KBC INSURANCE

Annual report
of the Board of Directors
for financial year 2020 to the General
Meeting of 28 April 2021

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 2021. By their nature, forward-looking statements involve uncertainty. Various factors, most notably the coronavirus (Covid-19) crisis could cause actual results and developments to differ from the initial statements.

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.

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Table of contents

Report of the Board of Directors

Consolidated financial statements

Company annual accounts

Additional information

Report of the Board of Directors

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)	5.7 million
Number of staff (2020 average in FTEs)	3 972
Insurance network	366 agencies in Belgium various distribution channels in Central and Eastern Europe

Our long-term credit ratings (29-10-2020)

	Standard & Poor's
KBC Insurance NV	A

Management

CEO	Johan Thijs
Chairman of the Board of Directors	Koenraad Debackere

More information

Website	www.kbc.com

Business model and strategy

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 2020.

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.

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

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

In the latter case, we as a bank-insurer have a direct influence on climate change through our own energy consumption. More important, however, is our indirect influence, through lending, holding an investment portfolio, providing investments to clients and insuring counterparties who can have a direct impact on the climate. We ourselves also feel the impact of climate change. Examples include higher levels of claims under the insurance we provide and the impact on our loans or investments when relevant counterparties are affected by climate change or the transition to a lower-carbon society. We actively adjust our business model, not only to reduce or prevent adverse consequences, but also to contribute actively by launching sustainable products and services. We closely track our performance in this regard, to which end we apply specific targets. Recognition that sustainability will be even more important in a post-pandemic world has led us, meanwhile, to tighten our existing targets in this area even further.

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

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

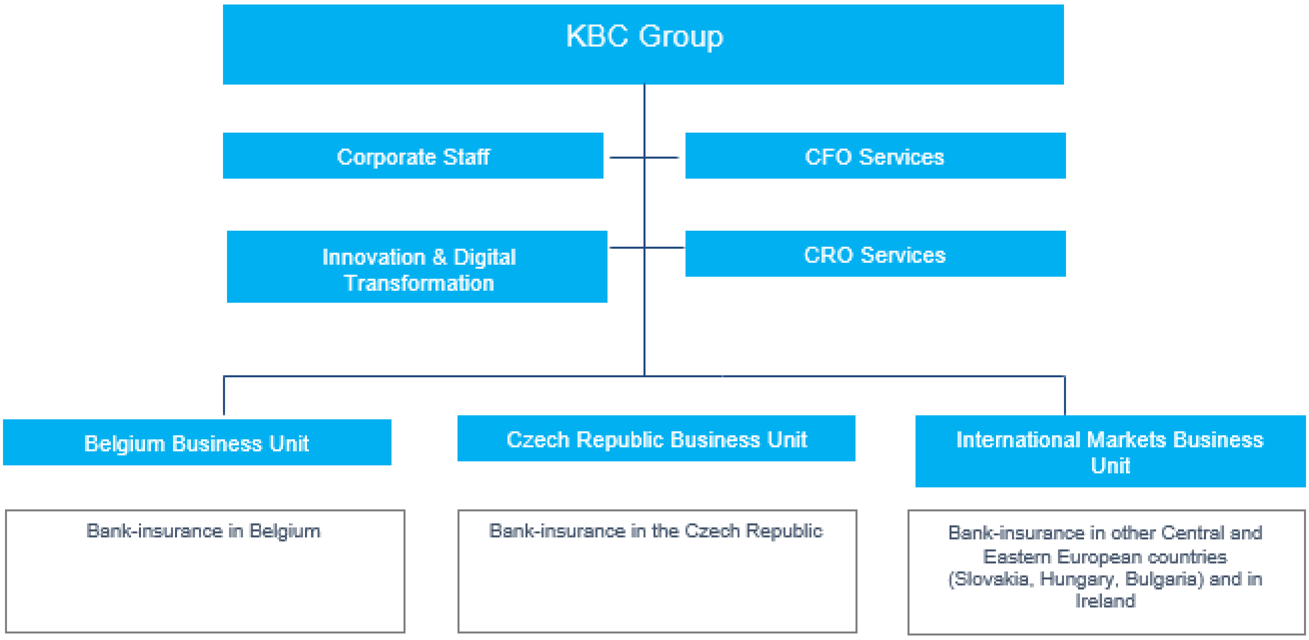
What makes us who we are? (KBC Group)

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.

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

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

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



What differentiates us from our peers? (KBC Group)

Our integrated bank-insurance model

We offer an integrated response to our clients' banking and insurance needs. Our organisation is similarly integrated, with most services operating at group level and the group also managed in an integrated style. Our integrated model offers our clients the benefit of a comprehensive, one-stop, 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 new strategy, not only in terms of sales and advice, but also in process and product development. In addition to a digital product range, therefore, we also offer our clients digital advice and develop all processes and products as if they had to be sold digitally. Artificial intelligence and data analysis will play an important part in digital sales and advice. Kate, our personal digital assistant will feature prominently in this regard. We pay particular attention to the speed and simplicity with which we can serve our clients and take this into account when adjusting our internal processes.

Our strong geographical focus

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

Our focus on local responsiveness

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

Our approach to sustainability

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

Our shareholder structure

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

Our strengths

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

Our challenges

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

In what environment do we operate? (KBC Group)

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

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

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

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

The world economy, geopolitical challenges and the environment

The world economy, the financial markets and demographic developments influence our results. Persistently low interest rates have become an important factor in recent years, exerting significant pressure on income and prompting a search for yield. Demographic ageing is also a challenge, for our life insurance business, for instance. There is a risk, moreover, of corrections in markets where an imbalance may have built up. Geopolitical developments could also have significant implications for the economy and hence our results. The same goes for global health risks, climate change and the transition to a low-carbon society.

How are we addressing them?

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

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 potentially means pressure on cross-sell opportunities and is influencing client expectations, including speed and digital interaction. All this is increasing the significance of digitalisation and innovation within our group and an effective framework for it and creating the need for a resilient, responsive organisation capable of continuously adapting its processes and systems.

How are we addressing them?

- The creative input and training/diversity of our employees is exceptionally important when it comes to equipping ourselves to deal with competition and technological change.
- We can draw on an immense volume of data, which enables us to understand more clearly what clients really want. What's more, our integrated model allows us to offer our clients more comprehensive solutions than pure banks or insurers can.
- 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 mobile and other innovative apps (examples are provided in the 'Our business units' section).
- 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.

Regulation

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

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

How are we addressing them?

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

Cyber risk and information security

Robust ICT systems are extremely important in an increasingly digital world where hacking and cyber attacks are a constant threat, with the potential to cause significant financial and reputational harm.

Our focus is on the optimum protection of both our clients and our group itself.

How are we addressing them?

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

Market conditions in our most important countries in 2020 (KBC Group)

Belgium

Market environment

- Real GDP growth plummeted to -6.3%.
- Inflation averaged 0.4% in 2020.
- Forecast real GDP growth of +4.0% in 2021 and +4.1% in 2022.

KBC Group in Belgium

- Main brands: KBC, KBC Brussels and CBC
- 336 insurance agencies, electronic channels
- Estimated 13% share of the market for life insurance and 9% for non-life insurance
- 3.7 million clients (insurance alone: 1.6 million clients)
- 28.8 billion euros in technical provisions and liabilities under investment contracts

Czech Republic

Market environment

- Real GDP growth plummeted to -5.6%.
- Inflation averaged 3.3% in 2020.
- Forecast real GDP growth of +3.5% in 2021 and +4.5% in 2022.

KBC Group in the Czech Republic

- Main brand: ČSOB
- Various distribution channels for insurance, electronic channels
- Estimated 8% share of the market for life insurance and 9% for non-life insurance
- 4.2 million clients (insurance alone: 1.8 million clients)
- 1.6 billion euros in technical provisions and liabilities under investment contracts

Slovakia

Market environment

- Real GDP growth plummeted to -5.2%.
- Inflation averaged 2.0% in 2020.
- Forecast real GDP growth of +4.6% in 2021 and +4.2% in 2022.

KBC Group in Slovakia

- Main brand: ČSOB
- Various distribution channels for insurance, electronic channels
- Estimated 3% share of the market for life insurance and 4% for non-life insurance
- 0.8 million clients (insurance alone: 0.4 million clients)
- 0.2 billion euros in technical provisions and liabilities under investment contracts

Hungary

Market environment

- Real GDP growth plummeted to -5.1%.
- Inflation rose remained stable at 3.4%, at the upper end of the band of one percentage point either side of 3%, which the Hungarian National Bank has set as its target.
- Forecast real GDP growth of +4.5% in 2021 and +5% in 2022.

KBC in Hungary

1. Main brand: K&H
2. Various distribution channels for insurance, electronic channels
3. Estimated 3% share of the market for life insurance and 8% for non-life insurance
4. 1.6 million clients (bank alone: 1.1 million clients)
5. 0.5 billion euros in technical provisions and liabilities under investment contracts

Bulgaria

Market environment

- Real GDP growth plummeted to -3.5%.
- The average annual increase in Bulgarian consumer prices amounted to 1.2%.
- Forecast real GDP growth of +3% in 2021 and +4% in 2022.

KBC in Bulgaria

1. Main brands: UBB and DZI Insurance.
2. Various distribution channels for insurance, electronic channels
3. Estimated 28% share of the market for life insurance and 10% for non-life insurance
4. 1.4 million clients (bank alone: 0.8 million clients)
5. 0.3 billion euros in technical provisions and liabilities under investment contracts

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.

A plus sign was added to PEARL in 2020 at the same time as the business strategy was updated. We want to go a step further in our collaboration and the '+' stands for co-creation across national borders and 'smart copying' between us. In this way, we can benefit even more from the wealth and diversity of our group. We actively stimulate this culture amongst our employees. 'Team Blue', for example, is KBC's way of uniting employees from different countries, to make them proud of their team and their company and enable them to draw on each other's experience. The International Inspiration Days are one example of this.

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

We realise that good managers are key when it comes to bringing out the best in our employees and implementing our strategy successfully. We invest in the training of all managers through leadership programmes that are regularly tested against developments within our company and society. There is an increased focus, for instance, on coaching and progression management.

To enable them to pursue a common vision, senior managers from across the group take part in the 'KBC University', an ambitious development programme. A two-day module was presented in 2020 on big data and AI. At the same time, we are actively working on a separate policy for top talent management, in which we identify future senior managers and fast-track them to face tomorrow's challenges. The theme of gender will be given special attention in this.

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

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

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

We keep close track of our employees' opinions. We carried out a new, group-wide survey on employee engagement in 2020. The scored varied around the 70 percent level. Comparison with the data from 2017 is not possible, as we applied new methodology this year.

The response rate in Belgium was 57%, with around 80% of KBC staff who took part stating that they are proud to work for KBC. The key reasons cited were KBC's image, future-oriented vision and innovative approach. The response rate in the Czech Republic was 37%, with 74% of staff reporting that they are proud to be employed by ČSOB. More details can be found in our Sustainability Report at www.kbc.com.

Depending on local needs, the survey of employee engagement was incorporated in some cases in a wider survey. It was integrated at KBC Belgium in a second 'Shape Your Future' survey. In this case, besides engagement, we measured the impact of the strategy update. 82% of staff responded that they had a clear view of the strategic direction KBC is taking. The recently launched hot skills training in StiPPLE was also raised. Based on employee input, new features have already been integrated, such as a skills profile and more training geared to the practical application of hot skills.

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

We do not make any distinction on the grounds of gender, religion, ethnic background or sexual orientation in our HR, recruitment and promotion policies or remuneration systems. Equal treatment of employees is also enshrined in the KBC Code of Conduct and in the various manifestos and charters we have endorsed. As an employer, we want to give a clear signal to society: we treat our employees in a socially responsible manner and that relationship is grounded in mutual trust and respect. We also raise diversity awareness among our employees. New training on unconscious bias, for instance, was developed in 2020. One specific focus of attention is raising the gender diversity at higher levels of our organisation, where women are still insufficiently represented at present. To lend weight to this, each business unit has set short and long-term targets accompanied by a concrete action plan. Progress in this regard is reported to the Executive Committee every six months.

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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 2020. Meanwhile, an annual meeting of the European Works Council has been held at group level for over 20 years now to deal with topics of cross-border importance, so ensuring that there is a forum for discussing the impact of decision-making at group level too.

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

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

'People risk' is an important operational risk for human resources, which we closely track in collaboration with our risk department by means of a 'people risk dashboard'. 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 2020, KBC Group's total equity came to 21.5 billion euros and its capital was represented by 416 694 558 shares, an increase of 299 916 shares on the previous year, due to the capital increase reserved for staff that is carried out in December each year.

At year-end 2020, KBC Insurance's total equity was 3.8 billion euros.

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'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 most important countries in 2020'.

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

Investor Relations

Our Investor Relations Office has the mission of providing analysts, investors, rating agencies and other parties with timely, transparent, consistent and relevant information on our business strategy, trends and financial data. This information is widely disseminated and is accessible to all interested parties. The Investor Relations Office has a direct line to the group's senior management and is in contact with them on a daily basis. It recommends which information to provide to the market, collects data on the market itself (including analysts' opinions on KBC and KBC's shareholder structure) and is involved with briefing senior management on contacts with analysts and investors. The uncertainty and volatility triggered by the coronavirus crisis in 2020 resulted in an exceptionally large number of ad hoc (virtual) contacts with investors.

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 2020.

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

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 client*s

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

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

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

Differently, the Next Level

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

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

We will now go a step further with our updated strategy, 'Differently: the Next Level'. It means that will make the interaction with our clients even more future-proof and smarter (i.e. reinforced by Artificial Intelligence) and that we will evolve from an omnichannel distribution model towards a digital-first model. The human factor remains important in both models and our staff and branches will be fully at the disposal of our clients. As is always the case, the client decides which distribution channel, digital or physical, is used to contact KBC. In a digital-first distribution model, digital 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 digitalisation in the period 2021-2023.

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

How does Kate work?

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

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

Employees in the branch network and contact centres continue to function as a beacon of trust for our clients. They will also support, encourage and monitor use of digital processes, assisted by artificial intelligence, data and data analysis. Where clients prefer a non-digital channel, Kate will provide branch staff with insights and even suggest solutions. The human factor – in the shape of relationship managers – will continue to play a crucial role for SMEs and business clients, with data and technology as the most important levers in our ability to 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, changes will also be needed in our internal processes, in the way we supply our products and services, and in how we organise ourselves internally (smart copying, cooperation, straight-through processing). At the same time, this will require a further change in mentality (PEARL+) and in-service training for our staff. The success of products and services will be tracked individually in order to create a feedback loop and feed the machine. This will, in turn, enable Kate to grow further.

*Privacy, data protection, communication and inclus*ion

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

More information on privacy and data protection can be found in our Sustainability Report at www.kbc.com.

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

Follow-up

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

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

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

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

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

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

We have developed a unique bank-insurance cooperation concept within our group, a model that goes much further than a bank that sells insurance products. It is all about complete back-office integration, which delivers operational and commercial optimisation for both the client and for KBC itself. The way we work means, for instance, that we only need one communications department, one marketing department, and so on. It is only the underlying product factories that operate independently, as these are specific professions.

The concept is given clearer form in our 'Differently: the Next Level' strategy: besides operating as a single business, we will work towards being a 'digital first', lead-driven and AI-led organisation. This means fully integrated front and back-end applications designed according to the 'digital only' principle. We are firmly committed to becoming data and AI-led in all our core countries, at their own pace. Kate (see previous section) is the key element within a data-led organisation of this kind.

Our bank-insurance model is already delivering numerous commercial synergies. In Belgium, for instance, roughly eight out of ten clients who agreed home loans with KBC Bank in 2020 also took out mortgage protection cover with KBC Insurance, while nine out of ten purchased home insurance. At ČSOB in the Czech Republic, over six out of ten clients who took out home loans in 2020 also purchased home insurance from the group.

To give another example, across the group at year-end 2020, about 78% of active clients held at least one of the group's banking products and one of its insurance products, while roughly 22% actually held at least two banking and three insurance products (3-3 in Belgium). The number of bank-insurance clients of this type grew by 4% (1-1) and 5% (2-2 and 3-3 in Belgium) in 2020 respectively.

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

Recent examples:

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

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

We want to be in a position to deliver all our products and services in a top class manner. In the case of our core activities, we will retain production in-house. But for peripheral activities, we will mostly look to outsourcing or partnerships with (or in some cases acquisition of) specialists, including fintechs. In Belgium, for instance, we collaborate with a fintech that performs energy price comparisons for our clients. This is plainly not a core business of ours, but – besides 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 analysing and proposing better solutions, thereby saving them money or making their lives easier.

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

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

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.

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

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

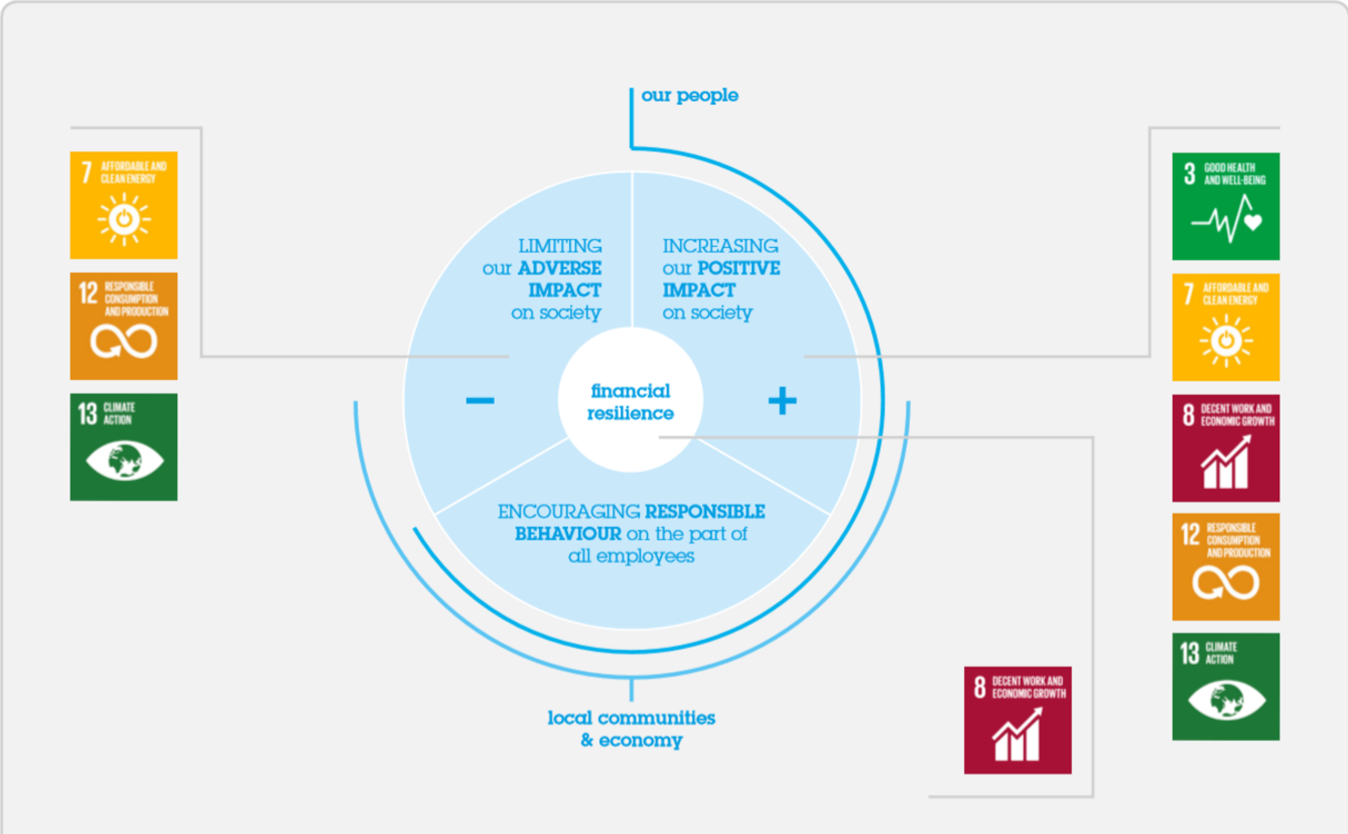
The basis of responsible behaviour is integrity, which requires honesty, fairness, transparency and confidentiality, as well as a healthy awareness of risk. Integrity and ethical values are also reflected in our 'Code of Conduct for KBC Group Employees'. More information in this regard is provided in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

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

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

Sustainable Development Goals (SDGs)

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



Good health and well-being

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

Affordable and clean energy

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

Decent work and economic growth

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

Responsible consumption and production

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

Climate action

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

Aiming to 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. More information and examples are provided below.

We take a closer look elsewhere at our specific approach to climate and human rights.

Sustainability ratings, KBC group	2020	2019
S&P Global – RobecoSAM	73/100	68/100
CDP	A- Leadership	A- Leadership
FTSE4Good	4,7/5	4,6/5
ISS ESG	C Prime	C Prime
Sustainalytics (29 January 2021)	Low Risk (16.2)	86/100
MSCI	AAA	AAA

Our focus areas

Financial literacy

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

Examples

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

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

Entrepreneurship

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

Examples

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

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

- Helping track coronavirus-infected patients in the Czech Republic.
- Donation by K&H in Hungary to hospitals battling the coronavirus for online purchases and electronic transfers.
- 'Care calls' from KBC Bank Ireland to support elderly and vulnerable clients during the coronavirus crisis.

Limiting any negative impact we might have on society

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

We take a closer look at our specific approach to climate and human rights later in this section.

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

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

Coal: KBC does not wish to do business with energy producers under the following circumstances:

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

Biodiversity:

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

We monitor compliance with our sustainability policy in a number of ways:

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

Examples of measures in the event that infringements are detected:

- zero tolerance across all our business activities for companies on the blacklist;
- exclusion of companies that do not comply with the UN Global Compact Principles, as assessed by an external ESG evaluator, for loans, insurance and own assets;
- enforcement, in consultation with the relevant parties, of an exit strategy or specific conditions on existing credit or insurance relationships and advisory services, and the rejection of new applications.

Our sustainability governance

We have anchored sustainability at the different levels within our group, guaranteeing that it receives attention from the highest decision-making bodies while also being broadly integrated into our operations. You can find more details later in this report regarding specific governance in respect of climate change.

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Sustainability governance

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

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

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

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

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

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

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

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

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

Focus on climate (KBC Group)

The climate aspect in our business model

As a bank-insurer, we have an influence on climate change in two ways. Firstly directly: through our own energy consumption, for example. Our dependence on natural resources is relatively limited, but we nevertheless manage our direct greenhouse gas emissions with the goal of steadily reducing them in line with fixed targets.

More important is our indirect influence, through lending, holding an investment portfolio, providing investments to clients and insuring other parties who could have a significant impact (whether positive or negative) on the climate. We limit this indirect negative impact through clear policies, which also entail restrictions on the most polluting activities, and we enhance our positive impact through actions relating to the most climate-sensitive sector portfolios, in keeping with the targets set by the Paris Agreement, by engaging in a sustainability dialogue with our clients, by supporting companies that take account in their investment decisions of environmental, social and governance aspects, and by developing new, innovative business solutions in all our core countries to stimulate a low-carbon and circular economy.

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

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

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

Sustainability integrated into our remuneration policy

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

- The variable remuneration of Executive Committee members is linked to factors including the achievement of a number of collective targets. One such target is specifically related to progress in the area of sustainability, which is evaluated every six months via the KBC Sustainability Dashboard report. More information in this regard is provided under ‘Remuneration report for financial year 2019’ in the ‘Corporate governance statement’ section of the KBC Group annual report.
- 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 KBC pays its employees in Belgium has been partially linked to environmental targets since 2012. Two of the five targets in 2019 were directly linked to our own ecological footprint, namely reducing paper consumption and waste generation (use of paper coffee cups). This resulted in a 28% reduction in paper consumption and 26% fewer paper cups in the space of two years.

Climate governance

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

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

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

Chaired by the CEO, the Internal Sustainability Board (ISB) has now 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 and Data Management. The Core Team is in contact with all relevant group departments.

The Climate Contacts appointed in the core countries in 2019 continue to work closely with the Sustainable Finance Core Team, but will also operate under the Corporate Sustainability Coordinator, who is the most important point of contact in each core country for the Sustainable Finance Core Team.

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

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

The environmental and climate aspects of our sustainability policy

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

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

Important elements of our climate and environmental policy include:

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

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

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

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

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

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

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

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

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

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

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

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

Our benchmarks and targets

To support the transition to a low-carbon society and hence to contribute to the Paris climate targets, we have defined a number of targets in the area of sustainability and climate for several years now. An overview of these targets and the results is provided in the KBC Group annual report. It relates to targets on limiting our own direct environmental impact (reducing our own greenhouse gas emissions) as well as targets for our indirect impact (volume of SRI funds, share of loans for renewable energy and the run-down of coal-related lending).

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

New data will also be needed to identify green assets (other than renewable energy) based on technical environmental criteria, including the forthcoming EU Taxonomy. We will begin with a structured approach in this case too.

Our own environmental footprint

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

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

Own environmental footprint (greenhouse gas emissions in tonnes of CO_2e), KBC group*	2020	2019
Scope 1 emissions are those from direct energy consumption, coolant emissions and own-fleet emissions from business and commuter travel.	25 200	34 739
Scope 2 emissions are those from indirect energy consumption (electricity, district heating, cooling and steam).	17 748	17 006
Scope 3 emissions as listed here are those from business and commuter travel (excluding those from our own fleet, which are counted under Scope 1 emissions), emissions relating to paper and water consumption and to waste-processing.	18 903	21 024
Total	55 850	72 769
Total per FTE	1,5	2,0
ISO 14001 in each core country	✓	✓

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

Focus on human rights (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; and (iv) the UK Modern Slavery Act, to which end KBC has published a Modern Slavery Statement since 2017. We are also UN Global Compact signatories and have incorporated the ten principles on human rights, labour, environment and anti-corruption in our policies, so that they are applied throughout our activities. We have published our progress since 2006 in the annual UN Global Compact Statement of Continued Support. It goes without saying that we comply with local laws, rules and regulations in the countries where we operate and with international and regional human rights treaties containing internationally recognised standards by which the business sector must abide.

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

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

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

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

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

The Equator Principles apply in the case of international project finance. These are applied by participating financial institutions when defining, assessing and managing the environmental and social risks related to project financing.

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

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

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

1 Additional personnel indicators can be found under 'Our employees, capital, network and relationships'.
2 Category A: projects with potential significant adverse environmental and social risks and/or severe impact; Category B: projects with potential limited adverse environmental and social risks and/or impact that are less severe; Category C: risks considered minimal and projects in legal compliance in the country of execution.

We aim to achieve our ambitions within a stringent risk management framework (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, non-financial risk (including 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 • Implementation of risk-mitigating measures, including policies on lending and investment portfolio • Estimation of short and long-term risks based on scenario and sensitivity analyses, etc.

The most important Key Performance Indicators (KPIs) relating to solvency and liquidity 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. KBC Insurance paid KBC Group a final dividend of 156 million euros for 2019.

Consolidated income statement

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

(in millions of EUR)	Note	2020	2019
Net interest income	3.1	452	462
Interest income	*3.1*	*498*	*513*
Interest expense	*3.1*	*- 46*	*- 51*
Non-life insurance (before reinsurance)	3.7	882	774
Earned premiums	*3.7*	*1 795*	*1 741*
Technical charges	*3.7*	*- 913*	*- 967*
Life insurance (before reinsurance)	3.7	11	- 5
Earned premiums	*3.7*	*1 223*	*1 324*
Technical charges	*3.7*	*- 1 212*	*- 1 329*
Ceded reinsurance result	3.7	- 20	- 25
Dividend income	3.2	34	47
Net result from financial instruments at fair value through profit or loss	3.3	1	103
of which result on equity instruments (overlay approach)	*3.3*	*- 14*	*93*
Net realised result from debt instruments at fair value through OCI	-	0	0
Net fee and commission income	3.5	- 364	- 349
Fee and commission income	*3.5*	*147*	*165*
Fee and commission expense	*3.5*	*- 512*	*- 515*
Net other income	3.6	79	67
TOTAL INCOME		1 074	1 075
Operating expenses	3.8	- 487	- 471
Staff expenses	*3.8*	*- 228*	*- 230*
General administrative expenses	*3.8*	*- 242*	*- 226*
Depreciation and amortisation of fixed assets	*3.8*	*- 17*	*- 15*
Impairment	3.10	- 11	- 3
on financial assets at AC and at FVOCI	*3.10*	*- 6*	*1*
on goodwill	*3.10*	*0*	*0*
other	*3.10*	*- 5*	*- 4*
Share in results of associated companies and joint ventures	3.11	0	6
RESULT BEFORE TAX		576	607
Income tax expense	3.12	- 126	- 127
Net post-tax result from discontinued operations	-	0	0
RESULT AFTER TAX		450	480
attributable to minority interests	-	0	0
of which relating to discontinued operations	-	*0*	*0*
attributable to equity holders of the parent	**-**	**450**	**480**
of which relating to discontinued operations	-	*0*	*0*

Net result

The consolidated result of the KBC Insurance group came to 450 million euros in 2020, as opposed to a year-earlier figure of 480 million euros.

