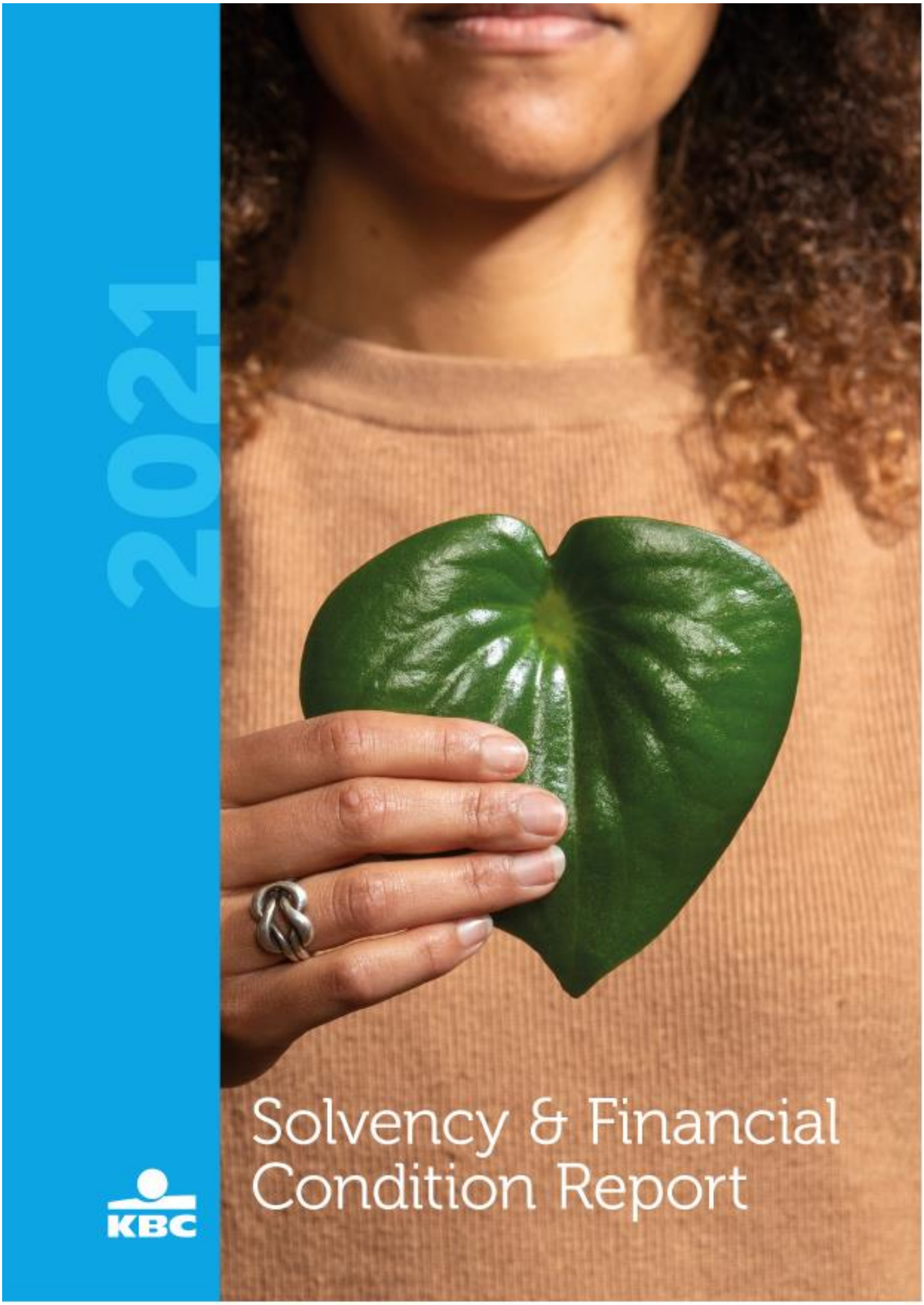
2021
Solvency & Financial Condition Report
KBC

Company name

KBC Insurance Group contains all consolidated subsidiaries of KBC Insurance NV (mainly the Group insurance companies), while KBC Insurance NV refers to the solo (non-consolidated) entity.

Difference between KBC Insurance and KBC Group

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

Post-balance-sheet events:

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

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Disclosure

The Solvency & Financial Condition Report (SFCR) has to be published on a yearly basis by all insurance undertakings and groups. It provides qualitative and quantitative information on the business and performance, the system of governance, the risk profile, the valuation for solvency purposes and capital management of the undertaking.

This report has a harmonised structure that is defined in Annex XX of the Solvency II Delegated Acts Regulation[1] and includes templates defined by the Implementing Regulation[2] that contain quantitative information in the 'Quantitative Reporting Templates (QRTs)'.

In line with its general communication policy, KBC aims to communicate openly with the market about its exposure to risk. Risk management information is therefore provided in a separate section of the 2021 Annual Report of KBC and – more extensively – in this publication.

The most important regulation governing risk and capital management is the Solvency II capital framework applying to insurance entities.

Information is disclosed at the highest consolidated level. For more detailed information, please refer to the local disclosures of the entity concerned provided on their websites.

KBC ensures that a representative picture is given at all times in its disclosures. The scope of the reported information – which can differ according to the matter being dealt with – is clearly indicated.

The information provided in this document has not been subject to an external audit. However, the disclosures have been checked for consistency with other existing risk reports and were subjected to a final screening by authorized risk management representatives to ensure quality. In addition, the 2022 Solvency & Financial Condition Report (Activity Year 2021) was distributed to the Group Executive Committee, the Board of Directors, as well as to the Risk & Compliance Committee to ensure appropriate approval was obtained from the management body, as requested under Solvency II.

One-on-one comparison of figures presented in the Annual Report and figures presented in this report cannot always be made due to the different risk concepts used under IFRS and Solvency II. In order not to compromise on the readability of this document, relevant parts of the Annual Report have been reproduced here or, where relevant, clarification is given to explain the differences between the accounting values and the Solvency II values.

All amounts quoted in this report and in the tables are in millions of euros, unless otherwise stated.

This report has been published for some years and therefore comparisons are made with available Solvency II-related data of the previous year.

Similar to last year, there is only one report both for KBC Insurance Group and KBC Insurance NV. The SFCR for Maatschappij voor Brandherverzekering (MVBh) is also included as a separate chapter in this report.

1 Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 (CDR EU 2015_35).

2 Commission Implementing Regulation (EU) 2015/2452 of 2 December 2015 (CIR EU 2015-2452).

Solvency & Financial Condition Report

KBC Insurance Group
& KBC Insurance NV
SFCR
Activity Year 2021

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Management summary

1. Management summary

ENGLISH VERSION

The KBC Insurance Group (and KBC Insurance NV) caters mainly for retail, SME and mid-cap clients. KBC Insurance concentrates on its home markets of Belgium and four countries in Central and Eastern Europe, namely the Czech Republic, Slovakia, Hungary and Bulgaria. KBC Group Re is a captive reinsurer providing services out of Luxembourg.

- ✓ All of the material insurance entities are present in KBC's core markets and operate according to an integrated bank-insurance model;
- ✓ The KBC Insurance Group as well as KBC Insurance NV is strongly capitalised in terms of the level and quality of capital. The Solvency II ratio at 31 December 2021 is 201% (resp. 215% for KBC Insurance NV), the double of the minimum requirement of 100%;
- ✓ KBC Insurance Group and KBC Insurance NV have a well-diversified – medium – risk profile, in line with the Risk Appetite Statement. It benefits from diversified activities that target retail, SME and mid-cap clients across multiple distribution channels;
- ✓ The consolidated result of KBC Insurance Group is 508m EUR in 2021 compared to 450m EUR in 2020, which is an increase of about 58m EUR. This 58m EUR increase is primarily caused to the higher level of investment income from shares, partially offset by a lower technical result in the Non-Life insurance business;
- ✓ Earned premiums in Non-Life insurance were up in all KBC home markets, with a total increase of 6% on the year-earlier figure. Non-Life technical charges rose by 21% and were negatively impacted by the recovery of economic activity after the coronavirus lockdown periods in 2020 and the exceptional claims incurred relating to the flood in Belgium and the tornados in Czech Republic;
- ✓ The ceded reinsurance result in 2021 was positive, driven by higher reinsurance amounts recovered in connection with the aforementioned flood and storm-related claims. The aggregate impact of these factors resulted in a favourable combined ratio of 88,9% (84,5% for financial year 2020);
- ✓ Earned premiums in Life insurance amounted to 1.196m EUR in 2021. However, in compliance with IFRS, certain types of Life insurance (i.e. Unit-Linked products) have been excluded from this figure. If the premium income from such products is included, premium income from the Life insurance business amounts close to 2b EUR, 1% lower than in 2020.

    - Unit-Linked products were down 2% year-on-year due to a decrease in single-premium products (mainly in Belgium and the Czech Republic).
    - Guaranteed-rate products remained at the same level as in 2020 as the sale of single-premium products is still suspended in Belgium (Life Future 8 products discontinued as of August 2019). Recurring-premium policies performed well in all countries (6% higher than in 2020).

- ✓ Investment income increased significantly compared to 2020, owing primarily to realised gains on shares, partially offset by lower interest income and slightly lower dividend income.
- ✓ Operating expenses were down 1,6% due to a decrease in general administrative expenses.

NEDERLANDSTALIGE VERSIE

De KBC Verzekeringsgroep (resp. KBC Verzekeringen NV) richt zich voornamelijk op retail-, KMO's en mid-cap-ondernemingen. KBC Verzekeringen concentreert zich op haar thuismarkten in België en vier landen in Centraal- en Oost-Europa, namelijk Tsjechië, Slowakije, Hongarije en Bulgarije. KBC Groep Re is een captive herverzekeraar die diensten aanbiedt vanuit Luxemburg.

- ✓ Alle verzekeringsentiteiten zijn aanwezig in de kernmarkten van KBC en opereren volgens een geïntegreerd bankverzekeringsmodel;
- ✓ De KBC Verzekeringsgroep (resp. KBC Verzekeringen NV) is sterk gekapitaliseerd in termen van omvang en ook qua kwaliteit van kapitaal. De Solvency II-ratio bedroeg op 31 december 2021 201% (resp. 215% voor KBC Verzekeringen NV), dat is meer dan het dubbele van de minimumvereiste van 100%;
- ✓ KBC Verzekeringsgroep (resp. KBC Verzekeringen NV) heeft een goed gediversifieerde portefeuille met een medium risicoprofiel, dat in lijn is met de Risk Appetite Statement. De diversificatie tussen activiteiten zowel in retail, in SME alsook bij mid-cap klanten via verschillende distributiekanalen resulteert in positieve resultaten;
- ✓ Het geconsolideerde resultaat van KBC Verzekeringsgroep bedroeg 508m EUR tegenover 450m EUR in 2020, wat neerkomt op een stijging van ongeveer 58m EUR. Deze stijging van 58m EUR komt voornamelijk voort uit hogere beleggingsopbrengsten wat de financiële inkomsten ten goede kwam. Anderzijds was er een lagere technisch resultaat in Niet-Leven;
- ✓ De verdiende premies Niet-Leven groeien met 6%. Globaal groeit de verdiende premie in elke entiteit. De technische lasten stijgen 21% zijn negatief beïnvloed door de herneming van de economische activiteit in 2021 en de uitzonderlijke schadegevallen zoals de overstroming in België en de tornado's in Tsjechië.
- ✓ Het herverzekeringsresultaat was gunstig omwille recuperatie van een deel van deze schades op herverzekeraars. Al deze elementen samen resulteren in een gunstige combined ratio van 88,9% bij KBC Groep (tegenover 84,5% voor boekjaar 2020);
- ✓ De verdiende levensverzekeringspremies bedragen 1.196m EUR in 2021. Daarbij zijn evenwel, conform IFRS, bepaalde types levensverzekeringen uitgesloten (de levensverzekeringen gekoppeld aan beleggingsfondsen). Als we de premie-inkomsten voor die producten meetellen, bedragen de totale premie-inkomsten uit levensverzekeringen bijna 2.000m EUR, 1% lager dan in 2020;
    - Unit-Linked producten daalden met 2% als gevolg van een daling in single-premium producten (voornamelijk in België en Tsjechië).
    - De producten met gegarandeerde rente bleven op hetzelfde niveau als in 2020 omdat de verkoop van producten met eenmalige premie nog steeds is opgeschort in België (Life Future 8-producten stopgezet sinds augustus 2019). De polissen met recurrente premies deden het goed in alle landen (6% hoger dan in 2020).
- ✓ De Unit-Linked producten daalden met 2% ten opzichte van 2020 omwille van een daling van de éénmalige koopsommen voornamelijk in België en Tsjechië;
- ✓ De interest gegarandeerde producten blijven op hetzelfde niveau als 2020 omwille van de opschorting van de Life Future 8 producten sinds augustus 2019 in België. In de andere landen is

de daling minder uitgesproken. Polissen met recurrente premiebetaling presteerden wel goed met een stijging van 6% ten opzichte van 2020;

- ✓ Het resultaat uit beleggingen steeg sterk ten opzichte van 2020, voornamelijk door de gerealiseerde winsten op de aandelenportefeuille maar gecompenseerd door de lagere interestopbrengsten en een lagere dividendinkomsten;
- ✓ De exploitatiekosten daalden in 2021 met 1,6% ten opzichte van 2020 te wijten aan een daling van algemene administratieve uitgaven.

Business & performance

2 Business & performance

2.1 Business

2.1.1 Brief presentation of KBC Insurance Group

Our area of operation

KBC Insurance is an insurance group catering mainly for retail, SME and mid-cap clients. It concentrates on its home markets of Belgium and four countries in Central and Eastern Europe (the Czech Republic, Slovakia, Hungary and Bulgaria) and Ireland.[3]

Main group companies

Belgium	KBC Insurance NV
Czech Republic	ČSOB Pojišt'ovna a.s.
Slovakia	ČSOB Poist'ovňa a.s.
Hungary	K&H Biztosító
Bulgaria	DZI Insurance
Luxembourg	KBC Group Re

Our shareholders

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

Our clients, staff and network

Clients (estimate)	5,9 million
Number of staff (2021 average in FTEs)	3.953
Insurance network	310 agencies in Belgium various distribution channels in Central and Eastern Europe

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

	Standard & Poor's
KBC Insurance NV	A

Management

CEO	Johan Thijs
Chairman of the Board of Directors	Koenraad Debackere

More information

Website	www.kbc.com

[3] Sale transactions were concluded in Ireland. As KBC moves forward with its planned exit from the Irish market, the Irish branch of KBC Insurance is seeking agreement of the Pensions Authority for the withdrawal from the market in advance of KBC Bank Ireland's exit.

2.1.2 Business model

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

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

How do we create sustainable value?

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

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

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

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 suffer from the negative consequences of climate change or the transition to a lower-carbon society. We carefully consider these factors, not only to reduce or prevent adverse consequences, but also to contribute actively by launching sustainable products and services. We closely track our performance in this regard, to which end we apply specific targets. Recognition that sustainability will be even more important in a post-pandemic world has led us, meanwhile, to tighten our existing targets in this area even further.

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

The Covid-19 crisis has not essentially altered our business model, but it has speeded up its implementation. The focus we had already placed on digital solutions enabled us to continue working seamlessly during the pandemic and to offer our clients a consistent level of service. For their part, clients have shifted to our digital solutions en masse during the crisis. Personal contact has naturally remained important, but has temporarily been incorporated within a safer context. Our credo of placing the client at the centre means that we also supported them during the crisis and that we followed their changing preferences both during and before the pandemic. Given that we had already been intensively engaged with digital solutions for some considerable time and have adjusted our strategy accordingly, this came as confirmation of the path we had taken and the continuation of our existing policy and business model.

What makes us who we are?

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.

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

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

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

Our strong geographical focus

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

Our focus on local responsiveness

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

Macroeconomic 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 Russian-Ukrainian war)	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	

Our employees, capital, network and relationships

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.

Our capital

Our activities are only possible if we have a solid capital base. At year-end 2021, KBC Group's total equity came to 23,1b EUR and its capital was represented by 416.883.592 shares.

KBC Group is the sole shareholder of KBC Insurance. KBC Group shares are held by a large number of shareholders in a number of countries. MRBB, Cera, KBC Ancora and the Other core shareholders, constitute KBC's core shareholders According to the most recent notifications, the core shareholders own 40% of our shares between them. More information on the KBC Group's shareholder structure can be found in the KBC Group annual report. The KBC Insurance share is not traded on the stock market.

Our network and our relationships

Alongside staff and capital, our network and relationships are especially important to our activities.

Our social and relationship capital comprises all relationships with our clients, shareholders, government, regulators and other stakeholders who enable us to remain socially relevant and to operate as a socially responsible business.

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.

2.2 Strategy

2.2.1 Strategy of KBC Insurance Group

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

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

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

Our strategy rests on the following principles:

- ✓ *Principle 1: We place our clients at the centre of everything we do.*
- ✓ *Principle 2: We look to offer our clients a unique bank-insurance experience.*
- ✓ *Principle 3: We focus on our Group's long-term development and aim to achieve sustainable and profitable growth.*
- ✓ *Principle 4: We meet our responsibility to society and local economies.*
- ✓ *Principle 5: We put our strategy into practice within a stringent risk, capital and liquidity management framework.*

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

Principle 1: The client is at the centre of our business culture

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

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

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

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

Digital first

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

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

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

Privacy, data protection, communication and inclusion

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

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.

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

Principle 2: We offer our clients a unique bank-insurance experience

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 delivering numerous 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 NV, 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.

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

Principle 3: We focus on sustainable and profitable growth

Developing long-term relationships with our clients is crucial if we are to secure our long-term future. Therefore, we do not pursue high short-term returns that come with excessive risks but rather focus on sustainable and profitable growth in the long run. Sustainable and long-term thinking also means concentrating on the local economies of our core markets. Our geographical footprint remains firmly focused on a number of our core countries, namely Belgium, the Czech Republic, Slovakia, Hungary, Bulgaria, and Ireland (sale transactions were concluded in Ireland). We view our presence in these countries as a long-term commitment and want to consolidate our presence there by means of organic growth or attractive acquisitions, in line with clear and strict strategic and financial criteria. Geographical focus also means that, where possible and opportune, we will dispose of non-core activities. As a result of the (potential) withdrawal from Ireland, arising merger and acquisition opportunities beyond our core markets may be assessed (for approval of the Board of Directors) taking into account very strict strategic, financial, operational and risk criteria.

