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

Intangible assets

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

Separately acquired intangible assets (mainly software developed externally) are initially recognised at cost. Internally developed intangible assets (mainly software developed in-house) are recognised only if they arise from development and KBC can demonstrate:
- the technical feasibility of completing them;
- an intention to complete for use or sale;
- an ability to use or sell them;
- how the intangible assets will generate future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible assets;
- reliable measurement of the expenditure attributable to the intangible assets during their development.

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

Intangible assets are subsequently carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation begins when the asset is available for use as intended by management. Software is amortised as follows:
- System software (initial purchased software forming an integral part with hardware) is amortised at the same rate as hardware.
- Standard software and customised software developed by a third party or developed in-house are amortised over five years according to the straight-line method from the time the software is available for use.
- Core systems (typically including deposit account processing, loan and credit processing, interfaces to the general ledger and reporting tools) are amortised over eight years according to the straight-line method.

Impairment of non-financial assets

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

Provisions, contingent liabilities and contingent assets

Provisions are recognised on the reporting date if and only if the following criteria are met:
- there is a present obligation (legal or constructive) due to a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation;
- a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the expenditure required to settle the obligation at balance sheet date. When the effect of time is material, the amount recognised as a provision is the net present value of the best estimate.
Due to its inherent nature, a provision requires management judgement regarding the amount and timing of probable future economic outflows.

Consolidated financial statements / interim financial statements

All material entities (including structured entities) over which KBC exercises direct or indirect control as defined in IFRS 10 are consolidated according to the method of full consolidation. Changes in ownership interests (that do not result in a loss of control) are accounted for as equity transactions. They do not affect goodwill or profit or loss.

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

Consolidation threshold: subsidiaries are effectively included in the consolidated financial statements using the full consolidation method if at least two of the following materiality criteria are exceeded:
- Group share in equity is 2 500 000 euros;
- Group share in the result is 1 000 000 euros (absolute value);
- Group share in the balance sheet total is 100 000 000 euros.

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

Business combinations and goodwill

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

Goodwill is the excess of the cost of the acquisition over the acquirer's interest in the fair value of the identifiable assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. In order to complete the acquisition accounting and determine the goodwill item, KBC applies a measurement period of 12 months. The classification of the financial assets acquired and financial liabilities assumed in the business combination is based on the facts and circumstances existing at the acquisition date (except for lease and insurance contracts, which are classified on the basis of the contractual terms and other factors at the inception of the relevant contract).
Goodwill is presented under 'Goodwill and other intangible assets' and is carried at cost less impairment losses. Goodwill is not amortised, but is tested for impairment at least once a year or when there is objective evidence (external or internal) that it should be impaired. If the acquisition accounting is not complete because the 12-month measurement period has not elapsed, the goodwill is not considered as final and is only tested if there is objective evidence that the provisional goodwill is impaired.
For the purpose of testing goodwill for impairment, it is allocated to each of KBC's cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquired entity are assigned to those units. An impairment loss is recognised if the carrying value of the cash-generating unit to which the goodwill belongs exceeds its recoverable amount. Impairment losses on goodwill cannot be reversed.

Effects of changes in foreign exchange rates

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

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

Related-party transactions

A related party to KBC is either a party over which KBC has control or significant influence or a party that has control or significant influence over KBC. KBC defines its related parties as:
KBC subsidiaries, KBC associates and joint ventures, KBC Ancora, Cera and MRBB;
KBC key management staff (i.e. the Board of Directors and the Executive Committee of KBC Group NV).

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

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

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

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

Discontinued operations

A discontinued operation refers to a part of KBC that has been disposed of or is classified as held for sale and:
- represents a separate major line of business or geographical area of operations; or
- is part of a single, coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

Results from discontinued operations are recognised separately in the income statement and in other comprehensive income and contain:
- the post-tax profit or loss of discontinued operations; and
- the post-tax gain or loss recognised on the measurement to fair value less the costs of the sale or disposal of the assets or group of assets.

Events after the reporting period

Events after the reporting date are defined as favourable or unfavourable events that occur between the reporting date and the date on which the financial statements are authorised for issue. There are two types of event after the reporting date:
- those which provide evidence of conditions that existed on the reporting date (adjusting events);
- those that are indicative of conditions that arose after the reporting date (non-adjusting events).

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

Exchange rates used*

	Exchange rate at 31-12-2020		Exchange rate average in 2020	
	1 EUR = … … currency	Change relative to 31-12-2019 (positive: appreciation relative to EUR) (negative: depreciation relative to EUR)	1 EUR = … … currency	Change relative to average in 2019 (positive: appreciation relative to EUR) (negative: depreciation relative to EUR)
BGN	1.9558	0%	1.9558	0%
CZK	26.242	-3%	26.463	-3%
GBP	0.89903	-5%	0.88734	-1%
HUF	363.89	-9%	352.66	-8%
USD	1.2271	-8%	1.1427	-2%

* Rounded figures.

Note 1.3: Critical estimates and significant judgements

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

Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. Significant areas of estimation uncertainty, and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are found in, but not limited to, notes 1.4 3.3, 3.7, 3.10, 4.2, 4.4–4.8, 5.2, 5.5–5.7, 5.9 and 6.1.

Note 1.4: Impact of the coronavirus crisis

The coronavirus pandemic triggered a sequence of market events that resulted in a significant deterioration in economic growth and the economic outlook, and led to unprecedented policy responses by central banks and governments in all parts of the world.

We worked closely with government agencies to support all clients impacted by the coronavirus crisis by efficiently implementing various relief measures, including loan payment holidays. In our six core countries combined, we granted a total of 13.4 billion euros in the form of loan payment holidays (according to the EBA definition). The moratorium for approximately 8.7 billion euros of the total of 13.7 billion euros had already expired on 31 December 2020, with payments being resumed as normal for 96% of that figure. We also granted 0.8 billion euros in loans under coronavirus-related state guarantee schemes (an overview of the different government and sector measures in each of our core countries is given on the next page).

Payment holidays (moratoria) granted due to the coronavirus crisis in 2020 (in billions of EUR)	Amount under moratoria in 2020 (still included in the balance sheet at 31-12-2020)	Of which moratoria had already expired at 31-12-2020
Total	13.4	8.7
By segment		
Mortgage loans (retail)	4.7	3.8
Loans to SMEs	4.0	2.1
Loans to large corporations	3.9	2.5
Other	0.8	0.3
By country		
Belgium	7.4	4.9
Czech Republic	2.2	2.2
Slovakia	0.8	0.3
Hungary (opt-out scheme)	1.6	0.0
Bulgaria	0.2	0.2
Ireland	1.2	1.1

Overview of government measures in each of our core countries (situation at the end of February 2021)

	Belgium	Czech Republic	Slovakia	Hungary	Bulgaria	Ireland
Payment holidays (moratoria) for existing coronavirus-related loans	• Opt-in: three months for consumer finance, six to nine months for mortgage loans and non-retail loans, (initially until 31 October 2020 but extended to 31 March 2021, with all payment holidays expiring at the end of June 2021 (maximum total deferral period of nine months)) • For private persons: deferral of principal and interest payments; only deferral of principal payments for non-retail clients • Interest is accrued over the deferral period, apart from households with net income of less than 1 700 euros. For the latter group, this results in a modification loss for the bank of 11 million euros in 2020	• Opt-in: three or six months (application period expired on 30 September 2020, with all payment holidays expiring at the end of October 2020) • Applicable for retail and non-retail clients • For private persons and entrepreneurs: deferral of principal and interest payments; only deferral of principal payments for non-retail clients • Interest is accrued over the deferral period, but must be paid in the final instalment, resulting in a modification loss for the bank of 5 million euros in 2020 • For consumer finance, interest during the deferral period may not exceed the two-week repo rate plus 8%	• Opt-in: nine months or six months (for leases) – payment holidays will mostly expire in the first quarter of 2021 • Applicable for retail clients, SMEs and entrepreneurs • Deferral of principal and interest payments • Interest is accrued over the deferral period, but the client has the option of paying all interest at once after the moratorium or paying it on a linear basis. The latter option would result in an immaterial modification loss for the group	• Opt-out: blanket moratorium until 31 December 2020 (since extended to 30 June 2021) • Applicable for retail and non-retail clients. The extended moratorium is subject to the same conditions as the initial moratorium • Deferral of principal and interest payments • Interest is accrued over the deferral period, but unpaid interest cannot be capitalised and must be collected on a linear basis during the remaining (extended) term of the loan. This resulted in a modification loss for the bank of 12 million euros in 2020	• Opt-in: nine months (until 31 December 2021 at the latest; application period expires on 31 March 2021) • Applicable for retail and non-retail clients • Deferral of principal payments with or without deferral of interest payments • The term is also extended by nine (or 6+3) months • Interest is accrued over the deferral period and must be paid in 12 months (consumer finance), 18 (or 12+6) months (non-retail clients) or 60 months (mortgages) in equal instalments	• Opt-in: three to six months (application period expired on 30 September 2020) • Applicable for mortgage loans, consumer finance and business bank loans with a repayment schedule • Deferral of principal and interest payments for up to six months (with review after three months) for mortgage loans and consumer finance, and three months for business bank loans • Option for clients to extend their loan term by up to six months to match the payment holiday • Interest is accrued over the deferral period
Guarantee schemes and liquidity assistance for new loans	• A state guarantee scheme of up to 40 billion euros to cover losses incurred on future non-retail loans with a maximum term of 12 months and a maximum interest rate of 1.25%, granted before 31 December 2020 to viable companies. The guarantee covers 50% of losses above 3% and 80% of losses above 5% of the total loan loss • A revised state guarantee scheme of up to 10 billion euros has been in place since the third quarter of 2020 to cover losses on future SME loans with a term of between one and three years (since extended to five years) and a maximum interest rate of 2% (2.5% if the term is more than three years), which were granted before 31 December 2020 (since extended to June 2021). The guarantee covers 80% of all losses	• The Czech-Moravian Guarantee and Development Bank (CZMRB) launched several guarantee programmes (COVID II, COVID II Praha, COVID III) for working capital loans provided by commercial banks to non-retail clients. Up to 80% or 90% of the loan amount is guaranteed (depending on the programme and size of the company). Up to 25% of the interest on these loans is subsidised (COVID II). COVID III has been extended to June 2021 • Under its COVID Plus programme, the Export Guarantee and Insurance Corporation (EGAP) offers guarantees on loans provided by commercial banks. EGAP guarantees up to 90% of the loan amount, depending on the rating of the debtor. The programme is aimed at companies in which exports accounted for more than 20% of turnover in 2019	• Anti-Covid Guarantee programme offered by the Slovak Investment Holding (SIH) and aimed at SMEs, consists of two components: (i) an 80% state guarantee with a 50% portfolio cap and (ii) an interest rate subsidy of up to 4% per annum • In addition, financial aid in the form of state guarantee schemes, with guaranteed fee subsidy, can be provided by the (i) Export-Import-Bank of Slovakia (guarantee of up to 80% for loans under 2 million euros) and (ii) Slovak Investment Holding (guarantee of up to 90% for loans between 2 and 20 million euros). No portfolio cap	• A guarantee scheme is provided by Garantiqa and the Hungarian Development Bank. These state guarantees can cover up to 90% of loans with a maximum term of six years • The Hungarian National Bank's Funding for Growth scheme with a framework amount of 4.2 billion euros for SMEs that can receive loans with a maximum term of 20 years and at a maximum interest rate of 2.5% • The annual interest rate on personal loans granted by commercial banks may not exceed the central bank base rate by more than 5 percentage points (until 31 December 2020)	• 0.4 billion euros of state guarantees provided by the Bulgarian Development Bank to commercial banks. Of this amount, 0.1 billion euros is used to guarantee 100% of consumer finance, while 0.3 billion euros is planned to be used to guarantee 80% of non-retail loans	• The Irish authorities put substantial relief measures in place, including through the SBCI. The relief programmes for business clients are less relevant because KBC Bank Ireland caters mainly for retail clients

Overview of the main impact of the coronavirus crisis on our results in 2020

Item	Impact of the coronavirus crisis	More details in note/section:
Net interest income	Adversely impacted following multiple repo rate cuts by the Czech National Bank and what were generally low long-term interest rates. This impact was partly offset by lower funding costs thanks to the ECB's TLTRO III programme and higher loan volumes.	3.1
Non-life insurance	Higher technical result supported by a low level of claims resulting from lower economic activity during lockdown periods.	3.7
Life insurance	Challenging context for the sale of life insurance products in view of the low interest rate environment.	3.7
Financial instruments at FVPL	Very negative impact of -0.4 billion euros in the first quarter of 2020 due to plummeting stock markets, widening credit spreads and lower long-term interest rates. The negative result was more than offset in the subsequent three quarters. However, the result for the entire year was 149 million euros lower than its year-earlier level.	3.3
Net fee and commission income	Lower fees for asset management activities and a decrease in fees related to certain banking services, such as payment services (due in part to the lockdowns), partly offset by higher securities-related fees.	3.5
Operating expenses	Lower operating expenses thanks to various cost-saving measures (resulting, amongst other things, in lower provisioning for variable remuneration and a reduction in FTEs) and lower marketing, travel, facility and event expenses (directly related to a lower level of activity caused by the lockdowns).	3.8
Impairment on loans (financial assets at AC and at FVOCI)	Significant increase in collective impairment charges (see below for a more detailed explanation).	3.10 and 4.2
Impairment on goodwill	Our annual assessment of goodwill impairment indicators (based on discounted cashflow analysis) showed no indication of any impairment to goodwill.	3.10 and 5.5
Impairment on other	Includes 29 million euros relating to modification losses in Belgium, the Czech Republic and Hungary due to the payment moratoria applied in these countries as a result of the coronavirus crisis.	3.10
Deferred taxes on income	We have examined whether taxable profit may become available against which the deductible temporary differences can be utilised based on projections for a period of eight to ten years. The conclusion of this analysis is that there are sufficient estimated taxable profits available.	3.12 and 5.2
Revaluation reserves	Decline in the revaluation reserves (FVPL equity instruments at the insurers – overlay approach) and translation differences. For more information, see the text below the 'Consolidated statement of comprehensive income' table.	Consolidated statement of comprehensive income
Liquidity	Robust liquidity position maintained throughout the coronavirus crisis, supported in part by participation in the TLTRO III funding programme. The LCR amounted to 147% and NSFR to 146% at year-end 2020, compared to 138% and 136%, respectively, at year-end 2019.	'Liquidity risk' in 'How do we manage our risks?'
Solvency	Our solvency position remained robust, with a fully loaded common equity ratio of 17.6% (18.1% transitional) at year-end 2020 (compared to 17.1% at year-end 2019).	6.7 and 'How do we manage our capital?'
Retirement benefit obligations	Increase in employer's obligations for employee benefits (defined benefit obligations) due to the impact of the historically low discount rate. Plan assets maintained their value, because of the low level of interest rates and the steady recovery of the stock markets after the outbreak of the pandemic.	5.9

Overview of the impact of the coronavirus crisis on our activities in 2020

The 'Report of the Board of Directors' section contains additional information on the impact of the coronavirus crisis on the activities and stakeholders of the group, more specifically concerning the following:

- Our business model (see 'How do we create sustainable value?' and 'What are our main challenges?')
- The macroeconomic context (see 'In what environment do we operate?' and 'Our business units')
- Our clients (see 'The client is at the centre of our business culture' and 'Our business units')
- Our employees (see 'Our employees, capital, network and relationships')
- Society (see 'Our business units')
- Our risk management (see 'How do we manage our risks?')
- Dividend payment (see 'Our employees, capital, network and relationships')

Details regarding the impact of the coronavirus crisis on loan impairment charges in 2020

Our ECL models are not able to adequately reflect all the specifics of the coronavirus crisis or the various government measures implemented in the different countries to support households, SMEs and corporate entities through this crisis.

Therefore, an expert-based calculation at portfolio level is required via a management overlay. In the first quarter of 2020, this calculation was limited to a certain number of sectors and sub-sectors. Driven by significant uncertainty around the coronavirus crisis, the scope of the management overlay was expanded from the second quarter to include all sectors in our corporate and SME portfolios, as well as our retail portfolio. The expected credit loss due to the coronavirus crisis was recalculated in subsequent quarters using the same method, but with due consideration taken of more recent economic scenarios.

Only minor shifts in the probability of default have been observed in our portfolio in 2020, which is reflected in stable staging percentages (see Note 4.2.1). Please note that, in line with ECB/ESMA/EBA guidance, not one EBA-compliant government measure taken before the end of September 2020, or one new measure taken between October and December 2020, has led to automatic staging.

Loan and investment portfolio, banking	2020	2019
Total outstanding loan portfolio (in billions of EUR)	181	175
By type of counterparty		
Retail	43%	42%
Of which mortgage loans	*40%*	*38%*
Of which consumer finance	*3%*	*3%*
SMEs	22%	22%
Corporates	35%	37%
By IFRS 9 ECL stage		
Stage 1	85.2%	85.2%
Stage 2	11.5%	11.3%
Stage 3	3.3%	3.5%

As regards the performing portfolio at year-end 2020, a three-step approach was applied to estimate the additional impact of the coronavirus crisis:

- This was done using a method that starts from KBC's updated macroeconomic forecasts at year-end 2020 (see the 'Economic scenarios' section below). The base-case scenario was translated into expert-based stress migration matrices, per country and for each segment. The portfolio was transformed using this migration matrix, which resulted in a certain portion being moved to inferior PD classes or assigned 'default' status, a certain portion remaining unchanged and a minor portion being improved. After this transformation, the ECL was calculated again based on the new portfolio structure, including staging. The estimated impact on ECL under the coronavirus base-case scenario was then determined as the difference between the ECL calculated on the portfolio before and after applying the stressed migration matrix.
- Subsequently, a sectoral effect was incorporated into the calculation to refine the coronavirus-related ECL in order to reflect some sectors being more heavily affected than others, which is not yet included in the migration matrices. All exposures in the SME and corporate portfolio were classified as high, medium or low risk based on the expected impact of the coronavirus crisis on the relevant sector (no sectoral stress was applied to mortgage loans and consumer finance). Based on this classification, the following expert-based weights have been applied to the ECL impact: 150% for high risk sectors, 100% for medium risk sectors and 50% for low risk sectors. This resulted in an ECL for each sector under the coronavirus base-case scenario. There were no major changes to the sector breakdown of high, medium and low risk during the course of 2020, just a few minor reallocations of underlying activities from 'high' to 'medium' or even to 'low' risk. Similarly, there were only very limited shifts from 'medium' to 'high' risk. The table shows the situation at 31 December 2020.
- Lastly, a probability-weighted management overlay was calculated based on the base-case, optimistic and pessimistic scenarios and attributed weights. An expert-based scaling factor was applied to the estimated ECL for each sector under the coronavirus base-case scenario from the previous step to determine the collective impact of the coronavirus crisis under optimistic and pessimistic scenarios. The final overlay was determined by weighting the resulting coronavirus-related ECL under the three scenarios as follows: 55% for the base case, 10% for the optimistic and 35% for the pessimistic scenario.

Loan and investment portfolio for SMEs and corporate entities, based on vulnerability to coronavirus	2020
Loan and investment portfolio for SMEs and corporate entities (in billions of EUR)	103
High-risk sectors	24%
Distribution (retail and wholesale)	*5.4%*
Automotive	*3.5%*
Services (entertainment, leisure and retirement homes)	*3.4%*
Commercial real estate	*2.9%*
Metals	*1.9%*
Machinery and heavy equipment	*1.6%*
Hotels, bars and restaurants	*1.3%*
Shipping (transport)	*1.1%*
Building and construction	*1.0%*
Other (sector total <1%)*	*1.9%*
Medium-risk sectors	41%
Low-risk sectors	35%

* Includes aviation.

For the non-performing portfolio, an additional impact assessment was performed on a portfolio basis for collectively managed 'Stage 3' exposures, based on the expert judgement of local risk management departments. Additional impairment due to the coronavirus crisis for individually assessed 'Stage 3' loans are already reflected in specific impairment charges (hence already included in profit or loss) and thus not taken into account in the management overlay.

The three-step approach applied to the performing portfolio and the additional impact assessment of the non-performing portfolio resulted in a collective coronavirus-related ECL figure of 783 million euros for 2020 (6% in 'Stage 1', 86% in 'Stage 2', and 8% in 'Stage 3').

- In 2020, the ECL models captured an impact of 111 million euros through the updated macroeconomic variables used in the calculation.
- The total coronavirus-related management overlay at year-end 2020 was 672 million euros. The management overlay is fully presented as 'Stage 2', with the exception of the management overlay on the existing non-performing portfolio.

In summary:

- For financial year 2020, impairment on loans totalling 1 074 million euros was recognised, comprising:
    - collective impairment charges related to the coronavirus crisis: 783 million euros (111 million euros captured by ECL models, and a management overlay of 672 million euros);
    - other impairment charges: 291 million euros.
- Including the total coronavirus-related ECL, the credit cost ratio amounted to 0.60% in 2020. Disregarding the collective coronavirus-related ECL, it would have been 0.16%. In 2019, the credit cost ratio amounted to 0.12%.

Coronavirus-related ECL by sector risk, performing portfolio (in millions of EUR, 2020)	High-risk sectors (at 150%)	Medium-risk sectors (at 100%)	Low-risk sectors (at 50%)	Mortgage and other retail loans	Total
Base-case scenario	241	194	60	123	618
Optimistic scenario	200	160	53	98	511
Pessimistic scenario	334	272	81	243	930

Collective coronavirus-related ECL by country, performing and non-performing portfolio (in millions of EUR, 2020)	Optimistic scenario	Base-case scenario	Pessimistic scenario	Weighted (10% optimistic scenario + 55% base-case scenario + 35% pessimistic scenario)	Non-performing portfolio	Total
Belgium	338	358	464	393	20	413
Czech Republic	95	137	195	153	9	162
Slovakia	23	32	48	37	0	37
Hungary	25	45	81	56	0	56
Bulgaria	7	17	26	19	5	24
Ireland	23	29	116	59	32	91
Total	511	618	930	717	66	783

Economic scenarios

The coronavirus pandemic continues to be the main driver of the global economy. The roll-out of various vaccines will stimulate economic recovery in the medium term, though levels of recovery are uncertain and will vary by country. The possible resurgence of virus outbreaks remains a concern and is causing many countries to maintain or even extend precautionary measures. Because of this uncertainty, we continue to work with three alternative scenarios: a base-case scenario, a more optimistic scenario and a more pessimistic scenario. The probability of one of these scenarios materialising is 10% for the optimistic, 55% for the base case and 35% for the pessimistic scenario.

Optimistic scenario	Base-case scenario	Pessimistic scenario
Virus spread and impact brought more quickly under control thanks to sooner-than-expected large-scale availability of vaccines, speeding up the end of social distancing and other precautionary measures	Start of vaccination campaign and more extensive testing and tracing allow for only a very limited relaxation of the precautionary measures in the first half of 2021. Normalisation of socio-economic activity underpinned by the large-scale rollout of effective vaccines starting from mid-2021. The vaccination process will take time, with the result that socio-economic activity is not expected to return to normal until 2022	The virus reappears and continues to weigh on society and the economy following setbacks in the vaccination process (logistical issues, lower-than-expected immunity rates, etc.)
Steep and steady recovery from the first half of 2021 with a fast return to prepandemic levels of activity	Gradual recovery. From the second half of 2021, the large-scale vaccination campaign will stimulate recovery to pre-Covid levels of activity by the end of 2023	Another (series of) shock(s) takes place, leading to an interrupted and unsteady path to recovery
Sharp, short V-pattern	U-pattern	More L-like pattern, with right leg only slowly increasing

The following table gives these scenarios for three key indicators (GDP growth, unemployment rate and house price index) for each of our core countries for the coming years. After that, we take into account a gradual linear transition towards a stable situation.

Macroeconomic scenario – key indicators (situation at year-end 2020)	2020		2021			2022	
Scenario:	Base case	Optimistic	Base case	Pessimistic	Optimistic	Base case	Pessimistic
Real GDP growth							
Belgium	-7.4%	6.8%	0.9%	-4.5%	3.6%	4.1%	1.6%
Czech Republic	-6.5%	4.4%	2.7%	-2.0%	4.1%	5.0%	3.2%
Hungary	-6.0%	6.3%	3.5%	-1.0%	4.5%	4.8%	3.5%
Slovakia	-6.8%	7.0%	4.2%	1.6%	4.8%	4.2%	3.2%
Bulgaria	-5.0%	4.0%	3.0%	-1.0%	3.0%	4.0%	2.0%
Ireland	2.5%	6.0%	4.0%	1.0%	6.0%	4.0%	1.0%
Unemployment rate							
Belgium	5.8%	6.2%	7.2%	8.2%	5.9%	6.9%	8.0%
Czech Republic	3.3%	3.5%	4.2%	5.2%	3.3%	4.0%	5.6%
Hungary	4.8%	4.2%	5.0%	7.0%	4.0%	4.6%	6.5%
Slovakia	8.0%	8.0%	9.5%	12.0%	7.5%	8.0%	10.0%
Bulgaria	8.0%	6.0%	10.0%	12.0%	4.3%	7.0%	11.0%
Ireland	18.0%	5.0%	7.0%	14.0%	4.0%	6.0%	10.0%
House price index							
Belgium	3.0%	2.0%	-3.0%	-5.0%	2.5%	1.0%	-2.0%
Czech Republic	6.7%	3.6%	1.5%	-3.0%	4.0%	2.0%	-1.0%
Hungary	-1.0%	2.5%	-1.0%	-4.0%	3.5%	2.0%	-1.0%
Slovakia	9.0%	3.5%	1.2%	-4.0%	4.0%	2.0%	-1.0%
Bulgaria	1.0%	1.0%	0.0%	-1.0%	3.0%	3.0%	0.0%
Ireland	0.0%	3.0%	0.0%	-3.0%	4.0%	1.0%	-3.0%

The figure for Irish unemployment in 2020 is more indicative of temporary lay-offs than permanent job losses and, as such, may improve rapidly as the rollout of vaccines in Ireland progresses.