This 30-million-euro decline came about primarily because of the lower level of investment income and higher operating expenses, partly offset by a higher technical result in the non-life insurance business:

- Earned premiums in non-life insurance grew by just 3%. Premiums for fully comprehensive motor insurance and travel insurance, in particular, were adversely affected by the coronavirus crisis. Even so, earned premiums were up – on balance – in each entity. Technical charges, which fell by 6%, were positively impacted by lockdowns and resulting lower levels of economic activity. The ceded reinsurance result was slightly better than the figure for 2019. The aggregate impact of these factors – excluding the higher one-off internal charge due to the accounting policy for software being revised at KBC Group – resulted in a sold combined ratio of 84.5% (89.9% for financial year 2019).

- Earned premiums in life insurance amounted to 1 223 million euros in 2020. 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 over 2 billion euros, 8% higher than in 2019. Unit-linked products grew by 32% year-on-year, with the robust increase in Belgium and Bulgaria being partly offset by performances in the other countries. Guaranteed-rate products fell by 8% primarily as a result of Life Future 8 products being discontinued in Belgium as of August 2019. The decline was less pronounced in the other countries.
  The lower expense related to claims incurred was attributable primarily to lower premium income owing to discontinued Life Future 8 products in Belgium and to a lesser extent to the lower level of profit-sharing and a reduction in 'uprenting' costs (due to scaling back the Life Capital portfolio in Belgium and a lower guaranteed interest rate (both recurring and single premium policies)).
- Investment income was down on its level for 2019, which chiefly reflected 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. Dividend income was also lower than in 2019 (likewise related to the coronavirus crisis). Lastly, interest income declined as well, due to falling returns on bonds linked to lower market interest rates, though that effect was partially offset by a one-off positive, retroactive adjustment (for the period 2012-2020) relating to the accounting treatment of inflation linked bonds.
- Operating expenses were up 3% on their 2019 level, mainly attributable to a higher one-off internal charge made by KBC Group following a change in the accounting policy for software. The start-up of insurance activities in Ireland also pushed up operating expenses.

Review of the technical and non-technical results

(in millions of EUR)	Life	Non-life	Non-technical account	Total
2020				
Earned premiums, insurance (before reinsurance)	1 223	1 795	0	3 019
of which change in provision 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**
2019				
Earned premiums, insurance (before reinsurance)	1 324	1 741	0	3 065
of which change in provision unearned premiums	- 1	- 53	0	- 54
Technical charges, insurance (before reinsurance)	- 1 329	- 967	0	- 2 296
Claims paid	- 1 119	- 848	0	- 1 966
Changes in technical provisions	- 267	- 113	0	- 380
Other technical result	57	- 7	0	50
Net fee and commission income	- 18	- 332	0	- 349
Ceded reinsurance result	- 3	- 22	0	- 25
General administrative expenses	- 145	- 253	- 3	- 400
Internal claims settlement expenses	- 8	- 62	0	- 70
Indirect acquisition costs	- 35	- 76	0	- 110
Administrative expenses	- 102	- 116	0	- 218
Investment management fees	0	0	- 3	- 3
Technical result	- 170	167	- 3	- 6
Investment Income	479	88	39	606
Technical-financial result	309	255	37	601
Share in results of associated companies and joint ventures	-	-	6	6
RESULT BEFORE TAX	309	255	43	607
Income tax expense	-	-	-	- 127
RESULT AFTER TAX	-	-	-	480
attributable to minority interest	-	-	-	-
attributable to equity holders of the parent	-	-	-	**480**

Investment income (in millions of EUR, for 2020 and 2019, respectively) comprises: ‘Net interest income’ (452, 462), ‘Net dividend income’ (34, 47), ‘Net result from financial instruments at fair value through profit or loss’ (1, 103), ‘Net realised result from debt instruments at fair value through OCI’ (0, 1), ‘Other net income’ (11, -3) and ‘Impairment’ (-11, -3). The ‘Non-technical account’ also includes the results from non-insurance subsidiaries, such as VAB group and ADD, and a number of real estate companies. They have been included in the note for the ‘insurance business’ given that they are KBC Insurance subsidiaries (but as they cannot be recognised under ‘Life’ or ‘Non-life’, they are included under ‘Non-technical account’). The ‘Non-technical account’ also includes the investment income from equity (i.e. mainly interest income from bonds).

Results from the non-life insurance business

The result (before tax) generated by the non-life insurance business for 2020 (348 million euros) was much higher than its level for 2019 (255 million euros).

In 2020, earned premiums in non-life insurance totalled 1 795 million euros, a slight increase of 3% on the year-earlier figure. They grew by 2% in Belgium, by 7% in the Czech Republic, and by 2% in the three other Central and Eastern European markets combined. The negative impact of the coronavirus crisis (and the corresponding reduction in economic activity) was clearly reflected in the volume of premiums for fully comprehensive motor insurance and travel insurance.

Technical charges for non-life insurance came to -913 million euros in 2020, down 6% on their level for 2019. The lower level of economic activity owing to the coronavirus crisis had a major impact on these charges.

The increase in general administrative expenses (+5%) was due to the impact of a higher one-off internal charge made by KBC Group after the accounting policy for software was revised in 2020. The impact of this charge on the general administrative expenses for non-life insurance was -15 million euros. Disregarding this charge, general administrative expenses fell slightly (-1%), despite the increase in earned premiums.

The coronavirus crisis had a positive impact on the result generated by the non-life insurance business in 2020. Excluding the higher one-off internal charge (made by KBC Group after the accounting policy for software was revised), the combined ratio of 84.5% (much better than an already solid 89.9% for 2019) illustrated that the low level of technical charges more than offset the slowdown in premium growth. KBC had a combined ratio below 90% in every country where it is present.

Non-life in %	2020	2019
Net claim ratio	54.2%	59.4%
Net cost ratio (vs written premium)	30.3%	30.5%
Net combined ratio	84.5%	89.9%

'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 198 million euros, the result (before tax) generated by the life insurance business was 36% lower than the figure for 2019 (309 million euros).

In 2020, earned premiums in life insurance totalled 1 223 million euros, a decline of 8% on the year-earlier figure.

Sales of life insurance (including unit-linked products) were up 8% on the previous year, with guaranteed-rate products falling by 8% (due mainly to the discontinuation of Life Future 8 products), but unit-linked products increasing by 32% (attributable to robust growth in Belgium that was driven by a lack of investment alternatives for guaranteed-rate products in a low interest-rate environment and by commercial campaigns in the retail segment). This trend was observed mainly in Belgium (guaranteed-rate products down 9%, unit-linked products up 53%) and Bulgaria (guaranteed-rate products down 1%, unit-linked products up 12%), unlike the Czech Republic, Slovakia and Hungary, where there was a sharp decline in unit-linked products and a more limited fall in rate-guaranteed products. Overall, products offering guaranteed rates accounted for just over 51% of sales in 2020 and unit-linked life insurance for almost 49% (whereas the share was 60% guaranteed-rate and 40% unit-linked in 2019).

The lower expense related to claims incurred was attributable primarily to lower premium income owing to discontinued Life Future 8 products in Belgium and to a lesser extent to the lower level of profit-sharing and a reduction in 'uprenting' costs (due to scaling back the Life Capital portfolio in Belgium and a lower guaranteed interest rate (both recurring and single premium policies)).

Investment income was down on its level for 2019, which chiefly reflected the increase in impairment on shares held in portfolio that was caused by the impact of the coronavirus crisis on the stock market in the first quarter of 2020. Dividend income was also lower than in 2019 (likewise related to the coronavirus crisis), as was interest income because of falling returns on bonds linked to lower market interest rates.

Non-technical result

The non-technical result (29 million euros) in 2020 was down on its year-earlier level and did not include any exceptional items.

Income tax expense

The income tax expense for 2020 totalled -126 million euros, or almost 22%, in line with its year-earlier level (21%).

Consolidated balance sheet

(in millions of EUR)	Note	31-12-2020	31-12-2019
ASSETS			
Cash, cash balances with central banks and other demand deposits with credit institutions	-	277	227
Financial assets	4.0	35 985	36 824
Amortised cost	*4.0*	*8 254*	*7 582*
Fair value through OCI	*4.0*	*12 576*	*13 183*
Fair value through profit or loss	*4.0*	*15 150*	*16 058*
of which held for trading	*4.0*	*11*	*13*
Hedging derivatives	*4.0*	*4*	*1*
Reinsurers' share in technical provisions, insurance	5.6	145	121
Profit/loss on positions in portfolios hedged against interest rate risk	-	0	0
Tax assets	5.2	37	45
Current tax assets	*5.2*	*32*	*37*
Deferred tax assets	*5.2*	*5*	*9*
Non-current assets held for sale and disposal groups	5.11	0	28
Investments in associated companies and joint ventures	5.3	0	3
Property, equipment and investment property	5.4	296	298
Goodwill and other intangible assets	5.5	152	142
Other assets	5.1	672	681
TOTAL ASSETS		**37 565**	**38 369**
LIABILITIES AND EQUITY			
Financial liabilities	4.0	13 761	15 211
Amortised cost	*4.0*	*991*	*1 555*
Fair value through profit or loss	*4.0*	*12 730*	*13 621*
of which held for trading	*4.0*	*6*	*12*
Hedging derivatives	*4.0*	*39*	*35*
Technical provisions, before reinsurance	5.6	18 724	18 565
Profit/loss on positions in portfolios hedged against interest rate risk	-	0	0
Tax liabilities	5.2	406	368
Current tax liabilities	*5.2*	*30*	*36*
Deferred tax liabilies	*5.2*	*375*	*332*
Liabilities associated with disposal groups	5.11	0	0
Provisions for risks and charges	5.7	3	5
Other liabilities	5.8	857	797
TOTAL LIABILITIES		33 750	34 947
Total equity	5.10	3 815	3 422
Parent shareholders' equity	5.10	3 815	3 422
Minority interests	-	0	0
TOTAL LIABILITIES AND EQUITY		**37 565**	**38 369**

At the end of 2020, the consolidated total assets of KBC Insurance came to 37 565 million euros, down 2.1% year-on-year.

Investments related to unit-linked products and the securities portfolio (bonds and shares) together made up almost 89% of the assets.

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

(In millions of EUR)	31-12-2020	31-12-2019
Amortised cost	5 585	4 767
OCI	12 576	13 183
Fair value through profit or loss	1 309	1 461
Total	19 470	19 411
Shares	7.0%	7.7%
Bonds	93.0%	92.3%

The securities portfolio (excluding investments related to unit-linked products) was in line with a year earlier, with additional investments mainly replacing bonds that had reached maturity and shares that had been sold. 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 fell by 6.5% (or 886 million euros), primarily because of a decline in the market value of the portfolio. Net production was also lower than in 2019.

Non-life technical provisions rose by almost 3% (or 104 million euros), reflecting the increase in non-life insurance premiums.

Life technical provisions were in line with the figure for 2019. This came about as the result of a one-off increase in Hungary (margin deposit accounting principles ceased to apply as of 2020) and premium income from (both group and individual) universal life products in Belgium, largely offset by outflows related to the Life Capital product in Belgium (surrendered contracts and an internal shift to unit-linked products without DPF).

(In millions of EUR)	31-12-2020	31-12-2019
Liabilities Unit Linked	12 724	13 610
Technical provisions, before reinsurance (other than Unit Linked)	18 724	18 565
Provisions Non Life	3 682	3 578
Provisions Life	15 042	14 988
Total	31 448	32 175

The reinsurers' share in technical provisions rose by 24 million euros, in line with the amounts still to be recovered from the reinsurer.

Tax liabilities

Deferred tax liabilities rose by 43 million euros, mainly on account of the increased market value of financial assets measured at fair value through OCI.

Equity

(In millions of EUR)	31-12-2020	31-12-2019
Total parent shareholders' equity	3 815	3 422

Consolidated equity increased by 393 million euros, with a number of items offsetting each other, as shown in the table below.

(In millions of EUR)	31-12-2020
Total	393
Share of the group in profit for the period	450
Dividends paid	- 156
Unrealized gains and losses	99

These items were:

- The group's share (+450 million euros) in the result for the financial year.
- Payment of a final dividend in the amount of 156 million euros.
- A 99-million-euro increase in the revaluation reserves, with the movements relating primarily to bonds (+133 million euros) and the share reserves (-30 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)	31-12-2020	31-12-2019
Available capital	3 868	3 496
Solvency Capital Requirement (SCR)	1 747	1 727
Solvency II ratio	222%	202%
Solvency surplus	2 121	1 769

The main factors behind the increase in the solvency ratio from 202% at year-end 2019 to 222% at year-end 2020 were:

- The decision not to distribute the profits for 2020 (no dividend payment), which increased the amount of capital available and that in turn led to an increase in the ratio.
- The falling stock markets (the Eurostoxx 600 lost 4%), which reduced the amount of capital available and the amount required. Given that the capital required weighs more heavily, the falling stock markets boosted the ratio.
- Updated loan valuation models and updated best estimate parameters, which had a positive impact on the ratio.
- The drop in interest rates (-45 basis points at the 10-year point), which had an adverse impact on the ratio, with the effect being exacerbated by long-term rates falling more than short-term ones.

Appropriation of the results of KBC Insurance NV for 2020

The result available for appropriation came to +358 million euros for financial year 2020 (based on the company annual accounts). The Board of Directors will propose to the General Meeting that 355 million euros be carried forward to the following financial year and 3 million euros be paid out in the form of an employee profit-sharing bonus.

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 has 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.

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 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 sector-specific risks we face.

More detailed information can be found in the Solvency and Financial Condition Report (SFCR), that will be available end of April 2020 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’;
- the ‘Solvency KBC Insurance table (the audited parts are indicated in a footnote to the table), ORSA’ and ‘Stress testing.

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

Risk innovation, transformation and straight through-processing

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

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

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

Moreover, the risk function is also accelerating its efforts to leverage the data available in the risk tools to further improve risk management and further increase efficiency. A group-wide initiative was launched to explore further opportunities with data analytics, machine learning and AI to modernise risk management across the different risk types and so facilitate a shift towards more proactive, continuous and dynamic risk management.

In this respect, we are closely collaborating across functions and countries, and with our applied data analytics and IT departments. In addition, the risk function actively explores working with regulatory technology (RegTech) companies to complement the risk toolkit.

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

Coronavirus crisis

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

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

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

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

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

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

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

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

Risk governance

Main elements in our risk governance model:

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

Relevant risk management bodies:

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

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

Components of 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.

One of the tools used for risk identification is the 'New and Active Products Process' (NAPP). This process is set up to identify and mitigate all risks related to new and existing products and services which may negatively impact the client and/or KBC. The NAPP is a formalised process applicable throughout the group. Within the group, no products, processes and/or services can be created, purchased, changed or sold without approval in line with NAPP governance. All NAPP proposals are reviewed on a periodic basis, both by group and local risk in order to assess the impact of these proposals on the group's risk profile.

The process was further optimised in 2020 by improving the risk identification and the logging of risk acceptance, by putting more emphasis on the client perspective and by strengthening the follow-up of NAPP decisions. The process changes will go live in early 2021. A group-wide workflow tool, which supports the entire process up to and including the monitoring and reporting phase, has been rolled out in all material entities of the group.

Risk measurement

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

Setting & cascading risk appetite

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

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

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

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

Risk analysis, reporting & follow-up

Risk analysis and reporting aim to give management an increased level of transparency by ensuring a comprehensive, forward-looking and ex-post view of the changing risk profile and the context in which the group operates.

In addition to internal reporting, external reports are prepared for the various stakeholders. As management is expected to take relevant action based on the risk analysis and risk reporting, the output should be complete, well balanced, easy to understand and focus on key messages/proposed actions. It is essential that the proposed actions are tailored to the relevant stakeholders.

Stress testing

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

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

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.

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

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

The building blocks for managing technical insurance risk

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

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

Reinsurance

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

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

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

The independent insurance risk function is responsible for:

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

Impact of the coronavirus crisis on technical insurance risk

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

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

Adequacy of technical provisions

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

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

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

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

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

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

Actuarial function

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

The main tasks of the actuarial function are to:

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

Regulatory capital

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

Specific information on the insurance activities can be found in Notes 3.7 and 5.6 of the 'Consolidated financial statements' section.

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

[1] The total carrying value amounted to 36 317 million euros at year-end 2020 and to 37 053 million euros at year-end 2019. Figures differ from those appearing in Note 4.1 of the 'Consolidated financial statements' section, due to asset class reporting under Solvency II.
[2] Representing the assets side of unit-linked (class 23) products and completely balanced on the liabilities side. No credit risk involved for KBC Insurance.
[3] Excluding investments for unit-linked life insurance. In certain cases, based on extrapolations and estimates.
[4] Including covered bonds and non-bank financial companies.

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

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

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

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

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

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

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 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 consequently 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 insurance activities between liabilities in the non-life and life businesses and the cover for these liabilities present in the investment portfolios held for this purpose;
  - the risks associated with holding an investment portfolio for the purpose of reinvesting shareholders' equity (the so-called strategic position);
  - the structural currency exposure stemming from the activities abroad (investments in foreign currency, results posted at branches or subsidiaries abroad, foreign exchange risk linked to the currency mismatch between the insurer's liabilities and its investments).

  The following tools are used in the risk identification process for the market risk non-trading: the New and Active Products Process (NAPP), the risk scan, the risk signal and early warning process, the parameter reviews and materiality assessments based on in-depth analysis and deep dives.
- Risk measurements: Group Risk and the local risk departments measure ALM risks and flag current and future risk positions. A common rulebook, which supplements the framework for technical aspects, and a shared group measurement infrastructure ensure that these risks are measured consistently throughout the group. This includes a broad range of risk measurement methods such as:
  - Basis-Point-Value (BPV) for interest rate risk;
  - gap analysis for interest rate risk, gap risk and inflation risk;
  - economic sensitivities for currency risk, equity price risk and real estate price risk;
  - net interest income simulations over a multi-year period which are used in budgeting and risk processes.
- Setting risk appetite: major limits for interest rate risk, equity risk, real estate risk and foreign exchange risk for the consolidated entities are approved by the Board of Directors and limits for each local entity are approved by the Executive Committee.

  The treasury departments, acting as the first line of defence, measure and manage interest rate risk on a playing field defined by the risk appetite and the limits. They take into account measurement of prepayment and other option risks in the banking book and manage a balanced investment portfolio. Management of the positions implies that the treasury function uses derivatives to hedge against imbalances, due to interest rate and foreign exchange risks. To avoid profit and loss volatility that would result from the different accounting treatment of balance sheet investment items and derivatives, hedge accounting techniques are widely applied.
- Risk analysis, response and follow-up: besides regulatory required reporting, structural reporting to the ALCO is performed. The reporting process includes a sign-off process to ensure data accuracy.
- Stress testing: a balanced stress testing programme is prepared on a yearly basis and reported on a quarterly basis. This includes:
  - the back-testing of prepayments;
  - net interest income simulations performed under a variety of market scenarios for interest rate risk. Net interest income impact and sensitivities are also used to measure basis risk;
  - capital sensitivities arising from banking book positions that impact available regulatory capital (e.g., fair value through other comprehensive income) are used for spread risk, interest rate risk and equity risk.

Impact of coronavirus crisis on market risk non-trading

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

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

Interest rate risk and gap risk

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

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

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

The fixed-income investments for the non-life reserves are invested with the aim of matching the projected payout patterns for claims, based on extensive actuarial analysis.

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

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

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

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

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

Credit spread risk

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

Revaluation reserve at fair value through other comprehensive income (FVOCI) at year-end 2020: the carrying value of the total government bond portfolio measured at FVOCI incorporated a revaluation reserve of 0.9 billion euros, before tax (363 million euros for Belgium, 211 million euros for France, 79 million euros for Italy, 33 million euros for Slovakia and 218 million euros for the other countries combined).

Exposure to sovereign bonds at year-end 2020, carrying value[1] (in millions of EUR)						
Total (by portfolio)						Economic impact of +100 basis points[3]
	At amortised cost	At fair value through other comprehensive income (FVOCI)	Held for trading	Total	*For comparison purposes: total at year-end 2019*	
KBC core countries						
Belgium	1 749	2 534	0	4 284	4 441	-436
Czech Republic	322	651	0	973	845	-70
Hungary	99	98	1	198	205	-9
Slovakia	199	232	0	431	381	-32
Bulgaria	51	181	1	232	205	-14
Ireland	0	167	0	167	206	-19
Other countries						
France	617	1265	0	1883	1942	-195
Spain	54	288	0	342	351	-25
Italy	33	628	0	662	648	-34
Poland	43	235	0	279	303	-11
US	0	0	0	0	0	0
Rest[2]	916	1 078	0	1994	1 777	-125
Total carrying value	4 084	7 359	2	11 444	11 305	–
Total nominal value	4 084	6 275	2	10 360	10 412	–

[1] The table excludes exposure to supranational entities of selected countries. No material impairment on the government bonds in portfolio.
[2] Sum of countries whose individual exposure is less than 1 billion euros at year-end 2020 (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

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

Exposure to non-sovereign bonds at year-end, by rating: economic impact of +100 basis points (in millions of EUR)	31-12-2020	31-12-2019
Bonds rated AAA	-44	-44
Bonds rated AA+, AA, AA-	-95	-75
Bonds rated A+, A, A-	-102	-103
Bonds rated BBB+, BBB, BBB-	-46	-47
Non-investment grade and non-rated bonds	-12	-10
Total carrying value (excluding trading portfolio)	6 639	6 606

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 KBC Insurance (breakdown by sector, in %)	31-12-2020	31-12-2019
Financials	16%	23%
Consumer non-cyclical	12%	9%
Communication	4%	3%
Energy	1%	4%
Industrials	37%	43%
Utilities	2%	3%
Consumer cyclical	19%	11%
Materials	4%	4%
Other and not specified	6%	0%
Total	100%	100%
In billions of EUR	1.32	1.45
of which unlisted	0.05	0.08[1]

1 The unlisted amount in the insurance business for 2019 has been restated from 0.02 billion euros to 0.08 billion euros

Impact of a 25% drop in equity prices (in millions of EUR)	Impact on value	
	2020	2019
Total	-329	-362

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

Real estate risk

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

Impact of a 25% drop in real estate prices (in millions of EUR)	Impact on value	
	2020	2019
Total	--93	-98

Inflation risk

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

For the Insurance activities, the undiscounted value of the inflation-sensitive cashflows was estimated at 572 million euros, against which a 391-million-euro portfolio of indexed bonds and 30 million euros in direct and indirect real estate was held. In the years ahead, investments in inflation-linked bonds will be increased further.

Foreign exchange risk

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

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

Impact of a 10% decrease in currency value* (in millions of EUR)	Impact on value	
	31-12-2020	31-12-2019
CZK	-18	-17
HUF	-5	-5
BGN	-10	-9
USD	-36	-33
GBP	-18	-17

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

Hedge accounting

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

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

<u>Risk categories applying to hedge accounting</u>

Interest rates

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

Interest rate derivatives can be designated as:

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

KBC uses macro hedge accounting strategies for homogeneous portfolios of smaller items, where the frequency of occurrence or the relatively small size of the average operation renders the one-to-one relationship sub-optimal. This is the case for inter alia mortgages, loans to SMEs or customer deposits. Macro hedge strategies may be dynamic and undergo frequent changes based on balancing the portfolio ('open portfolio hedge'), among other things.

The micro hedge designation is used when large individual assets or liabilities are hedged. Typical assets are large corporate loans and bond acquisitions for which the credit spread profile is relevant. Liabilities can include KBC's own issues or specific long-term facilities offered by a central bank. Micro hedges are either fair-value or cashflow based.

Foreign exchange

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

Hedge effectiveness

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

Effectiveness testing

For interest rates, several prospective and retrospective tests are performed to ensure the relationship between the hedged item and the hedging instrument qualifies for the hedge accounting strategy.

Prospective tests are mostly based either on a sensitivity analysis (verifying if the basis point value of the hedged portfolio relative to the hedging instrument stays within the 80-125% interval) or volume tests (if the principal amount of hedge-eligible items exceeds the notional volume of hedging instruments expected to be repriced or repaid in each specified time bucket).

For macro cashflow hedges, extensive forward-looking analyses assess the sufficient likelihood that the future volume of hedged items will largely cover the volume of hedging instruments. A hedge ratio – measuring the proportion of a portfolio that is hedged by derivatives – is calculated for each hedging strategy.

The retrospective effectiveness test of the hedge relationship is periodically carried out by comparing the change in fair value of the portfolio of hedging instruments relative to the change in fair value of the hedged eligible items imputable to the hedged risk over a given period (the ratio of fair value changes remains within the 80-125% interval).

For foreign exchange hedging, effectiveness is ensured by adjusting the sum of the nominal amount of the funding deals and foreign exchange derivatives to the targeted hedge amount of the strategic participations.

Sources of hedge ineffectiveness

Ineffectiveness for interest rate swaps may occur due to:

- differences in relevant terms between the hedged item and the hedging instrument (it can include discrepancies in interest curves and in periodicity);
- a reduction in volume of the hedged item that would fall under the volume of hedging instruments for any time bucket;
- the credit value adjustment on the interest rate swap not being matched by the loan. However, hedging swaps are fully collateralised or traded through clearing houses and the credit value adjustment is limited.

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

Discontinuation of hedge accounting

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

Interest rate benchmarks

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

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

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

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

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

Non-financial risks

Operational risk

Managing operational risk

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

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

The building blocks for managing operational risks

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

- Risk identification: identifying operational risks involves following up on legislation, as well as using the New and Active Products Process (NAPP), analysing key risk indicators, performing independent control monitoring activities, root cause analysis of near misses and losses and other risk events. A structured, process-based repository of Group Key Risks and related mitigating Group Key Control Objectives (GKCs) is in place to set top-down minimum standards for the risk and control environment. Self-assessments are performed by the first line of defence. The set of GKCs covers the complete process universe of the group and is designed to manage key operational risk types. A review process is in place to keep the repository in line with new or emerging operational risk types. Entities translate these Group Control Objectives into their operational process environment and supplement them with additional, local operational controls, if necessary. Dynamic trigger-based risk assessments are in place, based on the continuous screening of both internal and external risk events.
- Risk measurement: as operational risk is embedded in all aspects of the organisation, unified group metrics and scales are in place to define and support not only the underpinning of the risk profile of an entity, but also individual operational risk levels in the processes. The maturity status of individual control objectives to mitigate those risks in the processes is also defined on a group-wide unified scale. In addition, a group-wide uniform scale is used to express the overall internal control state of each process in each material entity and the overall internal control state of the entity. Group-wide tools are used by the three lines of defence to support the core activities of operational risk management. A standardised, near-miss and loss data collection process is in place, including root cause analysis and appropriate response.
- Setting and cascading risk appetite: the risk appetite for operational risk is set in line with the overall requirements as defined in the Enterprise Risk Management Framework.

  Risk analysis, reporting and follow-up: a uniform approach – strongly based on first line of defence accountability (business side) and challenges by the second line of defence (risk, compliance, legal and other experts) and assurance by the third line of defence (internal audit) – is in place with risk-based follow-up at both local and group level. Minimum standards for the operational risk management reporting process are defined. Besides regulatory required reporting, structural reporting to the group risk committees is performed every quarter. The quality of the internal control environment and related risk exposure is reported to KBC's senior management via a management dashboard and to the NBB and ECB via the annual Internal Control Statement.
- Stress testing: an annual stress test is performed to assess the adequacy of solvency positions under normal and severe stress scenarios (Own Risk and Solvency Assessment (ORSA)).

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

Information risk management

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

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

Outsourcing risk management

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

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

Model risk management

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

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

Business continuity management including Crisis management

To ensure the availability of critical services, KBC has an incident management process in place. This ensures regular business impact analysis is performed and recovery time objectives are defined and implemented.