Recent examples:

- ✓ In July 2021, we completed the acquisition of NN's Bulgarian pension and Life insurance business. This deal will enable UBB and DZI to further expand their cross-selling opportunities through their already established bank-insurance presence in the Bulgarian market, allowing them to serve more clients and to benefit from economies of scale and increased visibility.

- ✓ At the end of August, KBC Bank Ireland reached agreement on the disposal of a non-performing mortgage loan portfolio, and in October 2021 it confirmed that a legally binding agreement had been concluded with Bank of Ireland relating to the sale of substantially all of KBC Bank Ireland's performing loan assets and its deposit book. As part of the transaction, the latter will also acquire a small non-performing mortgage loan portfolio. The October transaction remains subject to the approval of the supervisory authority and the Irish competition authorities. The successful completion of this transaction will ultimately result in our withdrawal from the Irish market.
- ✓ In mid-November 2021, KBC reached agreement with Raiffeisen Bank International on the acquisition of Raiffeisenbank (Bulgaria), a universal bank in Bulgaria offering private individuals, SMEs and business clients a full range of banking, asset management, leasing and insurance services. The transaction remains subject to regulatory approval and is expected to be completed by mid-2022. The plan is to merge Raiffeisenbank (Bulgaria) and UBB following the supervisory authority's approval. The pro-forma combined entity will have an estimated market share of 18% in terms of assets, allowing us to further strengthen our position as a leading financial Group in Bulgaria. This acquisition will also create ample opportunity for insurance cross-selling with DZI.

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

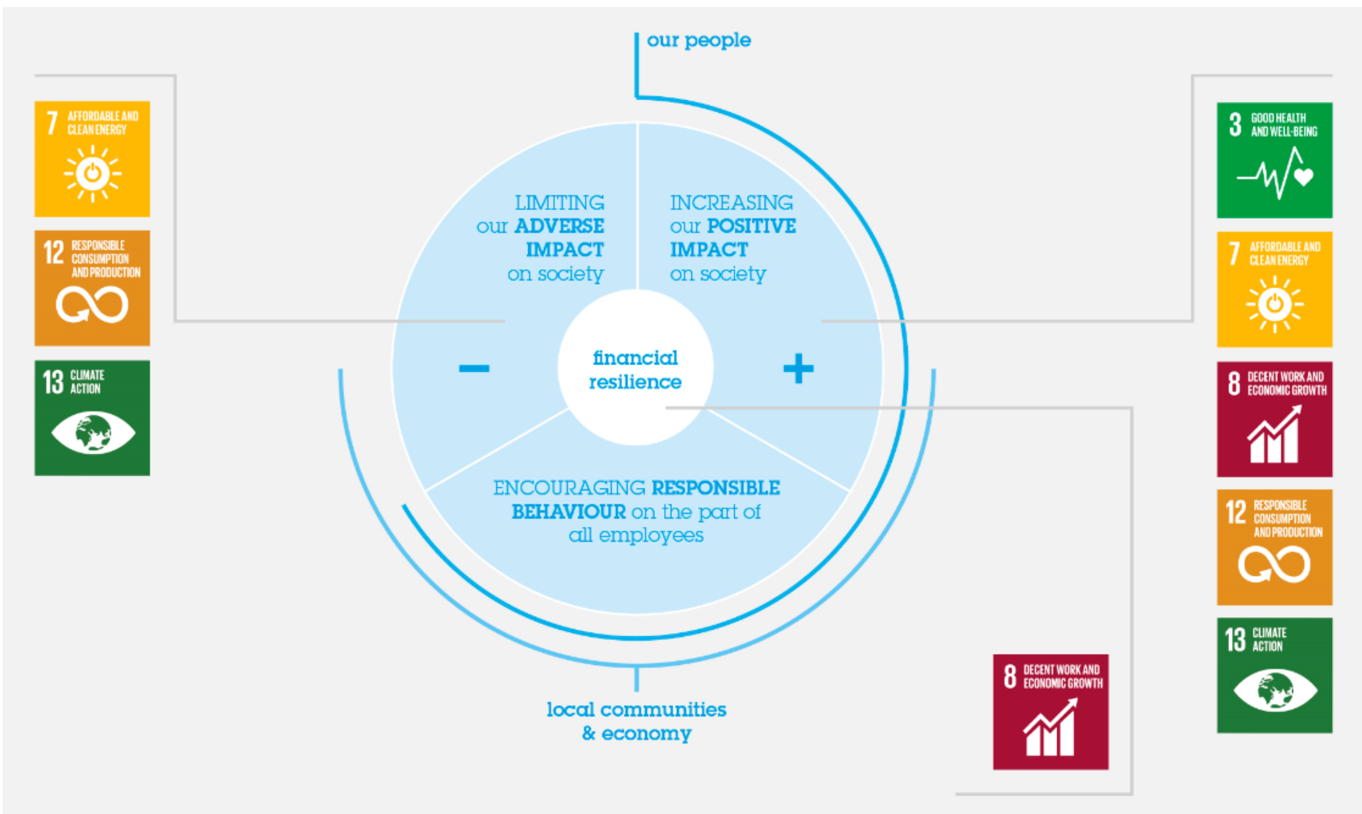
The most important Key Performance Indicators (KPIs) relating to sustainable and profitable growth are set out in the KBC Group annual report.

Principle 4: Our role in society

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

Sustainable Development Goals (SDGs)

In 2015, the United Nations drew up a development plan with 17 ambitious targets for 2030. These Sustainable Development Goals (SDGs) set the global agenda for governments, businesses and society when it comes to tackling the major challenges in the field of sustainable development, such as ending poverty, protecting the planet and guaranteeing prosperity for all. 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. Our social projects focus on themes like 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 an 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'. 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 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. Our focus areas:

Environmental awareness

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

Examples

- ✓ Issue of a second green bond.
- ✓ 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, public transport.
- ✓ Alliance between KBC Belgium and Encon to help businesses make the transition to more sustainable practices.

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

Longevity and health

- We have opted for 'longevity' as one of the pillars 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 another 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

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

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

Limiting any negative impact we might have on society

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

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.

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.

Focus on climate

The climate aspect in our business model

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

More important is our indirect influence, through lending, holding an investment portfolio, providing investments to clients and insuring other parties who could have a significant impact (whether positive or negative) on the climate. We limit this indirect negative impact through clear policies, which also entail restrictions on the most polluting activities, and we enhance our positive impact through actions relating to the most climate-sensitive sector portfolios, 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 or collateral providers suffer the negative consequences of climate change or the transition to a lower-carbon society (which can prompt direct losses through repayment problems). It also relates to the influence we experience from possible changes to the relevant legislation and capital requirements, litigation, changes in client behaviour (including the risk of missed opportunities), 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.

Climate governance

Climate governance forms part of our general 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 now become the most important platform for steering sustainability policy at Group level, including our climate approach. The core country representatives sitting on the ISB have a clear responsibility for sustainability and climate.

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

The Sustainable Finance programme is directed by a programme manager from Corporate Sustainability, together with a Sustainable Finance Core Team. This team of specialists from Group Corporate Sustainability, Group Risk and Credit Risk was expanded in 2020 to include experts from Group Finance. 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. It 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

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 and 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.

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:

- ✓ The Universal Declaration of Human Rights;
- ✓ 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;
- ✓ The UN Declaration on the Rights of Indigenous Peoples;

- ✓ 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.

Principle 5 : We aim to achieve our ambitions within a stringent risk management framework (KBC Group)

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

- ✓ We perform risk scans to identify all key risks.
- ✓ We define our risk appetite in a clear manner.
- ✓ We translate that into strict limit tracking per activity and business unit.
- ✓ We monitor the risk profile of existing and new products via a Product Approval Process.
- ✓ We challenge the results of the periodic planning process via stress tests.
- ✓ We have installed independent chief risk officers in all relevant parts of our organisation.
- ✓ Although the activities of a large financial Group are exposed to risks that only become apparent in retrospect, we can currently identify a number of major challenges for our Group.

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.

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

2.2.2 KBC Insurance NV's translation of the Group strategy

Differently: the Next Level - the Insurance Chapter

KBC Insurance NV is assessing and upgrading its actual planning in order to realize the ambitions expressed in the 6 priorities **within the 2023 horizon**. The following examples already illustrate 'the Next Level' in practice:

- ✓ You2Kate – provides the client with the certificate of car insurance in an even more client-friendly way by enabling the client to call up the certificate for the specified vehicle using Kate. Once the required certificate has been displayed to the client, we ask whether they would like roadside assistance or would like to submit a claim, guiding them to the right location in Mobile.
- ✓ Kate4Employees automatically assigns new leads to employees based on his/her skills, these leads are labelled as 'must do's' and 'might do's' and take into account potential unavailability when assigning them.

Differently: the Next Level - the Bank-Insurance model

As part of a Financial Conglomerate (FICO), benefiting from e.g. cost savings & economies of scale and cross selling opportunities, KBC Insurance NV is better equipped to deal than its traditional peers with these challenges. The natural hedge also provides incentives for internal transfers of financial instruments:

- ✓ Collateral exchange transactions with KBC Bank (at arms' length), in which KBC Insurance NV provides KBC Bank with liquid assets (e.g. sovereign bonds) in return for illiquid assets and a fee.
- ✓ The optimization of KBC Insurance NV's asset mix by acquiring (at arms' length) long term, illiquid mortgages from KBC Bank (a trusted partner within the same Group) to hedge long term liabilities[4].

The easy access to these transactions via the bank-insurance model is a clear benefit for KBC Insurance NV to off-set their long-term technical liabilities as such long term assets are difficult to find in the market. An internal transfer moreover entails less risk than buying a loan portfolio on the market as the quality of the loan book is assured by amongst other KBC's stringent acceptance procedures. The selection of transferred assets is subject to strict criteria. Note that such transactions cannot be labelled as 'regulatory arbitrage': their purpose is not to benefit from regulatory differences, but rather to benefit from the underlying characteristics of the assets in order to create an optimized asset mix for both bank and insurance.

The FICO model requires specific attention where it concerns the legal and managerial set-up of the conglomerate, the capitalization policy and the management of conflicts of interest, concentration and contagion risks which may arise in case of lacking controls and/or risk oversight. During the past years further steps were taken to ensure that the follow-up and management of FICO risks is fully embedded in KBC's risk management.

[4] On 05/05/2020 KBC Insurance subscribed for an amount of 250m EUR to a 3 year bond/note issued by KBC IFIMA. This transaction was set up to support the liquidity position of KBC Bank, while it offered an opportunity for KBC Insurance in its search for an adequate investment return for its short running KBC Life Capital liabilities. This transaction is not considered as an 'asset swap'.

Strategy of KBC Insurance NV

The KBC Group strategy update also took the strategic ambitions of KBC Insurance NV to "**The Next Level"**, i.e.,

- ✓ To be the **number 1 bank-insurer**, offering strongly integrated financial services;
- ✓ To be a **top-2 insurer** in terms of **Net Promotor Score** (NPS);
- ✓ To be **a top-3 insurer** in terms of **scale**, both in Non-Life (GWP) and Life (AuM) Insurance;
- ✓ To **be the reference in Belgium**, beating the market in terms of profitability and technical results, while also contributing positively to the sustainable development of our stakeholders in society.

In order to achieve these ambitions KBC Insurance NV must implement a strategy to enhance its:

- ✓ **Growth in net sales**, both in Non-Life and Life insurance, through organic growth – double that of average market growth – and acquisitions;
- ✓ Ability to consistently and efficiently deliver an **excellent customer experience**;
- ✓ Readiness to **benefit from new trends** in the insurance market.

Digital-first designed processes remain key, complemented with tied agents, bank branches and remote centers as crucial human touchpoints. **To extend our digital offer and stimulate digital use**, KBC Insurance NV aims to make a digital product offer in both Non-Life and Life, across mass retail and commercial segments. The target for digital sales at KBC Insurance NV is the **2023 non-financial APC target of 25% digital sales** for selected products. This percentage remains modest as the customer shift to digital channels has been moving slower and less radically in insurance than in banking.

KBC Insurance NV expects its **human channels (both tied agents and bank channels) to remain very important beyond 2023. Tied agents have a crucial role in our distribution model**: as human experts for complex solutions, trusted advisors for customers, emotional support during claims, … and will remain our main physical channel as the increasing digital offer & use at banking side results in a contraction of physical presence of the retail bank network.

Key challenges that go hand in hand with these focus points are that we need to define what we want **the tied agent networks** to look like in 2023 (scale, geographic spread, agent profile, digital skills) to optimize their organization:

- ✓ We need to organize the human distribution channels to achieve **100% pick up of quality leads** by extending availability and increased cooperation with the contact centers;
- ✓ We need to recruit agents with **futureproof (more digital) profiles** and provide them with a sustainable value proposition (offering them business potential, tools, training, and leads, resulting in attractive commission income);
- ✓ Getting **data & marketing consents** from our captive customers is prerequisite.

Next to the tied agents also **bank branches and KBC Live continue their role as trusted advisor to customers looking for insurance solutions**. We expect this situation to continue in the following years, but already expanding our digital sales offer will enable KBC Insurance NV to make a fast transition to a more digitally intensive market as currently the case in e.g. UK and NL.

Kate will be the brain integrating customer journeys across (prospective) clients, distribution channels and the ‘product factory’. Starting from data, Kate will help digital and human collaborate towards a 100% pick-up of customer needs.

As bank-insurer, KBC has **access to important personal and behavioural banking and insurance data** of its customers. Data-driven insights are used by Kate to allow our customers to save time and money. **Kate supports our customers with instant personalized insurance solutions**, both re-actively and pro-actively, and **guides the human channels with relevant and actionable insights**, assisting them in servicing our customers more efficiently and effectively.

During a typical insurance customer journey – going from information to advice and eventually purchase – **most customers prefer to touch upon multiple distribution channels** (digital, remote and physical), while still expecting a **seamless customer experience**. In order to grow top-line revenue we need **all distribution channels working perfectly together**, reinforcing each other to deliver a 100% pick-up rate.

This requires customer interactions to be monitored across all channels, allowing Kate to monitor and steer both the customer as the human channels to achieve a 100% pick-up of customer requests. This entails that the remote options within KBC Bank & Insurance must be further developed in capacity and insurance experience.

The new strategy implies **operational efficiency is a top priority**. To enable our distribution channels to maximally pick-up customer needs we need to provide them with **optimal customer and employee journeys**, offering **instant and scalable processes** to fulfil their requests in the back-office. In order to guarantee quality, we will further **increase our human expertise within the front-office** and support these human experts with **advice** and instant and scalable processes, redesigned with a digital-first mindset: as if we would only sell them online.

2.3 Underwriting conditions in our home markets

2.3.1 The world economy in our home countries in 2021

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

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

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

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

It was against this background that both the US and the German ten-year government bond yields increased in 2021. The spread between US and German government bond yields was volatile throughout the year and widened towards the end of the year. The main contributing factor was the more passive attitude adopted by the ECB compared to the Fed. This spread was also evident from the real ten-year bond yields, which adjusts nominal interest rates for inflation estimates. In the United States, this remained virtually unchanged overall in 2021 (approx. -1,25%), while in Germany it fell to historical lows (approx. -2,25%). This caused the euro to temporarily weaken against the US dollar at year-end 2021.

Since the interest rate differential is already bottoming out, the euro will be able to gain some ground over the US dollar in 2022.

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

Hereunder the most important challenges are summarized and described how we will address them:

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 Covid-19, 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 environment and climate change remain an important part of our sustainability strategy. We have translated them into specific and now more stringent 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 further to include more fee business, for example, alongside interest income.

Shifting client behaviour and competition

We face strong competition, technological changes and shifting client behaviour. Besides the traditional players, there is intensifying competition from online banks, fintechs, bigtechs and e-commerce in general. This potentially means pressure on cross-sell opportunities and is influencing client expectations, 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.
- ✓ Where possible, applications are copied across the group's different home markets. We are also open to partnerships with fintech firms and sector peers.
- ✓ In addition to innovation and digitalisation, we are working hard to simplify products and processes (straight-through processing).

Regulation

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

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

How are we addressing them?

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

Cyber risk 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 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.

2.3.2 Market conditions in our most important countries in 2021

Belgium

Market environment

- Change in GDP (real) 6,1%.
- Inflation averaged 3,2%.
- Forecast real GDP growth of +2,1% in 2022 and + 1,4% in 2023.

KBC Group in Belgium

- Main brands: KBC, KBC Brussels and CBC
- 310 insurance agencies, online channels
- Estimated 13% share of the market for Life insurance and 9% for Non-Life insurance
- 1,6 million clients (insurance alone)

Czech Republic

Market environment

- Change in GDP (real) 3,3%.
- Inflation averaged 3,3%.
- Forecast real GDP growth of +2,7% in 2022 and +3,4% in 2023.

KBC Group in the Czech Republic

- Main brand: ČSOB
- Various distribution channels for insurance, online channels
- Estimated 8% share of the market for Life insurance and 9% for Non-Life insurance
- 1,9 million clients (insurance alone)

Slovakia

Market environment

- Change in GDP (real) 3,0%.
- Inflation averaged 2,8%.
- Forecast real GDP growth of +3,4% in 2022 and +3,9% in 2023.

KBC Group in Slovakia

- Main brand: ČSOB
- Various distribution channels for insurance, online channels
- Estimated 3% share of the market for Life insurance and 5% for Non-Life insurance
- 1,1 million clients (insurance alone)

Hungary

Market environment

- Change in GDP (real) 7,1%.
- Inflation averaged 5,2%.
- Forecast real GDP growth of +5,0% in 2022 and +3,8% in 2023.

KBC in Hungary

- Main brand: K&H
- Various distribution channels for insurance, online channels
- Estimated 3% share of the market for Life insurance and 7% for Non-Life insurance
- 1,1 million clients (insurance alone)

Bulgaria

Market environment

- Change in GDP (real) 4,0%.
- Inflation averaged 2,9%.
- Forecast real GDP growth of +2,8% in 2022 and +3,5% in 2023.

KBC in Bulgaria

- Main brands: UBB and DZI Insurance.
- Various distribution channels for insurance, online channels
- Estimated 22% share of the market for Life insurance and 12% for Non-Life insurance
- 0,9 million clients (insurance alone)

2.4 Consolidated income statement

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

Table 1: Consolidated income statement (KBC Ins Grp)

Net result

The consolidated result of the KBC Insurance Group came to 508m EUR in 2021, as opposed to a year-earlier figure of 450m EUR.

