2021

Annual Report KBC Group

KBC

KBC group passport

Our area of operation

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

Our goal and ambition

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

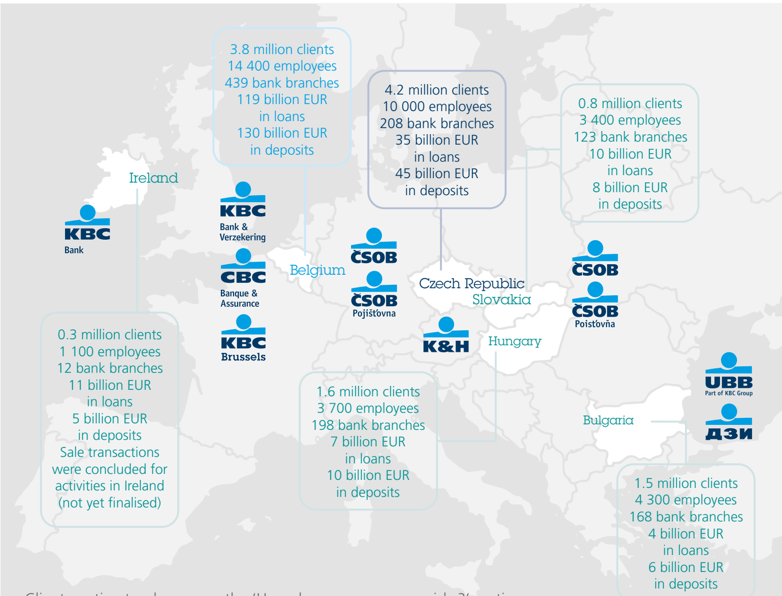
Our clients, staff and network as at 31-12-2021

Clients	12 million
Staff	40 000
Bank branches	1 159
Insurance network	310 agencies in Belgium, various distribution channels in Central and Eastern Europe

Our ratings as at 17-03-2022

Long-term debt ratings	Fitch	Moody's	Standard & Poor's
KBC Bank NV	A+	A2	A+
KBC Insurance NV	–	–	A
KBC Group NV	A	Baa1	A-

Sustainability ratings	CDP	Sustainalytics	S&P Global	MSCI	ISS ESG	FTSE 4good
KBC Group	A-	low risk	74/100	AAA	C Prime	4.3/5



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

KBC group in 2021

Digital strategy further development and improvement of Kate, our digital assistant

2.6 billion EUR **in net profit**

Agreement reached on **sale of activities in Ireland** (not all ofwhich have been finalised yet)

Focus on **the health and well-being of our clients and staff** during the coronavirus crisis, and on ensuring continuity of services

Considerable progress on climate-related targets

Significant **reversal of impairment charges** for coronavirus crisis

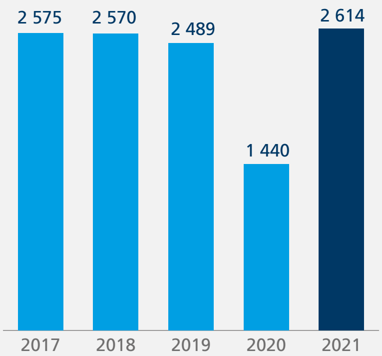
Higher claim payments relating to extreme weather conditions in some of our core countries

Agreement reached on **acquisition of Bulgarian activities from Raiffeisen Bank International** (not yet finalised)

Acquisition of NN's Bulgarian pension and life insurance business

Net result

(in millions of EUR)



Breakdown of net result by business unit

(2021, in millions of EUR)

Key figures	2021	2020	2019	2018	2017
Consolidated balance sheet, end of period (in millions of EUR)					
Total assets	340 346	320 743	290 591	283 808	292 342
Loans and advances to customers (excluding reverse repos)	159 728	159 621	155 816	147 052	140 999
Securities	67 794	71 784	65 633	62 708	67 743
Deposits from costumers (excluding debt securities and repos)	199 476	190 553	173 184	159 644	152 479
Technical provisions and liabilities under investment contracts, insurance	32 571	31 442	32 170	31 273	32 193
Total equity	23 077	21 530	20 222	19 633	18 803
Consolidated income statement (in millions of EUR)					
Total income	7 558	7 195	7 629	7 512	7 700
Operating expenses	-4 396	-4 156	-4 303	-4 234	-4 074
Impairment	261	-1 182	-217	17	30
Net result, group share	2 614	1 440	2 489	2 570	2 575
Belgium	1 997	1 001	1 344	1 450	1 575
Czech Republic	697	375	789	654	702
International Markets (Slovakia, Hungary, Bulgaria, Ireland)	127	199	379	533	444
Group Centre	-207	-135	-23	-67	-146
Sustainability and gender diversity					
Own greenhouse gas emissions (in tonnes of CO_2 per FTE)	1.0	1.5	2.0	2.3	2.5
Proportion of renewable energy in loans to energy sector (%)	63%	61%	57%	44%	41%
Volume of SRI funds (in billions of EUR)	32	17	12	9	7
Gender diversity in the workforce (percentage of women)	56%	56%	57%	57%	57%
Gender diversity in the Board of Directors (percentage of women)	33%	38%	31%	31%	31%
KBC share					
Number of shares outstanding, end of period (in millions)	416.9	416.7	416.4	416.2	418.6
Parent shareholders' equity per share, end of period (in EUR)	51.8	48.1	45.0	41.4	41.6
Average share price for the financial year (in EUR)	68.3	52.8	60.8	67.4	66.5
Share price at year-end (in EUR)	75.5	57.3	67.1	56.7	71.1
Gross dividend per share (in EUR)	8.6*	2.44*	1.00	3.50	3.00
Basic earnings per share (in EUR)	6.15	3.34	5.85	5.98	6.03
Equity market capitalisation, end of period (in billions of EUR)	31.5	23.9	27.9	23.6	29.8
Financial ratios					
Return on equity	13%	8%	14%	16%	17%
Cost/income ratio, banking	58%	58%	56%	56%	53%
Combined ratio, non-life insurance	89%	85%	90%	88%	88%
Credit cost ratio, banking	-0.18%	0.60%	0.12%	-0.04%	-0.06%
Common equity ratio (Danish compromise method, fully loaded)	15.5%	17.6%	17.1%	16.0%	16.3%

For definitions and comments, see the analyses and 'Glossary of financial ratios and terms' in this report.

* We allocated 2 euros of the interim dividend paid in November 2021 (3 euros per share entitled to dividend) to financial year 2020 and 1 euro to financial year 2021. The dividend for 2021 is subject to the approval of the General Meeting of Shareholders.

Our key performance indicators (KPIs) for the future

Client NPS score Target: top 2 at group level by year-end 2023	**Digital sales** Target: share of digital sales ≥ 40% for bank products and ≥ 25% for insurance products by year-end 2023	**Straight-through processing** Target: share of straight-through processing (STP) ≥ 60% and STP potential ≥ 80% by year-end 2023	**Bank-insurance clients** Target: 85% of active clients by year-end 2023	**Stable bank-insurance clients** Target 27% of active clients by year-end 2023	**Strategic**
Socially responsible funds (SRI) Target: Total SRI funds: ≥ 30 billion euros by year-end 2025 and new SRI fund production ≥ 50% of total annual fund production from 2021	**Renewable energy loans** Target: share of renewable energy sources and biofuels in the energy-sector loan portfolio ≥ 65% in 2030	**Direct coal-related financing** Target: run-down by year-end 2021	**Own CO_2e emissions** Target: -80% between 2015 and 2030 and achievement of complete climate neutrality for our direct footprint from year-end 2021 by offsetting the difference	**Own renewable energy consumption** Target: 100% green electricity by 2030	**ESG**
Total income Target: CAGR for 2021-2024: ± 4.5% **Operating expenses excluding bank taxes** Target: CAGR for 2021-2024: ± 1.5%	**Credit cost ratio** Target: 25-30 basis points for the through-the-cycle credit cost ratio	**Combined ratio** Target: ≤ 92%	**Dividend payout ratio** Target: ≥ 50% (see 'Our strategy')	**Surplus capital** Target: > 15% (The Board of Directors decides on payment of portion exceeding 15% of common equity ratio, see below)	**Financial**

KPI definitions and scores are provided in the 'Our strategy' section, as are the key regulatory capital and liquidity ratios.

Table of Contents

Report of the Board of Directors

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

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

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

Statement regarding the publication of non-financial information: in keeping with our pursuit of integrated reporting, we have incorporated our non-financial information (including on EU Taxonomy) in the 'Report of the Board of Directors'. The references to the sections concerned are provided under the 'Non-financial information statement'. Information concerning diversity can be found in the 'Corporate governance statement'. Specific climate-related information is provided in various sections, including 'Focus on climate', 'Our role in society' and 'Climate-related and other ESG risks'.

Translation and versions: The Annual Report is available in Dutch and English ESEF (European Single Electronic Format) versions and in Dutch, English and French PDF versions. The Dutch ESEF version is the original version; 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.

How do we determine what is sufficiently important to mention in our annual report?: We take our cue from relevant legislation and the International Financial Reporting Standards and take as much account as possible of the guidelines issued by the International Integrated Reporting Council, which also inspired the information we provide on value creation. We base our non-financial statement primarily on the GRI (Global Reporting Initiative) Standards. Full application of the GRI Standards (Core option) and the GRI Content Index with the GRI indicators most relevant to our company can be found in our Sustainability Report at www.kbc.com. We also map our relevant topics using the Sustainability Accounting Standards Board (SASB) standards and have incorporated the relevant standards into the GRI/SASB Content Index. These reporting frameworks emphasise materiality and relevance in reporting. Our efforts to determine which subjects are important to our stakeholders include carrying out a materiality analysis (see 'Stakeholder interaction and materiality analysis'). The results of the materiality analysis were validated by the Executive Committee and submitted to the Board of Directors. Information on the scope of consolidation for financial information is provided in Note 6.5 of the 'Consolidated financial statements' section. Our sustainability data is collected through a group-wide process that includes strict hierarchical validation and applies as a minimum to all KBC entities in the core countries. More information on the collection of sustainability data is provided in our Sustainability Report at www.kbc.com. We emphasise that, when we use terminology such as 'green' and 'sustainable', these terms in no way suggest that what we describe is already fully in line with the EU Taxonomy.

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

Consolidated financial statements

Company annual accounts and additional information

Report of the Board of Directors

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

A year in which the coronavirus 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 engaged in 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 a clear recognition of a decade of innovation, development and listening closely to our clients. The new 'Differently: the Next Level' strategy which we launched over a year ago has also clearly paid off already and shows the innovativeness that drives us forward as a group, with the ultimate objective of making our clients' lives easier.'

Johan Thijs

Koenraad Debackere

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 July 2021, we acquired NN's Bulgarian pension and life insurance business, and in November we signed a contract for a second Bulgarian acquisition: that 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. These transactions 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.

While the scheduled acquisition of Raiffeisenbank's Bulgarian business will, on completion, lower our common equity ratio by an estimated one percentage point, the sales in Ireland will, on completion, increase it by roughly 0.9 percentage points.'

Net profit picked up again

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 2.6 billion euros – considerably more than the 1.4 billion euros in the previous year and even slightly above 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. We also translate the excellent results into an extra profit bonus for all our employees. Furthermore, we will propose to the General Meeting a gross final dividend of 7.6 euros per share, bringing the total gross dividend to 10.6 euros per share. This is the sum total of a dividend of 2 euros per share for financial year 2020 (paid in November 2021), an ordinary dividend of 4 euros per share for financial year 2021 (of which an interim dividend of 1 euro was paid in November 2021 and 3 euros per share is payable in May 2022), and an extraordinary dividend of 4.6 euros (payable in May 2022). This resulted in a fully loaded common equity ratio of 15.5%, in line with our capital allocation plan for 2021.'

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, shareholder 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*

Our business model

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

How do we create sustainable value?

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

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

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

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

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

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

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’.

How do we create value?

Raw materials

Financial capital

Total equity of
23 billion euros
226 billion euros
in deposits and debt securities

Employees and brand

Approximately 40 000 employees
Strong brands in all core countries, trusted partner
Capacity to innovate

Infrastructure

Various electronic distribution platforms, apps, AI and underlying ICT systems
1 159 bank branches, various distribution channels for insurance

Clients and other stakeholders

12 million clients in
6 core countries
Suppliers, government, regulators and other stakeholders

Environment and society

Direct use of electricity, gas, water, paper, etc.
More important indirect impact through lending, investment portfolio, funds, insurance, etc.

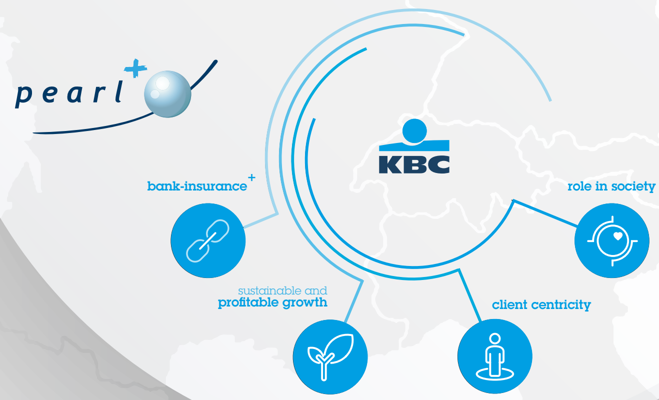
Activities

Goal and ambition

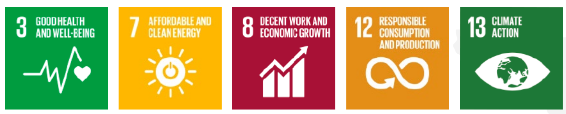
To offer proactive and data-driven solutions to meet our clients' needs.
To be the reference for bank-insurance in all our core markets

Core activities

Lending
Deposits
Insurance
Investments
Asset management
Payments
Other financial services



Most relevant SDGs for the group

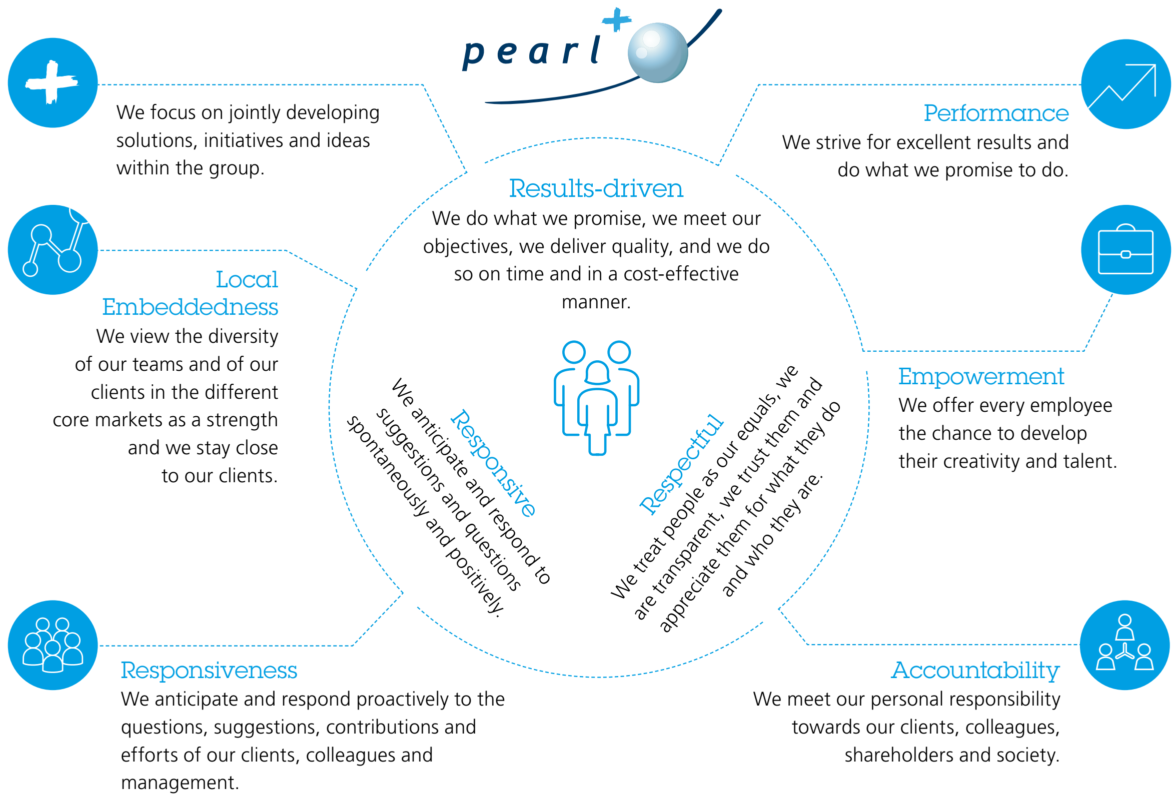


Output and outcomes (selection 2021)	Goals and term
	(results: see 'Our strategy')
• Net profit of 2.6 billion euros • Robust capital and liquidity ratios • Cost/income ratio of 58% and combined ratio of 89% • 5% organic growth in loans and advances • 12% increase in assets under management	• Growth of total income (2024) • Growth in operating expenses excluding bank taxes (2024) • Combined ratio
• 2.5 billion euros in remuneration paid to our staff • Exceptional coronavirus-related bonus awarded in 2021 • Firmly embedded PEARL+ business culture • around 135 000 registered training days • Internal labour mobility 24% • Diversity: 41% women in junior and middle management, 24% in senior management	• Employee engagement surveys (2021)
• Innovative digital, AI and data-driven approach • Further development of digital assistant Kate • Various external recognitions, including best mobile banking app worldwide (Sia Partners) • Focus on simplification and straight-through processes • 1.4-billion-euro investment in 'digital first' in 22–24	• Share of digital sales (2023) • Straight-through processing score (2023)
• Stakeholder interaction process by country • Aggregate 1.3 billion euros paid in income taxes and bank taxes • Focus on financial literacy initiatives and promoting entrepreneurship	• Dividend payout ratio (2021) • Client NPS score (2023) • Share of bank-insurance clients (2023)
• Focus on environmental awareness initiatives and the issue of longevity and health care • 32 billion euros invested in SRI funds • Full phase-out of direct coal-related financing • Renewable energy: 63% of lending to energy sector • Own CO_2 emissions, -71% compared to 2015 2015	• Run-down of direct coal financing (2021) • Volume of socially responsible funds (2025) • Reduction in own CO_2 emissions (2030) • Share of renewable energy loans (2030) • Share of electricity from renewable sources (2030)

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

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

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



What differentiates us from our peers?

Our integrated bank-insurance model

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

Our digital approach

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

Our strong geographical focus

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

Our focus on local responsiveness

We want to build sustainable relationships with our local clients in our core countries. The goal is to know and understand our local clients better, pick up signals effectively and respond to them proactively, offer tailored products and services, and focus on the sustainable development of the different communities in which we operate. Where relevant, we 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 our shareholder structure is the core shareholder syndicate consisting of Cera, KBC Ancora, MRBB and the other core shareholders, which together held roughly 40% of our shares at the end of 2021. These shareholders act in concert, thereby ensuring shareholder stability in our group.

Our strengths

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

Our challenges

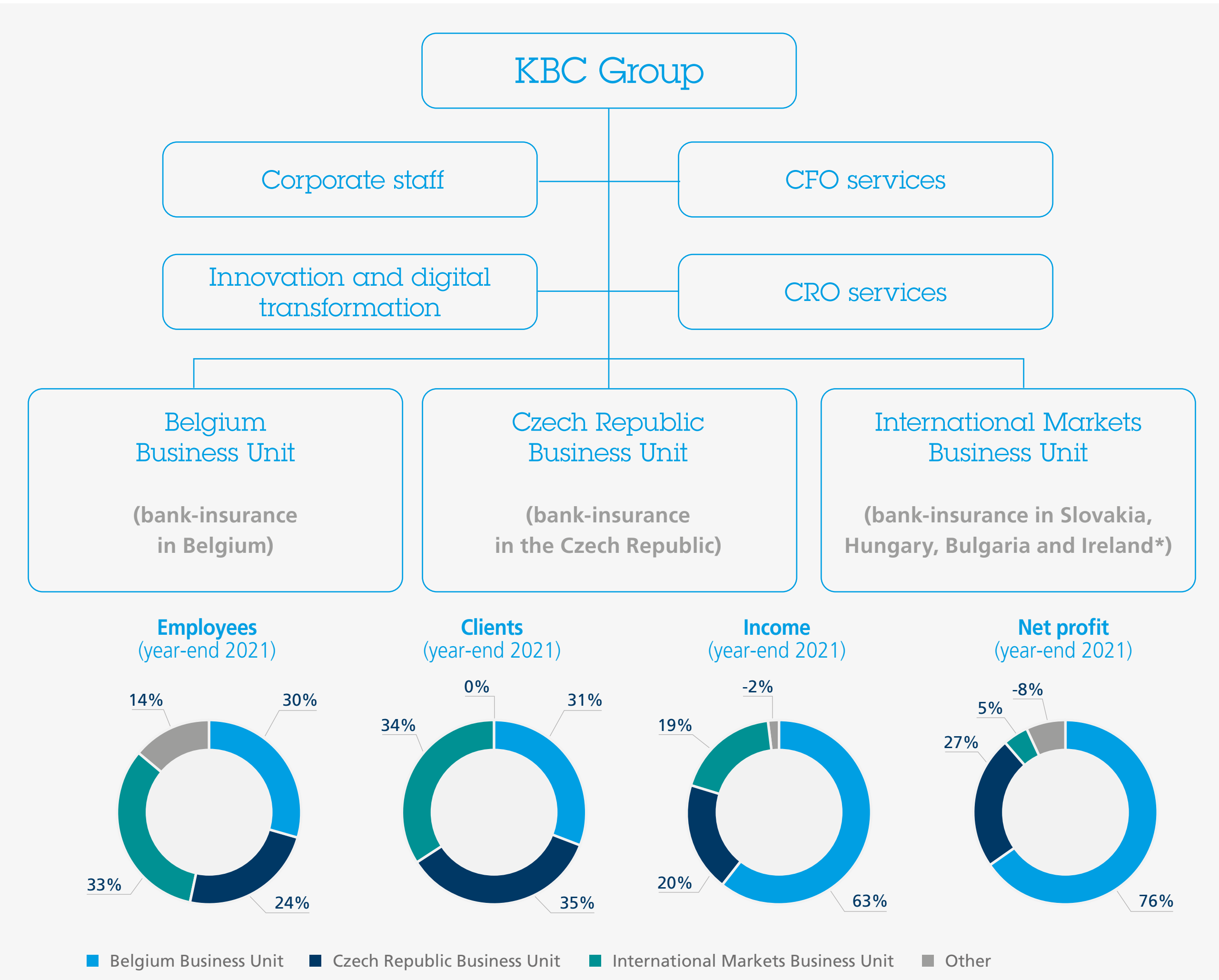
Macro-economic environment characterised by the impacts of the coronavirus crisis, low – but recently rising – interest rates, currently high inflation rates, population ageing, and geopolitical challenges (including as a result of the war in Ukraine)	Impact of climate change on our and our clients'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

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

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

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

The most important matters discussed by the Board in 2021 are summarised in the 'Corporate governance statement'. We also deal there with our remuneration policy for senior management. The principle underpinning this policy – and the remuneration of all our staff – is that good performance deserves to be recognised. It is only fair that every employee who works hard is properly rewarded for their efforts, including by means of limited variable remuneration as part of an attractive and balanced remuneration policy.



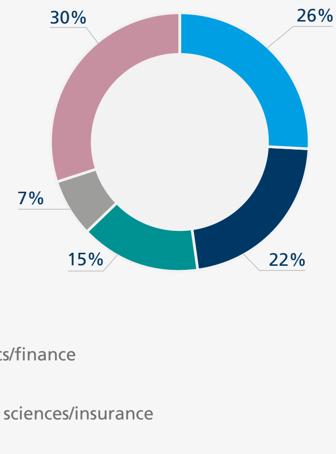
* Ireland was part of the International Markets Business Unit until year-end 2021, and was then transferred to the Group Centre in view of the sale transactions. 'Other' in the charts: a proportion of our employees work in other countries or in group functions; we also allocate part of our capital and earnings to the Group Centre (see below).

Composition of the Board of Directors (year-end 2021)

Members	15
Men/Women	10/5
Nationality	Belgian (14), Czech (1)
Independent directors	2*
Chairman	Koenraad Debackere
Attendance record	See the 'Corporate governance statement'
Principal qualifications	economics, law, actuarial sciences, management, mathematics, fiscal sciences, etc.

* Effective 1 December 2021, Júlia Király resigned as director. Subject to the supervisory authority's approval, it will be proposed to the General Meeting to appoint a new female independent director.

Qualifications held by members of the Board of Directors
(year-end 2021)

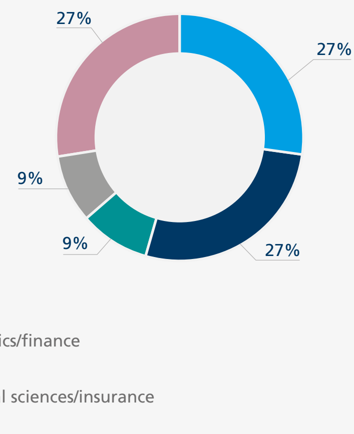


Rough breakdown based on all qualifications
(various individuals have more than one degree)

Composition of the Executive Committee (year-end 2021)

Members	7
Men/Women	6/1
Nationality	Belgian (5), British (1), Bulgarian (1)
Chairman	Johan Thijs
Principal qualifications	law, economics, actuarial sciences, mathematics, pedagogy. etc.

Qualifications held by members of the Executive Committee
(year-end 2021)



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

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

In what environment do we operate?

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

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

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

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

It was against this background that both the US and the German ten-year government bond yields increased in 2021. The spread between US and German government bond yields was volatile throughout the year and widened towards the end of the year. The main contributing factor was the more passive attitude adopted by the ECB compared to the Fed. This spread was also evident from the real ten-year bond yields, which adjusts nominal interest rates for inflation estimates. In

the United States, this remained virtually unchanged overall in 2021 (approx. -1.25%), while in Germany it fell to historical lows (approx. -2.25%). This caused the euro to temporarily weaken against the US dollar at year-end 2021. Since the interest rate differential is already bottoming out, the euro will be able to gain some ground over the US dollar in 2022.

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

What are our main challenges?

Climate change, global health risks and geopolitical challenges

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

How are we addressing them?

- We ensure in our long-term planning/scenario that our capital and liquidity position is capable of withstanding a negative scenario. We calculate the impact of changes in key parameters and estimate the impact of material events as effectively as possible.
- In the specific case of coronavirus, we took the necessary steps to ensure accessibility and business continuity, enabling us to offer a level of service comparable with that prior to the crisis. The most important coronavirus-related government measures with which we collaborated in each of our core countries 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.

Topics from our materiality analysis*

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

Shifting client behaviour and competition

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

How are we addressing them?

- The creative input and 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).

Topics from our materiality analysis*

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

Regulation

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

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

How are we addressing them?

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

Topics from our materiality analysis*

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

Cyber risks and data protection

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

How are we addressing them?

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

Topics from our materiality analysis*

- Information security and data protection

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

Market conditions in our core markets in 2021

	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 [apart from Ireland])	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	208 bank branches	123 bank branches	198 bank branches	168 bank branches	12 bank branches
	310 insurance agencies	Insurance sold through various channels	Insurance sold through various channels	Insurance sold through various channels	Insurance sold through various channels	Insurance sold through various channels
	Online channels	Online channels	Online channels	Online channels	Online channels	Online channels
Recent acquisitions or disposals[3] (2019-2020-2021)	–	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 (2022) and the pending sale of the performing loan assets and deposit book of KBC Bank Ireland
Clients (millions, estimate)	3.8	4.2	0.8	1.6	1.5	0.3
Loan portfolio (in billions of EUR)	119	35	10	7	4	11
Deposits (excl. debt securities) (in billions of EUR)	130	45	8	10	6	5
Market share (estimate)						
- 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)	1 997	697	85	226	114	-298

1 Data based on estimates of 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.

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

Our employees, capital, network and relationships

Our value creation	Our model	Our environment	**Our capitals**

Main challenges

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

Our employees

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

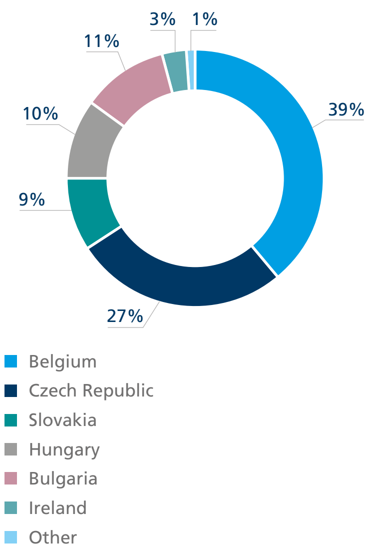
It remains our fixed ambition to 'future-proof' our organisation and employees, and to keep the latter on board as much as possible and enable them to grow with KBC. We are committed to a learning culture, in which learning forms an integral part of our everyday activities. Our company is engaged in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

We take the health and well-being of our employees very seriously. As in 2020, we were faced with the effects of the coronavirus pandemic in 2021, being hit by a third and subsequently even a fourth wave. Prevention was given absolute priority, and we kept adapting to the circumstances to minimise health risks. Each of our core markets also took additional measures depending on the local situation. The basic rules remained in place: reorganised workspaces, working from home where possible (during peak times in 2021, just over half of our employees were working from home), practising hand hygiene and ongoing communication through coronavirus updates. A specially established Group Crisis Committee monitored the situation closely throughout. Where possible, including at UBB in Bulgaria, employees were invited to receive the vaccine in the office. In all countries, employee well-being was put first, providing them with tips and tricks to stay healthy, including the importance of taking regular breaks, exercise, and a healthy diet. Managers were asked to be even more vigilant about stress issues and to remain in regular touch with the team. Initiatives that had proved their worth became permanent policies, including regular digital huddles to replace coffee breaks with co-workers and virtual

'Best Internal Communication Strategy'

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

Breakdown of workforce by country/region
(year-end 2021)



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.

Number of staff, KBC group	31-12-2021	31-12-2020
Total workforce*		
Absolute number	40 428	40 863
FTEs	37 207	37 696
Breakdown, in % (based on FTEs)*		
Belgium	39%	39%
Central and Eastern Europe	57%	57%
Rest of the world	4%	4%
Belgium Business Unit	30%	30%
Czech Republic Business Unit	24%	24%
International Markets Business Unit	33%	35%
Group Functions and Group Centre	14%	11%
Gender diversity (% of women, based on absolute numbers)		
In total workforce	56%	56%
In middle and junior management	41%	41%
In senior management (top 300)	24%	22%
On the Executive Committee	14%	14%
On the Board of Directors	33%	38%
By number of promotions per year	71%	59%
By age		
Younger than 30 years of age	14%	15%
30–50 years of age	57%	57%
Older than 50 years of age	29%	28%
Average age (years)	43	43
Additional information		
Proportion of part-time workers (as % of the total workforce)	17%	17%
Average seniority (years)	13	13
Number of days absent through illness per employee	8.0	7.5
Staff turnover (as % of the total workforce)	14%	12%
Internal labour mobility (as % of the total workforce)	24%	22%
Number of (registered) training days ('000)	135	135
Number of training days per employee	4.0	3.6
New acquisitions (in numbers)	3 799	3 590
Employees covered by a collective labour agreement (as % of the total workforce)	82%	81%

* Please note that flexible DPP and DPC contracts (temporary contracts primarily for students) in the Czech Republic and Slovakia have also been included in the totals here (but not in the other subheadings or information). All figures starting from Gender diversity relate to the period 1 October [t-1]–30 September [t] (see the Sustainability Report for more details).

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.

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

Our capital

Our activities are only possible if we have a solid capital base. At year-end 2021, our total equity came to 23.1 billion euros and our capital was represented by 416 883 592 shares. Our shares are held by a large number of shareholders in a number of countries. MRBB, Cera, KBC Ancora and the other core shareholders, constitute KBC's core shareholders (see the 'Corporate governance statement' section for more information). According to the most recent notifications, the core shareholders own 40% of our shares between them.

KBC share	2021	2020
Number of shares outstanding at year-end (in millions)	416.9	416.7
Share price for the financial year*		
Highest price (in EUR)	85.9	73.3
Lowest price (in EUR)	55.9	38.0
Average price (in EUR)	68.3	52.8
Closing price (in EUR)	75.5	57.3
Difference between closing price at financial year-end and previous financial year-end	+32%	-15%
Equity market capitalisation at year-end (in billions of EUR)	31.5	23.9
Average daily volume traded on Euronext Brussels (source: Bloomberg)		
In millions of shares	0.5	0.8
In millions of EUR	36	44
Equity per share (in EUR)	51.8	48.1

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

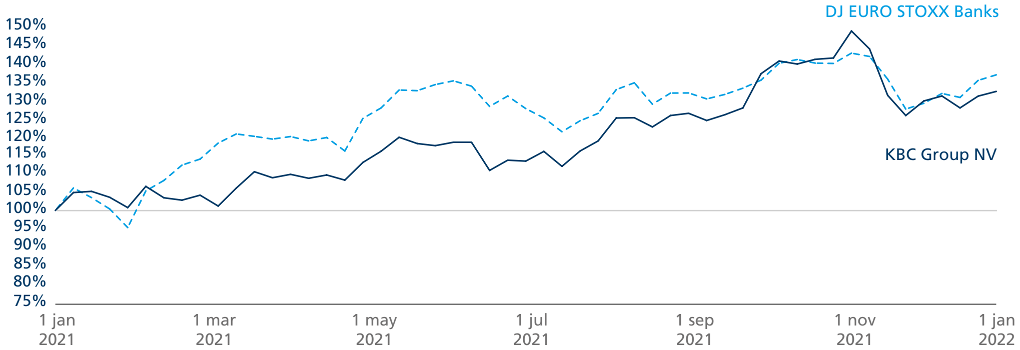
Shareholder structure of KBC Group NV (31 December 2021)*	Number of shares at the time of disclosure	Percentage of the current number of shares
KBC Ancora	77 516 380	18.6%
Cera	11 127 166	2.7%
MRBB	47 887 696	11.5%
Other core shareholders	30 554 535	7.3%
Subtotal for core shareholders	167 085 777	40.1%
Free float	249 797 815	59.9%
Total	416 883 592	100.0%

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

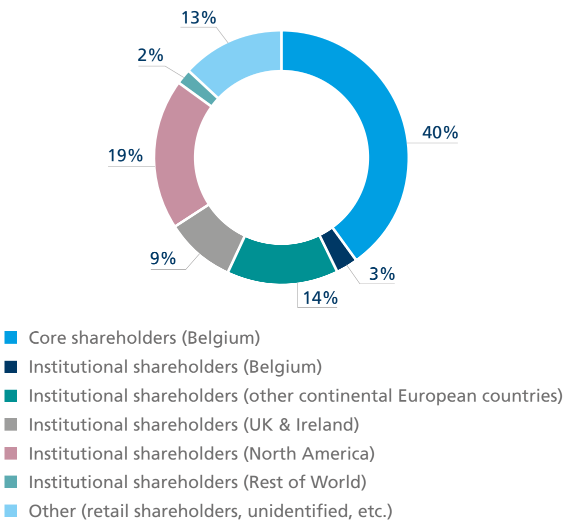
Dividend policy: see 'We aim to achieve our ambitions within a stringent risk management framework'.
We will propose to the General Meeting a gross final dividend of 7.6 euros per share, bringing the total gross dividend to 10.6 euros per share. This is the sum total of a dividend of 2 euros per share for financial year 2020 (paid in November 2021), an ordinary dividend of 4 euros per share for financial year 2021 (of which an interim dividend of 1 euro was paid in November 2021 and 3 euros per share is payable in May 2022), and an extraordinary dividend of 4.6 euros per share (payable in May 2022).

KBC share price over one year

(31 December 2020 = 100%, end-of-week prices)



Breakdown of shareholder structure by country/region
(September 2021, own estimates)



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

Ratings on 17 March 2022

Financial ratings for KBC group, KBC Bank and KBC Insurance[1]	Long-term debt rating	Outlook/watch/ review	Short-term debt rating
Fitch			
KBC Bank NV	A+	(Stable outlook)	F1
KBC Group NV	A	(Stable outlook)	F1
Moody's			
KBC Bank NV[2]	A2	(Stable outlook)	P-1
KBC Group NV	Baa1	(Stable outlook)	P-2
Standard & Poor's			
KBC Bank NV	A+	(Stable outlook)	A-1
KBC Insurance NV	A	(Stable outlook)	–
KBC Group NV	A-	(Stable outlook)	A-2

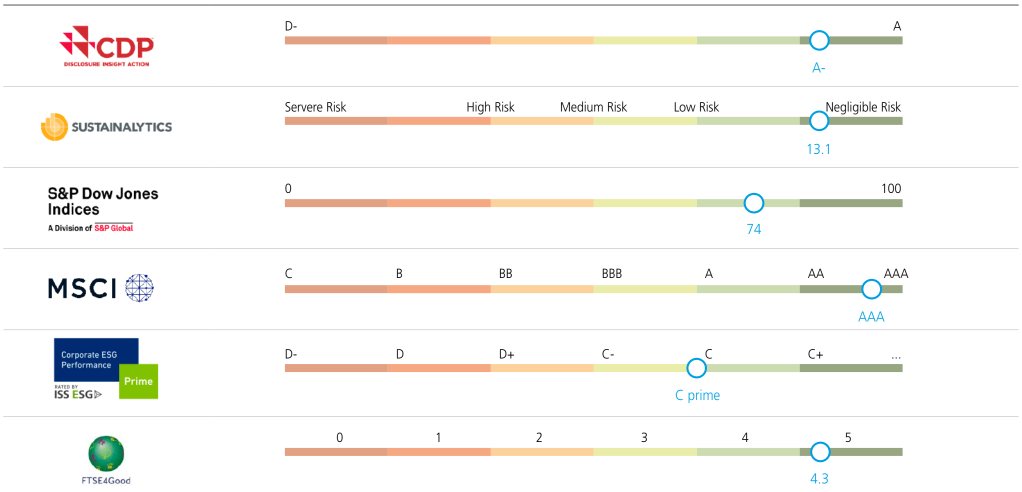
Sustainability ratings, KBC group	Score
CDP	A-
Sustainalytics	13.1/100 (Low risk)
S&P Global ESG score	74/100
MSCI	AAA
ISS ESG	C (Prime)
FTSE4Good	4.3/5

1 Please refer to the respective credit rating agencies for definitions of the different ratings. As far as financial ratings go, KBC Insurance is concerned with the financial strength rating, which indicates the likelihood of policyholders' claims being met, whereas the ratings given for KBC Bank and KBC Group indicate the likelihood of their financial obligations being met.

2 Long-term deposit rating of A1.

Sustainability ratings 17 March 2022

Rating agency



Our network and our relationships

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

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

Investor relations

Our Investor Relations Office has the mission of providing analysts, investors, rating agencies and other parties with timely, transparent, consistent and relevant information on our business strategy, trends and financial data. This information is widely disseminated and is accessible to all interested parties. The Investor Relations Office has a direct line to the group's senior management and is in contact with them on a daily basis. It recommends which information to provide to the market, collects data on the market itself (including analysts' opinions on KBC and KBC's shareholder structure) and is involved with briefing senior management on contacts with analysts and investors. The uncertainty and volatility triggered by the coronavirus crisis in 2020 and 2021 resulted in an exceptionally large number of ad hoc (virtual) contacts with investors.

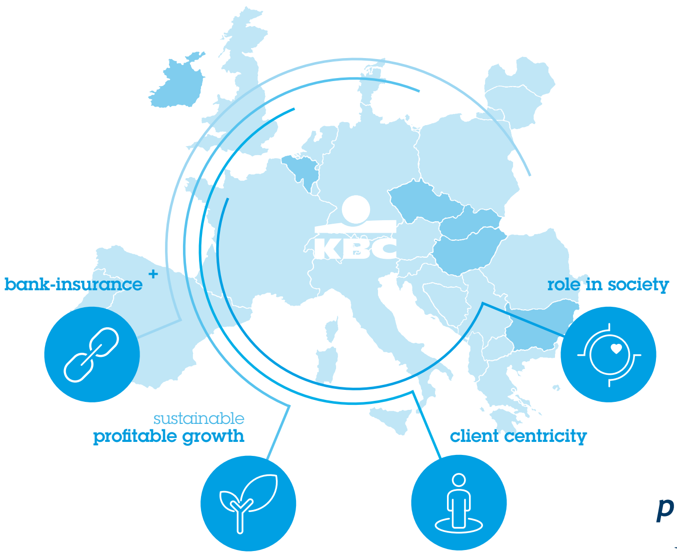
Investor Relations	2021
Number of virtual roadshows	44
Number of international virtual conferences	10
Number of sell-side analysts tracking KBC (at year-end 2021)*	23
Sell-side analysts' recommendations for the KBC share (at year-end 2021)	
Buy/Outperform	30%
Hold/Neutral	52%
Sell/Underperform	17%

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

Websites of the main group companies	
Group	www.kbc.com
Belgium	www.kbc.be; www.cbc.be; www.kbcbrussels.be
Czech Republic	www.csob.cz
Slovakia	www.csob.sk
Hungary	www.kh.hu
Bulgaria	www.ubb.bg; www.dzi.bg
Ireland	www.kbc.ie

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

Our strategy



Our strategy rests on the following principles:

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

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

More information on PEARL is provided in the 'Our business model' section.

The client is at the centre of our business culture

client centricity	bank-insurance	sustainable profitable growth	role in society

PEARL+: jointly developing solutions, initiatives and ideas within the group.

Within a stringent risk, capital and liquidity management framework

Main challenges

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

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

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

We have also collaborated intensively with government bodies since the beginning of the coronavirus crisis to support all clients affected by the pandemic, through such measures as loan payment deferrals under the various coronavirus-related moratoriums. For our core countries combined, the volume of loans that were granted payment holidays under the various support measures at year-end 2021 amounted to roughly 10 billion euros (including EBA-compliant moratoria and the now non-EBA-compliant scheme in Hungary, but excluding Ireland, which is now classified under IFRS 5 on account of the sale transactions [which have not all been finalised yet]). Virtually all EBA-compliant moratoria expired by the end of December 2021. For 96.5% of the loans under the now expired EBA-compliant moratoria, payments have fully resumed. In addition to this, we granted some 0.8 billion euros in loans that fall under the various coronavirus-related government guarantee schemes in our home markets. For more details, see the 'Consolidated financial statements' section, Note 1.4 of this Annual Report and the 2020 Annual Report.

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

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

"

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

"

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.

Best mobile banking app worldwide

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

Digitality in practice (2021)

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

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

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

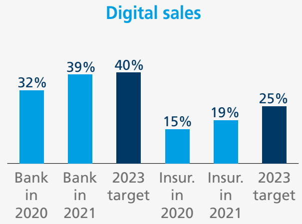
Digitalisation provides us with the opportunity to collect increasing amounts of data. This has helped us to learn more about our clients, advise them more effectively, and further improve their bank-insurance experience. However, this also comes with the obligation to use the available data in a responsible 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. More information about our data governance can be found in the 'Corporate governance statement' section in this report.

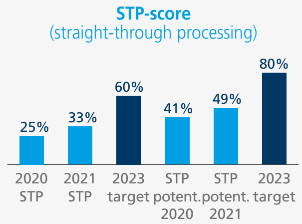
We expect our employees to communicate in an accessible, clear, understandable and transparent way with our clients. This is not easy given the duties imposed on us by the legislator, such as sending out letters on risks, costs and fees. A few years ago, therefore, we launched a project in Belgium to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

Follow-up

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

KPI	Description	Target and result
Client NPS score	A ranking is drawn up based on Net Promoter Scores for each core country. The rankings are aggregated at group level based on active* client numbers.	Target: top 2 ranking by year-end 2023 2021 result: top 3 (based on the latest available data)
Digital sales	Digital sales as a percentage of total sales, based on weighted average of a selection of core products.	Target: ≥ 40% for banking in 2023 and ≥ 25% for insurance in 2023 2021 result: 39% for banking 19% for insurance
Straight-through processing (STP)	The STP score is based on analysis of commercial core products. The STP ratio measures how many services that can be offered digitally are processed without human intervention from the moment of the interaction with the client to final agreement by KBC. The STP potential measures what the STP ratio would be if KBC was only to use the digital channel in its interaction with clients for a given process or product.	Target: STP potential ≥ 60% in 2023 STP potential ≥ 80% in 2023 2021 result: STP: 33% STP potential: 49%





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

We offer our clients a unique bank-insurance experience

client centricity	bank-insurance	sustainable profitable growth	role in society

PEARL+: jointly developing solutions, initiatives and ideas within the group.

Within a stringent risk, capital and liquidity management framework

Main challenges

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

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

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

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

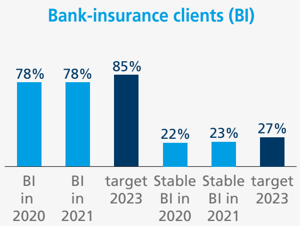
We have developed a unique bank-insurance cooperation concept within our group, a model that goes much further than a bank that sells insurance products. It is all about complete back-office integration, which delivers operational and commercial optimisation for both the client and for KBC itself. The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

KPI	Description	Target and result	
Share of bank-insurance clients	Share of bank-insurance clients (min.1 bank + 1 insurance product from the group) and stable bank-insurance clients (min. 2 bank and 2 insurance products from the group [3-3 for Belgium]) within total number of active bank clients*.	Target: ≥ 85% bank-insurance clients and ≥ 27% stable bank-insurance clients by 2023 2021 result: 78% bank-insurance clients 23% stable bank-insurance clients	

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

We focus on sustainable and profitable growth

client centricity	bank-insurance	sustainable profitable growth	role in society

PEARL+: jointly developing solutions, initiatives and ideas within the group.

Within a stringent risk, capital and liquidity management framework

Main challenges

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

Developing long-term relationships with our clients is crucial if we are to secure our long-term future. Therefore, we do not pursue high short-term returns that come with excessive risks but rather focus on sustainable and profitable growth in the long run. Sustainable and long-term thinking also means concentrating on the local economies of our core markets. Our geographical footprint remains 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 & risk criteria.

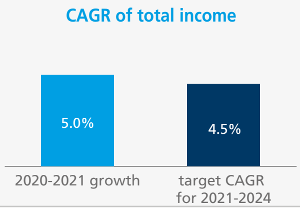
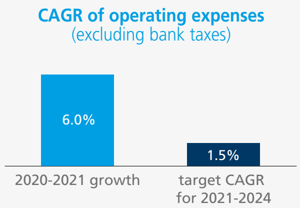
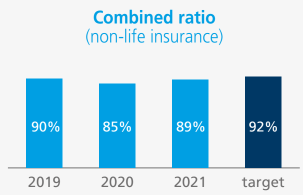
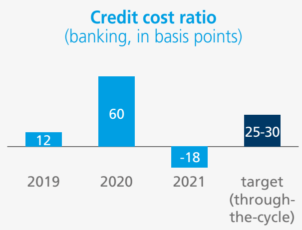
Recent examples (more details are provided in Note 6.6 of the 'Consolidated financial statements'):

- At the end of May 2020, we sold our 50% stake in the Slovenian life insurer NLB Vita, marking our complete withdrawal from Slovenia, which is not one of our group's core countries.
- At the end of November 2020, we finalised the agreement for the acquisition of 99.44% of OTP Banka Slovensko (increased to 100% in 2021), which strengthened our position on the Slovakian banking market. On 1 October 2021, OTP Banka Slovensko merged with ČSOB in Slovakia.
- In July 2021, we completed the acquisition of NN's Bulgarian pension and life insurance business. This deal will enable UBB and DZI to further expand their cross-selling opportunities through their already established bank-insurance presence in the Bulgarian market, allowing them to serve more clients and to benefit from economies of scale and increased visibility
- At the end of August, KBC Bank Ireland reached agreement on the disposal of a non-performing mortgage loan portfolio, and in October 2021 it confirmed that 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 October transaction remains subject to the approval of the supervisory authority and the Irish competition authorities. The successful completion of this transaction will ultimately result in our withdrawal from the Irish market.
- In mid-November 2021, KBC reached agreement with Raiffeisen Bank International on the acquisition of Raiffeisenbank (Bulgaria), a universal bank in Bulgaria offering private individuals, SMEs and business clients a full range of banking, asset management, leasing and insurance services. The transaction remains subject to regulatory approval and is expected to be completed by mid-2022. The plan is to merge Raiffeisenbank (Bulgaria) and UBB following the supervisory authority's approval. The pro-forma combined entity will have an estimated market share of 18% in terms of assets, allowing us to further strengthen our position as a leading financial group in Bulgaria. This acquisition will also create ample opportunity for insurance cross-selling with DZI.

We want to be in a position to deliver all our products and services in a top class manner. In the case of our core activities, we will retain production in-house. But for peripheral activities, we will mostly look to outsourcing or partnerships with (or in some cases acquisition of) specialists, including fintechs. In Belgium, for instance, we collaborate with a fintech that performs energy price comparisons for our clients. This is plainly not a core business of ours, but – besides advancing the general level of client satisfaction – it does relate to the resulting financial transactions on our clients' part, which is our core business. If we have access to the details of these transactions, we can generate added value for our clients by 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'. We monitor our long-term performance and our focus on the real economy and sustainability via a number of Key Performance Indicators (KPIs), the most important of which are listed in the following table.

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

KPI	Description	Target and result	
CAGR of total income	Compound annual growth rate (CAGR) of total income.	Target: CAGR for 2021-2024 ± 4.5% (target updated in February 2022) 2020-2021 result: +5%	
CAGR of operating expenses (excluding bank taxes)	Compound annual growth rate (CAGR) of total operating expenses, excluding special bank taxes)	Target: CAGR for 2021-2024 ± 1.5% (target updated in February 2022) 2020-2021 result: +6% (+1.5% with exceptional and non-operating items eliminated; see 'Our financial report')	
Combined ratio	[Technical insurance charges, including the internal cost of settling claims / earned insurance premiums] + [operating expenses / written insurance premiums] (for non-life insurance, and data after reinsurance).	Target: ≤ 92% (target updated in February 2022) 2021 result: 89%	
Credit cost ratio	[Net changes in impairment for credit risks] / [Average loan portfolio]. A negative value indicates a net reversal of impairment and hence a positive impact on results.	Target: 25-30 basis points for the through-the-cycle credit cost ratio 2021 result: -0.18%	

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

Our role in society

client centricity | bank-insurance | sustainable profitable growth | role in society

PEARL+: jointly developing solutions, initiatives and ideas within the group.

Within a stringent risk, capital and liquidity management framework

Main challenges

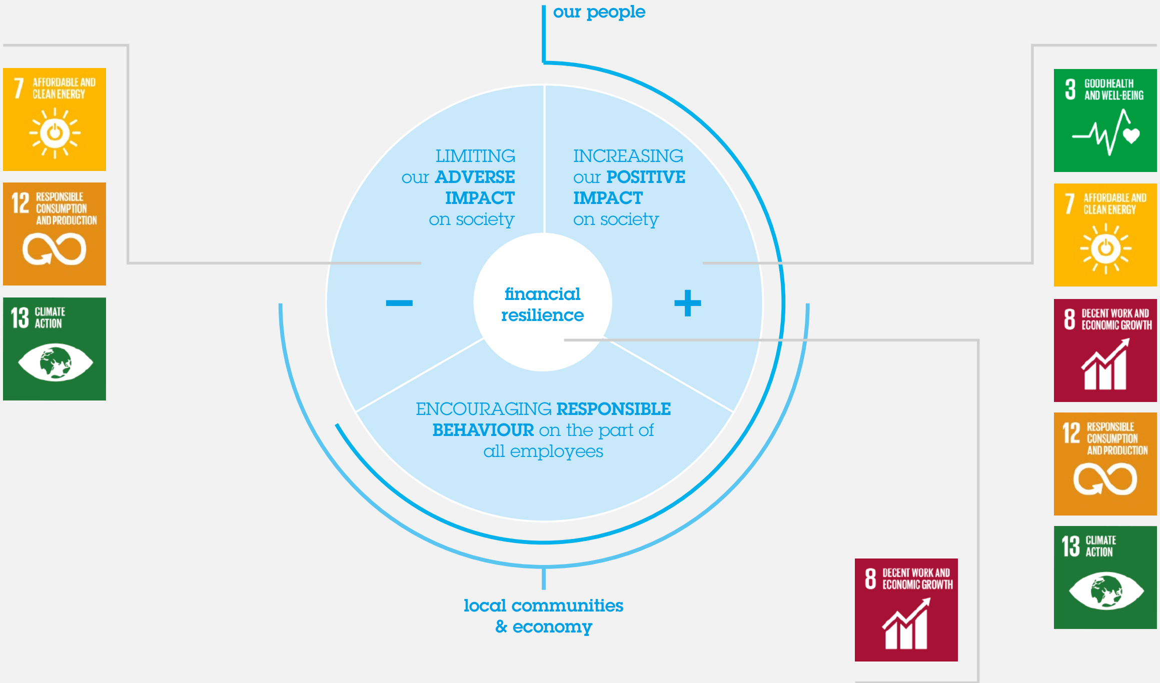
- Integrating sustainability in key processes and business activities
- Implementing and reporting on recommendations and regulations set out by the TCFD, EU Action Plan on Sustainable Finance, etc.
- Tracking and analysing evolving sustainable business trends
- Continuing the commitment to responsible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

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

More detailed information about our role in society is provided in our Sustainability Report, which is available at www.kbc.com. More information on how we engage with stakeholders and how we select the topics on which we report can be found under 'Stakeholder interaction and materiality analysis' in this Annual Report.