A crisis management process has also been established, with a focus on both prevention and response. Crisis prevention focuses on reducing the probability of a crisis, while crisis response focuses on the effective and efficient handling of a crisis should one occur. To enable this, tested and rehearsed crisis capabilities have been implemented.

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

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

Operational Risk Management in the specific context of the coronavirus pandemic

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

- monitoring IT system performance and employee health to ensure operational continuity and critical services;
- paying increased attention to coronavirus-related fraud and cyber incidents to prevent cyber criminals and other fraudsters from potentially exploiting the crisis and targeting employees and clients, for example, by means of phishing/smishing, or through malicious coronavirus-like websites;
- monitoring the performance of outsourced activities to prevent KBC from being negatively impacted by coronavirus-related incidents at third parties;
- monitoring the risk and control environment with specific attention being paid to process changes (e.g., implementation of moratoria and relief measures);
- frequently following up loss registrations and trends.

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

We continue to closely monitor operational 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 cyber attacks.

Compliance risk

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

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

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

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

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

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

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

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

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

Reputational risk

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

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

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

Business environment and strategic risks

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

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

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

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

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

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

<u>Brexit</u>

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

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

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

Our focus up until the end of 2020 was on operational readiness so as to avoid any surprises in the event of a no-deal scenario.

This entailed the follow-up of 13 domains within KBC out of which the most important focus points were:

- continuation of the activities of the KBC London branch activities, with extra efforts being made in specific domains areas such as deposit guarantee schemes, MiIFID transactional reporting and other regulatory driven information to UK supervisors;
- the continuation of the work originally started in 2019 to ed switch from LCH the (London Clearing House (LCH) to EUREX Clearing in Frankfurt for the cleared derivatives clearing business, which was originally started in 2019;
- the possible contagion effects towards for Ireland in case the event of a no- deal outcome for which (KBC Ireland had a continuous Brexit preparedness working group in place);
- the extra focus on credit loan portfolios, with for which new sector follow- ups were being organiszed in both the ‘Corporate’ and ‘SME’ segments throughout the group wide;
- the continued monitoring of legal risks, with special attention towards being paid to contract continuity in case ofshould there be a no deal.

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

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: when relevant, risk signals are presented in Treasury Risk Reports and Integrated Risk Reports. An annual assessment of key risk drivers impacting liquidity is performed.
- Risk measurement: identified liquidity risks are measured by means of internal metrics on e.g. the reliance on repo funding.
- Setting & cascading risk appetite: the Group Asset and Liability Committee (GALCO) plays a prominent role in proposing and monitoring liquidity risk limits.
- Risk analysis, reporting & follow-up: liquidity risk metrics are followed up and reported in Treasury Risk Reports and Integrated Risk Reports with an appropriate frequency.
- 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. So far, 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

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

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

Over the past year, our main focus has been on climate-related risks. Following the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), we differentiate between:

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

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

- Environmental risks is the risk arising from climate change (climate risk) or from other environmental degradation
- Social risk is the risk arising from changing expectations about relationships with employees, suppliers, clients and society as a whole
- Governance risk is the risk arising from changing expectations about corporate governance (corporate policies, codes of conduct, etc.)

Governance

KBC's risk management approach is supported by solid risk governance:

- The management of climate-related risks is fully embedded in our existing Risk Management Governance.
- Risk is part of the core team of the Sustainable Finance Programme, which focuses on integrating climate-related matters throughout the group.
- The senior general managers of Group Risk and Group Credit Risk are members of the Sustainable Finance Programme Steering Committee and one of them also has a seat on the Internal Sustainability Board.

The Board of Directors, the Risk & Compliance Committee and the Executive Committee are the prime recipients of the various outputs of the main risk management processes (e.g., ICAAP/ORSA, Integrated Risk Reporting, Risk Appetite, etc.). Given that climate-related risk has been identified as a top risk, it is included in all of these risk management processes and reports.

Risk identification

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

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

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

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

Risk measurement

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

Setting & cascading risk appetite

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

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

- A group-wide zero tolerance policy is in place for new business with a company on the KBC blacklist. This policy is fully embedded in the organisation as part of the operational risk management framework.
- Controversial activities (e.g. related to thermal coal, biomass technology, palm oil production, human rights) identified in our standards for sustainable and responsible lending are managed through sound lending and insurance processes, acceptance policies and product characteristics, and are actively screened by the business side, with quality controls performed by the second and third lines of defence. They also define the playing field for credit and insurance risks.
- KBC has the ambition to keep all its operational, compliance and conduct risks at a low level and aims to be well prepared for a variety of crises (avoiding disruption in services), including ESG and climate-related risks.

Risk analysis, reporting & 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, ORSA and external reports, with a particular focus on stress testing.

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

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

Stress testing

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

In addition to a number of more risk-type-specific stresses, such as more extreme natural catastrophe events or the impact of greenwashing on our liquidity and funding risk, we considered a number of holistic scenarios at group level to assess the impact on capital adequacy and profitability (see our Risk Report, which is available at www.kbc.com).

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

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

How do we manage our capital?

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

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

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

Numerous other stress tests are run within KBC that provide valuable information for assessing the capital adequacy of the group. They include 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 2020*

Name	Position	Period served on the Board in 2020	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 2020				14					8	9
DEBACKERE Koenraad	Chairman(1)	Full year	2023	14	●					
DEPICKERE Franky	Deputy Chairman of the Board	Full year	2023	14	●	●				9 (c)
THIJS Johan	President of the Executive Committee / Executive Director	Full year	2021	14				● (c)		
FALQUE Daniel	Executive Director	Full year	2024	14				●		
HOLLOWS John	Executive Director	Full year	2021	14				●		
LUTS Erik	Executive Director	Full year	2021	13				●		
POPELIER Luc	Executive Director	Full year	2021	14				●		
SCHEERLINCK Hendrik	Executive Director	Full year	2021	14				●		
VAN RIJSSEGHEM Christine	Executive Director	Full year	2022	14				●		
BOSTOEN Alain	Non-Executive Director	Full year	2024	14	●	●				
CALLEWAERT Katelijn	Non-Executive Director	Full year	2021	14	●	●				
CLINCK Erik	Non-Executive Director	8 months	2024	7	●	●				
DE BECKER Sonja	Non-Executive Director	Full year	2024	14	●	●				
DONCK Frank	Non-Executive Director	Full year	2024	14	●	●				
HÜBBE Morten	Independent Director	Full year	2021	14	●		●		8	9
LANGFORD Andrew	Independent Director	Full year	2022	14	●		●		8	9
OKKERSE Liesbet	Non-Executive Director	8 months	2024	7	●	●				
ROUSSIS Theodoros	Non-Executive Director	Full year	2024	14	●	●				
VLERICK Philippe	Non-Executive Director	Full year	2024	14	●	●				
WITTEMANS Marc	Non-Executive Director	Full year	2024	14	●	●			8 (c)	

* Thomas Leysen and Matthieu Vanhove, who were directors until 29 April 2020, attended seven Board meetings.

(1) Chairman of the Board with effect on 1 November 2020.

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 2020

- Thomas Leysen and Matthieu Vanhove resigned from the Board following the General Meeting of 29 April 2020.
- Koenraad Debackere was appointed as Chairman of the Board with effect on 1 November 2020.
- Alain Bostoen, Sonja De Becker, Frank Donck, Daniel Falque, Theodoros Roussis, Philippe Vlerick and Marc Wittemans were re-appointed as directors, each for a new term of four years.
- Erik Clinck and Liesbet Okkerse were appointed as directors for a term of four years.

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

The composition of the AC and RCC remained unchanged in 2020.

Proposed changes in the composition of the Board in 2021

- Peter Andronov and David Moucheron are proposed by the Board, on the advice of the Nomination Committee, for appointment as directors for a term of four years. They will become executive directors upon their appointment as members of the DC.
- On the advice of the Nomination Committee the Board proposes Peter Hermann for appointment as independent director for a four year term in place of Mr. Morten Hübbe whose term expires at the end of the Annual General Meeting. Attention: approval from the NBB is still required].
- On the advice of the Nomination Committee, Katelijn Callewaert, Johan Thijs, Luc Popelier and Erik Luts are nominated for reappointment as director for a new term of 4 years, expiring after the general meeting of 2025, and John Hollows is nominated for reappointment as director for a new term of 1 year, expiring after the general meeting of 2022.
- The mandates of Hendrik Scheerlinck and Daniel Falque will expire at the end of the general meeting. The Board wishes to express its great appreciation and gratitude for the contribution they have made to our group.

Curriculum vitae of the new directors.

- Peter Andronov, born in Dobrich (Bulgaria) in 1969, graduated as Master in Finance from the University of National and World Economy in Sofia (Bulgaria). Between 1994 and 1997 he worked as an analyst in a number of commercial banks. From 1997 to 2007 he held various positions (up to Head of the Banking Supervision Department) in the National Bank of Bulgaria. From 2005 to 2007, he led the Basel II project for Bulgaria and was a member of the Committee of European Banking Supervisors (CEBS) and the Banking Supervision Committee of the ECB. In 2007 he became CRO and since 2008 CEO of Cibank. Since 2011 he has been country manager of the KBC group in Bulgaria and since 2017 CEO of United Bulgarian Bank (UBB). He also has a rich academic experience.
- Born in Mons in 1973, David Moucheron holds a Master in Law from the Université Catholique de Louvain (Louvain-La-Neuve), a Master in Tax Law from the EHSAL School of Business (Brussels) and an LL.M. from Columbia Law School (New York). From 1996 to 1999 he was a lawyer at De Bandt, van Hecke & Lagae (now Linklaters). Between 2000 and 2005, he worked as a consultant at McKinsey & Company. From 2006 to 2008, he was Executive Committee Secretary & Group CEO Chief of Staff of Fortis Group (now BNP Paribas Fortis). Then he was CEO of bpost bank (Brussels) between 2009 and 2015. He joined the KBC Group in 2015 as CEO of CBC Banque & Assurance. Since 2017, he has been CEO of K&H Bank and country manager of the KBC group in Hungary.
- Born in Copenhagen, Denmark in 1973, Peter Hermann holds a Master of Science in Actuarial Mathematics from the University of Copenhagen, a Graduate Diploma in Organisation and Management from Copenhagen Business School and an MBA from the Scandinavian International Management Institute. From 1997 to 2011 he worked in various positions at PFA Pension. From 2011 to 2013, he was director and COO of Nordea Liv & Pension. Between 2014 and 2016 he was responsible for the Prevention, Health & Actuarial Department of PFA Pension. In 2016 he became CEO of Topdanmark Livsforsikring and since 2018 he is group CEO of Topdanmark A/S (in Denmark the second largest non-life insurer and the fourth largest pension and life insurer listed on Nasdaq Copenhagen).

Composition of the EC

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

Changes as of April 28, 2021:

- Hendrik Scheerlinck and Daniel Falque resign as members of the DC. The Board thanks them for their contribution to the KBC group over many years.
- Peter Andronov and David Moucheron are appointed by the Board as members of the DC.

Effective 28 April 2021, the following changes will be made to the composition of the DC:

- Luc Popelier becomes CFO (and also remains in charge of KBC Securities and Markets).
- Peter Andronov will become CEO Division International Markets (under which KBC Securities and Markets will no longer be responsible).
- David Moucheron will become CEO Division Belgium.

As a result of these appointments and changes, the composition of the DC will be as follows:

- Johan Thijs, CEO (chief executive officer),
- Luc Popelier, CFO (chief financial officer),
- Christine Van Rijsseghem, CRO (chief risk officer),
- Peter Andronov, CEO division International Markets,
- John Hollows, CEO Czech Republic Division,
- Erik Luts, Chief Innovation Officer,
- David Moucheron, CEO Division Belgium.

Statutory auditor

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

Additional information

- Following the share acquisition transaction on 23 December 2015, KBC Insurance holds 48 889 treasury shares.
- There were no conflicts of interest in 2020 that fell within the scope of Articles 7:115, 7:116 and 7:117 of the Belgian Companies and Associations Code.
- 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 2020.
- At year-end 2020, 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.
  - Morten Hübbe (independent director), who holds a Master's Degree in Finance and Accounting (1996), has worked in the insurance sector since 1991. He started his career as a Controller at Zürich Nordic (1991-1997) before moving to Alm. Brand Forsikring AS to take up the position of Financial Analyst (1997-1999). In 1999, he returned to Zürich Nordic as Operations Manager in the Nordic Investment Department (1999-2000) and went on to become vice-CFO (2000-2001) and CFO of the company (2001-2002). In 2002, Mr Hübbe moved to Tryg – a listed Danish insurance company – as Group CFO (2002-2011), where he played an important role in the Risk Committee and Audit Committee. He has been Group CEO there since 2011. He is also Vice-Chairman of the Board of Directors of SimCorp.
  - 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 Holding plc and Chief Executive of FBD Insurance plc (until 2015). Since September 2017, he has been an Executive Director of Version 1 Software UK Limited, a technology partner for large, domestic and international corporate customers from across the industrial spectrum in the UK and Ireland.

  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 2020, 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 and KBC Ancora. Mr Depickere is the Chairman of the RCC.
  - Andrew Langford (independent director).
  - Morten Hübbe (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.

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	Member of the Executive Committee	N	N
Erik Clinck, Director					
Cera Beheersmaatschappij nv	Belgium	Management	Executive 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 Accountants en Belastingconsulenten BV cvba	Belgium	Accountancy & consulting	Chairman of the Board of Directors	N	N
M.R.B.B. cvba	Belgium	Holding company	Chairman of the Board of Directors	N	N
SBB Bedrijfsdiensten BV cvba	Belgium	Accountancy & consulting	Executive Director	N	N
BB-Patrim cvba	Belgium	Holding company	Chairman of the Board of Directors	N	N
Agri Investment Fund cvba	Belgium	Holding company	Director	N	N
Acerta cvba	Belgium	Holding company	Director	N	N
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 cvba	Belgium	Management	Executive Director	N	N
Cera Beheersmaatschappij nv	Belgium	Management	Executive Director	N	N
Euro Pool System International BV	Netherlands	Packaging	Director	N	N
BRS Microfinance Coop cvba	Belgium	Finance	Director	N	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	Euronext	N
Elia Group NV	Belgium	Electricity & gas production, sales and transport	Director	Euronext	N
Elia Asset NV	Belgium	Electricity & gas production, sales and transport	Director	N	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	Director	N	N
Group Ter Wyndt BV	Belgium	Golf	Chairman	N	N
Tris nv	Belgium	Real estate	Executive Director	N	N
Winge Golf NV	Belgium	Golf club	Chairman	N	N
Barco NV	Belgium	Technology	Director	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
Dragonfly Belgium NV	Belgium	Financial holding company	Independent Director	N	N
3D Land NV	Belgium	Real estate	Director	N	N
Tasco NV	Belgium	IT	Director	N	N
Elia Transmission Belgium NV	Belgium	Electricity & gas production, sales and transport	Director	N	N
ForAtenor SA	Belgium	leasing	Chairman	N	N
Dossche Immo NV	Belgium	Real estate	Director	N	N
Luxempart SA	Luxemburg	Investment company	Director	LuxSe	N
3D Skywalkers BV	Belgium	Investment company	Executive Director	N	N
Force Awakened BV	Netherlands	Investment company	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
Morten Hübbe, Director					
Tryg Limited	Denmark	Insurance	Executive Director	Y	N
Simcorp as	Denmark	IT	Deputy Chairman of the Board of Directors	Y	N
Siteimprove ltd	Denmark	Software	Chairman of the Board of Directors	N	N
Conscia ltd	Denmark	IT	Chairman of the Board of Directors	N	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
Liesbet Okkerse, Director					
Cera Beheersmaatschappij nv	Belgium	Management	Director	N	N
Almancora Beheersmaatschappij nv	Belgium	Management	Director	N	N

Company name	Registered office	Sector	Office held	Listed	Share of capital held
Theo Roussis, Director				(N= not/none)	
Asphalia NV	Belgium	Management	Executive Director	N	N
Pentahold	Belgium	Investment company	Director	N	N
Philippe Vlerick, Deputy 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
BMT International	Luxembourg	Mechanical engineering	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
Sapient Investment Managers Ltd	Cyprus	Holding company	Chairman of the Board of Directors	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	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 nv	Belgium	Real estate	Chairman of the Board of Directors	N	N
SBB Accountants en Belastingconsulenten bv cvba	Belgium	Accountancy & consulting	Director	N	N
SBB Bedrijfsdiensten bv cvba	Belgium	Accountancy & consulting	Director	N	N
M.R.B.B. cvba	Belgium	Holding company	Executive Director/CEO	N	N
Agri Investment Fund cvba	Belgium	Holding company	Director	N	N
Acerta cvba	Belgium	Holding company	Director	N	N
Acerta Consult cvba	Belgium	HR services	Director	N	N
Acerta Public bv	Belgium	IT services & software	Director	N	N
Acerta Verzekeringen cvba	Belgium	Insurance	Director	N	N
Shéhérazade développement cvba	Belgium	IT services & software	Director	N	N
Aveve NV	Belgium	Agricultural and horticultural	Director	N	N
Hans Verstraete, Algemeen Directeur					
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
Pensioenfonds Senior Management 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%
VAB Fleet Services NV	Belgium	Driving school/ roadside assistance	Chairman of the Board of Directors	N	70,00%
Maatschappij voor brandherverzekering cvba	Belgium	Reinsurance	Chairman of the Board of Directors	N	90,10%

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	2020	2019
Net interest income	3.1	452	462
Interest income	*3.1*	*498*	*513*
Interest expense	*3.1*	*- 46*	*- 51*
Non-life insurance (before reinsurance)	3.7	882	774
Earned premiums	*3.7*	*1 795*	*1 741*
Technical charges	*3.7*	*- 913*	*- 967*
Life insurance (before reinsurance)	3.7	11	- 5
Earned premiums	*3.7*	*1 223*	*1 324*
Technical charges	*3.7*	*- 1 212*	*- 1 329*
Ceded reinsurance result	3.7	- 20	- 25
Dividend income	3.2	34	47
Net result from financial instruments at fair value through profit or loss	3.3	1	103
of which result on equity instruments (overlay approach)	*3.3*	*- 14*	*93*
Net realised result from debt instruments at fair value through OCI	-	0	0
Net fee and commission income	3.5	- 364	- 349
Fee and commission income	*3.5*	*147*	*165*
Fee and commission expense	*3.5*	*- 512*	*- 515*
Net other income	3.6	79	67
TOTAL INCOME		1 074	1 075
Operating expenses	3.8	- 487	- 471
Staff expenses	*3.8*	*- 228*	*- 230*
General administrative expenses	*3.8*	*- 242*	*- 226*
Depreciation and amortisation of fixed assets	*3.8*	*- 17*	*- 15*
Impairment	3.10	- 11	- 3
on financial assets at AC and at FVOCI	*3.10*	*- 6*	*1*
on goodwill	*3.10*	*0*	*0*
other	*3.10*	*- 5*	*- 4*
Share in results of associated companies and joint ventures	3.11	0	6
RESULT BEFORE TAX		576	607
Income tax expense	3.12	- 126	- 127
Net post-tax result from discontinued operations	-	0	0
RESULT AFTER TAX		450	480
attributable to minority interests	-	0	0
of which relating to discontinued operations	*-*	*0*	*0*
attributable to equity holders of the parent	**-**	**450**	**480**
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, the overlay approach allows for increased volatility reported in the income statement as a result of applying IFRS 9 to be removed from the income statement to OCI. This increased volatility, which was reclassified out of 'Net result from financial instruments at FVPL' to 'Revaluation reserve (FVPL equity instruments) – overlay approach', relates to -25 million euros in unrealised changes in fair value in 2020 (27 million euros before tax). That is the difference between (i) the result under IFRS 9 (without applying the overlay approach), i.e. -39 million euros, of which -41 million euros in realised and unrealised changes in fair value recognised in 'Net result from financial instruments at FVPL' and +2 million euros in taxes, and (ii) the result under IAS 39, i.e. -14 million euros, comprising a net realised result of +116 million euros and an impairment of -131 million euros. More details are provided in Note 1.2.

Investment shares of the insurer in 2020: 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 in profit or loss	116	116	-	116
Unrealised results in profit or loss	-	- 158	- 158	-
Impairments in profit and loss	- 131	-	131	- 131
Realised and unrealised results in profit or loss via OCI	- 27	-	27	- 27
Income taxes (in profit and loss or OCI)	2	2	-	2
Total in profit or loss and OCI	- 39	- 39	0	- 39

Consolidated statement of comprehensive income

(in millions of EUR)	2020	2019
RESULT AFTER TAX	450	480
attributable to minority interests	0	0
attributable to equity holders of the parent	450	480
OCI THAT MAY BE RECYCLED TO PROFIT OR LOSS	98	554
Net change in revaluation reserve (FVOCI debt instruments)	133	365
Fair value adjustments before tax	171	484
Deferred tax on fair value changes	- 43	- 118
Transfer from reserve to net result	5	- 1
Impairment	5	- 1
Net gains/losses on disposal	0	0
Deferred taxes on income	0	0
Net change in revaluation reserve (FVPL equity instruments) - overlay	- 25	191
Fair value adjustments before tax	- 42	288
Deferred tax on fair value changes	2	- 4
Transfer from reserve to net result	14	- 93
Impairment	131	24
Net gains/losses on disposal	- 116	- 117
Deferred taxes on income	0	0
Net change in hedging reserve (cashflow hedges)	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	- 10	3
Gross amount	- 10	3
Deferred taxes on income	0	0
Hedge of net investments in foreign operations	0	- 1
Fair value adjustments before tax	0	- 7
Deferred tax on fair value changes	0	2
Transfer from reserve to net result	0	4
Gross amount	0	4
Deferred taxes on income	0	0
Net change in respect of associated companies and joint ventures	0	- 5
Gross amount	0	- 7
Deferred taxes on income	0	1
Other movements	0	2

(in millions of EUR)	2020	2019
OCI THAT WILL NOT BE RECYCLED TO PROFIT OR LOSS	1	28
Net change in revaluation reserve (FVOCI equity instruments)	- 1	1
Fair value adjustments before tax	- 1	1
Deferred tax on fair value changes	0	0
Net change in defined benefit plans	4	26
Remeasurements	5	35
Deferred tax on remeasurements	- 1	- 9
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	- 2	0
Remeasurements	- 2	1
Deferred tax on remeasurements	0	0
TOTAL COMPREHENSIVE INCOME	549	1 062
attributable to minority interests	0	0
attributable to equity holders of the parent	549	1 062

- 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.
- Revaluation reserves in 2019: the net change in the ‘revaluation reserve (FVPL equity instruments) – overlay approach’ came to +191 million euros and was largely attributable to positive changes in fair value, partly offset by transfers to the net result (gains on sales offset in part by impairment charges). The ‘revaluation reserve (FVOCI debt instruments)’ rose by 365 million euros, boosted by a general decrease in interest rates. The net change in defined benefit plans (+26 million euros) related mainly to the positive returns on plan assets, partly offset by the lower discount rate.

Consolidated balance sheet

(in millions of EUR)	Note	31-12-2020	31-12-2019
ASSETS			
Cash, cash balances with central banks and other demand deposits with credit institutions	-	277	227
Financial assets	4.0	35 985	36 824
Amortised cost	*4.0*	*8 254*	*7 582*
Fair value through OCI	*4.0*	*12 576*	*13 183*
Fair value through profit or loss	*4.0*	*15 150*	*16 058*
of which held for trading	*4.0*	*11*	*13*
Hedging derivatives	*4.0*	*4*	*1*
Reinsurers' share in technical provisions, insurance	5.6	145	121
Profit/loss on positions in portfolios hedged against interest rate risk	-	0	0
Tax assets	5.2	37	45
Current tax assets	*5.2*	*32*	*37*
Deferred tax assets	*5.2*	*5*	*9*
Non-current assets held for sale and disposal groups	5.11	0	28
Investments in associated companies and joint ventures	5.3	0	3
Property, equipment and investment property	5.4	296	298
Goodwill and other intangible assets	5.5	152	142
Other assets	5.1	672	681
TOTAL ASSETS		**37 565**	**38 369**
LIABILITIES AND EQUITY			
Financial liabilities	4.0	13 761	15 211
Amortised cost	*4.0*	*991*	*1 555*
Fair value through profit or loss	*4.0*	*12 730*	*13 621*
of which held for trading	*4.0*	*6*	*12*
Hedging derivatives	*4.0*	*39*	*35*
Technical provisions, before reinsurance	5.6	18 724	18 565
Profit/loss on positions in portfolios hedged against interest rate risk	-	0	0
Tax liabilities	5.2	406	368
Current tax liabilities	*5.2*	*30*	*36*
Deferred tax liabilies	*5.2*	*375*	*332*
Liabilities associated with disposal groups	5.11	0	0
Provisions for risks and charges	5.7	3	5
Other liabilities	5.8	857	797
TOTAL LIABILITIES		33 750	34 947
Total equity	5.10	3 815	3 422
Parent shareholders' equity	5.10	3 815	3 422
Minority interests	-	0	0
TOTAL LIABILITIES AND EQUITY		**37 565**	**38 369**

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	Additional tier-1 instruments included in equity	Minority interests	**Total equity**
2020									
Balance at the end of the previous period	65	1 086	- 203	1 321	1 154	3 422	0	0	3 422
Net result for the period	0	0	0	450	0	450	0	0	450
Other comprehensive income for the period	0	0	0	0	99	99	0	0	99
Subtotal	0	0	0	450	99	549	0	0	549
Dividends	0	0	0	- 156	0	- 156	0	0	- 156
Transfer from revaluation reserves to retained earnings on realisation	0	0	0	2	- 2	0	0	0	0
Change in minorities interests	0	0	0	0	0	0	0	0	0
Total change	0	0	0	295	97	392	0	0	393
Balance at the end of the period	**65**	**1 086**	**- 203**	**1 616**	***1 251***	***3 815***	0	*0*	***3 815***
2019									
Balance at the end of the previous period	65	1 086	- 203	1 207	574	2 728	0	0	2 728
Net result for the period	0	0	0	480	0	480	0	0	480
Other comprehensive income for the period	0	0	0	2	580	583	0	0	583
Subtotal	0	0	0	482	580	1 062	0	0	1 062
Dividends	0	0	0	- 368	0	- 368	0	0	- 368
Transfer from revaluation reserves to retained earnings on realisation	0	0	0	0	0	0	0	0	0
Change in minorities interests	0	0	0	0	0	0	0	0	0
Total change	0	0	0	114	580	694	0	0	694
Balance at the end of the period	**65**	**1 086**	**- 203**	**1 321**	**1 154**	**3 422**	0	0	**3 422**

- 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 2020 (156 million euros) includes the final dividend for 2019. The ‘Dividends’ item in 2019 (368 million euros) includes the final dividend of 132 million euros for 2018 (paid in May 2019) as well as payment of an interim dividend of 235 million euros as an advance on the final dividend for 2019 (the final dividend was paid in 2020). Following the ECB's recommendations on the subject dated 15 December 2020 (and the NBB's Circular_2021_005), which limits the payment of dividends, no dividend will be paid for the financial year 2020.