This 58m EUR increase is primarily caused to the higher level of investment income from shares, partially offset by a lower technical result in the Non-Life insurance business:

- ✓ Earned premiums in Non-Life insurance were up in all KBC home markets, with a total increase of 6% on the year-earlier figure. Non-Life technical charges rose by 21% and were negatively impacted by the recovery of economic activity after the coronavirus lockdown periods in 2020 and the exceptional claims incurred relating to the storms in Belgium and the Czech Republic. The ceded reinsurance result in 2021 was positive, driven by higher reinsurance amounts recovered in connection with the aforementioned storm-related claims. The aggregate impact of these factors resulted in a favourable combined ratio of 88,9%.
- ✓ Earned premiums in Life insurance amounted to 1.196m EUR in 2021. However, in compliance with IFRS, certain types of Life insurance (i.e. Unit-Linked products) have been excluded from this figure. If the premium income from such products is included, premium income from the Life insurance business totaled close to 2b EUR, 1% lower than in 2020. Unit-Linked products were down 2% year-on-year due to a decrease in single-premium products (mainly in Belgium and the Czech Republic). Guaranteed-rate products remained at the same level as in 2020 as the sale of single-premium products is still suspended in Belgium (Life Future 8 products discontinued as of August 2019). Recurring-premium policies performed well in all countries (6% higher than in 2020). Lower technical charges are chiefly attributable to lower premium income and lower ‘uprenting’ in Belgium (scaling back of portfolio with higher guaranteed interest rate (both recurring-premium and single-premium policies)).
- ✓ Investment income increased significantly compared to 2020, owing primarily to realised gains on shares (‘overlay’ approach), partially offset by lower interest income and slightly lower dividend income.
- ✓ Operating expenses were down 1,6% due to a decrease in general administrative expenses (2020 was characterised by a higher one-off internal charge made by KBC Group following a change in the accounting policy for software), partially offset by higher staff expenses and depreciation of fixed assets.

2.5 Underwriting performance

2.5.1 Results from the different insurance entities in the KBC Insurance Group

The profit contribution of the most material entities is shown in the following table. Largest contributor to this result is of course KBC Insurance NV with almost 72% of the Group's result.

(in m EUR)	2020	2021	Proportion%	change in %
KBC Insurance NV (Belgium)	332,9	364,1	72%	9%
KBC Group Re (Luxembourg)	19,2	35,5	7%	85%
ČSOB Pojistovna CZ (Czech Republic)	54,3	68,6	14%	26%
ČSOB Poist'ovna SK (Slovak Republic)	11	8,1	2%	-26%
K&H Insurance Zrt. (Hungary)	23,8	19	4%	-20%
DZI Insurance (Bulgaria)	22,6	24,5	5%	8%
Life Insurance branch Ireland (IE)	-3,6	-9,7	-2%	
Other	5,6	-2	0%	
KBC Insurance Group	**465,8**	**508,1**	**100%**	**9,1%**

Table 2: Profit contribution of the different entities[5]

[5] The difference between this result of 465,8m EUR with the result of the ***Table 3*** of 450m EUR is the distribution cost from Asset Management to KBC Insurance NV. In the calculation of 450m EUR this remains in the result of KBC Insurance NV, while here in the contribution result this is eliminated.

(in millions of EUR)	Life	Non-life	Non-technical account	Total
2021				
Earned premiums, insurance (before reinsurance)	1 196	1 905	0	3 101
of which changes in the provision for unearned premiums	- 1	- 48	0	- 49
Technical charges, insurance (before reinsurance)	- 1 150	- 1 106	0	- 2 256
Claims paid	- 1 163	- 872	0	- 2 036
Changes in technical provisions	- 1	- 223	0	- 224
Other technical result	14	- 10	0	4
Net fee and commission income	- 5	- 367	0	- 373
Ceded reinsurance result	- 2	27	0	25
General administrative expenses	- 149	- 255	- 2	- 407
Internal claims settlement expenses	- 9	- 59	0	- 68
Indirect acquisition costs	- 31	- 68	0	- 98
Administrative expenses	- 109	- 128	0	- 238
Investment management fees	0	0	- 2	- 2
Technical result	- 111	204	- 2	90
Investment Income	383	93	67	543
Technical-financial result	272	297	65	633
Share in results of associated companies and joint ventures	-	-	0	0
RESULT BEFORE TAX	272	297	65	633
Income tax expense	-	-	-	- 125
RESULT AFTER TAX	-	-	-	508
attributable to minority interest	-	-	-	-
attributable to equity holders of the parent	-	-	-	**508**
2020				
Earned premiums, insurance (before reinsurance)	1 223	1 795	0	3 019
of which changes in the provision for unearned premiums	- 2	- 28	0	- 30
Technical charges, insurance (before reinsurance)	- 1 212	- 913	0	- 2 126
Claims paid	- 1 137	- 806	0	- 1 943
Changes in technical provisions	- 53	- 101	0	- 154
Other technical result	- 22	- 6	0	- 28
Net fee and commission income	- 19	- 346	0	- 364
Ceded reinsurance result	- 2	- 18	0	- 20
General administrative expenses	- 151	- 266	- 2	- 419
Internal claims settlement expenses	- 9	- 63	0	- 71
Indirect acquisition costs	- 32	- 71	0	- 104
Administrative expenses	- 110	- 132	0	- 242
Investment management fees	0	0	- 2	- 2
Technical result	- 161	253	- 2	89
Investment Income	359	95	32	486
Technical-financial result	198	348	29	576
Share in results of associated companies and joint ventures	-	-	0	0
RESULT BEFORE TAX	198	348	29	576
Income tax expense	-	-	-	- 126
RESULT AFTER TAX	-	-	-	450
attributable to minority interest	-	-	-	-
attributable to equity holders of the parent	-	-	-	**450**

Table 3: Underwriting performance (KBC Ins Grp)

In next paragraphs the total result will be further split up in the Non-Life and Life result.

Results from Non-Life insurance business

- '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.
- 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 110m EUR (before tax); after reinsurance, the net amount comes down to 87m EUR, 45m EUR 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.
- The net claim ratio increased from 54,2 % to 58,7 %, while cost ratio was decreasing from 30,3% to 30,1 %. This gives a net combined ratio of 88,9% in 2021, compared to a net combined ratio of 84,5 % in 2020.

Non-Life in %	2020	2021
Net claim ratio	54,2%	58,7%
Net cost ratio (vs written premium)	30,3%	30,1%
Net combined ratio	84,5%	88,9%

Table 4: Net Combined ratio (KBC Ins Grp)

Results from Life insurance business

- As required under IFRS, we use deposit accounting for a number of investment contracts without discretionary participation feature (DPF). This means that the premium income and technical charges from these contracts are not recognised under 'Earned premiums' and 'Technical charges', but that the margins on them are reported under 'Net fee and commission income'. Investment contracts without DPF are more or less the same as Unit-Linked contracts, which in 2020 accounted for premium income of 1,0b EUR and in 2021 for premium income of 0,9b EUR. 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.

(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

Table 5: Life insurance result (KBC Ins Grp)

Non-technical result

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

Income tax expense

The income tax expense for 2021 totalled -125m EUR, or almost 20% of the result before tax, slightly lower than its year-earlier level , due to the high non-deductible impairment on shares in 2020.

More information on the ‘underwriting performance’ of KBC Insurance Group can be found in the Quantitative Reporting Templates (QRT):

- ✓ S.05.01 – Premiums, claims and expenses by line of business
- ✓ S.05.02 – Premiums, claims and expenses by country

Because of classification differences between IFRS and Solvency II, QRTs S.05.01 and S.05.02 differ slightly from the figures relating to earned premiums in the table above.

More information on the underwriting policy, performance per business line, and material risk mitigation techniques can be found in the Actuarial Function Report of KBC Insurance Group.

2.5.2 Results of KBC Insurance NV

The scope of the results described below is the contribution of KBC Insurance NV in BU Belgium's IFRS results.

Results from the Non-Life insurance business at KBC Insurance NV

The table below provides an overview of the Non-Life results for 2021 compared to last year 2020:

(in m EUR)	2020	2021	Change in amount	change in %
Annual result	254	200	-54	-21,2%
Technical result	178	120	-58	-32,8%
Financial result	76	81	5	6,3%

Table 6: Non-Life result (KBC Ins NV)

The annual result is 54m EUR lower than last year fully explained by lower technical result (-58m EUR) partially offset by higher financial result (+5m EUR).

Lower technical result due to an overall higher claims level (higher net impact of storms/flood, major claims and normal claims; the latter amongst others reflecting lower favourable Covid-19 impact in 2021) partially compensated by lower impact of ageing provisions and higher net earned premiums.

The **financial result is +5m EUR better** than last year due to higher results on equity (+19m EUR as 2020 was impacted by stock market crash in March due to Covid-19) and on fixed income portfolio (+12m EUR) enforced by gains on sale of real estate (+3m EUR) however partially offset by the favourable one-off correction re. inflation linked bonds (+32m EUR) in 2020.

Combined ratio

In 2021, the net combined ratio increased with 5,7pp fully explained by an increase in the claims ratio partially offset by lower cost ratio. The former is a combination of higher storm claims in 2021 (hence the increase in Property claims ratio) and lower favourable Covid-19 impact on claims in 2021 (hence the increase in Motor claims ratio).

Non-Life in %	2020	2021	Change in %
Net claim ratio	54,5%	60,6%	+6,1 pp
Net cost ratio (vs written premium)	30,1%	29,7%	-0,4 pp
Net combined ratio	84,7%	90,4%	+5,7 pp

Table 7: Non-Life net combined ratio

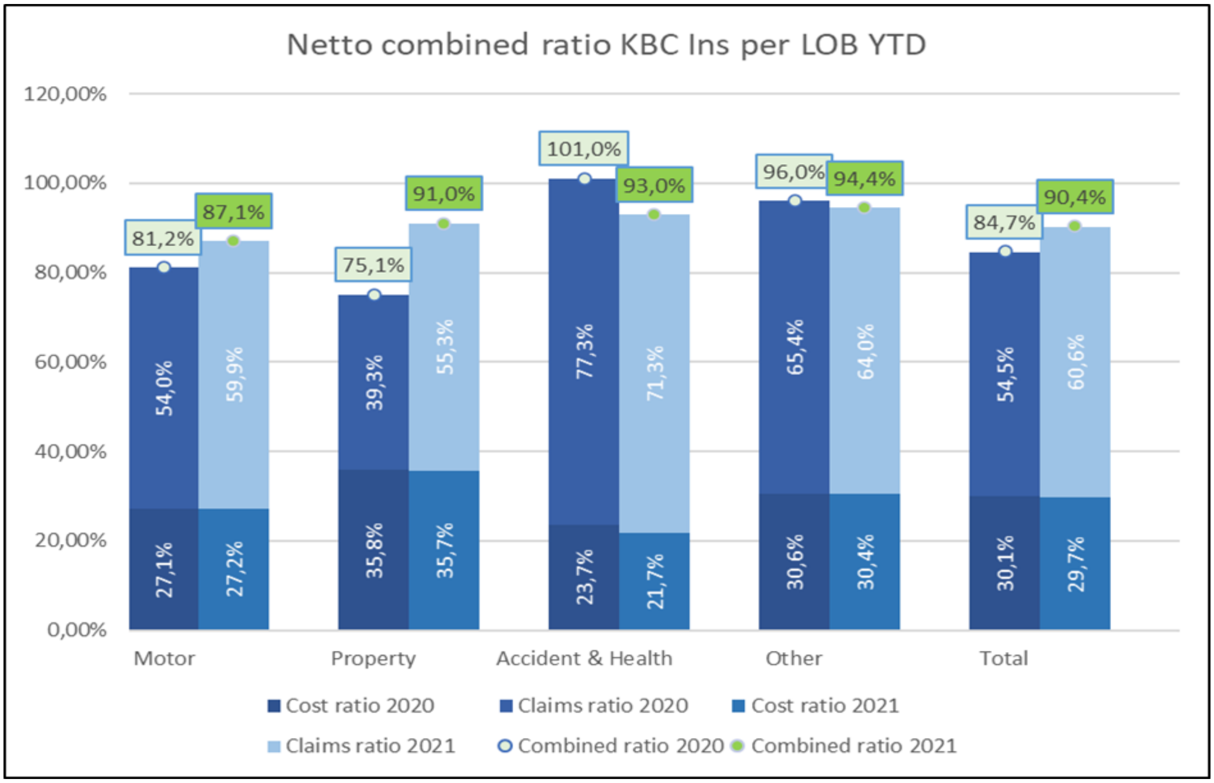


Table 8: Net combined ratio per Lines of Business

Results from Life insurance business at KBC Insurance NV

The table below provides an overview of the Life results for 2021 compared to 2020.

(in m EUR)	2020	2021	Change in amount	change in %
Annual result excl. other financial income	164	149	-15	-9%
Other financial results	9	80	71	748%
Annual result	**173**	**229**	**56**	**32%**

Table 9: Life results

Life results (+229m EUR) are 56m EUR higher than previous year, highly impacted by the increase of the other financial results.

There is a decrease of the Life results excluding other financial results of -15m EUR (or -9%) compared to last year. The table below gives the breakdown of this result into the Life portfolios:

(in m EUR)	2020	2021	Change in amount	Change in %
Life investment insurances class 21	6	4	-1	-21%
Life investment insurances class 23	41	41	0	0%
Life Regular (non-investment insurances)	97	81	-16	-16%
Riders (guaranteed income)	20	22	2	11%
Annual result excl. other financial income	**164**	**149**	**-15**	**-9%**

Table 10: Breakdown of the Life insurance investment

Result at KBC Insurance NV

The net result of KBC Insurance NB is at 364m EUR composed of :

- ✓ Non-Life : 200m EUR
- ✓ Life : 229m EUR
- ✓ Non technical result : -65m EUR

2.6 Investment performance

Table 10 gives not only the underwriting performance but gives also an overview of the investment income for 2021 and 2020: the overall trend is that the investment income increased significantly compared to 2020 (from 486m EUR to 543m EUR), owing primarily to realised gains on shares ('overlay' approach), partially offset by lower interest income and slightly lower dividend income.

Net interest income

More detailed information on net interest income can be found in ***Table 11***: Net Interest Income decreases from 452m EUR to 398m EUR. The gross interest income decreases with 64m EUR while interest expenses decrease with 10m EUR.

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

Table 11: Net interest income (KBC Ins Grp)

Bond portfolio

The bond portfolio represents the most material part of the investment portfolio, i.e. 78% representing a market value of 19b EUR. The composition of the bond portfolio itself is stable, i.e. it consists of:

- ✓ 67% government bonds, corresponding to a market value of 13b EUR.
- ✓ 33% corporate bonds, corresponding to a market value of 6b EUR.

When focussing on the market value of the bond portfolio a decrease of 478m EUR can be noticed.

Loans & Mortgages

The loans & mortgages portfolio is almost exclusively linked to KBC Insurance NV. The evolution of the outstanding principal amount (nominal) in the credit portfolio shows a decrease by -133m EUR (or -6,1%) compared to end-of-year 2020. Due to the increase of interest rates the market value has decreased considerably, i.e. a decrease in market value of -206,4m EUR or -8,2%.

Equity

Equities are a material part of the investment portfolio of KBC Insurance Group & KBC Insurance NV, representing 7,1% (resp. 11,7%) of the portfolio or 1,70b EUR (resp. 2,63b EUR). Compared to last year the equity exposure has increased by 148m EUR (resp. 205m EUR), which can be broken down in:

- ✓ An increase in listed equity of 102,3m EUR (resp. 105,2m EUR).
- ✓ A decrease in unlisted equity of 42,8m EUR (resp. 42,8m EUR).

- ✓ An increase in participations of 50,4m EUR (resp. increase of 117,2m EUR).
- ✓ An increase in collective investment undertakings of 38,5m EUR (resp. 25,3m EUR).

Further information with regard to the asset mix and the investment policy in general can be found in 4.3 Market risk of chapter 4 Risk profile.

2.7 Performance of other activities

No other activities are material enough to be included in this SFCR Report.

2.8 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.

System of governance

3 System of governance

3.1 Governance, remuneration and fit & proper policy

3.1.1 Governance of KBC Insurance Group

3.1.1.1 Main insurance companies of KBC Insurance Group

The main entities of the KBC Insurance Group are:

- ✓ KBC Insurance NV (Belgium);
- ✓ Its subsidiaries:
  - ČSOB Pojišťovna a.s. (Czech Republic)
  - ČSOB Poisťovňa a.s. (Slovak Republic)
  - K&H Insurance Zrt. (Hungary)
  - DZI Life Insurance Jsc (including DZI General Insurance Jsc and UBB Pension Insurance Company EAD) (Bulgaria)
  - KBC Group Re (Luxembourg);
- ✓ Its Irish branch[6].

The activities of the main entities of the KBC Insurance Group are operationally organised in business units:

- ✓ The Belgian activities of KBC Insurance NV are included under the Belgium Business Unit and organised in the KBC Insurance Products Directorate;
- ✓ ČSOB Pojišťovna a.s. is part of the Czech Republic Business Unit;
- ✓ ČSOB Poisťovňa a.s., K&H Insurance Zrt., DZI Life Insurance Jsc (including DZI General Insurance Jsc and UBB Pension Insurance Company EAD) and the Irish branch are part of the International Markets Business Unit;
- ✓ KBC Group Re is part of Group Centre.

3.1.1.2 Shareholder structure and corporate bodies of KBC Insurance NV

3.1.1.2.1 Shareholder structure

Shareholders	Number of shares	Percentage
KBC Group NV	1.002.017	95,3%
KBC Insurance NV	48.889	4,7%
TOTAL	**1.050.906**	**100%**

Table 12: Shareholder structure

[6] Sale transactions were concluded in Ireland

3.1.1.2.2 Corporate bodies of KBC Insurance NV

KBC Insurance NV is managed according to a dual model, which draws a distinction between:

- ✓ The ‘Board of Directors’ (BoD), which has the task of setting strategy and supervising operational management;
- ✓ The ‘Executive Committee’ (ExCo), which is responsible for the operational management of the company.

The tasks and functioning of the Board of Directors and the Executive Committee are described in the *Corporate Governance Charter of KBC Insurance NV*.

The Board of Directors is assisted by the following **advisory committees**:

- ✓ The Audit Committee;
- ✓ The Risk & Compliance Committee;
- ✓ The Remuneration Committee of KBC Group NV;
- ✓ The Nomination Committee of KBC Group NV.

