2021

Annual Report KBC Bank

To the reader

Company name

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

Difference between KBC Bank and KBC Group

KBC Bank NV is a subsidiary of KBC Group NV. Simplified, the KBC group's legal structure has one single entity – KBC Group NV – in control of several underlying companies, the most important of which are KBC Bank NV and KBC Insurance NV. All KBC Bank NV shares are owned by KBC Group NV. Where mention is made of KBC Group or the KBC group in this annual report, KBC Group NV is meant, including all group companies included in the scope of consolidation.

Forward-looking statements

The expectations, forecasts and statements regarding future developments that are contained in the annual report are based on assumptions and assessments we made when drawing up this report in early March 2022. By their nature, forward-looking statements involve uncertainty. Various factors, most notably the coronavirus (Covid-19) crisis and the situation in Ukraine could cause actual results and developments to differ from the initial statements.

Versions and translation

The Annual Report is available in Dutch and English ESEF (European Single Electronic Format) versions and in Dutch and English PDF versions. The Dutch ESEF version is the original; the other language translations are unofficial versions. We have made every reasonable effort to avoid discrepancies between the different language and format versions. However, should such discrepancies exist, the Dutch ESEF 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 Bank 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. This also applies to the parts of the EU Taxonomy that are already obligatory. The KBC Group annual report is available at www.kbc.com. Nevertheless, part of the non-financial information in question is also provided in KBC Bank's annual report.

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Ratios used

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

Publisher

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Group profile

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

A year in which the coronavirus continued to dominate

Johan Thijs: ‘2021 will go on record as the year of mass vaccination. By launching large-scale vaccination campaigns, the governments of many countries put basic measures in place to contain and suppress the coronavirus. However, they were unable to prevent a new variant of the virus from taking hold and causing new outbreaks in the second half of the year. The large number of booster vaccines being rolled out and the antiviral treatments administered in many countries have been able to prevent the healthcare systems from being critically overwhelmed, likely avoiding prolonged lockdowns in future. Nonetheless, looking after our health and finding a balance between social distancing and enjoying the regular social interaction we all need remains a point of concern for us all, and this will continue over the next few months.

As an employer and service provider, our priority throughout the coronavirus crisis has been to protect the health of our employees and clients, while at the same time ensuring service continuity. We enable our employees to work from home as much as possible – an experience that has taught us many new lessons about how to manage our work organisation after the crisis. At the same time, we successfully maintained a high level of service to our clients in all our home markets, thanks to the expertise and commitment of all our employees and to the efforts and investments we have made in recent years on the digital transformation front.

The extreme weather conditions that have beset our home markets highlighted the importance of climate responsibility and sustainability in general.

Koenraad Debackere: ‘Apart from the coronavirus pandemic, we will also remember 2021 as the year when the perils of climate change began to really hit home. Several of our home markets were hit by extreme weather conditions, with devastating effects on many people’s lives. The South Moravia region of the Czech Republic was struck by a heavy tornado in June, and several Belgian provinces were impacted by heavy flooding over the summer. We would once again like to extend our heartfelt sympathy to all those affected and to express our great appreciation for all the aid workers, first-responders and volunteers who have been unconditional in their support for the victims. In the months following the floods, we used all our knowledge and expertise to ensure that the insurance claims brought by the clients affected were settled efficiently and correctly.

More than ever in the wake of these crises, we believe the world needs to become more sustainable and are doing everything within our powers to help make this a reality. We have committed to various international initiatives related to climate change and sustainability and also continue to work tirelessly towards achieving our targets and objectives in this area. We are committed to supporting a sustainable energy infrastructure. After gradually reducing our direct exposure to the coal industry starting in 2016, we managed to fully clear our remaining direct exposure to coal in June 2021 – more than six months ahead of our own time schedule. Then, towards the end of the year, we reinforced the tight restrictions to which funding for fossil fuels has been subject for some time, and decided to discontinue funding for the exploration and extraction of new oil and gas fields.

Rapid path to digitalisation

Johan Thijs: ‘The coronavirus crisis has further accelerated the digitalisation of our society, including banking and insurance services. In our ‘Differently: the Next Level’ strategy, we took our digital strategy up a notch by bringing artificial intelligence and data analysis into the mix. This allows us to work in a solutions-driven way to proactively make life easier for our clients, the most visible example of which is our personal, fully digital assistant Kate, which we launched in 2020 and further developed and improved in 2021, and which is increasingly winning over and supporting our clients. Our ultimate objective continues to be ensuring maximum convenience of our financial services for our clients. We are, of course, also delighted that we have been acknowledged for our innovations in this area by the wider world. One example of such recognition in the past year is a comparative study by the consulting firm Sia Partners, which named KBC Mobile the best mobile banking app worldwide. This is clear recognition of a decade of innovation, development and listening closely to our clients. Our new strategy ‘Differently: the Next level’, which we launched more than a year ago” has already clearly paid off and shows the innovativeness that drives us forward as a group, with the ultimate objective of making our clients’ lives easier.’

Further geographic focus

Koenraad Debackere: ‘Focus remains a key aspect of our strategy. Our core business is and will remain bank-insurance for retail clients in a clear selection of core markets. Where it is possible, opportune and attractive, we aim to strengthen our position in those countries further. In November, we signed a contract for the acquisition of Raiffeisenbank Bulgaria, which ranked as that country’s sixth-largest bank at that time. The transaction remains subject to the approval of the supervisory authorities. This transaction will help us to further consolidate our strong position in our Bulgarian core market.
In late August 2021, we reached an agreement on the sale of virtually the entire portfolio of non-performing mortgage loans of KBC Bank Ireland, and in October 2021 we also entered into an agreement for the sale of substantially all of KBC Bank Ireland’s performing loan assets and its deposit book to Bank of Ireland Group. The latter transaction remains subject to the approval of the competent authorities. The completion of this transaction will ultimately result in our exit from the Irish market.

Net profit picked up again and our solvency position remained very robust

Johan Thijs: ‘While our financial results for 2020 were affected by the significant amount in impairments set aside for managing future impacts of the coronavirus crisis, we were already able to reverse a substantial part of this amount in 2021, which obviously boosted our results. However, we have earmarked a significant amount – around 0.3 billion euros – to manage further uncertainties about the pandemic’s course. Coupled with higher income and a consistent level of cost efficiency, this brought our net profit for 2021 to a total of 2.1 billion euros – considerably more than the 0.9 billion euros in the previous year and in line with the pre-pandemic level – despite the one-off negative impact of almost 0.4 billion euros in 2021 relating to the sale transactions in Ireland.

The economic environment in 2021 and beyond

Koenraad Debackere: ‘2021 was a year in which we saw strong economic recovery after the unprecedented economic shock caused by the coronavirus pandemic in 2020. 2021 can also be described as a year of many ups and downs. Notably in Europe, the year started out on a low during the second wave of the coronavirus pandemic, only to be bolstered by the progress in the immunisation campaigns. However, the year ended on a sour note amid the fourth wave of the pandemic and the emergence of the omicron variant. Sustained by the certainty of a more resilient economy, this is not expected to stand in the way of further economic recovery in 2022. However, besides immense human suffering, the war in Ukraine will also weigh on economic growth in 2022. We are deeply shocked by the tragedy unfolding in Ukraine and express our heartfelt solidarity with the Ukrainian people. We hope that reason and fairness will soon prevail in order to achieve a respectful, peaceful and lasting diplomatic solution. The past two years have also demonstrated that, even in challenging circumstances, we can continue to build on our solid foundations and policy decisions made in the past. However, this is only possible thanks to the trust, you, our dear client, employee or other stakeholder, have placed in us. I sincerely thank you for that.’

Johan Thijs
Chief Executive Officer

Koenraad Debackere
Chairman of the Board of Directors

Area of operation and activities

KBC Bank caters mainly for retail, private banking, SME and mid-cap clients. Geographically, we focus on our core markets of Belgium, the Czech Republic, Slovakia, Hungary, Bulgaria and Ireland. We have a limited presence elsewhere in the world, primarily to support corporate clients from our core markets. KBC Bank is wholly owned by KBC Group.

Network and personnel	
Bank branches (31-12-2021)	1 159
Belgium	439
Central and Eastern Europe (Czech Republic, Slovakia, Hungary and Bulgaria)	697
Rest of the world	23
Number of staff (2021 average in FTEs)	Approximately 28 600

Financial calendar

Financial communication is largely organised at KBC Group level. Financial information relating to KBC Bank is available at www.kbc.com > Investor Relations > Information on KBC Bank. The most up-to-date version of the financial calendar is available at www.kbc.com.

Financial calendar for KBC Group and KBC Bank	
FY 2021	KBC Group Annual Report for 2021, Sustainability Report for 2021 and Risk Report for 2021 available: 4 April 2022
	KBC Bank Annual Report for 2021 available: 8 April 2022
	AGM of KBC Bank: 27 April 2022
	AGM of KBC Group: 5 May 2022
1Q2022	Earnings release for KBC Group: 12 May 2022
2Q2022/1H202	Earnings release for KBC Group: 11 August 2022
3Q2022/9M2022	Earnings release for KBC Group: 9 November 2022

Long-term credit ratings

The table shows the long-term and short-term credit ratings of KBC Bank NV. The credit ratings of KBC Group NV and the sustainability ratings of the group are set out in the KBC Group annual report.

Credit ratings for KBC Bank (17 March 2022)	Long-term debt ratings	Short-term ratings
Fitch	A+ (stable outlook)	F1
Moody's	A2 (stable outlook)	P-1
Standard & Poor's	*A+ (stable outlook)*	*A-1*

Please refer to the respective credit rating agencies for definitions of the different ratings and methodologies.
* Long-term deposit rating of A1.

Our business model

The strategy, business model and management structure of KBC Bank is embedded in that of the KBC group. A summary is given below of the business model of the KBC group, where KBC Bank is essentially responsible for the banking business and KBC Insurance for the insurance business. For more detailed information, please see the KBC Group annual report for 2021.

How do we create sustainable value? (KBC Group)

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

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

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

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

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

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 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.

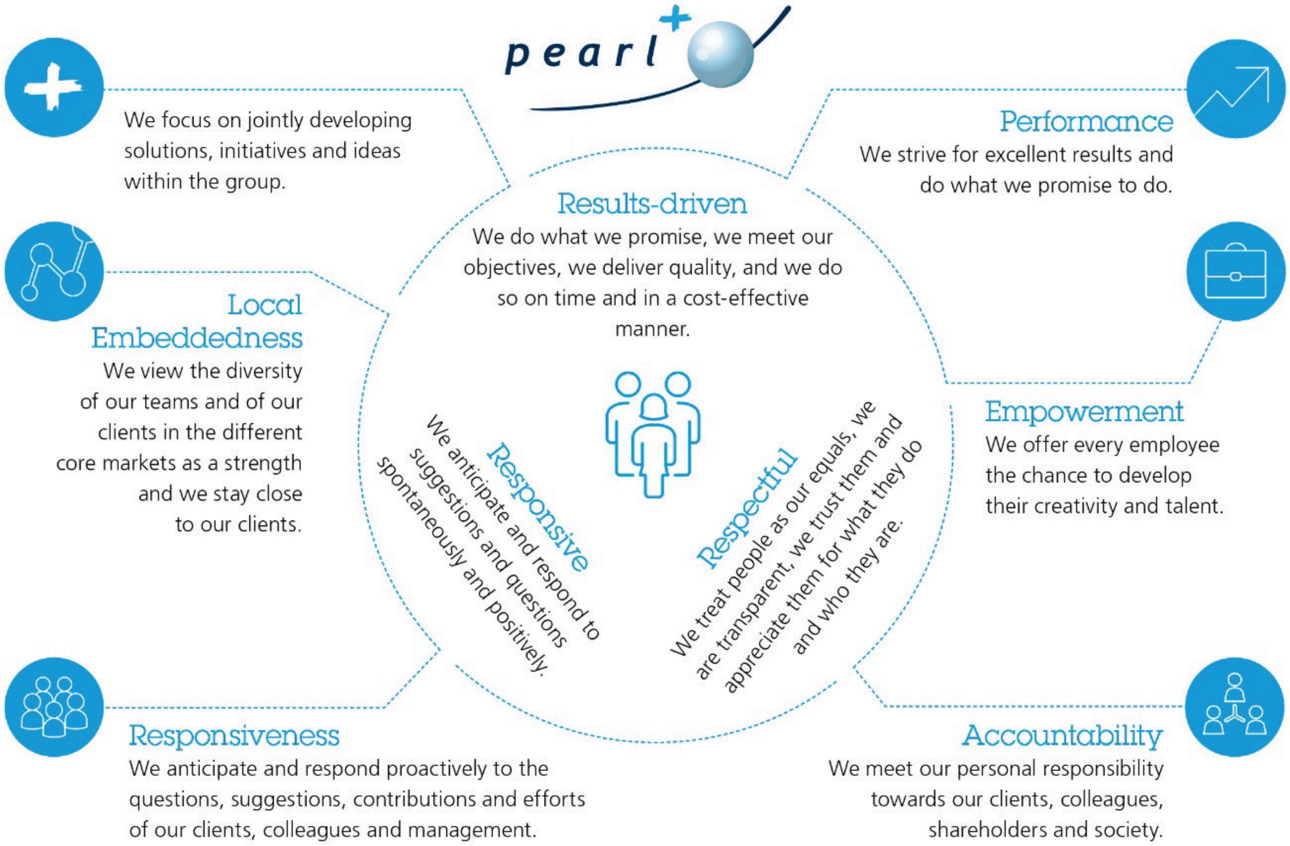
The main consequences of the coronavirus crisis are discussed in Note 1.4 of the 'Consolidated financial statements'.

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.

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

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.



We have structured our group around three business units, which focus on local activities and contribute to sustainable earnings and growth. The units are Belgium, the Czech Republic and International Markets. A more detailed description is provided in the ‘Our business units’ section.

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

What differentiates us from our peers? (KBC Group)

What differentiates us from our peers?

Our integrated bank-insurance model

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

Our digital approach

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

Our strong geographical focus

We focus on our core markets of Belgium, the Czech Republic, Slovakia, Hungary, Bulgaria, and Ireland (sale transactions were concluded in Ireland; see Note 6.6 in the 'Consolidated financial statements' section). As a result, we now operate in a mix of mature and growth markets, taking advantage in the latter of the catch-up potential for financial services. We have a limited presence elsewhere in the world, including to support the activities of our corporate clients in our core markets.

Our focus on local responsiveness

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

Our approach to sustainability

As a financial institution, we are one of the driving forces behind the real economy and have a major direct and indirect impact on society. As a company that aims to support the transition to a more sustainable and climate-proof society, we have made sustainability integral to our overall business strategy and integrated it into our day-to-day business operations and the products and services we provide. Our sustainability strategy, which is geared towards the local economy and society, consists of three cornerstones: encouraging responsible behaviour on the part of all our employees, increasing our positive impact on society and limiting any adverse social impact we might have.

Our shareholder structure

A special feature of the KBC Group shareholder structure is the core shareholder syndicate consisting of Cera, KBC Ancora, MRBB and the other core shareholders, which together held roughly 40% of our shares at the end of 2021. These shareholders act in concert, thereby ensuring shareholder stability in our group. KBC Bank is wholly owned by KBC Group.

Our strengths

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

Our challenges

Macro-economic environment characterised by the impacts of the coronavirus crisis, low – but recently rising – interest rates, currently high inflation rates, population ageing, and geopolitical challenges (including as a result of the war in Ukraine)	Impact of climate change on our and our clients' operations, and vice versa, and the use of opportunities related to the transition to a greener economy	Stricter regulation in areas like client protection, solvency and the environment	Changing client behaviour, competition and new players in the market	New technologies and cyber crime

In what environment do we operate? (KBC Group)

The world economy

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

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

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

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

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

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

Main challenges

The main challenges facing us are, of course, the economic situation, intensifying competition and technological change, regulation, and cyber and ICT risks. The way in which we are dealing with them is set out below.

Market conditions in our core countries in 2021 (KBC Group)

	Belgium	Czech Republic	Slovakia	Hungary	Bulgaria	Ireland[5]
Market environment in 2021[1]						
Change in GDP (real)	6.1%	3.3%	3.0%	7.1%	4.0%	13.5%
Inflation (average annual increase in consumer prices)	3.2%	3.3%	2.8%	5.2%	2.9%	2.4%
Unemployment rate (% of the labour force at year-end; Eurostat definition)	5.7%	2.1%	6.4%	3.7%	4.8%	7.5%
Government budget balance (% of GDP)	-6.2%	-7.0%	-6.5%	-7.2%	-3.2%	-1.8%
Public debt (% of GDP)	108.6%	42.0%	62.0%	78.2%	26.2%	54.0%
Forecast growth in real GDP in years ahead						
2022	2.1%	2.7%	3.4%	5.0%	2.8%	5.0%
2023	1.4%	3.4%	3.9%	3.8%	3.5%	4.0%
KBC's position in each core country[2]						
Main brands	KBC & CBC & KBC Brussels	ČSOB	ČSOB	K&H	UBB & DZI	KBC Bank Ireland[5]
Network	439 bank branches 310 insurance agencies Online channels	208 bank branches Insurance sold through various channels Online channels	123 bank branches Insurance sold through various channels Online channels	198 bank branches Insurance sold through various channels Online channels	168 bank branches Insurance sold through various channels Online channels	12 bank branches Insurance sold through various channels Online channels
Recent acquisitions or disposals (2019-2020-2021)[3]	-	Acquisition of remaining 45% stake in ČMSS (2019)	Acquisition of OTP Banka Slovensko (2020)	-	Acquisition of NN's Bulgarian pension and life insurance business (2021). Pending acquisition of Raiffeisenbank Bulgaria	Sale of non-performing loans and the pending sale of the performing loan assets and deposit book of KBC Bank Ireland.
Clients (millions, estimate, KBC Group)	3.8	4.2	0.8	1.6	1.5	0.3
- Of which KBC Bank	3.5	3.7	0.6	0.9	0.9	0.3
Loan portfolio (in billions of EUR, KBC Group)	119	35	10	7	4	11
Deposits (excl. debt securities) (in billions of EUR, KBC Group)	130	45	8	10	6	5
Market share (estimate, KBC Group)						
- banking products	19%	20%	11%	11%	11%	9%[4]
- investment funds	28%	23%	7%	12%	10%	–
- life insurance	13%	8%	3%	3%	22%	–
- non-life insurance	9%	9%	5%	7%	12%	–
Contribution to net profit in 2021 (in millions of EUR, KBC Bank)	1 620	630	77	207	90	-289

1 Data based on estimates for early March 2022 and hence different from year-end 2021 data in Note 1.4 of the 'Consolidated financial statements'. Covid-19-adjusted unemployment rate for Ireland (national definition).
2 Market shares and client numbers: based on own estimates. For bank products: average market share for loans and deposits. In Belgium, the life insurance market share is based on reserves; for the other countries, it is based on premiums. Loan portfolio: see 'How do we manage our risks?'. Deposits: deposits from customers, excluding repos. The number of bank branches excludes self-service branches and the 11 KBC Bank branches established in the rest of Europe, the US and Southeast Asia. Market shares are based on the latest available data (e.g., from the end of September 2021).
3 See Note 6.6 of the 'Consolidated financial statements' for a more detailed explanation.
4 Retail segment (home loans and deposits for private individuals (excluding demand deposits)).
5 Ireland was part of the International Markets Business Unit until year-end 2021, but was then transferred to the Group Centre in view of the pending sale transactions.

What are our main challenges? (KBC Group)

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

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

How are we addressing them?

- ✓ We ensure in our long-term planning/scenario that our capital and liquidity position is capable of withstanding a negative scenario. We calculate the impact of changes in key parameters and estimate the impact of material events as effectively as possible.
- ✓ In the specific case of coronavirus, we took the necessary steps to ensure accessibility and business continuity, enabling us to offer a level of service comparable with that prior to the crisis. The most important coronavirus-related government measures with which we collaborated in each of our core countries is set out in Note 1.4 of the 'Consolidated financial statements' in our 2020 and 2021 Annual Reports.
- ✓ The environment and climate change remain an important part of our sustainability strategy. We have translated them into specific targets. As a bank-insurer, we assume our responsibility and assist and support our clients who are affected by the extreme weather conditions.
- ✓ We have formally committed to various international initiatives related to climate change and sustainability.
- ✓ We constantly adjust our product and service offering by, for instance, responding to demand for sustainable products like green bonds, sustainability-linked loans and sustainable pension saving.
- ✓ We aim to diversify our income sources to include more fee business, for example, alongside interest income.
- ✓ For more information on the situation in Ukraine, see Note 6.8 in the 'Consolidated financial statements' section.

Shifting client behaviour and competition

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

How are we addressing them?

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

Regulation

The following trends and regulations will have a significant impact in the period ahead:

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

How are we addressing them?

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

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

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

As a financial group, we draw on many different types of capital, including our employees and our capital base, but also our brands, reputation and capacity to innovate, our relationships with all our stakeholders, our branches, agencies and electronic networks, and our ICT infrastructure.

Our employees

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

It remains our fixed ambition to 'future-proof' our organisation and employees, and to keep the latter on board as much as possible and enable them to grow with KBC. We are committed to a learning culture, in which learning forms an integral part of our everyday activities. Our company is engaged in a transformation process right now and needs different skills. Take the introduction of 'Kate', for instance (read more in 'The client is at the centre of our business culture'). We therefore ask our staff to be flexible and to focus on skills that are relevant. To achieve all this in a smart way, we use an AI-driven learning and talent platform. StiPPLE, as this intelligent platform is called, enables us to provide employees with the HR information they need to take their career to a higher level. The learning content they receive is tailored not only to the relevant skills but also the appropriate level of those skills. A digital butler helps them focus on the right output and development targets. In June 2021, we launched an integrated marketplace for internal job openings in StiPPLE, using the technology to match available jobs with qualified internal candidates. The system shows employees which job openings most closely match their background and qualifications, while managers can see which candidates possess the skills they are looking for. This will pave the way towards greater transparency and new career opportunities. The digital learning and talent platform is now available in Belgium and partly in the Czech Republic, with other group entities to follow in the future. This smart and living learning organisation is just one of the reasons we earned the internationally recognised 'Top Employer' certification.

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

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

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

We realise that good managers are key when it comes to bringing out the best in our employees and implementing our strategy successfully. We invest in the training and education of all our managers through various leadership programmes. Since the nature of leadership has changed since the pandemic, we introduced the 'Leading the Next Level' programme. Managers are provided with behavioural anchors, a self-scan and a team scan to give them new insights and allow them to work more effectively with their teams. To enable them to pursue a common vision, senior managers from across the group take part in the 'KBC University', an ambitious development programme. We offered a training module in 2021 devoted to the climate, climate change, and its impact on KBC as a financial institution. At the same time, we are actively working on a separate policy for top talent management, in which we identify future senior managers and fast-track them to face tomorrow's challenges. The theme of gender is given special attention in this.

We keep close track of our employees' opinions. We launched two employee engagement surveys in 2021. In Belgium, the survey response rate was 69% in March and 64% in September. Around 68% of our employees report feeling engaged with KBC, and despite a 4% drop from the previous survey, this is a strong number, particularly when you consider that it was conducted in the midst of a pandemic. Employee engagement is defined as pride in working for the company, motivation to be in the current role, and a sense of connection with KBC. A source of pride for our employees, for example, is KBC's innovative digital strategy. We learned from the survey conducted in the Czech Republic in the first half of the year that more than seven in ten respondents are proud of ČSOB, are motivated in their jobs, and plan to remain at ČSOB in the next three years. Employee engagement rates for the other countries range from 55% to 71%.

Depending on local needs, the survey was incorporated in a wider survey in some cases. For Belgium, the survey was integrated into the Shape Your Future survey, which gauges the impact of the new strategy in addition to employee engagement. The survey reveals, for example, that 68% of our employees recognise how their job helps to put the KBC strategy into practice – a percentage that has remained roughly the same. Just over half of our employees state that they are given the independence they need to perform their jobs effectively. The surveys have also resulted in a number of measures, including initiatives to support managers in their coaching roles. Managers can access their results and choose to implement specific measures as required.

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

We invest in good social dialogue with employee representatives. This consultation covers a very wide range of themes, such as pay and employment conditions, reorganisation and well-being. It is organised primarily on an individual country and company basis to take account of the local legal and business-specific situations. The process also resulted in collective agreements being concluded in different countries in 2021. Meanwhile, an annual meeting of the European Works Council has been held at group level for 25 years now to deal with topics of cross-border importance, so ensuring that there is a forum for discussing the impact of decision-making at group level too.

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

The application of our HR policy is closely monitored, not only by means of high-quality surveys, but also on the basis of accumulated HR data. The Beehive dashboard, for example, shows the key metrics for our senior management at a glance. We use this dashboard to record data and information on FTE developments, performance & progression, skill development and reward budgeting. Other dashboards and various ad hoc HR analytics tools allow us to extrapolate information from HR data and implement the appropriate measures in response. We use an operational risk framework to perform an annual review of key risks in the HR process. The implementation and monitoring of legislation forms an important part of this process and we ensure that it is applied strictly in the area of HR. Examples in this regard include EBA guidelines on outsourcing, a variety of laws on remuneration policy (including the variable wage component) and the General Data Protection Regulation (privacy law). Areas we prioritise in this context include Schrems2 (data processing outside the European Economic Area) and data loss prevention. We ensure that all employees are in compliance with the legal training requirements in the various countries in which we are active, in areas such as the distribution of insurance policies, loans and investment products. We also raise risk-awareness among our staff through targeted information campaigns and training. 'People risk' is an important operational risk for human resources, which we closely track in collaboration with our risk department. In a financial sector that is changing very quickly, KBC would not be able to remain a reference in the European financial sector without the right employees with the right skills.

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

Our capital

Our activities are only possible if we have a solid capital base. At year-end 2021, KBC Group's total equity came to 23.1 billion euros and its capital was represented by 416 883 592 shares. At year-end 2021, KBC Bank's total equity was 18.5 billion euros. The KBC Bank share is not traded on the stock market.

KBC Group is the sole shareholder of KBC Bank. KBC Group shares are held by a large number of shareholders in a number of countries. A group of shareholders consisting of MRBB, Cera, KBC Ancora and the Other core shareholders constitute KBC Group's core shareholders. A shareholder agreement was concluded between these core shareholders in order to ensure shareholder stability and guarantee continuity within the group, as well as to support and co-ordinate its general policy. To this end, the core shareholders act in concert at the General Meeting of KBC Group NV and are represented on its Board of Directors. The current agreement applies for a ten-year period with effect from 1 December 2014. 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.

Our network and our relationships

Alongside staff and capital, our network and relationships are especially important to our activities. An overview of our network can be found under 'Market conditions in our core markets in 2021'.

Our social and relationship capital comprises all relationships with our clients, shareholders, government, regulators and other stakeholders 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.

Our strategy

The strategy, business model and management structure of KBC Bank is embedded in that of the KBC group. A summary is given below of the strategy of the KBC group, where KBC Bank is essentially responsible for the banking business and KBC Insurance for the insurance business. For more detailed information, please see the KBC Group annual report for 2021.

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 implement our strategy within a strict risk, capital and liquidity management framework.

As part of our PEARL+ business culture, we focus on jointly developing solutions, initiatives and ideas within the group. More information on PEARL is provided in the 'Our business model' section.

The client is at the centre of our business culture (KBC Group)

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

We responded to the coronavirus crisis by making our branches in Belgium accessible by appointment only from mid-March 2020 onwards. At the same time, we introduced an extensive series of physical precautions (perspex screens, face coverings, sanitising gels, signage, etc.). Most KBC branches have been open to the public again since late August 2021, obviously with all the precautionary measures remaining in place. KBC decided to keep its branches in several other core countries open to the public, even in the earliest stages of the pandemic. We were able in this way, taking account of the situation in each country, to reconcile maximum service provision with the necessary preventative steps to avoid corona infections among clients and staff. Effective communication was ensured, with live events and meetings replaced by digital ones. Other country-specific measures included stimulating electronic payments and raising the limits for contactless payments, coronavirus-related adjustments to certain life insurance products, the creation of special teams to assist clients, etc.

We have also collaborated intensively with government bodies since the beginning of the coronavirus crisis to support all clients affected by the pandemic, through such measures as loan payment deferrals under the various coronavirus-related moratoriums. For our core countries combined, the volume of loans that were granted payment holidays under the various support measures at year-end 2021 amounted to roughly 10 billion euros (including EBA-compliant moratoria and the now non-EBA-compliant scheme in Hungary, but excluding Ireland, which is now classified under IFRS 5 on account of the pending sale transactions). Virtually all EBA-compliant moratoria expired by the end of December 2021. For 96.5% of the loans under the now-expired EBA-compliant moratoria, payments have fully resumed. In addition to this, we granted some 0.8 billion euros in loans that fall under the various coronavirus-related government guarantee schemes in our home markets. For more details, see the ‘Consolidated financial statements’ section, Note 1.4 of this Annual Report and the 2020 Annual Report.

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

Access to financial services and solid financial advice for all sections of society contributes to economic development and forms the basis for financial and social integration. We fulfil our responsibility as a bank-insurer in this regard too, we promote financial literacy and seek by means of solid and transparent advice to help our clients make the right decisions. We realised more than ever during the coronavirus crisis just how important digital literacy is and we launched a variety of initiatives and guides, for instance, to help new users familiarise themselves with our mobile apps.

Digital First

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

As a result of the various coronavirus lockdowns, society received a far-reaching digital boost. Through our ‘Differently: the Next Level’ strategy, which was launched in 2020, we aim to make the interaction with our clients even more future-proof and intelligent (i.e. reinforced by Artificial Intelligence) and to evolve from an omnichannel distribution model towards a digital-first distribution model. The human factor remains important in both models and our staff and branches will be fully at the disposal of our clients. As is always the case, the client decides which distribution channel, digital or physical, is used to contact KBC. In a digital-first distribution model, digital interaction with clients will form the initial basis. We therefore aim over time to provide all relevant solutions via mobile applications. In addition to a digital product range, we will offer our clients digital advice and develop all processes and products as if they were sold digitally. We plan to invest approximately 1.4 billion euros in our Digital First strategy in the period 2022-2024.

For clients who so wish, Kate – our new personal digital assistant – plays an important role in digital sales and advisory, so that personalised and relevant solutions can be offered proactively. Clients can personally ask Kate questions regarding their basic financial transactions. They will also receive regular discrete and proactive proposals at appropriate times in their mobile app to ensure maximum convenience. Clients are entirely free to choose whether or not to accept a proposal. If they do, the solution will be offered and processed completely digitally. Initially, Kate is available as part of the mobile application for retail clients in Belgium and the Czech Republic, and is scheduled to be rolled out in the other countries during 2022. This will give Kate the opportunity to learn quickly, while KBC will receive feedback and be able to make any necessary adjustments. Kate for businesses (with a focus on SMEs) was launched in 2021.

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

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

Privacy, data protection, communication and inclusion

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

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 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.

In addition to operating as a single business, we pursue a digital-first, lead-driven and AI-led organisation. This means fully integrated front and back-end applications designed according to the 'digital first' principle. We are firmly committed to becoming data and AI-led in all our core countries, at their own pace. Kate (see previous section) is the key element within a data-led organisation of this kind.

Previously, we only offered our own bank and insurance products and services through our mobile apps. Open Banking and Insurance (OBI) is now well established. We will continue along our chosen path and will also offer non-financial solutions alongside traditional banking and insurance solutions in all our core countries. We refer to this as bank-insurance+. After all, to remain the reference, it is no longer enough simply to offer clients and prospects banking and insurance products. It is also about solutions that help our clients save money (e.g., suggesting that they switch to a cheaper energy supplier), earn money (e.g., 'KBC Deals' discounts in Belgium), making everyday payments easier (e.g., paying automatically for parking) or supporting business activities (e.g., the BrightAnalytics reporting tool). We work with third parties to provide these solutions.

Our bank-insurance model is already enabling us to achieve various commercial synergies. In Belgium, for instance, roughly eight out of ten clients who agreed home loans with KBC Bank in 2021 also took out mortgage protection cover with KBC Insurance, while nine out of ten purchased home insurance. At ČSOB in the Czech Republic, over five out of ten clients who took out home loans in 2021 also purchased home insurance from the group. To give another example, across the group at year-end 2021, about 78% of active clients held at least one of the group's banking products and one of its insurance products, while roughly 23% actually held at least two banking and three insurance products (3-3 in Belgium). The number of bank-insurance clients of this type grew by 4% (1-1) and 7% (2-2 and 3-3 in Belgium) in 2021 respectively.

We use a number of Key Performance Indicators (KPIs) to track the success of our bank-insurance performance, The most important Key Performance Indicators (KPIs) relating to bank-insurance are set out in the KBC Group annual report.

We focus on sustainable and profitable growth (KBC Group)

Developing long-term relationships with our clients is crucial if we are to secure our long-term future. Therefore, we do not pursue high short-term returns that come with excessive risks but rather focus on sustainable and profitable growth in the long run. Sustainable and long-term thinking also means concentrating on the local economies of our core markets. Our geographical footprint remains focused on a number of our core countries, namely Belgium, the Czech Republic, Slovakia, Hungary, Bulgaria, and Ireland (sale transactions were concluded in Ireland; see below). We view our presence in these countries as a long-term commitment and want to consolidate our presence there by means of organic growth or attractive acquisitions, in line with clear and strict strategic and financial criteria. Geographical focus also means that, where possible and opportune, we will dispose of non-core activities.

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

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

- At the end of November 2020, we finalised the agreement for the acquisition of 99.44% of OTP Banka Slovensko (increased to 100% in 2021), which strengthened our position on the Slovakian banking market. On 1 October 2021, OTP Banka Slovensko merged with ČSOB in Slovakia.
- In July 2021, we completed the acquisition of NN's Bulgarian pension and life insurance business. This deal will enable UBB and DZI to further expand their cross-selling opportunities through their already established bank-insurance presence in the Bulgarian market, allowing them to serve more clients and to benefit from economies of scale and increased visibility.
- At the end of August, KBC Bank Ireland reached agreement on the disposal of a non-performing mortgage loan portfolio, and in October 2021 it confirmed that it had entered into a legally binding agreement with Bank of Ireland relating to the sale of substantially all of KBC Bank Ireland's performing loan assets and its deposit book. As part of the transaction, the latter will also acquire a small non-performing mortgage loan portfolio. The latter transaction remains subject to the approval of the supervisory authority and the Irish competition authorities. The successful completion of these two transactions will ultimately result in our withdrawal from the Irish market.
- In mid-November 2021, KBC reached agreement with Raiffeisen Bank International on the acquisition of Raiffeisenbank (Bulgaria), a universal bank in Bulgaria offering private individuals, SMEs and business clients a full range of banking, asset management, leasing and insurance services. The transaction remains subject to regulatory approval and is expected to be completed by mid-2022. The plan is to merge Raiffeisenbank (Bulgaria) and UBB following the supervisory authority's approval. The pro-forma combined entity will have an estimated market share of 18% in terms of assets, allowing us to further strengthen our position as a leading financial group in Bulgaria. This acquisition will also create ample opportunity for insurance cross-selling with DZI.

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

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: to be responsive to society's expectations (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.

More detailed information about our role in society is provided in our Sustainability Report, which is available at www.kbc.com.

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'.

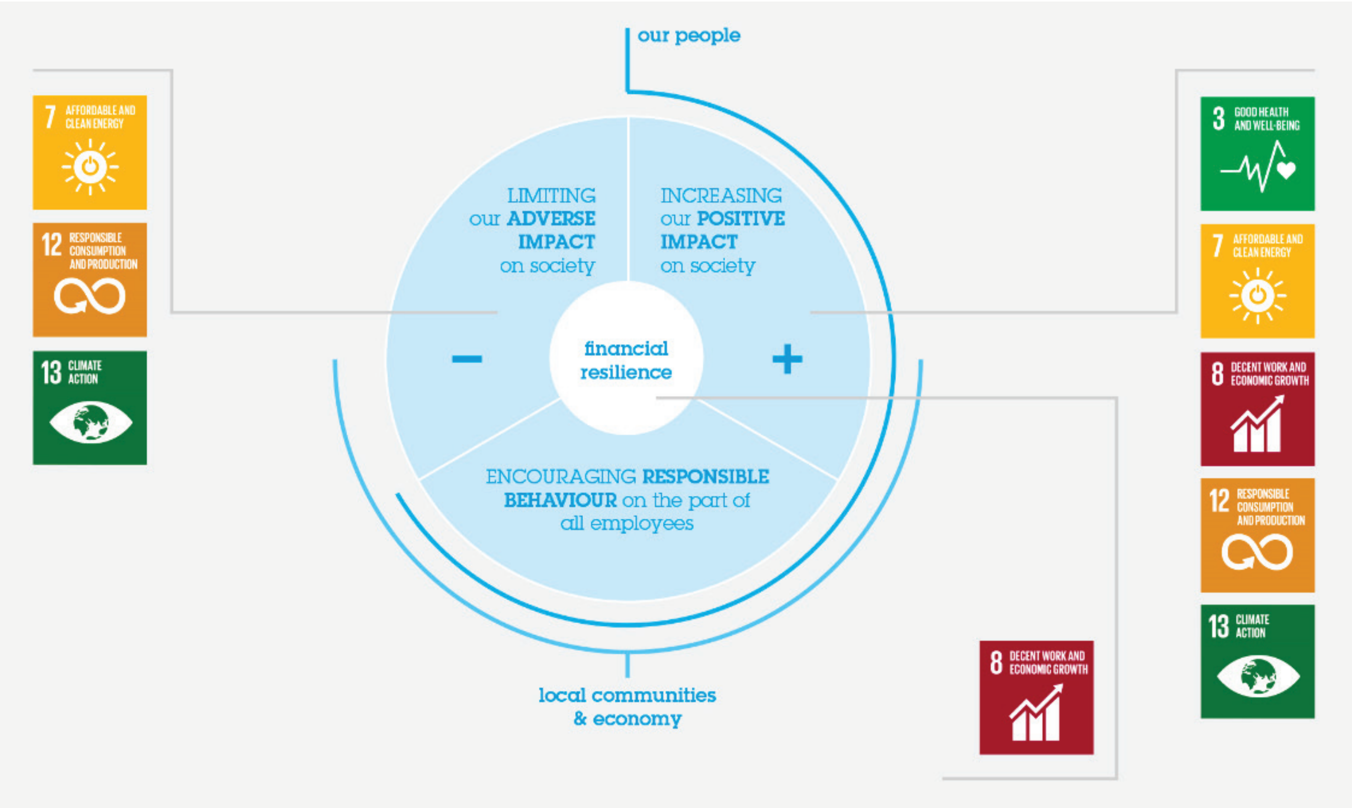
Given the difficulty of defining responsible behaviour, rather than drawing up guidelines for such behaviour we set out the underlying principles. These are presented in 'Compass for Responsible Behaviour'. Responsible behaviour is especially relevant for a bank-insurer when it comes to appropriate advice and sales. We pay particular attention, therefore, to training (including testing) and awareness.

We developed an e-learning course to clarify the importance of responsible behaviour and to provide a framework to help our employees take difficult decisions when faced with dilemmas. This course is mandatory for all staff.

We communicate transparently on our rules and policy guidelines, which are published at www.kbc.com.

Sustainable Development Goals

In 2015, the United Nations drew up a development plan with 17 ambitious targets for 2030. These Sustainable Development Goals (SDGs) set the global agenda for governments, businesses and society when it comes to tackling the major challenges in the field of sustainable development, such as ending poverty, protecting the planet and guaranteeing prosperity for all. As a financial institution, we have a crucial role to play in achieving these objectives. While the 17 SDGs are all interrelated and relevant, and we ensure through our sustainability policy that we work on achieving each of these goals, we have decided to focus more on the five goals where, we believe, KBC can have the greatest impact and make the greatest contribution. These goals are most closely aligned to our business and sustainability strategies (see diagram).



Good health and well-being

We aim to develop banking and insurance products that focus on health, health care and improving quality of life. In our social projects and prevention campaigns, we focus on themes such as health and road safety and attempt to create even more impact. We promote a good work-life balance among our employees.

Affordable and clean energy

We actively contribute to raising the share of renewables in the energy mix. We invest in initiatives in the field of renewable energy and energy efficiency through our banking and insurance activities and have drawn up a gradual exit programme for the financing of non-sustainable energy solutions, including thermal coal and oil and gas.

Decent work and economic growth

Our banking and insurance business supports entrepreneurship and job creation and contributes to sustainable economic growth. We support new businesses and invest in innovation and technology through alliances with start-ups and fintechs. We play an important role in protecting basic labour rights, fair pay, equal opportunities and training and development opportunities for all our employees. Through our microfinancing and microinsurance activities – in association with BRS – we provide local rural businesses and farmers in the Global South access to financial services, as well as facilitating sustainable local development and contributing to financial inclusion.

Responsible consumption and production

We support the transition to a low-carbon and circular economy. We develop sustainable banking and insurance products and services that meet a range of social and environmental challenges. We advise all our clients to choose socially responsible funds. We endeavour to mitigate our own negative impact on the environment by dealing sustainably with energy, paper, water, mobility and waste and by reducing our greenhouse gas emissions.

Climate action

We apply a strict environmental policy to our loan, investment and insurance portfolios. Our focus on sustainable investments is a key part of our sustainability strategy. We consider the climate performance of our investments and actively work with our investee companies. We develop business solutions that help clients reduce their greenhouse gas emissions and make the transition to a low-carbon economy. We limit our own environmental impact and communicate on that. We attempt to address climate-related risks and also focus on climate-related opportunities.

Aiming to enhance our positive impact on society

We want to enhance our positive impact on society to which end we are focusing on areas in which we, as a bank-insurer, can create added value: financial literacy, entrepreneurship, environmental awareness and longevity and/or health. In doing so, we take account of the local context in our different home markets. We likewise support social projects that are closely aligned with our policy and through which we can play our role in society. These areas are used to incorporate the SDGs into our sustainability strategy and everyday activities.

You can find more information and examples in the following diagram and in the 'Our business units' section.

Focus areas	Description	A few recent examples:
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.	• Launch in the Czech Republic of ČSOB FILIP, an app that enables children to improve their financial and digital knowledge in an educational way. • Educational programmes in schools (including in Belgium and the Czech Republic) aimed at increasing financial literacy among young people (several lessons were postponed or cancelled due to Covid). • Lending to education sector: 1 billion euros.
Environmental awareness	• Reducing our ecological footprint through a diverse range of initiatives and objectives. • Developing products and services that can make a positive contribution to the environment.	• Issue of green bonds • Stricter policies regarding loans related directly to the exploration of new oil and gas fields. • Supply in the Czech Republic of a specific mortgage loan to purchase an energy-efficient home or make your home more energy-efficient. • Launch of the MoveSmart app by KBC Autolease, which makes it easy for people to use shared bikes, cars and public transport. • Alliance between KBC Belgium and Encon to help businesses make the transition to more sustainable practices. • For further details, see 'Focus on climate'.
Entrepreneurship	• Contributing to economic growth by supporting innovative ideas and projects.	• Partnership with BRS, which supports microfinance and microinsurance businesses in the Global South. • Active use of Start it @KBC to support women entrepreneurs in the start-up world. • Start it X: corporate innovation programme specifically designed for large companies and organisations investing in open and sustainable innovation and seeking to give their employees the opportunity to develop their own ideas, as well as to collaborate with start-ups and scale-ups and participate in workshops and events. • Launch of the 'The Family Business Knowledge Centre' website to support the NextGens of Hungarian family businesses in sustainable business management.
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.	• Access for KBC Mobile clients in Belgium to Helena, a secure environment for all medical documents. • ATMs equipped with voice recognition technology for visually impaired clients and eScribe for hearing-impaired clients in the Czech Republic. • Financial and material aid to sick children through the K&H MediMagic programme in Hungary. • Loans provided for senior care and healthcare sectors: 6 billion euros.

Limiting any negative impact we might have on society

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

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

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

Specific policies related to coal:

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

- When existing clients have more than 25% of their production capacity based on coal.
- When companies that are not yet clients have any production capacity based on coal.
- The threshold will be reduced to zero for all clients in 2030.
- Limited ad hoc exceptions will still be possible for, amongst other things, investment in the context of energy transition (all countries) and for social purposes (Czech Republic only).
- The policy was tightened further in April 2021, and existing clients are required (i) to submit a plan 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.

Specific policies related to oil and gas:

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

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

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

Examples of measures in the event that infringements are detected:

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

Our objectives

We also use Key Performance Indicators (KPIs) in the KBC Sustainability Dashboard to see whether we are focusing sufficiently on socially relevant themes and whether we are meeting stakeholder expectations. The most important Key Performance Indicators (KPIs) relating to our role in society are set out in the KBC Group annual report.

Our sustainability governance

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

Sustainability governance

The Board of Directors is regularly briefed by the Executive Committee on the sustainability strategy, including its policy on climate change, as well as other relevant sustainability issues such as gender diversity. Since climate-related risks have been classified as a top risk, the Risk and Compliance Committee monitors sustainability risks closely. 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 on the implementation of the strategy 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, and Risk as well as sustainability experts. It integrates the climate approach within the group and supports the business side in developing climate resilience in line with the TCFD and the EU action plan.

The Corporate Sustainability 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.

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

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

Focus on climate (KBC Group)

The climate aspect in our business model

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

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

We ourselves also feel the impact of climate change as a bank-insurer. Examples include potential risks due to acutely or chronically changing weather patterns, which can lead to higher levels of claims under the insurance we provide (such as the heavy flooding in Belgium in the summer of 2021), or the impact on our loans or investments when relevant counterparties suffer the negative consequences of climate change or the transition to a lower-carbon society (which can lead to repayment problems). It also relates to the influence we experience from possible changes to the relevant legislation and capital requirements, litigation, changes in client behaviour (including the risk of missed opportunities), the impact of rising market prices on greenhouse gas emissions, and technological innovations.

We actively modify our business model as needed, adjusting it both for the purpose of reducing or avoiding any negative impact (see our relevant goals in this area) and to contribute to reducing global warming within the targets set in the Paris Agreement. We obviously also intend to capitalise on the many opportunities presented by the transition to a greener and more sustainable economy. This entails both further expanding our sustainable product and service offering in the field of investment, insurance, leasing and so on, and actively supporting clients in their transition to lower-carbon operations.

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

Sustainability integrated into our remuneration policy

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

- The variable remuneration of Executive Committee members is linked to factors including the achievement of a number of collective targets. One such target is specifically related to progress in the area of sustainability, which is evaluated every six months via the KBC Sustainability Dashboard report. The Board of Directors evaluates, via the Remuneration Committee, the criteria by which Executive Committee members are assessed in this regard. More information is provided under 'Remuneration report for financial year 2021' in the 'Corporate governance statement' section.
- Sustainability is also integrated into management's variable remuneration. At least 10% of the variable remuneration received by senior management depends on the achievement of individual targets agreed in advance as part of the group's sustainability policy, including climate policy.
- The non-recurrent results-based bonus paid to employees in Belgium has been partially linked to environmental targets (reduced paper consumption, for instance).

Climate governance

Climate governance forms part of our general sustainability governance (see 'Our sustainability governance').

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

Chaired by the CEO, the Internal Sustainability Board (ISB) has become the most important platform for steering sustainability policy at group level, including our climate approach. The core country representatives sitting on the ISB have a clear responsibility for sustainability and climate.

Each member of the ISB representing a core country is supported locally by a Corporate Sustainability Coordinator, who is tasked to direct the business side in that country in accordance with the ISB's decisions. This ought to result in rapid, group-wide implementation of sustainability and climate themes determined centrally.

The Sustainable Finance programme is directed by a programme manager from Corporate Sustainability, together with a Sustainable Finance Core Team. This team of specialists from Group Corporate Sustainability, Group Risk and Credit Risk was expanded in 2020 to include experts from Group Finance. The Core Team is in contact with all relevant group departments. A separate project has also been launched as part of the Sustainable Finance programme for the purpose of collecting climate-related data and to streamline the drafting of the various reports. The project is managed by Group Finance, with the close involvement of the Data Management team and all those responsible for reporting in the various core countries. The Sustainable Finance core team also works closely with the local Sustainability coordinators.

A steering committee oversees the progress and the practical implementation of the various measures implemented under the programme. The steering committee is chaired by the CFO, who is also a member of the ISB, while the other members are permanent representatives of the Finance, Risk and Sustainability departments. All decisions on policy-related topics, the climate-related strategy and the overall priorities are made within the ISB. The programme's progress is regularly discussed in the Executive Committee and the Board of Directors, with reference, amongst other things, to the KBC Sustainability Dashboard. The Board evaluates the programme's status report once a year. The current status is also discussed annually by the supervisory boards of the key group companies in the different core countries.

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

The environmental and climate aspects of our sustainability policy

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

Important elements of our climate and environmental policy include:

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

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

- We started out by analysing our credit portfolio, and have now also included our insurance portfolios in the analyses. Based on a materiality assessment, as stipulated in the TCFD, we focused on the sectors representing more than 5% of industrial loans designated as climate-sensitive and carbon-intensive. These analyses form the basis for determining a strategy and targets that must help us to effectively honour our climate commitment as part of the Paris Agreement. We use the term ‘white paper’ to reflect the open mind with which we embarked on the exercise.
- Based on a thorough analysis of the situation in one of our core countries, the results were then translated to the other countries, taking account of the local context, so that the first policy decisions can be taken for the entire group portfolio.
- We have drawn up white papers for the energy, commercial real estate, agriculture, food production, building and construction, chemicals, transportation and metals sectors, as well as for three retail product lines: home loans, car loans and car leasing.
- The exercises were further updated in 2021 for the white papers on energy, commercial real estate and home loans, agriculture and food production, transport, car loans and car leasing. Through these updates, KBC will also set specific climate targets for 2030 and 2050 for a number of sectors and industries, including the related policy decisions to achieve these targets.

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

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

The table contains several examples of recent environment-related products, services and initiatives.

Examples of sustainability-related products and services

Third green bond – November 2021	750-million-euro issue with a term of five years and three months. The proceeds will be used to finance loans for sustainable investments such as home loans and renewable energy projects. CO2e emissions avoided in this way amount to roughly 138 000 tonnes annually.
Socially responsible investment funds	Wide range of socially responsible funds, varying from best-in-class funds and funds with sustainable themes to more recent impact investing funds. Thorough screening is applied to determine which companies and countries belong to the investment universe for socially responsible investment solutions. Moreover, all companies that can be linked to fossil fuels have been excluded from all our sustainable investment funds.
Project finance	We are actively involved in the financing of renewable energy projects in all core countries. In Belgium, for example, we entered into a major new project financing transaction in 2021 for the first Belgian zero-subsidy wind farm in Ghent. In Hungary, we financed the construction of 39 new photovoltaic power stations with a total installed capacity of nearly 20 MWp. The entire project was developed by Slovakian investors and represents a fine example of cross-border cooperation between KBC entities in the financing of renewable energy sources. In Bulgaria, UBB funded new renewable energy projects involving more than 40 MW in 2021, avoiding more than 30 tonnes of new carbon emissions.
Making homes more sustainable	KBC Bank has been providing the Flemish 0% loan to clients since January 2021. Clients who purchase an energy-efficient house or apartment in Flanders (EPC label E or F) can contract a special 0% renovation loan for a maximum of 60 000 euros to make the home energy-efficient within a period of five years (EPC label A, B or C). The annual interest the client pays on this loan is reimbursed by the *Vlaams Energie en Klimaat Agentschap* (Flemish Energy and Climate Agency). ČSOB in the Czech Republic also supported the transition to energy-efficient homes in 2021 by providing green mortgage loans. In Hungary, K&H was among the first, in October 2021, to launch the state-financed ‘green’ mortgage, which offers a very favourable interest rate if the home purchased has a maximum EPC BB or a maximum use of primary energy of 90 kWh per square metre per year.
More sustainable transport	KBC Bank Belgium provides low-interest consumer loans to retail clients to help them invest in more sustainable mobility through the purchase of electric and plug-in hybrid vehicles and bicycles. The KBC Autolease bicycle lease park currently contains more than 20 000 lease bicycles. In Bulgaria, UBB Interlease has included a specific lease product in its COSME programme for financing electric and hybrid vehicles and all kinds of equipment relating to renewable energy. In Slovakia, ČSOB also works with its partners to actively promote the use of no-emission and low-emission vehicles.
Non-life insurance: climate-related product features	In 2021, we adapted our car insurance in Belgium to accommodate the growing popularity of electric vehicles and offered comprehensive cover and adequate support for electric and hybrid vehicles. For clients installing their own charging stations, this is automatically included in the home insurance policy, which also covers other green investments such as solar panels and home batteries. We also created our own multi-peril climate insurance for farmers in 2021, as they are increasingly affected by extreme weather conditions. Farmers and growers cultivating open-air crops, including fruit growers and arable farmers, can take out insurance to protect them from crop damage caused by extreme and rough weather conditions such as storm, hail, frost, ice, precipitation and drought.
Proxy voting by KBC Asset Management	KBC Asset Management lives up to its responsibility to represent clients who invest in companies via our equity funds at shareholders’ meetings.
Green loans and green bonds for corporate clients	KBC is promoting sustainable financial solutions amongst its corporate clients, including by means of green and sustainability bonds and green and sustainability-linked loans. They are structured in accordance with the ICMA Green/Sustainability Bond Principles and the LMA Green/Sustainability-Linked Loan Principles. Specifically in 2021, for example, KBC Bank acted as an arranger for the sustainability-linked loan for Euronav and for a new sustainability bond for VPG. ČSOB in the Czech Republic successfully completed its first euro business bond mandate for CTP in 2021.
Carbon footprint calculation tool	In Belgium, we launched a pilot project for calculating carbon footprint, with KBC calculating the carbon footprint for corporate clients. The pilot project was also expanded to include SME clients and we intend to roll out the carbon footprint calculator in all our core countries.

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

We want to be a partner for our clients in their transformation to a more sustainable future. We launched a project in Belgium in 2019 to support businesses in their transition to a more sustainable business model. This approach has since also been introduced in all our other home markets, and we have conducted more than 1 000 conversations on these issues with corporate clients. This approach is initially aimed at providing training to our relationship managers on sustainability and climate issues. The first dialogues with clients then took place, which were geared towards the strategic sustainability approach and towards specific themes, such as the impact of the non-financial reporting directive, the EU Taxonomy, green lending, etc. This was followed up by subsequent dialogues during which specific actions were discussed and determined. This approach has been a success, and we will continue to invest time in discussing sustainability issues with our clients.

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

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

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

- We endorsed the TCFD recommendations in December 2017.
- We follow and implement the different actions flowing from the EU Action Plan for Sustainable Finance to mobilise private capital in support of a resilient, low-carbon, resource-efficient and inclusive Europe.
- We are a member of the UN Environment Programme Finance Initiative (UNEP FI) and a Founding Signatory of the UNEP FI Principles on Responsible Banking (PRBs). We likewise endorse the Collective Commitment to Climate Action (CCCA). We have begun the first pilot projects to further develop shared methodologies that will help map the impact of climate change (see elsewhere in this section).
- We also endorse the UNEP FI Principles for Responsible Insurance and the Principles for Responsible Investment.
- As a board member of the International Capital Markets Association, we are playing our part in developing green bonds in the EU.
- We have been a signatory to the Equator Principles since 2004 and have integrated them in our lending policy.

Our climate risk management

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

Our benchmarks and targets

To support the transition to a low-carbon society, we have defined a number of targets in the area of sustainability and climate. It relates to targets on limiting our own direct environmental impact as well as targets for our indirect impact (see the KBC Group annual report).

If our ambitions are to be realised, it is crucial that the right measuring instruments and definitions are available and that they are applied consistently by all banks. A great many methodologies have yet to be perfected at this point: not every approach is equally suitable for all sectors, production methods or technologies; some client segments lack the resources or capacity to deliver all the requested data consistently and systematically; and so on. KBC is therefore participating in pilot projects to implement new measuring instruments like PACTA (Paris Agreement Capital Transition Assessment), UNEP Fis TCFD Banking Pilot and PCAF (Partnership for Carbon Accounting Financials). We tested the latter in a growing number of categories of our loan portfolio. PACTA is also used as a more effective methodology for analysing the climate impact of particular sectors and the transition process in the loan portfolio. For the second year now, KBC Asset Management is additionally testing a method for mapping the climate impact of all investment funds on its portfolio. This analysis, based on TRUCOST data and methodology, was applied for the first time in 2021 to KBC Insurance's proprietary investment portfolio and to the investments of the KBC Pension Fund. The Data & Metrics project launched in 2021 (as part of the Sustainable Finance programme) is also committed to collecting all climate-related data, drafting reports on this topic, and integrating all the methodologies used to create a consistent picture of the climate impact of our portfolios. The initial results of the various methodologies are published in our Sustainability Report.

The KBC Group annual report contains a table that provides an overview of the loan portfolio for the most climate-sensitive industrial sectors and an estimate of the greenhouse gas emissions associated with our lending activities. Additional information can be found in our Sustainability Report.

Our own environmental footprint

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

EU taxonomy

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

Focus on human rights (KBC Group)

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

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

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

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, the KBC Group Human Rights Policy and the KBC Group Policy on Controversial Regimes. These exclude companies or countries that are involved in, for instance, a serious infringement of human rights or with controversial weapons systems. We also pay considerable attention to privacy and data protection (see 'The client is at the centre of our business culture') and closely monitor compliance with them.

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

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

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

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

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

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

Although the activities of a large financial group are exposed to risks that only become apparent in retrospect, we can currently identify a number of major challenges for our group. These are set out under 'In what environment do we operate?' in the 'Our business model' section. As a bank-insurer, we are also exposed to the typical risks for the sector, such as credit risk, market risk on both trading and non-trading activities, technical insurance risk, liquidity risk, solvency risk, operational, compliance and reputational risk, business and strategic risk, and climate-related and other ESG risks. A list of these risks can be found in the table. A description of each type of risk can be found in the 'How do we manage our risks?' section.

Sector-specific risks	How are we addressing them?
Credit risk	• Existence of a robust management framework • Recording impairment charges, taking risk-mitigating measures, optimising the overall credit risk profile, reporting, stress testing, etc. • Limit systems to manage concentration risk in the loan portfolio, etc.
Market risk in non-trading activities	• Existence of a robust management framework • Basis Point Value (BPV), sensitivity of net interest income, sensitivity per risk type, stress tests, limit tracking for crucial indicators, etc.
Non-financial risk (operational risk, compliance risk, reputational risk, business risk, strategic risk)	• Existence of a robust management framework • Group key controls, risk scans, Key Risk Indicators (KRIs), etc. • Risk scans and monitoring of risk signals • Strict acceptance policy, stress tests, monitoring, etc.
Market risk in trading activities	• Existence of a robust management framework • Historical VaR method, BPV and basis risk limits, 'greeks' and scenario limits for products with options, stress tests, etc.
Liquidity risk	• Existence of a robust management framework • Drawing up and testing emergency plans for managing a liquidity crisis • Liquidity stress tests, management of funding structure, etc.
Technical insurance risks	• Existence of a robust management framework • Underwriting, pricing, claims reserving, reinsurance and claims handling policies, etc.
Climate-related and other ESG risks	• Gradual integration in existing management frameworks • Ongoing initiatives within the Sustainable Finance programme • 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 in this section of the annual report. A review of the non-consolidated results and balance sheet is provided 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 – on balance – limited.
- Information on financial instruments, hedge accounting and the use thereof is provided in the ‘Consolidated financial statements’ section (Notes 1.2, 3.3, and 4.1–4.8 among others) and in the ‘How do we manage our risks?’ section.
- We expect Basel IV (effective from 2023) to increase our risk-weighted assets (RWA) by approximately 8 billion euros (fully loaded, based on year-end 2021 figures).
- For information on significant post-balance-sheet events, see Note 6.8 of the ‘Consolidated financial statements’.
- All KBC Bank shares are owned by KBC Group.

Consolidated income statement

Consolidated income statement, KBC Bank (simplified, in millions of EUR)	2021	2020
Net interest income	4 054	4 015
Dividend income	14	19
Net result from financial instruments at fair value through profit or loss[1]	32	36
Net realised result from debt instruments at fair value through other comprehensive income	8	3
Net fee and commission income	2 210	1 975
Other net income	140	88
Total income	6 457	6 134
Operating expenses	-3 905	-3 809
Impairment	269	-1 126
on financial assets at amortised cost and at fair value through other comprehensive income[2]	329	-1 068
Share in results of associated companies	-5	-11
Result before tax	2 816	1 188
Income tax expense	-681	-255
Net post-tax result from discontinued operations	0	0
Result after tax	2 135	933
Result after tax, attributable to minority interests	0	0
Result after tax, attributable to equity holders of the parent	2 135	933
Ratio of ‘result before tax’ to ‘average total assets’	0.96%	0.44%

1 Also referred to as ‘Trading and fair value income’.
2 Also referred to as ‘Loan loss impairment’

Key consolidated balance sheet and solvency figures

Selected balance-sheet and solvency items, KBC Bank (in millions of EUR)	2021	2020
Total assets	302 991	284 399
Loans and advances to customers (excl. reverse repos)	157 663	157 650
Securities (equity and debt instruments)	48 528	52 585
Deposits from customers (excluding repos and debt securities)	200 621	191 347
Risk-weighted assets (Basel III, fully loaded)	95 120	92 903
Total equity	18 547	16 067
of which parent shareholders’ equity	17 047	14 567
Common equity ratio (Basel III, fully loaded)	15.7%	15.2%
Liquidity coverage ratio (LCR)	167%	147%
Net stable funding ratio (NSFR)	148%	146%

The growth figures for the volume of loans and deposits have been systematically adjusted to exclude exchange rate effects and intragroup transactions (between bank and group, and between bank and insurer).

By 'unchanged scope', we mean without taking into account key changes in the scope of consolidation, in this case principally the acquisition of the Slovakian bank OTP Banka Slovensko in late November 2020 and the sale of the loans and deposits of KBC Bank Ireland (which initially causes a shift in balance sheet items). More information on this matter can be found in Note 6.6 of the 'Consolidated financial statements'.

Note 1.4 of the 'Consolidated financial statements' includes an overview showing the impact of the coronavirus crisis on our results in 2020 and 2021.

Analysis of the result

Net interest income

Our net interest income amounted to 4 054 million euros in 2021, roughly the same as the year-earlier figure. The negative impact of a number of factors, including lower reinvestment yields in the euro countries, pressure on loan portfolio margins in virtually all countries, was fully offset by lower funding costs (including the effect of TLTRO III and ECB tiering), a larger loan portfolio (see below), the consolidation of OTP Banka Slovensko, the more extensive charging of negative interest rates for certain current accounts held by business and SME clients, the higher positive effect of ALM foreign exchange swaps and the exchange rate effect.

Our loans and advances to customers (excluding reverse repos) amounted to 158 billion euros. With an unchanged scope of consolidation, this comes to 5% growth, with a 5% increase at the Belgium Business Unit, 6% at the Czech Republic Business Unit and 5% at the International Markets Business Unit (with growth in all countries). For our core countries combined, the volume of loans that were granted payment holidays under the various support measures at year-end 2021 amounted to 10 billion euros (including EBA-compliant moratoria and the now non-EBA-compliant scheme in Hungary, but excluding Ireland, which is now classified under IFRS 5 on account of the pending sale transaction). Virtually all EBA-compliant moratoria expired by the end of December 2021. For 96.5% of the loans under the now-expired EBA-compliant moratoria, payments have fully resumed. In addition to this, we granted some 0.8 billion euros in loans that fall under the various coronavirus-related government guarantee schemes in our home markets. See Note 1.4 of the 'Consolidated financial statements' for more information.

Our total deposit volume (deposits from clients, excluding debt securities and repos) stood at 201 billion euros. With an unchanged scope of consolidation, this entailed 6% growth, with 6% growth at the Belgium Business Unit, 6% at the Czech Republic Business Unit and 3% at the International Markets Business Unit (with growth in Hungary and Bulgaria and a decline in Slovakia and Ireland).

The net interest margin came to 1.81% compared to 1.84% in 2020. It amounted to 1.61% in Belgium, 2.08% in the Czech Republic and 2.61% at the International Markets Business Unit.

Net fee and commission income

Our net fee and commission income came to 2 210 million euros in 2021, a solid growth of 12% on the year-earlier figure. This was primarily attributable to the increase in fees for asset management services (almost exclusively attributable to higher management fees) and, to a slightly lesser extent, to an increase in fees for banking services (especially for payments), and only partly offset by higher distribution fees.

At the end of 2021, our total assets under management at KBC Group level came to approximately 236 billion euros, 12% more than a year earlier, driven mainly by the higher asset prices (11%), combined with limited net inflow (1%). Most of these assets at year-end 2021 were managed at the Belgium Business Unit (216 billion euros) and the Czech Republic Business Unit (14 billion euros).

Other income

Other income came to an aggregate 193 million euros, well above the year-earlier figure of 145 million euros.

The figure for 2021 included 32 million euros in trading and fair value income, 14 million euros in dividends received, 8 million euros in the net realised result from debt instruments at fair value through other comprehensive income and 140 million euros in other net income. The latter is 52 million euros more than the previous year, including as a result of a higher amount in one-off items. For 2021, the main positive one-off items in other net income include the badwill related to the acquisition of OTP Banka Slovensko and the gain on the sale of the KBC Tower in Antwerp; the main negative item involves the additional costs related to the tracker mortgage review in Ireland.

Operating expenses

Our expenses amounted to 3 905 million euros in 2021. Adjusted for bank taxes, this is 3 402 million euros, an increase of 2% on the year-earlier figure. The expense comparison is affected by a significant number of exceptional/non-operational items. For 2021, this includes the one-off costs related to the pending sale transactions in Ireland, changes in the scope of consolidation, and the payment of an exceptional coronavirus-related bonus to staff; for 2020, this includes the higher one-off internal charge made by KBC Group in relation to software, changes in the scope of consolidation and other such expenses. The cost/income ratio came to 60% in 2021, compared to 62% in 2020.