(in millions of EUR)	31-12-2020	31-12-2019	01-01-2019
Revaluation reserve (FVOCI debt instruments)	913	781	422
Revaluation reserve (FVPL equity instruments) - overlay	325	350	159
Revaluation reserve (FVOCI equity instruments)	7	12	10
Hedging reserve (cashflow hedges)	0	0	0
Translation differences	0	10	7
Hedge of net investments in foreign operations	1	1	1
Remeasurement of defined benefit plans	5	2	- 25
Own credit risk through OCI	0	0	0
Total revaluation reserves	**1 251**	**1 154**	**574**

Consolidated cashflow statement

(in millions of EUR)	Note (1)	2020	2019
OPERATING ACTIVITIES			
Result before tax	Consolidated income statement	576	607
Adjustments for:	-	284	338
Result before tax from discontinued operations	Consolidated income statement	0	0
Depreciation, impairment and amortisation of property, plant and equipment, intangible fixed assets, investment property and securities	3.3, 3.10, 4.2, 5.4, 5.5	175	58
Profit/Loss on the disposal of investments	-	- 10	- 5
Change in impairment on loans and advances	3.10	1	0
Change in technical provisions (before reinsurance)	5.6	237	444
Change in the reinsurers' share in the technical provisions	5.6	- 23	1
Change in other provisions	5.7	- 1	1
Other unrealised gains/losses	-	- 95	- 156
Income from associated companies and joint ventures	3.11	0	- 6
Cashflows from operating profit before tax and before changes in operating assets and liabilities	-	860	945
Changes in operating assets (excluding cash and cash equivalents)	-	1 706	- 953
Financial assets at amortised cost (excluding debt securities)	4.1	144	- 12
Financial assets at fair value through OCI	4.1	742	- 279
Financial assets at fair value through profit or loss	4.1	815	- 645
of which financial assets held for trading	*4.1*	*1*	*- 1*
Hedging derivatives	4.1	- 4	2
Operating assets associated with disposal groups, and other assets	-	9	- 18
Changes in operating liabilities (excluding cash and cash equivalents)	-	- 1 359	590
Financial liabilities at amortised cost	4.1	- 563	20
Financial liabilities at fair value through profit or loss	4.1	- 864	656
of which financial liabilities held for trading	*4.1*	*- 5*	*- 5*
Hedging derivatives	4.1	5	3
Technical provisions, before reinsurance	5.6	- 6	- 267
Operating liabilities associated with disposal groups and other liabilities	-	70	177
Income taxes paid	3.12	- 122	- 124
Net cash from or used in operating activities		1 084	457
INVESTING ACTIVITIES			
Purchase of debt securities at amortised cost	4.1	- 1 671	- 819
Proceeds from the repayment of debt securities at amortised cost	4.1	833	717
Acquisition of a subsidiary or a business unit, net of cash acquired (including increases in percentage interest held)	6.6	0	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	17
Purchase of investment property	5.4	- 39	- 16
Proceeds from the sale of investment property	5.4	24	4
Purchase of intangible fixed assets (excluding goodwill)	5.5	- 22	- 17
Proceeds from the sale of intangible fixed assets (excluding goodwill)	5.5	0	0
Purchase of property, plant and equipment	5.4	- 5	- 8
Proceeds from the sale of property, plant and equipment	5.4	1	13
Net cash from or used in investing activities		- 878	- 108

(in millions of EUR)	Note (1)	2020	2019
FINANCING ACTIVITIES			
Purchase or sale of treasury shares	Consolidated statement of changes	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
Principal payments under finance lease obligations	-	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
Proceeds from the issuance of preference shares	Consolidated statement of changes in equity	0	0
Dividends paid	Cons. statement of changes in equity	- 156	- 368
Coupon additional Tier-1 instruments	Consolidated statement of changes in equity	0	0
Net cash from or used in financing activities		- 156	- 368
CHANGE IN CASH AND CASH EQUIVALENTS			
Net increase or decrease in cash and cash equivalents	-	50	- 19
Cash and cash equivalents at the beginning of the period	-	229	247
Effects of exchange rate changes on opening cash and cash equivalents	-	0	0
Cash and cash equivalents at the end of the period	-	278	229
ADDITIONAL INFORMATION			
Interest paid	3.1	- 46	- 51
Interest received	3.1	498	513
Dividends received (including equity method)	3.2, 5.3	34	64
COMPONENTS OF CASH AND CASH EQUIVALENTS			
Cash and cash balances with central banks and other demand deposits with credit institutions	Consolidated balance sheet	277	227
Term loans to banks at not more than three months (excl. reverse repos)	4.1	1	2
Reverse repos with credit institutions and investment firms at not more than three months	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	-	278	229
of which not available	-	*0*	*0*

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

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

- KBC uses the indirect method to report on cashflows from operating activities.
- Net cash from or used in operating activities:
  - In 2020, this item included the realised result and lower outstanding debt instruments at fair value through OCI.
  - In 2019, it included the realised result, partly offset by higher outstanding debt instruments at fair value through OCI.
- Net cash from or used in investing activities in 2020 and 2019 was mainly accounted for by additional investments in debt securities at amortised cost.
- Net cash from financing activities in 2020 and 2019 related to the dividend payment (-156 million euros and -368 million euros, respectively).

1.0 Notes on the accounting policies

Note 1.1: Statement of compliance

The consolidated financial statements of KBC Insurance NV, including all the notes, were authorised for issue on 18 March 2021 by the Board of Directors. They have been prepared in accordance with the International Financial Reporting Standards as adopted for use in the European Union (‘endorsed IFRS’) and present one year of comparative information. All amounts are shown in millions of euros and rounded to the million (unless otherwise stated).

The following changes in presentation and accounting policies were applied in 2020:

- Under Phase 1 and Phase 2 of the IBOR reform, the IASB made a number of amendments to IAS 39 (and to related standards), which provide temporary relief from adopting specific hedge accounting requirements for hedging relationships directly affected by this reform. Having already early applied the Phase 1 amendments, KBC has now also elected to early apply the Phase 2 amendments. For more information, see the ‘How do we manage our risks?’ section. The amendments to IAS 39 with regard to IBOR had no significant impact on our hedge accounting, as most hedging derivatives are based on EURIBOR (see Note 4.8.2. for the positions in hedging derivatives).

The following IFRS standards were issued but not yet effective in 2020. KBC will apply these standards when they become mandatory.

- IFRS 17: in May 2017, the IASB issued IFRS 17 (Insurance Contracts), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 (Insurance Contracts) that was issued in 2005. IFRS 17 applies to all types of insurance contracts, regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by a specific adaptation for contracts with direct participation features (the variable fee approach) and a simplified approach (the premium allocation approach) mainly for short-duration contracts. IFRS 17 will become effective for reporting periods beginning on or after 1 January 2023 (subject to EU endorsement), with comparative figures being required. KBC launched a group-wide project in 2018 to implement IFRS 17. The project is structured around sub-projects dealing with data delivery, local reporting, the impact on business and strategic consequences, guidance and support, consolidated reporting and the IFRS 17 calculation tool. It is being jointly run by the insurance business side and the Finance function, and involves all the departments and entities at group and local level that are affected. The focus over the past year has been on arriving at a clear interpretation of IFRS 17 and the further implementation of an IFRS-17-compliant process for closing the accounts. Where necessary, the interpretation of IFRS 17 was gradually adjusted when new information became available from external or in-house sources. Changes to the original standard, which were published by the IASB in June 2020, are now also taken into account. In terms of European approval, the European Financial Reporting Advisory Group (EFRAG) issued its draft endorsement advice on ‘amended’ IFRS 17 at the end of September 2020. Once the stakeholders have provided feedback, EFRAG is expected to submit its final endorsement advice to the European Commission at the end of March 2021.
- Other: the IASB has published several limited amendments to existing IFRSs and IFRICs. They will be applied when they become mandatory, but their impact is currently estimated to be negligible.

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.

Classification of equity instruments and debt instruments

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

Classification and measurement – debt instruments

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

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

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

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

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

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

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

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

A debt instrument is categorised as ‘FVPL – overlay’ when it is held in respect of a business line that is connected with contracts in scope of IFRS 4 and if it is measured at fair value through profit or loss by applying IFRS 9, but would not have been measured at fair value through profit or loss in its entirety in accordance with IAS 39, and it is an instrument for which KBC has elected to use the overlay approach. More information on this approach is provided under ‘Overlay approach’ further below.

Business model assessment

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

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

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

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

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

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

Reclassifications

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

Classification and measurement – equity instruments

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

- mandatorily measured at fair value through profit or loss (MFVPL) – only includes equity instruments held for trading (HFT);
- equity instruments elected to be measured at fair value through other comprehensive income (FVOCI);
- equity instruments held in an activity connected with the insurance business, which KBC measures at fair value through profit or loss – overlay approach (FVPL – overlay).

KBC can classify equity instruments connected with the insurance business in the 'FVPL – overlay' category until the effective date of IFRS 17. Each equity instrument that KBC's insurance business classifies as 'FVPL – overlay' must meet both of the following criteria:

- it is measured at fair value through profit or loss under IFRS 9, but would not have been measured at fair value through profit or loss in its entirety under IAS 39; and
- it is not held in respect of an activity that is unconnected with insurance contracts.

More information on this approach is provided under 'Overlay approach' further below. The election to include equity instruments in the FVOCI category is irrevocable on initial recognition and can be done on an investment-by-investment basis, which is interpreted by KBC as a share-by-share basis. Equity instruments categorised as FVOCI are subsequently measured at fair value, with all value changes recognised in other comprehensive income and without any recycling into the income statement, even when the investment is disposed of. The only exception applies to dividend income, which is recognised in the income statement under 'Dividend income'.

Classification and measurement – derivatives (trading and hedging)

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

Trading derivatives

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

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

Hedging derivatives

Hedging derivatives are derivatives that are specifically designated in a hedge relationship. The process for accounting such derivatives is detailed in 'Hedge accounting'.

Financial assets – impairment

Definition of default

KBC defines defaulted financial assets in the same way as the definition for internal risk management purposes and in line with the guidance and standards of financial industry regulators. A financial asset is considered in default if any of the following conditions is fulfilled:

- there is a significant deterioration in creditworthiness;
- the asset is flagged as non-accrual;
- the asset is forborne and meets the default criteria in accordance with the internal policies for forbearance (for example, when an additional forbearance measure is extended to a forborne asset that did not reach default status within two years of the first forbearance measure being granted, or when a forborne asset becomes more than 30 days past due within the two-year period);
- KBC has filed for the borrower’s bankruptcy;
- the counterparty has filed for bankruptcy or sought similar protection measures;
- the credit facility granted to the client has been terminated.

KBC applies a backstop for facilities whose status is ‘90 days or more past due’. In this context, a backstop is used as a final control to ensure that all the assets that should have been designated as defaulted are properly identified.

Expected credit loss model (ECL model) – general

The ECL model is used to measure impairment of financial assets, apart from debt instruments and equity instruments connected with the insurance business, for which KBC has elected to apply the overlay approach. The impairment policy applying to these instruments is dealt with under ‘Overlay approach’ further below.

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

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

No ECLs are calculated for investments in equity instruments.

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

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

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

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

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

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

Significant increase in credit risk since initial recognition

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

Multi-tier approach (MTA) – bond portfolio

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

- Low-credit exception: 12-month ECL is always recognised for bonds if they have a low credit risk on the reporting date (i.e. 'Stage 1'). KBC uses this exception for investment grade bonds.
- Internal rating: [only applicable if the first tier criterion is not met] this is a relative assessment that compares the probability of default (PD) upon initial recognition to that on the reporting date. KBC does the assessment at facility level for each reporting period. The relative change in PD that triggers staging is an increase of two PD notches.
- Management assessment: lastly, management review and assess the significant increase in credit risk for financial assets at an individual (i.e. counterparty) and portfolio level, when it is concluded that idiosyncratic events are not adequately captured in the first two tiers of the MTA. Examples of idiosyncratic events are unexpected developments in the macroeconomic environment (including due to the coronavirus crisis), uncertainties about geopolitical events and the secondary impact of material defaults (e.g., on the suppliers, clients and employees of a defaulted company).

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

Loan portfolio

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

- Internal rating: this rating is used as the main criterion for assessing an increase in credit risk. It is a relative assessment that compares the PD upon initial recognition to that on the reporting date. KBC does the assessment at the level of the facility (i.e. contract) for each reporting period. The relative change in PD that triggers staging is an increase of two PD notches.
- Forbearance: forborne financial assets are always considered as 'Stage 2' unless they are already defaulted, in which case they are moved into 'Stage 3'.
- Days past due: KBC uses the backstop defined in the standard. A financial asset that is more than 30 days past due is moved into 'Stage 2'.
- Internal rating backstop: KBC uses an absolute level of PD as a backstop for financial assets that have to be moved into 'Stage 2'. This backstop corresponds to the highest PD (i.e. PD 9 based on KBC's internal rating) before a financial asset is considered defaulted.
- Management assessment: lastly, management review and assess the significant increase in credit risk for financial assets at an individual (i.e. counterparty) and portfolio level, when it is concluded that idiosyncratic events are not adequately captured in the first four tiers of the MTA (see above for a number of examples).

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

Measurement of ECL

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

ECL is calculated to reflect:

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

Lifetime ECL represents the sum of ECL over the lifetime of the financial asset discounted at the original effective interest rate. The 12-month ECL represents the portion of lifetime ECL resulting from a default in the 12-month period after the reporting date.

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

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

As regards loans that are in default, the ECL is also calculated as the product of the PD, EAD and LGD. In this specific case, however, the PD is set at 100%, the EAD is known given the default status and the LGD takes into account the net present value of the (un)recoverable amount.

KBC uses the IRB and Standardised models to assign the Basel PD, which then serves as input for IFRS 9 ECL calculations and staging. If there is no Basel PD model with a similar scope to the IFRS 9 model, the long-term observed default rate is used as the PD for all facilities in the portfolio. For low default portfolios, there may have been no or only a small number of defaults in the period being considered, in which case the PD is determined based on expert input and external ratings.

Forward looking information is reflected in macroeconomic variables, which are determined separately for each country, and in management's assessment of any idiosyncratic events.

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

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

Purchased or originated credit impaired (POCI) assets

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

Significant judgements and uncertainties

Calculating ECL (and the significant increase in credit risk since initial recognition)
requires significant judgement of various aspects, including the borrowers' financial position and repayment capabilities, the value and recoverability of collateral, projections and macroeconomic information. KBC applies a neutral, bias-free approach when dealing with uncertainties and making decisions based on significant judgements.

Overlay approach

In accordance with the amendment to IFRS 4 issued in September 2016, KBC uses the overlay approach to overcome the temporary consequences of the different effective dates of IFRS 9 and IFRS 17 (replacing IFRS 4). Accordingly, KBC uses the overlay approach, which means that the extra volatility related to the adoption of IFRS 9 is reclassified from the income statement to OCI. The reclassified amounts are recognised in the overlay reserve in OCI. The overlay approach is applied to those financial assets of KBC's insurance business that are eligible. Eligibility is based on the following criteria:

- Assets that are measured at FVPL under IFRS 9 that would not have been measured at FVPL in their entirety under IAS 39;
- All assets except those held in respect of an activity that is unconnected with contracts within the scope of IFRS 4.

A financial asset can be designated under the overlay approach until:

- the instrument is derecognised;
- it is no longer held in respect of an activity that is connected with insurance contracts;
- KBC decides not to apply the overlay approach for that particular instrument at the beginning of any financial year; or
- the effective date of IFRS 17.

Application of the overlay approach requires certain IAS 39 accounting policies for financial assets to be retained, namely:

- Impairment of equity instruments: equity instruments held by KBC's insurance business were typically classified as 'available for sale' under IAS 39, whereas they are classified as FVPL under IFRS 9. Designation under the overlay approach requires the application of IAS 39 impairment rules to investments in equity instruments. In using the overlay approach, all fair value changes are recognised in the overlay reserve but, where the decline is significant compared to acquisition cost (more than 30%) or prolonged (more than one year), the fair value loss is recognised in the income statement. Any further decrease is also recognised directly in the income statement, whereas increases are recognised in the overlay reserve.
- Recognition of gains and losses in the income statement upon the disposal of equity instruments: by designating the equity instruments connected with KBC's insurance business under the overlay approach upon their sale, the accumulated overlay reserve in OCI is recycled to the income statement, ensuring the same results as under IAS 39.

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

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

Financial liabilities

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

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

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

Financial liabilities – recognition and derecognition

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

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

Financial liabilities – classification and measurement

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

- Financial liabilities held for trading (HFT). Held-for-trading liabilities are those incurred principally for generating a profit from short-term fluctuations in price or dealer's margin. A liability also qualifies as a trading liability if it belongs to a portfolio of financial instruments held for trading separately by the trading desk and for which there is a recent pattern of short-term profit-taking. Held-for-trading liabilities can include derivatives, short positions in debt and equity instruments, time deposits and debt certificates. Derivative liabilities are split by KBC into trading and hedging derivatives as in the case of derivative assets. Initially, held-for-trading liabilities are measured at fair value. At the end of the reporting period, derivative liabilities are measured at fair value. Fair value adjustments are always recorded in the income statement.
- Financial liabilities designated by the entity as liabilities at fair value through profit or loss upon initial recognition (FVO). Under IFRS 9, a financial liability or group of financial liabilities can be measured upon initial recognition at fair value, whereby fair value changes are recognised in the income statement except for fair value changes related to changes in own credit risk, which are presented separately in OCI. The fair value designation is used by KBC for the following reasons:
    - managed on an FV basis: KBC designates a financial liability or a group of financial liabilities at fair value where it is managed and its performance is evaluated on a fair value basis. It is used to account for (unbundled) deposit components (i.e. financial liabilities that do not include a discretionary participation feature);
    - accounting mismatch: the fair value option can be used when doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising gains and losses on them on different bases;
    - hybrid instruments: a financial instrument is regarded as hybrid when it contains one or more embedded derivatives that are not closely related to the host contract. The fair value option can be used when it is not possible to separate the non-closely-related embedded derivative from the host contract, in which case the entire hybrid instrument can be designated at fair value. This means that both the embedded derivative and the host contract are measured at fair value. KBC uses this option when structured products contain non-closely-related embedded derivatives, in which case both the host contract and the embedded derivative is measured at fair value.
- Financial liabilities measured at amortised cost (AC). These financial liabilities are initially measured at cost, which is the fair value of the consideration received including transaction costs. Subsequently, they are measured at amortised cost, which is the amount at which the funding liability was initially recognised minus principal repayments, plus or minus the cumulative amortisation of any difference between that initial amount and the maturity amount. The difference between the amount made available and the nominal value is recorded on an accruals basis as an interest expense. Interest expenses accrued but not yet paid are recorded under accruals and deferrals.

Financial liabilities – own credit risk

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

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

Financial liabilities – financial guarantee contract

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

Reverse repos and repos

A reverse repo is a transaction in which KBC purchases a financial asset and simultaneously enters into an agreement to sell the asset (or a similar asset) at a fixed price on a future date; this agreement is accounted for as a loan or advance, and the underlying asset is not recognised in the financial statements.

In a repo transaction, KBC sells a security and simultaneously agrees to repurchase it (or a substantially similar asset) at a fixed price on a future date. KBC continues to recognise the securities in their entirety because it retains substantially all of the risks and rewards of ownership. The cash consideration received is recognised as a financial asset and the financial liability is recognised for the obligation to pay the repurchase price.

Offsetting

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

Fair value

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

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

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

Hedge accounting

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

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

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

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

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

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

Insurance contracts

General

The accounting policies for IFRS 4 (Insurance Contracts) apply to insurance contracts (including reinsurance contracts) that KBC issues and reinsurance contracts that it holds. They also apply to financial instruments with a discretionary participation feature held by KBC.

A reinsurance contract is a type of insurance contract, given that all reinsurance contracts that transfer insurance risk are themselves insurance contracts.

Some contracts that are accounted for as insurance contracts under local GAAP will no longer be considered insurance contracts under IFRS. Contracts that do not expose KBC to any insurance risk (e.g., pure investment without additional (insurance) benefits/cover) are treated as financial instruments, which can exist with or without a discretionary participation feature.

Financial instruments without a discretionary participation feature and the deposit component of unit-linked insurance contracts will be recognised in accordance with deposit accounting principles, as they fall under the scope of IFRS 9.

Deposit accounting applies to the deposit component of unit-linked insurance contracts (the insurance component is treated as an insurance contract according to IFRS 4).

KBC unbundles the components if both of the following conditions are met:

- measurement of the deposit component is possible (including any embedded surrender options), i.e. without considering the insurance component;
- the accounting policies do not otherwise require recognition of all the obligations and rights arising from deposit accounting.

Unbundling is prohibited if the deposit component cannot be measured separately.

At KBC, insurance contracts other than unit-linked contracts are not unbundled into a deposit component and an insurance component. The insurance component of unit-linked contracts (see below), whether insurance contracts or investment contracts, is treated as an insurance contract. Unit-linked financial instruments without death benefits or a participation feature are classified as 'financial liabilities at fair value through profit or loss' (also referred to as deposit accounting) under IFRS 9 and are consequently measured at fair value.

A unit-linked financial instrument classified at fair value through profit or loss represents the liability towards the policyholder, whose consideration received (i.e. deposit) is invested in an investment fund. The latter is classified as a financial asset 'Mandatorily measured at fair value through profit or loss' (in the 'Investment contracts (insurance)' line in Note 4.1). The valuation of the financial assets relating to unit-linked contracts is mirrored in the adjustments to the related liabilities. Unit-linked contracts are policies whose value or return is determined based on investments or an index, and where the policyholder bears the risk.

Changes in fair value (assets and liabilities), including any component that relates to changes in foreign exchange rates, are recognised in the income statement under 'Net result from financial instrument at fair value through profit or loss'. The unit value is considered to be the fair value. Only the earned management fees and commissions are recognised using margin deposit accounting principles under 'Net fee and commission income' in the income statement.

Financial instruments with a discretionary participation and the insurance component of unit-linked contracts are treated as insurance contracts under IFRS 4. On the balance sheet date, the liabilities resulting from these financial instruments or insurance contracts are subjected to the liability adequacy test to see if they are adequate. If the carrying value of these liabilities is lower than their estimated future discounted cashflows, the deficiency will be recognised in the income statement against an increase in the corresponding liability.

A reinsurance asset is impaired if and only if:

- there is objective evidence that, as a result of an event occurring after initial recognition of the reinsurance asset, KBC might not receive all amounts due under the terms of the contract;
- that event has a reliably measurable impact on the amounts that KBC will receive from the reinsurer. If a reinsurance asset is impaired, KBC will reduce its carrying value accordingly and recognise that impairment loss in the income statement.

When IFRS 4 was adopted, KBC decided to follow its then local GAAP practices and did not introduce any of the following:

- measurement of insurance liabilities on an undiscounted basis;
- non-uniform accounting policies for the insurance contracts of subsidiaries. If these accounting policies are not uniform, an insurer may change them if the change does not make them more divergent and provided the other requirements of IFRS 4 (Insurance Contracts) are met.

KBC believes that it applies sufficient prudence in the measurement of its insurance contracts. KBC does not recognise any provisions for possible future claims as a liability if those claims arise under insurance contracts that are not in existence at the reporting date, such as catastrophe provisions and equalisation provisions.

KBC removes an insurance liability (or part of an insurance liability) from the balance sheet if and only if it is extinguished, i.e. when the obligation specified in the contract is discharged or cancelled or expires.

Reinsurance assets are not offset against the related insurance liabilities, nor will income or expense from reinsurance contracts be offset against expense or income from the related insurance contracts.

Technical provisions – insurance contracts

The technical provisions comprise the estimates at balance sheet date of the liabilities of the company towards insured persons, beneficiaries and policyholders, including the translation differences on the technical provisions denominated in a foreign currency.

Provision for unearned premiums and unexpired risk (Non-life)

Provision for unearned premiums (Non-life)

This provision comprises the portion of gross premiums to be allocated to a subsequent period in order to be able to cover claims, administrative costs and management costs of investments relating to the underlying policies. For the primary business, the provision for unearned premiums is in principle calculated separately for each contract on a daily basis, based on the gross premiums. For reinsurance business received, the provision for unearned premiums is calculated for each contract separately. It is based on information communicated by the ceding undertaking, supplemented by the company's own past experience of how risks change over time.

Provision for unexpired risk (Non-life)

This item is an additional provision to supplement the provision for unearned premiums. It is set aside if the estimated total amount of claims and administrative costs relating to current contracts is expected to be higher in the following period than total unearned premiums and premiums receivable. For reinsurance business received, the contractual stipulations are examined and, where appropriate, the underlying provision restated.

Life insurance provisions

This provision relates exclusively to life insurance activities, with the exception of the unit-linked life business. It comprises the actuarially estimated value of KBC's liabilities and the profit share already awarded, less the actuarially estimated value of the liabilities of the policyholders. The acquisition costs are not deducted from the provision.

This item also includes the provision for unearned premiums and unexpired risk, the ageing provision, the provisions for annuities payable but not yet due (including internal claims settlement costs) for supplementary life insurance and the provisions for retirement and survivorship annuities.

Valuation according to the prospective method is applied to (i) the provision for conventional non-unit-linked life insurance, (ii) universal non-unit-linked life insurance policies offering a guaranteed rate of interest on future premium payments, and (iii) the provision for non-statutory benefits for employees in respect of current annuities.

Valuation according to the retrospective method is applied to the provisions for modern non-unit-linked universal life insurance and to the provision for non-statutory benefits for employees in respect of new supplementary premium payments.

The provision is calculated separately for every insurance contract.

Provision for claims outstanding

For claims reported, the provision is measured separately in each case, taking into account the known facts in the claims file, on the basis of the amounts still due to the injured parties or beneficiaries, plus external costs of settling claims. Where benefits have to be paid in the form of an annuity, the amounts to be set aside for that purpose are calculated using recognised actuarial methods.

For 'claims incurred but not reported' at balance sheet date, an IBNR (Incurred But Not Reported) provision is set aside. In the primary business, this IBNR provision is based on a lump sum per class of insurance depending upon past experience and the trend in the insured portfolio. For extraordinary events, additional amounts are added to the IBNR provision.

For 'claims incurred but not enough reserved' at balance sheet date, an IBNER (Incurred But Not Enough Reserved) provision is set aside if the adequacy procedures demonstrate that the other claims provisions are insufficient to meet future liabilities. This provision contains amounts for claims which have already been reported but which, for technical reasons, could not yet be recorded in the claims file.

A provision for the internal cost of settling claims is calculated at a percentage that is based on past experience.

Additional provisions are also constituted as required by law (according to the Royal Decree of 17 November 1994 on the annual accounts of insurance undertakings), such as supplementary workmen's compensation provisions in Belgium.

Leasing

All leases are required to be classified as either finance leases or operating leases. The classification under IFRS 16 is based on the extent to which risk and rewards incidental to ownership of leased assets lie with the lessor or the lessee. A finance lease transfers substantially all the risks and rewards incidental to ownership of an asset.

This classification is crucial for positions as a lessor, but less important for positions as a lessee, since both classifications result in similar recognition and measurement of the lease on the balance sheet and in the income statement.

Equity

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

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

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

Employee benefits

Short-term employee benefits

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

Post-employment benefits

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

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

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

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

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

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

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

Net fee and commission income

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

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

Revenue reported as 'Margin on life insurance investment contracts without DPF' represents the amount realised on investment contracts without a discretionary participation feature, i.e. a fixed percentage or fixed amount is withheld from the client's payments, enabling the insurance company to cover its expenses.

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

Government grants

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

Levies

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

Income tax

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

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

Current tax assets/liabilities

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

Deferred tax assets/liabilities

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

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

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

Deferred tax assets/liabilities are not discounted.

Tangible fixed assets

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

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

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

Investment property

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

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

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

Intangible assets

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

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

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

Internally generated intangible assets are initially measured at the development costs directly attributable to the design and testing of the unique software controlled by KBC.

Directly attributable costs capitalised as part of the software developed in-house include software development employee costs and directly attributable overheads.

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

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

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

Impairment of non-financial assets

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

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

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

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

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

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

Provisions, contingent liabilities and contingent assets

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

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

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

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

Consolidated financial statements / interim financial statements

All material entities (including structured entities) over which KBC exercises direct or indirect control as defined in IFRS 10 are consolidated according to the method of full consolidation. Changes in ownership interests (that do not result in a loss of control) are accounted for as equity transactions. They do not affect goodwill or profit or loss.

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

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

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

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

Business combinations and goodwill

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

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

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

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

Effects of changes in foreign exchange rates

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

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

Related-party transactions

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

- KBC subsidiaries 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 31-12-2020		Exchange rate average in 2020	
	1 EUR = … … currency	Change relative to 31-12-2019 (positive: appreciation relative to EUR) (negative: depreciation relative to EUR)	1 EUR = … … currency	Change relative to average in 2019 (positive: appreciation relative to EUR) (negative: depreciation relative to EUR)
BGN	1.9558	0%	1.9558	0%
CZK	26.242	-3%	26.463	-3%
GBP	0.89903	-5%	0.88734	-1%
HUF	363.89	-9%	352.66	-8%
USD	1.2271	-8%	1.1427	-2%

* Rounded figures.

Note 1.3: Critical estimates and significant judgements

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

Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. Significant areas of estimation uncertainty, and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are found in, but not limited to, notes 1.4,3.3, 3.7, 3.10, 4.2, 4.4–4.8, 5.2, 5.5–5.7, 5.9 and 6.1.

Note 1.4: Impact of the coronavirus crisis

The coronavirus pandemic triggered a sequence of market events that resulted in a significant deterioration in economic growth and the economic outlook, and led to unprecedented policy responses by central banks and governments in all parts of the world.