The tasks and functioning of Audit Committee and the Risk & Compliance Committee of KBC Insurance NV are described in the Corporate Governance Charter of KBC Insurance NV. The Corporate Governance Charter of KBC Group NV contains the tasks and the rules of procedure of the Remuneration Committee and the Nomination Committee:

- ✓ While it is legally not recommended for an insurance company to establish a Nomination Committee, the KBC Group decided to establish such a committee at the level of KBC Group NV, which also operates as a nomination committee for KBC Insurance NV;
- ✓ The Remuneration Committee of KBC Group NV (mixed financial holding company and parent of KBC Insurance NV) operates as the remuneration committee of KBC Insurance NV.

3.1.1.3 Internal governance of Belgian activities of KBC Insurance NV and KBC Insurance Group

3.1.1.3.1 General remarks

All entities mentioned have their own governance structure.

The subsidiaries of the KBC Insurance Group – ČSOB Pojišt'ovna, a.s. (Czech Republic), ČSOB Poist'ovňa a.s. (Slovakia), K&H Insurance Zrt. (Hungary), DZI Life Insurance Jsc (including DZI General Insurance Jsc and UBB Pension Insurance Company EAD (Bulgaria), and KBC Group Re) – are autonomous legal entities. Each one is:

- ✓ Managed on a day-to-day basis by an executive body;
- ✓ Supervised by a supervisory body and committees (such as and depending on the country specifics): an Audit, Risk & Compliance Committee, a Remuneration Committee, a Remuneration and Nomination Committee.

KBC Insurance NV established a branch in Ireland to develop Life and Health insurance activities in Ireland.[7]

All the entities develop their strategy and activities within the strategy of the country in which they are active. This country strategy is drawn up in line with the strategy of KBC Group NV and KBC Insurance NV, under the leadership of the Country CEO. The country and insurance strategy, activities and results are reported to:

- ✓ The CEO of their respective business units;
- ✓ The Executive Committee and Board of Directors of KBC Insurance and KBC Group NV.

Mechanisms are in place to ensure that the insurance companies are integrated within their country, their business unit, the KBC Insurance Group and the KBC Group, that they cooperate and that their activities are monitored.

These mechanisms relate, inter alia, to:

- ✓ The role of the management committees at the level of the Business Units (BU BE and BU IM);
- ✓ The role of the Country Teams;
- ✓ The role of Group Communities;
- ✓ The role of the (S)GM Group Communities & Insurance;
- ✓ The representation of the shareholders in the supervisory bodies;
- ✓ The role of the control functions and their reporting requirements.

Role of the Country Teams

A Country Team is established in every country (except BU BE) to, inter alia, foster cooperation between the bank and the insurance companies. Each Country Team operates as an advisory body and discusses strategic topics relevant to the entities in each specific country. In addition, it discusses and challenges financial plans and monitors performance.

Role of the Group Communities and the role of the (S)GM Group Communities & Insurance

The mission of the Group Communities is to foster, stimulate and accelerate the transnational collaboration in the KBC group. This collaboration aims to deliver tangible added value for the entities – make them stronger in the local market – in the domain Insurances and Banking.

The responsibility of the (S)GM Group Communities & Insurance is twofold: (1) developing and fostering the community working within the business domains Insurances and Banking; and (2) supporting the CEO of the International Markets Business Unit (functional reporting line) in the development of the insurance activities outside Belgium (including representation in the local governance, i.e. representing KBC

[7] Sale transactions were concluded in Ireland. As KBC moves forward with its planned exit from the Irish market, the Irish branch of KBC Insurance is seeking agreement of the Pensions Authority for the withdrawal from the market in advance of KBC Bank Ireland's exit.

Insurance in the various Supervisory Bodies and Audit, Risk & Compliance Committees of all insurance entities (except KBC Insurance NV)).

The role of the control functions at Group level and their reporting requirements

Group Risk, Group Compliance and the Group Actuarial Function (at the level of the KBC Insurance Group and the KBC Group) include the findings of insurance subsidiaries - second line of defence functions in their reports, which are submitted to :

- ✓ The Executive Committee of KBC Insurance NV and KBC Group NV;
- ✓ The Audit Committee, the Risk & Compliance Committee and the Board of Directors of KBC Insurance NV and KBC Group NV.

3.1.1.3.2 Governance of the Belgian activities of KBC Insurance NV ("KBC Insurance Products")

Management Committees at the level of the Belgium Business Unit

The insurance activities of KBC Insurance NV (except the branch in Ireland) are included under the Belgium Business Unit. The following management committees have been set up at the level of this business unit:

- ✓ The Belgium Business Unit Management Committee is accountable for designing and proposing the strategy and for managing the execution of the strategy in Belgium Business Unit (BU), fitting the strategy of KBC Group NV and KBC Insurance NV, and, given KBC's bank-insurance strategy, also of KBC Bank NV;
- ✓ The Risk, ALM & Capital Committee, which is dedicated to risk topics and covering all risk types.

The Senior General Manager responsible for the insurance activities of the Belgium Business Unit is a member of these committees.

The Belgium Business Unit reports on its strategy, activities and results to the Executive Committee and to the Board of Directors of both KBC Group NV and KBC Insurance NV.

Management Committees at the level of Insurance Products Belgium

The activities of KBC Insurance Products are part of the Insurance Products Directorate, headed up by a Senior General Manager. This directorate has its own management committees to steer the activities, including:

- ✓ The Insurance Products Management Committee, which manages the KBC Insurance Products Directorate as a whole. It develops the overall strategy of KBC Insurance Products and monitors the business, operational and insurance risk
- ✓ The Insurance Products Risk Management Committee (DVZ Risk), which mission is to anchor the knowledge about Solvency II and the underlying parameters; come to a transparent, documented risk policy; discuss risk related topics; inform about Solvency II; and follow up the Solvency II topics, e.g. parameters, cost allocation, documentation; to support management in ALM matters
- ✓ The Life & Health insurance activities are managed by following committees: a New & Active Product Process Committee, a Risk Management Committee (DVL Risk) and an Operational Management Committee
- ✓ Non-Life insurance activities are managed by the following committees: a New & Active Product Process Committee, a Risk Management Committee (DVS Risk) and an Operational Management Committee

Reporting by the control functions

The Risk function, the Compliance function and the Actuarial function (known as the second line of defence) and the Audit function (known as the third line of defence) report their findings on the activities of KBC Insurance Products to:

- ✓ The management of KBC Insurance Products;
- ✓ The Executive Committee of KBC Insurance NV;
- ✓ The Audit Committee, the Risk & Compliance Committee and the Board of Directors of both KBC Group NV and KBC Insurance NV.

3.1.1.3.3 Governance and corporate bodies of the foreign subsidiaries of the KBC Insurance Group

3.1.1.3.3.1 ČSOB Pojišt'ovna a.s –Czech Republic Business Unit

Representatives of the shareholders in ČSOB Pojišt'ovna, a.s

KBC Insurance NV, the sole shareholder of ČSOB Pojišt'ovna a.s, has one representative on the Supervisory Body and one on the Nomination & Remuneration Committee. This representative is the (Senior) General Manager Group Communities & Insurance.

ČSOB Bank has two representatives on the Supervisory Board, one on the Audit Committee and one on the Nomination & Remuneration Committee. The representatives of ČSOB Bank on the Supervisory Board foster cooperation between ČSOB Bank and the insurance company, in particular by aligning their respective strategies.

Management committees of the insurance company

ČSOB Pojišt'ovna a.s has the following management committees to assist its executive body:

- ✓ New & Active Product Process Committee;

- ✓ Investment Committee;
- ✓ Local Risk & Capital Oversight Committee;
- ✓ Reserving and Parameter Committee.

Reporting by the local control functions

The local Risk function, Compliance function and Actuarial function (known as the second line of defence), and the local Audit function (known as the third line of defence) report their findings on the activities of ČSOB Pojišt'ovna a.s. to:

- ✓ The Board of Directors of the insurance company;
- ✓ The Audit Committee of the insurance company.

3.1.1.3.3.2 ČSOB Poist'ovňa a.s. (Slovakia), K&H Insurance Zrt. (Hungary) and DZI Life Insurance Jsc (including DZI General Insurance Jsc and UBB Pension Insurance Company EAD) (Bulgaria) – International Markets Business Unit

Representation of KBC Insurance NV

KBC Insurance NV, the sole shareholder of ČSOB Poist'ovňa a.s., has one representative on the Supervisory Board, i.e. the (Senior) General Manager Group Communities & Insurance.

It has two representatives on the Remuneration Committee: the CEO of the International Markets Business Unit (member of the Executive Committee of KBC Insurance) and the (Senior) General Manager Group Communities & Insurance.

It has one representative on the Audit, Risk & Compliance Committee, i.e. the (Senior) General Manager Group Communities & Insurance.

KBC Insurance NV, the sole shareholder of K&H Insurance Zrt., has two representatives in the Supervisory Board, the Remuneration Committee and the Audit, Risk & Compliance Committee: the CEO of the International Markets Business Unit and the (Senior) General Manager Group Communities & Insurance. K&H Bank has two representatives on the Supervisory Board and on the Audit, Risk & Compliance Committee.

KBC Insurance NV, the sole shareholder of DZI Life Insurance Jsc, has two representatives on the Supervisory Board, on the Audit, Risk & Compliance Committee and on the Remuneration Committee (the CEO of the International Markets Business Unit and the (Senior) General Manager Group Communities & Insurance. The CEO of UBB is also a member of the Remuneration Committee. They have the same mandates in DZI General Insurance Jsc (DZI Life Insurance Jsc being sole shareholder of this company). KBC Insurance NV is not directly represented in the governance bodies of UBB Pension Insurance Company EAD.

Management committees of the insurance subsidiaries

The insurance subsidiaries have their own management committees, which assist their respective executive bodies. These committees consist of:

- ✓ New & Active Product Process committees;
- ✓ Investment committees;
- ✓ Local Risk & Capital Oversight committees. In Hungary, this committee is organised at country level; in Slovakia, this role is performed by the Country Team.

Reporting by the local control functions

The local Risk function, Compliance function and Actuarial function (known as the second line of defence) and the local Audit function (known as the third line of defence) report their findings on the activities to:

- ✓ The management of the insurance subsidiary;
- ✓ The Audit, Risk & Compliance Committee (ARCC) of the insurance subsidiary.

3.1.1.3.3.3 Branch in Ireland

The Irish branch is established to develop Life and Health insurance activities in Ireland.

Taking into account that the branch is legally part of KBC Insurance NV, but is managerially covered by the KBC Ireland Country Team, the governance framework of the branch consists of

- ✓ a Supervisory Body;
- ✓ an Audit, Risk and Compliance body (ARC);
- ✓ a Branch Management Meeting.

Representation of KBC Insurance NV

KBC Insurance NV is represented in the Supervisory Body and the ARC by the CEO of the International Markets Business Unit and the (Senior) General Manager Group Communities & Insurance. The CRO of Business Unit Belgium and the Actuarial function holder of KBC Insurance NV are invited to the ARC.

The local control functions

The functioning is similar as described above, taking into account that the control functions reporting to the ARC are covered by KBC Insurance NV with the exception of

- ✓ Compliance, which is outsourced to KBC Bank Ireland plc;
- ✓ Risk: the integrated Risk function and operational Risk function are outsourced to KBC Bank Ireland plc.

3.1.1.3.3.4 KBC Group Re

KBC Group Re SA is the internal reinsurance subsidiary belonging to the KBC Group. The company specializes in protecting the KBC Group's bank and insurance entities. It provides reinsurance (protection) for insurers being part of the KBC Group while diversifying and optimizing the Group's overall risk retention.

Management structure of KBC Group Re

KBC Group Re is managed by a Board of Directors. The Board of Directors is responsible for developing and approving the strategy and general policy for the company, including a Risk, Compliance and Audit framework, and monitoring their implementation. The Board is also responsible for the appointment of the Managing Director. The Managing Director does also assume the responsibilities and role of 'Dirigeant agréé' as defined in the Luxembourg regulation 'Loi modifiée du 6 décembre 1991 sur le secteur des assurances'.

The Board also acts as Audit, Risk and Compliance Committee (see further).

The Board is composed of at least 3 members (currently 4) appointed by the General Meeting. It consists of 3 non-executive members, i.e. the Senior General Manager responsible for the insurance activities of the Belgium Business Unit, the (Senior) General Manager in charge of the Group Communities and Insurance Division, a senior manager of the KBC Insurance Products Directorate (BU BE) and the Managing Director.

The Managing Director is the sole Executive Director.

Audit Risk and Compliance Committee

The Audit, Risk and Compliance Committee is not set up as a separate committee: the Board directly exercises its responsibilities regarding those topics within the audit, risk and compliance domains, i.e. the integrity of the financial reporting, the effectiveness of the internal control measures and risk management processes, and the implementation of the compliance rules.

Following persons, or their representative, participate as permanent guests during these Audit, Risk and Compliance Committee meetings:

- ✓ The Internal auditor;
- ✓ The Chief Risk Officer (CRO) of the Business Unit Belgium of KBC;
- ✓ The Compliance Officer.

The external auditors are invited at least once a year.

Reporting of the local control functions

The local Risk function, Compliance function and Actuarial function, and the Group Audit function report on their findings to the Board of Directors when acting as Audit Risk and Compliance Committee.

Overview of the legal and operational structure

1. KBC Group level

KBC Insurance Board of Directors
KBC Insurance Audit Committee
KBC Insurance Risk & Compliance Committee
KBC Group Nomination Committee
KBC Group Remuneration Committee
KBC Insurance Executive Committee
Group Insurance Committee
Asset Liability Committee (ALCO)

2. Business Unit level

CSOB P CZ	CSOB P SK	K&H Ins	DZI Ins/DZI Gen Ins	Irish branch	KBC Ins	KBC Group Re
CZ BU Management Committee	International Markets BU Management Committee				Belgium BU Management	
					Insurance ALM Committee	
					Belgium BU Risk, ALM & Capital Committee (RACC)	
					Maatschappij voor Brandherverzekering	
					see Governance Memorandum MvBH	

3. Legal structure

CSOB P CZ	CSOB P SK	K&H Ins	DZI Ins/DZI Gen Ins	Irish branch	KBC Ins	KBC Group Re
General Meeting	General Meeting	Founder	General Meeting / Single Owner of Capital (SOC)	branch of KBC Insurance NV	Cf. KBC Group level	General Meeting
Supervisory Board	Supervisory Board	Definitive Supervisory Board	Supervisory Board			Board of Directors
Audit Committee	Audit, Risk & Compliance Committee	Audit, Risk & Compliance Committee	Audit, Risk & Compliance Committee			Managing Director
Nomination & Remuneration Committee	Nomination & Remuneration Committee	Nomination & Remuneration Committee	Nomination & Remuneration Committee			
Board of Directors	Board of Directors	Board of Directors	Management Board			

4. Management structure

Committees within Insurance entity

CSOB P CZ	CSOB P SK	K&H Ins	DZI Ins/DZI Gen Ins	Irish branch	KBC Ins	KBC Group Re
NAPP	NAPP	NAPP	NAPP	Supervisory Body	Insurance Products Management Committee	Investment Committee
Investment Committee	Investment Committee	Investment Council	Investment Committee	Audit, Risk and Compliance Body (ARC)	Non-Life Insurance NAPP Committee	
Local Risk & Capital Oversight Committee			Local Risk & Capital Oversight Committee	Branch management meeting	Non-Life Insurance Risk Management Committee	
					Non-Life Insurance Operational Management Committee	
					Life Insurance NAPP Committee	
					Life Insurance Risk Management Committee	
					Life Insurance Operational Management Committee	

Committees at Country level

CSOB P CZ	CSOB P SK	K&H Ins	DZI Ins/DZI Gen Ins	Irish branch	KBC Ins	KBC Group Re
Country team	Country team	Country team	Country team	Country team		
		Local Risk & Capital Oversight Committee				

5. Group Communities & Insurance (part of the general operational unit Innovation and Digital Transformation ("IDT").

Group Communities & Insurance

Table 13: Overview of the legal and operational structure

3.1.2 Remuneration

Introduced in 2010, the KBC Remuneration Policy defines general remuneration guidelines for all staff and specific remuneration guidelines for those employees who could have a material impact on the risk profile of the company, also known as ‘Key Identified Staff’. Continuously changing legislation for financial institutions means that the KBC Remuneration Policy is amended each year. For additional details and background information on the Remuneration Policy, please see the ‘Remuneration report for financial year 2021’ section of the KBC Group Annual Report for 2021, which is available at www.kbc.com.

The Compensation Report, on the other hand, provides information on the principles governing remuneration at KBC Group level and discloses remuneration figures for financial year 2021 based on European and national legislation. This report is also available at www.kbc.com.

3.1.2.1 Fit & proper policy

The KBC Group Suitability Policy was approved by the Board of Directors of KBC Group NV, KBC Bank NV and KBC Insurance NV. It contains the suitability policy for:

- ✓ The Board of Directors;
- ✓ The Executive Committee;
- ✓ The persons in charge of independent control functions, i.e. ‘Key Function Holders’.

The Suitability Policy for the non-executive directors of KBC Group NV, KBC Bank and KBC Insurance include the following requirements:

- ✓ The Board of Directors must have sufficient knowledge and expertise of the financial industry and financial markets, and of the banking and insurance activities which are developed within the KBC Group;
- ✓ The Board of Directors must have deep knowledge of KBC’s strategy and business model and its shareholder structure;
- ✓ The directors must have the capability to understand and critically assess the strategy and its business model, the strategic planning and its implementation, the financial reporting, the organization, the effectiveness of the steps taken with the view to create effective governance, oversight and controls, the management information systems, the impact of technological changes and the digital innovation in the KBC Group, the Risk, Audit and Compliance reports and the functioning of the Risk, Audit and Compliance functions, and the reports of the Actuarial function and the functioning of the Actuarial function ;
- ✓ The directors who are appointed to an advisory committee (Audit Committee, Risk & Compliance Committee, Nomination Committee and Remuneration Committee) must have relevant expertise w.r.t. the activities of the committee concerned;
- ✓ All directors, whether executive or not, must have the necessary ‘independence of mind’.

