2021

Annual Report KBC Insurance

KBC

To the reader

Company name

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

Difference between KBC Insurance and KBC Group

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

Forward-looking statements

The expectations, forecasts and statements regarding future developments that are contained in the annual report are based on assumptions and assessments we made when drawing up this report in early March 2022. 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.

Translation

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

Articles 3:6 and 3:32 of the Belgian Companies and Associations Code (CAC)

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

Non-financial information statement

As required by Articles 3:6 §4 and 3:32 §2 of the CAC, we provide a statement on non-financial information at the highest consolidated level for a Belgian entity, i.e. (in the annual report of) KBC Group NV. That particular report is available at www.kbc.com. Nevertheless, most of the information in question is also provided in KBC Insurance's annual report.

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Ratios used

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

Publisher: KBC Group NV, Havenlaan 2, 1080 Brussels, Belgium – VAT BE 403.227.515 – RLP Brussels – Bank account 734-0051374-70.

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- Flooding in Belgium and tornado in the Czech Republic: for more information see pages 40 and 117
- Acquisition of NN's Bulgarian pension and life insurance business: for more information see page 151

Brief presentation of KBC Insurance

Our area of operation

KBC Insurance is an insurance group catering mainly for retail, SME and mid-cap clients. It concentrates on its home markets of Belgium and four countries in Central and Eastern Europe (the Czech Republic, Slovakia, Hungary and Bulgaria) and Ireland.

Main group companies

Belgium	KBC Insurance NV
Czech Republic	ČSOB Pojišťovna a.s.
Slovakia	ČSOB Poisťovňa a.s.
Hungary	K&H Biztosító
Bulgaria	DZI Insurance
Luxembourg	KBC Group Re

Our shareholders

All KBC Insurance NV shares are owned by KBC Group NV. KBC Group NV is a listed company.

Our clients, staff and network

Clients (estimate)	5,9 million
Number of staff (2021 average in FTEs)	3 953
Insurance network	310 agencies in Belgium, various distribution channels in Central and Eastern Europe

Our long-term credit ratings (24-06-2021)

KBC Insurance NV	Standard & Poor's	A

Management

CEO	Johan Thijs
Chairman of the Board of Directors	Koenraad Debackere

More information

Website	www.kbc.com

Our business model

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

For more detailed information, please see the KBC Group annual report for 2021.

How do we create sustainable value? (KBC Group)

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.

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 literacy, 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.

> *The ultimate intention is to make our clients' financial lives easier in a proactive manner, through a solutions-oriented bank-insurance model, in which we actually go further than pure banking and insurance products alone.*

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 relating to consequences of extreme weather conditions and the impact on our loans or investments when relevant counterparties suffer the negative consequences of climate change or the transition to a lower-carbon society. We carefully consider these factors, not only to reduce or prevent adverse consequences, but also to contribute actively by launching sustainable products and services. We closely track our performance in this regard, to which end we apply specific targets. 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.

What's more, as a major player in each of our core countries, we form part of the local economic and social fabric. We make an important contribution to employment in all our core markets and, as such, recognise that we have a significant 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.

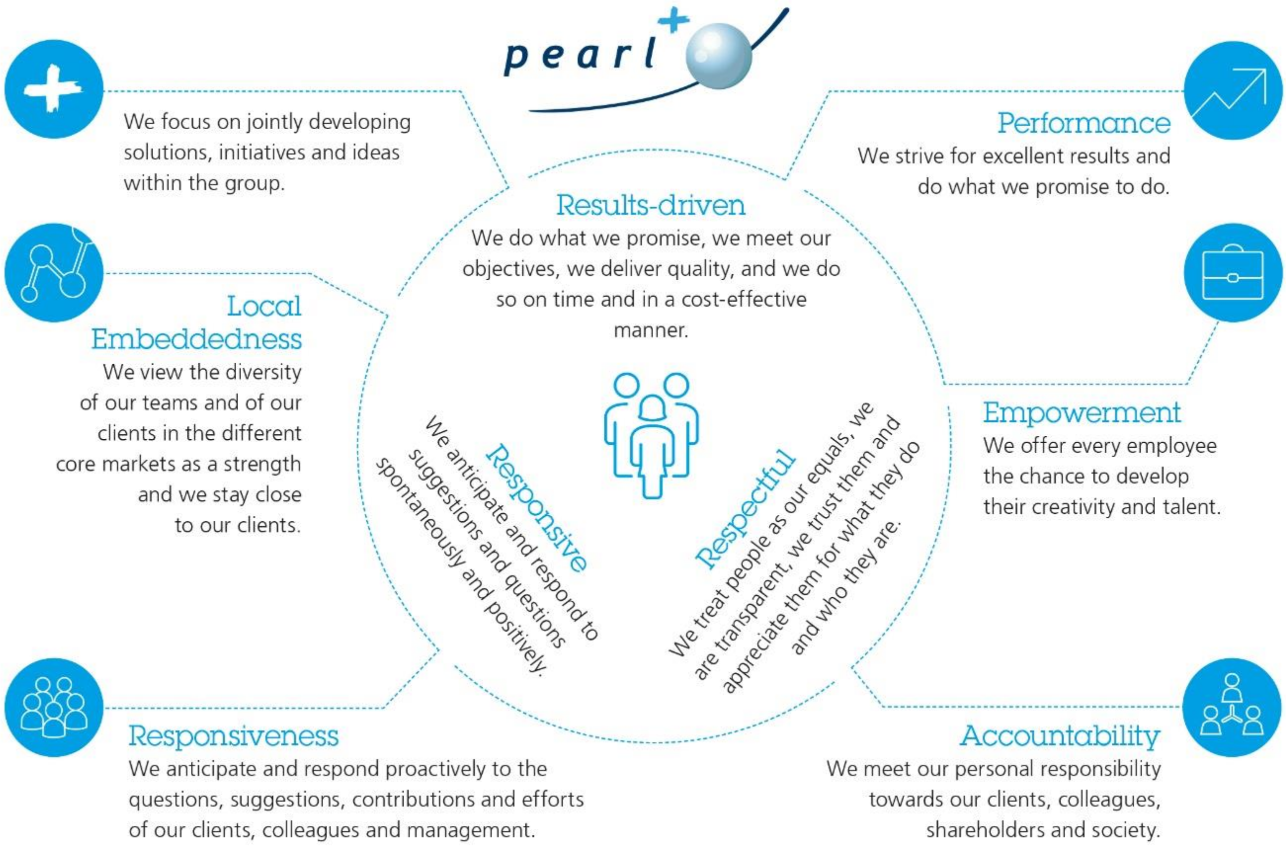
The coronavirus crisis has not essentially altered our business model, but it has speeded up its implementation. The focus we had already placed on digital solutions enabled us to continue working seamlessly during the pandemic and to offer our clients a consistent level of service. For their part, clients 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 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.

What makes us who we are? (KBC Group)

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

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

> *The ‘+’ sign in PEARL+ symbolises our focus on the joint development and smart copying of solutions, initiatives and ideas so that they are easy to utilise and deploy throughout the group, enabling us to work more efficiently, respond more quickly to change and make full use of local skills and talents group-wide.*



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 interaction with clients forms the basis of our business model in our 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 (sale transactions were concluded in Ireland; see Note 6.6 in the 'Consolidated financial statements' section). 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, including 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 facilitate collaboration among our core countries to avoid duplicating our efforts and to offer our clients the best solutions.

Our approach to sustainability

As a financial institution, we are one of the driving forces behind the real economy and have a major direct and indirect impact on society. As a company that aims to support the transition to a more sustainable and climate-proof society, we have made sustainability integral to our overall business strategy and integrated it into our day-to-day business operations and the products and services we provide. 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 2021. 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

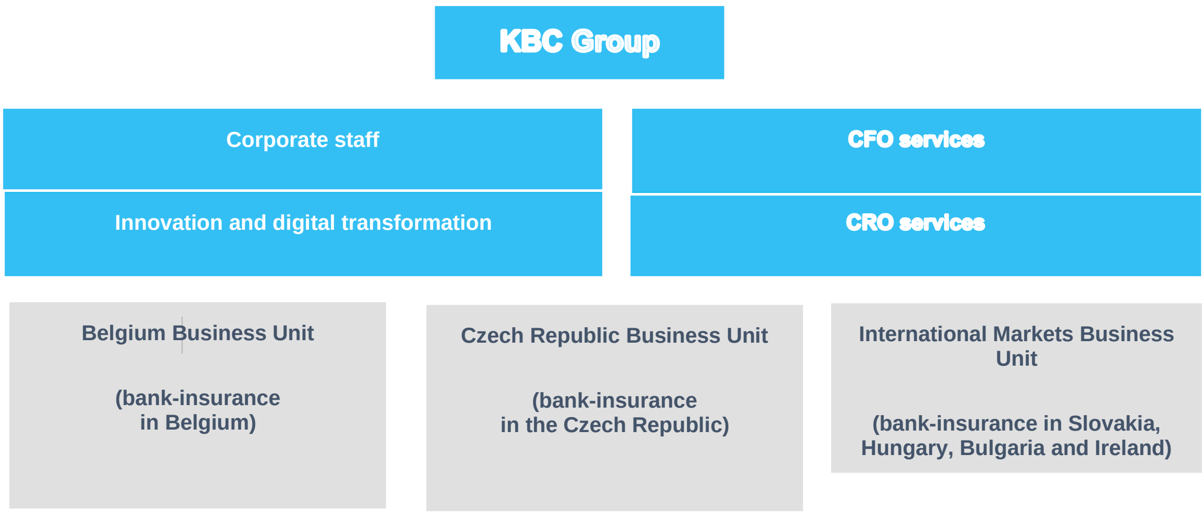
Our challenges

Macro-economic environment characterised by the impacts of the coronavirus crisis, low – but recently rising – interest rates, currently high inflation rates, population ageing, and geopolitical challenges (including as a result of the war in Ukraine).	Impact of climate change on our and our clients' operations, and vice versa, and the use of opportunities related to the transition to a greener economy	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

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 2021 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.



In what environment do we operate? (KBC Group)

2021 was a year in which the global economy continued its path to recovery following 2020's pandemic shock. Economic activity in the US reached pre-pandemic levels in the second quarter of 2021. The euro area also reached pre-pandemic production levels by the end of 2021. Budgetary and monetary support measures kept the number of company bankruptcies in check in 2021, while the overall unemployment rate was also down from year-end 2020 in both the US and the euro area.

The recovery was fuelled by a sharp uptick in demand, which subsequently had to contend with constraints on the supply side of the economy. These were the result of bottlenecks in international supply chains and production limitations caused by several factors, including staff shortages. In addition to transport prices, energy prices also rose sharply in 2021, chiefly as a result of the 'perfect energy storm' created by a pent-up demand spearheaded by the Asian economies, the temporarily lower production of renewable wind energy in Europe, and geopolitical tensions. This resulted in sharply rising inflation in 2021. US inflation reached its highest levels since the early 1980s in November 2021, while the euro area inflation rate also rose to a record high – the highest rate since the euro currency was introduced two decades ago. Statistical base effects were one of the contributing factors, but during 2021 there were also inflation dynamics at play across the economy, driven by reopening effects coupled with high demand.

For the first time in years, the major central banks were faced in 2021 with (excessively) high inflation rates and were unsure as to their duration. This prompted the Fed to change its course towards the end of 2021. It began tapering its net bond-buying programme in November 2021, along with its mortgage-backed securities purchases, and in January 2022 it announced that it would likely discontinue its net bond-buying programme in early March of this year. The FED is expected to start raising its key rate fairly soon after this, with five interest rate increases of 25 basis points each in 2022.

Unlike the Fed, the ECB remained on the sidelines in 2021: it maintained its deposit rate at -50 basis points and continued its purchasing programmes (notably the Pandemic Emergency Purchase Programme [PEPP]). However, the ECB may decide to change tack in 2022. In December 2021, the ECB announced it would be reducing its net purchases and that it would end the PEPP programme at the end of March 2022. The discontinuation of the PEPP could be partially and temporarily offset by increased purchases made under the general Asset Purchase Programme (APP). The ECB also extended the period in which it will reinvest the bonds purchased under PEPP upon final maturity, until at least at the end of 2024. Furthermore, these reinvestments will be given greater flexibility in terms of the time selected, the asset class and the specific national market. Against the backdrop of sharply rising inflation in particular, the ECB is expected to start raising interest rates towards the end of 2022. For the ECB, 2021 was also the year in which it updated its monetary strategy: one major change is its move to a symmetric and forward-looking inflation target of 2%.

It was against this background that both the US and the German ten-year government bond yields increased in 2021. The spread between US and German government bond yields was volatile throughout the year and widened towards the end of the year. The main contributing factor was the more passive attitude adopted by the ECB compared to the Fed. This spread was also evident from the real ten-year bond yields, which adjusts nominal interest rates for inflation estimates. In the United States, this remained virtually unchanged overall in 2021 (approx. -1.25%), while in Germany it fell to historical lows (approx. -2.25%). This caused the euro to temporarily weaken against the US dollar at year-end 2021. Since the interest rate differential is already bottoming out, the euro will be able to gain some ground over the US dollar in 2022.

Despite being on the path to recovery, the global economy will continue to be constrained by major challenges in 2022, the main factor at present being the direct and indirect consequences of the Russian-Ukrainian war. Another factor is the omicron variant of the virus, which is a reminder that the pandemic will still be among us in 2022. Policy measures to control future infection waves remain a risk and may continue to weigh down the economy. There is also uncertainty about how the current bottlenecks in production and supply chains will develop and, more specifically, how long it will take to gradually solve these supply problems. There is also a risk that the current high inflation rates will result in a price/wage spiral, with the risk of the Fed and the ECB tightening their monetary policies more aggressively than expected. Finally, global debt issues are more pressing than ever, particularly in those cases where the financing terms are less supported by monetary policy.

Market conditions in our most important countries in 2021 (KBC Insurance)

	Belgium	Czech Republic	Slovakia	Hungary	Bulgaria
Market environment in 2021[1]					
Change in GDP (real)	6.1%	3.3%	3.0%	7.1%	4.0%
Inflation (average annual increase in consumer prices)	3.2%	3.3%	2.8%	5.2%	2.9%
Unemployment rate (% of the labour force at year-end; Eurostat definition (excluding Ireland)	5.7%	2.1%	6.4%	3.7%	4.8%
Government budget balance (% of GDP)	-6.2%	-7.0%	-6.5%	-7.2%	-3.2%
Public debt (% of GDP)	108.6%	42.0%	62.0%	78.2%	26.2%
Forecast growth in real GDP in years ahead					
2022	2.1%	2.7%	3.4%	5.0%	2.8%
2023	1.4%	3.4%	3.9%	3.8%	3.5%
KBC Insurance's position in each core country					
Main brands	KBC & CBC & KBC Brussels	ČSOB	ČSOB	K&H	UBB & DZI
Network	310 insurance agencies Online channels	Insurance sold through various channels Online channels	Insurance sold through various channels Online channels	Insurance sold through various channels Online channels	Insurance sold through various channels Online channels
Recent acquisitions or disposals (2021)	-	-	-	-	Acquisition of NN's Bulgarian pension and life insurance business (2021).
Insurance clients (millions, estimate)	1.6	1.9	0.4	1.1	0.9
Market share (estimate) - life insurance - non-life insurance	 13% 9%	 8% 9%	 3% 5%	 3% 7%	 22% 12%

What are our main challenges? (KBC Group)

Climate change, global health risks and geopolitical challenges

The coronavirus pandemic and the recent extreme weather conditions demonstrated that climate change and public health risks are hard realities and that their impact is felt everywhere. Geopolitical developments – including the war in Ukraine - could also have significant implications for the economy and hence our results. Our financial performance is obviously also impacted by the global economy in general, as well as by the financial markets and demographic trends.

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 can be found in Note 1.4 of the 'Consolidated financial statements' in our 2020 and 2021 annual reports.
- ✓ The environment and climate change remain an important part of our sustainability strategy. We have translated them into specific targets. As a bank-insurer, we assume our responsibility and assist and support our clients who are affected by the extreme weather conditions.
- ✓ We have formally committed to various international initiatives related to climate change and sustainability.
- ✓ We constantly adjust our product and service offering by, for instance, responding to demand for sustainable products like green bonds, sustainability-linked loans and sustainable pension saving.
- ✓ We aim to diversify our income sources to include more fee business, for example, alongside interest income.
- ✓ For more information on the situation in Ukraine, see Note 6.8 in the 'Consolidated financial statements' section.

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 clients' 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 diversity in terms of training and background 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).

Regulation

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 related to the impact of new technologies on the financial services sector and the responsibilities of digital service providers; potential regulations pending the MiCA (Markets in Crypto-Assets) Regulation, related to the use of cryptocurrencies and other types of digital assets.
- ✓ Privacy: draft Regulation which will include tighter rules on the use of electronic communication data.
- ✓ 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; complete reform of the regulatory framework for investment firms, including stockbrokers.
- ✓ 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; new obligations under the Crowdfunding Regulation.

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.

Cyber risks and data protection

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, smishing ('SMS phishing') and vishing ('voice phishing'), and cyber fraud in general.
- ✓ Teleworking has long been well established at KBC, but it became the norm as a result of the coronavirus crisis. 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?' and 'The client is at the centre of our business culture' in 'Privacy, data protection, communication and inclusion' as well as in our Sustainability Report at www.kbc.com.

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

Our employees

Our HR policy features individual focuses in each country, so that we can respond in an optimum way to the local labour market. Our values group-wide, however, are the same and are founded on our PEARL+ business culture. It is our employees who give it tangible shape each day in all our group's core countries. The 'E' in PEARL+ stands for 'Empowerment', referring to our commitment to give every employee the space they need to develop their talent and creativity and to deploy it towards accomplishing our business strategy. Not only by learning, but also by communicating ideas and taking responsibility. The '+' in PEARL+ 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 this culture amongst our employees. Through the various 'Team Blue' initiatives, for example, KBC aims to unite employees from different countries, to make them proud of their team and their company and enable them to draw on each other's experience. An example of this includes the Group Inspiration Days: live, interactive events for which all our employees can register electronically. In 2021, innovation leaders from our core markets demonstrated how they put 'Digital First with a human touch' into practice. Team Blue United, a virtual end-of-year event, also brought employees at our various international offices closer together.

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 'The client is at the centre of our business culture'). We therefore ask our staff to be flexible and to focus on skills that are relevant. To achieve all this in a smart way, we use an AI-driven learning and talent platform. 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 relevant skills but also the appropriate level of those skills. A digital butler helps them focus on the right output and development targets. In June 2021, we launched an integrated marketplace for internal job openings in StiPPLE, using the technology to match available jobs with qualified internal candidates. The system shows employees which job openings most closely match their background and qualifications, while managers can see which candidates possess the skills they are looking for. This will pave the way towards greater transparency and new career opportunities. The digital learning and talent platform is now available in Belgium and partly in the Czech Republic, with other group entities to follow in the future. This smart and living learning organisation is just one of the reasons we earned the internationally recognised 'Top Employer' certification.

We take the health and well-being of our employees very seriously. As in 2020, we were faced with the effects of the coronavirus pandemic in 2021, being hit by a third and subsequently even a fourth wave. Prevention was given absolute priority, and we kept adapting to the circumstances to minimise health risks. Each of our core markets also took additional measures depending on the local situation. The basic rules remained in place: reorganised workspaces, working from home where possible (during peak times in 2021, just over half of our employees were working from home), practising hand hygiene and ongoing communication through coronavirus updates. A specially established Group Crisis Committee monitored the situation closely throughout. Where possible, including at UBB in Bulgaria, employees were invited to receive the vaccine in the office. In all countries, employee well-being was put first, providing them with tips and tricks to stay healthy, including the importance of taking regular breaks, exercise, and a healthy diet. Managers were asked to be even more vigilant about stress issues and to remain in regular touch with the team. Initiatives that had proved their worth became permanent policies, including regular digital huddles to replace coffee breaks with co-workers and virtual exercise classes and leisure activities. Whenever infection rates permitted some flexibility, more people worked from the office, mostly branch and agency but also some of the head office staff. We therefore launched a new concept in Belgium under the name 'Working the Next Level': this puts teamwork first, combining team days with teleworking. Whether this system can be fully implemented obviously depends on the lifting of the current coronavirus-related restrictions.

'Best Internal Communication Strategy'
The 'Working Apart Together' campaign, created to bring employees closer together through virtual channels during the second lockdown, received the European Grand Prix Award for 'Best Overall Internal Communication Strategy'.

The year 2021 was also marked by several natural disasters in our core markets (floods in Belgium, a tornado in the Czech Republic, etc.). Details are provided elsewhere in this report. Inevitably, this also had an impact on our employees. To name one example: in the Czech Republic, ČSOB liaised closely with the employees affected by the tornado and offered them the option to take five additional annual leave days (care days) to work on restoring their homes (in addition to coronavirus-related purposes).

Our employees can rely on a competitive and fair salary plus supplementary benefits. In 2021, we also decided to provide a group-wide coronavirus-related bonus to our employees, to thank them for their commitment and resilience, which led to strong results in the past year despite the challenging circumstances.

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 and education of all our managers through various leadership programmes. Since the nature of leadership has changed since the pandemic, we introduced the 'Leading the Next Level' programme. Managers are provided with behavioural anchors, a self-scan and a team scan to give them new insights and allow them to work more effectively with their teams. To enable them to pursue a common vision, senior managers from across the group take part in the 'KBC

University', an ambitious development programme. We offered a training module in 2021 devoted to the climate, climate change, and its impact on KBC as a financial institution. 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 is given special attention in this.
We keep close track of our employees' opinions. We launched two employee engagement surveys in 2021. In Belgium, the survey response rate was 69% in March and 64% in September. Around 68% of our employees report feeling engaged with KBC, and despite a 4% drop from the previous survey, this is a strong number, particularly when you consider that it was conducted in the midst of a pandemic. Employee engagement is defined as pride in working for the company, motivation to be in the current role, and a sense of connection with KBC. A source of pride for our employees, for example, is KBC's innovative digital strategy. We learned from the survey conducted in the Czech Republic in the first half of the year that more than seven in ten respondents are proud of ČSOB, are motivated in their jobs, and plan to remain at ČSOB in the next three years. Employee engagement rates for the other countries range from 55% to 71%.
Depending on local needs, the survey was incorporated in a wider survey in some cases. For Belgium, the survey was integrated into the Shape Your Future survey, which gauges the impact of the new strategy in addition to employee engagement. The survey reveals, for example, that 68% of our employees recognise how their job helps to put the KBC strategy into practice – a percentage that has remained roughly the same. Just over half of our employees state that they are given the independence they need to perform their jobs effectively. The surveys have also resulted in a number of measures, including initiatives to support managers in their coaching roles. Managers can access their results and choose to implement specific measures as required.

We do not make any distinction on the grounds of gender, age, religion, ethnic background or sexual orientation in our HR, recruitment and promotion policies or remuneration systems. We formalised this diversity and inclusion strategy in 2021: our policy, including a number of general principles, was published on www.kbc.com and we take part in the Bloomberg Gender Equality Index. Within the organisation, there are more specific guidelines in place. Our two specific focal areas are gender and people with physical disabilities. Each of our entities will develop a plan containing specific improvement measures related to diversity and inclusion, and in setting up teams they do not just consider skills but also factors such as gender, age, introverted versus extroverted personality type, etc. Since we feel this is an important issue, we maintain a zero-tolerance policy towards flagrantly disrespectful behaviour. We also raise diversity awareness among our employees. New training on unconscious bias, for instance, was implemented in all core countries in 2021. This is a compulsory e-learning module for managers. At KBC Belgium, we are conducting a study to investigate the role that gender, compared to other factors, plays in decisions concerning remuneration, the outcome of which can be found in our Sustainability Report.
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 different countries in 2021. Meanwhile, an annual meeting of the European Works Council has been held at group level for 25 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.

The acquisitions and disposals made by KBC Group in 2021 obviously also have an impact on HR. We focused on the technical HR details in preparation for the official acquisition of OTP Bank Slovensko, and the same HR exercise is also on the programme for the acquisitions of NN and Raiffeisenbank in Bulgaria. In Ireland – for which a number of sale transactions were concluded – (see Note 6.6. in the 'Consolidated financial statements' section), we provided maximum support to our employees and will continue to invest in their training and development. In addition, KBC Bank Ireland remains acutely aware of the need to keep the lines of communication open with its employees and provide them with maximum certainty regarding the ongoing sale transactions. The severance scheme KBC Ireland recently negotiated with its Employee Council offers employees what qualify as very favourable terms within the industry, which reflects the bank's great appreciation for the work of its employees.

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. The Beehive dashboard, for example, shows the key parameters for our senior management at a glance. We use this dashboard to record data and information on FTE developments, performance and progression, skill development and reward budgeting. Other dashboards and various ad hoc HR analytics tools enable us to extrapolate information from HR data and implement the appropriate measures in response.
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). Areas we prioritise in this context include Schrems2 (data processing outside the European Economic Area) and data loss prevention. 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. In a financial sector that is changing very quickly, KBC would not be able to remain a reference in the European financial sector without the right employees with the right skills.

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

Our capital

Our activities are only possible if we have a solid capital base. At year-end 2021, our total equity came to 23.1 billion euros and our capital was represented by 416 883 592 shares. Our shares are held by a large number of shareholders in a number of countries. A group of shareholders consisting of MRBB, Cera, KBC Ancora and the Other core shareholders constitute our 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.

KBC Group is the sole shareholder of KBC Insurance. KBC Group 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 Group's core shareholders. According to the most recent notifications, the core shareholders own 40% of our shares between them. More information on the KBC Group's shareholder structure can be found in the KBC Group annual report.

The KBC Insurance share is not traded on the stock market.

Our network and our relationships

Alongside staff and capital, our network and relationships are especially important to our activities. An overview of our network can be found under 'Market conditions in our core markets in 2021'.
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 and 2021 resulted in an exceptionally large number of ad hoc (virtual) contacts with investors.

Our strategy

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

For more detailed information, please see the KBC Group annual report for 2021.

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 put our strategy into practice within a stringent 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 (KBC Group)

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 2020 onwards. At the same time, we introduced an extensive series of physical precautions (perspex screens, face coverings, sanitising gels, signage, etc.). Most KBC branches have been open to the public again since late August 2021, obviously with all the precautionary measures remaining in place. KBC decided to keep its branches in several other core countries open to the public, even in the earliest stages of the pandemic. 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 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. For our core countries combined, the volume of loans that were granted payment holidays under the various support measures at year-end 2021 amounted to roughly 10 billion euros (including EBA-compliant moratoria and the now non-EBA-compliant scheme in Hungary, but excluding Ireland, which is now classified under IFRS 5 on account of the sale transactions (which have not all been finalised yet)). Virtually all EBA-compliant moratoria expired by the end of December 2021. For 96.5% of the loans under the now-expired EBA-compliant moratoria, payments have fully resumed. 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. For more details, see the 'Consolidated financial statements' section, Note 1.4 of this Annual Report and the 2020 Annual Report.

Several of our core countries were also affected by extreme weather conditions in 2021, including the tornado that hit parts of the Czech Republic in June. We took immediate action to help our clients. As an insurer, we sent a team of experts to the affected area and almost immediately started making advance payments to cover the damage claimed. In July 2021, several Belgian provinces were hit by heavy flooding. We were determined from the start to use our insurance products and financial services to assist the victims with an attitude of flexibility, solidarity and creativity and with an open mind. The agreement that was reached following the negotiations between Assuralia (the federation of the Belgian insurance sector) and the authorities provided the victims with greater security. During the months following the floods, we drew on our extensive network of insurance agents, experts and repairers and used all our knowledge and expertise to set up an efficient and correct claims settlement process for the KBC clients who were affected. The impact of the increase in claims on our results is detailed in the 'Our financial report' section.

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.

Digital First

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 now go a step further, by 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.

The investment we have made in digital transformation in recent years is clearly bearing fruit and ensured that we have been able to continue to provide our clients with a high level of service, even during the lockdowns.

As a result of the various coronavirus lockdowns, society received a far-reaching digital boost. Through our 'Differently: the Next Level' strategy, which was launched in 2020, we aim to make the interaction with our clients even more future-proof and intelligent (i.e. reinforced by Artificial Intelligence) and to evolve from an omnichannel distribution model towards a digital-first distribution 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 interaction 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 our Digital First strategy in the period 2022-2024.

For clients who so wish, Kate – our new personal digital assistant – plays an important role in digital sales and advisory, so that personalised and relevant solutions can be offered proactively. Clients can personally ask Kate questions regarding their basic financial transactions. They will also receive regular discrete and proactive proposals at appropriate times 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. Initially, Kate is available as part of the mobile application for retail clients in Belgium and the Czech Republic, and is scheduled to be rolled out in the other countries during 2022. This will give Kate the opportunity to learn quickly, while KBC will receive feedback and be able to make any necessary adjustments. Kate for businesses (with a focus on SMEs) was launched in 2021.

Best mobile banking app worldwide
In September 2021, the independent international consulting firm Sia Partners named KBC Mobile the best mobile banking app worldwide: a clear recognition of a decade of innovation, development and listening closely to our clients.

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. 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 provide a full service.

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, we will also change our internal processes, the way we supply our products and services, and how we organise ourselves internally. 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 in order to create a feedback loop and feed the machine. This will, in turn, enable Kate to continue to grow.

Digitality in practice (2021)

- 39% of banking products and 19% of insurance products are sold through digital channels
- Nearly 75% of active KBC clients* are mobile users
- Nearly 1.8 million clients in Belgium and the Czech Republic have already used Kate The number of use cases increased to more than 170
- Nearly 8 million client conversations with Kate registered in Belgium and the Czech Republic
- More than 1 million proactive messages sent by Kate to clients

* 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.).

Privacy, data protection, communication and inclusion

Digitalisation provides us with the opportunity to collect increasing amounts of data. This has helped us to learn more about our clients, advise them more effectively, and further improve their bank-insurance experience. However, this also comes with the obligation to use the available data in a responsible manner. We therefore make sure we process data in accordance with the GDPR and all privacy rules, and that processes are in place to ensure this for each new service we launch. In doing so, we take into account the key data protection principles of purpose limitation (i.e. not using data for any purpose other than that for which it was collected), data minimisation (i.e. not collecting more data than is required for the intended purpose) and transparency (i.e. being transparent regarding the data collected and used). The latter is related to the privacy policy we created and which is published by each entity of our group through the appropriate channels (e.g., websites and mobile applications) in order to ensure that all individuals whose personal data is processed are properly informed. We make every effort to secure and protect data against unwanted or unauthorised access, loss or damage, to not retain any personal data once it is no longer required for the purpose for which it was collected, and to keep all personal data accurate and up to date. We have documented all the rights of the data subjects and protect this from any infringements on fundamental human rights resulting from our access to data. Because privacy and data protection are not only objective concepts, defined by law, they are highly subjective ones too. We therefore want to let our clients decide how we use their data and how Kate can use this 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. More information about our data governance can be found in the 'Corporate governance statement' section in this report.

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 is 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 most important Key Performance Indicators (KPIs) relating to client satisfaction and digital sales are set out in the KBC Group annual report.

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

As a bank-insurer, we put our clients at the heart of what we do by offering them an integrated 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.

Main challenges

- ✓ Ensuring seamless collaboration between data, communication and sales channels
- ✓ Operating as a single business and pursuing a digital-first, lead-driven and AI-led approach as a bank-insurer
- ✓ Bank-insurance+: expanding the offering to include a wider range of economic services
- ✓ Driving up commercial synergies and the number of bank-insurance 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.
In addition to operating as a single business, we pursue a digital-first, lead-driven and AI-led organisation. This means fully integrated front and back-end applications designed according to the 'digital first' 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.

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 2021 also took out mortgage protection cover with KBC Insurance, while nine out of ten purchased home insurance. At ČSOB in the Czech Republic, over five out of ten clients who took out home loans in 2021 also purchased home insurance from the group. To give another example, across the group at year-end 2021, about 78% of active clients held at least one of the group's banking products and one of its insurance products, while roughly 23% 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 7% (2-2 and 3-3 in Belgium) in 2021 respectively.

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

We focus on sustainable and profitable growth (KBC Group)

Developing long-term relationships with our clients is crucial if we are to secure our long-term future. Therefore, we do not pursue high short-term returns that come with excessive risks but rather focus on sustainable and profitable growth in the long run. Sustainable and long-term thinking also means concentrating on the local economies of our core markets. Our geographical footprint remains focused on a number of our core countries, namely Belgium, the Czech Republic, Slovakia, Hungary, Bulgaria, and Ireland (sale transactions were concluded in Ireland; see below). 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.

Main challenges

- ✓ Developing long-term relationships with clients
- ✓ Further optimising presence in core countries and integrating businesses acquired
- ✓ Diversifying income base

As a result of the (potential) withdrawal from Ireland, arising merger and acquisition opportunities beyond our core markets may be assessed (for approval of the Board of Directors) taking into account very strict strategic, financial, operational and risk criteria.

Recent examples (more details are provided in Note 6.6 of the 'Consolidated financial statements'):

- 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 (increased to 100% in 2021), which strengthened our position on the Slovakian banking market. On 1 October 2021, OTP Banka Slovensko merged with ČSOB in Slovakia.
- In July 2021, we completed the acquisition of NN's Bulgarian pension and life insurance business. This deal will enable UBB and DZI to further expand their cross-selling opportunities through their already established bank-insurance presence in the Bulgarian market, allowing them to serve more clients and to benefit from economies of scale and increased visibility.
- At the end of August, KBC Bank Ireland reached agreement on the disposal of a non-performing mortgage loan portfolio, and in October 2021 it confirmed that a legally binding agreement had been concluded with Bank of Ireland relating to the sale of substantially all of KBC Bank Ireland's performing loan assets and its deposit book. As part of the transaction, the latter will also acquire a small non-performing mortgage loan portfolio. The October transaction remains subject to the approval of the supervisory authority and the Irish competition authorities. The successful completion of this transaction will ultimately result in our withdrawal from the Irish market.
- In mid-November 2021, KBC reached agreement with Raiffeisen Bank International on the acquisition of Raiffeisenbank (Bulgaria), a universal bank in Bulgaria offering private individuals, SMEs and business clients a full range of banking, asset management, leasing and insurance services. The transaction remains subject to regulatory approval and is expected to be completed by mid-2022. The plan is to merge Raiffeisenbank (Bulgaria) and UBB following the supervisory authority's approval. The pro-forma combined entity will have an estimated market share of 18% in terms of assets, allowing us to further strengthen our position as a leading financial group in Bulgaria. This acquisition will also create ample opportunity for insurance cross-selling with DZI.

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 advancing the general level of 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 proposing better solutions based on analysis, thereby saving them money or making their lives easier.

> *Sustainable and profitable growth coincides with the search for a diversified income base. In that respect, we want to generate more revenue from the fee business and insurance activities, alongside our interest income.*

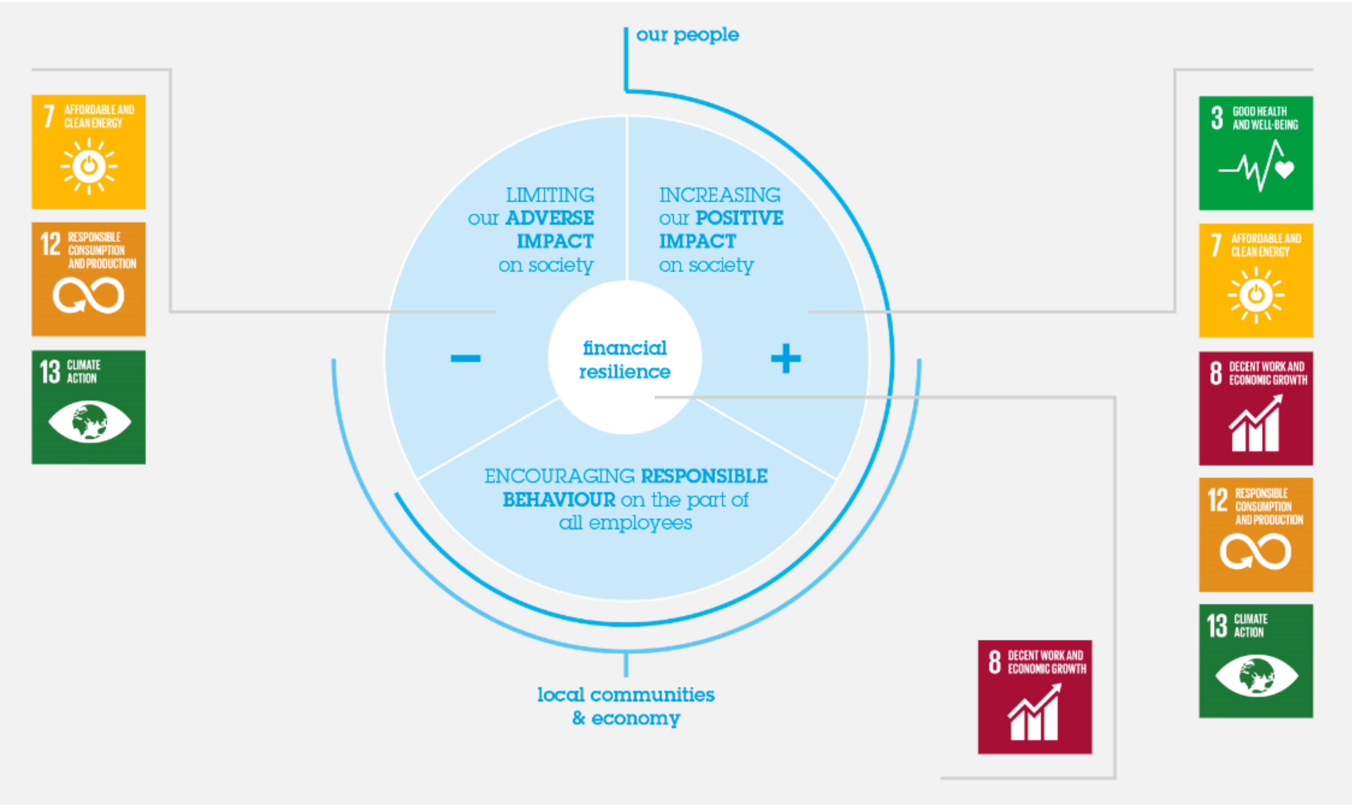
The most important Key Performance Indicators (KPIs) relating to sustainable and profitable growth are set out in the KBC Group annual report.

Our role in society (KBC Group)

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.

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. As a financial institution, we have a crucial role to play in achieving these objectives. While the 17 SDGs are all interrelated and relevant, and we ensure through our sustainability policy that we work on achieving each of these goals, we have decided to focus more on the five goals where, we believe, KBC can have the greatest impact and make the greatest contribution. These goals are most closely aligned to our business and sustainability strategies (see diagram).



Good health and well-being
We aim to develop banking and insurance products that focus on health, health care and improving quality of life. In our social projects and prevention campaigns, we focus on themes such as health and road safety and attempt to create even more impact. 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 a gradual exit programme for the financing of non-sustainable energy solutions, including thermal coal and oil and gas.

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. Through our microfinancing and microinsurance activities – in association with BRS – we provide local rural businesses and farmers in the Global South access to financial services, as well as facilitating sustainable local development and contributing to financial inclusion.

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. We advise all our clients to choose socially responsible 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. Our focus on sustainable investments is a key part of our sustainability strategy. We consider the climate performance of our investments and actively work with our investee companies. 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 attempt to address climate-related risks and also focus on climate-related opportunities.

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 to clarify the importance of responsible behaviour and to provide a framework to help our employees take difficult decisions when faced with dilemmas. This 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.

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 and in the 'Our business units' section.

Aiming to enhance our positive impact on society

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

- Launch in the Czech Republic of ČSOB FILIP, an app that enables children to improve their financial and digital knowledge in an educational way.
- Educational programmes in schools (including in Belgium and the Czech Republic) aimed at increasing financial literacy among young people (several lessons were postponed or cancelled due to the coronavirus).
- Lending to education sector: 1 billion euros.

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 green bonds
- Stricter policies regarding loans related directly to the exploration of new oil and gas fields.
- Supply in the Czech Republic of a specific mortgage loan to purchase an energy-efficient home or make your home more energy-efficient.
- Launch of the MoveSmart app by KBC Autolease, which makes it easy for people to use shared bikes, cars and public transport.
- Alliance between KBC Belgium and Encon to help businesses make the transition to more sustainable practices.

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

- Access for KBC Mobile clients in Belgium to Helena, a secure environment for all medical documents.
- ATMs equipped with voice recognition technology for visually impaired clients and eScribe for hearing-impaired clients in the Czech Republic.
- Financial and material aid to sick children through the K&H MediMagic programme in Hungary.
- Loans provided for senior care and healthcare sectors: 6 billion euros.

Entrepreneurship

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

Examples

- Partnership with BRS, which supports microfinance and microinsurance businesses in the Global South.
- Active use of Start it @KBC to support women entrepreneurs in the start-up world.
- Start it X: innovation programme developed specifically for large companies and organisations working towards open and sustainable innovation and seeking to give their employees the opportunity to develop their own ideas, as well as to collaborate with start-ups and scale-ups and participate in workshops and events.
- Launch of the 'The Family Business Knowledge Centre' website to support the NextGens of Hungarian family businesses in sustainable business management.

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. A complete list of our sustainability policies can be found in our Sustainability Report.

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, socially responsible and conventional funds, suppliers

Human rights	Our human rights policy is based on 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, socially responsible and conventional 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, while coal mining companies and utility companies that generate their energy production from coal are excluded from all investment funds.	Conventional funds
KBC Asset Management – SRI exclusions	For socially responsible funds, we go even further in the exclusion and restriction of controversial activities like all fossil fuels, gambling, defence and fur.	Socially responsible funds

Given that society's expectations towards sustainability and social responsibility are evolving, we work continuously to tighten our sustainability targets and policies. In recent years, for example, we decided to expand our scope to include proprietary investments (including acquisitions) and advisory services.

Specific policies related to coal:
KBC does not wish to do business with energy producers under the following circumstances:

- When existing clients have more than 25% of their production capacity based on coal.
- When companies that are not yet clients have any production capacity based on coal.
- The threshold will be reduced to zero for all clients in 2030.
- 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 was tightened further in April 2021, and existing clients are required (i) to submit a plan the phasing out of 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.

Specific policies related to oil and gas:

- Since November 2021, all financing, insurance and advisory services related directly to the exploration of new oil and gas fields, are excluded.
- In addition, KBC imposes restrictions on the provision of financing and consulting services to vertically integrated oil and gas companies:
  - The term for all new loans provided to vertically integrated oil and gas companies will expire no later than 2030, unless the company in question has publicly committed not to exploit new oil or gas fields;
  - From 1 January 2022, KBC will ensure that all new financing and advisory contracts signed with these types of large vertically integrated oil and gas companies contain a contractual clause in which the client undertakes not to use the loan provided by KBC for the exploration of new oil and gas fields.

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). More details regarding specific governance in respect of climate change are provided elsewhere in this report.

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. The team 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.

The Corporate Sustainability 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.

The Sustainability departments and CSR 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 the climate (KBC Group)

The climate aspect in our business model

As a bank-insurer, we have an influence on climate change in two ways. Firstly, 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, 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 (such as the heavy flooding in Belgium in the summer of 2021), or the impact on our loans or investments when relevant counterparties suffer the negative consequences of climate change or the transition to a lower-carbon society (which can lead to 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), the impact of rising market prices on greenhouse gas emissions, and technological innovations.

We actively modify our business model as needed, adjusting it both for the purpose of reducing or avoiding any negative impact (see our relevant goals in this area) and to contribute to reducing global warming within the targets set in the Paris Agreement. We obviously also intend to capitalise on the many opportunities presented by the transition to a greener and more sustainable economy. 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).

Climate governance

Climate governance forms part of our general sustainability governance (see ‘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, the expectations of the ECB and other regulators in this regard and the EU Action Plan.

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. 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. The Core Team is in contact with all relevant group departments. A separate project has also been launched as part of the Sustainable Finance programme for the purpose of collecting climate-related data and to streamline the drafting of the various reports. The project is managed by Group Finance, with the close involvement of the Data Management team and all those responsible for reporting in the various core countries. The Sustainable Finance core team also works closely with the local sustainability coordinators.