Impairment

There was a net reversal of loan loss impairment charges totalling 329 million euros in 2021, compared to a net increase of 1 068 million euros in 2020. The figure for 2020 consisted mainly of the initial creation of collective impairment recorded for the impact of the coronavirus crisis. This concerned an amount of 783 million euros, calculated as the sum of 672 million euros as a result of an expert-based calculation ('management overlay') and 111 million euros through the ECL models as a result of updated macroeconomic variables. In 2021 we could take back 494 million euros from his amount. As a result, the outstanding amount in collective impairment for the coronavirus crisis fell to 289 million euros at year-end 2021. More information on this matter can be found in Note 1.4 of the 'Consolidated financial statements'. In 2021, there was also a one-off negative impact in 2021 of 178 million euros as a result of the sale transactions in Ireland (which have not yet been finalised) and, finally, a net reversal of 13 million euros in individual impairment charges for other loans.

Total net reversal of 329 million euros in 2021, broken down by country, amounts to: 305 million euros for Belgium, 141 million euros for the Czech Republic, 16 million euros for Slovakia, 2 million euros for Bulgaria, whereby a net increase in loan loss impairment charges was recorded solely for Ireland (as a result of the sale transactions) and the Group Centre, adding up to 149 million euros and 7 million euros, respectively.

This brought the group's credit cost ratio to -18 basis points in 2021 (excluding the collective impairment related to the coronavirus crisis, this was 9 basis points), versus 60 basis points in the previous year (16 basis points excluding the collective impairment related to the coronavirus crisis). A negative ratio denotes a positive impact on results.

The proportion of (stage 3) impaired loans (see the 'Glossary of financial ratios and terms' for a definition) in our loan portfolio was 2.9% at year-end 2021, compared to 3.3% for 2020. This breaks down into 2.2% in Belgium, 1.8% in the Czech Republic and 5.7% at International Markets. For the group as a whole, the proportion of impaired loans more than 90 days past due came to 1.5%, compared to the year-earlier figure of 1.8%.

Other impairment charges came to an aggregate 60 million euros, as opposed to 58 million euros in 2020. The figure for 2020 came about mainly because of impairment charges on software and the accounting treatment of the various payment moratoria schemes related to the coronavirus crisis in our core countries ('modification losses' – see note 1.4 of the 'Consolidated financial statements' section), whereas the figure for 2021 related primarily to impairment of property and equipment and intangible assets (connected mainly with the sale transactions in Ireland), and to a lesser extent because of additional modification losses.

Income tax expense

Our income tax expense came to 681 million euros in 2021, compared to a year-earlier figure of 255 million euros. This increase is related mainly to the higher result before tax and a one-off amount relating to the sale transactions in Ireland (derecognition of deferred tax assets).

Besides paying income tax, we pay special bank taxes. These amounted to 503 million euros compared to 486 million euros in 2020 and are included under 'Operating expenses'.

Analysis of the balance sheet

Total assets

At the end of 2021, our consolidated total assets came to 303 billion euros, up 7% year-on-year. Risk-weighted assets (Basel III, fully loaded) increased by 2% to 95 billion euros. More information in this regard can be found in the 'How do we manage our capital?' section.

Loans and deposits

Our core banking business is to attract deposits and use them to provide loans. This clearly explains the importance of the figure for loans and advances to customers on the assets side of our balance sheet (158 billion euros (excluding reverse repos) at year-end 2021). With an unchanged scope of consolidation, loans and advances to customers grew by 5%, with 5% growth at the Belgium Business Unit, 6% at the Czech Republic Business Unit, and 5% at the International Markets Business Unit (with growth in all countries). The main lending products at group level were again term loans (72 billion euros) and mortgage loans (67 billion euros). For information on payment deferrals due to the coronavirus crisis, see ender 'Net interest income'. For the sale transactions in Ireland, see Note 6.6 in the 'Consolidated financial statements' section.

On the liabilities side, our customer deposits (deposits from customers, excluding debt securities and repos) amounted to 201 billion euros. With an unchanged scope of consolidation, this figure was up 6% on the year-earlier figure, with 6% growth at the Belgium Business Unit, 6% at the Czech Republic Business Unit and 3% at the International Markets Business Unit. Debt securities issued accounted for 26 billion euros at year-end 2021. The main deposit products at group level were again demand deposits (113 billion euros) and savings accounts (75 billion euros).

Securities

We also hold a portfolio of securities, which totalled roughly 49 billion euros at year-end 2021. The securities portfolio comprised just 1% shares and almost 99% bonds At year-end 2021, 89% of these bonds consisted of government paper. A detailed list of these bonds is provided in the 'How do we manage our risks?' section.

Other assets and other liabilities

Other important items on the assets side of the balance sheet were loans and advances to credit institutions and investment firms (8 billion euros, up 25% on the year-earlier figure), reverse repos (25 billion euros, down 9% on the year-earlier figure), derivatives (positive mark-to-market valuation of 6 billion euros mainly for interest rate contracts, roughly the same as in 2020), and cash, cash balances with central banks and other demand deposits with credit institutions (41 billion euros, up 65% on the year-earlier figure, due primarily to higher balances at the NBB and ECB).

Other significant items on the liabilities side of the balance sheet were derivatives (negative mark-to-market valuation of 7 billion euros mainly for interest rate contracts, the same as in 2020) and deposits from credit institutions and investment firms (38 billion euros, up 10% year-on-year).

Significant amounts under 'Non-current assets held for sale and disposal groups' (10 billion euros at year-end 2021) and 'Liabilities associated with disposal groups' (4 billion euros at year-end 2021) relate to the sale transactions of the Irish loan portfolio and deposit book.

Equity

On 31 December 2021, our total equity came to 18.5 billion euros. This figure included 17.0 billion euros in parent shareholders' equity and 1.5 billion euros in additional tier-1 instruments. Total equity rose by 2.5 billion euros in 2021, with the most important components in this respect being the inclusion of the annual profit (+2.1 billion euros) and an increase in the revaluation reserves (+0.4 billion euros; see 'Consolidated statement of changes in equity' in the 'Consolidated financial statements' section) and various smaller items.

On 31 December 2021, our common equity ratio (Basel III) stood at 15.7% (fully loaded), compared to 15.2% in 2020. Our leverage ratio came to 5.1% (fully loaded). Detailed calculations of our solvency indicators are given in the 'How do we manage our capital?' section. The liquidity position also remained excellent, as reflected in an LCR ratio of 167% and an NSFR ratio of 148%.

Our business units

Our group's management structure centres on three business units: 'Belgium', 'Czech Republic' and 'International Markets'. The latter is responsible for the other core countries in Central and Eastern Europe (Slovakia, Hungary and Bulgaria) and Ireland.

- The Belgium Business Unit comprises the activities of KBC Bank NV and its Belgian subsidiaries, the most important of which are CBC Banque, KBC Asset Management, KBC Lease Group and KBC Securities.
- The Czech Republic Business Unit comprises all KBC's activities in the Czech Republic. These consist primarily of the activities of the ČSOB group (under the ČSOB Bank, Postal Savings Bank, Hypoteční banka, ČSOB Stavební spořitelna and Patria brands).
- The International Markets Business Unit comprises the activities conducted by entities in the other Central and Eastern European core countries, namely ČSOB Bank in Slovakia, K&H Bank in Hungary and UBB in Bulgaria, plus KBC Bank Ireland's operations. In view of the sale transactions (which have not yet been finalised), Ireland will be transferred to the Group Centre in 2022 (see below).

Besides financial reporting for three business units, we also report on a separate Group Centre. This centre includes the operating results of the group's holding-company activities, certain costs related to capital and liquidity management, costs related to the holding of participating interests and the results of the remaining companies and activities in the process of being run down.

Belgium

The economic context

The Belgian economy experienced a solid recovery of 6.1% in 2021. Outpacing the euro area, economic activity once again exceeded the pre-pandemic level in the third quarter. Private consumption was the main driver of growth, underpinned by an improving coronavirus pandemic situation and easing of the restrictions as the year progressed. In the second half of the year, bottlenecks on the supply side of the economy increasingly hampered growth, with companies suffering more and more from both supply problems and labour shortages. The fourth wave of the coronavirus also compelled the government to step up the measures towards the end of the year.

The labour market has weathered the pandemic surprisingly well. Due to the rapid recovery of economic activity, the employment rate was up 2.2% on the year-earlier level, which translates into 108 000 people. The high demand for labour again added to the tight labour market conditions. At 5.7%, the unemployment rate (Eurostat definition) at year-end 2021 remained above the pre-crisis figure of 4.9% despite a record-high vacancy rate, which suggests that the mismatch in the Belgian labour market has increased during the crisis.

Rising energy prices and supply chain bottlenecks caused by the coronavirus crisis drove Belgian inflation upwards to 7% at year-end 2021 according to the European Harmonised Index of Consumer Prices. At the start of 2022, inflation rose even further to nearly 10%. At 3.2%, the average inflation figure for 2021 as a whole was well above the level of 2020. The ten-year rate of Belgian linear bonds (OLOs) picked up overall from approximately -0.4% at the start of 2021 to 0.2% at the end of 2021. The yield spread with the corresponding German Bund rose from less than 20 basis points at the start of the year to over 40 basis points at the end of the year.

Figures for forecast GDP growth in 2022 and 2023 can be found under 'Market conditions in our core markets'.

Specific objectives (KBC Group)

- We put the interests of the client at the heart of all the products and services we develop and at the centre of everything we do. Our focus here is on a 'digital first' approach with a human touch, and investing in the seamless integration of our various distribution channels. We are working on the further digitalisation of our banking, insurance and asset management services and exploiting new technologies and data to provide our clients with more personalised and proactive solutions. Our digital assistant 'Kate' is taking this to the next level.
- To support these activities, we are also fully engaged in introducing end-to-end straight-through processing into all our commercial processes, making full use of all technological capabilities such as artificial intelligence.
- To expand our service provision via our own and other channels. We collaborate to this end with partners through 'eco-systems' that enable us to offer our clients comprehensive solutions. We are also integrating a range of selected partners into our own mobile app and making our products and services available in the distribution channels of selected third parties.
- To exploit our potential in Brussels more efficiently via the separate brand, KBC Brussels, which reflects the capital's specific cosmopolitan character and is designed to better meet the needs of the people living there.
- To grow bank-insurance further at CBC in specific market segments and to expand our accessibility in Wallonia.
- To work tirelessly on the ongoing optimisation of our bank-insurance model in Belgium.
- To continue pursuing our ambition to become the reference bank for SMEs and mid-cap enterprises in Belgium based on our thorough knowledge of the client and our personal approach.

- To express our commitment to Belgian society by leading the way in the sustainability revolution. We are making our banking, insurance and asset management products more sustainable to create financial leverage in achieving global climate targets. We aim to be more than a provider of pure bank-insurance services – as a partner in the climate transition, we are working with other partners on developing housing, mobility and energy solutions. We also continue to focus on financial literacy, entrepreneurship and population ageing.

A few achievements in 2021 (KBC Group)

In July 2021, several Belgian regions were hit by heavy flooding. The insured claims exceeded our legally defined compensation limits. Together with Assuralia, (the Belgian insurance sector federation) we reached agreement with the authorities on the compensation of the insured persons' claims. Over the past few months, we drew on our extensive network of insurance agents, experts and repairers, and used all our knowledge and expertise to ensure that the insurance claims brought by the clients affected are settled efficiently and correctly.

As the coronavirus pandemic remained high on the agenda in 2021 as well, we continued to seek to reconcile maximum service provision with the preventative steps necessary to protect the health of our clients and staff (face coverings, sanitising gels, social distancing, etc.). Since the start of the coronavirus pandemic, we have worked intensively with government agencies to support all clients affected by the coronavirus, including by deferring loan payments (see elsewhere in this report).

The pandemic also boosted the use of our digital systems and apps, leading more and more of our clients to discover new ways of using financial services securely and remotely, and resulting in a marked increase in digital contacts. We once again invested heavily in further expanding these digital systems, with the emphasis on solutions that make our clients' lives easier. The most important achievement in this regard was the further development of Kate, our digital assistant. More information about this can be found in 'The client is at the centre of our business culture'.

We also launched a number of new banking and insurance applications in the past year, including the Instant Card Service, which allows clients applying for a new debit card or replacing an existing card to instantly access their new electronic card in KBC/CBC Mobile. Over the past few years, we have also added a large number of non-banking applications to our range of services, including the ability to pay for car parking or public transport tickets, reserve bicycles on bike sharing platforms, enter and leave car parks using number plate recognition and pay automatically, order cinema tickets, add the Covid Safe Ticket, etc.

To ensure optimum service provision and accessibility, we will be working with several other major banks in the coming years to develop an integrated ATM platform offering optimum accessibility. To improve our response to the greatly changing habits and requirements of our clients, who increasingly choose digital options, and at the same time focus on building and maintaining an easily accessible and mature physical banking network with maximum provision of services and specialist advice for all clients, our branch network will continue to play an important role alongside remote banking (KBC Live) and the digital channels, and we have decided to reopen some of the smaller branches on a part-time basis only and to permanently close a limited number of small branches.

Across the business unit as a whole, deposits (excluding debt securities) saw a further increase of 6% in 2021. Lending went up by 5%, thanks in part to a 7% increase in the volume of mortgage loans. Assets under management grew by 11% (partly on account of higher asset prices) and the life reserves grew by 3%.

For several years now, we have been active in Brussels under the separate KBC Brussels brand, which has a metropolitan, innovative image and a tailored network. We continued to modernise the branch network in 2021 and to bolster the provision of remote advice via KBC Brussels Live. This service has gone down very well with our clientele in the capital, thanks to its ease of use and accessibility. This, together with a range of other initiatives, helped KBC Brussels attract over 6 000 new clients (net) in 2021.

We took several more important steps in our growth strategy in Wallonia, too, which similarly resulted in the acquisition of over 22 000 new clients (net) and growth in products such as home loans and insurance which outstripped that of the overall Walloon market.

Our bank-insurance model is already delivering numerous commercial synergies. In 2021, for instance, roughly nine out of ten clients who agreed home loans with KBC Bank also purchased home insurance with KBC Insurance, while eight out of ten took out mortgage protection cover. There was a further increase of 3% in the number of active clients (clients with a current account into which their income is regularly paid) who hold at least one KBC banking product and one KBC insurance product, while the number of active clients with at least three banking and three insurance products from KBC increased by 4.5%. At year-end 2021, bank-insurance clients (with at least one banking and one insurance product from the group) accounted for 84% of the business unit's active clients. Stable bank-insurance clients (i.e. holding three banking and three insurance products) made up 31% of active clients.

We once again took a variety of initiatives to stimulate entrepreneurship. One of the best examples remains Start it @KBC, the largest accelerator for start-up companies in Belgium, which currently has more than 1 000 start-ups under its wings. Set up a few years ago and building on the experience gained with Start it @KBC, the Start it X programme was developed specifically for large companies and organisations working towards open and sustainable innovation and seeking to give their employees the opportunity to develop their own ideas, as well as to collaborate with start-ups and scale-ups and participate in workshops and events. Start it X also connects the companies with innovative international players and technologies through a matchmaking process. Over the past four years, Start it @KBC also actively focused on increasing women's involvement in start-ups, and in 2022 it will also be active in Wallonia with Start it @CBC.

As regards environmental awareness, our aim is not only to reduce our own footprint, but also to actively assist our clients in their transition to more sustainable business models. Ever since KBC and Encon entered into their partnership, KBC's corporate clients have been able to rely on fully individualised and professional sustainability advice tailored to their specific business processes and requirements and on suitable funding options. This is how sustainability grows organically from within the business, with KBC and Encon acting as catalysts and facilitators in the transition to more sustainable business operations.

We also continued to work on the transition to multi-mobility. The introduction of teleworking has changed the way people use transport as well as ideas about mobility. KBC Autolease has developed the MoveSmart app to efficiently deal with these new behaviours, giving multi-mobile users easier access to bicycle and car sharing options and public transport.

In 2021, we also became the exclusive main partner of The Warmest Week, a fundraising campaign launched by national TV and radio broadcasting service VRT, and we committed ourselves to supporting The Warmest Week and helping it expand over the next three years. VRT is updating the familiar format of The Warmest Week, the fundraising campaign traditionally organised at the end of every year. Introducing #DWW21, VRT launched a search for 21 young people who feel passionate about inspiring as many people in Flanders as possible to get behind a single social issue that concerns them: the freedom to be who you are.

Czech Republic

The economic context

The Czech Republic suffered two pandemic waves in 2021. The lockdown measures intended to counteract the waves of infection translated into a contraction of the Czech economy in the first quarter which mainly impacted the service sector, with trade and tourism being hit the hardest. Although the favourable development of industrial output in the first half of 2021 prevented more severe economic consequences, the industrial sector faced increasing problems with supply chains, international transport that suffered from more and more delays and became more expensive, and the surging prices of raw materials and energy. These bottlenecks peaked in the third quarter, prompting a significant decline in production in the automotive industry, which still accounted for approximately 10% of total production.

However, the contraction of the Czech economy in the first quarter was only short-lived and had a negligible impact on the already tight labour market. As the contraction remained limited to a relatively small part of the economy, employees were able to switch to growing sectors and the unemployment rate went down again. The drop in unemployment rates combined with the increase in the number of vacancies triggered stronger growth in labour costs for domestic companies. This wage cost increase translated into slightly deteriorated competitive strength, which nevertheless remained very strong.

However, economic recovery in 2021 was accompanied by higher inflationary pressure, which prompted the Czech National Bank (CNB) to intervene and raise its policy rate by 25 basis points to 0.50% as early as the end of June. The CNB kept tightening its monetary policy at every subsequent policy meeting, resulting in a two-week repo rate of 3.75% at the end of December. Inflationary pressure nevertheless continued its upward trend, leading to a year-on-year consumer price rise of 5.4% in December. In February 2022, the CNB raised its policy rate by 75 basis points to 4.50, and is expected to raise it one more time to 4.75% in this tightening cycle. The larger interest rate difference compared with the euro supported the Czech koruna, which amounted again to 25 koruna per euro at year-end 2021, but weakened against the euro mainly under the pressure of the international risk aversion following the outbreak of the Russian-Ukrainian war. Nonetheless, due to interest rate support and possible CNB intervention, the koruna is expected to gradually appreciate again in the course of 2022.

Figures for forecast GDP growth in 2022 and 2023 can be found under 'Market conditions in our core markets'.

Specific objectives

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

A few achievements in 2021 (KBC Group)

We introduced several measures to protect our clients and staff as much as possible against the coronavirus crisis and to guarantee continuity of service. Nearly all branches remained open during the most challenging times. Working from home and hybrid meetings were obviously recommended where possible, and employees could use their care days to get a vaccine. Since the start of the coronavirus pandemic, we have been working intensively with government agencies to support clients affected by the coronavirus, including by deferring loan payments (see elsewhere in this report).

Partly because of the past lockdowns, we saw accelerated growth in our digital channels, and mobile banking in particular. We also added even more services to our smartphone app, such as a car parking service, the ability to pay for public transport tickets, the option of making direct payments at specific petrol stations and the option of using Kate, our personalised digital assistant (see 'The client is at the centre of our business culture' section for more information). The number of active users of our digital channels rose by approximately 9% last year to 1.3 million, and we launched several new products, such as NaMíru Investments, an easy way to start investing online that is mainly intended for novice investors looking for a straightforward solution. The NaMíru Zodpovědně variant was mainly developed for clients focusing on sustainability check. The cyber risk insurance launched in our smartphone app last year was also particularly successful, attracting 100 000 new insurance clients.

The Czech Republic, too, suffered from exceptional weather conditions in 2021. As a tornado hit several villages in Southern Moravia in late June, we took immediate action to help our clients. As an insurer, we sent a team of experts to the affected area and almost immediately started making advance payments to cover the damage claimed. Affected clients could also request a postponement of loan repayments of up to six months, and we launched a public charity fundraising campaign for the victims under the 'ČSOB helps the regions' programme. The vast majority of the claims had been settled at year-end 2021.

We again recorded substantial growth in lending in 2021. Overall, our lending activities rose by 6% in 2021, partly because of the growth in home loans (+7%). Our deposits (excluding debt securities) also went up by 6%. These growth figures are excluding exchange rate effects. Assets under management grew by 23% on the back of higher asset prices and net inflow, whereas the life reserves dropped by 4%.

In 2019, we acquired the remaining portion of the building savings bank ČMSS, enabling ČSOB to consolidate its position as the leading institution on the home loan market. ČMSS was renamed ČSOB Stavební spořitelna during the course of 2021. This means that clients are now offered various housing-related services under one roof and one brand.

Our bank-insurance model is delivering numerous commercial synergies. For example, around five out of ten ČSOB group clients who took out home loans with the bank in 2021 also purchased home insurance from the group. There was a further increase of approximately 8% in the number of active clients (clients with a current account into which their income is regularly paid) who hold at least one banking product and one insurance product from the group, while the number of active clients with at least two banking and two insurance products from the group increased by 13%. At year-end 2021, bank-insurance clients (with at least one banking and one insurance product from the group) accounted for 85% of the business unit's active clients. Stable bank-insurance clients (i.e. holding two banking and two insurance products) made up 19% of active clients.

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

On the environmental front, one of our goals was to achieve complete cessation of direct funding of thermal coal activities by the end of 2021. We reached that goal halfway through the year.

In 2021, we successfully finalised the first 1-billion-euro corporate bond mandate for CTP in accordance with the ICMA Green Bond Standards. CTP is a leading owner and developer of logistics real estate in Central Europe. A frontrunner in the area of sustainable funding in the sector, CTP uses all the income from its bond transactions for buildings having a very good or excellent external sustainability certificate.

Regarding the initiatives to stimulate entrepreneurship, Start it@ČSOB continues to be the most important initiative. For example, in 2021 we supported 19 start-ups through Start it and encouraged entrepreneurship among young people by taking part in the 'Compete and Become an Entrepreneur' project (Soutěž a podnikej). The portal site 'don't get lost in old age' (www.neztratitsevestari.cz) was set up for elderly people and their family members a few years ago. The site contains both legal information and answers to social questions. A helpline was also created specifically for people aged 70 and over and an e-book was published that addresses both banking and insurance matters and financial planning. We also continue to focus on making our services more widely and easily accessible, the efforts of which have not gone unnoticed with ČSOB having been named 'Bank without Barriers' in 2021.

International Markets

The economic context

In 2021, economic recovery following the coronavirus impact in 2020 was the main determinant for Slovakia, Hungary and Bulgaria. In line with euro area developments, the first quarter of 2021 had a difficult start in the second wave of the pandemic. Both the Slovakian economy and the Bulgarian economy contracted in the first quarter. The Hungarian economy was an exception and showed positive growth. The second and third quarters then saw positive quarterly growth figures for the Central European home markets in line with euro area developments, again followed by a weaker fourth quarter on the back of the fourth wave of the coronavirus and the Omicron variant. Although the focus on specialist sectors such as the automotive industry renders the home markets in the region more vulnerable to obstacles in international supply chains. The Russian-Ukrainian war has a significant impact on the home markets and is expected to weigh on growth in 2022.The surge in inflation in 2021 was generally more substantial in the Central European economies than in the euro area. The tight labour market in the region contributed to this development with relatively strong pay increases. The National Bank of Hungary (NBH) responded rapidly and vigorously, cumulatively raising its Base Rate from 0.60% to 2.40% since the end of June 2021. In January, the NBH raised its Base Rate further to 2.90% and to 3.40% in February. This is likely to be followed by a pause to evaluate the impact the measures have on inflation. Trends in the exchange rate of the Hungarian forint against the euro play an important role in this regard. While, overall, the Hungarian forint depreciated only moderately against the euro in 2021, volatility was substantial throughout 2021. The marked depreciation in the period between September and the end of the year was mainly due to the difference in real interest rates

between Hungary and the euro area. The forint depreciated sharply due to general risk aversion in financial markets following the outbreak of the Russian-Ukrainian war, but is likely to subsequently stabilise and continue its depreciation in line with the trend. Bulgarian economic growth also rebounded in 2021 in the wake of the pandemic impact in 2020. Annual average inflation rose in 2021, but to a lesser extent than in the other Central European home markets. The Bulgarian economy faces impact of the conflict in Ukraine and a low rate of vaccination, which renders Bulgaria more vulnerable to the fourth wave of the coronavirus and the Omicron variant. Political uncertainty also prevailed since mid-2021, and a new government could only be formed after the new parliamentary elections in November.
With real GDP growth of 13.5%, Ireland was the top performer in 2021. An important caveat in this regard is that Irish GDP figures are heavily distorted by the activities of large multinationals, such as pharmaceutical companies. As was the case in the other home markets, annual average inflation picked up from -0.5% in 2020 to 2.4% in 2021x

Figures for forecast GDP growth in 2022 and 2023 can be found under 'Market conditions in our core markets'.

Specific objectives

- The updated group strategy presents a number of challenges for all countries in the business unit, viz.:
  - To develop new and unique 'bank-insurance+' propositions.
  - To continue digitally upgrading our distribution model.
  - To drive up the volume of straight-through and scalable processing.
  - To increase the capacity in relation to data and AI to enable us to proactively offer relevant and personalised solutions.
  - To selectively expand our activities with a view to securing a top-three position in banking and a top-four position in insurance.
  - To implement a socially responsible approach in all countries, with a particular focus on environmental awareness, financial literacy, entrepreneurship and health.
- Country-specific:
  - To become the undisputed leader in the area of innovation in Hungary. We are aiming to raise profitability by targeting income through vigorous client acquisition in all banking segments and through more intensive cross-selling. We also aim to expand our insurance activities substantially, primarily through sales at bank branches and, for non-life insurance, via both online and traditional brokers.
  - To maintain our robust growth in strategic products in Slovakia (i.e. home loans, consumer finance, SME funding, leasing and insurance), partly through cross-selling to group clients and via digital channels. Other priorities include the sale of funds and increased fee income.
  - To focus – as regards the banking business in Bulgaria – on increasing our share of the lending market in all segments, while applying a robust risk framework (see the acquisition of Raiffeisenbank Bulgaria below). Our insurer, DZI, is likewise maintaining its goal of growing faster than the market in both life and non-life insurance, via the bank and other channels.
  - Ireland: Ireland was part of the International Markets Business Unit until year-end 2021, but was then transferred to the Group Centre in view of the sale transactions (see below under 'A few achievements in 2021').

A few achievements in 2021

During the coronavirus crisis, large numbers of head office staff in the International Markets Business Unit worked from home and/or in small teams, but the bank branches largely remained open. The workplaces were also rapidly adapted to meet the newly imposed health and safety requirements. A system was set up to ensure adequate communication to both staff and clients. Live events and meetings were replaced by digital events and meetings. There was also intensive collaboration with government agencies in the different countries to support all clients affected by the coronavirus, including by deferring loan payments (see elsewhere in this report).

The coronavirus crisis also provided a boost for the use of our digital channels. For instance, the number of users of the mobile banking app grew by 30% in Hungary and Bulgaria and by 15% in Slovakia.

We also developed several new products and services with a clear digital focus including – depending on the country – fully digital onboarding of new clients, digital consumer finance and certain insurance policies, investment plans through the smartphone app, etc. AI is here to stay, too: in Slovakia, Bulgaria and Hungary, for example, we launched the Optimum Fund Enhanced Intelligence, a fund for private banking clients that relies on artificial intelligence. And, as has already been done in Belgium and the Czech Republic, we have added a number of services to the smartphone apps in the various countries that go beyond pure bank-insurance services, such as features for buying bus tickets. A completely new website was rolled out in Ireland, which was chosen as 'Best Banking Website' at the Vega Digital Awards.

There was an increase across the business unit in deposits (excluding debt securities) and lending, which went up by 3% and 5%, respectively, in 2021. Lending grew in all of the business unit's countries, whereas deposits only rose in Hungary and Bulgaria. These figures are adjusted for exchange rate effects and changes in the scope of consolidation.

We also continued to sharpen the group's geographical focus. In July 2021, we completed the acquisition of NN's Bulgarian pension and life insurance business. This transaction is fully in line with our strategy and will enable UBB and DZI to further expand their cross-selling opportunities through their already established bank-insurance presence in the Bulgarian market, allowing them to serve more clients and to benefit from economies of scale and increased visibility. In November, we reached agreement on another acquisition in Bulgaria: Raiffeisenbank (Bulgaria), a universal bank in Bulgaria offering private individuals, SMEs and corporate entities a full range of banking, asset management, leasing and insurance services. Upon completion of the transaction (expected by mid-2022) – which is currently pending the supervisory authority's approval – the plan is to merge Raiffeisenbank

(Bulgaria) and UBB. The combined entity will have an estimated market share of 18% in terms of assets and the acquisition will also create ample opportunity for insurance cross-selling with DZI.

At the end of August, KBC Bank Ireland reached agreement on the disposal of a non-performing mortgage loan portfolio of roughly 1.1 billion euros in a transaction financed by funds managed by CarVal Investors. This deal was finalised in early February 2022. In October 2021, KBC Bank Ireland confirmed that it had entered into a legally binding agreement with Bank of Ireland relating to the sale of substantially all of KBC Bank Ireland's performing loan assets and its deposit book to Bank of Ireland Group As part of the transaction, the latter will also acquire a small non-performing mortgage loan portfolio. The transaction remains subject to the approval of the supervisory authority and the Irish competition authorities. The finalisation of the two transactions will ultimately result in KBC's exit from the Irish market.

Finally, on 1 October 2021, OTP Banka Slovensko – acquired in late 2020 – merged with ČSOB Bank in Slovakia.

More information on all of the acquisitions and disposals stated above can be found in Note 6.6 of the 'Consolidated financial statements'.

Our focus on bank-insurance delivers many commercial synergies. For instance, group fire insurance was sold in conjunction with more than nine out of ten new home loans taken out in Bulgaria and Slovakia, and more than seven out of ten such loans taken out in Hungary.

The number of active clients (clients with a current account into which their income is regularly paid) who hold at least one banking product and one insurance product from the group grew slightly by 1% in 2021, while the number of active clients with at least two banking and two insurance products from the group increased by 6%. At year-end 2021, bank-insurance clients (with at least one banking and one insurance product from the group) accounted for 64% of the business unit's active clients. Stable bank-insurance clients (i.e. holding two banking and two insurance products) made up 18% of active clients.

We link our social projects to financial literacy, environmental responsibility, entrepreneurship and health. Some examples of recent projects:

We are actively involved in the financing of renewable energy projects in all core countries. In Hungary, we financed the construction of 39 new photovoltaic power stations with a total installed capacity of nearly 20 MWp. The entire project was developed by Slovakian investors and represents a fine example of cross-border cooperation between KBC entities in the financing of renewable energy sources. In Bulgaria, UBB funded new renewable energy projects involving more than 40 MW in 2021, avoiding more than 30 tonnes of new carbon emissions.

In Hungary, where around 70% of the companies are family businesses, K&H focuses primarily on coaching 'NextGens'. The 'The Family Business Knowledge Centre' website advises them on several aspects of running a family business, such as sustainability, succession planning, etc. ČSOB's Business Expectation Index surveys Slovakian business owners to explore their options for expanding their business and planning their investments, as well as their expectations regarding their customers' needs and the main risks.

KBC Ireland works closely together with the Irish Banking Culture Board to ensure all its written communications with its clients are straightforward and easy to understand.

UBB Interlease in Bulgaria has included a specific lease product in its COSME programme for financing electric and hybrid vehicles and all kinds of equipment relating to renewable energy.

How do the business units contribute to the group result?

Consolidated income statement, KBC Bank: Result after tax, attributable to equity holders of the parent (in millions of EUR)	**2021**	**2020**
Belgium Business Unit	1 620	579
Czech Republic Business Unit	630	321
International Markets Business Unit	85	144
Hungary	*207*	*90*
Slovakia	*77*	*45*
Bulgaria	*90*	*53*
Ireland	*-289*	*-44*
Group Centre	-201	-110
Total net result, KBC Bank	2 135	933

How do we manage our risks?

Mainly active in banking and asset management, we are exposed to a number of typical industry-specific risks such as credit risk, movements in interest rates and exchange rates, liquidity risk, operational and other non-financial risks.

In this section, we focus on our risk governance model and the most material risks we face.

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

- the 'Risk governance' section;
- parts of the 'Credit risk' section: 'Managing credit risk', 'The building blocks for managing credit risk', part of the 'Loan and investment portfolio, banking' table, 'Forbearance measures' and the 'Other credit exposure, banking' table;
- parts of the 'Market risk in non-trading activities' section: 'Managing market risk in non-trading activities', 'The building blocks for managing market risk in non-trading activities' and the 'Exposure to sovereign bonds' table;
- parts of the 'Market risk in trading activities' section: 'Managing market risk', 'The building blocks for managing market risk' and 'Risk analysis and quantification';
- parts of the 'Liquidity risk' section: 'Managing liquidity risk', 'The building blocks for managing liquidity risk' and 'Maturity analysis'.

Significant events or trends which marked 2021 – in terms of risk management – included continued uncertainty around the coronavirus crisis (see below and in every section of this report), the increasing importance of climate-related and environmental, social and governance risks (ESG) (see 'Climate-related and other ESG risks') and the constant stream of cyber-security threats (see 'Information risk management' under 'Non-financial risks'). To face these challenges, we are intensifying our efforts to achieve KBC's strategic data transformation objectives (see below). These events have resulted in the acceleration of certain trends and are also reflected in how we manage our risks.

For more information on the situation in Ukraine, see Note 6.8 (Post-balance-sheet events) in the 'Consolidated financial statements' section.

Coronavirus crisis

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

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

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

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

Risk innovation, transformation and straight through-processing

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

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

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

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

Lastly, we also structurally raise awareness about innovation and develop expertise in new trends and technologies. This knowledge is bundled into staff training sessions, such as courses on artificial intelligence and robotic process automation. Employees with an active interest are able to train with analytical tools to experiment and find new insights or predictive risk signals in our data. We continue to invest in knowledge sharing of innovation, technology and trends to further reinforce our risk management practices. These efforts are all to ensure that our risk professionals acquire the relevant digital skills to continue providing expert risk advice. All employees are actively encouraged to participate in the KBC entrepreneurial /intrapreneurial track and cross-silo innovation programmes that are organised group-wide. Several successful group-wide innovation projects were originated by risk employees, showing the results of our focus on innovation and transformation culture and related training.

Risk governance

Main elements in our risk governance model:

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

Relevant risk management bodies:

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

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

Components of a sound risk management

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

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

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

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

Risk identification

Risk identification is the process of systematically and proactively discovering, recognising, assessing and describing risks, both within and outside KBC, that could negatively impact the group's strategic objectives today and in the future. In addition to possible sources of risk, it also identifies their potential consequences and materiality for KBC. Risk identification ensures that KBC's risk management covers all material risks the company is exposed to. For this purpose, robust processes have been set up that cover risk identification from different perspectives, including the Risk Scan, the 'New and Active Products Process' (NAPP) and risk signals.

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

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

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

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

Risk measurement

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

Setting & cascading risk appetite

KBC's tolerance for risk is captured via the notion of 'risk appetite'. It helps us to better understand and manage risks by explicitly expressing – both qualitatively and quantitatively – how much and what kind of risk we want to take.

The ability to accept risk (risk-taking capacity) is limited by financial constraints (available capital, liquidity, borrowing capacity, earnings-generating capacity, etc.), non-financial constraints (strategic ability, skills, legal constraints, etc.) and regulatory restrictions (e.g., regulatory floors on capital and liquidity ratios). The willingness to accept risk depends on the interests of the various stakeholders. A key component in defining risk appetite is therefore an understanding of the organisation’s key stakeholders and their expectations.

Risk appetite is made explicit via the ‘risk appetite statement’ (RAS), which is decided at both group and local level. The RAS reflects the view of the Board of Directors and top management on risk-taking in general, the acceptable level and composition of risks that ensure coherence with the desired return. The statement is built on risk appetite objectives that are directly linked to the corporate strategy and provides a qualitative description of KBC’s playing field. In 2021, the objective to embed climate and environmental impacts into KBC’s decision-making was explicitly added to that playing field. The high-level risk appetite objectives are further detailed in a set of qualitative and quantitative statements for each of the different risk types. The long-term risk appetite is specified as High, Medium or Low based on the measures and thresholds described in the ‘risk appetite underpinning exercise’ performed for the main risk types. Lastly, risk appetite is translated into risk-type-specific group limits/targets, which are further cascaded down to the entities.

Risk analysis, reporting & follow-up

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

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

Stress testing

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

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

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.

The building blocks for managing credit risk

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

- Risk identification: a vital part of the credit risk identification process is capturing credit risk signals, both at transactional and portfolio level. Both the internal and external environment are scanned for events or developments that have already occurred or could occur and which directly or indirectly have or could have a significant impact on credit quality. Risk signals provide an overview of the identified risk and outline the possible impact for KBC and, if possible, propose remedial actions.

  The appropriate risk management committees are periodically informed of relevant signals or observations. Risk signals that are considered material are reported to the Executive Committee. In addition, thematic and sectoral deep dives are performed to gain further insights into credit risk.

  New and upcoming prudential (capital) credit risk regulation, product or client-specific regulation and legislation is followed up at group or local level to ensure that amended or new regulations are promptly implemented in policy and instructions.

  A specific risk identification process is the leading indicator process designed to identify emerging credit risks that could lead to impairment. The main objective is to have a reliable estimate of impairment for the current quarter at an early stage, thus avoiding surprises. It is part of the quarterly reporting round on loan and bond impairment.

- Risk measurement: credit risk measurement involves a quantitative expression of a credit risk on a portfolio of instruments/exposures by applying a model or methodology. A minimum group-wide set of credit risk measurements is defined and can be complemented with local measurements.

  Central to this is the risk class, with a ranking being made based on the Probability of Default (PD) and the Loss Given Default (LGD). The latter reflects the estimated loss that would be incurred if an obligor were to default. In order to determine the risk class, we have developed various rating models for measuring how creditworthy borrowers are and for estimating the expected loss of various types of transactions. A number of uniform models throughout the group (models for governments, banks, large companies, etc.) are in place, while others have been designed for specific geographic markets (SMEs, private individuals, etc.) or types of transaction. We use the same internal rating scale throughout the group.

  We use the output generated by these models to split the non-defaulted loan portfolio into internal rating classes ranging from 1 (lowest risk) to 9 (highest risk) for the PD. We assign PD 10 to PD 12 to a defaulted obligor. PD class 12 is assigned when either one of the obligor's credit facilities is terminated by the bank, or when a court order is passed instructing repossession of the collateral. PD class 11 groups obligors that are more than 90 days past due (in arrears or overdrawn), but that do not meet PD 12 criteria. PD class 10 is assigned to obligors for which there is reason to believe that they are unlikely to pay (on time), but that do not meet the criteria for classification as PD 11 or PD 12. 'Defaulted' status is fully aligned with the 'non-performing' and 'impaired' statuses. Obligors in PD classes 10, 11 and 12 are therefore referred to as 'defaulted' and 'impaired'. Likewise, 'performing' status is fully aligned with the 'non-defaulted' and 'non-impaired' statuses.

  Impairment losses are recorded according to IFRS 9 requirements (calculated on a lifetime expected credit loss (ECL) basis for defaulted borrowers and on a 12-month or lifetime ECL basis for non-defaulted borrowers, depending on whether there has been a significant increase in credit risk and a corresponding shift from 'Stage 1' to 'Stage 2'). Specific collective IFRS 9 models are used for this purpose, except for material defaulted borrowers, which are assessed individually to estimate ECL.

  Together with 'probability of default' and 'exposure at default', measures such as 'expected loss' and 'loss given default' form the building blocks for calculating the regulatory capital requirements for credit risk, as KBC has opted to use the Internal Ratings Based (IRB) approach. By the end of 2021, the main group entities and some smaller entities had adopted the IRB Advanced approach, apart from United Bulgarian Bank (UBB) in Bulgaria (Standardised approach) and ČSOB in Slovakia (IRB Foundation approach). 'Non-material' entities will continue to adopt the Standardised approach.

- Setting and cascading risk appetite: the KBC Risk Appetite Statement makes explicit the amount of credit risk KBC is able and willing to accept in pursuit of its strategic objectives. The Credit Risk Competence Centre is responsible for proposing the credit risk appetite objectives in line with the corporate strategy, the underpinning methodology and the credit risk profile. Credit risk appetite is made tangible by assigning credit risk limits and early warning levels to a limited set of credit risk (signal) indicators, which are valid for one year.

  Primary credit risk limits are decided by the Board of Directors or the Executive Committee. These entail limits on Expected Loss (EL), Stressed Credit Loss and Credit Risk Weighted Asset (RWA) – and for new home loan production – Loan-to-Value (LTV) and Debt-Service-To-Income (DSTI). These limits are supplemented by a portfolio limit system (PLS) framework to constrain concentration risk on counterparty groups or authorities and other credit risk limits set at group or local level that include sector and activity limits and limits on risks, such as counterparty credit risk for professional transactions or issuer risk.

  By introducing a safety margin when defining these limits and by installing clear escalation rules in case of limit breaches, they support business to stay a safe distance from positions that may bring KBC into recovery or even resolution mode. Besides the limits defined in the Risk Appetite Statement, the risk playing field is also determined by group-wide risk boundaries defined in Credit Risk Standards, which aim to align risk management of specific credit-risk-related topics throughout the group by defining restrictions and/or recommendations.
- Risk analysis, monitoring, reporting and follow up: the credit portfolio is analysed on a continuous basis. In addition to portfolio analyses performed by business, the local and group credit risk departments analyse the credit risk profile of the loan portfolio in order to obtain an independent view of the evolution of credit risk. Results of the analyses are reported to the appropriate risk committees. Once credit risks have been identified, measured, monitored and reported, it is the responsibility of both line management and the risk committees to respond, i.e. to keep or bring risks in line with the risk appetite. Corrective action plans can be taken to avoid (further) credit risk, reduce it (mitigation), transfer the risk or accept it.
- Stress testing: stress testing is a core component of sound credit risk management and is performed at local and group level

Impact of the coronavirus crisis on credit risk

Since the onset of the coronavirus pandemic in March 2020, specific actions to manage ensuing risks have been activated across the group, particularly in relation to credit risk management. As the crisis evolved, these initiatives were adjusted and continued in 2021.

Firstly, supplementary ad hoc credit risk reporting was presented to the Group Executive Committee on a regular basis in 2021. This reporting focused on payment deferrals granted (where applicable, under official moratoria) and their post-expiry repayment performance (e.g., loans going into arrears or receiving extensions or other forbearance treatment). In addition, the changes in credit risk measures such as arrears, non-performing loan formation and average PDs were closely monitored for the various portfolios of the home countries.

At year-end 2021, post-expiry performance data for the moratoria and portfolio development metrics did not reveal a material deterioration in credit risk metrics or other signs of distinct distress among portfolios or activities. This proves the resilience of the portfolio, the effectiveness of the supporting government measures in the different home countries and the adequacy of the payment accommodation granted by the bank. Obviously, such performance data will continue to be monitored as the coronavirus crisis evolves. More information on the moratoria is provided in Note 1.4 of the ‘Consolidated financial statements’ section.

Secondly, with the coronavirus crisis impacting economic activity unequally and non-traditionally across industrial sectors, further sectoral vulnerability assessments were performed during the year. Accordingly, a differentiated restrictive risk appetite was adopted for specific sectors and sub-sectors considered to be less or more at risk due to the consequences of the pandemic compared to an earlier assessment, with the corresponding impact on sectoral underwriting appetite. Note that the most vulnerable sectors and sub-sectors, including hospitality, entertainment and leisure, retail fashion and aviation, still represent, in total, less than 5% of the industrial portfolio. In general, and considering the aforementioned resilience of the portfolio and effectiveness of government measures, risk appetite guidance and restrictions on new production have become less stringent, with the focus shifting from a total sector or sub-sector approach to individual companies with persistent payment difficulties within such sectors.

Furthermore, a subset of the portfolio has been transferred in full to ’Stage 2’ (‘significant increase in credit risk’) as a result of a possible future impact of the pandemic. It consists of exposures related to corporate and SME clients active in the most vulnerable sectors and clients with ongoing payment holidays in the retail and non-retail segments. Regular reassessment of this collective staging will be conducted going forward.

As a third set of initiatives, we have also evaluated the impact of the economic support and relief measures in place during the coronavirus crisis on the identification of distressed borrowers. As the regular risk signals used for this purpose did not provide relevant information in these specific circumstances, additional actions were taken. Distressed borrowers were identified through a combination of regular reviews and ad hoc portfolio screening, using both data-driven risk signals (e.g., turnover on current account data) and human assessment.

Lastly, also during 2021, we continued to provide estimates of expected credit losses in the existing loan portfolio that cannot be captured by the usual models given that the evolutions in macroeconomic variables resulting from the coronavirus scenarios are not included in these models. These estimates (management overlay) are based on a validated stress testing methodology using a stratified sector vulnerability classification and were updated and downscaled over the year to account for portfolio and macroeconomic changes and to reflect progressive insight into the impact of the pandemic towards sector risk and additional default risk. This management overlay constitutes the main financial impact of the coronavirus crisis in the 2021 impairment figures. More information in this regard is provided in Note 1.4 of the ‘Consolidated financial statements’ section.

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

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

The loan and investment portfolio as defined in this section differs from ‘Loans and advances to customers’ in Note 4.1 of the ‘Consolidated financial statements’ section. For more information, please refer to the ‘Glossary of financial ratios and terms’.

Loan and investment portfolio, banking

Total loan portfolio	31-12-2021	31-12-2020
Total loan portfolio (in billions of EUR)		
Amount outstanding and undrawn	237	225
Amount outstanding	188	181
Loan portfolio breakdown by business unit (as a % of the outstanding portfolio)[1]		
Belgium[2]	63%	64%
Czech Republic	19%	18%
International Markets	17%	17%
Group Centre	1%	2%
Total	100%	100%
Loan portfolio breakdown by counterparty sector (as a % of the outstanding portfolio)[1]		
Private individuals	*44%*	43%
Finance and insurance	*6%*	8%
Governments	*3%*	3%
Corporates	*47%*	46%
Services	*10%*	*11%*
Distribution	*8%*	*7%*
Real estate	*6%*	*6%*
Building and construction	*4%*	*4%*
Agriculture, farming, fishing	*3%*	*3%*
Automotive	*2%*	*3%*
Other (sectors < 3%)	*14%*	*13%*
Total	100%	100%
Loan portfolio breakdown by region (as a % of the outstanding portfolio)[1] [3]		
Home countries	89%	87%
Belgium	*54%*	*53%*
Czech Republic	*18%*	*17%*
Ireland	*6%*	*6%*
Slovakia	*6%*	*6%*
Hungary	*4%*	*3%*
Bulgaria	*2%*	*2%*
Rest of Western Europe	7%	9%
Rest of Central and Eastern Europe	0%	0%
North America	1%	1%
Asia	1%	1%
Other	1%	2%
Total	100%	100%
Loan portfolio breakdown by risk class (as a % of the outstanding portfolio, based on internal rating scale)[1]		
Unimpaired		
PD 1 (lowest risk, default probability ranging from 0.00% up to, but not including, 0.10%)	*25%*	*26%*
PD 2 (0.10% – 0.20%)	*13%*	*12%*
PD 3 (0.20% – 0.40%)	*17%*	*15%*
PD 4 (0.40% – 0.80%)	*13%*	*13%*
PD 5 (0.80% – 1.60%)	*13%*	*13%*
PD 6 (1.60% – 3.20%)	*8%*	*9%*
PD 7 (3.20% – 6.40%)	*4%*	*5%*
PD 8 (6.40% – 12.80%)	*2%*	*2%*
PD 9 (highest risk, ≥ 12.80%)	*1%*	*2%*
Unrated	*1%*	*1%*
Impaired		
PD 10	*1.4%*	*1.5%*
PD 11	*0.6%*	*0.6%*
PD 12	*1.0%*	*1.2%*
Total	100%	100%
Loan portfolio breakdown by IFRS 9 ECL Stage[4] (as a % of the outstanding portfolio)[1] [7]		
Stage 1 (no significant increase in credit risk since initial recognition)	83%	85%
Stage 2 (significant increase in credit risk since initial recognition – not credit impaired) incl. POCI[5]	14%	12%
Stage 3 (significant increase in credit risk since initial recognition – credit impaired) incl. POCI[5]	3%	3%
Total	100%	100%

Impaired loan portfolio	31/12/2021	31/12/2020
Impaired loans (PD 10 + 11 + 12; in millions of EUR or %)		
Impaired loans[6]	5 454	5 902
Of which more than 90 days past due	2 884	3 220
Impaired loans by business unit (as a % of the impaired loan portfolio)[1]		
Belgium[2]	48%	45%
Czech Republic	12%	12%
International Markets	33%	35%
Ireland	*23%*	*24%*
Slovakia	*3%*	*4%*
Hungary	*3%*	*2%*
Bulgaria	*4%*	*5%*
Group Centre	8%	8%
Total	100%	100%
Impaired loans by sector (as a % of impaired loan portfolio)[1]		
Private individuals	34%	35%
Distribution	16%	18%
Services	11%	10%
Real estate	9%	9%
Building and construction	5%	4%
Automotive	4%	3%
Agriculture, farming, fishing	3%	2%
Machinery & heavy equipment	3%	2%
Other (sectors <2%)	15%	17%
Total	100%	100%
Loan loss impairment (in millions of EUR)		
Impairment for Stage 1 portfolio	127	191
Impairment for Stage 2 portfolio, incl. POCI[5] (cured)	559	998
Impairment for Stage 3 portfolio, incl. POCI[5] (still impaired)	2 569	2 638
Of which impairment for impaired loans that are more than 90 days past due	*1 905*	*2 044*
Credit cost ratio		
Belgium Business Unit[2]	-0.26%	0.57%
Czech Republic Business Unit	-0.42%	0.67%
International Markets Business Unit	0.36%	0.78%
Ireland	*1.43%*	*0.88%*
Slovakia	*-0.16%*	*0.50%*
Hungary	*-0.34%*	*1.05%*
Bulgaria	*-0.06%*	*0.73%*
Group Centre	0.28%	-0.23%
Total	-0.18%	0.60%
Impaired loans ratio		
Belgium Business Unit[2]	2.2%	2.3%
Czech Republic Business Unit	1.8%	2.3%
International Markets Business Unit	5.7%	6.9%
Ireland	*12.0%*	*13.9%*
Slovakia	*1.6%*	*2.3%*
Hungary	*2.1%*	*1.9%*
Bulgaria	*5.3%*	*7.7%*
Group Centre	21.5%	13.9%
Total	2.9%	3.3%
Of which more than 90 days past due	*1.5%*	*1.8%*
Coverage ratio		
Loan loss impairment / impaired loans	47%	45%
Of which more than 90 days past due	*66%*	*64%*
Loan loss impairment / impaired loans (excl. mortgage loans)	51%	52%
Of which more than 90 days past due	*73%*	*75%*

[1] Unaudited figures.

[2] Also includes the small network of KBC Bank branches established in the rest of Europe, the US and Southeast Asia (with a total outstanding portfolio of 7 billion euros at year-end 2021).

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

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

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

[6] Figures differ from those appearing in Note 4.2 of the 'Consolidated financial statements' section, due to differences in scope. The 448 million euro decrease between year-ends 2020 and 2021 breaks down as follows: 62 million euros at the Belgium Business Unit, 73 million euros at the Czech Republic Business Unit, 285 million euros at the International Markets Business Unit (around half of which in Ireland) and 28 million euros at the Group Centre.

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

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

				31-12-2021				31-12-2020
Loan portfolio breakdown by IFRS 9 ECL stage	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loan portfolio by country/business unit								
Belgium	51.1%	10.9%	1.4%	63.4%	53.5%	9.1%	1.5%	64.0%
Czech Republic	17.0%	1.5%	0.3%	18.8%	15.9%	1.3%	0.4%	17.6%
International Markets	14.6%	1.3%	0.9%	16.8%	14.3%	1.1%	1.1%	16.6%
Ireland	*4.6%*	*0.3%*	*0.7%*	*5.6%*	*4.6%*	*0.4%*	*0.8%*	*5.7%*
Slovakia	*4.8%*	*0.5%*	*0.1%*	*5.4%*	*4.9%*	*0.4%*	*0.1%*	*5.5%*
Hungary	*3.3%*	*0.2%*	*0.1%*	*3.5%*	*3.0%*	*0.2%*	*0.1%*	*3.2%*
Bulgaria	*2.0%*	*0.2%*	*0.1%*	*2.3%*	*1.8%*	*0.2%*	*0.2%*	*2.2%*
Group Centre	0.8%	0.0%	0.2%	1.0%	1.5%	0.0%	0.2%	1.8%
Total	83.5%	13.6%	2.9%	100.0%	85.2%	11.5%	3.3%	100.0%
Loan portfolio by sector								
Private individuals	*40.1%*	*3.3%*	*1.0%*	*44.4%*	38.9%	2.9%	1.2%	43.0%
Finance and insurance	*5.8%*	*0.2%*	*0.0%*	*6.0%*	7.7%	0.2%	0.0%	8.0%
Governments	*2.7%*	*0.1%*	*0.0%*	*2.8%*	2.9%	0.0%	0.0%	2.9%
Corporates	34.9%	10.0%	1.9%	46.8%	35.7%	8.3%	2.1%	46.1%
Total	83.5%	13.6%	2.9%	100.0%	85.4%	11.2%	3.4%	100.0%
Loan portfolio by risk class								
PD 1–4	62.3%	5.1%	-	67.4%	62.5%	3.6%	-	66.1%
PD 5–9	21.2%	8.5%	-	29.7%	22.7%	7.9%	-	30.6%
PD 10–12	-	-	2.9%	2.9%	-	-	3.3%	3.3%
Total	83.5%	13.6%	2.9%	100.0%	85.2%	11.5%	3.3%	100.0%
Total (in millions of EUR)	157 264	25 683	5 454	188 400	154 137	20 852	5 902	180 891

				31-12-2021				31-12-2020
Impairment broken down by IFRS 9 ECL Stage	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Impairment by country/business unit								
Belgium	1.7%	8.5%	34.0%	44.2%	2.6%	14.0%	31.7%	48.3%
Czech Republic	1.1%	3.9%	9.8%	14.8%	0.9%	6.0%	9.2%	16.1%
International Markets	1.1%	4.7%	23.9%	29.7%	1.5%	6.0%	18.7%	26.1%
Ireland	*0.1%*	*1.0%*	*16.7%*	*17.8%*	*0.3%*	*1.7%*	*9.8%*	*11.8%*
Slovakia	*0.5%*	*1.9%*	*3.0%*	*5.4%*	*0.5%*	*2.2%*	*4.2%*	*6.9%*
Hungary	*0.3%*	*1.4%*	*1.6%*	*3.3%*	*0.4%*	*1.6%*	*1.5%*	*3.5%*
Bulgaria	*0.2%*	*0.5%*	*2.6%*	*3.2%*	*0.2%*	*0.5%*	*3.2%*	*3.9%*
Group Centre	0.0%	0.1%	11.2%	11.3%	0.0%	0.0%	9.4%	9.5%
Total	3.9%	17.2%	78.9%	100.0%	5.0%	26.1%	68.9%	100.0%
Impairment by sector								
Private individuals	0.8%	4.5%	23.5%	28.8%	0.9%	6.3%	17.3%	24.4%
Finance and insurance	0.1%	0.1%	1.1%	1.3%	0.1%	0.9%	1.4%	2.4%
Governments	0.0%	0.0%	0.2%	0.3%	0.0%	0.0%	0.2%	0.3%
Corporates	2.9%	12.6%	54.1%	69.5%	4.0%	18.9%	50.1%	72.9%
Total	3.9%	17.2%	78.9%	100.0%	5.0%	26.1%	68.9%	100.0%
Impairment by risk class								
PD 1–4	0.7%	1.8%	-	2.6%	1.0%	3.4%	-	4.4%
PD 5–9	3.2%	15.4%	-	18.5%	4.0%	22.7%	-	26.6%
PD 10–12	-	-	78.9%	78.9%	-	-	68.9%	68.9%
Total	3.9%	17.2%	78.9%	100.0%	5.0%	26.1%	68.9%	100.0%
Total (in millions of EUR)	127	559	2 569	3 255	191	998	2 638	3 827

Sale of the Irish portfolios

In 2021, KBC Bank Ireland reached an agreement to divest a portfolio of non-performing mortgage loans and entered into a legally binding agreement regarding the sale of substantially all of KBC Bank Ireland's performing loans and the remaining portfolio of non-performing mortgage loans. The completion of these transactions will ultimately result in the sale of the entire portfolio and our withdrawal from the Irish market. More information is provided in Note 6.6 of the 'Consolidated financial statements' section. The table below shows the (pro-forma) impact of this sale on a number of credit risk indicators.

Loan and investment portfolio 31-12-2021, including and excluding KBC Bank Ireland	Including KBC Bank Ireland	Excluding KBC Bank Ireland
Total loan portfolio (amount outstanding; in billions of EUR)*	188	178
Breakdown by counterparty sector (as a % of the outstanding portfolio)		
Retail	44%	41%
Of which mortgages	*41%*	*38%*
Of which consumer finance	*3%*	*3%*
SME	22%	23%
Corporations	34%	36%
Impaired loans (PD 10 + 11 +12; in millions of EUR)	5 454	4 198
Credit cost ratio	-0.18%	-0.27%
Impaired loans ratio	2.9%	2.4%
Coverage ratio	47%	48%

* Unaudited figures.

Forbearance measures

Forbearance measures consist of concessions towards a borrower facing, or about to face, financial difficulties. They may involve lowering or postponing interest or fee payments, extending the term of the loan to ease the repayment schedule, capitalising arrears, declaring a moratorium (temporary principal and/or interest payment holidays) or providing debt forgiveness.

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

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

On-balance-sheet exposures with forbearance measures: gross carrying value (in millions of EUR)	Opening balance	Loans which have become forborne	Loans which are no longer considered to be forborne	Repayments	Write-offs	Other[1]	Closing balance
2021							
Total	4 158	1 692	-371	-670	-28	-1 100	3 681
Of which KBC Bank Ireland	*1 417*	*76*	*0*	*-251*	*0*	*-1 226*	*16*
2020							
Total	3 075	1 912	-535	-355	-31	92	4 158
Of which KBC Bank Ireland	*1 668*	*92*	*-222*	*-128*	*-0*	*7*	*1 417*

On-balance-sheet exposures with forbearance measures: Impairment (in millions of EUR	Opening balance	Existing impairment on loans which have become forborne	Decrease in impairment because loans are no longer forborne	Increase in impairment on forborne loans	Decrease in impairment on forborne loans	Other[2]	Closing balance
2021							
Total	645	154	-68	266	-164	-388	445
Of which KBC Bank Ireland	*251*	*23*	*0*	*170*	*-69*	*-360*	*15*
2020							
Total	516	156	-95	169	-82	-18	645
Of which KBC Bank Ireland	*224*	*13*	*-30*	*66*	*-20*	*-2*	*251*

[1] Includes foreign-exchange effects for loans granted in currencies other than the local currency, changes in the drawn/undrawn portion of facilities, increases in the gross carrying value of existing forborne loans and additions or disposals through business combinations. For Ireland: the planned sale of loans at KBC Ireland resulted in a shift to the balance sheet item 'Non-current assets held for sale and disposal groups' because we consider all IFRS 5 conditions are met.

[2] Includes the use of impairment in respect of write-offs and additions or disposals through business combinations.

Forborne loans	As a % of the outstanding portfolio	Breakdown by PD class (as a % of the entity's portfolio of forborne loans)			
		PD 1–8	PD 9	PD 10 (impaired, less than 90 days past due)	PD 11–12 (impaired, 90 days and more past due)
31-12-2021					
Total	3%	39%	12%	33%	16%
Of which KBC Bank Ireland	12%	0%	25%	41%	34%
By client segment[1]					
Private individuals[2]	2%	23%	17%	35%	25%
SMEs	3%	57%	8%	27%	8%
Corporations[3]	3%	44%	9%	35%	13%
31-12-2020					
Total	2%	32%	13%	38%	18%
Of which KBC Bank Ireland	14%	0%	25%	44%	32%
By client segment[1]					
Private individuals[2]	2%	13%	20%	39%	28%
SMEs	3%	54%	9%	28%	10%
Corporations[3]	2%	39%	6%	45%	10%

[1] Unaudited.

[2] 95% of the forborne loans total relates to mortgage loans in 2021 (97% in 2020).

[3] 27% of the forborne loans relates to commercial real estate loans in 2021 (22% in 2020).

Other credit risks

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

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

Counterparty credit risk of derivatives transactions. The amounts shown in the table below are the group's pre-settlement risks, which are measured using the internal model method for interest rate and foreign exchange derivatives in the Belgium Business Unit. For inflation, equity and commodity derivatives, pre-settlement risks are calculated as the sum of the (positive) current replacement value ('mark-to-market' value) of a transaction and the applicable add-on. This calculation is also used for measuring pre-settlement risks for interest rate and foreign exchange derivatives in the other business units.

Risks are curtailed by setting limits per counterparty. We also use close-out netting and collateral techniques. Financial collateral is only taken into account if the assets concerned are considered eligible risk mitigants for regulatory capital calculations.

Other credit exposure (in billions of EUR)	31-12-2021	31-12-2020
Issuer risk[1]	0.02	0.02
Counterparty credit risk of derivatives transactions[2]	4.4	5.0

[1] Excluding a nominative list of central governments, and all exposure to EU institutions and multilateral development banks.

[2] After deduction of collateral received and netting benefits.

Structured credit exposure

The total net portfolio (i.e. excluding de-risked positions) of structured credit products amounted to 0.2 billion euros at year-end 2021 and consisted primarily of European residential mortgage-backed securities (RMBS). It was down 0.1 billion euros on its level at year-end 2020 due to redemptions. No new investments were made in 2021.

Regulatory capital

The regulatory capital requirements for credit risk increased from 6 281 million euros at the end of 2020 to 6 455 million euros at the end of 2021, driven largely by volume growth and asset quality changes of portfolios in the core countries. For more details, please see the 'Credit risk' section in KBC's Risk Report, which is available at www.kbc.com.

Market risk in non-trading activities

Managing market non trading risk

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

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

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

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

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

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

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

  The treasury departments, acting as the first line of defence, measure and manage interest rate risk on a playing field defined by the risk appetite and the limits. They take into account measurement of prepayment and other option risks in the banking book and manage a balanced investment portfolio. Management of the positions implies that the treasury function uses derivatives to hedge against imbalances, due to interest rate and foreign exchange risks. To avoid profit and loss volatility that would result from the different accounting treatment of balance sheet investment items and derivatives, hedge accounting techniques are widely applied.
- Risk analysis, response and follow-up: besides regulatory required reporting, structural reporting to the ALCO is performed. The reporting process includes a sign-off process to ensure data accuracy.

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

Impact of coronavirus crisis on market risk non-trading

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

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

Interest rate risk and gap risk

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

Impact of a parallel 10-basis-point increase in the swap[1] curve for the KBC Bank

Impact on value[2] (in millions of EUR)	2021	2020
Total	-69	-64

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

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

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

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

Swap BPV (10 basis points) of the ALM book*

(in millions of EUR)	2021	2020
Average for 1Q	-65	-77
Average for 2Q	-64	-72
Average for 3Q	-60	-76
Average for 4Q	-69	-64
As at 31 December	-69	-64
Maximum in year	-69	-77
Minimum in year	-60	-64

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

In line with European Banking Authority guidelines, we conduct an outlier stress test at regular intervals by applying six different scenarios to the banking books (material currencies). The worst-case scenario is set off against tier-1 capital. For the banking book at KBC group level, this risk came to -7.77% of tier-1 capital at year-end 2021. This is well below the 15% threshold, which is monitored by the European Central Bank.

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

Interest sensitivity gap of the ALM book (including derivatives) (in millions of EUR)	≤ 1 month	1–3 months	3–12 months	1–5 years	5–10 years	> 10 years	Non-interest-bearing	Total
31-12-2021	1 745	-12 310	-8 919	5 529	5 687	1 104	7 164	0
31-12-2020	17 408	-26 418	- 668	3 781	4 692	1 003	201	0

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

An analysis of net interest income is performed by measuring the impact of different interest rate scenarios over a three-year period. For the banking activities, the analysis shows for the most likely scenario some limited improvement in Net Interest Income for the next two years under the most probable scenario, followed by a greater positive effect.

Credit spread risk

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

Exposure to sovereign bonds at year-end 2021, carrying value[1] (in millions of EUR)

	At amortised cost	At fair value through other comprehensive income (FVOCI)	Held for trading	Total	For comparison purposes: total at year-end 2020	Economic impact of +100 basis points[3]
KBC core countries						
Belgium	7 904	539	406	8 849	*11 316*	-260
Czech Republic	8 852	658	1 872	11 382	*10 068*	-617
Hungary	2 666	180	45	2 890	*3 201*	-128
Slovakia	3 009	168	42	3 220	*3 305*	-174
Bulgaria	1 065	349	11	1 425	*1 291*	-75
Ireland	1 141	62	0	1 202	*1 212*	-54
Other countries						
France	3 789	634	14	4 438	*4 748*	-186
Spain	1 046	31	14	1 091	*2 319*	-29
Italy	255	493	0	748	*1 110*	-24
Poland	1 760	399	0	2 160	*1 325*	-92
US	1 319	0	0	1 319	*1 038*	-57
Rest[2]	3 346	454	98	3 898	*4 826*	-124
Total carrying value	36 152	3 967	2 501	42 620	*45 760*	-
Total nominal value	35 529	3 676	2 506	41 711	*43 361*	-

[1] The table excludes exposure to some supranational entities not considered as sovereigns, such as European Investment Bank or European Investment Fund. No material impairment on the government bonds in portfolio.

[2] Sum of countries whose individual exposure is less than 1 billion euros at year-end 2021.

[3] Theoretical economic impact in fair value terms of a parallel 100-basis-point upward shift in the spread over the entire maturity structure. Only a portion of this impact is reflected in profit or loss and/or equity. Figures relate to non-trading positions in sovereign bonds for the banking and insurance businesses (impact on trading book exposure was quite limited and amounted to -5,9 million euros, including supranational bonds, at year-end 2021).