The Suitability Policy for the members of the Executive Committee (ExCo) of KBC Group NV, KBC Bank and KBC Insurance includes the following requirements:

- ✓ The Executive Committee as a whole should have deep knowledge and experience relating to finance, risk management, compliance, audit, actuarial analysis, internal control, information management, innovation and technological transformation, change management, organization, societal issues and the legal and regulatory issues;
- ✓ The Executive Committee must have a deep knowledge and experience of the financial industry and of financial markets;
- ✓ The Executive Committee must have a deep knowledge and experience of KBC's strategy and business model, and of the banking and insurance activities which are developed within KBC Group;
- ✓ ExCo members must have the knowledge and experience to lead the KBC Group and must have in this respect strategic insight. They should have, depending on their position in the Executive Committee, the knowledge and experience relating to finance, risk management, compliance, audit, actuarial analysis, internal control, information management, innovation and technological transformation, change management, organization, societal issues and the legal and regulatory issues, required to perform their duties individually and, as part of the Executive Committee, to be able to function as a team;
- ✓ ExCo members must have leadership skills in line with the KBC leadership model;
- ✓ ExCo members must have the necessary 'independence of mind';
- ✓ ExCo members live the values of the KBC Group.

The process involves the following steps:

- ✓ The Nomination Committee discusses, assesses and advises the Board of Directors regarding the composition of the Board, its advisory committees and the composition of the Executive Committee;
- ✓ It discusses and proposes to the Board the required profile of new directors;
- ✓ It assesses the candidates;
- ✓ It assesses the suitability of the directors (in case of re-appointment) or of the candidate directors (in case of appointment) taking into account the regulatory requirements and the requirements referred to in the aforementioned Suitability Policy. It conducts this assessment based on the files which are prepared for submission to the supervisory body. It assesses the collective suitability of the Board of Directors. It presents its advice to the Board of Directors.

The Suitability Policy for the Key Function Holders of KBC Group, KBC Bank and KBC Insurance and the Heads of the foreign branches (a.o. KBC Insurance NV) includes i.e. the following requirements:

- ✓ They must have the appropriate knowledge and experience for the corresponding position and domain, realised or to be realised through education and training (diploma/on the job) or relevant work experience;
- ✓ They must have good communication skills;

- They must act loyal and responsive;
- They must have professional behaviour by providing sufficient guarantees to fulfil the position in a conscientious and independent manner, with specific and strong attention to the independence (conflict of interests) and pastimes.

The process involves the following steps:

- The Corporate HR department discusses, assesses and gives advice to the Executive Committee regarding the appointment of a Key Function Holder;
- It discusses and proposes to the Executive Committee the required profile of the Key Function Holder;
- It assesses the candidates;
- It assesses the fitness and propriety of the Key Function Holders (in case of re-appointment) or of the candidate Key Function Holders (in case of appointment) taking into account the regulatory requirements and the requirements mentioned in the internal policies. It conducts this assessment based on the files which are prepared for submission to the supervisor;
- It presents its advice to the Executive Committee for approval.

3.2 Risk Management in KBC Insurance Group

3.2.1 Risk governance

Main elements in our risk governance model:

- The **Board of Directors**, assisted by the Risk & Compliance Committee (RCC), which decides on and supervises the risk appetite – including the risk strategy – each year. It is also responsible for the 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 function. 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.

A simplified schematic of our risk governance model is shown below:

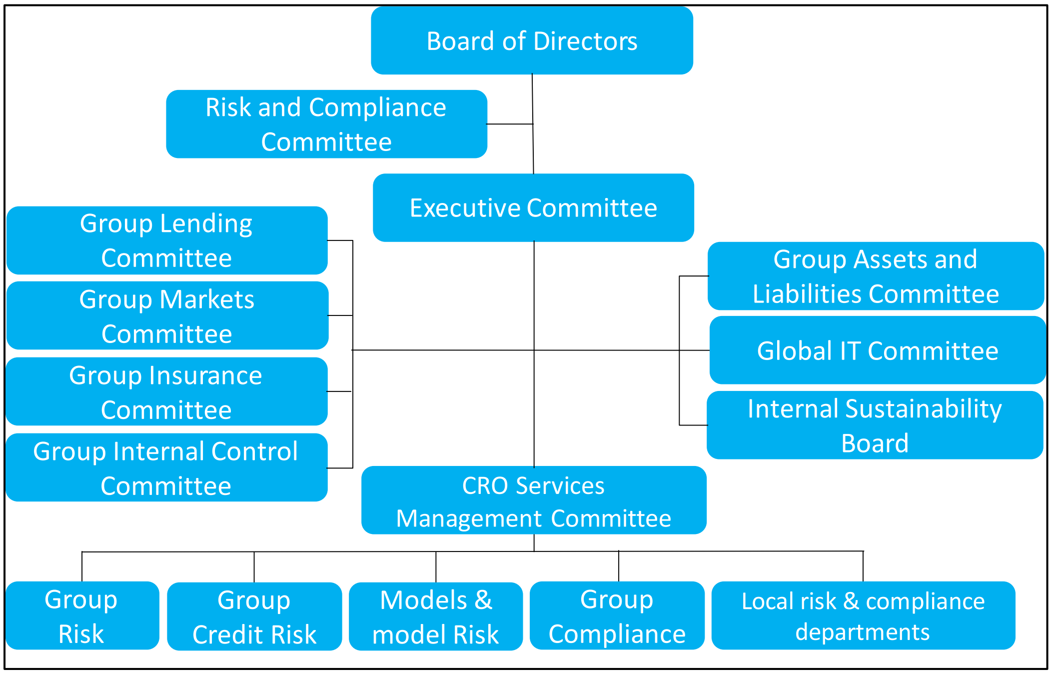


Figure 1: Schematic overview of the risk governance model

Relevant **risk management bodies** and **control functions**:

1. Risk and Compliance Committee
   - ✓ Advises the Board of Directors on the Group risk appetite, the supervision of risk exposure compared to the Group risk appetite and the supervision of the implementation, efficiency and effectiveness of the KBC Risk Management Framework;
   - ✓ Reviews whether the prices of liabilities and assets and of categories of off-balance sheet products offered to clients take fully into account the institution's business model and risk appetite;
   - ✓ Examines, without prejudice to the tasks of the Remuneration Committee, whether incentives provided by the remuneration system take into consideration risk, capital, liquidity and the likelihood and timing of earnings;
   - ✓ Issues periodic opinions on the quality, capacity and skills of the Risk function.

2. Executive Committee:
   - ✓ Makes proposals to the Board of Directors about risk appetite – including strategy –and the Enterprise Risk Management Framework;
   - ✓ Decides on the integrated and risk-type-specific risk management frameworks and monitors their implementation throughout the Group;
   - ✓ Monitors the Group's major risk exposure to ensure conformity with the risk appetite;

- ✓ 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;
- ✓ Forms, extended with relevant parties, the Group Crisis Committee in Group-wide crisis situations.

3. Risk committees:
   - ✓ The CRO Services Management Committee supports the Executive Committee in assessing the adequacy of, and compliance with, the KBC Risk Management Framework and defines and implements the vision, mission and strategy for the CRO Services of the KBC Group;
   - ✓ The activity-based Group Risk Committees (for lending (GLC), markets (GMC) and insurance (GIC), respectively) support the Executive Committee in setting and monitoring limits for these activities at Group level. Liquidity and ALM issues related to these activities are addressed by the Group ALCO;
   - ✓ The Group Internal Control Committee (GICC) supports the Executive Committee in monitoring and strengthening the quality and effectiveness of KBC's internal control system.

4. Business Committees
   - ✓ The Group ALCO (Asset & Liability Committee) 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 according to a logical segmentation based on entity and/or business unit. 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.

Next to this, insurance companies are required to maintain an internal governance and control framework that ensures a well-functioning internal risk management. In this light, KBC performs a yearly Group-wide risk-based capacity assessment exercise. The 2021 iteration of the exercise concluded that overall, the Risk function has sufficient capacity to perform sound risk management.

KBC's risk-based capacity assessment also indicates that a sufficient mix of experience and maturity is present in the Risk function. The dynamic and quickly changing environment wherein KBC operates (increasing data-driven operations, rapid digitization, etc.) requires a skilled work force. A comprehensive personnel skill progression management is in place and significant attention to training and skills development ensures continuous growth of expertise. During the COVID-19 crisis, full availability of trainings was limited. However, trainings are expected to resume to normality in 2022.

3.2.2 Risk Management Framework (RMF) and building blocks

The principles that govern sound risk management within KBC Group are documented in the KBC Risk Management Framework (KBC RMF). The KBC RMF sets a strict governance and clear rules and procedures on how risk management should be performed throughout the Group by defining standards for risk management that need to be applied Group-wide in a consistent manner.

The KBC RMF finds it origin in KBC's overall risk strategy, as defined by the KBC Risk Appetite, which effectively sets the bar for risk management throughout KBC and is formally approved by the Board of Directors (BoD).

As KBC is a Financial Conglomerate (FICO) covering multiple financial sectors and active in a wide range of activities, the KBC RMF combines a holistic, integrated and enterprise-wide view on risk in the Enterprise RMF (ERMF) and a more detailed risk-type specific view in the risk-type specific RMFs.

This is reflected in the structure of the KBC RMF diagram below:

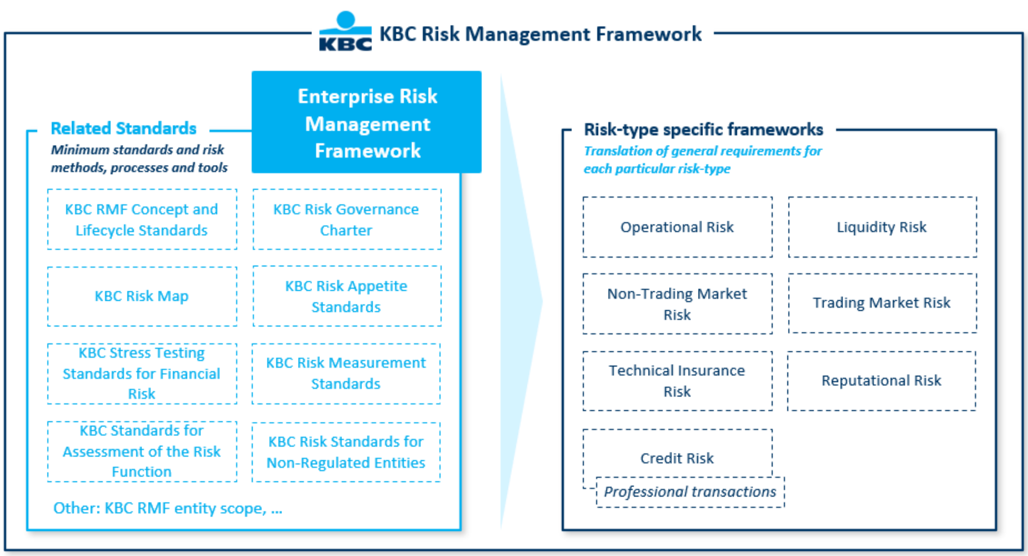


Figure 2: Structure of the KBC Risk Management Framework

3.2.3 Risk management at KBC Insurance NV

Risk management at KBC Insurance NV is fully aligned with the Group governance and frameworks. The role and responsibilities of the Local Risk departments are similar to those at Group level, e.g.

- ✓ Local Risk provides support to local business entities;
- ✓ Local Risk provides assistance to local business entities when implementing the KBC RMF, taking into account local specificities and regulations. Local Risk also monitors and reviews the KBC RMF as locally implemented.

KBC Insurance NV manages and follows up the risk and the related processes within the directorate (NAPP, risk reporting, …). The cooperation with the Local Risk department is a.o. situated in risk meetings:

Insurance Products Risk Management Committee (DVZ Risk = "Directievergadering Verzekering – Risk"): the mission of the meeting is to

- ✓ Discuss ALM Insurance matters;
- ✓ Come to a transparent, documented risk policy;
- ✓ Discuss and follow up of financial and non-financial risk topics on an overarching level i.e. risk topics that are not specifically related to the Life of Non-Life directorates or which require a uniform approach on company level (e.g. Data quality, EUC, agent distribution, …)
- ✓ Follow up Solvency II topics, e.g. parameters, cost allocation, documentation.

Insurance Products Life/Non-Life Management Committee (DVL/DVS = "Directievergadering Verzekering Leven/Directievergadering Verzekering Schade"): the mission of the meeting is to

- ✓ Maintain a risk and capital 'governance' (policies, reference framework, delegated authority, process, etc.) for all risk types and to recommend strategic changes thereof to the DVZ Risk;
- ✓ Ensure the adequacy and the implementation of the risk and capital governance (for all risk types); including informing the DVZ Risk about gaps and inefficiencies and taking corrective actions;
- ✓ Actively promote the risk and capital agenda;
- ✓ To discuss the validity of transactional risk models prior to the final decision being taken by the Belgium BU CRO. The audit and compliance recommendations are being monitored by the local operational risk manager.

RACC (Risk, ALM and Capital Committee for Business Unit Belgium): the RACC is a specific Management Committee, dedicated to risk topics and covering all risk types. The mission of the meeting is

- ✓ Follow-up: regulatory framework + economic environment;
- ✓ Follow-up: audit and compliance recommendations;
- ✓ Risk Strategy: setting the risk appetite; strategic risk, ALM and capital management;
- ✓ Compliance Strategy: setting the compliance boundaries;
- ✓ Advising/Sounding Board: risk, ALM and capital proposals from BU Belgium, presented on Group risk committees or GEXCO;
- ✓ Risk training: providing risk based training for the management of BU Belgium (educational corner);
- ✓ Risk awareness: discuss the Top Risk Concerns and their evolution.

3.2.4 Own risk & solvency assessment

The KBC Insurance Group and its insurance and reinsurance subsidiaries conduct an Own Risk and Solvency Assessment (ORSA) to monitor and ensure that business is managed in a sound and prudent way.

KBC's ORSA policy, which is reviewed on an annual basis describes the general KBC approach to the ORSA process and its outcome. The ORSA policy describes the objectives and implementation of the ORSA within KBC, highlights its key underlying processes and the roles & responsibilities of the different stakeholders involved.

The ORSA is an integral part of the business strategy and is taken into account on an ongoing basis in the strategic decisions of the KBC Insurance Group and KBC Insurance NV.

All insurance and reinsurance entities pertaining to KBC Group are in scope of the ORSA. A differentiated but coherent, consistent and proportionate approach is applied, based on the materiality of the entity. The ORSA processes and reporting are implemented with a high degree of consistency in all material entities of KBC Insurance Group that have a local or individual ORSA report. The ORSA report of KBC Insurance NV has been integrated in the ORSA Group report.

KBC does not require that the non-material entities run the KBC ORSA processes or write an ORSA report. However, the local regulator can impose the need for an ORSA process and reporting.

KBC's ORSA consists of numerous business and risk processes that together contribute to the objectives as set out in the ORSA policy. The reference points for the ORSA are the corporate strategy and the risk appetite objectives. The main processes underlying the regular ORSA are executed on an annual basis and are closely linked to the Strategic Planning Process (Alignment of Planning Cycle or APC) which also follows an annual cycle.

Taking into account the fact that KBC's Insurance business is sufficiently mature, this annual periodicity is deemed adequate. The Executive Committee of KBC Insurance can decide to perform an additional ad-hoc ORSA if:

- ✓ Major deviations from the business plan (APC) are observed;
- ✓ Major changes to the Group structure or Group composition occur;
- ✓ Reclassification of financial assets due to significant changes in the business model.

On a quarterly basis, integrated (insurance) risk reporting reports on: risk signals; the development of the risk profile; results of deep dives, stress & scenario testing. These reports are discussed up to the level of the Executive Committee and the Board of Directors and allow them to manage stress & scenario testing, request (ad-hoc) mid- and long-term risk assessments and review the underpinning ambition and approach.

The annual ORSA process assesses the situation at 31 December and is submitted to the supervisory authority before 30 June of the following year. KBC does not differentiate between the internal and the supervisory ORSA report. Each ORSA report is complemented with an ORSA record which contains all the documents that have been used in the different steps of the ORSA. The local ORSA report of KBC Insurance NV and the ORSA report of KBC Insurance Group are integrated in one document. Detailed analysis (stress testing, assessments) for the local level remains however a vast part of this integrated document.

Based on the outcome of the above processes and assessments, a conclusion is included in the ORSA report that will indicate to what extent the available capital is sufficient to cover the capital requirements. It will link this conclusion to the:

- ✓ Changes in the amount and composition of available regulatory capital over the planning horizon and under different economic circumstances;
- ✓ Changes in required regulatory capital over the planning horizon, taking into account expected changes to the risk profile of the entity/Group;
- ✓ The impact of scenario analyses and sensitivities on required and available regulatory capital.

KBC relies on the Solvency II standard formula to assess its overall solvency needs. An assessment is performed on an annual basis to check whether the standard formula is appropriate in relation to the risk profile of KBC.

3.3 Other key functions of KBC Insurance Group

3.3.1 Actuarial function

The Actuarial function is one of the key control functions that is defined in the Solvency II regulatory framework. Solvency II requires an Actuarial Function to be installed in each insurance entity and at insurance Group level. Basically, the task of the Actuarial Function is to provide independent assurance to the Board of Directors and the Executive Committee on actuarial matters related to Solvency II. This is done, inter alia, by:

- ✓ Advising on the calculation of the technical provisions (including appropriateness of methodologies, appropriateness and quality of data used, experience analysis);
- ✓ Expressing an opinion on the overall underwriting policy;
- ✓ Expressing an opinion on the adequacy of reinsurance arrangements;
- ✓ Contributing to the effective implementation of the risk management system (risk modelling underlying the SCR calculations, contributing to the ORSA process);
- ✓ Reporting and giving recommendations to the supervisory body of the entity.

Implementation of the Actuarial function:

- ✓ The Actuarial function is ultimately reporting accountable to the Board of Directors;
- ✓ An ‘Actuarial Function Holder’ (AFH) is appointed for every local entity and also at KBC Group level. The Actuarial Function Holder is to be registered on the pay-roll of the entity he/she is representing. Her/his responsibility cannot be outsourced to a party outside the entity;
- ✓ The Actuarial Function Holder coordinates the activities of the Actuarial function. In general, ‘a function’ is the administrative capacity to undertake particular governance tasks and is – as such - not limited to one specific person or one organizational unit, but can be assigned to several persons or departments subject to an adequate segregation of duties;

- ✓ The Actuarial function's basic task is to provide the independent 'second pair of eyes' required for the Actuarial Function Holder to meet all the assigned obligations. The Actuarial function provides input to the Actuarial Function Holder, including forming opinions, proposing recommendations and assisting in writing the Actuarial Function Reports (AFR) of KBC Insurance Group and KBC Insurance NV.