A steering committee oversees the progress and the practical implementation of the various measures implemented under the programme. The steering committee is chaired by the CFO, who is also a member of the ISB, while the other members are permanent representatives of the Finance, Risk and Sustainability departments. All decisions on policy-related topics, the climate-related strategy and the overall priorities are made 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.

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;
- supporting our clients in their transition towards more sustainable business models, including through partnerships that provide them with advice and effective support in improving their energy performance;
- 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. We report on this in a transparent manner (also see our Sustainability Report).

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 – 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.

Integrating climate-related risks, opportunities and targets into our sector approach remains a key challenge.

- We started out by analysing our credit portfolio, and have now also included our insurance portfolios in the analyses. Based on a materiality assessment, as stipulated in the TCFD, we focused on the sectors representing more than 5% of industrial loans designated as climate-sensitive and carbon-intensive. These analyses form the basis for determining a strategy and targets that must help us to effectively honour our climate commitment as part of 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 the first policy decisions can be taken for the entire group portfolio.
- We have drawn up 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.
- The exercises were further updated in 2021 for the white papers on energy, commercial real estate and home loans, agriculture and food production, transport, car loans and car leasing. Through these updates, KBC will also set specific climate targets for 2030 and 2050 for a number of sectors and industries, including the related policy decisions to achieve these targets.

We report on our approach, progress and challenges in the area of the environment through channels such as our Sustainability Report and this annual report and via sustainability questionnaires (including CDP, S&P, 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)*

Third green bond – November 2021	750-million-euro issue with a term of five years and three months. The proceeds will be used to finance loans for sustainable investments such as home loans and renewable energy projects. CO_2e emissions avoided in this way amount to roughly 138 000 tonnes annually.
Socially responsible investment funds	Wide range of socially responsible 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 socially responsible investment solutions. Moreover, all companies that can be linked to fossil fuels have been excluded from all our sustainable investment funds.
Project finance	We are actively involved in the financing of renewable energy projects in all core countries.

	In Belgium, for example, we entered into a major new project financing transaction in 2021 for the first Belgian zero-subsidy wind farm in Ghent. In Hungary, we financed the construction of 39 new photovoltaic power stations with a total installed capacity of nearly 20 MWp. The entire project was developed by Slovakian investors and represents a fine example of cross-border cooperation between KBC entities in the financing of renewable energy sources. In Bulgaria, UBB funded new renewable energy projects involving more than 40 MW in 2021, avoiding more than 30 tonnes of new carbon emissions.
Making homes more sustainable	KBC Bank has been providing the Flemish 0% loan to clients since January 2021. Clients who purchase an energy-efficient house or apartment in Flanders (EPC label E or F) can contract a special 0% renovation loan for a maximum of 60 000 euros to make the home energy-efficient within a period of five years (EPC label A, B or C). The annual interest the client pays on this loan is reimbursed by the *Vlaams Energie en Klimaat Agentschap* (Flemish Energy and Climate Agency). ČSOB in the Czech Republic also supported the transition to energy-efficient homes in 2021 by providing green mortgage loans. In Hungary, K&H was among the first, in October 2021, to launch the state-financed 'green' mortgage, which offers a very favourable interest rate if the home purchased has at least EPC BB or a maximum use of primary energy of 90 kWh per square metre per year.
More sustainable transport	KBC Bank Belgium provides low-interest consumer loans to retail clients to help them invest in more sustainable mobility through the purchase of electric and plug-in hybrid vehicles and bicycles. The KBC Autolease bicycle lease park currently contains more than 20 000 lease bicycles. In Bulgaria, UBB Interlease has included a specific lease product in its COSME programme for financing electric and hybrid vehicles and all kinds of equipment relating to renewable energy. In Slovakia, ČSOB also works with its partners to actively promote the use of no-emission and low-emission vehicles.
Non-life insurance: climate-related product features	In 2021, we adapted our car insurance in Belgium to accommodate the growing popularity of electric vehicles and offered comprehensive cover and adequate support for electric and hybrid vehicles. For clients installing their own charging stations, this is automatically included in the home insurance policy, which also covers other green investments such as solar panels and home batteries. We also created our own multi-risk climate insurance for farmers in 2021, as they are increasingly affected by extreme weather conditions. Farmers and growers cultivating open-air crops, including fruit growers and arable farmers, can take out insurance to protect them from crop damage caused by extreme and rough weather conditions such as storm, hail, frost, ice, precipitation and drought.
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 is promoting sustainable financial solutions amongst its corporate clients, including by means of green and sustainability bonds and green and sustainability-linked loans. They are structured in accordance with the ICMA Green/Sustainability Bond Principles and the LMA Green/Sustainability-Linked Loan Principles. Specifically in 2021, for example, KBC Bank acted as an arranger for the sustainability-linked loan for Euronav and for a new sustainability bond for VPG. ČSOB in the Czech Republic successfully completed its first euro business bond mandate for CTP in 2021.
Carbon footprint calculation tool	In Belgium, we launched a pilot project with KBC calculating the carbon footprint for corporate clients. The pilot project was also expanded to include SMEs and we intend to roll out the carbon footprint calculator in all our core countries.

* The use of terms such as 'green' and 'sustainable' here and elsewhere in this report should not in any way be taken to mean that the measures and policies described are already fully aligned with the EU Taxonomy.

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 businesses in their transition to a more sustainable business model. This approach has since also been introduced in all our other home markets, and we have conducted more than 1 000 conversations on these issues with corporate clients. This approach is initially aimed at providing training to our relationship managers on sustainability and climate issues. The first dialogues with clients then took place, which were geared towards the strategic sustainability approach and towards specific themes, such as the impact of the non-financial reporting directive, the EU Taxonomy, green lending, etc. This was followed up by subsequent dialogues during which specific actions were discussed and determined. This approach has been a success, and we will continue to invest time in discussing sustainability issues with our clients.

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 socially responsible investments alongside traditional ones, thereby raising awareness amongst our clients and enabling them to make properly founded choices. All socially responsible KBC investment funds comply with the 'Towards Sustainability' quality standard developed at the instigation of Febelfin and is supervised by the Central Labelling Agency of the Belgian SRI Label.

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). 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, we are playing our part in developing 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 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. It relates to targets on limiting our own direct environmental impact as well as targets for our indirect impact. An overview of these targets and the results is provided in the KBC Group annual report.

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 tested the latter in a growing number of categories of our loan portfolio. 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. For the second year now, KBC Asset Management is additionally testing a method for mapping the climate impact of all investment funds on its portfolio. This analysis, based on TRUCOST data and methodology, was applied for the first time in 2021 to KBC Insurance's proprietary investment portfolio and to the investments of the KBC Pension Fund. The Data & Metrics Project launched in 2021 (as part of the Sustainable Finance Programme) is also committed to collecting all climate-related data, drafting reports on this topic, and integrating all the methodologies used to create a consistent picture of the climate impact of our portfolios. The initial results of the various methodologies are published in our Sustainability Report.
An overview of the loan portfolio for the most climate-sensitive sectors is provided in the KBC Group annual report.

In 2021, we reported on the estimated greenhouse gas emissions associated with our lending activities for the first time. For this purpose, we used the measurement methodology of the Partnership for Carbon Accounting Financials (PCAF), a worldwide standard for the harmonised measurement of financed emissions. The KBC Group annual report contains a table that provides an overview of the results. We also refer to our Sustainability Report, which contains detailed information on the PCAF measurement method and the limitations that must be considered when interpreting the results. This report also contains information on how we intend to gradually improve our reporting on these emissions by gathering more adequate and more refined data.

Our own environmental footprint

Data relating to our own environmental footprint can be found in the KBC Group annual report. The data and calculations of the greenhouse gas emissions have been verified by Vinçotte in accordance with ISO 14064-3. For further information on our environmental footprint, including more detailed descriptions and the methodology and scope of the calculations, see our Sustainability Report.

Sustainability integrated into our remuneration policy

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

- The variable remuneration of Executive Committee members is linked to factors including the achievement of a number of collective targets. One such target is specifically related to progress in the area of sustainability, which is evaluated every six months via the KBC Sustainability Dashboard report. 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 2021' 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 (reduced paper consumption, for instance).

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.

EU Taxonomy

The Taxonomy Regulation establishes an EU-wide framework according to which investors and businesses can assess whether certain economic activities are environmentally sustainable. The required information is set out in the KBC Group annual report.

Focus on human rights (KBC Group)

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; (iv) the OECD Guidelines for Multinational Enterprises and (v) 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 based on 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, the KBC Group Human Rights Policy 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 closely monitor compliance with them.
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. Socially responsible investment funds, moreover, have to meet additional controls.

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.

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

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

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

- We perform risk scans to identify all key risks.
- We define our risk appetite in a clear manner.
- We translate that into strict limit tracking per activity and business unit.
- We monitor the risk profile of existing and new products via a 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, operational, compliance and reputational risk, business and strategic risk, and climate-related and other ESG risks. 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 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, which are set out in the KBC Group annual report.

Our financial report

- We review the consolidated results and the balance sheet in this section of the annual report. The non-consolidated financial statements and balance sheet can be found in the 'Company annual accounts' section.
- The overall impact on the net result of fluctuations in the exchange rates of the main non-euro currencies was limited.
- KBC Insurance and KBC Bank use the same consolidated financial statement and balance sheet layouts as KBC Group, their parent company, reflecting the integrated bank-insurer character of the KBC group.
- For information on significant post-balance-sheet events, see Note 6.8 of the 'Consolidated financial statements'.
- An overview of the impact of the 'overlay' approach on the consolidated income statement is provided under 'Consolidated income statement' in the 'Consolidated financial statements' section.
- All KBC Insurance shares are owned directly by KBC Group. In the third quarter of 2021, KBC Insurance paid KBC Group an interim dividend of 235 million euros.

Consolidated income statement

The consolidated income statement of the KBC Insurance group is as follows:

(in millions of EUR)	Note	2021	2020
Net interest income	3.1	398	452
Interest income	*3.1*	*434*	*498*
Interest expense	*3.1*	*- 36*	*- 46*
Non-life insurance (before reinsurance)	3.7	799	882
Earned premiums	*3.7*	*1 905*	*1 795*
Technical charges	*3.7*	*- 1 106*	*- 913*
Life insurance (before reinsurance)	3.7	46	11
Earned premiums	*3.7*	*1 196*	*1 223*
Technical charges	*3.7*	*- 1 150*	*- 1 212*
Ceded reinsurance result	3.7	25	- 20
Dividend income	3.2	31	34
Net result from financial instruments at fair value through profit or loss	3.3	117	1
of which result on equity instruments (overlay approach)	*3.3*	*104*	*- 14*
Net realised result from debt instruments at fair value through OCI	3.4	- 2	0
Net fee and commission income	3.5	- 373	- 364
Fee and commission income	*3.5*	*161*	*147*
Fee and commission expense	*3.5*	*- 533*	*- 512*
Net other income	3.6	74	79
TOTAL INCOME		1 116	1 074
Operating expenses	3.8	- 480	- 487
Staff expenses	*3.8*	*- 233*	*- 228*
General administrative expenses	*3.8*	*- 225*	*- 242*
Depreciation and amortisation of fixed assets	*3.8*	*- 21*	*- 17*
Impairment	3.10	- 3	- 11
on financial assets at AC and at FVOCI	*3.10*	*5*	*- 6*
on goodwill	*3.10*	*0*	*0*
other	*3.10*	*- 7*	*- 5*
Share in results of associated companies and joint ventures	3.11	0	0
RESULT BEFORE TAX		633	576
Income tax expense	3.12	- 125	- 126
Net post-tax result from discontinued operations	-	0	0
RESULT AFTER TAX		508	450
attributable to minority interests	-	0	0
of which relating to discontinued operations	-	*0*	*0*
attributable to equity holders of the parent	**-**	**508**	**450**
of which relating to discontinued operations	-	*0*	*0*

Net result

The consolidated result of the KBC Insurance group came to 508 million euros in 2021, as opposed to a year-earlier figure of 450 million euros.

This 58-million-euro increase is entirely attributable to the higher level of investment income from shares, partially offset by a lower technical result in the non-life insurance business:

- Earned premiums in non-life insurance were up in all KBC home markets, with a total increase of 6% on the year-earlier figure.

Non-life technical charges rose by 21% and were negatively impacted by the recovery of economic activity after the coronavirus lockdown periods in 2020 and the exceptional claims incurred relating to the storms in Belgium and the Czech Republic.
The ceded reinsurance result in 2021 was positive, driven by higher reinsurance amounts recovered in connection with the aforementioned storm-related claims.
The aggregate impact of these factors resulted in a favourable combined ratio of 88.9%.

- Earned premiums in life insurance amounted to 1 196 million euros in 2021. However, in compliance with IFRS, certain types of life insurance (i.e. unit-linked products) have been excluded from this figure. If the premium income from such products is included, premium income from the life insurance business totalled close to 2 billion euros, 1% lower than in 2020. Unit-linked products were down 2% year-on-year due to a decrease in single-premium products (mainly in Belgium and the Czech Republic). Guaranteed-rate products remained at the same level as in 2020 as the sale of single-premium products is still suspended in Belgium (Life Future 8 products discontinued as of August 2019). Recurring-premium policies performed well in all countries (6% higher than in 2020).
  Lower technical charges are chiefly attributable to lower premium income and lower 'uprenting' in Belgium (scaling back of portfolio with higher guaranteed interest rate (both recurring-premium and single-premium policies)).
- Investment income increased significantly compared to 2020, owing primarily to realised gains on shares ('overlay' approach), partially offset by lower interest income and slightly lower dividend income.
- Operating expenses were down 1.6% due to a decrease in general administrative expenses (2020 was characterised by a higher one-off internal charge made by KBC Group following a change in the accounting policy for software), partially offset by higher staff expenses and depreciation of fixed assets.

Review of the technical and non-technical results

(in millions of EUR)	Life	Non-life	Non-technical account	Total
2021				
Earned premiums, insurance (before reinsurance)	1 196	1 905	0	3 101
of which changes in the provision for unearned premiums	- 1	- 48	0	- 49
Technical charges, insurance (before reinsurance)	- 1 150	- 1 106	0	- 2 256
Claims paid	- 1 163	- 872	0	- 2 036
Changes in technical provisions	- 1	- 223	0	- 224
Other technical result	14	- 10	0	4
Net fee and commission income	- 5	- 367	0	- 373
Ceded reinsurance result	- 2	27	0	25
General administrative expenses	- 149	- 255	- 2	- 407
Internal claims settlement expenses	- 9	- 59	0	- 68
Indirect acquisition costs	- 31	- 68	0	- 98
Administrative expenses	- 109	- 128	0	- 238
Investment management fees	0	0	- 2	- 2
Technical result	- 111	204	- 2	90
Investment Income	383	93	67	543
Technical-financial result	272	297	65	633
Share in results of associated companies and joint ventures	-	-	0	0
RESULT BEFORE TAX	272	297	65	633
Income tax expense	-	-	-	- 125
RESULT AFTER TAX	-	-	-	508
attributable to minority interest	-	-	-	-
attributable to equity holders of the parent	-	-	-	**508**
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
Changes in technical provisions	- 53	- 101	0	- 154
Other technical result	- 22	- 6	0	- 28
Net fee and commission income	- 19	- 346	0	- 364
Ceded reinsurance result	- 2	- 18	0	- 20
General administrative expenses	- 151	- 266	- 2	- 419
Internal claims settlement expenses	- 9	- 63	0	- 71
Indirect acquisition costs	- 32	- 71	0	- 104
Administrative expenses	- 110	- 132	0	- 242
Investment management fees	0	0	- 2	- 2
Technical result	- 161	253	- 2	89
Investment Income	359	95	32	486
Technical-financial result	198	348	29	576
Share in results of associated companies and joint ventures	-	-	0	0
RESULT BEFORE TAX	198	348	29	576
Income tax expense	-	-	-	- 126
RESULT AFTER TAX	-	-	-	450
attributable to minority interest	-	-	-	-
attributable to equity holders of the parent	-	-	-	**450**

Investment income (in millions of EUR, for 2021 and 2020, respectively) comprises: ‘Net interest income’ (398, 452), ‘Net dividend income’ (31, 34), ‘Net result from financial instruments at fair value through profit or loss’ (117, 1), ‘Net realised result from debt instruments at fair value through OCI’ (-2, 0), ‘Other net income’ (1, 11) and ‘Impairment’ (-3, -11). The ‘Non-technical account’ also includes the results from non-insurance subsidiaries, such as VAB group, ADD and Pension Insurance Company UBB EAD, 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) and the realised gains on shares related to Group Re.

Results from the non-life insurance business

The result (before tax) generated by the non-life insurance business for 2021 (297 million euros) was much lower than in 2020 (348 million euros).

In 2021, earned premiums in non-life insurance totalled 1 905 million euros, an increase of 6% on the year-earlier figure. They grew by +5% in Belgium, by +11% in the Czech Republic, and by +5% in the three other Central and Eastern European markets combined.

Technical charges for non-life insurance came to -1 106 million euros in 2021, a significant increase of 21% on the year-earlier figure. The higher expenses related to claims incurred were most significant in Belgium (+27%) and the Czech Republic (+21%), as both countries suffered from extreme weather conditions in 2021.

In addition, all KBC home markets saw a recovery of economic activity in 2021 compared to 2020 (owing to the coronavirus crisis and lockdown periods), which also had a negative impact on technical charges in general.

The ceded reinsurance result in 2021 was 27 million euros, a substantial increase compared to the negative result of -18 million euros in 2020. The increase in reinsurance premiums payable were more than offset by the higher reinsurance amounts recovered in connection with claims relating to the storms in Belgium and the Czech Republic.

General administrative expenses decreased further by 4%, despite the increase in earned premiums.

Despite the strong negative impact the recovery of economic activity and the claims relating to extreme weather conditions had on the evolution of the claims incurred, 2021 is characterised by good results from the non-life insurance business. This is mainly attributable to growth in premium income, lower general administrative expenses and higher reinsurance amounts recovered.

This resulted in an excellent combined ratio of 88.9%, which is higher than the year-earlier figure (84.5%), but still lower than the favourable ratio of 89.9% in 2019 (pre-pandemic).

Non-life **in %**	**2021**	**2020**
Net claim ratio	58.7%	54.2%
Net cost ratio (vs written premium)	30.1%	30.3%
Net combined ratio	88.9%	84.5%

Footnote to table: 'Net expense ratio' and 'Net combined ratio' for 2020 (excluding the higher one-off internal charge due to the revised accounting policy for software).

Results from the life insurance business

At 272 million euros, the result before tax generated by the life insurance business in 2021 was 38% higher than the figure for 2020 (198 million euros).

In 2021, earned premiums in life insurance totalled 1 196 million euros, a decline of 2% on the year-earlier figure.

Sales of life insurance (including unit-linked products) were down 1% on the previous year. Guaranteed-rate products remained at the same level as in 2020 due to a further decrease in single-premium products (-35%, as their sale is still suspended), offset by an increase in recurring-premium policies. Unit-linked products were down 2%, due mainly to a 6% decrease in single-premium products (primarily in Belgium and the Czech Republic), while unit-linked recurring-premium policies performed well. Overall, products offering guaranteed rates accounted for just over 52% of sales in 2021 and unit-linked life insurance for almost 48%.

Factors underlying the lower technical charges include weaker sales of unit-linked single-premium products in the Czech Republic (and to a lesser extent in Slovakia) and lower 'uprenting' in Belgium (due to the scaling back of the single-premium portfolio and a lower guaranteed interest rate (both recurring-premium and single-premium products)), partially offset by higher profit shares (lower in 2020 due to the coronavirus).

Investment income increased compared to 2020, which was characterised by the increase in impairment on shares held in portfolio, caused by the impact of the coronavirus crisis on the stock market (in the first quarter of 2020). Interest income decreased further in 2021 as a result of falling returns on bonds linked to lower market interest rates.

Non-technical result

The non-technical result (65 million euros) in 2021 was higher than in 2020, mainly due to greater realised gains on shares ('overlay' approach) and did not include any exceptional items.

Income tax expense

The income tax expense for 2021 totalled -125 million euros, or almost 20%, slightly lower than its year-earlier level (22%), due to the high non-deductible impairment on shares in 2020.

Consolidated balance sheet

(in millions of EUR)	Note	31-12-2021	31-12-2020
ASSETS			
Cash, cash balances with central banks and other demand deposits with credit institutions	-	509	277
Financial assets	4.0	36 706	35 985
Amortised cost	*4.0*	*9 560*	*8 254*
Fair value through OCI	*4.0*	*11 108*	*12 576*
Fair value through profit or loss	*4.0*	*16 017*	*15 150*
of which held for trading	*4.0*	*29*	*11*
Hedging derivatives	*4.0*	*21*	*4*
Reinsurers' share in technical provisions, insurance	5.6	191	145
Profit/loss on positions in portfolios hedged against interest rate risk	-	0	0
Tax assets	5.2	83	37
Current tax assets	*5.2*	*45*	*32*
Deferred tax assets	*5.2*	*38*	*5*
Non-current assets held for sale and disposal groups	5.11	0	0
Investments in associated companies and joint ventures	5.3	0	0
Property, equipment and investment property	5.4	282	296
Goodwill and other intangible assets	5.5	212	152
Other assets	5.1	758	672
TOTAL ASSETS		**38 741**	**37 565**
LIABILITIES AND EQUITY			
Financial liabilities	4.0	14 591	13 761
Amortised cost	*4.0*	*968*	*991*
Fair value through profit or loss	*4.0*	*13 608*	*12 730*
of which held for trading	*4.0*	*5*	*6*
Hedging derivatives	*4.0*	*14*	*39*
Technical provisions, before reinsurance	5.6	18 974	18 724
Profit/loss on positions in portfolios hedged against interest rate risk	-	0	0
Tax liabilities	5.2	346	406
Current tax liabilities	*5.2*	*44*	*30*
Deferred tax liabilies	*5.2*	*302*	*375*
Liabilities associated with disposal groups	5.11	0	0
Provisions for risks and charges	5.7	3	3
Other liabilities	5.8	836	857
TOTAL LIABILITIES		34 750	33 750
Total equity	5.10	3 991	3 815
Parent shareholders' equity	5.10	3 991	3 815
Minority interests	-	0	0
TOTAL LIABILITIES AND EQUITY		**38 741**	**37 565**

At the end of 2021, the consolidated total assets of KBC Insurance came to 38 741 million euros, up 3.1% year-on-year.

Investments related to unit-linked products and the securities portfolio (bonds and shares) made up just over 88% of the assets.

Securities portfolio (excluding investments related to unit-linked products)

(In millions of EUR)	31-12-2021	31-12-2020
Amortised cost	7 036	5 585
OCI	11 108	12 576
Fair value through profit or loss (excluding trading)	1 368	1 309
Total	19 511	19 470
Shares	7.7%	7.0%
Bonds	92.3%	93.0%

The securities portfolio (excluding investments related to unit-linked products) was in line with a year earlier. Additional investments and increased share value more than offset bonds that had reached maturity, shares that had been sold and a decrease in the market value of bonds. Most of the securities portfolio remains invested in bonds.

Technical provisions and financial liabilities for unit-linked products

Financial liabilities related to unit-linked products increased by 6.9% (or 879 million euros), primarily because of an increase in the market value of the portfolio and to a lesser extent due to growth in Bulgaria (higher sales and acquisition of the NN portfolio), while net production in Belgium was lower than in 2020.

Non-life technical provisions rose by almost 8% (or 292 million euros), due to the higher provision for new claims, partially offset by payments regarding claims of previous financial years.

Life technical provisions were close to the 2020 level, as a result of the outflow of single-premium products in Belgium (Life Capital and LF8) and the Czech Republic, largely compensated by an increase in universal life in Belgium (both group and individual) and the acquisition of an NN portfolio in Bulgaria.

(In millions of EUR)	31-12-2021	31-12-2020
Liabilities Unit Linked	13 603	12 724
Technical provisions, before reinsurance (other than Unit Linked)	18 974	18 724
Provisions Non Life	3 974	3 682
Provisions Life	15 000	15 042
Total	32 577	31 448

The reinsurers' share in technical provisions rose by 46 million euros, in line with the amounts still to be recovered from the reinsurer.

Tax liabilities

Deferred tax liabilities fell by 73 million euros, mainly on account of the decreased market value of financial assets measured at fair value through OCI.

Equity

(In millions of EUR)	31-12-2021	31-12-2020
Total parent shareholders' equity	3 991	3 815

Consolidated equity increased by 176 million euros, with a number of items offsetting each other, as shown in the table below.

(In millions of EUR)	31-12-2021
Total	176
Share of the group in profit for the period	508
Dividends paid	- 235
Unrealized gains and losses	- 97

These items were:

- The group's share (+508 million euros) in the result for the financial year.
- Payment of an interim dividend in the amount of 235 million euros.
- A 97-million-euro decrease in the revaluation reserves, with the movements relating primarily to a decrease in bonds (-346 million euros) and an increase in share reserves (+214 million euros).

A detailed overview of changes in equity is provided under 'Consolidated statement of changes in equity' in the 'Consolidated financial statements' section.

Solvency (according to Solvency II)

(In millions of EUR)	31-12-2021	31-12-2020
Available capital	4 075	3 868
Solvency Capital Requirement (SCR)	2 029	1 747
Solvency II ratio	201%	222%
Solvency surplus	2 046	2 121

The main factors behind the decrease in the solvency ratio from 222% at year-end 2020 to 201% at year-end 2021 were:

- The decision to distribute the profits for 2020 on top of the dividend for 2021, resulting in a decrease of the amount of capital available and, therefore, a lower ratio.
- The rising stock markets (the MSCI World Index was up 31%), leading to an increase in the amount of capital available and the amount required. Given that, relatively speaking, the capital required weighs more heavily, the rising stock markets brought the ratio down.
- The acquisition of NN's Bulgarian pension and life insurance business resulted in a decrease in the amount of capital available and an increase in the amount of capital required.
- The negative effects set out above on the Solvency II ratio were partly offset by rising interest rates and a number of updated models and parameters for determining the best estimate for insurance liabilities.

Appropriation of the results of KBC Insurance NV for 2021

The result available for appropriation came to +763 million euros for financial year 2021 (based on the company annual accounts). The Board of Directors will propose to the General Meeting that 760 million euros be paid out as dividend and 3 million euros be paid out as an employee profit-sharing bonus. An interim dividend of 235 million euros was already paid out in the third quarter of 2021.

Circumstances that could significantly affect the company's development

Conducting insurance business involves typical risks such as credit risk, market risk, liquidity risk, insurance technical risks and operating risk. Managing those risks is one of management's key tasks. For more information on managing risk, see the 'Risk management' section.

Research & development

We must continue to respond as a group to the shifting needs of our clients and to constantly changing market conditions. The commercial relationship with our clients is increasingly shaped by a strict legal framework that aims to protect them and defend their interests. Compliance with these rules is naturally the minimum requirement. However, trust in KBC will be determined chiefly by client experience and how they perceive KBC's service.

Research and development have been performed at a variety of group companies as part of a programme to develop new and innovative financial products and services. Over the past few years, we have launched numerous successful mobile and other innovative apps.

Information on branch offices

KBC Insurance opened a branch office in Ireland in 2019. In view of the (planned) sale of the banking activities in Ireland by sister company KBC Bank, the future activities of this branch office will be evaluated.

Additional information

Information on financial instruments, hedge accounting and the use thereof is provided in the 'Consolidated financial statements' section (Notes 1.2, 3.3, and 4.0 among others) and in the 'Risk management' section.

How do we manage our risks?

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

More detailed information can be found in the Solvency and Financial Condition Report (SFCR), that will be available end of April 2022 and in KBC's Risk Report, which is available at www.kbc.com (the risk report has not been audited by the statutory auditor)

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

- the ‘Risk governance’ section;
- the ‘Technical insurance risk’ section;
- parts of the ‘Credit risk’ section: ‘Managing credit risk’, 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;
- the ‘Solvency KBC Insurance table (the audited parts are indicated in a footnote to the table), ORSA’ and ‘Stress testing.

Important events or trends that – in terms of risk management – marked 2021 were the ongoing uncertainty surrounding the coronavirus crisis (see below and in each section), the increasing importance of climate-related and environmental, social and governance (ESG) risks (see the ‘Climate-related and other ESG risks’ section), the constant stream of cyber security threats (see the ‘Information risk in non-financial risks’ section) and to face these challenges we further increase our efforts to obtain the KBC strategic goals of data transformation (see below). These events have accelerated certain trends and are also reflected in the way we conduct risk management.

Regarding the situation in Ukraine: see Note 6.8 (Post-balance-sheet events) in the Consolidated financial statements.

Coronavirus crisis

Although the vaccination campaigns are accelerating throughout the world, the coronavirus crisis continues to cast its shadow over us all. The number of coronavirus infections remains high and keeps putting pressure on the intensive care capacity and the medical sector as a whole.

These uncertainties will continue to have an impact on the worldwide economy and on the challenges we face as a financial institution. At present, the impact on KBC seen from operational and credit risk points of view remains limited:

- From an operational risk perspective, the different waves had no impact in the provision of services to our clients and in ensuring customer service continuity. This is proof of KBC’s robust operational resilience.
- The coronavirus pandemic resulted in challenges in the area of ICT and in increasing cyber security threats globally as cyber criminals tried to take advantage of the pandemic. The massive shift to teleworking underlined the importance of a solid ICT infrastructure and layered protection against cyberattacks. Their continued effectiveness was demonstrated in 2021, as there was no significant IT or business continuity impact on KBC.
- With respect to credit risk management, the pandemic situation already allowed for some easing of the initially implemented group-wide restrictive measures and policies (e.g., fewer credit underwriting restrictions on sectors vulnerable to the coronavirus). However, intensified monitoring is still ongoing in all countries, with a focus on different aspects depending on the portfolio and the local regulatory measures taken. If the coronavirus crisis worsens with again more restrictions for specific sectors, measures similar to those in previous waves will be discussed and reinstated if needed.

Consequently, although our net result recovered strongly in 2021, and while our capital position and liquidity position remained very solid throughout the crisis, the coronavirus crisis and the related risks may continue to have an impact on the profitability and performance of our group.

Risk innovation, transformation and straight through-processing

With its 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 continuously 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. The goal is 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 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 and the business processes to further improve risk management and increase efficiency. A group-wide initiative was launched to explore opportunities with data analytics, machine learning and AI to modernise risk management across the different risk types and to facilitate a shift towards more proactive, continuous and dynamic risk management. This is a multi-year programme for which we are closely collaborating across functions and countries, and with our applied data analytics and IT departments. The project incrementally delivers a transformation into a predominantly data-driven risk function. It allows us to be even more adept at managing emerging risks and accurately anticipating the risks associated with a fast-changing environment.

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. Employees with an active interest are able to train with analytical tools to experiment and find new insights or predictive risk signals in our data. We continue to invest in knowledge sharing of innovation, technology and trends to further reinforce our risk management practices. These efforts are all to ensure that our risk professionals acquire the relevant digital skills to continue providing expert risk advice. All employees are actively encouraged to participate in the KBC entrepreneurial /intrapreneurial track and cross-silo innovation programmes that are organised group-wide. Several successful group-wide innovation projects were originated by risk employees, showing the results of our focus on innovation and transformation culture and related training.

Risk governance

Main elements in our risk governance model:

- The Board of Directors, assisted by the Risk & Compliance Committee (RCC), which decides on the risk appetite – also defining the risk strategy – each year and supervises the risk exposure in relation to the risk appetite. It is also responsible for the promotion 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.
- 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 integrated risk monitoring for these activities at group level. Liquidity and ALM matters 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.
- 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.

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 assigned at group level. Most of these competence centres are extended virtual teams made up of group and local experts working together.

Components of a 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. In addition to possible sources of risk, it also identifies their potential consequences and materiality for KBC. Risk identification ensures that KBC's risk management covers all material risks the company is exposed to. For this purpose, robust processes have been set up that cover risk identification from different perspectives, including the Risk Scan, the 'New and Active Products Process' (NAPP) and risk signals.

The Risk Scan is a strategic group-wide exercise aimed at identifying and assessing financial and non-financial top risks, i.e. 'risks that keep managers awake at night' and that can significantly impact KBC's business model. The identified top risks are used as input for the yearly financial planning process and for several risk management exercises, including risk appetite setting and stress testing.

The NAPP is a group-wide, highly formalised process to identify and mitigate all risks related to new and existing products and services which may negatively impact the client and/or KBC. Within the group, no products, processes and/or services can be created, purchased, changed or sold without approval in line with NAPP governance. The risk department also conducts periodic assessments of the impact of the expanded and/or updated product and service offering on the group's risk profile.

In 2021 the process was improved, which resulted in a more complete risk assessment and a stronger focus on the strategic fit of new products and services. A group-wide workflow tool, which supports the entire process up to and including the monitoring and reporting stage, has been rolled out in all material entities of the group. The additional risk data which are now captured in the tool will enable more data-driven and more frequent monitoring and analysis of the development of the risk profile.

The internal and external environment are scanned on a continuous basis and using all possible sources of information in order to detect events or changes that might or will impact the KBC group, either directly or indirectly. Risk signals are collected at all levels of the organisation (group and local) and provide a summary of the risks identified and the potential impact for KBC and, where possible, propose remedial action. The Group Executive Committee and the Risk & Compliance Committee/Board of Directors receive periodic updates through clear and comprehensive internal risk reporting (a.o. the 'Integrated Risk Report' or IRR) on risk signals considered material, allowing them to take timely action if and as needed.

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, both regulatory and internally defined, used within the group.

Setting & cascading risk appetite

KBC's tolerance for risk is captured via the notion of 'risk appetite'. 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 by financial constraints (available capital, liquidity, borrowing capacity, earnings-generating capacity, etc.), non-financial constraints (strategic ability, skills, legal constraints, etc.) and regulatory restrictions (e.g., regulatory floors on capital and liquidity ratios). 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 is made explicit via the 'risk appetite statement' (RAS), which is decided at both group and local level. The RAS reflects the view of the Board of Directors and top management on risk-taking in general, 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 the corporate strategy and provides a qualitative description of KBC's playing field. In 2021, the objective to embed climate and environmental impacts into KBC's decision-making was explicitly added to that playing field. The high-level risk appetite objectives are further detailed in a set of 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 measures and thresholds described 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.

Risk analysis, reporting & follow-up

Risk analysis and reporting aim to give management transparency on the risk it is taking 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 process that supports the decision-making process and that 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.

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

Technical insurance risk

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.

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.

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, NAPP analysis 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, is overseen by the Group Insurance Committee (GIC) and is approved by the Executive Committee and the Board of Directors. 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. Breaches at group level are subject to the approval of the Executive Committee/Board of Directors. 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 are reported on a regular basis to the Risk & Compliance Committee and Board of Directors as part of the regular Group Integrated Risk Report.
- Stress testing: internal and external stress tests and sensitivity analyses are performed and the outcome of these tests is reported in the annual Own Risk and Solvency Assessment (ORSA) report. The Solvency II ratio in 2021 remained far above the regulatory threshold of 100% in both the EIOPA and NBB stress tests. Both assessed the impact of an extended coronavirus scenario in a low interest rate environment.

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

The number of claims in the Life segment (e.g., Death, Medical Expenses, Guaranteed Income) remained contained. We do not observe any material impact on our profitability.

Impact of natural catastrophes on technical insurance risk

For some types of natural disasters (such as tornadoes and floods), an increasing trend in their likelihood has been observed in recent years. This has manifested itself over the past year in several devastating natural catastrophe events occurring in our home countries:

- In June, the most severe tornado in the Czech Republic on record destroyed several villages, leading to an estimated impact of 24 million euros before tax and before reinsurance at the end of the second quarter.
- In July, Western Europe was hit hard by exceptional rainfall resulting in floods with a severe impact in Belgium and other countries. The gross loss at year-end 2021 for KBC Insurance NV is 110 million euros before tax and before reinsurance.

We refer to Note 3.7 ‘Insurance results’ for the net impact of these events on the technical result for the non-life business and to the ‘Climate-related and other ESG risks’ section.

The occurrence of multiple natural catastrophe events in such a short period of time raises questions about their exceptionality and whether their likelihood is expected to increase driven by climate change.

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 2021 have been included and are before reinsurance, adjusted to eliminate intercompany amounts related to KBC Group Re, the KBC group’s own reinsurance company. This 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 2021.

Loss triangles, KBC Insurance (in millions of EUR)	Year of occurrence 2012	Year of occurrence 2013	Year of occurrence 2014	Year of occurrence 2015	Year of occurrence 2016	Year of occurrence 2017	Year of occurrence 2018	Year of occurrence 2019	Year of occurrence 2020	Year of occurrence 2021
Estimate at the end of the year of occurrence	791	914	990	940	1 024	1 000	1 072	1 149	1 018	1 260
1 year later	692	769	879	796	888	882	939	1 019	896	
2 years later	670	699	825	750	825	849	894	989		
3 years later	645	677	804	719	810	833	877			
4 years later	631	673	788	708	806	816				
5 years later	625	664	780	697	787					
6 years later	619	662	779	689						
7 years later	606	659	769							
8 years later	601	658								
9 years later	612									
Current estimate	612	658	769	689	787	816	877	989	896	1 260
Cumulative payments	527	588	685	581	636	645	680	726	599	539
Current provisions	85	69	85	109	151	171	196	262	297	721

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. The Solvency capital requirement stood at 1 744 million euros at year-end 2020 and increased to 2 029 million euros at year-end 2021. The main drivers of the increase are higher equity markets and portfolio growth in the non-life business. Solvency II results and more detailed information on ratios are provided in our Solvency & Financial Condition 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.

Credit risk

Managing 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.

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.

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 (in millions of EUR, market value)[1]	31-12-2021	31-12-2020
Per asset type (Solvency II)		
Securities	20 102	20 466
Bonds and alike	18 791	19 230
Shares	1 290	1 231
Derivatives	21	5
Loans and mortgages	2 806	3 074
Loans and mortgages to clients	2 299	2 506
Loans to banks	507	568
Property and equipment and investment property	305	315
Unit-linked investments[2]	14 620	13 831
Investments in associated companies	292	242
Other investments	12	12
Total	38 137	37 939
Details for bonds and other fixed-income securities		
By external rating[3]		
Investment grade	99%	99%
Non-investment grade	1%	1%
Unrated	0%	0%
By sector[3]		
Governments	66%	65%
Financial[4]	23%	23%
Other	11%	13%
By remaining term to maturity[3]		
Not more than 1 year	8%	8%
Between 1 and 3 years	18%	16%
Between 3 and 5 years	15%	16%
Between 5 and 10 years	29%	30%
More than 10 years	29%	30%

[1] The total carrying value amounted to 36 317 million euros at year-end 2020 and to 37 018 million euros at year-end 2021. 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 expected loss is calculated using internal or external ratings. We determine the exposure at default (EAD) by adding up the net loss reserves and the premiums, and the loss given default (LGD) percentage is fixed at 50%.

Credit exposure to (re)insurance companies by risk class[1]: Exposure at Default (EAD) and Expected Loss (EL)[2] (in millions of EUR)	EAD 2021	EL 2021	EAD 2020	EL 2020
AAA up to and including A-	196	0.1	232	0.1
BBB+ up to and including BB-	9	0.0	21	0.0
Below BB-	0	0.0	0	0.0
Unrated	0	0.0	0	0.0
Total	205	0.1	253	0.1

[1] Based on internal ratings.

[2] EAD figures are audited, whereas EL figures are unaudited.

Exposure to sovereign bonds

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

Market risk in non-trading activities

Managing market non trading risk

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

With the risk function, the ALM council – chaired by the CRO Treasury – aims to establish, facilitate, promote and support the solid and efficient integration of all tasks assigned to the local and group risk departments that are accountable for monitoring non-trading market risk. The council acts as a management meeting of the group-wide Extended Competence Centre for ALM & Liquidity Risk.

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).

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 market risk non-trading:

- 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: limits cover all material risks faced by the ALM function: 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 coronavirus crisis on market risk non-trading

The prolongation of the coronavirus crisis preserved the ‘low-for-longer’ sentiment, meaning that interest rates were expected to remain low for some more time. The higher observed inflation sparked increased market uncertainty and paved the way for higher interest rates. As a whole, it formed a very challenging environment for the non-trading activities. However, the balanced structure of the banking books, action taken by the treasury departments and ECB measures limited the impact on non-trading market risk.

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[1] curve for the KBC Insurance		
Impact on value[2] (in millions of EUR)	2021	2020
Total	24	29

[1] In accordance with market standards, sensitivity figures are based on a risk-free curve (swap curve).

[2] Full market value, regardless of accounting classification or impairment rules.

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 the 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)*	0–1 year	1–2 years	2–3 years	3–4 years	4–5 years	> 5 years	Total
31-12-2021							
Fixed-income assets backing liabilities, guaranteed component	1 371	1 281	1 385	847	1 044	8 856	14 784
Equity							987
Property							171
Others (no maturity)							152
Liabilities, guaranteed component	1 758	748	1 223	840	895	9 859	15 323
Difference in time-sensitive expected cashflows	- 387	534	162	7	148	-1003	-539
Mean duration of assets							6,97 years
Mean duration of liabilities							9,93 years
31-12-2020							
Fixed-income assets backing liabilities, guaranteed component	1 384	1 010	1 488	1 370	820	8 674	14 746
Equity							915
Property							177
Others (no maturity)							52
Liabilities, guaranteed component	1 732	905	759	1 242	853	10 067	15 559
Difference in time-sensitive expected cashflows	- 349	105	728	128	- 33	-1392	-813
Mean duration of assets							7,71 years
Mean duration of liabilities							10,33 years

* Time buckets have changed compared to the previous report (including a restatement of 2020 figures) in anticipation of IFRS 17.

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	31-12-2021	31-12-2020
5.00% and higher	3%	3%
More than 4.25% up to and including 4.99%	7%	8%
More than 3.50% up to and including 4.25%	4%	4%
More than 3.00% up to and including 3.50%	9%	10%
More than 2.50% up to and including 3.00%	3%	3%
2.50% and lower	71%	70%
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.

Exposure to sovereign bonds at year-end 2021, carrying value[1] (in millions of EUR)	At amortised cost	At fair value through other comprehensive income (FVOCI)	Held for trading	Total	For comparison purposes: total at year-end 2020	Economic impact of +100 basis points[3]
KBC core countries						
Belgium	1 989	2 154		4 142	*4 284*	-383
Czech Republic	559	540		1 100	*973*	-67
Hungary	114	81	1	195	*198*	-8
Slovakia	251	218		469	*431*	-35
Bulgaria	84	200	14	297	*232*	-18
Ireland		154		154	*167*	-16
Other countries						
France	889	1 220		2 108	*1 883*	-177
Poland	38	206		244	*342*	-8
Italy	35	524		559	*662*	-28
Spain	289	268		557	*279*	-28
US						
Rest[2]	1 070	982	2	2 053	*1 994*	-146
Total carrying value	5 316	6 547	16	11 880	*11 444*	-
Total nominal value	5 229	5 841	15	11 085	*10 360*	-

[1] The table excludes exposure to some supranational entities not considered as sovereigns, such as European Investment Bank or European Investment Fund. 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 2021. (Measured at Group Level)

[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.

At year-end 2021, the carrying value of the total government bond portfolio measured at fair value through other comprehensive income (FVOCI) incorporated a revaluation reserve of 0.6 billion euros, before tax (232 million euros for Belgium, 137 million euros for France, 58 million euros for Italy and 140 million euros for the other countries combined).

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)	31-12-2021	31-12-2020
Bonds rated AAA	-37	-44
Bonds rated AA+, AA, AA-	-82	-95
Bonds rated A+, A, A-	-107	-102
Bonds rated BBB+, BBB, BBB-	-37	-46
Non-investment grade and non-rated bonds	-6	-12
Total carrying value (excluding trading portfolio)	6 152	6 639

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. More information on total non-trading equity exposures is provided below.