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

Item	Impact of the coronavirus crisis	More details in note/section
Net interest income	Adversely impacted by what were generally low long-term interest rates.	3.1
Non-life insurance	Higher technical result supported by a low level of claims resulting from lower economic activity during lockdown periods.	3.7
Life insurance	Challenging context for the sale of life insurance products in view of the low interest rate environment.	3.7
Financial instruments at FVPL	Significantly lower result due to plummeting stock markets in the first quarter of 2020.	3.3
Operating expenses	Lower operating expenses thanks to various cost-saving measures (resulting, amongst other things, in lower provisioning for variable remuneration and a reduction in FTEs) and lower marketing, travel, facility and event expenses (directly related to a lower level of activity caused by the lockdowns). However, these lower expenses were more than offset by the higher one-off internal charge made by KBC Group in relation to software.	3.8
Impairment on losses on loan (financial assets at amortised cost and at fair value through OCI)	Limited increase due to the nature of the portfolio	3.10 and 4.2
Impairment on goodwill	Our annual assessment of goodwill impairment indicators (based on discounted cashflow analysis) showed no indication of any impairment to goodwill.	3.10 and 5.5
Revaluation reserves	Decline in the revaluation reserves (FVPL equity instruments – overlay approach) and translation differences. For more information, see the text below the ‘Consolidated statement of comprehensive income’ table.	Consolidated statement of comprehensive income
Solvency	Our solvency position remained robust, At year-end 2020, the Solvency II ratio came to 222%, 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

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’)

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)	2020	2019
Total	452	462
Interest income	498	513
Interest income on financial instruments calculated using the effective interest rate method		
Financial assets at AC	237	247
Financial assets at FVOCI	232	239
Hedging derivatives	1	1
Financial liabilities (negative interest)	21	19
Other	0	0
Interest income on other financial instruments		
Financial assets MFVPL other than held for trading	0	0
Financial assets held for trading	8	7
Of which economic hedges	*8*	*6*
Other financial assets at FVPL	0	0
Interest expense	- 46	- 51
Interest expense on financial instruments calculated using the effective interest rate method		
Financial liabilities at AC	- 9	- 8
Financial assets (negative interest)	- 13	- 12
Hedging derivatives	- 12	- 12
Other	- 2	- 2
Interest expense on other financial instruments		
Financial liabilities held for trading	- 10	- 17
Of which economic hedges	*- 10*	*- 17*
Other financial liabilities at FVPL	0	0
Net interest expense relating to defined benefit plans	0	- 1

Note 3.2: Dividend income

(in millions of EUR)	2020	2019
Total	34	47
Equity instruments MFVPL other than held for trading	30	43
Equity instruments held for trading	0	0
Equity instruments at FVOCI	3	4

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

(in millions of EUR)	2020	2019
Total	1	103
Breakdown by IFRS portfolio		
Financial instruments MFVPL other than held for trading and overlay	- 438	860
Trading instruments (including interest on non-ALM trading derivates and fair value changes on all trading instruments)	2	10
Financial instruments to which the overlay is applied	- 14	93
Gains or losses on sale	116	117
Impairment	- 131	- 24
Other financial instruments at FVPL	451	- 860
Foreign exchange trading	0	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	- 1	4
Changes in the fair value of the hedging derivatives	1	- 4
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. The impact of this is negligible for KBC.
- Financial instruments to which the overlay approach is applied: see the comments under the consolidated income statement.
- Foreign exchange trading includes all realised and unrealised foreign exchange results (when the monetary assets and liabilities are revalued), regardless of the IFRS portfolio, except for financial assets and liabilities measured through profit or loss, for which the revaluation is included in the fair value correction. Note that (unrealised) foreign exchange gains/losses on claims provisions (insurance) and on the financial instruments hedging the claims provisions are included under 'Technical charges'. (Unrealised) foreign exchange gains/losses on the reinsurers' share of claims provisions and on the financial instruments hedging such provisions are included under 'Ceded reinsurance result'.
- Under IFRS 9, investment contracts (insurance) are reclassified to 'Financial instruments mandatorily measured at fair value through profit or loss' in accordance with their 'managed on a FV basis' business model, whereas liabilities under investment contracts continue to be recognised under 'Financial instruments at fair value through profit or loss'. This resulted in amounts being offset against each other in 'Financial instruments MFVPL other than held for trading and overlay' and 'Financial instruments at fair value through profit or loss' in the above table (-441 million euros and +441 million euros, respectively, in 2020 and +832 million euros and -832 million euros, respectively, in 2019). The offsetting movement in opposite directions in 2020 compared to 2019 was accounted for by the healthy stock market climate in 2019, whereas 2020 was a year in which share prices had fallen.
- The effectiveness of the hedge is determined according to the following methods:
  - For fair value micro hedging, we use the dollar offset method on a quarterly basis, with changes in the fair value of the hedged item offsetting changes in the fair value of the hedging instrument within a range of 80%–125%.
  - For cashflow hedges, we compare the designated hedging instrument with a perfect hedge of the hedged cashflows on a prospective (by BPV measurement) and retrospective basis (by comparing the fair *value of the*

designated hedging instrument with the perfect hedge). The effectiveness of both tests must fall within a range of 80%–125%.

- We use the rules set out in the European version of IAS 39 (carve-out) to assess the effectiveness of fair value hedges for a portfolio of interest rate risk. IFRS does not permit net positions to be reported as hedged items, but does allow hedging instruments to be designated as a hedge of a gross asset position (or a gross liabilities position, as the case may be). Specifically, we make sure that the volume of assets (or liabilities) in each maturity bucket is greater than the volume of hedging instruments allocated to the same bucket.

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 2019 and 2020.

Note 3.5: Net fee and commission income

(in millions of EUR)	2020	2019
Total	- 364	- 349
Fee and commission income	147	165
Fee and commission expense	- 512	- 515
Breakdown by type		
Asset Management Services	16	30
Fee and commission income	30	44
Fee and commission expense	- 14	- 14
Banking Services	- 6	- 6
Fee and commission income	2	2
Fee and commission expense	- 8	- 8
Distribution	- 374	- 374
Fee and commission income	116	119
Fee and commission expense	- 490	- 493

Note 3.6: Other net income

(in millions of EUR)	2020	2019
Total	79	67
of which gains or losses on		
Sale of financial assets measured at amortised cost	0	0
Repurchase of financial liabilities measured at amortised cost	0	0
of which other, including:	79	67
Income from VAB Group	56	48
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
2020				
Earned premiums, insurance (before reinsurance)	1 223	1 795	0	3 019
of which change in provision 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**
2019				
Earned premiums, insurance (before reinsurance)	1 324	1 741	0	3 065
of which change in provision unearned premiums	- 1	- 53	0	- 54
Technical charges, insurance (before reinsurance)	- 1 329	- 967	0	- 2 296
Claims paid	- 1 119	- 848	0	- 1 966
Changes in technical provisions	- 267	- 113	0	- 380
Other technical result	57	- 7	0	50
Net fee and commission income	- 18	- 332	0	- 349
Ceded reinsurance result	- 3	- 22	0	- 25
General administrative expenses	- 145	- 253	- 3	- 400
Internal claims settlement expenses	- 8	- 62	0	- 70
Indirect acquisition costs	- 35	- 76	0	- 110
Administrative expenses	- 102	- 116	0	- 218
Investment management fees	0	0	- 3	- 3
Technical result	- 170	167	- 3	- 6
Investment Income	479	88	39	606
Technical-financial result	309	255	37	601
Share in results of associated companies and joint ventures	-	-	6	6
RESULT BEFORE TAX	309	255	43	607
Income tax expense	-	-	-	- 127
RESULT AFTER TAX	-	-	-	480
attributable to minority interest	-	-	-	-
attributable to equity holders of the parent	-	-	-	**480**

- Investment income (in millions of euros, for 2020 and 2019, respectively) comprises: 'Net interest income' (452, 462), 'Net dividend income' (34, 47), 'Net result from financial instruments at fair value through profit or loss' (1, 103), 'Net realised result from debt instruments at fair value through OCI' (0, 1), 'Other net income' (11, -3) and 'Impairment' (-11, -3). The 'Non-technical account' also includes the results from non-insurance subsidiaries, such as VAB group and ADD, and a number of real estate companies. They have been included in the note for the 'insurance business' given that they are KBC Insurance subsidiaries (but as they cannot be recognised under 'Life' or 'Non-life', they are included under 'Non-technical account'). The 'Non-technical account' also includes the investment income from equity (i.e. mainly interest income from bonds).
- The figures relating to earned premiums do not include investment contracts without DPF, which largely correspond to unit-linked contracts. The margin on these products is recognised under 'Net fee and commission income'.
- 'Non-life technical charges' consist mainly of paid claims, changes in claims provisions, changes in the deficiency provision, recourse received, changes in recourse estimations and other technical charges. 'Life technical charges' consist primarily of paid claims, changes in claims provisions, changes in the life insurance provision, changes in the provision for (non-unbundled) unit-linked products, bonuses (profit-sharing), changes in the deficiency provision and other technical charges.
- An overview of the insurer's investment portfolio can be found in the 'How do we manage our risks?' section (in the 'Investment portfolio of KBC Insurance' table, which constitutes part of the financial statements).
- In the vast majority of cases, internal acquisition costs are recognised immediately in the income statement (i.e. not spread).
- In 2020, the non-life technical result was negatively impacted by factors including the storms in Belgium and positively impacted by the lower level of economic activity due to lockdown measures (which resulted in fewer claims – also see Note 1.4). In 2019, the non-life technical result had been negatively impacted by factors including the storms in Belgium and the Czech Republic, major fire damage in Belgium, and the reassessment of claims provisions in the second quarter of 2019.

Note 3.7.2: Life insurance

(in millions of EUR)	2020	2019
Total	1 223	1 324
By IFRS category		
Insurance contracts	902	909
Investment contracts with DPF	322	414
By type		
Accepted reinsurance	0	0
Primary business	1 223	1 324
Breakdown of primary business		
Individual premiums	869	979
Single premiums	131	264
Periodic premiums	738	715
Premiums under group contracts	355	345
Single premiums	50	55
Periodic premiums	305	290
Total sales of life insurance (including investment contracts without DPF)		
Unit-linked	965	733
Guaranteed-rate	1 024	1 116
Total	1 989	1 849

- As required under IFRS, we use deposit accounting for a number of investment contracts without DPF. This means that the premium income and technical charges from these contracts are not recognised under 'Earned premiums' and 'Technical charges', but that the margins on them are reported under 'Net fee and commission income'. Investment contracts without DPF are more or less the same as unit-linked contracts, which in 2019 accounted for premium income of 0.7 billion euros and in 2020 for premium income of 1.0 billion euros. Premium income generated by investment contracts without DPF (under deposit accounting) is included in 'Total sales of life insurance', as presented in the lower part of the table. These sale volumes, therefore, comprise earned insurance premiums plus premiums from contracts that are subject to deposit accounting.

Note 3.7.3: Non-life insurance

(in millions of EUR)	Earned premiums (before reinsurance)	Claims incurred	Operating expenses (before reinsurance)	Ceded reinsurance	Total
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
2019					
Total	1 741	- 967	- 585	- 22	167
Accepted reinsurance	14	- 11	- 10	- 17	- 24
Primary business	1 727	- 956	- 575	- 5	191
Accident & health (classes 1 & 2, excl. industrial accidents)	118	- 56	- 40	0	22
Industrial accidents (class 1)	81	- 82	- 17	0	- 18
Motor, third-party liability (class 10)	497	- 310	- 141	0	46
Motor, other classes (classes 3 & 7)	280	- 182	- 95	1	5
Shipping, aviation, transport (classes 4, 5, 6, 7, 11 & 12)	5	- 2	- 2	0	1
Fire and other damage to property (classes 8 & 9)	507	- 228	- 191	1	89
General third-party liability (class 13)	128	- 50	- 43	- 6	29
Credit and suretyship (classes 14 & 15)	0	0	0	0	0
Miscellaneous pecuniary losses (class 16)	21	- 11	- 8	- 1	1
Legal assistance (class 17)	58	- 22	- 22	0	14
Assistance (class 18)	33	- 13	- 17	0	4

Note 3.8: Operating expenses

(in millions of EUR)	FY 2020	FY 2019
Total	- 487	- 471
Staff expenses	- 228	- 230
General administrative expenses	- 242	- 226
of which levies	- 17	- 16
Depreciation and amortisation of fixed assets	- 17	- 15

- 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.

Note 3.9: Personnel

	2020	2019
Total average number of persons employed (in full-time equivalents)	3 972	3 996
By employee classification		
Blue-collar staff	324	306
White-collar staff	3 623	3 665
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.
- In May 2019, we began optimising our group-wide governance model (at KBC Group consolidated level), aimed at further improving our operational efficiency This optimisation exercise has implications for some of our employees

Note 3.10: Impairment (income statement)

(in millions of EUR)	2020	2019
Total	- 11	- 3
Impairment on financial assets at AC and at FVOCI *	- 6	1
Of which impairment on financial assets at AC	- 1	0
By product		
Loans and advances	0	0
Debt securities	- 1	0
Off-balance-sheet commitments and financial guarantees	0	0
By type		
Stage 1 (12-month ECL)	- 1	0
Stage 2 (lifetime ECL)	0	0
Stage 3 (non-performing; lifetime ECL)	0	0
Purchased or originated credit impaired assets	0	0
Of which impairment on financial assets at FVOCI	- 5	1
Debt securities	- 5	1
Stage 1 (12-month ECL)	- 2	0
Stage 2 (lifetime ECL)	- 2	1
Stage 3 (non-performing; lifetime ECL)	0	0
Impairment on goodwill	0	0
Impairment on other	- 5	- 4
Intangible fixed assets (other than goodwill)	- 2	- 1
Property, plant and equipment (including investment property)	0	0
Associated companies and joint ventures	0	0
Other	- 3	- 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.
- KBC Insurance uses three different forward-looking macroeconomic scenarios (with different probability weightings) to measure ECL. A sensitivity analysis of the impact of these multiple economic scenarios on the collectively assessed ECL (i.e. without the ECL for individually assessed loans of 0.4 million euros at the end of 2019 and 0.9 million euros at the end of 2020) shows that the 'base' scenario generates an ECL of 10.4 million euros (4.8 million euros in 2019), which is 0.3 million euros lower than for the 'down' scenario (0.0 million euros in 2019) and 0.2 million euros higher than for the 'up' scenario (0.0 million euros in 2019). The assessed scenario-weighted collective ECL (that was recognised) amounted to 10.5 million euros (4.8 million euros in 2019).

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

(in millions of EUR)	2020	2019
Total	0	6
Of which:		
KBC Asset Management SA	-	2
NLB Vita	-	4

* Sale agreement signed (see Note 6.6).

- Impairment on (goodwill on) associated companies and joint ventures is included in 'Impairment' (see Note 3.10). The share in results of associated companies and joint ventures does not therefore take this impairment into account.

Note 3.12: Income tax expense

(in millions of EUR)	2020	2019
Total	- 126	- 127
By type		
Current taxes on income	- 122	- 124
Deferred taxes on income	- 3	- 3
Tax components		
Result before tax	576	607
Income tax at the Belgian statutory rate	25.00%	29.58%
Income tax calculated	- 144	- 179
Plus/minus tax effects attributable to		
differences in tax rates, Belgium – abroad	14	16
tax-free income	36	46
adjustments related to prior years	- 8	- 6
adjustments to deferred taxes due to change in tax rate	0	1
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)	- 24	- 5

- For information on tax assets and tax liabilities, see Note 5.2.
- Change in tax rate in 2020: the reform of the Belgian corporation tax regime in 2017 included a further decrease in the tax rate from 29.58% to 25% starting in financial year 2020. This will have a recurring positive impact on the income statement from then on, because of the lower tax rate applying to the Belgian group companies. The decrease will not affect outstanding deferred tax assets and liabilities (and, consequently, total equity), as they already take account of the reduced tax rate.

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 derivatives	Total
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) (5)	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**
FINANCIAL ASSETS, 31-12-2019								
Loans and advances to credit institutions and investment firms (excl. reverse repos)	476	0	0	0	1	0	0	**477**
Of which repayable on demand and term loans at not more than three months								***2***
Loans and advances to customers (excl. reverse repos)	2 288	0	0	0	0	0	0	**2 288**
Trade receivables	1	0	0	0	0	0	0	**1**
Consumer credit	0	0	0	0	0	0	0	**0**
Mortgage loans	1 199	0	0	0	0	0	0	**1 199**
Term loans	979	0	0	0	0	0	0	**979**
Finance lease	0	0	0	0	0	0	0	**0**
Current account advances	0	0	0	0	0	0	0	**0**
Other	110	0	0	0	0	0	0	**110**
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	72	0	1 431	3	0	0	**1 506**
Investment contracts (insurance) (5)	0	0	14 584	0	0	0	0	**14 584**
Debt securities issued by	4 767	13 111	31	0	8	0	0	**17 918**
Public bodies	3 785	7 518	0	0	1	0	0	**11 305**
Credit institutions and investment firms	405	1 985	0	0	4	0	0	**2 395**
Corporates	577	3 608	31	0	3	0	0	**4 218**
Derivatives	0	0	0	0	0	0	1	**1**
Other (3)	50	0	0	0	0	0	0	**50**
Total	7 582	13 183	14 615	1 431	13	0	1	**36 824**

(in millions of EUR)	AC	HFT	FVO	Hedging deriva-tives	Total
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**
FINANCIAL LIABILITIES, 31-12-2019					
Deposits from credit institutions and investment firms (excl. repos)	243	0	0	0	**243**
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)	797	0	0	0	**797**
with credit institutions and investment firms	797	0	0	0	**797**
with customers	0	0	0	0	**0**
Liabilities under investment contracts (6)	0	0	13 610	0	**13 610**
Derivatives	0	12	0	35	**47**
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)	14	0	0	0	**14**
Total	1 555	12	13 610	35	**15 211**

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 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' (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'). At year-end 2019, KBC had transferred the following types of financial asset, which continued to be recognised in their entirety: repo transactions and securities lent out with a carrying value of 3 892 million euros (debt instruments classified as 'Measured at fair value through OCI' (2 403 million euros) and as 'Measured at amortised cost' (1 489 million euros)); and an associated financial liability with a carrying value of 4 547 million euros (2 464 million euros classified as 'Measured at fair value through OCI' and 2 083 million euros as 'Measured at amortised cost').

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

Note 4.2.1: Impaired financial assets

			31-12-2020			31-12-2019
(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 (*)	2 645	- 1	2 644	2 765	- 1	2 764
Stage 1 (12-month ECL)	2 580	0	2 579	2 701	0	2 701
Stage 2 (lifetime ECL)	64	0	64	63	0	63
Stage 3 (lifetime ECL)	1	- 1	1	1	0	1
Purchased or originated credit impaired assets (POCI)	0	0	0	0	0	0
Debt Securities	5 587	- 2	5 585	4 768	0	4 767
Stage 1 (12-month ECL)	5 582	- 2	5 580	4 768	0	4 767
Stage 2 (lifetime ECL)	5	0	5	0	0	0
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 THROUGH OCI						
Debt Securities	12 505	- 8	12 496	13 115	- 4	13 111
Stage 1 (12-month ECL)	12 369	- 6	12 364	13 093	- 3	13 090
Stage 2 (lifetime ECL)	136	- 3	133	22	- 1	22
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)	31-12-2020 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	31-12-2019 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 01-01-2020	0	0	1	0	1	0	0	0	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 31-12-2020	0	0	1	0	1	0	0	0	0	1
DEBT SECURITIES AT AMORTISED COST										
Impairment on 01-01-2020	0	0	0	0	0	0	0	0	0	1
Movements with an impact on results (1)	1	0	0	0	1	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)	1	0	0	0	1	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 31-12-2020	2	0	0	0	2	0	0	0	0	0
DEBT SECURITIES AT FAIR VALUE THROUGH OCI										
Impairment on 01-01-2020	3	1	0	0	4	3	2	0	0	5
Movements with an impact on results (1)	2	2	0	0	5	0	- 1	0	0	- 1
Transfer of financial assets										
Stage 1 (12-month ECL)	0	2	0	0	2	0	0	0	0	0
Stage 2 (lifetime ECL)	0	0	0	0	0	0	- 1	0	0	- 1
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	2	0	0	0	2	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 31-12-2020	6	3	0	0	8	3	1	0	0	4

(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)	31-12-2020 Maximum credit exposure (A)	Collateral and other credit enhancements received (B)	Net (A-B)	31-12-2019 Maximum credit exposure (A)	Collateral and other credit enhancements received (B)	Net (A-B)
Subject to impairment	20 823	839	19 984	20 759	873	19 885
of which Stage 3 'non-performing' (AC and FVOCI)	*1*	*0*	*1*	*1*	*0*	*1*
Debt securities	18 082	0	18 082	17 879	0	17 879
Loans and advances (excl. reverse repos)	2 644	839	1 805	2 764	873	1 891
Reverse repos	0	0	0	0	0	0
Other financial assets	25	0	25	50	0	50
Off-balance-sheet liabilities	72	0	72	65	0	65
Not subject to impairment	45	0	45	41	0	41
Debt securities	40	0	40	39	0	39
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	5	0	5	1	0	1
Other financial assets	0	0	0	0	0	0
Off-balance-sheet liabilities	0	0	0	0	0	0
Total	20 868	839	20 029	20 800	873	19 927

- 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, 31-12-2020							
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
FINANCIAL ASSETS, 31-12-2019							
Derivatives (1)	1	0	1	0	0	1	0
Derivatives (excluding central clearing houses)	1	0	1	0	0	1	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	1	0	1	0	0	1	0
FINANCIAL LIABILITIES, 31-12-2019							
Derivatives (1)	47	0	47	0	40	6	0
Derivatives (excluding central clearing houses)	47	0	47	0	40	6	0
Derivatives with central clearing houses	0	0	0	0	0	0	0
Repos, securities lending and similar arrangements	797	0	797	0	0	797	0
Repos	797	0	797	0	0	797	0
Securities lending	0	0	0	0	0	0	0
Other financial instruments	0	0	0	0	0	0	0
Total	843	0	843	0	40	803	0

(1) Derivatives figures at end of 2019 have been restated

- 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 Market Value Adjustments Policy* and the *Group Parameter Review Policy.* The GVC meets at least twice a quarter to approve significant changes in valuation methods (including, but not limited to, models, market data and inputs) or deviations from group policies for financial assets and liabilities measured at fair value. The committee is made up of members from Finance, Risk Management and the Middle Office. Valuation uncertainty measurements are made and reported to the GVC every 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 assets and liabilities that are not measured at fair value in the balance sheet	Financial assets measured at amortised cost		Financial liabilities measured at amortised cost	
(in millions of EUR)	Carrying value	Fair value	Carrying value	Fair value
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
FINANCIAL ASSETS, 31-12-2019				
Loans and advances to credit institutions and investment firms (incl. reverse repos)	476	612	-	-
Loans and advances to customers (incl. reverse repos)	2 288	2 514	-	-
Debt securities	4 767	5 752	-	-
Other	50	50	-	-
Total	7 582	8 927	-	-
Level 1	-	4 412	-	-
Level 2	-	4 506	-	-
Level 3	-	8	-	-
FINANCIAL LIABILITIES, 31-12-2019				
Deposits from credit institutions and investment firms (incl. repos)	-	-	1 040	1 040
Deposits from customers and debt securities (incl. repos)	-	-	500	500
Liabilities under investment contracts	-	-	0	0
Other	-	-	14	11
Total	-	-	1 555	1 551
Level 1	-	-	-	0
Level 2	-	-	-	1 551
Level 3	-	-	-	0

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

(in millions of EUR)				31-12-2020				31-12-2019
Fair value hierarchy	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS AT FAIR VALUE								
Mandatorily measured at fair value through profit or loss, other than held for trading incl. overlay	14 706	344	89	15 139	15 514	441	89	16 045
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	1 217	3	56	1 276	1 370	0	61	1 431
Investment contracts (insurance)	13 490	341	0	13 830	14 143	441	0	14 584
Debt securities	0	0	33	33	2	0	29	31
of which sovereign bonds	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Other	0	0	0	0	0	0	0	0
Held for trading	6	5	0	11	7	6	0	13
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	3	0	0	3	3	0	0	3
Debt securities	3	4	0	7	4	5	0	8
of which sovereign bonds	*2*	*0*	*0*	*2*	*1*	*0*	*0*	*1*
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	8 972	3 268	336	12 576	9 416	3 533	234	13 183
Equity instruments	2	0	78	80	2	0	70	72
Debt securities	8 970	3 268	258	12 496	9 414	3 533	164	13 111
of which sovereign bonds	*5 297*	*1 967*	*95*	*7 359*	*5 347*	*2 127*	*44*	*7 518*
Hedging derivatives	0	4	0	4	0	1	0	1
Derivatives	0	4	0	4	0	1	0	1
Total	23 684	3 622	425	27 731	24 938	3 981	323	29 242

(in millions of EUR)				31-12-2020				31-12-2019
Fair value hierarchy	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
FINANCIAL LIABILITIES AT FAIR VALUE								
Held for trading	0	6	0	6	0	12	0	12
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	6	0	6	0	12	0	12
Short positions	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0
Designated at fair value	12 724	0	0	12 724	13 610	0	0	13 610
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	12 724	0	0	12 724	13 610	0	0	13 610
Other	0	0	0	0	0	0	0	0
Hedging derivatives	0	39	0	39	0	35	0	35
Derivatives	0	39	0	39	0	35	0	35
Total	12 724	46	0	12 770	13 610	47	0	13 657

- 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 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.
Level 2	Plain vanilla/liquid derivatives	(Cross-currency) interest rate swaps (IRS), FX swaps, FX forwards, forward rate agreements (FRA), inflation swaps, dividend swaps and futures, commodity swaps, reverse floaters, bond future options, interest rate future options, overnight index swaps (OIS), FX resets	Discounted cashflow analysis based on discount and estimation curves (derived from quoted deposit rates, FX swaps and (CC)IRS)
		Caps & floors, interest rate options, European & American stock options, forward starting options, digital FX options, FX strips of simple options, European swaptions, constant maturity swaps (CMS), European cancellable IRS, compound options, commodity options	Option pricing model based on observable inputs (e.g., volatilities)
	Linear financial assets (without optional features) – cash instruments	Deposits, simple cashflows, repo transactions	Discounted cashflow analysis based on discount and estimation curves (derived from quoted deposit rates, FX swaps and (CC)IRS)
	Semi-liquid bonds/asset backed securities	Semi-liquid bonds/asset backed securities	BVAL, third-party pricing (e.g., lead manager); prices corroborated by alternative observable market data, or using comparable spread method
	Debt instruments	KBC IFIMA own issues (liabilities), mortgage bonds held by ČSOB	Discounted cashflow analysis and valuation of related derivatives based on observable inputs
	Linear financial liabilities (cash instruments)	Loans, commercial paper	Discounted cashflow analysis based on discount and estimation curves (derived from quoted deposit rates, FX swaps and (CC)IRS)
Level 3	Exotic derivatives	Target profit forwards, Bermudan swaptions, digital interest rate options, quanto interest rate options, digital stock options, composite stock options, Asian stock options, barrier stock options, quanto digital FX options, FX Asian options, FX European barrier options, FX simple digital barrier options, FX touch rebates, inflation options, Bermudan cancellable IRS, European & American FX options, CMS spread options, CMS interest rate caps/floors, (callable) range accruals, outperformance options, auto-callable options, lookback options, flexible forwards	Option pricing model based on unobservable inputs (e.g., correlation)
	Illiquid credit-linked instruments	Collateralised debt obligations (notes)	Valuation model based on correlation of probability of default of underlying assets
	Private equity investments	Private equity and non-quoted participations	Based on the valuation guidelines of the European Private Equity & Venture Capital Association (EVCA)
	Illiquid bonds/asset backed securities	Illiquid (mortgage) bonds/asset backed securities that are indicatively priced by a single pricing provider in an inactive market	BVAL, third-party pricing (e.g., lead manager), where prices cannot be corroborated due to a lack of available/reliable alternative market data
	Debt instruments	KBC own issues (KBC IFIMA)	Discounted cashflow analysis and valuation of related derivatives based on unobservable inputs (indicative pricing by third parties for derivatives)

Note 4.6: Financial assets and liabilities measured at fair value – transfers between levels 1 and 2

- In 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 partly due to a change in the liquidity of government bonds and corporate bonds.
- In 2019, KBC transferred 98 million euros' worth of financial assets and liabilities out of level 1 and into level 2. It also reclassified approximately 654 million euros' worth of financial assets and liabilities from level 2 to level 1. Most of these reclassifications were carried out due to a change in the liquidity of government bonds and corporate bonds.