3.3.2 Compliance function

With a view to centralisation, consistency and synergy, the Compliance function of KBC Insurance is exercised by Group Compliance. Group Compliance plays a double role with regard to the domains within the scope of Compliance:

- ✓ An advisory role to support the business entities in implementing and applying requirements, setting up internal procedures and providing necessary training and awareness communication;
- ✓ A monitoring role by performing second-line controls on compliance with requirements.

An Intragroup Specific Agreement (within the framework of Outsourcing) has been drawn up defining the way this is organised.

Within the Compliance department, there are several technical units, each dealing with specific Compliance domains:

- ✓ Financial Markets, including the rules of conduct in distribution of insurance products and rules on making and providing information;
- ✓ Consumer and Data Protection;
- ✓ Corporate governance;
- ✓ Embargo Management;
- ✓ Anti-Money Laundering (AML) (including OFAC, the Know Your Customer part of FATCA and the Common Reporting Standard, the EU Regulation on information accompanying transfers of funds and tax fraud prevention), financing of terrorism and preventing the funding of the proliferation of weapons of mass destruction;
- ✓ Ethics;
- ✓ Fraud.

The AML, Embargo Management and Fraud units are split between a Policy section (encompassing both the advisory and monitoring roles) and an Investigations section.

Both the governance of the Compliance function and the policies within its scope, as defined by the Circular on the Compliance Function (Circular NBB_2012_14 d.d. 4 December 2012), satisfy the relevant requirements. Section 5.4 on the Compliance function, NBB Circular _2016_31 (d.d. 5 July 2016 and the revised versions d.d. 13 September 2018 and May 2020) regarding governance of the insurance sector confirms the position reflected in Article 55 of the Act of 13 March 2016 on the status and supervision of insurance and reinsurance undertakings, i.e. the Compliance function has to focus on integrity and codes of conduct.

The legal department of KBC is charged with the task of following up laws and regulations and changes to them in the Solvency II context, as well as communicating on these to the businesses concerned.

The Key function Holder for Compliance at KBC Insurance is the CRO of KBC Insurance, who is also a member of the Executive Committee (ExCo). The Head of the Compliance function of KBC Insurance has a direct reporting line to this member and a functional line to the CEO of KBC Insurance. The ExCo of KBC Insurance decides on the annual Compliance plans and submits them to the Risk and Compliance Committee (RCC) – which is attended by the Head of the Compliance function and the General Manager Group Compliance – for confirmation. The Compliance Reports are formally submitted every quarter to the ExCo and the RCC of KBC Insurance. A separate and specific Compliance Charter and Integrity Policy have been drawn up for KBC Insurance, describing the scope, tasks and responsibilities of every party involved at several levels of the organisation.

The Management ensures sufficient resources are provided by the department to deal with KBC Insurance. Within Compliance, there is a dedicated Coordinating Compliance Officer who is responsible for coordinating, supporting and following up matters in respect of the Insurance Products Directorate. There are two Compliance Risk Managers (CORM) at the level of Insurance Products, one for Life insurance and one for Non-Life insurance. They are not part of the second line of defence (Compliance), but instead are fully incorporated into the business entity. They are facilitators in implementing and following up Compliance issues and, therefore, support the Senior General Manager and General Managers of Insurance Products in their responsibilities with regard to Compliance. The Insurance Coordinating Compliance Officer and the CORMs work closely together, have regular meetings and organise reporting to the business entities' management.

3.3.3 Audit function

The internal Audit function of KBC Insurance NV is exercised by KBC Group Corporate Audit. It is regulated by NBB Circular NBB_2015_21. The responsibilities of Internal Audit are:

- ✓ To provide independent reasonable assurance to the Board of Directors, the Audit Committee and the Executive Committee on the quality and effectiveness and efficiency of the processes of risk management, internal control and corporate governance that are in place;
- ✓ To support the Board of Directors, the Audit Committee and the Executive Committee in taking up their responsibilities in these processes.
- ✓ To report any serious issues or risks which it becomes aware of and to undertake any required investigations into high-risk situations (e.g. possible fraud, non-compliance with laws, internal guidelines or procedures);

- ✓ To make clear and actionable recommendations which address weaknesses noted during its work and to follow up on the implementation status of these recommendations;
- ✓ To co-ordinate with other audit and review entities, including the Statutory Auditors and the Belgian and local Supervisors, to maximise the efforts of all such entities and to minimise unnecessary overlap and/or disruption. It will hold to this end regular meetings with the Statutory Auditors and with the Supervisors;
- ✓ To carry out any assignment or projects entrusted to it by the Board of Directors, the Audit Committee or the Executive Committee.

To safeguard its independence and objectivity:

- ✓ Internal Audit reports and is accountable to the Audit Committee;
- ✓ The internal audit activity remains free from interference by any part of the organisation, including matters of audit selection, procedures, frequency, timing or report content;
- ✓ The appointment and dismissal of the Head of Internal Audit comes under the authority of the Audit Committee;
- ✓ Internal auditors are, during the exercise of their professional duties, authorised to have direct communication with any member of staff, as well as to access all premises and any records, files or data that are relevant to the performance of an assignment, subject to compliance with local regulations. All members of staff are requested to assist Internal Audit in fulfilling its roles and responsibilities;
- ✓ Internal Audit has the authority to perform assignments on its own initiative in all entities, departments, establishments and functions within its scope, subject to proper reporting to the local Executive and Audit Committees;
- ✓ Internal Audit has the authority to inform directly, and on its own initiative, the Chairman of the Board of Directors or Supervisory Board of the audited entity, the Chairman of its respective Audit Committee, the members of its Executive Committee, its Statutory Auditors or the local Supervisory Authorities;
- ✓ Internal auditors must always be objective and impartial and seek to avoid any conflicts of interest;
- ✓ Internal auditors are not directly involved in the operational organisation of an entity, nor in deciding, developing, introducing or implementing risk management and internal control measures;
- ✓ Internally recruited auditors respect a cooling-off period;
- ✓ Whenever practicable and without jeopardising competence and expertise, internal audit staff will periodically rotate within the internal Audit function to boost independence.

The scope of Internal Audit covers all entities, all activities and all divisions, including the various control functions, of KBC Insurance NV. To this end, Internal Audit will periodically – and at least once a year - examine and evaluate the areas within its scope. The audit plan is defined applying a risk-based approach while ensuring adequate coverage of matters of legal or regulatory interest. The audit plan is supplemented with a statement on the necessary resources to execute the plan. The audit plan is approved by the respective Audit Committees. Deviations from the audit plan must be reported to the respective Audit Committee at least once a year.

The approach followed in performing the audit assignments should be described in resulting audit reports so that their readers can consider the findings against the approach followed. A risk-based approach is used as the primary auditing method. The level of assurance, which may be gained from Internal Audit's work, is relative to the nature and extent of work carried out. It is therefore essential that the auditor involved, when giving a reasoned opinion, documents the nature and the extent of the work undertaken.

The implementation of the audit recommendations is the responsibility of line management, that will communicate the status of this follow-up regularly to Internal Audit, for monitoring purposes.

To facilitate a consistent approach to Internal Audit across all entities within the KBC Insurance Group, the heads of local internal audit departments are accountable to their supervising Audit Committee and are steered by the Internal Auditor of KBC Group NV. The co-operation between the different internal audit departments is organised in a matrix structure where the competence-based axis intersects with the geographical responsibility axis.

The independence and objectivity of Internal Audit is assured by the KBC Insurance Internal Audit Charter approved by the Board of Directors. The Charter also describes the functioning and organisation of the Internal Audit function.

3.3.4 Internal Control System

To further improve the Internal Control System within the KBC Group, the **three lines of defence concept** is implemented. The roles and responsibilities of the different actors within the three lines of defence are highlighted in this chapter.

- ✓ **First line of defence: business entities**
  The first line of defence (business) has full ownership of its risks. It needs to identify, understand and deal with these risks as well as have the necessary controls executed. This involves allocating sufficient priority and capacity to risk topics, making sure the business self-assessments are of a sufficient quality, and performing the right controls in the right manner.

  The table below summarises the roles and responsibilities of the first line of defence.

Function	Description
Strategy and governance	- Develop a business strategy within the defined risk appetite - Implement the KBC Risk Management Framework ('KBC RMF') for each risk type within their activity, the Group Compliance Rules and first line controls in the compliance domains.
Execution	- Take risk-minded decisions within the playing field for their areas of business - Manage their risks (including for outsourced activities and outstanding contractual liabilities) in accordance with the guidelines of the KBC RMF, including o identifying the risks within their business o qualitative and quantitative measurement of these risks o reporting (including analysis, evaluation and presentation) o responding to the risk according to the accountability rules ✓ risk mitigation ✓ risk transfer ✓ risk acceptance - Manage the Compliance risk as per the Group Compliance Framework: Group Compliance Charter & Integrity Policy, Group Compliance Risk Appetite as well as the Group Compliance Rules and the Group Compliance Monitoring Program and recommendations
Oversight	- Have an overview via reporting lines of o the actual risk environment and compliance with the playing field o the control environment and compliance with local regulations

Table 14: Roles and responsibilities of the first line of defence

- ✓ **Second line of defence**: **Risk, Compliance, Actuarial function, Tax, Legal function, Group Finance, Data Quality Management**

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 provide an adequate degree of certainty that the first-line is keeping these risks under control, without taking over primary responsibility from the first line.

How the Risk Management function, the Compliance function and the Actuarial function are set-up and play there role within the organisation is explained under respectively section 3.2, 3.3.2 and 3.3.1.

Due to the specific tasks of each specific function, each second line can also assume first-line accountability, e.g.:

- o Tax declarations by Group Tax;
- o Financial reporting by Group Finance;
- o Calculations of risk metrics by the Risk function;
- o Internal capital adequacy assessment process (ICAAP)/internal liquidity adequacy assessment process (ILAAP)/the own risk and solvency self-assessment (ORSA)/Financial Conglomerate (FICO) reporting by Group Risk;
- o Filing of suspicious transactions (anti-money laundering) by Group Compliance;
- o Personal account dealing by Group Compliance.

By doing this, the second-line function is accountable for the risks related to the activity in question and therefore must define internal controls to guarantee the quality of the result.

- ✓ **The third line of defence: internal Audit**
  Internal Audit gives assurance to the Board of Directors that the overall internal control environment is effective and that policies and processes are in place, effective and consistently applied throughout the Group.
  How the internal Audit function is set-up and plays its role within the organisation is explained under section 3.3.3.

3.4 Outsourcing

3.4.1 General outsourcing approach at the level of KBC group

KBC Group has set the following strategic goals:

- ✓ KBC strives to offer its clients a unique bank-insurance experience;
- ✓ KBC develops the Group with a long-term perspective and therefore achieves sustainable and profitable growth and respects solid risk, capital and liquidity boundaries;
- ✓ KBC puts clients' interests at the heart of everything it does and offers them a high-quality service and relevant solutions;
- ✓ KBC takes its responsibility towards society and local economies very seriously and aims to reflect that in its everyday activities.

The outsourcing approach of the KBC Group is embedded in the above-mentioned cornerstones:

- ✓ KBC aims to maximise the retention and development of its internal knowledge of all aspects related to the bank-insurance model, as well as the related processes and activities;
- ✓ In particular, functions, processes, activities that include KBC-specific proprietary information, intellectual property rights, trade secrets, know-how creating a competitive market advantage for KBC over its peers ('Core KBC Know-How'), can never be outsourced to a third party, i.e. an entity outside the KBC Group ('External outsourcing');
- ✓ To the extent that technological or economic developments justify the outsourcing of some activities, the KBC Group strives for a maximal retention of knowledge and control of these activities. Therefore, the KBC Group initially turns to the shared services centres (SSC) within the Group ('Internal Outsourcing');
- ✓ In the event of outsourcing, KBC aims for the highest possible quality level in order to ensure and guarantee long-term objectives and clients' interests.

3.4.2 Outsourcing principles

The KBC Group has an extensive policy on regulated outsourcing. This policy is similarly applicable to internal and external outsourcing. The policy describes the definition of outsourcing as applied within the

Group, an extensive process description, Group coordination and central notification, and the monitoring principles.

For every outsourcing file, an outsourcing coordinator has to be appointed. This coordinator has an internal notification duty to a Group-wide coordinator. This notification is not only required for new files, but also for material changes in existing outsourced activities and for renewals.

The outsourcing entity is accountable for the risk assessment of an outsourcing initiative. The outsourcing entity is required to write a mandatory risk assessment, accompanied by mandatory advice from the control functions, covering inter alia:

- ✓ Operational risk (as described in the Group-wide key controls and zero tolerances);
- ✓ Legal risk (possible legal showstoppers, provided by the (local) legal department);
- ✓ Compliance risk (provided by the (local) Compliance function);
- ✓ (If applicable) the risks controlled by the Actuarial function.

Within the Group strategy, KBC Insurance develops its own approach on outsourcing. Core values in this approach are client centricity (putting the clients' interest first), maximum synergy and efficiency and drawing on external expertise if this expertise excels internal knowledge or capacities.

An outsourcing policy was approved in December 2018 and last updated in 2021, and is applied on all new outsourcing contracts. The new policy also provides that in the event of a thorough change of an outsourced service the approval procedure will have to be repeated. Therefore it cannot be excluded that some existing contracts may evolve to critical in the future.

3.4.3 Intragroup outsourcing

As already stated in sections before, a number of control and key functions of KBC Insurance are exercised at Group level with a view to fostering centralisation, independence, consistency and synergy.

KBC Group provides the following functions on behalf of KBC Insurance:

- ✓ Audit
- ✓ Compliance
- ✓ Risk
- ✓ Finance
- ✓ Asset/Liability Management (ALM)
- ✓ ICT

All these activities are considered to be critical or important operational functions or activities for KBC Insurance.

In addition, KBC Insurance relies on other KBC entities for specific insurance-related tasks:

- ✓ KBC Insurance NV relies on VAB and 24+, Belgian subsidiaries of KBC Insurance NV, and on the shared service centres of KBC Group in Brno (Czech Republic) and Varna (Bulgaria) for specific insurance-related tasks;
- ✓ For the management of its assets KBC Insurance NV relies on other companies within the KBC Group. For discretionary asset management, it relies on KBC Asset Management. For the management of real estate and credit facilities it relies on KBC Bank.

KBC Insurance also considers these activities to be critical or important operational functions or activities.

3.4.4 Critical or important operational functions or activities outsourced to external parties

KBC Insurance entrusts its own operational tasks to insurance intermediaries as regards acceptance and claims handling for Non-Life insurance contracts. These activities are only entrusted to Belgian intermediaries, specifically for contracts in which the relationship with the client is maintained.

Outsourcing to tied agents is a standardised process. These agents may perform limited tasks related to the collection of insurance premiums, the settlement of claims (limited in scope) and the provision of green cards. Contracts outsourced to insurance brokers are handled on a case-by-case basis, and may include a wider range of tasks relating to contract management and claims settlement.

Risk profile

4 Risk profile

4.1 Introduction

KBC Insurance Group is exposed to a number of typical industry-specific risks such as movements in interest rates, insurance underwriting risk, business risk, operational risks,... In this section, we focus on the most material risks we face.

The KBC Insurance Group Risk Appetite Statement reflects the view of the Board of Directors and top management on risk-taking in general and on the acceptable level and composition of risks in coherence with the desired return, in particular. This statement includes a specification of the risk profile and the risk appetite for each risk type into Low risk, Medium risk and High risk.

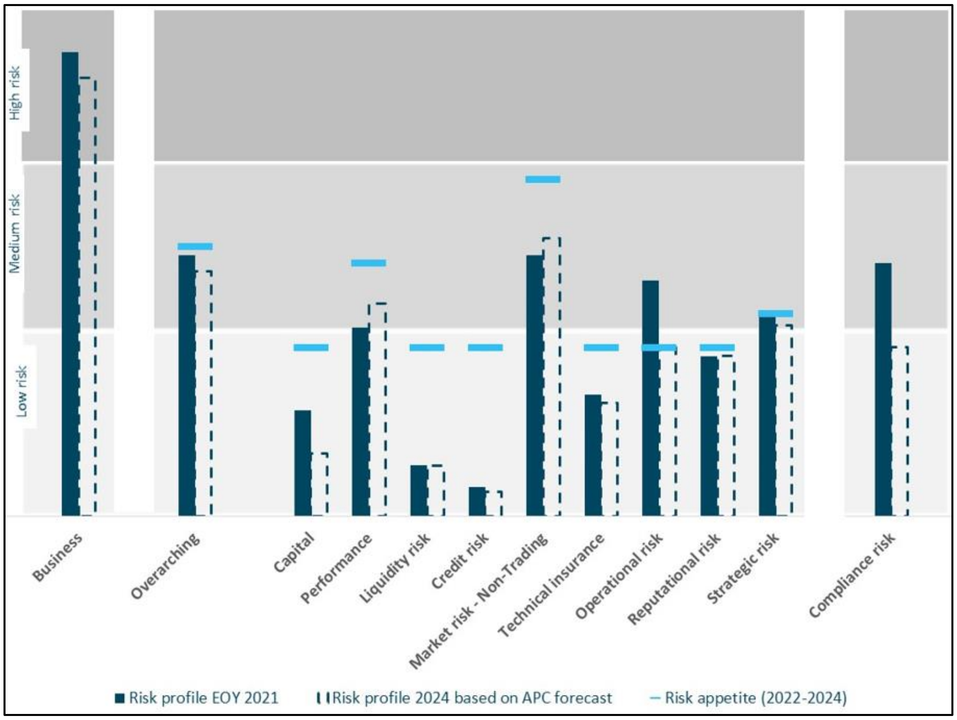


Figure 3: Risk appetite versus risk profile (2020-2023) (KBC Ins Grp)

In December 2021, the BoD decided to keep the risk appetite unchanged compared to last year and confirmed the ambition to move to a low risk profile for operational and compliance risks by end 2023. This clearly indicates that KBC does not want to take more risks going forward. In addition, by keeping the focus on operational excellence, simplicity and straight-through processing, KBC emphasizes its intent to adequately tackle key operational and compliance risks that could negatively affect our digital strategy.

The risk profile of technical insurance risk is low thanks to the strong diversification within insurance underwriting, i.e. a wide range of different insurance product-types that are offered to both retail and small enterprises segments. Where larger risks are taken in portfolio, or when risks could accumulate up to a larger scale, risk mitigation is achieved through the purchase of appropriate reinsurance programs.