Equity portfolio of the KBC Insurance (breakdown by sector, in %)	31-12-2021	31-12-2020
Financials	17%	16%
Consumer non-cyclical	11%	12%
Communication	2%	4%
Energy	0%	1%
Industrials	41%	37%
Utilities	0%	2%
Consumer cyclical	25%	19%
Materials	2%	4%
Other and not specified	1%	6%
Total	100%	100%
In billions of EUR	1.46	1.32
of which unlisted	0.15	0.05

Impact of a 25% drop in equity prices, impact on value (in millions of EUR)	2021	2020
Total	-366	-329

Non-trading equity exposure (in millions of EUR)	Net realised gains (in income statement)		Net unrealised gains on year-end exposure (in equity)	
	31-12-2021	31-12-2020	31-12-2021	31-12-2020
Total	123	116	555	337

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, impact on value (in millions of EUR)	2021	2020
Total	-94	-93

Inflation risk

Inflation can impact a financial company indirectly in many ways, e.g. via changes in interest rates or operational costs. Inflation in general therefor 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. KBC Bank is using indexed bonds as an opportunity to diversify its asset portfolio. 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.

For the insurance activities, the undiscounted value of the inflation-sensitive cashflows was estimated at -563 million euros, against which a 361-million-euro portfolio of indexed bonds and 26.3 million euros in direct and indirect real estate was held.

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.

KBC focuses 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 of 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 of KBC Group under the Danish compromise.

Impact of a 10% decrease in currency value* (in millions of EUR)	31-12-2021	31-12-2020
CZK	-30	-18
HUF	-5	5
BGN	-19	-10
USD	-56	-36

[1] Exposure for currencies where the impact exceeds 10 million euros

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.

Non-financial risks

Operational risk

Managing operational risk

The Extended Competence Centre for Operational Risk, which consists of risk experts at both group and local level, cooperates with other expert functions covering the 9 operational subtypes: Information Technology risk, Information Security risk, Business Continuity risk, Process risk, Outsourcing and third party risk, Model risk, Legal risk, Fraud risk and Personal & Physical Security risk.

Operational risk is the risk of inadequate or failed internal processes, people and systems or from sudden man-made or natural external events.

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), performing risk scans to identity and anlyse risks, 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. An annual stress test is performed to assess the adequacy of pillar 1 operational risk capital. An automated data-driven approach has been worked out for the Internal Control Statement. This approach builds on commonly used operational risk measures. As such, it allows a unified applicability across KBC group, leading to increased objectivity, transparency and comparability.
- Setting and cascading risk appetite: the risk appetite for operational risk overall and for the 9 operational risk subtypes individually, 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, fraud, 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 Internal Control Committee (GICC) is performed on a quarterly basis. Regular reporting and follow-up is presented in the Integrated Risk Report (IRR) and in other specific risk reports towards the Executive Committee, Risk & Compliance Committee and the Board of Directors. If and when needed (e.g. triggered by specific evolutions or concerns, at the request of (senior) management etc.), reporting towards these committees can also be done on an ad-hoc basis. The quality of the internal control environment and related risk profile is reported to KBC's senior management and to the NBB, the FSMA and ECB via the annual Internal Control Statement.
- Stress testing: operational risk scenarios or potential events are considered in the context of risk-type-specific or integrated stress tests.

The broad spectrum of operational risks is categorised into a number of sub-risk types, in accordance with Basel requirements and industry practice. In 2021, specific attention was paid to the top sub-risk types set out below.

Information risk management

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

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

The Global IT Committee (GITCO) serves as the governance structure to ensure alignment on Information Security and IT strategy across the KBC group. Information Security and IT risks are structurally reported to the Group Internal Control Committee (GICC), which supports the Group Executive Committee in the domain of strengthening the quality and effectiveness of KBC's internal control system.

The building blocks for managing IT/Information Security risks are described in the 'Information security strategy of KBC Group' which can be found on www.kbc.com.

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

- Risk identification: involves regular follow-up and analysis of applicable laws and regulations, as well as managing the KBC group Information Risk Management Policy and Control framework. On top of that, regular proactive scanning of the environment is performed in order to identify any external or internal events which could negatively impact our company in a direct or indirect way. These are also known as risk signals and are reported to the the Risk and Compliance Committee (RCC), which informs the Board of Directors (BoD), via the Integrated Risk report and to the Group Internal Control Committee (GICC) via the Operational Core and Compliance report. Within the 'New and Active Products Process' (NAPP), all information security and IT related risks are to be identified and analyzed by the 1st line of defence, advised by the 2nd line of defence and discussed as part of the NAPP approval.
- Risk measurement: the entities' risk profiles, as well as their Internal Control Statement (ICS) scores, for the Information Security, Information Technology and Business Continuity Management processes are determined based on the following indicators:
    - The 'maturity indicator' measures the effectiveness of our Group Key Controls;
    - The 'risk indicator' measures the timely mitigation of outstanding risks as identified by the first, second and third lines of defence and caused by deficiencies in our control environment;
    - For the Information security process also a 'new requirements' indicator is added which measures the progress on the implementation of additional controls required to anticipate future risks.

  In addition, several metrics have been defined at the level of a Group Key Control to underpin the effectiveness of controls with facts and figures. Some examples are: employee phishing click rate, the percentage of completeness of the asset inventory, the number of KBC websites with (critical) vulnerabilities, the speed of patching these vulnerabilities, etc.
- Setting and cascading risk appetite: the risk appetite is stipulated in the KBC group Risk Appetite Statement, which provides specified high, medium and low risk levels, metrics and thresholds for each risk type (part of the Operational Risk risk appetite, see 'The building blocks for managing operational risks'). The risk appetite target, the level of risk KBC is willing to take, is set to 'low risk' in relation to Information Technology and to the 'lower end of the medium risk' for Information Security by the end of 2023 considering the high uncertainty in this area and the high pace at which the threat landscape is evolving.
- Risk analysis, reporting and follow-up: Information Security and IT-related risks are assessed and monitored via a group-wide detailed risk assessment tool. The status of Information Risk management is regularly reported to internal as well as external stakeholders. Some key reports are, for example:
    - as part of the Internal Control Statement, the Information Security, Information Technology and Business Continuity Management processes are reported;
    - the yearly ECB IT risk questionnaire;
    - the Information Risk Management dashboard, which provides a KBC group overview on Information Risk to the Group Internal Control Committee (GICC) on a quarterly basis. The Executive Committee and the Risk and Compliance Committee are informed twice a year;
    - the cyber risk report, a tactical report which aims to close emerging gaps in our cyber defences and is submitted to the Global IT Committee (GITCO) on a monthly basis. The report includes an overview of cyber incidents, threats and actions taken to mitigate the risks they entail;
- Stress testing enables KBC entities to deal with local cyber crises and handle major incidents. To assure that Information Security and IT risks are effectively controlled, a number of challenges are performed throughout the group on a regular basis, such as ethical hacking exercises, technical Cyber Resilience & Readiness Testing, detailed investigations, employee phishing tests, crisis simulations and other incident drills.

Outsourcing risk management

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

In order to manage outsourcing risk, KBC has a group-wide policy 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 risk 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. Complex (AI) models have been 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 risks. 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 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.

The BCM process can be considered a mature process within the group, 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 in the form of practical scenarios mitigating the crisis impact and enabling adequate recovery have been implemented or are being implemented. These scenarios are the following:

- The 'ransomware' scenario, which is a roadmap for what to do, who to notify, etc., in case one of our entities is targeted by a ransomware cyberattack.
- The 'Stop Payments' scenario, which is a an emergency procedure to stop outgoing payments. It can be regarded as an emergency button, i.e. when activated all outgoing payment traffic of the bank which activated the button will be stopped.
- The 'IT bypass' scenario which contains information on what needs to be done to survive the unavailability of data centre pairs (primary and back-up) in one country. It is an extension to the IT disaster recovery plans and can be used, for example, when the data centres of one country become (temporarily) unavailable due to a successful large-scale cyberattack.

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

As the coronavirus pandemic continued in 2021, all measures launched in 2020 remained in place. This entailed 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, business continuity measures were continued, e.g., a switch to (partial) teleworking and to remote banking and the provision of insurance services to our clients. Changes related to processes and procedures (including government relief measures) were implemented in a risk-conscious way. 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 of 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/SMS 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.

We continue to closely monitor operational risks 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 cyberattacks.

Compliance risk

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.

Compliance risk is the risk of non-conformity or sanctions due to failure to comply with laws and regulations presenting an integrity dimension and with internal policies and codes of conduct reflecting the institution's own values, as defined in the Group Compliance Framework. (Charter, Integrity Policy, Group Compliance Rules, Compliance Monitoring Program). It includes conduct risk, i.e. the current or prospective risk of losses arising from inappropriate supply of products and services, including cases of wilful or negligent misconduct.

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.

Since 2020, significant efforts have been concentrated 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 developed and will be 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 to 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 three years and will continue to be prioritised in 2022. 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. A group-wide project was conducted in 2021 to enhance the centralisation and the robustness of the first line of defence in terms of KYC, KYT, procedures and controls. The delineation of tasks and responsibilities between the first and the second lines has also been finetuned. Full implementation is expected to be rolled out in 2022. Recent developments regarding KYC utilities (KUBE – KYC Utilities for Banks and Enterprises), a sector initiative that should enable large banks to share harmonised KYC data on companies, is promising and could have facilitated client onboarding by the end of 2021, but the deliverables are taking longer than planned. Similar reflections are ongoing with regard to individuals who use the digital identification app 'itsme' in Belgium.

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 (IDD) and other local and EU Regulations, as well as being in line with KBC's values. In 2022, particular attention will be devoted to sustainable investments/ESG (Environmental, Social and Governance) characteristics in MiFID and IDD as well as to the sustainable finance strategy.

Data protection aspects remain central to maximising conformity with GDPR. Since 2020, Kate, the voice personal assistant, has gained maturity and can increasingly facilitate the everyday lives of our clients. Efforts in 2021 were largely concentrated on Cloud developments, taking into account the consequences of Schrems II (transfer of data to third countries) 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.

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 and promote a strong corporate culture that encourages responsible behaviour, including social and environmental responsibilities. We uphold client centricity and foster trust by treating the client fairly and honestly.

The Reputational Risk Management Framework describes the processes in place to manage reputational risk. Proactive and re-active management of reputational risk is the responsibility of business, supported by specialist units (including Group Communication, Investor Relations 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.

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 (e.g. the Risk Scan) 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 Corporate strategy 'Differently: the next level' is KBC's strategic answer to leverage strengths and opportunities and to deal with changes in the business environment such as changing client behaviour, financial distintermediation, increasing digitalisation, and climate change. The updated strategy is intended to bring KBC to the next level in terms of digitalisation and client experience. The coronavirus crisis has demonstrated KBC's agility to deal with the financial and operational consequence of the crisis, e.g. by switching to full digital servicing of our clients during the lockdowns.

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. These risks are quantified both in likely scenarios and in several stress scenarios. Exposure to the identified business environment risks is also monitored on an ongoing basis by means of risk signals which are reported to top management.

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

Liquidity risk

Managing 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.

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. For insurance entities, liquidity risk is one of the risk types considered in the Solvency II regulation

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.

Insurance entities typically have more stable liabilities than banking entities. An insurance entity's liquidity is managed by matching cashflows and ensuring that sufficient investments are made in liquid assets, thereby guaranteeing that unexpectedly high lapses can be covered by selling or 'repoing' liquid assets. As a result, insurance entities are less sensitive for 'real' liquidity risk than banking entities.

The building blocks for managing liquidity risk

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

- Risk identification: the NAPP process, the risk scan, stress testing and materiality assessments are important tools used for risk identification. An annual assessment of key risk drivers impacting liquidity is performed as well. When relevant, risk signals are presented in Treasury Risk Reports and Integrated Risk Reports.
- Risk measurement: identified liquidity risks are measured by means of internal metrics on e.g. the reliance on repo funding.
- Setting and cascading risk appetite: the Board of Directors sets in close cooperation with the Executive Committee the overall risk appetite objective for liquidity.

- 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.
- Stress testing: liquidity stress tests assess KBC's liquidity contingency risk by measuring how the liquidity buffer of the group's 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 an extended period of stress.

Impact of the coronavirus crisis on liquidity risk

Stressed or extreme market conditions can be triggered by crises such as the coronavirus pandemic. KBC's liquidity position has been able to withstand the stress of the coronavirus crisis and remains very strong in both its bank and insurance entities.

Climate-related and other ESG risks

Environmental, Social and Governance (ESG) risks are being gradually embedded in the KBC Risk Management Framework and in our risk management processes.

ESG risks are identified in our risk taxonomy but not defined as a separate risk type. They are considered as key drivers of the external environment which manifest themselves through (all) other traditional risk areas, such as credit risk, market risk and technical insurance risk.

Within the industry, risk assessment methodologies are more advanced for climate risk compared to the other ESG risk areas. At KBC, too, the first focus lies on the integration of climate risk within all risk management frameworks and processes. We have the ambition to further extend our climate risk approach to the other ESG areas and have already taken important steps in this regard (e.g., implementation of our biodiversity policy and increasing attention towards the management of cyber threats).

ESG risks are the risks of (current or prospective) environmental, social or governance factors impacting KBC, either directly or via its counterparties and exposures:

- Environmental risk is the risk arising from climate change or from other environmental degradation (such as biodiversity loss, water stress, pollution and waste).
- 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.).

Climate risk has been reconfirmed to be a top risk for KBC for some years now. 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;
- 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.

KBC approaches climate risk from a double materiality perspective:

- financial materiality (outside-in view), looking at the impact of climate change on our business. Transition risks, for example, can lead to sudden repricing of assets, market volatility and credit losses resulting from financing obsolete (brown) technology or infrastructure, impacting lending and investment portfolios, whereas physical risks can increase the level of claims under the insurance policies we provide as well as the value of our assets or collateral;
- Environmental and social materiality (inside-out view), looking at our business' impact on the climate. In that regard, by signing the Collective Commitment to Climate Action (CCCA) in 2019, we stated publicly that we want to play a leading role and be a significant lever in the process of transitioning to a more sustainable society and a low-carbon economy, including by committing to aligning our portfolios and business strategy with the Paris Agreement to keep global warming below 2°C while striving for a target of 1.5°C.

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.

- Within our Audit Framework, ESG risks are covered in multiple audit tracks.
- 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 as well as the Sustainable Finance Data & Metrics 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.
- Sustainability, including climate and the associated targets, has been integrated into the remuneration systems for our employees and especially our senior management.

For more details on sustainability governance, see Our Role in society and Focus on climate in the Report of the Board of Directors section.

Risk identification

We use a variety of approaches to identify ESG 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.

To ensure proactive risk identification, we have taken the following initiatives:

- In 2020 and 2021, strategic sectoral projects (so-called 'White Papers') were set up, with a focus on our credit business, advisory services and insurance activities, for eight carbon-intensive industrial sectors and three product lines (see 'Focus on climate' in the 'Report of the Board of Directors' section). The White Papers clearly analyse the challenges and technological developments of each sector and business line and their impact on KBC's portfolios in terms of climate-related risks and contain an initial outline of possible risk-mitigating measures.
- Sustainability and climate-related policies are taken into account when deciding on new products or services. Particular attention is devoted to the adequate 'green' labelling of newly developed products, aligned with regulatory frameworks such as the EU Taxonomy and the ICMA Green Bond framework.
- A sector-based environmental and social (E&S) sectoral heat map has been developed and implemented into the loan origination and review processes as a screening tool to identify hot spots in terms of E&S risks in the corporate and SME loan book. Based on this heat map, a sectoral E&S risk portfolio monitoring report has been prepared, giving management insight into the overall E&S riskiness of KBC's industrial loan portfolio. Additionally, in order to support business, credit advisors and decision makers in assessing environmental and social risks during loan origination, KBC has implemented the ESG Assessment Guide in the loan origination/review process. Both the Heat Map and the Assessment Guide not only focus on climate (transition and physical) risk but also on the other environmental risks (water, pollution, waste and ecosystems/biodiversity) and social risks.
- Client dialogues are an essential part of KBC's approach to better understanding how business clients deal with sustainability challenges and to supporting them in this transition.
- In 2021, we took the first steps in the development of an internal carbon price. Internal carbon pricing (ICP) is an internally developed estimated cost of carbon emissions and has emerged as a forward-looking metric that can help organisations to manage climate-related transition risks. A first ICP use case pilot for lending has recently been launched.
- We assessed the vulnerability of the economies of KBC's home countries to potential physical damage resulting from adverse climate change. The assessment was performed using Climada, an open-source natural catastrophe model developed and maintained by ETH Zurich. This specific analysis showed that the most vulnerable home countries relative to the size of their economy were Hungary, Ireland and Slovakia. More details are provided in our Sustainability Report.
- We assess extreme weather conditions (such as changes in storm and precipitation patterns and changes in the frequency of floods) through a number of internal and external measures and stress tests in order to analyse their potential impact on our non-life property insurance portfolio. External broker and vendor models are used in KBC Insurance to model extreme events of this kind. KBC insists on an active dialogue regarding the inclusion of climate change in the scenario analysis performed by these providers. Physical risks in other regions around the world are also closely monitored, as they can affect the global reinsurance market on which KBC relies. Moreover, reinsurance counterparties' insights on KBC's portfolios are shared with KBC.
- In 2021, KBC started developing a Climate Risk Impact Map. This tool aims to identify, for different time horizons and different climate scenarios, the most material climate risk drivers impacting KBC's businesses and portfolios. For more details we refer to our Risk Report. As of 2022, the conclusions of the Climate Risk Impact Map will be fed into our risk management processes.
- We took several initiatives to further increase ESG risk awareness, for example by following up on new and changing regulations through a Sustainable Finance Legal Working Group, by regularly reporting on ESG risk signals to senior management and by organising internal communication moments and training for (risk) staff and management.

Risk measurement

We are working with external parties on a series of methodologies to strengthen our ability to identify, measure and analyse climate-related risks for our lending and investment activities. These will provide further insights into the impact of climate change on our business model, as well as the impact of our activities on the environment. Integrating these methodologies will enable us to gradually improve credit underwriting and investment policies, and will support us in engaging with our clients.

- The Paris Agreement Capital Transition Assessment (PACTA) methodology helps us to determine whether the companies in our loan portfolio are following a transition path in line with targets set by various climate transition scenarios. The scope of the PACTA tool covers carbon-intensive activities within the steel, automotive, shipping, aviation, power, oil & gas, coal and cement sectors. The results of the 2021 exercise confirm that within its industrial loan portfolio, KBC only has limited exposure to companies that contribute the most to global CO2 emissions in line with the existing activity scope of PACTA: KBC's granted exposure in the scope of PACTA amounts to 3.8% (4 595 million euros) of the total industrial loan book (excluding loans to SMEs, private persons, finance, insurance and authorities). This finding confirms the general risk appetite of KBC, as our loan books do not include any large, single-name exposures to activities which are considered to be major contributors to global CO2 emissions.
- KBC Asset Management assesses the carbon footprint of investment products it offers using TRUCOST data and methodology. This methodology is also used to analyse the KBC Insurance's investment book and KBC's Pension Funds.
- In 2021, following last year's pilot in the Metal sector, we rolled out the UNEP FI transition risk assessment methodology to other highly climate-relevant sectors, covering a similar scope as the White Paper exercises. Within this scope, we identified a number of segments which display similar characteristics in terms of carbon-emission intensity and are consequently impacted in a similar way by a transition to a low-carbon economy. We also carried out all analyses at this more granular segment level. We selected six different climate scenarios for the impact assessment, in order to estimate how the portfolios' Expected Loss (EL) could potentially change if these scenarios were to materialise. The scenarios differ in terms of target temperature, the timing of collective action and the extent to which CO2 removal technologies are assumed to be used. As a result, we noted, for example, that the Chemicals sector as a whole, as well as the Animal Farming segment of the Agriculture sector and the Production of Animal-Based Food segment of the Food Producers & Beverages sector, are exposed to high transition risks that have not yet been addressed. Compared to the Energy sector, the relatively greater projected EL changes in the Chemicals, Agriculture and Food Producers & Beverages sectors do not necessarily mean that the inherent risks are higher, but rather that the transition risks are not yet internalised to the same extent as in the Energy sector. The analyses' results highlight the need for client interaction in the (sub-)sectors deemed most vulnerable to the low-carbon transition, so as to gain a better understanding of how these (sub-)sectors can are mitigating the transition risks they are exposed to.
- In 2021, for the third consecutive year, we calculated the financed emissions of a selection of our portfolios using the Partnership for Carbon Accounting Financials (PCAF) methodology. This year's scope included: operational car lease, motor vehicle loans (including road freight transport), mortgages, mining and oil and gas, and an estimate for all other sectors.
- For more details on the above-mentioned measurement methodologies, please refer to our Sustainability Report, which is available at www.kbc.com.

The results and insights gained from these methodological tracks are valuable for identifying hot spots in KBC's loan portfolio, as input for target setting and climate risk stress testing and for initiating policy adjustments, where necessary. They are also part of KBC's efforts to further integrate climate risk into its credit assessment processes and modelling (including expected credit losses). 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.

Setting & cascading risk appetite

KBC's Risk Appetite Statement and process are not fixed but evolve in sync with changes in the internal and external context and the strategic ambitions. KBC's risk appetite covers all material risks that KBC is exposed to, with particular attention for risks which dominate the external environment now and in the future. Given the increased importance KBC assigns to climate risk, a specific risk appetite objective has been added to KBC's Risk Appetite Statement, covering both perspectives of 'double materiality'.

KBC is committed to embedding climate and environmental impacts into its decision-making, products and processes with the aim of contributing positively to society and safeguarding KBC's long-term sustainability.

Other objectives also address other ESG themes, including:

- promoting a strong corporate culture which encourages responsible behaviour and is supported by a promotion and remuneration policy with a sustainable and long-term view;
- ensuring stable earnings and sound financial figures (capital and liquidity);
- promoting strong Corporate Governance and Risk & Compliance Management and taking into account the internal and external context as key drivers to enhance the organisation's resilience and to create value.

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:

- From a credit risk perspective, KBC aims to limit the adverse impact of its activities on the environment and society and to stimulate positive impact, based on a responsible lending culture, the principles of which are laid out in the Credit Risk Standard on Sustainable and Responsible Lending.
- All treasury investment decisions are taken in line with the single binding framework, which defines the screening criteria for socially responsible investments.
- KBC has the ambition to keep all its operational, compliance and conduct risks low and to be well prepared for a variety of crises, for example to avoid disruption of services, including the ones with a climate-change-related driver, and to be maximally protected against cybercrime. Integrity, availability and confidentiality of our company data and the data of our clients is of utmost importance.
- To manage reputational risks, KBC promotes a strong corporate culture that encourages responsible behaviour throughout the entire organisation, including in terms of social and environmental responsibility.
- To support stability in earnings and capital for our insurance business, appropriate risk mitigation is implemented by reinsurance programmes protecting against the impact of large claims or accumulation of losses and by a diversified exposure across all core markets.

KBC's risk appetite is supported by policies and sustainability targets (see 'Our role in society' in the 'Report of the Board of Directors' section). In our policies for sustainable and responsible lending, insurance, advisory services and investments, for instance, we identify controversial activities with respect to the environment (including climate and biodiversity), human rights, business ethics and sensitive/controversial societal issues. These are economic activities we are not willing to finance (such as activities related to thermal coal) or which we are willing to finance only under strict conditions (such as biomass technologies, production of palm oil, etc.).

Risk analysis, reporting & 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 Board of Directors, the Risk & Compliance Committee and the Executive Committee are the prime recipients of the main risk management reports (e.g., ICAAP/ILAAP/ORSA, Integrated Risk Reporting, Risk Appetite, etc.). Given that climate risk is being integrated into all risk processes and, moreover, has been identified as a top risk, this topic is intensively addressed in these risk management reports.

The growing attention for the management of environmental, social and governance (ESG) risk is also reflected in several legislative initiatives. For banks under ECB remit (such as KBC), for instance, supervisory requirements are formulated in the ECB guide on climate-related and environmental risks. In 2021, KBC completed two ECB questionnaires on how we are approaching the expectations outlined in the guide and what our implementation plans are to reach full compliance. The ECB will follow up on these questionnaires by means of a Thematic Review this year and will therefore make use of deep dives into our climate-related and environmental risk strategies, as well as our governance and risk management frameworks and processes. Additionally, the ECB launched a first climate risk stress test that will take place in 2022. With this supervisory exercise, the ECB aims to compel banks to proactively manage climate risks and to fill the gap of climate-related data.

Several new ESG disclosure obligations were also initiated in the past year (e.g., the EU Taxonomy disclosure regulation, EBA Pillar 3 requirements, Corporate Sustainability Reporting Directive and Sustainable Finance Disclosure Regulation), which gradually started to take effect in 2021 and will be significantly extended in the coming years. Since data is a valuable asset for the further monitoring and management of our portfolios, for setting targets and to be able to meet the various regulatory requirements, the Data & Metrics project within the Sustainable Finance Programme has started coordinating the data collection in all our core countries in order to create aggregated reports.

Stress testing

Both transition and physical risk drivers have already been integrated into several internal stress test exercises (e.g., in reverse stress testing and the ICAAP/ORSA stress test). It can be concluded from the stress tests performed that, although climate risk is an increasingly prominent risk driver for KBC and the economy as a whole, there is no immediate threat to our capital and liquidity buffers. Although profitability can be impacted under the more severe climate-related stress scenarios, these would not bring KBC's profitability below adequate levels either. More information on stress tests can be found in our Risk Report.

Our stress tests will be gradually optimised based on new insights obtained from, for example, our internal climate risk map, or from the methodological tracks (see 'Risk measurement') to help us better translate the impact of climate pathways into financial parameters, such as expected credit losses or insurance claims.

A significant next step towards fully integrating the quantitative impact of climate risk in stress testing is KBC's participation in the 2022 ECB Climate Risk Stress Test. In 2021, we have already made considerable efforts to prepare for this exercise (e.g., collecting required data and developing calculation methodologies). The experience and data acquired will also provide significant added value for the further development of our internal integrated climate risk stress tests.

Environmental data is provided in various parts of the 'Our strategy' section. EU Taxonomy information is provided under the heading 'Focus on climate risks'.

How do we manage our capital?

A summary of the solvency figures for KBC Insurance can be found in Note 6.7 ‘Risk Management and Capital Adequacy’ of the ‘Consolidated financial statements’ section.

ORSA

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 ORSA process generates a comprehensive report, which is presented to both top management and the supervisory bodies.

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 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 or liquidity 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 or liquidity 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.

Corporate governance statement

Composition of the Board and its committees at year-end 2021*

Name	Position	Period served on the Board in 2021	Expiry date of current term of office	Board meetings attended	Non-executive directors	Share-holders' representatives	Independent directors	Members of the EC	AC	RCC
Number of meetings in 2021				11					7	9
DEBACKERE Koenraad	Chairman	Full year	2023	11	●					
DEPICKERE Franky	Deputy Chairman of the Board	Full year	2023	11	●	●				9 (c)
THIJS Johan	President of the Executive Committee / Executive Director	Full year	2025	11				● (c)		
ANDRONOV Peter	Executive Director	8 months	2025	7				●		
HOLLOWS John	Executive Director	Full year	2022	11				●		
LUTS Erik	Executive Director	Full year	2025	10				●		
MOUCHERON David	Executive Director	8 months	2025	7				●		
POPELIER Luc	Executive Director	Full year	2025	11				●		
VAN RIJSSEGHEM Christine	Executive Director	Full year	2022	11				●		
BOSTOEN Alain	Non-Executive Director	Full year	2024	11	●	●				
CALLEWAERT Katelijn	Non-Executive Director	Full year	2025	11	●	●				
CLINCK Erik	Non-Executive Director	Full year	2024	11	●	●				
DE BECKER Sonja	Non-Executive Director	Full year	2024	11	●	●				
DONCK Frank	Non-Executive Director	Full year	2024	11	●	●			6	8
HERMANN Peter	Independent Director	8 months	2025	7	●		●		4	4
LANGFORD Andrew	Independent Director	Full year	2022	11	●		●		7	9
OKKERSE Liesbet	Non-Executive Director	Full year	2024	11	●	●				
ROUSSIS Theodoros	Non-Executive Director	Full year	2024	11	●	●				
VLERICK Philippe	Non-Executive Director	Full year	2024	11	●	●				
WITTEMANS Marc	Non-Executive Director	Full year	2024	11	●	●			7 (c)	9

* Morten Hübbe, Daniel Falque and Hendrik Scheerlinck were directors until 29 April 2021, attended 4 Board meetings.

Statutory auditor: PwC Bedrijfsrevisoren BV, represented by Yves Vandenplas and Tom Meuleman. Secretary to the Board of Directors: Wilfried Kupers.

Abbreviations: Board of Directors: Board; Executive Committee: EC; Audit Committee: AC; Risk & Compliance Committee: RCC; (c) Chairman of this committee.

Changes in the composition of the Board in 2021

- Morten Hübbe, Daniel Falque and Hendrik Scheerlinck resigned from the Board following the General Meeting of 29 April 2021.

- Katelijn Callewaert, Erik Luts, Luc Popelier and Johan Thijs were re-appointed as directors for a new four-year term of office.
- Peter Andronov and David Moucheron were appointed as director for a term of four years and became executive directors following their appointment as members of the EC.
- Peter Hermann was appointed as independent director for a term of four years.

Changes in the composition of the committees of the Board in 2021

Effective 29 April 2021, Peter Hermann became a member of the AC and the RCC, replacing Morten Hübbe.

Proposed changes in the composition of the Board in 2022

- On the recommendation of the Nomination Committee and subject to the approval of the Supervisor, Aleš Blažek is proposed by the Board, for appointment as director for a term of four years. Following his appointment as a member of the EC, he will become an executive director.
- On the recommendation of the Nomination Committee, Andrew Langford and Christine Van Rijsseghem are nominated for reappointment as director for a new four-year term of office, expiring on 22 April 2026 for Andrew Langford and after the general meeting in 2026 for Christine Van Rijsseghem.
- John Hollows' term of office will expire at the end of the general meeting. The Board would like to express its sincere appreciation and gratitude for the contribution he has made to the KBC group.

Brief CV for the proposed new director:
- Born in Ceské Budejovice on 8 March 1972, Aleš Blažek holds a Master's Degree in Law from the Charles University Law School in Prague. Aleš started his professional career as an associate at the Prague Office of White & Case, working primarily in the areas of M&A, Banking & Finance and Restructuring. From 2000 until 2003, he worked as Chief Legal Counsel for Citibank Czech Republic. He then became General Counsel for Citigroup CEE Region before being appointed Deputy General Counsel for Citigroup EMEA in London, covering corporate and investment banking businesses in Europe, the Middle East and Africa. In 2007, he joined GE Capital Global Banking (London) to become a member of the senior executive team in the capacity as General Counsel for GE Capital consumer businesses in Europe. In 2011, he was promoted to General Counsel for GE Capital International, London, with responsibility for legal services in all GE Capital businesses in Europe, the Middle East and Asia. He joined ČSOB in Prague in the Czech Republic Business Unit of KBC Group in 2014 as Head of the Legal Department. In April 2019, he became Head of Data and Strategy at ČSOB. In 2021 he was appointed CEO of KBC Bank Ireland.

Composition of the EC (as at 31-12-2021)

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

Changes with effect from 27 April 2022:
- After reaching the age limit, John Hollows will resign as member of the EC. The Board would like to express its gratitude for the contribution they have made to the KBC group over many years.
- The Board will appoint Aleš Blažek as member of the EC.

The following changes in the composition of the EC will be made with effect on 27 April 2022: Aleš Blažek will become CEO of the Czech Republic Business Unit

Following these appointments and changes, the EC will comprise:
- Johan Thijs, 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
- Aleš Blažek, CEO of the Czech Republic Business Unit
- Erik Luts, Chief Innovation Officer
- David Moucheron, CEO of the Belgium Business Unit

Statutory auditor

The statutory auditor, PwC Bedrijfsrevisoren BV (PwC), was represented by Messrs Roland Jeanquart and Tom Meuleman. A proposal will be made to the general meeting on April 27, 2022 to renew the auditor's mandate for a new period of 3 years. PwC has appointed Mr. Damien Walgrave and Mr. Jeroen Bockaert as new representatives.

Additional information

- Following the share acquisition transaction on 23 December 2015, KBC Insurance holds 48 889 treasury shares.
- Conflicts of interest that fell within the scope of Articles 7:115, 7:116 and 7:117 of the Belgian Companies and Associations Code: During financial year 2021, 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 18 March 2021, the relevant minutes of which are provided below:

  It is explained that KBC Insurance has a dual governance model, though hybrid since all 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 has to describe the pecuniary consequences of the proposed decision and the justification for its decision.

  The Board recognises that there is a conflict of interest of a patrimonial nature, but that there is no patrimonial impact since the Board does not intend to bring a claim for damages against the Executive Committee and its members.

  The Board decides 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.
- Discharge to directors and to the statutory auditor: it will be requested at the General Meeting to grant discharge to the directors and auditor for the performance of their mandate in financial year 2021.
- At year-end 2021, the AC comprised the following members:
  - Marc Wittemans (non-executive director), who holds a Master's Degree in Applied Economics, and degrees in Fiscal Sciences and Actuarial Sciences, is Managing Director of MRBB CVBA, the holding company of the Boerenbond (farmers' union), and is the Chairman of the AC.
  - Andrew Langford (independent director), who is a graduate in Commerce and a Fellow of the Institute of Chartered Accountants, was Finance Director of FBD Insurance (2003-2008), Group Chief Executive of FBD Holdings plc and FBD Insurance plc (until 2015). Since May 2017, he has been CFO and Executive Director of Version 1, a digital transformation partner for large, domestic and international corporate customers from across the industrial spectrum in the UK and Ireland."
  - Peter Hermann (independent director), who holds a Master of Science in Actuarial Mathematics and an MBA, held various positions in PFA Pension (1997-2011), was director and COO of Nordea Liv & Pension (2011-2013), was responsible for the Prevention, Health & Actuarial Department of PFA Pension (2014-2016), became CEO of Topdanmark Livsforsikring in 2016 and has been CEO of Topdanmark A/S since 2018.

  They possess the necessary individual and collective expertise in the activities of KBC Insurance and in the fields of accounting and audit, based on their education and extensive business experience.
- At year-end 2021, the RCC comprised the following members:
  - Franky Depickere (Deputy Chairman of the Board), 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 CV and KBC Ancora NV. Mr Depickere is the Chairman of the RCC.
  - Andrew Langford (independent director).
  - Peter Hermann (independent director).

  It can be concluded on the basis of the profiles and competences of the members that each individual member and the RCC as a whole possess the requisite skills and experience.
- In compliance with the laws on the incompatibility of offices held by executives and managers of insurance institutions and in accordance with National Bank of Belgium Circular PPB-2006-13-CPB-CPA on external offices held by executives and managers of regulated enterprises, the accompanying annex contains a list of the external offices held by the executives and directors of KBC Insurance in other companies.

Annex to the annual report of the Board of Directors for the financial year ending on 31 December 2021

Naamloze vennootschap (company with limited liability): KBC Insurance NV
Company number: RLP 0403.552.563

Company name	Registered office	Sector	Office held	Listed	Share of capital held
Alain Bostoen, Director				(N= not/none)	
Quatorze Juillet bvba	Belgium	Accountancy & consulting	Executive Director	N	N
Callewaert Katelijn, Director					
Cera Beheersmaatschappij nv	Belgium	Management	Executive Director	N	N
Almancora Beheersmaatschappij NV	Belgium	Management	Executive Director	N	N
Cera cvba	Belgium	Management	lid van het Directiecomité	N	N
Erik Clinck, Director					
Cera Beheersmaatschappij nv	Belgium	Management	Director	N	N
Prieel 18	Belgium	Management	Executive Director	N	N
Van Breda Risk & Benefits	Belgium	Independent broker and risk consult	Director	N	N
Sonja De Becker, Director					
SBB gecertifieerde accountants en adviseurs BV	Belgium	Accountancy & consulting	Chairman of the Board of Directors	N	N
M.R.B.B. cvba	Belgium	Holding company	Chairman of the Board of Directors	N	N
SBB Bedrijfsdiensten BV cvba	Belgium	Accountancy & consulting	Chairman of the Board of Directors	N	N
BB-Patrim bv	Belgium	Holding company	Chairman of the Board of Directors	N	N
Koenraad Debackere, Chairman of the Board of Directors					
Umicore	Belgium	Materials technology	Director	Euronext	N
Holding Wetenschapspark Waterschei NV	Belgium	Holding company	Director	N	N
Franky Depickere, Director					
Almancora Beheersmaatschappij nv	Belgium	Management	Executive Director	N	N
Cera cv	Belgium	Management	Executive Director	N	N
Cera Beheersmaatschappij nv	Belgium	Management	Executive Director	N	N
Euro Pool System International BV	Netherlands	Packaging	Director	N	N
BRS Microfinance Coop cvba	Belgium	Finance	Director	N	N

Company name	Registered office	Sector	Office held	Listed	Share of capital held
Frank Donck, Director				(N= not/none)	
3D NV	Belgium	Investment company	Executive Director	N	N
3D Real Estate	Belgium	Intermediation in the purchase of real estate	Director	N	N
Anchorage nv	Belgium	Investment company	Director	N	N
Atenor NV	Belgium	Real estate	Chairman of the Board of Directors	Euronext	N
Elia Group NV	Belgium	Electricity & gas production, sales and transport	Director	Euronext	N
Huon & Kauri nv	Belgium	Real estate	Executive Director	N	N
Iberanfra bvba	Belgium	Real estate	Director	N	N
Ibervest nv	Belgium	Investment company	Executive Director	N	N
Ter Wyndt cvba	Belgium	Golf	Chairman of the Board of Directors	N	N
Group Ter Wyndt BV	Belgium	Golf	Chairman of the Board of Directors	N	N
Tris nv	Belgium	Real estate	Executive Director	N	N
Winge Golf NV	Belgium	Golf club	Chairman of the Board of Directors	N	N
Barco NV	Belgium	Technology	Chairman of the Board of Directors	Euronext	N
3D Private Investeringen NV	Belgium	Investment company	Executive Director	N	N
Academie Vastgoedontwikkeling NV	Belgium	Real estate	Director	N	N
Bowinvest NV	Belgium	Real estate	Director	N	N
3D Land NV	Belgium	Real estate	Director	N	N
Tasco NV	Belgium	IT	Director	N	N
ForAtenor SA	Belgium	Leasing	Chairman of the Board of Directors	N	N
Markizaat (former Dossche Immo) NV	Belgium	Real estate	Director	N	N
Luxempart SA	Luxembourg	Investment company	Director	LuxSe	N
3D Skywalkers BV	Belgium	Investment company	Executive Director	N	N
Force Awakened BV	Netherlands	Investment company	Executive Director	N	N
Imdoma BV	Belgium	Investment company	Director	N	N
Mado NV	Belgium	Investment company	Director	N	N
Immobiliën Donck NV	Belgium	Investment company	Director	N	N
Golfzicht BV	Belgium	Leisure accomodation	Chairman of the Board of Directors	N	N
Peter Hermann, Independent Director					
Topdanmark as	Denmark	Holding company	Executive Director/CEO	IEX	N
Andrew Langford, Independent Director					
Version 1 Software Limited	Ireland	IT	Executive Director	N	N
Sionnach Limited	Ireland	IT	Executive Director	N	N
Version 1Software UK Limited	UK	IT	Executive Director	N	N
Version 1 Limited	Ireland	IT	Executive Director	N	N
Version 1 Solutions Limited	UK	IT	Executive Director	N	N
Version 1 Holdings Limited	Ireland	IT	Executive Director	N	N
Version 1 Community Trust Company Limited by Guarantee	Ireland	Non-profit	Executive Director	N	N
Tomas Limited	Ireland	IT	Executive Director	N	N
Cedar Consulting (UK) Limited	UK	IT	Executive Director	N	N
Cedar Consulting Holdco Limited	UK	IT	Executive Director	N	N
Version 1 Analytics UK Limited	UK	IT	Director	N	N
Version 1 Analytics Ireland Limited	Ireland	IT	Director	N	N
Version 1 Enterprise Services Limited	UK	IT	Executive Director	N	N
Version 1 Digital Limited	Ireland	IT	Executive Director	N	N
Singlepoint Holdings Limited	Ireland	Holding company	Executive Director	N	N
Version 1 Technology Limited	Ireland	Technology	Executive Director	N	N
Version 1 Technology Ireland Limited	UK	Technology	Executive Director	N	N
Liesbet Okkerse, Director					
Cera Beheersmaatschappij nv	Belgium	Management	Director	N	N
Almancora Beheersmaatschappij nv	Belgium	Management	Director	N	N
Theo Roussis, Director					
Asphalia NV	Belgium	Management	Executive Director	N	N
Pentahold	Belgium	Investment company	Director	N	N

Company name	Registered office	Sector	Office held	Listed	Share of capital held
Jan Van Hove, General Manager				(N= not/none)	
ADD NV	Belgium	Insurance broker	Chairman of the Board of Directors	N	100,00%
Pensioenfonds KBC OFP	Belgium	Pension fund	Chairman of the Board of Directors	N	N
Pension Fund Service OFP	Belgium	Pension fund	Chairman of the Board of Directors	N	N
VAB NV	Belgium	Driving school/ roadside assistance	Director	N	100,00%
Groep VAB NV	Belgium	Driving school/ roadside assistance	Chairman of the Board of Directors	N	100,00%
Maatschappij voor brandherverzekering cvba	Belgium	Reinsurance	Chairman of the Board of Directors	N	90,10%
Philippe Vlerick, Deputiy Chairman					
Besix Group nv	Belgium	Construction	Director	N	N
Exmar nv	Belgium	Trade	Director	Euronext	N
Point nv	Belgium	Textiles	Chairman of the Board of Directors	N	N
Smartphoto Group nv	Belgium	Photo development	Chairman of the Board of Directors	Euronext	N
Cecan nv	Belgium	Holding company	Executive Director	N	N
Midelco nv	Belgium	Holding company	Chairman of the Board of Directors	N	N
Vlerick Investeringsmaatschappij cvba	Belgium	Investment company	Chairman of the Board of Directors	N	N
Vlerick Vastgoed nv	Belgium	Real estate	Executive Director	N	N
Raymond UCO denim Private Ltd	India	Textiles	Chairman of the Board of Directors	N	N
Pentahold nv	Belgium	Investment company	Chairman of the Board of Directors	N	N
BMT NV	Belgium	Metallurgical industry	Director	N	N
Mediahuis NV	Belgium	Publishing	Director	N	N
LVD Company nv	Belgium	Metallurgical industry	Director	N	N
Vobis Finance nv	Belgium	Holding company	Chairman of the Board of Directors	N	N
B.I.C. Carpets nv	Belgium	Textiles	Chairman of the Board of Directors	N	N
Concordia Textiles NV	Belgium	Textiles	Director	N	N
De Robaertbeek NV	Belgium	Textiles	Director	N	N
Bareldam SA	Luxembourg	Holding company	Director	N	N
UCO nv	Belgium	Textiles	Chairman of the Board of Directors	N	N
Cecan Invest nv	Belgium	Holding company	Executive Director	N	N
Arteveld bvba	Belgium	Real estate	Chairman	N	N
Oxurion nv	Belgium	Biopharma	Director	Euronext	N
Marc Wittemans, Director					
Aktiefinvest cvba	Belgium	Real estate	Executive Director/CEO - Chairman of the Board of Directors	N	N
Arda Immo bv	Belgium	Real estate	Chairman of the Board of Directors	N	N
SBB Gecertifieerde Accountants en	Belgium	Accountancy & consulting	Director	N	N
SBB Bedrijfsdiensten bv	Belgium	Accountancy & consulting	Director	N	N
M.R.B.B. cvba	Belgium	Holding company	Executive Director/CEO	N	N
Agri Investment Fund cvba	Belgium	Holding company	Director	N	N
Acerta bv	Belgium	Holding company	Director	N	N
Acerta Consult bv	Belgium	HR services	Director	N	N
Acerta Public bv	Belgium	IT services & software	Director	N	N
Acerta Verzekeringen bv	Belgium	Insurance	Director	N	N
Shéhérazade développement bv	Belgium	IT services & software	Director	N	N
Aveve bv	Belgium	Agricultural and horticultural	Director	N	N

Consolidated financial statements

Abbreviations used

- AC = amortised cost
- AFS = available for sale (IAS 39)
- ALM = asset/liability management
- ECL = expected credit loss
- FA = financial assets
- FV = fair value
- FVO = fair value option
- FVOCI = fair value through other comprehensive income
- FVPL = fair value through profit or loss
- FVPL – overlay = fair value through profit or loss – overlay approach
- GCV = gross carrying value
- HFT = held for trading
- OCI = other comprehensive income
- POCI = purchased or originated credit impaired assets
- SPPI = assessment whether contractual cashflows are solely payments of principal and interest
- SRB: Single Resolution Board
- R/E = retained earnings
- P&L = profit or loss

Consolidated income statement

(in millions of EUR)	Note	2021	2020
Net interest income	3.1	398	452
Interest income	*3.1*	*434*	*498*
Interest expense	*3.1*	*- 36*	*- 46*
Non-life insurance (before reinsurance)	3.7	799	882
Earned premiums	*3.7*	*1 905*	*1 795*
Technical charges	*3.7*	*- 1 106*	*- 913*
Life insurance (before reinsurance)	3.7	46	11
Earned premiums	*3.7*	*1 196*	*1 223*
Technical charges	*3.7*	*- 1 150*	*- 1 212*
Ceded reinsurance result	3.7	25	- 20
Dividend income	3.2	31	34
Net result from financial instruments at fair value through profit or loss	3.3	117	1
of which result on equity instruments (overlay approach)	*3.3*	*104*	*- 14*
Net realised result from debt instruments at fair value through OCI	3.4	- 2	0
Net fee and commission income	3.5	- 373	- 364
Fee and commission income	*3.5*	*161*	*147*
Fee and commission expense	*3.5*	*- 533*	*- 512*
Net other income	3.6	74	79
TOTAL INCOME		1 116	1 074
Operating expenses	3.8	- 480	- 487
Staff expenses	*3.8*	*- 233*	*- 228*
General administrative expenses	*3.8*	*- 225*	*- 242*
Depreciation and amortisation of fixed assets	*3.8*	*- 21*	*- 17*
Impairment	3.10	- 3	- 11
on financial assets at AC and at FVOCI	*3.10*	*5*	*- 6*
on goodwill	*3.10*	*0*	*0*
other	*3.10*	*- 7*	*- 5*
Share in results of associated companies and joint ventures	3.11	0	0
RESULT BEFORE TAX		633	576
Income tax expense	3.12	- 125	- 126
Net post-tax result from discontinued operations	-	0	0
RESULT AFTER TAX		508	450
attributable to minority interests	-	0	0
of which relating to discontinued operations	-	*0*	*0*
attributable to equity holders of the parent	**-**	**508**	**450**
of which relating to discontinued operations	-	*0*	*0*

- We have dealt with the main items in the income statement in the ‘Report of the Board of Directors’ under the ‘Our financial report’ section (which has not been audited by the statutory auditor).
- 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.
- 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 (until 31 December 2022), 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 172 million euros in unrealised changes in fair value in 2021 (175 million euros before tax). That is the difference between (i) the result under IFRS 9 (without applying the overlay approach), i.e. 275 million euros, of which 279 million euros in realised and unrealised changes in fair value recognised in ‘Net result from financial instruments at FVPL’ and -4 million euros in taxes, and (ii) the result under IAS 39, i.e. 104 million euros, comprising a net realised result of 123 million euros and an impairment of -20 million euros. More details are provided in Note 1.2.