Sustainable Development Goals (SDGs)

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



Good health and well-being

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

Affordable and clean energy

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

Decent work and economic growth

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

Responsible consumption and production

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

Climate action

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

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

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

The basis of responsible behaviour is integrity, which requires honesty, fairness, transparency and confidentiality, as well as a healthy awareness of risk. Integrity and ethical values are also reflected in our 'Code of Conduct for KBC Group Employees'. More information in this regard is provided in the 'Corporate governance statement' section.
Given the difficulty of defining responsible behaviour, rather than drawing up guidelines for such behaviour we set out the underlying principles. These are presented in 'Compass for Responsible Behaviour'. Responsible behaviour is especially relevant for a bank-insurer when it comes to appropriate advice and sales. We pay particular attention, therefore, to training (including testing) and awareness.
We developed an e-learning course to clarify the importance of responsible behaviour and to provide a framework to help our employees take difficult decisions when faced with dilemmas. This course is mandatory for all staff.

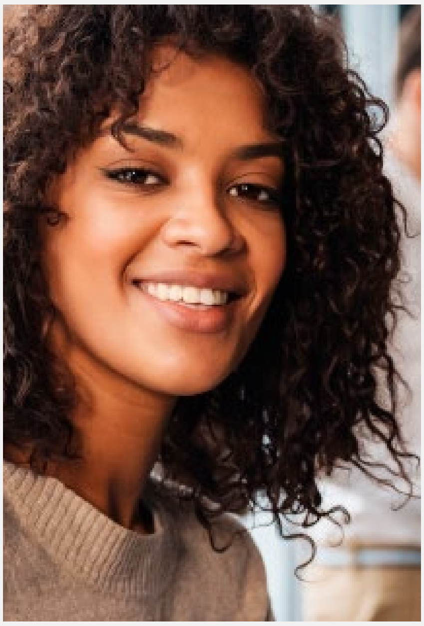
We communicate transparently on our rules and policy guidelines, which are published at www.kbc.com. More information on our Integrity Policy and its application is provided in the 'Corporate governance statement' section.

Aiming to enhance our positive impact on society

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

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.



Financial literacy

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

Examples

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

Entrepreneurship

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

Examples

- Partnership with BRS, which supports microfinance and microinsurance businesses in the Global South.
- Active use of Start it @KBC to support women entrepreneurs in the start-up world.
- Start it X: 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.

Environmental awareness

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

Examples

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

Longevity and health

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

Examples

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

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 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 the climate

The climate aspect in our business model

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

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

We actively modify our business model as needed, adjusting it both for the purpose of reducing or avoiding any negative impact (see our relevant goals in this area) and to contribute to reducing global warming within the targets set in the Paris Agreement.

We obviously also intend to capitalise on the many opportunities presented by the transition to a greener and more sustainable economy. This entails both further expanding our sustainable product and service offering in the field of investment, insurance, leasing and so on, and actively supporting clients in their transition to lower-carbon operations.

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

Climate governance

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

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

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

The Sustainable Finance programme is directed by a programme manager from Corporate Sustainability, together with a Sustainable Finance Core Team. This

“We have committed ourselves to managing the direct and indirect environmental impact of our activities in a responsible manner. In doing so, we wish – where possible – to enhance our positive impact and mitigate our negative impact on the environment in order to support the transition towards a sustainable and carbon-neutral economy.”

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.

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

Third green bond – November 2021	750-million-euro issue with a term of five years and three months. The proceeds will be used to finance loans for sustainable investments such as home loans and renewable energy projects. CO_2e emissions avoided in this way amount to roughly 138 000 tonnes annually.
Socially responsible investment funds	Wide range of socially responsible funds, varying from best-in-class funds and funds with sustainable themes to more recent impact investing funds. Thorough screening is applied to determine which companies and countries belong to the investment universe for socially responsible investment solutions. Moreover, all companies that can be linked to fossil fuels have been excluded from all our sustainable investment funds.
Project finance	We are actively involved in the financing of renewable energy projects in all core countries. In Belgium, for example, we entered into a major new project financing transaction in 2021 for the first Belgian zero-subsidy wind farm in Ghent. In Hungary, we financed the construction of 39 new photovoltaic power stations with a total installed capacity of nearly 20 MWp. The entire project was developed by Slovakian investors and represents a fine example of cross-border cooperation between KBC entities in the financing of renewable energy sources. In Bulgaria, UBB funded new renewable energy projects involving more than 40 MW in 2021, avoiding more than 30 tonnes of new carbon emissions.
Making homes more sustainable	KBC Bank has been providing the Flemish 0% loan to clients since January 2021. Clients who purchase an energy-efficient house or apartment in Flanders (EPC label E or F) can contract a special 0% renovation loan for a maximum of 60 000 euros to make the home energy-efficient within a period of five years (EPC label A, B or C). The annual interest the client pays on this loan is reimbursed by the Vlaams Energie en Klimaat Agentschap (Flemish Energy and Climate Agency). ČSOB in the Czech Republic also supported the transition to energy-efficient homes in 2021 by providing green mortgage loans. In Hungary, K&H was among the first, in October 2021, to launch the state-financed ‘green’ mortgage, which offers a very favourable interest rate if the home purchased has 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.

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

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.

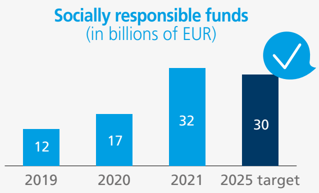
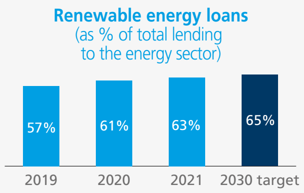
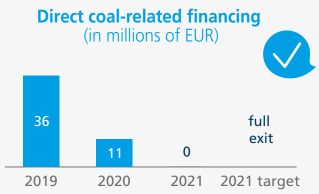
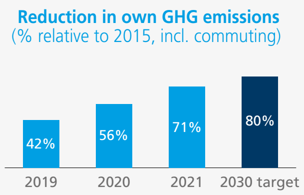
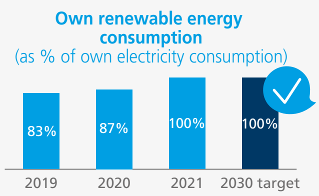
One of the pillars of our sustainability and climate policy is our focus on sustainable investment. Our employees offer socially responsible investments alongside traditional ones, thereby raising awareness amongst our clients and enabling them to make properly founded choices. All socially responsible 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 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.

KPI	Description	Target and result	
Socially responsible funds	Volume of socially responsible funds	Target[1]: total 30 billion euros by year-end 2025 (and new production of SRI funds ≥ 50% total production as of 2021) 2021 result: total 32 billion euros[2] 55% of new production	
Renewable energy loans	[Amount of loans to businesses in the renewable energy and biofuels sectors] / [total energy-sector loan portfolio]	Target: ≥ 65% by 2030 2021 result: 63%	
Direct financing of coal-related activities	Loans to coal-related activities	Target: run-down of direct coal financing by year-end 2021 with support for the transition process of existing clients Result for 2021: fully phased out	
Own CO_2e emissions	Reduction in own greenhouse-gas emissions; compared to 2015	Target: 80% reduction between 2015 and 2030 and achievement of complete climate neutrality for our own footprint from year-end 2021 by offsetting the difference 2015-2021 result: -71% including commuter travel[3] -76% excluding commuter travel We achieved net climate neutrality in late 2021 by offsetting our remaining direct emissions.	
Own energy consumption from renewable sources	[Energy from renewable sources] / [total electricity consumption]	Target: 100% green electricity by 2030 2021 result: 100%[3]	

1 The present framework for sustainable investment is a KBC in-house but well-proven and externally challenged framework. KBC Asset Management is further aligning this framework to new EU regulations such as SFDR and MiFID and currently works under the assumption that all SRI funds are either Article 8 or Article 9 funds under the SFDR.

2 At the end of 2021, this also included the Belgian KBC pension funds (converted to SRI funds; 6 billion euros).

3 The main sources of our direct CO2 emissions are our direct energy consumption and transport. In addition to our own efforts to reduce our environmental footprint (including the transition to electricity obtained exclusively from renewable sources and the installation of photovoltaic panels on our own buildings), the lockdowns imposed during the coronavirus pandemic in 2020 and 2021 also reduced, among other things, commuting activity and business travel and the emissions they generate. More information can be found in our Sustainability Report at www.kbc.com.

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

Main climate-sensitive sectors* – outstanding loan amounts (in billions of EUR)

KBC Group	31-12-2021	31-12-2020
Real estate	11.5	11.3
Building and construction	7.8	7.0
Agriculture, farming, fishing	5.2	5.0
Automotive	4.6	4.5
Energy	4.1	3.8
Food and beverage production	4.1	3.9
Metals	2.6	2.5
Chemicals	2.5	2.5
Total	42.3	40.4

* Reporting limited to sectors representing over 5% of industrial loans designated as climate-sensitive at year-end 2021. Although climate change could have an impact on all industries and sectors, the climate-sensitive industrial sectors were selected on the basis of a number of factors, including the TCFD recommendations (2017), pending more standardised frameworks and analyses (see the Sustainability Report for more details). The amounts listed comprise the full amount receivable from the sector (i.e. including areas with a very low footprint, such as wind and solar energy in the energy sector).

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

Estimated greenhouse gas emissions associated with our lending activities

(in million tonnes CO_2e, 31-12-2021)	31-12-2021
White paper on sectors and products	37.7
Agriculture, farming, fishing	9.5
Real estate and home loans	6.9
Energy	5.9
Building and construction	4.0
Food and beverage production	3.3
Automotive industry and vehicle funding	3.2
Metals	2.8
Chemicals	2.1
Other sectors	19.3
Total	57.0

Our own environmental footprint

Data relating to our own environmental footprint are set out below. 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.

Own environmental footprint, KBC group[1]	2021	2020
Electricity consumption (in thousands of kWh)	124 027	140 913
Gas and heating-oil consumption (in thousands of kWh)	69 879	73 409
Commuter and business travel (in millions of km)	162	267
Paper consumption (in tonnes)	2 017	2 234
CO_2e emissions (in thousands of tonnes, see next table)[2]	37	56

Own environmental footprint – greenhouse gas emissions in tonnes of CO2 – KBC group[1]		
Scope 1 emissions are those from direct energy consumption, coolant emissions and own-fleet emissions from business and commuter travel.	19 511	25 200
Scope 2 emissions (market-based) are those from indirect energy consumption (electricity, district heating, cooling and steam).	3 857	11 748
Scope 3 emissions as listed here are those from business and commuter travel (excluding those from our own fleet, which are counted under Scope 1 emissions), emissions relating to paper and water consumption and to waste-processing.	13 473	18 903
Total	36 841	55 850
Total per FTE	1.0	1.5

1 See our Sustainability Report for details of the methodology used. The data relates to the period from 1 October [t-1] – 30 September [t]. The coronavirus-related lockdowns caused a reduction in, among other things, commuting and business travel and the emissions they generate.

2 For 2021, CO2 emissions break down as follows (in thousands of tonnes): 13.9 in Belgium, 10.6 in the Czech Republic, 3.6 in Slovakia, 4.5 in Hungary, 3.5 in Bulgaria, 0.4 in Ireland and 0.4 in the rest of the world.

Sustainability integrated into our remuneration policy

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

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

Our climate risk management

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

EU Taxonomy

The Taxonomy Regulation establishes an EU-wide framework according to which investors and businesses can assess whether certain economic activities are environmentally sustainable.

There are four checks to be performed in order to label an economic activity as environmentally sustainable. The activity must:

- be a relevant activity, i.e. the activity is on the list of activities which are considered as most relevant for achieving the environmental goals defined by Europe. The relevant activities are called taxonomy-eligible activities and are described in Delegated Acts;
- contribute substantially to at least one of the environmental objectives and comply with the Technical Screening Criteria for substantial contribution as described in the Delegated Acts;
- do no significant harm to any of the other environmental objectives and comply with the Technical Screening Criteria for 'do no significant harm' as described in the Delegated Acts;
- be carried out in compliance with minimum social and governance safeguards.

An economic activity which passes the four checks, is called a taxonomy-aligned economic activity.

Six environmental objectives are laid out in the Taxonomy Regulation:

- climate change mitigation (further CCM);
- climate change adaptation (further CCA);
- sustainable use and protection of water and marine resources;
- transition to a circular economy;
- pollution prevention and control;
- protection and restoration of biodiversity and ecosystems.

The initial focus of the European Commission has been on CCM and CCA. The rules for the other objectives will be adopted in the future.

Article 8 of the Taxonomy Regulation requires financial and non-financial undertakings covered by the Non-Financial Reporting Directive (NFRD) to include information in their non-financial information statements on how, and to what extent, their activities are associated with environmentally sustainable economic activities. The Disclosure Delegated Act specifies the content and presentation of the information to be disclosed.
In the Disclosure Delegated Act a phased approach is introduced. From 1 January 2022 on, until 31 December 2023, financial undertakings shall disclose only on taxonomy eligibility for CCM and for CCA. As of 1 January 2024, key performance indicators on taxonomy alignment regarding all environmental objectives shall be disclosed.

KBC Group is a large undertaking that is required to publish non-financial information under the NFRD, and is as such also subject to the disclosure obligations described in the Disclosure Delegated Act. Being a financial group, KBC performs activities of a credit institution, a (re)insurer, an asset manager and an investment firm. This entails the obligation to disclose the required information for those undertakings as described in the Disclosure Delegated Act.

Please note:
- The Disclosure Delegated Act still needs further clarifications. For example: definitions are not always provided, it is not specified how to deal with the reporting of a group containing different types of financial undertakings, there are no specific templates for the eligibility reporting, etc. Hence, we had to make a number of interpretations and assumptions. Where appropriate, such assumptions are transparently disclosed in what follows.
- In this first reporting, data availability is a challenge. It is prescribed in Article 8,4 of the Disclosure Delegated Act that financial undertakings shall use the most recently available data of their counterparties. However, at this moment in time, our (corporate) counterparties have not yet disclosed such information, as their disclosure obligation enters into force simultaneously with the disclosure obligation for financial undertakings. This means that the mandatory eligibility percentage of KBC as credit institution, as (re)insurer, as asset manager and as investment firm, is 0% for such counterparties. Only the households counterparties and the underwriting key-performance indicator of the (re)insurer do not depend on the counterparty information and are thus higher than 0% (see below). However, as suggested by the Platform on Sustainable Finance, KBC chooses to disclose voluntary eligibility percentages, which, for the corporate counterparties, are based on approximations and information available within the Group. Where appropriate, these approximations are transparently explained.

The material difficulties for assessing compliance with the Taxonomy Regulation are acknowledged by the legislator, and are one of the reasons why a phased approach for disclosures was introduced. Moreover the taxonomy-related reporting under the Disclosure Delegated Act cannot be considered as standalone reporting, but fits in wider European initiatives on sustainable finance, which are still ongoing (such as the Corporate Sustainability Reporting Directive (CSRD) and the Sustainable Finance Disclosure Regulation (SFDR)). For all these purposes a coherent and relevant set of sustainability data will gradually need to be built up by companies. As soon as information becomes available from our counterparties, KBC will include it in its mandatory eligibility percentages, and voluntary eligibility percentages will be disclosed on top of the mandatory percentage. These voluntary percentages contain counterparties which have not yet disclosed or confirmed their information, and for which KBC uses approximations. Data availability and data quality are continuously monitored and actions are formulated to make progress on this level – see our initiatives described in the 'Sustainable Finance' section of the 2021 KBC Sustainability Report.

Below, information is disclosed for each business unit separately regarding KBC as a credit institution, a (re) insurer, an asset manager and an investment firm. Given the absence of explanation in the legislation on how to deal with a group consisting of different types of financial undertakings, and given the different nature of required information for each type of financial undertaking, no consolidated view can be presented.

We specifically note that, when we use terminology such as 'green' and 'sustainable' elsewhere in this annual report, these terms do not suggest in any way that what is described is already (fully) aligned with the EU Taxonomy.

KBC as a credit institution

In this section, all assets are considered from the credit institutions in the Group, i.e. those entities defined in Article 4(1), point (1), of Regulation (EU) No 575/2013 of the European Parliament and of the Council (prudential requirements for credit institutions). As defined in Annex V, 1.1.1 of the Disclosure Delegated Act, disclosures are to be based on the scope of KBC Group's prudential consolidation. Note that this scope is slightly different from the accounting scope (as presented in Note 6.5 of the 'Consolidated financial statements').

The mandatory eligibility percentage for the assets of our credit institutions is 20.29% for CCM and 0% for CCA. The CCM percentage only contains mortgage loans to households. The table below provides more details regarding the mandatory eligibility percentages versus total exposures, and the split of total assets as required by the Disclosure Delegated Act.

Mandatory EU Taxonomy reporting for KBC Group – activities as credit institution (as % of total assets, 31-12-2021)	**Total**	**CCM eligible** (in %)	**CCA eligible** (in %)
Total assets	305 575	20.29%	0%
Of which derivatives	0.09%	–	–
Of which central governments and central banks	24.08%	–	–
Of which non-financial corporations not subject to NFRD disclosure obligations	23.35%	–	–
Of which trade portfolio	2.90%	–	–
Of which payable interbank loans	12.91%	–	–

The voluntary eligibility percentage for the assets of our credit institutions is 20.33% for CCM and 0.08% for CCA. The following assumptions were made to calculate these voluntary percentages:

- The following counterparties are taken into account: financial corporations, non-financial corporations subject to NFRD disclosure obligations, households and local governments.
- In order to define whether an exposure is taxonomy-eligible or not, we look at the main NACE code of the counterparty. If that NACE code is described in the Climate Delegated Act, the linked exposure is considered taxonomy-eligible. If the NACE code is not available, or not at the level required, then the exposure is considered to be non-eligible.
- In order to define whether a counterparty is subject to NFRD disclosure obligations or not, we look at criteria as defined in the NFRD: number of FTE, balance sheet total and turnover of our counterparty.

KBC as (re)insurer

In this section, all activities from the insurance undertakings in the group are considered, i.e. those entities as defined in Article 13, point (1), of Directive 2009/138/EC, and from the reinsurance undertakings in the group, i.e. those entities as defined in Article 13, point (4) of the same Directive. The figures below are based on the insurance accounting scope of KBC.

For (re)insurance, two key performance indicators are required: a key performance indicator related to investments, and a key performance indicator related to underwriting activities.

The mandatory eligibility percentage related to investments, is 2.59% for CCM and 0% for CCA. This only contains mortgage loans to households. The table below provides more details regarding the mandatory eligibility percentages versus total investments, and the split of total investments as required by the Disclosure Delegated Act.

Mandatory EU Taxonomy reporting for KBC Group – activities as (re-)insurer, investments, investments (as % of total investments, 31-12-2021)	**Total**	**CCM eligible** (in %)	**CCA eligible** (in %)
Total investments	37 495	2.59%	0%
Of which derivatives	0.06%	–	–
Of which central governments and central banks	28.95%	–	–
Of which non-financial corporations not subject to NFRD disclosure obligations	44.19%	–	–

KBC's voluntary eligibility percentages related to investments, based on own information and assumptions, are 4.65% for CCM and 2.93% for CCA. The same assumptions were used as those stated for the credit institutions.

The mandatory eligibility percentage related to underwriting activities is 47.71% (only for CCA). This percentage does not depend on information to be received from our counterparties, but can be entirely defined based on the perils covered – as prescribed in the Climate Delegated Act. The table below provides more details regarding the mandatory eligibility percentage versus total gross written premiums for the non-life underwriting activities.

Mandatory EU Taxonomy reporting KBC Group – activities as (re)insurer, underwriting activities non-life (in millions of EUR, 31-12-2021)	**Total**	**CCA eligible** (in %)
Total gross written premiums	1 984	47.71%

KBC as asset manager

In this section, all activities from the asset managers in the Group are considered.

The voluntary eligibility percentages, based on own information and assumption, are 6.42% for CCM and 8.12% for CCA. The same assumptions were used as those stated for the credit institutions.

Note: the mandatory eligibility percentage related to assets for KBC as an asset manager is 0% (both for CCM and for CCA), as our NFRD counterparties have not yet published their eligibility percentages. The table below provides more details regarding the mandatory eligibility percentages, and the split of total assets as required by the Disclosure Delegated Act.

Mandatory EU Taxonomy reporting KBC Group – activities as asset manager (in percentage of total assets, 31-12-2021)	**Total** (in %)	**CCM eligible** (in %)	**CCA eligible** (in %)
Total assets	100%	0%	0%
Of which derivatives	0.65%	–	–
Of which central governments and central banks	27.56%	–	–
Of which non-financial corporations not subject to NFRD disclosure obligations	28.64%	–	–

KBC as investment firm

In this section, all activities from the investment firms in the Group are considered, i.e. those entities as defined in Article 4(1), point (2), of Regulation (EU) No 575/2013 of the European Parliament and of the Council.

For this first eligibility reporting we focused on the assets linked with our dealing on own account activities, and not yet on the income linked with activities not dealing on own account. The relevance of the assets linked with dealing on own account is however very low. Therefore, we consider an eligibility percentage (both mandatory and voluntary) for this part of the assets as not representative for the investment activities of the group and do not disclose an eligibility percentage.

Focus on human rights

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

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

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

Our suppliers are an important stakeholder in our value chain and so we work closely with them too. Our stringent rules and frameworks for procurement, sale and subcontracting activities with suppliers are summarised in the 'KBC Code of Conduct for Suppliers' and apply in all our core countries. This provides our suppliers with a clear understanding of our sustainability expectations.
We have translated our Code of Conduct for Suppliers into an internal procedure in the shape of a step-by-step plan that our procurement department can use. Suppliers we work with are screened 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.

Indicators relating to human rights, KBC group	**2021**	**2020**
Clients		
Project finance (and project-related corporate loans) subject to Equator Principles (Category A/B/C)*	0/5/12	0/7/15
Number of Corporate Sustainability department recommendations on ESG cases (positive recommendation, positive under strict conditions or negative recommendation)	177/36/38	158/22/41
Suppliers		
Number of suppliers that have signed the Code of Conduct for Suppliers	3 200	2 553

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

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

client centricity

bank-insurance

sustainable profitable growth

role in society

PEARL+: jointly developing solutions, initiatives and ideas within the group.

Within a stringent risk, capital and liquidity management framework

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

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

Although the activities of a large financial group are exposed to risks that only become apparent in retrospect, we can currently identify a number of major challenges for our group. These are set out under 'In what environment do we operate?' in the 'Our business model' section. As a bank-insurer, we are also exposed to the typical risks for the sector, such as credit risk, market risk on both trading and non-trading activities, technical insurance risk, liquidity risk, solvency risk, 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.

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

Dividend policy

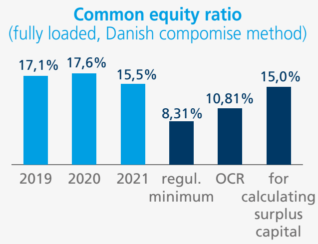
We aim to be among the better capitalised financial institutions in Europe and have based our dividend policy on this ambition. Every year, the Board of Directors decides, at its own discretion, on the total dividend, based on a risk assessment, future profitability and strategic opportunities.

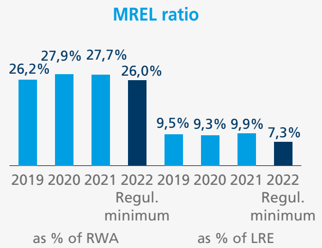
Our dividend policy comprises:

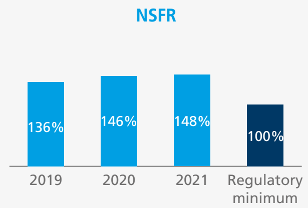
- a payout ratio (i.e. dividend + AT1 coupon) of at least 50% of consolidated profit for the financial year;
- an interim dividend of 1 euro per share (payable in November of the financial year) as an advance on the total dividend for the financial year.

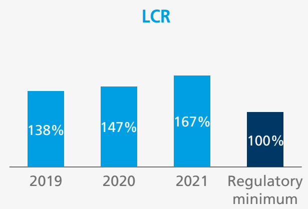
In addition, the following applies from 2022: in addition to the payment ratio of 50% of the consolidated profit, the Board of Directors decides every year (when announcing the annual results) at its own discretion on the payment made to the shareholders of the capital exceeding a 15.0% fully loaded common equity ratio (the 'surplus capital'). This may occur in the form of a cash dividend, a share buy-back, or a combination of both.

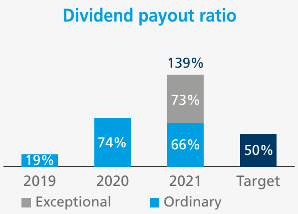
Regulatory and own ratios	Description	Target and result
Common equity ratio	[common equity tier-1 capital] / [total weighted risks]. The calculation is fully-loaded and according to the Danish compromise method. See the 'How do we manage our capital?' section.	Temporary regulatory minimum: 8.31% and Overall capital requirement: 10.81% (2022) (see 'How do we manage our capital?') (New from 2022) Every year, the Board of Directors decides on the payment made to the shareholders of the capital exceeding a 15.0% fully loaded common equity ratio (surplus capital) 2021 result: 15.5% (fully loaded)
MREL ratio	[own funds and eligible liabilities] / [Total risk-weighted assets (RWA)] and [own funds and eligible liabilities] / [Leverage ratio exposure amount (LRE)]	Regulatory minimum: 25.98% of RWA (2022) and 7.34% of LRE (2022) 2021 result: 27.7% of RWA and 9.9% of LRE
Net stable funding ratio (NSFR)	[available amount of stable funding] / [required amount of stable funding]	Regulatory minimum: 100% 2021 result: 148%
Liquidity coverage ratio (LCR)	[stock of high-quality liquid assets] / [total net cash outflows over the next 30 calendar days]	Regulatory minimum: 100% 2021 result: 167%
Dividend payout ratio	[dividend and coupon to be paid on the additional tier-1 instruments included in equity] / [total consolidated results]	Target: ≥ 50%* 2021 result: 66% (based on the ordinary dividend for 2021) and 139% (based on the ordinary and extraordinary dividend for 2021) In the calculation, we allocated 2 euros of the interim dividend paid in November 2021 (3 euros per share entitled to dividend) to financial year 2020. See the Glossary for further details.











* In addition to the payment ratio of 50% of the consolidated profit, the Board of Directors decides every year (when announcing the annual results) at its own discretion on the payment made to the shareholders of the capital exceeding a 15% fully loaded common equity ratio.

In compliance with the MREL subordination requirement (as determined by the Single Resolution Board and applicable from January 2024), KBC Group NV will be converted to a clean holding company, whose main operations involve financing activities and group-wide control activities and functions. For more information, see the 'Company annual accounts and additional information' section.

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

Our financial report

- Consolidated net profit: 2.6 billion euros in 2021.
- Net reversal of impairments set aside for the coronavirus crisis.
- One-off negative impact of the (pending) sale of activities in Ireland.
- Lower non-life insurance result following the heavy floods in Belgium over the summer.
- Roughly stable net interest income; higher net fee and commission income, trading and fair value income and other net income.
- Organic growth in lending and deposits, increased sales of non-life insurance and slight decline in sales of life insurance.
- Cost increase almost exclusively attributable to exceptional and/or non-operating items.
- Robust solvency and liquidity positions maintained.

Consolidated income statement, KBC group (simplified, in millions of EUR)	2021	2020
Net interest income	4 451	4 467
Non-life insurance (before reinsurance)	782	865
Earned premiums	*1 885*	*1 777*
Technical charges	*-1 103*	*-912*
Life insurance (before reinsurance)	45	10
Earned premiums	*1 196*	*1 223*
Technical charges	*-1 150*	*-1 213*
Ceded reinsurance result	25	-20
Dividend income	45	53
Net result from financial instruments at fair value through profit or loss[1]	145	33
Net realised result from debt instruments at fair value through other comprehensive income	6	2
Net fee and commission income	1 836	1 609
Other net income	223	176
Total income	**7 558**	**7 195**
Operating expenses	-4 396	-4 156
Impairment	261	-1 182
on financial assets at amortised cost and at fair value through other comprehensive income[2]	*334*	*-1 074*
Share in results of associated companies and joint ventures	-5	-11
Result before tax	**3 418**	**1 847**
Income tax expense	-804	-407
Result after tax	**2 614**	**1 440**
Result after tax, attributable to minority interests	0	0
Result after tax, group share	**2 614**	**1 440**
Return on equity	13%[3]	8%
Result after tax on average total assets	0.8%	0.5%
Cost/income ratio, group	58%	58%
Combined ratio, non-life insurance	89%	85%
Credit cost ratio, banking	-0.18%	0.60%

1 Also referred to as 'Trading and fair value income'
2 Also referred to as 'Loan loss impairment'
3 Excluding the one-off negative impact of the pending sale transactions in Ireland, return on equity would have been 15%

Key consolidated balance sheet, solvency and liquidity figures, KBC group (in millions of EUR)	2021	2020
Total assets	340 346	320 743
Loans and advances to customers (excluding reverse repos)	159 728	159 621
Securities (equity and debt instruments)	67 794	71 784
Deposits from customers (excluding debt securities and repos)	199 476	190 553
Technical provisions (before reinsurance) and liabilities under investment contracts, insurance	32 571	31 442
Total equity	23 077	21 530
Common equity ratio (Basel III, Danish compromise method, fully loaded)	15.5%	17.6%
Leverage ratio (Basel III, Danish compromise method, fully loaded)	5.4%	6.4%
Liquidity coverage ratio (LCR)	167%	147%
Net stable funding ratio (NSFR)	148%	146%

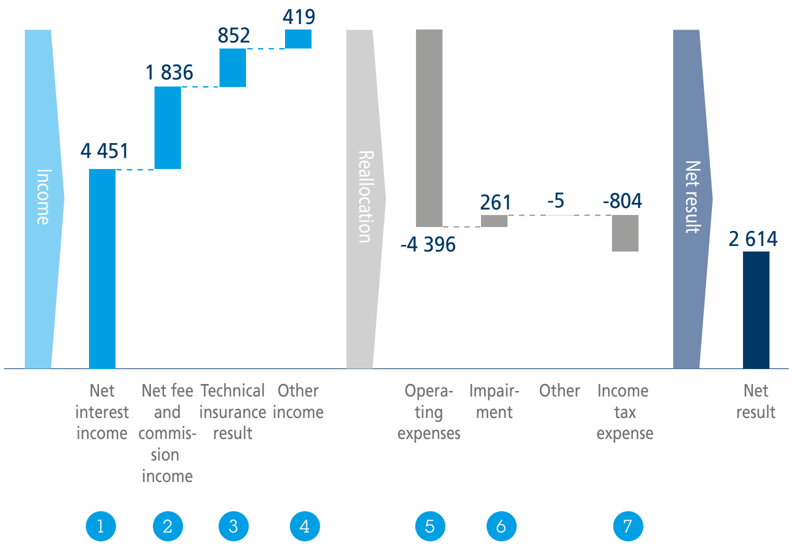
The growth figures for the volume of loans and deposits have been systematically adjusted for exchange rate effects.

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, the acquisition of NN's Bulgarian pension and life insurance business in late July 2021 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.

Our financial result

Achievement of net result for 2021
(in millions of EUR)



Net interest income 1

Our net interest income amounted to 4 451 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 and lower interest income from the insurer's bond portfolio (partly driven by a positive one-off item in the reference period) was almost 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.
At first sight, our loans and advances to customers (excluding reverse repos) at went down by 1% in 2021 to 160 billion euros. However, with an unchanged scope of consolidation, this entailed 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 coronavirus-related 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 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. 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 199 billion euros, an increase of 5% in 2021. With an unchanged scope of consolidation, the figure was 6%, 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 for our banking activities 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 2

Our net fee and commission income came to 1 836 million euros in 2021, a solid growth of 14% 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, mainly for insurance products.

At the end of 2021, our total assets under management 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).

Insurance premiums and technical charges 3

Our technical insurance result (earned premiums less technical charges plus the ceded reinsurance result) amounted to 852 million euros.

Non-life insurance contributed 809 million to this result, This is 4% less than the previous year, because the positive effect of the increase in premium income (+6%) and the higher reinsurance result (see below) were cancelled out by the significantly higher technical charges (+21%). The latter was, obviously, affected by the impact of the extreme weather conditions in the Czech Republic (tornado in June) and most notably in Belgium, which experienced heavy flooding during the summer. Gross claims related to these floods totalled 110 million euros in 2021; after reinsurance, the net amount comes down to 87 million euros, 45 million euros of which above the legal limit, which is the ceiling introduced in Belgian law on the intervention of insurers in the event of very large floods. In addition, the claims submitted during the reference period were favourably affected by lower claims during the lockdowns. The combined ratio at group level nevertheless amounted to an excellent 89% compared to 85% the previous year.

Life insurance accounted for 43 million euros of the technical insurance result, compared to the year-earlier figure of 8 million euros. However, in compliance with IFRS, certain types of life insurance (i.e. unit-linked products) have been excluded from the figures for premiums and technical charges in the life insurance business. If the premium income from such products is included, premium income from the life insurance business totalled 1 964 billion euros, 1% less than in 2020. This slight decrease can be credited mainly to unit-linked life insurance in Belgium and the Czech Republic, partially offset by Bulgaria (thanks to the consolidation of NN's life insurance business). For the group as a whole, products offering guaranteed rates accounted for 52% of premium income from the life insurance business in 2021, and unit-linked products for 48%.

Other income 4

Other income came to an aggregate 419 million euros, well above the year-earlier figure of 264 million euros. The 2021 figure includes 145 million euros in trading and fair value income. This is a sharp increase from the 33 million euros for the previous year, which was extremely adversely affected during the first quarter by the outbreak of the coronavirus crisis (which initially resulted in collapsing stock markets, higher credit spreads and lower long-term interest rates).
Other income also included 45 million euros in received dividends, 6 million euros in the net realised result from debt instruments at fair value through other comprehensive income and 223 million euros in other net income. The latter is 47 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 5

Our expenses amounted to 4 396 million euros in 2021. Adjusted for bank taxes, this is 3 870 million euros, at first sight an increase of 6% increase (or 218 million euros) on the year-earlier figure. However, the bulk of this increase relates to exceptional and/or non-operating items, mainly the one-off costs related to the sale transactions (which have not all been finalised yet) in Ireland (97 million euros) and changes in the scope of consolidation (48 million euros related to OTP Banka Slovensko), and, to a lesser extent, the payment of an exceptional coronavirus-related bonus to staff and the positive effect of the reversal of a provision for expenses connected with the sale of the KBC Tower in Antwerp. Excluding these items, costs increased by approximately 1.5% – or 1%, if foreign-exchange effects are also excluded (this includes several items, including wage inflation, higher variable pay in relation to the low amount paid in 2020, lower numbers of FTEs in several core countries, higher IT costs, etc.).
The cost/income ratio for 2021 was 58%, roughly the same level as for the previous year. If we exclude the exceptional and/or non-operating items (see the 'Glossary of financial ratios and terms' at the end of this report for more information) from the calculation, the ratio came to 55%, compared to 57% in 2020. If we leave out the bank taxes altogether, the cost/income ratio for 2021 came to just 51%, the same level as for the previous year.

Impairment 6

There was a net reversal of loan loss impairment charges totalling 334 million euros in 2021, compared to a net increase of 1 074 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 and, finally, a net reversal of 18 million euros in individual impairment charges for other loans.
The total net reversal of 334 million euros in 2021, broken down by country, amounts to: 309 million euros for Belgium, 142 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, which have not all been finalised yet) 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 73 million euros, as opposed to 108 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 pending sale transactions in Ireland), and to a lesser extent because of additional modification losses.

Income tax expense 7

Our income tax expense came to 804 million euros in 2021, compared to a year-earlier figure of 407 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 525 million euros compared to 503 million euros in 2020 and are included under 'Operating expenses'.

Our balance sheet

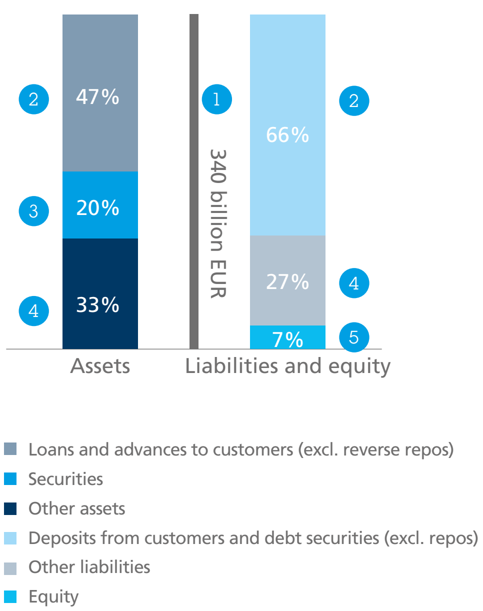
Total assets 1

At the end of 2021, our consolidated total assets came to 340 billion euros, up 6% year-on-year. Risk-weighted assets (Basel III, fully loaded) increased by 2% to 105 billion euros. More information in this regard can be found in the 'How do we manage our capital?' section.

Loans and deposits 2

Our core banking business is to attract deposits and use them to provide loans. This clearly explains the importance of the figure for loans and advances to customers on the assets side of our balance sheet (160 billion euros (excluding reverse repos) at year-end 2021). At first sight, loans and advances to customers went down by around 1% for the group as a whole. However, with an unchanged scope of consolidation, this entailed 5% growth, 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 (73 billion euros) and mortgage loans (68 billion euros). For information on payment deferrals due to the

Balance sheet components (year-end 2021)



coronavirus crisis, see under 'Net interest income'. For the sale transactions in Ireland (which have not all been finalised yet), 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) grew by 5% to 199 billion euros. With an unchanged scope of consolidation, the figure was 6%, 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 27 billion euros, 7% more than the previous year. The main deposit products at group level were again demand deposits (112 billion euros) and savings accounts (75 billion euros).

Securities 3

We also hold a portfolio of securities at the bank and at the insurer (where it serves primarily as an investment in the life insurance context), which totalled roughly 68 billion euros at year-end 2021, and comprised 3% shares and 97% bonds. At year-end 2021, 83% of these bonds consisted of government paper, the most important being Belgian, Czech, French, Hungarian, Slovak and Spanish. A detailed list of these bonds is provided in the 'How do we manage our risks?' section.

Other assets and other liabilities 4

Other important items on the assets side of the balance sheet were loans and advances to credit institutions and investment firms (8 billion euros, up 25% on a year earlier), reverse repos (25 billion euros, down 10% 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), investment-linked life insurance contracts (15 billion euros, up 6% year-on-year) and cash, cash balances with central banks and other demand deposits with credit institutions (41 billion euros, up 65% from 2020, due primarily to higher balances at the NBB and ECB.

Other significant items on the liabilities side of the balance sheet were the technical provisions and liabilities under the insurer's investment contracts (an aggregate 33 billion euros, roughly 4% more year-on-year), derivatives (negative mark-to-market valuation of 7 billion euros, mainly for interest rate contracts, maintaining the year-earlier level) and deposits from credit institutions and investment firms (38 billion euros, up 11% 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.

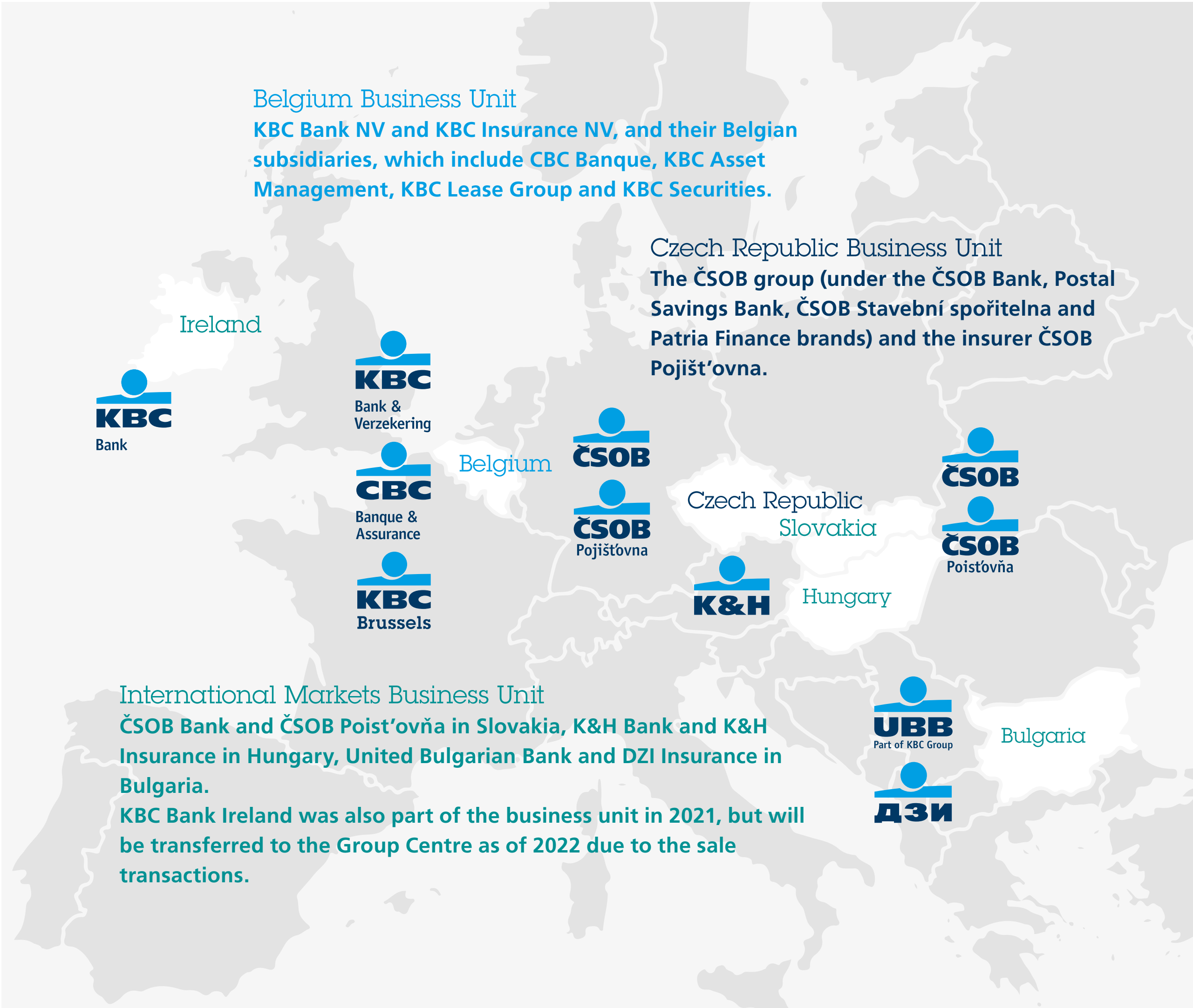
Equity 5

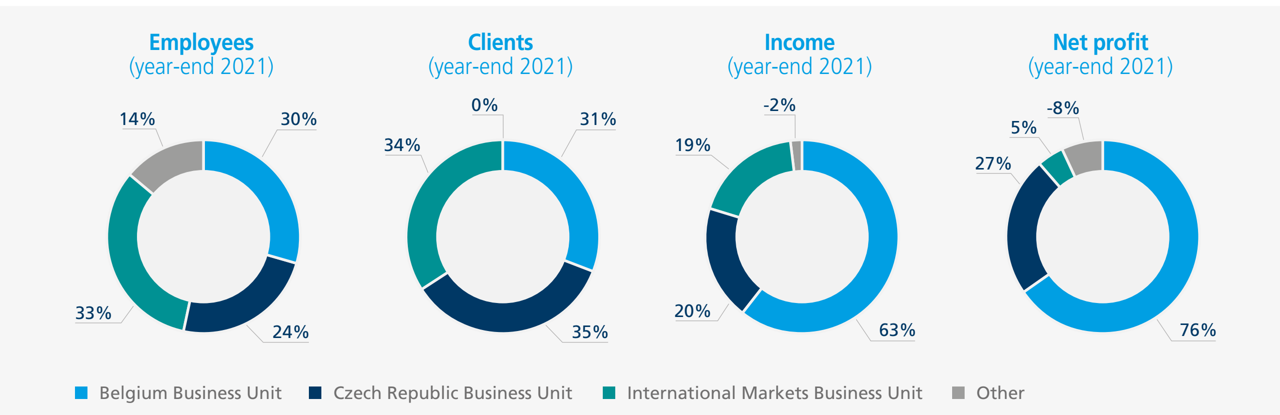
On 31 December 2021, our total equity came to 23.1 billion euros. This figure included 21.6 billion euros in parent shareholders' equity and 1.5 billion euros in additional tier-1 instruments. Total equity rose by 1.5 billion euros in 2021, with the most important items in this respect being the inclusion of the annual profit (+2.6 billion euros), an increase in the revaluation reserves (+0.4 billion euros; see 'Consolidated statement of changes in equity' in the 'Consolidated financial statements' section), the dividend payments in May and November 2021 (totalling -1.4 billion euros) and various smaller items.
On 31 December 2021, our common equity ratio (Basel III, under the Danish compromise method) stood at 15.5% (fully loaded; see the paragraph on the dividend proposed in the 'Our employees, capital, network and relationships' section), compared to 17.6% in 2020. Note that the finalisation of the ongoing Irish sale transactions will eventually increase the common equity ratio by an estimated 0.9 percentage points, while the finalisation of the acquisition of Raiffeisen (Bulgaria) will reduce it by 1 percentage point. Our leverage ratio came to 5.4% (fully loaded). Detailed calculations of our solvency indicators are given in the 'How do we manage our capital?' section. The group's liquidity position also remained excellent, as reflected in an LCR ratio of 167% and an NSFR ratio of 148%.

Additional information and guidance

- We review the consolidated results in this section of the annual report. A review of the non-consolidated results and balance sheet is provided in the 'Company annual accounts and additional information' section.
- The overall impact on the net result of fluctuations in the exchange rates of the main non-euro currencies was – on balance – limited to +17 million euros (mainly due to the appreciation of the Czech koruna and partly offset by the depreciation of the Hungarian forint).
- 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.
- As regards our dividend policy, see 'Our employees, capital, network and relationships' in the 'Our business model' section.
- For information on significant post-balance-sheet events, see Note 6.8 of the 'Consolidated financial statements'.
- Guidance for 2022 (see the general disclaimer at the beginning of this Annual Report):
  - Total income: approximately 8.2 billion euros (including a positive effect of 0.2 billion euros on completion of the pending sale transaction in Ireland), of which roughly 4.55 billion euros in net interest income.
  - Operating expenses excluding bank taxes: approximately 3.9 billion euros (excluding one-off items) and 4.0 billion euros (including additional one-off items in Ireland and one-off integration/ restructuring costs for Raiffeisenbank Bulgaria).
  - Credit cost ratio: approximately 10 basis points (including reversals of coronavirus crisis reserves in 2022).
- Interest sensitivity: in an immediate parallel interest rate shock scenario of +100 basis points (for all currencies) on the net interest income of the group, we estimate an impact of +4% higher net interest income in the first year, +12% in the second year, and +18% in the third year (based on a static balance sheet and a conservative estimate of the pass-through rate).
- Basel IV impact (based on a static balance sheet at the end of 2021): estimated at roughly 8 billion euros higher risk-weighted assets, on a fully loaded basis (impact between 2025 and 2033). This corresponds to an inflation of the risk-weighted assets of 7% and an impact of -1.1 percentage point on the common equity ratio at year-end 2021. The impact of Basel IV will be implemented in stages; consequently, the first-time application impact on the risk-weighted assets in 2025 will be only approximately 2 billion euros.

Our business units





Belgium

Macroeconomic 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 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 by an estimated 2.2% on the year-earlier level, which translates into an increase of roughly 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 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'.

- 'Top Employer Belgium' (Top Employers Institute)
- 'Best Bank in Belgium' (Euromoney)
- 'Best Bank' and 'Best Digital Bank' (Spaargids.be)
- 'Best Private Bank in Belgium' (Euromoney and The Banker)
- KBC Mobile named best mobile banking app worldwide (Sia Partners)
- 'Best Investment Bank' for Bolero, KBC's online investment platform (Spaargids.be)
- KBC Autolease: 'Most Appreciated Leaseco 2021' award (Link2Fleet-awards)
- 'Best Financial Services Brand in Belgium' (Best Brand Awards)

Specific objectives

- 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.

"We express our heartfelt sympathy to the victims of the severe flooding in July and to the surviving relatives of those who have died, and we would like to express our great appreciation for all the aid workers, first-responders and volunteers who have been unconditional in their support for the victims."

- 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.

Developments in 2021


client centricity

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 to compensate the insured persons' claims. Over the past few months, we used all our knowledge and expertise – through our wide network of insurance agents, experts and repairers – to ensure that the claims of the affected clients were settled rapidly 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 pandemic, we have worked closely 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.

sustainable
profitable growth

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 again took several 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.

bank-insurance

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.

role
in society

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 signed their partnership agreement, 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 continue 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 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.

Contribution to group result

Net result
1 997 million euros
(+99%)

Net interest income
2 533 million euros (-2%)

Technical insurance result
441 million euros (-9%)

Net fee and commission income
1 320 million euros (+16%)

Operating expenses
2 436 million euros (+2%)

Impairment on loans
309 million euros reversal
(654-million-euro increase)

Cost/income ratio
51% (54%)

Combined ratio
90% (84%)

Credit cost ratio
-0.26% (0.57%)

Impaired loans ratio
2.2% (2.3%)

Figures for 2021 (the figures in brackets are for, or indicate the difference compared to, 2020). Technical insurance result = earned premiums - technical charges + ceded reinsurance result.
A detailed breakdown of the income statement for each business unit and each country can be found in 'Note 2.2: Results by segment' in the 'Consolidated financial statements' section.

The Belgium Business Unit recorded a net result of 1 997 million euros in 2021, doubling the year-earlier amount of 1 001 million euros.

Net interest income (2 533 million euros) dropped by 2% due to a number of factors, including lower reinvestment yields in general and lower interest income from the insurer's bond portfolio (partly driven by a one-off item in the reference period). These items were only partly offset by 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. 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 (108 billion euros, excluding reverse repos) rose by 5%, while deposits from customers and debt securities (130 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 1 320 million euros, our net fee and commission income rose by 16% 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 and insurance products.
The technical result from our insurance activities in Belgium came to 441 million euros. In the non-life segment, the positive impact of growth in premium income and the higher reinsurance result were more than offset by the significant increase in claims. The latter was partly due to the consequences of the heavy flooding especially in Wallonia during the summer. More information on this is provided in the 'Our financial report' section. Moreover, the lockdowns had resulted in a relatively low level of claims the year before. The combined ratio for our non-life insurance business came to 90%. Our life insurance sales – including investment contracts without a discretionary participation feature, which are excluded from the IFRS figures – amounted to 1 626 million euros, down 2% on the year-earlier figure, due primarily to a slight decline in sales of unit-linked life insurance.
The other income items chiefly comprised dividends received on securities held in our portfolios (38 million euros), trading and fair value income (224 million euros, a significant increase compared to the year-earlier figure) and other net income (195 million euros, relating mainly to the results of KBC Autolease and VAB, 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 rose by 2% to 2 436 million euros. However, part of the difference 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 reversal of a provision for expenses connected with the sale of the KBC Tower in Antwerp. Excluding these items, there was hardly any increase in costs in 2021. As a result, the cost/income ratio came to 51%, compared to 54% in 2020.
We recorded a net reversal of 309 million euros in loan loss impairments, as opposed to a net increase of 654 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). Impairment of assets other than loans amounted to 6 million euros, as opposed to 41 million euros a year earlier. The latter related primarily to software and the accounting impact of payment moratoria schemes due to the coronavirus crisis.

Czech Republic

Macroeconomic 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 industries 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.