At year-end 2021, the carrying value of the total government bond portfolio measured at fair value through other comprehensive income (FVOCI) incorporated a revaluation reserve of 0.2 billion euros, before tax (49 million euros for Belgium, 27 million euros for France, 27 million euros for Italy and 73 million euros for the other countries combined).

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

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

	31-12-2021	31-12-2020
Bonds rated AAA	-88	-156
Bonds rated AA+, AA, AA-	-51	-60
Bonds rated A+, A, A-	-18	-10
Bonds rated BBB+, BBB, BBB-	-9	-15
Non-investment grade and non-rated bonds	-25	-29
Total carrying value (excluding trading portfolio)	4 830	6 056

Equity risk

KBC Bank and KBC Asset Management hold smaller equity portfolios. More information on total non-trading equity exposures is provided below.

Equity portfolio of the KBC Bank (breakdown by sector, in %)	31-12-2021	31-12-2020
Financials	68%	56%
Consumer non-cyclical	0%	1%
Communication	0%	0%
Energy	0%	0%
Industrials	10%	5%
Utilities	0%	0%
Consumer cyclical	4%	4%
Materials	0%	0%
Other and not specified	17%	34%
Total	100%	100%
In billions of EUR	0.26	0.27
of which unlisted	0.26	0.22

Impact of a 25% drop in equity prices, impact on value (in millions of EUR)	2021	2020
Total	-64	-66

Non-trading equity exposure (in millions of EUR)	Net realised gains (in income statement)		Net unrealised gains on year-end exposure (in equity)	
	31-12-2021	31-12-2020	31-12-2021	31-12-2020
Total	-	-	29	12

Real estate risk

The groups' real estate businesses hold a limited real estate investment portfolio. The real estate exposure is viewed as a long-term hedge against inflation risks and as a way of optimising the risk/return profile of these portfolios. The table provides an overview of the sensitivity of economic value to fluctuations in the property markets.

Impact of a 25% drop in real estate prices, impact on value (in millions of EUR)	2021	2020
Total	-97	-98

Inflation risk

Inflation can impact a financial company indirectly in many ways, e.g. via changes in interest rates or operational costs. Inflation in general therefor is not easily quantifiable as a market risk concept. However, certain financial products or instruments have a direct link with inflation and their value is directly impacted by a change in market expectations. KBC Bank is using indexed bonds as an opportunity to diversify its asset portfolio.

The banking business holds a 255-million-euros portfolio of indexed bonds. Aside of this, we are not exposed in a measurable way to inflation risk.

Foreign exchange risk

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

KBC focuses on stabilising the common equity ratio against foreign exchange fluctuations, which has improved KBC's capacity to cushion external shocks and is beneficial to all stakeholders. This implies a reduction in hedging of participations.

Impact of a 10% decrease in currency value*

(in millions of EUR)	31-12-2021	31-12-2020
CZK	-243	-232
HUF	-107	-95
BGN	-42	-41
USD	3	-2

* Exposure for currencies where the impact exceeds 10 million euros

Hedge accounting

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

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

Risk categories applying to hedge accounting

Interest rates

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

Interest rate derivatives can be designated as:

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

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

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

Foreign exchange

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

Hedge effectiveness

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

Effectiveness testing

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

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

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

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

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

Sources of hedge ineffectiveness

Ineffectiveness for interest rate swaps may occur due to:

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

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

Discontinuation of hedge accounting

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

Interest rate benchmarks

On 1 January 2022, the benchmark transition was implemented within the entire KBC group. KBC Bank and its banking entities are fully capable of pricing based on the risk-free rates, both on a forward-looking and backward-looking basis. Since the second quarter of 2021, KBC has been pricing all new GBP business based on the Sterling Overnight Index Average (SONIA) rate and has been pricing new USD business based on the Secured Overnight Financing Rate (SOFR). Exposures to risk-free rates in other currencies are not material but require some operational and legal work that is currently ongoing.

Pricing and discounting for Markets business is fully compliant with the risk-free rates and operations continue to adapt credit support annex to the risk-free rates environment. Legacy contracts linked to LIBOR are being moved to a risk-free rate in a timely and orderly manner and fallback clauses are being utilised. Discussions with clients continue via Relationship Managers in a smooth and orderly manner as trades come to maturity. Most of the exposure is due to syndicated loans in which KBC participates. These exposures will be transitioned before the end of the IBOR publication.

Much of the uncertainty around the development of the IBOR transitions at the end of 2020 was clarified in the course of 2021. The bulk of KBC’s exposure to IBOR is due to EURIBOR. EURIBOR remains EU Benchmark Regulation compliant.

The remaining volumes linked to benchmarks affected by the reform at year-end 2021 are presented in the table..

Referenced to IBOR (volumes where the prices are still related to the IBOR, all tenors, in millions of EUR)	Non-derivative financial assets	Non-derivative financial liabilities	Derivatives
of which: USD (LIBOR)	2 143	18	13 766
of which: GBP(LIBOR)	217	0	1 032
of which: EUR (LIBOR)	9	1	-
of which: YEN (TIBOR), CHF (LIBOR)	1	0	2 826
Total	2 371	19	17 624

Capital sensitivity to market movements

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

CET1 sensitivity to main market drivers KBC Bank (as % points of CET1 ratio)	31-12-2021	31-12-2020
+100-basis-point parallel shift in interest rates	0.3%	0.3%
+100-basis-point parallel shift in spread	-0.2%	-0.2%
-25% in equity prices	-0.3%	-0.3%

Regulatory capital

Regulatory capital for non-trading market activities totalled 18 million euros. It is used to cover foreign exchange exposures only, as KBC does not have any commodity exposures. In line with regulations, other types of non-trading market risk are covered through pillar II assessments.

Non-financial risks

Operational risk

Managing operational risk

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

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

The building blocks for managing operational risks

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

- Risk identification: identifying operational risks involves following up on legislation, as well as using the New and Active Products Process (NAPP), performing risk scans to identity and anlyse risks, analysing key risk indicators, performing independent control monitoring activities, root cause analysis of near misses and losses and other risk events. A structured, process-based repository of Group Key Risks and related mitigating Group Key Control Objectives (GKCs) is in place to set top-down minimum standards for the risk and control environment. Self-assessments are performed by the first line of defence. The set of GKCs covers the complete process universe of the group and is designed to manage key operational risk types. A review process is in place to keep the repository in line with new or emerging operational risk types. Entities translate these Group Control Objectives into their operational process environment and supplement them with additional, local operational controls, if necessary. Dynamic trigger-based risk assessments are in place, based on the continuous screening of both internal and external risk events.
- Risk measurement: as operational risk is embedded in all aspects of the organisation, unified group metrics and scales are in place to define and support not only the underpinning of the risk profile of an entity, but also individual operational risk levels in the processes. The maturity status of individual control objectives to mitigate those risks in the processes is also defined on a group-wide unified scale. In addition, a group-wide uniform scale is used to express the overall internal control state of each process in each material entity and the overall internal control state of the entity. Group-wide tools are used by the three lines of defence to support the core activities of operational risk management. A standardised, near-miss and loss data collection process is in place, including root cause analysis and appropriate response. An annual stress test is performed to assess the adequacy of pillar 1 operational risk capital. An automated data-driven approach has been worked out for the Internal Control Statement. This approach builds on commonly used operational risk measures. As such, it allows a unified applicability across KBC group, leading to increased objectivity, transparency and comparability.
- Setting and cascading risk appetite: the risk appetite for operational risk overall and for the 9 operational risk subtypes individually, is set in line with the overall requirements as defined in the Enterprise Risk Management Framework.
- Risk analysis, reporting and follow-up: a uniform approach – strongly based on first line of defence accountability (business side) and challenges by the second line of defence (risk, fraud, legal and other experts) and assurance by the third line of defence (internal audit) – is in place with risk-based follow-up at both local and group level. Minimum standards for the operational risk management reporting process are defined. Besides regulatory required reporting, structural reporting to the Group Internal Control Committee (GICC) is performed on a quarterly basis. Regular reporting and follow-up is presented in the Integrated Risk Report (IRR) and in other specific risk reports towards the Executive Committee, Risk & Compliance Committee and the Board of Directors. If and when needed (e.g. triggered by specific evolutions or concerns, at the request of (senior) management etc.), reporting towards these committees can also be done on an ad-hoc basis. The quality of the internal control environment and related risk profile is reported to KBC's senior management and to the NBB, the FSMA and ECB via the annual Internal Control Statement.
- Stress testing: operational risk scenarios or potential events are considered in the context of risk-type-specific or integrated stress tests.

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

Information risk management

management. Information security risk, especially 'cyber-crime-related fraud', is one of the most material risks that financial institutions face these days.

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

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

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

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

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

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

Outsourcing risk management

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

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

Model risk management

The expanding use of complex models in the financial sector and at KBC is increasing model risk. Complex (AI) models have been put to use in most, if not all, business domains.

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

Business continuity management including crisis management

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

The BCM process can be considered a mature process within the group, with a focus on both prevention and response. Crisis prevention focuses on reducing the probability of a crisis, while crisis response focuses on the effective and efficient handling of a crisis should one occur. To enable this, tested and rehearsed crisis capabilities in the form of practical scenarios mitigating the crisis impact and enabling adequate recovery have been implemented or are being implemented. These scenarios are the following:

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

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

Operational risk management in the specific context of the coronavirus pandemic

As the coronavirus pandemic continued in 2021, all measures launched in 2020 remained in place. This entailed increased attention for operational risks, mainly with regard to ensuring operational continuity and the safety of our clients and staff at all times. In response to the pandemic, business continuity measures were continued, e.g., a switch to (partial) teleworking and to remote banking and the provision of insurance services to our clients. Changes related to processes and procedures (including government relief measures) were implemented in a risk-conscious way. Frequent crisis monitoring was put in place for all sub-areas of operational risk. This included:

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

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

Compliance risk

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

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.

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

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

The prevention of money laundering and terrorism financing, including embargoes, has been a top priority for the Compliance function during the last three years and will continue to be prioritised in 2022. It is an area where knowledge of the client (Know Your Customer (KYC)), updating their profiles and monitoring transactions (Know Your Transaction (KYT)) are essential. Efforts are continuously made to adapt the organisation to a constantly changing regulatory environment, particularly with regard to clients who present an increased risk and for whom additional information is required. A group-wide project was conducted in 2021 to enhance the centralisation and the robustness of the first line of defence in terms of KYC, KYT, procedures and controls. The delineation of tasks and responsibilities between the first and the second lines has also been finetuned. Full implementation is expected to be rolled out in 2022. Recent developments regarding KYC utilities (KUBE – KYC Utilities for Banks and Enterprises), a sector initiative that should enable large banks to share harmonised KYC data on companies, is promising and could have facilitated client onboarding by the end of 2021, but the deliverables are taking longer than planned. Similar reflections are ongoing with regard to individuals who use the digital identification app 'itsme' in Belgium.

It goes without saying that the interests of the client come first. Given this position, the control functions ensure that, under the New and Active Products Process, the launch of any new products conforms with the many legal and regulatory provisions in place, such as MiFID II, the Insurance Distribution Directive (IDD) and other local and EU Regulations, as well as being in line with KBC's values. In 2022, particular attention will be devoted to sustainable investments/ESG (Environmental, Social and Governance) characteristics in MiFID and IDD as well as to the sustainable finance strategy.

Data protection aspects remain central to maximising conformity with GDPR. Since 2020, Kate, the voice personal assistant, has gained maturity and can increasingly facilitate the everyday lives of our clients. Efforts in 2021 were largely concentrated on Cloud developments, taking into account the consequences of Schrems II (transfer of data to third countries) while maintaining the right balance between the regulatory requirements in place and the technological developments inherent in a data-driven strategy now and going forward.

Regulatory capital requirements

When calculating operational risk (including compliance risk) capital, we use the Standardised approach under Basel III. Operational risk capital at KBC group level totalled 920 million euros at the end of 2021, compared to 914 million euros at the end of 2020. This small increase is caused by a slightly lower average income which was more than offset by some changes in income from business lines with a low beta (as defined under Basel III) to business lines with a higher beta.

Reputational risk

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

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

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

Business environment and strategic risks

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

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

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

Business environment risks are assessed as part of the strategic planning process, starting with a structured risk scan that identifies the top financial and non-financial risks. These risks are quantified both in likely scenarios and in several stress scenarios. Exposure to the identified business environment risks is also monitored on an ongoing basis by means of risk signals which are reported to top management.

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

Market risk in trading activities

Managing market trading risk

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

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

The building blocks for managing market trading risk

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

- Risk identification: the risk function analyses the results of value and risk calculations, market developments, industry trends, new modelling insights, changes in regulations, etc. and draws up advice for the Group Markets Committee (GMC) with a view to changing or refining measurement methods, limits, hedging methods or positions. Furthermore, before a new or changed dealing room product or activity can be introduced, the risk function screens whether the risk aspects are correctly and sufficiently covered and provides risk advice that includes powers of veto and is part of the NAPP.
- Risk measurement: ownership of the definitions used for the group-wide measurement of trading market risk lies with the risk function. We measure risk via a number of parameters including nominal positions, concentrations, BPV, the so-called 'greeks' and scenario analysis. However, the primary tool we use for measuring and monitoring market risk exposures in the trading book is the Historical Value-at-risk (HVaR) method. VaR is defined as an estimate of the amount of economic value that might be lost on a given portfolio due to market risk over a defined holding period, with a given confidence level. We use the historical simulation method, which does not have to rely on assumptions regarding the distribution of price fluctuations or correlations, but is based on patterns of experience over the previous two years. Our HVaR model is used for both Management HVaR and for the calculation of regulatory capital. Regulatory HVaR is calculated using the relevant CRD IV standards (99% one-sided confidence interval, ten-day holding period). Management HVaR uses the same standards, except that a one-day holding period is used, as this is more intuitive for senior management and is also in line with P&L reporting, day-to-day management, stop losses and back-testing.
- Setting and cascading risk appetite: the risk appetite for market risk in trading activities is set in line with the overall requirements as defined in our overarching risk management framework and is overseen by the GMC via a risk limit framework consisting of a hierarchy of limits and early warning indicators. These are defined down to desk level and, in addition to HVaR, include a series of secondary limits, with equity concentration limits, FX concentration limits and basis-point-value limits for interest rate risk and basis risk. The specific risk associated with a particular issuer or country is also subject to concentration limits. There are also scenario analysis limits and – where deemed appropriate – stress scenario limits involving multiple shifts of underlying risk factors.
- Risk analysis, monitoring, reporting and follow-up: in addition to the more proactive elements described under 'Risk identification', this involves compiling the necessary external and internal reports, issuing advice on business proposals, and monitoring and advising on the risks attached to the positions. We monitor and follow up the risks attached to the positions on a daily basis by means of the risk limit framework. Another important aspect of this building block is prudent valuation. We perform a daily independent middle-office valuation of front-office positions. Whenever the independent nature or the reliability of the valuation process is not guaranteed, we perform a monthly parameter review. Where applicable, we make adjustments to the fair value to reflect close-out costs, mark-to-model-related value adjustments, counterparty risk and liquidity risk. Risk monitoring is also carried out via internal assessments and a large variety of controls, including parameter reviews, daily reconciliation processes, analyses of the material impact of proxies and other periodic controls to ensure sound risk management. The GMC, which meets every four weeks, receives an extensive Core Report as well as periodic and ad hoc memos and reports. The GMC also receives a bi-weekly dashboard whose frequency is increased (up to daily, if needed) depending on market circumstances. The Executive Committee ratifies the minutes of the GMC meetings and also receives market-risk-related information and risk signals in its monthly Integrated Risk Report.
- Stress testing: in addition to the risk limit framework, we conduct extensive stress tests on our positions on a weekly basis. Whereas the HVaR model captures potential losses under normal market conditions, stress tests show the impact of exceptional circumstances and events with a low degree of probability. The historical and hypothetical stress-test scenarios incorporate both market risk and the liquidity aspects of disruptions in the market. The stress tests are discussed at GMC

meetings to enable the members to gain an insight into potential weaknesses in the positions held by the group. During 2021, our review of the stress tests (as regards their mix and checking that they remain up-to-date and relevant) resulted in the refinement of the stress test on the sovereign bond positions with no other changes deemed necessary. For more details about stress testing, please refer to the relevant sub-section of the 'Market risk management' section in KBC's Risk Report, which is available at www.kbc.com.

Impact of the coronavirus crisis on market trading risk

In the context of the dealing room business of KBC, it is important to point out that the drivers of the P&L of the dealing room business ensue from sales revenues and the efficient (macro) hedging of the resulting positions – market risk arising from developments regarding the coronavirus crisis is taken into account along with all the other market risks on the financial landscape. Whilst the mismatch caused by the inexact (macro) hedging of the positions resulting from facilitating clients inevitably results in some market risk, which may arise from any number of scenarios, KBC's risk appetite for such residual positions is low. Please note that these residual positions can swiftly change (i.e. become a 'long' or 'short' instrument or group of instruments) during the dynamic activity associated with our dealing rooms, i.e. no structural, directional positions are held as may be the case for other business lines.

Risk analysis and quantification

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

Market risk (Management HVaR) (in millions of EUR)	2021	2020
Average for 1Q	8	6
Average for 2Q	8	9
Average for 3Q	7	9
Average for 4Q	7	9
As at 31 December	7	8
Maximum in year	11	11
Minimum in year	4	4

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

Breakdown by risk factor of trading HVaR (Management HVaR; in millions of EUR)	Average for 2021	Average for 2020
Interest rate risk	7.6	7.9
FX risk	1.1	1.1
FX options risk	0.2	0.7
Equity risk	0.9	1.0
Diversification effect	-2.3	-2.5
Total HVaR	7.5	8.2

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

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

Regulatory capital

Our low risk appetite for market risk in trading activities is illustrated by the fact that, during 2021, market risk RWA amounted to less than 3% of KBC Group's total RWA. The vast majority of regulatory capital requirements are calculated using our Approved Internal Model which, in addition to HVaR, uses SVaR, which is one of the CRD III Regulatory Capital charges that entered into effect at year-end 2011. The calculation of an SVaR measure is based on the normal VaR calculations and follows the same methodological assumptions, but is constructed as if the relevant market factors were experiencing a period of stress.

The period of stress is calibrated at least once a year (checked monthly to ensure the period is still valid) by determining which 250-day period between 2006 and the (then) present day produces the severest losses for the relevant positions. Business lines not included in the internal model calculations are measured according to the Standardised approach.

For more details about regulatory capital and how it developed between 2020 and 2021, please refer to KBC's Risk Report (available at www.kbc.com) which includes a breakdown of regulatory capital requirements for KBC Group's market risk per risk type.

Liquidity risk

Managing liquidity risk

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

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 main sub-types of liquidity risk are:

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

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

The building blocks for managing liquidity risk

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

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

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

Impact of the coronavirus crisis on liquidity risk

been able to withstand the stress of the coronavirus crisis and remains very strong. A coronavirus stress test indicates that a prolonged stress period can be overcome.

KBC participated in the targeted longer-term refinancing operation (TLTRO) in 2020 and 2021 for a total amount of 24.5 billion euros, further supporting its LCR and NSFR figures.

Maturity analysis

Liquidity risk (excluding intercompany deals)[1] [2] (in billions of EUR)	<= 1 month	1–3 months	3–12 months	1–5 years	> 5 years	On demand	Not defined	Total
31-12-2021								
Total inflows	7	10	23	75	101	43	44	303
Total outflows	20	19	10	41	4	178	31	303
Professional funding	7	1	3	24	0	6	0	41
Customer funding	5	11	3	10	2	172	0	203
Debt certificates	4	7	4	6	2	0	0	24
Other	4	0	0	0	0	0	31	35
Liquidity gap (excl. undrawn commitments)	-13	-9	13	34	96	-135	13	0
Undrawn commitments							43	43
Financial guarantees							10	10
Net funding gap (incl. undrawn commitments)	-13	-9	13	34	96	-135	-41	-54
31-12-2020								
Total inflows	38	9	22	75	95	8	38	284
Total outflows	44	16	10	23	5	161	25	284
Professional funding	28	3	3	1	0	3	0	38
Customer funding	6	8	5	12	2	158	0	192
Debt certificates	6	5	3	9	3	0	0	26
Other	4	0	0	0	0	0	25	29
Liquidity gap (excl. undrawn commitments)	-6	-7	12	52	90	-153	13	0
Undrawn commitments							40	40
Financial guarantees							10	10
Net funding gap (incl. undrawn commitments)	-6	-7	12	52	90	-153	-37	-50

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

[2] Figures in consolidated balance sheet differ from the ones shown here. Reason is that the planned sale of the activities of KBC Bank Ireland resulted in a shift to the balance sheet items 'Non-current assets held for sale and disposal groups' and 'Liabilities associated with disposal groups' because we consider all IFRS 5 conditions are met while the funding mix is showing the economic positions, including KBC Ireland at year-end.

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

Funding information

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

Funding mix[5]	Information	31-12-2021	31-12-2020
Funding from customers[1]	Demand deposits, term deposits, savings deposits, other deposits, savings certificates and debt issues placed in the network	80%	82%
Debt issues placed with institutional investors	IFIMA debt issues, covered bonds[3], tier-2 issues, KBC Group NV senior debt	7%	7%
Net unsecured interbank funding	Including TLTRO[4]	12%	12%
Net secured funding[2]	Repo financing	-9%	-10%
Certificates of deposit	–	2%	3%
Total equity	Including AT1 issues	7%	7%
Total		100%	100%
in billions of EUR		258	237

[1] Some 83% of this funding relates to private individuals and SMEs (year-end 2021).

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

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

[4] In 2019, we d participated in TLTRO III for 2.5 billion euros. In 2020, we increased the participation in TLTRO III by almost 19.5 billion euros and in 2021 2.5 billion euros, to 24.5 billion euros.

[5] Figures in consolidated balance sheet differ from the ones shown here. Reason is that the planned sale of the activities of KBC Bank Ireland resulted in a shift to the balance sheet items 'Non-current assets held for sale and disposal groups' and 'Liabilities associated with disposal groups' because we consider all IFRS 5 conditions are met while the funding mix is showing the economic positions, including KBC Ireland at year-end.

Liquid asset buffer

At year-end 2021, the KBC group had 55 billion euros' worth of unencumbered central bank eligible assets, 50 billion euros of which in the form of liquid government bonds (92%). The remaining available liquid assets were mainly other ECB/FED-eligible bonds (5%). Most of the liquid assets are expressed in our home market currencies. Available liquid assets were roughly eleven times the amount of net short-term wholesale funding (which considerably improved due to higher KBC positions at central bank accounts). The funding from non-wholesale markets was accounted for by stable funding from core customer segments in our core markets.

LCR and NSFR

Two of the main regulatory liquidity measures are the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). Both are defined in the 'Glossary of financial ratios and terms'. At year-end 2021, our NSFR stood at 148%, while our LCR came to 167%.

Climate-related and other ESG risks

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

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

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

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

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

Climate risk has been reconfirmed to be a top risk for KBC for some years now. Following the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), we differentiate between:

- transition risks: risks arising from disruptions and shifts associated with the transition to a low-carbon, climate-resilient or environmentally sustainable economy, covering policy changes, legal changes, technological changes/progress or behavioural changes;
- physical risks: risks related to potential financial implications from physical phenomena associated with both climate trends (chronic) such as changing weather patterns, rising sea levels, increasing temperatures, chronic heat waves, etc. and extreme weather events (acute) including storms, floods, fires, heatwaves or droughts that may disrupt operations, value chains or damage property.

KBC approaches climate risk from a double materiality perspective:

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

Governance

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

- The management of climate-related risks is fully embedded in our existing Risk Management Governance.
- Within our Audit Framework, ESG risks are covered in multiple audit tracks.
- Risk is part of the core team of the Sustainable Finance Programme, which focuses on integrating climate-related matters throughout the group.
- The senior general managers of Group Risk and Group Credit Risk are members of the Sustainable Finance Programme Steering Committee as well as the Sustainable Finance Data & Metrics Steering Committee and one of them also has a seat on the Internal Sustainability Board.
- The Board of Directors, the Risk & Compliance Committee and the Executive Committee are the prime recipients of the various outputs of the main risk management processes.
- Sustainability, including climate and the associated targets, has been integrated into the remuneration systems for our employees and especially our senior management.

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

Risk identification

We use a variety of approaches to identify ESG risks. We continuously scan the internal and external environment for new and emerging risks we are exposed to in the short term (1 to 3 year horizon), in the medium term (4 to 10 year horizon) and in the long term (beyond 10 year horizon). By doing so, we also incorporate a forward-looking perspective.

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

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

We took several initiatives to further increase ESG risk awareness, for example by following up on new and changing regulations through a Sustainable Finance Legal Working Group, by regularly reporting on ESG risk signals to senior management and by organising internal communication moments and training for (risk) staff and management.

Risk measurement

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

- The Paris Agreement Capital Transition Assessment (PACTA) methodology helps us to determine whether the companies in our loan portfolio are following a transition path in line with targets set by various climate transition scenarios. The scope of the PACTA tool covers carbon-intensive activities within the steel, automotive, shipping, aviation, power, oil & gas, coal and cement sectors. The results of the 2021 exercise confirm that within its industrial loan portfolio, KBC only has limited exposure to companies that contribute the most to global CO_2 emissions in line with the existing activity scope of PACTA: KBC's granted exposure in the scope of PACTA amounts to 3.8% (4 595 million euros) of the total industrial loan book (excluding loans to SMEs, private persons, finance, insurance and authorities). This finding confirms the general risk appetite of KBC, as our loan books do not include any large, single-name exposures to activities which are considered to be major contributors to global CO_2 emissions.

- KBC Asset Management assesses the carbon footprint of investment products it offers using TRUCOST data and methodology. This methodology is also used to analyse the KBC Insurance's investment book and KBC's Pension Funds.
- In 2021, following last year's pilot in the Metal sector, we rolled out the UNEP FI transition risk assessment methodology to other highly climate-relevant sectors, covering a similar scope as the White Paper exercises. Within this scope, we identified a number of segments which display similar characteristics in terms of carbon-emission intensity and are consequently impacted in a similar way by a transition to a low-carbon economy. We also carried out all analyses at this more granular segment level. We selected six different climate scenarios for the impact assessment, in order to estimate how the portfolios' Expected Loss (EL) could potentially change if these scenarios were to materialise. The scenarios differ in terms of target temperature, the timing of collective action and the extent to which CO2 removal technologies are assumed to be used. As a result, we noted, for example, that the Chemicals sector as a whole, as well as the Animal Farming segment of the Agriculture sector and the Production of Animal-Based Food segment of the Food Producers & Beverages sector, are exposed to high transition risks that have not yet been addressed. Compared to the Energy sector, the relatively greater projected EL changes in the Chemicals, Agriculture and Food Producers & Beverages sectors do not necessarily mean that the inherent risks are higher, but rather that the transition risks are not yet internalised to the same extent as in the Energy sector. The analyses' results highlight the need for client interaction in the (sub-)sectors deemed most vulnerable to the low-carbon transition, so as to gain a better understanding of how these (sub-)sectors can are mitigating the transition risks they are exposed to.
- In 2021, for the third consecutive year, we calculated the financed emissions of a selection of our portfolios using the Partnership for Carbon Accounting Financials (PCAF) methodology. This year's scope included: operational car lease, motor vehicle loans (including road freight transport), mortgages, mining and oil and gas, and an estimate for all other sectors.
- For more details on the above-mentioned measurement methodologies, please refer to our Sustainability Report, which is available at www.kbc.com.

The results and insights gained from these methodological tracks are valuable for identifying hot spots in KBC's loan portfolio, as input for target setting and climate risk stress testing and for initiating policy adjustments, where necessary. They are also part of KBC's efforts to further integrate climate risk into its credit assessment processes and modelling (including expected credit losses). Management has the ability to overrule the expected credit losses and to capture events that are not part of the financial assessment, such as the growing insights into ESG and climate-related risks.

Setting & cascading risk appetite

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

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

Other objectives also address other ESG themes, including

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

To be less vulnerable to changes in the external environment – including climate change – we pursue diversity and flexibility in our business mix, client segments, distribution channels and geographies, where we refrain from focusing on short-term gains at the expense of long-term stability. We manage volatility of net results by defining a solid risk management framework and risk appetite to ensure financial and operational resilience in the short, medium and long term.

The high-level risk appetite objectives are further specified for a number of risk types:

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

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

Risk analysis, reporting & follow-up

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

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

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

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

Stress testing

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

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

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

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

How do me manage our capital?

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

Solvency at KBC Bank

We report the solvency of the bank based on IFRS data and according to the rules imposed by the regulator. For KBC Bank, this implies that we calculate our solvency ratios based on CRR/CRD IV. CRR/CRD implements the Basel rules in Europe and is updated from time to time. When new requirements are implemented, a transitional period during which these rules are gradually phased-in may be allowed.

Since 30 June 2020, KBC has been using the transitional provision relating to IFRS 9. KBC Bank is subject to minimum solvency ratios. The fully loaded common equity ratio must be 10.75% according to the regulatory requirements.

The minimum solvency ratios required under CRR/CRD IV are 4.5% for the common equity tier-1 (CET1) ratio, 6% for the tier-1 capital ratio and 8% for the total capital ratio (i.e. pillar 1 minimum ratios).

As a result of its supervisory review and evaluation process (SREP), the competent supervisory authority (in KBC's case, the ECB) can require that higher minimum ratios be maintained (= pillar 2 requirements) because, for instance, not all risks are properly reflected in the regulatory pillar 1 calculations. Following the SREP for 2021, the ECB formally notified KBC of its decision to maintain the pillar 2 requirement (P2R) at 1.75% CET1 and the pillar 2 guidance (P2G) at 1% CET1.

The overall capital requirement for KBC is not only determined by the ECB, but also by the decisions of the local competent authorities in its core markets.

For Belgian systemic financial institutions, the NBB had already announced its systemic capital buffers at an earlier date. For the KBC group, this means that an additional capital buffer of 1.5% of CET1 is required. The announced countercyclical buffer rates in the countries where KBC's relevant credit exposures are located, correspond to a countercyclical buffer at KBC bank level of 0.50% (situation as known on 31 December 2021), up from 0.20% in 2020 .

In total, this brings the fully loaded CET1 capital requirement to 10.75% (4.5% (pillar 1) + 1.75% (P2R) + 2.5% (conservation buffer) + 1.5% (systemic buffer) + 0.50% (countercyclical buffer)), with an additional P2G of 1% consolidated at KBC Bank level.

The table below provides an overview of the regulatory capital requirements for KBC Bank (consolidated).

Regulatory capital requirements KBC Bank (consolidated) (in millions of EUR)	**31-12-2021 Fully loaded**	**31-12-2021 Transitional**	**31-12-2020 Fully loaded**	**31-12-2020 Transitional**
Total regulatory capital, after profit appropriation	18 318	17 964	17 792	18 021
Tier-1 capital	16 415	16 210	15 585	16 078
Common equity	14 915	14 710	14 085	14 578
Parent shareholders' equity	17 047	14 912	14 567	14 567
Solvency adjustments	-2 132	- 202	- 481	12
Additional going concern capital	1 500	1 500	1 500	1 500
Tier-2 capital	1 903	1 754	2 206	1 942
Total weighted risk volume	95 120	94 836	92 903	92 635
Credit risk	80 971	80 687	78 785	78 518
Market risk	2 665	2 665	2 716	2 716
Operation risk	11 484	11 484	11 401	11 401
Common equity ratio	15.7%	15.5%	15.2%	15.7%

Based on the banking regulation package (CRR/CRD) profit can be included in CET1 capital only after the profit appropriation decision by the final decision body, for KBC Bank it is the General Meeting. ECB can allow to include interim or annual profit in CET1 capital before the decision by the General Meeting. In that case, the foreseeable dividend should be deducted from the profit that is included in CET1. Considering that our Dividend Policy does not include a maximum, ECB requires to use a 100% pay-out to determine the foreseeable dividend. Consequently, KBC Bank no longer requests ECB approval to include interim or annual profit in CET1 capital before the decision by the General Meeting. As such, the annual profit of 2021 and the final dividend re. 2021 will be recognised in the transitional CET1 of the 1st quarter 2022, which is reported after the General Meeting.

As from 31-12-2021 onwards, the fully loaded figures will immediately reflect the interim or annual profit, taking into account our Dividend Policy and/or any dividend proposal/decision by the Board of Directors.

The difference between the fully loaded total own funds (18 318 million euros; profit and dividend re. 2021 is included) and the transitional own funds (17 964 million euros; profit and dividend re. 2021 is not included) as at 31-12-2021 is explained by the net result for 2021 (2 135 million euros), the proposed final dividend (-1 483 million euros), the impact of the IFRS 9 transitional measures and IRB excess/shortfall (-222 million euros) and the grandfathered tier-2 subordinated debt instruments (-76 million euros).

Solvency KBC Bank CRR / CRD (consolidated) (in millions of EUR)	31-12-2021 Fully loaded	31-12-2021 Transitional	31-12-2020 Fully loaded	31-12-2020 Transitional
Total regulatory capital (after profit appropriation)	18 318	17 964	17 792	18 021
Tier-1 capital	16 415	16 210	15 585	16 078
Common equity	14 915	14 710	14 085	14 578
Parent shareholders' equity (excluding minorities)	17 047	14 912	14 567	14 567
Intangible fixed assets, incl. deferred tax impact (-)	- 391	- 391	- 346	- 346
Goodwill on consolidation, incl. deferred tax impact (-)	- 894	- 894	- 882	- 882
Minority interests	0	0	0	0
Hedging reserve (cash flow hedges) (-)	1 108	1 108	1 294	1 294
Valuation diff. in fin. liabilities at fair value - own credit risk (-)	- 16	- 16	- 13	- 13
Value adjustment due to the requirements for prudent valuation (-)	- 28	- 28	- 25	- 25
Dividend payout (-)	- 1 483	0	0	0
Coupon of AT1 instruments (-)	- 12	- 12	- 12	- 12
Deduction re. financing provided to shareholders (-)	- 57	- 57	- 57	- 57
Deduction re. Irrevocable payment commitments (-)	- 72	- 72	- 58	- 58
Deduction re NPL backstops (-)	- 68	- 68	- 11	- 11
IRB provision shortfall (-)	0	- 31	0	0
Deferred tax assets on losses carried forward (-)	- 219	- 219	- 371	- 371
Transitional adjustments to CET1	0	478	0	493
Limit on deferred tax assets from timing differences relying on future profitability and significant participations in financial sector entities (-)	0	0	0	0
Additional going concern capital	1 500	1 500	1 500	1 500
CRR compliant AT1 instruments	1 500	1 500	1 500	1 500
Minority interests to be included in additional going concern capital	0	0	0	0
Tier 2 capital	1 903	1 754	2 206	1 942
IRB provision excess (+)	224	438	427	427
Transitional adjustments to T2	0	- 438	0	- 264
Subordinated liabilities	1 678	1 754	1 779	1 779
Subordinated loans non-consolidated financial sector entities (-)	0	0	0	0
Minority interests to be included in tier 2 capital	0	0	0	0
Capital requirement				
Total weighted risk volume	95 120	94 836	92 903	92 635
Credit risk	80 971	80 687	78 785	78 518
Market risk	2 665	2 665	2 716	2 716
Operational risk	11 484	11 484	11 401	11 401
Solvency ratios				
Common equity ratio	15.68%	15.51%	15.16%	15.74%
Tier-1 ratio	17.26%	17.09%	16.78%	17.36%
CAD ratio	19.26%	18.94%	19.15%	19.45%
Capital buffer				
Common equity capital	14 915	14 710	14 085	14 578
Required pillar 2 capital (10,65%)	10 130	10 100	9 894	9 866
Capital buffer vs pillar 2 target	4 785	4 610	4 191	4 713

(1) Audited figures (excluding 'IRB provision shortfall' and 'Value adjustment due to requirements for prudent valuation').

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

Leverage ratio

At year-end 2021, our fully loaded leverage ratio at KBC Bank stood at 5.07% (see table below) as the higher total exposure was offset by a higher level of tier-1 capital. More details, including a description of the processes used to manage the risk of excessive leverage, can be found in KBC's Risk Report, which is available at www.kbc.com (the risk report has not been audited by the statutory auditor).

Leverage ratio (KBC Bank consolidated, CRD IV/CRR (Basel III)) in millions of EUR	31-12-2021 Fully loaded	31-12-2021 Transitional	31-12-2020 Fully loaded
Tier-1 capital	16 415	16 210	15 585
Total exposures	323 485	289 058	299 773
Total Assets	302 991	302 991	284 399
Transitional adjustment	0	617	0
Adjustment for derivatives	-1 644	-1 644	-4 158
Adjustment for regulatory corrections in determining Basel III Tier-1 capital	-1 657	-1 688	-1 750
Adjustment for securities financing transaction exposures	1 016	1 016	830
Central Bank exposure	0	-35 014	0
Off-balance sheet exposures	22 778	22 778	20 453
Leverage ratio	5.07%	5.61%	5.20%

ICAAP

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

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

Once a year, the ICAAP process generates a comprehensive report, which is presented to both top management and the supervisory bodies. In the last two years these reports included an assessment of the impact of the coronavirus crisis on KBC's capital adequacy, both under likely and more adverse assumptions, which confirmed our solid capital position.

Stress testing

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

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 2021*

Name	Position	Period served on the Board in 2021	Expiry date of current term of office	Board meetings attended	Non-executive directors	Shareholders' representatives	Independent directors	Members of the EC	AC	RCC
Number of meetings in 2021				13					7	9
DEBACKERE Koenraad	Chairman	Full year	2024	13	●					
DEPICKERE Franky	Deputy Chairman of the Board	Full year	2023	13	●	●				9 (c)
THIJS Johan	President of the Executive Committee	Full year	2025	13				● (c)		
ANDRONOV Peter	Executive Director	8 months	2025	9				●		
HOLLOWS John	Executive Director	Full year	2022	13				●		
LUTS Erik	Executive Director	Full year	2025	12				●		
MOUCHERON David	Executive Director	8 months	2025	9				●		
POPELIER Luc	Executive Director	Full year	2025	13				●		
VAN RIJSSEGHEM Christine	Executive Director	Full year	2022	12				●		
ARISS Nabil	Independent Director	Full year	2022	12	●		●		6	8
CALLEWAERT Katelijn	Non-Executive Director	Full year	2025	13	●	●				
DE BECKER Sonja	Non-Executive Director	Full year	2024	13	●	●				
MAGNUSSON Bo	Independent Director	Full year	2024	12	●		●		6	8
PAPIRNIK Vladimira	Non-Executive Director	Full year	2023	13	●				7	9
WITTEMANS Marc	Non-Executive Director	Full year	2022	13	●	●			7 (c)	9

*1 Effective 1 December 2021, Júlia Király, Non-Executive Director, resigned as member of the Board. In 2021, Júlia attended eleven Board meetings, five Audit Committee meetings and seven Remuneration Committee meetings. The Nomination Committee immediately started the process for her replacement.

*2 Daniel Falque and Hendrik Scheerlinck, who were directors until 29 April 2021, attended four Board meetings.

Statutory auditor: PwC Bedrijfsrevisoren BV, represented by Roland Jeanquart and Gregory Joos.
Secretary to the Board of Directors: Wilfried Kupers.
Abbreviations: Board of Directors: Board; Executive Committee: EC; Audit Committee: AC; Risk & Compliance Committee: RCC
(c) Chairman of this committee

Changes in the composition of the Board in 2021

- Peter Andronov and David Moucheron were appointed as director for a term of four years and became executive directors following their appointment as members of the EC.
- Katelijn Callewaert, Erik Luts, Luc Popelier and Johan Thijs were re-appointed as directors for a new four-year term of office.
- Júlia Király resigned from the Board with effect from 1 December 2021 for personal reasons.

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

The composition of the AC and RCC remained unchanged in 2021.

Proposed changes in the composition of the Board in 2022

On the recommendation of the Nomination Committee and subject to the approval of the Supervisor, Aleš Blažek is proposed by the Board for appointment as director for a term of four years. Following his appointment as a member of the EC, he will become an executive director.

On the recommendation of the Nomination Committee and subject to the approval of the Supervisor, Alicia Reyes Revuelta is nominated by the Board for appointment as an independent director, within the meaning of and in compliance with the legal criteria and the 2020 Code, for a four-year term of office.

On the advice of the Nomination Committee, Christine Van Rijsseghem and Marc Wittemans are nominated for reappointment as director for a new four-year term of office, expiring after the general meeting in 2026, and Nabil Ariss is nominated for reappointment as independent director for a new term of office expiring on 19 December 2025.

John Hollows' term of office will expire at the end of the general meeting. The Board would like to express its sincere appreciation and gratitude for the contribution he has made to the KBC group.

Brief CV for the proposed new directors:

- Born in Cartagena (Spain) on 24 January 1972, Alicia Reyes Revuelta holds a dual degree in Law, Economics and Business Administration (ICADE, Madrid) and a PhD in Quantitative Methods and Financial Markets (ICADE, Madrid). After working as an associate in derivatives at Deutsche Bank, she became CIO/CFO at Telvent (a venture capital fund focused on TMT) and then country manager for Spain and Portugal at Bear Stearns. Between 2006 and 2014, she worked for Barclays Capital in various senior positions. Alicia then became a partner at Olympo Capital, a private equity firm, after which she moved in 2015 to Wells Fargo Securities where she became the CEO for EMEA (until 2020). She is currently an independent Board Member of Ferrovial and Banco Sabadell and she is a Fellow Professor in the Institute of Finance and Technology MSc program on Digital Banking at the Faculty of Civil Engineering (University College London). She is also a Trustee at Fareshare (the largest charity in the UK fighting hunger) and co-founder of 10 Million Women (a social enterprise to help disadvantaged women access the labour market).
- Born in Ceské Budejovice on 8 March 1972, Aleš Blažek holds a Master's Degree in Law from the Charles University Law School in Prague. Aleš started his professional career as an associate at the Prague Office of White & Case, working primarily in the areas of M&A, Banking & Finance and Restructuring. From 2000 until 2003, he worked as Chief Legal Counsel for Citibank Czech Republic. He then became General Counsel for Citigroup CEE Region before being appointed Deputy General Counsel for Citigroup EMEA in London, covering corporate and investment banking businesses in Europe, the Middle East and Africa. In 2007, he joined GE Capital Global Banking (London) to become a member of the senior executive team in the capacity as General Counsel for GE Capital consumer businesses in Europe. In 2011, he was promoted to General Counsel for GE Capital International, London, with responsibility for legal services in all GE Capital businesses in Europe, the Middle East and Asia. He joined ČSOB in Prague in the Czech Republic Business Unit of KBC Group in 2014 as Head of the Legal Department. In April 2019, he became Head of Data and Strategy at ČSOB. In 2021 he was appointed CEO of KBC Bank Ireland.

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

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

Changes with effect from 27 April 2022:

- After reaching the age limit, John Hollows will resign as member of the EC.
- The Board will appoint Aleš Blažek as member of the EC.

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

Following these appointments and changes, the EC will comprise:

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

Statutory auditor

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

A proposal will be made to the general meeting on April 27, 2022 to renew the auditor's mandate for a new period of 3 years. PwC has appointed Mr. Damien Walgrave and Mr. Jeroen Bockaert as new representatives.

Main features of the internal control and risk management systems

Part 1: Description of the main features of the internal control and risk management systems at KBC

A clear strategy, organisational structure and division of responsibilities set the framework for the proper performance of business activities

We examine the strategy and organisational structure of the KBC group in the ‘Our business model’ and ‘Our strategy’ sections of this annual report.

The KBC group has a dual governance structure based on the Belgian model:

- The Board is responsible for defining general strategy and policy. It exercises all the responsibilities and activities reserved to it by law and – based on a proposal by the EC – decides on the overall risk appetite.
- The EC is responsible for the operational management of the company within the confines of the general strategy and policy approved by the Board. To assume its specific responsibility towards financial policy and risk management, the EC appoints a chief financial officer (CFO) and a chief risk officer (CRO) from among its ranks.

The Charter describes the respective responsibilities of both management bodies, their composition and activities, as well as the qualification requirements for their members. Their composition and activities are dealt with in more detail elsewhere in this section.

Corporate culture and integrity policy

Ethical behaviour and integrity are essential components of sound business practice. Honesty, integrity, transparency and confidentiality, together with sound risk management, are part of the high ethical standards that KBC stands for – both in the spirit and the letter of the applicable regulations. These principles are set out in the integrity policy, as well as in specific codes, procedures and codes of conduct. They are also incorporated into specific training courses and campaigns for staff. The main policy guidelines and codes of conduct are communicated in a fully transparent manner and can be found at www.kbc.com > Corporate Sustainability >> Setting rules and policies.

One of the topics covered by the integrity policy is ‘conduct risk’, a concept that identifies the risk arising from the inappropriate provision of financial services. To address this matter, KBC has drawn up a comprehensive policy that includes prevention, monitoring and reporting. Extensive, group-wide communication campaigns and dilemma training ensure that the necessary awareness of this risk is in place. Managing conduct risk is crucial for safeguarding the interests of clients, especially in the areas of investor protection and insurance policyholder protection.

KBC’s Integrity Policy focuses primarily on the following areas, for which – where appropriate – specific group-wide compliance rules have been issued, i.e. for:

- preventing the financial system being used for laundering money and funding terrorism, observing embargoes, and preventing proliferation financing of weapons of mass destruction;

- preventing fiscal irregularities including special mechanisms and DAC 6;
- protecting investors;
- protecting privacy, including banking secrecy, privacy in electronic communication, confidentiality of information and the professional duty of discretion;
- fostering ethics and coordinating fraud prevention;
- protecting insurance policyholders;
- complying with anti-discrimination legislation;
- respecting rules on consumer protection: market practices, payment and lending services, complaints handling by companies, rules on SME funding and Payment Services Directive II;
- respecting the governance aspects of CRD IV and V, Solvency II and/or local laws, including the separation of duties between executive management and supervisory bodies, the functioning of committees, incompatibility of offices, sound remuneration policy, 'Fit & Proper' requirements, conflicts of interest, loans made to members of the EC and directors (and persons associated with them) and to shareholders with a significant participation, and the provision of advice on outsourcing.

The integrity policy also maintains a strong and comprehensive focus on ethics and combating fraud:

- By running focused campaigns and training courses, KBC proactively ensures that this ethical attitude is ingrained in the DNA of each employee. The elements of this policy are firmly embedded in the 'KBC Group Ethics & Fraud Policy' and various other policy guidelines referred to in this section.
- Various departments such as Compliance, Inspection, Internal Audit – as well as KBC's business side – engage in the prevention and detection of fraud. For complex fraud cases and/or incidents with an impact at group level, investigations are conducted and/or coordinated by Group Compliance in its capacity as the group competence centre for fraud.
- The 'Policy for the Protection of Whistleblowers in the KBC group' ensures that employees who act in good faith to report fraud and gross malpractice are protected (see below).
- In line with the UK's Modern Slavery Act, KBC has published a 'Modern Slavery Act Statement' in which it resolves to combat every form of 'modern slavery' in its business activities.

The 'Code of Conduct for KBC Group Employees' is a generalised document based on a set of group values that outlines how all members of staff should conduct themselves. It forms the basis for developing specialised codes of conduct for specific target groups and for drawing up policy guidelines at group level. It is also the source of inspiration for awareness-raising campaigns and training courses.

Combating corruption and bribery

KBC pursues a policy of zero-tolerance towards all forms of corruption. The 'KBC Anti-Corruption & Bribery Policy' affirms KBC's position in the fight against and its resolve to prevent corruption in its activities and operations, while setting out the measures that have been or will be taken to achieve this. It applies to all KBC employees, entities, business activities and transactions, as well as to KBC's counterparties and suppliers. Consequently, it covers all transactions carried out by KBC staff and by all persons or entities performing activities on behalf of KBC or who represent KBC in any capacity.

The main risks associated with corruption and bribery include potential undue influence, conflicts of interest, non-objective pricing and subjective awarding of contracts. Given the potential consequences of these risks and especially the impact on the group's reputation, KBC also pursues a policy of zero-tolerance towards fraud and gross malpractice. The update of the Anti-Corruption & Bribery Policy in 2021 included the implementation of a group-wide risk assessment, more thorough screening of third parties and the development of new monitoring methods to be applied in 2022. KBC also published a new Anti-Corruption Statement, signed by the KBC Group CEO and the Chairman of the Board.

Ethics, combating corruption and avoiding conflicts of interest, in general, are dealt with as part of an authoritative training course, which 5 038 KBC Bank, KBC Insurance and KBC Asset Management employees in Belgium attended in 2021 along with the tied insurance agents and their staff. This corresponds to 98% of the selected target audience. In the Czech Republic, 98.4% of the target audience of ČSOB Bank completed the training course. These figures were 98% for ČSOB bank in Slovakia, 98% for K&H Bank in Hungary, 94% for UBB in Bulgaria and 98% for KBC Bank Ireland.

Another element of the Anti-Corruption & Bribery Policy is the 'policy on gifts, donations and sponsorship' through which KBC endeavours to protect its employees and the other parties involved by means of criteria that have been drawn up to foster transparent and reasonable behaviour. This policy states that gifts, donations or invitations, whose equivalent value exceeds a certain sum (on an annual basis), must be reported to and approved by the competent executive committee/management level. In 2020, five incidents of this kind were approved in Belgium. In Central Europe, too, gifts and donations above a certain value have to be reported. Three such incidents were approved in the Czech Republic, but there were no reports in any of the other countries.

Anti-money laundering practices

Given that KBC does not want to be involved in any activity that could be considered as money laundering or the funding of terrorism, an anti-money laundering policy has been developed at group level. The aim of this policy is to establish a general framework for combating money laundering and the funding of terrorism (including proliferation financing of weapons of mass destruction and compliance with embargoes). Each group entity has developed its own AML programme based on specific, group-wide compliance rules (including 'Know Your Customer' and 'Know Your Transactions' standards) covering the minimum requirements, but also ensuring that there is scope to implement local legislation.

In order to properly identify all the risks, an annual risk assessment is carried out at all entities.

Precisely because KBC does not want to be involved in these activities, training courses are provided at regular intervals to all employees, tied agents and their staff. In 2021, 5 033 employees in Belgium completed this training course, corresponding to 97% of the selected target audience. In the Czech Republic, 98.7% of the target audience of ČSOB Bank completed the training course. These figures were 99.6% for ČSOB bank in Slovakia, 98% for K&H Bank in Hungary, 95% for UBB in Bulgaria and 98% for KBC Bank Ireland.

Furthermore, employees, tied agents and their staff are expected to strictly follow established procedures and guidelines and to exercise due vigilance when identifying customers and checking transactions. They are also expected to report anything suspicious to the Compliance function.

To ensure more effective management of money-laundering risks, both the Compliance department and the department charged with client management were restructured in 2021.

An integrated, group-wide AI platform based on models and machine learning was developed and rolled out in Belgium and in the Central European countries where the group operates. The building blocks below show how AML was taken to the next level.

Responsible taxpayer

The basic principle behind the KBC Tax Strategy is that KBC Group NV and all its entities must act as responsible taxpayers, basing themselves on professionally executed compliance with tax laws, legitimate tax planning and supported by valid business objectives that take precedence over tax considerations. KBC does not take extremely aggressive tax positions simply because it wishes to safeguard its reputation as a responsible taxpayer, and it adheres to a strict tax risk management policy based on those principles. KBC staff are not allowed to provide clients with advice of a nature that might prompt them to commit tax fraud. Any tax advice or tax information provided must be legally correct and clearly worded. All of KBC's tax returns and tax payments are filed correctly and on time. When conducting tax audits, full disclosure in line with prevailing local tax legislation is the guiding principle. KBC reacts in good time to all legislative changes by investing in the necessary IT systems and by adapting its tax processes to ensure they comply with the new rules. Proper governance is in place to follow up and monitor the KBC Tax Strategy. The policy on the prevention of fiscal irregularities is regularly updated and was brought into line with NBB's instructions on special mechanisms, which were modified in 2021. KBC Group NV has the procedures in place that it needs to comply with the DAC 6 requirements. KBC meets all CRS and FATCA requirements.

Whistleblower policy

KBC updated its policy regarding whistleblowers while taking account of new European regulations on the protection of whistleblowers. It expects its employees, tied agents and their staff – when going about their work – to look out for signs of crime, any serious infringements of rules or regulations and other malpractice on the part of employees and clients. All KBC employees, tied agents and their staff have a basic moral duty – and the legal means – to report any suspicions of such conduct.

KBC facilitates anonymous reports and may also report directly and anonymously to the respective supervisors in their areas of competence.

KBC undertakes to protect the identity of whistleblowers and to protect them against any detrimental consequences of acting in good faith to voice their suspicions in the way set out in the internal rules. By doing so, KBC likewise protects and respects the rights of the person about whom concerns are reported. Group Compliance oversees how this policy is implemented in practice. In principle, the local compliance function is the entity where all the reports and files are centralised. It has to inform the Group Compliance's Ethics Unit about every whistleblowing file. The whistleblower policy is published internally and externally (available under 'Corporate Sustainability' at www.kbc.com).

In the first three quarters of 2021, nine reports were received at group level: five in the Czech Republic, two in Belgium, one in Hungary and one in Bulgaria. After further investigation, only the last report and one of the reports from the Czech Republic were labelled as true whistleblower reports, and in both cases the employee who was the subject of the report was dismissed.

Data governance

The Internal Group Compliance rule on data protection sets out a strict privacy framework, which has to be observed as a minimum standard and implemented in every KBC Group entity. We have appointed a data protection officer at each entity to inform and advise management and employees on their obligations in the field of privacy and data protection and to monitor compliance with regulations and policies relating to the protection of personal data.
We check the status of relevant topics through regular compliance monitoring programmes and use awareness campaigns and training to hold people's attention and ensure their knowledge remains up-to-date. In 2021, 5 996 employees in Belgium completed this training course, corresponding to 96% of the target audience. In the Czech Republic, 99.1% of the target audience of ČSOB Bank completed the training course. These figures were 99.1% for ČSOB bank in Slovakia, 93% for UBB in Bulgaria and 93% for KBC Bank Ireland.
Given the importance of privacy and data protection, we keep our Executive Committee and the Risk and Compliance Committee of the Board of Directors informed through a quarterly report.
For more information about data protection and privacy, see 'The client is at the centre of our business culture' in the 'Our strategy' section.

Other achievements in 2021

Although monitoring of complaints handling was already part of the Compliance function's activities, the entire process was further expanded with second-line monitoring and analysis of complaints, the lessons learned from them including both ex-post and ex-ante monitoring of the improvements proposed, and reporting to the RCC and the Board in 2022.
Special attention was also paid to improving the implementation of the MiFID/IDD rules of conduct and investor protection in line with our client-focused strategy.

The 'Three Lines of Defence' model arms KBC against risks that could prevent targets from being achieved

To arm itself against the risks that it is exposed to in achieving its mission, the EC – under its responsibility and the supervision of the Board – has implemented a multi-layered internal control system. This system is commonly known as the 'Three Lines of Defence' model.

1 The business side

The business operations side is fully responsible for all the risks in its area of activity and has to ensure that effective controls are in place. In so doing, it ensures that the right controls are performed in the right way, that self-assessment of the business side is of a sufficiently high standard, that there is adequate awareness of risk and that sufficient priority/capacity is allocated to risk themes.

2 The Group risk and compliance functions, and – for certain matters – Finance, Legal and Tax, constitute the second line of defence

Independent of the business side, the second-line risk and control functions formulate their own opinion regarding the risks confronting KBC. In this way, they can oversee the control environment and the risks taken, without taking over primary responsibility from the first line. In this regard, the second-line functions are tasked to identify, measure and report risks. To ensure that the risk function is respected, the Chief Risk Officers have a veto right, which can be used in the various committees where important decisions are made. The second-line risk and control functions also support the consistent implementation of the risk policy, the risk framework, etc., throughout the group, and supervise how they are applied.

Compliance is an independent function within the group, characterised by its specific status (as provided for by law and regulations and described in the Compliance Charter), its place in the organisation chart (hierarchically under the CRO with a functional reporting line to the President of the EC) and associated reporting lines (reporting to the RRC and even to the Board in certain cases). Its prime objective is to prevent KBC from running a compliance risk or from incurring loss/damage – regardless of its nature – due to non-compliance with applicable laws, regulations or internal rules that fall either within the scope of the compliance function or within the areas assigned to it by the EC. Hence, the compliance function devotes particular attention to adherence to the integrity policy.

3 As independent third line of defence, Internal Audit provides support to the EC, AC, RCC and the Board in monitoring the effectiveness and efficiency of the internal control and risk management system

Internal Audit provides reasonable assurance about whether the internal control and risk management system processes, including corporate governance, are effective and efficient. As independent third line of defence reporting to the AC, it performs risk-oriented audits to this end and ensures that policy measures and processes are in place and consistently applied within the group to guarantee the continuity of operations.

Responsibilities, features, organisational structure and reporting lines, scope, audit methodology, co-operation between internal audit departments of the KBC group, and outsourcing of internal audit activities are set out in the Audit Charter of KBC Group NV.

In accordance with international professional audit standards, an external entity screens the audit function on a regular basis (the last time this happened was in 2019). The results of that exercise were reported to the EC and the AC.

The AC and RCC play a central role in monitoring the internal control and risk management systems

Each year, the EC evaluates whether the internal control and risk management system is still compliant and reports its findings to the AC and RCC.

These committees supervise, on behalf of the Board, the integrity and effectiveness of the internal control measures and the risk management system set up under the EC, with the AC paying special attention to correct financial reporting. They also examine the procedures set up by the company to see whether they comply with the law and other regulations.

Their role, composition and activities, along with the qualifications of their members, are laid down in their respective charters, which are included under the Charter of KBC Group NV. More information on these committees is provided elsewhere in this section.

Part 2: Description of the main features of the internal control and risk management systems in relation to the financial reporting process

It is vitally important that timely, accurate and understandable financial reports are provided to both internal and external stakeholders. To ensure this is the case, the underlying process needs to be sufficiently robust.

Periodic reporting at company level is based on a documented accounting process. A manual on the accounting procedures and financial reporting process is available. Periodic financial statements are prepared directly from the general ledger. Bookkeeping accounts are examined to see whether they correspond to underlying inventories. The result of these controls can be demonstrated. Periodic financial statements are prepared in accordance with local accounting policies and periodic reports on own funds in accordance with the most recent National Bank of Belgium (NBB) resolutions.

The main affiliated companies have their own accounting and administrative organisation, as well as a set of procedures for internal financial controls. The consolidation process is explained in a descriptive document. The consolidation system and the consolidation process have been operational for some time and have numerous built-in consistency controls.

The consolidated financial statements are prepared in accordance with IFRS accounting policies that apply to all the companies included in the scope of consolidation. The relevant senior financial managers (CFOs) of the subsidiaries certify to the accuracy and completeness of the financial figures reported in accordance with group accounting policies. The Approval Committee, which is chaired by the general managers of Investor Relations and of Experts, Reporting & Accounting, monitors compliance with IFRS accounting policies and the completeness of IFRS disclosure requirements.

Pursuant to the Act of 25 April 2014 on the status and supervision of credit institutions, the EC of KBC Group NV evaluated the internal control system for the financial reporting process and prepared a report on its findings.

The group-wide roll-out of 'fast close' procedures, the monitoring of intercompany transactions within the group, and permanent follow-up of a number of indicators relating to risk, performance and quality (Key Risk Indicators and Key Performance Indicators) continually help raise the quality of both the accounting process and the financial reporting process.

The internal control of the accounting process has been based on Group Key Control Accounting and External Financial Reporting standards since 2006. These rules for managing the main risks attached to the accounting process involve the establishment and maintenance of accounting process architecture, the establishment and maintenance of accounting policies and accounting presentations, compliance with authorisation rules and the separation of responsibilities when transactions are registered in the accounts, and the establishment of appropriate first- and second-line account management.

The Challenger Framework (2012) and Data Management Framework (2015) define a solid governance structure and clearly describe the roles and responsibilities of the various players in the financial reporting process. The aim here is to radically reduce reporting risks by challenging input data and improving the analysis of – and therefore insight into – the reported figures.

Each year, when preparing the Internal Control Statement for the supervisory authorities, the legal entities have to assess themselves as to whether they comply with the Group Key Control Accounting and External Financial Reporting standards. The findings of this self-assessment are registered in the risk function's Group Risk Assessment Tool. Business process management (BPM) techniques are also applied, using process inventories, process descriptions (turtle diagrams) and analyses of the potential risks in the processes (Failure Mode & Effects Analysis (FMEA)), supplemented by the questionnaire completed by the CFOs. In this way, the CFOs formally confirm by substantiated means that all the defined roles and responsibilities relating to the end-to-end process for external financial reporting have been properly assumed within their entity. The veracity of this confirmation can be checked at any time by all the internal and external stakeholders involved.

KBC Group NV's Internal Audit function conducts an end-to-end audit of the accounting process and external financial reporting process at both company and consolidated level.

For details of the AC's supervisory work, see the preceding paragraphs.

Shareholder structure on 31 December 2021

The Act of 2 May 2007 concerning the disclosure of significant participations in issuers whose shares are admitted to trading on a regulated market and containing miscellaneous provisions, does not apply to KBC Bank because the securities it issues that carry voting rights are not included on a regulated market.

As far as the shareholder structure of KBC Bank NV at 31 December 2021 is concerned, all 995 371 469 shares were held by KBC Group NV.

Disclosure under Article 34 of the Belgian Royal Decree of 14 November 2007

Article 34 of the Belgian Royal Decree of 14 November 2007 concerning the obligations of issuers of financial instruments admitted to trading on a regulated market, does not apply to KBC Bank because it has not permitted any securities carrying voting rights to be included on a regulated market for trading.

Additional information

- Acquisition of treasury shares: KBC Bank NV and its subsidiaries do not hold any treasury shares.
- Conflicts of interest that fell within the scope of Article 7:115, 7:116 or 7:117 of the CAC During financial year 2021, the Board's decision to grant discharge to the members of the EC – in implementation of Article 7:109, § 3 of the CAC – required the application of Article 7:115 of the CAC. The proposal was discussed at the Board meeting of 18 March 2021, the relevant minutes of which are provided below:

  It is explained that KBC Bank has a dual governance model, though hybrid as all members of the Executive Committee must also sit on the Board of Directors. Article 7:109, § 3 of the CCA provides that, after adoption of the annual accounts, the Board has to decide on granting discharge to the members of the Executive Committee. The Board has to describe the pecuniary consequences of the proposed decision and the justification for its decision.

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

  The Board decides to grant discharge to the members of the Executive Committee.

  There were no conflicts of interest that required the application of Article 7:116 or 7:117 of the CAC.
- The Board worked out an arrangement regarding transactions and other contractual ties between the company (including its affiliated companies) and its directors, not covered by the conflict of interest rule set out in the Companies and Associations Code. It was incorporated into the Corporate Governance Charter of KBC Bank NV, which was in force until year-end 2021.
- Discharge to directors and to the statutory auditor: it will be requested at the General Meeting to grant discharge to the directors and auditor for the performance of their mandate in financial year 2021.
- At year-end 2021, the AC comprised the following members:
  - Marc Wittemans (non-executive director), who holds a Master's Degree in Applied Economics, and degrees in Fiscal Sciences and Actuarial Sciences. He is Managing Director of MRBB CVBA, the holding company of the Boerenbond (farmers' union), and is the Chairman of the AC.
  - Nabil Ariss (independent director), who is a graduate of HEC Paris and the University of Chicago Booth School of Business. He has advised the boards of directors of companies, financial institutions and non-profit organisations on strategy, governance, organisation, business operations, mergers & acquisitions and business finance for more than 30 years, first at McKinsey then at J.P. Morgan, where he retired as Vice-Chairman. He is the founder of Fresnel1823, an independent business consultancy firm.
  - Bo Magnusson (independent director), who is a graduate of the High School Social Science Programme and holds certificates in Accounting, Macroeconomics, Treasury Management and Financial & Risk Management. He held different positions at SEB (1982-2011), including in the areas of accounting and finance. During his career there, he was Head of

the Retail Division (2005-2008), Deputy President and CEO (2008-2011) and Head of Group Staff & Business Support (2009-2011). He was Chairman of the boards of Carnegie Investment Bank AB (2012-2019), SBAB Bank AB (2013-2019), Norrporten AB (2013-2016) and 4T Sverige AB (2012-2015). Mr Magnusson has been Deputy Chairman of the Board of Swedbank AB since 2019 and Chairman of the Board of Rikshem AB since 2016.

These members possess the requisite individual and collective expertise in the activities conducted by the bank and in the areas of accounting and/or auditing, based on their education and extensive business experience.

- At year-end 2021, the RCC comprised the following members:
  - Franky Depickere (non-executive director), who holds Master's Degrees in Trade & Finance (UFSIA Antwerp) and in Financial Management (VLEKHO Business School). He was internal auditor at CERA Bank and has held positions and offices in various financial institutions. He is currently Managing Director at Cera CV and KBC Ancora NV. Mr Depickere is the Chairman of the RCC.
  - Nabil Ariss (independent director).
  - Bo Magnusson (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.

- The Remuneration Committee of KBC Group NV is also authorised to act in relation to KBC Bank NV. It advises the Board of Directors of KBC Group NV regarding the remuneration policy pursued at both KBC Group NV and KBC Bank NV. At year-end 2021, the Remuneration Committee comprised the following members: Koenraad Debackere (Chairman) and Philippe Vlerick (with one independent director position being vacant).
- The Nomination Committee of KBC Group NV is also authorised to act in relation to KBC Bank NV. At year-end 2021, the Nomination Committee was made up of Koenraad Debackere (Chairman), Philippe Vlerick, Franky Depickere, Sonja De Becker and Vladimira Papirnik.
- In compliance with the laws on the incompatibility of offices held by managers of credit institutions, the following is a list of the external offices held by the executive managers and directors of KBC Bank NV in other companies, with the exception of those offices performed in companies within the meaning of Article 27, §3, para. three of the Act of 22 March 1993.