Equity instruments held by the insurer in 2021: Illustration of the overlay approach (in millions of EUR)	**Under IAS39**	**Under IFRS 9 without overlay (choice FVPL)**	**Impact overlay**	**Under IFRS 9 with overlay**
Realised results through profit or loss	123	123	—	123
Unrealised results through profit or loss	—	156	156	—
Impairment through profit or loss	- 20	—	20	- 20
Realised and unrealised results through OCI	175	—	- 175	175
Income taxes (through profit or loss or OCI)	- 4	- 4	—	- 4
Total through profit or loss or OCI	275	275	0	275

Consolidated statement of comprehensive income

(in millions of EUR)	2021	2020
RESULT AFTER TAX	508	450
attributable to minority interests	0	0
attributable to equity holders of the parent	508	450
OCI THAT MAY BE RECYCLED TO PROFIT OR LOSS	- 157	98
Net change in revaluation reserve (FVOCI debt instruments)	- 346	133
Fair value adjustments before tax	- 453	171
Deferred tax on fair value changes	109	- 43
Transfer from reserve to net result	- 3	5
Impairment	- 4	5
Net gains/losses on disposal	2	0
Deferred taxes on income	0	0
Net change in revaluation reserve (FVPL equity instruments) - overlay	172	- 25
Fair value adjustments before tax	279	- 42
Deferred tax on fair value changes	- 4	2
Transfer from reserve to net result	- 104	14
Impairment	20	131
Net gains/losses on disposal	- 123	- 116
Deferred taxes on income	0	0
Net change in hedging reserve (cashflow hedges)	0	0
Fair value adjustments before tax	0	0
Deferred tax on fair value changes	0	0
Transfer from reserve to net result	0	0
Gross amount	0	0
Deferred taxes on income	0	0
Net change in translation differences	17	- 10
Gross amount	17	- 10
Deferred taxes on income	0	0
Hedge of net investments in foreign operations	0	0
Fair value adjustments before tax	0	0
Deferred tax on fair value changes	0	0
Transfer from reserve to net result	0	0
Gross amount	0	0
Deferred taxes on income	0	0
Net change in respect of associated companies and joint ventures	0	0
Gross amount	0	0
Deferred taxes on income	0	0
Other movements	0	0

(in millions of EUR)	2021	2,020
OCI THAT WILL NOT BE RECYCLED TO PROFIT OR LOSS	61	1
Net change in revaluation reserve (FVOCI equity instruments)	42	- 1
Fair value adjustments before tax	42	- 1
Deferred tax on fair value changes	0	0
Net change in defined benefit plans	18	4
Remeasurements	24	5
Deferred tax on remeasurements	- 6	- 1
Net change in own credit risk	0	0
Fair value adjustments before tax	0	0
Deferred tax on fair value changes	0	0
Net change in respect of associated companies and joint ventures	0	- 2
Remeasurements	0	- 2
Deferred tax on remeasurements	0	0
TOTAL COMPREHENSIVE INCOME	411	549
attributable to minority interests	0	0
attributable to equity holders of the parent	411	549

- Revaluation reserves in 2021: the net change in the 'revaluation reserve (FVPL equity instruments) – overlay approach' came to +172 million euros and was largely attributable to positive changes in fair value, partly offset by transfers to the result (gains on sales offset in part by impairment charges). The net change in the 'revaluation reserve (FVOCI debt instruments)' came to -346 million euros, which was mainly accounted for by higher interest rates, related primarily to government bonds of various European countries. The net change in translation differences (+17 million euros) was caused primarily by the appreciation of the Czech koruna (CZK) against the euro. The net change of the 'revaluation reserve (FVOCI debt instruments)' came to +49 million euros in 2021, which was largely attributable to positive changes in fair value related to an amendment to the Articles of Association of an unlisted equity participation, as a result of which KBC is entitled to a higher amount of compensation in the event of an exit. The net change in defined benefit plans (+18 million euros) related mainly to higher discount rates applied to the liabilities and the positive returns on plan assets partly offset by a higher – and as of the third quarter of 2021 – market-based inflation curve.
- 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 +133 million euros, boosted by a general decrease in interest rates. The net change in translation differences (-10 million euros) was caused primarily by the weakening of the Czech koruna (CZK) and Hungarian forint (HUF) against the euro.

Consolidated balance sheet

(in millions of EUR)	Note	31-12-2021	31-12-2020
ASSETS			
Cash, cash balances with central banks and other demand deposits with credit institutions	-	509	277
Financial assets	4.0	36 706	35 985
Amortised cost	*4.0*	*9 560*	*8 254*
Fair value through OCI	*4.0*	*11 108*	*12 576*
Fair value through profit or loss	*4.0*	*16 017*	*15 150*
of which held for trading	*4.0*	*29*	*11*
Hedging derivatives	*4.0*	*21*	*4*
Reinsurers' share in technical provisions, insurance	5.6	191	145
Profit/loss on positions in portfolios hedged against interest rate risk	-	0	0
Tax assets	5.2	83	37
Current tax assets	*5.2*	*45*	*32*
Deferred tax assets	*5.2*	*38*	*5*
Non-current assets held for sale and disposal groups	5.11	0	0
Investments in associated companies and joint ventures	5.3	0	0
Property, equipment and investment property	5.4	282	296
Goodwill and other intangible assets	5.5	212	152
Other assets	5.1	758	672
TOTAL ASSETS		**38 741**	**37 565**
LIABILITIES AND EQUITY			
Financial liabilities	4.0	14 591	13 761
Amortised cost	*4.0*	*968*	*991*
Fair value through profit or loss	*4.0*	*13 608*	*12 730*
of which held for trading	*4.0*	*5*	*6*
Hedging derivatives	*4.0*	*14*	*39*
Technical provisions, before reinsurance	5.6	18 974	18 724
Profit/loss on positions in portfolios hedged against interest rate risk	-	0	0
Tax liabilities	5.2	346	406
Current tax liabilities	*5.2*	*44*	*30*
Deferred tax liabilies	*5.2*	*302*	*375*
Liabilities associated with disposal groups	5.11	0	0
Provisions for risks and charges	5.7	3	3
Other liabilities	5.8	836	857
TOTAL LIABILITIES		34 750	33 750
Total equity	5.10	3 991	3 815
Parent shareholders' equity	5.10	3 991	3 815
Minority interests	-	0	0
TOTAL LIABILITIES AND EQUITY		**38 741**	**37 565**

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 shareholder's equity	Minority interests	Total equity
2021								
Balance at the beginning of the period	65	1 086	- 203	1 616	1 251	3 815	0	3 815
Net result for the period	0	0	0	508	0	508	0	508
Other comprehensive income for the period	0	0	0	0	- 97	- 97	0	- 97
Subtotal	0	0	0	508	- 97	411	0	411
Dividends	0	0	0	- 235	0	- 235	0	- 235
Transfer from revaluation reserves to retained earnings upon realisation	0	0	0	0	0	0	0	0
Change in minorities interests	0	0	0	0	0	0	0	0
Total change	0	0	0	272	- 97	176	0	176
Balance at the end of the period	**65**	**1 086**	**- 203**	**1 888**	***1 155***	***3 991***	*0*	***3 991***
2020								
Balance at the beginning of the period	65	1 086	- 203	1 321	1 154	3 422	0	3 422
Net result for the period	0	0	0	450	0	450	0	450
Other comprehensive income for the period	0	0	0	0	99	99	0	99
Subtotal	0	0	0	450	99	549	0	549
Dividends	0	0	0	- 156	0	- 156	0	- 156
Transfer from revaluation reserves to retained earnings on realisation	0	0	0	2	- 2	0	0	0
Change in minority interests	0	0	0	0	0	0	0	0
Total change	0	0	0	295	97	392	0	393
Balance at the end of the period	**65**	**1 086**	**- 203**	**1 616**	**1 251**	**3 815**	**0**	**3 815**

- 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 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 treasury shares and the number of shares, see Note 5.10.
- The ‘Dividends’ item in 2021 (235 million euros) includes the payment of an interim dividend of 235 million euros as an advance on the final dividend for 2021. In accordance with the ECB’s recommendation of 15 December 2020 (and National Bank of Belgium Circular NBB_2021_005), which places a limit on dividend payments, no dividend was paid for financial year 2020. We will propose to the General Meeting of Shareholders of 27 April 2022 a gross final dividend for financial year 2021 of 524 million euros, bringing the total gross dividend to 760 million euros. The ‘Dividends’ item in 2020 (156 million euros) includes the final dividend for 2019.

(in millions of EUR)	31-12-2021	31-12-2020	01-01-2020
Revaluation reserve (FVOCI debt instruments)	567	913	781
Revaluation reserve (FVPL equity instruments) - overlay	496	325	350
Revaluation reserve (FVOCI equity instruments)	49	7	12
Hedging reserve (cashflow hedges)	0	0	0
Translation differences	18	0	10
Hedge of net investments in foreign operations	1	1	1
Remeasurement of defined benefit plans	24	5	2
Total revaluation reserves	**1 155**	**1 251**	**1 154**

Consolidated cashflow statement

(in millions of EUR)	Note (1)	2021	2020
OPERATING ACTIVITIES			
Result before tax	Consolidated income statement	633	576
Adjustments for:	-	149	284
Result before tax from discontinued operations	Consolidated income statement	0	0
Depreciation, impairment and amortisation of property and equipment, intangible fixed assets, investment property and securities	3.3, 3.10, 4.2, 5.4, 5.5	63	175
Profit/Loss on the disposal of investments	-	- 5	- 10
Change in impairment on loans and advances	3.10	- 1	1
Change in technical provisions (before reinsurance)	5.6	275	237
Change in the reinsurers' share in the technical provisions	5.6	- 41	- 23
Change in other provisions	5.7	0	- 1
Other unrealised gains/losses	-	- 143	- 95
Income from associated companies and joint ventures	3.11	0	0
Cashflows from operating profit before tax and before changes in operating assets and liabilities	-	783	860
Changes in operating assets (excluding cash and cash equivalents)	-	705	1 706
Financial assets at amortised cost (excluding debt securities)	4.1	146	144
Financial assets at fair value through OCI	4.1	1 164	742
Financial assets at fair value through profit or loss	4.1	- 508	815
of which financial assets held for trading	*4.1*	*- 18*	*1*
Hedging derivatives	4.1	- 16	- 4
Operating assets associated with disposal groups, and other assets	-	- 81	9
Changes in operating liabilities (excluding cash and cash equivalents)	-	618	- 1 359
Financial liabilities at amortised cost	4.1	- 23	- 563
Financial liabilities at fair value through profit or loss	4.1	842	- 864
of which financial liabilities held for trading	*4.1*	*- 2*	*- 5*
Hedging derivatives	4.1	- 26	5
Technical provisions, before reinsurance	5.6	- 170	- 6
Operating liabilities associated with disposal groups and other liabilities	-	- 6	70
Income taxes paid	3.12	- 131	- 122
Net cash from or used in operating activities		1 974	1 084
INVESTING ACTIVITIES			
Purchase of debt securities at amortised cost	4.1	- 1 696	- 1 671
Proceeds from the repayment of debt securities at amortised cost	4.1	285	833
Acquisition of a subsidiary or a business unit, net of cash acquired (including increases in percentage interest held)	6.6	- 71	0
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	-	0	0
Proceeds from the disposal of shares in associated companies and joint ventures	-	0	0
Dividends received from associated companies and joint ventures	-	0	0
Purchase of investment property	5.4	- 10	- 39
Proceeds from the sale of investment property	5.4	6	24
Purchase of intangible fixed assets (excluding goodwill)	5.5	- 37	- 22
Proceeds from the sale of intangible fixed assets (excluding goodwill)	5.5	18	0
Purchase of property and equipment	5.4	- 6	- 5
Proceeds from the sale of property and equipment	5.4	4	1
Net cash from or used in investing activities		- 1 508	- 878

(in millions of EUR)	Note (1)	2021	2020
FINANCING ACTIVITIES			
Purchase or sale of treasury shares	Consolidated statement of changes in equity	0	0
Issue or repayment of promissory notes and other debt securities	4.1	0	0
Proceeds from or repayment of subordinated liabilities	4.1	0	0
Proceeds from the issuance of share capital	Cons. statement of changes in equity	0	0
Issue of additional tier-1 instruments	Consolidated statement of changes in equity	0	0
Dividends paid	Cons. statement of changes in equity	- 235	- 156
Coupon additional Tier-1 instruments	Consolidated statement of changes in equity	0	0
Net cash from or used in financing activities		- 235	- 156
CHANGE IN CASH AND CASH EQUIVALENTS			
Net increase or decrease in cash and cash equivalents	-	231	50
Cash and cash equivalents at the beginning of the period	-	278	229
Effects of exchange rate changes on opening cash and cash equivalents	-	1	0
Cash and cash equivalents at the end of the period	-	510	278
ADDITIONAL INFORMATION			
Interest paid	3.1	- 36	- 46
Interest received	3.1	434	498
Dividends received (including equity method)	3.2, 5.3	31	34
COMPONENTS OF CASH AND CASH EQUIVALENTS			
Cash and cash balances with central banks and other demand deposits with credit institutions	Consolidated balance sheet	509	277
Term loans to banks at not more than three months (excl. reverse repos)	4.1	1	1
Reverse repos up to three months with credit institutions and investment firms	4.1	0	0
Deposits from banks repayable on demand	4.1	0	0
Cash and cash equivalents belonging to disposal groups	-	0	0
Total	-	510	278
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 2021 and 2020 included the realised result as well as the lower outstanding debt instruments at fair value through OCI.
- Net cash from or used in investing activities in 2021 and 2020 was mainly accounted for by additional investments in debt securities at amortised cost. In 2021, these items also included -71 million euros related to the acquisition of NN's Bulgarian pension and life insurance business (see Note 6.6)
- Net cash from financing activities in 2021 and 2020 related to the dividend payment (-235 million euros and -156 million euros, respectively).

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 17 March 2022 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 IFRS standards, which KBC chose to apply before the date of mandatory adoption, became effective on 1 January 2021:

- Amendments to IAS39 and related affected standards: Under Phase 2 of the IBOR reform, the IASB made a number of amendments to IAS 39 and to related affected standards, which provide temporary relief from adopting specific hedge accounting requirements for hedging relationships directly affected by this reform. KBC applied these amendments in 2020, prior to the date of mandatory adoption. 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). For more information, see the 'How do we manage our risks?' section.

The following IFRS standards were issued but not yet effective in 2021. 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, 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 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. On 23 November 2021, the EU published a Regulation endorsing IFRS 17 (Insurance Contracts), including the amendments to the original IFRS 17 and a solution for the annual cohort requirement for certain types of insurance contracts, for use in the European Union. The option to reclassify financial assets between the IFRS 9 portfolios only applies on the date the IFRS 17 standard enters into force and does not apply to the comparative period. In December 2021, the IASB Board amended the IFRS 17 standard by implementing the 'Classification overlay', which enables full retrospective reclassification.
- Other: the IASB has published several limited amendments to existing IFRSs and IFRICs. They will be applied when they become mandatory, but their impact is currently estimated to be negligible.

Note 1.2: Summary of significant accounting policies

General / Basic principle

The general accounting principles of KBC Insurance 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.

Write-offs: KBC writes off the gross carrying value of financial assets (or the part of the gross carrying value) it deems uncollectable. This means that there is no reasonable expectation that KBC will recover any interest or principal in a timely manner. The timing of write-offs depends on several factors, including the portfolio, the existence and type of collateral, the settlement process in each jurisdiction, and local legislation. If a loan is uncollectable, the gross carrying value is written off directly against the corresponding impairment. Recoveries of amounts previously written off are recognised as reversals of impairments in the income statement. KBC differentiates between write-offs for financial reporting purposes (which are still subject to credit enforcement activities) and debt forgiveness. The latter entails the forfeiture of the legal right to recover all or part of the debt outstanding to the client.

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.

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). More information on the credit risk models developed by KBC is provided in the 'Internal Modelling' section of the Risk Report at www.kbc.com. That said, KBC ensures that the Basel models are adapted so they comply with IFRS 9.

- 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.

KBC considers forward-looking information in the calculation of ECL via macroeconomic variables and based on management's assessment of any idiosyncratic events. KBC's Chief Economist develops three different macroeconomic scenarios (base-case, up and down) for all the KBC Core Countries and sets a corresponding probability for each scenario. On a quarterly basis, KBC updates the economic scenarios and attributed weightings to be used for the ECL calculation based on the input of the Chief Economist. The incorporation of the macroeconomic variables included in these scenarios in the PD, EAD and LGD components of the ECL calculation is based on statistical correlation in historical datasets.

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. This is typically the date when the consideration 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) 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 under 'Net result from financial instruments at fair value through profit or loss'. 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) under 'Net interest income'. 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 under 'Net result from financial instruments at fair value through profit or loss' 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 under 'Net result from financial instruments at fair value through profit or loss'.

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 reflected 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 or recovered from the tax authorities, using the rates of tax in effect during the reporting period.

Deferred tax assets/liabilities

Deferred tax liabilities are recognised for all taxable temporary differences between the carrying value of an asset or liability and its tax base. They are measured using the tax rates that are substantively enacted at the reporting date and expected to be in effect on realisation of the assets or settlement of the liabilities to which they relate and that reflect the tax consequences following from the manner in which the entity expects to recover or settle the carrying value of the underlying asset or liability at the balance sheet date.
Deferred tax assets are recognised for all deductible temporary differences between the carrying value of assets and liabilities and their tax base, as well as for the carry forward of unused tax losses and unused tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. KBC calculates deferred tax assets for carry forward unused tax losses. When estimating the period over which tax losses can be set off against future taxable profits, KBC uses projections for a period of eight to ten years.
Deferred tax assets/liabilities that relate to business combinations are recorded directly in goodwill.
Deferred tax assets/liabilities are not discounted.

Property and equipment

Property and equipment are recognised initially at cost (including directly allocable acquisition costs). KBC subsequently measures property and equipment at the initial cost less accumulated depreciation and impairment. The rates of depreciation are determined on the basis of the estimated useful life of the assets and are applied according to the straight-line method from the moment the assets are available for use. Property and equipment are derecognised upon disposal or when the relevant asset is permanently withdrawn from use and no future economic benefits are expected from its disposal. Gains or losses upon derecognition are recognised in the income statement in the period in which derecognition occurs.
Property and equipment are subject to impairment testing when there is an indication that the asset might have been impaired.
Depreciation charges, impairment losses and gains or losses on disposal are recognised under 'Operating expenses' in the income statement, with the exception of assets that are leased under operating leases (KBC as a lessor), for which the costs are recognised in 'Other net 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 'Other net 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 and other KBC group entities (primarily KBC Bank NV and KBC Group NV);
- KBC associates and joint ventures;
- KBC key management staff (i.e. the Board of Directors and the Executive Committee of KBC Insurance 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 31-12-2021		Exchange rate average in 2021	
	1 EUR = … … currency	Change relative to 31-12-2020 (positive: appreciation relative to EUR) (negative: depreciation relative to EUR)	1 EUR = … … currency	Change relative to average in 2020 (positive: appreciation relative to EUR) (negative: depreciation relative to EUR)
CZK	24.858	6%	25.706	3%
HUF	369.19	-1%	358.39	-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 hit the global economy very hard in 2020 and 2021. The initial significant deterioration in economic outlook has led to unprecedented policy responses by central banks and governments in all parts of the world.

Overview of the main impact of the coronavirus crisis on our results in 2020 and 2021

Item	Impact of the coronavirus crisis	More details in note/section:
Net interest income	2020 and 2021: Adversely impacted by what were generally low long-term interest rates.	3.1
Non-life insurance	2020: higher technical result supported by a low level of claims resulting from a lower level of economic activity during lockdown periods. 2021: lower technical result, as the level of claims gradually returned to normal (and, of course, also due to the consequences of the floods in Belgium and the tornado in the Czech Republic).	3.7
Life insurance	2020 and 2021: challenging context for the sale of life insurance products in view of the low interest rate environment.	3.7
Financial instruments at FVPL	2020: Very negative impact in the first quarter of 2020 due to plummeting stock markets, followed by a gradual return to normal.	3.3
Operating expenses	2020: 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). However, these lower expenses were more than offset by the higher one-off internal charge made by KBC Group in relation to software. 2021: higher operating expenses partly due to higher variable remuneration and exceptional and/or non-operating items, such as the payment of a one-off coronavirus-related bonus to staff.	3.8
Impairment on loans (financial assets at AC and at FVOCI)	2020 and 2021: Limited impact, given the nature of the portfolio.	3.10 and 4.2
Impairment on goodwill	2020 and 2021: our annual assessment of goodwill impairment indicators (based on discounted cashflow analysis) showed no indication of any impairment to goodwill on account of the coronavirus crisis.	3.10 and 5.5
Revaluation reserves	2020: includes a decline in the revaluation reserves (FVPL equity instruments at the insurers – overlay approach) and translation differences. 2021: includes an increase in the revaluation reserves (FVPL equity instruments at the insurers – overlay approach) and translation differences.	Consolidated statement of comprehensive income
Solvency	2020 and 2021: robust solvency position maintained throughout the coronavirus crisis. At year-end 2021, the Solvency II ratio came to 201%, more than double the minimum requirement of 100%.	6.7 and 'How do we manage our capital?'

Overview of the impact of the coronavirus crisis on our activities in 2020 and 2021

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?')
- Our clients (see 'The client is at the centre of our business culture')
- Our employees (see 'Our employees, capital, network and relationships')
- Our risk management (see 'How do we manage our risks?')
- Dividend payment (see 'Our employees, capital, network and relationships' and 'Consolidated statement of changes in equity' in the consolidated financial statements)

2.0 Notes on segment reporting

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

3.0 Notes to the income statement

Note 3.1: Net interest income

(in millions of EUR)	2021	2020
Total	398	452
Interest income	434	498
Interest income on financial instruments calculated using the effective interest rate method		
Financial assets at AC	214	237
Financial assets at FVOCI	197	232
Hedging derivatives	1	1
Financial liabilities (negative interest rate)	17	21
Other	0	0
Interest income on other financial instruments		
Financial assets MFVPL other than held for trading	0	0
Financial assets held for trading	5	8
Of which economic hedges	*5*	*8*
Other financial assets at FVPL	0	0
Interest expense	- 36	- 46
Interest expense on financial instruments calculated using the effective interest rate method		
Financial liabilities at AC	- 8	- 9
Financial assets (negative interest rate)	- 13	- 13
Hedging derivatives	- 8	- 12
Other	- 2	- 2
Interest expense on other financial instruments		
Financial liabilities held for trading	- 5	- 10
Of which economic hedges	*- 5*	*- 10*
Other financial liabilities at FVPL	0	0
Net interest expense relating to defined benefit plans	0	0

Note 3.2: Dividend income

(in millions of EUR)	2021	2020
Total	31	34
Equity instruments MFVPL other than held for trading	28	30
Equity instruments held for trading	0	0
Equity instruments at FVOCI	3	3

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

(in millions of EUR)	2021	2020
Total	117	1
Total broken down by IFRS portfolio		
Financial instruments MFVPL other than held for trading and overlay	1 213	- 438
Trading instruments (including interest on non-ALM trading derivates and fair value changes in all trading derivatives)	8	2
Financial instruments to which the overlay is applied	104	- 14
Gains or losses on sale	123	116
Impairment	- 20	- 131
Other financial instruments at FVPL	- 1 204	451
Foreign exchange trading	- 3	0
Fair value adjustments in hedge accounting	0	0
Hedge accounting broken down by type of hedge	0	0
Fair value micro hedges	0	0
Changes in the fair value of the hedged items	- 37	- 1
Changes in the fair value of the hedging derivatives	37	1
Cashflow hedges	0	0
Changes in the fair value of the hedging derivatives, ineffective portion	0	0
Hedges of net investments in foreign operations, ineffective portion	0	0
Portfolio hedge of interest rate risk	0	0
Changes in the fair value of the hedged items	0	0
Changes in the fair value of the hedging derivatives	0	0
Discontinuation of hedge accounting for fair value hedges	0	0
Discontinuation of hedge accounting in the event of cashflow hedges	0	0

- 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 (+1 195 million euros and -1 195 million euros, respectively, in 2021 and -441 million euros and +441 million euros, respectively, in 2020).
- 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.

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 2021.

Note 3.5: Net fee and commission income

(in millions of EUR)	2021	2020
Total	- 373	- 364
Fee and commission income	161	147
Fee and commission expense	- 533	- 512
Breakdown by type		
Asset Management Services	14	16
Fee and commission income	26	30
Fee and commission expense	- 11	- 14
Banking Services	- 6	- 6
Fee and commission income	2	2
Fee and commission expense	- 8	- 8
Distribution	- 381	- 374
Fee and commission income	134	116
Fee and commission expense	- 515	- 490

Note 3.6: Net Other income

(in millions of EUR)	2021	2020
Total	74	79
of which gains or losses on		
Sale of financial assets measured at amortised cost	0	0
Repurchase of financial liabilities measured at amortised cost	- 2	0
Other, including:	75	79
Income from VAB Group	59	56
Net rental income	16	16

Note 3.7: Insurance results

Note 3.7.1: Overview

(in millions of EUR)	Life	Non-life	Non-technical account	Total
2021				
Earned premiums, insurance (before reinsurance)	1 196	1 905	0	3 101
of which changes in the provision for unearned premiums	- 1	- 48	0	- 49
Technical charges, insurance (before reinsurance)	- 1 150	- 1 106	0	- 2 256
Claims paid	- 1 163	- 872	0	- 2 036
Changes in technical provisions	- 1	- 223	0	- 224
Other technical result	14	- 10	0	4
Net fee and commission income	- 5	- 367	0	- 373
Ceded reinsurance result	- 2	27	0	25
General administrative expenses	- 149	- 255	- 2	- 407
Internal claims settlement expenses	- 9	- 59	0	- 68
Indirect acquisition costs	- 31	- 68	0	- 98
Administrative expenses	- 109	- 128	0	- 238
Investment management fees	0	0	- 2	- 2
Technical result	- 111	204	- 2	90
Investment Income	383	93	67	543
Technical-financial result	272	297	65	633
Share in results of associated companies and joint ventures	-	-	0	0
RESULT BEFORE TAX	272	297	65	633
Income tax expense	-	-	-	- 125
RESULT AFTER TAX	-	-	-	508
attributable to minority interest	-	-	-	-
attributable to equity holders of the parent	-	-	-	**508**
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
Changes in technical provisions	- 53	- 101	0	- 154
Other technical result	- 22	- 6	0	- 28
Net fee and commission income	- 19	- 346	0	- 364
Ceded reinsurance result	- 2	- 18	0	- 20
General administrative expenses	- 151	- 266	- 2	- 419
Internal claims settlement expenses	- 9	- 63	0	- 71
Indirect acquisition costs	- 32	- 71	0	- 104
Administrative expenses	- 110	- 132	0	- 242
Investment management fees	0	0	- 2	- 2
Technical result	- 161	253	- 2	89
Investment Income	359	95	32	486
Technical-financial result	198	348	29	576
Share in results of associated companies and joint ventures	-	-	0	0
RESULT BEFORE TAX	198	348	29	576
Income tax expense	-	-	-	- 126
RESULT AFTER TAX	-	-	-	450
attributable to minority interest	-	-	-	-
attributable to equity holders of the parent	-	-	-	**450**

- The non-technical result (65 million euros) in 2021 was higher than in 2020, mainly due to greater realised gains on shares (‘overlay’ approach) and did not include any exceptional items.
- Investment income (in millions of EUR, for 2021 and 2020, respectively) comprises: ‘Net interest income’ (398, 452), ‘Net dividend income’ (31, 34), ‘Net result from financial instruments at fair value through profit or loss’ (117, 1), ‘Net realised result from debt instruments at fair value through OCI’ (-2, 0), ‘Other net income’ (1, 11) and ‘Impairment’ (-3, -11). The ‘Non-technical account’ also includes the results from non-insurance subsidiaries, such as VAB group, ADD and Pension Insurance Company UBB EAD, 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 2021, the non-life technical result was negatively impacted by factors including heavy flooding in Belgium. In 2020, the non-life technical result was negatively impacted by factors including storms in Belgium and positively impacted by the lower level of economic activity due to lockdown measures.
- In 2021, the non-life technical result was negatively impacted by factors including the tornado in the Czech Republic and even more so by heavy flooding in Belgium. For the latter, claims totalled 110 million euros (before tax); after reinsurance, the net amount comes down to 87 million euros, 45 million euros of which above the legal limit (i.e. the ceiling introduced in Belgian law on the intervention of insurers in the event of very large floods), but which is still within the limit agreed between the Belgian insurance sector and the Walloon government. In 2020, the non-life technical result was negatively impacted by factors including 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). See also ‘Climate-related and other ESG risks’ in the ‘How do we manage our risks?’ section.
- More information on the acquisition of certain life and pension insurance policies from NN in Bulgaria is provided in Note 6.6.

Note 3.7.2: Life insurance

(in millions of EUR)	2021	2020
Total	1 196	1 223
By IFRS category		
Insurance contracts	900	902
Investment contracts with DPF	296	322
By type		
Accepted reinsurance	0	0
Primary business	1 196	1 223
Breakdown of primary business		
Individual premiums	831	869
Single premiums	61	131
Periodic premiums	770	738
Premiums under group contracts	365	355
Single premiums	50	50
Periodic premiums	315	305
Total sales of life insurance (including investment contracts without DPF)		
Unit-linked	942	965
Guaranteed-rate	1 022	1 024
Total	1 964	1 989

- 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 2020 accounted for premium income of 1.0 billion euros and in 2021 for premium income of 0.9 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)	Claims incurred	Operating expenses (before reinsurance)	Ceded reinsurance	Total
2021					
Total	1 905	- 1 106	- 622	27	204
Accepted reinsurance	27	- 11	- 9	- 3	4
Primary business	1 878	- 1 095	- 614	30	200
Accident & health (classes 1 & 2, excl. industrial accidents)	123	- 53	- 40	0	28
Industrial accidents (class 1)	89	- 77	- 16	0	- 4
Motor, third-party liability (class 10)	512	- 305	- 148	- 4	55
Motor, other classes (classes 3 & 7)	320	- 179	- 108	3	36
Shipping, aviation, transport (classes 4, 5, 6, 7, 11 & 12)	7	- 2	- 2	- 1	1
Fire and other damage to property (classes 8 & 9)	569	- 343	- 211	28	44
General third-party liability (class 13)	142	- 92	- 46	1	6
Credit and suretyship (classes 14 & 15)	0	0	0	0	0
Miscellaneous pecuniary losses (class 16)	22	- 9	- 8	3	9
Legal assistance (class 17)	62	- 28	- 22	0	13
Assistance (class 18)	31	- 6	- 13	0	12
2020					
Total	1 795	- 913	- 611	- 18	253
Accepted reinsurance	26	- 16	- 11	- 13	- 14
Primary business	1 770	- 897	- 600	- 5	267
Accident & health (classes 1 & 2, excl. industrial accidents)	117	- 69	- 41	0	7
Industrial accidents (class 1)	77	- 62	- 17	- 3	- 6
Motor, third-party liability (class 10)	502	- 306	- 144	7	59
Motor, other classes (classes 3 & 7)	301	- 138	- 102	- 1	60
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	- 207	- 9	115
General third-party liability (class 13)	128	- 88	- 44	2	- 1
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	- 22	0	16
Assistance (class 18)	30	- 7	- 14	0	10

Note 3.8: Operating expenses

(in millions of EUR)	2021	2020
Total	- 480	- 487
Staff expenses	- 233	- 228
General administrative expenses	- 225	- 242
of which levies	- 22	- 17
Depreciation and amortisation of fixed assets	- 21	- 17

- 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.
- For information on the impact of the coronavirus crisis, see Note 1.4.

Note 3.9: Personnel

	2021	2020
Total average number of persons employed (in full-time equivalents)	3 953	3 972
By employee classification		
Blue-collar staff	328	324
White-collar staff	3 600	3 623
Senior management	25	25

- 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 NN's Bulgarian life and pension insurance businesses were included from August 2021 (52 FTEs on average).

Note 3.10: Impairment (income statement)

(in millions of EUR)	2021	2020
Total	- 3	- 11
Impairment on financial assets at AC and at FVOCI *	5	- 6
Of which impairment on financial assets at AC	1	- 1
By product		
Loans and advances	0	0
Debt securities	0	- 1
Off-balance-sheet commitments and financial guarantees	0	0
By type		
Stage 1 (12-month ECL)	1	- 1
Stage 2 (lifetime ECL)	0	0
Stage 3 (lifetime ECL)	0	0
Purchased or originated credit impaired assets	0	0
Of which impairment on financial assets at FVOCI	4	- 5
Debt securities	4	- 5
Stage 1 (12-month ECL)	3	- 2
Stage 2 (lifetime ECL)	0	- 2
Stage 3 (lifetime ECL)	0	0
Impairment on goodwill	0	0
Impairment on other	- 7	- 5
Intangible fixed assets (other than goodwill)	- 5	- 2
Property and equipment (including investment property)	0	0
Associated companies and joint ventures	0	0
Other	- 2	- 3

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

- 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.

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

No associated companies and joint ventures were recognised using the equity method in 2021 and 2020.

- 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)	2021	2020
Total	- 125	- 126
By type		
Current taxes on income	- 131	- 122
Deferred taxes on income	6	- 3
Tax components		
Result before tax	633	576
Income tax at the Belgian statutory rate	25.00%	25.00%
Income tax calculated	- 158	- 144
Plus/minus tax effects attributable to		
differences in tax rates, Belgium – abroad	20	14
tax-free income	30	36
adjustments related to prior years	1	- 8
adjustments to deferred taxes due to change in tax rate	0	0
unused tax losses and unused tax credits to reduce current tax expense	0	0
unused tax losses and unused tax credits to reduce deferred tax expense	0	0
reversal of previously recognised deferred tax assets due to tax losses	0	0
other (mainly non-deductible expenses)	- 18	- 24

- For information on tax assets and tax liabilities, see Note 5.2.
- For information on the impact of the coronavirus crisis, see Note 1.4.

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

Note 4.1

(in millions of EUR)	AC	FVOCI	MFVPL excl. HFT and overlay	Overlay	HFT	FVO (1)	Hedging deriva-tives	Total
FINANCIAL ASSETS, 31-12-2021								
Loans and advances to credit institutions and investment firms (excl. reverse repos)	419	0	0	0	1	0	0	**420**
Of which repayable on demand and term loans at not more than three months								***1***
Loans and advances to customers (excl. reverse repos)	2 077	0	0	0	0	0	0	**2 077**
Trade receivables	1	0	0	0	0	0	0	**1**
Consumer credit	0	0	0	0	0	0	0	**0**
Mortgage loans	972	0	0	0	0	0	0	**972**
Term loans	952	0	0	0	0	0	0	**952**
Finance lease	0	0	0	0	0	0	0	**0**
Current account advances	0	0	0	0	0	0	0	**0**
Other	153	0	0	0	0	0	0	**153**
Reverse repos (2)	0	0	0	0	0	0	0	**0**
with credit institutions and investment firms	0	0	0	0	0	0	0	**0**
with customers	0	0	0	0	0	0	0	**0**
Equity instruments	0	129	0	1 366	8	0	0	**1 503**
Investment contracts (insurance) (6)	0	0	14 620	0	0	0	0	**14 620**
Debt securities issued by	7 036	10 978	2	0	21	0	0	**18 037**
Public bodies	5 316	6 547	0	0	16	0	0	**11 880**
Credit institutions and investment firms	454	1 757	0	0	2	0	0	**2 213**
Corporates	1 265	2 674	2	0	3	0	0	**3 944**
Derivatives	0	0	0	0	0	0	21	**21**
Other (3)	29	0	0	0	0	0	0	**29**
Total	9 560	11 108	14 621	1 366	29	0	21	**36 706**
FINANCIAL ASSETS, 31-12-2020								
Loans and advances to credit institutions and investment firms (excl. reverse repos)	447	0	0	0	1	0	0	**447**
Of which repayable on demand and term loans at not more than three months								***1***
Loans and advances to customers (excl. reverse repos)	2 198	0	0	0	0	0	0	**2 198**
Trade receivables	1	0	0	0	0	0	0	**1**
Consumer credit	0	0	0	0	0	0	0	**0**
Mortgage loans	1 073	0	0	0	0	0	0	**1 073**
Term loans	994	0	0	0	0	0	0	**994**
Finance lease	0	0	0	0	0	0	0	**0**
Current account advances	0	0	0	0	0	0	0	**0**
Other	130	0	0	0	0	0	0	**130**
Reverse repos (2)	0	0	0	0	0	0	0	**0**
with credit institutions and investment firms	0	0	0	0	0	0	0	**0**
with customers	0	0	0	0	0	0	0	**0**
Equity instruments	0	80	0	1 276	3	0	0	**1 359**
Investment contracts (insurance) (6)	0	0	13 830	0	0	0	0	**13 830**
Debt securities issued by	5 585	12 496	33	0	7	0	0	**18 121**
Public bodies	4 084	7 359	0	0	2	0	0	**11 444**
Credit institutions and investment firms	364	1 881	0	0	3	0	0	**2 249**
Corporates	1 137	3 257	33	0	2	0	0	**4 428**
Derivatives	0	0	0	0	0	0	4	**5**
Other (3)	25	0	0	0	0	0	0	**25**
Total	8 254	12 576	13 863	1 276	11	0	4	**35 985**

(in millions of EUR)	AC	HFT	FVO	Hedging deriva-tives	Total
FINANCIAL LIABILITIES, 31-12-2021					
Deposits from credit institutions and investment firms (excl. repos)	110	0	0	0	**110**
Of which repayable on demand					***0***
Deposits from customers and debt securities (excl. repos)	500	0	0	0	**500**
Demand deposits	0	0	0	0	**0**
Time deposits	0	0	0	0	**0**
Savings accounts	0	0	0	0	**0**
Special deposits	0	0	0	0	**0**
Other deposits	0	0	0	0	**0**
Certificates of deposit	0	0	0	0	**0**
Savings certificates	0	0	0	0	**0**
Convertible bonds	0	0	0	0	**0**
Non-convertible bonds	0	0	0	0	**0**
Convertible subordinated liabilities	0	0	0	0	**0**
Non-convertible subordinated liabilities	500	0	0	0	**500**
Repos (4)	333	0	0	0	**333**
with credit institutions and investment firms	333	0	0	0	**333**
with customers	0	0	0	0	**0**
Liabilities under investment contracts (6)	0	0	13 603	0	**13 603**
Derivatives	0	5	0	14	**19**
Short positions	0	0	0	0	**0**
In equity instruments	0	0	0	0	**0**
In debt securities	0	0	0	0	**0**
Other (5)	25	0	0	0	**25**
Total	968	5	13 603	14	**14 591**
FINANCIAL LIABILITIES, 31-12-2020					
Deposits from credit institutions and investment firms (excl. repos)	226	0	0	0	**226**
Of which repayable on demand					***0***
Deposits from customers and debt securities (excl. repos)	500	0	0	0	**500**
Demand deposits	0	0	0	0	**0**
Time deposits	0	0	0	0	**0**
Savings accounts	0	0	0	0	**0**
Special deposits	0	0	0	0	**0**
Other deposits	0	0	0	0	**0**
Certificates of deposit	0	0	0	0	**0**
Savings certificates	0	0	0	0	**0**
Convertible bonds	0	0	0	0	**0**
Non-convertible bonds	0	0	0	0	**0**
Convertible subordinated liabilities	0	0	0	0	**0**
Non-convertible subordinated liabilities	500	0	0	0	**500**
Repos (4)	241	0	0	0	**241**
with credit institutions and investment firms	241	0	0	0	**241**
with customers	0	0	0	0	**0**
Liabilities under investment contracts (6)	0	0	12 724	0	**12 724**
Derivatives	0	6	0	39	**46**
Short positions	0	0	0	0	**0**
In equity instruments	0	0	0	0	**0**
In debt securities	0	0	0	0	**0**
Other (5)	24	0	0	0	**24**
Total	991	6	12 724	39	**13 761**

1. The carrying value comes close to the maximum credit exposure.
2. The amount of the reverse repos is virtually identical to the amount of the underlying assets (that have been lent out).
3. Financial assets not included under 'Loans and advances to customers' as they are not directly related to commercial lending.
4. The amount of the repos is virtually identical to the amount of the underlying assets (that have been lent out), with the assets being partly reflected on the balance sheet and partly obtained through reverse repo transactions.
5. Financial liabilities not included under deposits from customers as they are not directly related to commercial deposit acquisition.
6. The difference between 'Investment contracts (insurance)' and 'Liabilities under investment contracts' is accounted for by the presentation of non-unbundled investment contracts that are included under 'Investment contracts (insurance)' on the financial assets side, but are included under 'Technical provisions (before reinsurance)' on the liabilities side.