- 'Best Bank in the Czech Republic' (Global finance)
- 'Best Private Bank in the Czech Republic' (Euromoney, the Banker)
- 'Best SME Bank' and 'Best Trade Finance Provider in the Czech Republic' (Global Finance)
- 'Outstanding leader in sustainability transparency in CEE', 'Financial Leader in Sustaining Communities in CEE' and 'Outstanding Leader in Resource Management in CEE' (Global Finance)
- 'TOP Responsible Large Company' and 'TOP Responsible Company friendly to women' (Business for Society)
- 'Award for exceptional integration of the disabled' (Kolibřík Award)

- To unlock business potential through advanced use of data and digital lead management, to leverage our position as market leader in home finance and to focus even more strongly on growing the volume and profitability of our insurance offering.
- To strengthen our business culture and become even more flexible, agile and diverse.
- To express our social engagement by focusing on environmental awareness, financial literacy, entrepreneurship and population ageing.

Developments in 2021

client centricity

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 leave 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 mobile 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. The cyber risk insurance launched in our mobile 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 the South Moravian Region 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.

sustainable profitable growth

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 have been adjusted to exclude 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.

bank-insurance

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.

role in society

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

Contribution to group result

Net result
697 million euros
(+86%)

Net interest income
972 million euros (-4%)

Technical insurance result
220 million euros (+17%)

Net fee and commission income
214 million euros (+6%)

Operating expenses
803 million euros (+7%)

Impairment on loans
142 million euros reversal
(210-million-euro increase)

Cost/income ratio
53% (53%)

Combined ratio
87% (87%)

Credit cost ratio
-0.42% (0.67%)

Impaired loans ratio
1.8% (2.3%)

Figures for 2021 (the figures in brackets are for, or indicate the difference compared to, 2020). Technical insurance result = earned premiums - technical charges + ceded reinsurance result. A detailed breakdown of the income statement for each business unit and each country can be found in 'Note 2.2: Results by segment' in the 'Consolidated financial statements' section.

In 2021, the Czech Republic Business Unit recorded a net profit of 697 million euros, compared with 375 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 (972 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 (214 million euros) rose by 6%, mainly driven by higher fees for asset management services and banking services (such as payment transactions) and the positive exchange rate effect.
The technical result from our insurance activities in the Czech Republic came to 220 million euros, up 17% on the year-earlier figure. In the non-life segment, we saw growth in premium income and the reinsurance result, but also an increase in technical charges, partly due to the consequences of extreme weather conditions (the tornado in June), whereas last year we saw a relatively low level of claims on account of the lockdowns. The combined ratio for our Czech non-life insurance business came to 87%. Sales of life insurance ended the year at 182 million euros, 12% lower than the previous year, owing primarily to weaker sales of unit-linked life-insurance products.
The other income items chiefly comprised trading and fair value income (95 million euros, a significant increase compared to the year-earlier figure) and other net income (8 million euros).
Costs rose by 7% (or 51 million euros) to 803 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 53%, the same level as in 2020.
In 2021, we recorded a net reversal of 142 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 16 million euros, the same level as the year before.

International Markets

Macroeconomic context in Slovakia, Hungary, Bulgaria and Ireland

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. The NBH raised its Base Rate further to 2.90% in January 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 the 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 2021.

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.

- ČSOB, K&H Bank, UBB: 'Best Trade Finance Provider' in Slovakia, Hungary and Bulgaria, respectively (Global Finance)
- ČSOB: 'Best Sub-custodian Bank in Slovakia' (Global Finance)
- UBB: 'Safest Bank in Bulgaria' (Global Finance)
- DZI: 'Non-Life Insurer of the Year in Bulgaria' (Association of Bulgarian Insurers)
- K&H: 'Financial enterprise of the year in Hungary' (Figyelo TOP200)
- KBC Bank Ireland: 'Best banking website' (Vega Awards)

> The acquisition of Raiffeisenbank Bulgaria allows us to earmark part of our capital for a franchise-reinforcing, synergetic and value-increasing investment opportunity in a market that the group is highly familiar with.

- 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 pending sale transactions (see also 'Developments in 2021').

Developments in 2021


client centricity

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 mobile 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 mobile 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.

sustainable
profitable growth

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 to exclude exchange rate effects and changes in the scope of consolidation. Taking only the three Central and Eastern European countries into account, lending grew by 8%.
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 business clients 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. 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, including the expected impact on the group's capital ratio, can be found in Note 6.6 of the 'Consolidated financial statements'.

bank-insurance

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

role
in society

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.

Contribution to group result

Net result
127 million euros
(-36%)

Slovakia
85 million euros (+52%)

Hungary
226 million euros (+98%)

Bulgaria
114 million euros (+51%)

Ireland
-298 million euros
(down 250 million euros)

Net interest income
962 million euros (+8%)

Technical insurance result
183 million euros (+7%)

Net fee and commission income
305 million euros (+12%)

Operating expenses
1 048 million euros (+17%)

Impairment on loans
110 million euros increase
(as opposed to a 217-million-euro increase)

Cost/income ratio
71% (64%)

Combined ratio
86% (84%)

Credit cost ratio
0.36% (0.78%)

Impaired loans ratio
5.7% (6.9%)

Figures for 2021 (the figures in brackets are for, or indicate the difference compared to, 2020). Technical insurance result = earned premiums - technical charges + ceded reinsurance result.
A detailed breakdown of the income statement for each business unit and each country can be found in 'Note 2.2: Results by segment' in the 'Consolidated financial statements' section.

In 2021, the net result at our International Markets Business Unit amounted to 127 million euros, as opposed to 199 million euros a year earlier. Hungary accounted for 226 million euros of this figure, Slovakia for 85 million euros, Bulgaria for 114 million euros and Ireland for -298 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 NN's Bulgarian pension and life insurance business, as well as the 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 962 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 with an unchanged 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 (305 million euros) increased by 12%, mainly attributable to higher fees for banking services in virtually all countries, including the impact of changes in the scope of consolidation.
The business unit's technical insurance results came to 183 million euros, up 7% on the year-earlier figure. In the non-life segment, we saw growth in premium income accompanied by a slight increase in technical charges (partly due to the lower level of claims during the lockdowns in the previous year) and a lower reinsurance result. The combined ratio for the business unit's overall non-life activities amounted to an excellent 86%. Sales of life insurance – including investment contracts without a discretionary participation feature, which are excluded from the IFRS figures – came to 156 million euros, up 22% on the year-earlier figure, owing primarily to Bulgaria (partly due to the consolidation of NN's Bulgarian life insurance business).
The other income items chiefly comprised trading and fair value income (23 million euros) and other income (-7 million euros, which includes additional expenses connected with the tracker mortgage review in Ireland).
At first sight, costs rose by 17%, or by 153 million euros, to 1 048 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 71%, as opposed to 64% in 2020. For the three Central and Eastern European countries combined (i.e. excluding Ireland), the cost/income ratio came to 60%, compared to 59% 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 5.7% of the business unit's loan portfolio at year-end 2021 was impaired, compared with 6.9% a year earlier (2.5% in 2021 excluding Ireland). 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 50 million euros in 2021, as opposed to 33 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 -207 million euros, compared with -135 million euros a year earlier. This consisted of:

- Traditional items, such as the operating expenses of our group's holding-company activities, certain costs related to capital and liquidity management and funding and other costs related to the holding of participating interests (-67 million euros in 2021 as opposed to -118 million euros in 2020). The figure for 2021 also includes a positive amount of 28 million euros in badwill related to OTP Banka Slovensko.
- The results of the remaining companies scheduled for run-down, including the portfolio of the former Antwerp Diamond Bank, KBC Finance Ireland, etc. (-5 million euros in 2021 as opposed to -1 million euros in 2020).
- Other items: -135 million euros in 2021 compared with -16 million euros in 2020, due in part to the lower value of derivatives used for asset/liability management purposes.

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

How do we manage our risks?

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

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

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

"Several successful group-wide innovation projects originated by risk employees show the success of our focus on innovation and transformation in training and culture."

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

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 on the provision of services to our clients and on ensuring 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. As 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.

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

Components of sound risk management

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

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

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

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

Risk identification

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

Credit risk

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

Managing credit risk

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

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

The building blocks for managing credit risk

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

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

and outline the possible impact for KBC and, if possible, propose remedial actions.
The appropriate risk management committees are periodically informed of relevant signals or observations. Risk signals that are considered material are reported to the Executive Committee. In addition, thematic and 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.

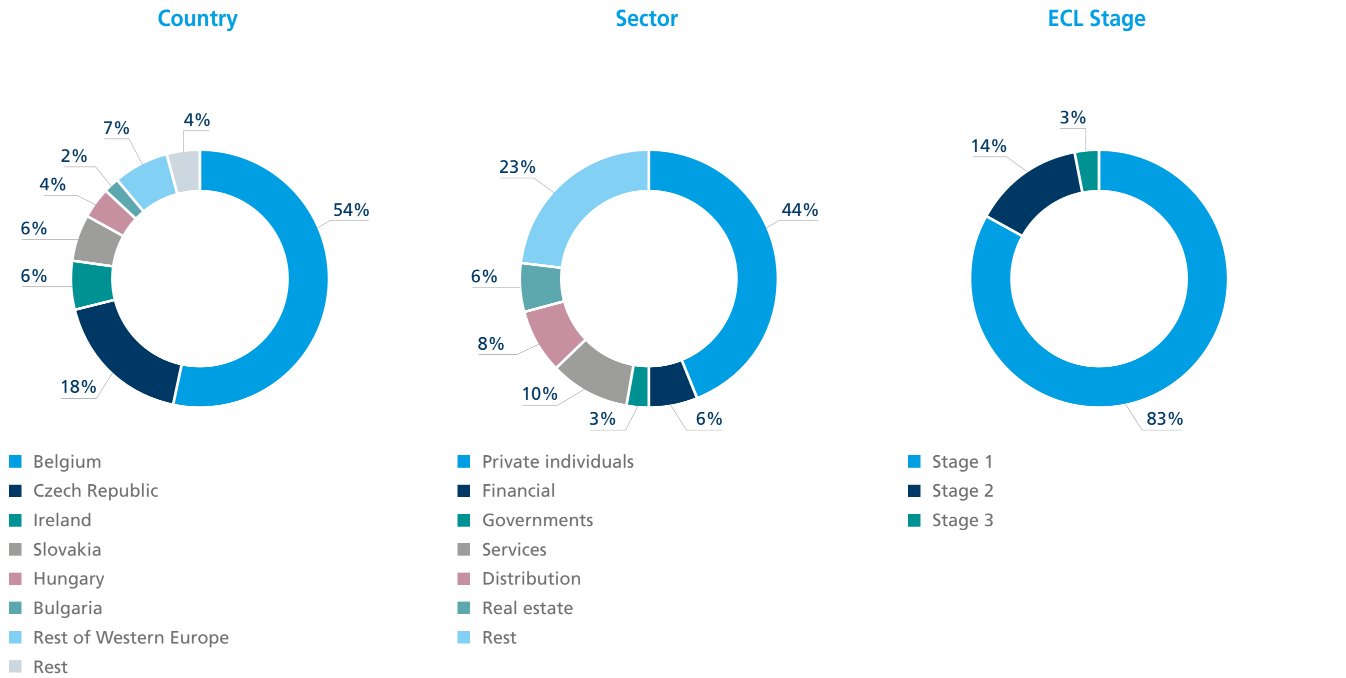
Lastly, also during 2021, we continued to provide estimates of expected credit losses in the existing loan portfolio that cannot be captured by the usual models given that the developments in the macroeconomic variables resulting from the coronavirus scenarios are not included in these models. These 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'.

Composition of loan and investment portfolio, 31-12-2021



Loan and investment portfolio, banking

A: 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%*	*2%*
Other (sectors < 2%)	*14%*	*13%*
Total	100%	100%

Loan and investment portfolio, banking

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%*	*1%*
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%

B: 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	32%	35%
Ireland	*23%*	*24%*
Slovakia	*3%*	*4%*
Hungary	*3%*	*2%*
Bulgaria	*4%*	*5%*
Group Centre	8%	8%
Total	100%	100%

B: Impaired loan portfolio	31-12-2021	31-12-2020
Impaired loans by sector (as a % of the 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:

Loan portfolio breakdown by IFRS 9 ECL stage				31-12-2021				31-12-2020
	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%	1.2%	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%	85.2%	11.5%	3.3%	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

Impairment broken down by IFRS 9 ECL Stage				31-12-2021				31-12-2020
	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)[1]	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%

1 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 'Non-current assets held for sale and disposal groups' balance sheet item because we consider all IFRS 5 conditions to have been 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%	21%	18%	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%	43%	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 in the banking activities

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

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

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

Other credit exposure, banking

(in billions of EUR)	31-12-2021	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.

Credit risk exposure in the insurance activities

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

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

1 The total carrying value amounted to 36 317 million euros at year-end 2020 and to 37 018 million euros at year-end 2021. Figures differ from those appearing in Note 4.1 of the 'Consolidated financial statements' section, due to asset class reporting under Solvency II.

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

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

4 Including covered bonds and non-bank financial companies.

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

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

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

Structured credit exposure (banking and insurance portfolios)

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 7 036 million euros at the end of 2020 to 7 213 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

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

Managing market risk in non-trading activities

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 Treasury CRO – 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 non-trading market risk:

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

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

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

- Setting risk appetite: 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 the coronavirus crisis on non-trading market risk

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 group, impact on value[2] (in millions of EUR)	**2021**	**2020**
Banking	-69	-64
Insurance	24	29
Total	-45	-35

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, banking activities* (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), banking activities (in millions of EUR)	≤ 1 month	1–3 months	3–12 months	1–5 years	5–10 years	> 10 years	Non-interest-bearing	Total
31-12-2021	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.

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

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

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

Expected cashflows (not discounted), life insurance activities (in millions of EUR)*	0–1 year	1–2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
31-12-2021							
Fixed-income assets backing liabilities, guaranteed component	1 371	1 281	1 385	847	1 044	8 856	14 784
Equity							*987*
Property							*171*
Other (no maturity)							*152*
Liabilities, guaranteed component	1 758	748	1 223	840	895	9 859	15 323
Difference in time-sensitive expected cashflows	- 387	534	162	7	148	-1 003	-539
Mean duration of assets							6.97 years
Mean duration of liabilities							9.93 years
31-12-2020							
Fixed-income assets backing liabilities, guaranteed component	1 384	1 010	1 488	1 370	820	8 674	14 746
Equity							*915*
Property							*177*
Other (no maturity)							*52*
Liabilities, guaranteed component	1 732	905	759	1 242	853	10 067	15 559
Difference in time-sensitive expected cashflows	- 349	105	728	128	- 33	-1 392	-813
Mean duration of assets							7.71 years
Mean duration of liabilities							10.33 years

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

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

Breakdown of the reserves for non-unit-linked life insurance by guaranteed interest rate, insurance activities	31-12-2021	31-12-2020
5.00% and higher	3%	3%
More than 4.25% up to and including 4.99%	7%	8%
More than 3.50% up to and including 4.25%	4%	4%
More than 3.00% up to and including 3.50%	9%	10%
More than 2.50% up to and including 3.00%	3%	3%
2.50% and lower	71%	70%
0.00%	2%	2%
Total	100%	100%

Credit spread risk

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

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

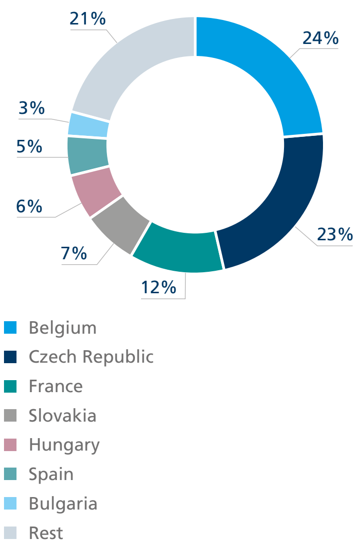
	At amortised cost	At fair value through other comprehensive income (FVOCI)	Held for trading	Total	For comparison purposes: total at year-end 2020	Economic impact of +100 basis points[3]
KBC core countries						
Belgium	9 921	2 693	406	13 020	15 599	-643
Czech Republic	9 411	1 199	1 872	12 481	11 041	-683
Hungary	2 779	261	45	3 085	3 399	-136
Slovakia	3 260	387	42	3 689	3 736	-209
Bulgaria	1 149	549	24	1 722	1 524	-93
Ireland	1 141	215	0	1 356	1 379	-70
Other countries						
France	4 678	1 854	14	6 546	6 630	-364
Spain	2 050	667	0	2 717	2 661	-119
Poland	1 084	237	14	1 335	1 604	-37
Italy	268	1 018	0	1 286	1 779	-52
US	1 319	0	0	1 319	1 038	-57
Rest[2]	4 416	1 435	99	5 951	6 821	-270
Total carrying value	41 475	10 514	2 517	54 507	57 212	–
Total nominal value	40 758	9 517	2 521	52 796	53 721	–

1 The table excludes exposure to some supranational entities not considered as sovereign, such as the European Investment Bank and the 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).

Government bonds by country
(carrying value at 31-12-2021)



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 0.7 billion euros, before tax (281 million euros for Belgium, 165 million euros for France, 87 million euros for Italy and 213 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	-125	-204
Bonds rated AA+, AA, AA-	-133	-155
Bonds rated A+, A, A-	-126	-112
Bonds rated BBB+, BBB, BBB-	-46	-61
Non-investment grade and non-rated bonds	-31	-40
Total carrying value (excluding trading portfolio)	10 703	12 440

Equity risk

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

Equity portfolio of the KBC group	**Banking activities**		**Insurance activities**		**Group**	
(breakdown by sector, in %)	**31-12-2021**	**31-12-2020**	**31-12-2021**	**31-12-2020**	**31-12-2021**	**31-12-2020**
Financials	68%	56%	17%	16%	25%	23%
Consumer non-cyclical	0%	1%	11%	12%	10%	10%
Communication	0%	0%	2%	4%	1%	3%
Energy	0%	0%	0%	1%	0%	1%
Industrials	10%	5%	41%	37%	36%	32%
Utilities	0%	0%	0%	2%	0%	2%
Consumer cyclical	4%	4%	25%	19%	22%	16%
Materials	0%	0%	2%	4%	2%	3%
Other and not specified	17%	34%	1%	6%	3%	11%
Total	100%	100%	100%	100%	100%	100%
In billions of EUR	0.26	0.27	1.46	1.32	1.72 *	1.58
of which unlisted	0.26	0.22	0.15	0.05	0.41	0.27

* The main reason for the difference with the 2.1 billion euros for 'Equity instruments' in Note 4.1 of the 'Consolidated financial statements' section is that shares in the trading book (0.45 billion euros) are excluded above, but included in the table in Note 4.1.

Impact of a 25% drop in equity prices , impact on value (in millions of EUR)	**2021**	**2020**
Banking activities	-64	-66
Insurance activities	-366	-329
Total	-429	-395

Non-trading equity exposure	**Net realised gains (in income statement)**		**Net unrealised gains on year-end exposure (in equity)**	
(in millions of EUR)	**31-12-2021**	**31-12-2020**	**31-12-2021**	**31-12-2020**
Banking activities	–	–	29	12
Insurance activities	123	116	555	337
Total	123	116	584	349

Real estate risk

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

Impact of a 25% drop in real estate prices, impact on value (in millions of EUR)	**2021**	**2020**
Bank portfolios	-97	-98
Insurance portfolios	-94	-93
Total	-191	-191

Inflation risk

Inflation can impact a financial company indirectly in many ways, for instance via changes in interest rates or operational costs. Inflation in general therefore 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 uses indexed bonds as an opportunity to diversify its asset portfolio. At KBC Insurance, it relates specifically to workmen's compensation insurance, where particularly in the case of permanent or long-term disabilities an annuity benefit is paid to the insured person (with the annuity being linked to inflation by law). KBC Insurance partly mitigates the risks by investing in inflation-linked bonds so that any increase in liabilities arising from mounting inflation is offset by an increase in the value of the bonds. However, these liabilities are long-dated and significantly exceed the investment horizon of such index-linked bonds. Therefore, KBC Insurance complements its inflation hedging programme by investing in real estate and shares, as these assets are traditionally correlated with inflation and do not have a maturity date.

The banking business holds a 255-million-euro portfolio of indexed bonds. Aside from this, we are not exposed in a measurable way to inflation risk. For the insurance activities, the undiscounted value of the inflation-sensitive cashflows was estimated at -563 million euros, against which a 361-million-euro portfolio of indexed bonds and 26.3 million euros in direct and indirect real estate were held.

Foreign exchange risk

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

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

Impact of a 10% decrease in currency value*		**Banking**		**Insurance**
(in millions of EUR)	**31-12-2021**	**31-12-2020**	**31-12-2021**	**31-12-2020**
CZK	-243	-232	-30	-18
HUF	-107	-95	-5	-5
BGN	-42	-41	-19	-10
USD	3	-2	-56	-36

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

Hedge accounting

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

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

Risk categories applying 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 annexes to the risk-free rate 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 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 (under Danish compromise), KBC group (as % points of CET1 ratio), IFRS impact caused by:	**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

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

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 nine operational sub-types: 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.

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 identify and analyse 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 uniform application across the KBC group, leading to increased objectivity, transparency and comparability.
- Setting and cascading risk appetite: the risk appetites for operational risk overall and for the nine operational risk sub-types individually are 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 drawn up for the Executive Committee, the Risk & Compliance Committee and the Board of Directors. If and when needed (e.g., triggered by specific developments or concerns, at the request of (senior) management, etc.), reporting to these committees can also take place 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 the ECB via the annual Internal Control Statement.
- Stress testing: operational risk scenarios or potential events are considered in the context of risk-type-specific or integrated stress tests.

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

Information risk management

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

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

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

The building blocks for managing IT/Information Security risks are described in the 'Information Security Strategy of KBC Group', which can be found at 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 Risk & 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 analysed by the first line of defence, which is advised by the second 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, a 'new requirements' indicator has also been 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 risk appetite for Operational Risk; 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 & 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 in place 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 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 Programme). 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 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

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

Managing market risk

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

The building blocks for managing market risk

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

- Risk identification: the risk function analyses the results of value and risk calculations, market developments, industry trends, new modelling insights, changes in regulations, etc. and draws up advice for the Group Markets Committee (GMC) with a view to changing or refining measurement methods, limits, hedging methods or positions. Furthermore, before a new or changed dealing room product or activity can be introduced, the risk function screens whether the risk aspects are correctly and sufficiently covered and provides risk advice that includes powers of veto and is part of the NAPP.
- Risk measurement: ownership of the definitions used for the group-wide measurement of trading market risk lies with the risk function. We measure risk via a number of parameters including nominal positions, concentrations, BPV, the so-called 'greeks' and scenario analysis. However, the primary tool we use for measuring and monitoring market risk exposures in the trading book is the Historical Value-at-risk (HVaR) method. VaR is defined as an estimate of the amount of economic value that might be lost on a given portfolio due to market risk over a defined holding period, with a given confidence level. We use the historical simulation method, which does not have to rely on assumptions regarding the distribution of price fluctuations or correlations, but is based on patterns of experience over the previous two years. Our HVaR model is used for both Management HVaR and for the calculation of regulatory capital. Regulatory HVaR is calculated using the relevant CRD IV standards (99% one-sided confidence interval, ten-day holding period). Management HVaR uses the same standards, except 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 trading market 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 the KBC group 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 for the KBC group (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

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

Managing liquidity risk

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

The main sub-types of liquidity risk are:

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

The Group and Local Treasury 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

Stressed or extreme market conditions can be triggered by crises such as the coronavirus pandemic. KBC's liquidity position has been able to withstand the stress of the coronavirus crisis and remains very strong. 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)* (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

* 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. Figures in the consolidated balance sheet differ from the ones shown here. This is because the planned sale of the activities of KBC Bank Ireland resulted in a shift to the 'Non-current assets held for sale and disposal groups' and 'Liabilities associated with disposal groups' balance sheet items as we consider all IFRS 5 conditions to have been met, while the funding mix shows 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 are unable to renew maturing short-term funding. Our liquidity framework imposes a funding strategy to ensure that the liquidity risk remains within the group's risk appetite.

Funding information

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

Funding mix	Information	31-12-2021[5]	31-12-2020
Funding from customers[1]	Demand deposits, term deposits, savings deposits, other deposits, savings certificates and debt issues placed in the network	78%	80%
Debt issues placed with institutional investors	Including 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	-8%	-10%
Certificates of deposit	–	2%	2%
Total equity	Including AT1 issues	9%	9%
Total		100%	100%
in billions of EUR		258	241

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 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 the consolidated balance sheet differ from the ones shown here. This is because the planned sale of the activities of KBC Bank Ireland resulted in a shift to the 'Non-current assets held for sale and disposal groups' and 'Liabilities associated with disposal groups' balance sheet items as we consider all IFRS 5 conditions to have been met, while the funding mix shows 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%.

Technical insurance risk

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

Managing technical insurance risk

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

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

The building blocks for managing technical insurance risk

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

- Risk identification: adequate identification and analysis of material insurance risks by, inter alia, analysing new emerging risks, concentration or accumulation risks, NAPP analysis and developing early warning signals. In addition, deep dives are performed to gain further insight into technical insurance and a whole range of subjects. Special attention is paid to the adequacy of the technical provisions (see below).
- Risk measurement: technical insurance risk is measured by means of both regulatory measures, such as Solvency Capital Requirement (SCR) and Best Estimate valuation of insurance liabilities, and internal measures on, for example, economic profitability of insurance portfolios and non-life capital requirements based on internal stochastic models. These measures of insurance risk are used consistently throughout the group.
- Setting and cascading risk appetite: the risk appetite for technical insurance risk is set in line with the overall requirements as defined in our Enterprise Risk Management Framework, is overseen by the Group Insurance Committee (GIC) and is approved by the Executive Committee and the Board of Directors. At the GIC, the defined limits are reviewed and reported. The insurance risk limits are determined and set at group level and further cascaded to the local entities. The necessary compliance checks are conducted.
- Risk analysis, monitoring, reporting and follow-up: if the risk profile is not in line with the risk appetite, the reason has to be identified and analysed (e.g., which lines of business are contributing to the deviating risk profile) and the outcome and corrective action must be discussed at the GIC. Breaches at group level are subject to the approval of the Executive Committee/Board of Directors. Regular reporting and follow-up of the risk measurements is presented in the Insurance Integrated Risk Report (IIRR), which is submitted to the Group Insurance Committee on a quarterly basis. In addition, relevant risk signals are reported on a regular basis to the Risk & Compliance Committee and Board of Directors as part of the regular Group Integrated Risk Report.
- Stress testing: internal and external stress tests and sensitivity analyses are performed and the outcome of these tests is reported in the annual Own Risk and Solvency Assessment (ORSA) report. The Solvency II ratio in 2021 remained far above the regulatory threshold of 100% in both the EIOPA and NBB stress tests. Both assessed the impact of an extended coronavirus scenario in a low interest rate environment.

Reinsurance

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

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

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

The independent insurance risk function is responsible for:

- advising on the restructuring of the reinsurance programme during the annual negotiations;

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

Impact of the coronavirus crisis on technical insurance risk

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

Impact of natural catastrophes on technical insurance risk

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

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

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

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

Adequacy of technical provisions

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

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

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

- the claims-settlement figures incorporate all amounts that can be allocated to individual claims, including the Incurred But Not Reported (IBNR) and Incurred But Not Enough Reserved (IBNER) provisions, and the external claims handling expenses, but do not include internal claims settlement expenses and provisions for amounts expected to be recovered;
- all provisions for claims to be paid at the close of 2021 have been included and are before reinsurance, adjusted to eliminate intercompany amounts related to KBC Group Re, the KBC group's own reinsurance company. This makes it possible to first pool the reinsurance risks internally and then, in a subsequent stage, go to the reinsurance market.

The loss triangles are provided in the table below. The first row in the table shows the total claims burden (claims paid plus provisions) for the claims that occurred during a particular year, as estimated at the end of the year of occurrence. The following rows indicate the situation at the end of the subsequent calendar years. We restated the amounts to reflect exchange rates at year-end 2021.

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

Actuarial function

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

The main tasks of the actuarial function are to:

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

Regulatory capital

Solvency II sets out the regulatory capital requirements for the insurance companies. The Solvency capital requirement stood at 1 744 million euros at year-end 2020 and increased to 2 029 million euros at year-end 2021. The main drivers of the increase are higher equity markets and portfolio growth in the non-life business. Solvency II results and more detailed information on ratios are provided in our Solvency & Financial Condition Report, which is available at www.kbc.com.

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

Climate-related and other ESG risks

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.).

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).

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 CO_2 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 and 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 and follow-up

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

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

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

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

Stress testing

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

Our stress tests will be gradually optimised based on new insights obtained from, for example, our internal climate risk map, or from

the methodological tracks (see 'Risk measurement') to help us better translate the impact of climate pathways into financial parameters, such as expected credit losses or insurance claims.

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

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

How do we manage our capital?

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

Solvency at KBC group level

Solvency reporting

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

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. Currently, KBC makes use of the IFRS 9 transitional measures (applied from the second quarter of 2020). These transitional measures make it possible to add back a portion of the increased impairment charges to common equity capital (CET1), during a transitional period of five years when provisions unexpectedly rise due to a worsening macroeconomic outlook. Initially, the five-year transition period was from 1 January 2018 to 31 December 2022. In the context of the coronavirus pandemic and following a BCBS statement to offer regulatory relief, the transition period has been extended by two years until 31 December 2024.

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-making body (for KBC Group this is the General Meeting). The ECB can allow the inclusion of 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 of 'at least 50%' does not include a maximum, the ECB requires the use of a 100% payout to determine the foreseeable dividend. Consequently, KBC Group 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 for 2021 will be recognised in the *transitional* CET1 of the first quarter of 2022, which will be reported after the General Meeting. Since 31 December 2021, the *fully loaded* figures 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 general rule under CRR/CRD for insurance participations is that an insurance participation is deducted from common equity at group level, unless the competent authority grants permission to apply a risk weighting instead (Danish compromise). Since the fourth quarter of 2020, the revised CRR/CRD requires the use of the equity method, unless the competent authority allows institutions to apply a different method. KBC Group has received ECB approval to continue to use the historical carrying value (a historical carrying value of 2 469 million euros) for risk weighting (370%), after having deconsolidated KBC Insurance from the group figures.

Solvency requirements

The minimum solvency ratios required under CRR/CRD are 4.5% for the common equity tier-1 (CET1) ratio, 6% for the tier-1 capital ratio and 8% for the total capital ratio (i.e. pillar 1 minimum ratios). In addition, CRR/CRD requires a capital conservation buffer of 2.5%.

"

On top of the payout ratio of at least 50% of consolidated profit, all capital in excess of a 15% common equity ratio will be considered for distribution to shareholders. Each year, the Board will take this decision, at its discretion, when announcing the full-year results.

"

As a result of its supervisory review and evaluation process (SREP), the competent supervisory authority (in KBC's case, the ECB) can require that higher minimum ratios be maintained (= pillar 2 requirements) because, for instance, not all risks are properly reflected in the regulatory pillar 1 calculations. Following the SREP cycle for 2021, the ECB formally notified KBC that the pillar 2 requirement (P2R) was set at 1.86% (compared to 1.75% previously). The increase of 11 percentage points relates to the ECB expectation regarding minimum levels of provision coverage at year-end 2020 for non-performing loans defaulted prior to 1 April 2018 (the so-called 'NPL backstop' or 'calendar provisioning') and takes into account the agreement between KBC Ireland and CarVal Investors regarding the disposal of non-performing loans. The pillar 2 guidance (P2G) remains unchanged at 1% of CET1.

The overall capital requirement for KBC is determined not only by the ECB, but also by the decisions of the local competent authorities in its core markets. The most recently announced countercyclical buffer rates by the countries where KBC's relevant credit exposures are located correspond to a countercyclical buffer at KBC group level of 0.45%, compared to 0.20% in 2020.

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

Altogether, this brings the fully loaded CET1 requirement (under the Danish compromise) to 10.81%, with an additional pillar 2 guidance (P2G) of 1%.

The data above reflect the situation as known on 31 December 2021, without taking into account changes – if any – communicated after that date.

Solvency figures under CRR/CRD

Solvency at group level (consolidated; under CRR/CRD, Danish compromise method) (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[1]	**19 445**	**20 733**	**21 627**	**21 856**
Tier-1 capital	**17 724**	**18 998**	**19 448**	**19 941**
Common equity[2]	**16 224**	**17 498**	**17 948**	**18 441**
Parent shareholders' equity (after deconsolidating KBC Insurance)	20 049	17 708	18 688	18 688
Intangible fixed assets, incl. deferred tax impact (-)	-539	-539	-568	-568
Goodwill on consolidation, incl. deferred tax impact (-)	-746	-746	-734	-734
Minority interests	0	0	0	0
Hedging reserve, cashflow hedges (-)	1 108	1 108	1 294	1 294
Valuation differences in financial liabilities at fair value – own credit risk (-)	-16	-16	-13	-13
Value adjustment due to requirements for prudent valuation (-)[3]	-28	-28	-25	-25
Dividend payout (-)	-3 168	0	-183	-183
Coupon on AT1 instruments (-)	-12	-12	-12	-12
Deduction with regard to financing provided to shareholders (-)	-57	-57	-57	-57
Deduction with regard to irrevocable payment commitments (-)	-72	-72	-58	-58
Deduction regarding NPL backstops (-)[4]	-68	-68	-11	-11
IRB provision shortfall (-)	0	-31	0	0
Deferred tax assets on losses carried forward (-)	-227	-227	-373	-373
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 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	**1 721**	**1 735**	**2 178**	**1 914**
IRB provision excess (+)	224	493	427	427
Transitional adjustments to Tier-2 capital	0	-493	0	-264
Subordinated liabilities	1 497	1 735	1 751	1 751
Subordinated loans to non-consolidated financial sector entities (-)	0	0	0	0
Minority interests to be included in tier-2 capital	0	0	0	0
Total weighted risk volume	**104 646**	**104 362**	**102 111**	**101 843**
Banking	95 120	94 836	92 903	92 635
Credit risk	80 971	80 687	78 785	78 518
IRB Advanced approach	67 321	67 321	63 339	63 339
IRB Foundation approach	2 561	2 561	2 681	2 681
Standardised approach	7 378	7 408	7 270	7 313
Counterparty credit risk	3 065	3 065	2 884	2 884
Other assets	646	333	2 612	2 302
Market risk[5]	2 665	2 665	2 716	2 716
Operational risk	11 484	11 484	11 401	11 401
Insurance	9 133	9 133	9 133	9 133
Holding-company activities and elimination of intercompany transactions	392	392	75	75
Solvency ratios				
Common equity ratio (or CET1 ratio)	15.5%	16.8%	17.6%	18.1%
Tier-1 ratio	16.9%	18.2%	19.0%	19.6%
Total capital ratio	18.6%	19.9%	21.2%	21.5%

1 The difference between the fully loaded and the transitional figure as at 31-12-2021 is explained by the net result for 2021 (2 341 million euros under the Danish Compromise method), the proposed final dividend (-3 168 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 (-239 million euros).

2 Audited figures (excluding 'IRB provision shortfall', 'Value adjustment due to requirements for prudent valuation' and 'Deduction regarding NPL backstops').

3 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.

4 NPL backstops refer to the minimum coverage requirements on non-performing loans for loans originated after 26 April 2019 (CRR requires a deduction from CET1) and the ECB minimum coverage expectations on non-performing loans for exposures defaulted after 1 April 2018 but originated before 26 April 2019 (KBC decided to voluntary deduct from CET1 any shortfalls relative to supervisory expectations).

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

The impact on the common equity ratio of the most significant acquisitions and disposals in 2020 and 2021 is described in Note 6.6 of the 'Consolidated financial statements' section.

Solvency at group level (consolidated; CRR/CRD, deduction method) (in millions of EUR)	**31-12-2021 Fully loaded**	**31-12-2021 Transitional**	**31-12-2020 Fully loaded**	**31-12-2020 Transitional**
Common equity	15 392	16 745	17 282	17 775
Total weighted risk volume	99 603	99 518	97 481	97 214
Common equity ratio	15.5%	16.8%	17.7%	18.3%

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

Maximum Distributable Amount

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

In line with CRD Article 104a(4), the ECB allows banks to satisfy the P2R with additional tier-1 instruments (up to [1.5]/8) and tier-2 instruments (up to 2/8) based on the same relative weights as allowed for meeting the 8% Pillar 1 requirement. KBC currently does not intend to issue additional tier-1 or tier-2 instruments to meet the P2R, but may consider doing so to avoid or mitigate an MDA breach.

Buffer compared to the Overall Capital Requirement (consolidated; under CRR/CRD, Danish compromise method)	**31-12-2021 Fully loaded**	**31-12-2021 Transitional**	**31-12-2020 Fully loaded**	**31-12-2020 Transitional**
CET1 Pillar 1 minimum	4.50%	4.50%	4.50%	4.50%
Pillar 2 requirement to be satisfied with CET1	1.05%	0.98%	0.98%	0.98%
Capital conservation buffer	2.50%	2.50%	2.50%	2.50%
Buffer for systemically important institutions (O-SII)	1.50%	1.50%	1.50%	1.50%
Entity-specific countercyclical buffer	0.45%	0.17%	0.20%	0.17%
Overall Capital Requirement (OCR) – with P2R split, CRD Article 104a(4)	10.00%	9.66%	9.68%	9.65%
Pillar 2 requirement that can be satisfied with AT1 & T2	0.81%	0.77%	0.77%	0.77%
Overall Capital Requirement (OCR) (A)[1], no P2R split	10.81%	10.42%	10.45%	10.42%
CET1 used to satisfy shortfall in AT1 bucket (B)	0.07%	0.06%	0.03%	0.03%
CET1 used to satisfy shortfall in T2 bucket (C)[2]	0.36%	0.34%	-0.13%	0.12%
CET1 requirement for MDA (A+B+C)	11.23%	10.82%	10.35%	10.57%
CET1 capital (in millions of EUR)	16 224	17 498	17 948	18 441
CET1 buffer (= buffer compared to MDA) (in millions of EUR)	4 470	6 204	7 382	7 681

1 Situation as known at 31 December 2021 (not taking into account changes communicated after that date).

2 Available tier-2 capital exceeds the 2% Pillar 1 minimum requirement as at 31-12-2020 on a fully loaded basis. The remainder is used to satisfy part of the Pillar 2 requirement under the revised CRR/CRD. The fully loaded tier-2 capital excludes the tier-2 instruments grandfathered under CRR2; these instruments are included in the actual (transitional) tier-2 capital for the period of grandfathering, in line with CRR2 and the COREP 3.0 reporting framework (introduced as from 2Q 2021 reporting).

Solvency figures under FICOD

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

Solvency at group level (consolidated; FICOD method) (in millions of EUR)	31-12-2021 Fully loaded	31-12-2021 Transitional	31-12-2020 Fully loaded	31-12-2020 Transitional
Common equity	17 861	19 370	18 843	19 336
Total weighted risk volume	120 873	120 589	114 783	114 515
Common equity ratio	14.8%	16.1%	16.4%	16.9%

Leverage ratio

Leverage ratio at group level (consolidated; under CRR/CRD, Danish compromise method) (in millions of EUR)	31-12-2021 Fully loaded	31-12-2021 Transitional	31-12-2020 Fully loaded	31-12-2020 Transitional
Tier-1 capital	17 724	18 998	19 448	19 941
Total exposure	326 792	292 365	303 069	303 696
Total assets	340 346	340 346	320 743	320 743
Deconsolidation of KBC Insurance	-34 026	-34 026	-32 972	-32 972
Transitional adjustment	–	617	–	628
Adjustment for derivatives	-1 656	-1 656	-4 158	-4 158
Adjustment for regulatory corrections in determining tier-1 capital	-1 665	-1 696	-1 825	-1 825
Adjustment for securities financing transaction exposures	1 016	1 016	830	830
Central bank exposures	–	-35 014	–	–
Off-balance sheet exposures	22 776	22 776	20 451	20 451
Leverage ratio	5.4%	6.5%	6.4%	6.6%

The higher transitional ratio (in comparison with the fully loaded ratio) reflects the exclusion of central bank exposures (CRR Article 500b; applied since the end of September 2021).

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

Minimum requirement for own funds and eligible liabilities (MREL)

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

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

It is crucial that there are adequate liabilities eligible for bail-in. This is measured by the minimum requirement for own funds and eligible liabilities (MREL). The SRB defines the minimum MREL level for KBC. It communicated MREL targets to KBC expressed as a percentage of Risk Weighted Assets (RWA) and Leverage Ratio Exposure Amount (LRE):

- 22.13% of RWA as from 1 January 2024 with an intermediate target of 21.63% as from 1 January 2022 (the Combined Buffer Requirement needs to be met on top of the MREL target and amounts to 4.35% as from 2022 and 4.45% as from 2023);
- 7.34% of LRE as from 1 January 2022.

Besides a total MREL amount, BRRD2 also requires KBC to maintain a certain part of MREL in subordinated format (i.e. instruments subordinated to liabilities, excluded from bail-in). The KBC group's balance sheet contains a limited amount of liabilities, excluded from bail-in, which rank pari passu with MREL-eligible liabilities. These excluded liabilities are mainly related to critical shared services (e.g., IT). This jeopardises the eligibility of the HoldCo senior debt to be acknowledged by the SRB as subordinated. To ensure that KBC's HoldCo senior debt is eligible for the subordinated MREL target (i.e. to make sure that no excluded liabilities ranking pari passu with or junior to HoldCo senior debt are present in KBC Group NV), KBC Group NV will be converted to a Clean HoldCo for the purpose of resolution. After implementation of the Clean HoldCo (expected in 2022), KBC's entire MREL stack will be considered subordinated.

MREL (in millions of EUR)	**31-12-2021**	**31-12-2020**
Own funds and eligible liabilities (transitional)	28 924	28 376
CET1 capital (consolidated, CRR/CRD, Danish compromise method)	17 498	18 441
AT1 instruments (consolidated, CRR/CRD)	1 500	1 500
T2 instruments (consolidated, CRR/CRD)	1 735	1 914
Subordinated liabilities (issued by KBC Group NV but not included in AT1 & T2)	753	2
Senior debt (issued by KBC Group NV, nominal amount, remaining maturity > 1 year)	7 437	6 519
Risk Weighted Assets (RWA)	104 362	101 843
MREL as a % of RWA	27.7%	27.9%
Leverage Ratio Exposure Amount (LRE)	292 365	303 696
MREL as a % of LRE	9.9%	9.3%

ICAAP and ORSA

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

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

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

Once a year, the ICAAP and ORSA processes generate comprehensive reports, which are presented to both top management and the supervisory bodies before being submitted to the ECB and NBB. 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 and ORSA.

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

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

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

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

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

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

Corporate governance statement

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

Unless otherwise indicated, the period dealt with runs from 1 January 2021 to 31 December 2021.

A number of terms have been abbreviated as follows in this section of the annual report:
- Board of Directors: Board
- Executive Committee: EC
- Audit Committee: AC
- Risk & Compliance Committee: RCC
- Companies and Associations Code: CAC
- The Belgian Act of 25 April 2014 on the legal status and supervision of credit institutions and stockbroking firms: The Banking Act

Composition of the Board and its committees

The following table shows the members of the Board and its committees on 31 December 2021*. A list of the external offices held by all members of the Board is provided at www.kbc.com, as is a brief CV for each director. The number of meetings attended is shown in the columns relating to the committees.

Koenraad Debackere | Philippe Vlerick | Johan Thijs | Alain Bostoen | Katelijn Callewaert | Erik Clinck | Sonja De Becker

Franky Depickere | Frank Donck | Liesbet Okkerse | Vladimira Papirnik | Luc Popelier | Theodoros Roussis | Christine Van Rijsseghem | Marc Wittemans

* Effective 1 December 2021, Júlia Király, independent non-executive director, resigned as member of the Board. In 2021, Júlia attended twelve Board meetings, five Audit Committee meetings and seven Remuneration Committee meetings. The Nomination Committee immediately initiated the procedure for appointing a successor.

Company	Primary responsibility	Period served on the Board in 2021	Expiry date of current term of office	Board meetings attended	Non-executive directors	Core shareholders' representatives	Independent directors[1]	EC	AC	RCC	Nomination Committee	Remuneration Committee
		Number of meetings in 2021		14					7	9	5	8
Koenraad Debackere	Chairman of the Board	Full year	2023	14	■		■				5 (c)	8 (c)
Philippe Vlerick	Deputy Chairman of the Board CEO, Vlerick Group	Full year	2025	14	■	■					5	8
Johan Thijs	President of the EC and Executive Director, KBC	Full year	2024	14				■(c)				
Alain Bostoen	CEO, Christeyns Group	Full year	2023	14	■	■						
Katelijn Callewaert	Managing Director, Cera and KBC Ancora	Full year	2025	14	■	■						
Erik Clinck	Executive Director, Enactus Belgium	Full year	2024	14	■	■						
Sonja De Becker	Chairperson, MRBB	Full year	2024	14	■	■					5	
Franky Depickere	Managing Director/CEO, Cera and KBC Ancora	Full year	2023	14	■	■				9 (c)	5	
Frank Donck	Managing Director, 3D	Full year	2023	14	■	■			6[2]	8		
Liesbet Okkerse	Financial Director, Zoersel Municipality and Public Social Welfare Centre	Full year	2024	14	■	■						
Vladimira Papirnik	Retired Partner, Squire Patton Boggs (US) LLP	Full year	2024	14	■		■		7	9	5	
Luc Popelier	Executive Director, KBC	8 months	2025	14[3]				■				
Theodoros Roussis	CEO, Ravago Group	Full year	2024	14	■	■						
Christine Van Rijsseghem	Executive Director, KBC	Full year	2022	13				■				
Marc Wittemans	Managing Director/CEO, MRBB	Full year	2022	14	■	■			7 (c)	9		

Statutory auditor: PricewaterhouseCoopers (PwC), represented by Roland Jeanquart and Tom Meuleman.

Secretary to the Board: Wilfried Kupers.

(c) Chairman of this committee.

1 Effective 1 December 2021, Júlia Király, independent non-executive director, resigned as member of the Board. In 2021, Júlia attended twelve Board meetings, five Audit Committee meetings and seven Remuneration Committee meetings. The Nomination Committee immediately initiated the procedure for appointing a successor.

2 Frank Donck resigned as a member of the Audit Committee with effect from 31 December 2021.

3 As a member of the Executive Committee, Luc Popelier already attended the meetings before he was appointed to the Board.

Changes in the composition of the Board in 2021

- Philippe Vlerick and Katelijn Callewaert were re-appointed as directors for a four-year term of office.
- Luc Popelier was appointed as director for a term of four years and became executive director following his appointment as member of the EC.
- Hendrik Scheerlinck ended his term of office after reaching the age limit.
- Júlia Király resigned from the Board with effect from 1 December 2021 for personal reasons.

Changes in the composition of the Board proposed to the General Meeting on 5 May 2022

- 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.

Brief CV for the proposed new director(s):

- 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).

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

The Group Executive Committee (EC)

Johan Thijs

°1965

Belgian

Master's Degree in Science (Applied Mathematics) and Actuarial Sciences (KU Leuven)

Joined company in* 1988

Group CEO (Chief Executive Officer)

Peter Andronov

°1969

Bulgarian

Master's Degree in Finance (University of National and World economy in Sofia)

Joined company in* 2007

CEO of the International Markets Business Unit

John Hollows

°1956

British

Master's Degree in Law and Economics (Cambridge University)

Joined company in* 1996

CEO of the Czech Republic Business Unit

Erik Luts

°1960

Belgian

Master's Degree in Pedagogy (KU Leuven)

Joined company in* 1988

CIO (Chief Innovation Officer)

David Moucheron

°1973

Belgian

Master's Degree in Law (UCL)

Joined company in* 2015

CEO of the Belgium Business Unit

Luc Popelier

°1964

Belgian

Master's Degree in Applied Economics (UFSIA Antwerp)

Joined company in* 1988

CFO (Chief Financial Officer)

Christine Van Rijsseghem

°1962

Belgian

Master's Degree in Law (UGent)

Joined company in* 1987

CRO (Chief Risk Officer)

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

Changes in 2021:
- On 6 May, Hendrik Scheerlinck and Daniel Falque resigned as members of the EC.
- Peter Andronov and David Moucheron were appointed as members of the EC with effect from 6 May 2021. Peter Andronov became CEO of the International Markets Business Unit and David Moucheron became CEO of the Belgium Business Unit.
- Luc Popelier was appointed as CFO (instead of CEO of the International Markets Business Unit).

Changes with effect from 5 May 2022:
- After reaching the age limit, John Hollows will resign as member of the EC. The Board would like to express its gratitude for the contribution he has made to the KBC group over many years.
- On the advice of the Nomination Committee and subject to the approval of the Supervisor, Aleš Blažek will be appointed by the Board as member of the EC and will become CEO of the Czech Republic Business Unit, with effect from 5 May 2022.
- Following this change, the EC will comprise: Johan Thijs, Group CEO (Chief Executive Officer); Luc Popelier, CFO (Chief Financial Officer); Christine Van Rijsseghem, CRO (Chief Risk Officer); Peter Andronov, CEO of the International Markets Business Unit; Aleš Blažek, CEO of the Czech Republic Business Unit; Erik Luts, CIO (Chief Innovation Officer); and David Moucheron, CEO of the Belgium Business Unit.

Brief CV for the new member of the EC:
- 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.

Governance model

On 31 December 2021, the Board had 15 members (with one independent director position being vacant; subject to the supervisory authority's approval, it will be proposed to the General Meeting to appoint a new female independent director – see earlier in this chapter):

- its Chairman, who is an independent director;
- one other independent director;
- three members of the EC (the Group CEO, the Group CFO and the Group CRO);
- ten representatives of the core shareholders.

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

The core shareholders (Cera, KBC Ancora, MRBB and the other core shareholders) have concluded a shareholder agreement in order to ensure shareholder stability and a long-term focus for the management of KBC Group NV, as well as to support and coordinate its general policy. To this end, the core shareholders act in concert at the General Meeting of KBC Group NV and were represented on its Board by ten directors at year-end 2021.

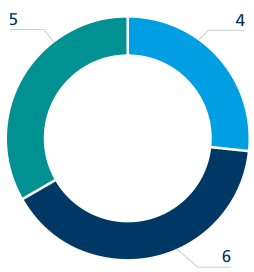
Therefore, there is no majority of independent directors on the Board. However, KBC has placed a strong emphasis on selecting high-calibre, independent directors at the level of KBC Group NV, as well as on the boards of KBC Bank and KBC Insurance. These individuals are of high standing, come from diverse backgrounds and bring specific financial and governance expertise to the Board. Moreover, the boards of KBC Group NV, KBC Bank and KBC Insurance always hold joint meetings in practice. Since the boards of both KBC Bank and KBC Insurance also at all times include two independent directors, the joint Board meetings are actually attended by seven independent directors.

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

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

Composition of the Board of Directors

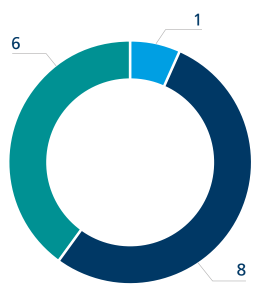
Number of years on the Board



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

(average: 10 years)

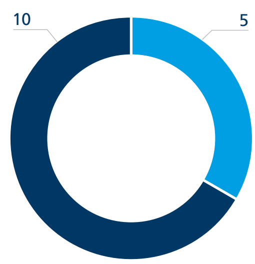
Age



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

(average: 59 years)

Gender



- Female
- Male

Subject to the supervisory authority's approval, the number of women on the Board will be further increased to six (out of a total of 16 directors) as of the annual meeting.

Diversity policy

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

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

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

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

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

The policy also stipulates that:
- at least one member of the EC must be of a different gender than the other members;
- the EC should strive towards achieving diversity in terms of the nationality and age of its members;
- all members of the EC must have the necessary financial knowledge, professional integrity and management experience, but have followed different career paths.