2.0 Notes on segment reporting

Note 2.1: Segment reporting based on the management structure

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

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

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

Segment reporting

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

Note 2.2: Results by segment

(in millions of EUR)	Belgium Business Unit	Czech Republic Business Unit	International Markets Business Unit	Of which: Hungary	Slovakia	Bulgaria	Ireland	Group Centre	KBC Group
INCOME STATEMENT FOR 2020									
Net interest income	2 579	1 012	894	*262*	*202*	*144*	*286*	-18	4 467
Non-life insurance (before reinsurance)	562	141	150	*55*	*27*	*68*	*0*	13	865
Earned premiums	*1 141*	*302*	*321*	*143*	*52*	*126*	*0*	*12*	*1 777*
Technical charges	*-579*	*-161*	*-172*	*-88*	*-25*	*-58*	*0*	*0*	*-912*
Life insurance (before reinsurance)	-63	48	26	*-1*	*12*	*15*	*0*	-1	10
Earned premiums	*913*	*206*	*105*	*35*	*34*	*36*	*0*	*0*	*1 223*
Technical charges	*-976*	*-158*	*-79*	*-36*	*-22*	*-21*	*0*	*0*	*-1 213*
Ceded reinsurance result	-12	-1	-5	*-3*	*3*	*-5*	*0*	-2	-20
Dividend income	47	1	0	*0*	*0*	*0*	*0*	4	53
Net result from financial instruments at fair value through profit or loss	32	7	43	*39*	*9*	*0*	*-4*	-51	33
Net realised result from debt instruments at fair value through OCI	0	1	2	*1*	*2*	*0*	*0*	0	2
Net fee and commission income	1 138	203	273	*191*	*58*	*28*	*-3*	-4	1 609
Other net income	157	13	8	*4*	*8*	*3*	*-9*	-1	176
TOTAL INCOME	4 438	1 425	1 391	*548*	*320*	*253*	*269*	-59	7 195
Operating expenses[a]	-2 398	-752	-894	*-323*	*-204*	*-139*	*-228*	-111	-4 156
Impairment	-695	-226	-250	*-85*	*-45*	*-30*	*-91*	-11	-1 182
on financial assets at amortised cost and at fair value through OCI	*-654*	*-210*	*-217*	*-59*	*-42*	*-27*	*-90*	*7*	*-1 074*
Share in results of associated companies and joint ventures	-9	-2	0	*0*	*0*	*0*	*0*	0	-11
RESULT BEFORE TAX	1 335	446	247	*140*	*71*	*84*	*- 50*	-181	1 847
Income tax expense	-335	-71	-48	*-26*	*-15*	*-9*	*2*	46	-407
Net post-tax result from discontinued operations	0	0	0	*0*	*0*	*0*	*0*	0	0
RESULT AFTER TAX	1 001	375	199	*114*	*56*	*76*	*-48*	-135	1 440
attributable to minority interests	0	0	0	*0*	*0*	*0*	*0*	0	0
attributable to equity holders of the parent	1 001	375	199	*114*	*56*	*76*	*-48*	-135	**1 440**
a Of which non-cash expenses	-52	-85	-96	*-35*	*-17*	*-15*	*-29*	-76	-310
Depreciation and amortisation of fixed assets	*-53*	*-86*	*-94*	*-33*	*-17*	*-15*	*-29*	*-76*	*-309*
Other	*1*	*1*	*-2*	*-2*	*0*	*0*	*0*	*0*	*-1*
Acquisitions of non-current assets*	489	227	225	96	64	40	25	148	1 089

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

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

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

Note 2.3: Balance-sheet information by segment

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

(in millions of EUR)	Belgium Business Unit	Czech Republic Business Unit	International Markets Business Unit	Of which: Hungary	Slovakia	Bulgaria	Ireland	Group Centre	KBC Group
BALANCE SHEET AT 31-12-2020									
Deposits from customers and debt securities (excluding repos)	135 442	41 610	28 075	*8 982*	*8 601*	*5 453*	*5 040*	10 303	215 430
Demand deposits	*59 025*	*24 637*	*17 325*	*7 390*	*5 161*	*3 508*	*1 266*	*0*	*100 986*
Time deposits	*6 426*	*764*	*4 712*	*489*	*1 662*	*1 213*	*1 348*	*0*	*11 902*
Savings accounts	*55 299*	*14 052*	*5 511*	*891*	*1 464*	*732*	*2 425*	*0*	*74 862*
Debt securities	*12 556*	*1 671*	*347*	*213*	*133*	*0*	*0*	*10 303*	*24 877*
Other	*2 136*	*486*	*181*	*0*	*181*	*0*	*0*	*0*	*2 803*
Loans and advances to customers (excluding reverse repos)	103 092	29 099	27 430	*4 940*	*9 016*	*3 508*	*9 966*	*1*	159 621
Term loans	*54 572*	*8 584*	*6 326*	*2 302*	*2 731*	*1 229*	*64*	*0*	*69 482*
Mortgage loans	*38 831*	*16 190*	*16 929*	*1 600*	*4 707*	*778*	*9 844*	*0*	*71 950*
Other	*9 689*	*4 325*	*4 175*	*1 038*	*1 578*	*1 501*	*58*	*1*	*18 189*
BALANCE SHEET AT 31-12-2019									
Deposits from customers and debt securities (excluding repos)	130 771	39 559	24 041	*7 953*	*6 480*	*4 439*	*5 169*	8 999	203 369
Demand deposits	*50 251*	*21 811*	*13 564*	*6 268*	*3 763*	*2 526*	*1 007*	*0*	*85 626*
Time deposits	*8 376*	*1 878*	*5 240*	*636*	*1 000*	*1 159*	*2 445*	*0*	*15 494*
Savings accounts	*51 685*	*12 673*	*4 699*	*875*	*1 353*	*754*	*1 718*	*0*	*69 057*
Debt securities	*18 149*	*2 711*	*326*	*174*	*153*	*0*	*0*	*8 999*	*30 185*
Other	*2 310*	*485*	*212*	*0*	*212*	*0*	*0*	*0*	*3 007*
Loans and advances to customers (excluding reverse repos)	100 909	29 857	25 050	*4 623*	*7 506*	*3 161*	*9 760*	1	155 816
Term loans	*54 220*	*9 068*	*5 589*	*2 033*	*2 355*	*1 160*	*41*	*0*	*68 877*
Mortgage loans	*36 445*	*15 768*	*15 584*	*1 596*	*3 641*	*693*	*9 654*	*0*	*67 796*
Other	*10 244*	*5 021*	*3 877*	*994*	*1 509*	*1 308*	*65*	*1*	*19 142*

3.0 Notes to the income statement

Note 3.1: Net interest income

(in millions of EUR)	2020	2019
Total	4 467	4 618
Interest income	6 264	7 244
Interest income on financial instruments calculated using the effective interest rate method		
Financial assets at AC	*4 869*	*5 536*
Financial assets at fair value through OCI	*330*	*333*
Hedging derivatives	*377*	*486*
Financial liabilities (negative interest rate)	*222*	*51*
Other	*10*	*15*
Interest income on other financial instruments		
Financial assets MFVPL other than held for trading	*14*	*8*
Financial assets held for trading	*442*	*816*
Of which economic hedges	*398*	*789*
Other financial assets at fair value through profit or loss	*0*	*0*
Interest expense	-1 797	-2 626
Interest expense on financial instruments calculated using the effective interest rate method		
Financial liabilities at amortised cost	*-707*	*-1 276*
Hedging derivatives	*-632*	*-663*
Financial assets (negative interest rate)	*-79*	*-70*
Other	*-5*	*-6*
Interest expense on other financial instruments		
Financial liabilities held for trading	*-345*	*-563*
Of which economic hedges	*-313*	*-525*
Other financial liabilities at fair value through profit or loss	*-25*	*-40*
Net interest expense relating to defined benefit plans	*-3*	*-8*

- ‘Financial liabilities (negative interest rate)’ and ‘Financial assets (negative interest rate)’: these rates relate mainly to transactions with central banks, interbank and professional counterparties, and targeted long-term refinancing operations (TLTRO). More information on TLTRO can be found in Note 4.1.
- For information on the impact of the coronavirus crisis, see Note 1.4.

Note 3.2: Dividend income

(in millions of EUR)	2020	2019
Total	53	82
Equity instruments MFVPL other than held for trading	30	43
Equity instruments held for trading	13	26
Equity instruments at FVOCI	9	13

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

(in millions of EUR)	2020	2019
Total	33	181
Total broken down by IFRS portfolio		
Financial instruments MFVPL other than held for trading and overlay	-433	862
Trading instruments (including interest on non-ALM trading derivatives and fair value changes in all trading derivatives)	-175	34
Financial instruments to which the overlay approach is applied	-14	93
Financial instruments at FVPL	443	-894
Foreign exchange trading	295	136
Fair value adjustments in hedge accounting	-84	-50
Hedge accounting broken down by type of hedge		
Fair value micro hedges	-5	-6
Changes in the fair value of the hedged items	*-28*	*0*
Changes in the fair value of the hedging derivatives	*22*	*-5*
Cashflow hedges	5	-3
Changes in the fair value of the hedging derivatives, ineffective portion	*5*	*-3*
Hedges of net investments in foreign operations, ineffective portion	0	0
Portfolio hedge of interest rate risk	10	37
Changes in the fair value of the hedged items	*677*	*479*
Changes in the fair value of the hedging derivatives	*-667*	*-443*
Discontinuation of hedge accounting for fair value hedges	-19	-11
Discontinuation of hedge accounting in the event of cashflow hedges	-74	-67
Total broken down by driver		
Market value adjustments (xVA)	13	1
Change in the value of derivatives used for asset/liability management purposes	-94	-1
Financial instruments to which the overlay approach is applied	-14	93
Gains or losses on sale	*116*	*117*
Impairment	*-131*	*-24*
Dealing room and other	128	88

- ALM hedging derivatives (recognised in hedge accounting): the interest component of these derivatives is recognised under 'Net interest income'. Fair value changes in hedging derivatives, excluding those for which an effective cashflow hedge relationship exists, are recognised under 'Net result from financial instruments at fair value through profit or loss'. Under fair value hedge accounting, changes in the fair value of hedged assets are also recognised under this heading, and offsetting takes place insofar as the hedge is effective. ALM hedging derivatives not recognised in hedge accounting (and therefore classified as trading instruments) are treated in the same way, except most of the related assets are not recognised at fair value (i.e. not marked-to-market).
- Day 1 profit: when the transaction price in a non-active market differs from the fair value of other observable market transactions in the same instrument or from the fair value based on a valuation technique whose variables include only data from observable markets, the difference between the transaction price and the fair value (day 1 profit) is taken to profit or loss. If this is not the case (i.e. the variables do not include only data from observable markets), day 1 profit is reserved and is released in profit or loss during the life and until the maturity of the financial instrument, if significant.
- Financial instruments to which the overlay approach is applied: see the comments under the consolidated income statement.
- Foreign exchange trading includes all realised and unrealised foreign exchange results (when the monetary assets and liabilities are revalued), regardless of the IFRS portfolio, except for financial assets and liabilities measured through profit or loss, for which the revaluation is included in the fair value correction. Note that (unrealised) foreign exchange gains/losses on claims provisions (insurance) and on the financial instruments hedging the claims provisions are included under 'Technical charges'. (Unrealised) foreign exchange gains/losses on the reinsurers' share of claims provisions and on the financial instruments hedging such provisions are included under 'Ceded reinsurance result'.
- Under IFRS 9, investment contracts (insurance) are reclassified to 'Financial instruments mandatorily measured at fair value through profit or loss' in accordance with their 'managed on a FV basis' business model, whereas liabilities under investment contracts continue to be recognised under 'Financial instruments at fair value through profit or loss'. This resulted in amounts being offset against each other in 'Financial instruments MFVPL other than held for trading and overlay' and 'Financial instruments at fair value through profit or loss' in the above table (-441 million euros and +441 million euros, respectively, in 2020 and +832 million euros and -832 million euros, respectively, in 2019). The offsetting movement in opposite directions in 2020 compared to 2019 was accounted for by the healthy stock market climate in 2019, whereas 2020 was a year in which share prices had fallen.

- The effectiveness of the hedge is determined according to the following methods:
  - For fair value micro hedging, we use the dollar offset method on a quarterly basis, with changes in the fair value of the hedged item offsetting changes in the fair value of the hedging instrument within a range of 80%–125%.
  - For cashflow hedges, we compare the designated hedging instrument with a perfect hedge of the hedged cashflows on a prospective (by BPV measurement) and retrospective basis (by comparing the fair value of the designated hedging instrument with the perfect hedge). The effectiveness of both tests must fall within a range of 80%–125%.
  - We use the rules set out in the European version of IAS 39 (carve-out) to assess the effectiveness of fair value hedges for a portfolio of interest rate risk. IFRS does not permit net positions to be reported as hedged items, but does allow hedging instruments to be designated as a hedge of a gross asset position (or a gross liabilities position, as the case may be). Specifically, we make sure that the volume of assets (or liabilities) in each maturity bucket is greater than the volume of hedging instruments allocated to the same bucket.
- For information on the impact of the coronavirus crisis, see Note 1.4.

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

- The realised result from debt instruments at fair value through OCI was not material in 2020 and 2019.

Note 3.5: Net fee and commission income

(in millions of EUR)	2020	2019
Total	1 609	1 734
Fee and commission income	2 365	2 476
Fee and commission expense	-755	-741
Breakdown by type		
Asset management services	1 002	1 088
Fee and commission income	*1 061*	*1 145*
Fee and commission expense	*-59*	*-57*
Banking services	895	930
Fee and commission income	*1 225*	*1 266*
Fee and commission expense	*-330*	*-336*
Distribution	-288	-284
Fee and commission income	*78*	*64*
Fee and commission expense	*-366*	*-348*

- The lion’s share of the fees and commissions related to lending is recognised under ‘Net interest income’ (effective interest rate calculations).
- For information on the impact of the coronavirus crisis, see Note 1.4.

Note 3.6: Other net income

(in millions of EUR)	2020	2019
Total	176	282
of which gains or losses on		
Sale of financial assets measured at amortised cost	11	14
Repurchase of financial liabilities measured at amortised cost	0	9
Other, including:	165	259
Income from (mainly operational) leasing activities, KBC Lease Group	*76*	*72*
Income from VAB Group	*49*	*41*
Settlement of legal cases	*0*	*9*
Provisioning for tracker mortgage review	*-9*	*-23*
Revaluation of existing shareholding in ČMSS	*–*	*82*

- Provisioning for the tracker mortgage review concerns KBC Bank Ireland, which – like all major lenders in Ireland at the time – had offered tracker mortgages (i.e. between 2003 and 2008). In December 2015, the Central Bank of Ireland (CBI) requested the Irish banking industry, including KBC Bank Ireland, to undertake a broad and wide-ranging examination of tracker-mortgage related issues. The purpose of the tracker mortgage review was to identify cases where clients' contractual rights under the terms of their mortgage agreements had not been fully honoured and/or lenders had not fully complied with the various requirements and standards regarding disclosure and transparency for the client. In situations where client detriment was identified from this examination, KBC Bank Ireland had to provide appropriate redress and compensation in line with the CBI 'Principles for Redress'. The bank recognised a provision of 4 million euros in 2016 and 116 million euros in 2017 in respect of redress and compensation for clients identified as being impacted. In 2018, most of the clients affected duly received redress and compensation payments. In 2019, a provision of 23 million euros was recorded (including 14 million euros as a provision for a potential sanction). In 2020, a provision of 9 million euros was set aside (4 million of which related to the sanction).
- Settlement of legal cases in 2019 related to cases in the Czech Republic (6 million euros) and the Group Centre (3 million euros).
- Revaluation of existing shareholding in ČMSS in 2019 concerned one-off earnings of 82 million euros in the Czech Republic resulting from the revaluation of KBC's 55% stake in ČMSS, following the acquisition of the remaining 45% stake in that company in the second quarter of 2019 (for more details, see Note 6.6).

Note 3.7: Insurance results

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

Note 3.7.1: Overview

(in millions of EUR)	Life	Non-life	Non-technical account	Total
2020				
Earned premiums, insurance (before reinsurance)	1 223	1 795	0	3 019
of which changes in the provision for unearned premiums	*-2*	*-28*	*0*	*-30*
Technical charges, insurance (before reinsurance)	-1 212	-913	0	-2 126
Claims paid	*-1 137*	*-806*	*0*	*-1 943*
Change in technical provisions	*-53*	*-101*	*0*	*-154*
Other technical result	*-22*	*-6*	*0*	*-28*
Net fee and commission income	-17	-346	0	-362
Ceded reinsurance result	-2	-18	0	-20
General administrative expenses	-139	-248	-2	-390
Internal claims settlement expenses	*-8*	*-60*	*0*	*-67*
Indirect acquisition costs	*-30*	*-68*	*0*	*-98*
Administrative expenses	*-102*	*-120*	*0*	*-222*
Investment management fees	*0*	*0*	*-2*	*-2*
Technical result	-148	271	-2	121
Investment income*	355	92	29	477
Technical-financial result	207	363	27	598
Share in results of associated companies and joint ventures	–	–	0	0
RESULT BEFORE TAX	207	363	27	598
Income tax expense	–	–	–	-132
RESULT AFTER TAX	–	–	–	466
attributable to minority interests	–	–	–	*0*
attributable to equity holders of the parent	–	–	–	*466*
2019				
Earned premiums, insurance (before reinsurance)	1 324	1 741	0	3 065
of which changes in the provision for unearned premiums	*-1*	*-53*	*0*	*-54*
Technical charges, insurance (before reinsurance)	-1 329	-967	0	-2 296
Claims paid	*-1 119*	*-848*	*0*	*-1 966*
Change in technical provisions	*-267*	*-113*	*0*	*-380*
Other technical result	*57*	*-7*	*0*	*50*
Net fee and commission income	-31	-332	0	-363
Ceded reinsurance result	-3	-22	0	-25
General administrative expenses	-145	-253	-3	-400
Internal claims settlement expenses	*-8*	*-62*	*0*	*-70*
Indirect acquisition costs	*-35*	*-76*	*0*	*-110*
Administrative expenses	*-102*	*-116*	*0*	*-218*
Investment management fees	*0*	*0*	*-3*	*-3*
Technical result	-183	167	-3	-19
Investment income*	492	87	25	604
Technical-financial result	309	254	22	585
Share in results of associated companies and joint ventures	–	–	4	4
RESULT BEFORE TAX	309	254	26	589
Income tax expense	–	–	–	-127
RESULT AFTER TAX	–	–	–	462
attributable to minority interests	–	–	–	*0*
attributable to equity holders of the parent	–	–	–	*462*

* Investment income (in millions of euros, for 2020 and 2019, respectively) comprises: ‘Net interest income’ (450, 460), ‘Net dividend income’ (34, 47), ‘Net result from financial instruments at fair value through profit or loss’ (1, 103), ‘Other net income’ (8, -3) and ‘Impairment’ (-15, -3). The ‘Non-technical account’ also includes the results from non-insurance subsidiaries, such as VAB group and ADD, and a number of real estate companies. They have been included in the note for the ‘insurance business’ given that they are KBC Insurance subsidiaries (but as they cannot be recognised under ‘Life’ or ‘Non-life’, they are included under ‘Non-technical account’). The ‘Non-technical account’ also includes the investment income from equity (i.e. mainly interest income from bonds).

- The figures relating to earned premiums do not include investment contracts without DPF, which largely correspond to unit-linked contracts. The margin on these products is recognised under 'Net fee and commission income'.
- 'Non-life technical charges' consist mainly of paid claims, changes in claims provisions, changes in the deficiency provision, recourse received, changes in recourse estimations and other technical charges. 'Life technical charges' consist primarily of paid claims, changes in claims provisions, changes in the life insurance provision, changes in the provision for (non-unbundled) unit-linked products, bonuses (profit-sharing), changes in the deficiency provision and other technical charges.
- An overview of the insurer's investment portfolio can be found in the 'How do we manage our risks?' section (in the 'Investment portfolio of KBC group insurance entities' table, which constitutes part of the financial statements).
- In the vast majority of cases, internal acquisition costs are recognised immediately in the income statement (i.e. not spread).
- In 2020, the non-life technical result was negatively impacted by factors including the storms in Belgium and positively impacted by the lower level of economic activity due to lockdown measures (which resulted in fewer claims – also see Note 1.4). In 2019, the non-life technical result had been negatively impacted by factors including the storms in Belgium and the Czech Republic, major fire damage in Belgium, and the reassessment of claims provisions in the second quarter of 2019.

Reconciliation of the earned premiums stated in the consolidated income statement and in Note 3.7.1 (in millions of EUR)	**2020**	**2019**
Non-life insurance (before reinsurance) – Earned premiums		
In the consolidated income statement	1 777	1 721
Addition of premiums from intragroup transactions between bank and insurer	18	20
In Note 3.7.1	1 795	1 741
Life insurance (before reinsurance) – Earned premiums		
In the consolidated income statement	1 223	1 323
Addition of premiums from intragroup transactions between bank and insurer	0	0
In Note 3.7.1	1 223	1 324

Note 3.7.2: Life insurance

(in millions of EUR)	**2020**	**2019**
Total	1 223	1 324
By IFRS category		
Insurance contracts	902	909
Investment contracts with DPF	322	414
By type		
Accepted reinsurance	0	0
Primary business	1 223	1 324
Breakdown of primary business		
Individual premiums	869	979
Single premiums	*131*	*264*
Periodic premiums	*738*	*715*
Premiums under group contracts	355	345
Single premiums	*50*	*55*
Periodic premiums	*305*	*290*
Total sales of life insurance (including investment contracts without DPF)		
Unit-linked	965	733
Guaranteed-rate	1 024	1 116
Total	1 989	1 849

- As required under IFRS, we use deposit accounting for a number of investment contracts without DPF. This means that the premium income and technical charges from these contracts are not recognised under 'Earned premiums' and 'Technical charges', but that the margins on them are reported under 'Net fee and commission income'. Investment contracts without DPF are more or less the same as unit-linked contracts, which in 2019 accounted for premium income of 0.7 billion euros and in 2020 for premium income of 1.0 billion euros. Premium income generated by investment contracts without DPF (under deposit accounting) is included in 'Total sales of life insurance', as presented in the lower part of the table. These sale volumes, therefore, comprise earned insurance premiums plus premiums from contracts that are subject to deposit accounting.

Note 3.7.3: Non-life insurance

(in millions of EUR)	Earned premiums (before reinsurance)	Technical insurance charges (before reinsurance)	Operating expenses (before reinsurance)	Ceded reinsurance	Total
2020					
Total	1 795	-913	-593	-18	271
Accepted reinsurance	26	-16	-11	-13	-14
Primary business	1 770	-897	-583	-5	285
Accident & health (classes 1 & 2, excl. industrial accidents)	117	-69	-39	0	9
Industrial accidents (class 1)	77	-62	-17	-3	-6
Motor, third-party liability (class 10)	502	-306	-140	7	63
Motor, other classes (classes 3 & 7)	301	-138	-99	-1	62
Shipping, aviation, transport (classes 4, 5, 6, 7, 11 & 12)	5	-2	-2	0	1
Fire and other damage to property (classes 8 & 9)	528	-197	-199	-9	124
General third-party liability (class 13)	128	-88	-43	2	0
Credit and suretyship (classes 14 & 15)	0	0	0	0	0
Miscellaneous pecuniary losses (class 16)	21	-7	-8	0	6
Legal assistance (class 17)	60	-21	-21	0	17
Assistance (class 18)	30	-7	-14	0	10
2019					
Total	1 741	-967	-585	-22	167
Accepted reinsurance	14	-11	-10	-17	-24
Primary business	1 727	-956	-575	-5	191
Accident & health (classes 1 & 2, excl. industrial accidents)	118	-56	-40	0	22
Industrial accidents (class 1)	81	-82	-17	0	-18
Motor, third-party liability (class 10)	497	-310	-141	0	46
Motor, other classes (classes 3 & 7)	280	-182	-95	1	5
Shipping, aviation, transport (classes 4, 5, 6, 7, 11 & 12)	5	-2	-2	0	1
Fire and other damage to property (classes 8 & 9)	507	-228	-191	1	89
General third-party liability (class 13)	128	-50	-43	-6	29
Credit and suretyship (classes 14 & 15)	0	0	0	0	0
Miscellaneous pecuniary losses (class 16)	21	-11	-8	-1	1
Legal assistance (class 17)	58	-22	-22	0	14
Assistance (class 18)	33	-13	-17	0	4

Note 3.8: Operating expenses

(in millions of EUR)	2020	2019
Total	-4 156	-4 303
Staff expenses	-2 329	-2 357
General administrative expenses	-1 518	-1 595
of which bank taxes	*-503*	*-491*
Depreciation and amortisation of fixed assets	-309	-351

- General administrative expenses include repair and maintenance expenses, advertising costs, rent, professional fees, various (non-income) taxes, utilities and other such expenses. They also include expenses related to the special tax imposed on financial institutions in various countries (totalling 503 million euros in 2020 and 491 million euros in 2019). The figure for 2020 comprises 291 million euros in the Belgium Business Unit, 41 million euros in the Czech Republic Business Unit, 20 million euros in Slovakia, 17 million euros in Bulgaria, 103 million euros in Hungary and 31 million euros in Ireland.
- For information on the impact of the coronavirus crisis, see Note 1.4.
- Share-based employee benefits are included under ‘Staff expenses’: since 2000, KBC has launched several stock option plans for its employees. However, there were no longer any outstanding options at year-end 2019 and 2020.
- Information on the capital increase reserved for KBC group employees can be found in the ‘Company annual accounts and additional information’ section. In 2020, this resulted in the recognition of a limited employee benefit (4 million euros) as the issue price was lower than the market price. Information regarding the price of the KBC share can be found in the ‘Report of the Board of Directors’ section.

Note 3.9: Personnel

(number)	2020	2019
Total average number of persons employed (in full-time equivalents)	37 137	37 629
By legal entity		
KBC Bank	28 838	29 530
KBC Insurance	3 972	3 996
KBC Group NV (holding company)	4 327	4 103
By employee classification		
Blue-collar staff	380	363
White-collar staff	36 500	37 009
Senior management	257	257

- The figures in the table are annual averages, which – in terms of scope – may differ from year-end figures that are provided elsewhere.
- The staff numbers for ČMSS (which was fully consolidated from June 2019 following the acquisition of the remaining 45% stake in that company) are included for seven-twelfths of the year (i.e. for the June-December period) in the 2019 figures and for the full year in the 2020 figures. The staff numbers for OTP Banka Slovensko (acquired at the end of November 2020) have not yet been included in the 2020 figures.
- In May 2019, we began optimising our group-wide governance model, aimed at further improving our operational efficiency. This optimisation exercise has implications for some of our employees (see the ‘Our employees, capital, network and relationships’ section).