External offices held by non-executive directors of KBC Bank NV at 31 December 2021

Company with limited liability: KBC Bank NV
Commercial register: Brussels 623 074
VAT number or national number: 462.920.226

Company name	Registered office	Sector	Office held	Listed (N= not)	Share of capital held (N= none)
Nabil Ariss, Independent Director					
Fresnel1823 Limited	London	Consulting	Executive Director	N	N
Hospital of St John and St Elizabeth	London	Hospital	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 cv	Belgium	Management	Member of the Executive Committee	N	N
Sonja De Becker, Director					
SBB Gecertifieerde Accountants en Adviseurs BV	Belgium	Accountancy & consulting	Chairwoman of the Board of Directors	N	N
M.R.B.B. cvba	Belgium	Holding company	Chair of the Board of Directors	N	N
SBB Bedrijfsdiensten BV cvba	Belgium	Accountancy & consulting	Chair of the Board of Directors	N	N
BB-Patrim bv	Belgium	Holding company	Chair of the Board of Directors	N	N
Koenraad Debackere, Chairman of the Board of Directors					
Umicore	Belgium	Materials technology	Director	Euronext	N
Holding Wetenschapspark Waterschei NV	Belgium	Holding company	Director	N	N
Franky Depickere, Director					
Almancora Beheersmaatschappij nv	Belgium	Management	Executive Director	N	N
Cera cv	Belgium	Management	Executive Director	N	N
Cera Beheersmaatschappij nv	Belgium	Management	Executive Director	N	N
Euro Pool System International BV	The Netherlands	Packaging	Director	N	N
BRS Microfinance Coop cvba	Belgium	Finance	Director	N	33.51%
Bo Magnusson, Independent Director					
Swedbank AB	Sweden	Banking	Deputy Chairman of the Board of Directors	IEX	N
Val Papirnik, Director					
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 Gecertifieerde Accountants en Adviseurs BV	Belgium	Accountancy & consulting	Director	N	N
SBB Bedrijfsdiensten bv	Belgium	Accountancy & consulting	Director	N	N
M.R.B.B. cvba	Belgium	Holding company	Executive Director/CEO	N	N
Agri Investment Fund cvba	Belgium	Holding company	Director	N	N
Acerta bv	Belgium	Holding company	Director	N	N
Acerta Consult bv	Belgium	HR services	Director	N	N
Acerta Public bv	Belgium	IT services & software	Director	N	N
Acerta Verzekeringen bv	Belgium	Insurance	Director	N	N
Shéhérazade développement cvba	Belgium	IT services & software	Director	N	N
Aveve bv	Belgium	Agricultural and horticultural	Director	N	N

Consolidated financial statements

Abbreviations used

- **AC**: amortised cost
- **OCI**: other comprehensive income
- **FVOCI**: fair value through other comprehensive income
- **FVPL**: fair value through profit or loss. Broken down into:
  - **MFVPL**: mandatorily measured at fair value through profit or loss (including held for trading (HFT))
  - **FVO**: fair value option (designated upon initial recognition at fair value through profit or loss)
- **POCI**: purchased or originated credit impaired assets

Consolidated income statement

(in millions of EUR)	Note	2021	2020
Net interest income	3.1	4 054	4 015
Interest income	*3.1*	*5 934*	*5 919*
Interest expense	*3.1*	*- 1 880*	*- 1 904*
Dividend income	3.2	14	19
Net result from financial instruments at fair value through profit or loss	3.3	32	36
Net realised result from debt instruments at fair value through OCI	3.4	8	3
Net fee and commission income	3.5	2 210	1 975
Fee and commission income	*3.5*	*2 831*	*2 498*
Fee and commission expense	*3.5*	*- 620*	*- 523*
Net other income	3.6	140	88
TOTAL INCOME		**6 457**	**6 134**
Operating expenses	3.8	- 3 905	- 3 809
Staff expenses	*3.8*	*- 1 816*	*- 1 676*
General administrative expenses	*3.8*	*- 1 836*	*- 1 917*
Depreciation and amortisation of fixed assets	*3.8*	*- 253*	*- 216*
Impairment	3.10	269	- 1 126
on financial assets at AC and at FVOCI	*3.10*	*329*	*- 1 068*
on goodwill	*3.10*	*- 7*	*0*
other	*3.10*	*- 53*	*- 58*
Share in results of associated companies and joint ventures	3.11	- 5	- 11
RESULT BEFORE TAX		**2 816**	**1 188**
Income tax expense	3.12	- 681	- 255
RESULT AFTER TAX		**2 135**	**933**
attributable to minority interests	-	0	0
attributable to equity holders of the parent	-	**2 135**	**933**

- We have dealt with the main items in the income statement in the ‘Report of the Board of Directors’ under the ‘Our financial report’ and ‘Our business units’ sections. The statutory auditor has not audited these sections.
- The breakdown of interest income and interest expense on financial instruments calculated using the effective interest rate method and on other financial instruments (not calculated using the effective interest rate method) is provided in Note 3.1.
- The impact of the most important acquisitions and disposals made in 2020 and 2021 is set out in Note 6.6.

Consolidated statement of comprehensive income

(in millions of EUR)	2021	2020
RESULT AFTER TAX	**2 135**	**933**
attributable to minority interests	0	0
attributable to equity holders of the parent	2 135	933
OCI THAT MAY BE RECYCLED TO PROFIT OR LOSS	**213**	**- 169**
Net change in revaluation reserve (FVOCI debt instruments)	- 142	2
Fair value adjustments before tax	- 167	6
Deferred tax on fair value changes	31	- 2
Transfer from reserve to net result	- 6	- 2
Impairment	0	0
Net gains/losses on disposal	- 8	- 3
Deferred taxes on income	2	0
Net change in hedging reserve (cashflow hedges)	186	36
Fair value adjustments before tax	197	- 22
Deferred tax on fair value changes	- 62	6
Transfer from reserve to net result	52	53
Gross amount	66	69
Deferred taxes on income	- 15	- 17
Net change in translation differences	255	- 281
Gross amount	255	- 281
Deferred taxes on income	0	0
Hedge of net investments in foreign operations	- 84	74
Fair value adjustments before tax	- 113	95
Deferred tax on fair value changes	28	- 21
Transfer from reserve to net result	0	0
Gross amount	0	0
Deferred taxes on income	0	0
Net change in respect of associated companies and joint ventures	0	0
Gross amount	0	0
Deferred taxes on income	0	0
Other movements	- 2	- 1
OCI THAT WILL NOT BE RECYCLED TO PROFIT OR LOSS	**184**	**- 41**
Net change in revaluation reserve (FVOCI equity instruments)	13	8
Fair value adjustments before tax	14	9
Deferred tax on fair value changes	- 1	- 1
Net change in defined benefit plans	173	- 54
Remeasurements	230	- 68
Deferred tax on remeasurements	- 57	14
Net change in own credit risk	- 2	5
Fair value adjustments before tax	- 2	7
Deferred tax on fair value changes	0	- 2
Net change in respect of associated companies and joint ventures	0	0
Remeasurements	0	0
Deferred tax on remeasurements	0	0
TOTAL COMPREHENSIVE INCOME	**2 532**	**723**
attributable to minority interests	0	0
attributable to equity holders of the parent	2 532	723

- Revaluation reserves in 2021: The net change in the 'revaluation reserve (FVOCI debt instruments)' came to -142 million euros, which was mainly accounted for by higher interest rates, related primarily to government bonds of various European countries. The net change in the hedging reserve (cashflow hedge) rose by 186 million euros, due primarily to the general increase in interest rates. The net change in defined benefit plans (+173 million euros) related mainly to higher discount rates applied to the liabilities and the positive returns on plan assets partly offset by a higher – and as of the third quarter of 2021 – market-based inflation curve. The net change in translation differences (+255 million euros) was caused primarily by the appreciation of the Czech koruna (CZK) against the euro, partly offset by the hedge of net investments in foreign operations (-84 million euros). Since mid-2019, the hedging policy of foreign exchange participations has been aimed at stabilising the group capital ratio (and not the parent shareholders' equity).
- Revaluation reserves in 2020: the increase in the hedging reserve (cashflow hedge) of 36 million euros was accounted for by unwinding operations (unwinding the discount), partly offset by lower interest rates. The net change in defined benefit plans (-54 million euros) related mainly to the historically low discount rate for retirement benefit obligations, which failed to be adequately offset by the lower return on plan assets. This was largely compensated for by the impact of reinsurance established as of 2020 for the mortality risk in the KBC pension fund. The net change in translation differences (-281 million euros) was caused primarily by the weakening of the Czech koruna (CZK) and Hungarian forint (HUF) against the euro. This was only partly offset by the hedge of net investments in foreign operations (+74 million euros) because, since mid-2019, the new hedging policy of foreign exchange participations has been aimed at stabilising the group capital ratio (and not the parent shareholders' equity).

Consolidated balance sheet

(in millions of EUR)	Note	31-12-2021	31-12-2020
ASSETS			
Cash, cash balances with central banks and other demand deposits with credit institutions	-	40 602	24 538
Financial assets	4.0	246 157	251 673
Amortised cost	*4.0*	*231 707*	*236 462*
Fair value through OCI	*4.0*	*4 741*	*5 902*
Fair value through profit or loss	*4.0*	*9 434*	*9 148*
of which held for trading	*4.0*	*8 850*	*8 735*
Hedging derivatives	*4.0*	*274*	*160*
Profit/loss on positions in portfolios hedged against interest rate risk	-	- 436	1 360
Tax assets	5.2	1 189	1 541
Current tax assets	*5.2*	*133*	*91*
Deferred tax assets	*5.2*	*1 056*	*1 450*
Non-current assets held for sale and disposal groups	5.11	10 001	19
Investments in associated companies and joint ventures	5.3	38	25
Property, equipment and investment property	5.4	3 202	3 290
Goodwill and other intangible assets	5.5	1 396	1 302
Other assets	5.1	843	652
TOTAL ASSETS		**302 991**	**284 399**
LIABILITIES AND EQUITY			
Financial liabilities	4.0	278 993	265 846
Amortised cost	*4.0*	*269 288*	*255 817*
Fair value through profit or loss	*4.0*	*8 611*	*8 710*
of which held for trading	*4.0*	*7 299*	*7 182*
Hedging derivatives	*4.0*	*1 093*	*1 318*
Profit/loss on positions in portfolios hedged against interest rate risk	-	- 863	99
Tax liabilities	5.2	85	93
Current tax liabilities	*5.2*	*44*	*48*
Deferred tax liabilies	*5.2*	*41*	*45*
Liabilities associated with disposal groups	5.11	4 262	0
Provisions for risks and charges	5.7	278	206
Other liabilities	5.8	1 691	2 088
TOTAL LIABILITIES		284 445	268 333
Total equity	5.10	18 547	16 067
Parent shareholders' equity	5.10	17 047	14 567
Additional tier-1 instruments included in equity	5.10	1 500	1 500
Minority interests	-	0	0
TOTAL LIABILITIES AND EQUITY		**302 991**	**284 399**

- The impact of the most important acquisitions and disposals made in 2020 and 2021 is set out in Note 6.6.
- The increase in the balance sheet total in 2021 was largely attributable to higher demand deposits and an additional drawdown under the ECB’s TLTRO III programme, resulting in higher cash balances with central banks and higher loans and advances to customers (not taking into account the shift of KBC Bank Ireland’s loans and deposits to other balance sheet items; see Note 6.6).

Consolidated statement of changes in equity

(in millions of EUR)	Issued and paid up share capital	Share premium	Treasury shares	Retained earnings	Total revaluation reserves	Parent share-holders' equity	Additional tier-1 instruments included in equity	Minority interests	Total equity
2021									
Balance at the end of the previous period	9 732	2 066	0	4 146	- 1 378	14 567	1 500	0	16 067
Net result for the period	0	0	0	2 135	0	2 135	0	0	2 135
Other comprehensive income for the period	0	0	0	- 2	399	397	0	0	397
Subtotal	0	0	0	2 133	399	2 532	0	0	2 532
Dividends	0	0	0	0	0	0	0	0	0
Coupon on AT1	0	0	0	- 52	0	- 52	0	0	- 52
Transfer from revaluation reserves to retained earnings on realisation	0	0	0	- 3	3	0	0	0	0
Impact business combinations	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	2 077	402	2 480	0	0	2 480
Balance at the end of the period	9 732	2 066	0	6 224	- 976	17 047	1 500	0	18 547
2020									
Balance at the end of the previous period	9 732	2 066	0	4 392	- 1 147	15 043	1 500	3	16 546
Net result for the period	0	0	0	933	0	933	0	0	933
Other comprehensive income for the period	0	0	0	- 1	- 209	- 210	0	0	- 210
Subtotal	0	0	0	932	- 209	723	0	0	723
Dividends	0	0	0	- 1 145	0	- 1 145	0	0	- 1 145
Coupon on AT1	0	0	0	- 52	0	- 52	0	0	- 52
Capital increase	0	0	0	0	0	0	0	0	0
Transfer from revaluation reserves to retained earnings on realisation	0	0	0	21	- 21	0	0	0	0
Impact business combinations	0	0	0	- 3	0	- 3	0	- 3	- 5
Change in minorities interests	0	0	0	0	0	0	0	0	0
Total change	0	0	0	- 246	- 231	- 476	0	- 3	- 479
Balance at the end of the period	9 732	2 066	0	4 146	- 1 378	14 567	1 500	0	16 067

- An explanation of the changes in the revaluation reserves is provided under ‘Consolidated statement of comprehensive income’.
- For information on the shareholder structure, see the ‘Report of the Board of Directors’ in the ‘Corporate governance statement’ section.
- For information on capital increases, additional tier-1 instruments, treasury share buybacks and the number of shares, see Note 5.10.
- The ‘Dividends’ item in 2020 (1 145 million euros) includes the final dividend for 2019 (paid in May 2020). In line with the relevant ECB recommendations, and given the sufficient liquidity in KBC Group NV, no gross dividend was paid for financial year 2020.
- We will propose to the General Meeting of Shareholders of 27 April 2022 a gross dividend of 1 483 million euros for financial year 2021.

(in millions of EUR)	31-12-2021	31-12-2020	01-01-2020
Revaluation reserve (FVOCI debt instruments)	77	218	216
Revaluation reserve (FVOCI equity instruments)	24	8	21
Hedging reserve (cashflow hedges)	- 1 108	- 1 294	- 1 331
Translation differences	- 116	- 371	- 89
Hedge of net investments in foreign operations	78	163	88
Remeasurement of defined benefit plans	70	- 103	- 49
Own credit risk through OCI	- 1	1	- 4
Total revaluation reserves	**- 976**	**- 1 378**	**- 1 147**

Consolidated cash flow statement

(in millions of EUR)	Note[1]	2021	2020
OPERATING ACTIVITIES			
Result before tax	Consolidated income statement	2 816	1 188
Adjustments for non-cash items in profit & loss		797	1 774
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	3.10, 4.2, 5.4, 5.5	328	289
Profit/Loss on the disposal of investments	-	- 29	- 8
Change in impairment on loans and advances	3.10	- 329	1 068
Change in other provisions	5.7	4	3
Other unrealised gains/losses	-	818	412
Income from associated companies and joint ventures	3.11	5	11
Cashflows from operating profit before tax and before changes in operating assets and liabilities	-	3 613	2 963
Changes in operating assets (excluding cash and cash equivalents)		- 6 312	- 7 121
Financial assets at amortised cost (excluding debt securities)	4.1	- 6 778	- 5 423
Financial assets at fair value through OCI	4.1	1 052	- 41
Financial assets at fair value through profit or loss	4.1	- 266	- 1 627
of which financial assets held for trading	*4.1*	*- 91*	*- 1 447*
Hedging derivatives	4.1	- 113	- 4
Operating assets associated with disposal groups, and other assets	-	- 206	- 26
Changes in operating liabilities (excluding cash and cash equivalents)		14 053	31 077
Financial liabilities at amortised cost	4.1	14 432	30 593
Financial liabilities at fair value through profit or loss	4.1	115	231
of which financial liabilities held for trading	*4.1*	*177*	*292*
Hedging derivatives	4.1	- 33	128
Operating liabilities associated with disposal groups and other liabilities	-	- 462	124
Income taxes paid	3.12	- 349	- 407
Net cash from or used in operating activities		11 006	26 511
INVESTING ACTIVITIES			
Purchase of debt securities at amortised cost	4.1	- 6 234	- 10 263
Proceeds from the repayment of debt securities at amortised cost	4.1	9 171	4 186
Acquisition of a subsidiary or a business unit, net of cash acquired (including increases in percentage interest held)	6.6	0	107
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	-	- 18	- 10
Proceeds from the disposal of shares in associated companies and joint ventures	-	0	0
Dividends received from associated companies and joint ventures	-	0	0
Purchase of investment property	5.4	- 5	- 47
Proceeds from the sale of investment property	5.4	17	36
Purchase of intangible fixed assets (excluding goodwill)	5.5	- 196	- 231
Proceeds from the sale of intangible fixed assets (excluding goodwill)	5.5	3	50
Purchase of property, plant and equipment	5.4	- 581	- 597
Proceeds from the sale of property, plant and equipment	5.4	289	293
Net cash from or used in investing activities		2 444	- 6 477

(in millions of EUR)	Note[1]	2021	2020
FINANCING ACTIVITIES			
Purchase or sale of treasury shares	Cons. statement of changes in equity	0	0
Issue or repayment of promissory notes and other debt securities	4.1	- 1 892	- 900
Proceeds from or repayment of subordinated liabilities	4.1	2 904	1 613
Proceeds from the issuance of share capital	Cons. statement of changes in equity	0	0
Issue of additional tier-1 instruments	Cons. statement of changes in equity	0	0
Dividends paid	Cons. statement of changes in equity	0	- 1 145
Coupon additional Tier-1 instruments		- 52	- 52
Net cash from or used in financing activities		960	- 484
CHANGE IN CASH AND CASH EQUIVALENTS			
Net increase or decrease in cash and cash equivalents		14 410	19 550
Cash and cash equivalents at the beginning of the period		47 749	29 089
Effects of exchange rate changes on opening cash and cash equivalents		1 343	- 891
Cash and cash equivalents at the end of the period		63 502	47 749
ADDITIONAL INFORMATION			
Interest paid[2]	3.1	- 1 880	- 1 904
Interest received[2]	3.1	5 934	5 919
Dividends received (including equity method)	3.2, 5.3	14	19
COMPONENTS OF CASH AND CASH EQUIVALENTS			
Cash and cash balances with central banks and other demand deposits with credit institutions	Consolidated balance sheet	40 602	24 538
Term loans to banks at not more than three months (excl. reverse repos)	4.1	3 145	1 393
Reverse repos with credit institutions and investment firms at not more than three months	4.1	24 450	26 422
Deposits from banks repayable on demand	4.1	- 4 695	- 4 604
Cash and cash equivalents belonging to disposal groups		0	0
Total		63 502	47 749
of which not available		*0*	*0*

[1] The notes referred to do not always contain the exact same amounts as those included in the cashflow statement, as - among other things - adjustments have been made to take account of acquisitions or disposals of subsidiaries, as set out in IAS 7.
[2] 'Interest paid' and 'Interest received' in this overview are the equivalent of the 'Interest expense' and 'Interest income' items in the consolidated income statement. Given the large number of underlying contracts that generate interest expense and interest income, it would take an exceptional administrative effort to establish actual cashflows. Moreover, it is reasonable to assume that actual cashflows for a bank-insurance company do not differ much from the accrued interest expense and accrued interest income, as most rate products pay interest regularly within the year.

- KBC uses the indirect method to report on cashflows from operating activities.
- Net cash from or used in operating activities:
  - In 2021, this item included strong deposit growth (owing in part to higher demand deposits and deposits from credit institutions and investment firms) and an additional drawdown of 2.5 billion euros under the TLTRO III programme, as well as the realised result.
  - In 2020, this item included funding under TLTRO III (19.5 billion euros), as well as the realised result and higher level of deposits from customers.
- Net cash from or used in investing activities:
  - In 2021, this item mainly included investments in debt securities at amortised cost that had reached maturity, partly offset by new investments
  - In 2020, this item included mainly additional investments in debt securities at amortised cost.
  - It also included 107 million euros related to the acquisition of OTP Banka Slovensko (the acquisition price of 64 million euros was more than offset by the available cash and cash equivalents on the OTP Banka Slovensko balance sheet – more details are provided in Note 6.6).
- Net cash from or used in financing activities:
  - In 2021, this item included:
    - the issue or repayment of promissory notes and other debt securities (KBC IFIMA, ČSOB (Czech Republic) and KBC Bank NV accounted for the bulk of the figure for 2021, which related primarily to redemptions);
    - the proceeds from or repayment of subordinated liabilities (KBC Bank NV accounted for the bulk of the figure for 2021, which related primarily to 3.7 billion euros' worth of instruments issued and 0.8 billion euros in redemptions).
  - In 2020, this item included:
    - the dividend payout (-1.1 billion euros);

- the issue or repayment of promissory notes and other debt securities (KBC IFIMA, ČSOB (Czech Republic) and KBC Bank NV accounted for the bulk of the figure for 2020, which related primarily to 1.3 billion euros' worth of these instruments being issued and 2.3 billion euros being redeemed);
- the proceeds from or repayment of subordinated liabilities (KBC IFIMA and KBC Bank NV accounted for the bulk of the figure for 2020, which related primarily to 1.7 billion euros’ worth of instruments issued and 0.1 billion euros in redemptions).

1.0 Notes on the accounting policies

Note 1.1: Statement of compliance

The consolidated financial statements of KBC Bank NV, including all the notes, were authorised for issue on 17 March 2022 by the Board of Directors. They have been prepared in accordance with the International Financial Reporting Standards as adopted for use in the European Union ('endorsed IFRS') and present one year of comparative information. All amounts are shown in millions of euros and rounded to the million (unless otherwise stated).

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

- Amendments to IAS39 and related affected standards: Under Phase 2 of the IBOR reform, the IASB made a number of amendments to IAS 39 and to related affected standards, which provide temporary relief from adopting specific hedge accounting requirements for hedging relationships directly affected by this reform. KBC applied these amendments in 2020, prior to the date of mandatory adoption. The amendments to IAS 39 with regard to IBOR had no significant impact on our hedge accounting, as most hedging derivatives are based on EURIBOR (see Note 4.8.2. for the positions in hedging derivatives). For more information, see the 'How do we manage our risks?' section.

The following IFRS standards were issued but not yet effective in 2021. KBC will apply these standards when they become mandatory.

- 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.
- 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. It will not have any impact on KBC Bank.

The loan portfolio accounts for the largest share of the financial assets. Based on internal management reports, the composition and quality of the loan portfolio is set out in detail in the 'How do we manage our risks?' section (under 'Credit risk'). All parts of that particular section which have been audited by the statutory auditor are listed at the start of the section.

Note 1.2: Summary of significant accounting policies

General/Basic principle

The general accounting principles of KBC Bank NV ('KBC') are based on the International Financial Reporting Standards (IFRS), as adopted by the European Union, and on the IFRS Framework. The financial statements of KBC are prepared based on the going concern assumption. It presents each material class of similar items separately. Dissimilar items are presented separately unless they are immaterial, and items are only offset when explicitly required or permitted by the relevant IFRS.

Financial assets

KBC has applied all the requirements of IFRS 9 since 1 January 2018, except for hedge accounting transactions, which continue to be accounted for in accordance with IAS 39.

Financial assets – recognition and derecognition

Recognition: financial assets and liabilities are recognised in the balance sheet when KBC becomes party to the contractual provisions of the instruments. Regular-way purchases or sales of financial assets are recognised using settlement date accounting. All financial assets – except those measured at fair value through profit or loss – are measured initially at fair value plus transaction costs directly attributable to their acquisition.

Derecognition and modification: KBC derecognises a financial asset when the contractual cashflows from the asset expire or when KBC transfers its rights to receive contractual cashflows from the financial asset in a transaction in which substantially all the risks and rewards of ownership are transferred. If the terms and conditions change during the term of a financial asset, KBC assesses whether the new terms are substantially different from the original ones and whether the changes indicate that the rights to the cashflows from the instrument have expired. If it is concluded that the terms are substantially different, the transaction is accounted for as a financial asset derecognition, which means that the existing financial asset is removed from the balance sheet and that a new financial asset is recognised based on the revised terms. Conversely, when KBC assesses that the terms are not substantially different, the transaction is accounted for as a financial asset modification.

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

Classification of equity instruments and debt instruments

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

Classification and measurement – debt instruments

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

- Measured at fair value through profit or loss (FVPL);
  - Mandatorily measured at fair value through profit or loss (MFVPL) – this category includes held-for-trading instruments (HFT);
  - Designated upon initial recognition at fair value through profit or loss (FVO);
- Measured at fair value through 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.

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);

In the banking business, there is a rebuttable presumption that all equity instruments are to be regarded as FVOCI if held for neither trading nor a contingent consideration in a business combination to which IFRS 3 applies. The election to include equity instruments in the FVOCI category is irrevocable on initial recognition and can be done on an investment-by-investment basis, which is interpreted by KBC as a share-by-share basis. Equity instruments categorised as FVOCI are subsequently measured at fair value, with all value changes recognised in other comprehensive income and without any recycling into the income statement, even when the investment is disposed of. The only exception applies to dividend income, which is recognised in the income statement under 'Dividend income'.

Classification and measurement – derivatives (trading and hedging)

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

Trading derivatives

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

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

Hedging derivatives

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

Financial assets – impairment

Definition of default

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

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

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

Expected credit loss model (ECL model) – general

The ECL model is used to measure impairment of financial assets.

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

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

No ECLs are calculated for investments in equity instruments.

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

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

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

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

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

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

Significant increase in credit risk since initial recognition

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

Multi-tier approach (MTA) – bond portfolio

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

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

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

Loan portfolio

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

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

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

Measurement of ECL

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

ECL is calculated to reflect:

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

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

KBC uses specific IFRS 9 models for PD, EAD and LGD in order to calculate ECL. As much as possible and to promote efficiency, KBC uses modelling techniques similar to those developed for prudential purposes (i.e. Basel models). More information on the credit risk models developed by KBC is provided in the 'Internal Modelling' section of the Risk Report at www.kbc.com. That said, KBC ensures that the Basel models are adapted so they comply with IFRS 9.

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

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

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

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

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

Purchased or originated credit impaired (POCI) assets

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

Significant judgements and uncertainties

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

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

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

Financial liabilities

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

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

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

Financial liabilities – recognition and derecognition

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

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

Financial liabilities – classification and measurement

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

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

this option when structured products contain non-closely-related embedded derivatives, in which case both the host contract and the embedded derivative is measured at fair value.

- Financial liabilities measured at amortised cost (AC). KBC classifies most of its financial liabilities under this category, including those used to fund trading activities where no trading intent is present in them (e.g., issued bonds). These financial liabilities are initially measured at cost, which is the fair value of the consideration received including transaction costs. Subsequently, they are measured at amortised cost, which is the amount at which the funding liability was initially recognised minus principal repayments, plus or minus the cumulative amortisation of any difference between that initial amount and the maturity amount. The difference between the amount made available and the nominal value is recorded on an accruals basis as an interest expense. Interest expenses accrued but not yet paid are recorded under accruals and deferrals.

Financial liabilities – own credit risk

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

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

Financial liabilities – financial guarantee contract

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

Reverse repos and repos

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

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

Offsetting

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

Fair value

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

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

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

Hedge accounting

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

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

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

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

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

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

Leasing

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

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

Equity

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

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

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

Employee benefits

Short-term employee benefits

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

Post-employment benefits

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

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

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

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

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

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

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

Net fee and commission income

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

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

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

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

Government grants

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

Levies

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

Income tax

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

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

Current tax assets/liabilities

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

Deferred tax assets/liabilities

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

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

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

Deferred tax assets/liabilities are not discounted.

Property and equipment

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

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

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

Investment property

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

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

The depreciation charge is recognised under 'Other net income' in the income statement.

Intangible assets

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

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

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

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

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

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

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

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

Impairment of non-financial assets

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

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

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

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

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

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

Provisions, contingent liabilities and contingent assets

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

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

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

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

Consolidated financial statements / interim financial statements

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

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

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

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

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

Business combinations and goodwill

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

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

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

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

Effects of changes in foreign exchange rates

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

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

Related-party transactions

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

- KBC subsidiaries and KBC group entities (primarily KBC Insurance NV and KBC Group NV); KBC associates and joint ventures; KBC Ancora, Cera and MRBB;
- KBC key management staff (i.e. the Board of Directors and the Executive Committee of KBC Bank NV).

Transactions with related parties must occur at arm's length.

Non-current assets held for sale and disposal groups, liabilities associated with disposal groups and discontinued operations

Non-current assets held for sale and disposal groups, liabilities associated with disposal groups

Non-current assets or groups of assets and liabilities held for sale are those where the carrying value will be recovered by KBC through a sale transaction, which is expected to qualify as a sale within a year, rather than through continued use. Non-current assets and liabilities held for sale are reported separately from the other assets and liabilities in the balance sheet at the end of the reporting date.

Discontinued operations

A discontinued operation refers to a part of KBC that has been disposed of or is classified as held for sale and:

- represents a separate major line of business or geographical area of operations; or
- is part of a single, coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

Results from discontinued operations are recognised separately in the income statement and in other comprehensive income and contain:

- the post-tax profit or loss of discontinued operations; and
- the post-tax gain or loss recognised on the measurement to fair value less the costs of the sale or disposal of the assets or group of assets.

Events after the reporting period

Events after the reporting date are defined as favourable or unfavourable events that occur between the reporting date and the date on which the financial statements are authorised for issue. There are two types of event after the reporting date:

- those which provide evidence of conditions that existed on the reporting date (adjusting events);
- those that are indicative of conditions that arose after the reporting date (non-adjusting events).

The impact of adjusting events has already been reflected in the financial position and financial performance for the current year. The impact and consequences of non-adjusting events are disclosed in the notes to the financial statements.

Exchange rates used*

	Exchange rate at 31-12-2021		Exchange rate average in 2021	
	1 EUR = … … currency	Change relative to 31-12-2020 (positive: appreciation relative to EUR) (negative: depreciation relative to EUR)	1 EUR = … … currency	Change relative to average in 2020 (positive: appreciation relative to EUR) (negative: depreciation relative to EUR)
CZK	24.858	6%	25.706	3%
HUF	369.19	-1%	358.39	-2%

* Rounded figures.

Note 1.3: Critical estimates and significant judgements

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

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

See also 'Climate-related and other ESG risks' in the 'How do we manage our risks?' section.

Note 1.4: Impact of the coronavirus crisis

The coronavirus pandemic hit the global economy very hard in 2020 and 2021. The initial significant deterioration in economic outlook has led to unprecedented policy responses by central banks and governments in all parts of the world.

Since the start of the pandemic, we have worked closely with government agencies to support all clients affected through the provision of support measures such as loan payment holidays.

For our core countries combined, the volume of loans that were granted payment holidays under the various support measures at year-end 2021 amounted to 10 billion euros (including EBA-compliant moratoria and the now non-EBA-compliant scheme in Hungary, but excluding Ireland, which is now classified under IFRS 5). Virtually all EBA-compliant moratoria expired by the end of December 2021. For 96.5% of the loans under the now-expired EBA-compliant moratoria, payments have fully resumed. In addition to this, we granted some 0.8 billion euros in loans that fall under the various coronavirus-related government guarantee schemes in our home markets. A detailed overview of the different government and sector measures in each of our core countries is provided in the 2020 Annual Report.

In addition:

- The general moratorium in Hungary was extended to October 2021 subject to the same conditions as the initial moratorium, with an optional further extension to June 2022 subject to specific conditions (opt-in extension).
- A second extension of the Covid II programme (launched in the third quarter of 2020 for a maximum amount of 10 billion euros) was approved by the Belgian Government within the context of coronavirus-related state guarantee schemes to cover losses on future SME loans granted before 31 December 2021. This state guarantee covers 80% of all losses, in total.

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

Item	Direct and indirect impact of the coronavirus crisis	More details in note/section:
Net interest income	2020: adversely impacted following repo rate cuts by the Czech National Bank and what were generally low long-term interest rates. This impact was partly offset by factors such as lower funding costs thanks to the ECB's TLTRO III programme and higher loan volumes. 2021: lower reinvestment yields in euro country and pressure on margins, partly offset by factors such as lower funding costs (including the effect of TLTRO III), the wider application of negative interest rates to certain corporate and SME current accounts, etc.	3.1
Financial instruments at FVPL	2020: Very negative impact in the first quarter of 2020 due to plummeting stock markets, widening credit spreads and lower long-term interest rates, followed by a gradual return to normal.	3.3
Net fee and commission income	2020: lower fees for asset management activities and a decrease in fees related to certain banking services, such as payment services (due in part to the lockdowns), partly offset by higher securities-related fee income. 2021: higher fees for asset management activities (owing mainly to higher asset prices) and banking services (gradual resumption of economic activity after the lockdowns).	3.5
Operating expenses	2020: lower operating expenses thanks to various cost-saving measures (resulting, amongst other things, in lower provisioning for variable remuneration and a reduction in FTEs) and lower marketing, travel, facility and event expenses (directly related to a lower level of activity caused by the lockdowns). 2021: higher operating expenses partly due to higher variable remuneration and exceptional and/or non-operating items, such as the payment of a one-off coronavirus-related bonus to staff.	3.8
Impairment on loans (financial assets at AC and at FVOCI)	2020: a substantial amount in collective impairments was set aside for the coronavirus crisis. 2021: Significant reversal of collective impairment previously recorded for the coronavirus crisis (see below for a more detailed explanation).	3.10 and 4.2
Impairment on goodwill	2020 and 2021: our annual assessment of goodwill impairment indicators (based on discounted cashflow analysis) showed no indication of any impairment to goodwill on account of the coronavirus crisis.	3.10 and 5.5
Impairment on other	2020: includes 29 million euros relating to modification losses in Belgium, the Czech Republic and Hungary due to the payment moratoria applied in these countries as a result of the coronavirus crisis. 2021: includes 8 million euros relating to additional modification losses in Hungary.	3.10
Deferred taxes on income	2020 and 2021: we have examined whether taxable profit may become available against which the deductible temporary differences can be utilised based on projections for a period of eight to ten years. The conclusion of this analysis is that there are sufficient estimated taxable profits available (apart from Ireland; for more information, see Note 6.6).	3.12 and 5.2
Revaluation reserves	2020: includes a fall in translation differences. 2021: includes an increase in translation differences.	Consolidated statement of comprehensive income
Liquidity	2020 and 2021: robust liquidity position maintained throughout the coronavirus crisis, supported in part by participation in the TLTRO III funding programme.	'Liquidity risk' in 'How do we manage our risks?'
Solvency	2020 and 2021: robust solvency position maintained throughout the coronavirus crisis.	6.7 and 'How do we manage our capital?'
Retirement benefit obligations	2020: increase in employer's obligations for employee benefits (defined benefit obligations) due to the impact of the historically low discount rate. Plan assets maintained their value, because of the low level of interest rates and the steady recovery of the stock markets after the outbreak of the pandemic. 2021: decrease in employer's obligations for employee benefits (defined benefit obligations) due to the impact of positive returns on plan assets.	5.9

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

The 'Report of the Board of Directors' section contains additional information on the impact of the coronavirus crisis on the activities and stakeholders of the group, more specifically concerning the following:

- Our business model (see 'How do we create sustainable value?' and 'What are our main challenges?')
- The macroeconomic context (see 'In what environment do we operate?' and 'Our business units')
- Our clients (see 'The client is at the centre of our business culture' and 'Our business units')
- Our employees (see 'Our employees, capital, network and relationships')
- Society (see 'Our business units')
- Our risk management (see 'How do we manage our risks?')

Details regarding the impact of the coronavirus crisis on loan impairment charges in 2020 and 2021

As stated in the 2020 Annual Report, a management overlay was included on top of the result from the standard method for calculating loan impairment, as our ECL models are not able to adequately reflect all the specifics of the coronavirus crisis or the various government measures implemented in the different countries to support households, SMEs and corporate entities through this crisis. By year-end 2020, the collective coronavirus-related ECL amounted to 783 million euros.

In 2021, KBC updated its assessment of the impact of the coronavirus crisis every quarter, factoring in the changed macroeconomic outlook and course of the pandemic. As a result, the outstanding collective coronavirus-related ECL amounted to 289 million euros on 31 December 2021, which means there was a 494-million-euro reversal in the income statement in 2021 (26 million euros in the first quarter, 129 million euros in the second quarter, 260 million euros in the third quarter and 79 million euros in the fourth quarter).

The following components of the impact calculation were addressed in 2021:

For the performing loan portfolio:

- We adjusted the macroeconomic outlook based on the latest insights (see the 'Economic scenarios' section). The improved outlook and adjusted scenario weightings led to a reduction of the stress applied to the migration matrices (more details provided below), resulting in a 363-million-euro reversal in 2021.
- We refined the sectoral risk effect based on new insights on the level of vulnerability of companies to the consequences of the coronavirus pandemic. The most vulnerable clients continue to be weighted at 150% in the calculation, while the less vulnerable segments are weighted at 100%. Sectors not affected negatively (or affected positively) by the pandemic will no longer be subject to a management overlay (while in 2020 these sectors were weighted at 50%), resulting in a 98-million-euro reversal in 2021.

For the non-performing loan portfolio:

- We reverted to the standard method for calculating impairment on collectively managed 'Stage 3' loans, except in Ireland, where this part was retained in view of the planned sale. This is based on the expert judgement of the management departments that no additional coronavirus-related impact is expected for this segment. This resulted in a reversal of 33 million euros in 2021.

In addition to the above changes made in 2021, the three-step approach set out below was applied to the performing portfolio to estimate the additional impact of the coronavirus crisis for the segments in which a management overlay was deemed necessary on top of the standard ECL process:

- This was done using a method that starts from KBC's updated macroeconomic forecasts at year-end 2021 (see the 'Economic scenarios' section below). The base-case scenario was translated into expert-based stress migration matrices, per country and for each segment. The portfolio was transformed using this migration matrix, which resulted in a certain portion being moved to inferior PD classes or assigned 'default' status, a certain portion remaining unchanged and a minor portion being improved. After this transformation, the ECL was calculated again based on the new portfolio structure, including staging. The estimated impact on ECL under the coronavirus base-case scenario was then determined as the difference between the ECL calculated on the portfolio before and after applying the stressed migration matrix.
- Subsequently, a sectoral effect was incorporated into the calculation to refine the coronavirus-related ECL in order to reflect some sectors being more heavily affected than others, which is not yet included in the migration matrices. All exposures in the SME and corporate portfolio were classified according to their level of vulnerability to the consequences of the expected impact of the coronavirus crisis on the relevant sector (no sectoral stress was applied to mortgage loans and consumer finance). Based on this classification, the following expert-based weights have been applied to the ECL impact: 150% for critically vulnerable sectors and 100% for less vulnerable sectors. We reverted to the standard ECL process for sectors expected to experience only limited – or even positive – impact. This resulted in an ECL for each sector under the coronavirus base-case scenario. There were no major changes to the sector breakdown by vulnerability level in 2020 and 2021, just a few minor reallocations of underlying activities between the risk segments. The table below shows the situation at 31 December 2021.
- Lastly, a probability-weighted management overlay was calculated based on the base-case, optimistic and pessimistic scenarios and attributed weights. An expert-based scaling factor was applied to the estimated ECL for each sector under the coronavirus base-case scenario from the previous step to determine the collective impact of the coronavirus crisis under optimistic and pessimistic scenarios. The final overlay was determined by weighting the resulting coronavirus-related ECL under the three scenarios as follows: 80% for the base-case, 10% for the optimistic and 10% for the pessimistic scenario.

As stated earlier, the three-step approach applied to the performing portfolio resulted in a collective coronavirus-related ECL figure of 289 million euros by year-end 2021, primarily in 'Stage 2'.

In the third quarter of 2021, we applied a collective migration to 'Stage 2', in line with our decision to revert to the standard method for calculating loan impairment. This migration comprises two 'Stage-1' sub-portfolios whose repayment remains unsure: (1) the critically vulnerable Corporate and SME clients and (2) the loans outstanding under moratorium (both private and corporate clients) or loans under moratorium terminated less than six months ago. If there are no other indications of an increase in credit risk, the files concerned will revert to 'Stage 1' after a six-month trial period. This management decision led to a shift of 3.1 billion euros in loans outstanding from ‘Stage 1’ to ‘Stage 2’. Apart from these migrations, only limited shifts in the probability of default have been observed in the total portfolio (see Note 4.2.1 for more information).

Other loan loss impairment charges amounted to 160 million euros in 2021 (291 million euros in 2020), bringing the total loan loss impairment charges for financial year 2021 to a reversal of 334 million euros (as opposed to an increase of 1 074 million euros in 2020), with a credit cost ratio of -0.18% in 2021 (0.60% in 2020). Disregarding the collective coronavirus-related ECL, it would have been 0.09% (0.16% in 2020).

Loan and investment portfolio for SMEs and corporate entities, based on vulnerability to coronavirus	2021
Loan and investment portfolio for SMEs and corporate entities (in billions of EUR)	105
Critically vulnerable sectors*	4%
Moderately vulnerable sectors	62%
Low-risk sectors	34%

* Hotels, bars and restaurants, part of the entertainment and leisure services, wholesale clothing and fashion retail, part of the activities related to the development of office buildings and shopping projects and all activities related to hotels and leisure, manufacturing activities in the shipping industry, and aviation.

Coronavirus-related ECL by sector risk, performing portfolio (in millions of EUR)	Critically vulnerable sectors	Moderately vulnerable sectors	Less vulnerable sectors	Mortgage and other retail loans	Total
2021	(at 150%)	(at 100%)	(at 0%)		
Base-case scenario	14	170	0	65	249
Optimistic scenario	12	153	0	54	219
Pessimistic scenario	20	224	0	99	343
2020	(at 150%)	(at 100%)	(at 50%)		
Base-case scenario	241	194	60	123	618
Optimistic scenario	200	160	53	98	511
Pessimistic scenario	334	272	81	243	930

Collective coronavirus-related ECL by country, performing and non-performing portfolio (in millions of EUR)	Optimistic scenario	Base-case scenario	Pessimistic scenario	Weighted*	Non-performing portfolio	Total
2021						
Belgium	96	100	102	100	0	100
Czech Republic	59	67	90	69	0	69
Slovakia	17	19	27	20	0	20
Hungary	29	34	69	37	0	37
Bulgaria	5	12	18	12	0	12
Ireland	13	17	37	19	32	51
Total	219	249	343	257	32	289
2020						
Belgium	338	358	464	393	20	413
Czech Republic	95	137	195	153	9	162
Slovakia	23	32	48	37	0	37
Hungary	25	45	81	56	0	56
Bulgaria	7	17	26	19	5	24
Ireland	23	29	116	59	32	91
Total	511	618	930	717	66	783

* For 2021: 10% optimistic scenario + 80% base-case scenario + 10% pessimistic scenario. For 2020: 10% optimistic scenario + 55% base-case scenario + 35% pessimistic scenario.

Economic scenarios

The Covid pandemic continues to dominate the macroeconomic landscape, in particular due to the Omicron variant, which has a temporary impact on economic activity. However, this does not detract from the current path of economic recovery. Budgetary policy and monetary policy will continue to support growth, although on a slightly more moderate scale than immediately after the outbreak of the pandemic. All in all we stick to our positive economic outlook, despite new looming uncertainties as we return to normality, caused by factors such as the Omicron variant and the continuing disruption of supply chains.

Because of this uncertainty, we continue to work with three alternative scenarios: a base-case scenario, a more optimistic scenario and a more pessimistic scenario. The definition of each scenario reflects the latest coronavirus-related and economic developments, with the following probabilities assigned for year-end 2021: 80% for the base-case, 10% for the pessimistic and 10% for the optimistic scenario.

The economic outlook for the home markets remains in line with that of the euro area and confirms the better-than-expected resilience.

Optimistic scenario	Base-case scenario	Pessimistic scenario
Risk posed by new variants and lower vaccination rates in developing countries does not appear to have a significant impact on economic recovery in Europe and the United States. The current restrictions may be lifted in the foreseeable future.	The correlation between infections and hospitalisations has reduced due to the advanced vaccination campaigns in Europe and the United States. The existing restrictions can be lifted almost completely and the economy has returned to pre-pandemic levels. Global economic growth is still slowed down by the lower vaccination rates in developing countries, which poses risks for Europe and the US.	New virus variants are breaking through the protection offered by current vaccines. Changing the vaccines takes time. This will lead to new restrictions, for which there will be little support from either the political class or the public. As a result they cannot be sustained long enough to sufficiently curb the spread of the virus. This will result in closures and reopenings of the economy.
Economic recovery is bolstered by a sharp improvement in consumer and business confidence, resulting in strong growth of consumption and investments. Stronger growth dynamics and tax and monetary incentives may lead to sustained high inflation.	The risk of new restrictive measures and more pessimistic economic sentiment weighing on economic activity has significantly reduced. Tax and monetary incentives support growth in a more moderate way. The higher inflation experienced in the reopening economy, driven by energy prices and bottlenecks in the supply chains, will be temporary.	New, partial closures of the economy will have an impact on economic activity, disrupting and endangering economic recovery. Risk aversion among consumers and businesses will impact consumption and investment demand. The negative impact of new restrictive measures will be reinforced by bankruptcies and unemployment. This will have an impact on the recovery of economic activity, which will not return to pre-pandemic levels until the end of 2023. The sluggish economy will lead to deflationary trends.

The following table gives the scenarios for three key indicators (GDP growth, unemployment rate and house price index) for each of our core countries for this and next year. After that, we take into account a gradual linear transition towards a stable situation.

Macroeconomic scenario – key indicators (situation at year-end 2021)	**2021**			**2022**		
Scenario:	Optimistic	Base case	Pessimistic	Optimistic	Base case	Pessimistic
Real GDP growth						
Belgium	6.1%	6.0%	5.9%	5.1%	3.3%	2.6%
Czech Republic	2.8%	2.6%	2.4%	5.4%	4.2%	1.8%
Hungary	7.5%	7.3%	6.7%	6.0%	5.2%	2.7%
Slovakia	4.6%	3.7%	2.8%	5.0%	4.8%	3.0%
Bulgaria	3.5%	3.0%	1.6%	4.4%	4.0%	3.6%
Ireland	18.0%	15.0%	11.0%	11.0%	7.0%	1.0%
Unemployment rate*						
Belgium	6.1%	6.2%	6.3%	5.5%	5.8%	6.0%
Czech Republic	3.0%	3.0%	3.1%	2.3%	2.6%	3.5%
Hungary	3.6%	3.8%	4.0%	3.3%	3.5%	4.2%
Slovakia	6.5%	7.5%	9.0%	7.0%	7.5%	8.5%
Bulgaria	4.5%	5.0%	7.0%	4.3%	4.8%	6.0%
Ireland	6.5%	7.5%	9.5%	4.5%	6.0%	10.0%
House price index						
Belgium	7.0%	6.0%	5.0%	5.0%	3.0%	2.0%
Czech Republic	13.0%	12.8%	12.0%	6.0%	5.2%	1.5%
Hungary	10.5%	10.0%	8.5%	6.0%	4.5%	2.0%
Slovakia	6.0%	5.0%	4.0%	4.5%	3.5%	1.5%
Bulgaria	9.0%	8.0%	7.0%	7.0%	6.5%	3.5%
Ireland	10.0%	7.5%	5.0%	9.0%	6.0%	3.0%

* Ireland's unemployment figures are compiled by its national statistical authority; the other unemployment figures are supplied by Eurostat.

2.0 Notes on segment reporting

Note 2.1: Segment reporting based on the management structure

Detailed information on the group's management structure and the results per segment can be found in the 'Our business units' section (which has not been audited by the statutory auditor). Based on IFRS 8, KBC has identified the Executive Committee and Board of Directors as 'chief operating decision-makers', responsible for allocating the resources and assessing the performance of the different parts of the company. The operating segments are based on the internal financial reporting to these policy bodies and on the location of the company's activities, resulting in geographical segmentation.

The three operating segments are (essentially):

- the Belgium Business Unit (all activities in Belgium);
- the Czech Republic Business Unit (all activities in the Czech Republic);
- the International Markets Business Unit (activities in Ireland, Hungary, Slovakia and Bulgaria, reported together in accordance with IFRS 8.16).

For reporting purposes, there is also a Group Centre (comprising the results of the holding company, items that have not been allocated to the other business units, and the results of companies to be divested).

Segment reporting

- The policy bodies analyse the performance of the segments based on a number of criteria, with the 'Result after tax' being the most important results indicator. The segment data is based entirely on IFRS data (with no adjustments).
- In principle, we assign a group company in its entirety to one specific segment/business unit. Exceptions are only made for those items that cannot clearly be allocated to a specific segment, such as charges attached to the subordination of loans (such items are recognised under Group Centre).
- We allocate the funding cost of participating interests to the Group Centre.
- Transactions among the different segments are reported at arm's length.
- We recognise 'Net interest income' in the segment information without dividing it up into 'Interest income' and 'Interest expense'. This is permitted under IFRS because the bulk of the business units' income is in the form of interest, and management assesses and co-ordinates those business units primarily on the basis of net interest income.
- We do not provide any information on income from sales to external clients per group of products or services, since the information is prepared at consolidated level chiefly for each business unit, and not per client group or product group.

Note 2.2: Results by segment

(in millions of EUR)	Belgium Business unit	Czech Republic Business unit	International Markets Business unit	*Of which: Hungary*	*Slovakia*	*Bulgaria*	*Ireland*	Group Centre	Total
2021									
Net interest income	2 176	946	947	*305*	*225*	*136*	*282*	- 15	4 054
Dividend income	12	1	1	*0*	*0*	*0*	*0*	0	14
Net result from financial instruments at fair value through profit or loss	137	89	24	*21*	*8*	*0*	*- 5*	- 218	32
Net realised result from debt instruments at fair value through OCI	0	0	2	*2*	*0*	*0*	*0*	6	8
Net fee and commission income	1 526	311	375	*219*	*86*	*73*	*- 3*	- 2	2 210
Net other income	106	9	- 9	*3*	*6*	*3*	*- 21*	33	140
TOTAL INCOME	3 958	1 355	1 340	*550*	*324*	*213*	*253*	- 196	6 457
Operating expenses	- 2 118	- 735	- 975	*- 315*	*- 239*	*- 114*	*- 306*	- 77	- 3 905
Impairment	304	127	- 155	*10*	*15*	*1*	*- 181*	- 7	269
of which on FA at amortised cost and at fair value through OCI	305	141	- 110	*22*	*16*	*2*	*- 149*	- 7	329
on goodwill	0	- 7	0	*0*	*0*	*0*	*0*	0	- 7
other	0	- 8	- 45	*- 12*	*- 1*	*- 1*	*- 31*	0	- 53
Share in results of associated companies and joint ventures	- 3	- 3	0	*0*	*0*	*0*	*0*	0	- 5
RESULT BEFORE TAX	2 141	744	211	*244*	*100*	*100*	*- 233*	- 281	2 816
Income tax expense	- 521	- 114	- 126	*- 37*	*- 23*	*- 10*	*- 55*	80	- 681
Net post-tax result from discontinued operations	0	0	0	*0*	*0*	*0*	*0*	0	0
RESULT AFTER TAX	1 620	630	85	*207*	*77*	*90*	*- 289*	- 201	2 135
attributable to minority interests	0	0	0	*0*	*0*	*0*	*0*	0	0
attributable to equity holders of the parent	1 620	630	85	*207*	*77*	*90*	*- 289*	- 201	2 135
(a) Of which non-cash expenses	- 41	- 91	- 109	*- 35*	*- 18*	*- 13*	*- 43*	- 1	- 243
Depreciation and amortisation of fixed assets	- 51	- 92	- 110	*- 36*	*- 18*	*- 13*	*- 43*	0	- 253
Other	10	1	1	1	0	0	0	- 1	10
Acquisitions of non-current assets*	436	160	186	80	74	18	14	0	781
2020									
Net interest income	2 170	986	877	*255*	*197*	*139*	*286*	- 19	4 015
Dividend income	17	1	0	*0*	*0*	*0*	*0*	0	19
Net result from financial instruments at fair value through profit or loss	49	7	33	*28*	*9*	*0*	*- 4*	- 53	36
Net realised result from debt instruments at fair value through OCI	0	1	2	*1*	*2*	*0*	*0*	0	3
Net fee and commission income	1 348	287	342	*212*	*71*	*63*	*- 3*	- 3	1 975
Net other income	70	12	5	*4*	*8*	*2*	*- 9*	0	88
TOTAL INCOME	3 655	1 294	1 260	*500*	*286*	*204*	*269*	- 74	6 134
Operating expenses	- 2 215	- 689	- 830	*- 304*	*- 185*	*- 118*	*- 224*	- 76	- 3 809
Impairment	- 663	- 224	- 247	*- 84*	*- 44*	*- 27*	*- 91*	8	- 1 126
of which on FA at amortised cost and at fair value through OCI	- 649	- 210	- 217	*- 59*	*- 42*	*- 27*	*- 90*	8	- 1 068
on goodwill	0	0	0	*0*	*0*	*0*	*0*	0	0
other	- 14	- 14	- 30	*- 25*	*- 2*	*0*	*- 2*	0	- 58
Share in results of associated companies and joint ventures	- 9	- 2	0	*0*	*0*	*0*	*0*	0	- 11
RESULT BEFORE TAX	769	379	183	*113*	*57*	*59*	*- 46*	- 142	1 188
Income tax expense	- 190	- 58	- 39	*- 22*	*- 12*	*- 6*	*2*	32	- 255
Net post-tax result from discontinued operations	0	0	0	*0*	*0*	*0*	*0*	0	0
RESULT AFTER TAX	579	321	144	*90*	*45*	*53*	*- 44*	- 110	933
attributable to minority interests	0	0	0	*0*	*0*	*0*	*0*	0	0
attributable to equity holders of the parent	579	321	144	*90*	*45*	*53*	*- 44*	- 110	933
(a) Of which non-cash expenses	- 46	- 81	- 90	*- 33*	*- 16*	*- 13*	*- 28*	0	- 217
Depreciation and amortisation of fixed assets	- 46	- 81	- 88	*- 31*	*- 16*	*- 13*	*- 28*	0	- 216
Other	1	1	- 2	- 2	0	0	0	0	- 1
Acquisitions of non-current assets*	454	219	202	92	61	24	25	0	875

* Non-current assets held for sale and disposal groups, investment property, property, plant and equipment, investments in associated companies, and goodwill and other intangible assets.

How do the business units contribute to the group result?

Contribution of the Belgium Business Unit

The Belgium Business Unit recorded a net result of 1 620 million euros in 2021, compared with 579 million euros a year earlier.

Net interest income remained stable, with the positive impact of factors such as lower funding costs (including the effect of TLTRO III), ECB tiering, a larger loan portfolio (see below) and the wider application of negative interest rates to certain corporate and SME current accounts being offset by lower reinvestment yields in general. The net interest margin in Belgium fell slightly from 1.63% in 2020 to 1.61% in 2021. The volume of loans and advances to customers (106 billion euros, excluding reverse repos) rose by 5%, while deposits from customers and debt securities (131 billion euros, excluding debt securities and repos) went up by 6%. Information on loan payment deferrals under the various support measures related to the coronavirus crisis can be found in Note 1.4 of the 'Consolidated financial statements'.

At 1 526 million euros, our net fee and commission income rose by 13% year-on-year. This was primarily attributable to an increase in fees for asset management services (due to higher management fees) and, to a lesser extent, to an increase in fees for banking services (mainly for payments), the effect of which was partly offset by higher distribution fees for funds.

The other income items chiefly comprised dividends received on securities held in our portfolios (12 million euros), trading and fair value income (137 million euros, a significant increase compared to the year-earlier figure) and other net income (106 million euros, relating mainly to the results of KBC Autolease, proceeds from the sale of certain bonds, and miscellaneous smaller one-off items such as the gain on the sale of the KBC Tower in Antwerp).

Our costs in Belgium fell by 4% to 2 118 million euros. The largest part of the difference is related to exceptional and/or non-operating items, such as lower software-related expenses, the reversal of a provision for expenses connected with the sale of the KBC Tower in Antwerp, higher bank taxes and the payment of an exceptional coronavirus-related bonus to staff. Excluding these items, costs in 2021 were in line with the year-earlier level. As a result, the cost/income ratio came to 53%, compared to 57% in 2020.

We recorded a net reversal of 305 million euros in loan loss impairments, as opposed to a net increase of 649 million euros in 2020. The high figure for 2020 came about mainly because of collective impairments initially being set aside for the coronavirus crisis (413 million euros). We were able to reverse part of this amount in 2021 (313 million euros – see Note 1.4 in the 'Consolidated financial statements' section). In terms of our overall loan portfolio, impairment came to -26 basis points, compared with 57 basis points in 2020 (a negative ratio indicates a positive impact on the results). Approximately 2.2% of the Belgium Business Unit's loan portfolio at year-end 2021 was impaired (see 'Glossary of financial ratios and terms' for definition), compared with 2.3% a year earlier. Impaired loans that were more than 90 days past due accounted for 1.0% of the portfolio (as opposed to 1.1% in 2020).

Contribution of the Czech Republic Business Unit

In 2021, the Czech Republic Business Unit recorded a net profit of 630 million euros, compared with 321 million euros a year earlier. The average exchange rate of the Czech koruna against the euro rose by 3% compared with the previous year.

Net interest income in the Czech Republic (946 million euros) declined by 4%. The net interest margin in the Czech Republic fell from 2.31% in 2020 to 2.08% in 2021 owing to lower reinvestment yields and pressure on loan portfolio margins (in particular with respect to mortgage loans). Deposits from customers (45 billion euros, excluding debt securities and repos) went up by 6% year-on-year, whereas loans and advances to customers (33 billion euros, excluding reverse repos) also rose by 6% (growth rates exclude exchange rate effects and any changes in the scope of consolidation). Information on loan payment deferrals under the various support measures related to the coronavirus crisis can be found in Note 1.4 of the 'Consolidated financial statements'.

Our net fee and commission income (311 million euros) rose by 8%, mainly driven by higher fees for asset management services and banking services (such as payment transactions) and the positive exchange rate effect.

The other income items chiefly comprised trading and fair value income (89 million euros, a significant increase compared to the year-earlier figure) and other net income (9 million euros).

Costs rose by 7% (or 46 million euros) to 735 million euros. However, the largest part of the increase is related to exceptional and/or non-operating items, such as higher bank taxes, the payment of an exceptional coronavirus-related bonus to staff and the exchange rate effect. Excluding these items, the costs rose by just around 2%. Consequently, the cost/income ratio came to 54%, as opposed to 53% in 2020.

In 2021, we recorded a net reversal of 141 million euros in loan loss impairment charges, as opposed to a net increase of 210 million euros in 2020. The relatively high figure for 2020 came about mainly because of collective impairments initially being set aside for the coronavirus crisis (162 million euros). We were able to reverse 93 million euros of this amount in 2021 (see Note 1.4 in the 'Consolidated financial statements' section). In terms of our overall loan portfolio, loan loss impairment charges came to -42 basis points, compared with 67 basis points in 2020 (a negative ratio indicates a positive impact on the results). Approximately 1.8% of the business unit's loan portfolio at year-end 2021 was impaired, compared with 2.3% a year earlier. Impaired loans that were more than 90 days past due accounted for 0.8% of the portfolio (as opposed to 1.0% in 2020). Impairment of assets other than loans amounted to 15 million euros, the same level as the year before.

Contribution of the International Market Business Unit

In 2021, the net result at our International Markets Business Unit amounted to 85 million euros, as opposed to 144 million euros a year earlier. Hungary accounted for 207 million euros of this figure, Slovakia for 77 million euros, Bulgaria for 90 million euros and Ireland for -289 million euros (negative result due to the one-off impact of pending sale transactions in 2021). An explanation of the impact of the recent acquisitions (OPT Banka Slovensko and the pending sale transactions in Ireland) can be found in Note 6.6 of the 'Consolidated financial statements'.

Net interest income for the business unit as a whole amounted to 947 million euros in 2021, up 8% on the year-earlier figure, especially thanks to Slovakia (owing primarily to the consolidation of OTP Banka Slovensko) and Hungary (due in part to growth in lending and a strong increase in reinvestment yields in the second half of the year). The business unit's average net interest margin rose slightly from 2.60% to 2.61%. Deposits from the business unit's clients totalled 24 billion euros (excluding debt securities and repos), representing organic growth (excluding exchange rate effects and changes in the scope of consolidation) of 3% thanks to Hungary and Bulgaria. Loans and advances to customers across the business unit as a whole (19 billion euros, excluding reverse repos) showed organic growth of 5% on their year-earlier level, with growth in all countries. Taking only the three Central and Eastern European countries into account, lending grew by 8%. Information on loan payment deferrals under the various support measures related to the coronavirus crisis can be found in Note 1.4 of the 'Consolidated financial statements'.

Net fee and commission income (375 million euros) increased by 10%, mainly attributable to higher fees for banking services in nearly all countries, including the impact of changes in the scope of consolidation.

The other income items chiefly comprised trading and fair value income (24 million euros) and other income (-9 million euros, which includes additional expenses connected with the tracker mortgage review in Ireland).

At first sight, costs rose by 17%, or by 144 million euros, to 975 million euros in 2021. However, the largest part of the increase is related to exceptional and/or non-operating items, such as one-off costs connected with the sale transactions in Ireland (97 million euros), as well as the changes in the scope of consolidation and the payment of an exceptional coronavirus-related bonus to staff, partly offset by the positive impact of changes in exchange rates and lower bank taxes. Excluding all these items, costs only rose by roughly 2%. Consequently, the business unit's cost/income ratio came to 73%, as opposed to 66% in 2020. For the three Central and Eastern European countries combined (i.e. excluding Ireland), the cost/income ratio came to 62%, compared to 61% in 2020.

There was a 110-million-euro net increase in loan loss impairment charges in 2021, compared with a net increase of 217 million euros in 2020. The relatively high figure for 2020 came about mainly because of collective impairments initially being set aside for the coronavirus crisis (208 million euros), which we were able to reverse in part (88 million euros) in 2021 (see Note 1.4 in the 'Consolidated financial statements' section). However, the latter was more than offset by the one-off negative impact of the sale transactions in Ireland (178 million euros). Broken down by country, we recorded a net increase in loan loss impairment charges in Ireland (149 million euros, due to the one-off impact of the pending sale transactions) and net reversals (having a positive impact) of 22 million euros in Hungary, 16 million euros in Slovakia and 2 million euros in Bulgaria. In terms of our overall loan portfolio, loan loss impairment charges for the business unit as a whole amounted to 36 basis points, compared with 78 basis points in 2020. The figures per country were 143 basis points for Ireland, -34 basis points for Hungary, -16 basis points for Slovakia and -6 basis points for Bulgaria. For the three Central and Eastern European countries combined (i.e. excluding Ireland), the credit cost ratio amounted to -0.19% (a negative ratio indicates a positive impact on the results). Approximately 5.5% of the business unit's loan portfolio at year-end 2021 was impaired, compared with 6.9% a year earlier. Impaired loans that were more than 90 days past due accounted for 3.3% of the business unit's loan portfolio, as opposed to 4.2% in 2020. Impairment of assets other than loans came to an aggregate 45 million euros in 2021, as opposed to 30 million euros in 2020. The figure for 2020 came about mainly because of impairment charges on software and the accounting treatment of the various payment moratoria schemes related to the coronavirus crisis in our core countries ('modification losses' – see note 1.4 of the 'Consolidated financial statements' section), whereas the figure for 2021 related primarily to impairment of property and equipment and intangible assets connected with the sale transactions in Ireland, and to a lesser extent because of modification losses.

Group Centre

Besides financial reporting for the three business units, we also report on a separate Group Centre. In 2021, the Group Centre generated a net result of -201 million euros, compared with -110 million euros a year earlier.

Included in this figure are certain costs related to capital and liquidity management, (funding) costs related to the holding of participating interests and the results of the remaining companies scheduled for run-down (including the former Antwerp Diamond Bank and KBC Finance Ireland).

Note 2.3: Balance-sheet information by segment

The table below presents some of the main on-balance-sheet products by segment.

(in millions of EUR)	Belgium Business unit	Czech Republic Business unit	International Markets Business unit	*Of which: Hungary*	*Slovakia*	*Bulgaria*	*Ireland*	Group Centre	Total
31-12-2021									
Deposits from customers and debt securities (excl. repos)	155 240	46 283	24 729	*9 774*	*7 736*	*6 279*	*940*	753	227 005
Demand deposits	65 081	28 060	19 666	*8 152*	*5 475*	*5 099*	*940*	0	112 807
Savings accounts	58 279	14 226	2 295	*977*	*1 319*	*0*	*0*	0	74 801
Time deposits	5 194	2 126	2 284	*445*	*659*	*1 180*	*0*	0	9 603
Debt securities	23 909	1 398	324	*200*	*124*	*0*	*0*	753	26 384
Other	2 777	473	160	0	160	0	0	0	3 410
Loans and advances to customers (excl. reverse repos)	106 197	32 671	18 796	*5 411*	*9 417*	*3 966*	*3*	0	157 663
Term loans	55 839	9 609	6 598	*2 409*	*2 775*	*1 412*	*2*	0	72 046
Mortgage loans	40 590	18 303	7 800	*1 812*	*5 117*	*870*	*0*	0	66 693
Other	9 768	4 758	4 398	1 189	1 524	1 683	1	0	18 924
31-12-2020									
Deposits from customers and debt securities (excl. repos)	146 335	41 655	28 151	*8 998*	*8 641*	*5 473*	*5 040*	1 058	217 199
Demand deposits	59 267	24 651	17 381	*7 401*	*5 186*	*3 528*	*1 266*	0	101 299
Savings accounts	55 299	14 052	5 511	*891*	*1 464*	*732*	*2 425*	0	74 862
Time deposits	6 862	773	4 717	*489*	*1 667*	*1 213*	*1 348*	0	12 352
Debt securities	22 740	1 694	360	*217*	*143*	*0*	*0*	1 058	25 852
Other	2 168	486	181	0	181	0	0	0	2 835
Loans and advances to customers (excl. reverse repos)	101 130	29 099	27 421	*4 938*	*9 016*	*3 501*	*9 966*	1	157 650
Term loans	53 584	8 584	6 320	*2 302*	*2 731*	*1 224*	*64*	0	68 488
Mortgage loans	37 758	16 190	16 929	*1 600*	*4 707*	*778*	*9 844*	0	70 876
Other	9 788	4 325	4 171	1 036	1 578	1 500	58	1	18 285

- For Ireland in 2021: shift to the 'Non-current assets held for sale and disposal groups' and 'Liabilities associated with disposal groups' balance sheet items due to the pending sale transactions (see Notes 5.11 and 6.6).