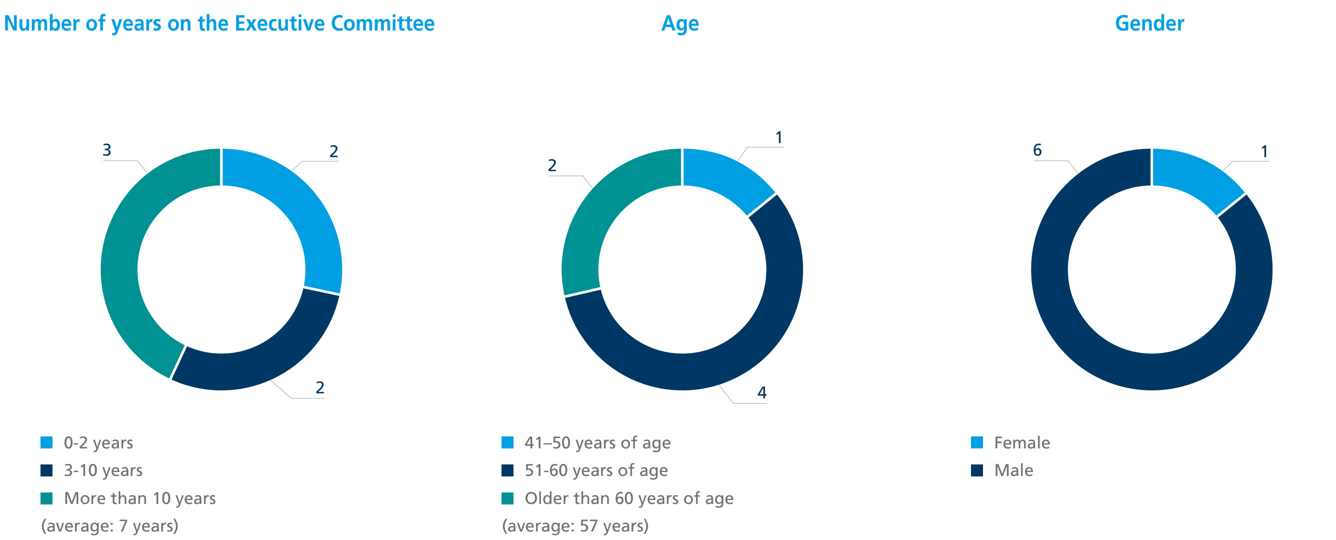
The Board will see to it that this diversity policy is applied properly when deciding on the profile of a new director or a new member of the EC.

The Nomination Committee regularly checked to see whether this policy was being applied in practice and established that this was the case in 2021. The change in the composition of the EC described above further increases diversity by adding more Central European-based experience.

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

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

Composition of the Executive Committee



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

Until 1 December 2021, the AC had two independent directors within the meaning of and in line with the criteria set out in Article 7:87 of the CAC and in Code 2020:

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

Effective 1 December 2021, Júlia Király resigned as director. The Nomination Committee immediately initiated the procedure for appointing a person to replace her as independent director. This new independent director will also sit on the AC.

The Chairman of the AC is:

- 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).

Frank Donck ceased to be part of the AC with effect from 31 December 2021, which means that the majority of the AC will now consist of independent directors.

It can be concluded on the basis of the profiles and competences of the members of the AC that the committee is (and, going forward, will continue to be) constructed and has the requisite skills and experience in accordance with the requirements of Article 7:99 of the CAC and of (the amended) section 6.2.3 of the Charter.

RCC: application of Article 56, § 4 of the Banking Act and section 6.3.3 of the Charter

On 31 December 2021, the RCC of KBC Group NV had one independent director within the meaning of and in line with the criteria set out in Article 7:87 of the CAC and in Code 2020:

- Vladimira Papirnik (see CV above).

The other members of the RCC are:

- Franky Depickere (non-executive director), who holds Master's Degrees in Trade & Finance (UFSIA Antwerp) and in Financial Management (VLEKHO Business School). He was internal auditor at CERA Bank and has held positions and offices in various financial institutions. He is currently Managing Director at Cera and KBC Ancora. Mr Depickere is the Chairman of the RCC.
- Frank Donck (non-executive director), who holds a Master's Degree in Law (UGent) and a Master's Degree in Finance (Vlerick Business School). He is Managing Director of 3D NV, Chairman of Atenor Group NV, and an independent director at Barco NV, Elia System Operator Group NV and Luxempart SA. He also holds directorships at several unlisted companies. Mr Donck is a member of the Belgian Corporate Governance Commission.
- Marc Wittemans (see CV above).

It can be concluded on the basis of the profiles and competences of the members of the RCC that the committee is (and, going forward, will continue to be) constructed in accordance with the requirements of the Charter and it possesses the requisite skills and experience.

Remuneration Committee: application of Article 56, § 4 of the Banking Act and section 6.5.2 of the Charter

On 1 December 2021, the Remuneration Committee had two independent directors within the meaning of and in line with the criteria set out in Article 7:87 of the CAC and in Code 2020:

- Koenraad Debackere (independent director and Chairman of the Board), who holds a Master of Science in Electromechanical Engineering and a Doctor's degree in Management. He is an ordinary Professor at the Faculty of Economics and Business at KU Leuven, Managing Director of KU Leuven Research & Development and Chairman of the KU Leuven Association. He is also an independent director at Umicore NV. Koenraad Debackere chairs the Remuneration Committee.
- Júlia Király (see CV above). Effective 1 December 2021, Júlia Király resigned as director. The Nomination Committee immediately initiated the procedure for appointing a person to replace her as independent director. This new independent director will also sit on the Remuneration Committee.

The other member of the Remuneration Committee is:

- Philippe Vlerick (non-executive director), who holds a Bachelor's Degree in Philosophy, a Master's Degree in Law (KU Leuven), a Master's Degree in Management (Vlerick Business School in Ghent) and an MBA degree (Indiana University, Bloomington, USA). He is Executive Chairman of Vlerick Group and of UCO, Chairman of Raymond Uco Denim, BIC Carpets, Concordia Textiles, B.M.T., L.V.D., Pentahold, Mediahuis, Besix Group and Smartphoto, Non-Executive Director of Exmar and Oxurion, and Chairman of the Festival of Flanders.

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

Nomination Committee: application of Article 56, § 4 of the Banking Act and section 6.4.2 of the Charter

On 31 December 2021, the Nomination Committee of KBC Group NV had two independent directors within the meaning of and in line with the criteria set out in Article 7:87 of the CAC and in Code 2020:

- Koenraad Debackere (see CV above).
- Vladimira Papirnik (see CV above).

The other members of the Nomination Committee are:

- Franky Depickere (see CV above).
- Philippe Vlerick (see CV above).
- Sonja De Becker (non-executive director), who holds a Master's Degree in Law (KU Leuven). She has held several positions at Boerenbond (farmers' union), where she was appointed as Chair on 1 December 2015. She is also the Chair of MRBB, Agri Investment Fund, SBB Accountants & Adviseurs, SBB Bedrijfsdiensten and a director of the Social and Economic Council of Flanders (SERV) and the Centrale Raad voor het Bedrijfsleven (Central Economic Council), and participates in the Federal Social Dialogue.

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

Application of and non-compliance with Code 2020

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

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

As specified above, on 31 December 2021 the Nomination Committee was composed of five directors, one of whom was the Chairman of the Board (who is also an independent director), a second independent director, and three who represented the core shareholders. Therefore, two independent directors sit on this committee. Furthermore, an independent director of KBC Bank is invited to attend every meeting of the Nomination Committee. In this way, three independent directors are involved in its activities.

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

Code 2020 also stipulates that the 'Corporate governance statement' must contain all relevant information on events that affected governance. The main change in the company's Corporate Governance Charter involves the composition of the AC, which will now consist of a majority of independent directors.

Statutory auditor

The statutory auditor, PwC Bedrijfsrevisoren BV (PwC), was represented by Messrs Roland Jeanquart and Tom Meuleman. It will be proposed to the General Meeting of 5 May 2022 to renew the statutory auditor's mandate for a period of three years. PwC has designated Mr Damien Walgrave and Mr Jeroen Bockaert as new representatives. Details of the statutory auditor's remuneration are provided in Note 6.4 of the 'Consolidated financial statements' section.

Report on the activities of the Board and its committees in 2021

Board of Directors (Board)

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

- the strategy and operations in the Czech Republic, Ireland, Bulgaria, Slovakia, Hungary, and Markets business units/countries, and in Corporate HR, KBC Asset Management and Shared Services;
- managing the impact of the coronavirus crisis;
- the capital policy and dividend policy;
- the IT strategy and digital transformation (including Kate);
- implementing the (re)insurance strategy;
- reviewing the corporate sustainability strategy and the Sustainable Finance Programme;
- the ICAAP-ILAAP Report;
- the Risk Appetite Statement;
- the risk reports;
- the compliance reports and the Compliance function;
- the Board's self-assessment, which revealed a desire for increased focus on ESG topics;
- the establishment of KBC Global Services.

The EC reported monthly on the trend in the results and the general course of business at the group's various business units. In addition, the Board focused on the strategy and specific challenges for the different areas of activity.

"

The KBC Sustainability Dashboard contains sustainability parameters that enable us to monitor the situation and make adjustments, where necessary. The Board assesses the performance of these parameters twice a year.

"

Regular training sessions were also organised for all members of the Board (newly appointed directors also followed an extensive induction programme). The following topics were addressed: data science, crypto & digital identity, the KBC Recovery Plan, regulatory developments and IFRS 17.

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

Audit Committee (AC)

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

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

Risk & Compliance Committee (RCC)

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

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

The RCC paid special attention to:
- climate-related risk as part of the periodic reports from the risk function. In addition, the RCC paid particular attention to the integration of climate-related risk in insurance risk management;
- progress reports on the implementation of the EU data policy (GDPR, Schrems II), as well as other specific regulations, such as AML and MiFID;
- the statement of effective management with regard to the assessment of internal control systems and the monitoring of the resulting action plans;
- the ICAAP-ILAAP Report for 2021;
- the KBC ORSA Report for 2021;
- the KBC Recovery Plan for 2021;
- Information Security and Cyber Risk;
- the results of inspections performed by the supervisory authorities and the action plans drawn up by management;
- the updated Compliance Charter;
- the updated Integrity Policy;
- the Compliance Annual Report to the Board;
- the Data Protection Officer Report.
- the 2020 Conflict of Interest Report.

Nomination Committee

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

The main matters dealt with were:
- appointments and re-appointments to the Board;
- succession planning for the Board and the EC;
- evaluation of the operations and composition of the Board.

Remuneration Committee

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

The main matters dealt with were:
- the assessment of the criteria for evaluating the EC in 2020;
- the criteria for evaluating the EC in 2021;
- the annual remuneration review;
- the adjustment of the remuneration of the CEO and other EC members;
- risk-adjusted profit for 2020;
- the changes to the Remuneration Policy;
- the preparation of a Remuneration Policy for members of the EC and of the Board;
- the preparation of the remuneration report;
- the retention bonuses for KBC Ireland, the KBC New York branch and KBC Securities Hungary.

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

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

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

Each Board committee carries out an evaluation of its own composition and operations at least once every three years, before reporting its findings and, where necessary, making proposals to the Board.

Directors who are nominated for re-appointment are subject to an individual evaluation regarding their attendance at Board and committee meetings and their contribution to and constructive involvement in discussions and decision-making. This evaluation is conducted by the Nomination Committee.

On the initiative of the President of the EC, the full EC discusses its objectives and assesses its performance once a year. Each year, the President of the EC evaluates each member of the EC individually. after which the evaluations are discussed in the Remuneration Committee and approved by the Board. The individual evaluation of the President is performed by the Chairman of the Board in consultation with the Remuneration Committee before being approved by the Board.

Conflicts of interest that fell within the scope of Article 7:115, 7:116 or 7:117 of the CAC

During financial year 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 Group NV has a dual governance model, though hybrid as at least three members of the Executive Committee must also be member of the Board of Directors. Article 7:109, § 3 CCA provides that, after the adoption of the annual accounts, the Board has to decide on the granting of 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.

Transactions between the company and its directors and members of the EC, not covered by the statutory regulations governing conflicts of interest

None.

Measures regarding insider dealing and market manipulation

The Dealing Code requires a list of key employees to be drawn up, annual blocking periods to be set, and transactions by persons with managerial responsibility and with persons connected with them to be reported to the Belgian Financial Services and Markets Authority (FSMA).

Main features of the internal control and risk management systems

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

A clear strategy, organisational structure and division of responsibilities set the framework for the proper performance of business activities
We examine the strategy and organisational structure of the KBC group in the 'Our business model' and 'Our strategy' sections of this annual report.

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

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

The Charter describes the respective responsibilities of both management bodies, their composition and operations, as well as the qualifications their members must possess.

Corporate culture and integrity policy
Our principles are set out in the integrity policy, as well as in specific codes, procedures and codes of conduct, and are also incorporated into specific training courses and campaigns for staff. The main policy guidelines and codes of conduct are communicated in a transparent manner and can be found at www.kbc.com > Corporate Sustainability > Setting rules and policies.

One of the topics covered by the integrity policy is 'conduct risk', a concept that identifies the risk arising from the inappropriate provision of financial services. To address this matter, KBC has drawn up a comprehensive policy that includes prevention, monitoring and reporting. Extensive, group-wide communication campaigns and training courses on dealing with dilemmas 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.

“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 strict ethical standards that KBC stands for – both in the letter and the spirit of the regulations.”

The integrity policy focuses primarily on the following areas, for which – where appropriate – specific group-wide compliance rules have been issued, i.e. for:

- preventing the financial system being used for laundering money and funding terrorism, observing embargoes, and preventing proliferation financing of weapons of mass destruction;
- preventing fiscal irregularities including special mechanisms and DAC 6;
- protecting investors;
- protecting privacy, including banking secrecy, privacy in electronic communication, confidentiality of information and the professional duty of discretion;
- fostering ethics and coordinating fraud prevention;
- protecting insurance policyholders;
- complying with anti-discrimination legislation;
- respecting rules on consumer protection: market practices, payment and lending services, complaints handling by companies, rules on SME funding and Payment Services Directive II;
- respecting the governance aspects of CRD IV 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).
- Inspired by the UK's Modern Slavery Act, KBC has published a 'Modern Slavery Act Statement' in which it resolves to combat every form of 'modern slavery' in its business activities.

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

Combating corruption and bribery

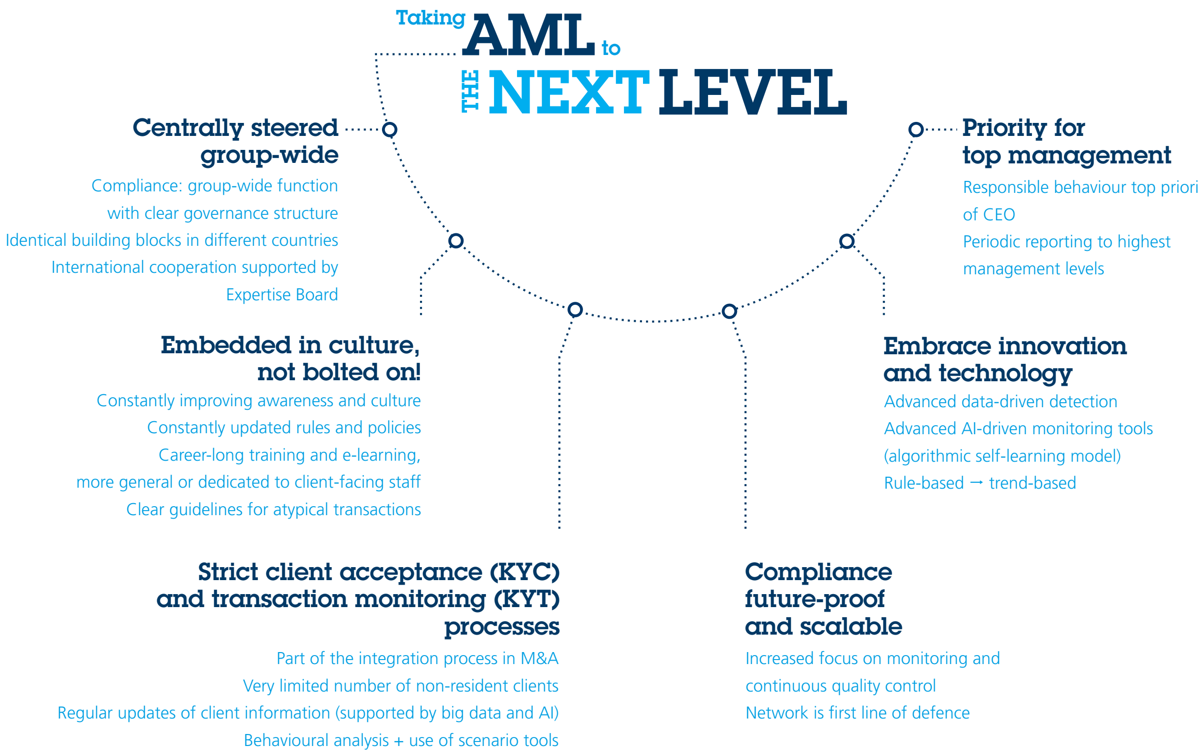
KBC pursues a policy of zero-tolerance towards all forms of corruption. The 'KBC Anti-Corruption & Bribery Policy' affirms KBC's position in the fight against and its resolve to prevent corruption in its activities and operations, while setting out the measures that have been or will be taken to achieve this. It applies to all 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, KBC Securities 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 and 100% of the target audience of insurance company ČSOB Pojišt'ovna completed the training course. In the other countries, the figures were 98% for ČSOB Bank and 96.3% for ČSOB Pojišt'ovna in Slovakia, 98% for K&H Bank and 90% for K&H Insurance in Hungary, 94% for UBB and 60% for DZI 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 2021, five reports of this kind were approved in Belgium. In Central Europe, too, gifts and donations above a certain value have to be reported. Three such reports 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 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 and 100% of the target audience of insurance company ČSOB Pojišt'ovna completed the training course. In Slovakia, the figures were 99.6% for ČSOB Bank and 96.3% for ČSOB Pojišt'ovna, in Hungary 98% for K&H Bank and 100% for K&H Insurance, in Bulgaria 95% for UBB and 100% for DZI, 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 aggressive tax positions simply because it wishes to safeguard its reputation as a responsible taxpayer, and it adheres to a strict tax risk management policy based on these principles. KBC staff are not allowed to provide clients with advice of a nature that might prompt them to commit tax fraud. Any tax advice or tax information provided must be legally correct and clearly worded. All of KBC's tax returns and tax payments are filed correctly and on time. When conducting tax audits, full disclosure in line with prevailing local tax legislation is the guiding principle. KBC reacts in good time to all legislative changes by investing in the necessary IT systems and by adapting its tax processes to ensure they comply with the new rules. Proper governance is in place to follow up and monitor the KBC Tax Strategy. 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.

See Note 3.12 in the 'Consolidated financial statements' section.

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 from the Czech Republic, two from Belgium, one from Hungary and one from Bulgaria. After further investigation, only the last report and one of the reports from the Czech Republic were labelled as true whistleblower reports.

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 and 100% of the target audience of insurance company ČSOB Pojišťovna completed the training course. In Slovakia, the figures were 99.1% for ČSOB Bank and 96.3% for ČSOB Pojišťovna, in Bulgaria 93% for UBB and 100% for DZI, 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
To protect itself from the risks it runs in achieving its mission, the EC applies a multi-layered internal control system, known as the 'Three Lines of Defence' model.

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

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

Compliance is an independent function within the group, characterised by its specific status (as provided for by law and regulations and described in the Compliance Charter), its place in the organisation chart (hierarchically under the CRO with a functional reporting line to the President of the EC) and associated reporting lines (reporting to the 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.

The actuarial function is an independent function that ensures additional quality control by providing expert technical actuarial advice to the Board, the RCC, the EC, and to the KBC Insurance group and all reinsurance and insurance entities within the group. Such advice covers the calculation of the technical provisions for insurance liabilities, the reinsurance policy and underwriting risk. The independence of this function is supported by its modified status, as described in the 'Actuarial Function Charter'.

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

Responsibilities, features, organisational structure and reporting lines, scope, audit methodology, cooperation 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 operations, along with the qualifications of their members, are laid down in their respective charters, which are included under the Charter. More information on these committees is provided elsewhere in this section.

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

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

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

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

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

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

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

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

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

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

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

Disclosure under Article 34 of the Belgian Royal Decree of 14 November 2007 concerning the obligations of issuers of financial instruments admitted to trading on a regulated market

1 Capital structure on 31 December 2021

The share capital was fully paid up and was represented by 416 883 592 shares of no nominal value. For more information, see the 'Company annual accounts and additional information' section.

2 Restrictions on transferring securities as laid down by law or the Articles of Association

Each year, KBC Group NV carries out a capital increase for its employees and the employees of certain of its Belgian subsidiaries. If the issue price of the new shares is less than the set closing price, the employee may not transfer these new shares for two years, starting from the payment date, unless he or she dies. The shares subscribed to by employees under the capital increase decided upon by the Board in November 2021 are blocked until 15 December 2023. The shares issued under the capital increase in 2020 also remain blocked (until 16 December 2022).

3 Holders of any securities with special control rights

None.

4 Systems of control of any employee share scheme where the control rights are not exercised directly by the employees

None.

5 Restrictions on exercising voting rights as laid down by law or the Articles of Association

The voting rights attached to the shares held by KBC Group NV and its direct and indirect subsidiaries are suspended. At 31 December 2021, these rights were suspended for two shares.

6 Shareholder agreements known to KBC Group NV that could restrict the transfer of securities and/or the exercise of voting rights

The core shareholders of KBC Group NV comprise KBC Ancora NV, its parent company Cera CV, MRBB CVBA, and a group of legal entities and individuals referred to as 'Other core shareholders'.

Based on the most recent notifications provided to KBC, their shareholdings are:

• KBC Ancora NV	77 516 380
• Cera CV	11 127 166
• MRBB CVBA	47 887 696
• Other core shareholders	30 554 535
• Total	167 085 777

(40.08% of total number of shares at 31 December 2021)

A shareholder agreement was concluded between these core shareholders that provides for a contractual shareholder syndicate. It sets out the rules for the syndicated shares, management of the syndicate, syndicate meetings, voting rights within the syndicate, preferential subscription rights in the event of the transfer of syndicated shares, withdrawal from the agreement, and duration of the agreement. Apart from a limited number of decisions, the syndicate meeting may take decisions by a two-thirds majority vote, on the understanding that none of the shareholder groups can block a decision. The agreement was extended for a ten-year period, with effect from 1 December 2014.

7 Rules governing the appointment and replacement of board members and the amendment of the Articles of Association of KBC Group NV

Appointment and replacement of members of the Board:

Following the approval of or notification to the supervisory authority, proposals to appoint nominated directors or to re-appoint directors are submitted by the Board to the General Meeting for approval. Each proposal is accompanied by a documented recommendation from the Board, based on the advice of the Nomination Committee. Without prejudice to the applicable legal provisions, nominations are communicated as a separate agenda item for the General Meeting at least thirty days before it is held. When nominating an independent director, the Board will state whether the individual meets the independence criteria set out in Article 7:87 of the CAC. The General Meeting appoints directors by a simple majority of votes cast. From among its non-executive members, the Board elects a chairman and one or more deputy chairmen, if necessary. Outgoing directors are always eligible for re-appointment.

If, during the course of a financial year, a directorship falls vacant as a result of decease, resignation, dismissal or for any other reason, the remaining directors may provisionally arrange for a replacement and appoint a new director. In that case, the next General Meeting will proceed to a definitive appointment.

Amendment of the Articles of Association:
The General Meeting is entitled to amend the Articles of Association. Accordingly, the General Meeting may only validly deliberate and take decisions about such amendments if they have been accurately proposed in the convening notice and if the shareholders present or represented at the meeting represent at least half the capital. If the latter condition is not satisfied, a second convening notice is required and the new meeting can validly deliberate and take decisions, regardless of the share of capital represented by the shareholders present or represented at the meeting. An amendment is only adopted if it receives three-quarters of the votes cast (Article 7:153 of the CAC).
If an amendment to the Articles of Association pertains to the object of the company, the Board must justify the proposed amendment in a detailed report that is referred to in the agenda. An amendment will then only be adopted if it receives at least four-fifths of the votes cast (Article 7:154 of the CAC).

8 Powers of the Board with regard to the issue and repurchase of treasury shares

The General Meeting authorised the Board until 23 October 2023 to increase, in one or more steps, the share capital in cash or in kind, by issuing shares. The Board is also authorised until the same date to decide on one or more occasions to issue convertible bonds (whether subordinated or otherwise) or warrants that may or may not be linked to bonds (whether subordinated or otherwise) that could result in capital being increased. This authorisation related to a sum of 291 000 000 euros, where the Board is entitled – in the company's interest – to suspend or restrict the preferential subscription rights of existing shareholders, and to a sum of 409 000 000 euros, without the Board having the power to suspend or restrict preferential subscription rights.
On 10 November 2021, the Board decided to use its authorisation to increase capital by issuing shares with preferential subscription rights cancelled to employees at a price of 66.12 euros per share. On 17 December 2021, the issued share capital was increased by 663 509.34 euros (represented by 189 034 new shares). For the impact of cancelling preferential subscription rights, see 'Notes to the company annual accounts'.
As a result, the authorised capital amounted to 696 539 052.25 euros at year-end 2021, with the possibility to cancel the preferential subscription rights of existing shareholders being restricted to a maximum of 287 539 052.25 euros. Consequently, when account is taken of the accounting par value of the share on 31 December 2021, a maximum of 198 444 174 new shares can still be issued, with the existing shareholders' preferential subscription rights for 81 919 957 of these shares being cancelled (i.e. 47.60% and 19.65%, respectively, of the number of shares in circulation at that time).

Pursuant to Article 7:221 § 2 of the CAC, KBC Bank NV – in its capacity as professional stockbroker – sold 20 793 KBC Group NV shares in 2021, as a result of which KBC Group NV and its *direct* subsidiaries no longer held any KBC Group NV shares at year-end 2021.

9 Significant agreements to which KBC Group NV is a party and which take effect, alter or terminate upon a change of control of KBC Group NV following a public takeover bid

None.

10 Agreements between KBC and its directors or employees providing for compensation if the directors resign or are made redundant, or if employees are made redundant, without valid reason following a public takeover bid

None.

Shareholder structure on 31 December 2021

Notifications of shareholdings are provided under the Act of 2 May 2007, under the Act on public takeover bids or on a voluntary basis. A summary containing the most recent disclosures is provided under 'Our business model' in the 'Report of the Board of Directors' section. It should be noted that the figures provided below may differ from the current number of shares in possession, as a change in the number held does not always give rise to a new notification.

Shareholder structure based on notifications received under the Act of 2 May 2007 concerning the disclosure of significant participations in issuers whose shares are admitted to trading on a regulated market

Article 10bis of the Articles of Association of KBC Group NV stipulates the threshold at which individuals must disclose their shareholdings. KBC publishes these notifications on www.kbc.com.

Shareholder structure on 31-12-2021 (based on the most recent notifications received pursuant to the Act of 2 May 2007)	**Address**	**Number of KBC shares/voting rights (as a % of the current number of shares/voting rights)***	**Notification relating to**
Core shareholders			
KBC Ancora NV	Muntstraat 1, 3000 Leuven, Belgium	77 516 380 / 18.59%	1 December 2014
Cera CV	Muntstraat 1, 3000 Leuven, Belgium	11 127 166 / 2.67%	1 December 2014
MRBB CVBA	Diestsevest 32/5b, 3000 Leuven, Belgium	47 889 864 / 11.49%	1 December 2014
Other core shareholders	C/o Ph. Vlerick, Ronsevaalstraat 2, 8510 Bellegem, Belgium	32 020 498 / 7.68%	1 December 2014
Other shareholders			
The Capital Group Companies Inc. (CGC)	333 South Hope Street, 55th Fl, Los Angeles, CA 90071, United States	21 089 856 / 5.06%	11 November 2021
BlackRock Inc.	55 East 52nd Street, New York, NY 10055, United States	16 474 105 / 3.95% (20 778 528 / 4.98%)	31 October 2018
FMR LLC	1209 Orange Street, Wilmington, New Castle County, Delaware 19801, United States	12 531 817 / 3.01%	6 September 2018

* The figures between brackets include the 'voting rights that may be acquired if the instrument is exercised' as stated under 'B) Equivalent financial instruments' in the transparency notification. Any shareholders falling below the 3% notification threshold are no longer included in the table (unless they are a core shareholder).

Disclosures under Article 74 of the Belgian Act on public takeover bids

Within the framework of this law, KBC Group NV received a number of updated disclosures at the end of July 2021. The entities and individuals referred to below act in concert.

A Disclosures by (a) legal entities and (b) individuals holding 3% or more of securities carrying voting rights[1]

Shareholder	Shareholding (quantity)	%[2]	Shareholder	Shareholding (quantity)	%[2]
KBC Ancora NV	77 516 380	18.59%	Niramore International SA	435 000	0.10%
MRBB CVBA	47 887 696	11.49%	Cecan Invest NV	397 563	0.10%
CERA CV	11 127 166	2.67%	Robor NV	359 606	0.09%
Plastiche Finance NV	4 380 500	1.05%	Rodep Comm. VA	305 000	0.07%
SAK AGEV	4 112 731	0.99%	Beluval NV	267 698	0.06%
VIM CVBA	4 012 141	0.96%	Bareldam SA	260 544	0.06%
3D NV	2 461 893	0.59%	Algimo NV	210 000	0.05%
Almafin SA	1 623 127	0.39%	Gavel NV	200 000	0.05%
De Berk BV	1 138 208	0.27%	Ibervest	190 000	0.05%
SAK PULA	981 450	0.24%	Promark International NV	136 008	0.03%
Rainyve SA	950 000	0.23%	STAK Iberanfra	120 107	0.03%
Alia SA	938 705	0.23%	Agrobos NV	70 000	0.02%
Stichting Amici Almae Matris	912 731	0.22%	Wilig NV	42 650	0.01%
Alginvest NV	840 901	0.20%	Filax Stichting	38 529	0.01%
Ceco CVA	666 499	0.16%	Hendrik Van Houtte CVA	36 000	0.01%
Cecan NV	566 002	0.14%	Kristo Van Holsbeeck BVBA	17 500	0.00%
Van Holsbeeck NV	524 156	0.13%	IBP Ravago OFP	9 833	0.00%
Sereno SA	474 408	0.11%			

B Disclosures by individuals holding less than 3% of securities carrying voting rights (the identity of the individuals concerned does not have to be disclosed)

	Shareholding (quantity)	%[2]		Shareholding (quantity)	%[2]
–	884 000	0.21%	–	63 562	0.02%
–	285 000	0.07%	–	61 416	0.01%
–	285 000	0.07%	–	55 862	0.01%
–	250 000	0.06%	–	55 818	0.01%
–	167 498	0.04%	–	43 446	0.01%
–	125 200	0.03%	–	40 000	0.01%
–	102 944	0.02%	–	30 926	0.01%
–	89 562	0.02%	–	23 131	0.01%
–	81 212	0.02%	–	10 542	0.00%
–	75 000	0.02%	–	3 431	0.00%
–	71 168	0.02%	–	327	0.00%
–	70 000	0.02%			

1 No such disclosures were received.

2 The calculation is based on the total number of shares on 31 December 2021.

Remuneration report for financial year 2021

Procedures for developing the remuneration policy and for determining the remuneration granted to individual directors and members of the EC

The remuneration policy for the Board and EC is based on prevailing legislation, the Corporate Governance Code and market data. It is monitored and regularly checked by the Remuneration Committee – with the assistance of specialist members of staff – to see whether it complies with changes in the law, the Code, and prevailing market practices and trends. The Chairman of the Remuneration Committee informs the Board of the committee's activities and advises it of any changes to the remuneration policy and its practical implementation. The full minutes of the meetings of the Remuneration Committee are provided to the Board for information purposes. The Board may also act on its own initiative, or on a proposal from the EC, and instruct the Remuneration Committee to examine potential changes to the remuneration policy and to advise it accordingly. If required by law, the Board will submit any policy changes to the General Meeting for approval.
The RCC assists the Board in drawing up a sound remuneration policy and also checks each year whether that policy is consistent with healthy and effective risk management, and whether or not the incentives in the system promote risks.

On the basis of advice obtained from the Remuneration Committee, the Board decides on proposals to change the remuneration package for its members and, where necessary, submits such proposals for approval at the General Meeting.

On the basis of advice obtained from the Remuneration Committee and taking account of the established remuneration policy, the Board determines the remuneration to be granted to members of the EC, and assesses this amount at regular intervals. The amount in question is split into a fixed component and a profit-related/performance-related component.

Non-compliance with the Corporate Governance Code

- The Corporate Governance Code stipulates that members of the Board should receive a portion of their remuneration in the form of company shares as a way of encouraging them to act as long-term shareholders or, as phrased by the Corporate Governance Commission in its explanatory remuneration memorandum, to ensure that the directors have "skin in the game". The Remuneration Committee conducted an in-depth debate on the application of this rule at KBC. While agreeing with the thinking behind it, the committee did not consider it expedient to follow this rule given KBC's specific shareholder structure, where – with the exception of the independent directors – all non-executive directors at KBC are representatives of the core shareholders. These core shareholders, by their very nature, are long-term shareholders who together hold more than 40% of KBC's shares. So it is fairly safe to say there is "skin in the game". Adding a limited number of shares by means of their remuneration would, therefore, not have any impact whatsoever. The Remuneration Committee duly concluded that it was not necessary to implement this rule to achieve the intended objective. The Board followed the committee's advice in this regard.
- The Corporate Governance Code also stipulates that the Board should determine the minimum number of shares that members of the EC may hold in a personal capacity. The reasoning behind this position is to bring the interests of executive management into line with those of the shareholders and because it would contribute to sustainable value creation. In this regard, too, the Corporate Governance Commission reiterates the importance of having "skin in the game". Moreover, a positive correlation is believed to exist between shareholdings by senior management and future operating profit. The Remuneration Committee understands this line of reasoning, but nevertheless advised the Board not to implement this particular provision of the Code. The Board followed the advice of the committee. This decision is based on the fact that the idea behind this provision and the positive impact of shareholdings by senior management are already deeply embedded in the current structure of the remuneration package currently in place for members of the EC. Not only is payment of 60% of their variable remuneration deferred over a period of five years, half of the variable remuneration is also paid in the form of phantom stocks. In other words, half of the variable remuneration is linked to the development of the value of the KBC share over a period of seven years following the year for which the variable remuneration was awarded. So we can safely conclude there is already quite some "skin in the game". Continuing good results and a positive share price performance are

therefore as important to members of the EC as they are to the shareholders. The additional requirement of having members of the EC hold a package of KBC shares would make an overly large portion of their assets dependent on the KBC share price.

General framework

The policy for remunerating members of the Board and the EC is published in the Remuneration Policy for the Board of Directors and Members of the Executive Committee, which the General Meeting approved by nearly 90% of the votes on 6 May 2021. It provides details of the remuneration package for the members of the Board and members of the EC (including the principles for setting variable remuneration for members of the EC). The main principles are set out below (a more detailed description is included in the Remuneration Policy for the Board of Directors and Members of the Executive Committee):

- Variable remuneration must always comprise a profit-related component (for the EC as a collective body) and a performance-related component (for individual achievements).
- 60% of variable remuneration awarded to members of the EC may not be paid straightaway but its payment is to be spread over a period of five years.
- Half of the total amount of variable remuneration is to be awarded in the form of equity-related instruments (phantom stocks or other instrument specified by a local regulator). This ensures that the size of the variable emolument partly depends on the longer-term effects of the policy pursued.
- No advance payments may be made in relation to the variable component and clawback/holdback provisions are in place.
- The variable remuneration may not exceed half of the fixed remuneration components.
- The criteria for assessing the performance of the EC member responsible for the risk function may not refer in any way to the results of the KBC group.
- Some of the criteria used for assessing the performance of members of the EC must always relate to risk. The sustainability policy is another element that is taken into account when setting variable remuneration.

Clawback provisions

- As already explained above, payment of the total annual variable remuneration is not only spread over time, half of it is also awarded in the form of phantom stocks that are subject to a retention period of one year (i.e. they are only converted into cash one year after being awarded). The variable remuneration component, including the deferred part, is only acquired when this can be reconciled with the financial situation of the entire institution and justified by the performances of the KBC group and the EC.
- Action can be taken regarding payment of deferred amounts that have still to be acquired (malus arrangement) in certain situations described in the remuneration policy. In exceptional circumstances, some or all of the variable remuneration already awarded can also be clawed back. In this regard, the Board takes a decision each year on the advice of the Remuneration Committee.

Remuneration awarded to non-executive directors

- The remuneration paid to non-executive directors consists solely of an annual fixed component of 20 000 euros (non-performance-related and non-results-based) plus the fee received for each meeting attended (5 000 euros). If meetings coincide with Board meetings of KBC Bank and/or KBC Insurance, the attendance fee will be paid just once to directors sitting on more than one of these Boards. Given his duties, the Deputy Chairman receives a higher fixed component (an additional 30 000 euros).
- In light of the considerable time he devotes to the ongoing supervision of KBC group affairs, the Chairman of the Board receives a different remuneration package that comprises solely a fixed component, which is set separately by the Remuneration Committee and approved by the Board. It amounts to 200 000 euros for the chairman of KBC Group NV and to 50 000 euros each for the chairmen of KBC Bank NV and KBC Insurance NV.
- The directors sitting on the AC and/or RCC receive an additional fixed emolument of 30 000 euros for the work they perform in that regard. The rule likewise applies that, if meetings coincide with AC or RCC meetings of KBC Bank and/or KBC Insurance, the emolument will be paid just once to directors sitting on different committees. The chairmen of the AC and RCC receive a higher fixed emolument (an additional 30 000 euros and 100 000 euros, respectively). Directors sitting on either the Nomination Committee or the Remuneration Committee do not receive additional remuneration for the work they perform in that regard.
- In light of the considerable time required for directors residing outside Belgium to attend Board meetings, additional remuneration (attendance fees) of 2 500 euros is paid to them for each meeting attended. In keeping with

measures relating to the coronavirus pandemic, all meetings but one were held virtually in 2021, and the foreign-based directors again waived the additional remuneration, like they did the year before.

- KBC Group NV does not grant loans to directors. Loans or guarantees may, however, be granted by KBC Group NV banking subsidiaries pursuant to Article 72 of the Banking Act of 25 April 2014, meaning that loans may be granted at terms applying to clients and approved by the Board.

Individual remuneration awarded to non-executive directors of KBC Group NV

- The non-executive directors of KBC Group NV – and, where relevant, of other companies of the KBC group – received the amounts set out in the following table.
- The members of the EC who also sit on the Board as executive directors did not receive either a fixed remuneration or any attendance fees.

Remuneration per individual director (on a consolidated basis, in EUR)	**Remuneration** (for FY 2021)	**Remuneration for AC and RCC members** (for FY 2021)	**Attendance fees** (for FY 2021)	**Total**
Koenraad Debackere	300 000	–	–	300 000
Alain Bostoen	30 000	–	60 000	90 000
Katelijn Callewaert	65 000	–	66 250	131 250
Eric Clinck	30 000	–	60 000	90 000
Sonja De Becker	40 000	–	60 000	100 000
Franky Depickere	65 000	130 000	66 250	261 250
Frank Donck	30 000	30 000	60 000	120 000
Júlia Király	27 500	27 500	52 500	107 500
Liesbet Okkerse	30 000	–	60 000	90 000
Vladimira Papirnik	30 000	30 000	62 500	122 500
Theodoros Roussis	30 000	–	60 000	90 000
Philippe Vlerick	60 000	–	60 000	120 000
Marc Wittemans	40 000	60 000	60 000	160 000

Remuneration paid to the President and the other members of the EC

- The remuneration of individual EC members is made up of the following components:
  - a fixed monthly emolument;
  - a defined pension contribution in a defined contribution plan;
  - an annual, result-related variable emolument (the amount of which depends on the performance of the EC as a whole and on the performance of the institution);
  - an annual, individual variable emolument based on the performance by each member of the EC and on the example they set in respecting the group's values;
  - any emolument for offices performed on behalf of KBC Group NV (exceptional).

- A quantitative risk-adjustment mechanism (called a 'risk gateway') is used to set the variable remuneration. It comprises a number of capital and liquidity parameters that have to be met before the variable remuneration component may be awarded. The parameters are set each year by the Board. If one or more of these parameters are not met, not only will this remuneration component not be awarded, but payment of deferred amounts relating to previous years will be suspended in that year, too.
- For members of the EC, the individual variable component is set on the basis of an assessment of the performance of the member in question. The Remuneration Committee broadly assesses each member of the EC against the elements of our corporate culture and the core value of being *Respectful*, as explained below. On the basis of this assessment, the Remuneration Committee proposes a percentage between 0 and 100% to the Board. The Board then decides on this final score, which ultimately determines the size of the individual variable emolument.

Criteria for awarding members of the EC the individual variable remuneration component	Explanation*
Performance	We strive for excellent results and do what we promise to do.
Empowerment	We offer every employee the chance to develop their creativity and talent.
Accountability	We meet our personal responsibility towards our clients, colleagues, shareholders and society.
Responsiveness	We anticipate and respond proactively to the questions, suggestions, contributions and efforts of our clients, colleagues and management.
Local Embeddedness and group-wide cooperation	We view the diversity of our teams and of our clients in the different core markets as a strength and we stay close to our clients.
Respect	We treat people as our equals, we are transparent, we trust them and appreciate them for what they do and who they are.

* See 'What makes us who we are?'

- On the advice of the Remuneration Committee, the Board sets the collective variable component on the basis of an assessment of a number of pre-agreed criteria relating to the performances of the EC and the company. These criteria are centred on four broad areas, viz. implementing strategy, realising financial plans, strengthening the risk control environment, and the satisfaction of all stakeholders. The performance of the EC in each of these four areas determines the size of this component (with each area accounting for 25% of the final outcome).
- This assessment of these criteria is reflected in a percentage between 0% and 100% that is applied to the maximum result-related variable emolument. The size of the variable emolument, therefore, depends to a small extent on achieving financial results. Risk management, stakeholder management and sustainability are aspects that are at least equally important in this regard.

Criteria for awarding members of the EC the result-related variable remuneration component	Explanation	Weighting
Implementing strategy	Besides achieving any specific targets, the main focus is on what has been achieved in terms of client centricity, sustainability, encouraging responsible conduct, and innovation.	25%
Realising financial plans	Comprises a number of financial parameters (return, profit, capital, and cost of credit) and assessment of the progress made in further implementing the bank-insurance model and income diversification.	25%
Strengthening the risk control environment	Assessed based on liquidity, capital and funding criteria, implementing recommendations made by Audit and the regulator, and the degree to which the internal control environment, including compliance, has improved.	25%
Stakeholder satisfaction	Assessed based on results from client and employee satisfaction surveys and on progress made in terms of sustainability. A sustainability dashboard that contains numerous parameters is used for measuring sustainability in a range of areas, including our banking and insurance activities (e.g., the share of renewable energy loans in the loan portfolio and reducing financing of the coal sector), our role in society (e.g., our own ecological footprint), sustainable growth (e.g., managing risk and creating long-term value), reputation and HR policy.	25%

- When setting the variable remuneration of the CRO, financial planning achievements are not taken into account, but the relative weighting of risk-related criteria is doubled.
- The variable remuneration of the members of the EC is not only based on the results of a single financial year, but also considers the long-term impact. This is embedded in the structure of the payment of the variable remuneration:
  - half of the remuneration is linked to the development of the price of the KBC share over a period of seven years following the performance year (by distributing phantom stocks);
  - 60% of the variable remuneration is not paid immediately, but is spread over a period of six years following the performance year. Events that have a material negative impact on KBC's results or reputation may give rise to non-payment or reduced payment of the variable remuneration.
- Members also benefit from a retirement and survivor's pension scheme, which comprises a supplementary retirement pension or – if the insured dies while still in employment and leaves a spouse – a survivor's pension (and, where applicable, an orphan's pension), and also provides cover in the event of disability.

Provisions concerning severance payments for executive directors and members of the EC of KBC Group NV

- In compliance with legal and regulatory limits, for members of the EC who have worked six years or less, such payments have been set at 12 months' remuneration, for those who have worked between six and nine years, they are equal to 15 months' remuneration, and for those who have worked more than nine years, they are equal to 18 months' remuneration. In this context, remuneration is taken to be the fixed remuneration component for the current year and the variable component for the last full year preceding termination of office.

Relative importance of the different components of remuneration

The variable component for 2021 is split into a collective result-related variable emolument and an individual variable emolument.

- For 2021, the result-related variable component for the President of the EC is set between 0 and 459 100 euros and the individual variable component between 0 and 178 600 euros. The limits for these components are 281 500 euros and 111 000 euros, respectively, for the other members of the EC.
- The final amount is set by the Board on the advice of the Remuneration Committee, based on an assessment of the individual and collective achievements during the previous financial year.

Characteristics of performance-related bonuses in the form of shares, options, or any other rights to acquire shares

- The total amount of annual variable remuneration (i.e. both the result-related and individual components) for members of the EC is paid over a period of six years, with 40% being paid in the first year and the rest spread equally over the next five years.
- Payment of these deferred amounts is subject to the clawback provisions outlined above.
- Of the total annual variable remuneration, 50% is awarded in the form of equity-related instruments called phantom stocks, the value of which is linked to the price of the KBC Group NV share (though not in the Czech Republic, where a specific non-cash instrument is used whose value changes in lockstep with ČSOB's results and the underlying factors determining the value of the phantom stocks). These stocks must be retained for one year after being allocated. The period over which they are allocated is also six years. The average price of the KBC share during the first three months of the year is used to calculate the number of phantom stocks to which each member of the EC is entitled. These stocks are then converted into cash a year later on the basis of the average price of the KBC share during the first three months of that year. They are subject to the allocation and acquisition conditions described under 'Clawback provisions'.

Pension arrangements, disability cover and death cover

- The members of the EC have a separate defined contribution plan that is funded entirely by KBC. When drawing up this plan, account was taken of the fact that the career of a member (and especially the President) of the EC is shorter than that of an average employee. In the pension formula, therefore, the first ten years that an individual sits on the EC are the ones in which a significant part of the supplementary pension is built up. The contribution that KBC makes to the pension plan amounts to 32% of the fixed emolument (40% for the CEO) during those first ten years, 7% for the next five years (3% for the CEO) and 3% starting from the sixteenth year of plan membership. A minimum return of 0% (capped at 8.25%) is guaranteed on the contributions. During the first ten years, the size of the payment made into the pension fund is rather large, but declines to a fraction of what it had been previously starting from the eleventh year and even more markedly from the sixteenth year.
- The plan applies to all members of the EC who are resident in Belgium. For the members who had joined the EC prior to 1 January 2016, the vested reserves built up (in the previous pension plan) by 31 December 2015 were transferred to the new plan.
- The pension plan includes a death benefit, which equals four times the amount of the fixed emolument (or, if higher, the reserves that have been built at the time of death). Where applicable, there is also an orphan's pension, comprising a one-off benefit of 205 749 euros and an annuity of 6 673 euros per year.
- The invalidity benefit provided under the plan amounts to 792 384 euros per year.

Fixed remuneration for 2021

- Figures for the fixed remuneration component are given in the table.

Variable remuneration for 2021

- The Board decided that the members of the EC should be awarded a collective result-related variable remuneration for 2021 that equalled 96.4% (96.12% for the CRO). The relevant figures are given in the table. The Remuneration Committee established that most of the KPIs set had been met or even exceeded. Despite the unprecedented situation, the EC succeeded in ensuring continuity of the business and also turned in a highly respectable performance. At the same time, several acquisitions were successfully completed or initiated and a breakthrough was made in Ireland. Important steps were also taken in the area of sustainability. In terms of our own environmental footprint, KBC succeeded in further reducing its own emissions in 2021, which means we are now a climate-neutral company. Moreover, our direct exposure to coal in our lending activities was fully phased out at an accelerated pace. In addition, KBC ceased the direct funding and insurance of the exploration and extraction of oil and gas fields. This also entailed a lot of hard work in terms of reporting, which earned us an award for 'Best Disclosure' at the 'International Awards for Climate-related Disclosures by Financial Institutions'. For our clients affected by extreme weather conditions as a result of climate change (flooding in Belgium and tornado in the Czech Republic), we did our utmost to ensure that the insurance claims brought by those affected were settled as quickly and efficiently as possible. We also continued our efforts towards raising awareness on climate-related issues among our employees, for instance by setting up a dedicated information programme for everyone in senior management centred on the impact of climate change. All the KPIs relating to risk and control were achieved, and the underlying data and accuracy of RWA projections were significantly improved. However, since clearing the remaining internal backlog in the processing of anti-money laundering files took longer than expected, we decided not to award risk and control a 100% score after all. Thanks to the commitment and efforts of all our employees, KBC's reputation remained at a very high level among clients of virtually every entity, despite most contact taking place through our digital channels since the outbreak of the coronavirus pandemic. Considerable effort was also dedicated to the implementation of our digital strategy (further development of digital assistant Kate) and an increasing number of processes are now fully automated (e.g., straight-through processing). We also achieved key milestones in the data quality improvement project.

- A result-related variable emolument of 442 572 euros and an individual variable emolument of 173 242 euros was awarded to Johan Thijs. A result-related variable emolument of 271 366 euros was awarded to each of the other members of the EC (270 578 euros for the CRO). The individual variable emolument for each member of the EC is given in the table. Half of the variable remuneration component is paid in cash and the other half is awarded in the form of phantom stocks. As regards the cash component, 40% will be paid in 2022 and the remaining 60% spread equally over the next five years (2023 to 2027, inclusive).
- *Phantom stocks for 2021:* The number of phantom stocks is calculated on the basis of the average price of the KBC share during the first quarter of 2022. Like the other variable components, 40% will be awarded in 2022 and the remaining 60% spread equally over the next five years. Given that phantom stocks are to be retained for one year, they are paid out in cash one year after being awarded, which means that payment is spread over 2023 to 2028, inclusive. The amounts for which phantom stocks were awarded in this way for 2021 are given in the table below:

Amounts awarded in the form of phantom stocks (in EUR)	**Total**	**Vesting in 2022**	**Vesting in 2023**	**Vesting in 2024**	**Vesting in 2025**	**Vesting in 2026**	**Vesting in 2027**
Johan Thijs	307 907	123 162	36 949	36 949	36 949	36 949	36 949
Daniel Falque	60 027	24 012	7 203	7 203	7 203	7 203	7 203
John Hollows*	181 748	72 698	21 810	21 810	21 810	21 810	21 810
Erik Luts	185 633	74 253	22 276	22 276	22 276	22 276	22 276
Luc Popelier	181 193	72 478	21 743	21 743	21 743	21 743	21 743
Hendrik Scheerlinck	60 398	24 158	7 248	7 248	7 248	7 248	7 248
Christine Van Rijsseghem	182 465	72 985	21 896	21 896	21 896	21 896	21 896
David Moucheron	120 053	48 022	14 407	14 407	14 407	14 407	14 407
Peter Andronov	122 645	49 060	14 717	14 717	14 717	14 717	14 717

* Specific instruments in the Czech Republic, as set out above.

Variable remuneration relating to previous years

- A portion of the (deferred) variable remuneration component awarded for 2016, 2017, 2018, 2019 and 2020 will be paid in 2022. The amounts paid are given in the table.
- A portion of the phantom stocks awarded for 2016, 2017, 2018 and 2019 was converted into cash at 60.02 euros per share in April 2021. The amounts paid are given in the table.

Severance payments in 2021

- In early May, the collaboration with Daniel Falque as a member of the EC of KBC Group NV and as Executive Director of KBC Bank and KBC Insurance was terminated in order to enable a number of rearrangements on the EC and in the organisation. In line with the Remuneration Policy, the Board decided to award him a severance payment of 18 months' salary as Daniel Falque had worked for the KBC group for more than nine years. This translates into an amount of 1 702 617 euros.

Other benefits

- Each member of the EC has a company car, the personal use of which is charged in accordance with the prevailing regulations. Other benefits which members of the EC receive include hospitalisation insurance, assistance insurance and accident insurance. The value of these benefits is given in the table. These figures do not include the flat-rate expense allowance of 335 euros which each member of the EC receives each month.