Note 3.10: Impairment (income statement)

(in millions of EUR)	2020	2019
Total	-1 182	-217
Impairment on financial assets at AC and at FVOCI	-1 074	-203
Of which impairment on financial assets at AC	-1 069	-204
By product		
Loans and advances	*-1 067*	*-182*
Debt securities	*0*	*-1*
Off-balance-sheet commitments and financial guarantees	*-2*	*-21*
By type		
Stage 1 (12-month ECL)	*-44*	*-20*
Stage 2 (lifetime ECL)	*-724*	*48*
Stage 3 (lifetime ECL)	*-302*	*-237*
Purchased or originated credit impaired assets	*1*	*6*
Of which impairment on financial assets at FVOCI	-5	1
Debt securities	-5	1
Stage 1 (12-month ECL)	*-2*	*0*
Stage 2 (lifetime ECL)	*-2*	*1*
Stage 3 (lifetime ECL)	*0*	*0*
Impairment on goodwill	0	0
Impairment on other	-108	-14
Intangible fixed assets (other than goodwill)	-64	-6
Property and equipment (including investment property)	-9	-3
Associated companies and joint ventures	0	0
Other	-35	-5

- Impairment on financial assets at AC and at FVOCI is also referred to as 'Impairment on loans', which comprised the following (+ denotes an increase, – indicates a decrease in impairment):
  - Belgium Business Unit: +654 million euros in 2020, +241 million euros in 2019
  - Czech Republic Business Unit: +210 million euros in 2020, +12 million euros in 2019
  - International Markets Business Unit: +217 million euros in 2020, -18 million euros in 2019 (Ireland: +90 million euros in 2020 and -33 million euros in 2019; Hungary: +59 million euros in 2020 and -1 million euros in 2019; Slovakia: +42 million euros in 2020 and +11 million euros in 2019; Bulgaria: +27 million euros in 2020 and +5 million euros in 2019)
  - Group Centre: -7 million euros in 2020, -32 million euros in 2019
- In 2020, impairment on loans included 783 million euros for collective coronavirus-related ECL (see Note 1.4).
- In 2020, impairment on other ('Intangible fixed assets (other than goodwill)') included a software impairment of 59 million euros recorded in the fourth quarter, relating to software development projects that were partially or completely abandoned (28 million euros of which in Belgium, 6 million euros in the Czech Republic, 5 million euros in Hungary, 2 million euros in Slovakia, 1 million euros in Bulgaria and 18 million euros in the Group Centre).
- Impairment on other ('Other') includes 29 million euros relating to modification losses in Belgium, the Czech Republic and Hungary due to the payment moratoria schemes implemented in these countries as a result of the coronavirus crisis (see Note 1.4 of this report for more information).
- The loan portfolio accounts for the largest share of the financial assets. Based on internal management reports, the composition and quality of the loan portfolio is set out in detail in the 'How do we manage our risks?' section (under 'Credit risk'). All parts of that particular section which have been audited by the statutory auditor are listed at the start of the section. Among other things, this section provides more information on impaired loans (Stage 3).
- For information on total impairment recognised in the balance sheet, see Note 4.2.

- More background information and methodology for KBC's ECL model is provided in the accounting policies under 'Financial assets – impairment' in Note 1.2.
- KBC uses specific models for PD, EAD and LGD in order to calculate ECL. It is essential to take account of historical observations and forward-looking projections in this respect.
  - PD represents the probability of a counterparty defaulting in the next 12 months or during the entire term of the facility (depending on which IFRS 9 'Stage' the facility is in). The PD is driven by the counterparty's internal (and, if applicable, external) credit rating. Variables used in PD models include financial ratios and behavioural parameters (arrears).

- EAD represents the estimated outstanding debt at the time of default and depends on the existing outstanding debt and any changes permitted under the contract and normal repayments. Variables used in these models include product types and repayment schedules.
- LGD is the estimated size of the loss relative to the outstanding debt at the time of default. LGD is presented as a percentage of the outstanding debt and is determined by historical amounts recovered on similar claims. Variables used in these models include collateral types and financial ratios.

• On 31 December 2020, there were over 100 different IFRS 9 models. In addition to several group-wide models, we have separate PD, EAD and LGD models for each of our core countries. In accordance with the Basel grouping approach, we use the type of counterparty (private individuals, SMEs, companies, governments, etc.) to determine the scope of an IFRS 9 model. Each model allows for differentiation in terms of facility type (term loans, revolving facilities, etc.) and collateral type (mortgages, pledges on business assets, guarantees, etc.). Examples of IFRS 9 models include 'Banks', 'Belgian private persons – home loans', 'Czech corporates', 'Bulgarian corporates and SMEs' and 'Central governments'. Detailed documentation is available for each PD, EAD and LGD model. The main models are subject to review by external auditors. The Basel models, which the IFRS 9 models are based on, are subject to external control performed by the supervisory authorities.
• We create the models for the various portfolios using typical PD, EAD and LGD inputs, as well as macroeconomic variables to the extent that there is a statistical relationship. The macroeconomic variables are GDP growth, the unemployment rate, policy interest rates, the exchange rate, government bond yields, house prices and inflation. As a result of regular back-testing, models may change and macroeconomic variables may be reassessed. Note 1.4 presents the optimistic, pessimistic and base-case scenarios for the three key indicators (GDP growth, unemployment rate and house price index) for each of our core countries for the next three years.
• Our ECL models are not able to adequately reflect all the specifics of the coronavirus crisis or the various government measures implemented in the different countries to support households, SMEs and corporate entities through this crisis. Therefore, an expert-based calculation at portfolio level has been performed that takes due account via a management overlay of the macroeconomic situation and the different government measures (see Note 1.4 for more details).
• We use three different forward-looking macroeconomic scenarios (with different probability weightings) to measure ECL. The weightings at year-end 2020 were 55% for the 'base' scenario, 10% for the 'up' scenario and 35% for the 'down' scenario. The forecast horizon is 30 years. For further information on the key macroeconomic parameters, see Note 1.4.
• A sensitivity analysis of the impact of these multiple economic scenarios on the collectively assessed ECL (i.e. without the ECL for individually assessed loans of 1.9 billion euros at the end of 2019 and 1.8 billion euros at the end of 2020) shows that the 'base' scenario generates an ECL of 1.7 billion euros (1.1 billion euros in 2019), which is 0.4 billion euros lower than for the 'down' scenario (0.0 billion euros in 2019) and 0.1 billion euros higher than for the 'up' scenario (0.1 billion euros in 2019). The assessed scenario-weighted collective ECL (that was recognised) amounted to 1.8 billion euros (1.1 billion euros in 2019). Please note that these amounts take into account the coronavirus-related management overlay (by scenario) at year-end 2020 (see Note 1.4).

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

(in millions of EUR)	2020	2019
Total	-11	7
Of which		
ČMSS	*–*	*9*
Isabel NV	*1*	*1*
Joyn International NV	*-3*	*-2*
Bancontact Payconiq Company NV	*0*	*-1*
Payconiq International SA	*-7*	*-4*
*NLB Vita**	*–*	*4*
Mallpay	*-2*	*0*

* Divested in 2020 (see Note 6.6).

• The share in results of associated companies and joint ventures in 2019 is accounted for primarily by ČMSS, a joint venture of ČSOB in the Czech Republic. KBC became the sole owner of ČMSS in June 2019 following the acquisition of the remaining 45% stake in that company, which has been fully consolidated since then. More details are provided in Note 5.3 and Note 6.6.
• Impairment on (goodwill on) associated companies and joint ventures is included in 'Impairment' (see Note 3.10). The share in results of associated companies and joint ventures does not therefore take this impairment into account.

Note 3.12: Income tax expense

(in millions of EUR)	2020	2019
Total	-407	-627
By type		
Current taxes on income	-560	-498
Deferred taxes on income	153	-129
Tax components		
Result before tax	1 847	3 116
Income tax at the Belgian statutory rate	25.00%	29.58%
Income tax calculated	-462	-922
Plus/minus tax effects attributable to		
differences in tax rates, Belgium – abroad	*86*	*221*
tax-free income	*40*	*103*
adjustments related to prior years	*-9*	*-1*
adjustments to deferred taxes due to change in tax rate	*-2*	*-1*
unused tax losses and unused tax credits to reduce current tax expense	*0*	*7*
unused tax losses and unused tax credits to reduce deferred tax expense	*3*	*0*
reversal of previously recognised deferred tax assets due to tax losses	*0*	*-7*
other (including non-deductible expenses)	*-62*	*-27*

- For information on tax assets and tax liabilities, see Note 5.2.
- Country-by-country reporting (according to the Royal Decree of 27 November 2014 amending the royal decrees concerning the financial statements and consolidated financial statements of credit institutions, investment firms and management companies of undertakings for collective investment) is provided at the consolidated level of KBC Bank and is dealt with in Note 3.12 of the KBC Bank Annual Report (available at www.kbc.com).
- Change in tax rate in 2020: the reform of the Belgian corporation tax regime in 2017 included a further decrease in the tax rate from 29.58% to 25% starting in financial year 2020. This had a recurring positive impact on the income statement from then on, because of the lower tax rate applying to the Belgian group companies. The decrease will not affect outstanding deferred tax assets and liabilities (and, consequently, total equity), as they already take account of the reduced tax rate.
- For information on the impact of the coronavirus crisis, see Note 1.4.

Note 3.13: Earnings per share

(in millions of EUR)	2020	2019
Result after tax, attributable to equity holders of the parent	1 440	2 489
Coupon on AT1 instruments	-50	-56
Net result used to determine basic earnings per share	1 390	2 433
Weighted average number of ordinary shares outstanding (millions of units)	416	416
Basic earnings per share (EUR)	3.34	5.85

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

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

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

(in millions of EUR)	Measured at amortised cost (AC)	Measured at fair value through other compre-hensive income (FVOCI)	Mandatorily measured at fair value through profit or loss (MFVPL) excl. HFT and overlay	Measured at fair value – overlay approach (overlay)	Held for trading (HFT)	Desig-nated at fair value[1] (FVO)	Hedging derivatives	Total
FINANCIAL ASSETS, 31-12-2020								
Loans and advances to credit institutions and investment firms (excl. reverse repos)[a]	6 343	0	0	0	0	0	0	6 343
Loans and advances to customers (excl. reverse repos)	159 234	0	387	0	0	0	0	159 621
Trade receivables	*1 686*	*0*	*0*	*0*	*0*	*0*	*0*	*1 686*
Consumer credit	*5 476*	*0*	*273*	*0*	*0*	*0*	*0*	*5 749*
Mortgage loans	*71 841*	*0*	*109*	*0*	*0*	*0*	*0*	*71 950*
Term loans	*69 477*	*0*	*5*	*0*	*0*	*0*	*0*	*69 482*
Finance lease	*5 747*	*0*	*0*	*0*	*0*	*0*	*0*	*5 747*
Current account advances	*4 285*	*0*	*0*	*0*	*0*	*0*	*0*	*4 285*
Other	*722*	*0*	*0*	*0*	*0*	*0*	*0*	*722*
Reverse repos[2]	27 628	0	0	0	0	0	0	27 628
with credit institutions and investment firms	*27 444*	*0*	*0*	*0*	*0*	*0*	*0*	*27 444*
with customers	*184*	*0*	*0*	*0*	*0*	*0*	*0*	*184*
Equity instruments	0	294	7	1 276	489	0	0	2 067
Investment contracts (insurance)[6]	0	0	13 830	0	0	0	0	13 830
Debt securities issued by	48 965	18 157	53	0	2 542	0	0	69 717
Public bodies	*42 432*	*12 301*	*0*	*0*	*2 479*	*0*	*0*	*57 212*
Credit institutions and investment firms	*3 902*	*2 569*	*0*	*0*	*19*	*0*	*0*	*6 490*
Corporates	*2 631*	*3 286*	*53*	*0*	*45*	*0*	*0*	*6 014*
Derivatives	0	0	0	0	5 659	0	160	5 818
Other[3]	1 358	0	0	0	4	0	0	1 361
Total	243 527	18 451	14 277	1 276	8 695	0	160	286 386
a of which loans and advances to banks repayable on demand and term loans to banks at not more than three months								1 393
FINANCIAL ASSETS, 31-12-2019								
Loans and advances to credit institutions and investment firms (excl. reverse repos)[a]	5 398	0	0	0	1	0	0	5 399
Loans and advances to customers (excl. reverse repos)	155 598	0	218	0	0	0	0	155 816
Trade receivables	*1 885*	*0*	*0*	*0*	*0*	*0*	*0*	*1 885*
Consumer credit	*5 383*	*0*	*122*	*0*	*0*	*0*	*0*	*5 505*
Mortgage loans	*67 711*	*0*	*85*	*0*	*0*	*0*	*0*	*67 796*
Term loans	*68 867*	*0*	*10*	*0*	*0*	*0*	*0*	*68 877*
Finance lease	*5 926*	*0*	*0*	*0*	*0*	*0*	*0*	*5 926*
Current account advances	*4 979*	*0*	*0*	*0*	*0*	*0*	*0*	*4 979*
Other	*847*	*0*	*0*	*0*	*0*	*0*	*0*	*847*
Reverse repos[2]	25 596	0	0	0	0	0	0	25 596
with credit institutions and investment firms	*25 445*	*0*	*0*	*0*	*0*	*0*	*0*	*25 445*
with customers	*151*	*0*	*0*	*0*	*0*	*0*	*0*	*151*
Equity instruments	0	249	7	1 431	833	0	0	2 519
Investment contracts (insurance)[6]	0	0	14 584	0	0	0	0	14 584
Debt securities issued by	42 998	18 788	58	0	1 269	0	0	63 114
Public bodies	*37 024*	*12 370*	*0*	*0*	*1 149*	*0*	*0*	*50 542*
Credit institutions and investment firms	*3 632*	*2 753*	*0*	*0*	*20*	*0*	*0*	*6 405*
Corporates	*2 343*	*3 666*	*58*	*0*	*99*	*0*	*0*	*6 167*
Derivatives	0	0	0	0	5 163	0	158	5 322
Other[3]	1 049	0	0	0	0	0	0	1 049
Total	230 639	19 037	14 867	1 431	7 266	0	158	273 399
a of which loans and advances to banks repayable on demand and term loans to banks at not more than three months								468

(in millions of EUR)	Measured at amortised cost (AC)	Held for trading (HFT)	Designated at fair value (FVO)	Hedging derivatives	Total
FINANCIAL LIABILITIES, 31-12-2020					
Deposits from credit institutions and investment firms (excl. repos)[a]	34 605	0	0	0	34 605
Deposits from customers and debt securities (excl. repos)	213 801	101	1 528	0	215 430
Demand deposits	*100 986*	*0*	*0*	*0*	*100 986*
Time deposits	*11 768*	*16*	*117*	*0*	*11 902*
Savings accounts	*74 862*	*0*	*0*	*0*	*74 862*
Special deposits	*2 543*	*0*	*0*	*0*	*2 543*
Other deposits	*260*	*0*	*0*	*0*	*260*
Certificates of deposit	*5 412*	*0*	*5*	*0*	*5 417*
Savings certificates	*454*	*0*	*0*	*0*	*454*
Convertible bonds	*0*	*0*	*0*	*0*	*0*
Non-convertible bonds	*15 319*	*85*	*1 264*	*0*	*16 668*
Convertible subordinated liabilities	*0*	*0*	*0*	*0*	*0*
Non-convertible subordinated liabilities	*2 196*	*0*	*142*	*0*	*2 338*
Repos[4]	3 570	0	0	0	3 570
with credit institutions and investment firms	*3 288*	*0*	*0*	*0*	*3 288*
with customers	*282*	*0*	*0*	*0*	*282*
Liabilities under investment contracts[6]	0	0	12 724	0	12 724
Derivatives	0	5 362	0	1 319	6 681
Short positions	0	1 694	0	0	1 694
In equity instruments	*0*	*12*	*0*	*0*	*12*
In debt securities	*0*	*1 682*	*0*	*0*	*1 682*
Other[5]	2 077	0	0	0	2 077
Total	254 053	7 157	14 252	1 319	276 781
a of which deposits from banks repayable on demand					4 604
FINANCIAL LIABILITIES, 31-12-2019					
Deposits from credit institutions and investment firms (excl. repos)[a]	18 731	0	0	0	18 731
Deposits from customers and debt securities (excl. repos)	200 607	223	2 539	0	203 369
Demand deposits	85 626	0	0	0	85 626
Time deposits	*15 271*	*39*	*184*	*0*	*15 494*
Savings accounts	*69 057*	*0*	*0*	*0*	*69 057*
Special deposits	*2 465*	*0*	*0*	*0*	*2 465*
Other deposits	*542*	*0*	*0*	*0*	*542*
Certificates of deposit	*10 538*	*0*	*8*	*0*	*10 546*
Savings certificates	*1 025*	*0*	*0*	*0*	*1 025*
Convertible bonds	*0*	*0*	*0*	*0*	*0*
Non-convertible bonds	*13 756*	*183*	*2 200*	*0*	*16 139*
Convertible subordinated liabilities	*0*	*0*	*0*	*0*	*0*
Non-convertible subordinated liabilities	*2 327*	*0*	*147*	*0*	*2 474*
Repos[4]	2 565	0	0	0	2 565
with credit institutions and investment firms	*2 262*	*0*	*0*	*0*	*2 262*
with customers	*302*	*0*	*0*	*0*	*303*
Liabilities under investment contracts[6]	0	0	13 610	0	13 610
Derivatives	0	5 057	0	1 171	6 227
Short positions	0	1 708	0	0	1 708
In equity instruments	*0*	*14*	*0*	*0*	*14*
In debt securities	*0*	*1 693*	*0*	*0*	*1 693*
Other[5]	2 190	0	0	0	2 190
Total	224 093	6 988	16 149	1 171	248 400
a of which deposits from banks repayable on demand					4 669

1 The carrying value comes close to the maximum credit exposure.
2 The amount of the reverse repos (before offsetting) is virtually identical to the amount of the underlying assets (that have been lent out).
3 Financial assets not included under 'Loans and advances to customers' as they are not directly related to commercial lending.
4 The amount of the repos (before offsetting) is virtually identical to the amount of the underlying assets (that have been lent out), with the assets being partly reflected on the balance sheet and partly obtained through reverse repo transactions.
5 Financial liabilities not included under deposits from customers as they are not directly related to commercial deposit acquisition.
6 The difference between 'Investment contracts (insurance)' and 'Liabilities under investment contracts' is accounted for by the presentation of non-unbundled investment contracts that are included under 'Investment contracts (insurance)' on the financial assets side, but are included under 'Technical provisions (before reinsurance)' on the liabilities side.

- ‘Non-convertible bonds’ comprise mainly KBC Bank, KBC Group, ČSOB and KBC IFIMA issues. They are usually recognised under ‘Measured at amortised cost’. However, if they contain closely related embedded derivatives, they are recorded under ‘Designated at fair value’ (see accounting policies). This item also includes two green bonds (for 500 million euros each), which have been recognised at amortised cost.
- More information on major new debt issues or redemptions is provided under the ‘Consolidated cashflow statement’.
- ‘Deposits from credit institutions and investment firms’ include funding obtained from the ECB’s TLTRO programme (in 2019, 6.5 billion euros had been repaid under TLTRO II and 2.5 billion euros drawn down under TLTRO III; a further 19.5 billion euros was drawn down under TLTRO III in 2020, bringing the total amount borrowed under that programme to 22 billion euros at year-end 2020). KBC calculates these deposits using the effective interest rate method, with the rate being adjusted should we fail to meet the conditions (similar to a floating rate instrument), as per paragraph B.5.4.5 of IFRS 9. KBC’s management has reasonable assurance that KBC will comply with the conditions attached (including the level of lending to households and non-financial companies) and hence the interest has accordingly been recognised (a gross figure of 123 million euros in interest income (negative interest rate)).
- Transferred financial assets that continue to be recognised in their entirety: KBC regularly lends and/or sells securities with the commitment to buy them back at a later date (repo transactions). Securities lent or sold with such a commitment are transferred to the counterparty, and, in exchange, KBC receives cash or other financial assets. However, KBC retains the main risks and income relating to these securities, and, therefore, continues to recognise them on its balance sheet. In addition, a financial liability is recognised equalling the cash received.
- At year-end 2020, KBC had transferred the following types of financial asset, which continued to be recognised in their entirety: repo transactions and securities lent out with a carrying value of 9 000 million euros (debt instruments classified as ‘Held for trading’ (1 132 million euros), as ‘Measured at fair value through OCI’ (1 137 million euros) and as ‘Measured at amortised cost’ (6 731 million euros)); and an associated financial liability with a carrying value of 3 151 million euros (1 142 million euros classified as ‘Held for trading’, 1 143 million euros as ‘Measured at fair value through OCI’ and 866 million euros as ‘Measured at amortised cost’). At year-end 2019, KBC had transferred the following types of financial asset, which continued to be recognised in their entirety: repo transactions and securities lent out with a carrying value of 8 965 million euros (debt instruments classified as ‘Held for trading’ (539 million euros), as ‘Measured at fair value through OCI’ (351 million euros) and as ‘Measured at amortised cost’ (8 075 million euros)); and an associated financial liability with a carrying value of 2 565 million euros (547 million euros classified as ‘Held for trading’, 344 million euros as ‘Measured at fair value through OCI’ and 1 674 million euros as ‘Measured at amortised cost’). It should be noted that KBC has more transferred financial assets on its balance sheet than repo transactions, due to the fact the cash legs of certain repo transactions are offset against reverse repo transactions if they are carried out with the same counterparty, in the same currency and with the same maturity date.
- For information about the acquisition of OTP Banka Slovensko, see Note 6.6.

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

Note 4.2.1: Impaired financial assets

(in millions of EUR)	Carrying value before impairment	Impairment	Carrying value after impairment
31-12-2020			
Financial assets at amortised cost			
Loans and advances*	196 900	-3 695	193 205
Stage 1 (12-month ECL)	172 059	-168	171 891
Stage 2 (lifetime ECL)	19 423	-992	18 431
Stage 3 (lifetime ECL)	5 278	-2 517	2 761
Purchased or originated credit impaired assets (POCI)	139	-18	121
Debt securities	48 974	-9	48 965
Stage 1 (12-month ECL)	48 935	-6	48 929
Stage 2 (lifetime ECL)	36	-1	35
Stage 3 (lifetime ECL)	3	-2	1
Purchased or originated credit impaired assets (POCI)	0	0	0
Financial assets at fair value through OCI			
Debt securities	18 166	-9	18 157
Stage 1 (12-month ECL)	18 028	-6	18 022
Stage 2 (lifetime ECL)	138	-3	135
Stage 3 (lifetime ECL)	0	0	0
Purchased or originated credit impaired assets (POCI)	0	0	0
31-12-2019			
Financial assets at amortised cost			
Loans and advances*	189 446	-2 855	186 592
Stage 1 (12-month ECL)	165 326	-131	165 195
Stage 2 (lifetime ECL)	18 558	-254	18 304
Stage 3 (lifetime ECL)	5 381	-2 444	2 937
Purchased or originated credit impaired assets (POCI)	182	-26	155
Debt securities	43 010	-12	42 998
Stage 1 (12-month ECL)	42 934	-5	42 930
Stage 2 (lifetime ECL)	69	-2	67
Stage 3 (lifetime ECL)	7	-6	1
Purchased or originated credit impaired assets (POCI)	0	0	0
Financial assets at fair value through OCI			
Debt securities	18 793	-5	18 788
Stage 1 (12-month ECL)	18 771	-4	18 767
Stage 2 (lifetime ECL)	22	-1	22
Stage 3 (lifetime ECL)	0	0	0
Purchased or originated credit impaired assets (POCI)	0	0	0

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

- The increase in impairment relates mainly to the collective coronavirus-related ECL (see Note 1.4).
- The table does not contain any stage transfers that underlie the management overlay for the forecast collective coronavirus-related ECL, due to the fact that they are determined based on a collective statistical approach and, therefore, cannot be individually linked to specific loans. Taking into account the impact of the management overlay on staging, this would result in a carrying value (before impairment) of loans and advances of an estimated 164, 26 and 7 billion euros in Stages 1, 2 and 3, respectively (or net staging of 4% of the total portfolio from 'Stage 1' to 'Stage 2' and 1% from 'Stage 1' and 'Stage 2' to 'Stage 3' – see Note 1.4 for more information).
- In 2020, 'Stage 2' and 'Stage 3' financial assets with a net carrying value of 5 065 million euros were subject to modifications that did not result in derecognition. The gross carrying value of 'Stage 1' financial assets subject to modifications that did not result in derecognition came to 11 890 million euros in 2020. The corresponding figures for 2019 were 213 million euros and 712 million euros, respectively. Modification gains or losses are recognised under impairment (see Note 3.10)
- In 2020, financial assets at amortised cost with a gross carrying value of 106 million euros were written off, but were still subject to enforcement activities (the corresponding figure in 2019 was 651 million euros and related mainly to Ireland's legacy portfolio).