- 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 2021, 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 2 406 million euros (debt instruments classified as 'Measured at fair value through OCI' (1 181 million euros) and as 'Measured at amortised cost' (1 225 million euros)); and an associated financial liability with a carrying value of 2 797 million euros (1 201 million euros classified as 'Measured at fair value through OCI' and 1 596 million euros as 'Measured at amortised cost'). 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 2 345 million euros (debt instruments classified as 'Measured at fair value through OCI' (1 343 million euros) and as 'Measured at amortised cost' (1 001 million euros)); and an associated financial liability with a carrying value of 2 741 million euros (1 306 million euros classified as 'Measured at fair value through OCI' and 1 435 million euros as 'Measured at amortised cost').
- More information on the acquisition of NN's Bulgarian life and pension insurance business is provided in Note 6.6.

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

Note 4.2.1: Impaired financial assets

			31-12-2021			31-12-2020
(in millions of EUR)	**Carrying value before impairment**	**Impairment**	**Carrying value after impairment**	**Carrying value before impairment**	**Impairment**	**Carrying value after impairment**
FINANCIAL ASSETS AT AMORTISED COST						
Loans and advances (*)	2 496	- 1	2 496	2 645	- 1	2 644
Stage 1 (12-month ECL)	2 435	0	2 435	2 580	0	2 579
Stage 2 (lifetime ECL)	59	0	59	64	0	64
Stage 3 (lifetime ECL)	2	- 1	1	1	- 1	1
Purchased or originated credit impaired assets (POCI)	0	0	0	0	0	0
Debt Securities	7 037	- 1	7 036	5 587	- 2	5 585
Stage 1 (12-month ECL)	7 019	- 1	7 018	5 582	- 2	5 580
Stage 2 (lifetime ECL)	18	0	18	5	0	5
Stage 3 (lifetime ECL)	0	0	0	0	0	0
Purchased or originated credit impaired assets (POCI)	0	0	0	0	0	0
FINANCIAL ASSETS AT FAIR VALUE THROU(						
Debt Securities	10 983	- 5	10 978	12 505	- 8	12 496
Stage 1 (12-month ECL)	10 895	- 2	10 892	12 369	- 6	12 364
Stage 2 (lifetime ECL)	88	- 2	86	136	- 3	133
Stage 3 (lifetime ECL)	0	0	0	0	0	0
Purchased or originated credit impaired assets (POCI)	0	0	0	0	0	0

(*) The carrying value after impairment in this note is equal to the sum of the lines 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 column Measured at amortised cost)

Note 4.2.2: Impairment details

(in millions of EUR)	31-12-2021 Stage 1 Subject to 12-month ECL	Stage 2 Subject to lifetime ECL	Stage 3 Subject to lifetime ECL (non-performing)	Subject to lifetime ECL (purchased or originated credit impaired)	Total	31-12-2020 Stage 1 Subject to 12-month ECL	Stage 2 Subject to lifetime ECL	Stage 3 Subject to lifetime ECL (non-performing)	Subject to lifetime ECL (purchased or originated credit impaired)	Total
LOANS AND ADVANCES AT AMORTISED COST										
Impairment on 01-01-2021	0	0	1	0	1	0	0	1	0	1
Movements with an impact on results (1)	0	0	0	0	0	0	0	0	0	0
Transfer of financial assets										
Stage 1 (12-month ECL)	0	0	0	0	0	0	0	0	0	0
Stage 2 (lifetime ECL)	0	0	0	0	0	0	0	0	0	0
Stage 3 (lifetime ECL)	0	0	0	0	0	0	0	0	0	0
New financial assets (2)	0	0	0	0	0	0	0	0	0	0
Changes in risk parameters	0	0	0	0	0	0	0	0	0	0
Changes in the model or methodology	0	0	0	0	0	0	0	0	0	0
Derecognised financial assets (3)	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0
Movements without an impact on results	0	0	0	0	0	0	0	0	0	0
Derecognised financial assets (3)	0	0	0	0	0	0	0	0	0	0
Changes in the scope of consolidation	0	0	0	0	0	0	0	0	0	0
Transfers under IFRS 5	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0
Impairment on 31-12-2021	0	0	1	0	1	0	0	1	0	1
DEBT SECURITIES AT AMORTISED COST										
Impairment on 01-01-2021	2	0	0	0	2	0	0	0	0	0
Movements with an impact on results (1)	0	0	0	0	0	1	0	0	0	1
Transfer of financial assets										
Stage 1 (12-month ECL)	0	0	0	0	0	0	0	0	0	0
Stage 2 (lifetime ECL)	0	0	0	0	0	0	0	0	0	0
Stage 3 (lifetime ECL)	0	0	0	0	0	0	0	0	0	0
New financial assets (2)	0	0	0	0	0	1	0	0	0	1
Changes in risk parameters	- 1	0	0	0	- 1	0	0	0	0	0
Changes in the model or methodology	0	0	0	0	0	0	0	0	0	0
Derecognised financial assets (3)	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0
Movements without an impact on results	0	0	0	0	0	0	0	0	0	0
Derecognised financial assets (3)	0	0	0	0	0	0	0	0	0	0
Changes in the scope of consolidation	0	0	0	0	0	0	0	0	0	0
Transfers under IFRS 5	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0
Impairment on 31-12-2021	1	0	0	0	1	2	0	0	0	2
DEBT SECURITIES AT FAIR VALUE THROUGH OCI										
Impairment on 01-01-2021	6	3	0	0	8	3	1	0	0	4
Movements with an impact on results (1)	- 3	0	0	0	- 4	2	2	0	0	5
Transfer of financial assets										
Stage 1 (12-month ECL)	0	0	0	0	0	0	2	0	0	2
Stage 2 (lifetime ECL)	0	- 1	0	0	- 1	0	0	0	0	0
Stage 3 (lifetime ECL)	0	0	0	0	0	0	0	0	0	0
New financial assets (2)	0	0	0	0	0	0	0	0	0	0
Changes in risk parameters	- 3	0	0	0	- 3	2	0	0	0	2
Changes in the model or methodology	0	0	0	0	0	0	0	0	0	0
Derecognised financial assets (3)	- 1	0	0	0	- 1	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0
Movements without an impact on results	0	0	0	0	0	0	0	0	0	0
Derecognised financial assets (3)	0	0	0	0	0	0	0	0	0	0
Changes in the scope of consolidation	0	0	0	0	0	0	0	0	0	0
Transfers under IFRS 5	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0
Impairment on 31-12-2021	2	2	0	0	5	6	3	0	0	8

(1) Amounts recovered in respect of loans that have already been written off are recycled to the income statement and recorded as 'Impairment on financial assets at amortised cost and at fair value through OCI'. However, they have not been included in this table since they do not have any impact on impairment losses on the balance sheet.

(2) Also includes impairment related to new financial assets resulting from off-balance-sheet commitments and financial guarantees already given being called.

(3) Derecognition without an impact on results occurs when the impairment adjustment has already been made upfront (for example, at the moment of the sale agreement (disposals) or before the write-off). Derecognition with an impact on results occurs when the impairment adjustment takes place at the same time (for instance, in the case of debt forgiveness).

- For information on provisions for commitments and financial guarantees, see Note 5.7.2.
- For information regarding the impact of changes in impairment on the income statement, see Note 3.10.
- The loan portfolio contains a portion 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)	31-12-2021 Maximum credit exposure (A)	Collateral and other credit enhancements received (B)	Net (A-B)	31-12-2020 Maximum credit exposure (A)	Collateral and other credit enhancements received (B)	Net (A-B)
Subject to impairment	20 622	726	19 897	20 823	839	19 984
of which Stage 3 'non-performing' (AC and FVOCI)	*1*	*0*	*1*	*1*	*0*	*1*
Debt securities	18 014	0	18 014	18 082	0	18 082
Loans and advances (excl. reverse repos)	2 496	726	1 770	2 644	839	1 805
Reverse repos	0	0	0	0	0	0
Other financial assets	29	0	29	25	0	25
Off-balance-sheet liabilities	84	0	84	72	0	72
irrevocable	84	0		72	0	
revocable*	0	0		0	0	
Not subject to impairment	44	0	44	45	0	45
Debt securities	22	0	22	40	0	40
Loans and advances (excl. reverse repos)	1	0	1	1	0	1
of which FVO	*0*	*0*	*0*	*0*	*0*	*0*
Reverse repos	0	0	0	0	0	0
Derivatives	21	0	21	5	0	5
Other financial assets	0	0	0	0	0	0
Off-balance-sheet liabilities	0	0	0	0	0	0
Total	20 667	726	19 941	20 868	839	20 029

* Compared to last year's annual report, for completeness' sake we completed the table with respect to the maximum credit risk with revocable off-balance sheet commitments.

- 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 contains a portion of the financial assets. Based on internal management reports, the composition and quality of the loan portfolio is set out in detail in the 'How do we manage our risks?' section (under 'Credit risk'). All parts of that particular section which have been audited by the statutory auditor are listed at the start of the section.
- Collateral and credit enhancements received: recognised at market value and limited to the outstanding amount of the relevant loans.

Financial instruments subject to offsetting, enforceable master netting agreements and similar arrangements (in millions of EUR)	Gross amounts of recognised financial instruments	Gross amounts of recognised financial instruments set off	Net amounts of financial instruments presented in the balance sheet	Amounts not set off in the balance sheet: Financial instruments	Amounts not set off in the balance sheet: Cash collateral	Amounts not set off in the balance sheet: Securities collateral	Net amount
FINANCIAL ASSETS, 31-12-2021							
Derivatives	21	0	21	0	0	0	21
Derivatives (excluding central clearing houses)	21	0	21	0	0	0	21
Derivatives with central clearing houses	0	0	0	0	0	0	0
Reverse repos, securities borrowing and similar arrangements	0	0	0	0	0	0	0
Reverse repos	0	0	0	0	0	0	0
Securities borrowing	0	0	0	0	0	0	0
Other financial instruments	0	0	0	0	0	0	0
Total	21	0	21	0	0	0	21
FINANCIAL LIABILITIES, 31-12-2021							
Derivatives	19	0	19	0	18	0	1
Derivatives (excluding central clearing houses)	19	0	19	0	18	0	1
Derivatives with central clearing houses	0	0	0	0	0	0	0
Repos, securities lending and similar arrangements	333	0	333	0	0	333	0
Repos	333	0	333	0	0	333	0
Securities lending	0	0	0	0	0	0	0
Other financial instruments	0	0	0	0	0	0	0
Total	352	0	352	0	18	333	1
FINANCIAL ASSETS, 31-12-2020							
Derivatives	5	0	5	0	0	5	0
Derivatives (excluding central clearing houses)	5	0	5	0	0	5	0
Derivatives with central clearing houses	0	0	0	0	0	0	0
Reverse repos, securities borrowing and similar arrangements	0	0	0	0	0	0	0
Reverse repos	0	0	0	0	0	0	0
Securities borrowing	0	0	0	0	0	0	0
Other financial instruments	0	0	0	0	0	0	0
Total	5	0	5	0	0	5	0
FINANCIAL LIABILITIES, 31-12-2020							
Derivatives	46	0	46	0	35	10	0
Derivatives (excluding central clearing houses)	46	0	46	0	35	10	0
Derivatives with central clearing houses	0	0	0	0	0	0	0
Repos, securities lending and similar arrangements	241	0	241	0	0	241	0
Repos	241	0	241	0	0	241	0
Securities lending	0	0	0	0	0	0	0
Other financial instruments	0	0	0	0	0	0	0
Total	287	0	287	0	35	251	0

- The criteria for offsetting are met if KBC currently has a legally enforceable right to set off the recognised financial assets and financial liabilities and intends either to settle the transactions on a net basis, or to realise the financial asset and settle the financial liability simultaneously. Financial assets and financial liabilities that are set off relate to financial instruments that were traded on (central) clearing houses.
- The amounts presented in the 'Financial instruments' column under the 'Amounts not set off in the balance sheet' heading are for financial instruments entered into under an enforceable master netting agreement or similar arrangement that does not meet the criteria defined in IAS 32. These amounts refer to situations in which offsetting can only be applied if one of the counterparties defaults, becomes insolvent or goes bankrupt. The same principle applies for financial instruments given or received as collateral. The value given in the table for non-cash collateral received (the 'Securities collateral' column under the 'Amounts not set off in the balance sheet' heading) corresponds with the market value. This is the value that is used if one of the counterparties defaults, becomes insolvent or goes bankrupt.

Note 4.4: Fair value of financial assets and liabilities – general

- All internal valuation models used at KBC are validated by an independent Risk Validation Unit. In addition, the Executive Committee has appointed a Group Valuation Committee (GVC) to ensure that KBC and its entities meet all the legal requirements for measuring financial assets and liabilities at fair value. The GVC monitors consistent implementation of the KBC Valuation Framework, which consists of various guidelines, including the Group Valuation Policy, the Group XVA and AVA Policy and the Group Parameter Review Policy. The GVC meets at least twice a quarter to approve significant changes in valuation methods (including, but not limited to, models, market data and inputs) or deviations from group policies for financial assets and liabilities measured at fair value. The committee is made up of members from Finance, Risk Management and the Middle Office. Valuation uncertainty measurements are made and reported to the GVC every six months. Lastly, certain fair values generated by valuation models are challenged by a team set up specifically for this purpose.
- The fair value of mortgage and term loans not measured at fair value in the balance sheet (see table) is calculated by discounting contractual cashflows at the risk-free rate. This calculation is then adjusted for credit risk by taking account of margins obtained on similar, but recently issued, loans. The fair value of the main portfolios takes account of prepayment risks and cap options. The fair value of demand and savings deposits (both of which are repayable on demand) is presumed to be equal to their carrying value.

Fair value of financial 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
FINANCIAL ASSETS, 31-12-2021				
Loans and advances to credit institutions and investment firms (incl. reverse repos)	419	509	-	-
Loans and advances to customers (incl. reverse repos)	2 077	2 291	-	-
Debt securities	7 036	7 724	-	-
Other	29	29	-	-
Total	9 560	10 553	-	-
Level 1	-	5 858	-	-
Level 2	-	4 690	-	-
Level 3	-	5	-	-
FINANCIAL LIABILITIES, 31-12-2021				
Deposits from credit institutions and investment firms (incl. repos)	-	-	443	443
Deposits from customers and debt securities (incl. repos)	-	-	500	500
Liabilities under investment contracts	-	-	0	0
Other	-	-	25	13
Total	-	-	968	956
Level 1	-	-	-	0
Level 2	-	-	-	956
Level 3	-	-	-	0
FINANCIAL ASSETS, 31-12-2020				
Loans and advances to credit institutions and investment firms (incl. reverse repos)	447	570	-	-
Loans and advances to customers (incl. reverse repos)	2 198	2 499	-	-
Debt securities	5 585	6 657	-	-
Other	25	25	-	-
Total	8 254	9 750	-	-
Level 1	-	5 034	-	-
Level 2	-	4 711	-	-
Level 3	-	5	-	-
FINANCIAL LIABILITIES, 31-12-2020				
Deposits from credit institutions and investment firms (incl. repos)	-	-	467	467
Deposits from customers and debt securities (incl. repos)	-	-	500	500
Liabilities under investment contracts	-	-	0	0
Other	-	-	24	24
Total	-	-	991	991
Level 1	-	-	-	10
Level 2	-	-	-	980
Level 3	-	-	-	0

Note 4.5: Financial assets and liabilities measured at fair value – fair value hierarchy

(in millions of EUR) Fair value hierarchy	Level 1	Level 2	Level 3	31-12-2021 Total	Level 1	Level 2	Level 3	31-12-2020 Total
FINANCIAL ASSETS AT FAIR VALUE								
Mandatorily measured at fair value through profit or loss, other than held for trading incl. overlay	15 688	254	45	15 987	14 706	344	89	15 139
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
Equity instruments	1 323	0	43	1 366	1 217	3	56	1 276
Investment contracts (insurance)	14 365	254	0	14 620	13 490	341	0	13 830
Debt securities	0	0	2	2	0	0	33	33
of which sovereign bonds	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Other	0	0	0	0	0	0	0	0
Held for trading	23	6	0	29	6	5	0	11
Loans and advances to credit institutions and investment firms (incl. reverse repos)	0	1	0	1	0	1	0	1
Loans and advances to customers (incl. reverse repos)	0	0	0	0	0	0	0	0
Equity instruments	8	0	0	8	3	0	0	3
Debt securities	16	5	0	21	3	4	0	7
of which sovereign bonds	*14*	*2*	*0*	*16*	*2*	*0*	*0*	*2*
Derivatives	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0
FVO	0	0	0	0	0	0	0	0
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	7 923	2 863	323	11 108	8 972	3 268	336	12 576
Equity instruments	2	0	127	129	2	0	78	80
Debt securities	7 920	2 863	195	10 978	8 970	3 268	258	12 496
of which sovereign bonds	*4 816*	*1 711*	*20*	*6 547*	*5 297*	*1 967*	*95*	*7 359*
Hedging derivatives	0	21	0	21	0	4	0	4
Derivatives	0	21	0	21	0	4	0	4
Total	23 634	3 144	368	27 145	23 684	3 622	425	27 731

(in millions of EUR) Fair value hierarchy	Level 1	Level 2	Level 3	31-12-2021 Total	Level 1	Level 2	Level 3	31-12-2020 Total
FINANCIAL LIABILITIES AT FAIR VALUE								
Held for trading	0	5	0	5	0	6	0	6
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	0	0	0	0	0	0	0
Derivatives	0	5	0	5	0	6	0	6
Short positions	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0
Designated at fair value	13 603	0	0	13 603	12 724	0	0	12 724
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	0	0	0	0	0	0	0
Liabilities under investment contracts	13 603	0	0	13 603	12 724	0	0	12 724
Other	0	0	0	0	0	0	0	0
Hedging derivatives	0	14	0	14	0	39	0	39
Derivatives	0	14	0	14	0	39	0	39
Total	13 603	19	0	13 622	12 724	46	0	12 770

- The fair value hierarchy prioritises the valuation techniques and the respective inputs into three levels.
    - The fair value hierarchy gives the highest priority to 'level 1 inputs'. This means that, when there is an active market, quoted prices have to be used to measure the financial assets or liabilities at fair value. Level 1 inputs are prices that are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency (and that are quoted in active markets accessible to KBC). They represent actual and regularly occurring market transactions on an arm's length basis. The fair value is then based on a mark-to-market valuation derived from currently available transaction prices. No valuation technique (model) is involved.
    - If there are no price quotations available, the reporting entity establishes fair value using a model based on observable or unobservable inputs. The use of observable inputs needs to be maximised, whereas the use of unobservable inputs has to be minimised. Observable inputs are also referred to as 'level 2 inputs' and reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Examples of observable inputs are the risk-free rate, exchange rates, stock prices and implied volatility. Valuation techniques based on observable inputs include discounted cashflow analysis, or reference to the current or recent fair value of a similar instrument.
    - Unobservable inputs are also referred to as 'level 3 inputs' and reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions regarding the risks involved). Unobservable inputs reflect a market that is not active. For example, proxies and correlation factors can be considered to be unobservable in the market.
- When the inputs used to measure the fair value of an asset or a liability can be categorised into different levels of the fair value hierarchy, the fair value measurement is classified in its entirety into the same level as the lowest level input that is significant to the entire fair value measurement. For example, if a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement.
- The valuation methodology and the corresponding classification in the fair value hierarchy of the most commonly used financial instruments are summarised in the table. This table provides an overview of the level in which the instruments are generally classified, but exceptions are possible. In other words, whereas the majority of instruments of a certain type are within the level indicated in the table, a small portion may actually be classified in another level.
- KBC follows the principle that transfers into and out of levels of the fair value hierarchy are made at the end of the reporting period. Transfers between the various levels are dealt with in more detail in Note 4.6 and Note 4.7.

Overview at KBC Group level

	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 or vendor data
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, 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, European cancellable IRS, compound 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, 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, constant maturity swaps (CMS), CMS spread swaps, CMS spread options, CMS interest rate caps/floors, (callable) range accruals, outperformance options, auto-callable options, lookback options, commodity swaps and forwards	Option pricing model based on observable 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, 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 2021, KBC transferred 110 million euros' worth of financial assets and liabilities out of level 1 and into level 2. It also reclassified approximately 279 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 2020, KBC transferred 94 million euros' worth of financial assets and liabilities out of level 1 and into level 2. It also reclassified approximately 245 million euros' worth of financial assets and liabilities from level 2 to level 1. Most of these reclassifications were carried out due in part 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 2021, significant movements in financial assets and liabilities classified in level 3 of the fair value hierarchy included the following:
    - Financial assets at fair value through OCI: The fair value of equity rose by 48 million euros, mainly due to the revaluation of non-consolidated positions. The fair value of debt instruments fell by 63 million euros, primarily as a result of shifts from level 3, only partly offset by shifts into 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 at fair value through OCI: the fair value of debt instruments increased by 94 million euros, due primarily to reclassifications into level 3 and new positions.

Note 4.8: Derivatives

Note 4.8.1: Trading derivatives

	31-12-2021				31-12-2020			
(in millions of EUR)	Carrying value		Notional amount (*)		Carrying value		Notional amount (*)	
	Assets	Lia-bilities	Purchased	Sold	Assets	Lia-bilities	Purchased	Sold
Total	0	5	63	63	0	6	61	61
Interest rate contracts	0	5	50	50	0	6	48	48
of which interest rate swaps and futures	*0*	*5*	*50*	*50*	*0*	*6*	*48*	*48*
of which options	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Foreign exchange contracts	0	0	13	12	0	0	13	13
of which currency and interest rate swaps, FX swaps and futures	*0*	*0*	*13*	*12*	*0*	*0*	*13*	*13*
of which options	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Equity contracts	0	0	0	0	0	0	0	0
of which equity swaps	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
of which options	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Credit contracts	0	0	0	0	0	0	0	0
of which credit default swaps	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Commodity and other contracts	0	0	0	0	0	0	0	0

(*) In this table, both legs of the derivatives are reported in the notional amounts.

Note 4.8.2 Hedging derivatives

31-12-2021

(in millions of EUR)	Hedging instrument					Hedged item				Impact on equity	
	Notional amount (1)		Carrying value		Change in fair value of hedging instruments as basis for recognising hedge ineffectiveness for the period (2)		Carrying value		Change in fair value of hedged items as basis for recognising hedge ineffectiveness for the period (2)	Ineffective portion recognised in profit or loss	Effective portion recognised in OCI
Hedging strategy	Pur-chased	Sold	Assets	Liabilities		Type	Total (incl. fair value changes)	Of which accumulated fair value adjustments			
Fair value micro hedge											
Interest rate swaps	437	437	20	14	37	Debt securities held at AC	0	0	0		
Currency and interest rate swaps	19	18	0	0	0	Loans and advances at AC	0	0	0		
						Debt securities held at FVOCI	501	- 14	- 37		
						Debt securities issued at AC	0	0	0		
						Deposits at AC	0	0	0		
Total	456	456	20	14	37	Total			- 37	0	-
Portfolio hedge of interest rate risk											
Interest rate swaps	0	0	0	0	0	Debt securities held at AC	0	0	0		
Currency and interest rate options	0	0	0	0	0	Loans and advances at AC	0	0	0		
						Debt securities held at FVOCI	0	0	0		
						Debt securities issued at AC	0	0	0		
						Deposits at AC	0	0	0		
Total	0	0	0	0	0	Total			0	0	-
Cashflow hedge (micro hedge and portfolio hedge)											
Interest rate swaps	0	0	0	0	0						
Currency and interest rate swaps	6	5	0	0	0						
Total	6	5	0	0	0	Total			0	0	0
Hedge of net investments in foreign operations											
Total (3)	0	0	0	0	0	Total			0	0	1

(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) Carrying value liabilities: hedging instruments in the form of foreign currency deposits.

31-12-2020

(in millions of EUR)	Hedging instrument					Hedged item				Impact on equity	
	Notional amount (1)		Carrying value		Change in fair value of hedging instruments as basis for recognising hedge ineffectiveness for the period (2)		Carrying value		Change in fair value of hedged items as basis for recognising hedge ineffectiveness for the period (2)	Ineffective portion recognised in profit or loss	Effective portion recognised in OCI
Hedging strategy	Pur-chased	Sold	Assets	Liabilities		Type	Total (incl. fair value changes)	Of which accumulated fair value adjustments			
Fair value micro hedge											
Interest rate swaps	539	539	3	38	1	Debt securities held at AC	0	0	0		
Currency and interest rate swaps	31	31	0	1	0	Loans and advances at AC	0	0	0		
						Debt securities held at FVOCI	666	23	- 1		
						Debt securities issued at AC	0	0	0		
						Deposits at AC	0	0	0		
Total	570	570	3	39	1	Total			- 1	0	-
Portfolio hedge of interest rate risk											
Interest rate swaps	0	0	0	0	0	Debt securities held at AC	0	0	0		
Currency and interest rate options	0	0	0	0	0	Loans and advances at AC	0	0	0		
						Debt securities held at FVOCI	0	0	0		
						Debt securities issued at AC	0	0	0		
						Deposits at AC	0	0	0		
Total	0	0	0	0	0	Total			0	0	-
Cashflow hedge (micro hedge and portfolio hedge)											
Interest rate swaps	0	0	0	0	0						
Currency and interest rate swaps	11	11	0	0	0						
Total	11	11	0	0	0	Total			0	0	0
Hedge of net investments in foreign operations											
Total (3)	0	0	0	0	0	Total			0	0	1

(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) Carrying value liabilities: hedging instruments in the form of foreign currency deposits.

- 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.

Estimated cashflows from cashflow hedging derivatives per time bucket (in millions of EUR)	Inflow	Outflow
Not more than three months	0	0
More than three but not more than six months	0	0
More than six months but not more than one year	0	0
More than one but not more than two years	6	- 6
More than two but not more than five years	0	0
More than five years	0	0

5.0 Notes to other balance sheet items

Note 5.1: Other assets

(in millions of EUR)	31-12-2021	31-12-2020
Total	758	672
Debtors arising out of direct insurance operations	404	381
Debtors arising out of reinsurance operations	78	32
Deposits with ceding companies	10	11
Income receivable (other than interest income from financial assets)	6	4
Other	260	244

Note 5.2: Tax assets and tax liabilities

(in millions of EUR)	31-12-2021	31-12-2020
CURRENT TAXES		
Current tax assets	45	32
Current tax liabilities	44	30
DEFERRED TAXES	- 265	- 370
Deferred tax assets by type of temporary difference	125	109
Employee benefits	2	7
Losses carried forward	0	2
Tangible and intangible fixed assets	7	7
Provisions for risks and charges	1	1
Impairment for losses on loans and advances	3	4
Financial instruments at fair value through profit or loss and fair value hedges	46	53
Fair value changes financial instruments at FVOCI, cashflow hedges and hedges of net investments in foreign operations	29	28
Technical provisions	30	2
Other	7	5
Deferred tax liabilities by type of temporary difference	389	480
Employee benefits	0	0
Losses carried forward	0	0
Tangible and intangible fixed assets	5	5
Provisions for risks and charges	9	9
Impairment for losses on loans and advances	0	0
Financial instruments at fair value through profit or loss and fair value hedges	41	39
Fair value changes, financial assets at FVOCI, cashflow hedges and hedges of net investments in foreign operations	225	329
Technical provisions	106	95
Other	3	3
Recognised as a net amount in the balance sheet as follows:		
Deferred tax assets	38	5
Deferred tax liabilities	302	375
Unused tax losses and unused tax credits	0	0

- 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 unused tax losses and unused tax credits can be carried forward for 20 years or more.
- The net change in deferred taxes (+106 million euros in 2021) breaks down as follows:
  - The increase in deferred tax liabilities of -90 million euros;
  - The increase in deferred tax assets of +15 million euros.

- The change in deferred tax liabilities was accounted for chiefly by the decrease in deferred tax liabilities on account of changes in the revaluation reserve for financial instruments measured at fair value through OCI (due to the general increase in interest rates in 2021) and to a lesser extent by technical provisions.
- The change in deferred tax assets was accounted for chiefly by technical provisions and the decline in financial instruments at fair value through profit or loss.

Note 5.3: Investments in associated companies and joint ventures

No associated companies and joint ventures were recognised using the equity method in 2021 and 2020.

- 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)				31-12-2021	31-12-2020
Property, equipment				39	40
Investment property				244	256
Rental income				21	21
Direct operating expenses from investments generating rental i				5	5
Direct operating expenses from investments not generating ren				0	0
MOVEMENTS TABLE	Land and buildings	IT equipment	Other equipment	Total property and equipment	Investment property
2021					
Opening balance	33	2	5	40	256
Acquisitions	3	1	1	6	10
Disposals	- 1	0	0	- 1	- 3
Depreciation	- 7	- 1	- 1	- 10	- 18
Other movements	4	0	0	4	- 1
Closing balance	32	2	5	39	244
Accumulated depreciation and impairment	*22*	*7*	*14*	*43*	*213*
Fair value 31-12-2021					393
2020					
Opening balance	34	2	5	42	256
Acquisitions	3	1	1	5	39
Disposals	0	0	0	0	- 19
Depreciation	- 7	- 1	- 1	- 9	- 18
Other movements	2	0	0	2	- 1
Closing balance	33	2	5	40	256
Accumulated depreciation and impairment	21	7	13	40	198
Fair value 31-12-2020					402

- 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 are no material obligations to acquire property or 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.
- The impact of the heavy flooding and other extreme weather conditions in 2021 on property and equipment and investment property (in this case, our branch network) and on the associated impairment was insignificant.

Note 5.5: Goodwill and other intangible assets

(in millions of EUR)	Goodwill	Software developed in-house	Software developed externally	Other	Total
2021					
Opening balance	111	0	26	16	152
Acquisitions	56	4	27	6	93
Disposals	0	0	- 10	- 9	- 19
Amortisation	0	- 5	- 6	- 1	- 12
Other movements	0	4	- 4	- 3	- 3
Closing balance	167	3	33	9	212
Accumulated amortisation and impairment	*199*	*6*	*40*	*25*	*269*
2020					
Opening balance	111	0	20	12	142
Acquisitions	0	5	8	9	22
Disposals	0	0	0	0	0
Amortisation	0	- 3	- 5	- 1	- 8
Other movements	0	- 2	3	- 3	- 3
Closing balance	111	0	26	16	152
Accumulated amortisation and impairment	*199*	*0*	*39*	*21*	*259*

- Goodwill: includes the goodwill paid on companies included in the scope of consolidation and relating to the acquisition of activities. Goodwill paid on associated companies: included in the nominal value of ‘Investments in associated companies’ shown on the balance sheet.
- For goodwill in respect of recent acquisitions, see Note 6.6.
- Impairment testing: a test was carried out to establish whether impairment on goodwill had to be recognised (see table and Note 3.10). This impairment test is performed at least once a year. We also carry out a high level assessment on a quarterly basis to see whether there is an indication of impairment. In the test, each entity is regarded as a separate cash-generating unit. Each entity has a specific risk profile and it is rare to have different profiles within a single entity.
- Impairment on goodwill under IAS 36: recognised in profit or loss if the recoverable amount of an investment is lower than its carrying value. The recoverable amount is defined as the higher of the value in use (calculated based on discounted cashflow analysis) and the fair value (calculated based on multiple analysis, etc.) less costs to sell.
- The main group companies to which goodwill relates are listed in the table. All of these companies have been valued using the discounted cashflow method. The discounted cashflow method calculates the recoverable amount of an investment as the present value of all future free cashflows of the business. This method is based on long-term projections about the company’s business and the resulting cashflows (i.e. projections for a number of years ahead and the residual value of the business at the end of the specific projection period). These long-term projections are the result of an assessment of past and present performances combined with external sources of information on future performances in the respective markets and the global macroeconomic environment. Consequently, in cases where sustainability aspects and products/projects have been factored into the underlying financial projections, this will also affect the valuation. The terminal growth rate is determined using a long-term average market growth rate. The present value of these future cashflows is calculated using a compound discount rate which is based on the capital asset pricing model (CAPM). A risk-free rate, a market-risk premium (multiplied by an activity beta), and a country risk premium (to reflect the impact of the economic situation of the country where KBC is active) are also used in the calculation. KBC has developed two distinct discounted cashflow models, viz. a bank model and an insurance model. Free cashflows in both cases are the dividends that can be paid out to the company’s shareholders, account taken of the minimum capital requirements.

Goodwill outstanding (in millions of EUR)	31-12-2021	31-12-2020	Discount rates throughout the specific period of cashflow projections 31-12-2021	31-12-2020
DZI Insurance	75	75	8,6%-7,2%	9,0%-8,3%
Pension Insurance Company UBB (the acquired pension insurance activities of NN in Bulgaria)	56	-	-	-
CSOB Pojist'ovna	18	18	8,6%-6,8%	9,9%-7,6%
Rest	18	18	-	-
Total	167	111	-	-

- 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 2021 (the same as in 2020).
- 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.

Note 5.6: Technical provisions, insurance

(in millions of EUR)	Gross 2021	Reinsurance 2021	Gross 2020	Reinsurance 2020
Technical provisions	18 974	191	18 724	145
Insurance contracts, Non-life	3 974	181	3 682	137
Provision for unearned premiums	820	4	764	2
Provision for claims outstanding	2 909	176	2 685	134
Provision for profit sharing & rebates	3	0	3	0
Other technical provisions	242	0	230	0
Insurance contracts, Life	8 511	10	8 315	8
Provision for unearned premiums	18	1	16	1
Life insurance provision	8 080	8	7 902	6
Provision for claims outstanding	197	1	189	2
Provision for profit sharing & rebates	28	0	22	0
Other technical provisions	187	0	187	0
Investment contracts with DPF, life	6 489	0	6 727	0
Life insurance provision	6 418	0	6 671	0
Provision for claims outstanding	16	0	0	0
Provision for profit sharing & rebates and other	55	0	56	0

Movements tabel	Gross 2021	Reinsurance 2021	Gross 2020	Reinsurance 2020
Insurance contracts, Non-life				
Opening balance	3 682	137	3 578	114
Movements reflected in earned premiums (income statement)	48	2	28	0
Movements reflected in technical charges (income statement)	223	41	101	23
Payments regarding claims of previous financial years	- 328	- 22	- 367	- 9
Provision for new claims	626	66	492	17
Surplus/Shortfall of claims provision of previous financial years	- 112	2	- 56	11
Cost of profit sharing	0	0	- 1	0
Other movements with an impact on results	38	- 5	33	4
Movements reflected in the balance sheet	22	1	- 25	- 1
Closing balance	3 974	181	3 682	137
Insurance contracts, Life				
Opening balance	8 315	8	7 969	6
Movements reflected in earned premiums (income statement)	1	0	2	0
Movements reflected in technical charges (income statement)	71	2	123	1
New business (net of risk premium and charges)	633	0	648	0
Payments (including funding of risk premium)	- 776	0	- 710	0
Accretion of interest	166	2	176	1
Cost of profit sharing	13	0	9	0
Provision for new claims and change in provision for claims outstanding	- 3	0	- 6	1
Fair Value adjustments of unit-linked contracts (not unbundled)	32	0	3	0
Other movements with an impact on results	6	1	3	0
Movements reflected in the balance sheet	124	0	221	0
Closing balance	8 511	10	8 315	8
Investment contracts with DPF, life				
Opening balance	6 727	0	7 019	0
Movements reflected in technical charges (income statement)	- 70	0	- 70	0
New business (net of risk premium and charges)	281	0	306	0
Payments (including funding of risk premium)	- 461	0	- 467	0
Accretion of interest	92	0	93	0
Cost of profit sharing	6	0	2	0
Provision for new claims and change in provision for claims outstanding	12	0	- 5	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	- 168	0	- 222	0
Closing balance	6 489	0	6 727	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 2020 and 2021, there were no major changes in assumptions leading to a significant change in the valuation of insurance assets and liabilities.
- The 'Movements reflected in the balance sheet' item also includes the impact of the life insurance business acquired from NN in Bulgaria (see Note 6.6).

Note 5.7: Provisions for risks and charges

Note 5.7.1: Overview

(in millions of EUR)	31-12-2021	31-12-2020
Total provisions for risks and charges	3	3
Provisions for off-balance-sheet commitments and financial guarantees	0	0
Provisions for other risks and charges	3	3
Provisions for restructuring	0	0
Provisions for taxes and pending legal disputes	1	1
Other	2	2

Note 5.7.2: Details of off-balance-sheet commitments and financial guarantees

Is not important for KBC Insurance.

Note 5.7.3: Details of provisions for other risks and charges

(in millions of EUR)	Provision for restructuring	Provision for taxes and pending legal disputes	Other	Total
2021				
Opening balance	0	1	2	3
Movements with an impact on results				
Amounts allocated	0	0	1	1
Amounts used	0	0	0	0
Unused amounts reversed	0	0	0	0
Transfers out of/into liabilities associated with disposal groups	0	0	0	0
Changes in the scope of consolidation	0	0	0	0
Other	0	0	0	0
Closing balance	0	1	2	3
2020				
Opening balance	0	2	2	5
Movements with an impact on results				
Amounts allocated	0	0	0	0
Amounts used	0	- 1	- 1	- 2
Unused amounts reversed	0	0	0	0
Transfers out of/into liabilities associated with disposal groups	0	0	0	0
Changes in the scope of consolidation	0	0	0	0
Other	0	0	0	0
Closing balance	0	1	2	3

- For most of the provisions recorded, no reasonable estimate can be made of when they will be used

Note 5.8: Other liabilities

(in millions of EUR)	31-12-2021	31-12-2020
Total	836	857
Retirement benefit obligations or other employee benefits	7	9
Deposits from reinsurers	98	78
Accrued charges (other than from interest expenses on financial liabilities)	60	52
Other	671	719

- 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)	31-12-2021	31-12-2020
DEFINED BENEFIT PLANS		
Reconciliation of defined benefit obligations		
Defined benefit obligations at the beginning of the period	231	227
Current service cost	9	9
Interest cost	0	1
Actuarial gain or loss resulting from changes in demographic assumptions	0	0
Actuarial gain or loss resulting from changes in financial assumptions	- 2	17
Experience adjustments	- 6	- 16
Other	- 10	- 7
Defined benefit obligations at the end of the period	223	231
Reconciliation of the fair value of plan assets		
Fair value of plan assets at the beginning of the period	207	200
Actual return on plan assets	29	7
Expected interest income on plan assets, calculated based on the market yields on high-quality corporate bonds	*0*	*1*
Employer contributions	6	7
Plan participant contributions	0	0
Benefits paid	- 8	- 7
Other	0	0
Fair value of plan assets at the end of the period	234	207
of which financial instruments issued by the group	*0*	*0*
of which property occupied by KBC	*1*	*1*
Funded status		
Plan assets in excess of defined benefit obligations	11	- 24
Reimbursement rights	0	0
Asset ceiling limit	- 14	0
Unfunded accrued/prepaid pension cost	- 3	- 24
Movement in net liabilities or net assets		
Unfunded accrued/prepaid pension cost at the beginning of the period	- 24	- 27
Amounts recognised in the income statement	- 9	- 9
Amounts recognised in other comprehensive income	24	5
Employer contributions	6	7
Other	0	0
Unfunded accrued/prepaid pension cost at the end of the period	- 3	- 24
Amounts recognised in the income statement	- 9	- 9
Current service cost	- 9	- 9
Interest cost	0	0
Plan participant contributions	0	0
Other	0	0
Changes to the amounts recognised in other comprehensive income	24	5
Actuarial gain or loss resulting from changes in demographic assumptions	0	0
Actuarial gain or loss resulting from changes in financial assumptions	2	- 17
Actuarial result on plan assets	29	6
Experience adjustments	6	16
Adjustments to asset ceiling limits	- 14	0
Other	2	0
DEFINED CONTRIBUTION PLANS		
Expenses for defined contribution plans	0	0

- Retirement benefits that are actively accrued for the Belgium-based staff of KBC Insurance and most of its 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.

- From 2021, the expected age of retirement of each employee and the expected wage inflation based on an inflation curve derived from the market value of inflation-linked bonds are taken into account in the calculation of the gross defined benefit obligations.
- 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.
- There are no significant defined benefit plans in the group's other core countries.

Additional information on retirement benefit obligations (in millions of EUR)	**2021**	**2020**	**2019**	**2018**	**2017**
Changes in main headings in the main table					
Defined benefit obligations	223	231	227	2 945	2 861
Fair value of plan assets	234	207	200	2 369	2 433
Unfunded accrued/prepaid pension cost	- 3	- 24	- 27	- 598	- 466

Note 5.10: Parent shareholders' equity

Quantities	**31-12-2021**	**31-12-2020**
Ordinary shares	**1 050 906**	**1 050 906**
of which ordinary shares that entitle the holder to a dividend payment	*1 050 906*	*1 050 906*
of which treasury shares	*48 889*	*48 889*
Additional information		
Par value per share (in EUR)	62.00	62.00
Number of shares issued but not fully paid up	0	0

- The share capital of KBC Insurance NV consists of ordinary shares of no nominal value.

Note 5.11: 'Non-current assets held for sale and disposal groups' and 'Liabilities associated with disposal groups' (IFRS 5)

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

6.0 Other notes

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

(in millions of EUR)			31-12-2021			31-12-2020
	Nominal amount	Provision	Net exposure	Nominal amount	Provision	Net exposure
Undrawn portion of credit lines granted						
Stage 1	0	0	0	0	0	0
Stage 2	0	0	0	0	0	0
Stage 3	0	0	0	0	0	0
Total	0	0	0	0	0	0
of which irrevocable credit lines	*0*	*0*	*0*	*0*	*0*	*0*
Financial guarantees given						
Stage 1	3	0	3	3	0	3
Stage 2	0	0	0	0	0	0
Stage 3	0	0	0	0	0	0
Total	3	0	3	3	0	3
Other commitments given						
Total	81	0	81	69	0	69
Total						
Off-balance-sheet commitments and financial guarantees	84	0	84	72	0	72

- Fair value of financial guarantees: based on the available market value.
- The carrying value of financial assets pledged by KBC as collateral came to 329 million euros for liabilities and 0 million euros for contingent liabilities (241 million euros and 0 million euros, respectively, in 2020). There is an obligation to return collateral received (which may be sold or repledged in the absence of default by the owner; see table) in its original form, or possibly in cash. Collateral can be called in if loans are terminated for various reasons such as default or bankruptcy. In the event of bankruptcy, the collateral will be sold by the receiver. In other cases, the bank will organise the foreclosure itself or take possession of the collateral. Collateral received that relates to OTC derivatives is primarily cash, which is recognised by KBC on the balance sheet (and is not included in the table). More details are provided in Note 4.3.