Overview

- The tables below show the remuneration paid to a) the former members of the EC and b) the current seven members of the EC.
- Employment status of the members of the EC: self-employed.

a) Remuneration paid to former members of the EC of KBC Group NV, 2021	Luc Gijsens		Daniel Falque		Hendrik Scheerlinck	
	Awarded	Paid	Awarded	Paid	Awarded	Paid
Base remuneration (fixed)	–	–	304 438	304 438	304 438	304 438
Individual remuneration for financial year (variable)						
- cash	–	–	14 800	5 920	15 170	6 068
- phantom stocks	–	–	14 800	–	15 170	–
Result-related remuneration for financial year (variable)						
- cash	–	–	45 228	18 091	45 228	18 091
- phantom stocks	–	–	45 228	–	45 228	–
Remuneration for previous financial years						
- individual variable remuneration	–	5 015	–	20 880	–	16 736
- result-related variable remuneration	–	16 487	–	69 374	–	52 887
- phantom stocks	–	20 227	–	96 750	–	82 000
Sub-total (variable remuneration)	–	41 728	120 055	211 015	120 795	175 782
Defined contribution pension plan (contribution) (excl. taxes)	–	–	92 992	92 992	92 992	92 992
Other benefits	–	–	5 390	5 390	4 475	4 475
Total	–	41 728	522 875	613 835	522 700	577 687
Ratio of fixed to variable remuneration (%)	–	–	77/23	66/34	77/23	70/30

b) Remuneration paid to the current members of the EC of KBC Group NV (2021)	**Johan Thijs** (CEO)		**Peter Andronov** (8 months)		**John Hollows**		**Erik Luts**		**David Moucheron** (8 months)		**Luc Popelier**		**Christine Van Rijsseghem**	
	Awarded	Paid	Awarded	Paid	Awarded	Paid	Awarded	Paid	Awarded	Paid	Awarded	Paid	Awarded	Paid
Base remuneration (fixed)	1 277 400	1 277 400	580 988	580 988	864 000	864 000	871 800	871 800	580 988	580 988	871 800	871 800	871 800	871 800
Individual remuneration for financial year (variable)														
- cash	86 621	34 648	32 190	12 876	46 065	18 426	49 950	19 980	29 600	11 840	45 510	18 204	47 175	18 870
- phantom stocks	86 621		32 190		46 065		49 950		29 600		45 510		47 175	
Result-related remuneration for financial year (variable)														
- cash	221 286	88 514	90 455	36 182	135 683	54 273	135 683	54 273	90 455	36 182	135 683	54 273	135 289	54 116
- phantom stocks	221 286		90 455		135 683		135 683		90 455		135 683		135 289	
Remuneration for previous financial years														
- individual variable remuneration		42 960		–		22 782		17 835		–		21 626		23 030
- result-related variable remuneration		119 968		–		69 374		52 887		–		69 374		69 956
- phantom stocks		199 146		–		100 637		100 233		–		117 939		121 420
Sub-total (variable remuneration)	615 814	485 236	245 291	49 058	363 496	265 492	371 266	245 208	240 111	48 022	362 386	281 416	364 928	287 392
Defined contribution pension plan (contribution) (excl. taxes)	510 960	510 960	171 725	171 725	279 699	279 699	278 976	278 976	185 984	185 984	278 976	278 976	278 976	278 976
Other benefits	16 973	16 973	6 054	6 054	11 065	11 065	12 245	12 245	6 408	6 408	13 860	13 860	13 507	13 507
Total	2 421 147	2 290 569	1 004 058	807 825	1 518 260	1 420 256	1 534 287	1 408 229	1 013 491	821 402	1 527 022	1 446 052	1 529 211	1 451 675
Ratio of fixed to variable remuneration (%)	75/25	79/21	76/24	94/6	76/24	81/19	76/24	83/17	76/24	94/6	76/24	81/19	76/24	80/20

Top management remuneration in perspective

- To put developments in the remuneration of top management in perspective, we have provided an overview covering the past five years of the total remuneration earned by the current members of the EC, the average salary of KBC Group NV employees (in FTE), the lowest salary of a KBC Group NV employee (in FTE) and certain indicators of KBC's performance.
- The remuneration awarded to non-executive directors has not been included in the overview due to the fact that it has remained unchanged during the past five years.

Top management remuneration in perspective	**2017**	**2018**	***(year-on-year change)***	**2019**	***(year-on-year change)***	**2020**	***(year-on-year change)***	**2021**	***(year-on-year change)***
Remuneration paid to EC members (in EUR)									
Johan Thijs	2 177 688	2 298 415	*+6%*	2 361 493	*+3%*	2 245 548	*-5%*	2 421 147	*+7,8%*
Peter Andronov	–	–	–	–	–	–	–	1 506 087 (12/12)	–
John Hollows	1 397 301	1 453 772	*+4%*	1 492 213	*+3%*	1 424 346	*-5%*	1 518 260	*+6.6%*
Erik Luts	–	1 453 646	–	1 494 112	*+3%*	1 426 805	*-5%*	1 534 287	*+7.5%*
David Moucheron	–	–	–	–	–	–	–	1 520 236 (12/12)	–
Luc Popelier	1 401 481	1 456 816	*+4%*	1 488 162	*+2%*	1 420 447	*-5%*	1 527 022	*+7.5%*
Christine Van Rijsseghem	1 401 729	1 465 071	*+5%*	1 500 277	*+2%*	1 424 458	*-5%*	1 529 211	*+7.4%*
Average (excluding CEO*)	1 399 766	1 455 630	*+4%*	1 491 388	*+2%*	1 422 900	*-5%*	1 522 517	*+7.0%*
Average salary of Belgian employees of KBC Group NV (in EUR)									
Average salary	88 579	90 416	*+2%*	90 780	*+0%*	92 124	*+1%*	94 312	*+2.4%*
Lowest salary	39 564	42 587	*+8%*	43 259	*+2%*	46 448	*+7%*	47 767	*+2.8%*
Ratio of highest to lowest salary	1/55	1/54		1/55		1/48		1/51	
Performance indicators									
Group's net result (in millions of EUR)	2 575	2 570	*-0%*	2 489	*-3%*	1 440	*-42%*	2 614	*+82%*
Group's total income (in millions of EUR)	7 700	7 512	*-2%*	7 629	*+2%*	7 195	*-6%*	7 558	*+5%*
Own greenhouse gas emissions (in tonnes of CO_2 per FTE)	2.48	2.27	*-8%*	1.97	*-13%*	1.54	*-22%*	1.02	*-34%*
Volume of SRI funds (in billions of EUR)	7.1	9.0	*+26%*	12.0	*+34%*	16.8	*+40%*	31.7	*+89%*
Common equity ratio (fully loaded)	16.3%	16.0%	*-2%*	17.1%	*+7%*	17.6%	*+3%*	15.5%	*-12%*

* This calculation is based on the composition of the EC at that time.

Remuneration from 2022

- The result of the vote on the remuneration policy and remuneration report at the General Meeting of 6 May 2021 shows that the vast majority of shareholders endorse the policy and the report. On the advice of the Remuneration Committee, the Board nevertheless decided to make a few adjustments to the remuneration of the CEO and of the EC members with effect from 1 January 2022, partly in view of the company's positive performance over the past few years and a number of external factors (inflation, benchmark) as well as to ensure continuity.
- The remuneration paid to the members of the EC (the fixed remuneration and the maximum variable remuneration) will be raised by 50 000 euros in total. This is roughly in line with an adjustment to the development of the health index for the year 2021. Given the local context, John Hollows did not implement this adjustment. The Board also decided to introduce, as of 2023, an automatic link to the development of the health index figure, which also exists for KBC staff members in Belgium.
- In view of his excellent performance and to ensure continuity, the CEO's remuneration will be raised to a more correct position in the benchmark (departing from below the median and trending towards the top 25%) over a period of three years. This will be achieved by raising his remuneration (the fixed component and the maximum variable component) by 350 000 euros in total each year in 2022, 2023 and 2024. In order to mitigate the impact of the raise on the additional legal retirement benefits, the contribution rate for the CEO will be brought into line with that of the EC members as from 2023. Specifically, this means a reduction in the contribution rate in the first ten years from 40% to 32%. His remuneration will also be linked to the index development from 2023, as is also the case for the EC members.
- The remuneration policy for the members of the Board and of the EC was amended in line with these changes. The amended policy will be submitted for approval to the General Meeting of 5 May 2022.

Non-financial information statement

In keeping with our commitment to integrated reporting, we have incorporated our consolidated non-financial information (as required by Articles 3:6 § 4 and 3:32 § 2 of the Companies and Associations Code) – and the parts of the EU Taxonomy that are currently obligatory – in various sections of this report. Information on our business model is provided in the 'Our business model' section. The table below indicates where the other non-financial information required by law can be found in this report.

	Staff	Environment (including climate)	Human Rights	Other social matters	Combating corruption and bribery	Information on the EU Taxonomy
Reference in this annual report	• See 'Our employees, capital, network and relationships' in the 'Our business model' section	• See 'Our role in society' and 'Focus on climate' in the 'Our strategy' section • See 'Climate-related and other ESG risks' in the 'How do we manage our risks?' section	• See 'Focus on human rights' in the 'Our strategy' section	• See 'The client is at the centre of our business culture' and 'Our role in society' in the 'Our strategy' section	• See 'Combating corruption and bribery' and 'Corporate culture and integrity policy' in the 'Corporate governance statement' section	• See 'Focus on climate' in the 'Our strategy' section

When drawing up our annual report, we take as much account as possible of the guidelines issued by the International Integrated Reporting Council and base our consolidated non-financial statement on the Global Reporting Initiative (GRI) Standards. The GRI is a sustainability reporting framework, providing universal guidelines for sustainability reporting and disclosing non-financial information. It sets out the quality principles and indicators for measuring and reporting on economic, environmental and social performance. Full implementation of GRI Standards (Core option) and the GRI Content Index are discussed in our Sustainability Report, which is published at www.kbc.com.

The sustainability-related information has not been audited externally, except for the environmental data and calculations of greenhouse gas emissions for determining our environmental footprint (see the relevant tables in 'Focus on climate'), which have been verified by Vinçotte in accordance with ISO 14064-3.

Consolidated financial statements

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)
  - FVPL – overlay = measured at fair value through profit or loss – overlay approach
- POCI = purchased or originated credit impaired assets

Consolidated income statement

(in millions of EUR)	Note	2021	2020
Net interest income	3.1	4 451	4 467
Interest income	*3.1*	*6 320*	*6 264*
Interest expense	*3.1*	*-1 869*	*-1 797*
Non-life insurance (before reinsurance)	3.7	782	865
Earned premiums	*3.7*	*1 885*	*1 777*
Technical charges	*3.7*	*-1 103*	*-912*
Life insurance (before reinsurance)	3.7	45	10
Earned premiums	*3.7*	*1 196*	*1 223*
Technical charges	*3.7*	*-1 150*	*-1 213*
Ceded reinsurance result	3.7	25	-20
Dividend income	3.2	45	53
Net result from financial instruments at fair value through profit or loss	3.3	145	33
of which result on equity instruments (overlay approach)	*3.3*	*104*	*-14*
Net realised result from debt instruments at fair value through OCI	3.4	6	2
Net fee and commission income	3.5	1 836	1 609
Fee and commission income	*3.5*	*2 692*	*2 365*
Fee and commission expense	*3.5*	*-856*	*-755*
Other net income	3.6	223	176
TOTAL INCOME		**7 558**	**7 195**
Operating expenses	3.8	-4 396	-4 156
Staff expenses	*3.8*	*-2 457*	*-2 329*
General administrative expenses	*3.8*	*-1 583*	*-1 518*
Depreciation and amortisation of fixed assets	*3.8*	*-356*	*-309*
Impairment	3.10	261	-1 182
on financial assets at amortised cost and at fair value through OCI	*3.10*	*334*	*-1 074*
on goodwill	*3.10*	*-7*	*0*
other	*3.10*	*-65*	*-108*
Share in results of associated companies and joint ventures	3.11	-5	-11
RESULT BEFORE TAX		**3 418**	**1 847**
Income tax expense	3.12	-804	-407
Net post-tax result from discontinued operations	–	0	0
RESULT AFTER TAX	**–**	**2 614**	**1 440**
attributable to minority interests	–	0	0
of which relating to discontinued operations	–	*0*	*0*
attributable to equity holders of the parent	**–**	**2 614**	**1 440**
of which relating to discontinued operations	–	*0*	*0*
Earnings per share (in EUR)			
Ordinary	3.13	6.15	3.34
Diluted	3.13	6.15	3.34

- 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.
- Overview of the impact of the overlay approach on the consolidated income statement: this approach has been applied to the equity instruments held by the group's insurance companies. These equity instruments, which have mainly been classified as 'Available for sale' under IAS 39, would be measured at FVPL under IFRS 9. For as long as IFRS 17 is not effective (until 31 December 2022), the overlay approach allows for increased volatility reported in the income statement as a result of applying IFRS 9 to be removed from the income statement to OCI. This increased volatility, which was reclassified out of 'Net result from financial instruments at FVPL' to 'Revaluation reserve (FVPL equity instruments) – overlay approach', relates to 172 million euros in unrealised changes in fair value in 2021 (175 million euros before tax). That is the difference between (i) the result under IFRS 9 (without applying the overlay approach), i.e. 275 million euros, of which 279 million euros in realised and unrealised changes in fair value recognised in 'Net result from financial instruments at FVPL' and -4 million euros in taxes, and (ii) the result under IAS 39, i.e. 104 million euros, comprising a net realised result of 123 million euros and an impairment of -20 million euros. More details are provided in Note 1.2.

Equity instruments held by the insurer in 2021: Illustration of the overlay approach (in millions of EUR)	Under IAS 39	Under IFRS 9 without overlay (FVPL option)	Impact of overlay	Under IFRS 9 with overlay
Realised results through profit or loss	123	123	–	123
Unrealised results through profit or loss	–	156	156	–
Impairment through profit or loss	-20	–	20	-20
Realised and unrealised results through OCI	175	–	-175	175
Income tax expense (through profit or loss or OCI)	-4	-4	–	-4
Total through profit or loss or OCI	275	275	0	275

Consolidated statement of comprehensive income

(in millions of EUR)	2021	2020
RESULT AFTER TAX	**2 614**	**1 440**
attributable to minority interests	0	0
attributable to equity holders of the parent	2 614	1 440
OCI THAT MAY BE RECYCLED TO PROFIT OR LOSS	**56**	**-66**
Net change in revaluation reserve (FVOCI debt instruments)	-487	138
Fair value adjustments before tax	-619	175
Deferred tax on fair value changes	141	-45
Transfer from reserve to net result	-9	8
Impairment	*-4*	*5*
Net gains/losses on disposal	*-7*	*5*
Deferred taxes on income	*2*	*-2*
Net change in revaluation reserve (FVPL equity instruments) – overlay approach	172	-25
Fair value adjustments before tax	279	-42
Deferred tax on fair value changes	-4	2
Transfer from reserve to net result	-104	14
Impairment	*20*	*131*
Net gains/losses on disposal	*-123*	*-116*
Deferred taxes on income	*0*	*0*
Net change in hedging reserve (cashflow hedges)	186	37
Fair value adjustments before tax	197	-21
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	272	-291
Gross amount	272	-291
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	0
OCI THAT WILL NOT BE RECYCLED TO PROFIT OR LOSS	**345**	**-35**
Net change in revaluation reserve (FVOCI equity instruments)	56	7
Fair value adjustments before tax	57	8
Deferred tax on fair value changes	-1	-1
Net change in defined benefit plans	291	-46
Remeasurements	387	-57
Deferred tax on remeasurements	-96	11
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	-2
Remeasurements	0	-2
Deferred tax on remeasurements	0	0
TOTAL COMPREHENSIVE INCOME	**3 015**	**1 339**
attributable to minority interests	0	0
attributable to equity holders of the parent	3 015	1 339

- Revaluation reserves in 2021: the net change in the 'revaluation reserve (FVPL equity instruments) – overlay approach' came to +172 million euros and was largely attributable to positive changes in fair value, partly offset by transfers to the result (gains on sales offset in part by impairment charges). The net change in the 'revaluation reserve (FVOCI debt instruments)' came to -487 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 (+291 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 the 'revaluation reserve (FVOCI debt instruments)' came to 56 million euros, which was largely attributable to positive changes in fair value related to an amendment to the Articles of Association of an unlisted equity participation, as a result of which KBC is entitled to a higher amount of compensation in the event of an exit. The net change in translation differences (+272 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 net change in the 'revaluation reserve (FVPL equity instruments) – overlay approach' came to -25 million euros and was largely attributable to negative changes in fair value, partly offset by transfers to the net result (impairment charges partly offset by sales). The net change in the 'revaluation reserve (FVOCI debt instruments)' rose by 138 million euros, boosted by a general decrease in interest rates. The increase in the hedging reserve (cashflow hedge) of 37 million euros was accounted for by unwinding operations (unwinding the discount), partly offset by lower interest rates. The net change in defined benefit plans (-46 million euros) related mainly to the historically low discount rate for retirement benefit obligations, which failed to be adequately offset by the lower return on plan assets. This was largely compensated for by the impact of reinsurance established as of 2020 for the mortality risk in the KBC pension fund. The net change in translation differences (-291 million euros) was caused primarily by the weakening of the Czech koruna (CZK) and Hungarian forint (HUF) against the euro. This was only partly offset by the hedge of net investments in foreign operations (+74 million euros) because the hedging policy of foreign exchange participations is 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	–	40 653	24 583
Financial assets	4.0	281 658	286 386
Amortised cost	*4.0*	*240 128*	*243 527*
Fair value through OCI	*4.0*	*15 824*	*18 451*
Fair value through profit or loss	*4.0*	*25 422*	*24 248*
of which held for trading	*4.0*	*8 850*	*8 695*
Hedging derivatives	*4.0*	*283*	*160*
Reinsurers' share in technical provisions, insurance	5.6	191	145
Profit/loss on positions in portfolios hedged against interest rate risk	–	-436	1 360
Tax assets	5.2	1 296	1 624
Current tax assets	*5.2*	*179*	*125*
Deferred tax assets	*5.2*	*1 117*	*1 499*
Non-current assets held for sale and disposal groups	5.11	10 001	19
Investments in associated companies and joint ventures	5.3	37	24
Property and equipment and investment property	5.4	3 568	3 691
Goodwill and other intangible assets	5.5	1 749	1 551
Other assets	5.1	1 630	1 361
TOTAL ASSETS		340 346	320 743
LIABILITIES AND EQUITY			
Financial liabilities	4.0	291 667	276 781
Amortised cost	*4.0*	*268 387*	*254 053*
Fair value through profit or loss	*4.0*	*22 187*	*21 409*
of which held for trading	*4.0*	*7 271*	*7 157*
Hedging derivatives	*4.0*	*1 094*	*1 319*
Technical provisions, before reinsurance	5.6	18 967	18 718
Profit/loss on positions in portfolios hedged against interest rate risk	–	-863	99
Tax liabilities	5.2	435	498
Current tax liabilities	*5.2*	*87*	*79*
Deferred tax liabilities	*5.2*	*348*	*419*
Liabilities associated with disposal groups	5.11	4 262	0
Provisions for risks and charges	5.7	282	209
Other liabilities	5.8	2 520	2 908
TOTAL LIABILITIES		317 269	299 214
Total equity	5.10	23 077	21 530
Parent shareholders' equity	5.10	21 577	20 030
Additional tier-1 instruments included in equity	5.10	1 500	1 500
Minority interests	–	0	0
TOTAL LIABILITIES AND EQUITY		340 346	320 743

- 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 instru-ments included in equity	Minority interests	Total equity
2021									
Balance at the beginning of the period	1 459	5 514	-1	13 146	-88	20 030	1 500	0	21 530
Net result for the period	0	0	0	2 614	0	2 614	0	0	2 614
Other comprehensive income for the period	0	0	0	-2	403	401	0	0	401
Subtotal	0	0	0	2 612	403	3 015	0	0	3 015
Dividends	0	0	0	-1 433	0	-1 433	0	0	-1 433
Coupon on additional tier-1 instruments	0	0	0	-50	0	-50	0	0	-50
Capital increase	1	13	0	0	0	14	0	0	14
Transfer from revaluation reserves to retained earnings upon realisation	0	0	0	-3	3	0	0	0	0
Purchase/sale of treasury shares	0	0	1	0	0	1	0	0	1
Change in minority interests	0	0	0	0	0	0	0	0	0
Total change	1	13	1	1 126	406	1 547	0	0	1 547
Balance at the end of the period	1 460	5 528	0	14 272	318	21 577	1 500	0	23 077
2020									
Balance at the beginning of the period	1 458	5 498	-2	11 732	37	18 722	1 500	0	20 222
Net result for the period	0	0	0	1 440	0	1 440	0	0	1 440
Other comprehensive income for the period	0	0	0	0	-102	-102	0	0	-102
Subtotal	0	0	0	1 440	-102	1 339	0	0	1 339
Dividends	0	0	0	0	0	0	0	0	0
Coupon on additional tier-1 instruments	0	0	0	-50	0	-50	0	0	-50
Capital increase	1	17	0	0	0	18	0	0	18
Transfer from revaluation reserves to retained earnings upon realisation	0	0	0	23	-23	0	0	0	0
Purchase/sale of treasury shares	0	0	1	0	0	1	0	0	1
Change in minority interests	0	0	0	0	0	0	0	0	0
Total change	1	17	1	1 414	-125	1 308	0	0	1 308
Balance at the end of the period	1 459	5 514	-1	13 146	-88	20 030	1 500	0	21 530

- 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.
- In line with the relevant ECB recommendations, the 'Dividends' item was zero in 2020. The 'Dividends' item in 2021 (1 433 million euros) includes the 2020 dividend of 0.44 euros and the interim dividend of 3.00 euros paid in November 2021.
- We will propose to the General Meeting of Shareholders of 5 May 2022 a gross final dividend of 7.6 euros per share, bringing the total gross dividend to 10.6 euros per share. This is the sum total of a dividend of 2 euros per share for financial year 2020 (paid in November 2021), an ordinary dividend of 4 euros per share for financial year 2021 (of which an interim dividend of 1 euro was paid in November 2021 and 3 euros per share is payable in May 2022), and an extraordinary dividend of 4.6 euros (payable in May 2022).

Composition of the 'Total revaluation reserves' column in the previous table (in millions of EUR)	31-12-2021	31-12-2020	31-12-2019
Total	318	-88	37
Revaluation reserve (FVOCI debt instruments)	642	1 130	992
Revaluation reserve (FVPL equity instruments) – overlay approach	496	325	350
Revaluation reserve (FVOCI equity instruments)	74	15	32
Hedging reserve (cashflow hedges)	-1 108	-1 294	-1 331
Translation differences	-110	-382	-92
Hedge of net investments in foreign operations	79	163	89
Remeasurement of defined benefit plans	246	-45	0
Own credit risk through equity	-1	1	-4

Consolidated cashflow statement

(in millions of EUR)	Reference[1]	2021	2020
OPERATING ACTIVITIES			
Result before tax	Cons. income statement	3 418	1 847
Adjustments for:	–		
Result before tax from discontinued operations	*Cons. income statement*	*0*	*0*
Depreciation, impairment and amortisation of property and equipment, intangible fixed assets, investment property and securities	*3.10, 4.2, 5.4, 5.5*	*477*	*586*
Profit/Loss on the disposal of investments	–	*-33*	*-16*
Change in impairment on loans and advances	*3.10*	*-330*	*1 069*
Change in technical provisions (before reinsurance)	*5.6*	*274*	*236*
Change in the reinsurers' share in the technical provisions	*5.6*	*-41*	*-23*
Change in other provisions	*5.7*	*5*	*2*
Other unrealised gains/losses	–	*679*	*322*
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	–	4 455	4 033
Changes in operating assets (excluding cash and cash equivalents)	–	-5 666	-6 138
Financial assets at amortised cost (excluding debt securities)	*4.1*	*-6 679*	*-5 890*
Financial assets at fair value through OCI	*4.1*	*2 211*	*691*
Financial assets at fair value through profit or loss	*4.1*	*-797*	*-815*
of which financial assets held for trading	*4.1*	*-131*	*-1 449*
Hedging derivatives	*4.1*	*-122*	*-4*
Operating assets associated with disposal groups, and other assets	–	*-280*	*-120*
Changes in operating liabilities (excluding cash and cash equivalents)	–	15 739	29 034
Financial liabilities at amortised cost	*4.1*	*15 289*	*29 524*
Financial liabilities at fair value through profit or loss	*4.1*	*956*	*-636*
of which financial liabilities held for trading	*4.1*	*174*	*284*
Hedging derivatives	*4.1*	*-33*	*129*
Technical provisions, before reinsurance	*5.6*	*-170*	*-6*
Operating liabilities associated with disposal groups, and other liabilities	–	*-304*	*23*
Income taxes paid	3.12	-485	-560
Net cash from or used in operating activities		14 043	26 369
INVESTING ACTIVITIES			
Purchase of debt securities at amortised cost	4.1	-7 931	-11 683
Proceeds from the repayment of debt securities at amortised cost	4.1	9 452	5 019
Acquisition of a subsidiary or a business unit, net of cash acquired (including increases in percentage interest held)	6.6	-71	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	-15	-86
Proceeds from the sale of investment property	5.4	23	60
Purchase of intangible fixed assets (excluding goodwill)	5.5	-327	-365
Proceeds from the sale of intangible fixed assets (excluding goodwill)	5.5	20	50
Purchase of property and equipment	5.4	-603	-638
Proceeds from the sale of property and equipment	5.4	292	294
Net cash from or used in investing activities		822	-7 253
FINANCING ACTIVITIES			
Purchase or sale of treasury shares	Cons. statement of changes in equity	1	1
Issue or repayment of promissory notes and other debt securities	4.1	279	617
Proceeds from or repayment of subordinated liabilities	4.1	741	-136
Proceeds from the issuance of share capital	Cons. statement of changes in equity	14	18
Issue of additional tier-1 instruments	Cons. statement of changes in equity	0	0
Dividends paid	Cons. statement of changes in equity	-1 433	0
Coupon on additional tier-1 instruments	Cons. statement of changes in equity	-50	-50
Net cash from or used in financing activities		-448	451

CHANGE IN CASH AND CASH EQUIVALENTS			
Net increase or decrease in cash and cash equivalents	–	14 417	19 566
Cash and cash equivalents at the beginning of the period	–	47 794	29 118
Effects of exchange rate changes on opening cash and cash equivalents	–	1 343	-891
Cash and cash equivalents at the end of the period	–	63 554	47 794
ADDITIONAL INFORMATION			
Interest paid[2]	3.1	-1 869	-1 797
Interest received[2]	3.1	6 320	6 264
Dividends received (including equity method)	3.2 and 5.3	45	53
COMPONENTS OF CASH AND CASH EQUIVALENTS			
Cash and cash balances with central banks and other demand deposits with credit institutions	Cons. balance sheet	40 653	24 583
Term loans to banks at not more than three months (excluding reverse repos)	4.1	3 146	1 393
Reverse repos up to three months with credit institutions and investment firms	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	–	63 554	47 794
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), TLTRO III (with an additional drawdown of 2.5 billion euros), as well as the realised result;
  - In 2020, this item included borrowing under TLTRO III (19.5 billion euros), as well as the realised result and higher level of deposits from customers.
- Net cash from or used in investing activities:
  - In 2021, this item included investments in debt securities at amortised cost that had reached maturity, partly offset by new investments, as well as -71 million euros related to the acquisition of NN's Bulgarian pension and life insurance business (see Note 6.6);
  - In 2020, this item included additional investments in debt securities at amortised cost, as well as 107 million euros related to the acquisition of OTP Banka Slovensko (the acquisition price of 64 million euros was more than offset by the available cash and cash equivalents on the OTP Banka Slovensko balance sheet – more details are provided in Note 6.6).
- Net cash from or used in financing activities:
  - In 2021, this item included:
    - the dividend payout (-1.4 billion euros);
    - the issue or repayment of promissory notes and other debt securities. KBC IFIMA, KBC Group NV, ČSOB (Czech Republic) and KBC Bank NV accounted for the bulk of the figure for 2021, which related primarily to 2.9 billion euros' worth of these instruments being issued and 2.4 billion euros being redeemed;
    - the proceeds from or repayment of subordinated liabilities. KBC Group NV accounted for the bulk of the figure for 2021, which related primarily to instruments issued.
  - In 2020, this item included:
    - the issue or repayment of promissory notes and other debt securities. KBC IFIMA, KBC Group NV, ČSOB (Czech Republic) and KBC Bank NV accounted for the bulk of the figure for 2020, which related primarily to 3 billion euros' worth of these instruments being issued and 2.3 billion euros being redeemed;
    - the proceeds from or repayment of subordinated liabilities. KBC IFIMA and KBC Group NV accounted for the bulk of the figure for 2020, which related primarily to redemptions.

1.0 Notes on the accounting policies

Note 1.1: Statement of compliance

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

The following IFRS standards, which KBC chose to apply before the date of mandatory adoption, became effective on 1 January 2021:
• Amendments to IAS39 and to related affected standards: Under Phase 2 of the IBOR reform, the IASB made a number of amendments to IAS 39 and to related affected standards, which provide temporary relief from adopting specific hedge accounting requirements for hedging relationships directly affected by this reform. KBC applied these amendments in 2020, prior to the date of mandatory adoption. The amendments to IAS 39 with regard to IBOR had no significant impact on our hedge accounting, as most hedging derivatives are based on EURIBOR (see Note 4.8.2. for the positions in hedging derivatives). For more information, see the 'How do we manage our risks?' section.

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

- IFRS 17: in May 2017, the IASB issued IFRS 17 (Insurance Contracts), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 (Insurance Contracts) that was issued in 2005. IFRS 17 applies to all types of insurance contracts, regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by a specific adaptation for contracts with direct participation features (the variable fee approach) and a simplified approach (the premium allocation approach) mainly for short-duration contracts. IFRS 17 will become effective for reporting periods beginning on or after 1 January 2023, with comparative figures being required. KBC launched a group-wide project in 2018 to implement IFRS 17. The project is structured around sub-projects dealing with data delivery, local reporting, the impact on business and strategic consequences, guidance and support, consolidated reporting and the IFRS 17 calculation tool. It is being jointly run by the insurance business side and the Finance function, and involves all the departments and entities at group and local level that are affected. The focus over the past year has been on the further implementation of an IFRS-17-compliant process for closing the accounts. Where necessary, the interpretation of IFRS 17 was gradually adjusted when new information became available from external or in-house sources. On 23 November 2021, the EU published a Regulation endorsing IFRS 17 (Insurance Contracts), including the amendments to the original IFRS 17 and a solution for the annual cohort requirement for certain types of insurance contracts, for use in the European Union. The option to reclassify financial assets between the IFRS 9 portfolios only applies on the date the IFRS 17 standard enters into force and does not apply to the comparative period. In December 2021, the IASB Board amended the IFRS 17 standard by implementing the 'Classification overlay', which enables full retrospective reclassification.
- Other: the IASB has published several limited amendments to existing IFRSs and IFRICs. They will be applied when they become mandatory, but their impact is currently estimated to be negligible.

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

As a bank-insurance group, KBC presents banking and insurance information in its financial statements on an integrated basis. Information relating specifically to our banking business and to our insurance business is provided separately in the respective annual reports of KBC Bank and KBC Insurance under 'Information on KBC Bank' and 'Information on KBC Insurance' at www.kbc.com/en/investor-relations.

Note 1.2: Summary of significant accounting policies

General / Basic principle

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

Financial assets

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

Financial assets – recognition and derecognition

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

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

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

Classification of equity instruments and debt instruments

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

Classification and measurement – debt instruments

If KBC concludes that a financial asset is a debt instrument, then – upon initial recognition – it can be classified in one of the following categories:
- Measured at fair value through profit or loss (FVPL);
  - Mandatorily measured at fair value through profit or loss (MFVPL) – this category includes held-for-trading instruments (HFT);
  - Designated upon initial recognition at fair value through profit or loss (FVO);
  - Measured at fair value through profit or loss – overlay approach (FVPL – overlay);
- Measured at fair value through other comprehensive income (FVOCI);
- Measured at amortised cost (AC).

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

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

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated to be measured at FVO:
- the asset is held within a business model whose objective is achieved by both collecting contractual cashflows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cashflows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at AC only if it meets both of the following conditions and is not designated to be measured at FVO:
- the asset is held within a business model whose objective is to hold assets in order to collect contractual cashflows; and
- the contractual terms of the financial asset give rise on specified dates to cashflows that are solely payments of principal and interest on the principal amount outstanding.

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

Business model assessment

The business model is assessed to determine whether debt instruments should be measured at AC or FVOCI. In performing the assessment, KBC reviews at portfolio level the objective of the business model in which an asset is held because this best reflects how the business is managed and how information is provided to management. The information considered includes:
- the stated policies and objectives for the portfolio and how those policies operate in practice (in particular, whether management's strategy focuses on earning contractual interest income, maintaining a specific interest rate profile, matching the duration of the financial assets to that of the liabilities that fund those assets, or realising cashflows through the sale of the assets);
- how the performance of the portfolio is evaluated and reported to KBC's Executive Committee and Board of Directors;
- the risks that affect the performance of the business model (and the financial assets held within that model) and how those risks are managed;
- how managers of the business are rewarded (for instance, whether remuneration is based on the fair value of the assets managed or the contractual cashflows collected); and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and KBC's expectations of future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how KBC's stated objective for managing the financial assets is achieved and how cashflows are realised.

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

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

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g., liquidity risk and administrative costs), as well as profit margin. In assessing whether contractual cashflows are solely payments of principal and interest, KBC considers the contractual terms of the instrument, which entails assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cashflows such that the instrument would not meet this condition. In making the assessment, KBC considers:
- contingent events that could change the amount and timing of cashflows;
- leverage features;
- prepayment and extension terms;
- terms that limit KBC's claim to cashflows from specified assets (e.g., non-recourse asset arrangements); and
- features that modify consideration of the time value of money (e.g., periodic resets of interest rates).

Reclassifications

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

Classification and measurement – equity instruments

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

KBC can classify equity instruments connected with the insurance business in the 'FVPL – overlay' category until the effective date of IFRS 17. Each equity instrument that KBC's insurance business classifies as 'FVPL – overlay' must meet both of the following criteria:
- it is measured at fair value through profit or loss under IFRS 9, but would not have been measured at fair value through profit or loss in its entirety under IAS 39; and
- it is not held in respect of an activity that is unconnected with insurance contracts.

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

Classification and measurement – derivatives (trading and hedging)

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

Trading derivatives

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

Hedging derivatives

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

Financial assets – impairment

Definition of default

KBC defines defaulted financial assets in the same way as the definition for internal risk management purposes and in line with the guidance and standards of financial industry regulators. A financial asset is considered in default if any of the following conditions is fulfilled:
- there is a significant deterioration in creditworthiness;
- the asset is flagged as non-accrual;
- the asset is forborne and meets the default criteria in accordance with the internal policies for forbearance (for example, when an additional forbearance measure is extended to a forborne asset that did not reach default status within two years of the first forbearance measure being granted, or when a forborne asset becomes more than 30 days past due within the two-year period);
- KBC has filed for the borrower's bankruptcy;
- the counterparty has filed for bankruptcy or sought similar protection measures;
- the credit facility granted to the client has been terminated.

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

Expected credit loss model (ECL model) – general

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

The scope of the ECL model is based on how financial assets are classified. The model is applicable to the following financial assets:
- Financial assets measured at AC and at FVOCI;
- Loan commitments and financial guarantees;
- Finance lease receivables;
- Trade and other receivables.

No ECLs are calculated for investments in equity instruments.

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

To distinguish the various stages with regard to quantifying ECL, KBC uses the internationally accepted terminology for 'Stage 1', 'Stage 2' and 'Stage 3' financial assets.
Unless they are already credit impaired, all financial assets are classified in 'Stage 1' at the time of initial recognition and 12-month ECL is recognised. Once a significant increase in credit risk occurs after initial recognition, the asset is moved into 'Stage 2' and lifetime ECL is recognised. Once an asset meets the definition of default, it is moved into 'Stage 3'.
For trade receivables, IFRS 9 allows for a practical expedient. The ECL for trade receivables can be measured in an amount equal to their lifetime ECL. KBC applies this practical expedient to trade and other receivables.
Impairment gains and losses on financial assets are recognised under the 'Impairment' heading in the income statement.
Financial assets that are measured at AC are presented in the balance sheet at their net carrying value, which is the gross carrying value less impairment. Debt instruments measured at FVOCI are presented in the balance sheet at their carrying value, which is their fair value on the reporting date. The adjustment for the ECL is recognised as a reclassification adjustment between the income statement and OCI.

Significant increase in credit risk since initial recognition

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

Multi-tier approach (MTA) – bond portfolio

For the bond portfolio, the MTA consists of three tiers:
- Low-credit exception: 12-month ECL is always recognised for bonds if they have a low credit risk on the reporting date (i.e. 'Stage 1'). KBC uses this exception for investment grade bonds.
- Internal rating: [only applicable if the first tier criterion is not met] this is a relative assessment that compares the probability of default (PD) upon initial recognition to that on the reporting date. KBC does the assessment at facility level for each reporting period. The relative change in PD that triggers staging is an increase of two PD notches.
- Management assessment: lastly, management review and assess the significant increase in credit risk for financial assets at an individual (i.e. counterparty) and portfolio level, when it is concluded that idiosyncratic events are not adequately captured in

the first two tiers of the MTA. Examples of idiosyncratic events are unexpected developments in the macroeconomic environment (including due to the coronavirus crisis), uncertainties about geopolitical events and the secondary impact of material defaults (e.g., on the suppliers, clients and employees of a defaulted company).

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

Loan portfolio

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

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

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

Measurement of ECL

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

ECL is calculated to reflect:

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

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

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

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

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

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

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

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

Purchased or originated credit impaired (POCI) assets

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

Significant judgements and uncertainties

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

Overlay approach

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

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

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

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

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

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

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

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

Financial liabilities

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

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

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

Financial liabilities – recognition and derecognition

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

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

Financial liabilities – classification and measurement

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

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

Insurance contracts

General

The accounting policies for IFRS 4 (Insurance Contracts) apply to insurance contracts (including reinsurance contracts) that KBC issues and reinsurance contracts that it holds. They also apply to financial instruments with a discretionary participation feature held by KBC.
A reinsurance contract is a type of insurance contract, given that all reinsurance contracts that transfer insurance risk are themselves insurance contracts.
Some contracts that are accounted for as insurance contracts under local GAAP will no longer be considered insurance contracts under IFRS. Contracts that do not expose KBC to any insurance risk (e.g., pure investment without additional (insurance) benefits/cover) are treated as financial instruments, which can exist with or without a discretionary participation feature.
Financial instruments without a discretionary participation feature and the deposit component of unit-linked insurance contracts will be recognised in accordance with deposit accounting principles, as they fall under the scope of IFRS 9.
Deposit accounting applies to the deposit component of unit-linked insurance contracts (the insurance component is treated as an insurance contract according to IFRS 4).

KBC unbundles the components if both of the following conditions are met:
- measurement of the deposit component is possible (including any embedded surrender options), i.e. without considering the insurance component;
- the accounting policies do not otherwise require recognition of all the obligations and rights arising from deposit accounting.

Unbundling is prohibited if the deposit component cannot be measured separately.
At KBC, insurance contracts other than unit-linked contracts are not unbundled into a deposit component and an insurance component. The insurance component of unit-linked contracts (see below), whether insurance contracts or investment contracts, is treated as an insurance contract. Unit-linked financial instruments without death benefits or a participation feature are classified as 'financial liabilities at fair value through profit or loss' (also referred to as deposit accounting) under IFRS 9 and are consequently measured at fair value.
A unit-linked financial instrument classified at fair value through profit or loss represents the liability towards the policyholder, whose consideration received (i.e. deposit) is invested in an investment fund. The latter is classified as a financial asset 'Mandatorily measured at fair value through profit or loss' (in the 'Investment contracts (insurance)' line in Note 4.1). The valuation of the financial assets relating to unit-linked contracts is reflected in the adjustments to the related liabilities. Unit-linked contracts are policies whose value or return is determined based on investments or an index, and where the policyholder bears the risk.
Changes in fair value (assets and liabilities), including any component that relates to changes in foreign exchange rates, are recognised in the income statement under 'Net result from financial instrument at fair value through profit or loss'. The unit value is considered to be the fair value. Only the earned management fees and commissions are recognised using margin deposit accounting principles under 'Net fee and commission income' in the income statement.

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

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

When IFRS 4 was adopted, KBC decided to follow its then local GAAP practices and did not introduce any of the following:
- measurement of insurance liabilities on an undiscounted basis;
- non-uniform accounting policies for the insurance contracts of subsidiaries. If these accounting policies are not uniform, an insurer may change them if the change does not make them more divergent and provided the other requirements of IFRS 4 (Insurance Contracts) are met.

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

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

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

Technical provisions – insurance contracts

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

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

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

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

Life insurance provisions

This provision relates exclusively to life insurance activities, with the exception of the unit-linked life business. It comprises the actuarially estimated value of KBC's liabilities and the profit share already awarded, less the actuarially estimated value of the liabilities of the policyholders. The acquisition costs are not deducted from the provision.
This item also includes the provision for unearned premiums and unexpired risk, the ageing provision, the provisions for annuities payable but not yet due (including internal claims settlement costs) for supplementary life insurance and the provisions for retirement and survivorship annuities.
Valuation according to the prospective method is applied to (i) the provision for conventional non-unit-linked life insurance, (ii) universal non-unit-linked life insurance policies offering a guaranteed rate of interest on future premium payments, and (iii) the provision for non-statutory benefits for employees in respect of current annuities.
Valuation according to the retrospective method is applied to the provisions for modern non-unit-linked universal life insurance and to the provision for non-statutory benefits for employees in respect of new supplementary premium payments.
The provision is calculated separately for every insurance contract.

Provision for claims outstanding

For claims reported, the provision is measured separately in each case, taking into account the known facts in the claims file, on the basis of the amounts still due to the injured parties or beneficiaries, plus external costs of settling claims. Where benefits have to be paid in the form of an annuity, the amounts to be set aside for that purpose are calculated using recognised actuarial methods.
For 'claims incurred but not reported' at balance sheet date, an IBNR (Incurred But Not Reported) provision is set aside. In the primary business, this IBNR provision is based on a lump sum per class of insurance depending upon past experience and the trend in the insured portfolio. For extraordinary events, additional amounts are added to the IBNR provision.
For 'claims incurred but not enough reserved' at balance sheet date, an IBNER (Incurred But Not Enough Reserved) provision is set aside if the adequacy procedures demonstrate that the other claims provisions are insufficient to meet future liabilities. This provision contains amounts for claims which have already been reported but which, for technical reasons, could not yet be recorded in the claims file.
A provision for the internal cost of settling claims is calculated at a percentage that is based on past experience.
Additional provisions are also constituted as required by law (according to the Royal Decree of 17 November 1994 on the annual accounts of insurance undertakings), such as supplementary workmen's compensation provisions in Belgium.

Leasing

All leases are required to be classified as either finance leases or operating leases. The classification under IFRS 16 is based on the extent to which risk and rewards incidental to ownership of leased assets lie with the lessor or the lessee. A finance lease transfers substantially all the risks and rewards incidental to ownership of an asset.
This classification is crucial for positions as a lessor, but less important for positions as a lessee, since both classifications result in similar recognition and measurement of the lease on the balance sheet and in the income statement.

Equity

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

KBC classifies all issued financial instruments as equity or as a financial liability based on the substance of the contractual arrangements. The critical feature that distinguishes a financial liability from a share is whether KBC has an unconditional right to avoid delivering cash or another financial asset to settle a contractual obligation.
Minority interests represent the equity in a subsidiary that is not attributable to the holders of KBC shares. When the proportion of the equity held by the minority interests changes, KBC adjusts the carrying value of the controlling and minority interests to reflect changes in their relative interests in the consolidated companies. KBC recognises in equity any difference between the amount by which the minority interests are adjusted and the fair value of the consideration paid or received, and allocates it to its controlling stake.

Employee benefits

Short-term employee benefits

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

Post-employment benefits

KBC offers its employees' pension schemes in the form of defined contribution or defined benefit plans. Under the defined contribution plans, KBC's statutory or constructive obligation is limited to the amount that it agrees to contribute to the fund. The amount of the post-employment benefit to be received by the employee is determined by the amount of the contributions paid by KBC and the employee him or herself into the post-employment benefit plan, as well as by the investment returns arising from those contributions. The actuarial risk is borne by the employee.
Conversely, under the defined benefit plans, KBC's obligation is to provide the agreed benefits to current and former employees and, in substance, the actuarial risk and investment risk fall on KBC. This means that if, from an actuarial or investment viewpoint, things turn out worse than expected, KBC's obligation may be increased.
In Belgium, defined contribution plans have a legally guaranteed minimum return and the actual return can be lower than the legally required return. In addition, these plans have defined benefit plan features and KBC treats them as defined benefit plans.
Liabilities under the defined benefit plans and the Belgian defined contribution plans (or pension liabilities) are included under 'Other liabilities' and relate to the obligations for retirement and survivor's pensions, early retirement benefits and similar pensions and annuities.
The pension obligations for employees under the defined benefit plans are calculated using the projected-unit-credit method, with each period of service granting additional entitlement to pension benefits.
Actuarial valuations are performed every reporting period. The defined benefit liabilities are discounted using rates equivalent to the yields on high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have a maturity similar to the related pension liabilities.
Changes in the net defined benefit liability/asset, apart from cash movements, are grouped into three main categories and recognised in operating expenses (service costs), interest expenses (net interest costs) and other comprehensive income (remeasurements).

Net fee and commission income

Most net fee and commission income falls under the scope of IFRS 15 (Revenue from Contracts with Customers), as it relates to the services that KBC provides to its clients and is outside the scope of other IFRS standards. For the recognition of revenue, KBC identifies the contract and defines the promises (performance obligations) in the transaction. Revenue is recognised only when KBC has satisfied the performance obligation.
The revenue presented under 'Securities and asset management' falls under the scope of IFRS 15 and, in principle, entails KBC keeping assets in a trust for the beneficiary ('fund') and being responsible for investing the amounts received from clients to their benefit. These transactions are straightforward, because KBC provides a series of distinct services which clients use at the same time when receiving the benefits. In return, KBC receives a monthly or quarterly management fee, which is calculated as a fixed percentage of the net asset value, or a subscription fee retained from the beneficiary. The fees do not include a variable component.
Revenue reported as 'Margin on life insurance investment contracts without DPF' represents the amount realised on investment contracts without a discretionary participation feature, i.e. a fixed percentage or fixed amount is withheld from the client's payments, enabling the insurance company to cover its expenses.
Payment services, where KBC charges clients for certain current-account transactions, domestic or foreign payments, payment services provided through ATMs, etc., are usually settled when the actual transaction is carried out, enabling the relevant fee to be recognised directly at that time.

Government grants

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

Levies

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

Income tax

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

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

Current tax assets/liabilities

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

Deferred tax assets/liabilities

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

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

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

Deferred tax assets/liabilities are not discounted.

Property and equipment

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

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

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

Investment property

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

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

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

Intangible assets

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

Separately acquired intangible assets (mainly software developed externally) are initially recognised at cost. Internally developed intangible assets (mainly software developed in-house) are recognised only if they arise from development and KBC can demonstrate:
- the technical feasibility of completing them;
- an intention to complete for use or sale;
- an ability to use or sell them;
- how the intangible assets will generate future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible assets;
- reliable measurement of the expenditure attributable to the intangible assets during their development.

Internally generated intangible assets are initially measured at the development costs directly attributable to the design and testing of the unique software controlled by KBC.
Directly attributable costs capitalised as part of the software developed in-house include software development employee costs and directly attributable overheads.
Research expenses, other development expenditure, costs associated with maintaining software and investment projects (large-scale projects introducing or replacing an important business objective or model) that do not meet the recognition criteria are recognised as an expense in the period they are incurred.

Intangible assets are subsequently carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation begins when the asset is available for use as intended by management. Software is amortised as follows:
- System software (initial purchased software forming an integral part with hardware) is amortised at the same rate as hardware.
- Standard software and customised software developed by a third party or developed in-house are amortised over five years according to the straight-line method from the time the software is available for use.
- Core systems (typically including deposit account processing, loan and credit processing, interfaces to the general ledger and reporting tools) are amortised over eight years according to the straight-line method.

Impairment of non-financial assets

When KBC prepares financial statements, it ensures that the carrying value of the non-financial asset does not exceed the amount that could be obtained from either using or selling it (‘recoverable amount’). Property and equipment, investment property and software are subject to the impairment review only when there is objective evidence of impairment. Goodwill and intangible assets with an indefinite useful life are subject to impairment reviews at least annually and also reviewed for impairment indicators every quarter.
Indications that an impairment loss is required may stem from either an internal source (e.g., the condition of the asset) or an external source (e.g., new technology or a significant decline in the asset’s market value).
When an impairment indicator is present, KBC reviews the asset’s recoverable amount and the asset is impaired if its recoverable amount is lower than its carrying value at the reporting date. The recoverable amount is defined as the higher of the value in use and the fair value less cost to sell.
Value in use is defined as the discounted future cashflows expected to be derived from an asset or a cash-generating unit.
Impairment is borne at individual asset level, but when the individual asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, the recoverable amount is determined for the so-called ‘cash-generating unit’ (CGU) to which the asset or group of assets belongs. In forming the CGUs, KBC applies its own judgement to define the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. This process mainly applies to goodwill that has been recognised in relation to acquisitions.
Impairment losses are recognised in the income statement for the period in which they occur. An impairment loss can be reversed if the condition that triggered it is no longer present, except for goodwill, which can never be reversed. Impairment gains are recognised in the income statement for the period in which they occur.

Provisions, contingent liabilities and contingent assets

Provisions are recognised on the reporting date if and only if the following criteria are met:
- there is a present obligation (legal or constructive) due to a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation;
- a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the expenditure required to settle the obligation at balance sheet date. When the effect of time is material, the amount recognised as a provision is the net present value of the best estimate.
Due to its inherent nature, a provision requires management judgement regarding the amount and timing of probable future economic outflows.

Consolidated financial statements / interim financial statements

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

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

Consolidation threshold: subsidiaries are effectively included in the consolidated financial statements using the full consolidation method if at least two of the following materiality criteria are exceeded:
- Group share in equity is 2 500 000 euros;
- Group share in the result is 1 000 000 euros (absolute value);
- Group share in the balance sheet total is 100 000 000 euros.

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

Business combinations and goodwill

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

Goodwill is the excess of the cost of the acquisition over the acquirer's interest in the fair value of the identifiable assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. In order to complete the acquisition accounting and determine the goodwill item, KBC applies a measurement period of 12 months. The classification of the financial assets acquired and financial liabilities assumed in the business combination is based on the facts and circumstances existing at the acquisition date (except for lease and insurance contracts, which are classified on the basis of the contractual terms and other factors at the inception of the relevant contract).
Goodwill is presented under 'Goodwill and other intangible assets' and is carried at cost less impairment losses. Goodwill is not amortised, but is tested for impairment at least once a year or when there is objective evidence (external or internal) that it should be impaired. If the acquisition accounting is not complete because the 12-month measurement period has not elapsed, the goodwill is not considered as final and is only tested if there is objective evidence that the provisional goodwill is impaired.
For the purpose of testing goodwill for impairment, it is allocated to each of KBC's cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquired entity are assigned to those units. An impairment loss is recognised if the carrying value of the cash-generating unit to which the goodwill belongs exceeds its recoverable amount. Impairment losses on goodwill cannot be reversed.

Effects of changes in foreign exchange rates

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

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

Related-party transactions

A related party to KBC is either a party over which KBC has control or significant influence or a party that has control or significant influence over KBC. KBC defines its related parties as:
- KBC subsidiaries, KBC associates and joint ventures, KBC Ancora, Cera and MRBB;
- KBC key management staff (i.e. the Board of Directors and the Executive Committee of KBC Group NV).

Transactions with related parties must occur at arm's length.

Non-current assets held for sale and disposal groups, liabilities associated with disposal groups and discontinued operations

Non-current assets held for sale and disposal groups, liabilities associated with disposal groups

Non-current assets or groups of assets and liabilities held for sale are those where the carrying value will be recovered by KBC through a sale transaction, which is expected to qualify as a sale within a year, rather than through continued use. Non-current assets and liabilities held for sale are reported separately from the other assets and liabilities in the balance sheet at the end of the reporting date.

Discontinued operations

A discontinued operation refers to a part of KBC that has been disposed of or is classified as held for sale and:
- represents a separate major line of business or geographical area of operations; or
- is part of a single, coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

Results from discontinued operations are recognised separately in the income statement and in other comprehensive income and contain:
- the post-tax profit or loss of discontinued operations; and
- the post-tax gain or loss recognised on the measurement to fair value less the costs of the sale or disposal of the assets or group of assets.

Events after the reporting period

Events after the reporting date are defined as favourable or unfavourable events that occur between the reporting date and the date on which the financial statements are authorised for issue. There are two types of event after the reporting date:
- those which provide evidence of conditions that existed on the reporting date (adjusting events);
- those that are indicative of conditions that arose after the reporting date (non-adjusting events).

The impact of adjusting events has already been reflected in the financial position and financial performance for the current year. The impact and consequences of non-adjusting events are disclosed in the notes to the financial statements.

Main exchange rates used*

	Exchange rate at 31-12-2021		Exchange rate average in 2021	
	1 EUR = … … currency	Change relative to 31-12-2020 (positive: appreciation relative to EUR) (negative: depreciation relative to EUR)	1 EUR = … … currency	Change relative to average in 2020 (positive: appreciation relative to EUR) (negative: depreciation relative to EUR)
CZK	24.858	6%	25.706	3%
HUF	369.19	-1%	358.39	-2%

* Rounded figures.