Note 4.2.2: Impairment details

(in millions of EUR)	Stage 1 Subject to 12-month ECL	Stage 2 Subject to lifetime ECL	Stage 3 Subject to lifetime ECL	Subject to lifetime ECL (purchased or originated credit impaired)	Total
2020					
LOANS AND ADVANCES AT AMORTISED COST					
Impairment on 01-01-2020	131	254	2 444	26	2 855
Movements with an impact on results[1]	31	725	352	0	1 107
Transfer of financial assets					
Stage 1 (12-month ECL)	*-7*	*129*	*74*	*0*	*196*
Stage 2 (lifetime ECL)	*5*	*-70*	*282*	*0*	*217*
Stage 3 'non-performing' (lifetime ECL)	*0*	*25*	*-30*	*0*	*-4*
New financial assets[2]	23	14	5	0	42
Changes in risk parameters during the reporting period	29	637	84	1	751
Changes in the model or methodology	-8	-3	-7	0	-18
Derecognised financial assets[3]	-9	-13	-90	-2	-113
Other	-2	4	33	-1	35
Movements without an impact on results	7	13	-278	-8	-266
Derecognised financial assets[3]	0	0	-323	-8	-332
Changes in the scope of consolidation	9	20	67	0	96
Transfers under IFRS 5	0	0	0	0	0
Other	-2	-6	-22	0	-30
Impairment on 31-12-2020	168	992	2 517	18	3 695
DEBT SECURITIES AT AMORTISED COST					
Impairment on 01-01-2020	5	2	6	0	12
Movements with an impact on results[1]	2	-1	0	0	0
Transfer of financial assets					
Stage 1 (12-month ECL)	*0*	*0*	*0*	*0*	*0*
Stage 2 (lifetime ECL)	*0*	*0*	*0*	*0*	*0*
Stage 3 'non-performing' (lifetime ECL)	*0*	*0*	*0*	*0*	*0*
New financial assets[2]	1	0	0	0	1
Changes in risk parameters during the reporting period	0	-1	0	0	-1
Changes in the model or methodology	0	0	0	0	0
Derecognised financial assets[3]	0	0	0	0	0
Other	0	0	0	0	0
Movements without an impact on results	0	0	-3	0	-3
Derecognised financial assets[3]	0	0	-3	0	-3
Changes in the scope of consolidation	0	0	0	0	0
Transfers under IFRS 5	0	0	0	0	0
Other	0	0	0	0	0
Impairment on 31-12-2020	6	1	2	0	9
DEBT SECURITIES AT FAIR VALUE THROUGH OCI					
Impairment on 01-01-2020	4	1	0	0	5
Movements with an impact on results[1]	2	2	0	0	5
Transfer of financial assets					
Stage 1 (12-month ECL)	*0*	*2*	*0*	*0*	*2*
Stage 2 (lifetime ECL)	*0*	*0*	*0*	*0*	*0*
Stage 3 'non-performing' (lifetime ECL)	*0*	*0*	*0*	*0*	*0*
New financial assets[2]	0	0	0	0	0
Changes in risk parameters during the reporting period	2	0	0	0	3
Changes in the model or methodology	0	0	0	0	0
Derecognised financial assets[3]	0	0	0	0	0
Other	0	0	0	0	0
Movements without an impact on results	0	0	0	0	0
Derecognised financial assets[3]	0	0	0	0	0
Changes in the scope of consolidation	0	0	0	0	0
Transfers under IFRS 5	0	0	0	0	0
Other	0	0	0	0	0
Impairment on 31-12-2020	6	3	0	0	9

2019

LOANS AND ADVANCES AT AMORTISED COST					
Impairment on 01-01-2019	113	305	3 062	42	3 523
Movements with an impact on results[1]	20	-49	278	-6	242
Transfer of financial assets					
Stage 1 (12-month ECL)	*-5*	*66*	*53*	*0*	*114*
Stage 2 (lifetime ECL)[4]	*4*	*-61*	*212*	*1*	*156*
Stage 3 'non-performing' (lifetime ECL)	*0*	*8*	*-34*	*-2*	*-27*
New financial assets[2]	34	18	25	0	77
Changes in risk parameters during the reporting period[4]	-2	-55	39	-3	-20
Changes in the model or methodology	-3	-10	0	0	-13
Derecognised financial assets[3]	-8	-14	-36	-3	-60
Other	0	-1	17	0	16
Movements without an impact on results	-2	-2	-897	-9	-910
Derecognised financial assets[3]	-6	-11	-944	-13	-975
Changes in the scope of consolidation	4	10	84	0	98
Transfers under IFRS 5	0	0	0	0	0
Other	1	-1	-37	4	-33
Impairment on 31-12-2019	131	254	2 444	26	2 855
DEBT SECURITIES AT AMORTISED COST					
Impairment on 01-01-2019	5	1	6	0	11
Movements with an impact on results[1]	0	1	0	0	1
Transfer of financial assets					
Stage 1 (12-month ECL)	*0*	*2*	*0*	*0*	*2*
Stage 2 (lifetime ECL)	*0*	*0*	*0*	*0*	*0*
Stage 3 'non-performing' (lifetime ECL)	*0*	*0*	*0*	*0*	*0*
New financial assets[2]	0	0	0	0	0
Changes in risk parameters during the reporting period	0	-1	0	0	-1
Changes in the model or methodology	0	0	0	0	0
Derecognised financial assets[3]	0	0	0	0	0
Other	0	0	0	0	0
Movements without an impact on results	0	0	0	0	0
Derecognised financial assets[3]	0	0	0	0	0
Changes in the scope of consolidation	0	0	0	0	0
Transfers under IFRS 5	0	0	0	0	0
Other	0	0	0	0	0
Impairment on 31-12-2019	5	2	6	0	12
DEBT SECURITIES AT FAIR VALUE THROUGH OCI					
Impairment on 01-01-2019	4	2	0	0	6
Movements with an impact on results[1]	0	-1	0	0	-1
Transfer of financial assets					
Stage 1 (12-month ECL)	*0*	*0*	*0*	*0*	*0*
Stage 2 (lifetime ECL)	*0*	*-1*	*0*	*0*	*-1*
Stage 3 'non-performing' (lifetime ECL)	*0*	*0*	*0*	*0*	*0*
New financial assets[2]	1	0	0	0	1
Changes in risk parameters during the reporting period	-1	0	0	0	0
Changes in the model or methodology	0	0	0	0	0
Derecognised financial assets[3]	0	0	0	0	0
Other	0	0	0	0	0
Movements without an impact on results	0	0	0	0	0
Derecognised financial assets[3]	0	0	0	0	0
Changes in the scope of consolidation	0	0	0	0	0
Transfers under IFRS 5	0	0	0	0	0
Other	0	0	0	0	0
Impairment on 31-12-2019	4	1	0	0	5

1 Amounts recovered in respect of loans that have already been written off are recycled to the income statement and recorded as 'Impairment on financial assets at amortised cost and at fair value through OCI'. However, they have not been included in this table since they do not have any impact on impairment losses on the balance sheet.
2 Also includes impairment related to new financial assets resulting from off-balance-sheet commitments and financial guarantees already given being called.
3 Derecognition without an impact on results occurs when the impairment adjustment has already been made upfront (for example, at the moment of the sale agreement (disposals) or before the write-off). Derecognition with an impact on results occurs when the impairment adjustment takes place at the same time (for instance, in the case of debt forgiveness).
4 Figures restated (shift between these two lines).

- The increase in impairment relates mainly to the collective coronavirus-related ECL (see Note 1.4).
- For information on provisions for commitments and financial guarantees, see Note 5.7.2.
- For information regarding the impact of changes in impairment on the income statement, see Note 3.10.
- The loan portfolio accounts for the largest share of the financial assets. Based on internal management reports, the composition and quality of the loan portfolio is set out in detail in the 'How do we manage our risks?' section (under 'Credit risk'). All parts of that particular section which have been audited by the statutory auditor are listed at the start of the section.

Note 4.3: Maximum credit exposure and offsetting

(in millions of EUR)	Maximum credit exposure (A)	Collateral and other credit enhancements received (B)	Net (A-B)
31-12-2020			
Subject to impairment	295 163	126 267	168 895
of which Stage 3 'non-performing' (AC and FVOCI)	*2 923*	*2 538*	*385*
Debt securities	67 122	112	67 009
Loans and advances (excl. reverse repos)	165 577	94 373	71 204
Reverse repos	27 628	27 558	69
Other financial assets	1 358	0	1 358
Off-balance-sheet liabilities	33 479	4 224	29 255
Not subject to impairment	8 805	1 739	7 066
Debt securities	2 595	0	2 595
Loans and advances (excl. reverse repos)	387	368	20
of which designated upon initial recognition at fair value through profit or loss (FVO)	0	0	0
Reverse repos	0	0	0
Derivatives	5 818	1 371	4 447
Other financial assets	4	0	4
Off-balance-sheet liabilities	0	0	0
Total	303 968	128 006	175 961
31-12-2019			
Subject to impairment	282 940	128 142	154 798
of which Stage 3 'non-performing' (AC and FVOCI)	*3 189*	*2 737*	*452*
Debt securities	61 786	69	61 718
Loans and advances (excl. reverse repos)	160 996	92 683	68 313
Reverse repos	25 596	25 575	20
Other financial assets	1 049	0	1 049
Off-balance-sheet liabilities	33 512	9 814	23 697
Not subject to impairment	6 867	1 804	5 063
Debt securities	1 327	0	1 327
Loans and advances (excl. reverse repos)	218	171	47
of which designated upon initial recognition at fair value through profit or loss (FVO)	0	0	0
Reverse repos	0	0	0
Derivatives	5 322	1 633	3 689
Other financial assets	0	0	0
Off-balance-sheet liabilities	0	0	0
Total	289 807	129 946	159 861

- Maximum credit exposure for a financial asset is the net carrying value. Besides the amounts on the balance sheet, maximum credit exposure also includes the undrawn portion of irrevocable credit lines, financial guarantees granted and other irrevocable commitments.
- The loan portfolio accounts for the largest share of the financial assets. Based on internal management reports, the composition and quality of the loan portfolio is set out in detail in the 'How do we manage our risks?' section (under 'Credit risk'). All parts of that particular section which have been audited by the statutory auditor are listed at the start of the section.
- Collateral and credit enhancements received: recognised at market value and limited to the outstanding amount of the relevant loans.

Financial instruments subject to offsetting, enforceable master netting agreements and similar arrangements	Gross amount of recognised financial instruments	Gross amounts of recognised financial instruments set off	Net amounts of financial instruments presented in the balance sheet	Amounts not set off in the balance sheet			Net amount
(in millions of EUR)				Financial instru-ments	Cash collateral	Securities collateral	
31-12-2020							
FINANCIAL ASSETS							
Derivatives	11 519	5 700	5 818	3 039	812	327	1 640
Derivatives (excluding central clearing houses)	*5 772*	*0*	*5 772*	*3 039*	*812*	*327*	*1 594*
*Derivatives with central clearing houses**	*5 746*	*5 700*	*46*	*0*	*0*	*0*	*46*
Reverse repos, securities borrowing and similar arrangements	37 768	10 141	27 628	1 466	0	26 150	11
Reverse repos	*37 768*	*10 141*	*27 628*	*1 466*	*0*	*26 150*	*11*
Securities borrowing	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Other financial instruments	0	0	0	0	0	0	0
Total	49 287	15 841	33 446	4 506	812	26 478	1 651
FINANCIAL LIABILITIES							
Derivatives	14 610	7 929	6 681	3 040	2 376	494	771
Derivatives (excluding central clearing houses)	*6 625*	*0*	*6 625*	*3 040*	*2 376*	*494*	*715*
*Derivatives with central clearing houses**	*7 985*	*7 929*	*57*	*0*	*0*	*0*	*57*
Repos, securities lending and similar arrangements	13 711	10 141	3 570	1 466	0	2 102	1
Repos	*13 711*	*10 141*	*3 570*	*1 466*	*0*	*2 102*	*1*
Securities lending	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Other financial instruments	0	0	0	0	0	0	0
Total	28 321	18 069	10 251	4 506	2 376	2 596	773
31-12-2019							
FINANCIAL ASSETS							
Derivatives	9 759	4 437	5 322	2 635	1 151	230	1 306
Derivatives (excluding central clearing houses)	*5 275*	*0*	*5 275*	*2 635*	*1 151*	*230*	*1 259*
*Derivatives with central clearing houses**	*4 484*	*4 437*	*47*	*0*	*0*	*0*	*47*
Reverse repos, securities borrowing and similar arrangements	39 517	13 921	25 596	584	0	24 975	37
Reverse repos	*39 517*	*13 921*	*25 596*	*584*	*0*	*24 975*	*37*
Securities borrowing	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Other financial instruments	0	0	0	0	0	0	0
Total	49 275	18 358	30 918	3 219	1 151	25 205	1 344
FINANCIAL LIABILITIES							
Derivatives	12 157	5 930	6 227	2 612	1 762	619	1 235
Derivatives (excluding central clearing houses)	*6 158*	*0*	*6 158*	*2 612*	*1 762*	*619*	*1 166*
*Derivatives with central clearing houses**	*5 999*	*5 930*	*69*	*0*	*0*	*0*	*69*
Repos, securities lending and similar arrangements	16 486	13 921	2 565	1 405	0	1 160	0
Repos	*16 486*	*13 921*	*2 565*	*1 405*	*0*	*1 160*	*0*
Securities lending	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Other financial instruments	0	0	0	0	0	0	0
Total	28 643	19 851	8 792	4 017	1 762	1 778	1 235

* For central clearing houses, the offsetting procedure concerns the amount of offsetting between derivatives and related cash collateral. Cash collateral with central clearing houses amounted to 2 228 million euros at year-end 2020 and 1 493 million euros at year-end 2019 (the 2019 figures have been retroactively restated in the table above).

- The criteria for offsetting are met if KBC currently has a legally enforceable right to set off the recognised financial assets and financial liabilities and intends either to settle the transactions on a net basis, or to realise the financial asset and settle the financial liability simultaneously. Financial assets and financial liabilities that are set off relate to financial instruments that were traded on (central) clearing houses.
- The amounts presented in the ‘Financial instruments’ column under the ‘Amounts not set off in the balance sheet’ heading are for financial instruments entered into under an enforceable master netting agreement or similar arrangement that does not meet the criteria defined in IAS 32. These amounts refer to situations in which offsetting can only be applied if one of the counterparties defaults, becomes insolvent or goes bankrupt. The same principle applies for financial instruments given or received as collateral. The value given in the table for non-cash collateral received (in the ‘Securities collateral’ column under the ‘Amounts not set off in the balance sheet’ heading) is the market value. This is the value that is used if one of the counterparties defaults, becomes insolvent or goes bankrupt.

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

Fair value of financial instruments that are not measured at fair value in the balance sheet	Financial assets at amortised cost		Financial liabilities at amortised cost	
(in millions of EUR)	Carrying value	Fair value	Carrying value	Fair value
31-12-2020				
FINANCIAL ASSETS				
Loans and advances to credit institutions and investment firms (incl. reverse repos)	33 787	33 791	–	–
Loans and advances to customers (incl. reverse repos)	159 418	162 055	–	–
Debt securities	48 965	53 080	–	–
Other	1 358	1 358	–	–
Total	243 527	250 283	–	–
Level 1	–	47 976	–	–
Level 2	–	39 467	–	–
Level 3	–	162 839	–	–
FINANCIAL LIABILITIES				
Deposits from credit institutions and investment firms (incl. repos)	–	–	37 893	38 199
Deposits from customers and debt securities (incl. repos)	–	–	214 083	214 571
Liabilities under investment contracts	–	–	0	0
Other	–	–	2 077	2 077
Total	–	–	254 053	254 846
Level 1	–	–	–	32
Level 2	–	–	–	105 973
Level 3	–	–	–	148 841
31-12-2019				
FINANCIAL ASSETS				
Loans and advances to credit institutions and investment firms (incl. reverse repos)	30 843	31 101	–	–
Loans and advances to customers (incl. reverse repos)	155 749	157 376	–	–
Debt securities	42 998	45 802	–	–
Other	1 049	1 049	–	–
Total	230 639	235 328	–	–
Level 1	-	39 980	–	–
Level 2	-	45 517	–	–
Level 3	-	149 832	–	–
FINANCIAL LIABILITIES				
Deposits from credit institutions and investment firms (incl. repos)	–	–	20 993	21 148
Deposits from customers and debt securities (incl. repos)	–	–	200 910	200 567
Liabilities under investment contracts	–	–	0	0
Other	–	–	2 190	2 185
Total	–	–	224 093	223 899
Level 1	–	–	–	10
Level 2	–	–	–	87 350
Level 3	–	–	–	136 540

- All internal valuation models are validated by an independent Risk Validation Unit. In addition, the Executive Committee has appointed a Group Valuation Committee (GVC) to ensure that KBC and its entities meet all the legal requirements for measuring financial assets and liabilities at fair value. The GVC monitors consistent implementation of the *KBC Valuation Framework*, which consists of various guidelines, including the *Group Valuation Policy*, the *Group XVA & AVA Policy* and the *Group Parameter Review Policy*. The GVC meets at least twice a quarter to approve significant changes in valuation methods or deviations from group policies for financial assets and liabilities measured at fair value. The committee is made up of members from Finance, Risk Management and the Middle Office. Valuation uncertainty measurements are made and reported to the GVC every six months. Certain fair values generated by valuation models are challenged by a team set up specifically for this purpose.
- The fair value of mortgage and term loans not measured at fair value in the balance sheet (see table) is calculated by discounting contractual cashflows at the risk-free rate. This calculation is then adjusted for credit risk by taking account of margins obtained on similar, but recently issued, loans or by using a spread derived from the listed-bond spread. The fair value of the main portfolios takes account of prepayment risks and cap options. The fair value of demand and savings deposits (both of which are repayable on demand) is presumed to be equal to their carrying value.
- As a result of the first-time adoption of IFRS 9 on 1 January 2018, debt instruments with a total carrying value of 15 060 million euros have been reclassified from ‘Available-for-sale assets’ to ‘Financial assets held at amortised cost’. Due to this reclassification, changes in fair value (before tax) totalling -147 million euros were not recorded in the revaluation reserve in 2020 (107 million euros in 2019). The fair value of this reclassified portfolio (after redemptions) amounted to 8 182 million euros at year-end 2020 (10 350 million euros at year-end 2019).

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

Fair value hierarchy				31-12-2020				31-12-2019
(in millions of EUR)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS AT FAIR VALUE								
Mandatorily measured at fair value through profit or loss other than held for trading (including overlay)								
Loans and advances to credit institutions and investment firms (incl. reverse repos)	0	0	0	0	0	0	0	0
Loans and advances to customers (incl. reverse repos)	0	0	387	387	0	0	218	218
Equity instruments	1 217	3	63	1 283	1 370	0	68	1 438
Investment contracts (insurance)	13 490	341	0	13 830	14 143	441	0	14 584
Debt securities	16	0	37	53	24	0	35	58
of which sovereign bonds	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Held for trading								
Loans and advances to credit institutions and investment firms (incl. reverse repos)	0	0	0	0	0	1	0	1
Loans and advances to customers (incl. reverse repos)	0	0	0	0	0	0	0	0
Equity instruments	489	0	0	489	574	258	0	833
Debt securities	2 156	373	13	2 542	1 110	157	1	1 269
of which sovereign bonds	*2 123*	*356*	*0*	*2 479*	*1 053*	*96*	*0*	*1 149*
Derivatives	1	4 703	954	5 659	0	3 965	1 199	5 163
Other	0	4	0	4	0	0	0	0
Designated upon initial recognition at fair value through profit or loss (FVO)								
Loans and advances to credit institutions and investment firms (incl. reverse repos)	0	0	0	0	0	0	0	0
Loans and advances to customers (incl. reverse repos)	0	0	0	0	0	0	0	0
Debt securities	0	0	0	0	0	0	0	0
of which sovereign bonds	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
At fair value through OCI								
Equity instruments	48	6	240	294	12	6	232	249
Debt securities	14 464	3 357	335	18 157	14 933	3 624	231	18 788
of which sovereign bonds	*10 207*	*1 967*	*128*	*12 301*	*10 139*	*2 153*	*78*	*12 370*
Hedging derivatives								
Derivatives	0	160	0	160	0	158	0	158
Total								
Total financial assets at fair value	31 881	8 948	2 030	42 859	32 166	8 611	1 982	42 759
FINANCIAL LIABILITIES AT FAIR VALUE								
Held for trading								
Deposits from credit institutions and investment firms (incl. repos)	0	0	0	0	0	0	0	0
Deposits from customers and debt securities (incl. repos)	0	16	85	101	0	39	183	223
Derivatives	3	4 253	1 106	5 362	0	3 220	1 837	5 057
Short positions	1 694	0	0	1 694	1 708	0	0	1 708
Designated at fair value								
Deposits from credit institutions and investment firms (incl. repos)	0	0	0	0	0	0	0	0
Deposits from customers and debt securities (incl. repos)	0	377	1 151	1 528	0	657	1 883	2 539
Liabilities under investment contracts	12 724	0	0	12 724	13 610	0	0	13 610
Hedging derivatives								
Derivatives	0	1 319	0	1 319	0	1 171	0	1 171
Total								
Total financial liabilities at fair value	14 420	5 966	2 342	22 728	15 317	5 087	3 903	24 308

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

	Instrument type	Products	Valuation technique
Level 1	Liquid financial instruments for which quoted prices are regularly available	FX spots, exchange traded financial futures, exchange traded options, exchange traded stocks, exchange traded funds, liquid government bonds, other liquid bonds, liquid asset backed securities (ABS) in active markets	Mark-to-market (quoted prices in active markets), for bonds: BVAL.
Level 2	Plain vanilla/liquid derivatives	(Cross-currency) interest rate swaps (IRS), FX swaps, FX forwards, forward rate agreements (FRA), inflation swaps, dividend swaps and futures, commodity swaps, reverse floaters, bond future options, interest rate future options, overnight index swaps (OIS), FX resets	Discounted cashflow analysis based on discount and estimation curves (derived from quoted deposit rates, FX swaps and (CC)IRS)
		Caps & floors, interest rate options, European & American FX options, forward starting options, digital FX options, FX strips of simple options, European swaptions, constant maturity swaps (CMS), European cancellable IRS, compound options, commodity options	Option pricing model based on observable inputs (e.g., volatilities)
	Linear financial assets (without optional features) – cash instruments	Deposits, simple cashflows, repo transactions	Discounted cashflow analysis based on discount and estimation curves (derived from quoted deposit rates, FX swaps and (CC)IRS)
	Semi-liquid bonds/asset backed securities	Semi-liquid bonds/asset backed securities	BVAL, third-party pricing (e.g., lead manager); prices corroborated by alternative observable market data, or using comparable spread method
	Debt instruments	KBC IFIMA own issues (liabilities), mortgage bonds held by ČSOB	Discounted cashflow analysis and valuation of related derivatives based on observable inputs
	Linear financial liabilities (cash instruments)	Loans, commercial paper	Discounted cashflow analysis based on discount and estimation curves (derived from quoted deposit rates, FX swaps and (CC)IRS)
Level 3	Exotic derivatives	Target profit forwards, flexible forwards, European & American stock options, Bermudan swaptions, digital interest rate options, quanto interest rate options, digital stock options, composite stock options, Asian stock options, barrier stock options, quanto digital FX options, FX Asian options, FX European barrier options, FX simple digital barrier options, FX touch rebates, inflation options, Bermudan cancellable IRS, CMS spread options, CMS interest rate caps/floors, (callable) range accruals, outperformance options, auto-callable options, lookback options	Option pricing model based on unobservable inputs (e.g., correlation)
	Illiquid credit-linked instruments	Collateralised debt obligations (notes)	Valuation model based on correlation of probability of default of underlying assets
	Private equity investments	Private equity and non-quoted participations	Based on the valuation guidelines of the European Private Equity & Venture Capital Association
	Illiquid bonds/asset backed securities	Illiquid (mortgage) bonds/asset backed securities that are indicatively priced by a single pricing provider in an inactive market	BVAL, third-party pricing (e.g., lead manager), where prices cannot be corroborated due to a lack of available/reliable alternative market data
	Debt instruments	KBC own issues (KBC IFIMA)	Discounted cashflow analysis and valuation of related derivatives based on unobservable inputs (indicative pricing by third parties for derivatives)

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

- In 2020, KBC transferred 155 million euros' worth of financial assets and liabilities out of level 1 and into level 2. It also reclassified approximately 256 million euros' worth of financial assets and liabilities from level 2 to level 1. Most of these reclassifications were carried out due to a change in the liquidity of government bonds and corporate bonds.
- In 2019, KBC transferred 98 million euros' worth of financial assets and liabilities out of level 1 and into level 2. It also reclassified approximately 764 million euros' worth of financial assets and liabilities from level 2 to level 1. Most of these reclassifications were carried out due to a change in the liquidity of government bonds and corporate bonds.

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

- In 2020, significant movements in financial assets and liabilities classified in level 3 of the fair value hierarchy included the following:
  - Financial assets held for trading: the fair value of derivatives fell by 244 million euros, due primarily to instruments that had reached maturity, only partly offset by new transactions. The fair value of debt instruments increased by 12 million euros on account of new acquisitions.
  - Financial assets measured at fair value through profit or loss (other than held for trading): the fair value of loans and advances increased by 169 million euros, primarily on account of new transactions, partly offset by changes in fair value.
  - Financial assets at fair value through OCI: the fair value of debt instruments increased by 104 million euros, due mainly to new positions and reclassifications into level 3.
  - Financial liabilities held for trading: the fair value of derivatives declined by 731 million euros, owing primarily to a combination of sales of existing positions, instruments that had reached maturity and changes in fair value, partly offset by new transactions. The fair value of issued debt instruments fell by 99 million euros, due mainly to debt instruments that had reached maturity.
  - Financial liabilities measured at fair value through profit or loss: the fair value of issued debt instruments declined by 732 million euros on account of a combination of repurchases of existing positions, settlement operations and changes in fair value, partly offset by new issues.
- In 2019, significant movements in financial assets and liabilities classified in level 3 of the fair value hierarchy included the following:
  - Financial assets held for trading: the fair value of derivatives rose by 280 million euros, due primarily to changes in fair value and new transactions, partly offset by instruments that had reached maturity. The fair value of debt instruments fell by 77 million euros, owing primarily to sales.
  - Financial assets measured at fair value through profit or loss (other than held for trading): the fair value of loans and advances increased by 133 million euros, primarily on account of new transactions, partly offset by instruments that had reached maturity. The fair value of equity instruments rose by 30 million euros, primarily as a result of new positions.
  - Financial assets at fair value through OCI: the fair value of debt instruments rose by 22 million euros, due primarily to new positions, partly offset by instruments that had reached maturity and sales.
  - Financial liabilities held for trading: the fair value of derivatives increased by 468 million euros, mainly attributable to changes in fair value and new transactions, partly offset by instruments that had reached maturity.
  - Financial liabilities measured at fair value through profit or loss: the fair value of debt instruments increased by 660 million euros, primarily on account of new issues and changes in fair value.
- Some level 3 assets are associated or economically hedged with identical level 3 liabilities, which means that KBC's exposure to unobservable inputs is lower than would appear from the gross figures. Most of the level 3 instruments are valued using third-party pricing sources, with KBC not developing any unobservable inputs itself. Consequently, KBC does not disclose specific quantitative information or sensitivity analyses regarding (changes in) unobservable inputs.