Note 4.7: Financial assets and liabilities measured at fair value – focus on level 3

- In 2020, significant movements in financial assets and liabilities classified in level 3 of the fair value hierarchy included the following:
    - Financial assets 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.
- In 2019, 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 rose by 44 million euros, due primarily to new positions, changes in fair value and reclassifications into level 3, partly offset by instruments that had reached maturity and sales.

Note 4.8: Derivatives

Note 4.8.1 Trading derivatives

				31-12-2020				31-12-2019
(in millions of EUR)	Carrying value		Notional amount (*)		Carrying value		Notional amount (*)	
	Assets	Liabilities	Purchased	Sold	Assets	Liabilities	Purchased	Sold
Total	0	6	61	61	0	12	162	162
Interest rate contracts	0	6	48	48	0	11	149	149
of which interest rate swaps and futures	*0*	*6*	*48*	*48*	*0*	*11*	*149*	*149*
of which options	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Foreign exchange contracts	0	0	13	13	0	0	13	13
of which currency and interest rate swaps, FX swaps and futures	*0*	*0*	*13*	*13*	*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

31-12-2020

(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.

31-12-2019

(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	598	598	0	32	- 4	Debt securities held at AC	0	0	0		
Currency and interest rate swaps	32	32	0	2	0	Loans and advances at AC	0	0	0		
						Debt securities held at FVOCI	683	27	4		
						Debt securities issued at AC	0	0	0		
						Deposits at AC	0	0	0		
Total	630	630	0	33	- 4	Total			4	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	17	17	0	2	0						
Total	17	17	0	2	0	Total			0	0	- 1
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	6	- 6
More than six months but not more than one year	0	0
More than one but not more than two years	0	0
More than two but not more than five years	5	- 5
More than five years	0	0

5.0 Notes to other balance sheet items

Note 5.1: Other assets

(in millions of EUR)	31-12-2020	31-12-2019
Total	672	681
Debtors arising out of direct insurance operations	381	397
Debtors arising out of reinsurance operations	32	29
Deposits with ceding companies	11	12
Income receivable (other than interest income from financial assets)	4	7
Other	244	237

Note 5.2: Tax assets and tax liabilities

(in millions of EUR)	31-12-2020	31-12-2019
CURRENT TAXES		
Current tax assets	32	37
Current tax liabilities	30	36
DEFERRED TAXES	- 370	- 324
Deferred tax assets by type of temporary difference	109	108
Employee benefits	7	7
Losses carried forward	2	2
Tangible and intangible fixed assets	7	7
Provisions for risks and charges	1	1
Impairment for losses on loans and advances	4	4
Financial instruments at fair value through profit or loss and fair value hedges	53	54
Fair value changes, financial assets at FVOCI, cashflow hedges and hedges of net investments in foreign operations	28	28
Technical provisions	2	3
Other	5	2
Deferred tax liabilities by type of temporary difference	480	432
Employee benefits	0	0
Losses carried forward	0	0
Tangible and intangible fixed assets	5	5
Provisions for risks and charges	9	8
Impairment for losses on loans and advances	0	0
Financial instruments at fair value through profit or loss and fair value hedges	39	39
Fair value changes, financial assets at FVOCI, cashflow hedges and hedges of net investments in foreign operations	329	288
Technical provisions	95	88
Other	3	3
Recognised as a net amount in the balance sheet as follows:		
Deferred tax assets	5	9
Deferred tax liabilities	375	332
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 (-46 million euros in 2020) breaks down as follows:
  - an increase in deferred tax liabilities: +48 million euros;
  - an increase in deferred tax assets: +1 million euros;
- The change in deferred tax liabilities was accounted for chiefly by:
  - the increase in deferred tax liabilities on account of changes in the revaluation reserve for financial instruments measured at fair value through OCI.

Note 5.3: Investments in associated companies and joint ventures

(in millions of EUR)	31-12-2020	31-12-2019
Total	0	3
Overview of investments, including goodwill		
KBC Asset Management SA	0	3
NLB Vita	0	0
Goodwill on associated companies and joint ventures		
Gross amount	0	0
Accumulated impairment	0	0
Breakdown by type		
Unlisted	0	3
Listed	0	0
Fair value of investments in listed associated companies and joint ventures	0	0

* At the end of 2019 a sales agreement was concluded for NLB Vita, which is still subject to regulatory approval.

- Associated companies are companies on whose management KBC exerts significant influence, without having direct or indirect full or joint control. In general, KBC has a 20% to 50% shareholding in such companies. Joint ventures are companies over which KBC exercises joint control.
- Goodwill paid on associated companies and joint ventures is included in the nominal value of ‘Investments in associated companies and joint ventures’ shown on the balance sheet. An impairment test is performed and, if required, the necessary impairment losses on goodwill recognised (see table).

Note 5.4: Property and equipment and investment property

(in millions of EUR)				31-12-2020	31-12-2019
Property, equipment				40	42
Investment property				256	256
Rental income				21	21
Direct operating expenses from investments generating rental income				5	5
Direct operating expenses from investments not generating rental income				0	0
MOVEMENTS TABLE	Land and buildings	IT equipment	Other equipment	Total property and equipment	Investment property
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
2019					
Opening balance	30	3	7	39	260
Acquisitions	5	1	2	8	16
Disposals	- 10	0	- 1	- 10	- 2
Depreciation	- 6	- 1	- 1	- 9	- 16
Other movements	15	0	0	14	- 3
Closing balance	34	2	5	42	256
Accumulated depreciation and impairment	17	8	14	39	214
Fair value 31-12-2019					390

- 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.

Note 5.5: Goodwill and other intangible assets

(in millions of EUR)	Goodwill	Software developed in-house	Software developed externally	Other	Total
2020					
Opening balance	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*
2019					
Opening balance	117	0	14	12	143
Acquisitions	0	2	9	5	17
Disposals	0	0	0	0	0
Amortisation	0	- 2	- 4	- 1	- 7
Other movements	- 6	0	0	- 4	- 10
Closing balance	111	0	20	12	142
Accumulated amortisation and impairment	*199*	*0*	*35*	*19*	*252*

- 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. 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. Free cashflows in the model 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)	31-12-2020	31-12-2019	Discount rates throughout the specific period of cashflow projections 31-12-2020	31-12-2019
DZI Insurance	75	75	8,5%-7,3%	9,0%-8,3%
CSOB Pojist'ovna	18	18	10,4%-6,9%	9,9%-7,6%
Rest	18	18	-	-
Total	111	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 2020 (between 1.2% and 1.7% in 2019).
- No sensitivity analysis was carried out for entities where the recoverable amount exceeded the carrying value to such a large extent that no reasonably possible change in the key assumptions would result in the recoverable amount being less than or equal to the carrying value. The table gives an indication for the other entities of the change in key assumptions that would lead to their recoverable amount equalling their carrying value.

Note 5.6: Technical provisions, insurance

(in millions of EUR)	Gross 2020	Reinsurance 2020	Gross 2019	Reinsurance 2019
Technical provisions	18 724	145	18 565	121
Insurance contracts, Non-life	3 682	137	3 578	114
Provision for unearned premiums	764	2	746	2
Provision for claims outstanding	2 685	134	2 611	112
Provision for profit sharing & rebates	3	0	4	0
Other technical provisions	230	0	218	0
Insurance contracts, Life	8 315	8	7 969	6
Provision for unearned premiums	16	1	14	0
Life insurance provision	7 902	6	7 545	5
Provision for claims outstanding	189	2	188	1
Provision for profit sharing & rebates	22	0	24	0
Other technical provisions	187	0	198	0
Investment contracts with DPF, life	6 727	0	7 019	0
Life insurance provision	6 671	0	6 953	0
Provision for claims outstanding	0	0	0	0
Provision for profit sharing & rebates and other	56	0	66	0

Movements tabel	Gross 2020	Reinsurance 2020	Gross 2019	Reinsurance 2019
Insurance contracts, Non-life				
Opening balance	3 578	114	3 414	115
Movements reflected in earned premiums (income statement)	28	0	53	0
Movements reflected in technical charges (income statement)	101	23	113	- 1
Payments regarding claims of previous financial years	- 367	- 9	- 364	- 35
Provision for new claims	492	17	570	22
Surplus/Shortfall of claims provision of previous financial years	- 56	11	- 101	6
Cost of profit sharing	- 1	0	0	0
Other movements with an impact on results	33	4	9	6
Movements reflected in the balance sheet	- 25	- 1	- 2	0
Closing balance	3 682	137	3 578	114
Insurance contracts, Life				
Opening balance	7 969	6	7 669	5
Movements reflected in earned premiums (income statement)	2	0	1	0
Movements reflected in technical charges (income statement)	123	1	311	1
New business (net of risk premium & charges)	648	0	661	0
Payments (including funding of risk premium)	- 710	0	- 583	0
Accretion of interest	176	1	167	1
Cost of profit sharing	9	0	11	0
Provision for new claims and change in provision for claims outstanding	- 6	1	- 3	0
Fair Value adjustments of unit-linked contracts (not unbundled)	3	0	58	0
Other movements with an impact on results	3	0	1	0
Movements reflected in the balance sheet	221	0	- 12	0
Closing balance	8 315	8	7 969	6
Investment contracts with DPF, life				
Opening balance	7 019	0	7 305	0
Movements reflected in technical charges (income statement)	- 70	0	- 44	0
New business (net of risk premium & charges)	306	0	396	0
Payments (including funding of risk premium)	- 467	0	- 561	0
Accretion of interest	93	0	119	0
Cost of profit sharing	2	0	7	0
Provision for new claims and change in provision for claims outstanding	- 5	0	- 6	0
Fair Value adjustments of unit-linked contracts (not unbundled)	0	0	0	0
Other movements with an impact on results	0	0	0	0
Movements reflected in the balance sheet	- 222	0	- 242	0
Closing balance	6 727	0	7 019	0

- We have reworked the table to facilitate reconciliation with Note 3.7.
- Technical provisions relate to insurance contracts and investment contracts with a discretionary participation feature (DPF).
- Liabilities under investment contracts without DPF are measured at fair value. These liabilities concern mainly unit-linked contracts, which are recognised under financial liabilities (see Note 4.1).

- Technical provisions for life insurance are calculated using various assumptions. Judgement is required when making these assumptions and the assumptions used are based on various internal and external sources of information. At present, IFRS 4 refers extensively to local accounting principles for the recognition of technical provisions. These provisions are generally calculated using the technical assumptions that were applicable at the inception of the insurance contract and are subject to liability adequacy tests. The key assumptions are:
  - mortality and morbidity rates, which are based on standard mortality tables and adapted where necessary to reflect the group's own experience;
  - expense assumptions, which are based on current expense levels and expense loadings;
  - the discount rate, which is generally equal to the technical interest rate, remains constant throughout the life of the policy, and in some cases is adjusted to take account of legal requirements and internal policy decisions.
  - It should be noted that assumptions may vary depending on the type of life insurance (e.g., conventional versus modern), the generation of contracts (mainly the time when the contract is entered into and the applicable terms and conditions) and the country (since we have insurance companies in five of our core markets), making it impossible to quantify these assumptions for the entire group. This is illustrated by the following two points: (i) The discount rate follows the historical market rate and since it concerns a life portfolio, most of which has existed for a long time and also has a long maturity, there are considerable differences within the portfolio. In Belgium alone, discount rates range from 4.75% for the oldest rates to 0.5% and lower for certain modern products. (ii) In terms of mortality risk, unisex mortality tables are used in Belgium, based on the standard 'MK/FK' mortality tables for products sold from 2012 on (before 2012, separate mortality tables were used for men and women). Corrections may still be made to these standard tables, with due consideration being given to the segmentation criteria of the relevant policies. As a result, the range of mortality tables used is extensive.
- Assumptions for the technical provisions for claims outstanding are based on past claims experience relating to claim numbers, claim payments and claims handling costs, and adjusted to take account of such factors as anticipated market experience, claims inflation and external factors such as court awards and legislation. The technical provision for claims outstanding is generally not discounted except when long-term obligations and/or annuities (industrial accidents, guaranteed income and hospitalisation insurance) are involved.
- In 2020, there were no major changes in assumptions leading to a significant change in the valuation of insurance assets and liabilities.
- With effect from 2020, K&H Insurance no longer applies deposit accounting, as a result of which the technical provisions for insurance contracts have gone up by approximately by 250 million euros.

Note 5.7: Provisions for risks and charges

Note 5.7.1: Overview

(in millions of EUR)	31-12-2020	31-12-2019
Total provisions for risks and charges	3	5
Provisions for off-balance-sheet commitments and financial guarantees	0	0
Provisions for other risks and charges	3	5
Provisions for restructuring	0	0
Provisions for taxes and pending legal disputes	1	2
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
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
2019				
Opening balance	0	2	3	6
Movements with an impact on results				
Amounts allocated	0	0	2	2
Amounts used	0	0	- 1	- 1
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	- 2	- 2
Closing balance	0	2	2	5

- 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)	31-12-2020	31-12-2019
Total	857	797
Breakdown by type		
Retirement benefit obligations or other employee benefits	9	10
Deposits from reinsurers	78	71
Accrued charges (other than from interest expenses on financial liabilities)	52	53
Other	719	664

- For more information on retirement benefit obligations, see Note 5.9 (note that the amount recognised under ‘Retirement benefit obligations or other employee benefits’ in Note 5.8 relates to a broader scope than the amounts presented in Note 5.9).

Note 5.9: Retirement benefit obligations

(in millions of EUR)	31-12-2020	31-12-2019
DEFINED BENEFIT PLANS		
Reconciliation of defined benefit obligations		
Defined benefit obligations at the beginning of the period	227	210
Current service cost	9	9
Interest cost	1	3
Actuarial gain or loss resulting from changes in demographic assumptions	0	0
Actuarial gain or loss resulting from changes in financial assumptions	17	17
Experience adjustments	- 16	- 3
Other	- 7	- 9
Defined benefit obligations at the end of the period	231	227
Reconciliation of the fair value of plan assets		
Fair value of plan assets at the beginning of the period	200	151
Actual return on plan assets	7	49
Expected interest income on plan assets, calculated based on the market interest rates of high-quality corporate bonds	*1*	*2*
Employer contributions	7	7
Plan participant contributions	0	0
Benefits paid	- 7	- 9
Other	0	2
Fair value of plan assets at the end of the period	207	200
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	- 24	- 27
Reimbursement rights	0	0
Asset ceiling limit	0	0
Unfunded accrued/prepaid pension cost	- 24	- 27
Movement in net liabilities or net assets		
Unfunded accrued/prepaid pension cost at the beginning of the period	- 27	- 59
Amounts recognised in the income statement	- 9	- 9
Amounts recognised in other comprehensive income	5	35
Employer contributions	7	7
Other	0	0
Unfunded accrued/prepaid pension cost at the end of the period	- 24	- 27
Amounts recognised in the income statement	- 9	- 9
Current service cost	- 9	- 9
Interest cost	0	- 1
Plan participant contributions	0	0
Other	0	0
Changes to the amounts recognised in other comprehensive income	5	35
Actuarial gain or loss resulting from changes in demographic assumptions	0	0
Actuarial gain or loss resulting from changes in financial assumptions	- 17	- 17
Actuarial result on plan assets	6	47
Experience adjustments	16	3
Adjustments to asset ceiling limits	0	0
Other	0	2
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.

Additional information on retirement benefit obligations (in millions of EUR)	2020	2019	2018	2017	2016
Changes in main headings in the main table					
Defined benefit obligations	231	227	2 945	2 861	2 851
Fair value of plan assets	207	200	2 369	2 433	2 336
Unfunded accrued/prepaid pension cost	- 24	- 27	- 598	- 466	- 543

Note 5.10: Parent shareholders' equity

Quantities	31-12-2020	31-12-2019
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 discontinued operations (IFRS 5)

At year-end 2019, NLB Vita fell under the scope of IFRS 5 and is, therefore, presented in the balance sheet under 'Non-current assets held for sale and disposal groups'. The sale was completed at the end of May 2020.

6.0 Other notes

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

(in millions of EUR)	31-12-2020			31-12-2019		
	Nominal amount	Provision	Net exposure	Nominal amount	Provision	Net exposure
Undrawn portion of credit lines granted						
Stage 1	0	0	0	0	0	0
Stage 2	0	0	0	0	0	0
Stage 3 – non-performing	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 – non-performing	0	0	0	0	0	0
Total	3	0	3	3	0	3
Other commitments given						
Total	69	0	69	62	0	62
Total						
Off-balance-sheet commitments and financial guarantees	72	0	72	65	0	65

- Fair value of financial guarantees: based on the available market value.
- The carrying value of financial assets pledged by KBC as collateral came to 2 457 million euros for liabilities and 0 million euros for contingent liabilities (3 671 million euros and 0 million euros, respectively, in 2019). There is an obligation to return collateral received (which may be sold or repledged in the absence of default by the owner; see table) in its original form, or possibly in cash. Collateral can be called in if loans are terminated for various reasons such as default or bankruptcy. In the event of bankruptcy, the collateral will be sold by the receiver. In other cases, the bank will organise the foreclosure itself or take possession of the collateral. Collateral received that relates to OTC derivatives is primarily cash, which is recognised by KBC on the balance sheet (and is not included in the table). More details are provided in Note 4.3.

Collateral received (which may be sold or repledged in the absence of default by the owner) (in millions of EUR)	Fair value of collateral received		Fair value of collateral sold or repledged	
	31-12-2020	31-12-2019	31-12-2020	31-12-2019
Financial assets	2 457	3 671	0	0
Equity instruments	0	0	0	0
Debt securities	2 457	3 671	0	0
Loans and advances	0	0	0	0
Cash	0	0	0	0
Other	0	0	0	0
Property, plant and equipment	0	0	0	0
Investment property	0	0	0	0
Other	0	0	0	0

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)	2020 Parent entities with joint control	Subsidiaries and other entities of group	Associated companies	Joint ventures	Other	Total	2019 Parent entities with joint control	Subsidiaries and other entities of group	Associated companies	Joint ventures	Other	Total
Assets	0	843	4	3	13	863	1	608	14	3	10	637
Loans and advances	0	446	0	0	0	446	0	476	0	0	0	476
Equity instruments (including investments in associated companies and joint ventures)	0	67	4	3	0	74	0	53	14	3	0	70
Other	0	330	0	0	13	343	1	80	0	0	10	91
Liabilities	530	541	0	0	0	1 071	502	1 114	0	0	0	1 616
Deposits	0	467	0	0	0	467	0	1 040	0	0	0	1 040
Other financial liabilities	500	0	0	0	0	500	500	0	0	0	0	500
Other	30	74	0	0	0	104	2	75	0	0	0	76
Income statement	- 133	53	0	0	0	- 79	- 108	66	0	0	0	- 42
Net interest income	- 8	143	0	0	0	135	- 8	153	0	0	0	145
Interest income	0	156	0	0	0	156	0	165	0	0	0	165
Interest expense	- 8	- 13	0	0	0	- 21	- 8	- 12	0	0	0	- 20
Earned premiums, insurance (before reinsurance)	1	18	0	0	0	19	0	0	0	0	0	0
Technical insurance charges (before reinsurance)	0	- 1	0	0	0	- 1	0	0	0	0	0	0
Dividend income	0	4	0	0	0	5	0	0	0	0	0	1
Net fee and commission income	0	- 79	0	0	0	- 79	0	- 84	0	0	0	- 84
Fee and commission income	0	99	0	0	0	99	0	103	0	0	0	103
Fee and commission expense	0	- 177	0	0	0	- 177	0	- 186	0	0	0	- 186
Net other income	0	0	0	0	0	0	1	33	0	0	0	34
General administrative expenses	- 126	- 32	0	0	0	- 158	- 100	- 37	0	0	0	- 137
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	3 798	0	0	0	3 798	0	5 122	0	0	0	5 122

Transactions with key management (members of the Board of Directors and Executive Committee) (in millions of EUR) (*)	2020	2019
Total (*)	0.3	0.4
Breakdown by type of remuneration		
Short-term employee benefits	0.3	0.4
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)	2020	2019
KBC Parent company and its subsidiaries		
Standard audit services	1 144 368	1 091 762
Other services	182 272	110 950
Other certifications	182 272	110 950
Tax advice	0	0
Other non-audit assignments	0	0
KBC Parent company (alone)		
Standard audit services	538 396	469 865
Other services	110 592	10 750

Note 6.5: Subsidiaries, joint ventures and associated companies at year-end 2020

Company	Registered office	Company number	Consoli-dation 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	--	99.76	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
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	reinsurance
Olympus Mobility NV	Brussel - BE	0638.809.930	50.08	computer programming activities
Omnia NV	Leuven - BE	0413.646.305	99.99	travel agency
Pardubická Rozvojová, a.s.	Pardubice - CZ	--	100	real estate
Probemo Dubbele Bedieningen 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	85.07	vehicles
Lubaco BVBA	Ranst - BE	0426.985.189	85.07	vehicles
VAB Fleet Services 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	50	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	35.00	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 2020, KBC Insurance had received income from unconsolidated structured entities in the form of management fees (58 million euros).
- At year-end 2020, KBC Insurance held 4.4 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

- 2020: NLB Vita
    - At the end of 2019, Nova Ljubljanska banka and KBC Insurance NV signed an agreement to sell their respective stakes in the Slovenian 50/50 life insurance joint venture NLB Vita to Sava Re, meaning that KBC would completely withdraw from Slovenia, which is not one of its core markets. The deal was concluded at the end of May 2020 and had a negligible impact on our results.

- 2021: NN's Bulgarian pension and life insurance businesses
    - In February 2021, we reached agreement with NN to acquire its Bulgarian pension and life insurance businesses for 78 million euros. The deal covered all the shares of NN Pension Insurance Company EAD (Bulgaria) and all the assets and liabilities of NN Insurance Co. Ltd. – Sofia Branch (Bulgaria). The acquisition will enable KBC to broaden its extensive bank-insurance offering to customers in Bulgaria by adding high-end pension fund products and to increase its share of the life insurance market, while also providing additional cross-selling opportunities for banking and non-life insurance products in a one-stop shop approach.
    - The deal is still subject to regulatory approval and is expected to be finalised in the course of 2021.
    - The impact of the deal on KBC's solid capital position will be immaterial.

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 2020, the Solvency II ratio came to 222%, more than double the minimum requirement of 100%.

Key solvency figures for KBC Insurance

Solvency II, KBC Insurance consolidated (in millions of EUR)	2020	2019
Own Funds	3 868	3 496
Tier 1	3 368	2 996
IFRS Parent shareholders equity	3 815	3 422
Dividend payout	0	- 156
Deduction intangible assets and goodwill (after tax)	- 136	- 128
Valuation differences (after tax)	- 383	- 196
Volatility adjustment	89	104
Other	- 16	- 49
Tier 2	500	500
Subordinated liabilities	500	500
Solvency Capital Requirement (SCR)	1 744	1 727
Market risk	1 355	1 389
Non-life	583	579
Life	735	689
Health	305	264
Counterparty	101	114
Diversification	-1 027	- 991
Other	- 308	- 316
Solvency II ratio	222%	202%

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 (18 March 2021):

- In February 2021, we reached agreement with NN to acquire its Bulgarian pension and life insurance businesses for 78 million euros. For more information, see Note 6.6.

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 2020

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 5 consecutive years.

Report on the consolidated accounts

Unqualified opinion

We have performed the statutory audit of the Group's consolidated accounts, which comprise the consolidated balance sheet as at 31 December 2020, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cashflow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information, and which is characterised by a consolidated balance sheet total of EUR 37.565 million and a profit for the year (attributable to equity holders of the parent) of EUR 450 million.

In our opinion, the consolidated accounts give a true and fair view of the Group's net equity and consolidated financial position as at 31 December 2020, and of its consolidated income and its consolidated cashflows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium.

Basis for unqualified opinion

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

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

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

PwC Bedrijfsrevisoren BV - PwC Reviseurs d'Entreprises SRL - Financial Assurance Services
Maatschappelijke zetel/Siège social: Woluwe Garden, Woluwedal 18, B-1932 Sint-Stevens-Woluwe
T: +32 (0)2 710 4211, F: +32 (0)2 710 4299, www.pwc.com
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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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.

Estimation uncertainty with respect to technical insurance provisions

Description of the Key Audit Matter

At year-end 31 December 2020 the technical insurance provisions (before reinsurance) amount to EUR 18.724 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.

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.

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Estimation uncertainty with respect to financial instruments measured at fair value

Description of the Key Audit Matter

Details regarding the financial instruments measured at fair value at year-end 31 December 2020 are included in Note 4.5 to the consolidated accounts. For information regarding the determination of fair value 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.

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.

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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.

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.

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

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

- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

Other legal and regulatory requirements

Responsibilities of the board of directors

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

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.

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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.

Other statement

- This report is consistent with the additional report to the audit committee referred to in article 11 of the Regulation (EU) N° 537/2014.

Sint-Stevens-Woluwe, 23 March 2021

The statutory auditor
PwC Bedrijfsrevisoren BV
represented by

Roland Jeanquart
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 Insurances

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) 25/04/2018 of the deposition of the partnership deed OR of the most recent document mentioning the date of publication of the partnership deed and the act changing the articles of association.

ANNUAL ACCOUNTS approved by the General Meeting of		28/04/2021	
concerning the financial year covering the period from	1/01/2020	tot	31/12/2020
Previous period from	1/01/2019	tot	31/12/2019

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

T. Leysen, President Board of Directors, Rosier 21 / 2000 Antwerpen until 29/04/2020

K. Debackere, President Board of Directors, A. Stesselstraat 8 / 3012 Leuven Since 01/11/2020

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

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 8 / 3012 Leuven

K. Debackere, Director, A. Stesselstraat 8 / 3012 Leuven tot 31/10/2020

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

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

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: Nr.°25 'Thematische volksleningen'

Signature

* Optional statement.