Note 1.3: Critical estimates and significant judgements

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

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

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. 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
Non-life insurance	2020: higher technical result supported by a low level of claims resulting from a lower level of economic activity during lockdown periods. 2021: lower technical result, as the level of claims gradually returned to normal (and, of course, also due to the consequences of the floods in Belgium and the tornado in the Czech Republic).	3.7
Life insurance	2020 and 2021: challenging context for the sale of life insurance products in view of the low interest rate environment.	3.7
Financial instruments at FVPL	2020: very negative impact of -0.4 billion euros in the first quarter of 2020 due to plummeting stock markets, widening credit spreads and lower long-term interest rates, 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 (18 million euros).	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	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 decline in the revaluation reserves (FVPL equity instruments at the insurers – overlay approach) and translation differences. 2021: includes an increase in the revaluation reserves (FVPL equity instruments at the insurers – overlay approach) and translation differences.	Consolidated statement of comprehensive income
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?')
- Dividend payment (see 'Our employees, capital, network and relationships' and 'Consolidated statement of changes in equity' in the consolidated financial statements)

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 sale transactions. 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 the coming years. After that, we take into account a gradual linear transition towards a stable situation.

Macroeconomic scenario – key indicators (situation at year-end 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). The situation for Ireland is described in Note 6.6.

For reporting purposes, there is also a Group Centre (comprising the results of the holding company, items that have not been allocated to the other business units, and the results of companies to be divested).

Segment reporting

- The policy bodies analyse the performance of the segments based on a number of criteria, with the 'Result after tax' being the most important results indicator. The segment data is based entirely on IFRS data (with no adjustments).
- In principle, we assign a group company in its entirety to one specific segment/business unit. Exceptions are only made for those items that cannot clearly be allocated to a specific segment, such as charges attached to the subordination of loans (such items are recognised under Group Centre).
- We allocate the funding cost of participating interests to the Group Centre. Any funding cost in respect of leveraging at KBC Group NV level is also recognised under Group Centre.
- Transactions among the different segments are reported at arm's length.
- We recognise 'Net interest income' in the segment information without dividing it up into 'Interest income' and 'Interest expense'. This is permitted under IFRS because the bulk of the business units' income is in the form of interest, and management assesses and co-ordinates those business units primarily on the basis of net interest income.
- We do not provide any information on income from sales to external clients per group of products or services, since the information is prepared at consolidated level chiefly for each business unit, and not per client group or product group.

Note 2.2: Results by segment

(in millions of EUR)	Belgium Business Unit	Czech Republic Business Unit	International Markets Business Unit	Of which: Hungary	Slovakia	Bulgaria	Ireland	Group Centre	KBC Group
INCOME STATEMENT FOR 2021									
Net interest income	2 533	972	962	*311*	*229*	*141*	*282*	-16	4 451
Non-life insurance (before reinsurance)	460	142	160	*52*	*35*	*73*	*0*	19	782
Earned premiums	*1 197*	*337*	*336*	*143*	*62*	*132*	*0*	*15*	*1 885*
Technical charges	*-737*	*-194*	*-176*	*-91*	*-26*	*-59*	*0*	*4*	*-1 103*
Life insurance (before reinsurance)	-55	61	39	*9*	*13*	*17*	*0*	-1	45
Earned premiums	*903*	*182*	*111*	*40*	*31*	*39*	*0*	*-1*	*1 196*
Technical charges	*-958*	*-121*	*-71*	*-31*	*-18*	*-23*	*0*	*0*	*-1 150*
Ceded reinsurance result	36	17	-16	*-2*	*-7*	*-7*	*0*	-12	25
Dividend income	38	1	1	*0*	*0*	*0*	*0*	5	45
Net result from financial instruments at fair value through profit or loss	224	95	23	*21*	*8*	*0*	*-5*	-198	145
Net realised result from debt instruments at fair value through OCI	2	-4	2	*2*	*0*	*0*	*0*	6	6
Net fee and commission income	1 320	214	305	*198*	*71*	*39*	*-3*	-3	1 836
Other net income	195	8	-7	*3*	*6*	*5*	*-21*	28	223
TOTAL INCOME	4 754	1 506	1 469	*592*	*356*	*268*	*253*	-171	7 558
Operating expenses[a]	-2 436	-803	-1 048	*-335*	*-260*	*-140*	*-313*	-109	-4 396
Impairment	303	126	-160	*9*	*15*	*-1*	*-183*	-7	261
on financial assets at amortised cost and at fair value through OCI	*309*	*142*	*-110*	*22*	*16*	*2*	*-149*	*-7*	*334*
Share in results of associated companies and joint ventures	-3	-3	0	*0*	*0*	*0*	*0*	0	-5
RESULT BEFORE TAX	2 618	827	262	*267*	*111*	*127*	*-243*	-288	3 418
Income tax expense	-621	-129	-135	*-40*	*-26*	*-13*	*-55*	81	-804
Net post-tax result from discontinued operations	0	0	0	*0*	*0*	*0*	*0*	0	0
RESULT AFTER TAX	1 997	697	127	*226*	*85*	*114*	*-298*	-207	2 614
attributable to minority interests	0	0	0	*0*	*0*	*0*	*0*	0	0
attributable to equity holders of the parent	**1 997**	**697**	**127**	***226***	***85***	***114***	***-298***	**-207**	**2 614**
a Of which non-cash expenses	-48	-96	-119	*-38*	*-19*	*-16*	*-46*	-83	-346
Depreciation and amortisation of fixed assets	*-57*	*-97*	*-120*	*-38*	*-19*	*-16*	*-46*	*-82*	*-356*
Other	*10*	*1*	*1*	*1*	*0*	*0*	*0*	*-2*	*10*
Acquisitions of non-current assets*	456	183	252	*83*	*75*	*80*	*14*	110	1 001

* Non-current assets held for sale and disposal groups, investment property, property and equipment, investments in associated companies, and goodwill and other intangible assets.

(in millions of EUR)	Belgium Business Unit	Czech Republic Business Unit	International Markets Business Unit	Of which: Hungary	Slovakia	Bulgaria	Ireland	Group Centre	KBC Group
INCOME STATEMENT FOR 2020									
Net interest income	2 579	1 012	894	*262*	*202*	*144*	*286*	-18	4 467
Non-life insurance (before reinsurance)	562	141	150	*55*	*27*	*68*	*0*	13	865
Earned premiums	*1 141*	*302*	*321*	*143*	*52*	*126*	*0*	*12*	*1 777*
Technical charges	*-579*	*-161*	*-172*	*-88*	*-25*	*-58*	*0*	*0*	*-912*
Life insurance (before reinsurance)	-63	48	26	*-1*	*12*	*15*	*0*	-1	10
Earned premiums	*913*	*206*	*105*	*35*	*34*	*36*	*0*	*0*	*1 223*
Technical charges	*-976*	*-158*	*-79*	*-36*	*-22*	*-21*	*0*	*0*	*-1 213*
Ceded reinsurance result	-12	-1	-5	*-3*	*3*	*-5*	*0*	-2	-20
Dividend income	47	1	0	*0*	*0*	*0*	*0*	4	53
Net result from financial instruments at fair value through profit or loss	32	7	43	*39*	*9*	*0*	*-4*	-51	33
Net realised result from debt instruments at fair value through OCI	0	1	2	*1*	*2*	*0*	*0*	0	2
Net fee and commission income	1 138	203	273	*191*	*58*	*28*	*-3*	-4	1 609
Other net income	157	13	8	*4*	*8*	*3*	*-9*	-1	176
TOTAL INCOME	4 438	1 425	1 391	*548*	*320*	*253*	*269*	-59	7 195
Operating expenses[a]	-2 398	-752	-894	*-323*	*-204*	*-139*	*-228*	-111	-4 156
Impairment	-695	-226	-250	*-85*	*-45*	*-30*	*-91*	-11	-1 182
on financial assets at amortised cost and at fair value through OCI	*-654*	*-210*	*-217*	*-59*	*-42*	*-27*	*-90*	*7*	*-1 074*
Share in results of associated companies and joint ventures	-9	-2	0	*0*	*0*	*0*	*0*	0	-11
RESULT BEFORE TAX	1 335	446	247	*140*	*71*	*84*	*-50*	-181	1 847
Income tax expense	-335	-71	-48	*-26*	*-15*	*-9*	*2*	46	-407
Net post-tax result from discontinued operations	0	0	0	*0*	*0*	*0*	*0*	0	0
RESULT AFTER TAX	1 001	375	199	*114*	*56*	*76*	*-48*	-135	1 440
attributable to minority interests	0	0	0	*0*	*0*	*0*	*0*	0	0
attributable to equity holders of the parent	**1 001**	**375**	**199**	***114***	***56***	***76***	***-48***	**-135**	**1 440**
a Of which non-cash expenses	-52	-85	-96	*-35*	*-17*	*-15*	*-29*	-76	-310
Depreciation and amortisation of fixed assets	*-53*	*-86*	*-94*	*-33*	*-17*	*-15*	*-29*	*-76*	*-309*
Other	*1*	*1*	*-2*	*-2*	*0*	*0*	*0*	*0*	*-1*
Acquisitions of non-current assets*	489	227	225	96	64	40	25	148	1 089

* Non-current assets held for sale and disposal groups, investment property, property and equipment, investments in associated companies, and goodwill and other intangible assets.

Note 2.3: Balance-sheet information by segment

The table below presents some of the main on-balance-sheet products by segment.

(in millions of EUR)	Belgium Business Unit	Czech Republic Business Unit	International Markets Business Unit	Of which: Hungary	Slovakia	Bulgaria	Ireland	Group Centre	KBC Group
BALANCE SHEET AT 31-12-2021									
Deposits from customers and debt securities (excluding repos)	142 282	46 239	24 652	*9 759*	*7 696*	*6 257*	*940*	12 920	226 093
Demand deposits	*64 458*	*28 042*	*19 598*	*8 137*	*5 443*	*5 077*	*940*	*0*	*112 097*
Time deposits	*4 784*	*2 123*	*2 281*	*445*	*656*	*1 180*	*0*	*0*	*9 187*
Savings accounts	*58 279*	*14 226*	*2 295*	*977*	*1 319*	*0*	*0*	*0*	*74 801*
Debt securities	*12 003*	*1 376*	*318*	*200*	*118*	*0*	*0*	*12 920*	*26 617*
Other	*2 758*	*473*	*160*	*0*	*160*	*0*	*0*	*0*	*3 391*
Loans and advances to customers (excluding reverse repos)	108 251	32 671	18 805	*5 413*	*9 417*	*3 973*	*3*	*0*	159 728
Term loans	*56 785*	*9 609*	*6 604*	*2 409*	*2 775*	*1 418*	*2*	*0*	*72 998*
Mortgage loans	*41 561*	*18 303*	*7 800*	*1 812*	*5 117*	*870*	*0*	*0*	*67 665*
Other	*9 905*	*4 758*	*4 402*	*1 191*	*1 524*	*1 685*	*1*	*0*	*19 065*
BALANCE SHEET AT 31-12-2020									
Deposits from customers and debt securities (excluding repos)	135 442	41 610	28 075	*8 982*	*8 601*	*5 453*	*5 040*	10 303	215 430
Demand deposits	*59 025*	*24 637*	*17 325*	*7 390*	*5 161*	*3 508*	*1 266*	*0*	*100 986*
Time deposits	*6 426*	*764*	*4 712*	*489*	*1 662*	*1 213*	*1 348*	*0*	*11 902*
Savings accounts	*55 299*	*14 052*	*5 511*	*891*	*1 464*	*732*	*2 425*	*0*	*74 862*
Debt securities	*12 556*	*1 671*	*347*	*213*	*133*	*0*	*0*	*10 303*	*24 877*
Other	*2 136*	*486*	*181*	*0*	*181*	*0*	*0*	*0*	*2 803*
Loans and advances to customers (excluding reverse repos)	103 092	29 099	27 430	*4 940*	*9 016*	*3 508*	*9 966*	*1*	159 621
Term loans	*54 572*	*8 584*	*6 326*	*2 302*	*2 731*	*1 229*	*64*	*0*	*69 482*
Mortgage loans	*38 831*	*16 190*	*16 929*	*1 600*	*4 707*	*778*	*9 844*	*0*	*71 950*
Other	*9 689*	*4 325*	*4 175*	*1 038*	*1 578*	*1 501*	*58*	*1*	*18 189*

- 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	4 451	4 467
Interest income	6 320	6 264
Interest income on financial instruments calculated using the effective interest rate method		
Financial assets at amortised cost	*4 797*	*4 869*
Financial assets at fair value through OCI	*286*	*330*
Hedging derivatives	*355*	*377*
Financial liabilities (negative interest rate)	*425*	*222*
Other	*25*	*10*
Interest income on other financial instruments		
Financial assets MFVPL other than held for trading	*24*	*14*
Financial assets held for trading	*407*	*442*
Of which economic hedges	*367*	*398*
Other financial assets at fair value through profit or loss	*0*	*0*
Interest expense	-1 869	-1 797
Interest expense on financial instruments calculated using the effective interest rate method		
Financial liabilities at amortised cost	*-534*	*-707*
Hedging derivatives	*-604*	*-632*
Financial assets (negative interest rate)	*-253*	*-79*
Other	*-7*	*-5*
Interest expense on other financial instruments		
Financial liabilities held for trading	*-459*	*-345*
Of which economic hedges	*-414*	*-313*
Other financial liabilities at fair value through profit or loss	*-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	45	53
Equity instruments MFVPL other than held for trading	28	30
Equity instruments held for trading	11	13
Equity instruments at FVOCI	6	9

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

(in millions of EUR)	2021	2020
Total	145	33
Total broken down by IFRS portfolio		
Financial instruments MFVPL other than held for trading and overlay	1 172	-433
Trading instruments (including interest on non-ALM trading derivatives and fair value changes in all trading derivatives)	435	-175
Financial instruments to which the overlay approach is applied	104	-14
Other financial instruments at FVPL	-1 186	443
Foreign exchange trading	-272	295
Fair value adjustments in hedge accounting	-108	-84
Hedge accounting broken down by type of hedge		
Fair value micro hedges	0	-5
Changes in the fair value of the hedged items	*-307*	*-28*
Changes in the fair value of the hedging derivatives	*307*	*22*
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
Total broken down by driver		
Market value adjustments (MVA)	67	13
Change in the value of derivatives used for asset/liability management purposes	-197	-94
Financial instruments to which the overlay approach is applied	104	-14
Gains or losses on sale	*123*	*116*
Impairment	*-20*	*-131*
Dealing room and other	171	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.
- Financial instruments to which the overlay approach is applied: see the comments under the consolidated income statement.
- Foreign exchange trading includes all realised and unrealised foreign exchange results (when the monetary assets and liabilities are revalued), regardless of the IFRS portfolio, except for financial assets and liabilities measured through profit or loss, for which the revaluation is included in the fair value correction. Note that (unrealised) foreign exchange gains/losses on claims provisions (insurance) and on the financial instruments hedging the claims provisions are included under 'Technical charges'. (Unrealised) foreign exchange gains/losses on the reinsurers' share of claims provisions and on the financial instruments hedging such provisions are included under 'Ceded reinsurance result'.
- Under IFRS 9, investment contracts (insurance) are reclassified to 'Financial instruments mandatorily measured at fair value through profit or loss' in accordance with their 'managed on a FV basis' business model, whereas liabilities under investment contracts continue to be recognised under 'Financial instruments at fair value through profit or loss'. This resulted in amounts being offset against each other in 'Financial instruments MFVPL other than held for trading and overlay' and 'Financial instruments at fair value through profit or loss' in the above table (+1 195 million euros and -1 195 million euros in 2021 and -441 million euros and +441 million euros in 2020).
- The effectiveness of the hedge is determined according to the following methods:

- For fair value micro hedging, we use the dollar offset method on a quarterly basis, with changes in the fair value of the hedged item offsetting changes in the fair value of the hedging instrument within a range of 80%–125%.
- For cashflow hedges, we compare the designated hedging instrument with a perfect hedge of the hedged cashflows on a prospective (by BPV measurement) and retrospective basis (by comparing the fair value of the designated hedging instrument with the perfect hedge). The effectiveness of both tests must fall within a range of 80%–125%.
- We use the rules set out in the European version of IAS 39 (carve-out) to assess the effectiveness of fair value hedges for a portfolio of interest rate risk. IFRS does not permit net positions to be reported as hedged items, but does allow hedging instruments to be designated as a hedge of a gross asset position (or a gross liabilities position, as the case may be). Specifically, we make sure that the volume of assets (or liabilities) in each maturity bucket is greater than the volume of hedging instruments allocated to the same bucket.

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	1 836	1 609
Fee and commission income	2 692	2 365
Fee and commission expense	-856	-755
Breakdown by type		
Asset management services	1 196	1 022
Fee and commission income	*1 274*	*1 081*
Fee and commission expense	*-78*	*-59*
Banking services	950	875
Fee and commission income	*1 330*	*1 205*
Fee and commission expense	*-380*	*-330*
Distribution	-311	-288
Fee and commission income	*87*	*78*
Fee and commission expense	*-398*	*-366*

- 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	223	176
of which gains or losses on		
Sale of financial assets measured at amortised cost	6	11
Repurchase of financial liabilities measured at amortised cost	0	0
Other, including:	218	165
Income from operational leasing activities	*98*	*77*
Income from VAB Group	*50*	*49*
Gain on sale of KBC Tower in Antwerp	*13*	*0*
Settlement of legal cases	*6*	*0*
Provisioning for tracker mortgage review	*-18*	*-9*
Badwill	*28*	*0*

- 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

- As a bank-insurer, KBC presents its financial information on an integrated basis (i.e. banking and insurance activities combined). More information on the banking and insurance businesses is provided separately in the respective annual reports of KBC Bank and KBC Insurance (available at www.kbc.com). This note provides information on the insurance results alone.
- The figures include intragroup transactions between bank and insurance entities (the results for insurance contracts concluded between the group's bank and insurance entities, interest that insurance companies receive on their deposits with bank entities, commissions that insurance entities pay to bank branches for sales of insurance, etc.) in order to give a more accurate view of the profitability of the insurance business. A reconciliation of the earned premiums stated in the consolidated income statement and in Note 3.7.1 is presented in the table below the overview.
- Of the items stated in Note 3.7.1, only 'Earned premiums, insurance (before reinsurance)', 'Technical charges, insurance (before reinsurance)' and 'Ceded reinsurance result' are presented on separate lines in the group's income statement (with a minor adjustment, as shown in the smaller table below the main table). As part of our integrated bank-insurance concept, all the other lines in the insurance schedule below – together with the group's banking activities – are included in the group's income statement and related notes.
- Additional information on the insurance business is provided separately in Note 3.7, Note 5.6 and Note 6.5 (KBC Insurance section), in the 'How do we manage our risks?' section and in the annual report of KBC Insurance (available at www.kbc.com).

Note 3.7.1: Overview

(in millions of EUR)	Life	Non-life	Non-technical account	Total
2021				
Earned premiums, insurance (before reinsurance)	1 196	1 905	0	3 101
of which changes in the provision for unearned premiums	*-1*	*-48*	*0*	*-49*
Technical charges, insurance (before reinsurance)	-1 150	-1 106	0	-2 256
Claims paid	*-1 163*	*-872*	*0*	*-2 036*
Change in technical provisions	*-1*	*-223*	*0*	*-224*
Other technical result	*14*	*-10*	*0*	*4*
Net fee and commission income	-5	-367	0	-372
Ceded reinsurance result	-2	27	0	25
General administrative expenses	-149	-255	-2	-407
Internal claims settlement expenses	*-9*	*-59*	*0*	*-68*
Indirect acquisition costs	*-31*	*-68*	*0*	*-98*
Administrative expenses	*-109*	*-128*	*0*	*-238*
Investment management fees	*0*	*0*	*-2*	*-2*
Technical result	-110	204	-2	91
Investment income*	382	92	69	543
Technical-financial result	271	296	66	634
Share in results of associated companies and joint ventures	–	–	0	0
RESULT BEFORE TAX	271	296	66	634
Income tax expense	–	–	–	-125
RESULT AFTER TAX	–	–	–	508
attributable to minority interests	–	–	–	*0*
attributable to equity holders of the parent	–	–	–	*508*
2020				
Earned premiums, insurance (before reinsurance)	1 223	1 795	0	3 019
of which changes in the provision for unearned premiums	*-2*	*-28*	*0*	*-30*
Technical charges, insurance (before reinsurance)	-1 212	-913	0	-2 126
Claims paid	*-1 137*	*-806*	*0*	*-1 943*
Change in technical provisions	*-53*	*-101*	*0*	*-154*
Other technical result	*-22*	*-6*	*0*	*-28*
Net fee and commission income	-17	-346	0	-362
Ceded reinsurance result	-2	-18	0	-20
General administrative expenses	-139	-248	-2	-390
Internal claims settlement expenses	*-8*	*-60*	*0*	*-67*
Indirect acquisition costs	*-30*	*-68*	*0*	*-98*
Administrative expenses	*-102*	*-120*	*0*	*-222*
Investment management fees	*0*	*0*	*-2*	*-2*
Technical result	-148	271	-2	121
Investment income*	355	92	29	477
Technical-financial result	207	363	27	598
Share in results of associated companies and joint ventures	–	–	0	0
RESULT BEFORE TAX	207	363	27	598
Income tax expense	–	–	–	-132
RESULT AFTER TAX	–	–	–	466
attributable to minority interests	–	–	–	*0*
attributable to equity holders of the parent	–	–	–	*466*

* Investment income (in millions of euros, for 2021 and 2020, respectively) comprises: ‘Net interest income’ (398, 450), ‘Net dividend income’ (31, 34), ‘Net result from financial instruments at fair value through profit or loss’ (117, 1), ‘Other net income’ (1, 8), ‘Net realised result from debt instruments at fair value through OCI’ (-2, 0) and ‘Impairment’ (-3, -15). The ‘Non-technical account’ also includes the results from non-insurance subsidiaries, such as VAB group and ADD, and a number of real estate companies. They have been included in the note for the ‘insurance business’ given that they are KBC Insurance subsidiaries (but as they cannot be recognised under ‘Life’ or ‘Non-life’, they are included under ‘Non-technical account’). The ‘Non-technical account’ also includes the investment income from equity (i.e. mainly interest income from bonds).

- The figures relating to earned premiums do not include investment contracts without DPF, which largely correspond to unit-linked contracts. The margin on these products is recognised under ‘Net fee and commission income’.
- ‘Non-life technical charges’ consist mainly of paid claims, changes in claims provisions, changes in the deficiency provision, recourse received, changes in recourse estimations and other technical charges. ‘Life technical charges’ consist primarily of paid claims, changes in claims provisions, changes in the life insurance provision, changes in the provision for (non-unbundled) unit-linked products, bonuses (profit-sharing), changes in the deficiency provision and other technical charges.
- An overview of the insurer’s investment portfolio can be found in the ‘How do we manage our risks?’ section (in the ‘Investment portfolio of KBC group insurance entities’ table, which constitutes part of the financial statements).
- In the vast majority of cases, internal acquisition costs are recognised immediately in the income statement (i.e. not spread).
- In 2021, the non-life technical result was negatively impacted by factors including the tornado in the Czech Republic and even more so by heavy flooding in Belgium. For the latter, claims totalled 110 million euros (before tax); after reinsurance, the net amount comes down to 87 million euros, 45 million euros of which above the legal limit (i.e. the ceiling introduced in Belgian law on the intervention of insurers in the event of very large floods), but which is still within the limit agreed between the Belgian insurance sector and the Walloon government.
- In 2020, the non-life technical result was negatively impacted by factors including storms in Belgium and positively impacted by the lower level of economic activity due to lockdown measures (which resulted in fewer claims – also see Note 1.4). See also ‘Climate-related and other ESG risks’ in the ‘How do we manage our risks?’ section.
- More information on the acquisition of certain life and pension insurance policies from NN in Bulgaria is provided in Note 6.6.

Reconciliation of the earned premiums stated in the consolidated income statement and in Note 3.7.1 (in millions of EUR)	**2021**	**2020**
Non-life insurance (before reinsurance) – Earned premiums		
In the consolidated income statement	1 885	1 777
Addition of premiums from intragroup transactions between bank and insurer	20	18
In Note 3.7.1	1 905	1 795
Life insurance (before reinsurance) – Earned premiums		
In the consolidated income statement	1 196	1 223
Addition of premiums from intragroup transactions between bank and insurer	1	0
In Note 3.7.1	1 196	1 223

Note 3.7.2: Life insurance

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

- As required under IFRS, we use deposit accounting for a number of investment contracts without DPF. This means that the premium income and technical charges from these contracts are not recognised under ‘Earned premiums’ and ‘Technical charges’, but that the margins on them are reported under ‘Net fee and commission income’. Investment contracts without DPF are more or less the same as unit-linked contracts, which in 2021 accounted for premium income of 0.9 billion euros and in 2020 for premium income of 1.0 billion euros. Premium income generated by investment contracts without DPF (under deposit accounting) is included in ‘Total sales of life insurance’, as presented in the lower part of the table. These sale volumes, therefore, comprise earned insurance premiums plus premiums from contracts that are subject to deposit accounting.

Note 3.7.3: Non-life insurance

(in millions of EUR)	Earned premiums (before reinsurance)	Technical insurance charges (before reinsurance)	Operating expenses (before reinsurance)	Ceded reinsurance	Total
2021					
Total	1 905	-1 106	-622	27	204
Accepted reinsurance	27	-11	-9	-3	4
Primary business	1 878	-1 095	-614	30	200
Accident & health (classes 1 & 2, excl. industrial accidents)	123	-53	-40	0	28
Industrial accidents (class 1)	89	-77	-16	0	-4
Motor, third-party liability (class 10)	512	-305	-148	-4	55
Motor, other classes (classes 3 & 7)	320	-179	-108	3	36
Shipping, aviation, transport (classes 4, 5, 6, 7, 11 & 12)	7	-2	-2	-1	1
Fire and other damage to property (classes 8 & 9)	569	-343	-211	28	44
General third-party liability (class 13)	142	-92	-46	1	6
Credit and suretyship (classes 14 & 15)	0	0	0	0	0
Miscellaneous pecuniary losses (class 16)	22	-9	-8	3	9
Legal assistance (class 17)	62	-28	-22	0	13
Assistance (class 18)	31	-6	-13	0	12
2020					
Total	1 795	-913	-593	-18	271
Accepted reinsurance	26	-16	-11	-13	-14
Primary business	1 770	-897	-583	-5	285
Accident & health (classes 1 & 2, excl. industrial accidents)	117	-69	-39	0	9
Industrial accidents (class 1)	77	-62	-17	-3	-6
Motor, third-party liability (class 10)	502	-306	-140	7	63
Motor, other classes (classes 3 & 7)	301	-138	-99	-1	62
Shipping, aviation, transport (classes 4, 5, 6, 7, 11 & 12)	5	-2	-2	0	1
Fire and other damage to property (classes 8 & 9)	528	-197	-199	-9	124
General third-party liability (class 13)	128	-88	-43	2	0
Credit and suretyship (classes 14 & 15)	0	0	0	0	0
Miscellaneous pecuniary losses (class 16)	21	-7	-8	0	6
Legal assistance (class 17)	60	-21	-21	0	17
Assistance (class 18)	30	-7	-14	0	10

Note 3.8: Operating expenses

(in millions of EUR)	2021	2020
Total	-4 396	-4 156
Staff expenses	-2 457	-2 329
General administrative expenses	-1 583	-1 518
of which bank taxes	*-525*	*-503*
Depreciation and amortisation of fixed assets	-356	-309

- The total expenses went up by 6% (or 240 million euros) in 2021 compared to 2020. The most important items were:
  - Staff expenses, which increased by 128 million euros, owing in part to changes in exchange rates (10 million euros), changes in the scope of consolidation (29 million euros), payment of a one-off coronavirus-related bonus to staff (18 million euros), and one-off staff expenses related to the sale transactions (which have not all been finalised yet) in Ireland (78 million euros; see Note 6.6). For information on the average number of persons employed, see Note 3.9; information on the remuneration of members of the Executive Committee and the Board of Directors is provided under 'Remuneration report for financial year 2021' in the 'Corporate governance statement' section; details of the statutory auditor's remuneration (PWC) are provided in Note 6.4.
  - General administrative expenses, which increased by 65 million euros, due to changes in exchange rates (6 million euros), changes in the scope of consolidation (23 million euros), one-off staff expenses related to the sale transactions in Ireland (5 million euros; see Note 6.6) and higher special bank taxes imposed on financial institutions (22 million euros). The total bank taxes for 2021 amounted to 525 million euros and comprise: 318 million euros in the Belgium Business Unit, 52 million euros in the Czech Republic Business Unit, 7 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 47 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 sale transactions in Ireland (15 million euro; see Note 6.6).
- For information on the impact of the coronavirus crisis, see Note 1.4.
- Share-based employee benefits are included under 'Staff expenses': since 2000, KBC has launched several stock option plans for its employees. There were no longer any outstanding options at year-end 2020 and 2021.
- Information on the capital increase reserved for KBC group employees can be found in the 'Company annual accounts and additional information' section. In 2021, this resulted in the recognition of a limited employee benefit (2 million euros) as the issue price was lower than the market price. Information regarding the price of the KBC share can be found in the 'Report of the Board of Directors' section.

Note 3.9: Personnel

(number)	2021	2020
Total average number of persons employed (in full-time equivalents)	37 194	37 137
By legal entity		
KBC Bank	28 558	28 838
KBC Insurance	3 953	3 972
KBC Group NV (holding company)	4 683	4 327
By employee classification		
Blue-collar staff	383	380
White-collar staff	36 558	36 500
Senior management	253	257

- The figures in the table are annual averages, which – in terms of scope – may differ from year-end figures that are provided elsewhere.
- The staff numbers for OTP Banka Slovensko were only included from 2021 (520 FTEs on average). The staff numbers for NN's Bulgarian life and pension insurance businesses were included from August 2021 (52 FTEs on average).

Note 3.10: Impairment (income statement)

(in millions of EUR)	2021	2020
Total	261	-1 182
Impairment on financial assets at AC and at FVOCI	334	-1 074
Of which impairment on financial assets at AC	330	-1 069
By product		
Loans and advances	*315*	*-1 067*
Debt securities	*-1*	*0*
Off-balance-sheet commitments and financial guarantees	*15*	*-2*
By type		
Stage 1 (12-month ECL)	*70*	*-44*
Stage 2 (lifetime ECL)	*449*	*-724*
Stage 3 (lifetime ECL)	*-191*	*-302*
Purchased or originated credit impaired assets	*2*	*1*
Of which impairment on financial assets at FVOCI	4	-5
Debt securities	4	-5
Stage 1 (12-month ECL)	*3*	*-2*
Stage 2 (lifetime ECL)	*0*	*-2*
Stage 3 (lifetime ECL)	*0*	*0*
Impairment on goodwill	-7	0
Impairment on other	-65	-108
Intangible fixed assets (other than goodwill)	-35	-64
Property and equipment (including investment property)	-17	-9
Associated companies and joint ventures	0	0
Other	-13	-35

- 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: -309 million euros in 2021, +654 million euros in 2020;
  - Czech Republic Business Unit: -142 million euros in 2021, +210 million euros in 2020;
  - International Markets Business Unit: +110 million euros in 2021, +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, -7 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’ included a software impairment of 59 million euros recorded in the fourth quarter, relating to software development projects that were partially or completely abandoned, and 29 million euros relating to modification losses in the group’s various core countries due to the payment moratoria schemes implemented in these countries as a result of the coronavirus crisis. In 2021, this item included an impairment of tangible and intangible assets of 32 million euros relating to the sale transactions 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. Moreover 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	0.3	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		
Isabel NV	*2*	*1*
Joyn International NV	*1*	*-3*
Bancontact Payconiq Company NV	*1*	*0*
Payconiq International SA	*-6*	*-7*
Mallpay	*-3*	*-2*
Batopin 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	-804	-407
By type		
Current taxes on income	-485	-560
Deferred taxes on income	-319	153
Tax components		
Result before tax	3 418	1 847
Income tax at the Belgian statutory rate	25.00%	25.00%
Income tax calculated	-855	-462
Plus/minus tax effects attributable to		
differences in tax rates, Belgium – abroad	*106*	*86*
tax-free income	*86*	*40*
adjustments related to prior years	*-4*	*-9*
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 (including non-deductible expenses)	*-81*	*-62*

- 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.
- Country-by-country reporting (according to the Royal Decree of 27 November 2014 amending the royal decrees concerning the financial statements and consolidated financial statements of credit institutions, investment firms and management companies of undertakings for collective investment) is provided at the consolidated level of KBC Bank and is dealt with in Note 3.12 of the KBC Bank Annual Report (available at www.kbc.com). This report is also drawn up for KBC Group NV, for information purposes only, and includes the information required under GRI 207 (more details provided below) and also anticipates the provisions of EU Directive 2021/2101 of 24 November 2021 on public country-by-country reporting.

(in millions of EUR)	Average number of FTEs	Revenues from third-party sales[1]	Revenues from intra-group transactions with other tax jurisdictions[2]	Result before tax	Income tax accued - current year	Income taxes paid on a cash basis	Retained earnings	Tangible assets other than cash and cash equivalents[3]	Government grants received
2021									
KBC core countries									
Belgium	14 223	4 259	46	2 018	-356	-333	12 886	2 130	0
Czech Republic	10 029	1 508	-53	845	-132	-101	2 051	560	0
Slovakia	3 683	572	-8	268	-41	-29	651	164	0
Hungary	3 513	329	7	111	-15	-15	-217	203	0
Bulgaria	4 203	259	-13	128	-13	-12	-176	193	0
Ireland	1 192	343	139	- 134	-4	-4	-1 630	47	0
Other countries									
China	45	9	0	3	3	3	0	1	0
Germany	23	14	0	13	8	8	0	0	0
France	52	50	-2	30	21	21	1	1	0
Great Britain	37	46	1	13	10	10	521	1	0
Hong Kong	40	8	0	1	1	1	0	1	0
Italy	8	0	0	-2	-2	-2	0	0	0
Luxembourg	39	75	-117	63	-7	10	162	142	0
The Netherlands	21	35	0	30	20	20	7	74	0
Romania	0	4	0	4	0	0	17	34	0
Singapore	39	9	0	11	9	11	0	1	0
Slovenia	0	0	0	0	0	0	0	0	0
USA	49	39	0	17	13	15	0	17	0
Total	37 194	7 558	0	3 418	-485	-398	14 272	3 568	0
2020									
KBC core countries									
Belgium	14 582	4 018	-65	882	-360	-310	12 400	2 185	0
Czech Republic	10 218	1 424	0	457	-114	-110	1 523	579	0
Slovakia	3 771	527	-18	143	-27	-23	453	178	0
Hungary	2 921	299	-6	71	-23	-20	-260	215	0
Bulgaria	3 980	244	-7	85	-9	-9	-289	209	0
Ireland	1 301	406	148	97	-14	-13	-1 385	64	0
Other countries									
China	38	13	0	-5	0	0	0	0	0
Germany	21	13	0	-9	0	0	0	0	0
France	53	44	-2	19	0	0	0	0	0
Great Britain	37	45	2	20	0	0	523	0	0
Hong Kong	37	9	0	1	0	0	0	0	0
Italy	6	0	0	-2	0	0	0	0	0
Luxembourg	48	65	-53	48	-11	4	164	149	0
The Netherlands	26	37	0	26	-2	-1	5	77	0
Romania	0	3	0	3	0	0	12	36	0
Singapore	48	14	0	-2	0	0	0	0	0
Slovenia	0	2	0	2	0	0	0	0	0
USA	50	33	0	10	0	0	0	0	0
Total	37 137	7 195	0	1 847	-560	-481	13 146	3 691	0

Countries with zero FTEs and whose figures are below 0.5 million euros (i.e. rounded to zero in the table) have been excluded.
1 Corresponds to 'Total income' in the income statement.
2 If this column contains a positive figure for a particular jurisdiction, this means that all group entities in this jurisdiction combined had more intra-group income than intra-group expenses arising from transactions with other tax jurisdictions. If the figure is negative, this means that all group entities in this jurisdiction combined had less intra-group income than intra-group expenses arising from transactions with other tax jurisdictions.
3 Corresponds to 'Property and equipment and investment property' in the balance sheet.

Note 3.13: Earnings per share

(in millions of EUR)	2021	2020
Result after tax, attributable to equity holders of the parent	2 614	1 440
Coupon on AT1 instruments	-50	-50
Net result used to determine basic earnings per share	2 564	1 390
Weighted average number of ordinary shares outstanding (millions of units)	417	416
Basic earnings per share (EUR)	6.15	3.34

- Diluted earnings per share are currently almost the same as basic earnings per share.

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

Note 4.1: Financial assets and liabilities, breakdown by portfolio and product

(in millions of EUR)	Measu-red at amor-tised cost (AC)	Measu-red at fair value through other compre-hensive income (FVOCI)	Manda-torily measured at fair value through profit or loss (MFVPL) excl. HFT and overlay	Measured at fair value – overlay approach (overlay)	Held for trading (HFT)	Desig-nated at fair value[1] (FVO)	Hedging deriva-tives	Total	*Pro forma: excluding KBC Bank Ireland[7]*
FINANCIAL ASSETS, 31-12-2021									
Loans and advances to credit institutions and investment firms (excl. reverse repos)[a]	7 920	0	0	0	1	0	0	7 920	-
Loans and advances to customers (excl. reverse repos)	159 167	0	560	0	0	0	0	159 728	-
Trade receivables	*2 090*	*0*	*0*	*0*	*0*	*0*	*0*	*2 090*	-
Consumer credit	*5 470*	*0*	*381*	*0*	*0*	*0*	*0*	*5 851*	-
Mortgage loans	*67 486*	*0*	*179*	*0*	*0*	*0*	*0*	*67 665*	-
Term loans	*72 998*	*0*	*0*	*0*	*0*	*0*	*0*	*72 998*	-
Finance lease	*5 815*	*0*	*0*	*0*	*0*	*0*	*0*	*5 815*	-
Current account advances	*4 819*	*0*	*0*	*0*	*0*	*0*	*0*	*4 819*	-
Other	*490*	*0*	*0*	*0*	*0*	*0*	*0*	*490*	-
Reverse repos[2]	24 978	0	0	0	0	0	0	24 978	-
with credit institutions and investment firms	*24 861*	*0*	*0*	*0*	*0*	*0*	*0*	*24 861*	-
with customers	*117*	*0*	*0*	*0*	*0*	*0*	*0*	*117*	-
Equity instruments	0	321	8	1 366	448	0	0	2 144	-
Investment contracts (insurance)[6]	0	0	14 620	0	0	0	0	14 620	-
Debt securities issued by	47 172	15 503	17	0	2 958	0	0	65 650	-
Public bodies	*41 475*	*10 514*	*0*	*0*	*2 517*	*0*	*0*	*54 507*	-
Credit institutions and investment firms	*3 310*	*2 245*	*0*	*0*	*357*	*0*	*0*	*5 912*	-
Corporates	*2 387*	*2 744*	*17*	*0*	*84*	*0*	*0*	*5 232*	-
Derivatives	0	0	0	0	5 443	0	283	5 727	-
Other[3]	892	0	0	0	0	0	0	892	-
Total	240 128	15 824	15 205	1 366	8 850	0	283	281 658	-
a of which loans and advances to banks repayable on demand and term loans to banks at not more than three months								3 146	-
FINANCIAL ASSETS, 31-12-2020									
Loans and advances to credit institutions and investment firms (excl. reverse repos)[a]	6 343	0	0	0	0	0	0	6 343	*6 343*
Loans and advances to customers (excl. reverse repos)	159 234	0	387	0	0	0	0	159 621	*149 655*
Trade receivables	*1 686*	*0*	*0*	*0*	*0*	*0*	*0*	*1 686*	*1 686*
Consumer credit	*5 476*	*0*	*273*	*0*	*0*	*0*	*0*	*5 749*	*5 705*
Mortgage loans	*71 841*	*0*	*109*	*0*	*0*	*0*	*0*	*71 950*	*62 106*
Term loans	*69 477*	*0*	*5*	*0*	*0*	*0*	*0*	*69 482*	*69 418*
Finance lease	*5 747*	*0*	*0*	*0*	*0*	*0*	*0*	*5 747*	*5 747*
Current account advances	*4 285*	*0*	*0*	*0*	*0*	*0*	*0*	*4 285*	*4 272*
Other	*722*	*0*	*0*	*0*	*0*	*0*	*0*	*722*	*722*
Reverse repos[2]	27 628	0	0	0	0	0	0	27 628	*27 628*
with credit institutions and investment firms	*27 444*	*0*	*0*	*0*	*0*	*0*	*0*	*27 444*	*27 444*
with customers	*184*	*0*	*0*	*0*	*0*	*0*	*0*	*184*	*184*
Equity instruments	0	294	7	1 276	489	0	0	2 067	*2 067*
Investment contracts (insurance)[6]	0	0	13 830	0	0	0	0	13 830	*13 830*
Debt securities issued by	48 965	18 157	53	0	2 542	0	0	69 717	*68 478*
Public bodies	*42 432*	*12 301*	*0*	*0*	*2 479*	*0*	*0*	*57 212*	*55 973*
Credit institutions and investment firms	*3 902*	*2 569*	*0*	*0*	*19*	*0*	*0*	*6 490*	*6 490*
Corporates	*2 631*	*3 286*	*53*	*0*	*45*	*0*	*0*	*6 014*	*6 014*
Derivatives	0	0	0	0	5 659	0	160	5 818	*5 806*
Other[3]	1 358	0	0	0	4	0	0	1 361	*1 361*
Total	243 527	18 451	14 277	1 276	8 695	0	160	286 386	*275 168*
a of which loans and advances to banks repayable on demand and term loans to banks at not more than three months								1 393	*1 393*

(in millions of EUR)	Measured at amortised cost (AC)	Held for trading (HFT)	Designated at fair value (FVO)	Hedging derivatives	Total	*Pro forma: excluding KBC Bank Ireland*[7]
FINANCIAL LIABILITIES, 31-12-2021						
Deposits from credit institutions and investment firms (excl. repos)[a]	38 047	0	0	0	38 047	-
Deposits from customers and debt securities (excl. repos)	224 759	21	1 312	0	226 093	-
Demand deposits	*112 097*	*0*	*0*	*0*	*112 097*	-
Time deposits	*9 106*	*21*	*60*	*0*	*9 187*	-
Savings accounts	*74 801*	*0*	*0*	*0*	*74 801*	-
Special deposits	*2 962*	*0*	*0*	*0*	*2 962*	-
Other deposits	*428*	*0*	*0*	*0*	*428*	-
Subtotal deposits from customers (excl. repos)	*199 395*	*21*	*60*	*0*	*199 476*	-
Certificates of deposit	*6 273*	*0*	*0*	*0*	*6 273*	-
Savings certificates	*253*	*0*	*0*	*0*	*253*	-
Non-convertible bonds	*15 892*	*0*	*1 118*	*0*	*17 011*	-
Non-convertible subordinated liabilities	*2 946*	*0*	*134*	*0*	*3 080*	-
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*	-
Liabilities under investment contracts[6]	0	0	13 603	0	13 603	-
Derivatives	0	5 619	0	1 094	6 713	-
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]	2 288	0	0	0	2 288	-
Total	268 387	7 271	14 916	1 094	291 667	-
a of which deposits from banks repayable on demand					4 695	-
FINANCIAL LIABILITIES, 31-12-2020						
Deposits from credit institutions and investment firms (excl. repos)[a]	34 605	0	0	0	34 605	*34 331*
Deposits from customers and debt securities (excl. repos)	213 801	101	1 528	0	215 430	*211 162*
Demand deposits	*100 986*	*0*	*0*	*0*	*100 986*	*100 449*
Time deposits	*11 768*	*16*	*117*	*0*	*11 902*	*10 595*
Savings accounts	*74 862*	*0*	*0*	*0*	*74 862*	*72 437*
Special deposits	*2 543*	*0*	*0*	*0*	*2 543*	*2 543*
Other deposits	*260*	*0*	*0*	*0*	*260*	*260*
Subtotal deposits from customers (excl. repos)	*190 419*	*16*	*117*	*0*	*190 553*	*186 285*
Certificates of deposit	*5 412*	*0*	*5*	*0*	*5 417*	*5 417*
Savings certificates	*454*	*0*	*0*	*0*	*454*	*454*
Non-convertible bonds	*15 319*	*85*	*1 264*	*0*	*16 668*	*16 668*
Non-convertible subordinated liabilities	*2 196*	*0*	*142*	*0*	*2 338*	*2 338*
Repos[4]	3 570	0	0	0	3 570	*3 570*
with credit institutions and investment firms	*3 288*	*0*	*0*	*0*	*3 288*	*3 288*
with customers	*282*	*0*	*0*	*0*	*282*	*282*
Liabilities under investment contracts[6]	0	0	12 724	0	12 724	*12 724*
Derivatives	0	5 362	0	1 319	6 681	*6 681*
Short positions	0	1 694	0	0	1 694	*1 694*
In equity instruments	*0*	*12*	*0*	*0*	*12*	*12*
In debt securities	*0*	*1 682*	*0*	*0*	*1 682*	*1 682*
Other[5]	2 077	0	0	0	2 077	*2 077*
Total	254 053	7 157	14 252	1 319	276 781	*272 239*
a of which deposits from banks repayable on demand					4 604	*4 341*

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

- ‘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 9 000 million euros (debt instruments classified as ‘Held for trading’ (1 132 million euros), as ‘Measured at fair value through OCI’ (1 137 million euros) and as ‘Measured at amortised cost’ (6 731 million euros)); and an associated financial liability with a carrying value of 3 151 million euros (1 142 million euros classified as ‘Held for trading’, 1 143 million euros as ‘Measured at fair value through OCI’ and 866 million euros as ‘Measured at amortised cost’). It should be noted that KBC has more transferred financial assets on its balance sheet than repo transactions, due to the fact the cash legs of certain repo transactions are offset against reverse repo transactions if they are carried out with the same counterparty, in the same currency and with the same maturity date.
- More information on the acquisition of NN’s Bulgarian life and pension insurance business is provided in Note 6.6. Sale of activities in Ireland: see footnote 7 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]	194 638	-2 573	192 065
Stage 1 (12-month ECL)	167 426	-104	167 322
Stage 2 (lifetime ECL)	23 131	-507	22 624
Stage 3 (lifetime ECL)	3 493	-1 848	1 645
Purchased or originated credit impaired assets (POCI)	588	-114	474
Financial assets at amortised cost: Debt securities	47 181	-9	47 172
Stage 1 (12-month ECL)	47 155	-5	47 150
Stage 2 (lifetime ECL)	24	-3	21
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	15 509	-6	15 503
Stage 1 (12-month ECL)	15 418	-3	15 415
Stage 2 (lifetime ECL)	91	-3	88
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]	196 900	-3 695	193 205
Stage 1 (12-month ECL)	172 059	-168	171 891
Stage 2 (lifetime ECL)	19 423	-992	18 431
Stage 3 (lifetime ECL)	5 278	-2 517	2 761
Purchased or originated credit impaired assets (POCI)	139	-18	121
Financial assets at amortised cost: Debt securities	48 974	-9	48 965
Stage 1 (12-month ECL)	48 935	-6	48 929
Stage 2 (lifetime ECL)	36	-1	35
Stage 3 (lifetime ECL)	3	-2	1
Purchased or originated credit impaired assets (POCI)	0	0	0
Financial assets at fair value through OCI: Debt securities	18 166	-9	18 157
Stage 1 (12-month ECL)	18 028	-6	18 022
Stage 2 (lifetime ECL)	138	-3	135
Stage 3 (lifetime ECL)	0	0	0
Purchased or originated credit impaired assets (POCI)	0	0	0
Pro forma 31-12-2020, excluding KBC Bank Ireland[2]			
Financial assets at amortised cost: Loans and advances[1]	186 482	-3 243	183 239
Stage 1 (12-month ECL)	163 726	-158	163 568
Stage 2 (lifetime ECL)	18 772	-925	17 847
Stage 3 (lifetime ECL)	3 844	-2 142	1 703
Purchased or originated credit impaired assets (POCI)	139	-18	121
Financial assets at amortised cost: Debt securities	47 886	-9	47 877
Stage 1 (12-month ECL)	47 847	-6	47 841
Stage 2 (lifetime ECL)	36	-1	35
Stage 3 (lifetime ECL)	3	-2	1
Purchased or originated credit impaired assets (POCI)	0	0	0
Financial assets at fair value through OCI: Debt securities	18 015	-9	18 005
Stage 1 (12-month ECL)	17 877	-6	17 871
Stage 2 (lifetime ECL)	138	-3	135
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 migrated collectively to '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 migrated from 'Stage 1' to 'Stage 2'. Apart from that, the transfer 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 before impairment amount 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)	Stage 1 Subject to 12-month ECL	Stage 2 Subject to lifetime ECL	Stage 3 Subject to lifetime ECL	Subject to lifetime ECL (purchased or originated credit impaired)	Total
2021					
LOANS AND ADVANCES AT AMORTISED COST					
Impairment on 01-01-2021	168	992	2 517	18	3 695
Movements with an impact on results[1]	-62	-454	242	-2	-276
Transfer of financial assets					
Stage 1 (12-month ECL)	*-12*	*99*	*42*	*0*	*129*
Stage 2 (lifetime ECL)	*6*	*-116*	*80*	*0*	*-30*
Stage 3 'non-performing' (lifetime ECL)	*0*	*20*	*-36*	*0*	*-16*
New financial assets[2]	25	14	7	0	45
Changes in risk parameters during the reporting period	-57	-426	214	1	-269
Changes in the model or methodology	0	-1	0	0	-1
Derecognised financial assets[3]	-24	-48	-84	-2	-158
Other	0	2	20	0	22
Movements without an impact on results	-2	-32	-911	98	-847
Derecognised financial assets[3]	0	0	-286	-12	-299
Changes in the scope of consolidation	0	0	4	0	4
Transfers under IFRS 5	-3	-31	-540	0	-574
Other	1	0	-90	110	21
Impairment on 31-12-2021	104	507	1 848	114	2 573
DEBT SECURITIES AT AMORTISED COST					
Impairment on 01-01-2021	6	1	2	0	9
Movements with an impact on results[1]	-1	2	0	0	1
Transfer of financial assets					
Stage 1 (12-month ECL)	*0*	*0*	*0*	*0*	*0*
Stage 2 (lifetime ECL)	*0*	*0*	*0*	*0*	*0*
Stage 3 'non-performing' (lifetime ECL)	*0*	*0*	*0*	*0*	*0*
New financial assets[2]	1	0	0	0	1
Changes in risk parameters during the reporting period	-2	3	0	0	1
Changes in the model or methodology	0	0	0	0	0
Derecognised financial assets[3]	0	0	0	0	-1
Other	0	0	0	0	0
Movements without an impact on results	0	0	-1	0	-1
Derecognised financial assets[3]	0	0	-1	0	-1
Changes in the scope of consolidation	0	0	0	0	0
Transfers under IFRS 5	0	0	0	0	0
Other	0	0	0	0	0
Impairment on 31-12-2021	5	3	1	0	9
DEBT SECURITIES AT FAIR VALUE THROUGH OCI					
Impairment on 01-01-2021	6	3	0	0	9
Movements with an impact on results[1]	-3	0	0	0	-4
Transfer of financial assets					
Stage 1 (12-month ECL)	*0*	*0*	*0*	*0*	*0*
Stage 2 (lifetime ECL)	*0*	*-1*	*0*	*0*	*-1*
Stage 3 'non-performing' (lifetime ECL)	*0*	*0*	*0*	*0*	*0*
New financial assets[2]	0	0	0	0	0
Changes in risk parameters during the reporting period	-3	0	0	0	-3
Changes in the model or methodology	0	0	0	0	0
Derecognised financial assets[3]	-1	0	0	0	-1
Other	0	0	0	0	0
Movements without an impact on results	0	0	0	0	0
Derecognised financial assets[3]	0	0	0	0	0
Changes in the scope of consolidation	0	0	0	0	0
Transfers under IFRS 5	0	0	0	0	0
Other	0	0	0	0	0
Impairment on 31-12-2021	3	3	0	0	6