3.0 Notes to the income statement

Note 3.1: Net interest income

(in millions of EUR)	2021	2020
Total	**4 054**	**4 015**
Interest income	**5 934**	**5 919**
Interest income on financial instruments calculated using the effective interest rate method		
Financial assets at AC	4 617	4 768
Financial assets at FVOCI	89	100
Hedging derivatives	352	375
Financial liabilities (negative interest)	434	229
Other	25	8
Interest income on other financial instruments		
Financial assets MFVPL other than held for trading	24	14
Financial assets held for trading	392	426
Of which economic hedges	*352*	*382*
Other financial assets at FVPL	0	0
Interest expense	**-1 880**	**-1 904**
Interest expense on financial instruments calculated using the effective interest rate method		
Financial liabilities at AC	- 570	- 842
Financial assets (negative interest)	- 253	- 81
Hedging derivatives	- 596	- 621
Other	- 3	- 3
Interest expense on other financial instruments		
Financial liabilities held for trading	- 445	- 329
Of which economic hedges	*- 401*	*- 296*
Other financial liabilities at FVPL	- 11	- 25
Net interest expense relating to defined benefit plans	- 1	- 3

- ‘Financial liabilities (negative interest rate)’ and ‘Financial assets (negative interest rate)’: these rates relate mainly to transactions with central banks, interbank and professional counterparties, corporate clients, and targeted long-term refinancing operations (TLTRO). More information on TLTRO can be found in Note 4.1.
- For information on the impact of the coronavirus crisis, see Note 1.4.

Note 3.2: Dividend income

(in millions of EUR)	2021	2020
Total	14	19
Equity instruments MFVPL other than held for trading	0	0
Equity instruments held for trading	11	13
Equity instruments at FVOCI	3	6

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

(in millions of EUR)	2021	2020
Total	32	36
Breakdown by IFRS portfolio		
Financial instruments MFVPL other than held for trading	- 41	5
Trading instruments (including interest on non-ALM trading derivatives and fair value changes on all trading instruments)	433	- 175
Other financial instruments at FVPL	18	- 8
Foreign exchange trading	- 270	296
Fair value adjustments in hedge accounting	- 108	- 82
Hedge accounting broken down by type of hedge	0	0
Fair value micro hedges	0	- 3
Changes in the fair value of the hedged items	- 275	- 19
Changes in the fair value of the hedging derivatives	275	16
Cashflow hedges	0	5
Changes in the fair value of the hedging derivatives, ineffective portion	0	5
Hedges of net investments in foreign operations, ineffective portion	0	0
Portfolio hedge of interest rate risk	5	10
Changes in the fair value of the hedged items	- 815	677
Changes in the fair value of the hedging derivatives	820	- 667
Discontinuation of hedge accounting for fair value hedges	- 46	- 19
Discontinuation of hedge accounting in the event of cashflow hedges	- 66	- 74
Breakdown by driver		
Market value adjustments (xVA)	68	13
MTM ALM derivatives	- 193	- 106
Dealing room and other	157	128

- 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.
- 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.
- The effectiveness of the hedge is determined according to the following methods:
  - For fair value micro hedging, we use the dollar offset method on a quarterly basis, with changes in the fair value of the hedged item offsetting changes in the fair value of the hedging instrument within a range of 80%–125%.
  - For cashflow hedges, we compare the designated hedging instrument with a perfect hedge of the hedged cashflows on a prospective (by BPV measurement) and retrospective basis (by comparing the fair value of the designated hedging instrument with the perfect hedge). The effectiveness of both tests must fall within a range of 80%–125%.
  - We use the rules set out in the European version of IAS 39 (carve-out) to assess the effectiveness of fair value hedges for a portfolio of interest rate risk. IFRS does not permit net positions to be reported as hedged items, but does allow hedging instruments to be designated as a hedge of a gross asset position (or a gross liabilities position, as the case may be). Specifically, we make sure that the volume of assets (or liabilities) in each maturity bucket is greater than the volume of hedging instruments allocated to the same bucket.
- For information on the impact of the coronavirus crisis, see Note 1.4.

Note 3.4: Net realised result from debt instruments at fair value through OCI

The realised result from debt instruments at fair value through OCI was not material in 2021 and 2020.

Note 3.5: Net fee and commission income

(in millions of EUR)	2021	2020
Total	2 210	1 975
Fee and commission income	2 831	2 498
Fee and commission expense	- 620	- 523
Breakdown by type		
Asset Management Services	1 183	1 006
Fee and commission income	1 258	1 060
Fee and commission expense	- 75	- 54
Banking Services	956	881
Fee and commission income	1 336	1 211
Fee and commission expense	- 380	- 330
Distribution	72	88
Fee and commission income	237	227
Fee and commission expense	- 165	- 139

- The building blocks (sub-divisions) of the 2020 figures were restated, resulting in around 20 million euros for the entire year 2020 being shifted from ‘Banking services’ to ‘Asset management services’, related to net fee and commission income from ČSOB Pension Company in the Czech Republic (ČSOB Penzijní společnost a.s.).
- The lion’s share of the fees and commissions related to lending is recognised under ‘Net interest income’ (effective interest rate calculations).
- For information on the impact of the coronavirus crisis, see Note 1.4.

Note 3.6: Other net income

(in millions of EUR)	2021	2020
Total	140	88
of which gains or losses on		
Sale of financial assets measured at amortised cost	6	11
Repurchase of financial liabilities measured at amortised cost	1	0
of which other, including:	132	77
Income from operational leasing activities	77	65
Badwill on OTP SK	28	0
Settlement of legacy legal cases	6	0
Gain on sale KBC Tower in Antwerp	13	0
Provisioning for tracker mortgage review	- 18	- 9

- Provisioning for the tracker mortgage review concerns KBC Bank Ireland, which – like all major lenders in Ireland at the time – had offered tracker mortgages (i.e. between 2003 and 2008). In December 2015, the Central Bank of Ireland (CBI) requested the Irish banking industry, including KBC Bank Ireland, to undertake a broad and wide-ranging examination of tracker-mortgage related issues. The purpose of the tracker mortgage review was to identify cases where clients' contractual rights under the terms of their mortgage agreements had not been fully honoured and/or lenders had not fully complied with the various requirements and standards regarding disclosure and transparency for the client. In situations where client detriment was identified from this examination, KBC Bank Ireland had to provide appropriate redress and compensation in line with the CBI 'Principles for Redress'. The bank recognised a provision of 4 million euros in 2016 and 116 million euros in 2017 in respect of redress and compensation for clients identified as being impacted. In 2018, most of the clients affected duly received redress and compensation payments. In 2019, a provision of 23 million euros was recorded (including 14 million euros as a provision for a potential sanction), in 2020, a provision of 9 million euros was set aside (4 million of which related to the sanction) and in 2021, a provision of 18 million euros was recorded.
- Badwill: In 2021 we recognised 28 million euros in badwill for OTP Banka Slovensko (see Note 6.6).

Note 3.7: Insurance results

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

Note 3.8: Operating expenses

(in millions of EUR)	FY 2021	FY 2020
Total	- 3 905	- 3 809
Staff expenses	- 1 816	- 1 676
General administrative expenses	- 1 836	- 1 917
of which bank taxes	*- 503*	*- 486*
Depreciation and amortisation of fixed assets	- 253	- 216

- The total expenses went up by 3% (or 95 million euros) in 2021 compared to 2020. The most important items were:
  - Staff expenses, which increased by 140 million euros, due to changes in exchange rates (9 million euros), changes in the scope of consolidation (26 million euros), payment of a one-off coronavirus-related bonus to staff (15 million euros), and one-off staff expenses related to the pending sale transactions in Ireland (78 million euros; see Note 6.6). For information on the average number of persons employed, see Note 3.9; details of the statutory auditor's remuneration (PWC) are provided in Note 6.4.
  - General administrative expenses decreased 81 million euros, related mainly to ICT costs, but also due to changes in exchange rates (5 million euros), changes in the scope of consolidation (22 million euros), one-off staff expenses related to the pending sale transactions in Ireland (5 million euros; see Note 6.6) and higher special bank taxes imposed on financial institutions (17 million euros). The total bank taxes for 2021 amounted to 503 million euros and comprise: 296 million euros in the Belgium Business Unit, 52 million euros in the Czech Republic Business Unit, 6 million euros in Slovakia, 8 million euros in Bulgaria, 114 million euros in Hungary and 27 million euros in Ireland.
  - Depreciation of fixed assets, which increased by 37 million euros, due to changes in exchange rates (2 million euros), changes in the scope of consolidation (1 million euros) and one-off staff expenses related to the pending sale transactions in Ireland (15 million euros; see Note 6.6).

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

Note 3.9: Personnel

	2021	2020
Total average number of persons employed (in full-time equivalents)	28 558	28 838
By employee classification		
Blue-collar staff	55	56
White-collar staff	28 343	28 618
Senior management	160	164

- The figures in the table are annual averages, which – in terms of scope – may differ from year-end figures that are provided elsewhere.
- The staff numbers for OTP Banka Slovensko were only included from 2021 (520 FTEs on average).

Note 3.10: Impairment (income statement)

(in millions of EUR)	2021	2020
Total	269	- 1 126
Impairment on financial assets at AC and at FVOCI	329	- 1 068
Of which impairment on financial assets at AC	329	- 1 068
By product		
Loans and advances	315	- 1 067
Debt securities	- 1	1
Off-balance-sheet commitments and financial guarantees	15	- 2
By type		
Stage 1 (12-month ECL)	70	- 43
Stage 2 (lifetime ECL)	449	- 724
Stage 3 (non-performing; lifetime ECL)	- 191	- 302
Purchased or originated credit impaired assets	2	1
Of which impairment on financial assets at FVOCI	0	0
Debt securities	0	0
Stage 1 (12-month ECL)	0	0
Stage 2 (lifetime ECL)	0	0
Stage 3 (non-performing; lifetime ECL)	0	0
Impairment on goodwill	- 7	0
Impairment on other	- 53	- 58
Intangible fixed assets (other than goodwill)	- 25	- 17
Property, plant and equipment (including investment property)	- 17	- 9
Associated companies and joint ventures	0	0
Other	- 11	- 32

- Impairment on financial assets at AC and at FVOCI is also referred to as 'Impairment on loans', which comprised the following
  (+ denotes an increase, – indicates a decrease in impairment):
  - Belgium Business Unit: -305 million euros in 2021 as opposed to +649 million euros in 2020;
  - Czech Republic Business Unit: -141 million euros in 2021 as opposed to +210 million euros in 2020;
  - International Markets Business Unit: +110 million euros in 2021 as opposed to +217 million euros in 2020 (Ireland: +149 million euros in 2021 and +90 million euros in 2020; Hungary -22 million euros in 2021 and +59 million euros in 2020; Slovakia -16 million euros in 2021 and +42 million euros in 2020; Bulgaria -2 million euros in 2021 and +27 million euros in 2020);
  - Group Centre: +7 million euros in 2021 as opposed to -8 million euros in 2020.
- In 2021, impairment on loans included a net reversal of 494 million euros and in 2020 a net increase in collective coronavirus-related ECL totalling 783 million euros (see Note 1.4). They also included a 178-million-euro net increase related to the sale transactions in Ireland (see Note 6.6). The impact of the heavy flooding and other extreme weather conditions in 2021 on loans and impairment on loans was insignificant.
- In 2020, impairment on other ('Intangible fixed assets (other than goodwill)') included a software impairment of 14 million euros recorded in the fourth quarter, relating to software development projects that were partially or completely abandoned (6 million euros of which in the Czech Republic, 5 million euros in Hungary, 2 million euros in Slovakia and 1 million euros in Bulgaria). In 2020, this item also included 29 million euros in modification losses in Belgium, the Czech Republic and Hungary due to the payment moratoria applied in these countries as a result of the coronavirus crisis. In 2021, this item included an impairment of 32 million euros relating to the sale transaction in Ireland and 8 million euros relating to modification losses (see Note 1.4 of this report for more information).
- The loan portfolio accounts for the largest share of the financial assets. Based on internal management reports, the composition and quality of the loan portfolio is set out in detail in the 'How do we manage our risks?' section (under 'Credit risk'). All parts of that particular section which have been audited by the statutory auditor are listed at the start of the section. Among other things, this section also provides more information on impaired loans (Stage 3).
- For information on total impairment recognised in the balance sheet, see Note 4.2.
- More background information and methodology for KBC's ECL model is provided in the accounting policies under 'Financial assets – impairment' in Note 1.2.
- KBC uses specific models for PD, EAD and LGD in order to calculate ECL. It is essential to take account of historical observations and forward-looking projections in this respect.
  - PD represents the probability of a counterparty defaulting in the next 12 months or during the entire term of the facility (depending on which IFRS 9 'Stage' the facility is in). The PD is determined by the counterparty's internal (and, if applicable, external) credit rating. Variables used in PD models include financial ratios and behavioural parameters (arrears).
  - EAD represents the estimated outstanding debt at the time of default and depends on the existing outstanding debt and any changes permitted under the contract and normal repayments. Variables used in these models include product types and repayment schedules.
  - LGD is the estimated size of the loss relative to the outstanding debt at the time of default. LGD is presented as a percentage of the outstanding debt and is determined by historical amounts recovered on similar claims. Variables used in these models include collateral types and financial ratios.
- On 31 December 2021, there were around 80 different IFRS 9 models. In addition to several group-wide models, we have separate PD, EAD and LGD models for each of our core countries. In accordance with the Basel grouping approach, we use the type of counterparty (private individuals, SMEs, companies, governments, etc.) to determine the scope of an IFRS 9 model. Each model allows for differentiation in terms of facility type (term loans, revolving facilities, etc.) and collateral type (mortgages, pledges on business assets, guarantees, etc.). Examples of IFRS 9 models include 'Banks', 'Belgian private persons – home loans', 'Czech corporates', 'Bulgarian corporates and SMEs' and 'Central governments'. Detailed documentation is available for each PD, EAD and LGD model. The main models are subject to review by external auditors. The Basel models, which the IFRS 9 models are based on, are subject to external control performed by the supervisory authorities.
- We create the models for the various portfolios using typical PD, EAD and LGD inputs, as well as macroeconomic variables to the extent that there is a statistical relationship. The macroeconomic variables are GDP growth, the unemployment rate, policy interest rates, the exchange rate, government bond yields, house prices and inflation. As a result of regular back-testing, models may change and macroeconomic variables may be reassessed. Note 1.4 presents the optimistic, pessimistic and base-case scenarios for the three key indicators (GDP growth, unemployment rate and house price index) for each of our core countries.
- Our ECL models are not able to adequately reflect all the specifics of the coronavirus crisis or the various government measures implemented in the different countries to support households, SMEs and corporate entities through this crisis. Therefore, an expert-based calculation at portfolio level has been performed that takes due account via a management overlay of the macroeconomic situation and the different government measures (see Note 1.4 for more details).
- We use three different forward-looking macroeconomic scenarios (with different probability weightings) to measure ECL. The weightings at year-end 2021 were 80% for the 'base' scenario, 10% for the 'up' scenario and 10% for the 'down' scenario. The forecast horizon is 30 years. For further information on the key macroeconomic parameters, see Note 1.4.

A sensitivity analysis of the impact of these multiple economic scenarios on the collectively assessed ECL (i.e. without the ECL for individually assessed loans of 1.7 billion euros at the end of 2021 and 1.9 billion euros at the end of 2020) shows that the 'base' scenario generates an ECL of 0.9 billion euros (1.7 billion euros in 2020), which is 0.1 billion euros lower than for the 'down' scenario (0.4 billion euros in 2020) and 0.1 billion euros higher than for the 'up' scenario (0.1 billion euros in 2020). The assessed scenario-weighted collective ECL (that was recognised) amounted to 0.9 billion euros (1.8 billion euros in 2020). Please note that the latter amount includes 0.3 billion euros of 'Stage 3' collectively assessed ECL. These amounts also take into account the coronavirus-related management overlay (by scenario) at year-end 2021 (see Note 1.4).

Collectively assessed ECL by country (2021, in billions of EUR)	100% base-case scenario	100% optimistic scenario	100% pessimistic scenario
Total	0.9	0.8	1.0
Belgium	0.3	0.2	0.3
Czech Republic	0.3	0.3	0.3
Slovakia	0.1	0.1	0.1
Hungary	0.1	0.1	0.1
Bulgaria	0.1	0.0	0.1
Ireland	0.0	0.0	0.0

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

(in millions of EUR)	2021	2020
Total	-5	-11
Of which:		
Mallpay	-3	-2
Isabel NV	2	1
Payconiq International S.A.	-6	-7
Joyn International NV	1	-3
Batopin NV	-1	-
Bancontact Payconiq Company NV	1	0

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

Note 3.12: Income tax expense

(in millions of EUR)	2021	2020
Total	- 681	- 255
By type		
Current taxes on income	- 349	- 407
Deferred taxes on income	- 333	152
Tax components		
Result before tax	2 816	1 188
Income tax at the Belgian statutory rate	25.00%	25.00%
Income tax calculated	- 704	- 297
Plus/minus tax effects attributable to		
differences in tax rates, Belgium – abroad	86	70
tax-free income	55	4
adjustments related to prior years	- 4	- 1
adjustments to deferred taxes due to change in tax rate	- 1	- 2
unused tax losses and unused tax credits to reduce current tax expense	1	0
unused tax losses and unused tax credits to reduce deferred tax expense	2	3
reversal of previously recognised deferred tax assets due to tax losses	- 59	0
other (amongst others non-deductible expenses)	- 58	- 31

- For information on tax assets and tax liabilities, see Note 5.2.
- For information on the impact of the coronavirus crisis, see Note 1.4.
- The ‘Reversal of previously recognised deferred tax assets due to tax losses’ item includes the one-off negative impact of 51 million euros due to the derecognition of deferred tax assets as a result of the sale transactions in Ireland.
- Breakdown of activities by country:

  Country-by-country reporting (according to the Royal Decree of 27 November 2014 amending the royal decrees concerning the financial statements and consolidated financial statements of credit institutions, investment firms and management companies of undertakings for collective investment) is provided and includes the information required under GRI 207 and also anticipates the provisions of EU Directive 2021/2101 of 24 November 2021 on public country-by-country reporting.

in million euros	2021									2020								
	Average number of employees in FTE	Revenues from third party sales[1]	Revenues from transactions with related parties from other tax jurisdictions[2]	Result before tax	Corporate income tax accrued on P&L (current income tax)	Corporate Income tax paid on a cash basis	Retained earnings	Tangible assets other than cash and cash equivalents[3]	Public subsidies received	Average number of employees in FTE	Revenues from third party sales[1]	Revenues from transactions with related parties from other tax jurisdictions[2]	Result before tax	Corporate income tax accrued on P&L (current income tax)	Corporate Income tax paid on a cash basis	Retained earnings	Tangible assets other than cash and cash equivalents[3]	Public subsidies received
KBC home Countries (incl. Ireland)																		
Belgium	9 577	3 410	- 139	1 610	- 273	- 251	5 118	1 929	0	9 808	3 177	- 211	386	- 233	- 195	3 592	1 959	0
Czech Republic	8 204	1 379	- 41	759	- 92	- 88	1 919	546	0	8 533	1 315	23	388	- 101	- 99	1 458	563	0
Slovakia	3 177	311	20	100	- 12	- 12	- 243	200	0	2 589	275	3	57	- 20	- 17	- 290	212	0
Hungary	3 283	549	8	242	- 37	- 25	622	129	0	3 359	496	- 3	113	- 24	- 20	416	137	0
Bulgaria	2 784	208	- 5	100	- 9	- 9	- 169	154	0	2 893	200	- 3	59	- 6	- 6	- 257	170	0
Ireland[2]	1 192	356	170	- 134	- 4	- 4	- 1 630	47	0	1 301	416	188	97	- 14	- 13	- 1 385	64	0
Other countries																		
China[2]	45	9	0	3	3	3	0	1	0	38	13	0	- 5	0	0	0	0	0
Germany[2]	23	14	0	13	8	8	0	0	0	21	13	0	- 9	0	0	0	0	0
France[2]	52	50	- 2	30	21	21	1	1	0	53	44	- 2	19	0	0	0	0	0
Great Britain[2]	37	46	0	13	10	10	521	1	0	37	46	3	20	0	0	523	0	0
Hong Kong[2]	40	8	0	1	1	1	0	1	0	37	9	0	1	0	0	0	0	0
India	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Italy	8	0	0	- 2	- 2	- 2	0	0	0	6	0	0	- 2	0	0	0	0	0
Luxembourg	29	33	- 12	23	- 6	- 4	69	142	0	39	50	3	34	- 9	- 8	77	148	0
Netherlands[2]	21	32	0	27	21	21	0	0	0	26	30	0	19	0	0	0	0	0
Poland[2]	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Romania	0	4	0	4	0	0	17	34	0	0	3	0	3	0	0	12	36	0
Singapore[2]	39	9	0	11	9	11	0	1	0	48	14	0	- 2	0	0	0	0	0
USA[2]	49	39	0	17	13	15	0	17	0	50	33	0	10	0	0	0	0	0
Total	28 558	6 457	0	2 816	- 349	- 305	6 224	3 202	0	28 838	6 134	0	1 188	- 407	- 359	4 146	3 290	0

Countries for which the number of FTE is zero and for which the financial figures are below 0,5m EUR will not be shown.

[1] Corresponds to Total revenue in the income statement.

[2] If there is a positive number for a particular jurisdiction in this column, it means that all entities within this jurisdiction combined had more intragroup revenue than intragroup charges with other tax jurisdictions. If there is a negative number, it means that all entities within this jurisdiction combined had less intragroup revenue than intragroup charges with other tax jurisdictions.

[3] Corresponds to Property, plant and equipment and investment property on the balance sheet

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

Note 4.1: Financial assets and liabilities, breakdown by portfolio and product

(in millions of EUR)	AC	FVOCI	MFVPL excl. HFT	HFT	FVO (1)	Hedging deriva-tives	Total	*Pro Forma excl. Ireland (6)*
FINANCIAL ASSETS, 31-12-2021								
Loans and advances to credit institutions and investment firms (excl. reverse repos)	7 918	0	0	0	0	0	**7 918**	
of which repayable on demand and term loans to banks at not more than three months							**3 145**	
Loans and advances to customers (excl. reverse repos)	157 103	0	560	0	0	0	**157 663**	
Trade receivables	2 089	0	0	0	0	0	**2 089**	
Consumer credit	5 470	0	381	0	0	0	**5 851**	
Mortgage loans	66 514	0	179	0	0	0	**66 693**	
Term loans	72 046	0	0	0	0	0	**72 046**	
Finance lease	5 815	0	0	0	0	0	**5 815**	
Current account advances	4 819	0	0	0	0	0	**4 819**	
Other	350	0	0	0	0	0	**350**	
Reverse repos (2)	25 311	0	0	0	0	0	**25 311**	
with credit institutions and investment firms	24 861	0	0	0	0	0	**24 861**	
with customers	450	0	0	0	0	0	**450**	
Equity instruments	0	191	8	440	0	0	**640**	
Debt securities issued by	40 383	4 550	16	2 940	0	0	**47 888**	
Public bodies	36 152	3 967	0	2 501	0	0	**42 620**	
Credit institutions and investment firms	2 859	513	0	357	0	0	**3 730**	
Corporates	1 372	70	16	81	0	0	**1 539**	
Derivatives	0	0	0	5 470	0	274	**5 744**	
Other (3)	992	0	0	0	0	0	**992**	
Total	231 707	4 741	584	8 850	0	274	**246 157**	
FINANCIAL ASSETS, 31-12-2020								
Loans and advances to credit institutions and investment firms (excl. reverse repos)	6 342	0	0	0	0	0	**6 342**	**6 342**
of which repayable on demand and term loans to banks at not more than three months							**1 393**	**1 393**
Loans and advances to customers (excl. reverse repos)	157 263	0	387	0	0	0	**157 650**	**147 684**
Trade receivables	1 685	0	0	0	0	0	**1 685**	**1 685**
Consumer credit	5 476	0	273	0	0	0	**5 749**	**5 705**
Mortgage loans	70 767	0	109	0	0	0	**70 876**	**61 032**
Term loans	68 484	0	5	0	0	0	**68 488**	**68 425**
Finance lease	5 747	0	0	0	0	0	**5 747**	**5 747**
Current account advances	4 285	0	0	0	0	0	**4 285**	**4 272**
Other	818	0	0	0	0	0	**818**	**818**
Reverse repos (2)	27 869	0	0	0	0	0	**27 869**	**27 869**
with credit institutions and investment firms	27 444	0	0	0	0	0	**27 444**	**27 444**
with customers	425	0	0	0	0	0	**425**	**425**
Equity instruments	0	213	7	488	0	0	**707**	**707**
Debt securities issued by	43 630	5 689	20	2 539	0	0	**51 878**	**50 639**
Public bodies	38 340	4 943	0	2 477	0	0	**45 760**	**44 521**
Credit institutions and investment firms	3 545	717	0	19	0	0	**4 281**	**4 281**
Corporates	1 745	29	20	42	0	0	**1 837**	**1 837**
Derivatives	0	0	0	5 705	0	160	**5 864**	**5 852**
Other (3)	1 357	0	0	4	0	0	**1 361**	**1 361**
Total	236 462	5 902	414	8 735	0	160	**251 673**	**240 455**

(in millions of EUR)	AC	HFT	FVO	Hedging deriva-tives	Total	*Pro Forma excl. Ireland (6)*
FINANCIAL LIABILITIES, 31-12-2021						
Deposits from credit institutions and investment firms (excl. repos)	38 049	0	0	0	**38 049**	
of which repayable on demand					**4 695**	
Deposits from customers and debt securities (excl. repos)	225 671	21	1 312	0	**227 005**	
Demand deposits	112 807	0	0	0	**112 807**	
Time deposits	9 522	21	60	0	**9 603**	
Savings accounts	74 801	0	0	0	**74 801**	
Special deposits	2 962	0	0	0	**2 962**	
Other deposits	448	0	0	0	**448**	
Subtotal deposits of clients, excl. repos	200 540	21	60	0	**200 621**	
Certificates of deposit	6 273	0	0	0	**6 273**	
Savings certificates	253	0	0	0	**253**	
Non-convertible bonds	6 699	0	1 118	0	**7 818**	
Non-convertible subordinated liabilities	11 906	0	134	0	**12 040**	
Repos (4)	3 293	2	0	0	**3 295**	
with credit institutions and investment firms	2 888	2	0	0	**2 890**	
with customers	405	0	0	0	**405**	
Derivatives	0	5 647	0	1 093	**6 741**	
Short positions	0	1 628	0	0	**1 628**	
In equity instruments	0	18	0	0	**18**	
In debt securities	0	1 611	0	0	**1 611**	
Other (5)	2 275	0	0	0	**2 275**	
Total	269 288	7 299	1 312	1 093	**278 993**	
FINANCIAL LIABILITIES, 31-12-2020						
Deposits from credit institutions and investment firms (excl. repos)	34 613	0	0	0	**34 613**	**34 338**
of which repayable on demand					**4 604**	**4 341**
Deposits from customers and debt securities (excl. repos)	215 570	101	1 528	0	**217 199**	**212 931**
Demand deposits	101 299	0	0	0	**101 299**	**100 762**
Time deposits	12 218	16	117	0	**12 352**	**11 045**
Savings accounts	74 862	0	0	0	**74 862**	**72 437**
Special deposits	2 543	0	0	0	**2 543**	**2 543**
Other deposits	291	0	0	0	**291**	**291**
Subtotal deposits of clients, excl. repos	191 214	16	117	0	**191 347**	**187 079**
Certificates of deposit	6 613	0	5	0	**6 618**	**6 618**
Savings certificates	454	0	0	0	**454**	**454**
Non-convertible bonds	8 296	85	1 264	0	**9 645**	**9 645**
Non-convertible subordinated liabilities	8 992	0	142	0	**9 135**	**9 135**
Repos (4)	3 571	0	0	0	**3 571**	**3 571**
with credit institutions and investment firms	3 288	0	0	0	**3 288**	**3 288**
with customers	283	0	0	0	**283**	**283**
Derivatives	-	5 387	0	1 318	**6 705**	**3 705**
Short positions	-	1 694	0	0	**1 694**	**1 694**
In equity instruments	-	12	0	0	**12**	**12**
In debt securities	-	1 682	0	0	**1 682**	**1 682**
Other (5)	2 064	0	0	0	**2 064**	**2 064**
Total	255 817	7 182	1 528	1 318	**265 846**	**261 303**

(1) The carrying value comes close to the maximum credit exposure.

(2) The amount of the reverse repos (before netting) is virtually identical to the amount of the underlying assets (that have been lent out).

(3) Financial assets not included under ‘Loans and advances to customers’ as they are not directly related to commercial lending.

(4) The amount of the repos (before netting) 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) It refers to KBC Bank Ireland's financial assets and liabilities that are included in "Non-current assets held for sale and disposal groups" and "Liabilities related to disposal groups" from the third quarter of 2021 (see Notes 5.11 and 6.6). The pro forma figures for 2020 have been added for the sake of comparability.

- ‘Non-convertible bonds’ comprise mainly KBC Bank, KBC Group, ČSOB and KBC IFIMA issues. They are usually recognised under ‘Measured at amortised cost’. However, if they contain closely related embedded derivatives, they are recorded under ‘Designated at fair value’ (see accounting policies). This item also includes three green bonds (for 500, 500 and 750 million euros each), which have been recognised at amortised cost.
- More information on major new debt issues or redemptions is provided under the ‘Consolidated cashflow statement’.
- ‘Deposits from credit institutions and investment firms’ include funding obtained from the ECB’s TLTRO programme (a further 19.5 billion euros was drawn down under TLTRO III in 2020 and an additional 2.5 billion euros was drawn down in 2021, bringing the total amount borrowed under that programme to 24.5 billion euros at year-end 2021). KBC calculates these deposits using the effective interest rate method, with the rate being adjusted should we fail to meet the conditions (similar to a floating rate instrument), as per paragraph B.5.4.5 of IFRS 9. KBC’s management has reasonable assurance that KBC will comply with the conditions attached (including the level of lending to households and non-financial companies) and hence the interest has accordingly been recognised (242 million euros in interest income (negative interest rate)).
- Transferred financial assets that continue to be recognised in their entirety: KBC regularly lends and/or sells securities with the commitment to buy them back at a later date (repo transactions). Securities lent or sold with such a commitment are transferred to the counterparty, and, in exchange, KBC receives cash or other financial assets. However, KBC retains the main risks and income relating to these securities, and, therefore, continues to recognise them on its balance sheet. In addition, a financial liability is recognised equalling the cash received.
- At year-end 2021, KBC had transferred the following types of financial asset, which continued to be recognised in their entirety: repo transactions and securities lent out with a carrying value of 13 762 million euros (debt instruments classified as ‘Held for trading’ (1 221 million euros), as ‘Measured at fair value through OCI’ (1 474 million euros) and as ‘Measured at amortised cost’ (11 067 million euros)); and an associated financial liability with a carrying value of 2 936 million euros (335 million euros classified as ‘Held for trading’, 362 million euros as ‘Measured at fair value through OCI’ and 2 239 million euros as ‘Measured at amortised cost’).
- At year-end 2020, KBC had transferred the following types of financial asset, which continued to be recognised in their entirety: repo transactions and securities lent out with a carrying value of 9 001 million euros (debt instruments classified as ‘Held for trading’ (1 132 million euros), as ‘Measured at fair value through OCI’ (1 137 million euros) and as ‘Measured at amortised cost’ (6 732 million euros)); and an associated financial liability with a carrying value of 3 151 million euros (1 142 million euros classified as ‘Held for trading’, 1 143 million euros as ‘Measured at fair value through OCI’ and 867 million euros as ‘Measured at amortised cost’). It should be noted that KBC has more transferred financial assets on its balance sheet than repo transactions, due to the fact that the cash legs of certain repo transactions are offset against reverse repo transactions if they are carried out with the same counterparty, in the same currency and with the same maturity date.
- Sale of activities in Ireland: see footnote 6 below the table and Note 6.6.

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

Note 4.2.1: Impaired financial assets

(in millions of EUR)	Carrying value before impairment	Impairment	Carrying value after impairment
31-12-2021			
FINANCIAL ASSETS AT AMORTISED COST			
Loans and advances (1)	192 904	- 2 572	190 332
Stage 1 (12-month ECL)	165 753	- 104	165 650
Stage 2 (lifetime ECL)	23 072	- 507	22 565
Stage 3 (lifetime ECL)	3 491	- 1 848	1 644
Purchased or originated credit impaired assets (POCI)	588	- 114	474
Debt Securities	40 391	- 8	40 383
Stage 1 (12-month ECL)	40 383	- 4	40 380
Stage 2 (lifetime ECL)	6	- 3	3
Stage 3 (lifetime ECL)	1	- 1	1
Purchased or originated credit impaired assets (POCI)	0	0	0
FINANCIAL ASSETS AT FAIR VALUE THROUGH OCI			
Debt Securities	4 551	- 1	4 550
Stage 1 (12-month ECL)	4 548	- 1	4 547
Stage 2 (lifetime ECL)	3	0	2
Stage 3 (lifetime ECL)	0	0	0
Purchased or originated credit impaired assets (POCI)	0	0	0
31-12-2020			
FINANCIAL ASSETS AT AMORTISED COST			
Loans and advances (1)	195 169	- 3 694	191 474
Stage 1 (12-month ECL)	170 394	- 168	170 226
Stage 2 (lifetime ECL)	19 359	- 992	18 367
Stage 3 (lifetime ECL)	5 277	- 2 517	2 760
Purchased or originated credit impaired assets (POCI)	139	- 18	121
Debt Securities	43 638	- 8	43 630
Stage 1 (12-month ECL)	43 604	- 5	43 599
Stage 2 (lifetime ECL)	30	- 1	30
Stage 3 (lifetime ECL)	3	- 2	1
Purchased or originated credit impaired assets (POCI)	0	0	0
FINANCIAL ASSETS AT FAIR VALUE THROUGH OCI			
Debt Securities	5 690	- 1	5 689
Stage 1 (12-month ECL)	5 688	- 1	5 687
Stage 2 (lifetime ECL)	2	0	2
Stage 3 (lifetime ECL)	0	0	0
Purchased or originated credit impaired assets (POCI)	0	0	0

Pro forma 31-12-2020 excl. KBC Ireland (2)

(in millions of EUR)	Carrying value before impairment	Impairment	Carrying value after impairment
FINANCIAL ASSETS AT AMORTISED COST			
Loans and advances (1)	184 750	- 3 242	181 509
Stage 1 (12-month ECL)	162 061	- 158	161 903
Stage 2 (lifetime ECL)	18 708	- 925	17 783
Stage 3 (lifetime ECL)	3 843	- 2 141	1 702
Purchased or originated credit impaired assets (POCI)	139	- 18	121
Debt Securities	42 550	- 7	42 542
Stage 1 (12-month ECL)	42 516	- 5	42 511
Stage 2 (lifetime ECL)	30	- 1	30
Stage 3 (lifetime ECL)	3	- 2	1
Purchased or originated credit impaired assets (POCI)	0	0	0
FINANCIAL ASSETS AT FAIR VALUE THROUGH OCI			
Debt Securities	5 539	- 1	5 538
Stage 1 (12-month ECL)	5 536	- 1	5 536
Stage 2 (lifetime ECL)	2	0	2
Stage 3 (lifetime ECL)	0	0	0
Purchased or originated credit impaired assets (POCI)	0	0	0

1 The carrying value after impairment in this note corresponds to the sum of the ‘Loans and advances to credit institutions and investment firms (excl. reverse repos)’, ‘Loans and advances to customers (excl. reverse repos)’ and ‘Reverse repos’ in Note 4.1 (in the ‘Measured at amortised cost’ column).
2 The financial assets and liabilities of KBC Bank Ireland have been included under ‘Non-current assets held for sale and disposal groups’ and ‘Liabilities associated with disposal groups’ since the third quarter of 2021 (see Note 5.11 and Note 6.6 for more information). The 2020 pro-forma figures have been included for comparison purposes.

- The decrease of the gross carrying value before impairment of loans and advances at amortised cost amounted to 2.3 billion euros between year-end 2020 and year-end 2021, relating primarily to the impact of the sale transactions in Ireland (-10.4 billion euros, of which -8.3 billion euros in Stage 1, -0.7 billion euros in Stage 2, and -1.4 billion euros in Stage 3), largely offset by the net increase in the loan portfolio (mainly mortgage and term loans, in all countries). There were more limited movements due to the increase of the gross carrying value before impairment of loans and advances to credit institutions and investment firms (excluding reverse repos) due to new net transactions, partly offset by a lower carrying value before impairment of the reverse repos. Furthermore, loans derecognised in the course of 2021 also had a limited negative impact. Eliminating the effect of the sale transactions in Ireland and taking into account shifts between stages (see also the next bullet), the carrying value before impairment of loans and advances at amortised cost increased by 8.2 billion euros, of which 3.7 billion euros in ‘Stage 1’, 4.4 billion euros in ‘Stage 2’, -0.4 billion euros in ‘Stage 3’ and +0.4 billion euros in purchased or originated credit impaired assets (POCI).
- In the third quarter of 2021, part of the ‘Stage 1 portfolio’, which is considered to bear a higher coronavirus-related risk, was collectively moved into ‘Stage 2’, resulting in a shift of 3.1 billion euros in loans outstanding from ‘Stage 1’ to ‘Stage 2’ (see Note 1.4 for more information). In the fourth quarter of 2021, part of the Czech retail portfolio linked to the recent strong increase of the interest rates (0.7 billion euros) was collectively moved from ‘Stage 1’ into ‘Stage 2’. Apart from that, the move predicted in the management overlay is not reflected in the table, because it is determined based on a collective statistical approach and, therefore, cannot be individually linked to specific loans. Taking into account the impact of the management overlay on staging, this would result in a gross carrying value before impairment of loans and advances of an estimated 165.4, 24.3 and 4.3 billion euros in Stages 1, 2 and 3, respectively (or net migration of 1% of the total portfolio from ‘Stage 1’ to ‘Stage 2’ and 0.4% from ‘Stage 1’ and ‘Stage 2’ to ‘Stage 3’).
- The decrease of the gross carrying value before impairment of debt securities at amortised cost amounted to 1.8 billion euros between year-end 2020 and year-end 2021, almost exclusively in ‘Stage 1’. More than half of this decrease concerns (issues by) public bodies, one third concerns credit institutions and investment firms, and the remaining part concerns corporates, relating mainly to a combination of securities that had reached maturity and sales, only partly offset by new transactions due to less favourable market conditions.
- The change in impairment relates mainly to the collective coronavirus-related ECL (see Note 1.4) and to the Irish loan portfolio sale (see Note 5.11 and Note 6.6).
- See also ‘Climate-related and other ESG risks’ in the ‘How do we manage our risks?’ section.

- The increase in the ‘Purchased or originated credit impaired assets (POCI)’ within the ‘Loans and advances’ category is largely attributable to the reclassification from ‘Stage 3’, related to better POCI identification in light of the new regulatory reporting requirements.
- In 2021, ‘Stage 2’ and ‘Stage 3’ financial assets with a net carrying value of 1 712 million euros were subject to modifications that did not result in derecognition. The gross carrying value of ‘Stage 1’ financial assets subject to modifications that did not result in derecognition came to 509 million euros in 2021. The corresponding figures for 2020 were 5 065 million euros and 11 890 million euros, respectively. Modification gains or losses are recognised under impairment (see Note 3.10).
- In 2021, financial assets at amortised cost with a gross carrying value of 72 million euros were written off, but were still subject to enforcement activities; the corresponding figure in 2020 was 106 million euros.

Note 4.2.2: Impairment details

(in millions of EUR)					31-12-2021					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	Stage 1 Subject to 12-month ECL	Stage 2 Subject to lifetime ECL	Stage 3 Subject to lifetime ECL (non-performing)	Subject to lifetime ECL (purchased or originated credit impaired)	Total
LOANS AND ADVANCES AT AMORTISED COST										
Impairment on 01-01-2021	168	992	2 517	18	3 694	130	254	2 444	26	2 854
Movements with an impact on results[1]	- 62	- 454	242	- 2	- 276	31	725	352	0	1 107
Transfer of financial assets										
Stage 1 (12-month ECL)	- 12	99	42	0	129	- 7	129	74	0	196
Stage 2 (lifetime ECL)	6	- 115	80	0	- 30	5	- 70	443	0	378
Stage 3 (lifetime ECL)	0	20	- 36	0	- 16	0	25	- 30	0	- 4
New financial assets[2]	25	14	7	0	45	23	14	5	0	42
Changes in risk parameters	- 57	- 426	214	1	- 269	29	637	- 77	1	590
Changes in the model or methodology	0	- 1	0	0	- 1	- 8	- 3	- 7	0	- 18
Derecognised financial assets[3]	- 23	- 48	- 84	- 2	- 157	- 9	- 13	- 90	- 2	- 113
Other	0	2	20	0	22	- 2	4	33	- 1	35
Movements without an impact on results	- 2	- 32	- 911	98	- 847	7	13	- 278	- 8	- 266
Derecognised financial assets	0	0	- 286	- 12	- 299	0	0	- 323	- 8	- 332
Changes in the scope of consolidation	0	0	4	0	4	9	20	67	0	96
Transfers under IFRS 5	- 3	- 31	- 540	0	- 574	0	0	0	0	0
Other	1	0	- 90	110	21	- 2	- 6	- 22	0	- 30
Impairment on 31-12-2021	104	507	1 848	114	2 572	168	992	2 517	18	3 694
DEBT SECURITIES AT AMORTISED COST										
Impairment on 01-01-2021	5	1	2	0	8	4	2	6	0	12
Movements with an impact on results[1]	- 1	2	0	0	1	0	- 1	0	0	- 1
Transfer of financial assets										
Stage 1 (12-month ECL)	0	0	0	0	0	0	0	0	0	0
Stage 2 (lifetime ECL)	0	0	0	0	0	0	0	0	0	0
Stage 3 (lifetime ECL)	0	0	0	0	0	0	0	0	0	0
New financial assets[2]	0	0	0	0	0	0	0	0	0	0
Changes in risk parameters	- 1	3	0	0	2	0	- 1	0	0	- 1
Changes in the model or methodology	0	0	0	0	0	0	0	0	0	0
Derecognised financial assets	0	0	0	0	- 1	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0
Movements without an impact on results	0	0	- 1	0	- 1	0	0	- 3	0	- 3
Derecognised financial assets[3]	0	0	- 1	0	- 1	0	0	- 3	0	- 3
Changes in the scope of consolidation	0	0	0	0	0	0	0	0	0	0
Transfers under IFRS 5	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0
Impairment on 31-12-2021	4	3	1	0	8	5	1	2	0	8
DEBT SECURITIES AT FAIR VALUE THROUGH OCI										
Impairment on 01-01-2021	1	0	0	0	1	1	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	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0
Movements without an impact on results	0	0	0	0	0	0	0	0	0	0
Derecognised financial assets[3]	0	0	0	0	0	0	0	0	0	0
Changes in the scope of consolidation	0	0	0	0	0	0	0	0	0	0
Transfers under IFRS 5	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0
Impairment on 31-12-2021	1	0	0	0	1	1	0	0	0	1

[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).

- The change in impairment relates mainly to the collective coronavirus-related ECL (see Note 1.4) and to the Irish loan portfolio sale (see Note 5.11 and Note 6.6).
- The vast majority of the staging is triggered by relative changes in PD (see the multi-tier approach outlined in Note1.2 under 'Significant increase in credit risk since initial recognition').
- For information on provisions for commitments and financial guarantees, see Note 5.7.2.
- For information regarding the impact of changes in impairment on the income statement, see Note 3.10.
- The loan portfolio accounts for the largest share of the financial assets. Based on internal management reports, the composition and quality of the loan portfolio is set out in detail in the 'How do we manage our risks?' section (under 'Credit risk'). All parts of that particular section which have been audited by the statutory auditor are listed at the start of the section.

Note 4.3: Maximum credit exposure and offsetting

(in millions of EUR)	Maximum credit exposure (A)	Collateral and other credit enhancements received (B)	Net (A-B)	Maximum credit exposure (A)	Collateral and other credit enhancements received (B)	Net (A-B)
			31-12-2021			31-12-2020
Subject to impairment	290 570	126 748	163 822	292 134	131 962	160 172
of which Stage 3 'non-performing' (AC and FVOCI)	*2 070*	*1 584*	*486*	*2 922*	*2 538*	*384*
Debt securities	44 933	93	44 840	49 319	112	49 207
Loans and advances (excl. reverse repos)	165 022	90 044	74 978	163 605	93 535	70 071
Reverse repos	25 311	25 210	101	27 869	27 800	69
Other financial assets	992	0	992	1 357	0	1 357
Off-balance-sheet liabilities	54 312	11 401	42 911	49 983	10 515	39 468
irrevocable	36 886	6 032	30 854	33 416	4 224	29 192
revocable (*)	17 427	5 370	12 057	16 567	6 291	10 276
Not subject to impairment	9 260	2 313	6 946	8 814	1 774	7 040
Debt securities	2 956	0	2 956	2 559	0	2 559
Loans and advances (excl. reverse repos)	560	545	15	387	368	19
of which FVO	0	0	0	0	0	0
Reverse repos	0	0	0	0	0	0
Derivatives	5 744	1 769	3 975	5 864	1 406	4 458
Other financial assets	0	0	0	4	0	4
Off-balance-sheet liabilities	0	0	0	0	0	0
Total	299 829	129 061	170 768	300 948	133 736	167 212

* Compared to the previous annual report, and for the sake of completeness, we supplemented the maximum credit exposure in the table with off-balance-sheet liabilities.

- 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 main types of collateral and other credit enhancements received relate to mortgages on real estate (mainly collateral for mortgage loans), securities lent out (mainly as a collateral for reverse repos), off-balance-sheet financial guarantees received and collateral of movable property. Mortgage loans with an LTV (loan-to-value) greater than 100% are limited to 1.0 billion euros or 1% of the entire mortgage loan portfolio.
- The loan portfolio accounts for the largest share of the financial assets. Based on internal management reports, the composition and quality of the loan portfolio is set out in detail in the ‘How do we manage our risks?’ section (under ‘Credit risk’). All parts of that particular section which have been audited by the statutory auditor are listed at the start of the section.
- Collateral and credit enhancements received: recognised at market value and limited to the outstanding amount of the relevant loans.
- The maximum credit exposure for the KBC Bank Ireland financial assets has not been included in the above year-end 2021 figures (see Note 5.11 for more information).

Financial instruments subject to offsetting, enforceable master netting agreements and similar arrangements (in millions of EUR)	Gross amounts of recognised financial instruments	Gross amounts of recognised financial instruments set off	Net amounts of financial instruments presented in the balance sheet	Amounts not set off in the balance sheet: Financial instruments	Amounts not set off in the balance sheet: Cash collateral	Amounts not set off in the balance sheet: Securities collateral	Net amount
FINANCIAL ASSETS, 31-12-2021							
Derivatives	13 986	8 242	5 744	2 732	1 317	112	1 583
Derivatives (excluding central clearing houses)	5 637	0	5 637	2 732	1 317	112	1 476
Derivatives with central clearing houses*	8 349	8 242	107	0	0	0	107
Reverse repos, securities borrowing and similar arrangements	38 493	13 182	25 311	67	0	25 230	13
Reverse repos	38 493	13 182	25 311	67	0	25 230	13
Securities borrowing	0	0	0	0	0	0	0
Other financial instruments	0	0	0	0	0	0	0
Total	52 479	21 425	31 055	2 800	1 317	25 342	1 597
FINANCIAL LIABILITIES, 31-12-2021							
Derivatives	16 112	9 372	6 741	3 016	1 793	640	1 292
Derivatives (excluding central clearing houses)	6 636	0	6 636	3 016	1 793	640	1 188
Derivatives with central clearing houses*	9 476	9 372	104	0	0	0	104
Repos, securities lending and similar arrangements	16 477	13 182	3 295	160	0	3 135	1
Repos	16 477	13 182	3 295	160	0	3 135	1
Securities lending	0	0	0	0	0	0	0
Other financial instruments	0	0	0	0	0	0	0
Total	32 590	22 554	10 036	3 176	1 793	3 774	1 293
FINANCIAL ASSETS, 31-12-2020							
Derivatives	11 565	5 700	5 864	3 040	843	331	1 650
Derivatives (excluding central clearing houses)	5 818	0	5 818	3 040	843	331	1 604
Derivatives with central clearing houses*	5 746	5 700	46	0	0	0	46
Reverse repos, securities borrowing and similar arrangements	38 010	10 141	27 869	1 466	0	26 390	13
Reverse repos	38 010	10 141	27 869	1 466	0	26 390	13
Securities borrowing	0	0	0	0	0	0	0
Other financial instruments	0	0	0	0	0	0	0
Total	49 575	15 841	33 734	4 506	843	26 721	1 663
FINANCIAL LIABILITIES, 31-12-2020							
Derivatives	14 634	7 929	6 705	3 041	2 376	494	795
Derivatives (excluding central clearing houses)	6 649	0	6 649	3 041	2 376	494	738
Derivatives with central clearing houses*	7 985	7 929	57	0	0	0	57
Repos, securities lending and similar arrangements	13 711	10 141	3 571	1 467	0	2 102	1
Repos	13 711	10 141	3 571	1 467	0	2 102	1
Securities lending	0	0	0	0	0	0	0
Other financial instruments	0	0	0	0	0	0	0
Total	28 345	18 069	10 276	4 508	2 376	2 596	796

* For the central clearing houses the offsetting refers to the offsetting between the derivatives and the related cash collateral. The amount of cash collateral with central clearing houses at the end of 2021 is 1.130 mio and 2.228 mio at the end of 2020

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

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

Fair value of financial 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, 31-12-2021				
Loans and advances to credit institutions and investment firms (incl. reverse repos)	32 779	32 787	-	-
Loans and advances to customers (incl. reverse repos)	157 553	158 091	-	-
Debt securities	40 383	40 152	-	-
Other	992	992	-	-
Total	231 707	232 022	-	-
Level 1	-	38 202	-	-
Level 2	-	33 014	-	-
Level 3	-	160 806	-	-
FINANCIAL LIABILITIES, 31-12-2021				
Deposits from credit institutions and investment firms (incl. repos)	-	-	40 937	41 003
Deposits from customers and debt securities (incl. repos)	-	-	226 076	226 781
Liabilities under investment contracts	-	-	0	0
Other	-	-	2 275	2 273
Total	-	-	269 288	270 056
Level 1	-	-	-	24
Level 2	-	-	-	118 897
Level 3	-	-	-	151 135
FINANCIAL ASSETS, 31-12-2020				
Loans and advances to credit institutions and investment firms (incl. reverse repos)	33 786	33 790	-	-
Loans and advances to customers (incl. reverse repos)	157 688	160 024	-	-
Debt securities	43 630	46 432	-	-
Other	1 357	1 357	-	-
Total	236 462	241 604	-	-
Level 1	-	42 951	-	-
Level 2	-	35 587	-	-
Level 3	-	163 065	-	-
FINANCIAL LIABILITIES, 31-12-2020				
Deposits from credit institutions and investment firms (incl. repos)	-	-	37 901	38 199
Deposits from customers and debt securities (incl. repos)	-	-	215 853	217 149
Liabilities under investment contracts	-	-	0	0
Other	-	-	2 064	2 063
Total	-	-	255 817	257 411
Level 1	-	-	-	32
Level 2	-	-	-	117 702
Level 3	-	-	-	139 677

- All internal valuation models are validated by an independent Risk Validation Unit. In addition, the Executive Committee has appointed a Group Valuation Committee (GVC) to ensure that KBC and its entities meet all the legal requirements for measuring financial assets and liabilities at fair value. The GVC monitors consistent implementation of the KBC Valuation Framework, which consists of various guidelines, including the Group Valuation Policy, the Group XVA & AVA Policy and the Group Parameter Review Policy. The GVC meets at least twice a quarter to approve significant changes in valuation methods or deviations from group policies for financial assets and liabilities measured at fair value. The committee is made up of members from Finance, Risk Management and the Middle Office. Valuation uncertainty measurements are made and reported to the GVC every six months. Certain fair values generated by valuation models are challenged by a team set up specifically for this purpose.

- The fair value of mortgage and term loans not measured at fair value in the balance sheet (see table) is calculated by discounting contractual cashflows at the risk-free rate. This calculation is then adjusted for credit risk by taking account of margins obtained on similar, but recently issued, loans or by using a spread derived from the listed-bond spread. The fair value of the main portfolios takes account of prepayment risks and cap options. The fair value of demand and savings deposits (both of which are repayable on demand) is presumed to be equal to their carrying value.
- As a result of the first-time adoption of IFRS 9 on 1 January 2018, debt instruments with a total carrying value of 15 060 million euros have been reclassified from 'Available-for-sale assets' to 'Financial assets held at amortised cost'. Due to this reclassification, changes in fair value (before tax) totalling -199 million euros were not recorded in the revaluation reserve in 2021 (-147 million euros in 2020). The fair value of this reclassified portfolio (after redemptions) amounted to 5 753 million euros at year-end 2021 (8 182 million euros at year-end 2020).

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

(in millions of EUR)				31-12-2021				31-12-2020
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)	14	0	570	584	16	0	398	414
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	560	560	0	0	387	387
Equity instruments	0	0	8	8	0	0	7	7
Investment contracts (insurance)	0	0	0	0	0	0	0	0
Debt securities	14	0	1	16	16	0	4	20
of which sovereign bonds	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Other	0	0	0	0	0	0	0	0
Held for trading	1 947	5 938	965	8 850	2 642	5 125	968	8 735
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	440	0	0	440	487	0	0	488
Debt securities	1 506	1 430	4	2 940	2 153	373	13	2 539
of which sovereign bonds	*1 427*	*1 074*	*0*	*2 501*	*2 121*	*356*	*0*	*2 477*
Derivatives	1	4 508	961	5 470	1	4 749	955	5 705
Other	0	0	0	0	0	4	0	4
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	4 361	101	278	4 741	5 541	95	266	5 902
Equity instruments	13	1	178	191	47	6	160	213
Debt securities	4 348	101	101	4 550	5 494	89	106	5 689
of which sovereign bonds	*3 935*	*0*	*32*	*3 967*	*4 910*	*0*	*33*	*4 943*
Hedging derivatives	0	274	0	274	0	160	0	160
Derivatives	0	274	0	274	0	160	0	160
Total	6 322	6 314	1 813	14 449	8 198	5 381	1 632	15 211
FINANCIAL LIABILITIES AT FAIR VALUE								
Held for trading	1 582	4 508	1 209	7 299	1 697	4 294	1 191	7 182
Deposits from credit institutions and investment firms (incl. repos)	0	2	0	2	0	0	0	0
Deposits from customers and debt securities (incl. repos)	0	21	0	21	0	16	85	101
Derivatives	1	4 438	1 209	5 647	3	4 278	1 106	5 387
Short positions	1 582	47	0	1 628	1 694	0	0	1 694
Other	0	0	0	0	0	0	0	0
Designated at fair value	0	61	1 251	1 312	0	377	1 151	1 528
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	61	1 251	1 312	0	377	1 151	1 528
Liabilities under investment contracts	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0
Hedging derivatives	0	696	398	1 093	0	1 318	0	1 318
Derivatives	0	696	398	1 093	0	1 318	0	1 318
Total	1 582	5 265	2 858	9 705	1 697	5 990	2 342	10 028

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

	Instrument type	Products	Valuation technique
Level 1	Liquid financial instruments for which quoted prices are regularly available	FX spots, exchange traded financial futures, exchange traded options, exchange traded stocks, exchange traded funds, liquid government bonds, other liquid bonds, liquid asset backed securities (ABS) in active markets	Mark-to-market (quoted prices in active markets), for bonds: BVAL or data vendor.
Level 2	Plain vanilla/liquid derivatives	(Cross-currency) interest rate swaps (IRS), FX swaps, FX forwards, forward rate agreements (FRA), inflation swaps, dividend swaps and futures, reverse floaters, bond future options, interest rate future options, overnight index swaps (OIS), FX resets	Discounted cashflow analysis based on discount and estimation curves (derived from quoted deposit rates, FX swaps and (CC)IRS)
		Caps & floors, interest rate options, European & American FX options, forward starting options, digital FX options, FX strips of simple options, European swaptions, European cancellable IRS, compound options	Option pricing model based on observable inputs (e.g., volatilities)
	Linear financial assets (without optional features) – cash instruments	Deposits, simple cashflows, repo transactions	Discounted cashflow analysis based on discount and estimation curves (derived from quoted deposit rates, FX swaps and (CC)IRS)
	Semi-liquid bonds/asset backed securities	Semi-liquid bonds/asset backed securities	BVAL, prices corroborated by alternative observable market data, or using comparable spread method
	Debt instruments	KBC IFIMA own issues (liabilities), mortgage bonds held by ČSOB	Discounted cashflow analysis and valuation of related derivatives based on observable inputs
	Linear financial liabilities (cash instruments)	Loans, commercial paper	Discounted cashflow analysis based on discount and estimation curves (derived from quoted deposit rates, FX swaps and (CC)IRS)
Level 3	Exotic derivatives	Target profit forwards, flexible forwards, European & American stock options, Bermudan swaptions, digital interest rate options, quanto interest rate options, digital stock options, composite stock options, Asian stock options, barrier stock options, quanto digital FX options, FX Asian options, FX European barrier options, FX simple digital barrier options, FX touch rebates, inflation options, Bermudan cancellable IRS, constant maturity swaps (CMS), CMS spread swaps, CMS spread options, CMS interest rate caps/floors, (callable) range accruals, outperformance options, auto-callable options, lookback options, commodity swaps and forwards	Option pricing model based on observable inputs (e.g., correlation)
	Illiquid credit-linked instruments	Collateralised debt obligations (notes)	Valuation model based on correlation of probability of default of underlying assets
	Private equity investments	Private equity and non-quoted participations	Based on the valuation guidelines of the European Private Equity & Venture Capital Association
	Illiquid bonds/asset backed securities	Illiquid (mortgage) bonds/asset backed securities that are indicatively priced by a single pricing provider in an inactive market	BVAL, 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 2021, KBC transferred 96 million euros' worth of financial assets and liabilities out of level 1 and into level 2. It also reclassified approximately 15 million euros' worth of financial assets and liabilities from level 2 to level 1. Most of these reclassifications were carried out due to a change in the liquidity of government bonds and corporate bonds.
- In 2020, KBC transferred 61 million euros' worth of financial assets and liabilities out of level 1 and into level 2. It also reclassified approximately 11 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 2021, significant movements in financial assets and liabilities classified in level 3 of the fair value hierarchy included the following:
  - Financial assets measured at fair value through profit or loss (other than held for trading): the fair value of loans and advances increased by 173 million euros, primarily on account of new transactions, only partly offset by changes in fair value and instruments that had reached maturity.
  - Financial liabilities held for trading: the fair value of derivatives increased by 103 million euros, due mainly to changes in fair value and new transactions, partly offset by sales. The fair value of issued debt instruments fell by 85 million euros, due mainly to instruments that had reached maturity.
  - Financial liabilities relating to hedging derivatives: the fair value of derivatives increased by 398 million euros due to reclassifications in level 3 owing to an optimisation of the classification method.
  - Financial liabilities measured at fair value through profit or loss: the fair value of debt instruments increased by 100 million euros, primarily on account of new issues, partly offset by sales.
- In 2020, significant movements in financial assets and liabilities classified in level 3 of the fair value hierarchy included the following:
  - Financial assets held for trading: the fair value of derivatives fell by 244 million euros, due primarily to instruments that had reached maturity, only partly offset by new transactions.
  - Financial assets measured at fair value through profit or loss (other than held for trading): the fair value of loans and advances increased by 169 million euros, primarily on account of new transactions, partly offset by changes in fair value.
  - Financial liabilities held for trading: the fair value of derivatives declined by 731 million euros, owing primarily to a combination of the sale of existing positions, instruments that had reached maturity and changes in fair value, partly offset by new transactions. The fair value of issued debt instruments fell by 99 million euros, due mainly to debt instruments that had reached maturity.
  - Financial liabilities measured at fair value through profit or loss: the fair value of issued debt instruments declined by 732 million euros on account of a combination of repurchases of existing positions, settlement operations and changes in fair value, partly offset by new issues.
- Some level 3 assets are associated or economically hedged with identical level 3 liabilities, which means that KBC's exposure to unobservable inputs is lower than would appear from the gross figures. Most of the level 3 instruments are also valued using third-party pricing sources, with KBC not developing any unobservable inputs itself. The main unobservable inputs applied by KBC to the valuation of exotic derivatives include: mean reversion parameter on Bermudan swaptions, equity cross-correlations and volatilities for certain stock options, interest-rate correlations for CMS spread options, and the funding costs used to determine the forward equity prices as part of the valuation of certain equity derivatives. The change in fair value resulting from a change in these inputs to reflect reasonably possible alternative assumptions is insignificant.

Note 4.8: Derivatives

Note 4.8.1 Trading derivatives

(in millions of EUR)	31-12-2021				31-12-2020			
	Carrying value		Notional amount*		Carrying value		Notional amount*	
	Assets	Liabilities	Purchased	Sold	Assets	Liabilities	Purchased	Sold
Total	5 470	5 647	493 668	505 276	5 705	5 387	413 844	414 100
Interest rate contracts	3 081	2 814	292 975	302 665	3 337	2 788	249 360	248 230
of which interest rate swaps and futures	*2 756*	*2 695*	*280 873*	*295 431*	*2 860*	*2 600*	*235 528*	*240 089*
of which options	*325*	*119*	*12 101*	*7 234*	*477*	*188*	*13 832*	*8 141*
Foreign exchange contracts	1 722	1 880	185 873	187 910	1 747	1 772	144 941	146 602
of which currency and interest rate swaps, FX swaps and futures	*1 668*	*1 830*	*182 686*	*183 094*	*1 642*	*1 703*	*141 212*	*141 452*
of which options	*54*	*50*	*3 187*	*4 816*	*105*	*69*	*3 729*	*5 150*
Equity contracts	646	935	14 494	14 376	600	808	19 158	18 883
of which equity swaps	*620*	*637*	*12 607*	*12 651*	*562*	*570*	*17 236*	*17 218*
of which options	*26*	*298*	*1 888*	*1 725*	*38*	*237*	*1 922*	*1 665*
Credit contracts	0	0	4	4	0	0	4	4
of which credit default swaps	*0*	*0*	*4*	*4*	*0*	*0*	*4*	*4*
Commodity and other contracts	21	19	322	322	20	19	381	381

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

Note 4.8.2 Hedging derivatives

31-12-2021

(in millions of EUR)	Hedging instrument					Hedged item				Impact on equity	
	Notional amount[1]		Carrying value		Change in fair value of hedging instruments as basis for recognising hedge ineffectiveness for the period[2]		Carrying value		Change in fair value of hedged items as basis for recognising hedge ineffectiveness for the period[2]	Ineffective portion recognised in profit or loss	Effective portion recognised in OCI
Hedging strategy	Pur-chased	Sold	Assets	Liabilities		Type	Total (incl. fair value changes)	Of which accumulated fair value adjustments			
Fair value micro hedge											
Interest rate swaps	21 090	21 090	89	407	275	Debt securities held at AC	3 576	- 360	- 394		
Currency and interest rate swaps	0	0	0	0	0	Loans and advances at AC	857	391	- 114		
						Debt securities held at FVOCI	1 450	37	- 41		
						Debt securities issued at AC	15 495	97	276		
						Deposits at AC	0	0	- 2		
Total	21 090	21 090	89	407	275	Total			- 275	0	-
Portfolio hedge of interest rate risk											
Interest rate swaps	89 467	89 467	110	183	809	Debt securities held at AC	11	- 1	- 2		
Currency and interest rate options	1 981	0	21	0	11	Loans and advances at AC	74 412	- 504	- 1 772		
						Debt securities held at FVOCI	13	- 1	- 1		
						Debt securities issued at AC	0	0	0		
						Deposits at AC	13 632	- 862	960		
Total	91 448	89 467	131	183	820	Total			- 815	5	-
Cashflow hedge (micro hedge and portfolio hedge)											
Interest rate swaps	21 249	21 249	24	502	177						
Currency and interest rate swaps	711	721	26	0	19						
Total	21 960	21 970	50	502	196	Total			- 196	0	- 1 197
Hedge of net investments in foreign operations											
Total[3]	1 904	1 965	5	420	- 109	Total			109	0	19

[1] In this table, both legs of the derivatives are reported in the notional amounts.

[2] Ineffectiveness is recognised in 'Net result from financial instruments at fair value through profit or loss' (also see Note 3.3).

[3] Carrying value liabilities: hedging instruments in the form of foreign currency deposits.