Note 4.8: Derivatives

Note 4.8.1: Trading derivatives

(in millions of EUR)				31-12-2020				31-12-2019
	Carrying value		Notional amounts*		Carrying value		Notional amounts*	
	Assets	Liabilities	Purchased	Sold	Assets	Liabilities	Purchased	Sold
Total	5 659	5 362	411 521	412 271	5 163	5 057	402 062	395 069
Interest rate contracts	3 294	2 766	247 118	246 488	3 112	2 814	220 072	211 790
of which interest rate swaps and futures	*2 817*	*2 578*	*233 286*	*238 347*	*2 607*	*2 639*	*200 289*	*200 616*
of which options	*477*	*188*	*13 832*	*8 141*	*505*	*176*	*19 783*	*11 174*
Foreign exchange contracts	1 746	1 770	144 864	146 524	1 074	1 077	157 340	159 094
of which currency and interest rate swaps, forward foreign exchange transactions and futures	*1 641*	*1 701*	*141 140*	*141 379*	*1 028*	*1 037*	*153 642*	*153 488*
of which options	*105*	*69*	*3 725*	*5 145*	*46*	*39*	*3 698*	*5 606*
Equity contracts	600	807	19 158	18 883	968	1 158	24 283	23 821
of which equity swaps	*562*	*570*	*17 236*	*17 218*	*917*	*963*	*22 164*	*22 163*
of which options	*38*	*237*	*1 922*	*1 665*	*51*	*195*	*2 118*	*1 658*
Credit contracts	0	0	4	4	0	0	4	4
of which credit default swaps	*0*	*0*	*4*	*4*	*0*	*0*	*4*	*4*
Commodity and other contracts	20	19	377	373	9	8	364	360

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

Note 4.8.2: Hedging derivatives

31-12-2020

(in millions of EUR)	Hedging instrument					Hedged item				Impact on equity	
	Notional amounts[1]		Carrying value		Change in fair value of hedging items used as basis for recognising hedge ineffectiveness for the period[2]	Type	Carrying value		Change in fair value of hedged items used as basis for recognising hedge ineffectiveness for the period[2]	Ineffective portion recognised in profit or loss	Effective portion recognised in OCI
Hedging strategy	Purchased	Sold	Assets	Liabilities			Total (including fair value changes)	Of which accumulated fair value adjustments			
Fair value micro hedge											
Interest rate swaps	22 941	22 941	23	536	22	Debt securities held at AC	5 600	100	-83		
Currency and interest rate swaps	0	0	0	0	0	Loans and advances at AC	866	477	136		
						Debt securities held at FVOCI	2 873	121	7		
						Debt securities issued at AC	15 204	394	-92		
						Deposits at AC	114	-4	5		
Total	22 941	22 941	23	536	22	Total			-25	-5	-
Portfolio hedge of interest rate risk											
Interest rate swaps	61 964	61 964	68	94	-660	Debt securities held at AC	13	1	0		
Currency and interest rate options	2 385	0	6	0	-7	Loans and advances at AC	53 809	1 295	889		
						Debt securities held at FVOCI	14	1	-1		
						Debt securities issued at AC	0	0	0		
						Deposits at AC	9 594	96	-212		
Total	64 349	61 964	73	94	-667	Total			677	10	-
Cashflow hedge (micro hedge and portfolio hedge)											
Interest rate swaps	20 938	20 938	41	687	-29						
Currency and interest rate swaps	225	230	10	2	7						
Total	21 163	21 169	50	689	-22	Total			27	5	-1 430
Hedge of net investments in foreign operations											
Total	1 490	1 517	13	385[3]	84	Total			-84	0	132

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

31-12-2019

(in millions of EUR)	Notional amounts[1]		Carrying value		Hedging instrument: Change in fair value of hedging items used as basis for recognising hedge ineffectiveness for the period[2]	Type	Carrying value		Hedged item: Change in fair value of hedged items used as basis for recognising hedge ineffectiveness for the period[2]	Impact on equity: Ineffective portion recognised in profit or loss	Impact on equity: Effective portion recognised in OCI
Hedging strategy	Purchased	Sold	Assets	Liabilities			Total (including fair value changes)	Of which accumulated fair value adjustments			
Fair value micro hedge											
Interest rate swaps	20 906	20 906	16	445	-5	Debt securities held at AC	4 561	197	34		
Currency and interest rate swaps	0	0	0	0	0	Loans and advances at AC	751	367	55		
						Debt securities held at FVOCI	3 370	115	17		
						Debt securities issued at AC	13 503	301	-105		
						Deposits at AC	192	4	-1		
Total	20 906	20 906	16	445	-5	Total			0	-6	-
Portfolio hedge of interest rate risk											
Interest rate swaps	42 730	42 730	67	70	-417	Debt securities held at AC	23	1	-7		
Currency and interest rate options	2 640	0	12	0	-26	Loans and advances at AC	35 487	463	445		
						Debt securities held at FVOCI	21	1	1		
						Debt securities issued at AC	0	0	0		
						Deposits at AC	7 551	-114	41		
Total	45 369	42 730	78	70	-443	Total			479	37	-
Cashflow hedge (micro hedge and portfolio hedge)											
Interest rate swaps	20 845	20 845	47	653	-154						
Currency and interest rate swaps	69	64	6	2	-2						
Total	20 914	20 909	53	655	-156	Total			153	-3	-1 406
Hedge of net investments in foreign operations											
Total	1 328	1 357	11	418[3]	114	Total			-114	0	37

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

- The Treasury departments of the various entities manage the interest rate risk. To prevent rate movements from having a negative impact, the maturities of assets and liabilities are adjusted on the balance sheet using interest rate swaps and other derivatives.
- As regards the relationship between risk management and hedge accounting policy, 'economic' management takes priority and risks are hedged in accordance with the general ALM framework. Only then is a decision made on which, if any, of these techniques will be used to limit any resulting accounting mismatch.
- The balances remaining in the cashflow hedge reserve from any hedging relationships for which hedge accounting is no longer applied came to -290 million euros. The accumulated amount of fair value hedge adjustments remaining on the balance sheet for any hedged items that have ceased to be adjusted for hedging gains and losses amounted to -98 million euros. These adjustments are amortised to profit or loss.
- Also see the paragraph on hedge accounting in the 'How do we manage our risks?' section and Note 3.3.

Estimated cashflows from cashflow hedging derivatives per time bucket (in millions of EUR)	Inflow	Outflow
Not more than three months	9	-9
More than three but not more than six months	20	-42
More than six months but not more than one year	73	-95
More than one but not more than two years	128	-280
More than two but not more than five years	290	-707
More than five years	139	-1 204

5.0 Notes on other balance sheet items

Note 5.1: Other assets

(in millions of EUR)	31-12-2020	31-12-2019
Total	1 361	1 474
Debtors arising out of direct insurance operations	381	398
Debtors arising out of reinsurance operations	32	29
Deposits with ceding companies	11	12
Income receivable (other than interest income from financial assets)	41	46
Other	896	988

Note 5.2: Tax assets and tax liabilities

(in millions of EUR)	31-12-2020	31-12-2019
CURRENT TAXES		
Current tax assets	125	96
Current tax liabilities	79	98
DEFERRED TAXES	1 080	959
Deferred tax assets by type of temporary difference	1 790	1 670
Employee benefits	165	150
Losses carried forward	398	504
Tangible and intangible fixed assets	100	85
Provisions for risks and charges	8	8
Impairment for losses on loans and advances	343	207
Financial instruments at fair value through profit or loss and fair value hedges	158	135
Fair value changes, available-for-sale assets, financial instruments at FVOCI, cashflow hedges and hedges of net investments in foreign operations	506	509
Technical provisions	2	3
Other	109	70
Deferred tax liabilities by type of temporary difference	710	710
Employee benefits	36	34
Losses carried forward	0	0
Tangible and intangible fixed assets	49	43
Provisions for risks and charges	9	8
Impairment for losses on loans and advances	4	4
Financial instruments at fair value through profit or loss and fair value hedges	85	141
Fair value changes, available-for-sale assets, financial instruments at FVOCI, cashflow hedges and hedges of net investments in foreign operations	395	357
Technical provisions	95	88
Other	37	34
Recognised as a net amount in the balance sheet as follows:		
Deferred tax assets	1 499	1 337
Deferred tax liabilities	419	378
Unused tax losses and unused tax credits	127	131

- Deferred tax assets are recognised to the extent that it is probable that, on the basis of realistic financial projections, taxable profit will be available against which the deductible temporary differences can be utilised in the foreseeable future (limited to a period of eight to ten years).
- Unused tax losses and unused tax credits concern tax losses of group companies which are not capitalised due to insufficient proof of future taxable profit. Most tax losses and tax credits can be carried forward for 20 years or more.
- The net change in deferred taxes (+121 million euros in 2020) breaks down as follows:
  - Higher deferred tax assets (+120 million euros), which was accounted for chiefly by an increase in deferred tax assets via the income statement (+125 million euros due primarily to the increase in deferred tax assets on impairment for losses on loans and advances (triggered by the recognition of collective coronavirus-related ECL)). Deferred tax assets also increased under 'Other' in the table mainly on account of KBC Credit Investments NV's bond portfolio at amortised cost being transferred to KBC Bank NV. These increases were partly offset by the decrease in deferred tax assets due to losses being carried forward.
  - The same level of deferred tax liabilities as in 2019.
- The deferred tax assets presented in the balance sheet are attributable primarily to KBC Bank.
- For more information about the second phase of the reduction in Belgian corporation tax in 2020, see Note 3.12.
- As a result of a change in the accounting policy for intangible assets in 2020, 'Deferred tax assets' and 'Deferred tax liabilities' were restated retroactively (see Note 1.1).

Note 5.3: Investments in associated companies and joint ventures

(in millions of EUR)	31-12-2020	31-12-2019
Total	24	25
Overview of investments, including goodwill		
Mall Pay	5	3
Isabel NV	9	8
Joyn International NV	-6	-6
Bancontact Payconiq Company NV	5	5
Payconiq International SA	10	13
Other	2	2
Goodwill on associated companies and joint ventures		
Gross amount	0	0
Accumulated impairment	0	0
Breakdown by type		
Unlisted	24	25
Listed	0	0
Fair value of investments in listed associated companies and joint ventures	0	0

- Associated companies are companies on whose management KBC exerts significant influence, without having direct or indirect full or joint control. In general, KBC has a 20% to 50% shareholding in such companies. Joint ventures are companies over which KBC exercises joint control.
- Goodwill paid on associated companies and joint ventures is included in the nominal value of 'Investments in associated companies and joint ventures' shown on the balance sheet. An impairment test is performed and, if required, the necessary impairment losses on goodwill recognised (see table).

Note 5.4: Property and equipment and investment property

(in millions of EUR)	31-12-2020	31-12-2019
Property and equipment	3 136	3 247
Investment property	555	570
Rental income	53	55
Direct operating expenses from investments generating rental income	14	15
Direct operating expenses from investments not generating rental income	3	3

MOVEMENTS TABLE	Land and buildings	IT equipment	Other equipment	Total property and equipment	Investment property
2020					
Opening balance	1 590	146	1 512	3 247	570
Acquisitions	159	64	415	638	86
Disposals	-42	-5	-240	-287	-53
Depreciation	-116	-63	-25	-204	-47
Other movements	-30	-3	-226	-259	-2
Closing balance	1 561	138	1 437	3 136	555
accumulated depreciation and impairment	*1 404*	*517*	*791*	*2 712*	*396*
Fair value 31-12-2020	–	–	–	–	873
2019					
Opening balance	1 245	113	1 380	2 737	561
Acquisitions	215	87	600	902	45
Disposals	-98	-2	-234	-334	-49
Depreciation	-108	-57	-31	-196	-43
Other movements	336	5	-203	138	57
Closing balance	1 590	146	1 512	3 247	570
accumulated depreciation and impairment	*1 396*	*494*	*766*	*2 656*	*401*
Fair value 31-12-2019	–	–	–	–	838

* Also includes the impact of the first-time adoption of IFRS 16 (334 million euros).

- Annual rates of depreciation: mainly 3% for buildings (including investment property), 33% for IT equipment, between 5% and 33% for other equipment. No depreciation is charged for land.
- There was a small amount (around 0.1 billion euros) for commitments for the acquisition of property and equipment. There are no material restrictions on title, or on property and equipment pledged as security for liabilities.
- Most investment property is valued by an independent expert on a regular basis and by in-house specialists on an annual basis, based primarily on the capitalisation of the estimated rental value and on unit prices of similar real property. Account is taken of all the market inputs available on the date of the assessment (including location and market situation, type of building and construction, state of repair, use, etc.).
- Certain other investment property is valued annually by in-house specialists based on the current annual rental per building and expected rental movements and on an individual capitalisation rate per building.

Note 5.5: Goodwill and other intangible assets

(in millions of EUR)	Goodwill	Software developed in-house	Software developed externally	Other	Total
2020					
Opening balance	877	168	395	18	1 458
Acquisitions	0	258	98	9	365
Disposals	0	-15	-34	-1	-50
Amortisation	0	-33	-70	-2	-105
Other movements	-32	8	-88	-4	-116
Closing balance	845	386	301	20	1 551
accumulated amortisation and impairment	*248*	*737*	*767*	*45*	*1 797*
2019					
Opening balance	719	289	295	27	1 330
Change in accounting policies	0	-181	-1	0	-182
Restated opening balance	719	108	294	27	1 148
Acquisitions	167	123	152	7	448
Disposals	0	0	-1	-5	-6
Amortisation	0	-76	-76	-2	-155
Other movements	-9	14	27	-9	23
Closing balance	877	168	395	18	1 458
accumulated amortisation and impairment	*248*	*734*	*844*	*40*	*1 867*

- Goodwill: includes the goodwill paid on companies included in the scope of consolidation and relating to the acquisition of activities. Goodwill paid on associated companies: included in the nominal value of 'Investments in associated companies' shown on the balance sheet.
- As a result of a change in the accounting policy for intangible assets in 2020, 'Goodwill and other intangible assets' was restated retroactively for 2019 (see Note 1.1).
- 'Other movements' in 2020 included a software impairment of 59 million euros (see Note 3.10).
- For goodwill in respect of recent acquisitions, see Note 6.6.
- Impairment testing: a test was carried out to establish whether impairment on goodwill had to be recognised (see table and Note 3.10). This impairment test is performed at least once a year. We also carry out a high level assessment on a quarterly basis to see whether there is an indication of impairment. In the test, each entity is regarded as a separate cash-generating unit. Each entity has a specific risk profile and it is rare to have different profiles within a single entity.
- Impairment on goodwill under IAS 36: recognised in profit or loss if the recoverable amount of an investment is lower than its carrying value. The recoverable amount is defined as the higher of the value in use (calculated based on discounted cashflow analysis) and the fair value (calculated based on multiple analysis, etc.) less costs to sell.
- The main group companies to which goodwill relates are listed in the table. All of these companies have been valued using the discounted cashflow method. The discounted cashflow method calculates the recoverable amount of an investment as the present value of all future free cashflows of the business. This method is based on long-term projections about the company's business and the resulting cashflows (i.e. projections for a number of years ahead and the residual value of the business at the end of the specific projection period). These long-term projections are the result of an assessment of past and present performances combined with external sources of information on future performances in the respective markets and the global macroeconomic environment. The terminal growth rate is determined using a long-term average market growth rate. The present value of these future cashflows is calculated using a compound discount rate which is based on the capital asset pricing model (CAPM). A risk-free rate, a market-risk premium (multiplied by an activity beta), and a country risk premium (to reflect the impact of the economic situation of the country where KBC is active) are also used in the calculation. KBC has developed two distinct discounted cashflow models, viz. a bank model and an insurance model. Free cashflows in both cases are the dividends that can be paid out to the company's shareholders, account taken of the minimum capital requirements.

Goodwill outstanding	31-12-2020	31-12-2019	Discount rates throughout the specific period of cashflow projections	
(in millions of EUR)			31-12-2020	31-12-2019
K&H Bank	190	209	13.6%-10.9%	14.0%-11.6%
ČSOB (Czech Republic)	238	246	12.4%-9.1%	12.1%-9.7%
ČMSS	162	167	12.5%-9.3%	11.9%-9.6%
United Bulgarian Bank	110	110	10.3%-9.7%	11.2%-10.7%
DZI Insurance	75	75	8.5%-7.3%	9.0%-8.3%
KBC Commercial Finance	21	21	9.2%-9.1%	10.0%-9.7%
Rest	49	49	–	–
Total	845	877	–	–

- The period to which the cashflow budgets and projections relate is 12 years in most cases. This longer period is used to take account of the expected convergence of the Central and Eastern European economies with their more mature counterparts. This significant assumption is used in the model to reflect the dynamism of the economies in Central and Eastern Europe.
- The growth rate used to extrapolate the cashflow projections after that period is equal to the expected long-term growth rate of gross domestic product. This rate depends on the country and varied between 1.2% and 1.7% in 2020 (between 1.2% and 1.7% in 2019).
- No sensitivity analysis was carried out for entities where the recoverable amount exceeded the carrying value to such a large extent that no reasonably possible change in the key assumptions would result in the recoverable amount being less than or equal to the carrying value. The table gives an indication for the other entities of the change in key assumptions that would lead to their recoverable amount equalling their carrying value.

Change in key assumptions[1]	Increase in discount rate[2]	Decrease in terminal growth rate[3]	Increase in targeted solvency ratio[4]	Decrease in annual net profit	Increase in annual impairment charges
United Bulgarian Bank	0.3%	–	0.5%	2%	7%
ČMSS	0.4%	–	–	7%	22%
K&H Bank	0.7%	–	1.2%	7%	23%
KBC Commercial Finance	3.0%	–	–	27%	81%

1 Needless to say account should be taken of the fact that a change in these assumptions could affect other assumptions used to calculate the recoverable amount.
2 Based on a parallel shift and absolute increase in the discount rate curve. Discount rates are in the 12.2%–12.1% bracket for KBC Commercial Finance, the 14.3%–11.6% bracket for K&H Bank, the 12.9%–9.7% bracket for ČMSS and the 11.5%–9.8% bracket for United Bulgarian Bank.
3 Not relevant as it would mean that the terminal growth rate will be negative.
4 Absolute increase in the tier-1 capital ratio (not relevant for KBC Commercial Finance and ČMSS).

Note 5.6: Technical provisions, insurance

(in millions of EUR)	Gross	Reinsurance	Gross	Reinsurance
Technical provisions	**31-12-2020**	**31-12-2020**	**31-12-2019**	**31-12-2019**
Total	18 718	145	18 560	121
Insurance contracts, Non-life	3 676	137	3 573	114
Provision for unearned premiums	758	2	741	2
Provision for claims outstanding	2 685	134	2 611	112
Provision for profit sharing & rebates	3	0	4	0
Other technical provisions	230	0	218	0
Insurance contracts, Life	8 315	8	7 969	6
Provision for unearned premiums	16	1	14	0
Life insurance provision	7 902	6	7 545	5
Provision for claims outstanding	189	2	188	1
Provision for profit sharing & rebates	22	0	24	0
Other technical provisions	187	0	198	0
Investment contracts with DPF, Life	6 727		7 019	0
Life insurance provision	6 671	0	6 953	0
Provision for claims outstanding	0	0	0	0
Provision for profit sharing & rebates and other	56	0	66	0
Movements table	**2020**	**2020**	**2019**	**2019**
Insurance contracts, Non-life				
Opening balance	3 573	114	3 390	115
Movements reflected in earned premiums (income statement)	28	0	53	0
Movements reflected in technical charges (income statement)	101	23	113	-1
Payments regarding claims of previous financial years	*-367*	*-9*	*-364*	*-35*
Provision for new claims	*492*	*17*	*570*	*22*
Surplus/shortfall of claims provision for previous financial years	*-56*	*11*	*-101*	*6*
Cost of profit sharing	*-1*	*0*	*0*	*0*
Other movements with an impact on results	*33*	*4*	*9*	*6*
Movements reflected in the balance sheet	-25	-1	16	0
Closing balance	3 676	137	3 573	114
Insurance contracts, Life				
Opening balance	7 969	6	7 628	5
Movements reflected in earned premiums (income statement)	2	0	1	0
Movements reflected in technical charges (income statement)	123	1	311	1
New business (net of risk premium and charges)	*648*	*0*	*661*	*0*
Payments (including funding of risk premium)	*-710*	*0*	*-583*	*0*
Accretion of interest	*176*	*1*	*167*	*1*
Cost of profit sharing	*9*	*0*	*11*	*0*
Provision for new claims and change in provision for claims outstanding	*-6*	*1*	*-3*	*0*
Fair value adjustments of unit-linked contracts (not unbundled)	*3*	*0*	*58*	*0*
Other movements with an impact on results	*3*	*0*	*1*	*0*
Movements reflected in the balance sheet	221	0	29	0
Closing balance	8 315	8	7 969	6
Investment contracts with DPF, Life				
Opening balance	7 019	0	7 305	0
Movements reflected in technical charges (income statement)	-70	0	-44	0
New business (net of risk premium and charges)	*306*	*0*	*396*	*0*
Payments (including funding of risk premium)	*-467*	*0*	*-561*	*0*
Accretion of interest	*93*	*0*	*119*	*0*
Cost of profit sharing	*2*	*0*	*7*	*0*
Provision for new claims and change in provision for claims outstanding	*-5*	*0*	*-6*	*0*
Fair value adjustments of unit-linked contracts (not unbundled)	*0*	*0*	*0*	*0*
Other movements with an impact on results	*0*	*0*	*0*	*0*
Movements reflected in the balance sheet	-222	0	-242	0
Closing balance	6 727	0	7 019	0

- We have reworked the table to facilitate reconciliation with Note 3.7.
- Technical provisions relate to insurance contracts and investment contracts with a discretionary participation feature (DPF).
- Liabilities under investment contracts without DPF are measured at fair value. These liabilities concern mainly unit-linked contracts, which are recognised under financial liabilities (see Note 4.1).
- Technical provisions for life insurance are calculated using various assumptions. Judgement is required when making these assumptions and the assumptions used are based on various internal and external sources of information. At present, IFRS 4 refers extensively to local accounting principles for the recognition of technical provisions. These provisions are generally calculated using the technical assumptions that were applicable at the inception of the insurance contract and are subject to liability adequacy tests. The key assumptions are:
  - mortality and morbidity rates, which are based on standard mortality tables and adapted where necessary to reflect the group's own experience;
  - expense assumptions, which are based on current expense levels and expense loadings;
  - the discount rate, which is generally equal to the technical interest rate, remains constant throughout the life of the policy, and in some cases is adjusted to take account of legal requirements and internal policy decisions.
  - It should be noted that assumptions may vary depending on the type of life insurance (e.g., conventional versus modern), the generation of contracts (mainly the time when the contract is entered into and the applicable terms and conditions) and the country (since we have insurance companies in five of our core markets), making it impossible to quantify these assumptions for the entire group. This is illustrated by the following two points: (i) The discount rate follows the historical market rate and since it concerns a life portfolio, most of which has existed for a long time and also has a long maturity, there are considerable differences within the portfolio. In Belgium alone, discount rates range from 4.75% for the oldest rates to 0.5% and lower for certain modern products. (ii) In terms of mortality risk, unisex mortality tables are used in Belgium, based on the standard 'MK/FK' mortality tables for products sold from 2012 on (before 2012, separate mortality tables were used for men and women). Corrections may still be made to these standard tables, with due consideration being given to the segmentation criteria of the relevant policies. As a result, the range of mortality tables used is extensive.
- Assumptions for the technical provisions for claims outstanding are based on past claims experience relating to claim numbers, claim payments and claims handling costs, and adjusted to take account of such factors as anticipated market experience, claims inflation and external factors such as court awards and legislation. The technical provision for claims outstanding is generally not discounted except when long-term obligations and/or annuities (industrial accidents, guaranteed income and hospitalisation insurance) are involved.
- In 2019, there were no major changes in assumptions leading to a significant change in the valuation of insurance assets and liabilities. This was also the case in 2020.
- Please note that, with effect from 2020, K&H Insurance no longer applies deposit accounting, as a result of which the technical provisions for insurance contracts have gone up by approximately by 250 million euros.

Note 5.7: Provisions for risks and charges

Note 5.7.1: Overview

(in millions of EUR)	31-12-2020	31-12-2019
Total provisions for risks and charges	209	227
Provisions for off-balance-sheet commitments and financial guarantees	143	138
Provisions for other risks and charges	66	90
Provisions for restructuring	*7*	*7*
Provisions for taxes and pending legal disputes	*32*	*56*
Other	*27*	*27*

Note 5.7.2: Details of off-balance-sheet commitments and financial guarantees

(in millions of EUR)	Subject to 12-month ECL	Subject to lifetime ECL	Subject to lifetime ECL – non-performing	Total
31-12-2020				
Provisions on 01-01-2020	13	17	107	138
Movements with an impact on results				
Transfer of financial assets				
Stage 1 (12-month ECL)	*-1*	*3*	*4*	*6*
Stage 2 (lifetime ECL)	*1*	*-3*	*8*	*6*
Stage 3 'non-performing' (lifetime ECL)	*0*	*1*	*-1*	*-1*
New financial assets	5	0	0	5
Changes in risk parameters during the reporting period	8	-2	-5	1
Changes in the model or methodology	0	0	0	0
Derecognised financial assets	-1	0	-2	-2
Other	0	0	0	0
Movements without an impact on results				
Derecognised financial assets	0	0	-13	-13
Changes in the scope of consolidation	1	0	0	2
Transfers under IFRS 5	0	0	0	0
Other	0	0	1	1
Provisions on 31-12-2020	26	17	99	143
31-12-2019				
Provisions on 01-01-2019	12	17	99	129
Movements with an impact on results				
Transfer of financial assets				
Stage 1 (12-month ECL)	*0*	*4*	*0*	*4*
Stage 2 (lifetime ECL)	*0*	*-1*	*14*	*13*
Stage 3 'non-performing' (lifetime ECL)	*0*	*0*	*0*	*0*
New financial assets	4	1	1	6
Changes in risk parameters during the reporting period	-2	-3	7	2
Changes in the model or methodology	0	0	0	0
Derecognised financial assets	-2	0	-2	-4
Other	0	0	0	0
Movements without an impact on results				
Derecognised financial assets	0	0	-8	-8
Changes in the scope of consolidation	0	0	0	1
Transfers under IFRS 5	0	0	0	0
Other	0	-1	-4	-4
Provisions on 31-12-2019	13	17	107	138

- Also see Note 6.1.

Note 5.7.3: Details of provisions for other risks and charges

(in millions of EUR)	Provisions for restructuring	Provisions for taxes and pending legal disputes	Other	Total
2020				
Opening balance	7	56	27	90
Movements with an impact on results				
Amounts allocated	*5*	*17*	*9*	*31*
Amounts used	*-4*	*-30*	*-6*	*-41*
Unused amounts reversed	*0*	*-11*	*-2*	*-13*
Transfers out of/into liabilities associated with disposal groups	0	0	0	0
Changes in the scope of consolidation	0	3	0	3
Other	0	-3	-1	-4
Closing balance	7	32	27	66
2019				
Opening balance	6	50	50	106
Movements with an impact on results				
Amounts allocated	*5*	*28*	*7*	*41*
Amounts used	*-3*	*-19*	*-4*	*-26*
Unused amounts reversed	*-2*	*-3*	*-4*	*-10*
Transfers out of/into liabilities associated with disposal groups	0	0	0	0
Changes in the scope of consolidation	0	0	0	1
Other	0	0	-22	-22
Closing balance	7	56	27	90

- For most of the provisions recorded, no reasonable estimate can be made of when they will be used.
- Other provisions included those set aside for miscellaneous risks.
- Information relating to the main legal disputes pending: claims filed against KBC group companies are – in keeping with IFRS rules – treated on the basis of an assessment of whether they will lead to an outflow of resources (i.e. 'probable outflow', 'possible outflow' or 'remotely probable outflow'). Provisions are set aside for 'probable outflow' cases (see 'Notes on the accounting policies'). No provisions are constituted for 'possible outflow' cases, but information is provided in the financial statements if such cases might have a material impact on the balance sheet (i.e. when the claim could lead to a possible outflow of more than 50 million euros). All other claims ('remotely probable outflow'), of whatever magnitude, that represent a minor or no risk at all do not have to be reported. The most important cases are listed below. The information provided is limited in order not to prejudice the position of the group in ongoing litigation.
- Possible outflow: On 6 October 2011, Irving H. Picard, trustee (the 'Trustee') for the liquidation of Bernard L. Madoff Investments Securities LLC (& Bernard L. Madoff), sued KBC Investments Ltd (a full subsidiary of KBC Bank) before the bankruptcy court in New York to claw back approximately 110 million US dollars' worth of transfers made to KBC entities by Madoff (through a feeder fund that KBC had lent to Harley International). This claim is one of a whole set made by the Trustee against several banks, hedge funds, feeder funds and investors (all defendants referred to below as the 'joint defence group'). A protracted lawsuit has been conducted based on procedural remedies relating to the applicability of the Bankruptcy Code's 'safe harbor' and 'good defenses' rules to subsequent transferees (as is the case for KBC Investments Ltd), as detailed in previous disclosures. In June 2015, the Trustee amended the original claim, with the sum sought being increased to 196 million US dollars. A court ruling dismissing the Trustee's claim was issued on 3 March 2017. The Trustee appealed and on 28 February 2019 the Court of Appeals for the Second Circuit reversed the dismissal. A *certiorari* petition filed on 30 August 2019 was dismissed by the US Supreme Court on 2 June 2020. As a result, the merits of the case will be heard by the bankruptcy court. KBC still believes there is a strong basis for dismissal of the claim against it, as there are a number of other defences that can be raised together with the joint defence group. The proceedings could take several more years.