** Delete where appropriate

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

D. Falque, Delegated director, Professor Roger Van Overstraetenplein 2 / 3000 Leuven

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

M. Hübbe, Independent director, Professor Roger Van Overstraetenplein 2 / 3000 Leuven

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

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

L. Okkerse, Director, Professor Roger Van Overstraetenplein 2 / 3000 Leuven since 29/04/2020

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

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

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

M. Vanhove, Director, Lindelaan 7 / 3001 Heverlee until 29/04/2020

M. Wittemans, Director, Beatrijslaan 91 / 3110 Rotselaar

Recognised auditor

PwC Bedrijfsrevisoren

Woluwedal 18 te 1932 SINT-STEVENS-WOLUWE 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)

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
A. -	-		
B. Intangible assets (annex no. 1)	**21**	4 402 973	0
I. Formation expenses	211	0	0
II. Intangible assets	212	4 402 973	0
1. Goodwill	212.1	0	0
2. Other intangible assets	212.2	4 402 973	0
3. Prepayments	212.3	0	0
C. Financial Assets (annex no. 1, 2 and 3)	**22**	19 099 064 073	19 389 205 414
I. Land and buildings (annex no. 1)	221	134 234 543	126 939 404
1. Property of own use	221.1	0	0
2. Other	221.2	134 234 543	126 939 404
II. Investments in affiliated undertakings and participations (annex no. 1, 2 and 18)	222	873 016 627	852 550 427
Affiliated undertakings	222.1	864 839 736	845 874 164
1. Shares	222.11	864 839 736	845 874 164
2. Debt securities, loans	222.12	0	0
- Other companies linked by participating interests	222.2	8 176 891	6 676 263
3. Shares	222.21	8 176 891	6 676 263
4. Debt securities, loans	222.22	0	0
III. Other financial assets	223	18 090 913 135	18 408 748 957

Liabilities	Code	Current year	Previous year
A. Equity (annex no 5)	**11**	1 724 213 650	1 369 227 765
I. Subscribed capital or equivalent fund under deduction of the non-uncalled capital	111	65 156 172	65 156 172
1. Subscribed capital	111.1	65 156 172	65 156 172
2. Uncalled capital (-)	111.2	(0)	(0)
II. Share premium	112	1 085 606 053	1 085 606 053
III. Revaluation reserves	113	0	0
IV. Reserves	114	218 085 892	218 412 768
1. Legal reserves	114.1	6 515 617	6 515 617
2. Reserves not available for distribution	114.2	203 833 638	203 833 638
a) own shares	114.21	203 184 639	203 184 639
b) other	114.22	648 999	648 999
3. Untaxed reserves	114.3	7 736 637	8 063 513
4. Reserves available for distribution	114.4	0	0
V. Result brought forward	115	355 365 533	52 772
1. Profit from previous years	115.1	355 365 533	52 772
2. Loss from previous years	115.2	(0)	(0)
VI. -	-		
B. Subordinated liabilities (annex no. 7 and 18)	12	500 000 000	500 000 000
Bbis. Fund for future allocations	**13**	157 578 708	157 578 708

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
1. Shares, participating interests and other variable-yield securities (annex no 1)	223.1	851 099 638	988 538 960				
2. Debt securities and other fixed-income securities (annex no.1)	223.2	14 606 838 357	14 675 235 577	**C. Technical provisions (annex no. 7)**	**14**	16 468 444 663	16 445 437 807
3. Participation in investment pools	223.3	16 028 686	18 002 691	I. Provision for unearned premiums and provision for unexpired risk	141	259 233 560	251 115 437
				II. Life assurance provision	142	13 298 814 229	13 370 462 448
4. Loans guaranteed by mortgages	223.4	1 072 407 617	1 197 949 310	III. Provision for claims outstanding	143	2 291 146 167	2 238 342 177
5. Other loans	223.5	1 121 871 377	1 086 354 959	IV. Provision for bonuses and rebates	144	23 449 280	30 700 507
6. Term deposits with credit institutions	223.6	422 000 000	442 000 000	V. Equalization and catastrophe provision	145	350 382 660	335 693 463
7. Other investments	223.7	667 460	667 460				
IV. Deposits with ceding undertakings	224	899 768	966 626	VI. Other technical provisions	146	245 418 767	219 123 775
D. Assets held for unit-linked funds	**23**	12 818 688 753	13 425 596 589	**D. Technical provisions for unit-linked funds (annex no. 7)**	**15**	12 818 688 753	13 425 596 589
Dbis. Reinsurers' share in technical provisions	**24**	125 005 123	108 389 535	**E. Provisions other than technical provisions**	**16**	7 318 605	8 006 606
I. Provision for unearned premiums and provisions for unexpired risk	241	1 141 804	601 504	I. Provisions for pensions and other obligatory similar obligations	161	3 044 154	2 823 197
II. Life assurance provision	242	7 357 818	6 152 958	II. Provisions for deferred income tax	162	2 578 994	2 687 952
III. Provision for claims outstanding	243	116 457 504	101 548 373	III. Other provisions (annex no 6)	163	1 695 457	2 495 457
IV. Provision for bonusses and rebates	244	0	0	**F. Deposits received from reinsurers**	17	97 175 726	85 643 496
V. Other technical provisions	245	47 997	86 700				

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
VI. Technical provisions for unit-linked funds	246	0	0				
E. Receivables (annex no. 18 en 19)	**41**	179 656 518	233 651 319	**G. Liabilities (annex no. 7 and 18)**	**42**	958 468 690	1 655 706 622
I. Direct insurance receivables	411	95 284 818	109 975 411	I. Amounts payable regarding direct insurance operations	421	350 934 653	314 589 697
1. Receivables from policyholders	411.1	21 031 245	30 173 530	II. Amounts payable regarding reinsurance operations	422	23 632 132	18 484 054
2. Receivables from insurance intermediaries	411.2	11 405 073	10 577 228	III. Non subordinated bonds	423	0	0
3. Other	411.3	62 848 500	69 224 653	1. Convertible bonds	423.1	0	0
				2. Non convertible bonds	423.2	0	0
II. Reinsurance receivables	412	22 424 371	20 748 606	IV. Amounts owed to credit institutions	424	467 943 501	1 040 345 766
III. Other receivables	413	61 947 329	102 927 302				
IV. Called capital as yet unpaid	414	0	0	V. Other liabilities	425	115 958 404	282 287 105
				1. Liabilities regarding taxes, wages and social security charges	425.1	42 375 801	46 195 893
F. Other assets	**25**	307 671 383	273 791 104	a) taxes	425.11	19 801 930	24 138 895
I. Tangible assets	251	293 802	314 315	b) wages and social security charges	425.12	22 573 871	22 056 998
II. Cash	252	104 192 941	70 292 149	2. Other	425.2	73 582 603	236 091 212
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***	207 233 502	232 585 985	**H. Accrued charges and deferred income (annex no 8)**	***434/436***	9 833 530	16 022 353
I. Accrued interest and rent	431	206 335 777	228 222 865				
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	897 725	4 363 120				
TOTAL	***21/43***	32 741 722 325	33 663 219 946	**TOTAL**	***11/43***	32 741 722 325	33 663 219 946

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**	1 123 889 209	1 104 435 071
a) Gross written premium (annex no 10)	710.1	1 164 992 583	1 140 288 477
b) Share of reinsurers in written premium (-)	710.2	(33 525 550)	(29 671 022)
c) Change in gross provisions for unearned premiums and provisions for unexpired risk (increase -, decrease +)	710.3	-8 118 124	-6 162 522
d) Reinsurers' share in change of provision for unearned premiums and for in expired risk (increase+ , decrease -)	710.4	540 300	-19 862
2. Net returns on investment including costs, transferred from the non technical account (post 6)	**711**	0	0
2bis. Investment income	**712**	123 905 751	110 893 047
a) Income from investments in affiliated undertakings and participations	712.1	3 800 000	0
aa) Affiliated undertakings	712.11	3 800 000	0
1° shares	712.111	3 800 000	0
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

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
b) Income from other financial investments	712.2	107 175 339	82 915 481
aa) income from land and buildings	712.21	3 053 537	3 097 488
bb) income from other investments	712.22	104 121 802	79 817 993
c) Reversal of impairments on investments	712.3	3 817 914	14 504 623
d) Realised gains on investments	712.4	9 112 498	13 472 943
3. Other technical income net of reinsurance	**714**	480 456	515 104
4. Claims incurred, net of reinsurance (-)	**610**	(570 706 425)	(618 061 269)
a) Claims paid net of reinsurance	610.1	527 548 909	550 121 672
aa) claims paid gross (annex no 10)	610.11	529 796 642	578 157 285
bb) claims paid reinsurers' share (-)	610.12	(2 247 733)	(28 035 613)
b) Change in provision for claims outstanding net of reinsurance (increase +, decrease -)	610.2	43 157 516	67 939 597
aa) Change in provision for claims outstanding gross (annex no 10) (increase +, decrease -)	610.21	57 567 897	67 086 488
bb) Change in provision for claims outstanding reinsurers' share (increase -, decrease +)	610.22	-14 410 381	853 109
5. Change in other technical provisions - net of reinsurance (increase -, decrease +)	**611**	-26 381 708	-6 725 956

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
6.	**Bonuses and rebates - net of reinsurance (-)**		**612**	(755 520)	(570 164)
7.	**Operating expenses (-)**		**613**	(351 020 336)	(339 224 388)
	a)	Acquisition costs	613.1	273 611 605	274 140 320
	b)	Change in activated acquisition costs (increase -, decrease +)	613.2	0	0
	c)	Administrative expenses	613.3	79 551 030	66 965 428
	d)	Reinsurance commissions and profit participations (-)	613.4	(2 142 299)	(1 881 360)
7bis.	**Costs on investments (-)**		**614**	(38 438 489)	(32 476 008)
	a)	Management and administrative expenses on investments	614.1	19 215 162	19 912 218
	b)	Impairments on investments	614.2	4 263 290	3 661 155
	c)	Realised losses on investments	614.3	14 960 037	8 902 635

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**	(18 486 898)	(21 309 848)
9.	**Change of equalisation provisions - net of reinsurance (increase -, decrease +)**	**619**	-14 689 196	-2 971 360
10.	**Result of the technical account Non-Life**			
	Profit (+)	*710 / 619*	227 796 844	194 504 229
	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**				1 631 389 070	1 461 073 073
	a)	Gross written premium (annex no. 10)		720.1	1 656 193 158	1 484 412 586
	b)	Share of reinsurers in written premium (-)		720.2	(24 804 088)	(23 339 513)
2.	**Investment income**			**722**	676 310 917	765 676 098
	a)	Income from investments in affiliated undertakings and participations		722.1	2 500 000	0
		aa)	affiliated undertakings	722.11	2 500 000	0
			1° shares	722.111	2 500 000	0
			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	550 550 878	623 198 323
		aa)	income from land and buildings	722.21	6 536 093	5 511 950
		bb)	income from other investments	722.22	544 014 785	617 686 373
	c)	Reversal of impairments on investments		722.3	24 283 829	41 681 183
	d)	Realised gains on investments		722.4	98 976 210	100 796 592
3.	**Value adjustments on assets held for unit-linked funds (gains)**			**723**	1 364 322 383	1 237 923 882

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
4. Other technical income net of reinsurance	**724**	3 389 951	3 579 894
5. Claims incurred, net of reinsurance (-)	**620**	(1 940 100 612)	(1 784 478 696)
a) Claims paid net of reinsurance	620.1	1 940 119 585	1 782 851 640
aa) Claims paid gross	620.11	1 962 790 615	1 789 513 548
bb) claims paid reinsurers' share (-)	620.12	(22 671 030)	(6 661 908)
b) Change in provision for claims net of reinsurance (increase +, decrease -)	620.2	-18 973	1 627 056
aa) Change in provision of claims outstanding gross (increase +, decrease -)	620.21	481 027	1 627 056
bb) Change in provision of claims outstanding reinsurers' share (increase -, decrease +)	620.22	-500 000	0
6. Change in other technical provisions - net of reinsurance (increase -, decrease +)	**621**	681 463 497	-621 509 869
a) Change in provisions Life net of reinsurance (increase -, decrease +)	621.1	74 507 667	30 289 046
aa) change in provisions Life gross (increase -, decrease +)	621.11	73 302 807	28 690 072
bb) Change in provisions Life reinsurers' share (increase +, decrease -)	621.12	1 204 860	1 598 974

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
		b) Change in other technical provisions - net of reinsurance (increase -, decrease +)	621.2	606 955 830	-651 798 915
7.	**Bonuses and rebates - net of reinsurance (-)**		**622**	(-6 905 553)	(1 478 926)
8.	**Operating expenses (-)**		**623**	(161 556 648)	(157 121 172)
	a)	Acquisition costs	623.1	93 603 755	106 813 480
	b)	Change in activated acquisition costs (increase +, decrease -)	623.2	0	0
	c)	Administrative expenses	623.3	70 247 343	63 977 427
	d)	Reinsurance commissions and profit participations (-)	623.4	(2 294 450)	(13 669 735)
9.	**Costs on investments (-)**		**624**	(306 012 704)	(256 951 168)
	a)	Management and administrative expenses on investments	624.1	174 699 300	200 905 623
	b)	Impairments on investments	624.2	23 111 736	15 507 722
	c)	Realised losses on investments	624.3	108 201 668	40 537 823
10.	**Value adjustments on assets held for unit-linked funds (losses) (-)**		**625**	(1 804 310 778)	(388 718 127)

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
11.	**Other technical costs - net of reinsurance (-)**	**626**	(15 169 928)	(14 858 633)
12.	**Net returns on investments including costs, transferred to the non-technical account (-)**	**627**	(0)	(0)
12bis.	**Changes in the fund for future allocations (increase -, decrease +)**	**628**	0	-30 000 000
13.	**Result of the technical account Life**			
	Profit (+)	***720 / 628***	136 630 701	213 136 356
	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)*	227 796 844	194 504 229
Loss (-)	*(619 / 710)*	(0)	(0)
2. Result of the technical account life (post 13)			
Profit (+)	*(720 / 628)*	136 630 701	213 136 356
Loss (-)	*(628 / 720)*	(0)	(0)
3. Investment income	**730**	108 463 511	310 675 401
a) Income from investments in affiliated undertakings and participations	730.1	18 591 245	93 525 685
b) Income from other financial investments	730.2	39 643 125	212 855 427
aa) income from land and buildings	730.21	3 639 148	3 739 239
bb) Income from other investments	730.22	36 003 977	209 116 188
c) Reversal of impairments on investments	730.3	23 618 443	7 938 105
d) Realised gains on investments	730.4	26 610 698	-3 643 816
4. Net return on investments including costes transferred from the technical Life insurance account (post 12)	**731**	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
5.	**Costs on investment (-)**	**630**	(15 119 238)	(215 452 648)
	a) Management and administrative expenses on investments	630.1	12 432 230	181 387 921
	b) Impairments on investments	630.2	2 569 737	33 726 529
	c) Realised losses on investments	630.3	117 271	338 198
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**	4 355 730	3 778 543
8.	**Other operating expenses (annes no. 13) (-)**	**632**	(10 974 374)	(11 024 673)
8bis.	**Profit (losses) on ordinary activities before taxes**			
	Profit (+)	*710 / 632*	451 153 174	495 617 208
	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)

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
14.	**-**	**-**		
15.	**Income Tax (-/+)**	**634 / 734**	-93 697 236	-100 080 421
15bis.	**Deferred Tax (-/+)**	**635 / 735**	108 959	-231 885
16.	**Result for the period**			
	Profit (+)	*710 / 635*	357 564 897	395 304 902
	Loss (-)	*635 / 710*	(0)	(0)
17.				
	a) Transfer from tax-free reserves (+)	**736**	326 876	294 431
	b) Transfer to tax-free reserves (-)	**636**	(0)	(1 066 650)
18.	**Result for the period available for appropriation**			
	Profit (+)	*710 / 636*	357 891 773	394 532 683
	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**	357 944 545	394 604 085
	Loss to be appropriated (-)	**637.1 / 710**	(0)	(0)
	1. Profit for the period available for appropriation	710 / 636	357 891 773	394 532 683
	Loss for the period available for appropriation (-)	636 / 710	(0)	(0)
	2. Profit brought forward from previous year	737.1	52 772	71 402
	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	(355 365 532)	(52 772)
	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**	(2 579 013)	(394 551 313)
	1. Dividends	637.5		391 888 849
	2. Director's or manager's entitlements	637.6		
	3. Other beneficiaries	637.7	2 579 013	2 662 464

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

NAME		Code	Relevant activa items		
			B. Intangible assets	C.I. Land and buildings	C.II.1. Shares in affiliated undertakings
			1	2	3
a) ACQUISITION VALUE					
At the end of the previous period		8.01.01	304 000	236 604 248	1 082 328 502
Movements during the period					
. Acquisitions		8.01.021		14 829 841	22 549
. New acquisition costs		8.01.022	4 933 811		
. Sales and disposals	(-)	8.01.023	( )	(9 367 231)	(4 511 310)
. 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	5 237 811	242 066 858	1 077 839 741
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	304 000	109 664 844	236 454 337
Movements during the period :					
. Recorded		8.01.081	530 838	7 534 702	
. Written back	(-)	8.01.082	( )	( )	(23 454 332)
. Acquisitions from third parties		8.01.083			
. Cancelled	(-)	8.01.084	( )	(9 367 231)	( )
. Transfers from one heading to another	(+)(-)	8.01.085			
Depreciation and amounts written down at the end of period		8.01.09	834 838	107 832 315	213 000 005
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	4 402 973	134 234 543	864 839 736

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

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		14 236 204	
Movements during the period					
. Acquisitions		8.01.021		3 141	
. New acquisition costs		8.01.022			
. Sales and disposals	(-)	8.01.023	(0)	(0)	(0)
. 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	0	14 239 345	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			
. 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		58 454	
d) UNCALLED AMOUNTS (art. 29, § 1.)					
Uncalled amounts at the end of the previous period		8.01.10		7 501 487	
Movements during the period	(+)(-)	8.01.11		-1 497 487	
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	8 176 891	0

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

NAME		Code	Relevant activa items: C.III.1. Shares, participating interests and other var-yield securities.	Relevant activa items: C.III.2. Debt securities and other fixed-income
			7	8
a) ACQUISITION VALUE				
At the end of the previous period		8.01.01	1 039 136 872	14 711 749 152
Movements during the period				
. Acquisitions		8.01.021	430 579 467	1 692 518 595
. New acquisition costs		8.01.022		
. Sales and disposals	(-)	8.01.023	(573 845 307)	(1 792 704 798)
. Transfers from one heading to another	(+)(-)	8.01.024		
. Other movements	(+)(-)	8.01.025		37 467 550
Acquisition value at the end of the period		8.01.03	895 871 032	14 649 030 499
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	50 597 912	36 513 575
Movements during the period :				
. Recorded		8.01.081	22 192 269	5 806 664
. Written back	(-)	8.01.082	(1 044 382)	(53 039)
. Acquisitions from third parties		8.01.083		
. Cancelled	(-)	8.01.084	(26 974 405)	(75 058)
. Transfers from one heading to another	(+)(-)	8.01.085		
Depreciation and amounts written down at the end of period		8.01.09	44 771 394	42 192 142
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	851 099 638	14 606 838 357

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		2019	EUR	4 227,00	4 552,00
MAATSCHAPPIJ BRANDHERVERZEKERING CV, PROF. ROGER VAN OVERSTRAETENPLEIN 2, 3000 LEUVEN	24 799,00	90,18		2019	EUR	8 126,00	73,00
OMNIA NV, MGR. LADEUZEPLEIN 15, 3000 LEUVEN	14 187,00	100,00		2019	EUR	5 199,00	406,00
AIA-POOL CV, CHAUSSEE DE JETTE 221, 1080 BRUSSEL	502,00	33,47		2019	EUR	402,00	-11,00
ASSURCARD NV, FONTEINSTRAAT 1A/301 , 3000 LEUVEN	900,00	20,00		2019	EUR	3 021,00	85,00
BUSINESS BREWERY, INTERLEUVENLAAN 62, 3001 LEUVEN	20,00	4,76		2019	EUR	1 718,00	-135,00
BEDR. CENTR. VILVOORDE NV, MECHELSESTEENWEG 277, 1800 VILVOORDE	300,00	8,26		2019	EUR	1 097,00	-46,00
BELGISCH GEMEENSCHAPPELIJK WAARBORGFONDS, LIEFDADIGHEIDSSTRAAT 33 BUS 1, 1210 BRUSSEL	1,00	2,17		2019	EUR	39,00	-4,00
HUIS DER VERZEKERING CV, DE MEEUSPLANTSOEN 29, 1000 BRUSSEL	2 939,00	11,29		2019	EUR	2 800,00	20,00
DOUBLE U BUILDING BV, WATERMANWEG 92, 3067 GG ROTTERDAM, NEDERLAN	330 000,00	100,00		2019	EUR	48 035,00	1 022,00
BEM NV, LOMBARDSTRAAT 34-42, 1000 BRUSSEL	1 500,00	6,47		2019	EUR	3 639,00	708,00
KBC GROUP RE SA, 4 RUE DU FORT WALLIS, L-2714 LUXEMBOURG, LUXEMBURG	544,00	100,00		2019	EUR	72 634,00	12 904,00
RE-TAIL RETURN PARTNERS 1 CVA, KLEISTRAAT 68, 1785 MERCHTEM	1 637 921,00	10,04		2019	EUR	14 018,00	25,00
IMEC.XPAND, KAPELDREEF 75, 3001 HEVERLEE	100 000,00	8,56		2019	EUR	42 690,00	-1 960,00
SPORTCOMPLEX AALST NV, HAVENLAAN 2, 1080 BRUSSEL	1 000,00	100,00		2019	EUR	13 265,00	406,00
CSOB POJIST'OVNA A.S. CLEN HOLDINGU CSOB, MASARYKOVO NAM. 1458, 532 18 PARDUBICE, TSJECHIE	339,00	99,71		2019	CZK	4 710 466,00	1 197 619,00
CSOB POIST'OVNA AS, ZIZKOVA 11, 811 020 BRATISLAVA, SLOVAKIJE	1 676,00	100,00		2019	EUR	57 842,00	10 026,00
DZI INSURANCE, 89B VITOSHA BLVD., 'MILENIUM' BUSINESS CENTER, SOFIA 1463, BULGARIJE	3 860 000,00	100,00		2019	BGN	185 116,00	6 562,00
GROEP VTB-VAB NV, PASTOOR COPLAAN 100, 2070 ZWIJNDRECHT	13 777,00	100,00		2019	EUR	16 106,00	2 155,00
K&H INSURANCE, LECHNER ODON FASOR 9, 1095 BUDAPEST, HONGARIJE	478,00	100,00		2019	HUF	15 270 000,00	5 785 000,00
SPORTCOMPLEX HEIST-OP-DEN-BERG NV, HAVENLAAN 2, 1080 BRUSSEL	1 060,00	100,00		2019	EUR	8 010,00	299,00
KBC VERZ. VASTGOED NEDERLAND I BV, WATERMANWEG 92 , 3067 GG ROTTERDAM, NEDERLAND	115 000,00	100,00		2019	EUR	69 649,00	1 713,00

(*) according to the official codification

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

Assets				Codes	Amounts
C.	Financial assets			8.03	22 437 545 413
	I.	Land and buildings.		8.03.221	242 247 372
	II.	Investments in affiliated undertakings and participations.		8.03.222	1 269 151 017
		-	Affiliated undertakings.	8.03.222.1	1 260 782 175
		1.	Shares	8.03.222.11	1 260 782 175
		2.	Debt securities, loans.	8.03.222.12	0
		-	Other companies linked by participating interests.	8.03.222.2	8 368 842
		3.	Shares	8.03.222.21	8 368 842
		4.	Debt securities, loans.	8.03.222.22	0
	III.	Other financial assets		8.03.223	20 925 247 256
		1.	Shares, participating interests and other variable-yield securities	8.03.223.1	1 123 799 850
		2.	Debt securities and other fixed-income securities.	8.03.223.2	16 746 880 089
		3.	Participation in investment pools.	8.03.223.3	19 094 962
		4.	Loans guaranteed by mortgages.	8.03.223.4	1 089 754 833
		5.	Other loans.	8.03.223.5	1 406 091 634
		6.	Term deposits with credit institutions.	8.03.223.6	538 958 428
		7.	Other.	8.03.223.7	667 460
	IV.	Deposits with ceding undertakings.		8.03.224	899 768

A/	B/	C/	0403552563	2020-12-31	00014	EUR

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 (nominal: 393.500.000)	-8 192 487	-35 151 539

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	176 714 966	142 313 769
Other companies linked by participating interests.		
3. Shares	163 898	0

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

Breakdown of the assets G.III. if the amount is significant.	Amount
Interest receivable pro rata	30 150
Fond end fees	867 575

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.)			
Unpaid capital from shareholders			
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 Insurances 48.889

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

	Amounts
Breakdown of the liabilities E.III. if the amount is significant.	
Provisions ongoing litigations	590 563
Provision NIHDI - life	780 894
Provisions concerning possible future expenses for divestments on financial fixed assets	324 000

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 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	19 801 930
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	22 573 871

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	467 943 501
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	467 943 501
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	467 943 501

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.	
Fond end fees	4 198 952
Pro rata payable interests	5 042 319

Nr. 9. Components of assets and liabilities concerning the management for one's 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).

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	1 164 992 583	1 157 157 304	177 050 803	236 979 326	154 180 331	1 209 064	407 050 226	78 931 294		15 793 318	60 394 403	25 568 539	7 835 279
2)Gross earned premium	8.10.02	1 156 874 462	1 149 045 342	176 425 361	237 455 763	153 305 471	1 190 729	401 516 070	78 201 163		15 474 033	59 967 247	25 509 505	7 829 120
3)Gross claims	8.10.03	587 364 540	575 211 180	92 237 247	154 156 858	65 796 054	195 391	148 228 499	74 046 337		5 276 686	28 003 417	7 270 691	12 153 360
4)Gross operating expenses	8.10.04	353 162 633	350 413 484	42 611 626	64 270 771	46 209 495	334 561	141 809 475	26 526 131		4 205 178	15 520 123	8 926 124	2 749 149
5)Reinsurance balance	8.10.05	-15 497 294	-17 921 820	-3 208 374	7 614 513	-189 692		-24 157 615	2 299 034		4 771	-269 029	-15 428	2 424 526
6)Commission (art. 37)	8.10.06		224 687 518											

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	1 656 190 489
a) 1. Individual premiums :	8.10.08	1 334 555 946
2. Premiums regarding group insurance contracts:	8.10.09	321 634 543
b) 1. Periodic premiums :	8.10.10	847 826 026
2. Single premiums :	8.10.11	808 364 463
c) 1. Premiums regarding non-bonus contracts :	8.10.12	326 141 195
2. Premiums regarding bonus contracts :	8.10.13	579 349 585
3. Premiums for unit-linked contracts :	8.10.14	750 699 709
2) Reinsurance balance :	8.10.15	1 692 932
3) Commissions (art. 37):	8.10.16	69 622 604
B. Reinsurance received		
Gross premiums :	8.10.17.720.1	2 669
III. Non-Life insurance and Life-Insurance, direct business		
Gross premiums :		
- in Belgium :	8.10.18	2 809 606 373
- in other Member States of E.E.C:	8.10.19	3 741 420
- in other countries :	8.10.20	

A/ B/ C/ 0403552563 2020-12-31 00014 EUR

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	1 238	1 327
b)	the average number of employees employed by the company during the current year and during the previous	8.11.11	1 141	1 205
	- Management staff	8.11.11.1	10	11
	- Employees	8.11.11.2	1 131	1 194
	- Workers	8.11.11.3		
	- Others	8.11.11.4		
c)	number of working hours	8.11.12	1 605 450	1 647 791

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	11	21
b)	the average in number in full-time equivalents calculated as recorded in	8.11.21	14	30
c)	number of working hours	8.11.22	27 701	58 945

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	106 218 494
1. a)Salaries	8.12.111	74 925 519
b)Pension costs	8.12.112	
c)Other direct social benefits	8.12.113	
2.Employer's contribution for social security	8.12.12	19 803 391
3.Employer's contribution and premiums for extra-statutory insurance	8.12.13	6 771 583
4.Other personal charges	8.12.14	3 011 253
5.Provisions for pension costs, salaries and social charges	8.12.15	422 917
a)Allowances (+)	8.12.15.1	22 047 241
b)Decrease (-)	8.12.15.2	(21 624 324)
[6. Temporary personnel or persons at the disposal of the enterprise	8.12.16]	1 283 831
II. Services and other goods*	8.12.2	185 386 475
III. Depreciations and amounts written down on intangible fixed assets and tangible fixed assets, other than investments*	8.12.3	590 948
IV. Provisions for other liabilities and charges*	8.12.4	-800 000
1.Allowances (+)	8.12.41	
2.Decrease (-)	8.12.42	(800 000)
V.Other current expenses*	8.12.5	10 720 532
1.Fiscal operating expenses*	8.12.51	5 598 311
a)Property taxes	8.12.511	611 779
b)Other	8.12.512	4 986 532
2.Contributions payed to public entities*	8.12.52	4 801 478
3.Theoretical costs*	8.12.53	
4.Other	8.12.54	320 743
VI. Recovered administration expenses and other current revenues (-)	8.12.6	(20 156 193)
1.Recovered administration expenses	8.12.61	19 585 742
a)Received renumerations for performances of management of collective pension funds on behalf of third parties	8.12.611	
b)Other*	8.12.612	19 585 742
2.Other current revenues.	8.12.62	570 451
TOTAL	8.12.7	281 960 256

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	1 910 003
Fee concerning bond lending	745 833
Capital gains on realization intermediaries	478 698
B. Breakdown of the OTHER OPERATING EXPENSES (8. of the non technical account), if the amount is significant.	
Impairment of bad debts	1 593 635
Interests on subordinated loans	7 769 264
Interests on bank accounts	910 777

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	95 837 400
1.Income taxes on the result of the current period:	8.15.1.634.1	86 540 394
a. Advance payments and refundable prepayments	8.15.1.634.11	81 108 618
b. Other deductible components	8.15.1.634.12	2 236 925
c. Surplus of the advance payments and/or of the refundable prepayments (-)	8.15.1.634.13	( )
d. Estimated additional charges for income taxes (included in liabilities item G.V.1.a))	8.15.1.634.14	3 194 851
2.Income taxes on the result of the previous periods :	8.15.1.634.2	9 297 006
a) Additional taxes payed or payable :	8.15.1.634.21	
b) Estimated additional charges for income taxes (included in liabilities item G.V.1.a)) or for which provision has been established (included in liabilities item E.II.2))	8.15.1.634.22	9 297 006

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	-37 031 557
Capital gains on shares to a specific tax regime, exemption reversal impairments, rejected impairments and realised losses on equity	-32 776 183
Non-taxable items DBI (after deductions made by the newly introduced bank and insurance tax)	-50 976 335
Non-deductible expenses (other than realised gains and depreciations on shares and corporation taxation)	4 274 358

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	115 091 803	117 783 079
2.Other taxes of the company itself	8.16.12	6 899 234	5 927 215
B. The deducted amounts supported by third parties by means of :			
1.Payroll withholding taxes	8.16.21	45 109 277	45 614 251
2.Withholding taxes on Investment Income (on dividends)	8.16.22		

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. Security given by third parties or irrevocably promised for account of the company* :	8.17.00	
B. Personal security given by the company or irrevocably promised for account of third parties*	8.17.01	208 999 522
C. Collateral security on own equity given by the company or irrevocably promised as security of the rights and obligations* :		
a) of the company :	8.17.020	2 776 650 339
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	3 754 348 640
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	393 500 000
f)Transactions on interest (sales, ...) :	8.17.045	393 500 000
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	

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
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	
H. Other (to be determined) :	8.17.07	2 155 502 000
Commitment to deliver by KBC Insurances		2 000 000 000
Commitment to deliver by counterparty		155 502 000

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
- C II.Investments in affiliated undertakings and participations	8.18.222	864 839 736	845 874 164	8 176 891	6 676 263
1 + 3 Participations	8.18.222.01	864 839 736	845 874 164	8 176 891	6 676 263
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	34 960 075	46 032 847	3 370 898	535 310
I. Direct insurance receivables	8.18.411	1 498 907	865 928		
II. Reinsurance receivables	8.18.412	1 384 232	3 435 003	3 370 898	535 310
III. Other receivables	8.18.413	32 076 936	41 731 916		

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
- B.	Subordinated liabilities		8.18.12	500 000 000	500 000 000		
- G.	Liabilities		8.18.42	515 587 665	1 217 639 292	150 326	0
	I.	Amounts payable regarding insurance operations	8.18.421	4 804 462	6 227 568		
	II.	Amounts payable regarding reinsurance operations	8.18.422	678 660	334 444	150 326	0
	III.	Non subordinated bonds	8.18.423				
	IV.	Amounts owed to credit institutions	8.18.424	467 943 501	1 040 345 766		
	V.	Other liabilities	8.18.425	42 161 042	170 731 514		

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	139 885 190	141 852 418
- 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	868 989	842 063
- Other investment income	8.18.54	27 211 931	108 130 406

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	338 651
- 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	538 396
2. Fees for exceptional services or special services provided to the company by the auditor(s)	8.19.6	110 592
- Other audit services	8.19.61	110 592
- 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.