31-12-2020

(in millions of EUR)	Hedging instrument					Hedged item				Impact on equity	
	Notional amount[1]		Carrying value		Change in fair value of hedging instruments as basis for recognising hedge ineffectiveness for the period[2]		Carrying value		Change in fair value of hedged items as basis for recognising hedge ineffectiveness for the period[2]	Ineffective portion recognised in profit or loss	Effective portion recognised in OCI
Hedging strategy	Pur-chased	Sold	Assets	Liabilities		Type	Total (incl. fair value changes)	Of which accumulated fair value adjustments			
Fair value micro hedge											
Interest rate swaps	21 738	21 738	23	535	16	Debt securities held at AC	5 600	100	- 83		
Currency and interest rate swaps	0	0	0	0	0	Loans and advances at AC	866	477	136		
						Debt securities held at FVOCI	2 206	96	9		
						Debt securities issued at AC	14 695	386	- 86		
						Deposits at AC	114	- 4	5		
Total	21 738	21 738	23	535	16	Total			- 19	- 3	-
Portfolio hedge of interest rate risk											
Interest rate swaps	61 964	61 964	68	94	- 660	Debt securities held at AC	13	1	0		
Currency and interest rate options	2 385	0	6	0	- 7	Loans and advances at AC	53 809	1 295	889		
						Debt securities held at FVOCI	14	1	- 1		
						Debt securities issued at AC	0	0	0		
						Deposits at AC	9 594	96	- 212		
Total	64 349	61 964	73	94	- 667	Total			677	10	-
Cashflow hedge (micro hedge and portfolio hedge)											
Interest rate swaps	20 938	20 938	41	687	- 29						
Currency and interest rate swaps	225	230	10	2	7						
Total	21 163	21 169	50	689	- 22	Total			27	5	- 1 430
Hedge of net investments in foreign operations											
Total[3]	1 490	1 517	13	385	84	Total			- 84	0	132

[1] In this table, both legs of the derivatives are reported in the notional amounts.
[2] Ineffectiveness is recognised in 'Net result from financial instruments at fair value through profit or loss' (also see Note 3.3).
[3] Carrying value liabilities: hedging instruments in the form of foreign currency deposits.

- The Treasury departments of the various entities manage the interest rate risk. To prevent rate movements from having a negative impact, the maturities of assets and liabilities are adjusted on the balance sheet using interest rate swaps and other derivatives.
- As regards the relationship between risk management and hedge accounting policy, ‘economic’ management takes priority and risks are hedged in accordance with the general ALM framework. Only then is a decision made on which, if any, of these techniques will be used to limit any resulting accounting mismatch.
- The balances remaining in the cashflow hedge reserve from any hedging relationships for which hedge accounting is no longer applied came to -260 million euros. The accumulated amount of fair value hedge adjustments remaining on the balance sheet for any hedged items that have ceased to be adjusted for hedging gains and losses amounted to -101 million euros. These adjustments are amortised to profit or loss.
- Also see the paragraph on hedge accounting in the ‘How do we manage our risks?’ section and Note 3.3.

Estimated cashflows from cashflow hedging derivatives per time bucket (in millions of EUR)	Inflow	Outflow
Not more than three months	12	- 11
More than three but not more than six months	24	- 47
More than six months but not more than one year	75	- 99
More than one but not more than two years	98	- 247
More than two but not more than five years	171	- 653
More than five years	230	- 1 015

5.0 Notes on other balance sheet items

Note 5.1: Other assets

(in millions of EUR)	31-12-2021	31-12-2020
Total	843	652
Income receivable (other than interest income from financial assets)	55	44
Other	788	608

Note 5.2: Tax assets and tax liabilities

(in millions of EUR)	31-12-2021	31-12-2020
CURRENT TAXES		
Current tax assets	133	91
Current tax liabilities	44	48
DEFERRED TAXES	1 015	1 405
Deferred tax assets by type of temporary difference	1 238	1 611
Employee benefits	69	123
Losses carried forward	233	394
Tangible and intangible fixed assets	91	53
Provisions for risks and charges	20	7
Impairment for losses on loans and advances	269	341
Financial instruments at fair value through profit or loss and fair value hedges	75	108
Fair value changes, financial assets at FVOCI, cashflow hedges and hedges of net investments in foreign operations	441	477
Technical provisions	0	0
Other	42	107
Deferred tax liabilities by type of temporary difference	223	206
Employee benefits	13	12
Losses carried forward	0	0
Tangible and intangible fixed assets	29	44
Provisions for risks and charges	0	0
Impairment for losses on loans and advances	3	4
Financial instruments at fair value through profit or loss and fair value hedges	90	49
Fair value changes, financial assets at FVOCI, cashflow hedges and hedges of net investments in foreign operations	61	64
Technical provisions	0	0
Other	27	31
Recognised as a net amount in the balance sheet as follows:		
Deferred tax assets	1 056	1 450
Deferred tax liabilities	41	45
Unused tax losses and unused tax credits	126	127

- Deferred tax assets are recognised to the extent that it is probable that, on the basis of realistic financial projections, taxable profit will be available against which the deductible temporary differences can be utilised in the foreseeable future (limited to a period of eight to ten years).
- Unused tax losses and unused tax credits concern tax losses of group companies which are not capitalised due to insufficient proof of future taxable profit. Most tax losses and tax credits can be carried forward for 20 years or more.
- The net change in deferred taxes (-391 million euros in 2021) breaks down as follows:
  - A decrease in deferred tax assets of -373 million euros.
  - An increase in deferred tax liabilities of +18 million euros.
- The change in deferred tax assets was accounted for chiefly by:
  - a decrease in deferred tax assets via the income statement of -331 million euros, mainly due to the usage and write-offs of losses carried forward (-162 million euros, of which -51 million euros in write-offs in Ireland; see Note 6.6) and as a result of lower deferred tax assets on impairment for losses on loans and advances (-105 million euros).
  - changes in defined benefit plans of -54 million euros.
- The change in deferred tax liabilities was accounted for chiefly by:
  - an increase in deferred tax liabilities due to the increase in financial instruments at fair value through profit or loss (+41 million euros).
  - a decrease in non-current assets of -15 million euros.
- The deferred tax assets presented in the balance sheet are attributable primarily to KBC Bank.

Note 5.3: Investments in associated companies and joint ventures

(in millions of EUR)	31-12-2021	31-12-2020
Total	38	25
Overview of investments, including goodwill		
Mallpay	3	5
Isabel NV	11	9
Payconiq International S.A.	9	10
Joyn International NV	1	- 6
Bancontact Payconiq Company NV	6	5
Batopin NV	4	0
Other	5	2
Goodwill on associated companies and joint ventures		
Gross amount	0	0
Accumulated impairment	0	0
Breakdown by type		
Unlisted	38	25
Listed	0	0
Fair value of investments in listed associated companies and joint ventures	0	0

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

Note 5.4: Property and equipment and investment property

(in millions of EUR)	31-12-2021	31-12-2020
Property, equipment	2 887	2 948
Investment property	315	342
Rental income	38	35
Direct operating expenses from investments generating rental income	10	10
Direct operating expenses from investments not generating rental income	2	2

MOVEMENTS TABLE	Land and buildings	IT equipment	Other equipment	Total property and equipment	Investment property
2021					
Opening balance	1 462	64	1 421	2 948	342
Acquisitions	109	28	444	581	5
Disposals	- 56	- 4	- 205	- 265	- 14
Depreciation	- 111	- 30	- 19	- 160	- 15
Other movements	- 20	4	- 201	- 217	- 3
Closing balance	1 385	62	1 440	2 887	315
Accumulated depreciation and impairment	*1 397*	*199*	*785*	*2 381*	*250*
Fair value 31-12-2021					476
2020					
Opening balance	1 486	70	1 495	3 051	360
Acquisitions	156	30	411	597	47
Disposals	- 42	- 5	- 240	- 286	- 33
Depreciation	- 108	- 27	- 20	- 155	- 29
Other movements	- 30	- 3	- 225	- 258	- 3
Closing balance	1 462	64	1 421	2 948	342
Accumulated depreciation and impairment	*1 319*	*192*	*745*	*2 256*	*248*
Fair value 31-12-2020					548

- Annual rates of depreciation: mainly 3% for buildings (including investment property), 33% for IT equipment, between 5% and 33% for other equipment. No depreciation is charged for land.
- There was a small amount (around 0.2 billion euros) for commitments for the acquisition of property and equipment. There are no material restrictions on title, or on property and equipment pledged as security for liabilities.
- Most investment property is valued by an independent expert on a regular basis and by in-house specialists on an annual basis, based primarily on the capitalisation of the estimated rental value and on unit prices of similar real property. Account is taken of all the market inputs available on the date of the assessment (including location and market situation, type of building and construction, state of repair, use, etc.).
- Certain other investment property is valued annually by in-house specialists based on the current annual rental per building and expected rental movements and on an individual capitalisation rate per building.
- The impact of the heavy flooding and other extreme weather conditions in 2021 on property and equipment and investment property (in this case, our branch network) and on the associated impairment was insignificant. For more information, see ‘Climate-related and other ESG risks’ in the ‘How do we manage our risks?’ section.

Note 5.5: Goodwill and other intangible assets

(in millions of EUR)	Goodwill	Software developed in-house	Software developed externally	Other	Total
2021					
Opening balance	882	285	131	4	1 302
Acquisitions	0	163	30	3	196
Disposals	0	0	- 2	0	- 3
Amortisation	0	- 41	- 51	- 2	- 93
Other movements	13	2	- 20	0	- 5
Closing balance	894	410	88	5	1 396
Accumulated amortisation and impairment	*79*	*247*	*433*	*28*	*787*
2020					
Opening balance	914	85	245	6	1 250
Change in accounting policies	0	0	0	0	0
Adjusted opening balance	914	85	245	6	1 250
Acquisitions	0	178	52	0	231
Disposals	0	- 15	- 34	- 1	- 50
Amortisation	0	- 19	- 41	- 2	- 61
Other movements	- 32	55	- 91	0	- 68
Closing balance	882	285	131	4	1 302
Accumulated amortisation and impairment	*72*	*209*	*370*	*24*	*675*

- 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.
- 'Other movements' in 2020 included a software impairment of 59 million euros (see Note 3.10).
- For goodwill in respect of recent acquisitions, see Note 6.6.
- Impairment testing: a test was carried out to establish whether impairment on goodwill had to be recognised (see table and Note 3.10). This impairment test is performed at least once a year. We also carry out a high level assessment on a quarterly basis to see whether there is an indication of impairment. In the test, each entity is regarded as a separate cash-generating unit. Each entity has a specific risk profile and it is rare to have different profiles within a single entity.
- Impairment on goodwill under IAS 36: recognised in profit or loss if the recoverable amount of an investment is lower than its carrying value. The recoverable amount is defined as the higher of the value in use (calculated based on discounted cashflow analysis) and the fair value (calculated based on multiple analysis, etc.) less costs to sell.
- The main group companies to which goodwill relates are listed in the table. All of these companies have been valued using the discounted cashflow method. The discounted cashflow method calculates the recoverable amount of an investment as the present value of all future free cashflows of the business. This method is based on long-term projections about the company's business and the resulting cashflows (i.e. projections for a number of years ahead and the residual value of the business at the end of the specific projection period). These long-term projections are the result of an assessment of past and present performances combined with external sources of information on future performances in the respective markets and the global macroeconomic environment. Consequently, in cases where sustainability aspects and products/projects have been factored into the underlying financial projections, this will also affect the valuation. The terminal growth rate is determined using a long-term average market growth rate. The present value of these future cashflows is calculated using a compound discount rate which is based on the capital asset pricing model (CAPM). A risk-free rate, a market-risk premium (multiplied by an activity beta), and a country risk premium (to reflect the impact of the economic situation of the country where KBC is active) are also used in the calculation. KBC has developed two distinct discounted cashflow models, viz. a bank model and an insurance model. Free cashflows in both cases are the dividends that can be paid out to the company's shareholders, account taken of the minimum capital requirements.

Goodwill outstanding (in millions of EUR)	31-12-2021	31-12-2020	Discount rates throughout the specific period of cashflow projections	
			31-12-2021	31-12-2020
K&H Bank	188	190	11,4% - 10,6%	13,6% - 10,9%
ČSOB (Czech Republic)	286	273	10,6% - 8,7%	12,4% - 9,1%
CMSS	171	162	10,6% - 8,8%	12,5% - 9,3%
United Bulgarian Bank	110	110	10,6% - 9,2%	10,3% - 9,7%
KBC Asset Management NV	114	114	8,7% - 8,7%	9,3% - 9,1%
KBC Commerical Finance	21	21	8,8% - 8,8%	9,2% - 9,1%
Rest	5	12	-	-
Total	894	882	-	-

- The period to which the cashflow budgets and projections relate is 11 years in most cases. This longer period is used to take account of the expected convergence of the Central and Eastern European economies with their more mature counterparts. This significant assumption is used in the model to reflect the dynamism of the economies in Central and Eastern Europe.
- The growth rate used to extrapolate the cashflow projections after that period is equal to the expected long-term growth rate of gross domestic product. This rate depends on the country and varied between 1.2% and 1.7% in 2021 (the same as in 2020).
- No sensitivity analysis was carried out for entities where the recoverable amount exceeded the carrying value to such a large extent that no reasonably possible change in the key assumptions would result in the recoverable amount being less than or equal to the carrying value. The table gives an indication for the other entities of the change in key assumptions that would lead to their recoverable amount equalling their carrying value.

Change in key assumptions[1]	Increase in discount rate[2]	Decrease in terminal growth rate[3]	Increase in targeted solvency ratio[4]	Decrease in annual net profit	Increase in annual impairment charges
United Bulgarian Bank	0.1%	–	0.1%	1%	2%
ČMSS	1.0%	–	–	5%	79%
K&H Bank	3.3%	–	4.0%	11%	117%

[1] Needless to say account should be taken of the fact that a change in these assumptions could affect other assumptions used to calculate the recoverable amount.
[2] Based on a parallel shift and absolute increase in the discount rate curve. Discount rates are in the 14.7%-13.9% bracket for K&H Bank, the 11.6%-9.8% bracket for ČMSS and the 10.7%-9.3% bracket for United Bulgarian Bank.
[3] Not relevant as it would mean that the terminal growth rate will be negative.
[4] Absolute increase in the tier-1 capital ratio (not relevant for ČMSS).

Note 5.6: Technical provisions, insurance

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

Note 5.7: Provisions for risks and charges

Note 5.7.1: Overview

(in millions of EUR)	31-12-2021	31-12-2020
Total provisions for risks and charges	278	206
Provisions for off-balance-sheet commitments and financial guarantees	130	143
Provisions for other risks and charges	147	63
Provisions for restructuring	87	7
Provisions for taxes and pending legal disputes	44	31
Other	17	25

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

(in millions of EUR)	Subject to 12-month ECL	Subject to lifetime ECL	Subject to lifetime ECL (non-performing)	Total
31-12-2021				
Provisions on 01-01-2021	26	17	99	143
Movements with an impact on results				
Transfer of financial assets				
Stage 1 (12-month ECL)	- 2	4	0	2
Stage 2 (lifetime ECL)	0	- 4	2	- 1
Stage 3 'non-performing' (lifetime ECL)	0	1	- 1	0
New financial assets	6	1	1	8
Changes in risk parameters during the reporting period	- 9	2	- 13	- 20
Changes in the model or methodology	0	0	0	0
Derecognised financial assets	- 2	- 1	0	- 4
Other	0	0	0	0
Movements without an impact on results				
Derecognised financial assets	0	0	0	0
Changes in the scope of consolidation	0	0	0	0
Other	1	1	2	4
Provisions on 31-12-2021	19	21	91	130
31-12-2020				
Provisions on 01-01-2020	13	17	107	138
Movements with an impact on results				
Transfer of financial assets				
Stage 1 (12-month ECL)	- 1	3	4	6
Stage 2 (lifetime ECL)	1	- 3	8	6
Stage 3 'non-performing' (lifetime ECL)	0	1	- 1	- 1
New financial assets	5	0	0	5
Changes in risk parameters during the reporting period	8	- 2	- 5	1
Changes in the model or methodology	0	0	0	0
Derecognised financial assets	- 1	0	- 2	- 2
Other	0	0	0	0
Movements without an impact on results				
Derecognised financial assets	0	0	- 13	- 13
Changes in the scope of consolidation	1	0	0	2
Other	0	0	1	1
Provisions on 31-12-2020	26	17	99	143

- Also see Note 6.1.

Note 5.7.3: Details of provisions for other risks and charges

(in millions of EUR)	Provision for restructuring	Provision for taxes and pending legal disputes	Other	Total
2021				
Opening balance	7	31	25	63
Movements with an impact on results				
Amounts allocated	84	28	7	119
Amounts used	- 4	- 16	- 15	- 35
Unused amounts reversed	- 1	- 1	- 1	- 3
Transfers out of/into liabilities associated with disposal groups	0	0	0	0
Changes in the scope of consolidation	0	2	0	2
Other	1	0	0	0
Closing balance	87	44	17	147
2020				
Opening balance	7	54	24	85
Movements with an impact on results				
Amounts allocated	5	17	9	31
Amounts used	- 4	- 29	- 5	- 38
Unused amounts reversed	0	- 11	- 2	- 13
Transfers out of/into liabilities associated with disposal groups	0	0	0	0
Changes in the scope of consolidation	0	3	0	3
Other	0	- 3	- 1	- 4
Closing balance	7	31	25	63

- The change in the restructuring provision in 2021 relates mainly to Ireland (see Note 6.6). For most of the other provisions recorded, no reasonable estimate can be made of when they will be used.
- Other provisions included those set aside for miscellaneous risks.
- Information relating to the main legal disputes pending: claims filed against KBC group companies are – in keeping with IFRS rules – treated on the basis of an assessment of whether they will lead to an outflow of resources (i.e. 'probable outflow', 'possible outflow' or 'remotely probable outflow'). Provisions are set aside for 'probable outflow' cases (see 'Notes on the accounting policies'). No provisions are constituted for 'possible outflow' cases, but information is provided in the financial statements if such cases might have a material impact on the balance sheet (i.e. when the claim could lead to a possible outflow of more than 50 million euros). All other claims ('remotely probable outflow'), of whatever magnitude, that represent a minor or no risk at all do not have to be reported. The most important cases are listed below. The information provided is limited in order not to prejudice the position of the group in ongoing litigation.
- Possible outflow On 6 October 2011, Irving H. Picard, trustee for the liquidation of Bernard L. Madoff Investments Securities LLC (& Bernard L. Madoff), sued KBC Investments Ltd (a wholly-owned subsidiary of KBC Bank) before the bankruptcy court in New York to recover (claw-back) approximately USD 110,000,000 which had been transferred from Madoff (via a feeder fund called Harley) to KBC entities. This claim is one of a whole set made by the trustee against several banks, hedge funds, feeder funds and investors ("joint defense group"). A lengthy litigation process was conducted on the basis of preliminary objections in respect of the applicability of the Bankruptcy Code's 'safe harbor' and 'good faith defense' rules, as well as prudential limitations on U.S. courts' powers in international cases, to subsequent transferees (as is the case for KBC Investments Ltd), as detailed in previous disclosures. In June 2015 the Trustee stated his intention to amend the original claim which led to increase the amount claimed to USD 196,000,000. A court ruling dismissing the claim of the Trustee was issued on 3 March 2017. The Trustee appealed and the appellate court ("Court of Appeals for the Second Circuit") reversed the dismissal on 28 February 2019. A petition (i.e. writ of Certiorari) filed on 30 August 2019 was denied by the U.S. Supreme Court on 2 June 2020. As a consequence the merits of the case are handled by the Bankruptcy Court. On August 30, 2021, in two other appeals by other defendants, the Court of Appeals for the Second Circuit reversed the burden of proof from an initial burden on the Trustee to adequately allege the defendant's lack of good faith to a burden on the defendant to prove its good faith. Given that a new Bankruptcy Court judge has been assigned to Madoff cases and has decided to handle all proceedings separately, the Trustee has begun to have separate discussions with counsel for all Defendants in the remaining 80 cases . The Trustee has indicated he will amend or seek to amend his complaint, including to increase the amount claimed as he stated in June 2015, and KBC Investments Ltd will have the right to seek to dismiss the complaint, including for lack of specific personal jurisdiction of the US court, in particular due to the insufficient nexus between KBC Investments Ltd's actions and the United States. Although certain defenses are now unavailable and the burden of proof has been shifted for others, KBC still believes it has good and credible defenses , both procedurally as on the merits including demonstrating its good faith. The procedure may still take several years.

Note 5.8: Other liabilities

(in millions of EUR)	31-12-2021	31-12-2020
Total	1 691	2 088
Breakdown by type		
Retirement benefit obligations or other employee benefits	270	499
Accrued charges (other than from interest expenses on financial liabilities)	308	339
Other	1 113	1 250

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

Note 5.9: Retirement benefit obligations

(in millions of EUR)	31-12-2021	31-12-2020
DEFINED BENEFIT PLANS		
Reconciliation of defined benefit obligations		
Defined benefit obligations at the beginning of the period	2 452	2 319
Current service cost	94	90
Interest cost	7	17
Actuarial gain or loss resulting from changes in demographic assumptions	- 3	- 4
Actuarial gain or loss resulting from changes in financial assumptions	- 21	186
Experience adjustments	- 5	- 77
Past-service cost	- 11	0
Other	- 100	- 78
Defined benefit obligations at the end of the period	2 413	2 452
Reconciliation of the fair value of plan assets		
Fair value of plan assets at the beginning of the period	1 965	1 947
Actual return on plan assets	229	17
Expected interest income on plan assets, calculated based on the market interest rates of high-quality corporate bonds	*6*	*15*
Employer contributions	67	65
Plan participant contributions	18	19
Benefits paid	- 90	- 75
Other	44	- 7
Fair value of plan assets at the end of the period	2 233	1 965
of which financial instruments issued by the group	*24*	*16*
of which property occupied by KBC	*3*	*5*
Funded status		
Plan assets in excess of defined benefit obligations	- 180	- 486
Reimbursement rights	0	0
Asset ceiling limit	- 37	0
Unfunded accrued/prepaid pension cost	- 217	- 486
Movement in net liabilities or net assets		
Unfunded accrued/prepaid pension cost at the beginning of the period	- 486	- 408
Amounts recognised in the income statement	- 67	- 74
Amounts recognised in other comprehensive income	230	- 68
Employer contributions	67	65
Other	39	- 1
Unfunded accrued/prepaid pension cost at the end of the period	- 217	- 486
Amounts recognised in the income statement	- 67	- 74
Current service cost	- 94	- 90
Interest cost	- 1	- 3
Plan participant contributions	18	19
Other	11	0
Changes to the amounts recognised in other comprehensive income	230	- 68
Actuarial gain or loss resulting from changes in demographic assumptions	3	4
Actuarial gain or loss resulting from changes in financial assumptions	21	- 186
Actuarial result on plan assets	223	2
Experience adjustments	5	77
Adjustments to asset ceiling limits	- 37	36
Other	15	- 3
DEFINED CONTRIBUTION PLANS		
Expenses for defined contribution plans	- 20	- 19

- Retirement benefits that are actively accrued for the Belgium-based staff of KBC Bank and most of its Belgian subsidiaries are accrued exclusively through the KBC pension fund. Up until year-end 2018, employer-funded retirement benefits had accrued primarily through a defined benefit plan, where the benefit is calculated based on the final salary of employees before they retire, the number of years they had been in the plan and a formula that applies a progressive rate scale. A defined contribution plan was introduced on 1 January 2014 for all new employees and any employees who had chosen to switch to it. In this plan, a contribution is deposited based on the current monthly salary and the amounts deposited are paid out together with the (guaranteed) return on retirement. Both types of pension plan are managed by the KBC pension fund, which uses the services of KBC Asset Management for the investment strategy. In addition, there are a number of smaller, closed group insurance schemes from the past that will continue to be funded and are managed by the KBC pension fund. On 1 January 2019, a new defined contribution plan was introduced to replace the one introduced in 2014. All employees were again given the one-time option of switching from the defined benefit plan to the new defined contribution plan.
- From 2021, the expected age of retirement of each employee and the expected wage inflation based on an inflation curve derived from the market value of inflation-linked bonds are taken into account in the calculation of the gross defined benefit obligations.
- Since 1 January 2020, the insurance risks related to death and disability (for active pension fund participants and supplementary to the pension plan) have been fully reinsured through an external reinsurance programme.
- As regards the management of the assets, the share of socially screened investments has increased over the past four years to 50% and is expected to increase further to 75% in the course of the next year. The aim is for the KBC Pension Fund investment portfolio to be carbon-neutral by 2050, in light of which a preliminary assessment of the greenhouse gas intensity of listed bonds and shares was carried out in 2021, to allow for a more quantitative follow-up in the longer term.
- The outstanding liability in KBC Ireland is currently 25 million euros, 11 million euros lower than at the start of 2021 as a result of the sale transactions in Ireland.
- There are no significant defined benefit plans in the group's other core countries.

Additional information on retirement benefit obligations (in millions of EUR)	2021	2020	2019	2018	2017
Changes in main headings in the main table					
Defined benefit obligations	2 413	2 452	2 319	2 152	2 124
Fair value of plan assets	2 233	1 965	1 947	1 670	1 699
Unfunded accrued/prepaid pension cost	- 217	- 486	- 408	- 462	- 407
Impact of changes in the assumptions used in the actuarial calculation of pla					
Impact on plan assets	0	0	0	0	0
Impact on retirement benefit obligations*	- 25	182	182	- 29	4

* Arising from defined benefit plans. A plus sign signifies an increase in the obligation (in absolute value), a minus sign a decrease in the obligation (in absolute value).

Additional information on retirement benefit obligations:
DEFINED BENEFIT PLANS

	KBC pension fund
Composition (31-12-2021)	
Equity instruments	38%
Bonds	47%
Real estate	13%
Cash	2%
of which illiquid assets	*11%*
Composition (31-12-2020)	
Equity instruments	39%
Bonds	48%
Real estate	12%
Cash	1%
of which illiquid assets	*10%*
Contributions expected in 2022 (in millions of EUR)	31
Regulatory framework	Pension plans are registered in collective labour agreements and incorporated into a set of regulations. Annual reporting of funding levels to supervisory authorities (FSMA/NBB). Any underfunding must be reported immediately to the supervisory authorities.
Risks for KBC	Investment risk and inflation risk.
ALM policy	The hedging portfolio hedges against interest rate risk and inflation risk using interest rate swaps. The return portfolio aims to generate an extra return.
Plan amendments	A new version of the employer-funded DC plan was introduced on 1 January 2019. All employees affiliated in the DB plan had a one-off opportunity to switch to the DC plan for future contributions.
Curtailments and settlements	Not applicable.
Discounting method	Based on BVAL quotes for various time buckets of AA-rated corporate bonds. The resulting yield curve is converted into a zero coupon curve. The curve becomes flat for maturities of 22 years and longer.
Key actuarial assumptions	
Average discount rate	0.64%
Expected rate of salary increase	2.73%
Expected inflation rate	2.33%
Expected rate of increase in pensions	-
Weighted average duration of the obligations	12 years
Impact of changes in the assumptions used in the actuarial calculation of the retirement benefit obligations	
Increase in the retirement benefit obligations on 31-12-2021 consequent on:	
a decrease of 1% in the discount rate	14.41%
an increase of 1% in the expected inflation rate	11.05%
an increase that is 1% higher than the expected real increase in salary	14.49%
an increase of one year in life expectancy	-
The impact of the following assumptions has not been calculated:	Decreasing mortality rates: pension benefits are paid out in capital, so longevity risk is immaterial. Staff turnover rates: the expected rate is very low.

Contributions expected in 2022 (in millions of EUR)	21
Regulatory framework	Pursuant to the Belgian Supplementary Pensions Act, the employer must guarantee a minimum return of 1.75% on employee and employer contributions.
Risks for KBC	Investment risk.
Valuation	Retirement benefit obligations are measured on the basis of the accrued benefits on the reporting date, making a projection of these benefits (at the rate of interest guaranteed by law) until the expected age of retirement, and discounting the resulting benefits. KBC has two types of defined contribution plan: one that is financed through employee contributions and one through employer contributions. The valuation of retirement benefit obligations for the employer-funded defined contribution plan takes account of future contributions. However, it is not taken into account for the valuation of the employee-funded defined contribution plan, because the employer's obligation for that plan only relates to the minimum guaranteed interest rate.
Discounting method	Based on BVAL quotes for various time buckets of AA-rated corporate bonds. The resulting yield curve is converted into a zero coupon curve. The curve becomes flat for maturities of 22 years and longer.
Key actuarial assumptions	
Average discount rate	0.91%
Weighted average duration of the obligations	19 jaar
Impact of changes in the assumptions used in the actuarial calculation of the retirement benefit obligations Increase in the retirement benefit obligations on 31-12-2021 consequent on:	
a decrease of 1% in the discount rate	21%

Note 5.10: Parent shareholders' equity and additional tier-1 instruments

Quantities	31-12-2021	31-12-2020
Ordinary shares	**995 371 469**	**995 371 469**
of which ordinary shares that entitle the holder to a dividend payment	*995 371 469*	*995 371 469*
of which treasury shares	*0*	*0*
Additional information		
Par value per share (in EUR)	9.78	9.78
Number of shares issued but not fully paid up	0	0

- Ordinary shares: ordinary shares of no nominal value. All ordinary shares carry voting rights and each share represents one vote. No participation certificates or non-voting shares have been issued.
- On 31 December 2020, 995 371 469 ordinary shares were in circulation, all of which belonged to KBC Group NV.
- Additional tier-1 (AT1) instruments (these securities are classified as equity instruments under IAS 32 and the coupon is treated as a dividend):
  - In April 2018, KBC Group issued 1 billion euros in AT1 securities and underwrote an AT1 security for the same amount at KBC Bank (a perpetual AT1 instrument with a seven year first-call date and a temporary write-down trigger should the common equity ratio fall below 5.125% and an initial coupon of 4.45% per annum, which is payable every six months).
  - In February 2019, KBC Group issued 500 million euros in AT1 securities and underwrote an AT1 security for the same amount at KBC Bank (a perpetual AT1 instrument with a five year first-call date and a temporary write-down trigger should the common equity ratio fall below 5.125% and an initial coupon of 4.95% per annum, which is payable every six months).

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

KBC Bank Ireland (in millions of EUR)	31-12-2021
ASSETS	
Loans and advances to customers (excl. reverse repos)	9 998
Consumer credit	32
Mortgage loans	9 871
Term loans	83
Current account advances	12
LIABILITIES	
Deposits from customers and debt securities (excl. repos)	3 999
Demand deposits	481
Time deposits	949
Savings accounts	2 569
Deposits from credit institutions and investment firms (excl. repos)	263
of which repayable on demand	257

- At the end of August 2021, KBC Bank Ireland reached agreement on the disposal of a non-performing mortgage loan portfolio in a transaction financed by funds managed by CarVal Investors. This deal was finalised in early February 2022. In October 2021, KBC Bank Ireland also confirmed that it had entered into a legally binding agreement with Bank of Ireland relating to the sale of substantially all of KBC Bank Ireland’s performing loan assets and its deposit book to Bank of Ireland Group (see Note 6.6 for more details). Since we consider all the requirements of IFRS 5 to have been met, these sales resulted in a shift to the ‘Non-current assets held for sale and disposal groups’ and ‘Liabilities associated with disposal groups’ items (see the table below for more details).
- Maximum credit exposure: the maximum credit risk associated with ‘Non-current assets held for sale and disposal groups’ amounted to 10.0 billion euros, with 9.8 billion euros in collateral and other credit enhancements received.

6.0 Other notes

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

(in millions of EUR)			31-12-2021			31-12-2020
	Nominal amount	Provision	Net exposure	Nominal amount	Provision	Net exposure
Undrawn portion of credit lines granted						
Stage 1	38 447	17	38 430	36 059	22	36 036
Stage 2	4 770	16	4 754	4 034	11	4 024
Stage 3 – non-performing	42	4	38	40	9	31
Total	43 258	37	43 221	40 133	42	40 091
of which irrevocable credit lines	*25 809*	*14*	*25 795*	*23 542*	*18*	*23 524*
Financial guarantees given						
Stage 1	8 678	2	8 676	7 767	4	7 764
Stage 2	1 678	5	1 673	1 703	6	1 697
Stage 3 – non-performing	153	86	67	169	90	79
Total	10 510	93	10 417	9 639	100	9 539
Other commitments given						
Total	675	1	674	354	1	353
Total						
Off-balance-sheet commitments and financial guarantees	54 443	130	54 312	50 126	143	49 983

- Fair value of financial guarantees: based on the available market value.
- The carrying value of financial assets pledged by KBC as collateral came to 66 057 million euros for liabilities and 3 961 million euros for contingent liabilities (61 197 million euros and 4 192 million euros, respectively, in 2020). At year-end 2021, some 16.6 billion euros' worth of residential mortgage loans and cash collections were entered in the cover asset register for the special estate of the covered bond programme (17.4 billion euros at year-end 2020).
- There is an obligation to return collateral received (which may be sold or repledged in the absence of default by the owner; see table) in its original form, or possibly in cash. Collateral can be called in if loans are terminated for various reasons such as default or bankruptcy. In the event of bankruptcy, the collateral will be sold by the receiver. In other cases, the bank will organise the foreclosure itself or take possession of the collateral. Collateral received that relates to OTC derivatives is primarily cash, which is recognised by KBC on the balance sheet (and is not included in the table). More details are provided in Note 4.3.
- Collateral acquired through foreclosure came to 4 million euros in 2021 (7 million euros in 2020).

Collateral received (which may be sold or repledged in the absence of default by the owner) (in millions of EUR)	Fair value of collateral received		Fair value of collateral sold or repledged	
	31-12-2021	31-12-2020	31-12-2021	31-12-2020
Financial assets	40 251	40 466	11 862	10 933
Equity instruments	11	8	1	2
Debt securities	40 021	40 261	11 860	10 931
Loans and advances	219	197	0	0
Cash	0	0	0	0
Other	0	0	0	0

Note 6.2: Leasing

(in millions of EUR)	31-12-2021	31-12-2020
Finance lease receivables		
Gross investment in finance leases, receivable	6 155	6 136
At not more than one year	1 504	1 482
At more than one but not more than five years	3 421	3 350
At more than five years	1 230	1 304
Unearned future finance income on finance leases	340	388
Net investment in finance leases	5 815	5 747
At not more than one year	1 427	1 394
At more than one but not more than five years	3 239	3 148
At more than five years	1 149	1 206
of which unguaranteed residual values accruing to the benefit of the lessor	*34*	*40*
Accumulated impairment for uncollectable lease payments receivable	47	55
Operating lease receivables		
Future aggregate minimum rentals receivable under non-cancellable operating leases	499	503

- KBC acts only to a limited extent as a lessee in operational and financial leasing.
- Finance leases: KBC offers finance lease products ranging from equipment and vehicle leasing to real estate leasing. In Belgium, finance leases are typically sold through KBC group's branch network, and that channel is becoming increasingly important in Central Europe, too.
- Operating leases: involve primarily full service car leases, which are sold through the KBC Bank and CBC Banque branch network and through an internal sales team. Full service car leasing activities are being further developed in Central Europe, too.

Note 6.3: Related-party transactions

Transactions with related parties, excluding key management (in millions of EUR)	2021 Parent entities with joint control	2021 Subsidiaries and other entities of group	2021 Associated companies	2021 Joint ventures	2021 Other	2021 Total	2020 Parent entities with joint control	2020 Subsidiaries and other entities of group	2020 Associated companies	2020 Joint ventures	2020 Other	2020 Total
Assets	0	471	17	39	128	656	1	649	93	34	7	784
Loans and advances	0	353	0	0	100	453	0	251	39	1	0	291
Equity instruments (including investments in associated companies and joint ventures)	0	56	17	39	0	112	1	97	53	29	0	180
Other	0	62	0	0	28	91	0	301	1	4	7	313
Liabilities	12 194	1 033	89	0	838	14 155	10 446	1 093	93	4	373	12 010
Deposits	238	948	20	0	831	2 037	80	769	18	4	351	1 222
Other financial liabilities	11 907	0	0	0	0	11 907	10 191	258	0	0	0	10 449
Other	50	85	69	0	8	212	175	66	75	0	23	339
Income statement	- 818	- 35	- 4	0	- 4	- 862	- 929	- 55	- 4	0	0	- 987
Net interest income	- 76	- 101	- 1	0	0	- 178	- 74	- 142	- 1	0	0	- 217
Interest income	8	1	0	0	0	9	6	1	1	0	0	8
Interest expense	- 84	- 102	- 1	0	0	- 187	- 80	- 143	- 1	0	0	- 225
Earned premiums, insurance (before reinsurance)	0	0	0	0	0	0	0	0	0	0	0	0
Technical insurance charges (before reinsurance)	0	0	0	0	0	0	0	0	0	0	0	0
Dividend income	0	0	0	0	0	1	0	0	1	0	0	2
Net fee and commission income	0	66	- 1	0	2	67	0	80	- 1	0	2	81
Fee and commission income	0	181	0	0	2	183	0	178	0	0	2	181
Fee and commission expense	0	- 115	- 1	0	0	- 116	0	- 99	- 1	0	0	- 100
Net other income	0	- 27	- 1	0	0	- 29	0	- 17	- 1	0	0	- 18
General administrative expenses	- 742	28	- 2	0	- 6	- 723	- 854	24	- 2	0	- 2	- 835
Undrawn portion of loan commitments, financial guarantees and other commitments												
Given by the group	0	3 611	0	0	74	3 685	0	3 798	0	18	111	3 927
Received by the group	0	0	0	0	0	0	0	0	0	0	0	0

Transactions with key management (members of the Board of Directors and Executive Committee) (in millions of EUR)*	2021	2020
Total*	1	2
Breakdown by type of remuneration		
Short-term employee benefits	1	2
Post-employment benefits	0	0
Defined benefit plans	0	0
Defined contribution plans	0	0
Other long-term employee benefits	0	0
Termination benefits	0	0
Share-based payments	0	0
Stock options (units)		
At the beginning of the period	0	0
Granted	0	0
Exercised	0	0
Composition-related changes	0	0
At the end of the period	0	0
Advances and loans granted to key management and partners	1	2

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

- The 'Subsidiaries and KBC group entities' 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 other KBC group entities (primarily KBC Insurance).
- The 'Other' heading in the first table includes KBC Ancora, Cera and MRBB.
- All related-party transactions occur at arm's length.
- Key management comprises the members of the Board of Directors and Executive Committee of KBC Bank NV. More detailed information on remuneration paid to key management staff is provided in the 'Corporate governance statement' section.
- There were no significant impairment charges vis-à-vis related parties.

Note 6.4: Statutory auditor's remuneration

Statutory auditor's remuneration (PwC, in EUR)	2021	2020
KBC Bank NV and its subsidiaries		
Standard audit services	5 998 302	6 139 087
Other services	640 162	413 229
Other certifications	555 457	404 150
Tax advice	0	0
Other non-audit assignments	84 705	9 079
KBC Bank NV		
Standard audit services	2 109 052	1 998 195
Other services	78 088	82 948

Note 6.5: Subsidiaries, joint ventures and associated companies

The main group companies are shown in the table. A complete list of group companies (included in or excluded from the scope of consolidation) is provided at **www.kbc.com** > About us > Our structure.

KBC Bank: main companies included in the scope of consolidation

Company	Registered office	Company number	Share of capital held at group level (in %)	Business unit[1]	Activity
KBC Bank NV	Brussels – BE	462.920.226	100.00	BE/GC	credit institution
CBC BANQUE SA	Namur – BE	403.211.380	100.00	BE	credit institution
Československá Obchodná Banka a.s.	Bratislava – SK	--	100.00	IM	credit institution
Československá Obchodní Banka a.s.	Prague – CZ	--	100.00	CZ	credit institution
KBC Asset Management NV	Brussels – BE	469.444.267	100.00	BE	asset management
KBC Autolease NV	Leuven – BE	422.562.385	100.00	BE	leasing
KBC Bank Ireland Plc.[2]	Dublin – IE	--	100.00	IM	credit institution
KBC Commercial Finance NV	Brussels – BE	403.278.488	100.00	BE	factoring
KBC IFIMA SA	Luxembourg – LU	--	100.00	GC	Finance
KBC Securities NV	Brussels – BE	437.060.521	100.00	BE	stockbroker
K&H Bank Zrt.	Budapest – HU	--	100.00	IM	credit institution
Loan Invest NV	Brussels – BE	889.054.884	100.00	BE	securitisation
United Bulgarian Bank AD	Sofia – BG	--	99.91	IM	credit institution

[1] BE = Belgium Business Unit, CZ = Czech Republic Business Unit, IM = International Markets Business Unit, GC = Group Centre.
[2] See Note 6.6.

- Companies eligible for consolidation are effectively included in the consolidated accounts if two of the following criteria are met: (i) the group's share in equity exceeds 2.5 million euros (ii) the group's share in the results exceeds 1 million euros (iii) the balance sheet total exceeds 100 million euros. The combined balance sheet total of the companies excluded from consolidation may not amount to more than 1% of the consolidated balance sheet total.
- All (material) entities (including structured entities (SPVs)) over which the consolidating entity exercises, directly or indirectly, exclusive control are consolidated according the method of full consolidation. To assess whether or not structured entities have to be consolidated, KBC uses the principles set out in IFRS 10, as well as thresholds for inclusion in consolidation (see previous bullet point).
- Disclosures of interests in other entities (IFRS 12)
  - Significant judgements and assumptions
    - In general, funds managed by KBC are not included in the scope of consolidation, as they do not meet the three criteria of control (power, exposure to a variable return and ability to use such power to affect those returns).
    - Joint entities in which KBC does not hold 50% of the share capital are classified as joint ventures, since it has joint control over these entities based on shareholder agreements. Based on the Articles of Association and/or shareholder agreements, voting rights in (and therefore the control of) the joint venture are spread evenly across the different shareholders and decisions may only be taken by unanimity.
  - Interests in subsidiaries
    - For the vast majority of the entities, the voting rights are materially equal to the ownership rights.
    - Pursuant to the joint capital decision, specific pillar-II levels have been set to ensure that certain minimum capital ratios are respected, which impose certain restrictions on the repatriation of capital and distribution of dividends.
    - With regard to Loan Invest NV, KBC is exposed to loan losses on the mortgage portfolio and, therefore, recognises impairment losses on them where necessary.
  - Interests in unconsolidated structured entities
    - KBC Bank NV is arranger and dealer of a number of 40-billion-euro medium term notes programmes issued by 19 unconsolidated structured entities established in Ireland for that purpose. Their primary business is to raise money by issuing notes in order to buy financial assets (such as securities, bonds and deposits) and to enter into related derivative and other contracts. They provide investment opportunities for clients by providing economies of scale, a diversification of credit risk and a high level of granularity. Each structured entity has a prospectus that was approved by the Central Bank of Ireland (available at www.kbc.be/prospectus/spv). However, the structured entities are not consolidated because they fail to meet the three criteria for consolidation (power, exposure to a variable return and ability to use such power to affect those returns). At year-end 2021, the assets under management at these entities amounted to 6.2 billion euros.
    - Sponsored unconsolidated structured entities are defined as structured entities where KBC Group NV 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 Bank or one of its subsidiaries. As a result, these entities are not consolidated.
    - At year-end 2021, KBC Bank had received income from unconsolidated structured entities in the form of management fees (26 million euros), administrative agent fees (1 million euros) and accounting fees (1 million euros).

- At year-end 2021, no group companies were active in the extractive industry. As a result, no consolidated report on payments to governments has been prepared (see Art.3:8 § 1 of the Companies and Associations Code).

Note 6.6: Main changes in the scope of consolidation

- Acquisition of OTP Banka Slovensko
  - At the end of November 2020, we completed the acquisition of 99.44% of the shares in OTP Banka Slovensko for a total consideration of 64 million euros (the deal did not contain any contingent consideration arrangements). OTP Banka Slovensko operated on the Slovakian market as a universal bank, with a share of nearly 2% in the market for deposits and loans and close to 200 000 clients. This acquisition strengthens our market share in Slovakia, where we have been operating through ČSOB since 2002. We will be able to benefit from economies of scale and increase our visibility in this highly competitive market, which will benefit all our stakeholders.
  - The impact of the acquisition is included in the consolidated balance sheet figures (at year-end 2020 and year-end 2021). The results of OTP Banka Slovensko have been fully consolidated in the income statement from 1 January 2021. The impact amounts to +34 million euros in total income (mainly net interest income and net commission income), -30 million euros in business-as-usual operating expenses (excluding 18 million euros in integration project expenses, 14 million euros of which is recognised in ČSOB Slovakia and 4 million euros in OTP Banka Slovensko), +6 million euros in impairment reversals, and +4 million euros in result after tax.
  - KBC did not include any goodwill or badwill in its consolidated financial statements at the end of 2020, because the consideration was virtually identical to OTP's equity (taking into account specific, negative fair value adjustments that KBC had identified during the due diligence process). It should be noted that IFRS 3 (Business Combinations) allows the amount of goodwill to be adjusted during the 12-month measurement period starting from the acquisition date. On finalisation of the specific fair value adjustments (relating primarily to the loan portfolio based on thorough screening), KBC recorded 28 million euros of badwill in the fourth quarter of 2021 (recognised in 'Other net income'; also see Note 3.6), which is exempt from taxation.
  - The acquisition had only a limited impact on KBC's capital position (-0.2% on the common equity ratio).
  - In 2021, we increased the stake in OTP Banka Slovensko to 100% through a squeeze-out bid. On 1 October 2021, OTP Banka Slovensko merged with ČSOB in Slovakia.
  - The table below shows the fair value of the main assets and liabilities involved in the acquisition of OTP Banka Slovensko.

Impact of the acquisition of OTP Banka Slovensko (in millions of EUR)	2020: OTP Banka Slovensko
Percentage of shares bought or sold in the relevant year	99.44% (purchase)*
Percentage of shares after deal	99.44%*
For business unit	International Markets
Deal date (month and year)	99.44%: November 2020
Results of the relevant company/business recognised in the group result as from:	January 2021
Purchase price or sale price	64
Cashflow for acquiring or selling companies less cash and cash equivalents acquired or sold	107
Amounts recognised for the purchased assets and liabilities	
Situation on:	31 December 2020
Cash and cash balances with central banks	171
Financial assets	1 209
Amortised cost	*1 206*
Fair value through OCI	*2*
Fair value through profit or loss	0
Tax assets	16
Property and equipment	*10*
Other assets	*2*
Cash and cash equivalents (included in the above assets)	*171*
Financial liabilities	1 048
Amortised cost	*1 048*
Hedging derivatives	*0*
Provisions for risks and charges	10
Other liabilities	21
Cash and cash equivalents (included in the above liabilities)	*0*

*Later increased to 100% through a squeeze-out of minority shareholders.

- Sale of activities in Ireland (not yet fully finalised)
    - At the end of August, KBC Bank Ireland reached agreement on the disposal of a non-performing mortgage loan portfolio of roughly 1.1 billion euros in a transaction financed by funds managed by CarVal Investors. The deal was completed in early February 2022. The loans will be managed by Pepper Finance Corporation (Ireland) DAC as the legal title holder of the loans. Pepper is supervised by the Central Bank of Ireland.
    - In October 2021, KBC Bank Ireland also confirmed that it had entered into a legally binding agreement with Bank of Ireland relating to the sale of substantially all of KBC Bank Ireland's performing loan assets and its deposit book to Bank of Ireland Group The latter will also acquire a small non-performing mortgage loan portfolio. The acquisition, totalling approximately 5 billion euros (excluding deposits), includes approximately 8.8 billion euros in performing mortgage loans, approximately 0.1 billion euros in mainly performing commercial and consumer loans, approximately 0.3 billion euros in non-performing mortgage loans and approximately 4.4 billion euros in deposits. The exact size of the portfolio and the consideration to be paid will depend on movements in the portfolio up to completion of the transaction, but these are not expected to materially change. The transaction remains subject to the approval of the supervisory authority and the Irish competition authorities.
    - The successful completion of these two transactions will ultimately result in our withdrawal from the Irish market.
    - The two sale transactions in Ireland had an immediate one-off impact on the income statement of -0.4 billion euros after tax (see table). When finalised, the transaction with Bank of Ireland will have a positive impact of around 0.2 billion euros and will also positively impact the common equity ratio by approximately 0.9 percentage points (primarily due to a reduction in risk-weighted assets).
    - The impact of the two transactions on the consolidated balance sheet figures of year-end 2021: the sale transactions in Ireland led to a transfer of all assets and liabilities forming part of the disposal groups to 'Non-current assets held for sale and disposal groups' on the assets side of the balance sheet and to 'Liabilities associated with disposal groups' on the liabilities side of the balance sheet. These will be derecognised upon completion. Impact on the income statement: the results of the disposal groups will continue to be recognised in the relevant income statement items until completion of the transactions. Impact on the credit cost ratio and the impaired loans ratio: the Irish loan portfolio will be included until completion of the transactions (also see the pro-forma figures in Note 4.1 and Note 5.11). An overview of the one-off impact on the income statement in 2021 is provided in the table below.
    - In 2022, Ireland will be transferred to the Group Centre (without retroactive restatement).

Impact of the transactions relating to Ireland on financial year 2021: one-off items* (in millions of EUR)	**Sale transaction for non-performing loans in August**	**Sale transaction for remaining loans and deposits in November**	**Total**
Total income	0	-3	-3
Operating expenses	-7	-91	-97
Impairment	-129	-81	-210
*on financial assets at amortised cost and at fair value through OCI**	*-129*	*-49*	*-178*
other	*0*	*-32*	*-32*
Income tax expense	16	-67	-51
RESULT AFTER TAX	-120	-241	-361

* The impairment is caused by a comparison between the sale price of the impaired loans and the net carrying value of the underlying loans.

- Acquisition of Bulgarian activities from Raiffeisen Bank International (not yet finalised)
    - In November 2021, we reached agreement with Raiffeisen Bank International on the acquisition of 100% of the shares in Raiffeisenbank (Bulgaria) EAD, a universal bank in Bulgaria offering private individuals, SMEs and corporate entities a full range of banking, asset management, leasing and insurance services. The transaction also includes the subsidiaries Raiffeisen Leasing Bulgaria, Raiffeisen Asset Management (Bulgaria), Raiffeisen Insurance Broker and Raiffeisen Service. Boasting a market share in loans of roughly 8%, a network of 122 bank branches and around 2 500 employees serving more than 600 000 clients, it is the sixth-largest bank in the country. The deal involves a total amount of 1 015 million euros in cash, reflecting the quality of the franchise and the potential synergies (including in terms of optimising and integrating the branch network, head office and ICT platforms). The plan is to merge Raiffeisenbank (Bulgaria) and UBB following the supervisory authority's approval. The pro-forma combined entity will have an estimated market share of 18% in terms of assets, allowing us to further strengthen our top-three position in the banking market and expand our position as a leading financial group in Bulgaria. This acquisition will also significantly strengthen UBB's position as a market leader in asset management and as a leading leasing solutions provider and will create ample opportunity for insurance cross-selling with DZI. The transaction will positively contribute to our earnings per share from the first year.
    - The transaction had not yet been finalised at year-end 2021 and is therefore not included in the consolidated balance sheet figures of year-end 2021.
    - Upon completion, the transaction will have an impact of approximately -1 percentage point on KBC Group common equity ratio. The transaction remains subject to regulatory approval and is expected to be completed by mid-2022.

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.

We report the solvency of the bank based on IFRS data and according to the rules imposed by the regulator.

This implies that we calculate our solvency ratios based on CRR/CRD IV. KBC began applying the transitional provisions for IFRS 9 on 30 June 2020. KBC Bank is subject to minimum solvency ratios. The main measure is the transitional common equity ratio, with the minimum regulatory requirement being 10.45%. This includes the pillar 1 minimum requirement (4.5%), the pillar 2 requirement (1.75% set by the ECB following its supervisory review and evaluation process) and the buffer requirements (4.20% set by the local competent authorities in KBC's core markets). At year-end 2021, the transitional common equity ratio was 15.5%.

Regulatory capital requirements KBC Bank (consolidated) (in millions of EUR)	**KBC Bank (consolidated) CRR/CRD**	
	31-12-2021	**31-12-2020**
	Transi-tional	***Transi-tional***
Total regulatory capital, after profit appropriation	17 964	18 021
Tier-1 capital	16 210	16 078
Common equity	14 710	14 578
Parent shareholders' equity	14 912	14 567
Solvency adjustments	- 202	12
Additional going concern capital[1]	1 500	1 500
Tier-2 capital[2]	1 754	1 942
Total weighted risk volume[3]	94 836	92 635
Common equity ratio	15.5%	15.7%

[1] Contains perpetual subordinated loans with a fully discretionary and non-cumulative interest payment.The securities also include a loss-absorption mechanism, more specifically a temporary write-down if the CET1 ratio falls below 5,125%. See also note 5.10.

[2] Contains subordinated loans with a fixed maturity date of which the principal amount and interest payment in the going concern cannot be canceled.

[3] It is not the responsibility of the statutory auditor to ensure that the RWA internal models meet the approval criteria as laid down in the regulatory standards.

- More detailed information is provided in the 'How do we manage our capital?' section of this report and in KBC's Risk Report.
- The loan portfolio accounts for the largest share of the financial assets. Based on internal management reports, the composition and quality of the loan portfolio is set out in detail in the 'How do we manage our risks?' section (under 'Credit risk'). The information required in relation to risks (in accordance with IFRS 4 and IFRS 7) is provided in those parts of the 'How do we manage our risks?' section which have been audited by the statutory auditor and which constitute part of the financial statements.

Note 6.8: Post-balance-sheet events

Significant non-adjusting events between balance sheet date and the date on which the financial statements were approved for publication by the Board of Directors (17 March 2022):

- 7 February 2022: completion of the previously announced sale of substantially all of the remaining portfolio of non-performing mortgage loans in Ireland.
- At the time this report was being prepared, the invasion of Russia in Ukraine required additional attention at group level and in our home markets in Central and Eastern Europe. KBC has very limited direct exposure to Ukraine and Belarus (less than 10 million euros combined) and only limited direct exposure to Russia of less than 50 million euros, mainly stemming from trade financing. KBC is keeping a very close eye on the related macroeconomic impact (e.g., impact of high gas and oil prices on inflation and economic growth) and on spillover effects to KBC and its clients, both financially and operationally, among other things with high focus on information security threats. Economic and financial sanctions by the West might further impact the European economy. Continuous monitoring and reporting of the situation is in place.

Note 6.9: General information on the company

Name:	KBC Bank NV.
Incorporated:	17 March 1998.
Country of incorporation:	Belgium.
Registered office:	Havenlaan 2, 1080 Brussels, Belgium.
VAT:	BE 0462.920.226.
RLP:	Brussels.
Website:	https://www.kbc.com

E-mail address reserved for shareholders and bondholders:

IR4U@kbc.be

Legal form:	*naamloze vennootschap* (company with limited liability) under Belgian law; organisation of public interest; the company is a credit institution that is subject to the prudential supervision of the National Bank of Belgium and the European Central Bank.
Life:	undefined.
Object:	In Belgium or abroad, for its own account or for account of third parties, the company has as object the execution of all banking operations in the widest sense, as well as the exercise of all other activities which banks are or shall be permitted to pursue (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 Dutch-speaking division of the Brussels Business Court and are published on www.kbc.com. The financial statements and annual report are filed with the National Bank of Belgium and are available at www.kbc.com. The annual report can also be obtained from the company's registered office and will be sent to those requesting it. Extracts of minutes concerning decisions on the appointment, resignation and the termination of the offices of members of the Executive Committee and the Board of Directors are published in the appendices to the Belgian Official Gazette. Financial reports about the company are published on www.kbc.com.

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 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 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 21 et seq. of the Articles of Association, which are available at www.kbc.com.

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

We present to you our statutory auditor's report in the context of our statutory audit of the consolidated accounts of KBC Bank 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 Bank NV for 6 consecutive years.

Report on the consolidated accounts

Unqualified opinion

We have performed the statutory audit of the Group's consolidated accounts, which comprise the consolidated balance sheet as at 31 December 2021, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cashflow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information, and which is characterised by a consolidated balance sheet total of EUR 302.991 million and a profit for the year (attributable to equity holders of the parent) of EUR 2.135 million.

In our opinion, the consolidated accounts give a true and fair view of the Group's net equity and consolidated financial position as at 31 December 2021, and of its consolidated income and its consolidated cashflows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium.

Basis for unqualified opinion

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

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

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

Key audit matters

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

Estimation uncertainty with respect to financial instruments measured at fair value

Description of the Key Audit Matter

Details regarding the financial instruments measured at fair value at year-end 31 December 2021 are included in Note 4.5 to the consolidated accounts. For information regarding the determination of fair value please refer to Note 1.2. of the Summary of significant accounting policies and Note 4.4 to the consolidated accounts.

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

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

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How our Audit addressed the Key Audit Matter

We obtained an understanding of the internal control framework related to the valuation of financial instruments, including price testing and model validation. We assessed the appropriateness of the model validation methodology with the assistance of our valuation experts and we performed a recalculation of the fair valuation on a sample basis. This includes the assessment of market data, inputs and key assumptions as critical factors used in the fair value models, based on our experience and market practice.

Based on our procedures we found that management's outcome of the models used for the fair value of the level 2 and 3 financial instruments, in the context of the estimation uncertainty concerned, fell within a reasonable and acceptable range of outcomes.

Finally, we assessed the completeness and accuracy of the disclosures relating to the fair values of these financial instruments to assess compliance with disclosure requirements included in the International Financial Reporting Standards as adopted by the European Union.

Estimation uncertainty with respect to impairment allowances for loans and advances

Description of the Key Audit Matter

The appropriateness of the impairment allowances for loans and advances at amortised cost requires significant judgment of management. Measuring impairment allowances for loans and advances under IFRS 9 requires an assessment of 12-month or lifetime expected credit losses and the assessment of significant increases in credit risk or whether loans and advances at amortised cost are in default.

The COVID-19 pandemic continues to limit the ability of the expected credit loss models to adequately reflect all the consequences of the resulting economic conditions and government measures, requiring the recognition of “overlays” in addition to the expected credit losses produced by the models.

At year-end 31 December 2021 information regarding impairment allowances for loans and advances is included in Note 4.2 to the consolidated accounts, in application of the policies as described in Note 1.2. of the Summary of significant accounting policies policies.

Information concerning the impact of the COVID-19 pandemic on the expected credit losses is included in Note 1.4 to the consolidated accounts.

At year-end 31 December 2021 the gross loans and advances at amortised cost amount to EUR 192.904 million, the total impairment at that date amounts to EUR 2.572 million.

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The assessment of significant increases in credit risk, the assessment of whether loans and advances at amortised cost are in default and the measurement of 12-month or lifetime expected credit losses are part of the estimation process of the Group and are, amongst others, based on macroeconomic scenarios, credit risk models, triggers indicating a significant increase in credit risk and default triggers, the financial condition of the counterparty and the expected future cash flows or the value of collateral.

The “overlays” recognised in addition to the expected credit losses produced by the models consider expert inputs, sector effects and a probability weighted scenario impact.

The use of different modelling techniques, scenarios and assumptions could lead to different estimates of impairment charges on loans and advances. As the loans and advances represent the majority of the Group’s balance sheet and given the related estimation uncertainty on impairment charges, we consider this as a key audit matter.

How our Audit addressed the Key Audit Matter

Our audit procedures included an assessment of the overall governance of the credit and impairment process of the Group, including the 12-month and lifetime expected loss modelling processes and the COVID-19 “overlay” approach. We have assessed and tested the design and operating effectiveness of the controls within the loan origination process, risk management process and the estimation process for determining impairment allowances. For loan impairment allowances determined on an individual basis we have performed, for a sample of corporate credit files, a detailed review of loans granted by the Group. We challenged the default triggers and the quantification including forecasts of future cash flows, valuation of underlying collateral and estimates of recovery on default. We found no material exceptions in these tests.

For the loan 12-month and lifetime expected credit loss impairment allowances, we challenged the significant increases in credit risk triggers and the macroeconomic scenarios and tested the underlying models including the Group’s model approval and validation process.

We also tested the mathematical accuracy of the calculations used to determine the “overlays” and assessed their reasonability.

Finally, we assessed the completeness and accuracy of the disclosures, including the disclosures concerning the COVID-19 “overlays” and whether the disclosures are in compliance with the International Financial Reporting Standards as adopted by the European Union.

In our view, the impairments estimated by management, including the COVID-19 “overlays”, are within a reasonable range of outcomes in view of the overall loans and advances and the related uncertainties as disclosed in the consolidated accounts.

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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.

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

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

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

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

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

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

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

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

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

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

Other legal and regulatory requirements

Responsibilities of the board of directors

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

Statutory auditor's responsibilities

In the context of our engagement and in accordance with the Belgian standard which is complementary to the International Standards on Auditing (ISAs) as applicable in Belgium, our responsibility is to verify, in all material respects, the directors' report on the consolidated accounts and to report on these matters.

Aspects related to the directors' report on the consolidated accounts

In our opinion, after having performed specific procedures in relation to the directors' report on the consolidated accounts, this directors' report is consistent with the consolidated accounts for the year under audit, and it is prepared in accordance with article 3:32 of the Companies' and Associations' Code.

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

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

Statements related to independence

- Our registered audit firm and our network did not provide services which are incompatible with the statutory audit of the consolidated accounts, and our registered audit firm remained independent of the Group in the course of our mandate.

- The fees for additional services which are compatible with the statutory audit of the consolidated accounts referred to in article 3:65 of the Companies' and Associations' Code are correctly disclosed and itemized in the notes to the consolidated accounts.

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European Uniform Electronic Format (ESEF)

We have also verified, in accordance with the draft standard on the verification of the compliance of the financial statements with the European Uniform Electronic Format (hereinafter "ESEF"), the compliance of the ESEF format with the regulatory technical standards established by the European Delegate Regulation No. 2019/815 of 17 December 2018 (hereinafter: "Delegated Regulation").

The board of directors is responsible for the preparation, in accordance with ESEF requirements, of the consolidated financial statements in the form of an electronic file in ESEF format (hereinafter "digital consolidated financial statements") included in the annual financial report.

Our responsibility is to obtain sufficient appropriate evidence to conclude that the format and marking language of the digital consolidated financial statements comply in all material respects with the ESEF requirements under the Delegated Regulation.

Based on the work we have performed, we believe that the format of and marking of information in the digital consolidated financial statements included in the annual financial report of KBC Bank NV per 31 December 2021 comply in all material respects with the ESEF requirements under the Delegated Regulation.

Other statement

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

Diegem, 6 April 2022

The statutory auditor
PwC Bedrijfsrevisoren BV
represented by

Roland Jeanquart

Roland Jeanquart	Gregory Joos
Accredited auditor	Accredited auditor

Company annual accounts

10				9	EUR	
NAT.	Date Filed	N°	P.	E.	D.	**C-inst 1.1**

ANNUAL ACCOUNTS IN EUR (in thousands)

NAME: KBC BANK

Legal Form: NV
Address: Havenlaan N°.: 2 Box:
Postal Code: 1080 Municipality: BRUSSELS
Country: België
Register of Legal Persons (RLP) - Chamber of Commerce: Brussels
Internet address*: http://www.kbc.be

Company Number: 0462.920.226

Date 29/10/2020 of the deposition of the partnership deed OR of the most recent document mentioning the date of publication of the partnership deed and the act changing the articles of association.

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

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

Previous period from 01/01/2020 till 31/12/2020

The amounts of the previous financial year are / ~~are not~~ ** identical to those which have been previously published.

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

	Period on the Board in 2021	End of current term of office
CHAIRMAN OF THE BOARD OF DIRECTORS:		
Dhr. Koenraad DEBACKERE, A. Stesselstraat 8, 3012 Leuven	entire year	2024
CHAIRMAN OF THE EXECUTIVE COMMITTEE Mr. Johan THIJS, Havenlaan 2, 1080 Brussel	entire year	2025

Members: see next page

Enclosed to these annual accounts:
- the report of the statutory auditor
- the annual report of the Board of Directors to the ordinary General Meeting of shareholders

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Total number of pages deposited:
Number of the pages of the standard form not deposited for not being of service: -

Signature (name and position)	Signature (name and position)
J. THIJS	K. DEBACKERE
Chairman of the Executive Committee	Chairman of the Board of Directors

* Optional Statement
** Delete where appropriate

LIST OF DIRECTORS, MANAGERS AND AUDITORS (continuation from previous page)

Members:

Dhr. Peter ANDRONOV, Havenlaan 2, 1080 Brussel	from 28/04/2021	2025
Dhr. Nabil ARISS, Havenlaan 2, 1080 Brussel	entire year	2022
Mevr. Katelijn CALLEWAERT, Havenlaan 2, 1080 Brussel	entire year	2025
Mevr. Sonja DE BECKER, Meerbeekstraat 20, 3071 Erps-Kwerps	entire year	2024
Dhr. Franky DEPICKERE, Havenlaan 2, 1080 Brussel	entire year	2023
Dhr. Koenraad DEBACKERE, A. Stesselstraat 8, 3012 Leuven	entire year	2024
Dhr. Daniel FALQUE, Havenlaan 2, 1080 Brussel	untill 28/04/2021	
Dhr. John HOLLOWS, Havenlaan 2, 1080 Brussel	entire year	2022
Mevr. Julia KIRALY, Havenlaan 2, 1080 Brussel	untill 01/12/2021	
Dhr. Erik LUTS, Havenlaan 2, 1080 Brussel	entire year	2025
Dhr. Bo MAGNUSSON, Havenlaan 2, 1080 Brussel	entire year	2024
Dhr. David MOUCHERON, Havenlaan 2, 1080 Brussel	from 28/04/2021	2025
Mevr. Vladimira PAPIRNIK, Havenlaan 2, 1080 Brussel	entire year	2022
Dhr. Luc POPELIER, Havenlaan 2, 1080 Brussel	entire year	2025
Dhr. Hendrik SCHEERLINCK, Havenlaan 2, 1080 Brussel	until 28/04/2021	
Dhr. Johan THIJS, Havenlaan 2, 1080 Brussel	entire year	2025
Mevr. Christine VAN RIJSSEGHEM, Havenlaan 2, 1080 Brussel	entire year	2022
Dhr. Marc WITTEMANS, Beatrijslaan 91, 3110 Rotselaar	entire year	2022

AUDITOR:
PwC Auditors BV 0429.501.944
Culliganlaan 5, 1831 Diegem, Belgium
Function: Commissioner, Member Number: B00009
Mandate : appointed 24/04/2019 till 2022

Represented by:

Jeanquart Roland (Membership IBR A01313)
Auditor
Culliganlaan 5, 1831 Diegem, Belgium

Gregory Joos (Membership IBR A02025)
Auditor
Culliganlaan 5, 1831 Diegem, Belgium

DECLARATION ABOUT SUPPLEMENTARY AUDITING OR ADJUSTMENT MISSION

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.