Note 5.8: Other liabilities

(in millions of EUR)	31-12-2020	31-12-2019
Total	2 908	2 827
Retirement benefit obligations or other employee benefits	535	470
Deposits from reinsurers	78	71
Accrued charges (other than from interest expenses on financial liabilities)	384	327
Other	1 911	1 959

- For more information on retirement benefit obligations, see Note 5.9 (note that the amount recognised under 'Retirement benefit obligations or other employee benefits' in Note 5.8 relates to a broader scope than the amounts presented in Note 5.9).

Note 5.9: Retirement benefit obligations

(in millions of EUR)	31-12-2020	31-12-2019
DEFINED BENEFIT PLANS		
Reconciliation of defined benefit obligations		
Defined benefit obligations at the beginning of the period	3 212	2 945
Current service cost	127	119
Interest cost	23	43
Actuarial gain or loss resulting from changes in demographic assumptions	-4	1
Actuarial gain or loss resulting from changes in financial assumptions	257	249
Experience adjustments	-125	-43
Benefits paid	0	0
Other	-103	-102
Defined benefit obligations at the end of the period	3 387	3 212
Reconciliation of the fair value of plan assets		
Fair value of plan assets at the beginning of the period	2 791	2 369
Actual return on plan assets	56	404
Expected interest income on plan assets, calculated based on market yields on high quality corporate bonds	*20*	*35*
Employer contributions	90	90
Plan participant contributions	19	19
Benefits paid	-99	-95
Other	-7	4
Fair value of plan assets at the end of the period	2 849	2 791
of which financial instruments issued by the group	*16*	*29*
of which property occupied by KBC	*8*	*7*
Funded status		
Plan assets in excess of defined benefit obligations	-537	-421
Reimbursement rights	0	0
Asset ceiling limit	0	-36
Unfunded accrued/prepaid pension cost	-537	-457
Movement in net liabilities or net assets		
Unfunded accrued/prepaid pension cost at the beginning of the period	-457	-598
Amounts recognised in the income statement	-111	-108
Amounts recognised in other comprehensive income	-57	157
Employer contributions	90	90
Other	-1	1
Unfunded accrued/prepaid pension cost at the end of the period	-537	-457
Amounts recognised in the income statement	-111	-108
Current service cost	-127	-119
Interest cost	-3	-8
Plan participant contributions	19	19
Other	0	0
Changes to the amounts recognised in other comprehensive income	-57	157
Actuarial gain or loss resulting from changes in demographic assumptions	4	-1
Actuarial gain or loss resulting from changes in financial assumptions	-257	-249
Actuarial result on plan assets	37	369
Experience adjustments	125	43
Adjustments to asset ceiling limits	36	-15
Other	-3	10
DEFINED CONTRIBUTION PLANS		
Expenses for defined contribution plans	-8	-18

- Retirement benefits that are actively accrued for the Belgium-based staff of KBC Bank, KBC Insurance and most of their Belgian subsidiaries are accrued exclusively through the KBC pension fund. Up until year-end 2018, employer-funded retirement benefits had accrued primarily through a defined benefit plan, where the benefit is calculated based on the final salary of employees before they retire, the number of years they had been in the plan and a formula that applies a progressive rate scale. A defined contribution plan was introduced on 1 January 2014 for all new employees and any employees who had chosen to switch to it. In this plan, a contribution is deposited based on the current monthly salary and the amounts deposited are paid out together with the (guaranteed) return on retirement. Both types of pension plan are managed by the KBC pension fund, which uses the services of KBC Asset Management for the investment strategy. In addition, there are a number of smaller, closed group insurance schemes from the past that will continue to be funded and are managed by the KBC pension fund. On 1 January 2019, a new defined contribution plan was introduced to replace the one introduced in 2014. All employees were again given the one-time option of switching from the defined benefit plan to the new defined contribution plan. At year-end 2020, 59% of employees were active participants in the defined benefit plan and 41% in the defined contribution plan. The corresponding figures at year-end 2019 were 61% and 39%.
- Since 1 January 2020, the insurance risks related to death and disability (for active pension fund participants and supplementary to the pension plan) have been fully reinsured through an external reinsurance programme. This had the following IFRS-related impact (in millions of euros):
  - Death: retirement benefit obligations: -95.5; staff expenses: -2.3
  - Disability: retirement benefit obligations: -9.9; staff expenses: -0.4
- There are no significant defined benefit plans in the group's other core countries.

Additional information on retirement benefit obligations (in millions of EUR)	2020	2019	2018	2017	2016
Changes in main headings in the main table					
Defined benefit obligations	3 387	3 212	2 945	2 861	2 851
Fair value of plan assets	2 849	2 791	2 369	2 433	2 336
Unfunded accrued/prepaid pension cost	-537	-457	-598	-466	-543
Impact of changes in the assumptions used in the actuarial calculation of plan assets and retirement benefit obligations					
Impact on plan assets	0	0	0	0	0
Impact on retirement benefit obligations*	253	250	-35	-4	-147

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

Additional information on retirement benefit obligations – DEFINED BENEFIT PLANS	KBC pension fund
Composition (31-12-2020)	
Equity instruments	39%
Bonds	48%
Real estate	12%
Cash	1%
Investment funds	0%
of which illiquid assets	*10%*
Composition (31-12-2019)	
Equity instruments	40%
Bonds	46%
Real estate	11%
Cash	3%
Investment funds	0%
of which illiquid assets	*9%*
Contributions expected in 2021 (in millions of EUR)	48
Regulatory framework	Pension plans are registered in collective labour agreements and incorporated into a set of regulations. Annual reporting of funding levels to supervisory authorities (FSMA/NBB). Any underfunding must be reported immediately to the supervisory authorities.
Risks for KBC	Investment risk and inflation risk.
ALM policy	The hedging portfolio hedges against interest rate risk and inflation risk using interest rate swaps. The return portfolio aims to generate an extra return.
Plan amendments	A new version of the employer-funded defined contribution plan was introduced on 1 January 2019. All employees who had been signed up to the defined benefit plan were given the one-time option of switching to this new plan.

Curtailments and settlements	Not applicable.
Discounting method	Based on BVAL quotes for various time buckets of AA-rated corporate bonds. The resulting yield curve is converted into a zero coupon curve. The curve becomes flat for maturities of 22 years and longer.
Key actuarial assumptions	
Average discount rate	0.09%
Expected rate of salary increase	2.00%
Expected inflation rate	1.65%
Expected rate of increase in pensions	–
Weighted average duration of the obligations	12 years
Impact of changes in the assumptions used in the actuarial calculation of the retirement benefit obligations	
Increase in the retirement benefit obligations on 31-12-2020 consequent on:	
a decrease of 1% in the discount rate	13.88%
an increase of 1% in the expected inflation rate	10.98%
an increase that is 1% higher than the expected real increase in salary	14.29%
the age of retirement being 65 for all active employees	0.48%
an increase of one year in life expectancy	–
The impact of the following assumptions has not been calculated:	Decreasing mortality rates. Pension benefits are paid out in capital, so longevity risk is immaterial. Staff turnover rates: the expected rate is very low.

Additional information on retirement benefit obligations – DEFINED CONTRIBUTION PLANS	KBC pension fund
Contributions expected in 2021 (in millions of EUR)	35
Regulatory framework	Pursuant to the Belgian Supplementary Pensions Act, the employer must guarantee a minimum return of 1.75% on employee and employer contributions.
Risks for KBC	Investment risk.
Valuation	Retirement benefit obligations are measured on the basis of the accrued benefits on the reporting date, making a projection of these benefits (at the rate of interest guaranteed by law) until the expected age of retirement, and discounting the resulting benefits. KBC offers two types of defined contribution plan: one that is financed through employee contributions and one through employer contributions. The valuation of retirement benefit obligations for the employer-funded defined contribution plan takes account of future contributions. However, it is not taken into account for the valuation of the employee-funded defined contribution plan, because the employer's obligation for that plan only relates to the minimum guaranteed interest rate.
Discounting method	Based on BVAL quotes for various time buckets of AA-rated corporate bonds. The resulting yield curve is converted into a zero coupon curve. The curve becomes flat for maturities of 22 years and longer.
Key actuarial assumptions	
Average discount rate	0.30%
Weighted average duration of the obligations	20 years
Impact of changes in the assumptions used in the actuarial calculation of the retirement benefit obligations	
Increase in the retirement benefit obligations on 31-12-2020 consequent on:	
a decrease of 1% in the discount rate	21.93%
the age of retirement being 65 for all active employees	0.05%

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

Quantities	31-12-2020	31-12-2019
Ordinary shares	416 694 558	416 394 642
of which ordinary shares that entitle the holder to a dividend payment	416 694 558	416 394 642
of which treasury shares	20 795	38 607
Additional information		
Par value per share (in EUR)	3.51	3.51
Number of shares issued but not fully paid up	0	0

- Ordinary shares: ordinary shares of no nominal value. All ordinary shares carry voting rights and each share represents one vote. No participation certificates or non-voting shares have been issued. The shares are listed solely on Euronext Brussels.
- Capital increases: the number of KBC Group NV shares went up by 299 916 in December 2020 and by 238 966 in December 2019, due to new shares being issued following the capital increases reserved for staff. For more information, see the 'Company annual accounts and additional information' section.
- Share buybacks: there were no buyback programmes in 2020 and 2019.
- Treasury shares: at year-end 2020, KBC group companies held 20 795 KBC shares in portfolio, 20 793 of which were registered with KBC Bank (London branch) to hedge outstanding derivatives on indices/baskets that include KBC Group shares.
- For information on the authorisation to increase capital and to repurchase own shares, see the 'Company annual accounts and additional information' section.
- Additional tier-1 (AT1) instruments (these securities are classified as equity instruments under IAS 32 and the coupon is treated as a dividend):
  - In April 2018, KBC issued 1 billion euros in AT1 securities (a perpetual AT1 instrument with a seven year first-call date and a temporary write-down trigger should the common equity ratio fall below 5.125% and an initial coupon of 4.25% per annum, which is payable every six months).
  - In February 2019, KBC issued 500 million euros in AT1 securities (a perpetual AT1 instrument with a five year first-call date and a temporary write-down trigger should the common equity ratio fall below 5.125% and an initial coupon of 4.75% per annum, which is payable every six months).

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

- At year-end 2019, NLB Vita fell under the scope of IFRS 5 and was, therefore, presented in the balance sheet under 'Non-current assets held for sale and disposal groups'. The sale was completed at the end of May 2020.

6.0 Other notes

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

(in millions of EUR)			31-12-2020			31-12-2019
	Nominal amount	Provision	Net exposure	Nominal amount	Provision	Net exposure
Undrawn portion of credit lines granted						
Stage 1	36 030	22	36 008	34 937	11	34 927
Stage 2	4 034	11	4 024	3 070	7	3 062
Stage 3	40	9	31	115	3	112
Total	40 105	42	40 063	38 122	21	38 101
of which irrevocable credit lines	*23 539*	*18*	*23 521*	*22 978*	*12*	*22 966*
Financial guarantees given						
Stage 1	7 764	4	7 761	8 432	3	8 430
Stage 2	1 703	6	1 697	1 668	10	1 658
Stage 3	169	90	79	192	104	88
Total	9 636	100	9 536	10 292	116	10 175
Other commitments given						
Total	423	1	422	370	0	370
Total						
Off-balance-sheet commitments and financial guarantees	50 163	143	50 021	48 784	138	48 646

- Fair value of financial guarantees: based on the available market value.
- The carrying value of financial assets pledged by KBC as collateral came to 61 438 million euros for liabilities and 4 192 million euros for contingent liabilities (44 756 million euros and 3 301 million euros, respectively, in 2019). At year-end 2020, some 17.4 billion euros' worth of residential mortgage loans and cash collections were entered in the cover asset register for the special estate of the covered bond programme (10.9 billion euros at year-end 2019).
- There is an obligation to return collateral received (which may be sold or repledged in the absence of default by the owner; see table) in its original form, or possibly in cash. Collateral can be called in if loans are terminated for various reasons such as default or bankruptcy. In the event of bankruptcy, the collateral will be sold by the receiver. In other cases, the bank will organise the foreclosure itself or take possession of the collateral. Collateral received that relates to OTC derivatives is primarily cash, which is recognised by KBC on the balance sheet (and is not included in the table). More details are provided in Note 4.3.
- Collateral acquired through foreclosure came to 0.01 billion euros in 2020 (0.02 billion euros in 2019).

Collateral received (which may be sold or repledged in the absence of default by the owner) (in millions of EUR)	Fair value of collateral received		Fair value of collateral sold or repledged	
	31-12-2020	31-12-2019	31-12-2020	31-12-2019
Financial assets	40 180	40 252	10 933	11 047
Equity instruments	8	10	2	1
Debt securities	39 975	40 006	10 931	11 046
Loans and advances	197	236	0	0
Cash	0	0	0	0
Other	0	0	0	0

Note 6.2: Leasing

(in millions of EUR)	31-12-2020	31-12-2019
Finance lease receivables		
Gross investment in finance leases, receivable	6 136	6 293
At not more than one year	*1 482*	*1 613*
At more than one but not more than five years	*3 350*	*3 422*
At more than five years	*1 304*	*1 257*
Unearned future finance income on finance leases	388	366
Net investment in finance leases	5 747	5 926
At not more than one year	*1 394*	*1 537*
At more than one but not more than five years	*3 148*	*3 240*
At more than five years	*1 206*	*1 150*
of which unguaranteed residual values accruing to the benefit of the lessor	40	46
Accumulated impairment for uncollectable lease payments receivable	55	44
Contingent rents recognised in the income statement	85	92
Operating lease receivables		
Future aggregate minimum rentals receivable under non-cancellable operating leases	496	511
Contingent rents recognised in the income statement	1	1

- KBC acts only to a limited extent as a lessee in operational and financial leasing.
- Finance leases: KBC offers finance lease products ranging from equipment and vehicle leasing to real estate leasing. In Belgium, finance leases are typically sold through KBC group's branch network, and that channel is becoming increasingly important in Central Europe, too.
- Operating leases: involve primarily full service car leases, which are sold through the KBC Bank and CBC Banque branch network and through an internal sales team. Full service car leasing activities are being further developed in Central Europe, too.

Note 6.3: Related-party transactions

Transactions with related parties, excluding key management (in millions of EUR)	2020 Sub-sidiaries	2020 Asso-ciated companies	2020 Joint ventures	2020 Other	2020 Total	2019 Sub-sidiaries	2019 Asso-ciated companies	2019 Joint ventures	2019 Other	2019 Total
Assets	173	98	37	20	328	148	122	43	17	330
Loans and advances	9	39	1	0	49	3	38	1	0	42
Equity instruments (including investments in associated companies and joint ventures)	164	58	32	0	254	145	83	36	0	264
Other	0	1	4	20	25	0	1	6	17	24
Liabilities	54	93	4	373	525	9	93	0	365	467
Deposits	53	18	4	351	426	8	14	0	356	378
Other financial liabilities	0	0	0	0	0	0	0	0	0	0
Other	1	75	0	23	99	1	80	0	9	90
Income statement	2	-3	0	2	2	5	-3	0	-3	-1
Net interest income	0	-1	0	0	0	0	-1	0	0	0
Interest income	0	1	0	0	1	0	1	0	0	1
Interest expense	0	-1	0	0	-1	0	-1	0	0	-1
Earned premiums, insurance (before reinsurance)	0	0	0	0	0	0	0	0	0	0
Technical insurance charges (before reinsurance)	0	0	0	0	0	0	0	0	0	0
Dividend income	5	3	0	1	9	1	1	0	0	2
Net fee and commission income	0	-1	0	2	2	2	-1	0	2	2
Fee and commission income	0	0	0	2	3	2	0	0	2	4
Fee and commission expense	0	-1	0	0	-1	0	- 2	0	0	-2
Other net income	-2	-1	0	1	-2	4	-1	0	-3	0
General administrative expenses	-2	-2	0	-2	-7	-1	-2	0	-2	-6
Undrawn portion of loan commitments, financial guarantees and other commitments										
Given by the group	0	0	18	111	129	0	0	0	74	74
Received by the group	0	0	0	0	0	0	0	0	0	0

Transactions with key management (members of the Board of Directors and Executive Committee of KBC Group NV) (in millions of EUR)*	2020	2019
Total*	12	12
Breakdown by type of remuneration		
Short-term employee benefits	10	10
Post-employment benefits	2	2
Defined benefit plans	*0*	*0*
Defined contribution plans	*2*	*2*
Other long-term employee benefits	0	0
Termination benefits	0	0
Share-based payments	0	0
Stock options (units)		
At the beginning of the period	0	0
Granted	0	0
Exercised	0	0
Composition-related changes	0	0
At the end of the period	0	0
Advances and loans granted to key management and partners	2	2

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

- The ‘Subsidiaries’ heading in the first table includes transactions with unconsolidated subsidiaries (transactions with consolidated subsidiaries have already been eliminated from the consolidated financial statements).
- The ‘Other’ heading in the first table includes KBC Ancora, Cera and MRBB.
- All related-party transactions occur at arm’s length.

- Key management comprises the members of the Board of Directors and Executive Committee of KBC Group NV. More detailed information on remuneration paid to key management staff is provided in the 'Corporate governance statement' section.
- There were no significant impairment charges vis-à-vis related parties.

Note 6.4: Statutory auditor's remuneration

Statutory auditor's remuneration (PwC, in EUR)	2020	2019
KBC Group NV and its subsidiaries		
Standard audit services	7 664 745	7 230 627
Other services		
Other certifications	686 322	844 403
Tax advice	0	0
Other non-audit assignments	9 079	63 270
KBC Group NV (alone)		
Standard audit services	254 709	252 134
Other services	99 899	184 236

Note 6.5: Subsidiaries, joint ventures and associated companies at year-end 2020

KBC Group: main companies included in the scope of consolidation at year-end 2020

Company	Registered office	Company number	Share of capital held at group level (in %)	Business unit*	Activity
KBC Bank (group)					
KBC Bank NV	Brussels – BE	0462.920.226	100.00	BEL/GRP	credit institution
CBC Banque SA	Namur – BE	0403.211.380	100.00	BEL	credit institution
Československá Obchodná Banka a.s.	Bratislava – SK	–	100.00	IMA	credit institution
Československá Obchodní Banka a.s.	Prague – CZ	–	100.00	CZR	credit institution
KBC Asset Management NV	Brussels – BE	0469.444.267	100.00	BEL	asset management
KBC Autolease NV	Leuven – BE	0422.562.385	100.00	BEL	leasing
KBC Bank Ireland Plc.	Dublin – IE	–	100.00	IMA	credit institution
KBC Commercial Finance NV	Brussels – BE	0403.278.488	100.00	BEL	factoring
KBC IFIMA SA	Luxembourg – LU	–	100.00	GRP	financing
KBC Securities NV	Brussels – BE	0437.060.521	100.00	BEL	stockbroker
K&H Bank Zrt.	Budapest – HU	–	100.00	IMA	credit institution
Loan Invest NV	Brussels – BE	0889.054.884	100.00	BEL	securitisation
OTP Banka Slovensko a.s.	Bratislava – SK	–	99.44	IMA	credit institution
United Bulgarian Bank AD	Sofia – BG	–	99.91	IMA	credit institution
KBC Insurance (group)					
KBC Insurance NV	Leuven – BE	0403.552.563	100.00	BEL/GRP	insurance company
ADD NV	Heverlee – BE	0406.080.305	100.00	BEL	insurance broker
KBC Group Re SA	Luxembourg – LU	–	100.00	GRP	reinsurance company
ČSOB Pojišťovna a.s.	Pardubice – CZ	–	100.00	CZR	insurance company
ČSOB Poisťovňa a.s.	Bratislava – SK	–	100.00	IMA	insurance company
DZI (group)	Sofia – BG	–	100.00	IMA	insurance company
Groep VAB NV	Zwijndrecht – BE	0456.920.676	100.00	BEL	driving school/roadside assistance
K&H Biztosító Zrt.	Budapest – HU	–	100.00	IMA	insurance company
KBC group					
KBC Group NV	Brussels – BE	0403.227.515	100.00	GRP	bank-insurance holding company
KBC Bank (group)	various locations	–	100.00	various	credit institution
KBC Insurance (group)	various locations	–	100.00	various	insurance company

* BEL = Belgium Business Unit, CZR = Czech Republic Business Unit, IMA = International Markets Business Unit, GRP = Group Centre.

- The KBC group's legal structure has one single entity – KBC Group NV – in control of two underlying companies, viz. KBC Bank NV and KBC Insurance NV, each of which has several subsidiaries and sub-subsidiaries. The main group companies are shown in the table. A complete list of group companies (included in or excluded from the scope of consolidation) is provided at www.kbc.com > About us > Our structure.
- Companies eligible for consolidation are effectively included in the consolidated accounts if two of the following criteria are met: (i) the group's share in equity exceeds 2.5 million euros (ii) the group's share in the results exceeds 1 million euros (iii) the balance sheet total exceeds 100 million euros. The combined balance sheet total of the companies excluded from consolidation may not amount to more than 1% of the consolidated balance sheet total.
- All (material) entities (including structured entities (SPVs)) over which the consolidating entity exercises, directly or indirectly, exclusive control are consolidated according the method of full consolidation. To assess whether or not structured entities have to be consolidated, KBC uses the principles set out in IFRS 10, as well as thresholds for inclusion in consolidation (see previous bullet point).
- Disclosures of interests in other entities (IFRS 12)
  - Significant judgements and assumptions
    - In general, funds managed by KBC are not included in the scope of consolidation, as they do not meet the three criteria of control (power, exposure to a variable return and ability to use such power to affect those returns).
    - Joint entities in which KBC does not hold 50% of the share capital are classified as joint ventures, since it has joint control over these entities based on shareholder agreements. Based on the Articles of Association and/or shareholder agreements, voting rights in (and therefore the control of) the joint venture are spread evenly across the different shareholders and decisions may only be taken by unanimity.
  - Interests in subsidiaries
    - For the vast majority of the entities, the voting rights are materially equal to the ownership rights.
    - Pursuant to the joint capital decision, specific pillar-II levels have been set to ensure that certain minimum capital ratios are respected, which impose certain restrictions on the repatriation of capital and distribution of dividends.
    - With regard to Loan Invest NV, KBC is exposed to loan losses on the mortgage portfolio and, therefore, recognises impairment losses on them where necessary.
  - Interests in unconsolidated structured entities
    - KBC Bank NV is arranger and dealer of a number of 40-billion-euro medium term notes programmes issued by 19 unconsolidated structured entities established in Ireland for that purpose. Their primary business is to raise money by issuing notes in order to buy financial assets (such as securities, bonds and deposits) and to enter into related derivative and other contracts. They provide investment opportunities for clients by providing economies of scale, a diversification of credit risk and a high level of granularity. Each structured entity has a prospectus that was approved by the Central Bank of Ireland (available at www.kbc.be/prospectus/spv). However, the structured entities are not consolidated because they fail to meet the three criteria for consolidation (power, exposure to a variable return and ability to use such power to affect those returns). At year-end 2020, the assets under management at these entities amounted to 9.1 billion euros.
    - Sponsored unconsolidated structured entities are defined as structured entities where KBC or one of its subsidiaries acts as arranger of the issuance programme, but where the decision-making power of the entities does not reside with KBC or one of its subsidiaries. As a result, these entities are not consolidated.
    - In 2020, KBC had received income from unconsolidated structured entities in the form of management fees (59 million euros), administrative agent fees (1 million euros) and accounting fees (1 million euros).
    - At year-end 2020, KBC held 4.4 billion euros' worth of notes issued by the unconsolidated structured entities. Its liabilities towards the unconsolidated structured entities amounted to 4.5 billion euros and comprised mainly term deposits (4.2 billion euros).
    - Any potential decrease in the value of the notes is passed on to the end-client, which means it will have no impact on KBC.
- At year-end 2020, no group companies were active in the extractive industry. As a result, no consolidated report on payments to governments has been prepared (see Art.3:8 § 1 of the Companies and Associations Code).

Note 6.6: Main changes in the scope of consolidation

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

- 2020: NLB Vita
  - At the end of 2019, Nova Ljubljanska banka and KBC Insurance NV signed an agreement to sell their respective stakes in the Slovenian 50/50 life insurance joint venture NLB Vita to Sava Re, meaning that KBC would completely withdraw from Slovenia, which is not one of its core markets. The deal was concluded at the end of May 2020 and had a negligible impact on our results.

- 2020: OTP Banka Slovensko
  - At the end of November 2020, we completed the acquisition of 99.44% of the shares in OTP Banka Slovensko for a total consideration of 64 million euros (the deal did not contain any contingent consideration arrangements). OTP Banka Slovensko operates on the Slovakian market as a universal bank. It has a share of nearly 2% in the market for deposits and loans and has close to 200 000 clients. This acquisition strengthens our market share in Slovakia, where we have been operating through ČSOB since 2002. We will be able to benefit from economies of scale and increase our visibility in this highly competitive market, which will benefit all our stakeholders.
  - The impact of the acquisition is included in the consolidated balance sheet figures in this report. The results of OTP Banka Slovensko will only be fully consolidated into each line of the income statement from 1 January 2021.
  - KBC did not include any goodwill or badwill in its consolidated financial statements at the end of 2020, because the consideration was virtually identical to OTP'S equity (taking into account specific, negative fair value adjustments that KBC had identified during the due diligence process). It should be noted that IFRS 3 (Business Combinations) allows the amount of goodwill to be adjusted during the 12-month measurement period starting from the acquisition date. The amount of goodwill is therefore temporary and subject to change (primarily fair value changes in the loan portfolio, which will continue to be screened over the next few months). Goodwill is not deductible for tax purposes.
  - The acquisition had only a limited impact on KBC's capital position (-0.2% on the common equity ratio).
  - The table below shows the fair value of the main assets and liabilities involved in the acquisition of OTP Banka Slovensko.