2020					
LOANS AND ADVANCES AT AMORTISED COST					
Impairment on 01-01-2020	131	254	2 444	26	2 855
Movements with an impact on results[1]	31	725	352	0	1 107
Transfer of financial assets					
Stage 1 (12-month ECL)	*-7*	*129*	*74*	*0*	*196*
Stage 2 (lifetime ECL)	*5*	*-70*	*282*	*0*	*217*
Stage 3 'non-performing' (lifetime ECL)	*0*	*25*	*-30*	*0*	*-4*
New financial assets[2]	23	14	5	0	42
Changes in risk parameters during the reporting period	29	637	84	1	751
Changes in the model or methodology	-8	-3	-7	0	-18
Derecognised financial assets[3]	-9	-13	-90	-2	-113
Other	-2	4	33	-1	35
Movements without an impact on results	7	13	-278	-8	-266
Derecognised financial assets[3]	0	0	-323	-8	-332
Changes in the scope of consolidation	9	20	67	0	96
Transfers under IFRS 5	0	0	0	0	0
Other	-2	-6	-22	0	-30
Impairment on 31-12-2020	168	992	2 517	18	3 695
DEBT SECURITIES AT AMORTISED COST					
Impairment on 01-01-2020	5	2	6	0	12
Movements with an impact on results[1]	2	-1	0	0	0
Transfer of financial assets					
Stage 1 (12-month ECL)	*0*	*0*	*0*	*0*	*0*
Stage 2 (lifetime ECL)	*0*	*0*	*0*	*0*	*0*
Stage 3 'non-performing' (lifetime ECL)	*0*	*0*	*0*	*0*	*0*
New financial assets[2]	1	0	0	0	1
Changes in risk parameters during the reporting period	0	-1	0	0	-1
Changes in the model or methodology	0	0	0	0	0
Derecognised financial assets[3]	0	0	0	0	0
Other	0	0	0	0	0
Movements without an impact on results	0	0	-3	0	-3
Derecognised financial assets[3]	0	0	-3	0	-3
Changes in the scope of consolidation	0	0	0	0	0
Transfers under IFRS 5	0	0	0	0	0
Other	0	0	0	0	0
Impairment on 31-12-2020	6	1	2	0	9
DEBT SECURITIES AT FAIR VALUE THROUGH OCI					
Impairment on 01-01-2020	4	1	0	0	5
Movements with an impact on results[1]	2	2	0	0	5
Transfer of financial assets					
Stage 1 (12-month ECL)	*0*	*2*	*0*	*0*	*2*
Stage 2 (lifetime ECL)	*0*	*0*	*0*	*0*	*0*
Stage 3 'non-performing' (lifetime ECL)	*0*	*0*	*0*	*0*	*0*
New financial assets[2]	0	0	0	0	0
Changes in risk parameters during the reporting period	2	0	0	0	3
Changes in the model or methodology	0	0	0	0	0
Derecognised financial assets[3]	0	0	0	0	0
Other	0	0	0	0	0
Movements without an impact on results	0	0	0	0	0
Derecognised financial assets[3]	0	0	0	0	0
Changes in the scope of consolidation	0	0	0	0	0
Transfers under IFRS 5	0	0	0	0	0
Other	0	0	0	0	0
Impairment on 31-12-2020	6	3	0	0	9

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)
31-12-2021			
Subject to impairment	309 988	127 140	182 848
of which Stage 3 'non-performing' (AC and FVOCI)	*2 072*	*1 584*	*488*
Debt securities	62 675	93	62 582
Loans and advances (excl. reverse repos)	167 087	90 770	76 317
Reverse repos	24 978	24 877	101
Other financial assets	892	0	892
Off-balance-sheet liabilities	54 357	11 400	42 957
Irrevocable	*36 957*	*6 031*	*30 926*
*Revocable**	*17 401*	*5 370*	*12 031*
Not subject to impairment	9 263	2 294	6 969
Debt securities	2 976	0	2 976
Loans and advances (excl. reverse repos)	561	545	16
of which designated upon initial recognition at fair value through profit or loss (FVO)	*0*	*0*	*0*
Reverse repos	0	0	0
Derivatives	5 727	1 749	3 977
Other financial assets	0	0	0
Off-balance-sheet liabilities	0	0	0
Total	319 251	129 434	189 818
31-12-2020			
Subject to impairment	311 704	132 559	179 146
of which Stage 3 'non-performing' (AC and FVOCI)	*2 923*	*2 538*	*385*
Debt securities	67 122	112	67 009
Loans and advances (excl. reverse repos)	165 577	94 373	71 204
Reverse repos	27 628	27 558	69
Other financial assets	1 358	0	1 358
Off-balance-sheet liabilities	50 021	10 515	39 505
Irrevocable	*33 479*	*4 224*	*29 255*
*Revocable**	*16 542*	*6 291*	*10 250*
Not subject to impairment	8 805	1 739	7 066
Debt securities	2 595	0	2 595
Loans and advances (excl. reverse repos)	387	368	20
of which designated upon initial recognition at fair value through profit or loss (FVO)	0	0	0
Reverse repos	0	0	0
Derivatives	5 818	1 371	4 447
Other financial assets	4	0	4
Off-balance-sheet liabilities	0	0	0
Total	320 509	134 298	186 212

* 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	Gross amount of recognised financial instruments	Gross amounts of recognised financial instruments set off	Net amounts of financial instruments presented in the balance sheet	Amounts not set off in the balance sheet			Net amount
(in millions of EUR)				Financial instru-ments	Cash collateral	Securities collateral	
31-12-2021							
FINANCIAL ASSETS							
Derivatives	13 969	8 242	5 727	2 731	1 298	112	1 586
Derivatives (excluding central clearing houses)	*5 619*	*0*	*5 619*	*2 731*	*1 298*	*112*	*1 478*
*Derivatives with central clearing houses**	*8 349*	*8 242*	*107*	*0*	*0*	*0*	*107*
Reverse repos, securities borrowing and similar arrangements	38 160	13 182	24 978	67	0	24 900	10
Reverse repos	*38 160*	*13 182*	*24 978*	*67*	*0*	*24 900*	*10*
Securities borrowing	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Other financial instruments	0	0	0	0	0	0	0
Total	52 129	21 425	30 704	2 798	1 298	25 012	1 596
FINANCIAL LIABILITIES							
Derivatives	16 084	9 372	6 713	3 015	1 793	640	1 265
Derivatives (excluding central clearing houses)	*6 608*	*0*	*6 609*	*3 015*	*1 793*	*640*	*1 161*
*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	32 562	22 554	10 008	3 174	1 793	3 774	1 266
31-12-2020							
FINANCIAL ASSETS							
Derivatives	11 519	5 700	5 818	3 039	812	327	1 640
Derivatives (excluding central clearing houses)	*5 772*	*0*	*5 772*	*3 039*	*812*	*327*	*1 594*
*Derivatives with central clearing houses**	*5 746*	*5 700*	*46*	*0*	*0*	*0*	*46*
Reverse repos, securities borrowing and similar arrangements	37 768	10 141	27 628	1 466	0	26 150	11
Reverse repos	*37 768*	*10 141*	*27 628*	*1 466*	*0*	*26 150*	*11*
Securities borrowing	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Other financial instruments	0	0	0	0	0	0	0
Total	49 287	15 841	33 446	4 506	812	26 478	1 651
FINANCIAL LIABILITIES							
Derivatives	14 610	7 929	6 681	3 040	2 376	494	771
Derivatives (excluding central clearing houses)	*6 625*	*0*	*6 625*	*3 040*	*2 376*	*494*	*715*
*Derivatives with central clearing houses**	*7 985*	*7 929*	*57*	*0*	*0*	*0*	*57*
Repos, securities lending and similar arrangements	13 711	10 141	3 570	1 466	0	2 102	1
Repos	*13 711*	*10 141*	*3 570*	*1 466*	*0*	*2 102*	*1*
Securities lending	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Other financial instruments	0	0	0	0	0	0	0
Total	28 321	18 069	10 251	4 506	2 376	2 596	773

* For central clearing houses, the offsetting procedure refers to the amount of offsetting between derivatives and related cash collateral. Cash collateral with central clearing houses amounted to 1 130 million euros at year-end 2021 and 2 228 million euros at year-end 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 instruments that are not measured at fair value in the balance sheet	Financial assets at amortised cost		Financial liabilities at amortised cost	
(in millions of EUR)	Carrying value	Fair value	Carrying value	Fair value
31-12-2021				
FINANCIAL ASSETS				
Loans and advances to credit institutions and investment firms (incl. reverse repos)	32 780	32 789	–	–
Loans and advances to customers (incl. reverse repos)	159 285	160 037	–	–
Debt securities	47 172	47 878	–	–
Other	892	892	–	–
Total	240 128	241 595	–	–
Level 1	–	44 062	–	–
Level 2	–	36 737	–	–
Level 3	–	160 797	–	–
FINANCIAL LIABILITIES				
Deposits from credit institutions and investment firms (incl. repos)	–	–	40 935	41 003
Deposits from customers and debt securities (incl. repos)	–	–	225 164	225 299
Liabilities under investment contracts	–	–	0	0
Other	–	–	2 288	2 286
Total	–	–	268 387	268 588
Level 1	–	–	–	24
Level 2	–	–	–	105 714
Level 3	–	–	–	162 850
31-12-2020				
FINANCIAL ASSETS				
Loans and advances to credit institutions and investment firms (incl. reverse repos)	33 787	33 791	–	–
Loans and advances to customers (incl. reverse repos)	159 418	162 055	–	–
Debt securities	48 965	53 080	–	–
Other	1 358	1 358	–	–
Total	243 527	250 283	–	–
Level 1	–	47 976	–	–
Level 2	–	39 467	–	–
Level 3	–	162 839	–	–
FINANCIAL LIABILITIES				
Deposits from credit institutions and investment firms (incl. repos)	–	–	37 893	38 199
Deposits from customers and debt securities (incl. repos)	–	–	214 083	214 571
Liabilities under investment contracts	–	–	0	0
Other	–	–	2 077	2 077
Total	–	–	254 053	254 846
Level 1	–	–	–	32
Level 2	–	–	–	105 973
Level 3	–	–	–	148 841

- 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

Fair value hierarchy				31-12-2021				31-12-2020
(in millions of EUR)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS AT FAIR VALUE								
Mandatorily measured at fair value through profit or loss other than held for trading (including overlay)								
Loans and advances to credit institutions and investment firms (incl. reverse repos)	0	0	0	0	0	0	0	0
Loans and advances to customers (incl. reverse repos)	0	0	560	560	0	0	387	387
Equity instruments	1 323	0	52	1 374	1 217	3	63	1 283
Investment contracts (insurance)	14 365	254	0	14 620	13 490	341	0	13 830
Debt securities	14	0	3	17	16	0	37	53
of which sovereign bonds	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Held for trading								
Loans and advances to credit institutions and investment firms (incl. reverse repos)	0	1	0	1	0	0	0	0
Loans and advances to customers (incl. reverse repos)	0	0	0	0	0	0	0	0
Equity instruments	448	0	0	448	489	0	0	489
Debt securities	1 522	1 432	4	2 958	2 156	373	13	2 542
of which sovereign bonds	*1 441*	*1 076*	*0*	*2 517*	*2 123*	*356*	*0*	*2 479*
Derivatives	1	4 482	961	5 443	1	4 703	954	5 659
Other	0	0	0	0	0	4	0	4
Designated upon initial recognition at fair value through profit or loss (FVO)								
Loans and advances to credit institutions and investment firms (incl. reverse repos)	0	0	0	0	0	0	0	0
Loans and advances to customers (incl. reverse repos)	0	0	0	0	0	0	0	0
Debt securities	0	0	0	0	0	0	0	0
of which sovereign bonds	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
At fair value through OCI								
Equity instruments	15	1	306	321	48	6	240	294
Debt securities	12 269	2 963	271	15 503	14 464	3 357	335	18 157
of which sovereign bonds	*8 751*	*1 711*	*52*	*10 514*	*10 207*	*1 967*	*128*	*12 301*
Hedging derivatives								
Derivatives	0	283	0	283	0	160	0	160
Total								
Total financial assets at fair value	29 956	9 416	2 157	41 529	31 881	8 948	2 030	42 859
FINANCIAL LIABILITIES AT FAIR VALUE								
Held for trading								
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	4 410	1 209	5 619	3	4 253	1 106	5 362
Short positions	1 582	47	0	1 628	1 694	0	0	1 694
Designated at fair value								
Deposits from credit institutions and investment firms (incl. repos)	0	0	0	0	0	0	0	0
Deposits from customers and debt securities (incl. repos)	0	61	1 251	1 312	0	377	1 151	1 528
Liabilities under investment contracts	13 603	0	0	13 603	12 724	0	0	12 724
Hedging derivatives								
Derivatives	0	696	398	1 094	0	1 319	0	1 319
Total								
Total financial liabilities at fair value	15 185	5 238	2 857	23 280	14 420	5 966	2 342	22 728

- 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 206 million euros' worth of financial assets and liabilities out of level 1 and into level 2. It also reclassified approximately 294 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 155 million euros' worth of financial assets and liabilities out of level 1 and into level 2. It also reclassified approximately 256 million euros' worth of financial assets and liabilities from level 2 to level 1. Most of these reclassifications were carried out due to a change in the liquidity of government bonds and corporate bonds.

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. The fair value of debt instruments fell by 34 million euros, owing primarily to changes in fair value.
  - 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. The fair value of debt instruments increased by 12 million euros on account of new acquisitions.
  - Financial assets measured at fair value through profit or loss (other than held for trading): the fair value of loans and advances increased by 169 million euros, primarily on account of new transactions, partly offset by changes in fair value.
  - Financial assets at fair value through OCI: the fair value of debt instruments increased by 104 million euros, due mainly to new positions and reclassifications into level 3.
  - Financial liabilities held for trading: the fair value of derivatives declined by 731 million euros, owing primarily to a combination of 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 amounts*		Carrying value		Notional amounts*	
	Assets	Liabilities	Purchased	Sold	Assets	Liabilities	Purchased	Sold
Total	5 443	5 619	491 716	503 818	5 659	5 362	411 521	412 271
Interest rate contracts	3 056	2 788	291 100	301 289	3 294	2 766	247 118	246 488
of which interest rate swaps and futures	*2 731*	*2 669*	*278 999*	*294 056*	*2 817*	*2 578*	*233 286*	*238 347*
of which options	*325*	*119*	*12 101*	*7 232*	*477*	*188*	*13 832*	*8 141*
Foreign exchange contracts	1 722	1 880	185 800	187 835	1 746	1 770	144 864	146 524
of which currency and interest rate swaps, forward foreign exchange transactions and futures	*1 668*	*1 830*	*182 613*	*183 020*	*1 641*	*1 701*	*141 140*	*141 379*
of which options	*54*	*50*	*3 187*	*4 816*	*105*	*69*	*3 725*	*5 145*
Equity contracts	646	935	14 494	14 376	600	807	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	19	17	318	314	20	19	377	373

* 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 amounts[1]		Carrying value		Change in fair value of hedging items used as basis for recognising hedge ineffectiveness for the period[2]	Type	Carrying value		Change in fair value of hedged items used as basis for recognising hedge ineffectiveness for the period[2]	Ineffective portion recognised in profit or loss	Effective portion recognised in OCI
Hedging strategy	Purchased	Sold	Assets	Liabilities			Total (including fair value changes)	Of which accumulated fair value adjustments			
Fair value micro hedge											
Interest rate swaps	22 027	22 027	98	407	307	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	1 900	25	-79		
						Debt securities issued at AC	15 998	98	282		
						Deposits at AC	0	0	-2		
Total	22 027	22 027	98	407	307	Total			-307	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	20

1 In this table, both legs of the derivatives are reported in the notional amounts.
2 Ineffectiveness is recognised in 'Net result from financial instruments at fair value through profit or loss' (also see Note 3.3).
3 Hedging instruments in the form of foreign currency deposits.

31-12-2020

(in millions of EUR)	Hedging instrument						Hedged item				Impact on equity	
	Notional amounts[1]		Carrying value		Change in fair value of hedging items used as basis for recognising hedge ineffectiveness for the period[2]	Type	Carrying value		Change in fair value of hedged items used as basis for recognising hedge ineffectiveness for the period[2]		Ineffective portion recognised in profit or loss	Effective portion recognised in OCI
Hedging strategy	Purchased	Sold	Assets	Liabilities			Total (including fair value changes)	Of which accumulated fair value adjustments				
Fair value micro hedge												
Interest rate swaps	22 941	22 941	23	536	22	Debt securities held at AC	5 600	100	-83			
Currency and interest rate swaps	0	0	0	0	0	Loans and advances at AC	866	477	136			
						Debt securities held at FVOCI	2 873	121	7			
						Debt securities issued at AC	15 204	394	-92			
						Deposits at AC	114	-4	5			
Total	22 941	22 941	23	536	22	Total			-28		-5	-
Portfolio hedge of interest rate risk												
Interest rate swaps	61 964	61 964	68	94	-660	Debt securities held at AC	13	1	0			
Currency and interest rate options	2 385	0	6	0	-7	Loans and advances at AC	53 809	1 295	889			
						Debt securities held at FVOCI	14	1	-1			
						Debt securities issued at AC	0	0	0			
						Deposits at AC	9 594	96	-212			
Total	64 349	61 964	73	94	-667	Total			677		10	-
Cashflow hedge (micro hedge and portfolio hedge)												
Interest rate swaps	20 938	20 938	41	687	-29							
Currency and interest rate swaps	225	230	10	2	7							
Total	21 163	21 169	50	689	-22	Total			27		5	-1 430
Hedge of net investments in foreign operations												
Total[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 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	1 630	1 361
Debtors arising out of direct insurance operations	404	381
Debtors arising out of reinsurance operations	78	32
Deposits with ceding companies	10	11
Income receivable (other than interest income from financial assets)	52	41
Other	1 085	896

Note 5.2: Tax assets and tax liabilities

(in millions of EUR)	31-12-2021	31-12-2020
CURRENT TAXES		
Current tax assets	179	125
Current tax liabilities	87	79
DEFERRED TAXES	769	1 080
Deferred tax assets by type of temporary difference	1 413	1 790
Employee benefits	82	165
Losses carried forward	247	398
Tangible and intangible fixed assets	126	100
Provisions for risks and charges	21	8
Impairment for losses on loans and advances	273	343
Financial instruments at fair value through profit or loss and fair value hedges	113	158
Fair value changes, available-for-sale assets, financial instruments at FVOCI, cashflow hedges and hedges of net investments in foreign operations	476	506
Technical provisions	30	2
Other	47	109
Deferred tax liabilities by type of temporary difference	644	710
Employee benefits	37	36
Losses carried forward	0	0
Tangible and intangible fixed assets	34	49
Provisions for risks and charges	9	9
Impairment for losses on loans and advances	3	4
Financial instruments at fair value through profit or loss and fair value hedges	132	85
Fair value changes, available-for-sale assets, financial instruments at FVOCI, cashflow hedges and hedges of net investments in foreign operations	292	395
Technical provisions	106	95
Other	33	37
Recognised as a net amount in the balance sheet as follows:		
Deferred tax assets	1 117	1 499
Deferred tax liabilities	348	419
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 (-311 million euros in 2021) breaks down as follows:
  - A decrease in deferred tax assets of -377 million euros.
  - A decrease in deferred tax liabilities of -66 million euros.
- The change in deferred tax assets was accounted for chiefly by:
  - a decrease in deferred tax assets via the income statement of -305 million euros, mainly due to due to the usage and write-offs of losses carried forward (-152 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 (-106 million euros).
  - changes in defined benefit plans of -54 million euros.
- The change in deferred tax liabilities was accounted for chiefly by:
  - a decrease in deferred tax liabilities on account of changes in the revaluation reserve for financial instruments measured at fair value through OCI (-103 million euros).
  - an increase in deferred tax liabilities due to the increase in financial instruments at fair value through profit or loss (+47 million euros) and to a lesser extent the technical provisions (+11 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	37	24
Overview of investments, including goodwill		
Mallpay	3	5
Isabel NV	11	9
Joyn International NV	1	-6
Bancontact Payconiq Company NV	6	5
Payconiq International SA	9	10
Batopin NV	4	0
Other	4	2
Goodwill on associated companies and joint ventures		
Gross amount	0	0
Accumulated impairment	0	0
Breakdown by type		
Unlisted	37	24
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 and equipment	3 050	3 136
Investment property	518	555
Rental income	57	53
Direct operating expenses from investments generating rental income	15	14
Direct operating expenses from investments not generating rental income	2	3

MOVEMENTS TABLE	Land and buildings	IT equipment	Other equipment	Total property and equipment	Investment property
2021					
Opening balance	1 561	138	1 437	3 136	555
Acquisitions	113	43	448	603	15
Disposals	-57	-4	-205	-266	-17
Depreciation	-119	-64	-24	-207	-33
Other movements	-19	4	-201	-216	-2
Closing balance	1 479	117	1 454	3 050	518
accumulated depreciation and impairment	*1 487*	*446*	*832*	*2 766*	*412*
Fair value	–	–	–	–	792
2020					
Opening balance	1 590	146	1 512	3 247	570
Acquisitions	159	64	415	638	86
Disposals	-42	-5	-240	-287	-53
Depreciation	-116	-63	-25	-204	-47
Other movements	-30	-3	-226	-259	-2
Closing balance	1 561	138	1 437	3 136	555
accumulated depreciation and impairment	*1 404*	*517*	*791*	*2 712*	*396*
Fair value	–	–	–	–	873

- 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	845	386	301	20	1 551
Acquisitions	56	234	84	9	383
Disposals	0	0	-12	-10	-21
Amortisation	0	-62	-85	-2	-149
Other movements	12	1	-24	-3	-14
Closing balance	913	559	263	13	1 749
accumulated amortisation and impairment	*-255*	*794*	*859*	*53*	*1 451*
2020					
Opening balance	877	168	395	18	1 458
Acquisitions	0	258	98	9	365
Disposals	0	-15	-34	-1	-50
Amortisation	0	-33	-70	-2	-105
Other movements	-32	8	-88	-4	-116
Closing balance	845	386	301	20	1 551
accumulated amortisation and impairment	*248*	*737*	*767*	*45*	*1 797*

- 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	31-12-2021	31-12-2020	Discount rates throughout the specific period of cashflow projections	
(in millions of EUR)			31-12-2021	31-12-2020
K&H Bank	188	190	11.4%-10.6%	13.6%-10.9%
ČSOB (Czech Republic)	251	238	10.6%-8.7%	12.4%-9.1%
ČMSS	171	162	10.6%-8.8%	12.5%-9.3%
United Bulgarian Bank	110	110	10.6%-9.2%	10.3%-9.7%
DZI Insurance	75	75	8.6%-7.2%	8.5%-7.3%
KBC Commercial Finance	21	21	8.8%-8.7%	9.2%-9.1%
Pension Insurance Company UBB (the pension insurance business acquired from NN in Bulgaria)	56	–	*	–
Rest	42	49	–	–
Total	913	845	–	–

* As it involves a recent acquisition (made less than a year ago), no detailed valuation was prepared based on the discounted cashflow method. According to a high-level assessment at year-end 2021, there is no indication of impairment.

- 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

(in millions of EUR)	Gross	Reinsurance	Gross	Reinsurance
Technical provisions	**31-12-2021**	**31-12-2021**	**31-12-2020**	**31-12-2020**
Total	18 967	191	18 718	145
Insurance contracts, Non-life	3 967	181	3 676	137
Provision for unearned premiums	814	4	758	2
Provision for claims outstanding	2 908	176	2 685	134
Provision for profit sharing & rebates	3	0	3	0
Other technical provisions	242	0	230	0
Insurance contracts, Life	8 511	10	8 315	8
Provision for unearned premiums	18	1	16	1
Life insurance provision	8 080	8	7 902	6
Provision for claims outstanding	197	1	189	2
Provision for profit sharing & rebates	28	0	22	0
Other technical provisions	187	0	187	0
Investment contracts with DPF, Life	6 489	0	6 727	0
Life insurance provision	6 418	0	6 671	0
Provision for claims outstanding	16	0	0	0
Provision for profit sharing & rebates and other	55	0	56	0
Movements table	**2021**	**2021**	**2020**	**2020**
Insurance contracts, Non-life				
Opening balance	3 676	137	3 573	114
Movements reflected in earned premiums (income statement)	48	2	28	0
Movements reflected in technical charges (income statement)	222	41	101	23
Payments regarding claims of previous financial years	*-328*	*-22*	*-367*	*-9*
Provision for new claims	*625*	*66*	*492*	*17*
Surplus/shortfall of claims provision for previous financial years	*-112*	*2*	*-56*	*11*
Cost of profit sharing	*0*	*0*	*-1*	*0*
Other movements with an impact on results	*38*	*-5*	*33*	*4*
Movements reflected in the balance sheet	22	1	-25	-1
Closing balance	3 967	181	3 676	137
Insurance contracts, Life				
Opening balance	8 315	8	7 969	6
Movements reflected in earned premiums (income statement)	1	0	2	0
Movements reflected in technical charges (income statement)	71	2	123	1
New business (net of risk premium and charges)	*633*	*0*	*648*	*0*
Payments (including funding of risk premium)	*-776*	*0*	*-710*	*0*
Accretion of interest	*166*	*2*	*176*	*1*
Cost of profit sharing	*13*	*0*	*9*	*0*
Provision for new claims and change in provision for claims outstanding	*-3*	*0*	*-6*	*1*
Fair value adjustments of unit-linked contracts (not unbundled)	*32*	*0*	*3*	*0*
Other movements with an impact on results	*6*	*1*	*3*	*0*
Movements reflected in the balance sheet	124	0	221	0
Closing balance	8 511	10	8 315	8
Investment contracts with DPF, Life				
Opening balance	6 727	0	7 019	0
Movements reflected in technical charges (income statement)	-70	0	-70	0
New business (net of risk premium and charges)	*281*	*0*	*306*	*0*
Payments (including funding of risk premium)	*-461*	*0*	*-467*	*0*
Accretion of interest	*92*	*0*	*93*	*0*
Cost of profit sharing	*6*	*0*	*2*	*0*
Provision for new claims and change in provision for claims outstanding	*12*	*0*	*-5*	*0*
Fair value adjustments of unit-linked contracts (not unbundled)	*0*	*0*	*0*	*0*
Other movements with an impact on results	*0*	*0*	*0*	*0*
Movements reflected in the balance sheet	-168	0	-222	0
Closing balance	6 489	0	6 727	0

- Technical provisions relate to insurance contracts and investment contracts with a discretionary participation feature (DPF).
- Liabilities under investment contracts without DPF are measured at fair value. These liabilities concern mainly unit-linked contracts, which are recognised under financial liabilities (see Note 4.1).
- Technical provisions for life insurance are calculated using various assumptions. Judgement is required when making these assumptions and the assumptions used are based on various internal and external sources of information. At present, IFRS 4 refers extensively to local accounting principles for the recognition of technical provisions. These provisions are generally calculated using the technical assumptions that were applicable at the inception of the insurance contract and are subject to liability adequacy tests. The key assumptions are:
  - mortality and morbidity rates, which are based on standard mortality tables and adapted where necessary to reflect the group's own experience;
  - expense assumptions, which are based on current expense levels and expense loadings;
  - the discount rate, which is generally equal to the technical interest rate, remains constant throughout the life of the policy, and in some cases is adjusted to take account of legal requirements and internal policy decisions.
  - It should be noted that assumptions may vary depending on the type of life insurance (e.g., conventional versus modern), the generation of contracts (mainly the time when the contract is entered into and the applicable terms and conditions) and the country (since we have insurance companies in five of our core markets), making it impossible to quantify these assumptions for the entire group. This is illustrated by the following two points: (i) The discount rate follows the historical market rate and since it concerns a life portfolio, most of which has existed for a long time and also has a long maturity, there are considerable differences within the portfolio. In Belgium alone, discount rates range from 4.75% for the oldest rates to 0.5% and lower for certain modern products. (ii) In terms of mortality risk, unisex mortality tables are used in Belgium, based on the standard 'MK/FK' mortality tables for products sold from 2012 on (before 2012, separate mortality tables were used for men and women). Corrections may still be made to these standard tables, with due consideration being given to the segmentation criteria of the relevant policies. As a result, the range of mortality tables used is extensive.
- Assumptions for the technical provisions for claims outstanding are based on past claims experience relating to claim numbers, claim payments and claims handling costs, and adjusted to take account of such factors as anticipated market experience, claims inflation and external factors such as court awards and legislation. The technical provision for claims outstanding is generally not discounted except when long-term obligations and/or annuities (industrial accidents, guaranteed income and hospitalisation insurance) are involved.
- In 2020 and 2021, there were no major changes in assumptions leading to a significant change in the valuation of insurance assets and liabilities.
- The 'Movements reflected in the balance sheet' item also includes the impact of the life insurance business acquired from NN in Bulgaria (see Note 6.6).
- See also 'Climate-related and other ESG risks' in the 'How do we manage our risks?' section.

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	282	209
Provisions for off-balance-sheet commitments and financial guarantees	130	143
Provisions for other risks and charges	152	66
Provisions for restructuring	*87*	*7*
Provisions for taxes and pending legal disputes	*45*	*32*
Other	*20*	*27*

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

(in millions of EUR)	Subject to 12-month ECL	Subject to lifetime ECL	Subject to lifetime ECL – non-performing	Total
31-12-2021				
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)	Provisions for restructuring	Provisions for taxes and pending legal disputes	Other	Total
2021				
Opening balance	7	32	27	66
Movements with an impact on results				
Amounts allocated	*84*	*28*	*9*	*120*
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	1
Closing balance	87	45	20	152
2020				
Opening balance	7	56	27	90
Movements with an impact on results				
Amounts allocated	*5*	*17*	*9*	*31*
Amounts used	*-4*	*-30*	*-6*	*-41*
Unused amounts reversed	*0*	*-11*	*-2*	*-13*
Transfers out of/into liabilities associated with disposal groups	0	0	0	0
Changes in the scope of consolidation	0	3	0	3
Other	0	-3	-1	-4
Closing balance	7	32	27	66

- 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 30 August 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	2 520	2 908
Retirement benefit obligations or other employee benefits	184	535
Deposits from reinsurers	98	78
Accrued charges (other than from interest expenses on financial liabilities)	364	384
Other	1 874	1 911

- 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	3 387	3 212
Current service cost	134	127
Interest cost	8	23
Actuarial gain or loss resulting from changes in demographic assumptions	-3	-4
Actuarial gain or loss resulting from changes in financial assumptions	-31	257
Experience adjustments	-16	-125
Benefits paid	-11	0
Other	-133	-103
Defined benefit obligations at the end of the period	3 335	3 387
Reconciliation of the fair value of plan assets		
Fair value of plan assets at the beginning of the period	2 849	2 791
Actual return on plan assets	363	56
Expected interest income on plan assets, calculated based on market yields on high quality corporate bonds	*7*	*20*
Employer contributions	90	90
Plan participant contributions	18	19
Benefits paid	-120	-99
Other	44	-7
Fair value of plan assets at the end of the period	3 244	2 849
of which financial instruments issued by the group	*24*	*16*
of which property occupied by KBC	*4*	*8*
Funded status		
Plan assets in excess of defined benefit obligations	-90	-537
Reimbursement rights	0	0
Asset ceiling limit	-37	0
Unfunded accrued/prepaid pension cost	-128	-537
Movement in net liabilities or net assets		
Unfunded accrued/prepaid pension cost at the beginning of the period	-537	-457
Amounts recognised in the income statement	-107	-111
Amounts recognised in other comprehensive income	387	-57
Employer contributions	90	90
Other	40	-1
Unfunded accrued/prepaid pension cost at the end of the period	-128	-537
Amounts recognised in the income statement	-107	-111
Current service cost	-134	-127
Interest cost	-2	-3
Plan participant contributions	18	19
Other	11	0
Changes to the amounts recognised in other comprehensive income	387	-57
Actuarial gain or loss resulting from changes in demographic assumptions	3	4
Actuarial gain or loss resulting from changes in financial assumptions	31	-257
Actuarial result on plan assets	356	37
Experience adjustments	16	125
Adjustments to asset ceiling limits	-37	36
Other	19	-3
DEFINED CONTRIBUTION PLANS		
Expenses for defined contribution plans	-20	-8

- Retirement benefits that are actively accrued for the Belgium-based staff of KBC Bank, KBC Insurance and most of their Belgian subsidiaries are accrued exclusively through the KBC pension fund. Up until year-end 2018, employer-funded retirement benefits had accrued primarily through a defined benefit plan, where the benefit is calculated based on the final salary of employees before they retire, the number of years they had been in the plan and a formula that applies a progressive rate scale. A defined contribution plan was introduced on 1 January 2014 for all new employees and any employees who had chosen to switch to it. In this plan, a contribution is deposited based on the current monthly salary and the amounts deposited are paid out together with the (guaranteed) return on retirement. Both types of pension plan are managed by the KBC pension fund, which uses the services of KBC Asset Management for the investment strategy. In addition, there are a number of smaller, closed group insurance schemes from the past that will continue to be funded and are managed by the KBC pension fund. On 1 January 2019, a new defined contribution plan was introduced to replace the one introduced in 2014. All employees were again given the one-time option of switching from the defined benefit plan to the new defined contribution plan. At year-end 2021, 58% of employees were active participants in the defined benefit plan and 42% in the defined contribution plan. The corresponding figures at year-end 2020 were 59% and 41%.
- 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 are 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	3 335	3 387	3 212	2 945	2 861
Fair value of plan assets	3 244	2 849	2 791	2 369	2 433
Unfunded accrued/prepaid pension cost	-128	-537	-457	-598	-466
Impact of changes in the assumptions used in the actuarial calculation of plan assets and retirement benefit obligations					
Impact on plan assets	0	0	0	0	0
Impact on retirement benefit obligations*	-35	253	250	-35	-4

* Arising from defined benefit plans. A plus sign indicates an increase in the (absolute value of) the obligation, a minus sign a decrease.

Additional information on retirement benefit obligations: DEFINED BENEFIT PLANS	KBC pension fund
Composition (31-12-2021)	
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)	45
Regulatory framework	Pension plans are registered in collective labour agreements and incorporated into a set of regulations. Annual reporting of funding levels to supervisory authorities (FSMA/NBB). Any underfunding must be reported immediately to the supervisory authorities.
Risks for KBC	Investment risk and inflation risk.
ALM policy	The hedging portfolio hedges against interest rate risk and inflation risk using interest rate swaps. The return portfolio aims to generate an extra return.

Plan amendments	A new version of the employer-funded defined contribution plan was introduced on 1 January 2019. All employees who had been signed up to the defined benefit plan were given the one-time option of switching to this new plan.
Curtailments and settlements	Not applicable.
Discounting method	Based on BVAL quotes for various time buckets of AA-rated corporate bonds. The resulting yield curve is converted into a zero coupon curve. The curve becomes flat for maturities of 22 years and longer.
Key actuarial assumptions	
Average discount rate	0.64%
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.

Additional information on retirement benefit obligations: DEFINED CONTRIBUTION PLANS	KBC pension fund
Contributions expected in 2022 (in millions of EUR)	37
Regulatory framework	Pursuant to the Belgian Supplementary Pensions Act, the employer must guarantee a minimum return of 1.75% on employee and employer contributions.
Risks for KBC	Investment risk.
Valuation	Retirement benefit obligations are measured on the basis of the accrued benefits on the reporting date, making a projection of these benefits (at the rate of interest guaranteed by law) until the expected age of retirement, and discounting the resulting benefits. KBC offers two types of defined contribution plan: one that is financed through employee contributions and one through employer contributions. The valuation of retirement benefit obligations for the employer-funded defined contribution plan takes account of future contributions. However, it is not taken into account for the valuation of the employee-funded defined contribution plan, because the employer's obligation for that plan only relates to the guaranteed minimum 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 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	20.75%

Note 5.10: Parent shareholders' equity and additional tier-1 instruments

Quantities	31-12-2021	31-12-2020
Ordinary shares	416 883 592	416 694 558
of which ordinary shares that entitle the holder to a dividend payment	416 883 592	416 694 558
of which treasury shares	2	20 795
Additional information		
Par value per share (in EUR)	3.51	3.51
Number of shares issued but not fully paid up	0	0

- Ordinary shares: ordinary shares of no nominal value. All ordinary shares carry voting rights and each share represents one vote. No participation certificates or non-voting shares have been issued. The shares are listed solely on Euronext Brussels.
- Capital increases: the number of KBC Group NV shares went up by 189 034 in December 2021 and by 299 916 in December 2020, due to new shares being issued following the capital increases reserved for staff. For more information, see the 'Company annual accounts and additional information' section.
- Share buybacks: there were no buyback programmes in 2021 and 2020.
- Treasury shares: at year-end 2021, KBC group companies held 2 KBC shares in portfolio. At year-end 2020, this was 20 795, mainly registered with KBC Bank (London branch) to hedge outstanding derivatives on indices/baskets that include KBC Group shares.
- For information on the authorisation to increase capital and to repurchase own shares, see the 'Company annual accounts and additional information' section.
- Additional tier-1 (AT1) instruments (these securities are classified as equity instruments under IAS 32 and the coupon is treated as a dividend):
  - In April 2018, KBC issued 1 billion euros in AT1 securities (a perpetual AT1 instrument with a seven year first-call date and a temporary write-down trigger should the common equity ratio fall below 5.125% and an initial coupon of 4.25% per annum, which is payable every six months).
  - In February 2019, KBC issued 500 million euros in AT1 securities (a perpetual AT1 instrument with a five year first-call date and a temporary write-down trigger should the common equity ratio fall below 5.125% and an initial coupon of 4.75% per annum, which is payable every six months).

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

- 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.

KBC Bank Ireland: detail of 'Non-current assets held for sale and disposal groups' and 'Liabilities associated with disposal groups' (IFRS 5; 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*

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	38 414	17	38 397	36 030	22	36 008
Stage 2	4 770	16	4 754	4 034	11	4 024
Stage 3	42	4	38	40	9	31
Total	43 226	37	43 189	40 105	42	40 063
of which irrevocable credit lines	*25 802*	*14*	*25 788*	*23 539*	*18*	*23 521*
Financial guarantees given						
Stage 1	8 675	2	8 673	7 764	4	7 761
Stage 2	1 678	5	1 673	1 703	6	1 697
Stage 3	153	86	67	169	90	79
Total	10 506	93	10 413	9 636	100	9 536
Other commitments given						
Total	756	1	755	423	1	422
Total						
Off-balance-sheet commitments and financial guarantees	54 488	130	54 357	50 163	143	50 021

- Fair value of financial guarantees: based on the available market value.
- The carrying value of financial assets pledged by KBC as collateral came to 66 386 million euros for liabilities and 3 961 million euros for contingent liabilities (61 438 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	39 863	40 180	11 862	10 933
Equity instruments	11	8	1	2
Debt securities	39 633	39 975	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
Contingent rents recognised in the income statement	83	85
Operating lease receivables		
Future aggregate minimum rentals receivable under non-cancellable operating leases	494	496
Contingent rents recognised in the income statement	0	1

- KBC acts only to a limited extent as a lessee in operational and financial leasing.
- Finance leases: KBC offers finance lease products ranging from equipment and vehicle leasing to real estate leasing. In Belgium, finance leases are typically sold through KBC group's branch network, and that channel is becoming increasingly important in Central Europe, too.
- Operating leases: involve primarily full service car leases, which are sold through the KBC Bank and CBC Banque branch network and through an internal sales team. Full service car leasing activities are being further developed in Central Europe, too.

Note 6.3: Related-party transactions

Transactions with related parties, excluding key management (in millions of EUR)	2021 Sub-sidiaries	Asso-ciated companies	Joint ventures	Other	Total	2020 Sub-sidiaries	Asso-ciated companies	Joint ventures	Other	Total
Assets	144	111	42	142	439	173	98	37	20	328
Loans and advances	21	94	0	100	214	9	39	1	0	49
Equity instruments (including investments in associated companies and joint ventures)	124	17	42	0	183	164	58	32	0	254
Other	0	0	0	41	41	0	1	4	20	25
Liabilities	40	89	0	838	968	54	93	4	373	525
Deposits	40	20	0	831	891	53	18	4	351	426
Other financial liabilities	0	0	0	0	0	0	0	0	0	0
Other	1	69	0	8	77	1	75	0	23	99
Income statement	0	-3	0	0	-3	2	-3	0	2	2
Net interest income	0	-1	0	0	-1	0	-1	0	0	0
Interest income	*0*	*0*	*0*	*0*	*0*	0	1	0	0	1
Interest expense	*0*	*-1*	*0*	*0*	*- 1*	0	-1	0	0	-1
Earned premiums, insurance (before reinsurance)	0	0	0	0	0	0	0	0	0	0
Technical insurance charges (before reinsurance)	0	0	0	0	0	0	0	0	0	0
Dividend income	5	2	0	4	11	5	3	0	1	9
Net fee and commission income	1	-1	0	2	3	0	-1	0	2	2
Fee and commission income	*1*	*0*	*0*	*2*	*3*	0	0	0	2	3
Fee and commission expense	*0*	*-1*	*0*	*0*	*-1*	0	-1	0	0	-1
Other net income	-3	-1	0	1	-3	-2	-1	0	1	-2
General administrative expenses	-4	-2	0	-7	-13	-2	-2	0	-2	-7
Undrawn portion of loan commitments, financial guarantees and other commitments										
Given by the group	0	0	0	74	74	0	0	18	111	129
Received by the group	0	0	0	0	0	0	0	0	0	0

Transactions with key management (members of the Board of Directors and Executive Committee of KBC Group NV) (in millions of EUR)*	2021	2020
Total*	12	12
Breakdown by type of remuneration		
Short-term employee benefits	10	10
Post-employment benefits	2	2
Defined benefit plans	*0*	*0*
Defined contribution plans	*2*	*2*
Other long-term employee benefits	0	0
Termination benefits	2	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' heading in the first table includes transactions with unconsolidated subsidiaries (transactions with consolidated subsidiaries have already been eliminated from the consolidated financial statements).
- The 'Other' heading in the first table includes KBC Ancora, Cera and MRBB.
- All related-party transactions occur at arm's length.

- Key management comprises the members of the Board of Directors and Executive Committee of KBC Group NV. More detailed information on remuneration paid to key management staff is provided in the 'Corporate governance statement' section.
- There were no significant impairment charges vis-à-vis related parties.

Note 6.4: Statutory auditor's remuneration

Statutory auditor's remuneration (PwC, in EUR)	2021	2020
KBC Group NV and its subsidiaries		
Standard audit services	7 598 504	7 664 745
Other services		
Other certifications	749 213	686 322
Tax advice	0	0
Other non-audit assignments	94 705	9 079
KBC Group NV (alone)		
Standard audit services	272 449	254 709
Other services	108 348	99 899

Note 6.5: Subsidiaries, joint ventures and associated companies

KBC Group: main companies included in the scope of consolidation at year-end 2021

Company	Registered office	Company number	Share of capital held at group level (in %)	Business unit[1]	Activity
KBC Bank (group)					
KBC Bank NV	Brussels – BE	0462.920.226	100.00	BEL/GRP	credit institution
CBC BANQUE SA	Namur – BE	0403.211.380	100.00	BEL	credit institution
Československá Obchodná Banka a.s.	Bratislava – SK	--	100.00	IMA	credit institution
Československá Obchodní Banka a.s.	Prague – CZ	--	100.00	CZR	credit institution
KBC Asset Management NV	Brussels – BE	0469.444.267	100.00	BEL	asset management
KBC Autolease NV	Leuven – BE	0422.562.385	100.00	BEL	leasing
KBC Bank Ireland Plc.[2]	Dublin – IE	--	100.00	IMA	credit institution
KBC Commercial Finance NV	Brussels – BE	0403.278.488	100.00	BEL	factoring
KBC IFIMA SA	Luxembourg – LU	--	100.00	GRP	financing
KBC Securities NV	Brussels – BE	0437.060.521	100.00	BEL	stockbroker
K&H Bank Zrt.	Budapest – HU	--	100.00	IMA	credit institution
Loan Invest NV	Brussels – BE	0889.054.884	100.00	BEL	securitisation
United Bulgarian Bank AD	Sofia – BG	--	99.91	IMA	credit institution
KBC Insurance (group)					
KBC Insurance NV	Leuven – BE	0403.552.563	100.00	BEL/GRP	insurance company
ADD NV	Heverlee – BE	0406.080.305	100.00	BEL	insurance broker
KBC Group Re SA	Luxembourg – LU	--	100.00	GRP	reinsurance company
ČSOB Pojišťovna a.s.	Pardubice – CZ	--	100.00	CZR	insurance company
ČSOB Poisťovňa a.s.	Bratislava – SK	--	100.00	IMA	insurance company
DZI (group)	Sofia – BG	--	100.00	IMA	insurance company
Groep VAB NV	Zwijndrecht – BE	0456.920.676	100.00	BEL	driving school/roadside assistance
K&H Biztosító Zrt.	Budapest – HU	--	100.00	IMA	insurance company
KBC group					
KBC Group NV	Brussels – BE	0403.227.515	100.00	GRP	bank-insurance holding company
KBC Bank (group)	various locations	--	100.00	various	credit institution
KBC Insurance (group)	various locations	--	100.00	various	insurance company

1 BEL: Belgium Business Unit, CZR: Czech Republic Business Unit, IMA: International Markets Business Unit, GRP: Group Centre.
2 See Note 6.6.

- The KBC group's legal structure has one single entity – KBC Group NV – in control of two underlying companies, viz. KBC Bank NV and KBC Insurance NV (see the 'Company annual accounts and additional information' section), each of which has several subsidiaries and sub-subsidiaries. The main group companies are shown in the table. A complete list of group companies (included in or excluded from the scope of consolidation) is provided at www.kbc.com > About us > Our structure.
- Companies eligible for consolidation are effectively included in the consolidated accounts if two of the following criteria are met: (i) the group's share in equity exceeds 2.5 million euros (ii) the group's share in the results exceeds 1 million euros (iii) the balance sheet total exceeds 100 million euros. The combined balance sheet total of the companies excluded from consolidation may not amount to more than 1% of the consolidated balance sheet total.
- All (material) entities (including structured entities (SPVs)) over which the consolidating entity exercises, directly or indirectly, exclusive control are consolidated according the method of full consolidation. To assess whether or not structured entities have to be consolidated, KBC uses the principles set out in IFRS 10, as well as thresholds for inclusion in consolidation (see previous bullet point).
- Disclosures of interests in other entities (IFRS 12)
  - Significant judgements and assumptions
    - In general, funds managed by KBC are not included in the scope of consolidation, as they do not meet the three criteria of control (power, exposure to a variable return and ability to use such power to affect those returns).
    - Joint entities in which KBC does not hold 50% of the share capital are classified as joint ventures, since it has joint control over these entities based on shareholder agreements. Based on the Articles of Association and/or shareholder agreements, voting rights in (and therefore the control of) the joint venture are spread evenly across the different shareholders and decisions may only be taken by unanimity.
  - Interests in subsidiaries
    - For the vast majority of the entities, the voting rights are materially equal to the ownership rights.
    - Pursuant to the joint capital decision, specific pillar-II levels have been set to ensure that certain minimum capital ratios are respected, which impose certain restrictions on the repatriation of capital and distribution of dividends.
    - With regard to Loan Invest NV, KBC is exposed to loan losses on the mortgage portfolio and, therefore, recognises impairment losses on them where necessary.
  - Interests in unconsolidated structured entities
    - KBC Bank NV is arranger and dealer of a number of 40-billion-euro medium term notes programmes issued by 19 unconsolidated structured entities established in Ireland for that purpose. Their primary business is to raise money by issuing notes in order to buy financial assets (such as securities, bonds and deposits) and to enter into related derivative and other contracts. They provide investment opportunities for clients by providing economies of scale, a diversification of credit risk and a high level of granularity. Each structured entity has a prospectus that was approved by the Central Bank of Ireland (available at www.kbc.be/prospectus/spv). However, the structured entities are not consolidated because they fail to meet the three criteria for consolidation (power, exposure to a variable return and ability to use such power to affect those returns). At year-end 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 or one of its subsidiaries acts as arranger of the issuance programme, but where the decision-making power of the entities does not reside with KBC or one of its subsidiaries. As a result, these entities are not consolidated.
    - In 2021, KBC had received income from unconsolidated structured entities in the form of management fees (37 million euros), administrative agent fees (1 million euros) and accounting fees (1 million euros).
    - At year-end 2021, KBC held 2.5 billion euros' worth of notes issued by the unconsolidated structured entities. Its liabilities towards the unconsolidated structured entities amounted to 2.6 billion euros and comprised mainly term deposits (2.4 billion euros).
    - Any potential decrease in the value of the notes is passed on to the end-client, which means it will have no impact on KBC.
- At year-end 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.

- **Acquisition of NN's Bulgarian pension and life insurance business**
  - In July 2021, we completed the acquisition of NN's Bulgarian pension and life insurance business for a total consideration of 77.7 million euros (the deal did not contain any contingent consideration arrangements). This acquisition comprises all the shares of NN Pension Insurance Company EAD in Bulgaria (which has been renamed Pension Insurance Company UBB EAD) and all the assets and liabilities of NN Insurance Co. Ltd. – Sofia Branch. This deal will enable UBB and DZI to further expand their cross-selling opportunities through their already established bank-insurance presence in the Bulgarian market, allowing them to serve more clients and to benefit from economies of scale and increased visibility.
  - The impact of the acquisition is included in the consolidated balance sheet figures (for year-end 2021). The results of the operations concerned have been fully consolidated in the income statement since 1 August 2021. The impact amounts to +5 million euros in total income (mainly net commission income), -4 million euros in operating expenses, and +1 million euros in result after tax.
  - KBC recognised goodwill of 56 million euros in its consolidated financial statements for Pension Insurance Company UBB EAD. This is accounted for by this company's profitability (based on the results achieved in previous years and the business plan for the years ahead) and enables UBB and DZI to further expand their cross-selling opportunities through their already established bank-insurance presence in the Bulgarian market, allowing them to serve more clients and to benefit from economies of scale and increased visibility. KBC has not recorded any goodwill or badwill on the acquisition of all assets and liabilities of NN Insurance Co. Ltd. – Sofia Branch because the consideration was virtually identical to the net value of the assets and liabilities acquired (taking into account specific fair value adjustments). It should be noted that, in principle, IFRS 3 (Business Combinations) allows the amount of goodwill to be adjusted during the 12-month measurement period starting from the acquisition date. The amount of goodwill is therefore temporary and subject to change (there are currently no indications that the goodwill calculation will be subject to any major adjustments). Goodwill is not deductible for tax purposes.
  - The deal had no impact on KBC Group NV's capital position.
  - The table below shows the fair value of the main assets and liabilities involved in the acquisition of the relevant NN activities.

Impact of the acquisition of OTP Banka Slovensko and of NN's Bulgarian pension and life insurance business (in millions of EUR)	2021: NN's Bulgarian pension and life insurance business	2020: OTP Banka Slovensko
Percentage of shares bought or sold in the relevant year	100.00%	99.44% (purchase)
Percentage of shares after deal	100.00%	99.44%*
For business unit	International Markets	International Markets
Deal date (month and year)	June 2021	99.44%: November 2020
Results of the relevant company/business recognised in the group result as from:	August 2021	January 2021
Purchase price or sale price	78	64
Cashflow for acquiring or selling companies less cash and cash equivalents acquired or sold	-71	107
Amounts recognised for the purchased assets and liabilities (provisional fair value for NN's Bulgarian pension and life insurance business)		
Situation on:	31 July 2021	31 December 2020
Cash and cash balances with central banks	7	171
Financial assets	106	1 209
Amortised cost	*1*	*1 206*
Fair value through OCI	*58*	*2*
Fair value through profit or loss	47	0
Tax assets	0	16
Property and equipment	*1*	*10*
Other assets	*5*	*2*
Cash and cash equivalents (included in the above assets)	*7*	*171*
Financial liabilities	36	1 048
Amortised cost	*0*	*1 048*
Hedging derivatives	*36*	*0*
Technical provisions, before reinsurance	59	0
Provisions for risks and charges	0	10
Other liabilities	3	21
Cash and cash equivalents (included in the above liabilities)	*0*	*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. This deal was finalised 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. In addition to the integrated approach at group level, KBC Insurance and its insurance and reinsurance subsidiaries conduct an Own Risk and Solvency Assessment (ORSA) on a regular basis, in accordance with Solvency II requirements.

We report the solvency of the group, the bank and the insurance company based on IFRS data and according to the rules imposed by the regulator.

- For the KBC group and KBC Bank, this implies that we calculate our solvency ratios based on CRR/CRD. KBC began applying the transitional provisions for IFRS 9 on 30 June 2020. KBC has received authorisation from the regulator to apply a risk weighting to the participation in KBC Insurance (Danish compromise method) at KBC group level. The KBC group and KBC Bank are subject to minimum solvency ratios.
- In accordance with the regulatory requirement, the common equity ratio of the KBC group must be 10.81% (fully loaded) at year-end 2021. This includes the pillar 1 minimum requirement (4.5%), the pillar 2 requirement (1.86% set by the ECB following its supervisory review and evaluation process) and the buffer requirements (4.45% set by the local competent authorities in KBC's core markets). At year-end 2021, the fully loaded common equity ratio came to 15.5% (see the 'How do we manage our capital?' section for more information). At year-end 2021, the transitional common equity ratio came to 16.8%, which represented a capital buffer of 6.35% relative to the minimum requirement of 10.42%.
- In accordance with the regulatory requirement, the common equity ratio of KBC Bank must be 10.45% (transactional) at year-end 2021. At year-end 2021, the transitional common equity ratio was 15.5%.
- The solvency of KBC Insurance is calculated on the basis of Solvency II (the minimum requirement is 100%). At year-end 2021, the Solvency II ratio came to 201%, more than double the minimum requirement of 100%.