The annual accounts ~~have~~ / have not* been audited or adjusted by an external accountant or auditor who is not a statutory auditor.

If YES, mention here after: name, first names, profession, residence-address of each external accountant or auditor, the number of membership with the professional Institute ad hoc and the nature of this engagement:

A. Bookkeeping of the undertaking**,
B. Preparing the annual accounts**,
C. Auditing the annual accounts and/or
D. Adjusting the annual accounts.

If the assignment mentioned either under A or B is performed by authorised accountants or authorised accountants-tax consultants, information will be given on: name, first names, profession and residence-address of each authorised accountant or accountant-tax consultant, his number of membership with the Professional Institute of Accountants and Tax consultants and the nature of this engagement.

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

* Delete where appropriate.

** Optional disclosure.

BALANCE SHEET AFTER APPROPRIATION

(in thousands)

ASSETS	Notes	Code	Current period	Previous period
I. Cash in hand, balances with central banks and post office banks		10100	33.225.335	18.138.039
II. Treasury bills eligible for refinancing at central banks		10200	1.146.516	419.495
III. Loans and advances to credit institutions	5.1	10300	16.561.708	19.136.496
A. Repayable on demand		10310	411.510	631.387
B. Other loans and adv. (with agreed maturity dates)		10320	16.150.199	18.505.110
IV. Loans and advances to customers	5.2	10400	87.213.576	81.714.093
V. Debt securities and other fixed-income securities	5.3	10500	52.001.150	57.691.678
A. Issued by public bodies		10510	23.438.498	27.131.665
B. Issued by other borrowers		10520	28.562.651	30.560.014
VI. Shares and other variable-yield securities	5.4	10600	432.856	485.378
VII. Financial fixed assets	5.5/ 5.6.1	10700	12.948.509	18.357.287
A. Participating interests in affiliated enterprises		10710	9.941.339	14.939.193
B. Participating interests in other enterprises linked by participating interests		10720	96.317	82.046
C. Other shares held as financial fixed assets		10730	17.724	28.974
D. Subordinated loans to affiliated enterprises and to other enterprises linked by participating interests		10740	2.893.128	3.307.074
VIII. Formation expenses and intangible fixed assets	5.7	10800	54.233	61.751
IX. Tangible fixed assets	5.8	10900	1.679.682	1.573.095
X. Own shares		11000	0	0
XI. Other assets	5.9	11100	952.502	1.065.544
XII. Accrued income	5.10	11200	8.209.021	7.418.222
TOTAL ASSETS		19900	214.425.088	206.061.079

(in thousands)

	Notes	Code	Current Period	Previous Period
LIABILITIES				
THIRDPARTY FUNDS		201/208	199.283.731	190.259.500
I. Amounts owed to credit institutions	5.11	20100	39.519.228	36.852.899
A. Repayable on demand		20110	4.236.258	4.354.587
B. Amounts owed as a result of the rediscounting of trade bills		20120	0	0
C. Other debts with agreed maturity dates or periods of notice		20130	35.282.969	32.498.312
II. Amounts owed to customers	5.12	20200	124.540.777	117.873.547
A. Savings deposits		20210	49.079.436	45.726.954
B. Other debts		20220	75.461.340	72.146.593
1. repayable on demand		20221	63.535.542	58.015.857
2. with agreed maturity dates or periods of notice		20222	11.925.798	14.130.735
3. as a result of the rediscounting of trade bills		20223	0	0
III. Debts evidenced by certificates	5.13	20300	12.206.838	18.533.128
A. Debt securities and other fixed-income securities in circulation		20310	6.257.981	7.658.095
B. Other		20320	5.948.857	10.875.033
IV. Other liabilities	5.14	20400	2.577.406	1.121.465
V. Accrued charges and deferred income	5.15	20500	6.672.487	4.846.530
VI. Provisions and deferred taxes		20600	113.581	129.345
A. Provisions for liabilities and charges		20610	113.581	129.345
1. Pensions and similar obligations		20611	18.950	18.149
2. Taxation		20612	0	0
3. Other liabilities and charges	5.16	20613	94.631	111.196
B. Deferred taxes		20620	0	0
VII. Fund for general banking risks		20700	162.173	331.423
VIII. Subordinated liabilities	5.17	20800	13.491.242	10.571.163
OWN FUNDS		209/213	15.141.357	15.801.579
IX. CAPITAL	5.18	20900	9.732.238	9.732.238
A. Subscribed capital		20910	9.732.238	9.732.238
B. Uncalled capital (-)		20920	0	0
X. Share premium account		21000	2.066.339	2.066.339
XI. Revaluation surpluses		21100	0	0
XII. Reserves		21200	685.563	643.157
A. Legal reserve		21210	672.589	630.183
B. Reserves not available for distribution		21220	0	0
1. In respect of own shares held		21221	0	0
2. Other		21222	0	0
C. Untaxed reserves		21230	12.973	12.973
D. Reserves available for distribution		21240	0	0
XIII. Profits (losses (-)) brought forward (+)/(-)		21300	2.657.218	3.359.846
TOTAL LIABILITIES		29900	214.425.088	206.061.079

(in thousands)

OFF BALANCE SHEET CAPTIONS	Notes	Code	Current period	Previous period
I. Contingent liabilities	5.22	30100	9.763.041	9.278.072
A. Non-negotiated acceptances		30110	7.416	14.468
B. Guarantees serving as direct credit substitutes		30120	2.437.767	2.340.014
C. Other guarantees		30130	5.724.148	5.487.454
D. Documentary credits		30140	1.593.710	1.436.135
E. Assets charged as collateral security on behalf of third parties		30150	0	0
II. Commitments which could give rise to a risk	5.22	30200	27.503.864	26.478.224
A. Firm credit commitments		30210	2.638.285	1.448.330
B. Commitments as a result of spot purchases of transferable or other securities		30220	43.170	308.092
C. Undrawn margin on confirmed credit lines		30230	24.822.409	24.721.802
D. Underwriting and placing commitments		30240	0	0
E. Commitments as a result of open-ended sale and repurchase agreements		30250	0	0
III. Assets lodged with the credit institution		30300	286.462.772	246.566.395
A. Assets held by the credit institution for fiduciary purposes		30310	6.494.430	5.548.098
B. Safe custody and equivalent items		30320	279.968.341	241.018.297
IV. Uncalled amounts of share capital		30400	0	0

INCOME STATEMENT (presentation in vertical form)

(in thousands)

		Notes	Code	Current Period	Previous period
I. Interest receivable and similar income		5.23	40100	2.665.020	2.653.717
A. Of which: from fixed-income securities			40110	477.205	608.638
II. Interest payable and similar charges			40200	1.192.630	1.224.983
III. Income from variable-yield securities		5.23	40300	306.259	764.943
A. From shares and other variable-yield securities			40310	10.319	12.764
B. From participating interests in affiliated enterprises			40320	295.100	749.446
C. From participating interests in other enterprises linked by participating interests			40330	83	2.441
D. From other shares held as financial fixed assets			40340	757	292
IV. Commissions receivable		5.23	40400	1.323.322	1.177.645
A. Brokerage and related commissions			40410	693.337	623.123
B. Management, consultancy and conservation commissions			40420	34.417	29.263
C. Other commissions received			40430	595.568	525.259
V. Commissions payable			40500	386.508	357.128
VI. Profit (loss) on financial transactions	(+)/(-)	5.23	40600	155.668	454.975
A. On trading of securities and other financial instruments			40610	150.021	452.146
B. On disposal of investment securities			40620	5.646	2.829
VII. General administrative expenses			40700	1.974.158	2.041.148
A. Remuneration, social security costs and pensions			40710	781.046	787.109
B. Other administrative expenses			40720	1.193.112	1.254.038
VIII. Depreciation/amortization of and other write-downs on formation expenses, intangible and tangible fixed assets			40800	249.925	201.715
IX. Decrease in write downs on receivables and in provisions for off balance sheet captions 'I. Contingent liabilities' and 'II. Commitments which could give rise to a risk'	(+)/(-)		40900	25.405	208.972
X. Decrease in write-downs on the investment portfolio of debt securities, shares and other fixed-income or variable-yield securities	(+)/(-)		41000	-242	-340
XI. Utilization and write-backs of provisions for liabilities and charges other than those included in the off balance sheet captions	(+)/(-)		41100	-21.882	-20.562
XII. Provisions for liabilities and charges other than those included in the off balance sheet captions			41200	13.788	9.941
XIII. Transfer from (Transfer to) the fund for general banking risks	(+)/(-)		41300	169.250	-244.201
XIV. Other operating income		5.23	41400	467.426	402.300
XV. Other operating charges		5.23	41500	59.433	61.611
XVI. Profits (losses) on ordinary activities before taxes	(+)/(-)		41600	1.207.222	1.124.782

(in thousands)

		Notes	Code	Current period	Previous period
XVII. Extraordinary income			41700	328.346	9.560
A. Adjustments to depreciation/amortization of and to other write-downs on intangible and and tangible fixed assets			41710	11.056	0
B. Adjustments to write-downs on financial fixed assets			41720	315.396	1.087
C. Adjustments to provisions for extraordinary liabilities and charges			41730	450	410
D. Gain on disposal of fixed assets			41740	1.421	8.008
E. Other extraordinary income		5.25	41750	24	55
XVIII. Extraordinary charges			41800	613.393	418.072
A. Extraordinary depreciation/amortization of and extraordinary write-downs on formation expenses and intangible and tangible fixed assets			41810	3.839	0
B. Write-downs on financial fixed assets			41820	303.347	415.223
C. Provisions for extraordinary liabilities and charges	(+/-)		41830	0	451
D. Loss on disposal of fixed assets			41840	306.207	2.398
E. Other extraordinary charges		5.25	41850	0	0
XIX. Profits (Losses) for the period before taxes	(+/-)		41910	922.175	716.270
XIXbis. A. Transfer to deferred taxes			41921	0	0
B. Transfer from deferred taxes			41922	0	24
XX. Income taxes	(+/-)	5.26	42000	74.055	61.714
A. Income taxes			42010	75.090	64.579
B. Adjustement of income taxes and write-back of tax provisions			42020	1.035	2.865
XXI. Profits (Losses) for the period	(+/-)		42100	848.119	654.580
XXII. Transfer to untaxed reserves	(+/-)		42200	0	0
XXIII. Profit (Losses) for the period available for appropriation	(+/-)		42300	848.119	654.580

APPROPRIATION ACCOUNT

(in thousands)

		Code	Current period	Previous period
A. Profit (loss) to be appropriated	(+)/(-)	49100	4.207.965	3.410.407
1. Profit (loss) for the period available for appropriation	(+)/(-)	(42300)	848.119	654.580
2. Profit (loss) to be carried forward	(+)/(-)	(21300P)	3.359.846	2.755.827
B. Transfers from capital and reserves		49200	0	0
1. From capital and share premium account		49210	0	0
2. From reserves		49220	0	0
C. Transfers to capital and reserves		49300	42.406	32.729
1. To capital and share premium account		49310	0	0
2. To the legal reserve		49320	42.406	32.729
3. To other reserves		49330	0	0
D. Profit (loss) to be carried forward	(+)/(-)	49400	2.657.218	3.359.846
E. Shareholders' contribution in respect of losses		49500	0	0
F. Profit to be distributed		49600	1.508.341	17.833
1. Dividends		49610	1.483.103	0
2. Director's or manager's entitlements		49620	0	0
3. Other allocations		49630	25.238	17.833

NOTES

I. STATEMENT OF LOANS AND ADVANCES TO CREDIT INSTITUTIONS (Assets caption III)

(in thousands)

	Code	Current period	Previous period
A. FOR THE CAPTION AS A WHOLE	(10300)	16.561.708	19.136.496
1. Loans and advances to affiliated enterprises	50101	11.739.509	11.153.060
2. Loans and advances to other enterprises linked by participating interests	50102	0	0
3. Subordinated loans and advances	50103	0	0
B. OTHER LOANS AND ADVANCES TO CREDIT INSTITUTIONS (with agreed maturity dates or periods of notice)	(10320)	16.150.199	18.505.110
1. Trade bills eligible for refinancing with the central bank of the country(ies) of establishment of the credit	50104	0	
2. Breakdown according to the remaining maturity			
a. Up to 3 months	50105	6.395.984	
b. Over 3 months up to 1 year	50106	3.238.513	
c. Over 1 year up to 5 years	50107	5.922.357	
d. Over 5 years	50108	585.034	
e. Undated	50109	8.311	

II. STATEMENT OF LOANS AND ADVANCES TO CUSTOMERS (Assets caption IV)

(in thousands)

	Code	Current Period	Previous Period
1. Loans to affiliated enterprises	50201	5.947.931	5.736.847
2. Loans to other enterprises linked by participating interests	50202	93.952	101.850
3. Subordinated loans	50203	22.298	15.001
4. Trade bills eligible for refinancing with the central bank of the country or countries where the credit institution is established	50204	0	0
5. Breakdown according to the remaining maturity :			
a. Up to 3 months	50205	12.945.431	
b. Over 3 months up to 1 year	50206	4.778.978	
c. Over 1 year up to 5 years	50207	16.560.918	
d. Over 5 years	50208	52.778.469	
e. Undated	50209	149.781	
6. Breakdown of customer loans based on the type of debtor			
a. Claims on government	50210	3.954.556	4.015.162
b. Retail exposures	50211	36.220.540	33.438.527
c. Claims on enterprises	50212	47.038.481	44.260.404
7. Breakdown by type :			
a. Trade bills (including own acceptance)	50213	85.748	
b. Loans and advances as a result of leasing and similar agreements	50214	1.939.222	
c. Fixed-rate loans	50215	1.472.283	
d. Mortgage loans	50216	31.806.521	
e. Other term loans with a maturity over 1 year	50217	37.446.839	
f. Other loans and advances	50218	14.462.963	
8. Geographical breakdown			
a. Belgian origin	50219	76.640.462	
b. Foreign	50220	10.573.114	
9. Details of mortgage loans with reconstitution of capital or linked to life insurance and capitalization contracts			
a. Principal sums initially lent	50221	0	
b. Reconstitution fund and mathematical reserves relating to these loans	50222	0	
c. Net amount outstanding (a-b)	50223	0	

III. STATEMENT OF DEBT SECURITIES AND OTHER FIXED-INCOME SECURITIES (Assets caption V)

(in thousands)

	Code	Current period	Previous period
A. GENERAL	(10500)	52.001.150	57.691.678
1. Securities issued by affiliated enterprises	50301	24.653.703	24.426.256
2. Securities issued by enterprises linked by participating interests	50302	687	0
3. Securities representing subordinated loans	50303	4.725	3.312.399
4. Country analysis of the securities issued			
a. By public bodies	50304	7.053.366	
b. By other borrowers	50305	16.385.132	
c. Belgian issuers other than public bodies	50306	6.925.602	
d. Foreign issuers other than public bodies	50307	21.637.049	
5. Listing			
a. Book value of listed securities	50308	34.027.950	
b. Market value of listed securities	50309	34.692.311	
c. Book value of unlisted securities	50310	17.973.200	
6. Maturities			
a. Remaining maturity of up to one year	50311	21.359.329	
b. Remaining maturity of over one year	50312	30.641.821	
7. Analysis by portfolio			
a. Trading portfolio	50313	2.013.557	
b. Investment portfolio	50314	49.987.593	
8. Trading portfolio			
a. Difference between market value (if higher) and acquisition cost (for securities marked to market)	50315	1.749	
b. Difference between market value (if higher) and carrying value (for securities valued in accordance with Art. 35ter §2 para. 2)	50316	0	
9. Investment portfolio			
a. Difference between redemption value (if higher) and carrying value	50317	117.322	
b. Difference between redemption value (if lower) and carrying value	50318	1.220.639	

(in thousands)

		Code	Current period	Previous period
B. ANALYSIS OF THE CARRYING VALUE OF INVESTMENT SECURITIES				
1. As at end of the preceding period		50323P	xxxxxxxxxxxxxxx	55.218.648
2. Movements during the the period	(+/-)	50319	-5.224.445	
a . Acquisitions		50320	219.861.284	
b . Sales		50321	224.745.446	
c . Adjustments by application of Article 35ter §4 and 5	(+/-)	50322	-340.283	
3. Acquisition cost as at end of the period		50323	49.994.203	
4. Transfers between portfolios				
a . Transfers from the investment portfolio to the trading portfolio		50324	0	
b . Transfers from the trading portfolio to the investment portfolio		50325	0	
c . Impact on result		50326	0	
5. Write-Downs as at end of the period		50332P	xxxxxxxxxxxxxxx	10.615
6. Movements during the the period	(+/-)	50327	-4.006	
a . Recorded		50328	123	
b . Excess written back		50329	961	
c . Cancellations		50330	-3.168	
d . Transfers from one caption to another	(+/-)	50331	0	
7. Write-downs as at end of the period		50332	6.610	
8. Carrying value as at end of the period		(50314)	49.987.593	

(in thousands)

		Codes	Current period	Previous period
IIIBIS THEMATIC CITIZENS LENDING				
1.	**Total amount drawn**	50340	79.465	79.465
	a. Bonds	50341	79.465	79.465
	b. Allowed interbank loans	50342	0	0
2.	**Use of assets**	50350	901.272	1.044.684
	a. Citizens Lending	50351	901.272	1.044.684
	b. Investment pursuant to art. 11	50352	0	0
	c. Interbank loans drawn	50353	0	0
3.	**Income from realized investments pursuant to art. 11**	50360	0	0

IV. STATEMENT OF SHARES AND OTHER VARIABLE-YIELD SECURITIES (Assets caption VI)

(in thousands)

	Code	Current Period	Previous Period
A. GENERAL REPORT	(10600)	432.856	485.378
1. Country analysis of the issuers of securities			
a. Belgian issuers	50401	209.437	250.109
b. Foreign issuers	50402	223.419	235.269
2. Listing			
a. Carrying value	50403	422.098	
b. Market value	50404	360.940	
c. Carrying value of unlisted securities	50405	10.758	
3. Analysis by portfolio			
a. Trading portfolio	50406	423.148	
b. Investment portfolio	50407	9.708	
4. Trading portfolio			
a. Difference between market value (if higher) and acquisition cost (for securities marked to market)	50408	17.677	
b. Difference between market value (if higher) and carrying value (for securities valued in accordance with Article 35ter §2 paragraph 2)	50409	0	

(in thousands)

B. ANALYSIS OF THE CARRYING VALUE OF INVESTMENT SECURITIES		Code	Current period	Previous period
1. Acquisition cost as at the end of the period		50414P	xxxxxxxxxxxxxxx	19.845
2. Movements during the the period	(+)/(-)	50410	1.049	
a. Acquisitions		50411	1.202	
b. Sales		50412	153	
c. Other adjustments	(+/-)	50413	0	
3. Acquisition cost as at end of the period		50414	20.894	
4. Transfers between portfolios				
a. Transfers from the investment portfolio to the trading portfolio		50415	0	
b. Transfers from the trading portfolio to the investment portfolio		50416	0	
c. Impact on result		50417	0	
5. Write-downs as per end of the period		50423P	xxxxxxxxxxxxxxx	10.591
6. Movements during the period	(+)/(-)	50418	595	
a. Recorded		50419	602	
b. Excess written back		50420	6	
c. Cancellations		50421	1	
d. Transfers from one caption to another	(+)/(-)	50422	0	
7. Write-downs as at end of the period		50423	11.186	
8. Carrying value as at end of the period		(50407)	9.708	

V. STATEMENT OF FINANCIAL FIXED ASSETS (Assets caption VII)

(in thousands)

	Code	Current period	Previous period
A. GENERAL			
1. Breakdown of financial fixed assets by economic sector			
a. Participating interests in enterprises that are credit institutions	50501	7.031.681	7.331.355
b. Participating interests in enterprises that are not credit institutions	50502	2.909.658	7.607.838
c. Participating interests in enterprises linked by participating interests that are credit institutions	50503	6	6
d. Participating interests in enterprises linked by participating interests that are not credit institutions	50504	96.312	82.040
e. Other shares held as financial fixed assets in enterprises that are credit institutions	50505	0	0
f. Other shares held as financial fixed assets in enterprises that are not credit institutions	50506	17.724	28.974
g. Subordinated loans in linked enterprises that are credit institutions	50507	234.500	252.500
h. Subordinated loans in linked enterprises that are not credit institutions	50508	2.658.628	3.054.574
i. Subordinated loans in enterprises with participation interests that are credit institutions	50509	0	0
j. Subordinated loans in enterprises with participation interests that are not credit institutions	50510	0	0
2. Listings			
a. Participating interests in affiliated listed enterprises	50511	0	
b. Participating interests in affiliated not listed enterprises	50512	9.941.339	
c. Participating interests in other enterprises linked by participating interests that are listed	50513	0	
d. Participating interests in other enterprises linked by participating interests that are not listed	50514	96.317	
e. Other shares held as financial fixed assets in enterprises that are listed	50515	1.818	
f. Other shares held as financial fixed assets in enterprises that are not listed	50516	15.906	
g. Amount of subordinated loans represented by listed securities	50517	0	

(in thousands)

	Code	Current period	Previous period
B. ANALYSIS OF THE CARRYING VALUE OF FINANCIAL FIXED ASSETS IN AFFILIATED ENTERPRISES			
1. Acquisition cost at the end of the period	50522P	xxxxxxxxxxxxxxx	17.424.248
2. Movements during the period (+/-)	50518	-5.000.065	
a. Acquisitions	50519	72.205	
b. Sales and disposals	50520	5.078.691	
c. Transfers from one caption to another (+/-)	50521	6.421	
3. Acquisition cost as at the end of the period	50522	12.424.184	
4. Revaluation surpluses	50528P	xxxxxxxxxxxxxxx	0
5. Movements during the period (+/-)	50523	0	
a. Recorded	50524	0	
b. Acquisitions from third parties	50525	0	
c. Cancellations	50526	0	
d. Transfers from one caption to another (+/-)	50527	0	
6. Revaluation surpluses as at the end of the period	50528	0	
7. Write-downs as at the end of the period	50535P	xxxxxxxxxxxxxxx	2.485.055
8. Movements during the period (+/-)	50529	-2.211	
a. Recorded	50530	300.000	
b. Excess written back	50531	302.211	
c. Acquisitions from third parties	50532	0	
d. Cancellations	50533	0	
e. Transfers from one caption to another (+/-)	50534	0	
9. Write-downs as at end of the period	50535	2.482.844	
10. Net carrying value as at the end of the period	10710	9.941.339	

(in thousands)

C. ANALYSIS OF THE CARRYING VALUE OF FIXED FINANCIAL ASSETS IN ENTERPRISES LINKED BY PARTICIPATING INTERESTS		Code	Current period	Previous period
1. Acquisition cost as at end of the period		50540P	xxxxxxxxxxxxxxx	98.386
2. Movements during the period	(+/-)	50536	11.913	
a. Acquisitions		50537	25.658	
b. Sales and disposals		50538	13.745	
c. Transfers from one caption to another	(+/-)	50539	0	
3. Acquisition cost as at end of the period		50540	110.299	
4. Revaluation surpluses at the end of the period		50546P	xxxxxxxxxxxxxxx	0
5. Movements during the period	(+/-)	50541	0	
a. Recorded		50542	0	
b. Acquisitions from third parties		50543	0	
c. Cancellations		50544	0	
d. Transfers from one caption to another	(+/-)	50545	0	
6. Revaluation surpluses at the end of the period		50546	0	
7. Write-downs as at the end of the period		50553P	xxxxxxxxxxxxxxx	16.340
8. Movements during the period	(+/-)	50547	-2.358	
a. Recorded		50548	0	
b. Excess written back		50549	2.358	
c. Acquisitions from third parties		50550	0	
d. Cancellations		50551	0	
e. Transfers from one caption to another	(+/-)	50552	0	
9. Write-downs as at the end of the period		50553	13.982	
10. Net carrying value as at end of the period		10720	96.317	

(in thousands)

		Code	Current period	Previous period
D. ANALYSIS OF THE CARRYING VALUE OF OTHER SHARES HELD AS FINANCIAL FIXED ASSETS				
1. Acquisition cost as at the end of the period		50558P	xxxxxxxxxxxxxxx	32.141
2. Movements during the period	(+/-)	50554	-8.422	
a. Acquisitions		50555	3.093	
b. Sales and disposals		50556	11.515	
c. Transfers from one caption to	(+/-)	50557	0	
3. Acquisition cost as at the end of the period		50558	23.719	
4. Revaluation surpluses at the end of the period		50564P	xxxxxxxxxxxxxxx	0
5. Movements during the period	(+/-)	50559	0	
a. Recorded		50560	0	
b. Acquisitions from third parties		50561	0	
c. Cancellations		50562	0	
d. Transfers from one caption to	(+/-)	50563	0	
6. Revaluation surpluses as at end of the period		50564	0	
7. Write-downs as at the end of the period		50571P	xxxxxxxxxxxxxxx	3.166
8. Movements during the period	(+/-)	50565	2.828	
a. Recorded		50566	2.844	
b. Excess written back		50567	16	
c. Acquisitions from third parties		50568	0	
d. Cancellations		50569	0	
e. Transfers from one caption to	(+/-)	50570	0	
9. Write-downs as at the end of the period		50571	5.994	
10. Net carrying value as at the end of the period		10730	17.724	

(in thousands)

		Code	Current period	Previous period
E. ANALYSIS OF THE CARRYING VALUE OF SUBORDINATED LOANS TO AFFILIATED ENTERPRISES				
1. Net carrying value as at end of the period		50579P	xxxxxxxxxxxxxxx	3.307.074
2. Movements during the period	(+)/(-)	50572	-413.946	
a. Additions		50573	20.000	
b. Reimbursements		50574	437.975	
c. Write-downs		50575	0	
d. Amounts written back		50576	-4.030	
e. Realized exchange gains/losses	(+)/(-)	50577	0	
f. Other	(+)/(-)	50578	0	
3. Net carrying value as at the end of the period		50579	2.893.128	
4. Accumulated write-downs as at the end of the period		50580	0	

(in thousands)

F. ANALYSIS OF THE CARRYING VALUE OF SUBORDINATED LOANS TO ENTERPRISES LINKED BY PARTICIPATING INTERESTS		Code	Current period	Previous period
1. Net carrying value as at the end of the period		50588P	xxxxxxxxxxxxxxx	0
2. Movements during the period	(+)/(-)	50581	0	
a. Additions		50582	0	
b. Reimbursements		50583	0	
c. Write-downs		50584	0	
d. Amounts written back		50585	0	
e. Realized exchange gains/losses	(+)/(-)	50586	0	
f. Other	(+)/(-)	50587	0	
3. Net carrying value as at the end of the period		50588	0	
4. Accumulated write-downs as at the end of the period		50589	0	

VI LIST OF ENTERPRISES IN WHICH THE INSTITUTION HOLDS A PARTICIPATING INTEREST

A. SHARE IN THE CAPITAL AND OTHER RIGHTS IN OTHER COMPANIES

List enterprises in which the enterprise holds a participating interest within the meaning of the Royal Decree of September 23 rd 1992
and other enterprises in which the institution holds rights in the amount of at least 10% of the capital issued.

NAME, full address of the REGISTERED OFFICE and for the enterprise governed by Belgian law, the COMPANY NUMBER	Shares held				Information from the most recent period for which annual accounts are available			
	directly			by subsidiaries	Annual accounts dated	Currency	Own funds	Net result
	Type	Number	%	%			(+) or (-) (in thousands units)	
1. Affiliated enterprises								
Almafin Real Estate NV Havenlaan 2, 1080 BRUSSEL (BE0403355494)	Ordinary	62.000	100,00	0,00	31/12/2020	EUR	21.482	173
Almaloisir & Immobilier SAS Promenade Des Anglais 455, 6200 NICE (FR)	Ordinary	328	100,00	0,00	31/12/2020	EUR	15	-26
Bel Rom Sapte SRL Strada Paleologu 24, - BUCURESTI SECTORUL 3 (RO)	Ordinary	16.429.999	99,99	0,01	31/12/2020	RON	103.594	7.127
CBC Banque SA Avenue Albert 1Er 60, 5000 NAMUR (BE0403211380)	Ordinary	2.989.625	100,00	0,00	31/12/2020	EUR	715.989	49.992
Ceskoslovenska Obchodni Banka AS Radlicka 150, 150 00 PRAHA 5 (CZ)	Ordinary	292.750.002	100,00	0,00	31/12/2020	CZK	104.986.000	11.501.000
C Plus SAS Rue Rene Caudron 2, 78960 VOISINS-LE-BRETONNEUX (FR)	Ordinary	50.000	83,33	0,00	31/12/2016	EUR	-12.696	-10
CSOB SK Žižkova 11, 811 02 BRATISLAVA (SK)	Ordinary	8.886	100,00	0,00	31/12/2020	EUR	859.573	50.813
Hello Shopping Park SRL Strada Paleologu 24, - BUCURESTI SECTORUL 3 (RO)	Ordinary	10.000.000	100,00	0,00	31/12/2020	RON	110.616	291
Immo-Antares NV Havenlaan 2, 1080 BRUSSEL (BE0456398361)	Ordinary	2.375	95,00	5,00	10/11/2020	EUR	-1.398	227
Immo-Basilix NV Havenlaan 2, 1080 BRUSSEL (BE0453348801)	Ordinary	2.500	100,00	0,00	12/09/2021	EUR	-277	-83
Immobilière Distri-Land NV Havenlaan 2, 1080 BRUSSEL (BE0436440909)	Ordinary	1.094	87,52	0,00	31/12/2020	EUR	389	8
Immo Mechelen City Center NV Havenlaan 2, 1080 BRUSSEL (BE0635828862)	Ordinary	100	100,00	0,00	31/03/2021	EUR	62	0
Immo Namott NV Havenlaan 2, 1080 BRUSSEL (BE0840412849)	Ordinary	100	100,00	0,00	31/12/2020	EUR	62	0
Immo-Quinto NV Havenlaan 2, 1080 BRUSSEL (BE0466000470)	Ordinary	142.935	100,00	0,00	31/12/2020	EUR	5.161	-36
Immo Retail Libramont BV Havenlaan 2, 1080 BRUSSEL (BE0733944263)	Ordinary	10	100,00	0,00	30/06/2021	EUR	-15	-15
Immo-Zénobe Gramme NV Havenlaan 2, 1080 BRUSSEL (BE0456572664)	Ordinary	100	100,00	0,00	31/12/2020	EUR	81	0
Julienne Holdings SARL Rue Jean Piret 1, 2350 LUXEMBOURG (LU)	Cat. A/B/C	4.500	100,00	0,00	31/12/2020	EUR	-32.748	-1.279
K&H Bank ZRT Lechner Ödön Fasor 9, 1095 BUDAPEST (HU)	Ordinary	140.978.164.412	100,00	0,00	31/12/2020	HUF	388.093.000	32.453.000
KBC Asset Management NV Havenlaan 2, 1080 BRUSSEL (BE0469444267)	Ordinary	5.766.805	100,00	0,00	31/12/2020	EUR	154.575	272.630
KBC Autolease NV Prof. R. Van Overstraetenplein 5, 3000 LEUVEN (BE0422562385)	Ordinary	184.994	100,00	0,00	31/12/2020	EUR	7.875	15.336
KBC Bail Immobilier France SAS Rue De La Victoire 52, 75009 PARIS 9 (FR)	Ordinary	1.500.000	100,00	0,00	31/12/2020	EUR	15.256	219
KBC Bank Ireland PLC 2 Sandwith Street , - DUBLIN 2 (IE)	Ordinary	827.892.018	99,99	0,01	31/12/2020	EUR	1.169.785	-55.357
KBC Commercial Finance NV Havenlaan 6, 1080 BRUSSEL (BE0403278488)	Ordinary	120.000	100,00	0,00	31/12/2020	EUR	9.459	4.395
KBC Focus Fund NV Havenlaan 2, 1080 BRUSSEL (BE0647812124)	Ordinary	300.000	100,00	0,00	31/12/2020	EUR	14.563	-239
KBC Ifima NV Rue Du Fort Wallis 4, 2714 LUXEMBOURG (LU)	Ordinary	22.679	100,00	0,00	31/12/2020	EUR	7.725	634
KBC Immolease NV Brusselsesteenweg 100, 3000 LEUVEN (BE0444058872)	Ordinary	1.000.428	100,00	0,00	31/12/2020	EUR	26.675	54
KBC Investments LTD Old Broad Street 111, EC2N 1FP LONDON (GB)	Ordinary	105.000.100	100,00	0,00	31/12/2020	USD	388.783	-34.738
KBC Lease Belgium NV Brusselsesteenweg 100, 3000 LEUVEN (BE0426403684)	Ordinary	267.181	100,00	0,00	31/12/2020	EUR	11.003	3.031
KBC Real Estate Luxembourg SA Rue Jean Piret 1, 2530 LUXEMBOURG (LU)	Ordinary	3.098	99,93	0,07	31/12/2020	EUR	20.372	3.254
KBC Securities NV Havenlaan 2, 1080 BRUSSEL (BE0437060521)	Ordinary	1.899.517	100,00	0,00	31/12/2020	EUR	56.598	-399

KBC Vastgoedinvesteringen NV Havenlaan 2, 1080 BRUSSEL (BE0455916925)	Ordinary	57.967	100,00	0,00	31/12/2020	EUR	-3.752	4
KBC Vastgoedportefeuille België Havenlaan 2, 1080 BRUSSEL (BE0438007854)	Ordinary	57.768	100,00	0,00	31/12/2020	EUR	9.611	-1.302
Luxembourg North Distribution SA Rue Jean Piret 1, 2350 LUXEMBOURG (LU)	Ordinary	11	11,00	89,00	31/12/2020	EUR	108	74
Poelaert Invest NV Havenlaan 2, 1080 BRUSSEL (BE0478381531)	Ordinary	10.000	100,00	0,00	31/12/2020	EUR	12.466	1.605
Soluz.io NV Zwartzustervest 24, 2800 MECHELEN (BE0711710576)	Cat. A	249.002	91,07	0,00	31/12/2020	EUR	611	-640
Start It X NV Prof. R. Van Overstraetenplein 5, 3000 LEUVEN (BE0730852042)	Ordinary	1.000	100,00	0,00	31/12/2020	EUR	1.715	215
UBB Interlease AD Tsarigradsko Shosse Blvd. 135A, 1040 SOFIA (BG)	Ordinary	3.474.648	100,00	0,00	31/12/2020	BGN	83.130	1.847
United Bulgarian Bank AD Vitosha Blvd 89B, 1463 SOFIA (BG)	Ordinary	75.893.450	99,90	0,00	31/12/2020	BGN	1.478.786	108.804
2. Enterprises linked by participating interests >=20% en <= 50%								
Bancontact Payconiq Company NV Aarlenstraat 82, 1040 BRUSSEL (BE0675984882)	Cat. B	12.414.111	22,49	0,00	31/12/2020	EUR	22.661	2.131
Banking Funding Company NV Aarlenstraat 82, 1040 BRUSSEL (BE0884525182)	Ordinary	12.437	20,25	0,00	31/12/2020	EUR	801	7
Batopin NV Sint-Lazaruslaan 10, 1210 SINT-JOOST-TEN-NODE (BE0744908035)	Ordinary	20.000	25,00	0,00	31/12/2020	EUR	7.790	-210
BRS Microfinance Coop CVBA Muntstraat 1, 3000 LEUVEN (BE0508996711)	Cat. C	7.500	33,51	0,00	31/12/2020	EUR	22.288	-681
Gasco Group NV Antwerpsesteenweg 45, 2830 WILLEBROEK (BE0887290177)	Ordinary	2.531.250	28,12	0,00	31/12/2020	EUR	-22.261	-673
Gemma Frisius-Fonds K.U. Leuven NV Waaistraat 6, 3000 LEUVEN (BE0477960372)	Cat. A	4.000	40,00	0,00	31/12/2020	EUR	33.725	-83
Go Connect BV Beiaardlaan 3-5, 1850 GRIMBERGEN (BE0653775248)	Cat. C	124	25,00	0,00	31/12/2020	EUR	705	-263
Immo Beaulieu NV Havenlaan 2, 1080 BRUSSEL (BE0450193133)	Ordinary	1.000	50,00	0,00	16/06/2021	EUR	68	44
Immoscoop 2.0 Philipssite 5, 3001 LEUVEN (BE0770397655)	Ordinary	76	50,00	50,00	n/a	EUR	0	0
Isabel NV Keizerinlaan 13, 1000 BRUSSEL (BE0455530509)	Ordinary	253.322	25,33	0,00	31/12/2020	EUR	47.378	8.082
Joyn International NV Ilgatlaan 9, 3500 HASSELT (BE0578946577)	Ordinary	757.455.432	31,41	0,00	31/12/2020	EUR	-4.133	-3.445
Justinvest NV Borsbeeksebrug 22, 2600 ANTWERPEN (BE0476658097)	Ordinary	50	33,33	0,00	31/12/2020	EUR	850	1.188
NBX-BE BV Falconplein 30, 2000 ANTWERPEN (BE0578916685)	Ordinary	841.667	25,00	0,00	31/03/2021	EUR	1.066	-49
NBX BV Falconplein 30, 2000 ANTWERPEN (BE0578917180)	Ordinary	7.353	12,82	0,00	31/03/2021	EUR	14.939	-64
Payconiq International SA Rue Joseph Junck 9-11, L-1839 LUXEMBOURG (LU)	Ordinary	838.624	42,56	0,00	31/12/2020	EUR	18.267	-24.763
Rabot Invest NV Heistraat 129, 2610 WILRIJK (BE0479758733)	Ordinary	60	25,00	0,00	31/12/2020	EUR	381	1.106
3. Enterprises linked by participating interests >=10% en <= 20%								
Baekeland II NV Sint-Pietersnieuwstraat 25, 9000 GENT (BE0876424296)	Ordinary	2.000.000	18,01	0,00	31/12/2020	EUR	95	-75
Belgian Mobile ID NV Sint-Goedeleplein 5, 1000 BRUSSEL (BE0541659084)	Cat. A	90.404	12,23	0,00	31/12/2020	EUR	-1.778	-4.130
Designcenter De Winkelhaak NV Lange Winkelhaakstraat 26, 2060 ANTWERPEN (BE0470201857)	Cat. B	124	19,46	0,00	31/12/2020	EUR	502	5
Europay Belgium NV Metrologielaan 8, 1030 BRUSSEL (BE0434197536)	Ordinary	4.932	14,61	0,00	31/12/2020	EUR	1.723	-11
Impulse Microfinance Investment Fund NV Sneeuwbeslaan 20, 2610 WILRIJK (BE0870792160)	Ordinary	2.000	17,56	0,00	31/12/2020	EUR	1.216	-37
QBIC Feeder Fund NV Ottergemsesteenweg Zuid 808, 9000 GENT (BE0846493561)	Cat. B	4.000	14,71	0,00	31/12/2020	EUR	19.579	-630
Rural Impulse Rue Aldringen 11, L-1118 LUXEMBOURG (LU)	Ordinary	15.000	16,66	0,00	31/12/2017	EUR	16.596	7.117
Visa Belgium CVBA Metrologielaan 8, 1130 BRUSSEL (BE0435551972)	Ordinary	23	13,06	0,57	30/09/2020	EUR	1.554	-147
Vives NV Place De L'Université 1, 1348 LOUVAIN-LA-NEUVE (BE0862398591)	Cat. A	2.500	14,69	0,00	31/12/2020	EUR	190	-375

B. ENTERPRISES FOR WHICH THE CREDIT INSTITUTION HAS UNLIMITED LIABILITY IN ITS CAPACITY OF FULLY LIABLE PARTNER OR MEMBER

The annual accounts of any enterprise to which the enterprise is unlimited liable will be added to the present accounts and published jointly.
Departure from that requirement will be mentioned in the second column referring to the appropiate code (A or B), explained hereafter.

The annual accounts of the enterprise:

A. are published by filing with the National Bank of Belgium;

B. are effectively published in another Member State of the EEC as laid down in Article 3 of the Directive 2009/101/EEC;

C. are fully consolidated or proportionally consolidated in the reporting institution's accounts which have been prepared audited and published in accordance with the Royal Decree of September 23 rd 1992 on the consolidated accounts of institutions.

Name and full address of registered office and, for enterprises governed by Belgian law, VAT number or national identification number	Code, if any

VII. STATEMENT OF FORMATION EXPENSES AND INTANGIBLE FIXED ASSETS

(in thousands)

		Code	Current period	Previous period
A. Formation expenses				
1. Net carrying value as at the end of the period		50705P	xxxxxxxxxxxxxxx	0
2. Movements during the period		50701	0	
a. New expenses incurred		50702	0	
b. Amortization		50703	0	
c. Other	(+)/(-)	50704	0	
3. Net carrying value as at the end of the period		50705	0	
4. Of which				
a. Expenses of formation or capital increase, loan issue expenses and other formation expenses		50706	0	
b. Reorganization costs		50707	0	

(in thousands)

		Code	Current period	Previous period
B. GOODWILL				
1. Acquisition cost as at the end of the period		50712P	xxxxxxxxxxxxxxx	49.190
2. Movements during the period		50708	0	
a. Acquisitions, including own construction		50709	0	
b. Sales and disposals		50710	0	
c. Transfers from one caption to another	(+)/(-)	50711	0	
3. Acquisition cost as at the end of the period		50712	49.190	
4. Amortizations and write-downs as at the end of the period		50719P	xxxxxxxxxxxxxxx	25.220
5. Movements during the period		50713	9.588	
a. Recorded		50714	9.588	
b. Excess written back		50715	0	
c. Acquisitions from third parties		50716	0	
d. Cancellations		50717	0	
e. Transfers from one caption to another	(+/-)	50718	0	
6. Amortizations and write-downs as at the end of the period		50719	34.808	
7. Net carrying value as at the end of the period		50720	14.382	

(in thousands)

		Code	Current period	Previous period
C. COMMISSIONS FOR ATTRACTING NEW BUSINESS WITH CUSTOMERS				
1. Acquisition cost as at the end of the period		50725P	xxxxxxxxxxxxxxx	0
2. Movements during the period		50721	0	
a. Acquisitions, including own construction		50722	0	
b. Sales and disposals		50723	0	
c. Transfers from one caption to another	(+)/(-)	50724	0	
3. Acquisition cost as at the end of the period		50725	0	
4. Amortizations and write-downs as at the end of the period		50732P	xxxxxxxxxxxxxxx	0
5. Movements during the period		50726	0	
a. Recorded		50727	0	
b. Excess written back		50728	0	
c. Acquisitions from third parties		50729	0	
d. Cancellations		50730	0	
e. Transfers from one caption to another	(+)/(-)	50731	0	
6. Amortizations and write-downs as at the end of the period		50732	0	
7. Net carrying value as at end of the period		50733	0	

(in thousands)

		Code	Current period	Previous period
D. OTHER INTANGIBLE FIXED ASSETS				
1. Acquisition cost as at end of the period		50738P	xxxxxxxxxxxxxxx	95.953
2. Movements during the period		50734	22.755	
a. Acquisitions, including own construction		50735	23.125	
b. Sales and disposals		50736	371	
c. Transfers from one caption to another	(+)/(-)	50737	0	
3. Acquisition cost as at end of the period		50738	118.708	
4. Amortizations and write-downs as at end of the period		50745P	xxxxxxxxxxxxxxx	58.172
5. Movements during the period		50739	20.685	
a. Recorded		50740	21.055	
b. Excess written back		50741	0	
c. Acquisitions from third parties		50742	0	
d. Cancellations		50743	371	
e. Transfers from one caption to another	(+)/(-)	50744	0	
6. Amortizations and write-downs as at the end of the period		50745	78.857	
7. Net carrying value as at the end of the period		50746	39.851	

VIII. TANGIBLE FIXED ASSETS (Assets caption IX)

(in thousands)

		Code	Current period	Previous period
A. LAND AND BUILDINGS				
1. Acquisition cost as at the end of the period		50805P	xxxxxxxxxxxxxxx	1.303.111
2. Movements during the period	(+)/(-)	50801	-68.482	
a. Acquisition, including own construction		50802	8.256	
b. Sales and disposals		50803	76.738	
c. Transfers from one caption to another	(+)/(-)	50804	0	
3. Acquisition cost as at the end of the period		50805	1.234.629	
4. Revaluation surpluses as at the end of the period		50811P	xxxxxxxxxxxxxxx	57.755
5. Movements during the period	(+)/(-)	50806	-26.783	
a. Recorded		50807	0	
b. Acquisitions from third parties		50808	0	
c. Cancellations		50809	26.783	
d. Transfers from one caption to another	(+)/(-)	50810	0	
6. Revaluation surpluses as at the end of the period		50811	30.972	
7. Amortizations and write-downs as at the end of the period		50818P	xxxxxxxxxxxxxxx	867.433
8. Movements during the period	(+)/(-)	50812	-46.533	
a. Recorded		50813	22.291	
b. Excess written back		50814	0	
c. Acquisitions from third parties		50815	0	
d. Cancellations		50816	68.825	
e. Transfers from one caption to another	(+)/(-)	50817	0	
9. Amortizations and write-downs as at the end of the period		50818	820.900	
10. Net carrying value as at the end of the period		50819	444.702	

(in thousands)

		Code	Current period	Previous period
B. PLANT, MACHINERY AND EQUIPMENT				
1. Acquisition cost as at the end of the period		50824P	xxxxxxxxxxxxxxx	7.728
2. Movements during the period	**(+)/(-)**	50820	490	
a. Acquisition, including own construction		50821	1.045	
b. Sales and disposals		50822	554	
c. Transfers from one caption to another	(+)/(-)	50823	0	
3. Acquisition cost as at the end of the period		50824	8.218	
4. Revaluation surpluses as at the end of the period		50830P	xxxxxxxxxxxxxxx	0
5. Movements during the period	**(+)/(-)**	50825	0	
a. Recorded		50826	0	
b. Acquisitions from third parties		50827	0	
c. Cancellations		50828	0	
d. Transfers from one caption to another	(+)/(-)	50829	0	
6. Revaluation surpluses as at the end of the period		50830	0	
7. Amortization and write-downs as at the end of the period		50837P	xxxxxxxxxxxxxxx	7.397
8. Movements during the period	**(+)/(-)**	50831	294	
a. Recorded		50832	848	
b. Excess written back		50833	0	
c. Acquisitions from third parties		50834	0	
d. Cancellations		50835	554	
e. Transfers from one caption to another	(+)/(-)	50836	0	
9. Amortizations and write-downs as at the end of the period		50837	7.691	
10. Net carrying value as at the end of the period		50838	527	

(in thousands)

		Code	Current period	Previous period
C. FURNITURE AND VEHICLES				
1. Acquisition cost as at the end of the period		50843P	xxxxxxxxxxxxxxx	31.612
2. Movements during the period	**(+)/(-)**	50839	-525	
a. Acquisition, including own construction		50840	613	
b. Sales and disposals		50841	1.139	
c. Transfers from one caption to another	(+)/(-)	50842	0	
3. Acquisition cost as at the end of the period		50843	31.086	
4. Revaluation surpluses as at the end of the period		50849P	xxxxxxxxxxxxxxx	0
5. Movements during the period	**(+)/(-)**	50844	0	
a. Recorded		50845	0	
b. Acquisitions from third parties		50846	0	
c. Cancellations		50847	0	
d. Transfers from one caption to another	(+)/(-)	50848	0	
6. Revaluation surpluses as at the end of the period		50849	0	
7. Amortizations and write-downs as at the end of the period		50856P	xxxxxxxxxxxxxxx	15.020
8. Movements during the period	**(+)/(-)**	50850	-675	
a. Recorded		50851	447	
b. Excess written back		50852	0	
c. Acquisitions from third parties		50853	0	
d. Cancellations		50854	1.122	
e. Transfers from one caption to another	(+)/(-)	50855	0	
9. Amortizations and write-downs as at the end of the period		50856	14.346	
10. Net carrying value as at the end of the period		50857	16.741	

(in thousands)

		Code	Current period	Previous period
D. LEASING AND OTHER SIMILAR RIGHTS				
1. Acquisition cost as at the end of the period		50862P	xxxxxxxxxxxxxxx	159.702
2. Movements during the period	(+)/(-)	50858	1.555	
a. Acquisition, including own construction		50859	4.787	
b. Sales and disposals		50860	3.232	
c. Transfers from one caption to another	(+)/(-)	50861	0	
3. Acquisition cost as at the end of the period		50862	161.257	
4. Revaluation surpluses as at the end of the period		50868P	xxxxxxxxxxxxxxx	0
5. Movements during the period	(+)/(-)	50863	0	
a. Recorded		50864	0	
b. Acquisitions from third parties		50865	0	
c. Cancellations		50866	0	
d. Transfers from one caption to another	(+)/(-)	50867	0	
6. Revaluation surpluses as at the end of the period		50868	0	
7. Amortizations and write-downs as at the end of the period		50875P	xxxxxxxxxxxxxxx	40.990
8. Movements during the period	(+)/(-)	50869	5.230	
a. Recorded		50870	7.537	
b. Excess written back		50871	0	
c. Acquisitions from third parties		50872	0	
d. Cancellations		50873	2.307	
e. Transfers from one caption to another	(+)/(-)	50874	0	
9. Amortizations and write-downs as at the end of the period		50875	46.220	
10. Net carrying value as at the end of the period		50876	115.037	
11. Of which				
a. Land and buildings		50877	115.037	
b. Plant, machinery and equipment		50878	0	
c. Furniture and vehicles		50879	0	

(in thousands)

		Code	Current period	Previous period
E. OTHER TANGIBLE FIXED ASSETS				
1. Acquisition cost as at the end of the period		50884P	xxxxxxxxxxxxxxx	1.324.638
2. Movements during the period	(+)/(-)	50880	258.874	
a. Acquisition, including own construction		50881	462.261	
b. Sales and disposals		50882	203.387	
c. Transfers from one caption to another	(+)/(-)	50883	0	
3. Acquisition cost as at the end of the period		50884	1.583.512	
4. Revaluation surpluses as at the end of the period		50890P	xxxxxxxxxxxxxxx	0
5. Movements during the period	(+)/(-)	50885	0	
a. Recorded		50886	0	
b. Acquisitions from third parties		50887	0	
c. Cancellations		50888	0	
d. Transfers from one caption to another	(+)/(-)	50889	0	
6. Revaluation surpluses as at the end of the period		50890	0	
7. Amortizations and write-downs as at the end of the period		50897P	xxxxxxxxxxxxxxx	380.610
8. Movements during the period	(+)/(-)	50891	100.225	
a. Recorded		50892	182.218	
b. Excess written back		50893	0	
c. Acquisitions from third parties		50894	0	
d. Cancellations		50895	81.993	
e. Transfers from one caption to another	(+)/(-)	50896	0	
9. Amortizations and write-downs as at the end of the period		50897	480.836	
10. Net carrying value as at the end of the period		50898	1.102.676	

(in thousands)

		Code	Current period	Previous period
F. ASSETS UNDER CONSTRUCTION AND ADVANCE PAYMENTS				
1. Acquisition cost as at the end of the period		50903P	xxxxxxxxxxxxxxx	0
2. Movements during the period	(+)/(-)	50899	0	
a. Acquisition, including own construction		50900	0	
b. Sales and disposals		50901	0	
c. Transfers from one caption to another	(+)/(-)	50902	0	
3. Acquisition cost as at the end of the period		50903	0	
4. Revaluation surpluses as at the end of the period		50909P	xxxxxxxxxxxxxxx	0
5. Movements during the period	(+)/(-)	50904	0	
a. Recorded		50905	0	
b. Acquisitions from third parties		50906	0	
c. Cancellations		50907	0	
d. Transfers from one caption to another	(+)/(-)	50908	0	
6. Revaluation surpluses as at the end of the period		50909	0	
7. Amortization and write-downs as at the end of the period		50916P	xxxxxxxxxxxxxxx	0
8. Movements during the period	(+)/(-)	50910	0	
a. Recorded		50911	0	
b. Excess written back		50912	0	
c. Acquisitions from third parties		50913	0	
d. Cancellations		50914	0	
e. Transfers from one caption to another	(+)/(-)	50915	0	
9. Amortizations and write-downs as at the end of the period		50916	0	
10. Net carrying value as at the end of the period		50917	0	

IX. OTHER ASSETS (Assets caption XI)

(in thousands)

Breakdown (if the amount in this caption is significant)	Current period
Option contracts	596.512
Amounts to be awarded already received	98.935
Paid to European Resolution Fund - 15% is not recognized in the income statement	62.192
Tax receivables	29.513
Invested assets in connection with pension liabilities for the NY branch	10.781
Life insurance for the NY branch	115.759
Other	38.810

X. DEFERRED CHARGES AND ACCRUED INCOME (Assets caption XII)

(in thousands)

	Code	Current period
1. Deferred charges	51001	46.287
2. Accrued income	51002	8.162.735

X.bis REINVESTMENT OF SEGREGATED CUSTOMER FUNDS

	Code	Current period
Total	51003	0

XI. STATEMENT OF AMOUNTS OWED TO CREDIT INSTITUTIONS (Liabilities caption I)

(in thousands)

	Code	Current period	Previous period
1. Amounts due to affiliated enterprises	51101	1.745.229	2.229.800
2. Amounts due to other enterprises linked by participating interests	51102	0	0
3. Breakdown of debts other than on sight according to their remaining maturity			
a. Up to 3 months	51103	10.064.034	
b. Over 3 months up to 1 year	51104	2.608.171	
c. Over 1 year up to 5 years	51105	22.610.764	
d. Over 5 years	51106	0	
e. Undated	51107	0	

XII. STATEMENT OF AMOUNTS OWED TO CUSTOMERS (Liabilities caption II)

(in thousands)

	Code	Current period	Previous period
1. Affiliated enterprises	51201	2.885.822	2.588.804
2. Other enterprises linked by participating interests	51202	111.367	114.823
3. Breakdown according to the remaining maturity			
a. Repayable on demand	51203	63.535.542	
b. Up to 3 months	51204	7.199.564	
c. Over 3 months up to 1 year	51205	1.266.203	
d. Over 1 year up to 5 years	51206	2.118.166	
e. Over 5 years	51207	1.326.351	
f. Undated	51208	49.094.950	
4. Breakdown of debt owed to customers depending on the nature of the debtors			
a. Debt owed to government	51209	3.850.278	3.292.226
b. Debt owed to private persons	51210	71.931.790	67.033.902
c. Debt owed to enterprises	51211	48.758.708	47.547.419
5. Geographical breakdown of debt owed to customers			
a. Of Belgian origin	51212	108.857.924	
b. Of foreign origin	51213	15.682.852	

XIII. STATEMENT OF DEBTS EVIDENCED BY CERTIFICATES (liabilities caption III)

(in thousands)

	Code	Current period	Previous period
1. Debts represented by a certificate that, to the knowledge of the institution, are debts owed to affiliated companies.	51301	352.662	6.350.695
2. Debts represented by a certificate that, to the knowledge of the institution, are debts owed to companies linked by participating interests.	51302	0	0
3. Breakdown of debt represented by certificates in accordance to their remaining maturity.			
a. Up to 3 months	51303	6.516.328	
b. Over 3 months up to 1 year	51304	1.850.427	
c. Over 1 year up to 5 years	51305	2.905.888	
d. Over 5 years	51306	934.195	
e. Undated	51307	0	

XIV. OTHER LIABILITIES (liabilities caption IV)

(in thousands)

	Code	Current period
1. Taxes, remuneration and social security charges due to the tax authorities	51401	0
a. Overdue debts	51402	0
b. Unmatured debts	51403	0
2. Taxes, remuneration and social security charges due to the National Social Security Office	51404	0
a. Overdue debts	51405	0
b. Unmatured debts	51406	0
3. Taxes		
a. Taxes payable	51407	43.303
b. Estimated tax liabilities	51408	6.058
4. Other liabilities		
Breakdown if the amount in this caption is significant		
Options and warrants		657.692
Other liabilities related to remuneration and social security contributions		181.113
Dividends still to be paid		1.483.103
Intercompany debts related to global trading activities		69.563
Other intercompany debts		10.537
Suppliers		58.004
Payables to personnel		25.238
Liquidation bonus		8.143
Confirmed outstanding debts		17.768
Other taxes		12.030
Other		4.853

XV. ACCRUED CHARGES AND DEFERRED INCOME (liabilities caption V)

(in thousands)

	Code	Current period
1. Accrued charges	51501	6.534.703
2. Deferred income	51502	137.784

XVI. PROVISIONS FOR OTHER LIABILITIES AND CHARGES (liabilities VI.A.3)

(in thousands)

	Current period
Breakdown of liabilities (VI.A.3) if the amounts in this caption are significant	
Credit commitments	77.818
Litigation and operational disputes	10.086
Provision for other risks and future expenses	2.908
Provision for disability payments	1.955
Other	1.864

XVII. STATEMENT OF SUBORDINATED LIABILITIES (liabilities caption VIII)

(in thousands)

	Code	Current period	Previous period
1. Subordinated debts due to affiliated enterprises	51701	13.491.242	10.571.163
2. Subordinated debts due to other enterprises linked by participating interests	51702	0	0

	Code	Current period
3. Charges as a result of subordinated liabilities	51703	149.696

4. For each subordinated loan, the following information: reference number, the ISO code of the currency, the amount of the loan in the currency of the loan, the remuneration arrangements, the due date and, if no due date is determined, the terms of duration, where appropriate the circumstances in which the institution is required to repay in advance, the conditions for the subordination and if appropriate, the conditions for the conversion into capital or into some other form of liability.

N°	0462.920.228	C-inst 5.17

Detail of each subordinated loan :

Reference nummer	Currency	Amount	Maturity date or conditions governing the maturity	a) Circumstances in which the entreprise is required to repay b) Conditions for the subordítaion c) Conditions for conversion into capital
1	EUR	1.000.000	24/04/2018 - 24/04/2025 Deposits originated by KBC Group - AT1	a) Unconditional
2	EUR	500.000	05/03/2019 - 05/03/2024 Deposits originated by KBC Group - AT1	a) Unconditional
3	EUR	174.758	24/07/2014 - 24/07/024 Deposits originated by KBC Group - Tier2	a) Unconditional
4	EUR	9.939	06/03/2015 - 06/03/2025 Deposits originated by KBC Group - Tier2	a) Unconditional
5	EUR	749.824	07/09/2021 - 07/12/2026 Deposits originated by KBC Group - Tier2	a) Unconditional
6	EUR	747.493	03/09/2019 - 03/12/2024 Deposits originated by KBC Group - Tier2	a) Unconditional
7	EUR	749.891	11/03/2015 - 11/03/2027 Deposits originated by KBC Group - Holdco	a) Unconditional
8	EUR	749.853	18/10/2016 - 18/10/2023 Deposits originated by KBC Group - Holdco	a) Unconditional
9	EUR	1.249.994	01/03/2017 - 01/03/2022 Deposits originated by KBC Group - Holdco	a) Unconditional
10	EUR	750.000	24/05/2017 - 24/11/2022 Deposits originated by KBC Group - Holdco	a) Unconditional
11	EUR	24.984	04/10/2017 - 04/10/2027 Deposits originated by KBC Group - Holdco	a) Unconditional
12	EUR	499.223	27/06/2018 - 27/06/2023 Deposits originated by KBC Group - Holdco	a) Unconditional
13	EUR	749.528	25/01/2019 - 25/01/2024 Deposits originated by KBC Group - Holdco	a) Unconditional
14	EUR	498.830	24/01/2020 - 24/01/2030 Deposits originated by KBC Group - Holdco	a) Unconditional
15	EUR	497.322	16/06/2020 - 16/06/2027 Deposits originated by KBC Group - Holdco	a) Unconditional
16	EUR	748.154	10/09/2020 - 10/09/2025 Deposits originated by KBC Group - Holdco	a) Unconditional
17	EUR	745.644	14/01/2021 - 14/01/2029 Deposits originated by KBC Group - Holdco	a) Unconditional
18	EUR	498.104	31/05/2021 - 31/05/2031 Deposits originated by KBC Group - Holdco	a) Unconditional
19	EUR	451.483	23/06/2021 - 23/06/2023 Deposits originated by KBC Group - Holdco	a) Unconditional
20	EUR	746.935	01/12/2021 - 01/03/2027 Deposits originated by KBC Group - Holdco	a) Unconditional
21	GBP	475.622	21/09/2021 - 21/09/2026 Deposits originated by KBC Group - Holdco	a) Unconditional
22	USD	121.932	Continuous issued Deposits originated by KBC IFIMA	a) Fiscal requalification
23	EUR	498.182	10/04/2019 - 10/04/2025 Euro Medium Term Note	a) Unconditional
24	EUR	253.548	24/06/2019 - 25/01/2024 Euro Medium Term Note	a) Unconditional

XVIII. STATEMENT OF CAPITAL

A. CAPITAL

	Code	Current period (in thousands)	Previous period
1. Subscribed capital			
a. Subscribed capital as at the end of the preceding period	20910P	xxxxxxxxxxxxxx	9.732.238
b. Subscribed capital as at the end of the period	(20910)	9.732.238	

	Code	Amounts (in thousands)	Number of shares (in units)
c. Changes during the period		0	0
d. Structure of the capital			
e. Categories of shares			
Ordinary shares entitled to dividend		9.732.238	995.371.469
f. Registered shares	51801	xxxxxxxxxxxxxx	995.371.469
g. Bearer and or dematerialized shares	51802	xxxxxxxxxxxxxx	

	Code	Uncalled capital	Called but unpaid capital
2. CAPITAL NOT PAID UP			
a. Uncalled capital	(20920)	0	xxxxxxxxxxxxxx
b. Called but unpaid capital	51803	xxxxxxxxxxxxxx	0
c. Shareholders still owing capital payment			

	Code	Current period (in thousands)
3. OWN SHARES		
a. Held by the reporting institution itself		
* Amount of capital held	51804	0
* Corresponding number of shares	51805	0
b. Held by its subsidiaries		
* Amount of capital held	51806	0
* Corresponding number of shares	51807	0
4. SHARE ISSUANCE COMMITMENTS		
a. Following the exercise of conversion rights		
* Amount of convertible loans outstanding	51808	0
* Amount of capital to be subscribed	51809	0
* Maximum corresponding number of shares to be issued	51810	0
b. Following the exercise of subscription rights		
* Number of subscription rights outstanding	51811	0
* Amount of capital to be subscribed	51812	0
* Maximum corresponding number of shares to be issued	51813	0
5. AUTHORIZED CAPITAL NOT ISSUED	51814	0

	Code	Current period
6. SHARES NOT REPRESENTING CAPITAL		
a. Repartition		
* Number of parts	51815	0
* Number of votes	51816	0
b. Breakdown by shareholder		
* Number of parts held by the reporting institution itself	51817	0
* Number of parts held by its subsidiaries	51818	0

B. SHAREHOLDER STRUCTURE OF THE INSTITUTION AT YEAR END, ACCORDING TO THE NOTIFICATIONS RECEIVED BY THE INSTITUTION

KBC Groep NV	Number of shares:	995.371.469

XIX. BREAKDOWN OF BALANCE SHEET, IF MORE THAN 15 MILLION EUROS, IN EUROS AND IN FOREIGN CURRENCY

(in thousands)

	Code	Current period
1. Total Assets		
a. In Euro	51901	176.254.438
b. In foreign currency (equivalent in EUR)	51902	38.170.650
2. Total liabilities		
a. In Euro	51903	185.994.632
b. In foreign currency (equivalent in EUR)	51904	28.430.456

XX. FIDUCIARY TRANSACTIONS ACCORDING TO ARTICLE 27TER §1 PARAGRAPH 3

(in thousands)

	Current period
Concerned assets and liabilities items	

XXI. STATEMENT OF GUARANTEED DEBTS AND OBLIGATIONS

(in thousands)

	Current period
A. MORTGAGES (amount of enrollment or carrying amount of the collateralized buildings, if this is less)	
1. Collateral provided by the institution or irrevocably promised on its own assets as security for debts and obligations of the institution	
a. Liabilities	
b. Off balance sheet	
2. Collateral provided by the institution or irrevocably promised on its own assets as security for debts and commitments of third parties	

	(in thousands) Current period
B. PLEDGE OF THE TRADING FUND (total enrollment)	
1. Collateral provided by the institution or irrevocably promised on its own assets as security for debts and obligations of the institution	
a. Liabilities	
b. Off balance sheet	
2. Collateral provided by the institution or irrevocably promised on its own assets as security for debts and obligations of third parties	

	(in thousands) Current period
C. PLEDGE OF OTHER ASSETS (book value of pledged assets)	
1. Collateral provided by the institution or irrevocably promised on its own assets as security for debts and obligations of the institution	
a. Liabilities	
Discounting, repurchase agreements and secured advances	16.785.315
Asset Pledge requirement KBC New York	158.923
Asset Pledge Bancontact	158.448
Asset Pledge National Bank of Belgium	26.935.363
Covered bonds	16.600.093
Securities lending	30.565
b. Off-balance sheet	
Cash & Bond Collateral wrt derivatives	2.814.359
Clearing Margin Derivatives	439.551
Collateral derivaten	513.230
2. Collateral provided by the institution or irrevocably promised on its own assets as security for debts and commitments of third parties	

(in thousands)

	Current period
D. COLLATERAL ON FUTURE ASSETS (total assets in question)	
1. Collateral provided by the institution or irrevocably promised on its own assets as security for debts and obligations of the institution	
a. Liabilities	
b. Off-balance sheet	
2. Collateral provided by the institution or irrevocably promised on its own assets as security for debts and obligations of third parties	

XXII. STATEMENT OF CONTINGENT LIABILITIES AND COMMITMENTS WITH POTENTIAL CREDIT RISK (off balance sheet I and II)

(in thousands)

	Codes	Current period	Previous period
1. Total contingent liabilities on behalf of affiliated companies	52201	2.390.252	2.982.443
2. Total contingent liabilities on behalf of companies linked by participating interests	52202	271	232
3. Total commitments with a potential credit risk to affiliated companies	52203	0	0
4. Total commitments with a potential risk with regard to companies linked by participating interests	52204	0	0

XXIII. OPERATING RESULTS (items I to XV of the income statement)

(in thousands)

	Code	Current period	Previous period
1. Breakdown of operating income according to origin			
a. Interest and similar income	(40100)	2.665.020	2.653.717
* Belgian sites	52301	2.463.626	2.414.529
* Foreign offices	52302	201.394	239.188
b. Income from fixed-income securities: shares and other variable-yield securities	(40310)	10.319	12.764
* Belgian sites	52303	20	859
* Foreign offices	52304	10.300	11.905
c. Income from fixed-income securities: investments in affiliated companies	(40320)	295.100	749.446
* Belgian sites	52305	295.100	749.446
* Foreign offices	52306	0	0
d. Income from fixed-income securities: shares in companies linked by participating interests	(40330)	83	2.441
* Belgian sites	52307	83	2.441
* Foreign offices	52308	0	0
e. Income from fixed-income securities: other shares held as fixed financial assets	(40340)	757	292
* Belgian sites	52309	757	292
* Foreign offices	52310	0	0
f. Commissions received	(40400)	1.323.322	1.177.645
* Belgian sites	52311	1.295.006	1.149.387
* Foreign offices	52312	28.316	28.258
g. Profit on financial transactions	(40600)	155.668	454.975
* Belgian sites	52313	146.305	454.373
* Foreign offices	52314	9.363	601
h. Other operating income	(41400)	467.426	402.300
* Belgian sites	52315	446.731	393.378
* Foreign offices	52316	20.695	8.922
2. Employees on the personnel register			
a. Total number at the closing date	52317	8.979	9.117
b. Average number of employees in full-time equivalents	52318	8.201	8.405
* Management Personnel	52319	73	76
* Employees	52320	8.128	8.329
* Workers	52321	0	0
* Other	52322	0	0
c. Number of actual worked hours	52323	11.468.999	11.887.455
3. Personnel			
a. Remuneration and direct social benefits	52324	552.661	560.444
b. Employers' social security	52325	138.498	139.666
c. Employers' premiums for extra statutory insurance	52326	57.232	56.539
d. Other personnel	52327	26.865	23.615
e. Retirement and survivors' pensions	52328	5.790	6.845
4. Provisions for pensions and similar obligations			
a. Increase (+)	52329	9.920	3.150
b. Decrease (-)	52330	7.330	8.537

(in thousands)

	Code	Current period	Previous period
5. Breakdown of other operating income if this represents a significant amount			
a. Leasing activities		226.397	187.096
b. Recalculations to / recuperations of group companies		160.690	157.354
c. Other		80.339	57.850
6. Other operating expenses			
a. Corporate taxes	52331	39.739	40.127
b. Other	52332	19.694	21.483
c. Analysis of other operating expenses if this represents a significant amount			
7. Operating revenue from affiliated companies	52333	3.139.246	5.526.275
8. Operating costs relating to affiliated companies	52334	3.804.927	4.455.953

XXIV. STATEMENT OF OFF BALANCE SHEET OPERATIONS ON SECURITIES, CURRENCIES AND OTHER FINANCIAL INSTRUMENTS WHICH BRING NO OBLIGATION WITH A POTENTIAL CREDIT RISK ACCORDING TO HEADING II OF THE OFF BALANCE SHEET ITEMS

(in thousands)

	Code	Current period
A. TYPES OF OPERATIONS (amounts on the closing date of the accounts)		
1. Securities transactions		
a. Forward purchases and sales of securities and marketable securities	52401	0
* of which: not intended for hedging purposes	52402	0
2. Exchange transactions (amounts to be provided)		
a. Forward exchange contracts	52403	141.086.742
* of which: not intended for hedging purposes	52404	141.064.482
b. Currency and interest rate swaps	52405	47.565.352
* of which: not intended for hedging purposes	52406	45.024.525
c. Currency futures	52407	0
* of which: not intended for hedging purposes	52408	0
d. Options on currencies	52409	8.021.623
* of which: not intended for hedging purposes	52410	8.021.623
e. Forward exchange contracts	52411	0
* of which: not intended for hedging purposes	52412	0
3. Transactions in other financial instruments		
Forward transactions in interest rate (nominal / notional reference)		
a. Interest rate swap agreements	52413	496.426.528
* of which: not intended for hedging purposes	52414	398.587.032
b. Interest futures transactions	52415	12.573.719
* of which: not intended for hedging purposes	52416	12.573.719
c. Future Interest rate Agreements	52417	13.624.545
* of which: not intended for hedging purposes	52418	13.624.545
d. Interest rate options	52419	21.947.720
* of which: not intended for hedging purposes	52420	19.966.859
Other purchase and sales (sale / purchase price agreed between parties)		
e. Other option transactions	52421	3.769.972
* of which: not intended for hedging purposes	52422	3.769.972
f. Other futures transactions	52423	345.143
* of which: not intended for hedging purposes	52424	345.143
g. Other forward purchases and sales	52425	14.000
* of which: not intended for hedging purposes	52426	14.000

(in thousands)

		Code	Current period
B. QUANTIFICATION OF THE IMPACT ON THE RESULTS OF THE DEROGATION OF VALUATION RULE UNDER article 36bis, § 2 RELATING TO THE FORWARD TRANSACTIONS IN INTEREST RATE			
1. Forward transactions in interest rate regarding treasury management			
a. Nominal / notional reference amount on the closing date of accounts		52427	0
b. Difference between market value and book value	(+)/(-)	52428	0
2. Forward transactions in interest rate regarding ALM (*)			
a. Nominal / notional reference amount on the closing date of accounts		52429	79.412.518
b. Difference between market value and book value	(+)/(-)	52430	-1.073.060
3. Forward transactions in interest rate without the effect of risk reduction (LOCOM)			
a. Nominal / notional reference amount on the closing date of accounts		52431	11.505
b. Difference between market value and book value	(+)/(-)	52432	530

(*) Including forward transactions regarding securitizations of loans (nominal value 6 766 KEUR). The MtM Value of the deals amount to (255 929 KEUR).