Collateral received (which may be sold or repledged in the absence of default by the owner) (in millions of EUR)	Fair value of collateral received		Fair value of collateral sold or repledged	
	31-12-2021	31-12-2020	31-12-2021	31-12-2020
Financial assets	2 409	2 457	0	0
Equity instruments	0	0	0	0
Debt securities	2 409	2 457	0	0
Loans and advances	0	0	0	0
Cash	0	0	0	0
Other	0	0	0	0

Note 6.2: Leasing

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

Note 6.3: Related-party transactions

Transactions with related parties, excluding key management (in millions of EUR)	Parent entities with joint control	Subsidiaries and other entities of group	Associated companies	Joint ventures	Other	Total 2021	Parent entities with joint control	Subsidiaries and other entities of group	Associated companies	Joint ventures	Other	Total 2020
Assets	0	812	1	3	13	829	0	843	4	3	13	863
Loans and advances	0	418	0	0	0	418	0	446	0	0	0	446
Equity instruments (including investments in associated companies and joint ventures)	0	68	1	3	0	72	0	67	4	3	0	74
Other	0	327	0	0	13	340	0	330	0	0	13	343
Liabilities	509	494	0	0	0	1 003	530	541	0	0	0	1 071
Deposits	0	443	0	0	0	443	0	467	0	0	0	467
Other financial liabilities	500	0	0	0	0	500	500	0	0	0	0	500
Other	8	51	0	0	0	60	30	74	0	0	0	104
Income statement	- 110	28	0	0	0	- 81	- 133	53	0	0	0	- 79
Net interest income	- 7	103	0	0	0	96	- 8	143	0	0	0	135
Interest income	0	116	0	0	0	116	0	156	0	0	0	156
Interest expense	- 7	- 13	0	0	0	- 20	- 8	- 13	0	0	0	- 21
Earned premiums, insurance (before reinsurance)	0	20	0	0	0	20	1	18	0	0	0	19
Technical insurance charges (before reinsurance)	0	- 2	0	0	0	- 2	0	- 1	0	0	0	- 1
Dividend income	0	4	0	0	0	5	0	4	0	0	0	5
Net fee and commission income	0	- 64	0	0	0	- 64	0	- 79	0	0	0	- 79
Fee and commission income	0	115	0	0	0	115	0	99	0	0	0	99
Fee and commission expense	0	- 179	0	0	0	- 179	0	- 177	0	0	0	- 177
Net other income	0	0	0	0	0	1	0	0	0	0	0	0
General administrative expenses	- 103	- 34	0	0	0	- 137	- 126	- 32	0	0	0	- 158
Undrawn portion of loan commitments, financial guarantees and other commitments												
Given by the group	0	0	0	0	0	0	0	0	0	0	0	0
Received by the group	0	3 610	0	0	0	3 610	0	3 798	0	0	0	3 798

Transactions with key management (members of the Board of Directors and Executive Committee) (in millions of EUR) (*)	2021	2020
Total (*)	0.4	0.3
Breakdown by type of remuneration		
Short-term employee benefits	0.4	0.3
Post-employment benefits	0.0	0.0
Defined benefit plans	0.0	0.0
Defined contribution plans	0.0	0.0
Other long-term employee benefits	0.0	0.0
Termination benefits	0.0	0.0
Share-based payments	0.0	0.0
Stock options (units)		
At the beginning of the period	0.0	0.0
Granted	0.0	0.0
Exercised	0.0	0.0
Composition-related changes	0.0	0.0
At the end of the period	0.0	0.0
Advances and loans granted to key management and partners	0.0	0.0

(*) Remuneration to key management or partners of the consolidating company on the basis of their activity in that company, its subsidiaries and associated companies, including the amount of retirement pensions granted to former key management staff on that basis.

- The 'Subsidiaries and other entities from the same group' heading in the first table includes transactions with unconsolidated subsidiaries (transactions with consolidated subsidiaries have already been eliminated from the consolidated financial statements) and transactions with KBC Group sister companies (primarily KBC Bank).
- All related-party transactions occur at arm's length.
- Key management comprises the members of the Board of Directors and Executive Committee of KBC Insurance.
- 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)	2021	2020
KBC Insurance and its subsidiaries		
Standard audit services	1 177 073	1 144 368
Other services	95 408	182 272
Other certifications	85 408	182 272
Tax advice	0	0
Other non-audit assignments	10 000	0
KBC Insurance NV		
Standard audit services	479 873	538 396
Other services	20 408	110 592

Note 6.5: Subsidiaries, joint ventures and associated companies

Company	Registered office	Company number	Consolidation percentage	Activity
KBC Insurance: subsidiaries that are fully consolidated				
KBC Verzekeringen NV	Leuven - BE	0403.552.563	100	insurance company
ADD NV	Heverlee - BE	0406.080.305	100	insurance broker
KBC Group Re SA	Luxemburg - LU	--	100	reinsurance company
ČSOB Pojišťovna a.s.	Pardubice - CZ	--	100	insurance company
ČSOB Poisťovňa a.s.	Bratislava - SK	--	100	insurance company
Double U Building BV	Rotterdam - NL	--	100	real estate
DZI Life Insurance Jsc	Sofia - BG	--	100	life insurance
DZI - GENERAL INSURANCE JSC	Sofia - BG	--	100	non-life insurance
Pension Insurance Company UBB EAD	Sofia - BG	--	100	pension insurance
Groep VAB NV	Zwijndrecht - BE	0456.920.676	100	holding company
VAB NV	Zwijndrecht - BE	0436.267.594	100	roadside assistance
K&H Biztosító Zrt	Boedapest - HU	--	100	insurance company
KBC Verzekeringen Vastgoed Nederland I BV	Rotterdam - NL	--	100	real estate
KBC Insurance: subsidiaries that are not fully consolidated				
ČSOB Pojišťovací servis, s. r. o.	Pardubice - CZ	--	100	insurance broker
Depannage 2000 NV	Hoboken - BE	0403.992.429	100	vehicles
Maatschappij voor Brandherverzekering cvba	Leuven - BE	0403.552.761	90.10	reinsurance
Olympus Mobility NV	Brussel - BE	0638.809.930	50.08	computer programming activities
Omnia NV	Leuven - BE	0413.646.305	100	travel agency
Pardubická Rozvojová, a.s.	Pardubice - CZ	--	100	real estate
VAB Training & Consult NV	Sint-Niklaas - BE	0435.357.180	100	driving school
Sportcomplex Aalst NV	Brussel - BE	0506.736.215	100	real estate
Sportcomplex Heist-op-den-Berg NV	Brussel - BE	0841.432.438	100	real estate
Traject NV	Gent - BE	0448.394.475	76.14	mobility
VAB Banden Peeters NV	Zwijndrecht - BE	0459.070.118	100	vehicles
Lubaco BVBA	Ranst - BE	0426.985.189	100	vehicles
VAB Koopman Automotive Solutions NV	Zwijndrecht - BE	0866.583.053	70	vehicles
VAB Rijschool NV	Sint-Niklaas - BE	0448.109.811	100	driving school
24+ NV	Zwijndrecht - BE	0895.810.836	100	customer care center
KBC Insurance: joint ventures accounted for using the equity method				
-				
KBC Insurance: joint ventures not accounted for using the equity method				
Macadam VAB Inspection NV	Vilvoorde - BE	0836.746.447	50.00	vehicles
KBC Insurance: companies accounted for using the equity method				
-				
KBC Insurance: companies not accounted for using the equity method				
AIA-Pool cvba	Brussel - BE	0453.634.752	33.47	insurance broker
AssurCard NV	Leuven - BE	0475.433.127	20.00	computerised third-party payment
Optimobil Belgium NV	Brussel - BE	0471.868.277	25.33	vehicles

- Companies eligible for consolidation are effectively included in the consolidated accounts if two of the following criteria are met:
  - (i) the group share in equity exceeds 2.5 million euros;
  - (ii) the group 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.

- Interests in unconsolidated structured entities
  - 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. More information on unconsolidated structured entities is provided in the KBC Group annual report.
  - At year-end 2021, KBC Insurance had received income from unconsolidated structured entities in the form of management fees (11 million euros).
  - At year-end 2021, KBC Insurance held 2.5 billion euros' worth of notes issued by the unconsolidated structured entities.
  - 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.

Note 6.6: Main changes in the scope of consolidation

- Acquisition of NN's Bulgarian pension and life insurance business
  - In July 2021, we completed the acquisition of NN's Bulgarian pension and life insurance business for a total consideration of 77.7 million euros (the deal did not contain any contingent consideration arrangements). This acquisition comprises all the shares of NN Pension Insurance Company EAD in Bulgaria (which has been renamed Pension Insurance Company UBB EAD) and all the assets and liabilities of NN Insurance Co. Ltd. – Sofia Branch. This deal will enable UBB and DZI to further expand their cross-selling opportunities through their already established bank-insurance presence in the Bulgarian market, allowing them to serve more clients and to benefit from economies of scale and increased visibility.
  - The impact of the acquisition is included in the consolidated balance sheet figures (for year-end 2021). The results of the operations concerned have been fully consolidated in the income statement since 1 August 2021. The impact amounts to +5 million euros in total income (mainly net commission income), -4 million euros in operating expenses, and +1 million euros in result after tax.
  - KBC recognised goodwill of 56 million euros in its consolidated financial statements for Pension Insurance Company UBB EAD. This is accounted for by this company's profitability (based on the results achieved in previous years and the business plan for the years ahead) and enables UBB and DZI to further expand their cross-selling opportunities through their already established bank-insurance presence in the Bulgarian market, allowing them to serve more clients and to benefit from economies of scale and increased visibility. KBC has not recorded any goodwill or badwill on the acquisition of all assets and liabilities of NN Insurance Co. Ltd. – Sofia Branch because the consideration was virtually identical to the net value of the assets and liabilities acquired (taking into account specific fair value adjustments). It should be noted that, in principle, 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 (there are currently no indications that the goodwill calculation will be subject to any major adjustments). Goodwill is not deductible for tax purposes.
  - The deal had no impact on KBC Group NV's capital position.
  - The table below shows the fair value of the main assets and liabilities involved in the acquisition of the relevant NN activities.

in millions of EUR	2021
Purchase or sale	Purchase
	Bulgarian life and pension insurance from NN
Total share percentage at the end of the relevant year	100%
For business unit/segment	International Markets
Deal date (month and year)	July 2021
Incorporation of the result of the company in the result of the group as of:	01-08-2021
Purchase price	78
Cashflow for acquiring or selling companies less cash and cash equivalents acquired	- 71
Recognised amounts of identifiable assets acquired and liabilities assumed - provisional fair value at:	7/31/2021
Cash and cash balances with central banks	7
Financial assets	106
Held for trading	1
Fair value through OCI	58
Hedging derivatives	0
Fair value adjustments of hedged items in portfolio hedge of interest rate risk	0
Tax assets	0
Property and equipment	1
Goodwill and other intangible assets	0
Other assets	5
of which: cash and cash equivalents (included in the assets above)	*7*
Financial liabilities	36
Measured at amortised cost	0
Hedging derivatives	36
Technical provisions, before reinsurance	59
Provisions for risks and charges	0
Other liabilities	3
of which: cash and cash equivalents (included in the liabilities above)	*0*

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 insurance company based on IFRS data and according to the rules imposed by the regulator.

The solvency of KBC Insurance is calculated on the basis of Solvency II (the regulatory minimum requirement is 100%). At year-end 2021, the Solvency II ratio came to 201%, more than double the minimum requirement of 100%.

Key solvency figures for KBC Insurance

Solvency II, KBC Insurance consolidated (in millions of EUR)	31-12-2021	31-12-2020
Own Funds	4 075	3 868
Tier 1	3 574	3 368
IFRS Parent shareholders equity	3 991	3 815
Dividend payout	- 525	0
Deduction intangible assets and goodwill (after tax)	- 194	- 136
Valuation differences (after tax)	267	- 383
Volatility adjustment	43	89
Other	- 8	- 16
Tier 2	500	500
Subordinated liabilities	500	500
Solvency Capital Requirement (SCR)	2 029	1 744
Market risk	1 581	1 355
Non-life	626	583
Life	834	735
Health	314	305
Counterparty	114	101
Diversification	-1 133	-1 027
Other	- 308	- 308
Solvency II ratio	201%	222%

More detailed information is provided in the ‘How do we manage our capital?’ section of this report and in KBC’s Risk Report.

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 (17 March 2022):

- Three severe storms (Dudley, Eunice and Franklin) wreaked havoc in February 2022, resulting in a significant number of claims, especially in Belgium. As KBC Insurance has not yet received all claims for compensation from the clients affected, it is currently too soon to provide an accurate estimate of the total financial impact. And although this impact will be partially covered by reinsurance, it will still have a negative impact on the non-life technical result in the first quarter of 2022.
- At the time this report was being prepared, the invasion of Russia in Ukraine required additional attention at the group level and in our home markets in Central and Eastern Europe. KBC has very limited direct exposure to Ukraine and Belarus (less than 10 million euros combined) and only limited direct exposure to Russia of less than 50 million euros, mainly stemming from trade financing. KBC is keeping a very close eye on the related macroeconomic impact (e.g., impact of high gas and oil prices on inflation and economic growth) and on spillover effects to KBC and its clients, both financially and operationally, among other things with high focus on information security threats. Economic and financial sanctions by the West might further impact the European economy. Continuous monitoring and reporting of the situation is in place.

Note 6.9: General information on the company

- Name KBC Insurance NV
- Incorporated: 24 October 1922
- Country of incorporation: Belgium.
- Registered office: Professor Van Overstraetenplein 2, 3000 Leuven, Belgium
- VAT: BE 0403.552.563.
- RLP: Leuven
- Legal form: *naamloze vennootschap* (company with limited liability) under Belgian law; organisation of public interest; the company is an insurance company that is subject to the prudential supervision of the National Bank of Belgium.
- Life: undefined.
- Object: the company has as object the transaction of all insurance, co-insurance, reinsurance and capitalisation business and the management of group pension funds (Article 2 of the Articles of Association). Documents open to public inspection: The Articles of Association of the company are open to public inspection at the Registry of the Leuven 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.
- General Meeting of Shareholders: A General Meeting is held every year at the company's registered office or at any other place indicated in the convening notice, at 11.30 a.m. on the Wednesday immediately prior to the last Thursday of April, or, if this day is a statutory public holiday or bank holiday, at 11.30 a.m. on the business day immediately before it. Each share gives entitlement to one vote.
- For information on the general meeting of shareholders and the right of shareholders to take part in such meetings, see Article 22 et seq. of the Articles of Association, which are available at www.kbc.com.

Statutory auditor’s report

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STATUTORY AUDITOR'S REPORT TO THE GENERAL SHAREHOLDERS' MEETING OF KBC VERZEKERINGEN NV ON THE CONSOLIDATED ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2021

We present to you our statutory auditor's report in the context of our statutory audit of the consolidated accounts of KBC Verzekeringen 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 24 April 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 Verzekeringen NV for 6 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 2021, 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 38.741 million and a profit for the year (attributable to equity holders of the parent) of EUR 508 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 2021, and of its consolidated income and its consolidated cashflows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium.

Basis for unqualified opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) as applicable in Belgium. Furthermore, we have applied the International Standards on Auditing as approved by the IAASB which are applicable to the year-end and which are not yet approved at the national level. Our responsibilities under those standards are further described in the *"Statutory auditor's responsibilities for the audit of the consolidated accounts"* section of our report. We have fulfilled our ethical responsibilities in accordance with the ethical requirements that are relevant to our audit of the consolidated accounts in Belgium, including the requirements related to independence.

PwC Bedrijfsrevisoren BV - PwC Reviseurs d'Entreprises SRL - Financial Assurance Services
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BTW/TVA BE 0429.501.944 / RPR Brussel - RPM Bruxelles / ING BE43 3101 3811 9501 - BIC BBRUBEBB / BELFIUS BE92 0689 0408 8123 - BIC GKCC BEBB

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We have obtained from the board of directors and Company officials the explanations and information necessary for performing our audit.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated accounts of the current period. These matters were addressed in the context of our audit of the consolidated accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<u>Estimation uncertainty with respect to technical insurance provisions</u>

Description of the Key Audit Matter

At year-end 31 December 2021 the technical insurance provisions (before reinsurance) amount to EUR 18.974 million. For detailed information regarding the valuation of the technical insurance provisions, please refer to disclosure Note 1.2. of the Summary of significant accounting policies on technical provisions and Note 5.6 to the consolidated accounts, as well as to the Technical insurance risk section of the Annual Report.

A liability adequacy test is performed by the Group in order to confirm that the technical insurance provisions are sufficient to cover the estimated future cashflows of the insurance contracts. The calculation of the cashflows arising from insurance contracts is complex, highly judgmental and is based on assumptions which are affected by future economic and political conditions and is also affected by government regulations. The assumptions used for the life insurance business relate to risks regarding mortality, longevity, lapse and expense and other assumptions used in the liability adequacy test. The assumptions used for non-life insurance liabilities mainly relate to the amount of the claim, the number of incurred but not yet reported claims and general expenses. The assumptions and uncertainties also apply for the reinsured part.

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.

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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.

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 2021 are included in Note 4.5 to the consolidated accounts. For information regarding the determination of fair value please refer to Note 1.2. of the Summary of significant accounting policies and Note 4.4 to the consolidated accounts.

Valuation techniques and models used for certain financial instruments are inherently subjective and involve various assumptions regarding pricing. In addition, the number of factors influencing the determination of fair value can be extensive and can vary both by type of instrument and/or within instrument types. This is particularly the case for financial instruments disclosed in level 2 and 3 in Note 4.5 to the consolidated accounts, the fair value of financial instruments in level 1 being subject to limited judgment.

The use of different valuation techniques and assumptions could produce significantly different estimates of fair value. An overview of the main valuation techniques used is disclosed in Notes 4.4 and 4.5 to the consolidated accounts. Furthermore, market value adjustments are recognized on certain positions that are measured at fair value with fair value changes reported in profit or loss or in equity. These adjustments are determined by the current market conditions, the evolution in credit risk parameters, the interest rate environment and cost of funding, all impacting the fair value measurements of the Group’s portfolio measured at fair value. The main market value adjustments applied are disclosed in Note 1.2 to the consolidated accounts. As the use of different assumptions could produce different estimates of fair value, we consider this as a key audit matter.

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.

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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.

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.

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From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the consolidated accounts of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements

Responsibilities of the board of directors

The board of directors is responsible for the preparation and the content of the directors' report on the consolidated accounts.

Statutory auditor's responsibilities

In the context of our 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.

Regarding non-financial information, as mentioned in the directors' report, the information is provided at the level of the highest Belgian consolidating entity, KBC Group NV, in the directors' report on the consolidated accounts.

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.

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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.

Diegem, 6 April 2022

The statutory auditor
PwC Bedrijfsrevisoren BV
represented by

Roland Jeanquart

Roland Jeanquart
Accredited auditor

Tom Meuleman
Accredited auditor

Company annual accounts

10 EUR

NAT.	Date deposition	Nr.	Blz.	E.	D.		VOL1.

ANNUAL ACCOUNT IN EURO

NAME : KBC Insurance

Legal Form : Naamloze Vennootschap

Address : Professor Roger Van Overstraetenplein Nr : 2 Bus:

Postal code : 3000 City : Leuven

Register of Legal Persons (RLP) - Office of the commercial court at :

Internet address* : http://www. kbc.be

Company number : 403552563

Date (jjjj/mm/dd) 30/10/2020 of the deposition of the partnership deed OR of the most recent document mentioning the date of publication of the partnership deed and the act changing the articles of association.

ANNUAL ACCOUNTS approved by the General Meeting of 27/04/2022

concerning the financial year covering the period from 1/01/2021 tot 31/12/2021

Previous period from 1/01/2020 tot 31/12/2020

The amounts of the previous financial year are identical to those which have been previously published: yes/~~no~~ **

COMPLETE LIST WITH name, first name, profession, residence-address (address, number, postal code, municipality) and position with the enterprise, OF DIRECTORS, MANAGERS AND AUDITORS

K. Debackere, President Board of Directors, A. Stesselstraat 8 / 3012 Leuven

P. Vlerick, Vice-President Board of Directors, Professor Roger Van Overstraetenplein 2 / 3000 Leuven

P. Andronov, Delegated Director, Professor Roger Van Overstraetenplein 2 / 3000 Leuven since 28/04/2021

A. Bostoen, Director, Professor Roger Van Overstraetenplein 2 / 3000 Leuven

K. Callewaert, Director, Professor Roger Van Overstraetenplein 2 / 3000 Leuven

E. Clinck, Director, Professor Roger Van Overstraetenplein 2 / 3000 Leuven

S. De Becker, Director, Meerbeekstraat 20 / 3071 Erps-Kwerps

F. Depickere, Director, Professor Roger Van Overstraetenplein 2 / 3000 Leuven

F. Donck, Director, Professor Roger Van Overstraetenplein 2 / 3000 Leuven

D. Falque, Delegated Director, Professor Roger Van Overstraetenplein 2 / 3000 Leuven until 28/04/2021

Enclosed to these annual accounts: - the report of the statutory auditors **

- the annual account **

Total number of pages deposited:

standard form not deposited for not being of service.

Signature

* Optional statement.

** Delete where appropriate

NAT.	Date deposition	Nr.	Blz.	E.	D.		VOL1.

ANNUAL ACCOUNT IN EURO

COMPLETE LIST WITH name, first name, profession, residence-address (addr

and position with the enterprise, OF DIRECTORS, MANAGERS AND AUDITORS

J. Hollows, Delegated Director, Professor Roger Van Overstraetenplein 2 / 3000 Leuven

P. Hermann, Independent Director, Professor Roger Van Overstraetenplein 2 / 3000 Leuven since 28/04/2021

M. Hübbe, Independent Director, Professor Roger Van Overstraetenplein 2 / 3000 Leuven until 28/04/2021

A. Langford, Independent Director, Professor Roger Van Overstraetenplein 2 / 3000 Leuven

E. Luts, Delegated Director, Professor Roger Van Overstraetenplein 2 / 3000 Leuven

D. Moucheron, Delegated Director, Professor Roger Van Overstraetenplein 2 / 3000 Leuven since 28/04/2021

L. Okkerse, Director, Professor Roger Van Overstraetenplein 2 / 3000 Leuven

L. Popelier, Delegated Director, Professor Roger Van Overstraetenplein 2 / 3000 Leuven

T. Roussis, Director, Professor Roger Van Overstraetenplein 2 / 3000 Leuven

H. Scheerlinck, Delegated Director, Professor Roger Van Overstraetenplein 2 / 3000 Leuven until 28/04/2021

J. Thijs, Delegated Director, Professor Roger Van Overstraetenplein 2 / 3000 Leuven

C. Van Rijsseghem, Delegated Director, Professor Roger Van Overstraetenplein 2 / 3000 Leuven

M. Wittemans, Director, Beatrijslaan 91 / 3110 Rotselaar

Recognised auditor

PwC Bedrijfsrevisoren

Culliganlaan 5 1831 DIEGEM BTW BE 0458.263.335, Lidmaatschapsnummer B00009

Represented by:

Tom Meuleman - A01894 and

Roland Jeanquart - A01313

- The managing board declares that the assignment neither regarding auditing nor adjusting has been given to a person who was not authorised by law pursuant to art. 34 and 37 of the Law of 22nd April 1999 concerning the auditing and tax professions.

- Have the annual accounts been audited or adjusted by an external accountant or auditor who is not a statutory auditor? ~~Yes~~/No (1)
If YES, mention here after: name, first names, profession and residence-address of each external accountant or auditor and the number of of membership with the professional Institute ad hoc and the nature of this engagement (A. Bookkeeping of the undertaking (2); B. Preparing the annual accounts (2); C. Auditing the annual accounts; D. Adjusting the annual accounts.

- If the assignment mentioned under A.(Bookkeeping of the undertaking) or under B. (Preparing the annual accounts) is performed by authorised accounts or by authorised accounts-tax consultants, information will be given on: name, first names, profession and residence-address of each authorised accountant or accountant-tax consultant, his number with the Professional Institute of Accountants and Tax consultants and the nature of his engagement (A. Bookkeeping of the undertaking; B. Preparing the annual accounts).

(1) Delete where appropriate.
(2) Optional statement.

Name, first names, profession and residence-address	Number of membership	Nature of the engagement (A, B, C and/or D)

PWC Bedrijfsrevisoren
Culliganlaan 5 1831 DIEGEM BTW BE 0458.263.335, Lidmaatschapsnummer B00009
Represented by:
Mr. Tom Meuleman - A01894
Mr. Roland Jeanquart - A01313

Annex to the Royal Decree relating to the accounts of insurance

Chapter 1: presentation of the financial statements

Section I. Balance sheet 31/12/... (in units from Euro.)

Assets	Code	Current year	Previous year	Liabilities	Code	Current year	Previous year
A. -	**-**			**A. Equity (annex no 5)**	**11**	1 368 498 441	1 724 213 650
				I. Subscribed capital or equivalent fund under deduction of			
B. Intangible assets (annex no. 1)	**21**	3 394 237	4 402 973	the non-uncalled capital	111	65 156 172	65 156 172
I. Formation expenses	211	0	0	1. Subscribed capital	111.1	65 156 172	65 156 172
II. Intangible assets	212	3 394 237	4 402 973	2. Uncalled capital (-)	111.2	(0)	(0)
1. Goodwill	212.1	0	0	II. Share premium	112	1 085 606 053	1 085 606 053
2. Other intangible assets	212.2	3 394 237	4 402 973	III. Revaluation reserves	113	0	0
3. Prepayments	212.3	0	0	IV. Reserves	114	217 719 130	218 085 892
				1. Legal reserves	114.1	6 515 617	6 515 617
C. Financial Assets (annex no. 1, 2 and 3)	**22**	19 071 844 241	19 099 064 073	2. Reserves not available for distribution	114.2	203 833 638	203 833 638
I. Land and buildings (annex no. 1)	221	127 786 526	134 234 543	a) own shares	114.21	203 184 639	203 184 639
				b) other	114.22	648 999	648 999
1. Property of own use	221.1	0	0	3. Untaxed reserves	114.3	7 369 875	7 736 637
2. Other	221.2	127 786 526	134 234 543	4. Reserves available for distribution	114.4	0	0
II. Investments in affiliated undertakings and				V. Result brought forward	115	17 086	355 365 533
participations (annex no. 1, 2 and 18)	222	891 812 561	873 016 627	1. Profit from previous years	115.1	17 086	355 365 533
Affiliated undertakings	222.1	878 840 386	864 839 736	2. Loss from previous years	115.2	(0)	(0)
1. Shares	222.11	878 840 386	864 839 736	VI. -	-		
2. Debt securities, loans	222.12	0	0				
- Other companies linked by							
participating interests	222.2	12 972 175	8 176 891	**B. Subordinated liabilities (annex no. 7 and 18)**	12	500 000 000	500 000 000
3. Shares	222.21	12 972 175	8 176 891				
4. Debt securities, loans	222.22	0	0				

Annex to the Royal Decree relating to the accounts of insurance

Chapter 1: presentation of the financial statements

Section I. Balance sheet 31/12/... (in units from Euro.)

Assets	Code	Current year	Previous year	Liabilities	Code	Current year	Previous year
III. Other financial assets	223	18 051 609 326	18 090 913 135	**Bbis. Fund for future allocations**	**13**	181 578 708	157 578 708
1. Shares, participating interests and other variable-yield securities (annex no 1)	223.1	760 565 802	851 099 638				
2. Debt securities and other fixed-income securities (annex no.1)	223.2	14 805 465 254	14 606 838 357	**C. Technical provisions (annex no. 7)**	**14**	16 594 071 754	16 468 444 663
				I. Provision for unearned premiums and provision for unexpired risk	141	264 118 667	259 233 560
3. Participation in investment pools	223.3	17 280 794	16 028 686	II. Life assurance provision	142	13 243 774 951	13 298 814 229
4. Loans guaranteed by mortgages	223.4	970 797 174	1 072 407 617	III. Provision for claims outstanding	143	2 478 283 966	2 291 146 167
5. Other loans	223.5	1 099 262 319	1 121 871 377	IV. Provision for bonuses and rebates	144	31 476 819	23 449 280
6. Term deposits with credit institutions	223.6	397 000 000	422 000 000	V. Equalization and catastrophe provision	145	324 968 837	350 382 660
7. Other investments	223.7	1 237 983	667 460				
IV. Deposits with ceding undertakings	224	635 828	899 768	VI. Other technical provisions	146	251 448 514	245 418 767
D. Assets held for unit-linked funds	**23**	13 634 233 858	12 818 688 753	**D. Technical provisions for unit-linked funds (annex no. 7)**	**15**	13 634 233 859	12 818 688 753
Dbis. Reinsurers' share in technical provisions	**24**	145 388 296	125 005 123	**E. Provisions other than technical provisions**	**16**	7 315 935	7 318 605
I. Provision for unearned premiums and provisions for unexpired risk	241	2 598 846	1 141 804	I. Provisions for pensions and other obligatory similar obligations	161	3 149 999	3 044 154
II. Life assurance provision	242	9 520 086	7 357 818	II. Provisions for deferred income tax	162	2 456 739	2 578 994
III. Provision for claims outstanding	243	133 206 064	116 457 504	III. Other provisions (annex no 6)	163	1 709 197	1 695 457
IV. Provision for bonusses and rebates	244	0	0	**F. Deposits received from reinsurers**	17	119 310 297	97 175 726
V. Other technical provisions	245	63 300	47 997				

Annex to the Royal Decree relating to the accounts of insurance

Chapter 1: presentation of the financial statements

Section I. Balance sheet 31/12/... (in units from Euro.)

Assets	Code	Current year	Previous year
VI. Technical provisions for unit-linked funds	246	0	0
E. Receivables (annex no. 18 en 19)	**41**	241 665 792	179 656 518
I. Direct insurance receivables	411	98 210 575	95 284 818
1. Receivables from policyholders	411.1	24 997 847	21 031 245
2. Receivables from insurance intermediaries	411.2	6 115 360	11 405 073
3. Other	411.3	67 097 368	62 848 500
II. Reinsurance receivables	412	66 421 822	22 424 371
III. Other receivables	413	77 033 395	61 947 329
IV. Called capital as yet unpaid	414	0	0
F. Other assets	**25**	525 174 643	307 671 383
I. Tangible assets	251	274 721	293 802
II. Cash	252	321 715 282	104 192 941
III. Own shares	253	203 184 640	203 184 640
IV. Other	254	0	0
G. Deferred charges and accrued income (annex no 4)	***431/433***	189 426 738	207 233 502
I. Accrued interest and rent	431	188 673 921	206 335 777
II. Activated acquisition costs	432	0	0
1. Insurance transactions non-life	432.1	0	0
2. Insurance transactions life	432.2	0	0
III. Other	433	752 817	897 725
TOTAL	***21/43***	33 811 127 805	32 741 722 325

Liabilities	Code	Current year	Previous year
G. Liabilities (annex no. 7 and 18)	**42**	1 396 081 874	958 468 690
I. Amounts payable regarding direct insurance operations	421	305 018 618	350 934 653
II. Amounts payable regarding reinsurance operations	422	29 825 949	23 632 132
III. Non subordinated bonds	423	0	0
1. Convertible bonds	423.1	0	0
2. Non convertible bonds	423.2	0	0
IV. Amounts owed to credit institutions	424	443 589 828	467 943 501
V. Other liabilities	425	617 647 479	115 958 404
1. Liabilities regarding taxes, wages and social security charges	425.1	31 752 323	42 375 801
a) taxes	425.11	9 083 369	19 801 930
b) wages and social security charges	425.12	22 668 954	22 573 871
2. Other	425.2	585 895 156	73 582 603
H. Accrued charges and deferred income (annex no 8)	***434/436***	10 036 937	9 833 530
TOTAL	***11/43***	33 811 127 805	32 741 722 325

Chapter I. Presentation of the financial statements

Section II. Profit and loss account on 31/12/.. (in units from Euro.)

I. Technical account non-life

Content	Codes	Current year	Previous year
1. Earned premiums net of reinsurance	**710**	1 182 152 851	1 123 889 209
a) Gross written premium (annex no 10)	710.1	1 225 562 680	1 164 992 583
b) Share of reinsurers in written premium (-)	710.2	(39 981 764)	(33 525 550)
c) Change in gross provisions for unearned premiums and provisions for unexpired risk (increase -, decrease +)	710.3	-4 885 107	-8 118 124
d) Reinsurers' share in change of provision for unearned premiums and for in expired risk (increase+ , decrease -)	710.4	1 457 042	540 300
2. Net returns on investment including costs, transferred from the non technical account (post 6)	**711**	0	0
2bis. Investment income	**712**	104 729 814	123 905 751
a) Income from investments in affiliated undertakings and participations	712.1	0	3 800 000
aa) Affiliated undertakings	712.11	0	3 800 000
1° shares	712.111	0	3 800 000
2° debt securities, loans	712.112	0	0
bb) Other companies linked by participating interests	712.12	0	0
1° shares	712.121	0	0
2° debt securities, loans	712.122	0	0
b) Income from other financial investments	712.2	84 034 852	107 175 339

Chapter I. Presentation of the financial statements

Section II. Profit and loss account on 31/12/.. (in units from Euro.)

I. Technical account non-life

Content	Codes	Current year	Previous year
aa) income from land and buildings	712.21	3 085 508	3 053 537
bb) income from other investments	712.22	80 949 344	104 121 802
c) Reversal of impairments on investments	712.3	3 237 640	3 817 914
d) Realised gains on investments	712.4	17 457 322	9 112 498
3. Other technical income net of reinsurance	**714**	477 887	480 456
4. Claims incurred, net of reinsurance (-)	**610**	(682 895 649)	(570 706 425)
a) Claims paid net of reinsurance	610.1	535 683 021	527 548 909
aa) claims paid gross (annex no 10)	610.11	591 756 723	529 796 642
bb) claims paid reinsurers' share (-)	610.12	(56 073 702)	(2 247 733)
b) Change in provision for claims outstanding net of reinsurance (increase +, decrease -)	610.2	147 212 628	43 157 516
aa) Change in provision for claims outstanding gross (annex no 10) (increase +, decrease -)	610.21	163 194 366	57 567 897
bb) Change in provision for claims outstanding reinsurers' share (increase -, decrease +)	610.22	-15 981 738	-14 410 381
5. Change in other technical provisions - net of reinsurance (increase -, decrease +)	**611**	-5 790 299	-26 381 708
6. Bonuses and rebates - net of reinsurance (-)	**612**	(730 939)	(755 520)

Chapter I. Presentation of the financial statements

Section II. Profit and loss account on 31/12/.. (in units from Euro.)

I. Technical account non-life

Content			Codes	Current year	Previous year
7.	**Operating expenses (-)**		**613**	(353 933 731)	(351 020 336)
	a)	Acquisition costs	613.1	283 383 414	273 611 605
	b)	Change in activated acquisition costs (increase -, decrease +)	613.2	0	0
	c)	Administrative expenses	613.3	73 263 310	79 551 030
	d)	Reinsurance commissions and profit participations (-)	613.4	(2 712 993)	(2 142 299)
7bis.	**Costs on investments (-)**		**614**	(25 368 133)	(38 438 489)
	a)	Management and administrative expenses on investments	614.1	18 399 294	19 215 162
	b)	Impairments on investments	614.2	3 320 617	4 263 290
	c)	Realised losses on investments	614.3	3 648 222	14 960 037

Chapter I. Presentation of the financial statements

Section II. Profit and loss account on 31/12/.. (in units from Euro.)

I. Technical account non-life

Content		Codes	Current year	Previous year
8.	**Other technical costs - net of reinsurance (-)**	**616**	(22 831 459)	(18 486 898)
9.	**Change of equalisation provisions - net of reinsurance (increase -, decrease +)**	**619**	25 413 822	-14 689 196
10.	**Result of the technical account Non-Life**			
	Profit (+)	*710 / 619*	221 224 164	227 796 844
	Loss (-)	*619 / 710*	( )	(0)

Chapter I. Presentation of the financial statements

Section II. Profit and loss account on 31/12/... (in units from Euro.)

II. Technical account Life

Content				Code	Current year	Previous year
1.	**Earned premiums net of reinsurance**				1 600 576 964	1 631 389 070
	a)	Gross written premium (annex no. 10)		720.1	1 626 900 301	1 656 193 158
	b)	Share of reinsurers in written premium (-)		720.2	(26 323 337)	(24 804 088)
2.	**Investment income**			**722**	602 675 838	676 310 917
	a)	Income from investments in affiliated undertakings and participations		722.1	0	2 500 000
		aa)	affiliated undertakings	722.11	0	2 500 000
			1° shares	722.111	0	2 500 000
			2° debt securities, loans	722.112	0	0
		bb)	other companies linked by participating interests	722.12	0	0
			1° shares	722.121	0	0
			2° debt securities, loans	722.122	0	0
	b)	Income from other financial investments		722.2	504 165 239	550 550 878
		aa)	income from land and buildings	722.21	6 182 908	6 536 093
		bb)	income from other investments	722.22	497 982 331	544 014 785
	c)	Reversal of impairments on investments		722.3	17 767 719	24 283 829
	d)	Realised gains on investments		722.4	80 742 880	98 976 210
3.	**Value adjustments on assets held for unit-linked funds (gains)**			**723**	1 545 857 140	1 364 322 383
4.	**Other technical income net of reinsurance**			**724**	2 711 519	3 389 951

Chapter I. Presentation of the financial statements

Section II. Profit and loss account on 31/12/... (in units from Euro.)

II. Technical account Life

Content	Code	Current year	Previous year
5. Claims incurred, net of reinsurance (-)	**620**	(2 107 807 525)	(1 940 100 612)
a) Claims paid net of reinsurance	620.1	2 086 731 279	1 940 119 585
aa) Claims paid gross	620.11	2 102 935 041	1 962 790 615
bb) claims paid reinsurers' share (-)	620.12	(16 203 762)	(22 671 030)
b) Change in provision for claims net of reinsurance (increase +, decrease -)	620.2	21 076 246	-18 973
aa) Change in provision of claims outstanding gross (increase +, decrease -)	620.21	21 843 964	481 027
bb) Change in provision of claims outstanding reinsurers' share (increase -, decrease +)	620.22	-767 718	-500 000
6. Change in other technical provisions - net of reinsurance (increase -, decrease +)	**621**	-757 894 043	681 463 497
a) Change in provisions Life net of reinsurance (increase -, decrease +)	621.1	57 886 413	74 507 667
aa) change in provisions Life gross (increase -, decrease +)	621.11	55 724 145	73 302 807
bb) Change in provisions Life reinsurers' share (increase +, decrease -)	621.12	2 162 268	1 204 860
b) Change in other technical provisions - net of reinsurance (increase -, decrease +)	621.2	-815 780 456	606 955 830

Chapter I. Presentation of the financial statements

Section II. Profit and loss account on 31/12/... (in units from Euro.)

II. Technical account Life

Content			Code	Current year	Previous year
7.	**Bonuses and rebates - net of reinsurance (-)**		**622**	(8 474 007)	(-6 905 553)
8.	**Operating expenses (-)**		**623**	(144 246 202)	(161 556 648)
	a)	Acquisition costs	623.1	80 131 850	93 603 755
	b)	Change in activated acquisition costs (increase +, decrease -)	623.2	0	0
	c)	Administrative expenses	623.3	71 399 695	70 247 343
	d)	Reinsurance commissions and profit participations (-)	623.4	(7 285 343)	(2 294 450)
9.	**Costs on investments (-)**		**624**	(187 147 417)	(306 012 704)
	a)	Management and administrative expenses on investments	624.1	148 076 889	174 699 300
	b)	Impairments on investments	624.2	16 092 820	23 111 736
	c)	Realised losses on investments	624.3	22 977 708	108 201 668
10.	**Value adjustments on assets held for unit-linked funds (losses) (-)**		**625**	(336 611 763)	(1 804 310 778)
11.	**Other technical costs - net of reinsurance (-)**		**626**	(16 186 734)	(15 169 928)
12.	**Net returns on investments including costs, transferred to the**				

Chapter I. Presentation of the financial statements

Section II. Profit and loss account on 31/12/... (in units from Euro.)

II. Technical account Life

Content		Code	Current year	Previous year
	non-technical account (-)	**627**	(0)	(0)
12bis.	**Changes in the fund for future allocations (increase -, decrease +)**	**628**	-24 000 000	0
13.	**Result of the technical account Life**			
	Profit (+)	***720 / 628***	169 453 770	136 630 701
	Loss (-)	***628 / 720***	( )	(0)

Chapter I. Presentation of the financial statements

Section II. Profit and loss account on 31/12/.. (in units from Euro)

III. Non-technical account

Content		Code	Current year	Previous year
1.	**Result of the technical account non life (post 10)**			
	Profit (+)	*(710 / 619)*	221 224 164	227 796 844
	Loss (-)	*(619 / 710)*	(0)	(0)
2.	**Result of the technical account life (post 13)**			
	Profit (+)	*(720 / 628)*	169 453 770	136 630 701
	Loss (-)	*(628 / 720)*	(0)	(0)
3.	**Investment income**	**730**	121 758 061	108 463 511
	a) Income from investments in affiliated undertakings and participations	730.1	71 457 015	18 591 245
	b) Income from other financial investments	730.2	36 351 261	39 643 125
	aa) income from land and buildings	730.21	3 552 408	3 639 148
	bb) Income from other investments	730.22	32 798 853	36 003 977
	c) Reversal of impairments on investments	730.3	14 034 945	23 618 443
	d) Realised gains on investments	730.4	-85 160	26 610 698
4.	**Net return on investments including costes transferred from the technical Life insurance account (post 12)**	**731**	0	0
5.	**Costs on investment (-)**	**630**	(22 256 924)	(15 119 238)
	a) Management and administrative expenses on			

Chapter I. Presentation of the financial statements

Section II. Profit and loss account on 31/12/.. (in units from Euro)

III. Non-technical account

	Content	Code	Current year	Previous year
	investments	630.1	11 523 845	12 432 230
	b) Impairments on investments	630.2	8 695 587	2 569 737
	c) Realised losses on investments	630.3	2 037 492	117 271
6.	**Net returns on investments including costs transferred to the technical Non Life insurance account (post 2) (-)**	**631**	(0)	(0)
7.	**Other operating income (annex no. 13)**	**732**	5 507 559	4 355 730
8.	**Other operating expenses (annes no. 13) (-)**	**632**	(12 381 856)	(10 974 374)
8bis.	**Profit (losses) on ordinary activities before taxes**			
	Profit (+)	*710 / 632*	483 304 774	451 153 174
	Loss (-)	*632 / 710*	(0)	(0)
9.	-	-		
10.	-	-		
11.	**Extraordinary income (annex no 14)**	**733**	0	0
12.	**Extraordinary costs (annex no 4) (-)**	**633**	(0)	(0)
13.	**Extraordinary result**			
	Profit (+)	*733 / 633*	0	0
	Loss (-)	*633 / 733*	(0)	(0)
14.	-	-		

Chapter I. Presentation of the financial statements

Section II. Profit and loss account on 31/12/.. (in units from Euro)

III. Non-technical account

Content		Code	Current year	Previous year
15.	**Income Tax (-/+)**	**634 / 734**	-76 099 100	-93 697 236
15bis.	**Deferred Tax (-/+)**	**635 / 735**	122 254	108 959
16.	**Result for the period**			
	Profit (+)	*710 / 635*	407 327 928	357 564 897
	Loss (-)	*635 / 710*	(0)	(0)
17.				
	a) Transfer from tax-free reserves (+)	**736**	366 763	326 876
	b) Transfer to tax-free reserves (-)	**636**	(0)	(0)
18.	**Result for the period available for appropriation**			
	Profit (+)	*710 / 636*	407 694 691	357 891 773
	Loss (-)	*636 / 710*	(0)	(0)

Chapter I. Presentation of the financial statements

Section II. Profit and loss account on 31/12/.. (in units from Euro)

III. Non-technical account

Content			Code	Current year	Previous year
A.	**Profit to be appropriated**		**710 / 637.1**	763 060 223	357 944 545
	Loss to be appropriated (-)		**637.1 / 710**	(0)	(0)
	1.	Profit for the period available for appropriation	710 / 636	407 694 691	357 891 773
		Loss for the period available for appropriation (-)	636 / 710	(0)	(0)
	2.	Profit brought forward from previous year	737.1	355 365 532	52 772
		Losst brought forward from previous year (-)	637.1	( )	( )
B.	**Transfers from capital and reserves**		**737.2 / 737.3**		
	1.	from capital and share premium account	737.2		
	2.	from reserves	737.3		
C.	**Transfers to capital and reserves (-)**		**637.2 / 637.3**	( )	( )
	1.	to capital and share premium account	637.2		
	2.	to the legal reserve	637.31		
	3.	to other reserves	637.32		
D.	**Profit/loss to be carried forward**				
	1.	Profit to be carried forward (-)	637.4	(62 106)	(355 365 532)
	2.	Loss to be carried forward	737.4		
E.	**Owner's contribution in respect of losses**		**737.5**		
F.	**Profit to be distributed**		**637.5 / 637.7**	(762 998 117)	(2 579 013)
	1.	Dividends	637.5	759 528 886	
	2.	Director's or manager's entitlements	637.6		
	3.	Other beneficiaries	637.7	3 469 231	2 579 013

Nr. 1. Statement of the intangible assets, immovable assets for investment and securities for investment.