In terms of operational and compliance risks, KBC aims to gradually achieve the 'low' risk profile by the end of 2023. Focus points in these areas are cyber risk, process complexity (incl. outsourcing), conduct risk, data quality/ availability, GDPR (data privacy) and AML.

With respect to compliance risk, numerous action plans are put in place to reduce the risks and ensure conformity with AML, MiFID and GDPR requirements. The deliverables of the SOFIA projects also set the scene for a more robust first line in terms of KYC/KYT & controls. Constant vigilance is required to ensure the strategic digital developments remain in line with the GDPR.

With respect to operational risk, all entities are taking the necessary actions to improve the risk profile of the individual operational risk subtypes and confirmed to be able to reach a low risk profile for operational risk by end 2023.

The strategic risk profile remains constant, given the strong strategic processes and monitoring thereof and the strong commitment of the entities to execute the strategy.

Note that no risk appetite is set for ESG risk as this risk will materialize through the traditional risk types. It is therefore to be seen as a (potential) additional risk driver, which will increase the risk profile of several risk types if not sufficiently mitigated.

Solvency capital requirement – overall

The figure and table below show the SCR evolution over 2021 for KBC Insurance Group:

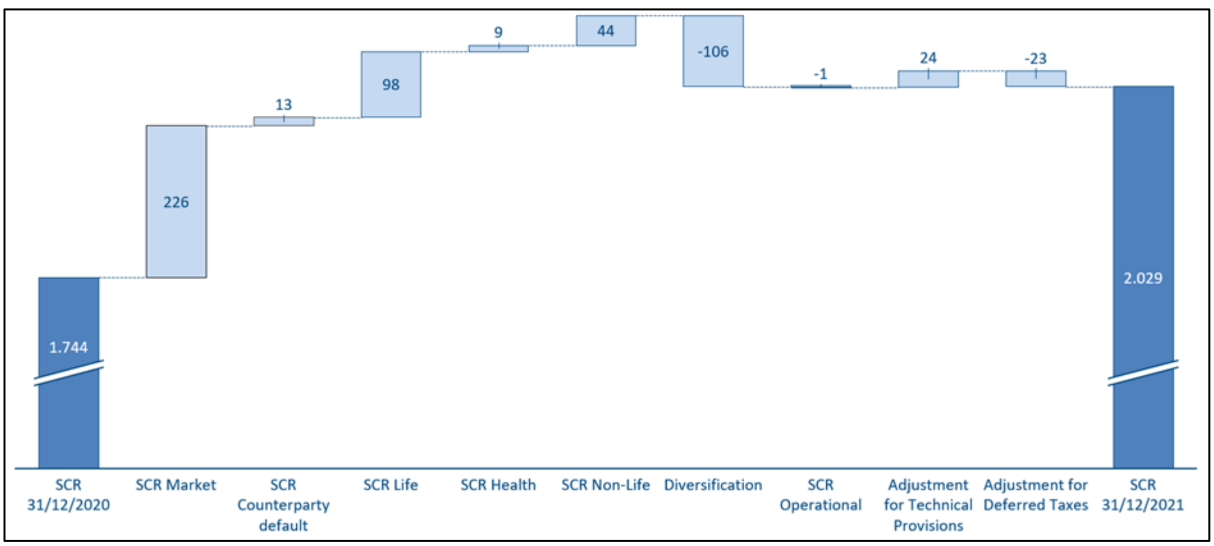


Figure 4: Breakdown SCR risk – KBC Insurance Group

(in m EUR)	2020	2021	Nominal change
SCR Non-Life	583	626	44
SCR Health	305	314	9
SCR Life	735	834	98
SCR Market risk	1.355	1.581	226
SCR Counterparty default risk	101	114	13
TOTAL SCR before diversification	**3.079**	**3.469**	**390**
Diversification benefits	-1.027	-1.133	-106
TOTAL SCR before diversification	**2.052**	**2.337**	**284**
SCR Operational Risk	139	138	-1
Adjustment loss absorbing effect TP	-54	-30	24
Adjustment deferred taxes	-393	-415	-23
TOTAL after diversification and adjustments	**1.744**	**2.029**	**284**

Table 15: Evolution SCR (KBC Ins Grp) – breakdown per submodule

The SCR of KBC Insurance Group increases over 2021 with 284m EUR, largely driven by higher equity markets & portfolio growth. Main positive underlying movements are:

- ✓ The increase of equity risk (linked to the higher equity markets)
- ✓ The increase of SCR currency risk (due to the higher value of foreign currency equity positions).
- ✓ The increase of lapse risk (due to parameter updates and portfolio growth).

Compensated by

- ✓ The increase of diversification effects, which is dependent on the composition of the different sub SCRs.

4.2 Underwriting risk (technical insurance risk)

The 'underwriting risk' or 'technical insurance risk' stems from uncertainty regarding the frequency and severity of insured losses. All these risks are kept under control through appropriate underwriting, pricing, claims reserving, reinsurance and claims handling policies of line management and through independent insurance risk management.

The management of the technical insurance risk strategy is the responsibility of the Executive Committee of KBC Insurance Group, assisted by the Group Insurance Committee (GIC), which has representatives from both the business side and the Risk function.

Adequate procedures are enforced throughout the KBC Insurance Group to ensure sound, quality underwriting is provided with good overall profitability, within the prescribed retention limits, and in adherence to the Group and local risk appetite.

The insurance entities focus mainly on the segments of retail and small enterprises i.e. Private Persons, the Self-Employed and Small and Medium-Sized Enterprises (SMEs). Through the wide range of insurance products that are offered to these clients, an important degree of diversification is reached. Where larger risks are taken in portfolio, or when risks could accumulate to a larger scale, risk mitigation is achieved through the purchase of reinsurance cover.

The Group Risk function develops and rolls out a Group-wide framework for managing insurance risks within all insurance entities. Group Risk is responsible for providing support with regard to local implementation and the functional direction of the insurance risk management process of the insurance subsidiaries.

The insurance risk management framework is designed primarily around the following building blocks:

- ✓ Adequate identification and analysis of material insurance risks by, inter alia, analysing new emerging risks, concentration or accumulation risks, and developing early warning signals.
- ✓ Appropriate risk measurements and use of these measurements to develop applications aimed at guiding the company towards creating maximum shareholder value. Examples include best estimate valuations of insurance liabilities, ex post economic profitability analyses, natural catastrophe and other Life, Non-Life and Health exposure modelling, stress testing and internal required capital calculations.
- ✓ Stress testing and sensitivity analysis.
- ✓ Regular reporting and follow-up of the risk measurements in the Insurance Risk Report (IRR).
- ✓ Determination of insurance risk limits and conducting compliance checks, as well as providing advice on reinsurance programs.

The following risk aspects have an important impact on the underwriting risk profile of an insurance company:

- ✓ Concentration risk:
  Main concentration risk that can be observed for the underwriting risk:
  - Natural catastrophe risks (storms, floods, earthquakes, etc.).
  - Non-natural catastrophe risks or 'man-made' catastrophe risks (e.g. pandemic events, big losses, etc.).

- Concentration risks linked to specific activities (e.g. nuclear risk, terrorism risks).

The possible concentration risk at KBC Insurance Group level is also assessed. Exposure can be aggregated at Group level in different ways:

- Via accumulation exposure across different entities (e.g. a storm hitting several domestic KBC markets).
- Via internal reinsurance when direct entities cede important parts of their exposure to KBC Group Re, which keeps the risk in own retention or further cedes the pooled risk to the external reinsurance market.
- Via credit exposure to reinsurance counterparties.

KBC Group risk management has developed a model for assessing the Group-wide exposure to all Non-Life insurance risks, including natural hazards. This model measures the most material Non-Life insurance risks (catastrophe and premium & reserve risk) for all Group insurance and reinsurance companies, with account being taken of outward reinsurance (external and intra Group). The resulting concentration risk exposures are used to check compliance with the limit frameworks (Group and local level) based upon which adequate reinsurance coverage can be bought.

✓ Risk mitigation:
Besides strict underwriting guidelines that should guarantee sound underwriting, reinsurance is bought to support the strategic objectives as formulated in the Risk Appetite Statement. In order to achieve the objectives, the reinsurance policy of the KBC Insurance Group stipulates that every material insurance entity has to acquire reinsurance protection to ensure that its net exposure remains within the bounds of the risk retention limit framework.

The insurance portfolios are protected against the impact of large claims or the accumulation of losses (risk concentration) by means of reinsurance contracts. We divide these reinsurance programmes into three main groups, i.e. property insurance, liability insurance and personal insurance, and we re-evaluate and renegotiate them every year. Most of our reinsurance contracts are concluded on a non-proportional basis, which provides cover against the impact of large claims or loss events. The independent insurance risk management function is also responsible for advising on the restructuring of the reinsurance programmes. This approach has resulted in optimising the retention of the KBC Group particularly in respect of its exposure to natural catastrophe risk, but also in respect of other lines of business.

Major reinsurance programmes on property and liability of KBC insurance entities are centralised via KBC Group Re. These reinsurance programmes are re-evaluated and renegotiated every year.

4.2.1 Solvency capital requirement – underwriting risk

Overall a gaining market share can be observed for Non-Life business while maintaining best-in-class combined ratio. KBC's Life portfolio is well diversified and homogenous, resulting in a low volatility of the risk result.

While the risk profile is stable, the capital charge for underwriting risks (before diversification) rose over 2021 by 125m EUR at KBC Insurance NV level, reinforced at Group level by an additional increase of 26m EUR driven by the Central European entities. Main drivers are the portfolio growth and parameter updates which lead to an increase of lapse risk in particular.

(in m EUR)	2020	2021	Nominal change	Relative Change
SCR Life Underwriting	735	834	98	13,39%
SCR Non-Life Underwriting	583	626	44	7,48%
SCR Health Underwriting	305	314	9	3,01%
Total SCR Underwriting before diversification	**1.623**	**1.774**	**151**	**9,31%**

Table 16: SCR underwriting risk (KBC Ins Grp)

(in m EUR)	2020	2021	Nominal change	%
SCR Life Underwriting	621	696	75	12,01%
SCR Non-Life Underwriting	459	502	43	9,28%
SCR Health Underwriting	294	301	7	2,51%
Total SCR Underwriting before diversification	**1.374**	**1.499**	**125**	**9,07%**

Table 17: SCR underwriting risk (KBC Ins NV)

Technical provisions net of reinsurance show a decrease over 2021 with -273m EUR at KBC Insurance Group level, mainly driven by the evolutions of KBC Insurance NV (-246m EUR). Reason is the decrease of the Life portfolio technical provisions due to net outflow and increased interest rates. This is only partly compensated by the increase of Unit-Linked portfolio technical provisions due to higher market values. Figures hereunder are net Technical provisions, meaning Best Estimates plus Risk Margin minus Reinsurance Recoverables.

(in m EUR)	2020	2021	Nominal change
Technical Provisions - Non-Life	**2.083**	**2.147**	***64***
Non-Life (excl. Health)	*1.765*	*1.805*	*40*
Health (similar to Non-Life)	*318*	*342*	*24*
Technical Provisions - Life (incl. Index-Linked & Unit-Linked)	**30.922**	**30.585**	***-337***
Life (excl. Health and IL & UL)	*16.547*	*15.525*	*-1.022*
Health (similar to Life)	*696*	*764*	*68*
Index-Linked & Unit-Linked	*13.679*	*14.297*	*618*
Total net Technical Provisions	**33.005**	**32.732**	**-273**

Table 18: Net Technical provisions (KBC Ins Grp)

(in m EUR)	2020	2021	Nominal change
Technical Provisions - Non-Life	**1.596**	**1.632**	**35**
Non-Life (excl. Health)	*1.282*	*1.290*	*8*
Health (similar to Non-Life)	*314*	*342*	*28*
Technical Provisions - Life (incl. Index-Linked & Unit-Linked)	**29.018**	**28.736**	***-282***
Life (excl. Health and IL & UL)	*15.619*	*14.629*	*-990*
Health (similar to Life)	*696*	*761*	*65*
Index-Linked & Unit-Linked	*12.703*	*13.346*	*643*
Total Net Technical Provisions	**30.614**	**30.368**	**-246**

Table 19: Net Technical provisions (KBC Ins NV)

4.2.2 Best estimate valuations of insurance liabilities

As part of its mission to independently monitor insurance risks, the Group and local Risk function regularly carries out in-depth studies. These indicate that the Non-Life technical provisions at subsidiary level are sufficient. The value of technical provisions must equal the sum of a Best Estimate and a Risk Margin. The Best Estimate corresponds to the discounted future cashflows of the insurance obligations. A Risk Margin is added to ensure that the value of the technical provisions is equivalent to the amount an insurance company would require to take on the obligations of the insurance company. The adequacy of provisions is checked per business line at subsidiary level and the overall adequacy is assessed at subsidiary level for all business lines combined.

In addition, the main Group companies conduct Liability Adequacy Tests (LAT) that meet local and IFRS requirements for the Life technical provisions. We make calculations using prospective methods (cashflow projections that take account of lapse rates and a discount rate that is set for each insurance entity based on local macroeconomic conditions and regulations), and build in extra market-value margins to deal with the factor of uncertainty in a number of parameters.

For Life business also the Value of New business (VNB)/Value of Business In force (VBI) are calculated which are both widely used industry standards to measure the profitability of the Life insurance operations. With this Group-wide methodological framework a reference throughout KBC Insurance Group was provided. For Non-Life, each year, the Non-Life economic profitability is analysed in each entity for the most material branches.

4.2.3 Life risk

In the tables below, an overview is provided of the KBC Insurance Group's best estimate provisions for the Life business at end of year 2021.

Lines of Business (in m EUR)	Best Estimate - gross of reinsurance	Risk Margin	Reinsurance Recoverables	Net Technical Provisions	%
Life (incl. Index-Linked & Unit-Linked)	**29.879**	**692**	**-14**	**30.585**	**100%**
Life (excl. Health and IL & UL)	15.053	459	-13	15.525	51%
Health (similar to Life)	666	96	-2	764	2%
Index-Linked & Unit-Linked	14.160	137	0	14.297	47%

Table 20: Life business (KBC Ins Grp) – Best Estimates end of year 2021

Lines of Business (in m EUR)	Best Estimate - gross of reinsurance	Risk Margin	Reinsurance Recoverables	Net Technical Provisions	%
Life (incl. Index-Linked & Unit-Linked)	**28.168**	**548**	**-20**	**28.736**	**100%**
Life (excl. Health and IL & UL)	14.274	340	-16	14.629	51%
Health (similar to Life)	666	91	-4	761	3%
Index-Linked & Unit-Linked	13.229	117	0	13.346	46%

Table 21: Life business (KBC Ins NV) – Best Estimates end of year 2021

The majority of the premium volume is still written in Belgium (including both the guaranteed-rate and Unit-Linked businesses).

Life Gross written premium (in m EUR)	2020		2021	
	Total	%	Total	%
KBC Insurance NV (BE)	1.656	85,4%	1.627	85,9%
ČSOB Pojišťovna a.s. (CZ)	207	10,7%	189	10,0%
ČSOB Poisťovňa a.s. (SK)	29	1,5%	26	1,4%
K&H Insurance Zrt. (HU)	31	1,6%	36	1,9%
DZI Life Insurance Jsc (BG)	15	0,8%	18	0,9%
Total	**1.939**	**100%**	**1.895**	**100%**

Table 22: Life gross written premium – split per entity end of year 2020-2021

Premium volume in total for Life decreased in 2021 with 45m EUR, as shown in the table above. This was mainly driven by an decrease in KBC Insurance NV (29m EUR).

Gross written Life Premium (in m EUR)	2020			2021		
	Unit-Linked	Non Unit-Linked	Total	Unit-Linked	Non Unit-Linked	Total
KBC Insurance NV (BE)	751	905	1.656	727	900	1.627
ČSOB Pojišťovna a.s. (CZ)	157	50	207	138	51	189
ČSOB Poisťovňa a.s. (SK)	10	19	29	6	20	26
K&H Insurance Zrt. (HU)	19	13	31	24	12	36
DZI Life Insurance Jsc (BG)	0	15	15	1	17	18
Total	**937**	**1.002**	**1.939**	**895**	**999**	**1.895**

Table 23: Premium volumes - Life insurance EOY 2020-2021

The total Life portfolio decreases with 44m EUR was particularly due to a decrease in the Unit-Linked insurances (42m EUR).

4.2.4 Non-Life risk

An overview of the KBC Insurance Group's best estimate provisions for the Non-Life business at end of year 2021 is provided in the tables below.

Lines of Business (in m EUR)	Best Estimate - gross of reinsurance	Risk Margin	Reinsurance Recoverables	Net Technical Provisions	%
Non-Life	**1.872**	**411**	**136**	**2.147**	**100%**
Non-Life (excl. Health)	1.600	335	131	1.805	84%
Health (similar to Non-Life)	272	76	5	342	16%

Table 24: Non-Life business KBC Insurance Group– Best Estimates end of year 2021

Lines of Business (in m EUR)	Best Estimate - gross of reinsurance	Risk Margin	Reinsurance Recoverables	Net Technical Provisions	%
Non-Life	**1.416**	**346**	**130**	**1.632**	**100%**
Non-Life (excl. Health)	1.138	277	125	1.290	79%
Health (similar to Non-Life)	278	69	5	342	21%

Table 25: Non-Life business KBC I NV Best Estimates end of year 2021

The graph below shows how the gross written premium (GWP) volume has developed over the past few years. The steady increase in Non-Life GWP volumes is in line with expectations, i.e. a stable moderate growth that is expected to continue in the coming years.