- 2021: NN's Bulgarian pension and life insurance businesses
  - In February 2021, we reached agreement with NN to acquire its Bulgarian pension and life insurance businesses for 78 million euros. The deal covered all the shares of NN Pension Insurance Company EAD (Bulgaria) and all the assets and liabilities of NN Insurance Co. Ltd. – Sofia Branch (Bulgaria). The acquisition will enable KBC to broaden its extensive bank-insurance offering to customers in Bulgaria with the addition of high-end pension fund products and to increase its share of the life insurance market, while also providing additional cross-selling opportunities for banking and non-life insurance products in a one-stop shop approach.
  - The deal is still subject to regulatory approval and is expected to be finalised in the course of 2021.
  - The impact of the deal on KBC's solid capital position will be immaterial.

Impact of recent acquisitions (in millions of EUR)	2020	2019
Company	OTP Banka Slovensko (Slovakia)	ČMSS (Czech Republic)
General information		
Percentage of shares bought or sold in the relevant year	99.44% (purchase)	45% (purchase)
Percentage of shares after deal	99,44%	100%
For business unit/segment	International Markets (Slovakia)	Czech Republic
Deal date (month and year)	November 2020	May 2019
Results of the relevant company/business recognised in the group result as from:	January 2021	June 2019
Purchase price or sale price	64	240
Cashflow for acquiring or selling companies less cash and cash equivalents acquired or sold	107	439
Amounts recognised for the purchased assets and liabilities (provisional fair value)		
Situation on:	31 December 2020	31 May 2019
Cash and cash balances with central banks	171	729
Financial assets	1 179	4 959
Amortised cost	*1 176*	*4 855*
Fair value through OCI	*2*	*103*
Hedging derivatives	*0*	*0*
Profit/loss on positions in portfolios hedged against interest rate risk	0	15
Tax assets	16	4
Property and equipment	*12*	*20*
Goodwill and other intangible assets	*0*	*39*
Other assets	*2*	*7*
Cash and cash equivalents (included in the above assets)	*171*	*729*
Financial liabilities	1 048	5 384
Amortised cost	*1 048*	*5 362*
Hedging derivatives	*0*	*22*
Tax liabilities	0	10
Provisions for risks and charges	5	1
Other liabilities	21	33
Cash and cash equivalents (included in the above liabilities)	*0*	*50*
Contribution to the consolidated income statement		
Period:	Only recognised in the results from 1 January 2021	Equity method applied for first five months of 2019 (55%) and fully consolidated for the rest of 2019
Net interest income	–	49
Dividend income	–	0
Net result from financial instruments at fair value through profit or loss	–	1
Net realised result from debt instruments at fair value through OCI	–	0
Net fee and commission income	–	15
Other net income	–	82
TOTAL INCOME	–	146
Operating expenses	–	-30
Impairment	–	-3
Of which: on financial assets at amortised cost and at fair value through OCI	–	*-3*
Share in results of associated companies and joint ventures	–	9
RESULT BEFORE TAX	–	121
Income tax expense	–	-6
RESULT AFTER TAX	–	116
attributable to minority interests	–	0
attributable to equity holders of the parent	–	116

Note 6.7: Risk management and capital adequacy

Capital management is a key management process relating to all decisions on the level and composition of our capital, both for banking and insurance. It covers all instruments that are positioned to absorb losses in going concern and/or gone concern situations. Capital management aims to achieve the best possible balance between regulatory requirements, investor expectations, rating agencies' views and management ambitions. Ultimate accountability for capital management lies with the Board of Directors.

Capital management entails a broad scope of activities covering strategic topics (such as defining policies, targets, etc.), frameworks and models (e.g., for regulatory capital, internal capital, cost of equity, measuring performance, etc.), planning and allocation (e.g., allocating capital to business, planning capital instrument issuances, forecasting capital ratios, etc.), implementation (e.g., dividends, capital transactions) and monitoring (including current solvency positions at various levels, compliance with group policies and regulatory requirements).

ICAAP (Internal Capital Adequacy Assessment Process) consists of numerous business and risk processes that together contribute to the aim of being adequately capitalised at all times in view of our risk profile and the quality of our risk management and control environment. In addition to the integrated approach at group level, KBC Insurance and its insurance and reinsurance subsidiaries conduct an Own Risk and Solvency Assessment (ORSA) on a regular basis, in accordance with Solvency II requirements.

We report the solvency of the group, the bank and the insurance company based on IFRS data and according to the rules imposed by the regulator.

- For the KBC group and KBC Bank, this implies that we calculate our solvency ratios based on CRR/CRD. KBC began applying the transitional provisions for IFRS 9 on 30 June 2020. KBC has received authorisation from the regulator to apply a risk weighting to the participation in KBC Insurance (Danish compromise method) at KBC group level. The KBC group and KBC Bank are subject to minimum solvency ratios. The common equity ratio's minimum regulatory requirement is 10.45% (fully loaded) at year-end 2020. This includes the pillar 1 minimum requirement (4.5%), the pillar 2 requirement (1.75% set by the ECB following its supervisory review and evaluation process) and the buffer requirements (4.2% set by the local competent authorities in KBC's core markets). At year-end 2020, the fully loaded common equity ratio came to 17.6% (see the 'How do we manage our capital?' section for more information).
- At year-end 2020, the transitional common equity ratio came to 18.1%, which represented a capital buffer of 7.5% relative to the transitional minimum requirement of 10.57%.
- The solvency of KBC Insurance is calculated on the basis of Solvency II (the minimum requirement is 100%). At year-end 2020, the Solvency II ratio came to 222%, more than double the minimum requirement of 100%.

Key solvency figures for the KBC group, KBC Bank and KBC Insurance (in millions of EUR)	KBC Group (consolidated) CRR/CRD		KBC Bank (consolidated) CRR/CRD		KBC Insurance (consolidated) Solvency II	
	31-12-2020 *Transitional*	31-12-2019 *Fully loaded*	31-12-2020 *Transitional*	31-12-2019 *Fully loaded*	31-12-2020	31-12-2019
Total regulatory capital, after profit appropriation	21 856	20 414	18 021	16 660	3 868	3 496
Tier-1 capital	19 941	18 489	16 078	14 704	3 368	2 996
Common equity	18 441	16 989	14 578	13 204	–	–
Parent shareholders' equity (after deconsolidating KBC Insurance for the KBC group)	18 688	17 790	14 567	15 043	*3 815*	*3 422*
Solvency adjustments	-247	-801	12	-1 840	*-447*	*-426*
Additional going concern capital[1]	1 500	1 500	1 500	1 500	–	–
Tier-2 capital[2]	1 914	1 925	1 942	1 957	500	500
Total weighted risk volume (RWA)[3]	101 843	99 071	92 635	89 838	–	–
Credit risks	*78 518*	*75 786*	*78 518*	*75 786*	–	–
Market risks	*2 716*	*2 713*	*2 716*	*2 713*	–	–
Operational risks	*11 401*	*11 340*	*11 401*	*11 340*	–	–
Insurance risks	*9 133*	*9 133*	–	–	–	–
Holding-company activities and elimination of intragroup transactions	*75*	*99*	–	–	–	–
Solvency capital requirement (insurance)	–	–	–	–	1 744	1 727
Common equity ratio (group, bank)	18.1%	17.1%	15.7%	14.7%	–	–
Solvency II ratio (insurance)	–	–	–	–	222%	202%

1 Includes perpetual subordinated loans with fully discretionary, non-cumulative interest payments. The securities also have a loss absorption mechanism (i.e. a temporary write-down trigger should the common equity tier-1 ratio fall below 5.125%). Also see Note 5.10.
2 Includes subordinated loans with a fixed maturity date where principal and interest payments cannot be cancelled in a going concern.
3 Supervision of the RWA internal models' compliance with the approval criteria as provided for in the standards imposed by the regulator does not come under the responsibility of the statutory auditor.

- More detailed information is provided in the ‘How do we manage our capital?’ section of this report and in KBC’s Risk Report.
- The loan portfolio accounts for the largest share of the financial assets. Based on internal management reports, the composition and quality of the loan portfolio is set out in detail in the ‘How do we manage our risks?’ section (under ‘Credit risk’). The information required in relation to risks (in accordance with IFRS 4 and IFRS 7) is provided in those parts of the ‘How do we manage our risks?’ section which have been audited by the statutory auditor and which constitute part of the financial statements.

Note 6.8: Post-balance-sheet events

Significant non-adjusting events between balance sheet date and the date on which the financial statements were approved for publication by the Board of Directors (18 March 2021):

- In February 2021, agreement was reached with NN to acquire its Bulgarian pension and life insurance businesses (see Note 6.6).

Note 6.9: General information on the company

- Name: KBC Group.
- Incorporated: 9 February 1935 as Kredietbank; the present name dates from 2 March 2005.
- Country of incorporation: Belgium.
- Registered office: Havenlaan 2, 1080 Brussels, Belgium.
- VAT: BE 0403.227.515.
- RLP: Brussels.
- Website: https://www.kbc.com
- E-mail address reserved for shareholders and bondholders: IR4U@kbc.be
- Legal form: *naamloze genoteerde vennootschap* (listed company with limited liability) under Belgian law. The company is a mixed financial holding company that is subject to the prudential supervision of the National Bank of Belgium and the European Central Bank.
- Life: undefined.
- Object: the company is a financial holding company, which has as its object the direct or indirect ownership and management of shareholdings in other companies, including but not restricted to credit institutions, insurance companies and other financial institutions. The company also has as object to provide support services for third parties, as mandatary or otherwise, in particular for companies in which the company has an interest – either directly or indirectly. The object of the company is also to acquire in the broadest sense of the word (including by means of purchase, hire and lease), to maintain and to operate resources, and to make these resources available in the broadest sense of the word (including through letting, and granting rights of use) to the beneficiaries referred to in the second sentence above. In addition, the company may function as an ‘intellectual property’ company responsible for, among other things, the development, acquisition, management, protection and maintenance of intellectual property rights, as well as for making these rights available and/or granting rights of use in respect of these rights to the beneficiaries referred to in the second sentence above. The company may also perform all commercial, financial and industrial transactions that may be useful or expedient for achieving its object and that are directly or indirectly related to this object. The company may also by means of subscription, contribution, participation or in any other form whatsoever participate in all companies, businesses or institutions that have a similar, related or complementary activity. In general, the company may, both in Belgium and abroad, perform all acts which may contribute to the achievement of its object (Article 2 of the Articles of Association, which are available at www.kbc.com).
- Documents open to public inspection: the Articles of Association of the company are open to public inspection at the Registry of the Dutch-speaking division of the Brussels Business Court and are published on www.kbc.com. The financial statements and annual report are filed with the National Bank of Belgium and are available at www.kbc.com. The annual report can also be obtained from the company’s registered office and will be sent to those requesting it. Extracts of minutes concerning decisions on the appointment and the termination of the offices of members of the Executive Committee and the Board of Directors are published in the appendices to the Belgian Official Gazette. Financial reports about the company are published in the financial press and/or on www.kbc.com. Convening notices of general meetings of shareholders are published in the Belgian Official Gazette, in at least one national newspaper, in the media and on www.kbc.com.
- For information on the general meeting of shareholders and the right of shareholders to take part in such meetings, see Article 23 *et seq.* of the Articles of Association, which are available at www.kbc.com.

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STATUTORY AUDITOR'S REPORT TO THE GENERAL SHAREHOLDERS' MEETING OF KBC GROUP NV ON THE CONSOLIDATED ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2020

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

We have been appointed as statutory auditor by the general meeting of 2 May 2019, following the proposal formulated by the board of directors and following the recommendation by the audit committee and the proposal formulated by the workers' council. Our mandate will expire on the date of the general meeting which will deliberate on the annual accounts for the year ended 31 December 2021. We have performed the statutory audit of the consolidated accounts of KBC Group NV for 5 consecutive years.

Report on the consolidated accounts

Unqualified opinion

We have performed the statutory audit of the Group's consolidated accounts, which comprise the consolidated balance sheet as at 31 December 2020, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cashflow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information, and which is characterised by a consolidated balance sheet total of EUR 320.743 million and a profit for the year (attributable to equity holders of the parent) of EUR 1.440 million.

In our opinion, the consolidated accounts give a true and fair view of the Group's net equity and consolidated financial position as at 31 December 2020, and of its consolidated income and its consolidated cashflows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium.

Basis for unqualified opinion

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

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

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

Key audit matters

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

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Estimation uncertainty with respect to financial instruments measured at fair value

Description of the Key Audit Matter

Details regarding the financial instruments measured at fair value at year-end 31 December 2020 are included in Note 4.5 to the consolidated accounts. For information regarding the determination of fair value we refer to Note 1.2. of the Summary of significant accounting policies and Note 4.4 to the consolidated accounts.

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

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

How our Audit addressed the Key Audit Matter

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

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

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

Estimation uncertainty with respect to impairment allowances for loans and advances

Description of the Key Audit Matter

The appropriateness of the impairment allowances for loans and advances at amortised cost requires significant judgment of management. Measuring impairment allowances for loans and advances under IFRS 9 requires an assessment of 12-month or lifetime expected credit losses and the assessment of significant increases in credit risk or whether loans and advances at amortised cost are in default.

The COVID-19 pandemic has limited the ability of the expected credit loss models to adequately reflect all the consequences of the resulting economic conditions and government measures, requiring the recognition of "overlays" in addition to the expected credit losses produced by the models.

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At year-end 31 December 2020 information regarding impairment allowances for loans and advances is included in Note 4.2 to the consolidated accounts, in application of the policies as described in Note 1.2. of the Summary of significant accounting policies.

Information concerning the impact of the COVID-19 pandemic on the expected credit losses is included in Note 1.4 to the consolidated accounts.

At year-end 31 December 2020 the gross loans and advances at amortised cost amount to EUR 196.900 million, the total impairment at that date amounts to EUR 3.695 million.

The assessment of significant increases in credit risk, the assessment of whether loans and advances at amortised cost are in default and the measurement of 12-month or lifetime expected credit losses are part of the estimation process of the Group and are, amongst others, based on macroeconomic scenarios, credit risk models, triggers indicating a significant increase in credit risk and default triggers, the financial condition of the counterparty and the expected future cash flows or the value of collateral.

The “overlays” recognised in addition to the expected credit losses produced by the models consider expert inputs, sector effects and a probability weighted scenario impact.

The use of different modelling techniques, scenarios and assumptions could lead to different estimates of impairment charges on loans and advances. As the loans and advances represent the majority of the Group’s balance sheet and given the related estimation uncertainty on impairment charges, we consider this as a key audit matter.

How our Audit addressed the Key Audit Matter

Our audit procedures included an assessment of the overall governance of the credit and impairment process of the Group, including the 12-month and lifetime expected loss modelling processes and the COVID-19 “overlay” approach. We have assessed and tested the design and operating effectiveness of the controls within the loan origination process, risk management process and the estimation process for determining impairment allowances. For loan impairment allowances determined on an individual basis we have performed, for a sample of corporate credit files, a detailed review of loans granted by the Group. We challenged the default triggers and the quantification including forecasts of future cash flows, valuation of underlying collateral and estimates of recovery on default. We found no material exceptions in these tests.

For the loan 12-month and lifetime expected credit loss impairment allowances, we challenged the significant increases in credit risk triggers and the macroeconomic scenarios and tested the underlying models including the Group’s model approval and validation process.

We also tested the mathematical accuracy of the calculations used to determine the “overlays” and assessed their reasonability.

Finally, we assessed the completeness and accuracy of the disclosures, including the disclosures concerning the COVID-19 “overlays” and whether the disclosures are in compliance with the International Financial Reporting Standards as adopted by the European Union.

In our view, the impairments estimated by management, including the COVID-19 “overlays”, are within a reasonable range of outcomes in view of the overall loans and advances and the related uncertainties as disclosed in the consolidated accounts.

<u>Estimation uncertainty with respect to technical insurance provisions</u>

Description of the Key Audit Matter

At year-end 31 December 2020 the technical insurance provisions (before reinsurance) amount to EUR 18.718 million. For detailed information regarding the valuation of the technical insurance provisions, please refer to disclosure Note 1.2. of the Summary of significant accounting policies on technical provisions and Note 5.6 to the consolidated accounts, as well as to the Technical insurance risk section of the Annual Report.

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A liability adequacy test is performed by the Group in order to confirm that the technical insurance provisions are sufficient to cover the estimated future cashflows of the insurance contracts. The calculation of the cashflows arising from insurance contracts is complex, highly judgmental and is based on assumptions which are affected by future economic and political conditions and is also affected by government regulations. The assumptions used for the life insurance business relate to risks regarding mortality, longevity, lapse and expense and other assumptions used in the liability adequacy test. The assumptions used for non-life insurance liabilities mainly relate to the amount of the claim, the number of incurred but not yet reported claims and general expenses. The assumptions and uncertainties also apply for the reinsured part.

How our Audit addressed the Key Audit Matter

We used our internal actuarial experts to assist us in performing our audit procedures. We performed procedures on the design and operating effectiveness of the Group's controls to ascertain that the data used in the valuation of the technical provisions arising from insurance contracts are adequate and complete. These procedures include data analysis based on business rules and follow-up procedures on exceptions.

We performed testing of the Group's procedures regarding the determination of the assumptions, testing of the assumptions based on market observable data and actuarial analysis through backtesting of the assumptions used. We discussed the outcome of the actuarial analysis with the internal actuaries and the actuarial function holder. Our procedures have allowed us to assess the valuation and the setting of the technical insurance provisions.

Finally, we assessed the completeness and accuracy of the disclosures regarding technical insurance provisions to assess compliance with disclosure requirements included in the International Financial Reporting Standards as adopted by the European Union.

Responsibilities of the board of directors for the preparation of the consolidated accounts

The board of directors is responsible for the preparation of consolidated accounts that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium, and for such internal control as the board of directors determines is necessary to enable the preparation of consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated accounts, the board of directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the board of directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Statutory auditor's responsibilities for the audit of the consolidated accounts

Our objectives are to obtain reasonable assurance about whether the consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated accounts.

In performing our audit, we comply with the legal, regulatory and normative framework applicable to the audit of the consolidated accounts in Belgium. A statutory audit does not provide any assurance as to the Group's future viability nor as to the efficiency or effectiveness of the board of directors' current or future business management at Group level. Our responsibilities in respect of the use of the going concern basis of accounting by the board of directors are described below.

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

- Identify and assess the risks of material misstatement of the consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors.
- Conclude on the appropriateness of the board of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our statutory auditor's report to the related disclosures in the consolidated accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our statutory auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated accounts, including the disclosures, and whether the consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the consolidated accounts of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements

Responsibilities of the board of directors

The board of directors is responsible for the preparation and the content of the directors' report on the consolidated accounts.

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Statutory auditor's responsibilities

In the context of our engagement and in accordance with the Belgian standard which is complementary to the International Standards on Auditing (ISAs) as applicable in Belgium, our responsibility is to verify, in all material respects, the directors' report on the consolidated accounts and to report on these matters.

Aspects related to the directors' report on the consolidated accounts

In our opinion, after having performed specific procedures in relation to the directors' report on the consolidated accounts, this directors' report is consistent with the consolidated accounts for the year under audit, and it is prepared in accordance with article 3:32 of the Companies' and Associations' Code.

In the context of our audit of the consolidated accounts, we are also responsible for considering, in particular based on the knowledge acquired resulting from the audit, whether the directors' report is materially misstated or contains information which is inadequately disclosed or otherwise misleading. In light of the procedures we have performed, there are no material misstatements we have to report to you.

The non-financial information required by virtue of article 3:32, §2 of the Companies' and Associations' Code is included in the directors' report on the consolidated accounts. The Company has prepared the non-financial information, based on Global Reporting Initiative (GRI) Standards. However, in accordance with article 3:80, §1, 5° of the Companies' and Associations' Code, we do not express an opinion as to whether the non-financial information has been prepared in accordance with the Global Reporting Initiative (GRI) Standards as disclosed in the directors' report on the consolidated accounts.

Statements related to independence

- Our registered audit firm and our network did not provide services which are incompatible with the statutory audit of the consolidated accounts, and our registered audit firm remained independent of the Group in the course of our mandate.
- The fees for additional services which are compatible with the statutory audit of the consolidated accounts referred to in article 3:65 of the Companies' and Associations' Code are correctly disclosed and itemized in the notes to the consolidated accounts.

Other statement

- This report is consistent with the additional report to the audit committee referred to in article 11 of the Regulation (EU) N° 537/2014.

Sint-Stevens-Woluwe, 23 March 2021

The statutory auditor
PwC Bedrijfsrevisoren BV
represented by

Roland Jeanquart

Roland Jeanquart
Accredited auditor

Tom Meuleman
Accredited auditor

Company annual accounts and additional information

3

The company annual accounts of KBC Group NV are presented here in abridged form. A full set of these accounts will be submitted for approval to the General Meeting of Shareholders of 6 May 2021.

The company annual accounts, the report of the Board of Directors and the statutory auditor's report are filed with the National Bank of Belgium. These documents are available free of charge from KBC Group NV, Investor Relations Office, IRO, Havenlaan 2, 1080 Brussels, Belgium. They can also be viewed at www.kbc.com.

The statutory auditor has delivered an unqualified audit opinion on the company annual accounts of KBC Group NV.

The company annual accounts have been prepared according to Belgian accounting standards (B-GAAP) and are, therefore, not comparable with the figures prepared in accordance with IFRS in the other sections of this report.

Company balance sheet, income statement and profit appropriation

Balance sheet after profit appropriation (B-GAAP)

(in millions of EUR)	31-12-2020	31-12-2019
Fixed assets	**27 208**	**25 563**
Intangible fixed assets	252	349
Property and equipment	105	109
Land and buildings	23	24
Plant, machinery and equipment	72	73
Furniture and vehicles	9	10
Other tangible fixed assets	1	1
Assets under construction and advance payments	1	1
Financial fixed assets	26 851	25 106
Affiliated companies	26 850	25 104
Participating interests	15 901	15 901
Amounts receivable	10 949	9 204
Other companies linked by participating interests	1	1
Participating interests	1	1
Amounts receivable	0	0
Current assets	**1 647**	**306**
Amounts receivable at more than one year	0	0
Stocks and contracts in progress	0	0
Amounts receivable within one year	199	29
Trade receivables	192	17
Other amounts receivable	7	12
Current investments	1 200	100
Own shares	0	0
Other investments	1 200	100
Cash at bank and in hand	80	15
Deferred charges and accrued income	168	161
Total assets	**28 856**	**25 869**
Equity	**17 492**	**16 409**
Capital	1 459	1 458
Issued capital	1 459	1 458
Share premium account	5 486	5 473
Reserves	1 286	1 286
Legal reserves	146	146
Reserves not available for distribution	1	1
Untaxed reserves	190	190
Reserves available for distribution	949	949
Profit (Loss (-)) carried forward	9 260	8 192
Provisions and deferred taxes	**8**	**10**
Provisions for liabilities and charges	8	10
Pensions and similar obligations	8	10
Other liabilities and charges	0	0
Amounts payable	**11 356**	**9 450**
Amounts payable at more than one year	10 198	9 203
Financial debt	10 198	9 203
Subordinated loans	3 680	3 678
Non-subordinated bonds	6 519	5 525
Credit institutions	0	0
Amounts payable within one year	1 047	144
Amounts payable at more than one year falling due within the year	750	0
Financial debt	0	0
Trade debt	13	43
Advance payments received on orders	0	0
Taxes, remuneration and social security charges	65	69
Income tax expense	5	12
Remuneration and social security charges	60	57
Other amounts payable	219	32
Accrued charges and deferred income	111	103
Total liabilities	**28 856**	**25 869**

Income statement (B-GAAP)

(in millions of EUR)	31-12-2020	31-12-2019
Operating income	1 163	1 009
Turnover	913	908
Increase (decrease (-)) in stocks of finished goods, work and contracts in progress	0	0
Own construction capitalised	79	82
Other operating income	19	20
Non-recurring operating income	152	0
Operating charges	1 174	1 028
Services and other goods	534	552
Remuneration, social security charges and pensions	361	364
Depreciation of and amounts written off formation expenses and intangible and tangible fixed assets	120	112
Provisions for liabilities and charges: amounts set aside (amounts reversed (-))	-2	-3
Other operating charges	2	1
Non-recurring operating charges	160	2
Operating profit (loss (-))	**-11**	**-19**
Financial income	1 466	3 608
Recurring financial income	1 466	1 495
Income from financial fixed assets	1 301	1 314
Income from current assets	5	4
Other financial income	160	178
Non-recurring financial income	0	2 113
Financial charges	163	174
Recurring financial charges	163	174
Debt charges	160	172
Amounts written down on current assets: increase (decrease (-))	0	0
Other financial charges	3	2
Non-recurring financial charges	0	0
Profit (Loss (-)) for the period, before tax	**1 293**	**3 415**
Transfers from deferred taxes	0	0
Transfers to deferred taxes	0	0
Income tax	30	4
Profit (Loss (-)) for the period	**1 263**	**3 411**
Profit (Loss (-)) for the period available for appropriation	**1 263**	**3 411**

Profit appropriation (B-GAAP)

(in millions of EUR)	31-12-2020	31-12-2019
Profit (Loss (-)) to be appropriated	**9 454**	**8 618**
Profit (Loss (-)) for the period available for appropriation	1 263	3 411
Profit (Loss (-)) carried forward from the previous period	8 192	5 207
Transfers to equity	**0**	**0**
To the legal reserves	0	0
To other reserves	0	0
Profit (Loss (-)) to be carried forward	**9 260**	**8 192**
Profit to be distributed	**194**	**426**
Dividends	183	416
Directors' entitlements	0	0
Employees/other allocations	10	10

We will propose to the General Meeting of Shareholders that the profit for appropriation for the 2020 financial year be distributed as shown in the table. If this proposal is approved, the total gross dividend per share entitled to dividend will amount to 0.44 euros and be paid in May 2021 (see also 'Our capital' in the 'Our employees, capital, network and relationships' section of the 'Report of the Board of Directors').

Notes to the company annual accounts

Note 1: Financial fixed assets (B-GAAP)

(in millions of EUR)	Participating interests in affiliated companies	Amounts receivable from affiliated companies	Participating interests in companies linked by participating interests	Amounts receivable from companies linked by participating interests
Carrying value at 31-12-2019	**15 901**	**9 204**	**1**	**0**
Acquisitions in 2020	0	1 751	0	0
Disposals in 2020	0	-6	0	0
Other changes in 2020	0	0	0	0
Carrying value at 31-12-2020	**15 901**	**10 949**	**1**	**0**

Participating interests in affiliated companies are mainly the shareholdings in KBC Bank NV and KBC Insurance NV.