Key solvency figures for the KBC group, KBC Bank and KBC Insurance (in millions of EUR)	**KBC group (consolidated) CRR/CRD transitional**		**KBC Bank (consolidated) CRR/CRD transitional**		**KBC Insurance (consolidated) Solvency II**	
	31-12-2021	**31-12-2020**	**31-12-2021**	**31-12-2020**	**31-12-2021**	**31-12-2020**
Total regulatory capital, after profit appropriation	20 733	21 856	17 964	18 021	4 075	3 868
Tier-1 capital	18 998	19 941	16 210	16 078	3 574	3 368
Common equity	17 498	18 441	14 710	14 578	–	–
Parent shareholders' equity (after deconsolidating KBC Insurance for the KBC group)	*17 708*	18 688	*14 912*	14 567	*3 991*	*3 815*
Solvency adjustments	*-210*	*-247*	*-202*	12	*-416*	*-447*
Additional going concern capital[1]	1 500	1 500	1 500	1 500	–	–
Tier-2 capital[2]	1 735	1 914	1 754	1 942	500	500
Total weighted risk volume (RWA)[3]	104 362	101 843	94 836	92 635	–	–
Credit risks	*80 687*	*78 518*	*80 687*	*78 518*	–	–
Market risks	*2 665*	*2 716*	*2 665*	*2 716*	–	–
Operational risks	*11 484*	*11 401*	*11 484*	*11 401*	–	–
Insurance risks	*9 133*	*9 133*	–	–	–	–
Holding-company activities and elimination of intragroup transactions	*392*	*75*	–	–	–	–
Solvency capital requirement (insurance)	–	–	–	–	2 029	1 744
Common equity ratio (group, bank)	16.8%	18.1%	15.5%	15.7%	–	–
Solvency II ratio (insurance)	–	–	–	–	201%	222%

1 Includes perpetual subordinated loans with fully discretionary, non-cumulative interest payments. The securities also have a loss absorption mechanism (i.e. a temporary write-down trigger should the common equity tier-1 ratio fall below 5.125%). Also see Note 5.10.
2 Includes subordinated loans with a fixed maturity date where principal and interest payments cannot be cancelled in a going concern.
3 Supervision of the RWA internal models' compliance with the approval criteria as provided for in the standards imposed by the regulator does not come under the responsibility of the statutory auditor.

- More detailed information is provided in the ‘How do we manage our capital?’ section of this report and in KBC’s Risk Report.
- The loan portfolio accounts for the largest share of the financial assets. Based on internal management reports, the composition and quality of the loan portfolio is set out in detail in the ‘How do we manage our risks?’ section (under ‘Credit risk’). The information required in relation to risks (in accordance with IFRS 4 and IFRS 7) is provided in those parts of the ‘How do we manage our risks?’ section which have been audited by the statutory auditor and which constitute part of the financial statements.

Note 6.8: Post-balance-sheet events

Significant non-adjusting events between balance sheet date and the date on which the financial statements were approved for publication by the Board of Directors (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.
- There were three severe storms in February 2022 (Dudley, Eunice and Franklin) that gave rise to a large number of claims, especially in Belgium. Since KBC Insurance has not yet received all claims for compensation from its customers, it is too early at the moment to provide a reliable estimate of the total financial impact. Although some of this impact will be covered by ceded reinsurance, it will still have an adverse effect on the ‘Non-life technical result’ in the first quarter of 2022.
- At the time this report was being prepared, the invasion of Russia in Ukraine required additional attention at 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 Group.
- Incorporated: 9 February 1935 as the Kredietbank; the present name dates from 2 March 2005.
- Country of incorporation: Belgium.
- Registered office: Havenlaan 2, 1080 Brussels, Belgium.
- VAT: BE 0403.227.515.
- RLP: Brussels.
- Website: https://www.kbc.com
- E-mail address reserved for shareholders and bondholders: IR4U@kbc.be.
- Legal form: *naamloze genoteerde vennootschap* (listed company with limited liability) under Belgian law. The company is a mixed financial holding company that is subject to the prudential supervision of the National Bank of Belgium and the European Central Bank.
- Life: undefined.
- Object (Article 2 of the Articles of Association, which are available at www.kbc.com):
  The company has as its object the direct or indirect ownership and management of shareholdings in other companies, including but not restricted to credit institutions, insurance companies and other financial institutions.
  The company also has as object to provide services to third parties, either for its own account or for the account of others, including to companies in which the company has an interest -either directly or indirectly- and to (potential) clients of those companies. The object of the company is also to acquire in the broadest sense of the word (including by means of purchase, hire and lease), to maintain and to operate resources, and to make these resources available in the broadest sense of the word (including through letting and granting rights of use) to the beneficiaries referred to in the second paragraph.
  In addition, the company may function as an intellectual property company responsible for, among other things, the development, acquisition, management, protection and maintenance of intellectual property rights, as well as for making these rights available, granting rights of use in respect of these rights and/or transferring these rights.
  The company may also perform all commercial, financial and industrial transactions that may be useful or expedient for achieving the object of the company and that are directly or indirectly related to this object. The company may also by means of subscription, contribution, participation or in any other form whatsoever participate in all companies, businesses or institutions that have a similar, related or complementary activity.
  In general, the company may, both in Belgium and abroad, perform all acts which may contribute to the achievement of its object.
- Documents open to public inspection: the Articles of Association of the company are open to public inspection at the Registry of the Dutch-speaking division of the Brussels Business Court and are published on www.kbc.com. The financial statements and annual report are filed with the National Bank of Belgium and are available at www.kbc.com. The annual report can also be obtained from the company’s registered office and will be sent to those requesting it. Extracts of minutes concerning decisions on the appointment and the termination of the offices of members of the Executive Committee and the Board of Directors are published in the appendices

to the Belgian Official Gazette. Financial reports about the company are published in the financial press and/or on www.kbc.com. Convening notices of general meetings of shareholders are published in the Belgian Official Gazette, in at least one national newspaper, in the media and on www.kbc.com.

- For information on the general meeting of shareholders and the right of shareholders to take part in such meetings, see Article 23 et seq. of the Articles of Association, which are available at www.kbc.com.

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

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

We have been appointed as statutory auditor by the general meeting of 2 May 2019, following the proposal formulated by the board of directors and following the recommendation by the audit committee and the proposal formulated by the workers' council. Our mandate will expire on the date of the general meeting which will deliberate on the annual accounts for the year ended 31 December 2021. We have performed the statutory audit of the consolidated accounts of KBC Group NV for 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 340.346 million and a profit for the year (attributable to equity holders of the parent) of EUR 2.614 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.

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

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

Key audit matters

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

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Estimation uncertainty with respect to financial instruments measured at fair value

Description of the Key Audit Matter

Details regarding the financial instruments measured at fair value at year-end 31 December 2021 are included in Note 4.5 to the consolidated accounts. For information regarding the determination of fair value we refer to Note 1.2. of the Summary of significant accounting policies and Note 4.4 to the consolidated accounts.

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

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

How our Audit addressed the Key Audit Matter

We obtained an understanding of the internal control framework related to the valuation of financial instruments, including price testing and model validation. We assessed the appropriateness of the model validation methodology with the assistance of our valuation experts and we performed a recalculation of the fair valuation on a sample basis. This includes the assessment of market data, inputs and key assumptions as critical factors used in the fair value models, based on our experience and market practice.

Based on our procedures we found that management's outcome of the models used for the fair value of the level 2 and 3 financial instruments, in the context of the estimation uncertainty concerned, fell within a reasonable and acceptable range of outcomes.

Finally, we assessed the completeness and accuracy of the disclosures relating to the fair values of these financial instruments to assess compliance with disclosure requirements included in the International Financial Reporting Standards as adopted by the European Union.

Estimation uncertainty with respect to impairment allowances for loans and advances

Description of the Key Audit Matter

The appropriateness of the impairment allowances for loans and advances at amortised cost requires significant judgment of management. Measuring impairment allowances for loans and advances under IFRS 9 requires an assessment of 12-month or lifetime expected credit losses and the assessment of significant increases in credit risk or whether loans and advances at amortised cost are in default.

The COVID-19 pandemic 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.

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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.

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 194.638 million, the total impairment at that date amounts to EUR 2.573 million.

The assessment of significant increases in credit risk, the assessment of whether loans and advances at amortised cost are in default and the measurement of 12-month or lifetime expected credit losses are part of the estimation process of the Group and are, amongst others, based on macroeconomic scenarios, credit risk models, triggers indicating a significant increase in credit risk and default triggers, the financial condition of the counterparty and the expected future cash flows or the value of collateral.

The “overlays” recognised in addition to the expected credit losses produced by the models consider expert inputs, sector effects and a probability weighted scenario impact.

The use of different modelling techniques, scenarios and assumptions could lead to different estimates of impairment charges on loans and advances. As the loans and advances represent the majority of the Group’s balance sheet and given the related estimation uncertainty on impairment charges, we consider this as a key audit matter.

How our Audit addressed the Key Audit Matter

Our audit procedures included an assessment of the overall governance of the credit and impairment process of the Group, including the 12-month and lifetime expected loss modelling processes and the COVID-19 “overlay” approach. We have assessed and tested the design and operating effectiveness of the controls within the loan origination process, risk management process and the estimation process for determining impairment allowances. For loan impairment allowances determined on an individual basis we have performed, for a sample of corporate credit files, a detailed review of loans granted by the Group. We challenged the default triggers and the quantification including forecasts of future cash flows, valuation of underlying collateral and estimates of recovery on default. We found no material exceptions in these tests.

For the loan 12-month and lifetime expected credit loss impairment allowances, we challenged the significant increases in credit risk triggers and the macroeconomic scenarios and tested the underlying models including the Group’s model approval and validation process.

We also tested the mathematical accuracy of the calculations used to determine the “overlays” and assessed their reasonability.

Finally, we assessed the completeness and accuracy of the disclosures, including the disclosures concerning the COVID-19 “overlays” and whether the disclosures are in compliance with the International Financial Reporting Standards as adopted by the European Union.

In our view, the impairments estimated by management, including the COVID-19 “overlays”, are within a reasonable range of outcomes in view of the overall loans and advances and the related uncertainties as disclosed in the consolidated accounts.

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

Description of the Key Audit Matter

At year-end 31 December 2021 the technical insurance provisions (before reinsurance) amount to EUR 18.967 million. For detailed information regarding the valuation of the technical insurance provisions, please refer to disclosure Note 1.2. of the Summary of significant accounting policies on technical provisions and Note 5.6 to the consolidated accounts, as well as to the Technical insurance risk section of the Annual Report.

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

How our Audit addressed the Key Audit Matter

We used our internal actuarial experts to assist us in performing our audit procedures. We performed procedures on the design and operating effectiveness of the Group's controls to ascertain that the data used in the valuation of the technical provisions arising from insurance contracts are adequate and complete. These procedures include data analysis based on business rules and follow-up procedures on exceptions.

We performed testing of the Group's procedures regarding the determination of the assumptions, testing of the assumptions based on market observable data and actuarial analysis through backtesting of the assumptions used. We discussed the outcome of the actuarial analysis with the internal actuaries and the actuarial function holder. Our procedures have allowed us to assess the valuation and the setting of the technical insurance provisions.

Finally, we assessed the completeness and accuracy of the disclosures regarding technical insurance provisions to assess compliance with disclosure requirements included in the International Financial Reporting Standards as adopted by the European Union.

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

The board of directors is responsible for the preparation of consolidated accounts that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium, and for such internal control as the board of directors determines is necessary to enable the preparation of consolidated accounts that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors.
- Conclude on the appropriateness of the board of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our statutory auditor's report to the related disclosures in the consolidated accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our statutory auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated accounts, including the disclosures, and whether the consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

Other legal and regulatory requirements

Responsibilities of the board of directors

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

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Statutory auditor's responsibilities

In the context of our engagement and in accordance with the Belgian standard which is complementary to the International Standards on Auditing (ISAs) as applicable in Belgium, our responsibility is to verify, in all material respects, the directors' report on the consolidated accounts and to report on these matters.

Aspects related to the directors' report on the consolidated accounts

In our opinion, after having performed specific procedures in relation to the directors' report on the consolidated accounts, this directors' report is consistent with the consolidated accounts for the year under audit, and it is prepared in accordance with article 3:32 of the Companies' and Associations' Code.

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

The non-financial information required by virtue of article 3:32, §2 of the Companies' and Associations' Code is included in the directors' report on the consolidated accounts. The Company has prepared the non-financial information, based on Global Reporting Initiative (GRI) Standards. However, in accordance with article 3:80, §1, 5° of the Companies' and Associations' Code, we do not express an opinion as to whether the non-financial information has been prepared in accordance with the Global Reporting Initiative (GRI) Standards as disclosed in the directors' report on the consolidated accounts.

Statements related to independence

- Our registered audit firm and our network did not provide services which are incompatible with the statutory audit of the consolidated accounts, and our registered audit firm remained independent of the Group in the course of our mandate.

- The fees for additional services which are compatible with the statutory audit of the consolidated accounts referred to in article 3:65 of the Companies' and Associations' Code are correctly disclosed and itemized in the notes to the consolidated accounts.

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 Groep NV per 31 December 2021 comply in all material respects with the ESEF requirements under the Delegated Regulation.

FREE TRANSLATION FROM DUTCH ORIGINAL

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, 31 March 2022

The statutory auditor
PwC Bedrijfsrevisoren BV
represented by

Roland Jeanquart
Accredited auditor

Tom Meuleman
Accredited auditor

The company annual accounts of KBC Group NV are presented here in abridged form. A full set of these accounts will be submitted for approval to the General Meeting of Shareholders of 5 May 2022. The company annual accounts, the report of the Board of Directors and the statutory auditor’s report are filed with the National Bank of Belgium. These documents are available free of charge from KBC Group NV, Investor Relations Office, IRO, Havenlaan 2, 1080 Brussels, Belgium. They can also be viewed at www.kbc.com. The statutory auditor has delivered an unqualified audit opinion on the company annual accounts of KBC Group NV. The company annual accounts have been prepared according to Belgian accounting standards (B-GAAP) and are, therefore, not comparable with the figures prepared in accordance with IFRS in the other sections of this report.

Company annual accounts and additional information

Company balance sheet, income statement and profit appropriation

Balance sheet after profit appropriation (B-GAAP)

(in millions of EUR)	31-12-2021	31-12-2020
Fixed assets	**30 263**	**27 208**
Intangible fixed assets	297	252
Property and equipment	84	105
Land and buildings	22	23
Plant, machinery and equipment	52	72
Furniture and vehicles	7	9
Other tangible fixed assets	1	1
Assets under construction and advance payments	1	1
Financial fixed assets	29 882	26 851
Affiliated companies	29 881	26 850
Participating interests	16 012	15 901
Amounts receivable	13 869	10 949
Other companies linked by participating interests	1	1
Participating interests	1	1
Amounts receivable	0	0
Current assets	**353**	**1 647**
Amounts receivable at more than one year	0	0
Stocks and contracts in progress	0	0
Amounts receivable within one year	58	199
Trade receivables	55	192
Other amounts receivable	3	7
Current investments	0	1 200
Own shares	0	0
Other investments	0	1 200
Cash at bank and in hand	125	80
Accrued charges and deferred income	169	168
Total assets	**30 615**	**28 856**
Equity	**13 307**	**17 492**
Capital	1 460	1 459
Issued capital	1 460	1 459
Share premium account	5 498	5 486
Reserves	1 287	1 286
Legal reserves	146	146
Reserves not available for distribution	1	1
Untaxed reserves	190	190
Reserves available for distribution	949	949
Profit (Loss (-)) carried forward	5 063	9 260
Provisions and deferred taxes	**7**	**8**
Provisions for liabilities and charges	7	8
Pensions and similar obligations	7	8
Other liabilities and charges	1	0
Amounts payable	**17 301**	**11 356**
Amounts payable at more than one year	11 119	10 198
Financial debt	11 119	10 198
Subordinated loans	3 681	3 680
Non-subordinated bonds	7 437	6 519
Credit institutions	0	0
Amounts payable within one year	6 062	1 047
Amounts payable at more than one year falling due within the year	2 750	750
Financial debt	0	0
Trade debt	37	13
Advance payments received on orders	0	0
Taxes, remuneration and social security charges	65	65
Income tax expense	3	5
Remuneration and social security charges	62	60
Other amounts payable	3 209	219
Accrued charges and deferred income	120	111
Total liabilities	**30 615**	**28 856**

Income statement (B-GAAP)

(in millions of EUR)	31-12-2021	31-12-2020
Operating income	1 019	1 163
Turnover	926	913
Increase (decrease (-)) in stocks of finished goods, work and contracts in progress	0	0
Own construction capitalised	70	79
Other operating income	23	19
Non-recurring operating income	0	152
Operating charges	1 019	1 174
Services and other goods	560	534
Remuneration, social security charges and pensions	370	361
Depreciation of and amounts written off formation expenses and intangible and tangible fixed assets	88	120
Provisions for liabilities and charges: amounts set aside (amounts reversed (-))	-1	-2
Other operating charges	2	2
Non-recurring operating charges	0	160
Operating profit (loss (-))	**0**	**-11**
Financial income	407	1 466
Recurring financial income	407	1 466
Income from financial fixed assets	236	1 301
Income from current assets	5	5
Other financial income	167	160
Non-recurring financial income	0	0
Financial charges	168	163
Recurring financial charges	168	163
Debt charges	165	160
Amounts written down on current assets: increase (decrease (-))	0	0
Other financial charges	3	3
Non-recurring financial charges	0	0
Profit (Loss (-)) for the period, before tax	**240**	**1 293**
Transfers from deferred taxes	0	0
Transfers to deferred taxes	0	0
Income tax	5	30
Profit (Loss (-)) for the period	**235**	**1 263**
Profit (Loss (-)) for the period available for appropriation	**235**	**1 263**

Profit appropriation (B-GAAP)

(in millions of EUR)	31-12-2021	31-12-2020
Profit (Loss (-)) to be appropriated	**9 495**	**9 454**
Profit (Loss (-)) for the period available for appropriation	235	1 263
Profit (Loss (-)) carried forward from the previous period	9 260	8 192
Transfers to equity	**0**	**0**
To the legal reserves	0	0
To other reserves	0	0
Profit (Loss (-)) to be carried forward	**5 063**	**9 260**
Profit to be distributed	**4 432**	**194**
Dividends	4 418	183
Directors' entitlements	0	0
Employees/other allocations	13	10

We will propose to the General Meeting of Shareholders that the profit for appropriation for the 2021 financial year be distributed as shown in the table. This means that we will propose a gross final dividend of 7.6 euros per share, bringing the total gross dividend to 10.6 euros per share. This is the sum total of a dividend of 2 euros per share for financial year 2020 (paid in November 2021), an ordinary dividend of 4 euros per share for financial year 2021 (of which an interim dividend of 1 euro was paid in November 2021 and 3 euros per share is payable in May 2022), and an extraordinary dividend of 4.6 euros (payable in May 2022).

Notes to the company annual accounts

Note 1: Financial fixed assets (B-GAAP)

(in millions of EUR)	Participating interests in affiliated companies	Amounts receivable from affiliated companies	Participating interests in companies linked by participating interests	Amounts receivable from companies linked by participating interests
Carrying value at 31-12-2020	**15 901**	**10 949**	**1**	**0**
Acquisitions in 2021	112	3 664	0	0
Disposals in 2021	0	-747	0	0
Other changes in 2021	0	3	0	0
Carrying value at 31-12-2021	**16 012**	**13 869**	**1**	**0**

Participating interests in affiliated companies are mainly the shareholdings in KBC Bank NV and KBC Insurance NV. In 2021, two new full shareholdings were added, including KBC Global Services NV (100 million euros; see below). The amounts receivable from affiliated companies related to loans to KBC Bank NV in the form of additional Tier 1 capital (1.5 billion euros in total), Tier 2 capital (2.4 billion euros), tier-3 capital (9.4 billion euros) and a subordinated perpetual loan of 0.5 billion euros to KBC Insurance NV. The main changes in 2021 related to new loans to KBC Bank NV in the form of Tier 2 capital (0.8 billion euros) and tier-3 capital (2.9 billion euros). In addition, a loan in the form of tier-3 capital (0.8 billion euros) expired in 2021.

In compliance with the MREL subordination requirement (as determined by the Single Resolution Board), KBC Group NV will be converted to a clean holding company, whose main operations involve financing activities and group-wide control activities and functions. The clean holding company will facilitate the Single Point of Entry strategy in the event of settlement of KBC Group NV. As a result of this project, only a number of control functions, the financial holding activities and the issue of equity and MREL instruments can remain at the level of the financial holding company KBC Group NV. All other activities of KBC Group NV (other group functions, Shared Services & IT) will be transferred to KBC Global Services NV, a new wholly-owned subsidiary of KBC Group NV, from 1 June 2022. Following the establishment of KBC Global Services NV, 'Financial fixed assets' went up by 100 million euros in the 2021 company annual accounts (i.e. the company's starting capital). This had no impact on KBC Group NV's consolidated financial statements or solvency ratios.

Note 2: Changes in equity (B-GAAP)

(in millions of EUR)	31-12-2020	Capital increase for staff	Appropriation of results	31-12-2021
Capital	1 459	1	–	1 460
Share premium account	5 486	12	–	5 498
Reserves	1 286	–	–	1 287
Profit (Loss) carried forward	9 260	–	-4 197	5 063
Equity	**17 492**	**12**	**-4 197**	**13 307**

At year-end 2021, the company's issued capital amounted to 1 459 535 533.42 euros, represented by 416 883 592 shares of no nominal value, The share capital is fully paid up.

A capital increase under the authorisation to increase capital carried out on 17 December 2021 and reserved exclusively for employees of KBC Group NV and certain of its Belgian subsidiaries resulted in 189 034 shares being issued at a price of 66.12 euros per share. These shares are blocked for two years, since the issue price was less than the closing price of the KBC share on 15 November 2021. As a result of this operation, capital was increased by 663 509.34 euros and the share premium account went up by 11 835 418.74 euros. By carrying out this capital increase, the group aims to strengthen ties with its staff and the staff of its Belgian subsidiaries. Given the limited extent of the capital increase, the financial ramifications for existing shareholders are minor. All of the shares issued in 2021 will also be entitled to dividend from the 2021 financial year (with the exception of the interim dividend of 3 euros per share paid by the company on 17 November 2021).

The authorisation to increase capital may be exercised up to and including 23 October 2023 for an amount of 696 539 052.25 euros, with suspension of the preferential subscription rights of existing shareholders being restricted to a maximum of 287 539 052.25 euros. Based on an accounting par value of 3.51 euros a share, a maximum of 198 444 174 new KBC Group NV shares can therefore be issued, with the possibility to suspend the preferential subscription rights attached to a maximum of 81 919 957 of these shares.

Note 3: Shareholders

Notifications received: we received a few notifications in 2021 pursuant to the Belgian Act of 2 May 2007 concerning the disclosure of significant participations. All notifications we receive are published in detail on www.kbc.com. In summary:

- 4 May 2021: The Capital Group Companies, Inc. (CGC): 3% threshold exceeded to 3.01% of the number of shares/voting rights in KBC Group.
- 11 November 2021: The Capital Group Companies, Inc. (CGC): 5% threshold exceeded to 5.06% of the number of shares/voting rights in KBC Group.

The following table gives an overview of KBC shares held by KBC group companies at the end of the financial year. The average accounting par value of the KBC share came to 3.51 euros in 2021.

KBC shares held by KBC group companies	31 December 2021	31 December 2020
KBC Securities NV	2	2
KBC Bank NV	0	20 793*
Total (as a percentage of the total number of shares)	*0.0%*	*0.0%*

* Held for the purpose of hedging outstanding derivatives on indices/baskets that include KBC Group shares. As this hedge was no longer needed, these shares were sold (for 1.3 million euros) in the course of 2022.

Note 4: Balance sheet

- On 31 December 2021, total assets came to 30 615 million euros, compared with 28 856 million euros a year earlier.
- 'Financial fixed assets' are discussed in Note 1.
- 'Current assets' amounted to 353 million euros, whereas the year-earlier figure was 1 647 million euros. The change relates mainly to 'Other investments' (1.2 billion euros expired).
- 'Equity' is dealt with in Note 2.
- 'Amounts payable' totalled 17 301 million euros, compared with 11 356 million euros at year-end 2020. The change was largely attributable to the net increase of 2.9 billion euros in loans and the final dividend payable (3.2 billion euros).

Note 5: Income statement

- KBC Group NV generated a net profit of 235 million euros in 2021, as opposed to 1 263 million euros a year earlier.
- 'Operating income' fell by 12% and 'Operating charges' by 13% year-on-year, relating primarily to the accounting treatment of intangible fixed assets (software) in financial year 2020.
- The main change in the financial result concerns lower dividends received from affiliated companies.

Note 6: Statutory auditor's remuneration

See Note 6.4 in the 'Consolidated financial statements' section.

Note 7: Branch offices

KBC Group NV had three branch offices (in the Czech Republic, Bulgaria and Hungary) at year-end 2021.

Note 8: Additional information

KBC Group NV uses financial instruments to hedge interest rate risks. At year-end 2021, the outstanding notional amount of interest rate swaps used for hedging such risks was 500 million euros.

KBC Group NV is the issuing entity for all loss absorbing instruments (shareholders' capital, AT1, T2 and MREL-eligible instruments). In principle, the financial resources are transferred to KBC Bank and KBC Insurance in the same or a similar format and with a similar term. Consequently, the maturity of the liability issued by KBC Group matches that of the loans to its subsidiaries. Dividends payable by KBC Group are financed by dividends receivable from KBC Bank and KBC Insurance. Any temporary liquidity shortfalls can be covered by issuing short-term debt securities under the Short Term Certificate of Deposit Programme.

The information required in accordance with Article 3:6 of the Belgian Companies and Associations Code that has not been provided above (including the non-financial information statement) appears in the 'Report of the Board of Directors' section.

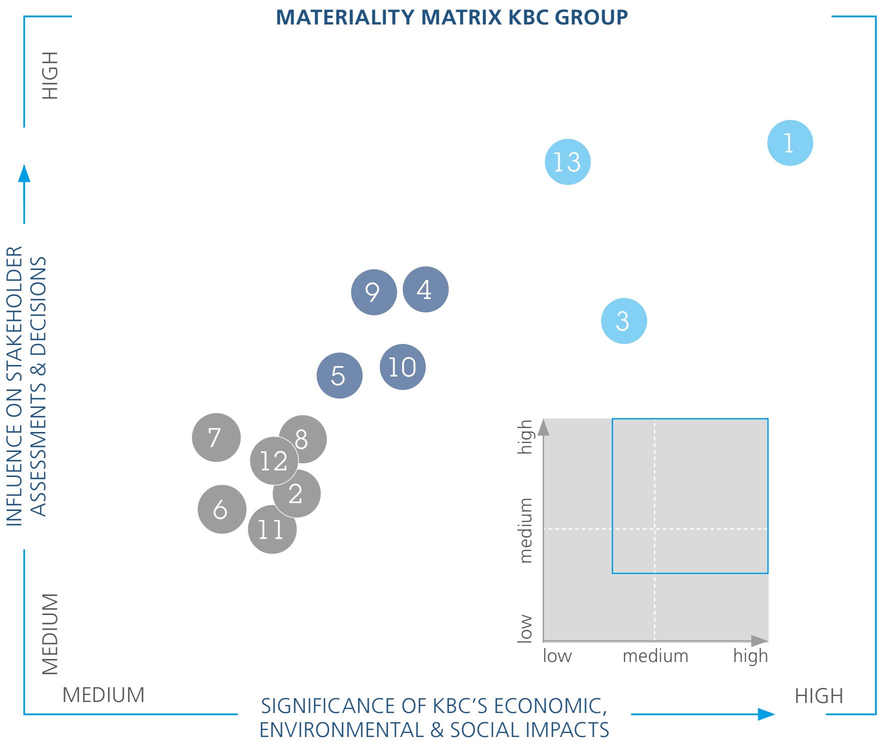
A detailed overview of the impact of the coronavirus crisis is provided in Note 1.4 of the 'Consolidated financial statements'.

Stakeholder interaction and materiality analysis

We are committed to meeting the needs and expectations of all our stakeholders, both now and going forward. In order to identify these needs and expectations, we maintain regular contact with a diverse group of stakeholders. This enables us to broaden our view of the world and keep abreast of what is important to them, while also providing us with the opportunity to inform these stakeholders about what is going on at KBC. We consider our clients, employees, suppliers, shareholders, society (community), government and regulators as being our key stakeholders (more detailed information in this regard is provided in our Sustainability Report at www.kbc.com).
To find out which themes our stakeholders deem most important, what priority they give them and how much impact the themes have on KBC's performance and reputation, we use a specific materiality analysis (see diagram).

Phase 1: determination of scope	**Phase 2: selection of relevant topics**	**Phase 3: validation of topics and determination of importance**	**Phase 4: conclusion concerning materiality**	**Phase 5: determination of maturity**
• Stakeholder mapping and determining the interest that stakeholder groups have in KBC or the influence they exert on KBC	• Identifying and defining 13 material topics ('short list')	• Holding online surveys and in-depth interviews with external stakeholders, senior management and the Board of Directors (including asking them to select their top 5 material topics)	• Drawing up the materiality matrix • Submitting the matrix to the Internal Sustainability Board and having it validated by the Executive Committee • Getting feedback from the External Sustainability Board	• Determining the maturity level of the 13 material topics in a workshop with representatives of all core countries • Checking the outcome of the exercise to see whether it complies with the group's sustainability strategy

The materiality analysis is carried out every two years. The most recent one dates from 2020 and helped us understand the themes that are important to KBC and our stakeholders, which then allowed us to identify the themes we should focus on. Defining the needs and interests of our stakeholders also enables us to adapt our strategy to meet their expectations and to report on the right themes (see the Sustainability Report for more details). The following table indicates where we discuss the various themes in this annual report.



- 1 Long-term resilience of our business model
- 3 Sustainable and responsible lending, insurance and advisory service offering
- 13 Ethical business conduct & responsible behaviour
- 4 Sustainable and responsible asset management and investing
- 9 Fair, understandable & transparent information to customers
- 10 Information security and data protection
- 5 Partner in the transformation to a more sustainable future
- 12 Talent attraction and retention
- 8 Usability of banking and insurance products and services
- 2 Direct environmental footprint of our business activities
- 11 Inclusive business culture
- 7 Accessible finance
- 6 Corporate citizenship

Important topics	Information in this report (selection)
Long-term resilience of our business model	• See 'Our financial report'. • See 'In what environment do we operate?' in 'Our business model'. • See 'Our strategy'. • See 'How do we manage our risks? and 'How do we manage our capital?'.
Sustainable and responsible lending, insurance and advisory service offering	• See 'How do we create sustainable value?' and 'In what environment do we operate?' in 'Our business model'. • See 'Our role in society', 'Focus on climate' and 'Focus on human rights' in 'Our strategy'. • Our business units • See 'Climate-related and other ESG risks' in 'How do we manage our risks?'
Ethical business conduct & Responsible behaviour	• See 'What makes us who we are?' in 'Our business model'. • See 'Our role in society' and 'Focus on human rights' in 'Our strategy'. • See 'Main features of the internal control and risk management systems' in 'Corporate governance statement'.
Sustainable and responsible asset management and investing	• See 'How do we create sustainable value?' and 'In what environment do we operate?' in 'Our business model'. • See 'Our role in society', 'Focus on climate' and 'Focus on human rights' in 'Our strategy'.
Fair, understandable and transparent information to customers	• See 'The client is at the centre of our business culture' and 'Our role in society' in 'Our strategy'. • See 'Main features of the internal control and risk management systems' in 'Corporate governance statement'.
Information security and data protection	• See 'In what environment do we operate?' in 'Our business model'. • See 'The client is at the centre of our business culture' in 'Our strategy'. • See 'Main features of the internal control and risk management systems' in 'Corporate governance statement'. • See 'Non-financial risks' in 'How do we manage our risks?'.
Partner in the transformation to a more sustainable future	• See 'We focus on sustainable and profitable growth', 'Our role in society' and 'Focus on climate' in 'Our strategy'. • Our business units
Talent attraction and retention	• See 'Our employees, capital, network and relationships' in 'Our business model'.
Usability of banking and insurance products and services	• See 'In what environment do we operate?' in 'Our business model'. • See 'The client is at the centre of our business culture' in 'Our strategy'. • Our business units
Direct environmental footprint of our business activities	• See 'In what environment do we operate?' in 'Our business model'. • See 'Our role in society' and 'Focus on climate' in 'Our strategy'. • Our business units • See 'Climate-related and other ESG risks' in the 'How do we manage our risks?' section
Inclusive business culture	• See 'What makes us who we are?' and 'Our employees, capital, network and relationships' in 'Our business model'. • See 'Diversity policy' in 'Corporate governance statement'.
Accessible finance	• See 'What makes us who we are?' in 'Our business model'. • See 'The client is at the centre of our business culture' and 'Our role in society' in 'Our strategy'. • Our business units
Corporate citizenship	• See 'Our role in society' in 'Our strategy'. • Our business units

Glossary of financial ratios and terms

Besides the ratios and terms required by law or IFRS, the group also uses its own ratios and definitions, known as 'alternative performance measures' (APM). We identify them by including 'APM' in the heading and adding the calculation.

Basic and diluted earnings per share

Gives an idea of the amount of profit over a certain period that is attributable to one share (and, where applicable, including dilutive instruments). A detailed calculation can be found in Note 3.13 of the 'Consolidated financial statements' section.

Combined ratio (non-life insurance) (APM)

Gives insight into the technical profitability (i.e. after eliminating investment returns, among other items) of the non-life insurance business, more particularly the extent to which insurance premiums adequately cover claim payments and expenses. The combined ratio takes ceded reinsurance into account. We also use the same methodology to calculate this ratio for each business unit.

Calculation (in millions of EUR or %)	**Reference**	**2021**	**2020**
Technical insurance charges, including the internal cost of settling claims (A)	Note 3.7	1 081	945
/			
Earned insurance premiums (B)	Note 3.7	1 841	1 742
+			
Operating expenses (C)	Note 3.7	565	536
/			
Written insurance premiums (D)	Note 3.7	1 875	1 769
= (A/B) + (C/D)		89%	85%

Common equity ratio

A risk-weighted measure of the group's solvency based on common equity Tier 1 capital (the ratios given here are based on the Danish compromise). Changes to the capital rules are gradually being implemented to allow banks to build up the necessary capital buffers. The capital position of a bank, when account is taken of the transition period, is referred to as the 'transitional' view. The capital position based on full application of all the rules – as would be the case after this transition period – is referred to as 'fully loaded'. A detailed calculation can be found under 'Solvency at group level' in the 'How do we manage our capital?' section.

Cost/income ratio (APM)

Gives an impression of the relative cost efficiency (costs relative to income) of the group (this was limited to the banking activities in previous reports). We also use the same methodology to calculate this ratio for each business unit. Where relevant, we also eliminate exceptional and/or non-operating items when calculating the cost/income ratio. This calculation aims to give a better idea of the relative cost efficiency of the pure business activities.

Calculation (in millions of EUR or %)	**Reference**	**2021**	**2020**
Cost/income ratio			
Operating expenses (A)	'Operating expenses' in the 'Consolidated income statement'	4 396	4 156
/			
Total income (B)	'Total income' in the 'Consolidated income statement'	7 558	7 195
= (A) / (B)		58%	58%
Cost/income ratio with exceptional and/or non-operating items eliminated			
Operating expenses (A)	'Operating expenses' in the 'Consolidated income statement'	4 396	4 156
Exceptional and/or non-operational items (a1*)		105	10
/			
Total income (B)	'Total income' in the 'Consolidated income statement'	7 558	7 195
Impact of the mark-to-market valuation of ALM derivatives (b1)		-197	-94
Exceptional and/or non-operational items (b2*)		-25	28
= (A-a1) / (B-b1-b2)		55%	57%

* The exceptional and/or non-operational costs in 2021 included 97 million euros for the sale transactions in Ireland (which have not all been finalised yet), 18 million euros for an exceptional coronavirus-related bonus to staff, and a positive amount of 9 million euros for the reversal of a provision for expenses connected with the sale of the KBC Tower in Antwerp; the exceptional and/or non-operational income includes -45 million euros related to the floods in Belgium (claim payments above the legal limit), 28 million euros in badwill related to OTP Banka Slovensko, and -8 million euros for various smaller items. Detailed breakdowns of all exceptional/non-operational items (per quarter) can be found in our company presentations (General investor presentations) at www.kbc.com.

Coverage ratio (APM)

Indicates the proportion of impaired loans (see 'Impaired loans ratio' for definition) that are covered by specific impairment charges. The numerator and denominator in the formula relate to all impaired loans, but may be limited to impaired loans that are more than 90 days past due (the figures for that particular calculation are given in the 'Loan and investment portfolio, banking' table in the 'How do we manage our risks?' section).

Calculation (in millions of EUR or %)	**Reference**	**2021**	**2020**
Specific impairment on loans (A)	'Loan and investment portfolio, banking' table in the 'How do we manage our risks?' section	2 569	2 638
/			
Impaired loans (B)	'Loan and investment portfolio, banking' table in the 'How do we manage our risks?' section	5 454	5 902
= (A) / (B)		47%	45%

Credit cost ratio (APM)

Gives an idea of loan impairment charges recognised in the income statement for a specific period, relative to the total loan portfolio (see 'Loan portfolio' for definition). In the longer term, this ratio can provide an indication of the credit quality of the portfolio. We also use the same methodology to calculate this ratio for each business unit.

Calculation (in millions of EUR or %)	**Reference**	**2021**	**2020**
Net changes in impairment for credit risks (A)	'Consolidated income statement': Note 3.10, component of 'Impairment'	-329	1 068
/			
Average loan portfolio (B)	'Loan and investment portfolio, banking' table in the 'How do we manage our risks?' section	184 640	177 542
= (A) / (B)		-0.18%	0.60%

When the ratio is calculated without including collective coronavirus-related impairment charges, the numerator is reduced by the reversal of 494 million euros (in 2021) and the increase of 783 million euros (in 2020), giving a credit cost ratio of 0.09% in 2021 and 0.16% in 2020.

Dividend payout ratio (APM)

Gives an idea of the extent to which KBC Group NV distributes its annual profit (and, therefore, also indirectly the extent to which profits are used to strengthen the capital reserves). More information on the group's dividend distribution policy can be found under 'Our employees, capital, network and relationships' in the 'Our business model' section. The amount of dividend for 2021 is subject to the approval of the General Meeting of Shareholders.

Calculation (in millions of EUR or %)	**Reference**	**2021**	**2020**
Amount of dividend to be distributed (including interim dividend) (A)	Consolidated statement of changes in equity	3 585*	1 017*
+			
Coupon on additional Tier 1 instruments included in equity (B)	Consolidated statement of changes in equity	50	50
/			
Net result, group share (C)	Consolidated income statement	2 614	1 440
= (A+B) / (C)		139%	74%

* When calculating the dividend payout ratio, we allocated 2 euros of the interim dividend paid in November 2021 (3 euros per share entitled to dividend) to financial year 2020 and 1 euro to financial year 2021. This brings the total dividend for 2021 to 8.6 euros per share, of which 4.6 euros is an extraordinary dividend. If we had only included the ordinary dividend (of 4 euros) in the calculation, the dividend payout ratio for 2021 would have been 66%.

Impaired loans ratio (APM)

Indicates the proportion of impaired loans in the loan portfolio (see 'Loan portfolio' for definition) and, therefore, gives an idea of the creditworthiness of the portfolio. Impaired loans are loans where it is unlikely that the full contractual principal and interest will be repaid/paid. These loans have a KBC default status of PD 10, PD 11 or PD 12. Where appropriate, the numerator in the formula may be limited to impaired loans that are more than 90 days past due (PD 11 + PD 12). Relevant figures for that calculation are given in the 'Loan and investment portfolio, banking' table in the 'How do we manage our risks?' section. We also use the same methodology to calculate this ratio for each business unit.

Calculation (in millions of EUR or %)	**Reference**	**2021**	**2020**
Amount of impaired loans (A)	'Loan and investment portfolio, banking' table in the 'How do we manage our risks?' section	5 454	5 902
/			
Total loan portfolio (B)	'Loan and investment portfolio, banking' table in the 'How do we manage our risks?' section	188 400	180 891
= (A) / (B)		2.9%	3.3%

The calculation contains only part of the impact of stage transfers that underlie the management overlay for the forecast collective coronavirus-related ECL, due to the fact that these are determined based on a collective statistical approach and, therefore, cannot be entirely individually linked to specific loans (also see Note 4.2.1).

Leverage ratio

Gives an idea of the group's solvency, based on a simple non-risk-weighted ratio. A detailed calculation can be found under 'Solvency at group level' in the 'How do we manage our capital?' section.

Life insurance sales (APM)

Total sales of life insurance comprise life insurance premiums and unit-linked life insurance premiums (as required under IFRS, we use margin deposit accounting for most of these unit-linked contracts, which means they are not recognised under 'Earned insurance premiums').

Calculation (in millions)	**Reference**	**2021**	**2020**
Life insurance – Earned premiums before reinsurance (A)	Income statement	1 196	1 223
+			
Life insurance: difference between written premiums and earned premiums before reinsurance (B)	-	1	2
+			
Investment contracts without DPF (unit-linked), margin deposit accounting (C)	-	768	764
(A)+(B)+(C)		1 964	1 989

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%

Loan portfolio (APM)

Gives an idea of the magnitude of (what are mainly traditional) lending activities.

Calculation (in millions of EUR)	**Reference**	**2021**	**2020**
Loans and advances to customers (A)	Note 4.1, component of 'Loans and advances to customers'	159 728	159 621
+			
Reverse repos (not with central banks) (B)	Note 4.1, component of 'Reverse repos with credit institutions and investment firms'	719	3 295
+			
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 (E)	Note 6.1, component of 'Financial guarantees given'	9 040	7 919
+			
Impairment on loans (F)	Note 4.2, component of 'Impairment'	2 581	3 703
-			
Insurance entities (G)	Note 4.1, component of 'Loans and advances to customers'	-2 077	-2 198
-			
Non-loan-related receivables (H)	–	-338	-592
+			
Other (I)	Component of Note 4.1	9 525	-923
= (A)+(B)+(C)+(D)+(E)+(F)-(G)-(H)+(I)		188 400	180 891

* In the third quarter of 2021, the pending sale transactions relating to the Irish loan portfolio resulted in a shift to the 'Non-current assets held for sale and disposal groups' balance sheet item. Ireland is still included in the loan portfolio.

Market capitalisation

Provides an indication of the stock market value of the KBC group.

Calculation (in EUR or quantity)	**Reference**	**2021**	**2020**
Closing price of KBC share (in EUR) (A)	–	75.5	57.3
X			
Number of ordinary shares (in millions) (B)	Note 5.10	416.9	416.7
= (A) X (B) (in billions of EUR)		31.5	23.9

Minimum requirement for own funds and eligible liabilities (MREL)

Indicates the extent to which a bank has sufficient own funds and eligible liabilities available for bail-in. MREL and bail-in are based on the principle that shareholders and debt-holders should bear losses first if a bank fails. The ratio is expressed as a percentage of Risk-Weighted Assets (RWA) or Leverage Ratio Exposure Amount (LRE). A detailed calculation can be found under 'Solvency at group level' in the 'How do we manage our capital?' section.

Net interest margin (APM)

Gives an idea of the net interest income of the banking activities (one of the most important sources of revenue for the group) relative to the average total interest-bearing assets of the banking activities. We also use the same methodology to calculate this ratio for each business unit.

Calculation (in millions of EUR or %)	**Reference**	**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) / (B) X 360/number of calendar days		1.81%	1.84%

* After elimination of all divestments and volatile short-term assets used for liquidity management purposes.

Net stable funding ratio (NSFR)

Gives an idea of the bank's structural liquidity position in the long term, more specifically the extent to which the group is able to overcome liquidity difficulties over a one-year period.

Calculation (in millions of EUR or %)	**Reference**	**2021**	**2020**
Available amount of stable funding (A)	Regulation (EU) 2019/876 of 20 May 2019	218 124	209 932
/			
Required amount of stable funding (B)		147 731	143 901
= (A) / (B)		148%	146%

Parent shareholders' equity per share (APM)

Gives the carrying value of a KBC share, i.e. the value in euros represented by each share in the parent shareholders' equity of KBC.

Calculation (in millions of EUR or quantity)	**Reference**	**2021**	**2020**
Parent shareholders' equity (A)	Consolidated balance sheet	21 577	20 030
/			
Number of ordinary shares less treasury shares (in millions at period-end) (B)	Note 5.10	416.9	416.7
= (A) / (B) (in EUR)		51.8	48.1

Return on equity (APM)

Gives an idea of the relative profitability of the group, more specifically the ratio of the net result to equity.

Calculation (in millions of EUR or %)	**Reference**	**2021**	**2020**
Result after tax, attributable to equity holders of the parent (A)	'Consolidated income statement'	2 614	1 440
-			
Coupon on the additional Tier 1 instruments included in equity (B)	'Consolidated statement of changes in equity'	-50	-50
/			
Average parent shareholders' equity, excluding the revaluation reserve for FVOCI and for FVPL – overlay (C)	'Consolidated statement of changes in equity'	19 463	17 954
= (A-B) / (C)		13%*	8%

* Excluding the one-off impact of the sale transactions in Ireland (which have not all been finalised yet), the ROE would have been 15% in 2021.

Total assets under management (APM)

Total assets under management (AuM) comprise third-party assets and KBC group assets managed by the group's various asset management companies (KBC Asset Management, ČSOB Asset Management, etc.), as well as assets under advisory management at KBC Bank. The assets, therefore, consist mainly of KBC investment funds and unit-linked insurance products, assets under discretionary and advisory management mandates of (mainly retail, private banking and institutional) clients, and certain group assets. The size and development of total AuM are major factors behind net fee and commission income (generating entry and management fees) and hence account for a large part of any change in this income line. In that respect, the AuM of a fund that is not sold directly to clients but is instead invested in by another fund or via a discretionary/advisory management portfolio, are also included in the total AuM figure in view of the related work and any fee income linked to them.

Calculation (in billions of EUR)	**2021**	**2020**
Belgium Business Unit (A)	215.6	194.5
+		
Czech Republic Business Unit (B)	14.0	11.4
+		
International Markets Business Unit (C)	6.5	5.7
= (A)+(B)+(C)	236.2	211.6

Management certification

"I, Luc Popelier, Chief Financial Officer of the KBC group, certify on behalf of the Executive Committee of KBC Group NV that, to the best of my knowledge, the financial statements, which are based on the relevant standards for annual accounts, fairly present in all material respects the assets, the financial condition and results of KBC Group NV, including its consolidated subsidiaries, and that the annual report provides a fair overview of the development, the results and the situation of KBC Group NV, including its consolidated subsidiaries, as well as an overview of the main risks and uncertainties to which they are exposed."

Contact details and calendar

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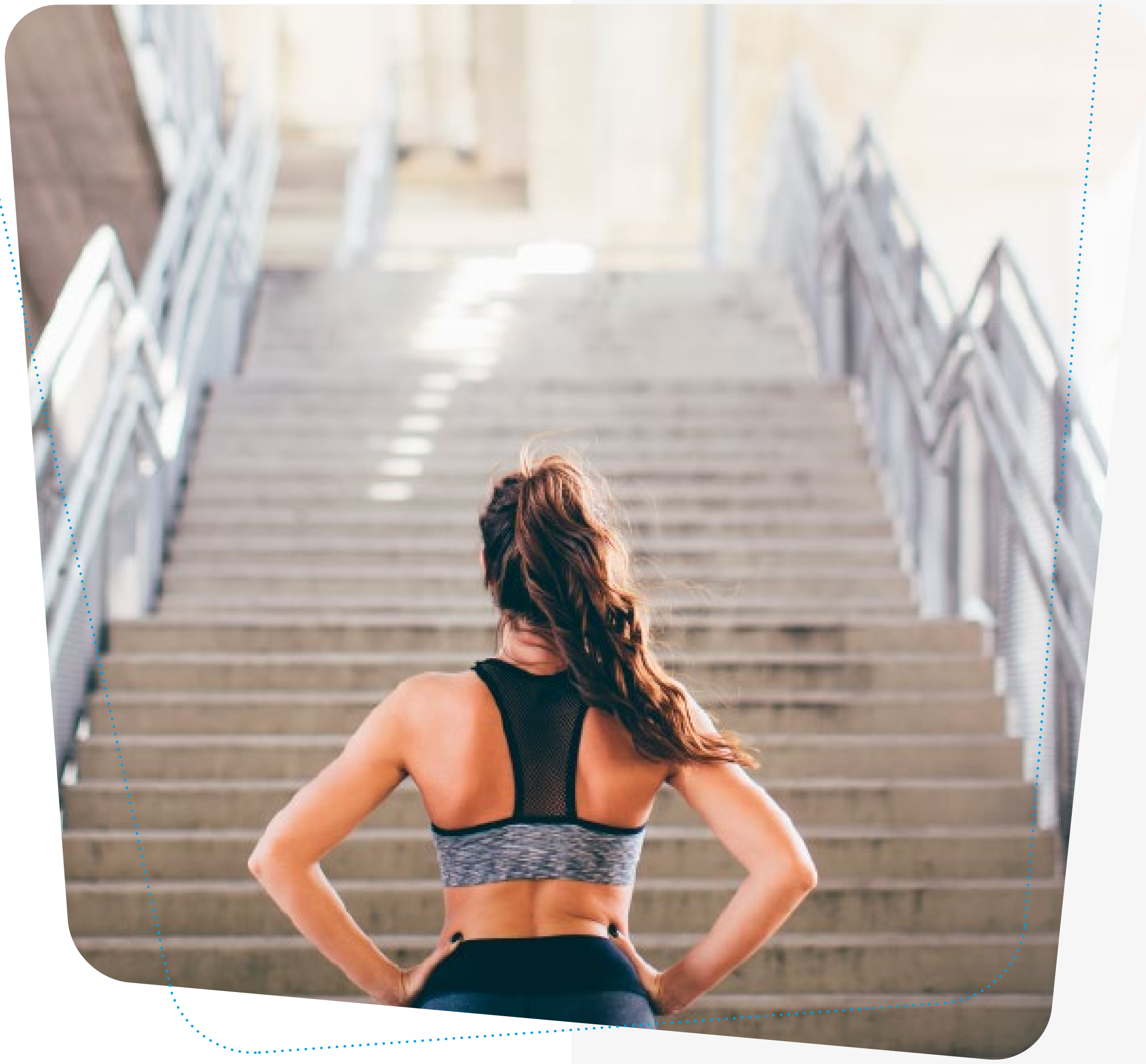
Calendar for 2022	
Publication of the Annual Report, the Sustainability Report and the Risk Report for 2021	4 April 2022
General Meeting of Shareholders (agenda available at www.kbc.com)	5 May 2022
Earnings release for 1Q 2022	12 May 2022
Earnings release for 2Q 2022	11 August 2022
Earnings release for 3Q 2022	9 November 2022

The most up-to-date version of the financial calendar is available at www.kbc.com.



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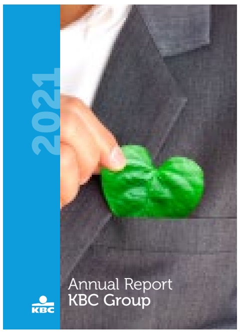
In addition to our annual report, you will find more detailed information in separate reports at www.kbc.com.

Annual Report

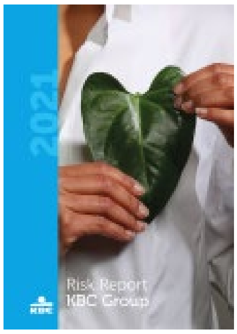


- Provides information on the business model, strategy, sustainability, governance, financial performance, risks and capital. We apply the principles of integrated reporting wherever possible.
- www.kbc.com > Investor Relations > Reports > Annual Reports

Sustainability Report

- Focuses on our sustainability strategy. Contains detailed non-financial data and is prepared according to GRI Standards (Core option) and SASB Standards.
- www.kbc.com > Corporate Sustainability > Reporting

Risk Report



- Provides greater detail on the group's risk and capital management.
- www.kbc.com > Investor Relations > Reports > Risk Reports

Report to Society

- Drawn up for each core country and looks more closely at how KBC accepts its role in society.
- www.kbc.com > Corporate Sustainability

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