XXV. EXTRAORDINARY RESULTS

(in thousands)

	Code	Current period
1. Realised gains on transfer of fixed assets to affiliated companies	52501	0
2. Incurred losses on transfer of fixed assets to affiliated companies	52502	0
3. Breakdown of the other exceptional income if it comprises significant amounts		0
4. Breakdown of the other extraordinary costs if they comprise significant amounts		0

XXVI. INCOME TAXES

(in thousands)

	Code	Current period
1. Income taxes for the year	52601	-74.618
a. Taxes and withholding taxes due or paid	52602	-62.985
b. Excess of income tax prepayments and of withholding taxes	52603	0
c. Estimated additional charges for income taxes	52604	-11.632
2. Income taxes for previous years	52605	-473
a. Additional income taxes due or paid	52606	-230
b. Additional charges for income taxes, estimated (included in liabilities)	52607	-243
3. Main sources of differences between the profit before tax, as stated in the financial statements, and the estimated taxable income		
Movements in taxable reserves and provisions		-498.057
The specific tax system applicable to gains and losses on shares		291.041
The application of the foreign tax credit scheme on dividends received		-295.202
Innovation deduction		-12.000
Disallowed expenses (other than write-downs, losses on shares, revenue participation and corporation tax)		271.317
Recovery of tax losses		-431.403

4. Impact of extraordinary results on the amount of income taxes for the year

Realised gains and incurred losses on shares under financial fixed assets (gains not taxable and losses not deductible)		-299.203
Write-downs (not deductible) and write-backs (not taxable) on shares under financial fixed assets		8.162

	Code	Current period
5. Sources of deferred taxes		
a. Deferred tax assets	52608	1.356.414
* Accumulated tax losses deductible from future taxable profits	52609	775.857
* Other deferred tax assets		580.557
Taxable impairments		333.376
Taxable supplies		235.459
Other taxable reserves		11.722
b. Passive deferrals	52610	0
* Breakdown of the passive deferrals		

XXVII. VALUE ADDED TAX AND TAXES BORNE BY THIRD PARTIES

(in thousands)

	Code	Current period	Previous period
1. Charged value added tax			
a. To the reporting institution (deductible)	52701	256.633	224.597
b. By the reporting institution	52702	246.572	228.777
2. Amounts withheld on behalf of third parties as			
a. Payroll tax	52703	141.688	142.325
b. Withholding tax	52704	86.367	91.416

XXVIII. OFF-BALANCE SHEET RIGHTS AND COMMITMENTS (INCLUDED TRANSACTIONS WITH RELATED PARTIES)

A. OFF BALANCE SHEET RIGHTS AND COMMITMENTS

	Code	Current period
1. Substantial commitments to acquire fixed assets		
2. Substantial commitments to dispose of fixed assets		

3. Amount, type and form of significant litigation and other significant commitments

Significant disputes pending:

We value claims brought against companies of the KBC group according to their risk assessment (probable, possible or unlikely). We create provisions for the files with a risk assessment of a probable loss (see Notes to the accounting policies). As long as the receivable is assessed as possible (the files with risk assessment potential loss), we do not make any provisions, but provide an explanation in the financial statements if they could have a significant impact on the balance sheet (i.e. if the receivable could lead to a possible outflow of more than 50 million euros). All other exposures (with risk-estimated improbable loss), regardless of their magnitude, that present little or no risk do not need to be disclosed. We list the most important files below. We keep the information limited so as not to interfere with the group's position in pending litigation.

Possible outflow:

On 6 October 2011, Irving H. Picard, trustee for the liquidation of Bernard L. Madoff Investments Securities LLC (& Bernard L. Madoff), sued KBC Investments Ltd (a wholly-owned subsidiary of KBC Bank) before the bankruptcy court in New York to recover (claw-back) approximately USD 110,000,000 which had been transferred from Madoff (via a feeder fund KBC had lent to, called Harley) to KBC entities. This claim is one of a whole set made by the trustee against several banks, hedge funds, feeder funds and investors (“joint defense group”).
A lengthy litigation process was conducted on the basis of preliminary objections in respect of the applicability of the Bankruptcy Code's ‘safe harbor’ and ‘good defenses’ rules to subsequent transferees (as is the case for KBC Investments Ltd), as detailed in previous disclosures. In June 2015 the trustee amended the original claim which led to an increase of the amount claimed to USD 196,000,000.
A court ruling dismissing the claim of the Trustee was issued on 3 March 2017. The Trustee appealed and the Court of Appeal reversed the dismissal on 28 February 2019. A petition (i.e. writ of Certioriari) filed on 30 August 2019 was denied by the U.S. Supreme Court on 2 June 2020. As a consequence the merits of the case are handled by the Bankruptcy Court.
On August 30, 2021, in two other appeals by other defendants, the appellate court ("Court of Appeals for the Second Circuit") reversed the burden of proof from an initial burden on the Trustee to prove the defendant's lack of good faith to a burden on the defendant to prove its good faith.
Given that the new judge, appointed to the Bankruptcy Court, has decided to handle all proceedings separately, the Trustee has begun to have separate discussions with counsel for all Defendants in the remaining 80 cases . However, KBC will be filing a motion to dismiss for lack of specific personal jurisdiction of the US court, in particular due to the insufficient nexus of KBC Investments Ltd to US jurisdiction.
Although the burden of proof has been increased, KBC still believes that it has a good and credible defenses, both procedurally and on the merits, including the affirmative defense of its good faith.
The proceedings may continue for several years.

Other significant liabilities.

The bank irrevocably guarantees all the sums, indebtedness, obligations and liabilities outstanding on 31 December 2021 of the following companies, which are consequently exempt from publication on a consolidated basis.

KBC Asset Management NV

4. Where appropriate, a brief description of the system of supplementary retirement or survivor benefit of the personnel or the executives, stating the measures taken to cover the resulting charges

A system of additional pension provisions, a supplementary death capital, orphan's interest and invalidity allowances is provided for all staff members. For all staff who have been employed since 2014, this is organised via the KBC Pension Fund in a "fixed contribution" plan. This means that the amount of these provisions depends on the employee's remuneration over the course of his career. For staff who were already in service before 2014, these provisions are organised within the framework of a "defined benefit" plan, which means that the amount of these provisions depends on the final remuneration, the number of years of service and the age at the time of retirement. Since 2015, the target plan to be achieved is therefore a closed plan (no more new accessions).

These pension provisions are fully financed by the employer by means of annual allowances that are charged to the result. These allowances in the defined benefit plan are calculated on an actuarial basis using the aggregate cost method. The allowances in the "defined contribution" plan are calculated as a percentage of the individual, actual remuneration; for contribution plans, a statutory minimum return guarantee is applicable, which currently amounts to 1.75%. The allowances are paid to the KBC Pension Fund, which is responsible for the management of the reserves thus formed, their payment and the administration.

In addition, a supplementary pension plan (fixed contribution plan) is provided, based exclusively on the personal contributions of the employees through deductions from salary payments. The legal return guarantee currently amounts to 1.75%. This plan was discontinued on 1 January 2019. In other words, no new accessions will take place and it only exists for those staff who were already members of this plan before 1/1/2019 and who have opted to continue the plan beyond 1/1/2019. Here too, the management, payment and administration of this plan has been entrusted to the KBC pension fund.

	Code	Current period
5. Pensions that are borne by the institution itself: the estimated amount of obligations arising from past services	52801	
Bases and methods of estimation		

6. Nature and business purpose of off balance sheet arrangements

Provided that the risks or benefits of such arrangements are material and to the extent that disclosure of the risks or benefits is necessary for assessing the financial situation of the institution; where appropriate, the financial consequences of these operations for the facility must also be mentioned:

KBC Bank NV is a member of a VAT grouping.

KBC Bank has set up a company for investments in debt securities, called Loan Invest NV, which has acquired loans of KBC Bank, using funds received from the issuance of securities.

KBC Bank carries an important part of these securities on its balance sheet. The interest risk carried by Loan Invest NV is covered by interest rate swaps concluded between Home Loan Invest and KBC Bank, so that this operation has a limited effect on the ALM management of the bank and on the income statement. The balance sheet shows a decrease of loans for an amount of 8.989 million euros and an increase of investment securities for an amount of 6.766 million euros. KBC Bank NV has a subordinated claim on Loan Invest NV, worth 2.571 million euros.

The main reason for setting up this operation is to make part of the loans of KBC Bank more liquid, as the securities issued by Loan Invest NV and held by KBC Bank are eligible for refinancing with the ECB. As a consequence the main purpose of this operation is improving the liquidity risk of the bank.

Note that Loan Invest NV is listed as a “Special Purpose Entity”, included in the consolidated reporting of KBC Bank.

The annual accounts of Loan Invest NV are available at the Central Balance Sheet Office.

(in thousands)

B. TRANSACTIONS WITH RELATED PARTIES

Indication of such transactions if they are significant, including the amount of these transactions, the nature of the relationship with the related party and any other information on transactions that would be required to obtain a better understanding of the financial situation of the institution:

Related party	The nature of the relationschip	Current period
CBC BANQUE SA	Other option transactions	35.001
	Guarantees given	77.560
	Guarantees received	2.167.199
	Interest rate options	428.535
	Options on currencies	70.795
	Interest rate swap agreements	10.670.074
	Forward exchange contracts	442.909
	Currency and interest rate swaps	6.180
ČESKOSLOVENSKÁ OBCHODNÁ BANKA A.S.	Other option transactions	6.320
	Guarantees received	967.240
	Interest rate options	5.481
	Options on currencies	45.175
	Interest rate swap agreements	4.054.959
	Forward exchange contracts	126.957
	Currency and interest rate swaps	1.730
ČESKOSLOVENSKÁ OBCHODNÍ BANKA, A.S.	Other option transactions	108.324
	Guarantees given	8.500
	Guarantees received	1.228.675
	Interest rate options	553.135
	Options on currencies	567.113
	Interest rate swap agreements	66.059.493
	Forward exchange contracts	11.038.802
	Currency and interest rate swaps	1.561.505
K&H BANK ZRT.	Other option transactions	4.140
	Guarantees given	65.417
	Guarantees received	501.245
	Interest rate options	49.004
	Options on currencies	576.186
	Interest rate swap agreements	9.593.474
	Forward exchange contracts	2.383.395
	Currency and interest rate swaps	149.665
	Assets pledged as collateral	49.567
KBC ASSET MANAGEMENT NV	Guarantees given	377.314
	Guarantees received	3.100
	Forward exchange contracts	61.358
	Committed lines	30.000
KBC AUTOLEASE NV	Committed lines	134.000
KBC BAIL IMMOBILIER FRANCE SAS	Guarantees received	54.399
	Committed lines	13.434
KBC BANK IRELAND PLC	Guarantees given	819.298
	Guarantees received	3.048.579
	Interest rate swap agreements	1.146.000
	Forward exchange contracts	405.677
	Currency and interest rate swaps	528.622
KBC COMMERCIAL FINANCE NV	Guarantees given	472.599
	Guarantees received	4.601
	Committed lines	2.700.000
KBC GROEP NV	Guarantees received	60.797
	Interest rate swap agreements	500.000
	Committed lines	20.000

Related party	The nature of the relationschip	
KBC IFIMA SA	Other option transactions	470.794
	Other forward purchases and sales	7.000
	Guarantees given	535.673
	Interest rate options	3.459
	Interest rate swap agreements	451.539
KBC IMMOLEASE NV	Committed lines	129.374
KBC LEASE BELGIUM NV	Guarantees received	4.850
	Committed lines	180.748
KBC SECURITIES NV	Guarantees given	2.649
	Guarantees received	10.461
	Committed lines	500.000
KBC VERZEKERINGEN NV	Guarantees given	2.880
	Guarantees received	2.816.924
	Interest rate swap agreements	296.500
	Committed lines	8.000
LOAN INVEST NV	Interest rate swap agreements	6.765.885
POELAERT INVEST NV	Interest rate swap agreements	39.275
	Committed lines	38.000
UNITED BULGARIAN BANK AD	Guarantees given	20.422
	Guarantees received	3.117
	Interest rate swap agreements	64.555
	Forward exchange contracts	805.624
	Assets pledged as collateral	227.946

C. Nature and financial impact of the significant events after the balance sheet date which are not taken into account in the income statement or the balance sheet

At the time this report was being prepared, the invasion of Russia in Ukraine required additional attention at group level and in our home markets in Central and Eastern Europe. KBC has (directly and indirectly via its subsidiaries) very limited direct exposure to Ukraine and Belarus (less than EUR 10 mln combined) and only limited direct exposure to Russia of less than 50 million euros, mainly stemming from trade financing. KBC is keeping a very close eye on the related macroeconomic impact (e.g., impact of high gas and oil prices on inflation and economic growth) and on spillover effects to KBC and its clients, both financially and operationally, with a.o. high focus on information security threats. Economic and financial sanctions by the West might further impact the European economy. Continuous monitoring and reporting of the situation is in place.

XXIX. FINANCIAL RELATIONS WITH

(in thousands)

	Code	Current period
A. DIRECTORS AND MANAGERS, INDIVIDUALS OR CORPORATE BODIES WHO CONTROL THE INSTITUTION DIRECTLY OR INDIRECTLY WITHOUT BEING RELATED TO IT OR OTHER COMPANIES CONTROLLED DIRECTLY OR INDIRECTLY BY THESE PEOPLE		
1. Amounts receivable from these persons	52901	287.831
a. Conditions on amounts receivable		
b. Possibly refunded amount or amount which is waived		
All related party transactions occur at arm's length.		
2. Guarantees granted on their behalf	52902	0
a. Principal terms of the guarantees granted		
3. Other significant commitments undertaken in their favour	52903	0
a. Main conditions of these obligations		
4. Direct and indirect remuneration and pensions, included in P&L, provided that such disclosure does not concern exclusively or mainly the situation of a single identifiable person		
a. To directors and managers	52904	317
b. To former directors and former managers	52905	0

	Code	Current period
B. THE AUDITOR(S) AND THE PEOPLE HE (SHE) IS (ARE) RELATED TO		
1. Remuneration of the auditor(s)	52906	2.109
2. Fees for exceptional services or special services provided to the company by the auditor(s)		
a. Other audit services	52907	64
b. Tax advisory services	52908	0
c. Other non-audit services	52909	0
3. Fees for exceptional services or special services provided to the company by persons with whom the auditor(s) is(are) related		
a. Other audit services	52910	0
b. Tax advisory services	52911	0
c. Other non-audit services	52912	14

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

XXX. POSITIONS IN FINANCIAL INSTRUMENTS

(in thousands)

	Code	Current period
1. Financial instruments to be received by the institution on behalf of clients	53001	2.939.528
2. Financial instruments to be delivered by the institution to clients	53002	3.971.550
3. Financial instruments of clients held in custody by the institution	53003	268.683.449
4. Financial Instruments from clients given in custody by the institution	53004	178.193.205
5. Financial Instruments from clients held as collateral by the institution	53005	3.047.517
6. Financial Instruments from clients given as collateral by the institution	53006	0

XXXI. COUNTRY BY COUNTRY INFORMATION

Information to be provided by the institutions referred to in Article 4(1)(3) of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms amending Regulation (EU) No 648/2012 with the exception of those undertakings which draw up and publish consolidated accounts in accordance with the Royal Decree of 23 September 1992 on the consolidated accounts of credit institutions, investment firms and collective investment undertakings.

DENOMINATION of the branch, subsidiary or joint subsidiary Nature of activities	Financial year				
COUNTRY	Number of employees *in full-time equivalents*	Turnover (= Interest income and similar income + income from variable-income securities + commissions received + gain on financial transactions)	Profit (Loss) before taxes	Tax on the results	Government grants received

XXXII. DERIVATIVES NOT ESTIMATED AT FAIR VALUE

FOR EACH CATEGORY OF DERIVATIVE FINANCIAL INSTRUMENTS NOT BE VALUED ON THE BASIS OF FAIR VALUE

(in thousands EUR)

				Period		Previous Period	
Category of financial derivatives	Hedge risk	Speculation/ hedging	Volume	Book value	Fair value	Book Value	Fair value
Interest rate swaps	Interest rate risk	Hedging	97.710.148	-89.326	-1.530.295	-139.871	-2.079.154
Cross currency interest rate swaps	Interest- and currency risk	Hedging	720.129	10.978	24.244	7.132	3.063

FINANCIAL FIXED ASSETS CARRIED AT AN AMOUNT IN EXCESS OF FAIR VALUE	Book value	Fair value
Amount of individual assets or appropriate groupings of those assets		
Reasons for not reducing the book value		
Informations that suggest than the book value will be recovered		

XXXII. DECLARATION ON CONSOLIDATED ACCOUNTS

A. TO BE COMPLETED BY ALL CREDIT INSTITUTIONS

The institution has drawn up and has published consolidated annual accounts and a consolidated annual report*

~~**The institution does not draw up consolidated annual accounts nor a consolidated annual report because she is exempted due to following reason(s)***~~

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

The institution is a subsidiary of a parent company that draws up and publishes consolidated accounts, in which the annual accounts are included through consolidation*

Justification of compliance with the conditions set out in Article 4 of the Royal Decree of September 23rd 1992:

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

B. TO BE COMPLETED BY INSTITUTIONS WHICH ARE SOLELY OR 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 **:

KBC GROEP NV
HAVENLAAN 2, 1080 BRUSSEL
0403.227.515
The parent company draws up consolidated annual accounts and publishes these consolidated annual accounts.

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

* Delete where appropriate

** 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

C. FINANCIAL RELATIONSHIPS OF THE GROUP LED BY THE COMPANY IN BELGIUM WITH THE AUDITOR(S) OR PEOPLE HE (THEY) IS (ARE) RELATED TO: Statement in accordance with article 133, paragraph 6 of the Company Law

(in thousands)

	Code	Current period
D. FINANCIAL RELATIONSHIPS OF THE GROUP LED BY THE COMPANY IN BELGIUM WITH THE AUDITOR(S) OR PEOPLE HE (THEY) IS (ARE) RELATED TO: Statement in accordance with article 134, paragraphs 4 and 5 of the Company Law		
1. Auditor's fees for carrying out an auditor's mandate on the level of the group led by the company that publishes the information	53201	5.998
2. Fees for exceptional services or special services rendered in this group by the auditor(s)		
a. Other audit services	53202	224
b. Tax consultancy services	53203	0
c. Other non-audit services	53204	27
3. Fees for the people who are related to the auditor(s) for carrying out an auditor's mandate on the level of the group led by the company that publishes the information	53205	0
4. Fees for exceptional services or special services rendered in this group by the people who are related to the auditor(s)		
a. Other audit services	53206	331
b. Tax consultancy services	53207	0
c. Other non-audit services	53208	57

XXXIII. Relationships with associates (*) :

(in thousands)

	Code	Current period
1. Amount of financial assets	**53101**	**69.642**
- Holdings	53102	69.642
- Subordinated loans	53103	0
- Other claims	53104	0
2. Receivables form associated companies	**53105**	**93.330**
- On more than one year	53106	93.330
- within one year	53107	0
3. Debts to associates	**53108**	**94.953**
- On more than one year	53109	68.799
- within one year	53110	26.154
4. Personal and real guarantees :	**53111**	**22.693**
- made by the company or irrevocably promised as security for debts or liabilities of associates	53112	22.087
- Held by associates or irrevocably promised as security for the debts or obligations of the company	53113	606
5. Other significant financial commitments :	**53114**	**0**

(*) Associates within the meaning of Article 12 of the companies code.

Valuation rules KBC Bank

1. General

The accounting principles and valuation rules are conform to Belgian accounting legislation and the provisions of the Royal Decree of 23 September 1992 on the annual accounts of credit institutions.

The annual accounts are made up as at 31 December after profit appropriation.

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.

2. Valuation rules

CURRENCY TRANSLATION

All monetary items denominated in foreign currency are translated into their equivalent in euros at the spot rate at balance sheet date. Negative and positive valuation differences, except for those relating to the financing of shares and investments in foreign currency and to dotation capital for foreign branches, are recorded in the profit and loss account.

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.

For transactions that entailed funding (lending), the rate of the day is used if there is no exchange rate.

Income and charges denominated in foreign currency are stated in the profit and loss account at the rate prevailing when they were recognised. Foreign-currency income and expenditure which is hedged in advance is recorded in euros on the basis of the fixed rate.

Translation of the financial statements of foreign branches outside the euro zone:

balance sheet items are translated at the closing exchange rate prevailing at year-end, profit and loss account items are translated based on average rates. For this purpose, each month's profit or loss is translated into euros at the rate prevailing at the end of that month.

The translation difference at balance sheet date, resulting from translating the profit and loss account on the basis of average rates, is taken to the profit and loss account as profit on financial transactions.

AMOUNTS RECEIVABLE

Interest collected in advance and similar income (including such additional compensation as fees for foreign loans) for the entire loan period cannot be taken to the profit and loss account immediately, and is therefore posted to an accruals and deferrals heading. At month-end, the amount earned is written to the profit and loss account.

Origination and processing fees charged are taken to profit and loss immediately on the inception of the loans and advances concerned, credit insurance premiums are taken to the profit and loss account annually when paid.

Commissions due (payable in advance) for bank guarantees given are recorded in the profit and loss account immediately. The commissions received by KBC Bank for credit broking are charged to the profit and loss account when the credit is disbursed.

Amounts receivable arising from advances and cash deposits are recorded in the balance sheet for the amount made available. The difference between the amount made available and the nominal value (discount) is recognised on an accruals basis according to the straight- line method as interest receivable via the accruals and deferrals accounts.

Dated commercial credit, consumer credit, home loans and receivables arising from leasing contracts are recorded in the balance sheet in the outstanding principal amount, plus the interest past due and sundry costs to be paid by customers. Interest received but not yet due (interest collected in advance) is recorded in the profit and loss account on an accruals basis via the accruals and deferrals headings.

The other amounts receivable are recognised in the balance sheet at nominal value.

Loans and advances that are transferred through securitisation operations where the transfer qualifies as a sale under NBB/BNB guidelines no longer constitute bank assets and consequently may not appear on the balance sheet of KBC Bank, although the amount is required to be recorded in the contingent accounts. Until the securitisation operation comes to an end, the entry in the contingent accounts is required to be adjusted at the end of each month to reflect customers' loan repayments. Any gains realised on the sale of securitised assets are taken to the profit and loss account immediately at the time of the sale.

If the sales price is made up entirely or in part of a variable element dependent on the buyer's operating profit, this element will only be taken to the profit and loss account when the operating profit is known and this element is therefore fixed.

In synthetic securitisation operations, the (credit) risk in respect of the underlying (loan) portfolio is all that is transferred to a third party, and this by means of a credit default swap, for example, and not through the effective transfer/sale of the (loan) receivables.

In other words, the loans remain on the balance sheet. Transactions used to hedge the company's own loan receivables are recognised as guarantees given or received. Transactions relating to the trading portfolio are recorded as interest rate swaps.

Both types of transaction are marked to market and taken to profit and loss, unless carried out on an illiquid market (in this case, positive valuation differences are posted to an accruals and deferrals heading, and negative valuation differences to the profit and loss account).

For loans with an uncertain outcome, general provisions are set aside and specific write-downs are charged. All interest and various other receivables which have remained unpaid for three months after having become payable will not be recognised in the profit and loss account.

Non-specific write-downs are calculated for domestic loans with an uncertain outcome on the basis of the principal amount whose repayment is uncertain, the percentage susceptible to reclassification (that portion of the 'uncertain outcome' portfolio that might become 'doubtful') and the loss percentage.

For loans classified as irrecoverable and doubtful, specific write-downs are posted on a case-by-case basis and charged to the assets heading in the annual accounts in which the risks appear, in order to cover the losses which are considered certain or likely to ensue on the outstanding loans. Interest due and charges are written to reserves.

Loans are classified as irrecoverable and doubtful if the loan balance is payable and if debt-recovery procedures have been initiated in or out of court.

The amount of any security is equal to the principal amount registered. Personal security is recorded in the accounts in the amount that can be obtained if execution is levied.

SECURITIES

Securities are recognised at acquisition cost at the time of purchase, excluding costs and less subscription fees. The ancillary costs attendant on acquisition are charged directly to the result.

- *Investment portfolio*

Fixed-income investment securities are recorded at acquisition cost, less or plus the matured portion of the premium or discount. The difference between the acquisition cost and the redemption value is reflected as an interest item in the profit and loss account on an accruals basis over the remaining term to maturity of the securities. It is included in the profit and loss account on a discounted basis, based on the internal rate of return at the time of purchase.

Perpetual debt is valued at the lower of acquisition cost and market value.

If redemption of a security is uncertain or doubtful, an impairment is recorded according to the principles that apply for the valuation of amounts receivable.

If securities are sold, their carrying value is determined on a case-by-case basis. Gains or losses are posted directly to the profit and loss account.

Listed shares and other variable-yield securities are valued each month at the lower of acquisition cost and market value at balance sheet date. Other securities are valued at least once a year, based on the annual accounts for the previous year. File administrators are responsible for ensuring that any significant negative developments during the course of the year are also dealt with.

No value impairments are posted for shares hedged against a decline in price by means of an option.

- *Trading portfolio*

Securities belonging to the trading portfolio are marked to market. The resulting valuation differences are recorded in the profit and loss account under heading VI: 'Profit (Loss) on financial transactions'.

FINANCIAL FIXED ASSETS

Included in KBC Bank's holdings or participating interests are the rights (shares) held in other companies with a view to creating specific, lasting ties with them.

If there are no lasting ties and the shares are acquired for resale, then this investment will not be considered a financial fixed asset, but rather as part of the investment portfolio, regardless of the size of the shareholding and the influence that could be exerted on the management of the company in question through this shareholding.

Participating interests and shares that are considered financial fixed assets are recognised at acquisition cost.

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 prospects of the company concerned.

Participating interests, shares and share certificates classified as financial fixed assets may be revalued if, in light of their usefulness to the company, they exhibit an incontestable and lasting increase in value.

Regardless of whether they are represented by securities, subordinated loans and advances to associated companies and companies linked by participating interests are valued according to the same principles as non-subordinated loans and advances.

FORMATION EXPENSES AND INTANGIBLE FIXED ASSETS

All formation expenses referred to in the Royal Decree on the annual accounts of credit institutions are charged directly to the profit and loss account for the financial year as administrative expenses.

Capitalised goodwill is depreciated according to the straight-line method over a period of five years, unless the Board of Directors decides otherwise.

The following rules apply to software that has been developed in-house: all charges relating to continuity projects, as well as any research expenses for investments, are taken directly to the profit and loss account. However, development expenses (both internal and external) for investments are capitalised as an intangible fixed asset and written off over a period of five years. Investments are large-scale projects that introduce or replace an important business objective or model. Systems software is depreciated at the same rate as hardware, being written off according to the straight-line method 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.

At KBC Bank, intangible fixed assets recorded are capitalised at acquisition cost including ancillary costs, and are written off on an accruals basis during the first year of investment.

TANGIBLE FIXED ASSETS

All tangible fixed assets are recognised 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.

When tangible fixed assets are sold, realised gains or losses are taken immediately to the profit and loss account. If these assets are destroyed, the remaining amount to be written off is charged directly to the result.

Tangible fixed assets that exhibit an incontestable and lasting appreciation in value compared to their carrying value may be revalued. This surplus is written off over the average residual useful life of the assets in question.

CREDITORS

Amounts owed as a result of advances or cash deposits received are recorded in the balance sheet in the amount made available, plus or minus any difference between this amount and the redemption price of the portion that has already accrued. The difference between the amount made available and the nominal value is reflected as interest on an accruals basis in the profit and loss account.

PROVISIONS FOR LIABILITIES & 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.

- *Pensions*

Concerned here are commitments with regard to retirement and survivor's pensions, benefits paid out on early retirement and other similar pensions or allowances (related mainly to employees' leaving employment early and end-of-career schemes).

- *Taxation*

This provision covers the commitments that may arise from a change in the tax base or in the calculation of tax. It is set aside in anticipation of additional tax charges (not yet assessed) for past financial years, for the amount that is disputed.

- *Other liabilities and charges*

This is a residual heading in respect of the provisions referred to above and includes provisions for legal disputes, commitment credit and indirect taxes.

FUND FOR GENERAL BANK RISKS

A fund for general banking risks is created as a general buffer for the expected future credit losses calculated on a 1-year time horizon (one year expected credit loss) inherent in the normal loan portfolio and fixed-interest securities for which there are no payment difficulties (loans with a probability of default from 1 to 9).

FINANCIAL INSTRUMENTS

-Valuation rules for trading and non-trading activities
Where trading activities are concerned, the unrealised profit or loss on revaluation is recognised at least at the end of every month. This revaluation takes into account any interest flows that have already been recognised on an accruals basis. In the event of a sale, liquidation or expiration, the profit/loss on the position is recognised immediately. Where illiquid currencies or securities are concerned, no profit on revaluation is recognised.
The existing strategic positions the dealing room takes for its own account via derivatives with a view to generating a profit on the long term by way of capital gains or interest spreads are valued according to the same principles used for illiquid interest rate positions.
For non-trading activities, where interest rate instruments are concerned, the gains or losses realised are only recognised on an accruals basis over the corresponding term. The valuation of non-interest-rate instruments (e.g., share option premiums) matches
the valuation of the hedged position. In addition, non-trading activities carried out for the purpose of general, long-term management of interest rate products denominated in a foreign currency (macro-hedging) are also valued according to the 'lower of cost and market' principle, along with the associated on-balance-sheet products. Profit or loss on similar transactions carried out for general EUR ALM interest rate management purposes is recognised solely on an accruals basis. Option premiums that are paid in advance are only taken to the profit and loss account on the due date or on liquidation, with the exception of option premiums for caps, floors and collars that have been concluded for hedging purposes (accruals-basis recognition). In the meantime, they are posted under the 'Other assets' or 'Other liabilities' items. Option premiums relating to trading activities are revalued at least at the end of every month.

-Valuation of derivatives
All derivatives are always recorded under specific off-balance-sheet headings on the transaction date. Amounts are released from the off-balance-sheet headings once the outcome of the transaction is definitive, even if the underlying term only starts at that time for certain interest rate products (e.g., FRAs).

Trading transactions are marked to market, and the mark-to-market (dirty price) value is recognised in the trading results.

Non-trading transactions are included in interest income on an accruals basis, which is the case for interest payable and interest receivable relating to interest rate swaps and foreign currency interest rate swaps. The swap difference arising on FX swaps (and FX outrights) is also released to the results on an accruals basis. The results from interest rate futures and FRAs are included in the profit and loss account spread over the term of the underlying hedged item. Equity swaps are treated in the same way as interest rate swaps. In practice, equity swaps (just like options) are only recorded in the trading book and consequently marked to market. KBC Bank makes use of the derogation allowed by the NBB/BNB to Article 36*bis* of the Royal Decree on the annual accounts of credit institutions. This derogation makes it possible to take interest rate derivatives that do not meet the microhedging criteria to the profit and loss account on an accruals basis (interest rate derivatives classified as ALM or treasury management instruments).

-Hedging criteria for forward interest rate transactions:

The general criteria are set out in Article 36*bis* of the Royal Decree on the annual accounts of credit institutions of 23 September 1992:

- the hedged item, the hedged homogeneous whole, the homogeneous or not homogeneous and in time evolving whole of assets, liabilities, off-balance rights and/or obligations, as well as with regard to highly probable future cash flows, must expose the credit institution to a risk of interest rate fluctuation;
- the transaction must be recorded in the books as a hedge from its inception;
- there must be a close correlation between fluctuations in the value or highly probable future cash flows of the hedged item and the hedging instrument; in the case of hedging options, a correlation between fluctuations in the value of the hedged item and those of the underlying must be established.

In addition, specific company criteria apply. All these criteria must be met: if one criterion is no longer satisfied, the hedge will be considered a trading transaction and be subject to the appropriate accounting treatment.

Hedging combinations that involve derivatives and are terminated before maturity will be considered trading transactions once the underlying position to be hedged no longer exists. The result of hedging instruments on termination of hedging combinations is either recognized immediately in the income statement if the hedged items have disappeared, or spread in the income statement over the shorter of (i) the remaining originally determined term of the hedge and (ii) the effective remaining term of the hedged items if the hedged items remain in the institution's assets.

Future interest rate positions can be hedged if it is reasonably certain that the position will actually materialise. Moreover, the amount, term and interest rate conditions must be sufficiently certain.

-Calculation of unrealised profit/loss on revaluation

Derivatives are always valued on a contract basis; positive and negative valuation differences are not netted in the accounting records. Only for calculating capital adequacy requirements relative to market risks is the market risk calculated on a net basis per counterparty.

For forward interest rate and similar products (namely forward foreign exchange products), valuation occurs on the basis of the net present value of future, determinable cash flows using a single yield curve per currency, which is used throughout the bank. Any adjustments for operational and liquidity risks are deducted from the initial revaluation. Options are valued according to the usual valuation models. For interest rate products, calculations are always based on the assumption of a liquid market, provided the underlying currencies are liquid.

If a credit granted to a counterparty is classified as ‘doubtful’ or ‘irrecoverable’, the receivables and commitments stemming from off-balance-sheet products involving the same counterparty will be given the same classification. For loans and advances, write-downs may be recorded; for commitments, provisions will be set aside.

3. Change in the valuation rules

The accounting treatment of the result on forward interest transactions under derogation Article 36bis that no longer catalogued as hedging transactions has been modified to conform to the new rules of Article 36 bis of the RD on the annual accounts of credit institutions of 23/09/1992 (amended by the RD of 29/08/2021).
In the past, this result was immediately and fully recorded in the profit and loss account. For all forward transactions that, since 01/01/2021, are no longer catalogued as hedging transactions - depending on the reason why there is no longer a hedging transaction (as described in the valuation rules) - the result is either immediately and integrally taken into the profit and loss account or spread in the profit and loss account over the shortest term of (i) the remaining originally determined term of the hedging and (ii) the actual remaining term of the hedged components.
The one-off impact of this modified accounting rule on the income statement for fiscal year 2021 was +41.6 million € for all hedging instruments that did not qualify anymore as such since 01/01/2021.

KBC Bank NV
Company annual report for financial year 2021

Pursuant to Article 119 of the Companies Code, KBC Bank NV has combined the reports for its company and consolidated financial statements. You can find this ‘combined’ report in the ‘Report of the Board of Directors’ section of the KBC Bank Annual Report.

The accounting information provided in the ‘Report of the Board of Directors’ is based on the consolidated IFRS accounting policies. In order to provide the reader of the company financial statements, based on Belgian accounting policies (B-GAAP), with a true and fair view of the company, an additional brief explanation is given. In addition, other information to be published that is not included in the ‘Report of the Board of Directors’ has been included here too.

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Notes to the company annual accounts

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

Balance sheet

KBC Bank NV (x1000 EUR)	31/12/2021	31/12/2020	Difference
Assets	**214 425 088**	**206 061 079**	**8 364 009**
Cash and cash balances with central banks	34 371 851	18 557 534	15 814 316
Amounts receivable from credit institutions	16 561 708	19 136 496	-2 574 788
Loans and advances to customers	87 213 576	81 714 093	5 499 483
Bonds and other fixed-income securities	52 001 150	57 691 678	-5 690 529
Shares and other variable-yield securities	432 856	485 378	-52 523
Financial fixed assets	12 948 509	18 357 287	-5 408 778
Formation expenses, tangible and intangible fixed assets	1 733 915	1 634 845	99 070
Other assets	952 502	1 065 544	-113 043
Accrued charges and deferred income	8 209 021	7 418 222	790 800
Liabilities	**214 425 088**	**206 061 079**	**8 364 009**
Amounts payable to credit institutions	39 519 228	36 852 899	2 666 328
Amounts payable to clients	124 540 777	117 873 547	6 667 230
Debts represented by securities	12 206 838	18 533 128	-6 326 290
Other amounts payable	2 577 406	1 121 465	1 455 940
Accrued charges and deferred income	6 672 487	4 846 530	1 825 957
Provisions for liabilities and charges and deferred taxes	113 581	129 345	-15 764
Fund for general banking risks	162 173	331 423	-169 250
Subordinated liabilities	13 491 242	10 571 163	2 920 079
Equity	15 141 357	15 801 579	-660 222

Total assets

Total assets were up 8.3 billion euros on their year-earlier level. This increase is explained in the sub-headings in this document.

The branches abroad held 3.06% of the bank’s total assets (4.23% at the end of 2020).

Netting on the balance sheet

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.

Netting disclosure (x1000 EUR)	Gross amounts		Netting	Netted amounts	
	Assets	Liabilities		Assets	Liabilities
repos - reverse repos	19 965 812	16 369 280	13 178 369	6 787 443	3 190 911

Cash, cash balances with central banks and amounts receivable from credit institutions

Depending on conditions on the interbank market, excess cash is deposited at central banks or placed on the interbank market. The required amount of MREL instruments depends on the balance sheet total.

Loans and advances to customers

'Loans and advances to customers' rose by 5.5 billion euros to 87.2 billion euros, owing primarily to an increase in home loans of 2.9 billion euros and a higher term loan volume of 2.7 billion euros.

Bonds and other fixed-income securities

The total portfolio of fixed-income securities fell by 5.7 billion euros to 52 billion euros, which was mainly accounted for by a steady reduction in government bonds (3.4 billion euros) and by repayments of Home Loan Invest notes (1.6 billion euros).

Securities issued by public authorities represented 45.1% of the portfolio.

Financial fixed assets

'Financial fixed assets' fell by 5.4 billion euros to 12.9 billion euros, owing to the settlement of KBC Credit Investment (-5 billion euros) and a repayment of a subordinated loan of -0.4 billion euros by Home Loan Invest.

Other asset items

'Deferred charges and accrued income' was mostly made up of accrued interest and the revaluation of derivatives (such as IRS). The item increased by 0.8 billion euros due to the effect of mark-to-market accounting.

Amounts payable to credit institutions

'Amounts payable to credit institutions' increased by 2.7 billion euros to 39.5 billion euros, due primarily to an additional drawdown on the TLTRO borrowings.

Amounts payable to clients and debts represented by securities

Total client deposits went up very slightly by 0.3 billion euros to 136.7 billion euros. Amounts payable to clients increased by 6.6 billion euros, and debts represented by securities decreased by 6.3 billion euros. These amounts reflect:

- an increase in savings deposits and demand deposits (8.9 billion euros)
- a decline in time deposits (-2.4 billion euros)
- a net decrease in short-term certificates of deposit (-4.9 billion euros)
- a decrease in covered bond issues (-1.1 billion euros)

Fund for general banking risks

The number of problem loans as a result of the coronavirus pandemic was lower than anticipated, leading to a reversal of 0.1 billion euros.

Accrued charges and deferred income

'Accrued charges and deferred income' was made up primarily of interest payable and the revaluation of derivatives. The increase of 1.8 billion euros was mainly attributable to the effect of mark-to-market accounting.

Subordinated liabilities

'Subordinated liabilities' went up by 2.9 billion euros, owing to a repayment of 0.7 billion euros and to new issues of Senior Holdco instruments (3.7 billion euros), fully underwritten by KBC Group NV.

Equity

Equity fell by 0.7 billion euros to 15.1 billion euros.

Clearing of derivative positions

Derivative assets and derivative liabilities against central clearing houses are cleared day by day by cash settlement (assets against cash collateral received and liabilities against cash collateral paid). The table below shows the positions before and after 'cash collateral' settlement.

Clearing disclosure (x1000 EUR)	Gross amounts		Clearing		Cleared amounts	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Derivatives	15 399 767	15 683 674	8 245 620	9 372 722	7 154 147	6 310 951

Profit and loss account

KBC Bank NV (x1000 EUR)	31/12/2021	31/12/2020	Difference
Gross income from ordinary activities	3 338 556	3 871 469	-532 913
Operating charges	-2 283 515	-2 304 473	20 958
Write-downs and provisions	152 180	-442 214	594 394
Profit on ordinary activities	1 207 222	1 124 782	82 439
Extraordinary result	-285 047	-408 512	123 465
Taxes	-74 055	-61 690	-12 365
Result for the period to be appropriated	**848 119**	**654 580**	**193 539**

(x1000 EUR)	31/12/2021	31/12/2020	Difference
Net interest income	1 472 390	1 428 735	43 655
Income from variable-yield securities	306 259	764 943	-458 684
Net fee and commission income	936 814	820 517	116 297
Results from financial transactions	155 668	454 975	-299 307
Other operating income	467 426	402 300	65 126
Gross income from ordinary activities	**3 338 556**	**3 871 469**	**-532 913**

'Gross income from ordinary activities' came to 3.3 billion euros, down 0.5 billion euros on its 2020 level.

Details of this decline are given in the table above.

- 'Net interest income' remained virtually the same as in the previous financial year.
- 'Income from variable-yield securities' fell by 458.7 million euros, due mainly to the settlement of KBC Credit Investments, which paid a dividend of 400 million euros in 2020.
- 'Net fee and commission income' increased by 116.3 million euros, owing primarily to higher revenues from the provision of investment services and the sale of investment funds, and higher income from fees related to payment services.
- 'Results from financial transactions' decreased by 299.3 million euros due to hedging of the bond portfolio purchased from KBC Credit Investments in financial year 2020.
- 'Other operating income' grew by 65.1 million euros, owing primarily to higher rental income from property leasing (47 million euros).

(x1000 EUR)	31/12/2021	31/12/2020	Difference
General administrative charges	-1 974 158	-2 041 148	66 990
Depreciation of tangible and intangible fixed assets	-249 925	-201 715	-48 210
Other operating charges	-59 433	-61 611	2 178
Operating charges	**-2 283 515**	**-2 304 473**	**20 958**

Operating charges (including 'Depreciation of tangible and intangible fixed assets' and 'Other operating charges') remained virtually the same in 2021 as in 2020. The increase in depreciation (renting) was offset by a slight decrease in administrative charges.

(x1000 EUR)	31/12/2021	31/12/2020	Difference
Write-downs on loans	-25 405	-208 972	183 567
Write-downs on investment portfolio	242	340	-98
Provisions	177 344	-233 581	410 925
Write-downs and provisions	**152 180**	**-442 214**	**594 394**

Individual write-downs on loans to businesses and private individuals were net 153 million euros lower (provisioning minus reversals) in financial year 2021 compared to a year earlier. A net reversal of 15.7 million euros was recognised for 'trading risks not measured individually' in financial year 2021, as opposed to a net increase of 21.4 million euros in the previous financial year. A lower reversal of nearly 7 million euros was recognised for provisions for commitment loans.

In financial year 2020, an overall provision of -245 million euros was set aside as a result of the coronavirus crisis. A reversal of 169 million euros was recorded for this item in financial year 2021.

At -285 million euros, the **extraordinary result** was accounted for by a write-down on the participating interest in KBC Bank Ireland of 300 million euros.

Income tax was up slightly on its level for financial year 2020, but was still limited as a result of outstanding tax losses carried forward and the specific tax system for dividends received from subsidiaries.

Additional information

Information on branch offices

KBC Bank has 10 branches abroad, more specifically in New York, London, Paris, Rotterdam, Singapore, Hong Kong, Shanghai, Dublin, Germany and Italy.

ACCOUNTANT REPORT

10				9	EUR	
NAT.	Date Filed	N°	P.	E.	D.	C-inst 1.1

Social Balance Sheet

NAME:	KBC BANK				
Legal Form:	NV				
Address:	Havenlaan			N°.: 2	Box:
Postal Code:	1080	Municipality:	BRUSSELS		
Country:	België				
Register of Legal Persons (RLP) - Chamber of Commerce:			Brussels		
Internet address*:		http://www.kbc.be			

Company Number: 0462.920.226

concerning the financial year covering the period from	01/01/2021	till	31/12/2021
Previous period from	01/01/2020	till	31/12/2020

The amounts of the previous financial year are / ~~are not~~ ** identical to those which have been previously published.

SOCIAL REPORT (in euro)

Numbers of joint industrial committees which are competent for the enterprise:	310				

STATEMENT OF THE PERSONS EMPLOYED

EMPLOYEES RECORDED IN THE STAFF REGISTER

During the current period	Codes	Total	1. Male	2. Female
Average number of employees				
Full-time	1001	5.505	3.301	2.204
Part-time	1002	3.173	712	2.461
Total of full-time equivalents (VTE)	1003	7.879	3.816	4.063
Number of hours actually worked				
Full-time	1011	7.999.116	4.877.730	3.121.385
Part-time	1012	2.885.861	561.216	2.324.644
Total	1013	10.884.977	5.438.947	5.446.030
Personnel costs				
Full-time	1021	513.508.101,77	332.601.380,10	180.906.721,67
Part-time	1022	198.890.776,58	47.218.592,02	151.672.184,56
Total	1023	712.398.878,35	379.819.972,12	332.578.906,23
Advantages in addition to wages	1033	15.262.780,02	8.137.447,79	7.125.332,23

During the previous period	Codes	P. Total	1P. Male	2P. Female
Average number of employees	1003	8.067	3.904	4.163
Number of hours actually worked	1013	11.282.072	5.623.958	5.658.114
Personnel costs	1023	717.287.510,00	383.871.033,00	333.416.477,00
Advantages in addition to wages	1033	15.881.267,00	8.499.184,00	7.382.083,00

	Codes	1. Full-time	2. Part-time	3. Total in full-time equivalents
At the closing date of the current period				
Number of employees recorded in the personnel register	105	5.550	3.099	7.874,0
By nature of the employment contract				
Contract for an indefinite period	110	5.470	3.098	7.793,2
Contract for a definite period	111	80	1	80,8
Contract for the execution of a specifically assigned work	112	0	0	0
Replacement contract	113	0	0	0
According to the gender and by level of education				
Male	120	3.320	687	3.818,9
primary education	1200	0	0	0
secondary education	1201	237	89	299,8
higher education (non-university)	1202	1.938	459	2.272,5
university education	1203	1.145	139	1.246,7
Female	121	2.230	2.412	4.055,2
primary education	1210	0	0	0
secondary education	1211	177	290	395,3
higher education (non-university)	1212	1.283	1.611	2.491,6
university education	1213	770	511	1.168,2
By professional category				
Management staff	130	56	8	60,3
Employees	134	5.494	3.091	7.814
Workers	132	0	0	0
Other	133	0	0	0

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

During the current period	Codes	1. Temporary personnel	2. Persons put at the disposal of the enterprise
Average number of employees	150	4	0
Number of hours actually worked	151	7.889	0
Charges of the enterprise	152	347.938,00	0

TABLE OF PERSONNEL CHANGES DURING THE CURRENT PERIOD

ENTRIES	Codes	1. Full-time	2. Part-time	3. Total in full-time equivalents
Number of employees recorded on the personnel register during the financial year	205	524	49	563
By nature of the employment contract				
Contract for an indefinite period	210	411	48	449
Contract for a definite period	211	113	1	114
Contract for the execution of a specifically assigned work	212	0	0	0
Replacement contract	213	0	0	0

DEPARTURES	Codes	1. Full-time	2. Part-time	3. Total in full-time equivalents
The number of employees with a in the staff register listed date of termination of the contract during the period	305	413	302	609
By nature of the employment contract				
Contract for an indefinite period	310	376	299	570
Contract for a definite period	311	37	3	39
Contract for the execution of a specifically assigned work	312	0	0	0
Replacement contract	313	0	0	0
According to the reason for termination of the employment contract				
Retirement	340	40	152	124
Unemployment with company bonus	341	0	0	0
Dismissal	342	35	21	49
Other reason	343	338	129	436
Of which: the number of persons who continue to render services to the enterprise at least half-time on a self-employed basis	350	0	0	0

INFORMATION WITH REGARD TO TRAINING RECEIVED BY EMPLOYEES DURING THE CURRENT PERIOD

	Codes	Male	Codes	Female
Total number of official advanced professional training projects at company expense				
Number of participating employees	5801	2.853	5811	3.032
Number of training hours	5802	25.751	5812	24.200
Costs for the company	5803	2.535.311,00	5813	2.694.379,00
of which gross costs directly linked to the training	58031	2.349.090,00	58131	2.496.474,00
of which paid contributions and deposits in collective funds	58032	186.221,00	58132	197.904,00
of which received subsidies (to be deducted)	58033	0,00	58133	0,00
Total number of less official and unofficial advance professional training projects at company expense				
Number of participating employees	5821	4.009	5831	4.628
Number of training hours	5822	108.864	5832	123.838
Costs for the company	5823	6.489.448,00	5833	7.491.435,00
Total number of initial professional training projects at company expense				
Number of participating employees	5841	0	5851	0
Number of training hours	5842	0	5852	0
Costs for the company	5843	0,00	5853	0,00

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

We present to you our statutory auditor's report in the context of our statutory audit of the annual accounts of KBC Bank 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 Bank NV for 6 consecutive years.

Report on the annual accounts

Unqualified opinion

We have performed the statutory audit of the Company's annual accounts, which comprise the balance sheet as at 31 December 2021, and the profit and loss account for the year then ended, and the notes to the annual accounts, characterised by a balance sheet total of EUR 214.425 million and a profit and loss account showing a profit for the year of EUR 848 million.

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

Basis for unqualified opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) as applicable in Belgium. Furthermore, we have applied the International Standards on Auditing (ISAs) 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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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 annual accounts of the current period. These matters were addressed in the context of our audit of the annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Estimation uncertainty with respect to financial instruments measured at fair value

Description of the Key Audit Matter

Details regarding the measurement of financial instruments at year-end 31 December 2021 are included in Notes to the annual accounts III (bonds), IV (equity securities), on the face of the balance sheet for the derivatives contracts and Note IX Other assets for the option contracts. The applicable valuation rules are described in Note 7 to the annual accounts (chapters “Securities” and “Financial instruments”).

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.

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Estimation uncertainty with respect to impairment allowances for receivables on clients

Description of the Key Audit Matter

The appropriateness of the impairment allowances for receivables on clients requires significant judgment of management. Measuring impairment allowances requires an assessment of the risk that a counterparty will not respect all of its contractual obligations. As disclosed in Note 7 to the annual accounts, the Company applies for the measurement of the fund for general banking risks and of the impairment allowances in the annual accounts prepared under Belgian GAAP, a methodology which is partly aligned with IFRS.

The COVID-19 pandemic continues to limit the ability of the expected credit loss models used to determine the fund for general banking risks to adequately reflect all the consequences of the resulting economic conditions and government measures, requiring the recognition of “overlays” in addition to the expected credit losses produced by the models.

At year-end 31 December 2021 information regarding impairment allowances for receivables on clients and on the fund for general banking risks are included respectively in line 40900 and line 41300 of the profit and loss accounts, in application of the valuation rules as described in Note 7 to the annual accounts (chapters “Receivables” and “Fund for general banking risks”). At year-end 31 December 2021 the receivables on clients amount to EUR 87.214 million.

The identification of impairment, the determination of the recoverable amount and the determination of the 12-month expected credit losses, which is the basis for the fund for general banking risks, are part of the estimation process at the Company and are, amongst others, based on macroeconomic scenarios, credit risk models, default triggers, the financial condition of the counterparty, the expected future cash flows or the value of collateral.

The “overlays” recognised in addition to the expected credit losses produced by the models consider expert inputs, sector effects and a probability weighted scenario impact.

The use of different modelling techniques, scenarios and assumptions could lead to different estimates of impairment charges on receivables on clients or to a different fund for general banking risks. As the receivables on clients represent the majority of the Company's balance sheet and given the related estimation uncertainty on impairment charges, including the fund for general banking risks, we consider this as a key audit matter.

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How our Audit addressed the Key Audit Matter

Our audit procedures included an assessment of the overall governance of the Company's credit and impairment process, including the 12-month expected loss modelling process and the COVID-19 “overlay” approach. We have assessed and tested the design and operating effectiveness of the controls within the loan origination process, risk management process and the estimation process for determining impairment allowances. For loan impairment allowances determined on an individual basis we have performed, for a sample of corporate credit files, a detailed review of loans granted by the Company. We challenged the default triggers and the quantification including forecasts of future cash flows, valuation of underlying collateral and estimates of recovery on default. We found no material exceptions in these tests.

For the 12-month expected credit loss, determining the fund for general banking risks, we challenged the macroeconomic scenarios and tested the underlying models including the Company’s model approval and validation process.

We also tested the mathematical accuracy of the calculations used to determine the “overlays” and assessed their reasonability.

In our view, the impairments and the fund for general banking risks estimated by management are within a reasonable range of outcomes in view of the overall receivables on clients and the related uncertainties.

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.

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.

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

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

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

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

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

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

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

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

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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 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.

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.

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Statements related to independence

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

Other statements

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

Diegem, 6 April 2022

The statutory auditor
PwC Bedrijfsrevisoren BV
represented by

Roland Jeanquart
Accredited auditor

Gregory Joos
Accredited auditor

Additional information

Ratios used

Common equity ratio

A risk-weighted measure of the group's solvency based on common equity tier-1 capital Changes to the capital rules are gradually being implemented to allow banks to build up the necessary capital buffers. The capital position of a bank, when account is taken of the transition period, is referred to as the 'transitional' view. The capital position based on full application of all the rules – as would be the case after this transition period – is referred to as 'fully loaded'.

Information on how this ratio is calculated can be found in the 'How do we manage our capital?' section.

Coverage ratio

Indicates the proportion of impaired loans (see 'Impaired loans ratio' for definition) that are covered by impairment charges. The numerator and denominator in the formula relate to all impaired loans, but may be limited to impaired loans that are more than 90 days past due (the figures for that particular calculation are given in the 'Loan and investment portfolio' table in the 'How do we manage our risks?' section).

Calculation (in millions of EUR or %)	Reference	2021	2020
Specific impairment on loans (A)	'Credit risk: loan portfolio overview' table in the 'Credit risk' section	2 569	2 638
/			
Outstanding impaired loans (B)	'Credit risk: loan portfolio overview' table in the 'Credit risk' section	5 454	5 902
= (A) / (B)		47.1%	44.7%

Impaired loans ratio

Indicates the proportion of impaired loans in the loan portfolio (see 'Loan portfolio' for definition) and, therefore, gives an idea of the creditworthiness of the portfolio. Impaired loans are loans where it is unlikely that the full contractual principal and interest will be repaid/paid. These loans have a KBC default status of PD 10, PD 11 or PD 12. Where appropriate, the numerator in the formula may be limited to impaired loans that are more than 90 days past due (PD 11 + PD 12). Relevant figures for that calculation are given in the 'Loan and investment portfolio' table in the 'How do we manage our risks?' section. We also use the same methodology to calculate this ratio for each business unit.

Calculation (in millions of EUR or %)	Reference	2021	2020
Amount outstanding of impaired loans (A)	'Credit risk: loan portfolio overview' table in the 'Credit risk' section	5 454	5 902
/			
Total outstanding loan portfolio (B)	'Credit risk: loan portfolio overview in the 'Credit risk' section	188 400	180 891
= (A) / (B)		2.9%	3.3%

The calculation includes only a partial impact of transfers between categories that underlie the management overlay of the expected collective coronacrisis ECL, as these are determined based on a collective statistical approach and thus cannot be fully individually linked to specific credits. See also Note 4.2.1.

Cost/income ratio

Gives an impression of relative cost efficiency (costs relative to income). We also use the same methodology to calculate this ratio for each business unit.

Calculation (in millions of EUR or %)	Reference	2021	2020
Cost/income ratio			
Operating expenses (A)	'Consolidated income statement': component of 'Operating expenses'	3 905	3 809
/			
Total income (B)	'Consolidated income statement': component of 'Total income'	6 457	6 134
=(A) / (B)		60.5%	62.1%

Credit cost ratio

Gives an idea of loan impairment charges recognised in the income statement for a specific period, relative to the total loan portfolio (see 'Loan portfolio' for definition). In the longer term, this ratio can provide an indication of the credit quality of the portfolio. A negative figure indicates a net reversal of impairment and hence a positive impact on the results. We also use the same methodology to calculate this ratio for each business unit.

Calculation (in millions of EUR or %)	Reference	2021	2020
Net changes in impairment for credit risks (A)	'Consolidated income statement': component of 'Impairment'	- 329	1 068
/			
Average outstanding loan portfolio (B)	'Credit risk: loan portfolio overview' table in the 'Credit risk' section	184 640	177 542
= (A) (annualised) / (B)		-0.18%	0.60%

To calculate the ratio without the collective impairments due to corona, the numerator is reduced by the reversal of 494 million euros (in 2021) and the increase of 783 million euros (in 2020). In this case, the credit cost ratio is 0.09% in 2021 and 0.16% in 2020.

Loan portfolio

Gives an idea of the magnitude of (what are mainly traditional) lending activities.

Calculation (in millions of EUR or %)	Reference	2021	2020
Loans and advances to customers (A)	Note 4.1, component of 'Loans and advances to customers'	157 663	157 650
+			
Reverse repos (not with Central Banks) (B)	Note 4.1, component of 'Reverse repos with credit institutions and investment firms'	1 052	3 537
+			
Debt instruments issued by corporates and by credit institutions and investment firms (banking) (C)	Note 4.1, component of 'Debt instruments issued by corporates and by credit institutions and investment firms'	4 830	6 056
+			
Other exposures to credit institutions (D)		4 392	4 009
+			
Financial guarantees granted to clients and other commitments (E)	Note 6.1, component of 'Financial guarantees given'	8 984	7 924
+			
Impairment on loans (F)	Note 4.2, component of 'Impairment'	2 581	3 703
+			
Non-loan-related receivables (H)		- 350	- 818
+			
Other (I)*	Component of Note 4.1	9 248	- 1 171
Gross Carrying amount = (A)+(B)+(C)+(D)+(E)+(F)+(G)+(H)+(I)		188 400	180 891

*As of the third quarter of 2021, the pending sales transactions related to the Irish loan portfolio resulted in a shift to the balance sheet item 'Non-current assets held for sale and disposal groups'. The loan portfolio still includes Ireland.

Liquidity coverage ratio (LCR)

Gives an idea of the bank's liquidity position in the short term, more specifically the extent to which the group is able to overcome liquidity difficulties over a one-month period. It is the average of 12 end-of-month LCR figures.

Calculation (in millions of EUR or %)	Reference	2021	2020
Stock of high-quality liquid assets (A)	Based on the European Commission's Delegated Act on LCR and the European Banking Authority's guidelines for LCR disclosure	108 642	81 833
/			
Total net cash outflows over the next 30 calendar days (B)		65 399	55 714
= (A) / (B)		167%	147%

Net stable funding ratio (NSFR)

Gives an idea of the bank's structural liquidity position in the long term, more specifically the extent to which the group is able to overcome liquidity difficulties over a one-year period.

Calculation (in millions of EUR or %)	Reference	2021	2020
Available amount of stable funding (A)	As of 2020: Regulation (EU) 2019/876 dd. 20-05-2019	218 124	209 932
/			
Required amount of stable funding (B)		147 731	143 901
= (A) / (B)		148%	146%

Net interest margin

Gives an idea of the net interest income (one of the most important sources of revenue for the group) relative to the average total interest-bearing assets of the banking activities. We also use the same methodology to calculate this ratio for each business unit.

Calculation (in millions of EUR or %)	Reference	2021	2020
Net interest income of the banking activities (A)	'Consolidated income statement': component of 'Net interest income'	3 863	3 788
/			
Average interest-bearing assets of the banking activities (B)	'Consolidated balance sheet': component of 'Total assets'	211 020	203 616
= (A) (annualised x360/number of calendar days) / (B)		1.81%	1.84%

* After excluding all divestments and volatile short-term assets used for liquidity management.

Total assets under management

Total assets under management (AuM) comprise third-party assets and KBC group assets managed by the group's various asset management companies (KBC Asset Management, ČSOB Asset Management, etc.), as well as assets under advisory management at KBC Bank. The assets, therefore, consist mainly of KBC investment funds and unit-linked insurance products, assets under discretionary and advisory management mandates of (mainly retail, private banking and institutional) clients, and certain group assets. The size and development of total AuM are major factors behind net fee and commission income (generating entry and management fees) and hence account for a large part of any change in this income line. In that respect, the AuM of a fund that is not sold directly to clients but is instead invested in by another fund or via a discretionary/advisory management portfolio, are also included in the total AuM figure, in view of the related work and any fee income linked to them.

Calculation (in billions of EUR or quantity)	Reference	2021	2020
Belgium Business Unit (A)	Company presentation on www.kbc.com	216	194
+			
Czech Republic Business Unit (B)		14	11
+			
International Markets Business Unit (C)		7	6
A)+(B)+(C)		236	212

Management certification

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