The amounts receivable from affiliated companies related to loans to KBC Bank NV in the form of additional tier-1 capital (1.5 billion euros in total), tier-2 capital (1.7 billion euros), tier-3 capital (7.3 billion euros) and a subordinated perpetual loan of 0.5 billion euros to KBC Insurance NV. The main changes in 2020 concerned new loans to KBC Bank NV in the form of tier-3 capital (1.7 billion euros).

Note 2: Changes in equity (B-GAAP)

(in millions of EUR)	31-12-2019	Capital increase for staff	Appropriation of results	31-12-2020
Capital	1 458	1	-	1 459
Share premium account	5 473	13	-	5 486
Reserves	1 286	0	0	1 286
Profit (Loss) carried forward	8 192	0	1 068	9 260
Equity	**16 409**	**14**	**1 068**	**17 492**

At year-end 2020, the company's issued share capital amounted to 1 458 872 024.08 euros, represented by 416 694 558 shares of no nominal value, and the share premium account came to 5 486 075 016.42 euros. The share capital is fully paid up.

A capital increase under the authorisation to increase capital carried out on 18 December 2020 and reserved exclusively for employees of KBC Group NV and its Belgian subsidiaries resulted in 299 916 shares being issued at a price of 46.55 euros per share. These shares are blocked for two years, since the issue price was less than the closing price of the KBC share on 12 November 2020. As a result of this operation, capital was increased by 1 052 705.16 euros and the share premium account went up by 12 908 384.64 euros. By carrying out this capital increase, the group aims to strengthen ties with its staff and the staff of its Belgian subsidiaries. Given the limited extent of the capital increase, the financial ramifications for existing shareholders are minor. All of the shares issued in 2020 will also be entitled to dividend from the 2020 financial year.

The authorisation to increase capital may be exercised up to and including 23 October 2023 for an amount of 697 202 561.59 euros, with suspension of the preferential subscription rights of existing shareholders being restricted to a maximum of 288 202 561.59 euros. Based on an accounting par value of 3.51 euros a share, a maximum of 198 633 208 new KBC Group NV shares can therefore be issued, with the possibility to suspend the preferential subscription rights attached to a maximum of 82 108 991 of these shares.

Note 3: Shareholders

Notifications received: we received no notifications in 2020 pursuant to the Belgian Act of 2 May 2007 concerning the disclosure of significant participations. All notifications we receive are published on www.kbc.com.

The following table gives an overview of KBC shares held by KBC group companies at the end of the financial year. The average accounting par value of the KBC share came to 3.51 euros in 2020.

KBC shares held by KBC group companies	31 December 2020	31 December 2019
KBC Securities NV	2	2
KBC Bank NV	20 793*	38 605*
Total (as a percentage of the total number of shares)	*0,0%*	*0,0%*

* Held for the purpose of hedging outstanding derivatives on indices/baskets that include KBC Group shares.

Note 4: Balance sheet

- On 31 December 2020, total assets came to 28 856 million euros, compared with 25 869 million euros a year earlier.
- 'Financial fixed assets' are discussed in Note 1.
- 'Current assets' amounted to 1 647 million euros, whereas the year-earlier figure was 306 million euros. The increase was largely attributable to 'Other investments'.
- 'Equity' is dealt with in Note 2.
- 'Amounts payable' totalled 11 356 million euros, compared with 9 450 million euros at year-end 2019. The main changes to this item were three new tier-3 capital loans totalling 1 750 million euros.

Note 5: Income statement

- KBC Group NV generated a net profit of 1 263 million euros in 2020, as opposed to 3 411 million euros a year earlier.
- 'Operating income' rose by 15% and 'Operating charges' by 14% year-on-year, with the increase in charges relating primarily to impairment and a change in the accounting treatment of intangible fixed assets (software) and the increase in income resulting from these charges being passed on to the subsidiaries.
- The main change in the financial result was a gain of 2 113 million euros that was realised on the sale of the 48.14% stake in KBC Asset Management NV to KBC Bank NV in 2019.

Note 6: Statutory auditor's remuneration

See Note 6.4 in the 'Consolidated financial statements' section.

Note 7: Branch offices

KBC Group NV had four branch offices (in the Czech Republic, Slovakia, Bulgaria and Hungary) at year-end 2020.

Note 8: Additional information

KBC Group NV uses financial instruments to hedge interest rate risks. At year-end 2020, the outstanding notional amount of interest rate swaps used for hedging such risks was 500 million euros.

The information required in accordance with Article 3:6 of the Belgian Companies and Associations Code that has not been provided above (including the non-financial information statement) appears in the 'Report of the Board of Directors' section. Information can also be found throughout that section dealing specifically with the impact of the coronavirus crisis. A detailed overview of the impact of the coronavirus crisis is also provided in Note 1.4 of the 'Consolidated financial statements'.

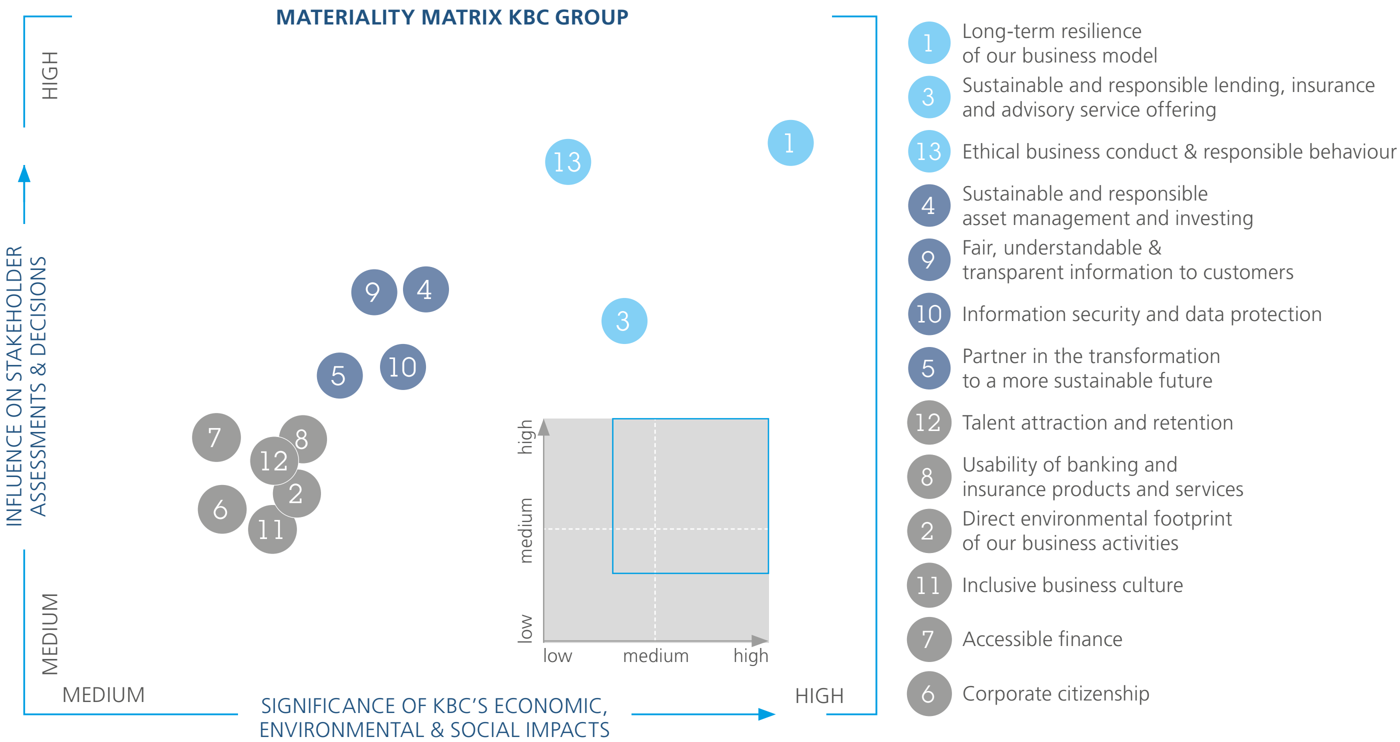
Stakeholder interaction and materiality analysis

We are committed to meeting the needs and expectations of all our stakeholders, both now and going forward. In order to identify these needs and expectations, we maintain regular contact with a diverse group of stakeholders. This enables us to broaden our view of the world and keep abreast of what is important to them, while also providing us with the opportunity to inform these stakeholders about what is going on at KBC.

We consider our clients, employees, suppliers, shareholders, society (community), government and regulators as being our key stakeholders (more detailed information in this regard is provided in our Sustainability Report at www.kbc.com). To find out which themes our stakeholders deem most important, what priority they give them and how much impact the themes have on KBC's performance and reputation, we use a specific materiality analysis (see diagram).

Phase 1: determination of scope	**Phase 2: selection of relevant topics**	**Phase 3: validation of topics and determination of importance**	**Phase 4: conclusion concerning materiality**	**Phase 5: determination of maturity**
• Stakeholder mapping and determining the interest that stakeholder groups have in KBC or the influence they exert on KBC	• Identifying and defining 13 material topics (short list)	• Holding online surveys and in-depth interviews with external stakeholders, senior management and the Board of Directors (including asking them to select their top 5 material topics)	• Drawing up the materiality matrix • Submitting the matrix to the Internal Sustainability Board and having it validated by the Executive Committee. • Getting feedback from the External Sustainability Board	• Determining the maturity level of the 13 material topics in a workshop with representatives of all core countries • Checking the outcome of the exercise to see whether it complies with the group's sustainability strategy

The materiality analysis is carried out every two years. The most recent one dates from 2020 and helped us understand the themes that are important to KBC and our stakeholders, which then allowed us to identify the themes we should focus on. Defining the needs and interests of our stakeholders also enables us to adapt our strategy to meet their expectations and to report on the right themes (see the Sustainability Report for more details). The following table indicates where we discuss the various themes in this annual report.



Important topics	Information in this report (selection)
Long-term resilience of our business model	• See 'Our financial report'. • See 'In what environment do we operate?' in 'Our business model'. • See 'Our strategy'. • See 'How do we manage our risks?' and 'How do we manage our capital?'.
Sustainable and responsible lending, insurance and advisory service offering	• See 'How do we create sustainable value?' and 'In what environment do we operate?' in 'Our business model'. • See 'Our role in society', 'Focus on climate' and 'Focus on human rights' in 'Our strategy'. • See 'Our business units'. • See 'Climate-related risks' in 'How do we manage our risks?'.
Ethical business conduct & responsible behaviour	• See 'What makes us who we are?' in 'Our business model'. • See 'Our role in society' and 'Focus on human rights' in 'Our strategy'. • See 'Main features of the internal control and risk management systems' in 'Corporate governance statement'.
Sustainable and responsible asset management and investing	• See 'How do we create sustainable value?' and 'In what environment do we operate?' in 'Our business model'. • See 'Our role in society', 'Focus on climate' and 'Focus on human rights' in 'Our strategy'.
Fair, understandable and transparent information to customers	• See 'The client is at the centre of our business culture' and 'Our role in society' in 'Our strategy'. • See 'Main features of the internal control and risk management systems' in 'Corporate governance statement'.
Information security and data protection	• See 'In what environment do we operate?' in 'Our business model'. • See 'The client is at the centre of our business culture' in 'Our strategy'. • See 'Main features of the internal control and risk management systems' in 'Corporate governance statement'. • See 'Non-financial risks' in 'How do we manage our risks?'.
Partner in the transformation to a more sustainable future	• See 'We focus on sustainable and profitable growth', 'Our role in society' and 'Focus on climate' in 'Our strategy'. • See 'Our business units'.
Talent attraction and retention	• See 'Our employees, capital, network and relationships' in 'Our business model'.
Usability of banking and insurance products and services	• See 'In what environment do we operate?' in 'Our business model'. • See 'The client is at the centre of our business culture' in 'Our strategy'. • See 'Our business units'.
Direct environmental footprint of our business activities	• See 'In what environment do we operate?' in 'Our business model'. • See 'Our role in society' and 'Focus on climate' in 'Our strategy'. • See 'Our business units'. • See 'Climate-related risks' in 'How do we manage our risks?'.
Inclusive business culture	• See 'What makes us who we are?' and 'Our employees, capital, network and relationships' in 'Our business model'. • See 'Diversity policy' in 'Corporate governance statement'.
Accessible finance	• See 'What makes us who we are?' in 'Our business model'. • See 'The client is at the centre of our business culture' and 'Our role in society' in 'Our strategy'. • See 'Our business units'.
Corporate citizenship	• See 'Our role in society' in 'Our strategy'. • See 'Our business units'.

Glossary of financial ratios and terms

Besides the ratios and terms required by law or IFRS, the group also uses its own ratios and definitions, known as 'alternative performance measures' (APM). We identify them by including 'APM' in the heading and adding the calculation.

Basic and diluted earnings per share

Gives an idea of the amount of profit over a certain period that is attributable to one share (and, where applicable, including dilutive instruments). A detailed calculation can be found in Note 3.13 of the 'Consolidated financial statements' section.

Combined ratio (non-life insurance) (APM)

Gives an insight into the technical profitability (i.e. after eliminating investment returns, among other items) of the non-life insurance business, more particularly the extent to which insurance premiums adequately cover claim payments and expenses. The combined ratio takes ceded reinsurance into account. We also use the same methodology to calculate this ratio for each business unit.

Calculation (in millions of EUR or %)	**Reference**	**2020**	**2019**
Technical insurance charges, including the internal cost of settling claims (A)	Note 3.7	945	1 006
/		1 742	1 693
Earned insurance premiums (B)	Note 3.7		
+			
Operating expenses (C)	Note 3.7	536	526
/			
Written insurance premiums (D)	Note 3.7	1 769	1 728
= (A/B) + (C/D)		85%	90%

Common equity ratio

A risk-weighted measure of the group's solvency based on common equity tier-1 capital (the ratios given here are based on the Danish compromise). Changes to the capital rules are gradually being implemented to allow banks to build up the necessary capital buffers. The capital position of a bank, when account is taken of the transition period, is referred to as the transitional view. The capital position based on full application of all the rules – as would be the case after this transition period – is referred to as 'fully loaded'.
A detailed calculation can be found under 'Solvency at group level' in the 'How do we manage our capital?' section.

Cost/income ratio (APM)

Gives an impression of the relative cost efficiency (costs relative to income) of the banking activities. We also use the same methodology to calculate this ratio for each business unit.
Where relevant, we also eliminate exceptional and/or non-operating items when calculating the cost/income ratio. This calculation aims to give a better idea of the relative cost efficiency of the pure business activities.

Calculation (in millions of EUR or %)	**Reference**	**2020**	**2019**
Cost/income ratio			
Operating expenses of the banking activities (A)	'Consolidated income statement': component of 'Operating expenses'	3 677	3 800
/			
Total income of the banking activities (B)	'Consolidated income statement': component of 'Total income'	6 132	6 563
= (A) / (B)		60.0%	57.9%
Cost/income ratio with exceptional and/or non-operating items eliminated			
Operating expenses of the banking activities (A)	'Consolidated income statement': component of 'Operating expenses'	3 677	3 800
Smaller items (a1)		6	1
/			
Total income of the banking activities (B)	'Consolidated income statement': component of 'Total income'	6 132	6 563
Impact of the mark-to-market valuation of ALM derivatives (b1)		95	19
Impact of the *revaluation of* the existing stake in ČMSS (b2)		-	-82
Smaller items (b3)		3	14
= (A+a1) / (B+b1+b2+b3)		59.1%	58.3%

Coverage ratio (APM)

Indicates the proportion of impaired loans (see 'Impaired loans ratio' for definition) that are covered by specific impairment charges. The numerator and denominator in the formula relate to all impaired loans, but may be limited to impaired loans that are more than 90 days past due (the figures for that particular calculation are given in the 'Loan and investment portfolio, banking' table in the 'How do we manage our risks?' section).

Calculation (in millions of EUR or %)	**Reference**	**2020**	**2019**
Specific impairment on loans (A)	'Loan and investment portfolio, banking' table in the 'How do we manage our risks?' section	2 638	2 584
/		5 902	6 160
Impaired loans (B)	'Loan and investment portfolio, banking' table in the 'How do we manage our risks?' section		
= (A) / (B)		45%	42%

Credit cost ratio (APM)

Gives an idea of loan impairment charges recognised in the income statement for a specific period, relative to the total loan portfolio (see 'Loan portfolio' for definition). In the longer term, this ratio can provide an indication of the credit quality of the portfolio. We also use the same methodology to calculate this ratio for each business unit.

Calculation (in millions of EUR or %)	**Reference**	**2020**	**2019**
Net changes in impairment for credit risks (A)	'Consolidated income statement': Note 3.10, component of 'Impairment'	1 068	204
/			
Average loan portfolio (B)	'Loan and investment portfolio, banking' table in the 'How do we manage our risks?' section	177 542	170 128
= (A) / (B)		0.60%	0.12%

When the ratio for 2020 is calculated without including collective coronavirus-related impairment charges, the numerator falls by 783 million euros, giving a credit cost ratio of 0.16%.

Dividend payout ratio (APM)

Gives an idea of the extent to which KBC Group NV distributes its annual profit (and, therefore, also indirectly the extent to which profits are used to strengthen the capital reserves). More information on the group's dividend distribution policy can be found under 'Our employees, capital, network and relationships' in the 'Our business model' section. The amount of dividend for 2020 is subject to the approval of the General Meeting of Shareholders.

Calculation (in millions of EUR or %)	**Reference**	**2020**	**2019**
Amount of dividend to be distributed (including interim dividend) (A)*	Consolidated statement of changes in equity	183	416
+		50	56
Coupon on additional *tier*-1 instruments included in equity (B)	Consolidated statement of changes in equity		
/		1 440	2 489
Net result, group share (C)	Consolidated income statement		
= (A+B) / (C)		16%	19%

* Limited dividend in line with ECB guidance on dividend payments during the coronavirus crisis.

Impaired loans ratio (APM)

Indicates the proportion of impaired loans in the loan portfolio (see 'Loan portfolio' for definition) and, therefore, gives an idea of the creditworthiness of the portfolio. Impaired loans are loans where it is unlikely that the full contractual principal and interest will be repaid/paid. These loans have a KBC default status of PD 10, PD 11 or PD 12. Where appropriate, the numerator in the formula may be limited to impaired loans that are more than 90 days past due (PD 11 + PD 12). Relevant figures for that calculation are given in the 'Loan and investment portfolio, banking' table in the 'How do we manage our risks?' section. We also use the same methodology to calculate this ratio for each business unit.

Calculation (in millions of *EUR or %*)	**Reference**	**2020**	**2019**
Amount of impaired loans (A)	'Loan and investment portfolio, banking' table in the 'How do we manage our risks?' section	5 902	6 160
/			
Total loan portfolio (B)	'Loan and investment portfolio, banking' table in the 'How do we manage our risks?' section	180 891	175 431
= (A) / (B)		3.3%	3.5%

The calculation does not contain any stage transfers that underlie the management overlay for the forecast collective coronavirus-related ECL, due to the fact that they are determined based on a collective statistical approach and, therefore, cannot be individually linked to specific loans (also see Note 4.2.1).

Leverage ratio

Gives an idea of the group's solvency, based on a simple non-risk-weighted ratio.
A detailed calculation can be found under 'Solvency at group level' in the 'How do we manage our capital?' section.

Life insurance sales (APM)

Total sales of life insurance comprise life insurance premiums and unit-linked life insurance premiums (as required under IFRS, we use margin deposit accounting for most of these unit-linked contracts, which means they are not recognised under 'Earned insurance premiums').

Calculation (in millions)	**Reference**	**2020**	**2019**
Life insurance – Earned premiums before reinsurance (A)	Income statement	1 223	1 323
+			
Life insurance: difference between written premiums and earned premiums before reinsurance (B)	-	2	1
+			
Investment contracts without DPF (unit-linked), margin deposit accounting (C)	-	764	525
(A)+(B)+(C)		1 989	1 849

Liquidity coverage ratio (LCR)

Gives an idea of the bank's liquidity position in the short term, more specifically the extent to which the group is able to overcome liquidity difficulties over a one-month period. It is the average of 12 end-of-month LCR figures.

Calculation (in millions of EUR or %)	**Reference**	**2020**	**2019**
Stock of high-quality liquid assets (A)	Based on the *European Commission's Delegated Act on* LCR and the European Banking Authority's guidelines for *LCR disclosure*	81 833	74 884
/			
Total net cash outflows over the next 30 calendar days (B)		55 714	54 415
= (A) / (B)		147%	138%

Loan portfolio (APM)

Gives an idea of the magnitude of (what are mainly traditional) lending activities.

Calculation (in millions of EUR)	Reference	2020	2019
Loans and advances to customers (A)	Note 4.1, component of 'Loans and advances to customers'	159 621	155 816
+			
Reverse repos (not with central banks) (B)	Note 4.1, component of 'Reverse repos with credit institutions and investment firms'	3 295	1 559
+			
Debt instruments issued by corporates and by credit institutions and investment firms (banking) (C)	Note 4.1, component of 'Debt instruments issued by corporates and by credit institutions and investment firms'	6 056	5 894
+			
Other exposures to credit institutions (D)	-	4 009	4 629
+			
Financial guarantees granted to clients (E)	Note 6.1, component of 'Financial guarantees given'	7 919	8 160
+			
Impairment on loans (F)	Note 4.2, component of 'Impairment'	3 703	2 866
-			
Insurance entities (G)	Note 4.1, component of 'Loans and advances to customers'	-2 198	-2 288
-			
Non-loan-related receivables (H)	-	-592	-738
+			
Other (I)	Component of Note 4.1	-923	-468
= (A)+(B)+(C)+(D)+(E)+(F)-(G)-(H)+(I)		180 891	175 431

Market capitalisation

Provides an indication of the stock market value of the KBC group.

Calculation (in EUR or quantity)	Reference	2020	2019
Closing price of KBC share (in EUR) (A)	–	57.3	67.1
X			
Number of ordinary shares (in millions) (B)	Note 5.10	416.7	416.4
= (A) X (B) (in billions of EUR)		23.9	27.9

Minimum requirement for own funds and eligible liabilities (MREL)

Indicates the extent to which a bank has sufficient own funds and eligible liabilities available for bail-in. MREL and bail-in are based on the principle that shareholders and debt-holders should bear losses first if a bank fails. The ratio is expressed as a percentage of Total Liabilities and Own Funds (TLOF).

A detailed calculation can be found under 'Solvency at group level' in the 'How do we manage our capital?' section.

Net interest margin (APM)

Gives an idea of the net interest income of the banking activities (one of the most important sources of revenue for the group) relative to the average total interest-bearing assets of the banking activities. We also use the same methodology to calculate this ratio for each business unit.

Calculation (in millions of EUR or %)	Reference	2020	2019
Net interest income of the banking activities* (A)	'Consolidated income statement': component of 'Net interest income'	3 788	3 853
/			
Average interest-bearing assets of the banking activities* (B)	'Consolidated balance sheet': component of 'Total assets'	203 616	194 731
= (A) / (B) X 360/number of calendar days		1.84%	1.95%

* After elimination of all divestments and volatile short-term assets used for liquidity management purposes.

Net stable funding ratio (NSFR)

Gives an idea of the bank's structural liquidity position in the long term, more specifically the extent to which the group is able to overcome liquidity difficulties over a one-year period.

Calculation (in millions of EUR or %)	Reference	2020	2019
Available amount of stable funding (A)	From 2020: Regulation (EU) 2019/876 dd. 20-05-2019	209 932	174 977
/			
Required amount of stable funding (B)		143 901	128 845
= (A) / (B)		146%	136%

Parent shareholders' equity per share (APM)

Gives the carrying value of a KBC share, i.e. the value in euros represented by each share in the parent shareholders' equity of KBC.

Calculation (in millions of EUR or quantity)	Reference	2020	2019
Parent shareholders' equity (A)	'Consolidated balance sheet'	20 030	18 722
/			
Number of ordinary shares less treasury shares (in millions at period-end) (B)	Note 5.10	416.7	416.4
= (A) / (B) (in EUR)		48.1	45.0

For information on how equity for 2019 has been retroactively restated, see Note 1.1 of the 'Consolidated financial statements'.

Return on equity (APM)

Gives an idea of the relative profitability of the group, more specifically the ratio of the net result to equity.

Calculation (in millions of EUR or %)	Reference	2020	2019
Result after tax, attributable to equity holders of the parent (A)	'Consolidated income statement'	1 440	2 498
-			
Coupon on the *additional tier*-1 instruments included in equity (B)	'Consolidated statement of changes in equity'	-50	-56
/			
Average parent shareholders' equity, excluding the revaluation reserve for FVOCI and for FVPL – overlay (C)	'Consolidated statement of changes in equity'	17 954	16 907
= (A-B) / (C)		8%	14%

For information on how equity for 2019 has been retroactively restated, see Note 1.1 of the 'Consolidated financial statements'.

Total assets under management (APM)

Total assets under management (AuM) comprise third-party assets and KBC group assets managed by the group's various asset management companies (KBC Asset Management, ČSOB Asset Management, etc.), as well as assets under advisory management at KBC Bank. The assets, therefore, consist mainly of KBC investment funds and unit-linked insurance products, assets under discretionary and advisory management mandates of (mainly retail, private banking and institutional) clients, and certain group assets. The size and development of total AuM are major factors behind net fee and commission income (generating entry and management fees) and hence account for a large part of any change in this income line. In that respect, the AuM of a fund that is not sold directly to clients but is instead invested in by another fund or via a discretionary/advisory management portfolio, are also included in the total AuM figure in view of the related work and any fee income linked to them.

Calculation (in billions of EUR)	2020	2019
Belgium Business Unit (A)	194.5	199.9
+		
Czech Republic Business Unit (B)	11.4	10.8
+		
International Markets Business Unit (C)	5.7	4.9
= (A)+(B)+(C)	211.6	215.6

Management certification

'I, Rik Scheerlinck, Chief Financial Officer of the KBC group, certify on behalf of the Executive Committee of KBC Group NV that, to the best of my knowledge, the financial statements, which are based on the relevant standards for annual accounts, fairly present in all material respects the assets, the financial condition and results of KBC Group NV, including its consolidated subsidiaries, and that the annual report provides a fair overview of the development, the results and the situation of KBC Group NV, including its consolidated subsidiaries, as well as an overview of the main risks and uncertainties to which they are exposed.'

Contact details and calendar

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Calendar for 2021	
Publication of the Annual Report, the Sustainability Report and the Risk Report for 2020	1 April 2021
General Meeting of Shareholders (agenda available at www.kbc.com)	6 May 2021
Earnings release for 1Q 2021	11 May 2021
Earnings release for 2Q 2021	5 August 2021
Earnings release for 3Q 2021	12 November 2021

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

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

Annual Report

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

Sustainability Report

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

Risk Report

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

Report to Society

- Drawn up for each core country and looks more closely at how KBC accepts its role in society.
- www.kbc.com > Corporate Sustainability