NAME		Code	B. Intangible assets	C.I. Land and buildings	C.II.1. Shares in affiliated undertakings
			Relevant activa items		
			1	2	3
a) ACQUISITION VALUE					
At the end of the previous period		8.01.01	5 237 811	242 066 858	1 077 839 741
Movements during the period					
. Acquisitions		8.01.021	4 107 220	264 583	50 000 000
. New acquisition costs		8.01.022			
. Sales and disposals	(-)	8.01.023	( )	(0)	(29 999 350)
. Transfers from one heading to another	(+)(-)	8.01.024			
. Other movements	(+)(-)	8.01.025			
Acquisition value at the end of the period		8.01.03	9 345 031	242 331 441	1 097 840 391
b) REVALUATION SURPLUSES					
Revaluations surpluses at the end of the previous period		8.01.04			
Movements during the period :					
. Recorded		8.01.051			
. Acquisitions from third parties		8.01.052			
. Cancelled	(-)	8.01.053		( )	( )
. Transfers from one heading to another	(+)(-)	8.01.054			
Revaluation surpluses at the end of the period		8.01.06			
c) DEPRECIATION AND AMOUNTS WRITTEN DOWN					
Depreciation and amounts written down at the end of prev.period		8.01.07	834 838	107 832 315	213 000 005
Movements during the period :					
. Recorded		8.01.081	5 115 956	6 712 600	6 000 000
. Written back	(-)	8.01.082	( )	( )	( )
. Acquisitions from third parties		8.01.083			
. Cancelled	(-)	8.01.084	( )	( )	( )
. Transfers from one heading to another	(+)(-)	8.01.085			
Depreciation and amounts written down at the end of period		8.01.09	5 950 794	114 544 915	219 000 005
d) UNCALLED AMOUNTS (art. 29, § 1.)					
Uncalled amounts at the end of the previous period		8.01.10			
Movements during the period	(+)(-)	8.01.11			
Uncalled amounts at the end of the period		8.01.12			
e) RESULTS FROM THE CONVERSION OF FOREIGN CURRENCY					
At the end of previous period	(+)(-)	8.01.13			
Movements during the period	(+)(-)	8.01.14			
At he end of the period	(+)(-)	8.01.15			
NET BOOK VALUE AT THE END OF THE PERIOD (a) + (b) - (c) - (d) +/- (e)		8.01.16	3 394 237	127 786 526	878 840 386

Nr. 1. Statement of the intangible assets, immovable assets for investment and secur

NAME		Code	Relevant activa items: C.II.2. Debt securities and loans in affiliated undertakings	C.II.3. Shares in companies linked by participated interest	C.II.4. Debt securities and loans in companies linked by participated interests
			4	5	6
a) ACQUISITION VALUE					
At the end of the previous period		8.01.01		14 239 345	
Movements during the period					
. Acquisitions		8.01.021		1 020 000	
. New acquisition costs		8.01.022			
. Sales and disposals	(-)	8.01.023	(0)	(324 920)	(0)
. Transfers from one heading to another	(+)(-)	8.01.024		4 199 617	
. Other movements	(+)(-)	8.01.025			
Acquisition value at the end of the period		8.01.03	0	19 134 042	0
b) REVALUATION SURPLUSES					
Revaluations surpluses at the end of the previous period		8.01.04			
Movements during the period :					
. Recorded		8.01.051			
. Acquisitions from third parties		8.01.052			
. Cancelled	(-)	8.01.053		( )	
. Transfers from one heading to another	(+)(-)	8.01.054			
Revaluation surpluses at the end of the period		8.01.06			
c) DEPRECIATION AND AMOUNTS WRITTEN DOWN					
Depreciation and amounts written down at the end of prev.period		8.01.07		58 454	
Movements during the period :					
. Recorded		8.01.081		136 341	
. Written back	(-)	8.01.082	( )	( )	( )
. Acquisitions from third parties		8.01.083			
. Cancelled	(-)	8.01.084	( )	(36 929)	( )
. Transfers from one heading to another	(+)(-)	8.01.085			
Depreciation and amounts written down at the end of period		8.01.09		157 866	
d) UNCALLED AMOUNTS (art. 29, § 1.)					
Uncalled amounts at the end of the previous period		8.01.10		6 004 000	
Movements during the period	(+)(-)	8.01.11			
Uncalled amounts at the end of the period		8.01.12		6 004 000	
e) RESULTS FROM THE CONVERSION OF FOREIGN CURRENCY					
At the end of previous period	(+)(-)	8.01.13			
Movements during the period	(+)(-)	8.01.14			
At he end of the period	(+)(-)	8.01.15			
NET BOOK VALUE AT THE END OF THE PERIOD (a) + (b) - (c) - (d) +/- (e)		8.01.16	0	12 972 176	0

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Nr. 1. Statement of the intangible assets, immovable assets for investment and secur

NAME		Code	Relevant activa items	
			C.III.1. Shares, participating interests and other var-yield securities.	C.III.2. Debt securities and other fixed-income
			7	8
a) ACQUISITION VALUE				
At the end of the previous period		8.01.01	895 871 032	14 649 030 499
Movements during the period				
. Acquisitions		8.01.021	142 693 807	1 600 989 999
. New acquisition costs		8.01.022		
. Sales and disposals	(-)	8.01.023	(239 256 519)	(1 462 289 161)
. Transfers from one heading to another	(+)(-)	8.01.024	-4 199 617	
. Other movements	(+)(-)	8.01.025		19 884 721
Acquisition value at the end of the period		8.01.03	795 108 703	14 807 616 058
b) REVALUATION SURPLUSES				
Revaluations surpluses at the end of the previous period		8.01.04		
Movements during the period :				
. Recorded		8.01.051		
. Acquisitions from third parties		8.01.052		
. Cancelled	(-)	8.01.053	( )	
. Transfers from one heading to another	(+)(-)	8.01.054		
Revaluation surpluses at the end of the period		8.01.06		
c) DEPRECIATION AND AMOUNTS WRITTEN DOWN				
Depreciation and amounts written down at the end of prev.period		8.01.07	44 771 394	42 192 142
Movements during the period :				
. Recorded		8.01.081	14 142 795	80 579
. Written back	(-)	8.01.082	(5 628 425)	(4 964)
. Acquisitions from third parties		8.01.083		
. Cancelled	(-)	8.01.084	(18 742 863)	(40 116 953)
. Transfers from one heading to another	(+)(-)	8.01.085		
Depreciation and amounts written down at the end of period		8.01.09	34 542 901	2 150 804
d) UNCALLED AMOUNTS (art. 29, § 1.)				
Uncalled amounts at the end of the previous period		8.01.10		
Movements during the period	(+)(-)	8.01.11		
Uncalled amounts at the end of the period		8.01.12		
e) RESULTS FROM THE CONVERSION OF FOREIGN CURRENCY				
At the end of previous period	(+)(-)	8.01.13		
Movements during the period	(+)(-)	8.01.14		
At he end of the period	(+)(-)	8.01.15		
NET BOOK VALUE AT THE END OF THE PERIOD (a) + (b) - (c) - (d) +/- (e)		8.01.16	760 565 802	14 805 465 254

Annex Nr. 2. Information relating to the share in the capital and other rights in other companies.

List of both enterprises in which the enterprise holds a participating interest (as mentioned in royal decree of November 17, 1994) (recorded in the headings C.II.1. , C.II.3. , D.II.1.en D.II.3. of assets), and other enterprises in which the enterprise holds rights (recorded in the headings C.III.1. end D.III.1. of assets) in the amount of at least 10% of the capital issued.

NAME, full address of the REGISTERED OFFICE an for the enterprise governed by Belgian law, the COMPANY NUMBER	Shares held by			Information from the most recent period for which annual accounts are available			
	directly		Subsidiaries	Primary financial statement	Monetary unit (*)	Capital and reserves	Net result
	Number	%	%			(+) or (-) (in thousands of monetary units)	
ADD NV, INDUSTRIEWEG 1, 3001 HEVERLEE	10 000,00	100,00		2020	EUR	4 156,00	3 474,00
MAATSCHAPPIJ BRANDHERVERZEKERING CVBA, PROF. ROGER VAN OVERSTRA	24 799,00	90,10		2020	EUR	8 171,00	44,00
OMNIA NV, MGR. LADEUZEPLEIN 15, 3000 LEUVEN	14 187,00	100,00		2020	EUR	1 805,00	-3 394,00
AIA-POOL CVBA, CHAUSSEE DE JETTE 221, 1080 BRUSSEL	502,00	33,47		2020	EUR	379,00	-23,00
ASSURCARD NV, FONTEINSTRAAT 1A/301 , 3000 LEUVEN	900,00	20,00		2020	EUR	3 078,00	125,00
BUSINESS BREWERY, INTERLEUVENLAAN 62, 3001 LEUVEN	20,00	4,76		2020	EUR	1 564,00	-159,00
BEDR. CENTR. VILVOORDE NV, MECHELSESTEENWEG 277, 1800 VILVOORDE	300,00	8,26		2020	EUR	1 045,00	-46,00
BELGISCH GEMEENSCHAPPELIJK WAARBORGFONDS, LIEFDADIGHEIDSSTRAAT	1,00	2,56		2020	EUR	34,00	0,00
HUIS DER VERZEKERING CV, DE MEEUSPLANTSOEN 29, 1000 BRUSSEL	2 939,00	11,29		2020	EUR	2 800,00	18,00
DOUBLE U BUILDING BV, WATERMANWEG 92, 3067 GG ROTTERDAM, NEDERLANI	330 000,00	100,00		2020	EUR	48 071,00	1 136,00
BEM NV, LOMBARDSTRAAT 34-42, 1000 BRUSSEL	1 500,00	6,47		2020	EUR	3 589,00	-51,00
KBC GROUP RE SA, 4 RUE DU FORT WALLIS, L-2714 LUXEMBOURG, LUXEMBURG	544,00	100,00		2020	EUR	85 354,00	26 536,00
RE-TAIL RETURN PARTNERS 1 CVA, VILVOORDSESTEENWEG 101A, 1860 MEISE	846 387,00	5,19		2020	EUR	14 097,00	80,00
IMEC.XPAND, KAPELDREEF 75, 3001 HEVERLEE	100 000,00	8,56		2020	EUR	37 881,00	-4 809,00
VLAAMSE ENERGIE HOLDING B CV, NOORDLAAN 9, 8820 TORHOUT	163,00	11,04		2021	EUR	235 870,00	23 487,00
SPORTCOMPLEX AALST NV, HAVENLAAN 2, 1080 BRUSSEL	1 000,00	100,00		2020	EUR	13 295,00	593,00
CSOB POJIST'OVNA A.S. CLEN HOLDINGU CSOB, MASARYKOVO NAM. 1458, 532 1	339,00	99,71		2020	CZK	6 516 620,00	1 436 708,00
CSOB POIST'OVNA AS, ZIZKOVA 11, 811 020 BRATISLAVA, SLOVAKIJE	1 676,00	100,00		2020	EUR	71 944,00	10 955,00
DZI INSURANCE, 89B VITOSHA BLVD., 'MILENIUM' BUSINESS CENTER, SOFIA 1463	13 639 150,00	100,00		2020	BGN	189 775,00	4 428,00
GROEP VTB-VAB NV, PASTOOR COPLAAN 100, 2070 ZWIJNDRECHT	13 777,00	100,00		2020	EUR	17 318,00	1 212,00
K&H INSURANCE, LECHNER ODON FASOR 9, 1095 BUDAPEST, HONGARIJE	478,00	100,00		2020	HUF	23 870 000,00	8 601 000,00

Annex Nr. 2. Information relating to the share in the capital and other rights in other companies.

List of both enterprises in which the enterprise holds a participating interest (as mentioned in royal decree of November 17, 1994) (recorded in the headings C.II.1. , C.II.3. , D.II.1.en D.II.3. of assets), and other enterprises in which the enterprise holds rights (recorded in the headings C.III.1. end D.III.1. of assets) in the amount of at least 10% of the capital issued.

NAME, full address of the REGISTERED OFFICE an for the enterprise governed by Belgian law, the COMPANY NUMBER	Shares held by			Information from the most recent period for which annual accounts are available			
	directly		Subsidiaries	Primary financial statement	Monetary unit (*)	Capital and reserves	Net result
	Number	%	%			(+) or (-) (in thousands of monetary units)	
SPORTCOMPLEX HEIST-OP-DEN-BERG NV, HAVENLAAN 2, 1080 BRUSSEL	1 060,00	100,00		2020	EUR	8 025,00	310,00
KBC VERZ. VASTGOED NEDERLAND I BV, WATERMANWEG 92 , 3067 GG ROTTER	115 000,00	100,00		2020	EUR	69 668,00	4 018,00

(*) according to the official codification

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Nr. 3. Fair value of the investments (art. 38).

Assets				Codes	Amounts
C.	Financial assets			8.03	21 851 261 079
	I.	Land and buildings.		8.03.221	234 443 998
	II.	Investments in affiliated undertakings and participations.		8.03.222	1 387 892 980
		-	Affiliated undertakings.	8.03.222.1	1 331 283 805
		1.	Shares	8.03.222.11	1 331 283 805
		2.	Debt securities, loans.	8.03.222.12	0
		-	Other companies linked by participating interests.	8.03.222.2	56 609 175
		3.	Shares	8.03.222.21	56 609 175
		4.	Debt securities, loans.	8.03.222.22	0
	III.	Other financial assets		8.03.223	20 228 288 273
		1.	Shares, participating interests and other variable-yield securities	8.03.223.1	1 208 918 322
		2.	Debt securities and other fixed-income securities.	8.03.223.2	16 242 127 842
		3.	Participation in investment pools.	8.03.223.3	20 098 315
		4.	Loans guaranteed by mortgages.	8.03.223.4	997 024 152
		5.	Other loans.	8.03.223.5	1 276 109 081
		6.	Term deposits with credit institutions.	8.03.223.6	482 772 578
		7.	Other.	8.03.223.7	1 237 983
	IV.	Deposits with ceding undertakings.		8.03.224	635 828

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Nr.3bis Derivative financial instruments not measured on the basis of fair value

Estimate of fair value for each category derivative financial instruments not measured on the basis of fair value, specifying the scope and the nature of the instruments	Net book value	Fair value
Interest Rate Swap (nominaal: 296.500.000)	-6 058 718	-18 273 452

B. Financial fixed assets, as mentioned in C.II. and C.III., with a net book value higher than their fair value	Net book value	Fair value
Affiliated undertakings.		
1. Shares	220 714 966	158 167 487

For each of the financial fixed assets referred to in B., or the appropriate groups of these separate assets referred to in B., which are taken into account at an amount greater than their fair value, the reasons must also be given why the book value has not been reduced, stating the nature of the evidence underlying the assumption that the carrying amount will be recoverable:

For the reasons why the book value of the participating interests mentioned in B. has not been reduced, we refer to disclosure no. 20 Valuation rules, more specifically the paragraph regarding the participating interests under point 2. Write-downs.

Annex nr.4 according the deferred charges and accrued income.

Breakdown of the assets G.III. if the amount is significant.	Amount
Front end fees	753 823

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Annex nr.5 Statement of capital

	Codes	Amounts	Number of shares
A. AUTHORIZED CAPTAL			
1. Subscribed capital (A.I.1. of the liabilities)			
- Opening balance	8.05.111.101	65 156 172,00	xxxxxxxxxxxxxxxxxxxxxxx
- Variations during the year :			
- At the end of the year	8.05.111.102	65 156 172,00	xxxxxxxxxxxxxxxxxxxxxxx
2.Composition of the capital			
2.1. Classes of shares according to company law			
		65 156 172	1 050 906
2.2. Registered shares or bearer shares			
Registered shares	8.05.1.21	xxxxxxxxxxxxxxxxxxxxxxx	1 050 906
Bearer shares	8.05.1.22	xxxxxxxxxxxxxxxxxxxxxxx	

	Codes	Uncalled amount (heading A.I.2. of liabilities)	Amount requested capital unpaid(heading E.I.V.)
B. UNPAID CAPITAL (art.51 - S.W.H.V.)			
TOTAL	8.05.2		

Nr.5. Statement of capital (continuation).

	Codes	Capital amount	Number of shares
C. SHARES OF THE COMPANY HELD BY			
- the company itself	8.05.3.1	3 031 118,00	48 889
- the subsidiaries	8.05.3.2		
D.COMMITMENTS TO ISSUE SHARES			
1.Following the exercising of CONVERSION RIGHTS			
. Amount of outstanding convertible loans	8.05.4.1		
. Amount of capital to be subscribed	8.05.4.2		
. Corresponding maximum number of shares to be issued	8.05.4.3		
2.Following the exercising of SUBSCRIPTION RIGHTS			
.Number of outstanding subscription rights	8.05.4.4		
.Amount of capital to be subscribed	8.05.4.5		
.Corresponding maximum number of shares to be issued	8.05.4.6		
3.Following the payment to a third party in shares			
.Amount of capital to be subscribed	8.05.4.7		
.Corresponding maximum number of shares to be issued	8.05.4.8		

Annex nr.5 Statement of capital (continuation)

	Codes	Amount
E.AUTHORIZED, UNISSUED CAPITAL	8.05.5	

	Codes	Number of shares	Associated voting rights
F.SHARED ISSUED, NOT REPRESENTING CAPITAL	8.05.6		
of which - held by the company itself	8.05.6.1		
- held by its subsidiaries	8.05.6.2		

Nr.5. Statement of capital (continuation and end).

G.STRUCTURE OF SHAREHOLDINGS OF THE COMPANY AT THE DATE
OF CLOSING END OF YEAR, as appears from the statements that the company
has received (art. 52quinquies and 52sexies - S.W.H.V.) :

KBC Group	1.002.017
KBC Insurance	48.889

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Annex nr.6 according the provisions other than technical provisions - Other provisions.

Breakdown of the liabilities E.III. if the amount is significant.	Amounts
Provisions ongoing litigations	604 303
Provision NIHDI - life	780 894
Provisions concerning possible future expenses for divestments on financial fixed assets	324 000

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Annex nr. 7. according the technical provisions and liabilities

a) Breakdown of the liabilities (or part of the liabilities) of which the residual term is over 5 years.

Liabilities	Codes	Amounts
B. Subordinated liabilities	8.07.1.12	
I. Convertible loans	8.07.1.121	
II. Non convertible loans	8.07.1.122	
G. Liabilities	8.07.1.42	
I. Amounts payable regarding insurance operations	8.07.1.421	
II. Amounts payable regarding reinsurance operations	8.07.1.422	
III. Non subordinated bonds	8.07.1.423	
1.Convertible bonds.	8.07.1.423.1	
2.Non convertible bonds.	8.07.1.423.2	
IV. Amounts owed to credit institutions	8.07.1.424	
V. Other liabilities	8.07.1.425	
TOTAL	8.07.1.5	

Annex nr. 7 according the technical provisions and liabilities (continuation).

b) Liabilities (or parts of the liabilities) and technical provisions (or parts of the technical provisions) guaranteed by real securities asked or irrevocably promised on the company's assets.

Related items according the liabilities		Amounts
B. Subordinated liabilities.	8.07.2.12	
I. Convertible loans	8.07.2.121	
II. Non convertible loans	8.07.2.122	
C. Technical provisions	8.07.2.14	
D. Technical provisions for unit-funds	8.07.2.15	
G. Liabilities	8.07.2.42	443 589 828
I. Amounts payable regarding insurance operations.	8.07.2.421	
II. Amounts payable regarding reinsurance operations.	8.07.2.422	
III. Non subordinated bonds	8.07.2.423	
1.Convertible bonds	8.07.2.423.1	
2.Non convertible bonds	8.07.2.423.2	
IV. Amounts owed to credit institutions	8.07.2.424	443 589 828
V. Other liabilities	8.07.2.425	
- liabilities regarding taxes, wages and social security charges	8.07.2.425.1	
a)taxes	8.07.2.425.11	
b)wages and social security charges	8.07.2.425.12	
- debts of rent financing and similar	8.07.2.425.26	
- other	8.07.2.425.3	
TOTAL	8.07.2.5	443 589 828

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Annex nr.7 according the technical provisions and liabilities (continuation and end).

c)Taxes, wages and social liabilities

Liabilities	Codes	Amounts
1.Taxes (G.V.1.a) of the liabilities)		
a) Expired tax payable	8.07.3.425.11.1	
b) Non expired tax payable	8.07.3.425.11.2	9 083 369
2.Wages and social security charges (G.V.1.b) of the liabilities)		
a) Expired amounts due to the National Social Security	8.07.3.425.12.1	
b) Other liabilities according the wages and social security charges	8.07.3.425.12.2	22 668 954

Annex nr.8. according the accrued charges and deferred income of the liabilities.

	Amounts
Breakdown of the liabilities recorded in the heading H if the amount is significant.	
Front end fees	2 692 571
Pro rata payable interests	4 290 587
Management fees	2 485 518

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Nr. 9. Components of assets and liabilities concerning the management of their own account in favour of a third party of the pension funds (art. 40bis.).

Concerned items and sub items of the assets (*)	Current year	Concerned items and sub items of the liabilities (*)	Current year
TOTAL		TOTAL	

(*) With mentioning of the figures and letters concerning the content of the concerned items and sub items of the balance sheet (for instance : C.III.2. debt securities and other fixed-income securities).

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Nr. 10. Information concerning the technical accounts

I. Non-Life Insurance

Content	Codes	DIRECT BUSINESS					DIRECT BUSINESS					DIRECT BUSINESS		REINSURAN-CE RECEIVED
		Total	Total	Accidents and disease (branches 1 and 2)	Motor Civil Liability (branch 10)	Motor Other Branches (branches 3 and 7)	Shipping Aviation Transport (branches 4,5, 6,7,11 and 12)	Fire and other damage to goods (branches 8 and 9	General Civil Liability (branch 13)	Credit and Suretyship (branches 14 and 15	Various pecuniary losses (branch 16)	Legal assistance (branch 17)	Assistance (branch 18)	
		0	1	2	3	4	5	6	7	8	9	10	11	12
1) Gross premium.	8.10.01.710.1	1 225 562 678	1 217 933 041	192 080 074	239 659 873	160 625 740	1 305 934	431 536 432	86 912 312		16 233 174	62 802 041	26 777 461	7 629 637
2) Gross earned premium	8.10.02	1 220 677 571	1 213 047 934	192 227 705	239 894 506	159 594 837	1 289 353	427 536 487	87 597 529		16 003 874	62 564 479	26 339 164	7 629 637
3) Gross claims	8.10.03	754 951 086	751 695 387	113 437 835	151 432 113	89 430 003	345 302	279 494 676	74 224 633		3 193 818	33 033 789	7 103 218	3 255 699
4) Gross operating expenses	8.10.04	356 646 721	354 136 538	41 445 510	62 020 786	46 324 546	368 760	146 156 218	28 789 669		4 067 578	16 007 135	8 956 336	2 510 183
5) Reinsurance balance	8.10.05	34 660 128	34 825 086	422 587	-2 412 955	2 234 283		32 112 824	2 957 493		17 130	-283 472	-222 804	-164 958
6) Commission (art. 37)	8.10.06		239 212 527											

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Nr.10. Information concerning the technical accounts (continuation and end)

II. Life Insurance

Content	Codes	Amounts
A.Direct business		
1) Gross premiums :	8.10.07.720.1	1 626 897 615
a) 1. Individual premiums :	8.10.08	1 295 470 381
2. Premiums regarding group insurance contracts:	8.10.09	331 427 233
b) 1. Periodic premiums :	8.10.10	891 638 487
2. Single premiums :	8.10.11	735 259 127
c) 1. Premiums regarding non-bonus contracts :	8.10.12	328 137 486
2. Premiums regarding bonus contracts :	8.10.13	572 711 067
3. Premiums for unit-linked contracts :	8.10.14	726 049 062
2) Reinsurance balance :	8.10.15	-49 822
3) Commissions (art. 37):	8.10.16	59 207 595
B. Reinsurance received		
Gross premiums :	8.10.17.720.1	2 690
III. Non-Life insurance and Life-Insurance, direct business		
Gross premiums :		
- in Belgium :	8.10.18	2 841 159 778
- in other Member States of E.E.C:	8.10.19	3 670 878
- in other countries :	8.10.20	

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Nr11. Statement of the persons employed.

A. Data for the current year and for the previous year concerning the employees recorded in the general personnel register and connected with the enterprise by nature of the employment contract or otherwise

Description		Codes	Current year	Previous year
a)	total at the closing data of the period	8.11.10	1 175	1 238
b)	the average number of employees employed by the company during the current year and during the previous	8.11.11	2 142	2 282
	- Management staff	8.11.11.1	1 071	1 141
	- Employees	8.11.11.2	10	10
	- Workers	8.11.11.3	1 061	1 131
	- Others	8.11.11.4		
c)	number of working hours	8.11.12	1 473 076	1 605 450

B. Data for the current year and the previous year concerning hired temporary staff and personnel placed at the enterprise's disposal

Description		Codes	Current year	Previous year
a)	total at the closing data of the period	8.11.20	20	11
b)	the average in number in full-time equivalents calculated as recorded in	8.11.21	12	14
c)	number of working hours	8.11.22	23 068	27 701

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Nr.12.Statement concerning the general administration expenses, divided by nature.

(A star (*) at the right side of an item or sub item indicates the existence of a definition or an explanatory note in chapter III of the annex)

Name	Codes	Amounts
I. Staff expenses*	8.12.1	100 615 957
1. a) Salaries	8.12.111	72 223 773
b) Pension costs	8.12.112	
c) Other direct social benefits	8.12.113	
2.Employer's contribution for social security	8.12.12	18 894 147
3.Employer's contribution and premiums for extra-statutory insurance	8.12.13	6 280 255
4.Other personal charges	8.12.14	2 743 624
5.Provisions for pension costs, salaries and social charges	8.12.15	-875 848
a) Allowances (+)	8.12.15.1	21 846 060
b) Decrease (-)	8.12.15.2	(22 721 908)
6. Temporary personnel or persons at the disposal of the enterprise	8.12.16]	1 350 006
II. Services and other goods*	8.12.2	163 661 297
III. Depreciations and amounts written down on intangible fixed assets and tangible fixed assets, other than investments*	8.12.3	3 050 668
IV. Provisions for other liabilities and charges*	8.12.4	13 740
1.Allowances (+)	8.12.41	13 740
2.Decrease (-)	8.12.42	( )
V.Other current expenses*	8.12.5	16 581 089
1.Fiscal operating expenses*	8.12.51	11 386 411
a) Property taxes	8.12.511	607 675
b) Other	8.12.512	10 778 736
2.Contributions payed to public entities*	8.12.52	4 872 839
3.Theoretical costs*	8.12.53	
4.Other	8.12.54	321 839
VI. Recovered administration expenses and other current revenues (-)	8.12.6	(20 652 443)
1.Recovered administration expenses	8.12.61	20 121 628
a) Received renumerations for performances of management of collective pension funds on behalf of third parties	8.12.611	
b) Other*	8.12.612	20 121 628
2.Other current revenues.	8.12.62	530 815
TOTAL	8.12.7	263 270 308

As amended by article 10, § 2 of the Royal Decree of the 4th of August 1996.

Nr.13. Other operating income, other operating expenses.

	Amounts
A. Breakdown of the OTHER OPERATING INCOME (7. of the non technical account), if the amount is significant.	
Reversal of impairment bad debts	1 024 968
Fee concerning bond lending	1 017 452
Capital gains on realisation intermediaries	772 798
Moratorium intrests	2 094 905
B. Breakdown of the OTHER OPERATING EXPENSES (8. of the non technical account), if the amount is significant.	
Bad debt impairments	891 337
Intangible asset impairments	2 127 744
Interests on subordinated loans	7 121 736
Interests on bank accounts	1 535 317

Nr.14. Extraordinary result.

	Amounts
A. Breakdown of the EXTRAORDINARY INCOME (11. of the non technical account), if the amount is significant.	
B. Breakdown of the OTHER EXTRADORDINARY COSTS (12. of the non technical account), if the amount is significant.	

Nr.15. Income taxes

	Codes	Amounts
A. BREAKDOWN OF 15 a) 'Income taxes':	8.15.1.634	76 472 639
1.Income taxes on the result of the current period:	8.15.1.634.1	76 370 378
a. Advance payments and refundable prepayments	8.15.1.634.11	82 904 216
b. Other deductible components	8.15.1.634.12	2 338 282
c. Surplus of the advance payments and/or of the refundable prepayments (-)	8.15.1.634.13	(8 872 120)
d. Estimated additional charges for income taxes (included in liabilities item G.V.1.a))	8.15.1.634.14	
2.Income taxes on the result of the previous periods :	8.15.1.634.2	102 261
a) Additional taxes payed or payable :	8.15.1.634.21	102 261
b) Estimated additional charges for income taxes (included in liabilities item G.V.1.a)) or for which provision has ben established (included in liabilities item E.II.2))	8.15.1.634.22	

Nr. 15. Income taxes.

B. MAIN SOURCES OF DIFFERENCES BETWEEN THE PROFITS BEFORE TAXES, as stated in the financial statements, AND THE ESTIMATED TAXABLE PROFITS, with special mention of timing differences between adopting the book profit on realisation and the fiscal profit (if the income taxes of the current period are materially influenced by such differences).

	Amounts
Change taxable reserves and provisions	-52 097 434
Capital gains on shares to a specific tax regime, exemption reversal impairments, rejected impairments and realised losses on equity	-68 392 316
Non-taxable items DBI (after deductions made by the newly introduced bank and insurance tax)	-83 891 098
Non-deductible expenses (other than realised gains and depreciations on shares and corporation taxation)	9 447 436

C. EFFECT OF EXTRAORDINARY RESULTS ON THE AMOUNT OF INCOME TAXES ON THE CURRENT PERIOD

Nr. 15. Income taxes (continuation and end).

	Codes	Amounts
D.STATUS OF FUTURE TAXATION (if it is important for the purpose of evaluating the reporting institution's financial position).		
1. Future tax allowance	8.15.4.1	
- Cumulated fiscal losses deductible from future taxable profits	8.15.4.11	
2. Future tax liabilities	8.15.4.2	

Nr.16. Other taxes and taxes supported by third parties.

	Codes	Amounts of the current year	Amounts of the previous year
A. Taxes :			
1.Taxes regarding insurance contracts supported by third parties	8.16.11	119 298 242	115 091 803
2.Other taxes of the company itself	8.16.12	14 189 065	6 899 234
B. The deducted amounts supported by third parties by means of :			
1.Payroll withholding taxes	8.16.21	45 742 065	45 109 277
2.Withholding taxes on Investment Income (on dividends)	8.16.22		

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Nr.17. Commitments and contingencies (art. 14).

(A star (*) at the right side of a post or sub post indicates the existence of a definition or an explanatory note in chapter III of the annex with the conclusion of 17/11/1994)

	Codes	Amounts
A. Securities given by third parties or irrevocably promised for account of the company* :	8.17.00	
B. Personal securities given by the company or irrevocably promised for account of third parties*	8.17.01	242 427 820
C. Collateral securities on own equity given by the company or irrevocably promised as security of the rights and obligations* :		
a) of the company :	8.17.020	2 819 729 074
b) of third parties :	8.17.021	
D. Collateral received* (other than cash) :		
a) participations and values of reinsurers (CFR. Chapter III, Description and enclosure : assets C.III.1 and 2 and liabilities F :	8.17.030	
b) other :	8.17.031	4 376 274 408
E. Term transactions* :		
a)Transactions on participations (purchases) :	8.17.040	
b)Transactions on participations (sales) :	8.17.041	
c)Transactions on foreign currency (to receive) :	8.17.042	
d)Transactions on foreign currency (to deliver) :	8.17.043	
e)Transactions on interest (purchases, ...) :	8.17.044	296 500 000
f)Transactions on interest (sales, ...) :	8.17.045	296 500 000
g)Other transactions (purchases, ...) :	8.17.046	
h)Other transactions (sales, ...) :	8.17.047	
F. Third party goods and values held by the company* :	8.17.05	
G. Nature and business purpose of the regulations not registered in the balance, their financial consequences, if the risks or advantages as a result of these regulations are of any importance and as far the disclosure of these risks or advantages are necessary to judge the financial position of the company. :	8.17.06	

Nr.17. Commitments and contingencies (art. 14).

(A star (*) at the right side of a post or sub post indicates the existence of a definition or an explanatory note in chapter III of the annex with the conclusion of 17/11/1994)

	Codes	Amounts
H. Other (to be determined) :	8.17.07	2 016 014 217
IBS bondlending commitment		2 016 014 217

A/ B/ C/ 0403552563 00014 EUR

Nr.18. Relationships with affiliated undertakings and enterprises linked by participating interests

Assets	Codes	Affiliated undertakings		Enterprises linked by participating interests	
		Current year	Previous year	Current year	Previous year
- C II.Investments in affiliated undertakings and participations	8.18.222	878 840 386	864 839 736	12 972 175	8 176 891
1 + 3 Participations	8.18.222.01	878 840 386	864 839 736	12 972 175	8 176 891
2 + 4 Debt securities, loans	8.18.222.02				
- subordinated	8.18.222.021				
- other	8.18.222.022				
- D. II.Investments in affiliated undertakings and participations	8.18.232				
1 + 3 Participations	8.18.232.01				
2 + 4 Debt securities, loans	8.18.232.02				
- subordinated	8.18.232.021				
- other	8.18.232.022				
- E. Receivables	8.18.41	36 820 293	34 960 075	426 181	3 370 898
I. Direct insurance receivables	8.18.411	1 389 499	1 498 907		
II. Reinsurance receivables	8.18.412	15 457 876	1 384 232	426 181	3 370 898
III. Other receivables	8.18.413	19 972 918	32 076 936		
- B. Subordinated liabilities	8.18.12	500 000 000	500 000 000		

Nr.18. Relationships with affiliated undertakings and enterprises linked by participating interests

Assets	Codes	Affiliated undertakings		Enterprises linked by participating interests	
		Current year	Previous year	Current year	Previous year
- G. Liabilities	8.18.42	896 764 698	515 587 665	499 253	150 326
I. Amounts payable regarding insurance operations	8.18.421	5 103 145	4 804 462		
II. Amounts payable regarding reinsurance operations	8.18.422	1 896 753	678 660	499 253	150 326
III. Non subordinated bonds	8.18.423				
IV. Amounts owed to credit institutions	8.18.424	342 766 901	467 943 501		
V. Other liabilities	8.18.425	546 997 899	42 161 042		

A/ B/ C/ 0403552563 00014 EUR

Nr.18. Relationships with affiliated undertakings and enterprises linked by participating interests (continuation and end)

	Codes	Affiliated undertakings	
		Current year	Previous year
- By the reporting institution given or irrevocably promised as PERSONAL AND COLLATERAL SECURITY to secure the affiliated enterprises' debts and commitments	8.18.50	161 549 283	139 885 190
- By affiliated enterprises given or irrevocably promised as PERSONAL AND COLLATERAL SECURITY to secure the reporting institution's debts and commitments	8.18.51		
- Other meaningful financial obligations	8.18.52		
- Income generated by land and buildings	8.18.53	630 114	868 989
- Other investment income	8.18.54	71 445 675	27 211 931

Nr.19. Financial relations with :

A.Directors and managers;

B.Individuals or corporate bodies who control the institution directly or indirectly without being related to it

C.Other companies controlled directly or indirectly by people mentioned under B

	Codes	Amounts
1.Amounts receivable from these persons	8.19.1	
2.Guarantees granted on their behalf	8.19.2	
3.Other significant commitments undertaken in their favour	8.19.3	
4.Direct and indirect remunerations charged to the annual account and granted:		
- to directors and managers	8.19.41	355 000
- to former directors and managers	8.19.42	

- Main conditions concerning the above mentioned numbers 1., 2. and 3.

The directors who are members of the executive committee receive additional pension provisions.

Nr.19bis. Financial relations with :

The auditor(s) and the people he (she) is (are) related to

	Codes	Amounts
1. Remuneration of the auditor(s)	8.19.5	479 873
2. Fees for exceptional services or special services provided to the company by the auditor(s)	8.19.6	20 408
- Other audit services	8.19.61	20 408
- Tax advisory services	8.19.62	
- Other non-audit services	8.19.63	
3. Fees for exceptional services or special services provided to the company by persons with whom the auditor(s) is (are) related	8.19.7	
- Other audit services	8.19.71	
- tax advisory services	8.19.72	
- Other non-audit services	8.19.73	

Statements in accordance with Article 133, §6 of the Company Code

Nr.20. Valuation rules.

(This statement aimed in articles : 12bis, § 5 ; 15 ; 19, 3th paragraph ; 22bis, 3th paragraph;
24, 2nd paragraph ; 27, 1°, last paragraph and 2°, last paragraph ; 27bis, § 4, last paragraph ; 28, § 2,
1st and last paragraph ; 34, 2nd paragraph ; 34quinquies, 1st paragraph ; 34sexies, 6°, last paragraph ; 34septies,
§ 2 and by Chapter III. 'Description and notes', Section II, post 'Theoretical rent'.)

A.Rules governing the validation of the inventories (with exception of the financial assets as stated under D of the assets)

1.Formation and adjustment of the depreciations

In conformity with Article 3 of the above-mentioned Royal Decree, the annual accounts are drawn up according to the principle of a true and fair view. A transparent, clear and consistent financial reporting is important for KBC Bank as a financial institution.
As such, KBC aims to align as much as possible, within the possibilities of the Belgian accounting law and the systems, with the international accounting standards IFRS, as applied for the consolidated annual accounts.
Depreciation is recorded against intangible and tangible fixed assets whose useful life is limited in order to spread the costs of acquisition (as these may be revalued from time to time) over their probable useful life. Depreciation are charged on a straight-line basis from the moment the assets are available for use.
Formation expenses are charged directly to the profit and loss account unless the Board of Directors decides otherwise.
Intangible fixed assets whose useful lifetime is limited are depreciated over five years unless the Board of Directors decides otherwise.
Systems software is depreciated at the same rate as hardware and is therefore depreciated over a period of three years. Software other than systems software is depreciated over five years. Core systems with a longer useful life are depreciated straight line over an eight-year period.
Core systems are types of standard software, including back-end data applications, for processing operations during the day and updates of the general ledger balances on the mainframe.
All tangible fixed assets are recognized at acquisition cost, less accumulated depreciation. They are recorded at acquisition cost, including ancillary, directly allocable costs (acquisition costs, non-deductible VAT etc.).
The rates of depreciation are determined on the basis of the anticipated useful economic life of the item and are applied according to the straight-line method. All tangible fixed assets are depreciated on an accruals basis from the time they are available for use. The ancillary costs are written off over the life of the asset. A write-down is charged for ancillary costs on the acquisition of land.

Nr.20. Valuation rules.

2.Write-downs

Assets not susceptible to depreciation are impaired, if this is necessary, to take account of losses in value, whether definitive or otherwise.
This impairment charge may not be upheld if, at the end of the financial year, it exceeds a current assessment of the drop in value for which it was constituted.
Intangible and tangible fixed assets whose useful life is not limited are written down in the event of a lasting diminution in value or impairment.
Participating interests and shares that are considered financial fixed assets are recognized at acquisition costs. Write downs are applied only in the event of a lasting impairment in or loss of value, established on the basis of the financial position, the profitability and the prospectus of the company concerned.
Impairment charges are written back immediately the stock market price rises, albeit to no more than the acquisition value.
Listed shares are impaired if the stock market price is sustainably (> 1 year) or significantly (> 30%) lower than the book value, showing that the impairment is sufficiently lasting in nature. The impairment charge is then equal to the difference between the carrying value and the stock market price. Impairment charges are written back immediately the stock market price rises, albeit to no more than the acquisition value.
Unlisted shares are written down in the event of a lasting diminution in value or impairment justified by the state, profitability or prospects of the company in which the holdings, shares or profit-share certificates are held.
Receivables including fixed-income securities that are recorded under ‘investments in associates and holdings’ are written down in the event that there is uncertainty as to whether all or part of the receivable will be paid when due.
Fixed-income securities and receivables reported under ‘other financial investments’ and assets reported under ‘receivables’ and ‘loans’ are impaired according to the principles that apply for the valuation of granted loans. When market value are declining below acquisition value, an impairment is recognized when there is uncertainty as to whether all or part of the receivable or security will be paid when due.
Fixed-income treasury securities (under ‘other financial investments’) serving to support liquidity are impaired if their market value is lower than the book value.
Impairment is booked on real estate certificates if their market value is less than their acquisition cost (LOCOM). These impairment charges are written back where the market value rises, up to a maximum of the acquisition cost of the underlying security.
Dated commercial credit are recorded in the balance sheet in the outstanding principal amount, plus the interest past due and sundry costs to be paid by the customers. Loans classified as irrecoverable and doubtful, specific write-downs are posted on a case-by-case basis in order to cover the losses which are considered certain or likely to ensue on the outstanding loans.

Nr.20. Valuation rules.

Investments under assets heading D (class 23) are recognized in the balance sheet at their carrying value in accordance with the statutory provisions.

3.Provisions for risks and charges

Provisions for liabilities and charges are intended to cover losses or charges, the nature of which is clearly defined and which at balance sheet date are either likely or certain to be incurred, but the amount of which is uncertain.

4.Technical provisions

The technical provisions must at all times be sufficient to guarantee that all insurance contract obligations can be met. For direct business, the provision for unearned premiums is in principle calculated according to the accruals method on a daily basis for each contract separately and based on gross premiums, net of commission.
For reinsurance contracts issued, the provision for unearned premiums is calculated for each contract separately based on information supplied by the ceding party, supplemented where necessary by the company’s own past experience regarding the evolution of risks over time.
Provisions for the group of life insurance activities are measured according to prevailing actuarial principles.
The technical provisions for traditional class-21 life (non-unit linked) products and provisions for extra-legal benefits to employees in respect of accruing interest are calculated according to prospective actuarial formulas based on the contracts’ technical bases. However, traditional class-21 (non-unit-linked) life products, which offer a guaranteed 4.75%, are discounted at a rate of 4% (instead of the 4.75% based on the underwriting assumptions of the contract).
The technical provisions for modern class-21 and class-26 (non-unit-linked) life products and provisions for extra-legal benefits to employees in respect of new, supplementary deposits are calculated according to retrospective formulas based on the contracts’ technical bases.
Additionally, supplementary provisions are constituted in accordance with the ‘flashing light’.
As of 1 January 2016, KBC Insurance uses the exemption to further increase the ‘flashing light’, after the formal approval of the National Bank of Belgium, under the condition that KBC Insurance respects the Solvency II rules without application of the so called transitional measures.
The technical provisions for class-23 (unit-linked) life products are determined by multiplying the number of units per fund by the price per unit of the fund in question.

Nr.20. Valuation rules.

The provision for claims outstanding is calculated per claim or per contract based on known elements in the file and is supplemented by the requisite fixed and statutory provisions such as those for internal claims-handling costs or for claims incurred but not (enough) reported (IBNR and IBNER).

All amounts in the equalization and catastrophe provision are allocated to offsetting non-recurring underwriting losses in the years ahead, equalizing fluctuations in the loss ratio and covering special risks.

The shares of reinsurers in the technical provisions (recorded under assets) are calculated or estimated based on the stipulations set out in reinsurance contracts, supplemented where necessary by the company's own judgements and experience. Write-downs may be applied in the event of actual or probable default on the part of the reinsurer.

5.Revaluations

Property and equipment, participating interests, shares and profit-share certificates recognized on the balance sheet under assets heading C ('investments') may be revalued if, in light of their usefulness to the company, they exhibit an incontestable and lasting increase in value.

6.Other

If securities are sold, the carrying value of each one is determined on a case-by-case basis. All monetary items denominated in foreign currency are translated into their equivalent in euros at the spot rate on the balance sheet date. The balance of the positive and negative differences arising from the translation of the technical provisions denominated in foreign currency are recognized as a 'change to the technical provisions' headings in the profit and loss account. The balances arising from the translation of the technical non-life reinsurance provisions denominated in foreign currency are included under the corresponding 'other technical charges' heading in the technical account for the non-life business.