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.

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.
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.

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.

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.

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* 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 coronavirus pandemic triggered a sequence of market events that resulted in a significant deterioration in economic growth and the economic outlook, and led to unprecedented policy responses by central banks and governments in all parts of the world.
The "Review of the company annual accounts of KBC Insurance NV at 31 December 2020" contains additional information on the impact of the coronavirus on the results in 2020 of KBC Insurance.
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?’)

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.

Nr.	0403552563		1

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	688,00	379,00	309,00
Part-time	1002	596,00	94,00	502,00
Total of full-time equivalents (FTE)	1003	1 141,00	449,00	692,00
Number of hours-actually worked				
Full-time	1011	1 029 721,00	568 938,00	460 783,00
Part-time	1012	575 729,00	80 769,00	494 960,00
Total	1013	1 605 450,00	649 707,00	955 743,00
Personnel costs				
Full-time	1021	65 971 094,00	39 519 946,00	26 451 148,00
Part-time	1022	37 230 559,00	6 281 548,00	30 949 011,00
Total	1023	103 201 654,00	45 801 495,00	57 400 159,00
Advantages in addition to wages	1033	2 255 352,00	1 000 938,00	1 254 414,00

During the previous period	Codes	**P. Total**	**1P. Men**	**2P. Women**
Average number of employees	1003	1 205,00	471,00	734,00
Number of hours actually worked	1013	1 647 791,00	676 020,00	971 771,00
Personnel costs	1023	109 180 955,00	49 108 025,00	60 072 930,00
Advantages in addition to wages	1033	2 205 570,00	992 034,00	1 213 536,00

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	668,00	570,00	1 103,00
By nature of the employment contract				
Contract for an indefinite period	110	666,00	570,00	1 101,00
Contract for a definite period	111	2,00		2,00
Contract for the execution of a specifically assigned work	112			
Replacement contract	113			
According to the gender and by level of education				
Male	120	368,00	93,00	437,00
primary education	1200			
secondary education	1201	32,00	19,00	44,00
higher education (non-university)	1202	198,00	56,00	241,00
university education	1203	138,00	18,00	152,00
Female	121	300,00	477,00	666,00
primary education	1210			
secondary education	1211	27,00	78,00	83,00
higher education (non-university)	1212	170,00	321,00	417,00
university education	1213	103,00	78,00	166,00
By professional category				
Management staff	130	10,00		10,00
Employees	134	658,00	570,00	1 093,00
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	14,00	
Number of hours actually worked	151	27 701,00	
Charges of the enterprise	152	1 025 890,00	

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	33,00	16,00	46,00
By nature of the employment contract				
Contract for an indefinite period	210	31,00	16,00	44,00
Contract for a definite period	211	2,00		2,00
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	67,00	71,00	118,00
By nature of the employment contract				
Contract for an indefinite period	310	64,00	71,00	115,00
Contract for a definite period	311	3,00		3,00
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	4,00	3,00	6,00
Unemployment with company allowance	341			
Dismissal	342	6,00	25,00	20,00
Other reason	343	57,00	43,00	92,00
Of which: the number of persons who continue to render services to the enterprise at least half-time on a self-employed basis	350			

INFORMATION WITH REGARD TO TRAINING RECEIVED BY EMPLOYEES DURING THE PERIOD

Total number of official advanced professional training projects at company's expense	Codes	Male	Codes	Female
Number of participating employees	5801	321,00	5811	505,00
Number of training hours	5802	3 130,00	5812	4 109,00
Costs for the company	5803	473 450,00	5813	744 835,00
of which gross costs directly linked to the training	58031	406 932,00	58131	640 189,00
of which paid contributions and deposits in collective funds	58032	66 518,00	58132	104 646,00
of which received subsidies (to be deducted)	58033		58133	
Total number of less official and unofficial advance professional training projects at company expense				
Number of participating employees	5821	455,00	5831	780,00
Number of training hours	5822	5 909,00	5832	9 302,00
Costs for the company	5823	373 326,00	5833	639 987,00
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 2020

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

1. Balance sheet

KBC Verzekeringen NV (x 1.000 EUR)	**31-12-2020**	**31/12/2019**	**Verschil**	**%verschil**
ACTIEF	**32.741.722**	**33.663.220**	**-921.498**	**-2,7%**
Immateriele activa	4.403	0	4.403	-
Beleggingen	19.099.064	19.389.205	-290.141	-1,5%
Beleggingen Tak 23	12.818.689	13.425.597	-606.908	-4,5%
Deel van de herverzekeraar in de technische voorzieningen	125.005	108.390	16.616	15,3%
Vorderingen	179.657	233.651	-53.995	-23,1%
Overige activabestanddelen	307.671	273.791	33.880	12,4%
Overlopende rekeningen	207.234	232.586	-25.352	-10,9%
PASSIEF	**32.741.722**	**33.663.220**	**-921.498**	**-2,7%**
Eigen vermogen (na winstverdeling)	1.724.214	1.369.228	354.986	25,9%
Resultaat van het boekjaar	0	0	0	-
Achtergestelde schulden	500.000	500.000	0	-
Fonds voor toekomstige toewijzingen	157.579	157.579	0	0,0%
Technische voorzieningen	16.468.445	16.445.438	23.007	0,1%
Technische voorzieningen Tak 23	12.818.689	13.425.597	-606.908	-4,5%
Voorzieningen voor overige risico's en kosten	7.319	8.007	-688	-8,6%
Deposito's ontvangen van herverzekeraars	97.176	85.643	11.532	13,5%
Schulden	958.469	1.655.707	-697.238	-42,1%
Overlopende rekeningen	9.834	16.022	-6.189	-38,6%

The balance sheet total fell by 921 million euros, with the decline in investments including unit-linked ones (897 million euros) being the main factor on the assets side, while the decrease in technical provisions including for unit-linked investments and in amounts payable (1 281 million euros) – offset in part by an increase in equity (355 million euros in profit carried forward for the financial year) – were the main ones on the liabilities side.

1.1 Assets

Intangible assets

(x 1.000 EUR)	31/12/2020	31/12/2019	Change
212.2: Intangible assets	**4 403**	**0**	**4 403**
Intangible assets: AV	4 934	0	4 934
Intangible assets: depreciation	-531	0	-531

This item related to the capitalised expenses of the Newgrange project (i.e. the start-up of the Irish insurance business).

Investments

(x 1.000 EUR)	31/12/2020	31/12/2019	Change	% change
Investments in affiliated companies and participating interests	873 017	852 550	20 466	2,4%
Shares	851 100	988 539	-137 439	-13,9%
Bonds and other fixed-income securities	14 606 838	14 675 236	-68 397	-0,5%
– Bonds and other long-term investments	14 593 849	14 564 496	29 353	*0,2%*
– Commercial paper	12 989	110 740	-97 751	*-88,3%*
Unit-linked	12 818 689	13 425 597	-606 908	-4,5%
Mortgage loans	1 072 408	1 197 949	-125 542	-10,5%
Deposits at credit institutions > 1 year (L&R deposits)	422 000	442 000	-20 000	-4,5%
Real estate	134 235	126 939	7 295	5,7%
Other loans	994 945	979 247	15 697	1,6%
Other	144 523	126 744	17 778	14,0%
Total investments	**31 917 753**	**32 814 802**	**-897 049**	**-2,7%**
Total investments-to-assets ratio	**97,5%**	**97,5%**		

‘Investments in affiliated companies and participating interests’ increased by 21 million euros, primarily on account of:

- the reversal of impairment charges for ADD (+24 million euros)
- the capital increase at Imec Xpand CVA (+2 million euros), without any new shares being acquired
- the sale of NLB Vita (-4 million euros)
- the sale of KBC Asset Management Luxembourg to KBC Asset Management (-1 million euros)

‘Shares’ were down 137 million euros (or -14%) on their year-earlier level, primarily on account of the volume of the share portfolio (under IFRS) falling from over 1.2 billion euros to 1.05 billion euros as a result of the coronavirus crisis.

‘Bonds and other fixed-income securities’ fell by 68 million euros year-on-year, due mainly to bonds that had either reached maturity, been called or been sold (-1 685 million euros) more than offsetting bonds purchased (+1 575 million euros). The value adjustments recorded amounted to 43 million euros.

For unit-linked investments, see the liabilities side.

‘Mortgage loans’ rose by 126 million euros. This portfolio chiefly comprises mortgage loans that KBC Bank has transferred to KBC Insurance. This operation started in April 2016 and had a target volume of 1.2 billion euros, which was achieved in the first quarter of 2019, after which the portfolio was maintained at that level. As of the second quarter of 2020, however, no additional mortgage loans were transferred from KBC Bank to KBC Insurance, which meant that the outstanding portfolio decreased as a result of loans being paid off according to contract.

‘Deposits at more than one year’ fell by 20 million euros, owing to a deposit reaching maturity that was not renewed.

‘Real estate’ grew by 17 million euros, with the largest movement accounted for by the buildings located at Liers-Milmort. An old building was completely demolished (and derecognised) and a new one purchased (+14 million euros). Depreciation recognised on real estate equalled -7 million euros.

The ‘Other loans’ item rose by 16 million euros. New loans were granted to ‘Stad Gent’ (60 million euros) and the ‘Brussels Woningfonds’ (10 million euros), both of which were drawn down in full. The increase was offset by loans being fully or partially paid off according to contract.

Other investments rose by 18 million euros, as a result of the increase in advances on life insurance contracts (+20 million euros) and the decrease in investments in mutual funds (-2 million euros).

Other asset items

‘Reinsurers’ share in technical provisions’ rose by 17 million euros (including for amounts still to be recovered and the premium reserve). There were a number of large ‘Fire’ claims and one new ‘Motor’ claim for underwriting year 2020, while there was an increase in two ‘Motor’ claims for earlier underwriting years (i.e. 1995 and 1986). In December, Multiline 2020 was capitalised and recognised as an IBNR claim.

‘Amounts receivable’ fell by 54 million euros, largely as a result of the decrease in taxes to be recovered (-14 million euros) (when taxes were being paid in advance in 2019, no account was taken at the time of a possible impairment reversal from the recourse reserves, taxes to be recovered in 2019 could be carried forward as an advance payment to the new financial year (-16 million euros)) and a decrease in receivables relating to various suspense accounts (-36 million euros) – see the offsetting ‘Other amounts payable’ item).

‘Other asset items’ went up by 34 million euros to 308 million euros (a snapshot and very volatile).

The outstanding balance of deferred charges and accrued income (207 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)	31/12/2020	31/12/2019	Change	% change
Issued capital	65 156	65 156	0	0,0%
Share premium account	1 085 606	1 085 606	0	0,0%
Reserves	218 086	218 413	-327	-0,1%
Profit (Loss) carried forward	355 366	53	355 313	673292,9%
Totaal equity	**2 082 105**	**1 369 228**	**712 878**	**52,1%**

The profit available for appropriation for financial year 2020 was 358 million euros, comprising retained earnings of 355 million euros and a profit bonus of 2.6 million euros. No dividend will be distributed for the financial year 2020.
The profit available for appropriation for financial year 2019 totalled 395 million euros, comprising a dividend payment of 392 million euros, a profit bonus of 3 million euros and retained earnings of 0.1 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)	30/06/2020	31/12/2019	Change	% change
13: Fund for future appropriation	**157 579**	**157 579**	**0**	**0,0%**

At year-end 2019, 30 million euros had been allocated to the fund for future appropriation (to reserve extraordinary capital gains on the share portfolio for future years in view of the transition to IFRS 17).
No additional allocation was made to the fund in 2020 (due to the impact of the coronavirus crisis on the financial results).

Technical provisions

(x 1.000 EUR)	31/12/2020	31/12/2019	Change	% change
Provision for unearned premiums and unexpired risk	259 234	251 115	8 118	3,2%
Life insurance provision	13 298 814	13 370 462	-71 648	-0,5%
Provision for claims outstanding	2 291 146	2 238 342	52 804	2,4%
Provision for profit sharing and rebates	23 449	30 701	-7 251	-23,6%
Provision for equalization and catastrophe risks	350 383	335 693	14 689	4,4%
Other technical provisions	245 418	219 124	26 294	12,0%
– Indexation reserve	*33 647*	*33 647*	*0*	*0,0%*
– Ageing reserve	*158 393*	*153 000*	*5 393*	*3,5%*
– Pensions for white-collar workers (KB69)	*1 072*	*1 156*	*-84*	*-7,3%*
– Premium deficiency reserve	*52 307*	*31 321*	*20 986*	*67,0%*
– Fluctuation reserve (Sepia)	*0*	*0*	*0*	-
Total technical provisions (excl. unit-linked insurance)	**16 468 444**	**16 445 438**	**23 006**	**0,1%**
Unit-linked insurance	**12 818 689**	**13 425 597**	**-606 908**	**-4,5%**
Total technical provisions (incl. unit-linked insurance)	**29 287 133**	**29 871 035**	**-583 902**	**-2,0%**
% Total technical provisions-to-liabilities ratio	**89,4%**	**88,7%**		**+0,4 pp**

The ‘Provision for unearned premiums and unexpired risk’ relates to the premium reserve (+7 million euros) and commission reserve (+1 million euros) for the non-life insurance business.

The ‘Life insurance provision’ was down 72 million euros on its year-earlier level, owing primarily to the decline in the actuarial reserves for the ‘modern portfolio’ (-58 million euros, with -266 million euros for net outflows of cash due to internal transfers and benefits paid/surrendered contracts/matured contracts, +193 million euros for ‘uprenting’ costs and +15 million euros for interest allocated under profit-sharing) and the ‘classic portfolio’ (-16 million euros).

The provision for claims outstanding – which relates to the non-life insurance business – increased by 53 million euros in 2020.

The ‘Provision for profit sharing and rebates’ was down by 7 million euros on its year-earlier figure.
Profit allocation of -15 million euros was recorded (interest under profit-sharing) and -1 million euros (death benefits under profit-sharing), as was a transfer of 8 million euros for 2020 (interest) and 1 million euros (death benefits).

The ‘Provision for equalisation and catastrophe risks’ rose by 15 million euros in 2020, mainly on account of a net transfer to it under the ‘Storm’ (+3 million euros), ‘Flood’ (+10 million euros) and ‘Attacks’ (+2 million euros) classes.

‘Other technical provisions’ rose by 26 million euros as a result of the higher ageing reserve (+5 million euros) and the 21-million-euro increase in the premium deficiency reserve (additional provision for individual hospitalisation).

The provision for unit-linked life insurance (individual and group) was down 607 million euros on the year-earlier figure, which was accounted for by the negative trend in share prices (-440 million euros) and a net decrease (-167 million euros) in purchases (premiums, internal transfers) relative to sales (payments).

Other liability items

Provisions for other liabilities and charges concern mainly the reduction in the general HR provision.

‘Amounts payable’ fell by 697 million euros, owing mainly to a decrease in the repo position entered into with KBC Bank (-555 million euros), in the amount payable for the dividend to be paid under the profit distribution scheme (-156 million euros – no dividend will be paid for financial year 2020) and in the amount payable for various suspense accounts (-36 million euros) – also see ‘Other amounts receivable’.

Accrued charges and deferred income came to 10 million euros and comprised mainly an upfront fee relating to the asset swap portfolio (4 million euros) and accrued interest on swap contracts (5 million euros). The 6-million-euro decline on the figure at year-end 2019 was attributable primarily to the lower upfront fee and accrued interest on swap contracts (-4 million euros – due to a number of payer swaps maturing in September 2020) and the lower fee payable to KBC Asset Management for managing the bond portfolio (-2 million euros – already billed in December 2020, whereas in the previous financial year it had only been billed in the first quarter of the following year).

2. Income statement

Profit and loss reporting 31/12/2020				
(x 1.000 EUR)	**31/12/2020**	**31/12/2019**	**Difference**	**% difference**
Non life				
Net earned premiums	1 123 889	1 104 435	19 454	1,8%
Net claims	-630 539	-649 123	18 584	-2,9%
Net technical result	493 350	455 312	38 038	8,4%
Investment income & expense	85 467	78 417	7 050	9,0%
Net operating expenses	-351 020	-339 224	-11 796	3,5%
Result of the technical account Non-Life	227 797	194 504	33 293	17,1%
Net los ratio non-life	54,8%	58,4%		
Net cost ratio non-life	31,0%	30,5%		
Combined ratio non-life	85,8%	88,9%		
Life				
Class 21 and 26				
Net earned premiums	880 725	969 824	-89 099	-9,2%
Net claims	-980 603	-1 119 496	138 893	-12,4%
Net technical result	-99 878	-149 672	49 794	-33,3%
Investment income & expense	318 462	445 184	-126 722	-28,5%
Net operating expenses	-124 524	-116 985	-7 538	6,4%
Fund for future allocations	0	-30 000	30 000	-100,0%
Result class 21 and 26	94 060	148 526	-54 466	-36,7%
Class 23 : net result	42 571	64 610	-22 039	-34,1%
Result of the technical account Life	136 631	213 136	-76 506	-35,9%
Non - technical				
Net investment income	93 344	95 223	-1 878	-2,0%
Other income and expenses	-6 619	-7 246	627	8,7%
Extraordinary result	0	0	0	-
Result non-technical	86 726	87 977	-1 251	-1,4%
Result before taxes	**451 153**	**495 617**	**-44 464**	**-9,0%**
Taxes	-93 588	-100 312	6 724	-6,7%
Movement of tax free reserves	327	-772	1 099	-142,3%
Result for the period available for appropriation	**357 892**	**394 533**	**-36 641**	**-9,3%**

Total				
Net earned premiums	2 004 614	2 074 259	-69 645	-3,4%
Net technical charges	-1 611 142	-1 768 620	157 477	-8,9%
Net technical result	393 471	305 639	87 832	28,7%
Class 23: net result	42 571	64 610	-22 039	-34,1%
Net investment income	497 274	618 824	-121 550	-19,6%
Other income and expenses	-6 619	-7 246	627	-8,7%
Net operating expenses	-475 544	-456 210	-19 334	4,2%
Fund for future allocations	0	-30 000	30 000	-100,0%
Extraordinary result	0	0	0	
Taxes and movement of tax free reserves	-93 261	-101 085	7 823	-7,7%
Result for the period available for appropriation	**357 892**	**394 533**	**-36 641**	**-9,3%**

The result for the financial year was 37 million euros lower than a year earlier (358 million euros compared with 395 million euros at year-end 2019). It was accounted for by an increase in the result for the life business (excl. unit-linked products) and non-life business (+88 million euros), in the fund for future appropriation (+30 million euros (30 million euros had been allocated to it at year-end 2019, whereas nothing at all was allocated in 2020)) and in taxes (+8 million euros) and offset by a decrease in the net result for unit-linked products (-22 million euros) and in net investment income and operating expenses (-141 million euros).

Non-life insurance

Net earned premiums in the non-life business were up 19 million euros on their level at year-end 2019, owing to an increase in premiums and a volume effect: higher premiums for ‘Fire’ cover (+4.3% at January 2019 and +4% at January 2020) and for extended ‘Motorcycle’ cover (+2.9% from July 2019 and +2% from October 2020).
The impact of the coronavirus crisis on the existing portfolio reduced the level of written premiums and will only gradually become apparent in net earned premiums.
Ceded reinsurance premiums were 3 million euros higher than at year-end 2019.

Net claims incurred in the non-life business were 19 million euros lower than their level at year-end 2019, with ordinary claims 119 million euros lower than in 2019 due to the favourable impact of lockdowns combined with the generally low level of claims. Large claims were up 18 million euros on their 2019 level, though they could have been higher were it not for the lockdowns. There was also a decline in the recourse reserves (-6 million euros), claims incurred in the ‘Storm’ class (+6 million euros), provisions for IBNR claims (+6 million euros) and claims incurred in the ‘Fire’ class (+6 million euros on account of a batch update for claims closures). Amounts received under reinsurance for claims incurred were 8 million euros higher than in 2019, whereas the amounts recovered were 11 million euros lower in the same period.
The discount rate being reduced from 1% to 0.5% (based on ongoing litigation and the fact that new indicative tables will be published in early 2021) ended up increasing the claims reserve by 29 million euros in 2020. An increase in the reserves to cover compensation for non-pecuniary damages had an impact of -9 million euros. The premium deficiency reserve increased by 21 million euros. The other items (including IBNR claims, internal management costs, interim and final actuarial reserves) were 4 million euros higher than in 2019. A higher sum was allocated to the equalisation reserve (-12 million euros) due in part to an adjustment to the accounting treatment.

Net operating expenses rose by 12 million euros, owing to the amount in fees paid (-2 million euros) increasing in line with the higher level of premium income, impairment charges on software (-3 million euros) and additional expenses caused by the change in the method for capitalising software in December 2020 (-11 million euros), offset in part by a number of cost-savings.

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

Net earned premiums in the life business fell by 89 million euros. The main movements were a 83-million-euro decline in premiums for the Life Futurum 8 product (this product was removed from the KBC range in August 2019 due to the climate of persistently low interest rates), a 3-million-euro decline in premiums for capitalisation (class 26) products (also withdrawn in August 2019 but temporarily resumed between May 2020 and November 2020), a fall in premiums for regular life products (-6 million euros, accounted for primarily by funeral insurance (-6 million euros), Life plans (-7 million euros), voluntary supplementary pension schemes for the self-employed (+7 million euros) and individual pension schemes (+1 million euros)), higher premiums for supplementary cover (+3 million euros) and an increase in ceded life-insurance premiums (-2 million euros).

Net technical charges fell by 139 million euros, chiefly attributable to lower ‘uprenting’ costs (+20 million euros), the lower level of technical charges for supplementary cover (+11 million euros), a reduction in interest and death benefits under profit-sharing (+8 million euros), higher technical charges recovered from the reinsurer (+16 million euros) and lower level of actuarial reserves (due to the decline in earned premiums).

The fund for future appropriation was increased by 30 million euros in 2019, but no additional allocations were made to it in 2020.

Net operating expenses rose by 8 million euros, owing to the amount in fees paid (+3 million euros) declining in line with the lower level of premium income and lower profit-sharing related to reinsurance contracts (-11 million euros).

Unit-linked life insurance products (class 23)

At 43 million euros, the result for unit-linked products at year-end 2020 was 22 million euros lower than the year-earlier figure. The main factors behind this development were the lower level of entry fees received (-13 million euros), cancelled out in part by the lower level of commission paid to the distribution channels (+10 million euros), the increase in net management fees received (+1 million euros), the fall in dividends received (-12 million euros) and higher operating expenses (-7 million euros).

Investment income and charges

At 491 million euros, net investment income (excluding unit-linked products) was down 121 million euros on its 2019 level. The main movements were:

- less interest being paid on bonds (-9 million euros) due to the fact that the level of interest income was much lower than in 2019. This situation came about mainly because of the low interest-rate climate, which meant that the return on new investments was significantly lower than on investments that had matured (-36 million euros). In 2019, interest income was also generated by the AWSA bond (-6 million euros). All of this was partially offset by a one-off adjustment to inflation-linked bonds (+33 million euros);
- less interest being generated by mortgage loans (-2 million euros) owing to a declining return and lower portfolio volume;
- less interest being paid on term loans and deposits (-2 million euros);
- a decline in net interest charges on swaps (+8 million euros): less interest on a payer swap that matured in September 2019 (+6 million euros) and on two payer swaps that matured in September 2020 (+2 million euros);
- a decrease in internal dividend income (-67 million euros);

(x 1.000.000 EUR)	2020	2019	
KBC Group Re SA	14	19	
ADD NV	4	3	
Double U Building	4	0	
KBC V Vastgoed NL	3	0	
CSOB CZ	0	35	
K&H	0	14	
CSOB SK	0	9	
DZI Life Insurance	0	7	
Groep VAB NV	0	3	
NLB Vita	0	2	
	25	92	-67

- a decrease in external dividend income (-14 million euros);
- a decline in foreign exchange results (-7 million euros), the hedging of foreign currency participations was discontinued in 2019 and the deferred foreign exchange gains were realised in full;
- bonds classified as measured at fair value through profit or loss (+35 million euros): the credit committee decided in December 2019 to recognise an impairment (-35 million euros) on the AWSA bond position;
- net realised gains on shares (-76 million euros): adversely impacted by the negative trend on the stock market in 2020 (MSCI EMU Local Index was down 2.71% on its 2019 level), whereas the trend had been extremely positive in 2019 (up 22.39% on its 2018 level);

- impairment (provisioning and reversals) on shares (-31 million euros) due to the poor stock market performance, partially offset by the reversal of impairment charges on participating interests (+18 million euros);
- a net realised gain on the sale of NLB Vita and KBC Asset Management Luxembourg (+27 million euros).

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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 2020

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 5 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 2020, 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 32.742 million and a profit and loss account showing a profit for the year of EUR 358 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 2020, 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.

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

Description of the Key Audit Matter

At year-end 31 December 2020 the technical insurance provisions (before reinsurance) amount to EUR 16.468 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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<u>Estimation uncertainty with respect to financial instruments measured at fair value</u>

Description of the Key Audit Matter

Details regarding the measurement of financial instruments at year-end 31 December 2020 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.

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- 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.

Sint-Stevens-Woluwe, 23 March 2021

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	2020	2019
Technical insurance charges, including the internal cost of settling claims (A)	Note 3.7.1	945	1 006
/			
Earned insurance premiums (B)	Note 3.7.1	1 742	1 693
+			
Operating expenses (C)	Note 3.7.1	536	526
/			
Written insurance premiums (D)	Note 3.7.1	1 769	1 728
= (A/B)+(C/D)		84.5%	89.9%

Solvency ratio

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

(In millions of EUR)	31-12-2020	31-12-2019
Available capital	3 868	3 496
Solvency Capital Requirement (SCR)	1 747	1 727
Solvency II ratio	222%	202%
Solvency surplus	2 121	1 769

Management certification

‘I, Rik Scheerlinck, 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.’