The balance of the positive and negative differences arising from the translation of monetary items, other than the technical provisions, is taken to the profit and loss account as financial income or a financial expense. Differences are netted per currency

Non-monetary items are valued on the basis of the historical rate at acquisition or, where appropriate, on the basis of the exchange rate at which the currency used to pay the price was purchased.. Expenses and income expressed in foreign currency are recognized in the profit and loss account at the spot rate prevailing when they are incurred (in some cases, at the spot rate at the end of the preceding month), or at a rate close to it.

Nr.20. Valuation rules.

B.Rules governing the validation of inventories concerning financial assets as stated under D of the assets.

1.Financial assets other than land and buildings

Investments under assets heading D are recognized in the balance sheet at their carrying value in accordance with the statutory provisions.

2.Land and buildings

3.Other

The technical provisions for class-23 (unit-linked) life insurance are computed by multiplying the number of units per fund by the price per unit of the fund in question.

A/	B/	C/	0403552563	00014	EUR

Nr.21. Changes in valuation rules (art. 16) (art. 17).

A.Mentioning of the changes and their accountabilities.

B.Difference in estimation as a result of the changes (to mention the first time with the annual report of the year in which changes were performed).

Concerned items and sub items (*)	Amounts	Concerned items and sub items (*)	Amounts

(*) With mentioning of the figures and letters concerning the content of the concerned items and sub items of the balance sheet (for instance : C.III.2. Debt securities and other fixed-income securities).

Nr.22. Declaration on consolidated accounts.

A.To be completed by all companies.

- The institution has drawn up and has published, accordance with the Royal Decree on consolidated accounts of insurance and reinsurance undertakings, a consolidated annual report.

yes /~~no~~ (*) : Yes

- The institution does not draw up consolidated annual accounts nor a consolidated annual report because she is exempted due to following reasons (*) :

  * The institution does not, solely nor jointly, control one or more subsidiaries governed by Belgian or foreign law

~~yes~~ /no (*) : No

  * The institution is a subsidiary of a parent company that draws up and publishes consolidated accounts.

~~yes~~ /no (*) : No

. Justification of compliance with the conditions set out in Article 8 sections 2 and 3 of the Royal Decree of March 6th 1990:

. Name and full address of the registered office and, for institutions governed by Belgian law, the company number of the parent company publishing the consolidated accounts by virtue of which the exemption is granted.

* Delete where appropriate

Nr.22. Declaration on consolidated accounts (sequel and end).

B. To be completed by institutions which are jointly-held subsidiaries.

. Name and full address of the registered office and, for companies governed by Belgian law,

the company number of the parent company or companies preparing and publishing the consolidated accounts in which the accounts of the reporting institution are consolidated (**):

. If the parent company or companies are governed by foreign law, state the place where the above-mentioned consolidated accounts may be obtained (**) :

(**) If the accounts are consolidated at several levels, give details of the largest and smallest aggregate to which the reporting institution belongs as a subsidiary and for which consolidated accounts are prepared and published.

Nr. 23. Additional information required by Royal Decree of 17/11/94.

The company, where applicable, enumerate the additional information, as required :

- by articles :

  2bis. ; 4, 2nd paragraph ; 10, 2nd paragraph ; 11, 3th paragraph ; 19, 4th paragraph ; 22; 27bis, § 3, last paragraph ; 33, 2nd paragraph ;

  34sexies, § 1, 4° ; 39.

- in Chapter III, Section I. of the disclosure :

  for item of the assets C.II.1., C.II.3., C.III.7.c) and F.IV.

  and
  for item of the liabilities C.I.b) and C.IV.

The company KBC Insurances is a member of a VAT group

Exemption from the obligation to add to the additional provisions:
In accordance with the Annual Accounts Article 34quinquies §4, KBC Insurance has submitted a request to the National Bank of Belgium for exemption from the obligation to add to the additional provisions.
The regulatory capital requirements in application of the Law of 13 March 2016 on the status and supervision of KBC Insurance's insurance or reinsurance companies are sufficiently covered, without having to resort to the transitional measures of Articles 668 and 669 of the aforementioned law. After carrying out the stress tests requested by the National Bank of Belgium in accordance with Article 322 of the Law on the status and supervision of insurance or reinsurance companies regarding the exposure to the interest rate risk, KBC Insurance complies with the own funds requirements. On the basis of these elements, the National Bank of Belgium exempted KBC Insurance from the obligation to add to the additional provisions.
The accumulated amount of the dotation to the additional provisions where the company is exempt from equals 269.150.269 euro at balance sheet date.

Nr. 23. Additional information required by Royal Decree of 17/11/94.

At the time this report was being prepared, the invasion of Russia in Ukraine required additional attention at KBC Group level and in our home markets in Central and Eastern Europe. KBC Insurance has (directly and indirectly via its subsidiaries) immaterial exposure to Ukraine, Belarus and Russia. At KBC Group level, we are keeping a very close eye on the related macroeconomic impact (e.g., impact of high gas and oil prices on inflation and economic growth) and on spillover effects to KBC and its clients, both financially and operationally, with a.o. high focus on information security threats. Economic and financial sanctions by the West might further impact the European economy. Continuous monitoring and reporting of the situation is in place.

The month of February 2022 saw three severe storms (Dudley, Eunice and Franklin), which caused a large number of claims, especially in Belgium. As KBC Insurance has not yet received all claims to compensate our customers, it is currently too early to provide a reliable estimate of the total financial impact. And while part of this impact will be covered by ceded reinsurance, this will in any case negatively impact the non-life technical result in the first quarter of 2022.

Nr. 24 Transactions entered into with related parties by the company, under conditions other than those of the market

The company discloses transactions which it has entered into with related parties, including the amount of such transactions, the nature of the related-party relationship and all other information about the transactions necessary for a better understanding of the financial position of the company, if such transactions are material and have not been concluded under normal market conditions.

The above information may be aggregated according to its nature except where separate information is necessary for a understanding of the effects of related-party transactions on the financial position of the company.

The above information does not have to be disclosed for transactions entered into between two or more members of a group provided that subsidiaries which are party to the transaction are wholly owned by such a member.

Related party' has the same meaning as in international accounting standards adopted in accordance with Regulation (EC) No. 1606/2002.

All transactions with affiliated enterprises were agreed at market conditions.

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4. SOCIAL REPORT

Numbers of joint industrial committees which are competent for the enterprise

306	-----------	-----------	-----------

STATEMENT OF THE PERSONS EMPLOYED

EMPLOYEES FOR WHOM THE COMPANY HAS SUBMITTED A DIMONA DECLARATION OR ARE RECORDED IN THE GENERAL PERSONNEL REGISTER.

During the period	Codes	**Total**	**1. Men**	**2. Women**
Average number of employees				
Full-time	1001	645	354	291
Part-time	1002	559	95	464
Total of full-time equivalents (FTE)	1003	1 071	425	646
Number of hours-actually worked				
Full-time	1011	944 037	521 469	422 568
Part-time	1012	529 039	80 548	448 491
Total	1013	1 473 076	602 017	871 059
Personnel costs				
Full-time	1021	60 868 515	36 112 556	24 755 959
Part-time	1022	34 937 297	6 249 786	28 687 511
Total	1023	95 805 811	42 362 341	53 443 470
Advantages in addition to wages	1033	1 998 210	883 546	1 114 664

During the previous period	Codes	**P. Total**	**1P. Men**	**2P. Women**
Average number of employees	1003	1 141	449	692
Number of hours actually worked	1013	1 605 450	649 707	955 743
Personnel costs	1023	103 201 654	45 801 495	57 400 159
Advantages in addition to wages	1033	2 255 352	1 000 938	1 254 414

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EMPLOYEES FOR WHOM THE COMPANY HAS SUBMITTED A DIMONA DECLARATION OR ARE RECORDED IN THE GENERAL PERSONNEL REGISTER (continuation)

At the closing data of the period	Codes	1. Full-time	2. Part-time	3. Total in full-time equivalents
Number of employees	105	633	542	1 103
By nature of the employment contract				
Contract for an indefinite period	110	629	542	1 101
Contract for a definite period	111	4		2
Contract for the execution of a specifically assigned work	112			
Replacement contract	113			
According to the gender and by level of education				
Male	120	348	93	416
primary education	1200			
secondary education	1201	27	15	37
higher education (non-university)	1202	183	62	230
university education	1203	138	16	149
Female	121	285	449	630
primary education	1210			
secondary education	1211	22	69	72
higher education (non-university)	1212	159	309	397
university education	1213	104	71	161
By professional category				
Management staff	130	9		9
Employees	134	624	542	1 037
Workers	132			
Other	133			

HIRED TEMPORARY STAFF AND PERSONNEL PLACED AT THE ENTERPRISE'S DISPOSAL

During the period	Codes	1. Temporary personnel	2. Persons placed at the disposal of the enterprise
Average number of employees	150	12	
Number of hours actually worked	151	23 068	
Charges of the enterprise	152	903 339	

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TABEL OF PERSONNEL CHANGES DURING THE PERIOD

ENTRIES	Codes	1. Full-time	2. Part-time	3. Total in full-time equivalents
The number of employees for whom the company has submitted a DIMONA declaration or are recorded in the personnel register during the financial year in the general personnel register	205	44	11	53
By nature of the employment contract				
Contract for an indefinite period	210	41	11	50
Contract for a definite period	211	3		3
Contract for the execution of a specifically assigned work	212			
Replacement contract	213			

DEPARTURES	Codes	1. Full-time	2. Part-time	3. Total in full-time equivalents
The number of employees with a in the DIMONA declaration indicated or in the general personnel register listed data of termination of the contract during the financial year	305	60	58	102
By nature of the employment contract				
Contract for an indefinite period	310	60	58	102
Contract for a definite period	311			
Contract for the execution of a specifically assigned work	312			
Replacement contract	313			
According to the reason for termination of the employment contract				
Retirement	340	10	19	21
Unemployment with company allowance	341			
Dismissal	342	5	4	8
Other reason	343	45	35	73
Of which: the number of persons who continue to render services to the enterprise at least half-time on a self-employed basis	350			

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INFORMATION WITH REGARD TO TRAINING RECEIVED BY EMPLOYEES DURING THE PERIOD

	Codes	Male	Codes	Female
Total number of official advanced professional training projects at company's expense				
Number of participating employees	5801	318	5811	497
Number of training hours	5802	1 212	5812	1 536
Costs for the company	5803	226 127	5813	353 413
of which gross costs directly linked to the training	58031	216 561	58131	338 462
of which paid contributions and deposits in collective funds	58032	9 566	58132	14 951
of which received subsidies (to be deducted)	58033		58133	
Total number of less official and unofficial advance professional training projects at company expense				
Number of participating employees	5821	433	5831	732
Number of training hours	5822	6 334	5832	9 342
Costs for the company	5823	410 068	5833	693 232
Total number of initial professional training projects at company expense				
Number of participating employees	5841		5851	
Number of training hours	5842		5852	
Costs for the company	5843		5853	

Review of the company annual accounts of KBC Insurance NV at 31 December 2021

The company annual accounts have been prepared according to Belgian accounting standards (B-GAAP).

1. Balance sheet

KBC Insurance NV (x 1.000 EUR)	**31/12/2021**	**31/12/2020**	**Difference**	**% difference**
ASSETS	**33 811 128**	**32 741 722**	**1 069 405**	**3,3%**
Intangible assets	3 394	4 403	-1 009	-22,9%
Financial Assets	19 071 844	19 099 064	-27 220	-0,1%
Assets held for unit-linked funds	13 634 234	12 818 689	815 545	6,4%
Reinsurers' share in technical provisions	145 388	125 005	20 383	16,3%
Receivables	241 666	179 657	62 009	34,5%
Other assets	525 175	307 671	217 503	70,7%
Deferred charges and accrued income	189 427	207 234	-17 807	-8,6%
LIABILITIES	**33 811 128**	**32 741 722**	**1 069 405**	**3,3%**
Equity	1 368 498	1 724 214	-355 715	-20,6%
Result for the period	0	0	0	0,0%
Subordinated liabilities	500 000	500 000	0	0,0%
Fund for future allocations	181 579	157 579	24 000	15,2%
Technical provisions	16 594 072	16 468 445	125 627	0,8%
Technical provisions for unit-linked funds	13 634 234	12 818 689	815 545	6,4%
Provisions other than technical provisions	7 316	7 319	-3	0,0%
Deposits received from reinsurers	119 310	97 176	22 135	22,8%
Other liabilities	1 396 082	958 469	437 613	45,7%
Accrued charges and deferred income	10 037	9 834	203	2,1%

The balance sheet total rose by 1 069 million euros, with the increase in unit-linked investments (+816 million euros) and other asset items including current accounts (+218 million euros) being the main factors on the assets side. The main factors on the liabilities side were the increase in technical provisions including for unit-linked investments and in amounts payable (+1 379 million euros) – offset in part by a decrease in equity (payment of profit carried forward from financial year 2020 of -355 million euros).

1.1 Assets

Intangible assets

(x 1.000 EUR)		31/12/2021	31/12/2020	Difference	% difference
212.2	**Other intangible assets**	**3 394**	**4 403**	**-1 009**	**-22,9%**
	Intangible assets - acquisition value	9 041	4 934	4 107	83,2%
	Intangible assets - depreciation	-3 519	-531	-2 988	562,7%
	Intangible assets - impairments	-2 218	0	-2 218	-100,0%

This item related to the capitalised expenses of the Newgrange project (i.e. Irish insurance business). The recording of depreciation and impairments was accelerated this year, in line with the decision to terminate this business. The remaining amounts will be fully removed from the balance sheet in 2022.

Investments

(x 1.000 EUR)		31/12/2021	31/12/2020	Difference	% difference
22-23	**Investments**	**32 706 078**	**31 917 753**	**788 325**	**2,5%**
222	Investments in affiliated companies and participating interests	891 813	873 017	18 796	2,2% (1)
223.1	Shares	760 566	851 100	-90 534	-10,6% (2)
223.2	securities	14 805 465	14 606 838	198 627	1,4% (3)
223.21	*- Bonds and other long-term investm*	14 792 465	14 593 849	198 616	1,4%
223.22	*- Commercial paper*	13 000	12 989	11	0,1%
23	Unit-linked	13 634 234	12 818 689	815 545	6,4% (4)
223.4	Mortgage loans	970 797	1 072 408	-101 610	-9,5% (5)
223.61	Deposits at credit institutions > 1 year (L&R deposits)	397 000	422 000	-25 000	-5,9% (6)
223.62	Deposits at credit institutions < 1 year	0	0	0	0,0%
221	Real estate	127 787	134 235	-6 448	-4,8% (7)
223.52-53	Other loans	950 289	994 945	-44 656	-4,5% (8)
223-224	Other loans	168 128	144 523	23 606	16,3% (9)

(1) ‘Investments in affiliated companies and participating interests’ increased by 19 million euros, accounted for chiefly by:

- the capital increase at DZI Life Insurance JSC (+50 million euros) for the acquisition of NN’s Bulgarian pension and life insurance business for +78 million euros in February 2021;
- the reclassification of Vlaamse Energie Holding CV (+4 million euros) from an equity instrument to a financial fixed asset;
- the capital increase at Imex Xpand CVA (+1 million euros), without any new shares being acquired;
- the capital reduction at KBC Verz Vastgoed Nederland I BV (-25 million euros);
- the impairment charge for ADD (-6 million euros);
- the capital reduction at Double U Building BV (-5 million euros).

(2) ‘Shares’ were down 91 million euros (or -10.64%) on their year-earlier level, primarily on account of the pursuit of an IFRS target volume of 1.15 billion euros after a healthy stock market climate in 2021 (stock markets rose by approximately 26.7% in the reference period).

(3) ‘Bonds and other fixed-income securities’ increased by 199 million euros year-on-year.

(x 1.000 EUR)	Bonds	Commercial paper	Real estates certificates
Bonds (including real estate certificates)	**198 817**	**11**	**-201**
Expired, called and sold	-1 361 711	-12 987	0
Newly purchased	1 512 463	12 998	0
Evolution pari	17 256	-1	0
Repayments	-9 309	0	-125
Impairments (-) / Reversal (+)	40 117	0	-77
Exchange rate differences	0	0	0

The reversal of impairment charges on bonds (+40 million euros) related entirely to the revaluation of the AWSA position. This position was sold; the sale agreement was signed and finally settled on 19 July 2021.

(4) For unit-linked investments, see the liabilities side.

(5) ‘Mortgage loans’ fell by 101 million euros. This portfolio was created through the monthly transfer of mortgage loans from KBC Bank to KBC Insurance.
Since the second quarter of 2020, no more additional mortgage loans were transferred from KBC Bank to KBC Insurance. Recently, however, it was agreed that the internal transfer would be temporarily resumed by transferring an amount of 50 million euros in December 2021 and 25 million euros in March 2022 and June 2022 for the purpose of the Treasury strategy review.

(6) ‘Deposits at more than one year’ fell by 25 million euros, owing to a deposit reaching maturity that was not renewed.

(7) ‘Real estate’ fell by 6 million euros, with the largest movement accounted for by the depreciation recognised in the amount of -7 million euros.

(8) The ‘Other loans’ item fell by 45 million euros, related to secured and unsecured loans. The decrease in the portfolio is related to loans being paid off according to contract.

(9) Other investments rose by 24 million euros, largely as a result of the increase in advances on life insurance contracts (+22 million euros).

Other asset items

‘Reinsurers’ share in technical provisions’ rose by 20 million euros.

(x 1.000 EUR)		31/12/2021	31/12/2020	Difference	% difference
24	**Reinsurers' share in technical provisions**	**145 388**	**125 005**	**20 383**	**16,3%**
243	Provisions for claims outstanding	133 206	116 458	16 749	14,4% (1)
241	Provisions for unearned premiums and provision for unexpired risk	2 599	1 142	1 457	127,6% (2)
242	Life assurance provisions	9 520	7 358	2 162	29,4% (3)
245	Other technical provisions	63	48	15	31,9%

This is the reinsurers’ share in technical provisions (including claims incurred in the non-life and life business, the premium reserve, etc.).

(1) It includes the amounts still to be recovered: the difference between the claims provisions associated with claims made in the primary business and hedged by reinsurance business (including IBNR) and amounts

already recovered and received from the reinsurer (amounts received for claims incurred result in a lower reserve).

(2) Premium reserve: i.e. the proportionate allocation to the reinsurer of insurance premiums paid.

(3) The movement in the 'Life insurance provision' mainly relates to the reserves in the 'De Hoop', 'Long term Care' (healthcare class), KB69 and guaranteed income contracts.

'Amounts receivable' rose by 62 million euros, largely as a result of the increase in 'amounts receivable from reinsurers' (+44 million euros). This item contains the estimate of claims still to be recovered from the reinsurers. The significant increase in this item reflects the future high amounts to be recovered in connection with the flooding in mid-July 2021.
We also observe an increase in the 'Suspense accounts' item (+13 million euros). Receivables relating to suspense accounts, which are initially fully recorded in a liability account, are transferred from liabilities to assets. This transfer was adjusted in 2021, as a result of which the outstanding estimates of management fees receivable and payable for unit-linked life insurance products that are recorded in suspense accounts are no longer transferred on a net basis (14 million euros at year-end 2020); instead, only the estimates of management fees receivable (28 million euros at year-end 2021) are converted from liabilities into assets.

'Other asset items' went up by 218 million euros to 525 million euros (a snapshot and very volatile).

The outstanding balance of deferred charges and accrued income (189 million euros) consisted chiefly of accrued interest income from bonds, term investments, secured and unsecured loans, mortgage loans, swaps and repo transactions.

1.2 Liabilities

Equity

(x 1.000 EUR)		31/12/2021	31/12/2020	Difference	% difference
11	**Equity**	**1 368 498**	**1 724 214**	**-355 715**	**-20,6%**
111	Issued capital	65 156	65 156	0	0,0%
112	Share premium	1 085 606	1 085 606	0	0,0%
114	Reserves	217 719	218 086	-367	-0,2%
115	Profit (loss) carried forward	17	355 366	-355 348	-100,0%

It was decided to pay the 2020 retained earnings as a dividend (-355 million euros).

Subordinated liabilities

Under the capital optimisation exercise, a non-convertible subordinated loan of 500 million euros was taken out with KBC Group in March 2015.

Fund for future appropriation

(x 1.000 EUR)		31/12/2021	31/12/2020	Difference	% difference
13	**Fund for future appropriation**	181 579	**157 579**	**24 000**	**15,2%**

No additional allocation/appropriation was made in 2020.
At year-end 2021, 24 million euros had been allocated to the fund.

Technical provisions

(x 1.000 EUR)		31/12/2021	31/12/2020	Difference	% difference	
	Total technical provisions (incl. unit-linked insurance)	**30 228 306**	**29 287 133**	**941 172**	**3,2%**	
15	**Unit-linked insurance**	**13 634 234**	**12 818 689**	**815 545**	**6,4%**	(7)
	Total technical provisions (excl. unit-linked insurance)	**16 594 072**	**16 468 445**	**125 627**	**0,8%**	
141	Provisions for unearned premiums and provision for unexpired risk	264 119	259 234	4 885	1,9%	(1)
142	Life assurance provision	13 243 775	13 298 814	-55 039	-0,4%	(2)
143	Provision for claims outstanding	2 478 284	2 291 146	187 138	8,2%	(3)
144	Provision for profit sharing and rebates	31 477	23 449	8 028	34,2%	(4)
145	Provision for equalization and catastrophe risks	324 969	350 383	-25 414	-7,3%	(5)
146	Other technical provisions	251 449	245 419	6 030	2,5%	(6)
	- Indexation reserve	*33 936*	*33 647*	*289*	*0,9%*	
	- Ageing reserve	*158 128*	*158 393*	*-264*	*-0,2%*	
	- Pesion for white-collar workers (KB69)	*1 314*	*1 072*	*242*	*22,6%*	
	- Premium deficiency reserve	*58 070*	*52 307*	*5 763*	*11,0%*	

(1) The ‘Provision for unearned premiums and unexpired risk’ was up 5 million euros on its year-earlier level, which related to the premium reserve and commission reserve for the non-life insurance business. The provision for unearned premiums rose by 10 million euros; the commission reserve was up 2 million euros (the commission reserve is deducted from the provision). Furthermore, a commission reserve was only recorded at year-end for commission allocated in advance for tax purposes. This commission reserve amounted to 7 million euros at year-end 2021, as opposed to 4 million euros at year-end 2020, i.e. an increase of 3 million euros.

(2) The ‘Life insurance provision’ was down 55 million euros on its year-earlier level,
owing primarily to the decline in the actuarial reserves for the ‘modern portfolio’ (-16 million euros, with -208 million euros for net outflows of cash due to net internal transfers (to unit-linked products) and benefits paid/surrendered contracts/death benefits/matured contracts, +183 million euros for ‘uprenting’ costs and +9 million euros for interest allocated under profit-sharing) and the ‘classic portfolio’ (-25 million euros).
Since 2021, the ‘Provision for claims outstanding’ (Liability for Incurred Claims under IFRS 17) is reported separately in accordance with the IFRS 17 standards. This provision was still included in the actuarial reserves in the reference year 2020, resulting in a transfer from the ‘Life insurance provision’ (-18 million euros) to the ‘Provision for claims outstanding’ (+18 million euros; see (3)).

(3) The ‘Provision for claims outstanding’ – which relates to the non-life insurance business – increased by 187 million euros in 2021, of which 165 million euros related to the non-life insurance business and 22 million euros to the life insurance business (including a transfer to the claims provision of 18 million euros; see (2)).

(4) The ‘Provision for profit sharing and rebates’ was up 8 million euros on its year-earlier figure.
Profit allocation of -9 million euros was recorded (interest under profit-sharing) and -1 million euros (death benefits under profit-sharing), as was a transfer of +17 million euros for 2021 (interest) and +1 million euros (death benefits). The experience rating provision dropped by 1 million euros.

(5) The ‘Provision for ///equalisation/// and catastrophe risks’ fell by 25 million euros in in 2021,
mainly on account of a substantial net transfer from the provision under the ‘Flood’ class (-52 million euros, related to heavy flooding in July), partly offset by a transfer to it under the ‘Storm’ class (+27 million euros).

(6) The increase of 6 million euros is largely the result of the 6-million-euro increase in the premium deficiency reserve on account of additional growth of the ageing reserve for individual hospitalisation.

(7) The provisions for unit-linked life insurance (individual and group) were up 816 million euros on the year-earlier figure,
which was accounted for by the positive trend in share prices (+1 213 million euros) and a net decrease (-398 million euros) in purchases (premiums, internal transfers) relative to sales (payments). The total includes an increase of 1 million euros at the Irish insurance business.

Other liability items

Provisions for other liabilities and charges concern the creation of/reduction in the provision for ///approved early retirement schemes/// (including through monthly payment/distribution to staff members).

‘Amounts payable’ rose by 438 million euros, due mainly to a drop in unit-linked amounts payable, i.e. the ‘month-end adjustment’ of the asset-liability differences for unit-linked life insurance products (-56 million euros), an increase in amounts payable for reinsurance operations (+6 million euros), a decrease in amounts payable to credit institutions (-24 million euros) and an increase in amounts payable for the dividend to be paid (+525 million euros).
The decrease in amounts payable to credit institutions related to an increase in the repo position entered into with KBC Bank (+91 million euros), an amount payable for an outstanding cash exchange with KBC Bank (+100 million euros) and the sharp fall in cash collateral received from KBC Bank (-216 million euros). This was partly offset by a significant increase in collateral in the form of securities (+138 million euros), but these are subject to off-balance sheet reporting.

Accrued charges and deferred income came to 10 million euros and comprised mainly an upfront fee relating to the asset swap portfolio (3 million euros) and accrued interest on swap contracts (4 million euros).

2. Income statement

Profit and loss reporting 31/12/2021				
(x 1.000 EUR)	**31/12/2021**	**31/12/2020**	**Difference**	**% difference**
Non life				
Net earned premiums	1 182 152,85	1 123 889,21	58 264	5,2%
Net claims	-686 356,63	-630 539,29	-55 817	8,9%
Net technical result	495 796,22	493 349,92	2 446	0,5%
Investment income & expense	79 361,68	85 467,26	-6 106	-7,1%
Net operating expenses	-353 933,73	-351 020,33	-2 913	0,8%
Result of the technical account Non-Life	**221 224,16**	**227 796,84**	**-6 573**	**-2,9%**
Net loss ratio non-life	60,2%	54,8%		
Net cost ratio non-life	29,9%	31,0%		
Combined ratio non-life	90,1%	85,8%		
Life				
Class 21 and 26				
Net earned premiums	874 566,85	880 724,66	-6 158	-0,7%
Net claims	-971 046,33	-980 603,16	9 557	-1,0%
Net technical result	-96 479,48	-99 878,50	3 399	-3,4%
Investment income & expense	355 081,60	318 462,23	36 619	11,5%
Net operating expenses	-105 126,04	-124 523,56	19 398	-15,6%
Fund for future appropriations	-24 000,00	0,00	-24 000	#DIV/0!
Result class 21 and 26	129 476,08	94 060,17	35 416	37,7%
Class 23 : net result	39 977,69	42 570,53	-2 593	-6,1%
Result of the technical account Life	**169 453,77**	**136 630,70**	**32 823**	**24,0%**
Non - technical				
Net investment income	99 501,14	93 344,27	6 157	6,6%
Other income and expenses	-6 874,30	-6 618,64	-256	-3,9%
Extraordinary result	0,00	0,00	0,00	-
Result non-technical	**92 626,84**	**86 725,63**	**5 901**	**6,8%**
Result before taxes	**483 304,77**	**451 153,17**	**32 152**	**7,1%**
Taxes	-75 976,85	-93 588,28	17 611	-18,8%
Movement of tax free reserves	366,76	326,88	40	12,2%
Result for the period available for appropriation	**407 694,69**	**357 891,77**	**49 803**	**13,9%**

Total				
Net earned premiums	2 056 719,70	2 004 613,87	52 106	2,6%
Net technical charges	-1 657 402,96	-1 611 142,45	-46 261	2,9%
Net technical result	399 316,74	393 471,42	5 845	1,5%
Class 23 : net result	39 977,69	42 570,53	-2 593	-6,1%
Net investment income	533 944,41	497 273,77	36 671	7,4%
Other income and expenses	-6 874,30	-6 618,64	-256	3,9%
Net operating expenses	-459 059,77	-475 543,90	16 484	-3,5%
Fund for future appropriations	-24 000,00	0,00	-24 000	100,0%
Extraordinary result	0,00	0,00	0,00	-
Taxes and movement of tax free reserves	-75 610,08	-93 261,40	17 651	-18,9%
Result for the period available for appropriation	**407 694,69**	**357 891,77**	**49 803**	**13,9%**

The result for the financial year was 50 million euros higher than a year earlier (408 million euros compared with 358 million euros at year-end 2020). This increase was accounted for by a decrease in the result for the non-life business (-6 million euros), an increase in the result for the life business, including unit-linked products (+33 million euros)), an increase in the non-technical result (+6 million euros) and an increase in taxes (+17 million euros).

Non-life insurance

Net earned premiums in the non-life business were up 58 million euros on their level at year-end 2020, owing to both an increase in premiums and a volume effect for 'Fire' (+23 million euros), 'Motor' (+6 million euros), 'Industrial accidents' (+12 million euros) and 'Civil liability' (+8 million euros). In addition to the increase in premiums and the volume effect, the increase within 'Industrial accidents' and 'Civil liability' was also due to higher provisions for premiums to be invoiced and prior-year settlements (+11 million euros).

Net claims incurred in the non-life business were 56 million euros higher than their level at year-end 2020,

- with ordinary claims 90 million euros higher than in 2020. Disregarding the favourable impact of the coronavirus (+21 million euros in 2021, as opposed to +59 million euros in 2020), however, the increase was reduced to 52 million euros. Higher claims were seen in all classes, but the largest impact was found in the 'Motorcycle' (-38 million euros), 'Industrial accidents' (-16 million euros), 'Accident' (-9 million euros), 'Civil liability' (-8 million euros) and 'Fire' (-12 million euros) classes.
- In 2021, an increase was also seen in large claims (-10 million euros), with movements compared to 2020 found in 'Fire' (-13 million euros), 'Civil liability' (-10 million euros), including a large claim related to a fire in the Costa Del Sol, 'Motorcycle' (+7 million euros) and 'Industrial accidents' (+6 million euros).
- The storm impact was up 92 million euros on its year-earlier figure. The year 2021 was marked by heavy flooding on 14/15 July (-110 million euros) and 2020 was marked by a few severe storms in February (-33 million euros). The other, less severe storms/floods in 2021 came to -22 million euros, whereas last year's less severe storms accounted for -9 million euros in 2020.
- The recourse reserves were 5 million euros higher than last year and were largely attributable to a few larger files having an impact in 2020.
- In the fourth quarter of 2021, -8 million euros in IBNR was recorded under a new interpretative act governing damage to property resulting from subsidence.
- There were several parameter updates having an impact of -5 million euros in 2021, as opposed to -38 million euros in 2020.
- In addition to the monthly transactions, an additional amount of 21 million euros was transferred to the ageing reserves in 2020, as they had fallen below the minimum level.
- The technical charges reclaimed under reinsurance totalled +55 million euros.
- The other items were -16 million euros, including a provision for internal management costs (6.3% of the 'Provision for claims outstanding') (-7 million euros), an update to a claims batch in 2020 (-6 million euros) and gross expenses for reinsurance business received (+9 million euros), with 2020 being impacted by technical charges of -9 million euros in a coinsurance file shared with Belfius and IBNER (-3 million euros).
- Fund for future allocations (+40 million euros): a transfer from the fund of 25 million euros in 2021; a transfer to the fund of 15 million euros in 2020.

'Net operating expenses' rose by 3 million euros, owing to a higher net amount in fees paid (-14 million euros), mainly linked to a higher level of premium income, partly offset by lower administrative expenses (+6 million euros) and lower acquisition costs (+5 million euros).

Life insurance – guaranteed-interest (class 21) and capitalisation (class 26) products

Net earned premiums in the life business fell by 6 million euros.
The main movements were a decline in capitalisation products (-27 million euros) as these products were discontinued following a temporary reopening in 2020, an increase within regular life products (+19 million euros), higher premium income for guaranteed income (+4 million) and an increase in ceded reinsurance premiums (-2 million euros).

Net technical charges fell by 9 million euros,
chiefly attributable to lower ‘uprenting’ costs (+12 million euros), the slightly higher level of technical charges for supplementary cover (-3 million euros), an increase in interest and death benefits under profit-sharing (-10 million euros), lower technical charges recovered from the reinsurer (-1 million euros) and a lower level of actuarial reserves (due to the decline in earned premiums).

The fund for future appropriation was increased by 24 million euros in 2021, but no additional allocations were made to it in 2020.

Net operating expenses fell by 19 million euros, owing to the acquisition costs (+8 million euros) declining in line with the lower level of premium income, lower administrative expenses (+6 million euros) and higher profit-sharing related to reinsurance contracts (+5 million euros).

Unit-linked life insurance products (class 23)

At 40 million euros, the result for unit-linked products at year-end 2021 was 3 million euros lower than the year-earlier figure.
The main factors behind this development were the lower level of entry fees received (-8 million euros), cancelled out in part by the lower level of commission paid to the distribution channels (+5 million euros), the increase in net management fees received (+9 million euros), the fall in dividends received (-2 million euros) and higher operating expenses (-4 million euros). The latter was mainly due to the introduction of wealth tax payable on unit-linked securities accounts.

Investment income and charges

At 527 million euros, net investment income (excluding unit-linked products) was up 36 million euros on its 2020 level. The main movements were:

- less interest being paid on bonds (-49 million euros): lower income from inflation-linked bonds (delta of approximately -15 million euros) caused by a one-off catch-up adjustment associated with an inconsistency in the premium/discount accounting for these bonds in 2020 (an impact of approximately -32 million euros), which was partly offset by a significant positive development of the inflation indices over the course of 2021 (+17 million euros). Due to a low interest-rate climate, average returns on new investments were significantly lower than on investments that had matured (delta of approximately -32 million euros);
- less interest being generated by mortgage loans (-3 million euros) owing to a declining return and lower portfolio volume;
- less interest being paid on term loans and deposits (-2 million euros);
- interest paid on the purchase/repurchase of securities (-4 million euros);
- a decline in net interest charges on swaps (+7 million euros): less interest on a payer swap that matured in September 2021 (+1 million euros), lower interest on two payer swaps that matured in September 2020 (+7 million euros) and higher negative interest rates on the variable legs of the swaps due to declining interest rates (-1 million euros);
- an increase in internal dividend income (+45 million euros);

(x 1.000.000 EUR)	2021	2020	
KBC Group RE SA	30	14	
ADD NV	4	4	
Double U Building	0	4	
KBC V Vastgoed NL	0	3	
K&H	25	0	
CSOB SK	11	0	
	70	25	45

- a decrease in external dividend income (-1 million euros);
- foreign exchange results on a foreign bond portfolio and foreign bank accounts (+1 million euros);
- value adjustments for bonds classified as measured at fair value through profit or loss (+11 million): fully related to the sale of the AWSA bond position in 2021 (at a sale price of 39 million

euros). As this price exceeded the B-GAAP carrying value, a partial reversal of the B-GAAP impairment was recorded in the amount of 11 million euros;

- net realised gains on shares (+79 million euros): the positive impact was mainly caused by a negative 2020 figure resulting from the stock market crash on 20 March;
- impairment (provisioning and reversals) on shares (-25 million euros): +4 million euros for 2021 => the creation of impairment charges for ADD (-6 million euros) and shares was more than offset by the reversal of impairment charges caused by the highly favourable development of the stock exchange in 2021 (+10 million euros), which amounted to +29 million euros in 2020 => the previously limited impairment charges for shares were fully offset by a reversal of impairment charges (a net result of +6 million euros). The net positive result stated above was materially strengthened by the reversal of impairment charges for ADD (+24 million euros);
- a net realised result on FVOCI bonds (+2 million euros);
- income from real estate (-1 million euros);
- divestments (-27 million euros): as a result of the sale of subsidiaries NLB Vita and KBC Asset Management Luxembourg (the latter to KBC AM), KBC Insurance recorded a net realised gain of 24.5 million euros and 2.1 million euros, respectively, in the second quarter of 2020;
- a realised gain on a building sold in Herent omleiding (+3 million euros);
- moratorium interest totalled +2 million euros and related to court proceedings with the Belgian tax administration concerning an old claim, in which KBC Insurance was the successful party;
- impairment charges on intangible assets of -2 million euros related to the Newgrange project.

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STATUTORY AUDITOR'S REPORT TO THE GENERAL SHAREHOLDERS' MEETING OF KBC VERZEKERINGEN NV ON THE ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2021

We present to you our statutory auditor's report in the context of our statutory audit of the annual accounts of KBC Verzekeringen NV (the "Company"). This report includes our report on the annual accounts, as well as the other legal and regulatory requirements. This forms part of an integrated whole and is indivisible.

We have been appointed as statutory auditor by the general meeting of 24 April 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 annual accounts of KBC Verzekeringen NV for 6 consecutive years.

Report on the annual accounts

Unqualified opinion

We have performed the statutory audit of the Company's annual accounts, which comprise the balance sheet as at 31 December 2021, and the profit and loss account for the year then ended, and the notes to the annual accounts, characterised by a balance sheet total of EUR 33.811 million and a profit and loss account showing a profit for the year of EUR 408 million.

In our opinion, the annual accounts give a true and fair view of the Company's net equity and financial position as at 31 December 2021, and of its results for the year then ended, in accordance with the financial-reporting framework applicable in Belgium.

Basis for unqualified opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) as applicable in Belgium. Furthermore, we have applied the International Standards on Auditing 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 annual accounts"* section of our report. We have fulfilled our ethical responsibilities in accordance with the ethical requirements that are relevant to our audit of the annual accounts in Belgium, including the requirements related to independence.

We have obtained from the board of directors and Company officials the explanations and information necessary for performing our audit.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts of the current period. These matters were addressed in the context of our audit of the annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Estimation uncertainty with respect to technical insurance provisions

Description of the Key Audit Matter

At year-end 31 December 2021 the technical insurance provisions (before reinsurance) amount to EUR 16.594 million. For detailed information regarding the valuation of the technical insurance provisions, please refer to Note 20 to the annual accounts (point 4 “technical provisions”).

A liability adequacy test is performed by the Company 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 Company’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 Company’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.

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Estimation uncertainty with respect to financial instruments measured at fair value

Description of the Key Audit Matter

Details regarding the measurement of financial instruments at year-end 31 December 2021 are included in Notes 3 (investments) and 3bis (derivatives not measured at fair value) to the annual accounts. The applicable valuation rules are described in Note 20 to the annual accounts (point 2 “impairments”).

For certain financial instruments a quoted price is not readily available to determine fair value. Valuation techniques and models used to determine fair value in these cases are inherently subjective and involve various assumptions regarding pricing. In addition, the number of factors influencing the determination of fair value can be extensive and can vary both by type of instrument and/or within instrument types. The use of different valuation techniques and assumptions could produce significantly different estimates of fair value. As the use of different assumptions could produce different estimates of fair value, we consider this as a key audit matter.

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 certain financial instruments for which a quoted price is not readily available, in the context of the estimation uncertainty concerned, fell within a reasonable and acceptable range of outcomes.

Responsibilities of the board of directors for the preparation of the annual accounts

The board of directors is responsible for the preparation of annual accounts that give a true and fair view in accordance with the financial-reporting framework applicable in Belgium, and for such internal control as the board of directors determines is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, the board of directors is responsible for assessing the Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the board of directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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Statutory auditor's responsibilities for the audit of the annual accounts

Our objectives are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts.

In performing our audit, we comply with the legal, regulatory and normative framework applicable to the audit of the annual accounts in Belgium. A statutory audit does not provide any assurance as to the Company's future viability nor as to the efficiency or effectiveness of the board of directors' current or future business management. Our responsibilities in respect of the use of the going concern basis of accounting by the board of directors are described below.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors.

- Conclude on the appropriateness of the board of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our statutory auditor's report to the related disclosures in the annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our statutory auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the annual accounts of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements

Responsibilities of the board of directors

The board of directors is responsible for the preparation and the content of the directors' report, of the documents required to be deposited by virtue of the legal and regulatory requirements as well as for the compliance with the legal and regulatory requirements regarding bookkeeping, with the Companies' and Associations' Code and with the Company's articles of association.

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, certain documents required to be deposited by virtue of legal and regulatory requirements, as well as compliance with the articles of association and of certain requirements of the Companies' and Associations' Code, and to report on these matters.

Aspects related to the directors' report

In our opinion, after having performed specific procedures in relation to the directors' report, the directors' report is consistent with the annual accounts for the year under audit, and it is prepared in accordance with the articles 3:5 and 3:6 of the Companies' and Associations' Code.

In the context of our audit of the annual accounts, we are also responsible for considering, in particular based on the knowledge acquired resulting from the audit, whether the directors' report is materially misstated or contains information which is inadequately disclosed or otherwise misleading. In light of the procedures we have performed, there are no material misstatements we have to report to you.

Regarding non-financial information, as mentioned in the directors' report, the information is provided at the level of the highest Belgian consolidating entity, KBC Group NV, in the directors' report on the consolidated accounts.

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Statement related to the social balance sheet

The social balance sheet, to be deposited in accordance with article 3:12, §1, 8° of the Companies' and Associations' Code, includes, both in terms of form and content, the information required under this Code, including, but not limited to, in relation to salaries and education, and does not present any material inconsistencies with the information we have at our disposition in our engagement.

Statements related to independence

- Our registered audit firm and our network did not provide services which are incompatible with the statutory audit of the annual accounts and our registered audit firm remained independent of the Company in the course of our mandate.
- The fees for additional services which are compatible with the statutory audit of the annual accounts referred to in article 3:65 of the Companies' and Associations' Code are correctly disclosed and itemized in the notes to the annual accounts.

Other statements

- Without prejudice to formal aspects of minor importance, the accounting records were maintained in accordance with the legal and regulatory requirements applicable in Belgium.
- The appropriation of results proposed to the general meeting complies with the legal provisions and the provisions of the articles of association.
- There are no transactions undertaken or decisions taken in breach of the Company's articles of association or the Companies' and Associations' Code) that we have to report to you.
- This report is consistent with the additional report to the audit committee referred to in article 11 of the Regulation (EU) N° 537/2014.
- We have evaluated the property effects resulting from the decision of the board of directors dated 18 March 2021 as described in section "Conflicts of interest that fell within the scope of Article 7:115, 7:116 or 7:117 of the CAC of the directors' report and we have no remarks to make in this respect.
- During the year an interim dividend has been distributed in relation to which we have prepared the attached report, in accordance with the legal requirements.

Diegem, 6 April 2022

The statutory auditor
PwC Bedrijfsrevisoren BV
represented by

Roland Jeanquart
Accredited auditor

Tom Meuleman
Accredited auditor

Additional information

Ratios used

Combined ratio (non-life insurance)

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.

Calculation (in millions of EUR or %)	Reference	2021	2020
Technical insurance charges, including the internal cost of settling claims (A)	Note 3.7.1	1 081	945
/			
Earned insurance premiums (B)	Note 3.7.1	1 841	1 742
+			
Operating expenses (C)	Note 3.7.1	565	536
/			
Written insurance premiums (D)	Note 3.7.1	1 875	1 769
= (A/B)+(C/D)		88,9%	84,5%

In 2H 2021, the technical insurance charges were severely negatively impacted by several floods in Belgium (estimated impact -87 million euros after reinsurance).

Solvency ratio

Measures the solvency of the insurance business, as calculated under Solvency II.

(In millions of EUR)	31-12-2021	31-12-2020
Available capital	4 075	3 868
Solvency Capital Requirement (SCR)	2 029	1 747
Solvency II ratio	201%	222%
Solvency surplus	2 046	2 121

Management certification

‘I, Luc Popelier, Chief Financial Officer of KBC Insurance, certify on behalf of the Executive Committee of KBC Insurance 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 Insurance NV and its consolidated subsidiaries, and that the annual report provides a fair overview of the development, results and the situation of KBC Insurance NV and its consolidated subsidiaries, as well as an overview of the main risks and uncertainties to which they are exposed.’