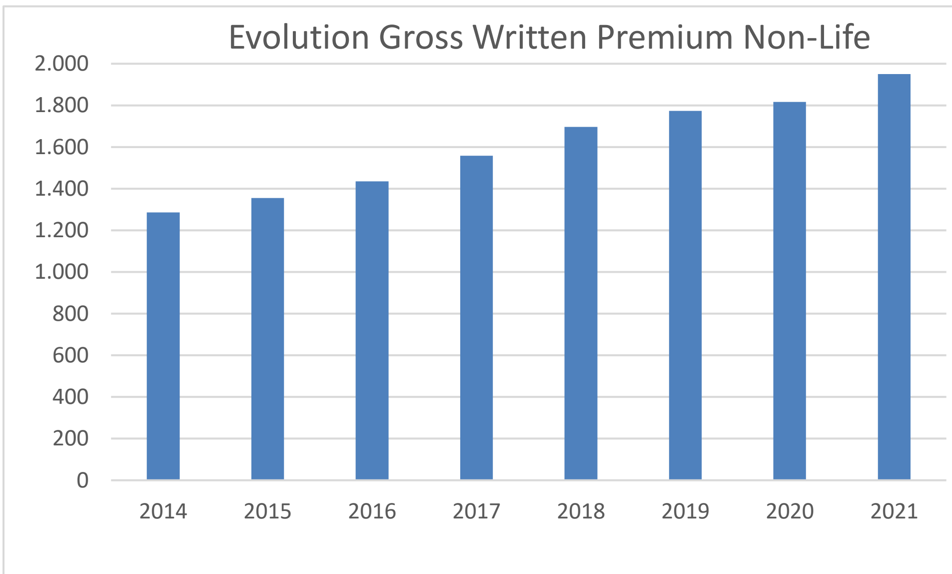


Figure 5: Evolution gross written premium Non-Life (KBC Ins Grp)

The table below illustrates the premium split per entity for the Non-Life portfolio. 63% comes from KBC Insurance NV, followed by 18 % of the Czech Republic.

Non-Life Gross written premiums (in m EUR)	2020		2021	
	Gross Written Premium	%	Gross Written Premium	%
KBC Insurance NV (BE)	1.157	64%	1.226	63%
ČSOB Pojišťovna a.s. (CZ)	307	17%	352	18%
ČSOB Poisťovňa a.s. (SK)	60	3%	69	4%
K&H Insurance Zrt. (HU)	144	8%	143	7%
DZI Life Insurance Jsc (BG)	21	1%	23	1%
DZI General Insurance Jsc (BG)	128	7%	138	7%
KBC Group Re (LU)	-	0%	0	0%
Total	**1.817**	**100%**	**1.950**	**100%**

Table 26: Gross written premium Non-Life – split per entity end of year 2020-2021

4.3 Market risk

4.3.1 Introduction

The process of managing our structural exposure to market risks (including interest rate risk, equity risk, real estate risk, foreign exchange risk and inflation risk) is also known as Asset/Liability Management (ALM).

'Structural exposure' encompasses all exposure inherent to our commercial activity or to our long-term positions. Trading activities are consequently not included. Structural exposure can also be described as a combination of:

- ✓ Mismatches in the insurance activities between liabilities in the Non-Life and Life businesses and the corresponding covering assets.
- ✓ The risks associated with holding an investment portfolio for the purpose of (re)investing shareholders' equity.
- ✓ 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 corresponding investments).

The management of the ALM risk strategy at KBC is the responsibility of the GExCo, assisted by the Group ALCO, which has representatives from both the business side and the Risk function.

Managing the ALM risk on a daily basis starts in the first line with risk awareness at Group Treasury and the local treasury functions. The treasury departments measure and manage this market risk within the playing field defined by the risk appetite. KBC's ALM limits are approved at two levels. On the one hand, limits at the level of the insurance Group for interest rate risk, equity risk, real estate risk and foreign exchange risk, which are approved by the Board of Directors (BoD). On the other hand limits at the level of the solo entities for interest rate risk, equity risk, real estate risk and foreign exchange risk, which are approved by the Group Executive Committee (GExCo). Together this forms the playing field for KBC's solid first line of defence for ALM risk.

KBC's second line of defence is the responsibility of Group Risk and the local risk departments. Their main task is to measure ALM risks and flag up current and future risk positions. A common ALM Risk Management Framework (Non-Trading Market Risk Management Framework or NTMRMF), an ALM rulebook and shared Group measurement infrastructure ensures that these risks are measured consistently throughout the Group. The NTMRMF and ALM Rulebook have been drawn up centrally by Group Risk and are applicable for all entities.

The main building blocks of KBC's ALM Risk Management Framework are:

- ✓ A broad range of risk measurement methods such as Basis-Point-Value (BPV), interest rate gap analysis, key rate report (i.e. BPV per time bucket) and economic sensitivities.
- ✓ Net interest income (NII) simulations performed under a variety of market scenarios. Simulations over a multi-year period are used in budgeting and risk processes.
- ✓ Capital sensitivities arising from investment book positions that impact available regulatory capital (e.g. bonds that are classified as fair value through other comprehensive income).

- ✓ Stress testing and sensitivity analysis.

4.3.2 Interest Rate Risk

One of the most important risks for insurance undertakings in the current low (and even negative) yield environment is interest rate risk. The negative impact of low yields on available capital is rather straightforward, given the longer tenor of liabilities compared to assets and the increased impact of the convexity effect[8] following from these persistent low yields.

The main technique used to measure interest rate risks in the ALM view is the +10 BPV method, which measures the extent to which the net asset value of the portfolio would change if interest rates were to go up by 10 basis points across the entire interest rate term structure. A negative (positive) BPV figure indicates a decrease (increase) in the net asset value of the portfolio.

Interest (Swap +10 BPV) limit KBC Insurance Group (in k EUR)	+10 Swap BPV		Change	
	31/12/2020	31/12/2021	Absolute	Relative (%)
KBC Insurance Group	**23.767**	**30.500**	**6.733**	**28,33%**
KBC Insurance NV	23.204	29.091	5.887	25,37%
KBC Group Re	-1.041	-1.037	4	-0,42%
K&H Insurance	-734	-308	426	-58,05%
CSOB P SK	239	261	22	9,23%
CSOB P CZ	3.183	3.338	155	4,86%
DZI	-1.084	-846	238	-21,98%

Table 27: Impact of a parallel 10 bp increase in the risk-free int rate curve

KBC also uses other techniques such as interest rate gap analysis, key rate reports (i.e. BPV per time bucket), the duration approach, scenario analysis and stress testing (both from a regulatory capital perspective and from a net interest income perspective).

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 pay-out patterns for claims, based on extensive actuarial analysis or well-considered cyclical benchmark profiles.

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

The tables below summarise the exposure to interest rate risk in the Life insurance activities, according to the ALM view. The interest rate sensitive assets and liabilities, relating to Life insurance business offering guaranteed rates, are grouped according to the expected timing of cash flows. It should be stressed that

[8] Relatively speaking, a parallel 10 base point shock to the interest curve is more significant when interest rates are lower. Therefore, the existing increase in interest rate sensitivity, measured by the BPV, is not necessarily a consequence of actively taking more interest rate risk.

the Life insurance liabilities are not only covered by the interest rate sensitive assets which are shown in underlying tables. Next to these interest rate sensitive assets, the balance sheet also contains:

- ✓ Interest rate sensitive assets in surplus, i.e. assets that are not linked to any insurance liabilities;
- ✓ Interest rate insensitive assets, such as equity & real estate investments, which in general are held to cover the long-term insurance liabilities (i.e. liabilities with a term of 15 to 20 years or higher).

Interest rate risk per end of December 2020							
in m EUR (except for duration, which is expressed in years)	Expected cash flows (undiscounted)						
	0-1 year	1-2 year	2-3 year	3-4 year	4-5 year	> 5 years	Total
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 expected cash flows	-349	105	728	128	-33	-1.392	331
Mean duration of assets							7,71
Mean duration of liabilities							10,33
Interest rate risk per end of December 2021							
in m EUR (except for duration, which is expressed in years)	Expected cash flows (undiscounted)						
	0-1 year	1-2 year	2-3 year	3-4 year	4-5 year	> 5 years	Total
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 expected cash flows	-387	534	162	7	148	-1.003	771
Mean duration of assets							6,97
Mean duration of liabilities							9,93

Table 28: Expected undiscounted interest rate sensitive CF for Life activities (KBC Ins Grp)

in m EUR (except for duration, which is expressed in years)	Expected cash flows (undiscounted)						
	0-1 year	1-2 year	2-3 year	3-4 year	4-5 year	> 5 years	Total
Fixed-income assets backing liabilities,	1.278	929	1.197	1.240	772	7.884	13.301
Equity							899
Property							177
Other (no maturity)							52
Liabilities guaranteed component	1.714	887	735	1.215	810	9.283	14.643
Difference in expected cash flows	-436	43	462	25	-38	-1.398	-214
Mean duration of assets							7,95
Mean duration of liabilities							10,12
Interest rate risk per end of December 2021							
in m EUR (except for duration, which is expressed in years)	Expected cash flows (undiscounted)						
	0-1 year	1-2 year	2-3 year	3-4 year	4-5 year	> 5 years	Total
Fixed-income assets backing liabilities, guaranteed component	1.148	1.184	1.234	770	971	7.724	13.030
Equity							967
Property							171
Other (no maturity)							152
Liabilities guaranteed component	1.743	732	1.202	804	864	8.986	14.331
Difference in expected cash flows	-596	452	31	-34	107	-1.262	-12
Mean duration of assets							7,14
Mean duration of liabilities							9,77

Table 29: Expected undiscounted interest rate sensitive cash flows Life activities (KBC Ins NV)

As mentioned above, the main interest rate risk for the insurer is a downside one. KBC adopts 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 an adequate supplementary buffer.

The table below shows the evolution of the Life insurance reserves (i.e. mathematical reserves at 4Q2021) broken down by the corresponding interest rate guarantee.

Life Insurance Reserves *by Interest Rate Guarantee* *(in m EUR)*	31/12/2020		31/12/2021		Change	
	Amount Reserve	Proportion (%)	Amount Reserve	Proportion (%)	Absolute	Relative (%)
5,00% and higher	443	3,30%	382	2,87%	-61,20	-13,81%
More than 4,25% up to and including 4,99%	1.041	7,74%	942	7,06%	-99,33	-9,54%
More than 3,50% up to and including 4,25%	564	4,20%	527	3,95%	-37,08	-6,57%
More than 3,00% up to and including 3,50%	1.308	9,72%	1.266	9,49%	-41,88	-3,20%
More than 2,50% up to and including 3,00%	392	2,91%	419	3,15%	27,86	7,11%
More than 0,00% up to and including 2,50%	9.436	70,16%	9.527	71,45%	91,27	0,97%
0,00%	266	1,98%	271	2,03%	4,95	1,86%
Total	**13.449**	**100,00%**	**13.334**	**100,00%**	**-115,42**	**-0,86%**

Table 30: Breakdown of the Non-UL Life reserves by guaranteed int rate (KBC Ins Grp)

Life Insurance Reserves *by Interest Rate Guarantee* *(in m EUR)*	31/12/2020		31/12/2021		Change	
	Amount Reserve	Proportion (%)	Amount Reserve	Proportion (%)	Absolute	Relative (%)
5,00% and higher	7	0,05%	2	0,02%	-4,39	-65,75%
More than 4,25% up to and including 4,99%	1.041	8,21%	942	7,46%	-99,33	-9,54%
More than 3,50% up to and including 4,25%	561	4,42%	524	4,16%	-36,41	-6,49%
More than 3,00% up to and including 3,50%	1.308	10,31%	1.266	10,03%	-41,88	-3,20%
More than 2,50% up to and including 3,00%	287	2,26%	287	2,28%	0,26	0,09%
More than 0,00% up to and including 2,50%	9.302	73,38%	9.396	74,47%	94,46	1,02%
0,00%	172	1,36%	200	1,59%	28,11	16,33%
Total	**12.677**	**100,00%**	**12.617**	**100,00%**	**-59,18**	**-0,47%**

Table 31: Breakdown of the Non-UL Life reserves by guaranteed int rate (KBC Ins NV)

Treasury strategy

The 2019 and 2020 treasury strategy was focussed on maintaining the current interest rate gap and if the interest rate environment would allow for it (i.e. if the interest rates would surpass certain levels), it was planned to gradually do additional investments to anticipate reinvestment risk of the coming years.

The 2021 treasury strategy aims to maintain the interest rate gap of the existing insurance business at a constant level. However, for new long-term Life insurance business (average duration of 20 years) the investment horizon of the corresponding fixed income assets is dynamically determined, depending on the level of the interest rates the investment horizon can vary between 10 and 20 years. In practice this means that the new long-term Life insurance business will create an additional interest rate gap as long as interest rates remain below certain thresholds (regularly reviewed by the Investment Council).

4.3.3 Credit spread risk

From an ALM perspective, KBC manages 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 together with a breakdown per country.

Spread Risk Sensitivity 4Q2021	*+100bp Spread BPV (in m EUR)*	*Proportion of total +100bp Spread BPV*
KBC Core Countries	**-526,6**	**55,7%**
Belgium	-382,7	40,5%
Czech Republic	-66,6	7,0%
Slovakia	-35,1	3,7%
Ireland	-16,0	1,7%
Bulgaria	-18,3	1,9%
Hungary	-7,9	0,8%
Southern Europe	**-89,6**	**9,5%**
Italy	-27,6	2,9%
Portugal	-34,3	3,6%
Spain	-27,7	2,9%
Greece	0,0	0,0%
Other Countries	**-328,6**	**34,8%**
France	-177,3	18,8%
Poland	-7,9	0,8%
Germany	-28,1	3,0%
United Kingdom	-7,2	0,8%
Austria	-21,5	2,3%
Netherlands	-8,8	0,9%
Rest	-77,7	8,2%
TOTAL	**-944,8**	**100%**

Table 32: Spread Risk sensitivity (+100bp) of sovereign bonds (KBC Ins Grp)

Spread Risk Sensitivity 4Q2021	*+100bp Spread BPV (in m EUR)*	*Proportion of total +100bp Spread BPV*
KBC Core Countries	**-427,9**	**51,4%**
Belgium	-379,9	45,6%
Slovakia	-31,6	3,8%
Ireland	-15,1	1,8%
Bulgaria	-1,1	0,1%
Czech Republic	-0,2	0,0%
Hungary	0,0	0,0%
Southern Europe	**-87,6**	**10,5%**
Italy	-27,2	3,3%
Portugal	-33,0	4,0%
Spain	-27,4	3,3%
Greece	0,0	0,0%
Other Countries	**-317,0**	**38,1%**
France	-176,2	21,2%
Germany	-28,1	3,4%
Austria	-21,1	2,5%
Poland	-7,1	0,9%
Netherlands	-8,6	1,0%
United Kingdom	-7,2	0,9%
Rest	-68,8	8,3%
TOTAL	**-832,5**	**100%**

Table 33: Spread Risk sensitivity (+100bp) of sovereign bonds (KBC Ins NV)

4.3.4 Equity risk

The ALM strategies for the insurance business are based on a risk-return evaluation, taking into account the market risk attached to open equity positions.

Underlying table gives a view on the breakdown of the equity portfolio by sector for KBC Insurance Group and KBC Insurance NV, showing a well-diversified portfolio with the largest exposure towards the industrial and consumer cyclical sector.

Breakdown Equity Portfolio by Sector	*31/12/2020*	*31/12/2021*
Industrial	42,6%	38,6%
Consumer cyclical	19,9%	23,3%
Financial	14,0%	16,4%
Consumer non-cyclical	13,0%	12,3%
Basic materials	4,3%	2,3%
Communication	2,6%	1,7%
Utilities	1,3%	0,3%
Energy	0,7%	0,3%
Real estate	0,5%	3,8%
Other and not specified	1,2%	1,0%
Total	**100%**	**100%**

Table 34: Breakdown equity portfolio (excl. strategic participations) by sector (KBC Ins Grp)

Breakdown Equity Portfolio by Sector	*30/12/2020*	*31/12/2021*
Industrial	43,8%	40,0%
Consumer cyclical	22,4%	23,6%
Consumer non-cyclical	13,2%	13,3%
Financial	10,3%	13,3%
Energy	4,4%	0,3%
Utilities	2,3%	0,4%
Communication	1,5%	1,3%
Basic materials	0,6%	2,6%
Real estate	0,5%	4,2%
Other and not specified	1,0%	0,9%
Total	**100%**	**100%**

Table 35: Breakdown equity portfolio (excl. strategic participations) by sector (KBC Ins NV)

4.3.5 Real estate risk

KBC Insurance NV has a 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 risk and as a way of optimising the risk/return profile of these portfolios.

The table below provides an ALM view on the sensitivity of economic value to adverse fluctuations (i.e. instant decrease in value by 25%) in the property markets.

Real Estate limit KBC Insurance Group (in m EUR)	Limit 2021 Maximum	Real Estate Shock (25%)		Change	
		31/12/2020	31/12/2021	Absolute	Relative (%)
KBC Insurance Group	164	93,3	94,3	1,0	1,1%

Table 36: Impact of a 25% drop in real estate prices (KBC Ins Grp)

Real Estate limit KBC Insurance NV (in m EUR)	Limit 2021 Maximum	Real Estate Shock (25%)		Change	
		31/12/2020	31/12/2021	Absolute	Relative (%)
KBC Insurance NV	150	86,8	86,6	-0,2	-0,2%

Table 37: Impact of a 25% drop in real estate prices (KBC Ins NV)

4.3.6 Foreign exchange or currency risk

Currency risk originates from all assets and/or liabilities on the balance sheet which are denominated in foreign currency, i.e. a currency different from the reporting currency of the (re)insurance undertaking.

As a consequence currency risk might be perceived different on the level of the KBC Insurance Group compared to the solo (re)insurance undertaking view. In effect, the figures of the KBC Insurance Group are reported in EUR, while within the Group we have 4 solo insurance undertakings which have a different reporting currency, i.e.:

- ✓ ČSOB Pojišťovna a.s. (CZ), reporting in CZK
- ✓ K&H Biztosító Zrt., reporting in HUF
- ✓ DZI Life Insurance Jsc , reporting in BGN
- ✓ DZI General Insurance Jsc, reporting in BGN

The KBC Group policy imposes to 'pursue a prudent person approach with regard to the foreign currency exposure'. This policy is adopted in the Non-Trading Market Risk Management Framework (NTMRMF), where it is explicitly stated that all the (re)insurance entities should hedge the currency risk which is residing on their balance sheet.

In line with the Risk Appetite Statement an exception to this general currency hedging principle is granted to accommodate for the non-Euro denominated equity positions [incl. strategic (re)insurance participations] on the balance sheet of KBC Insurance Group.

This exemption is based on the assumption that the FX volatility associated with the equity investment portfolio cannot be isolated adequately and is considered to be part of the inherent equity volatility/return.

In practice the requirement as stated in the NTMRMF is implemented as follows by the solo (re)insurance entities:

- ✓ The 'natural' currency hedge on the balance sheet, i.e. foreign currency assets covering liabilities in that same foreign currency, are excluded from FX hedging scope
- ✓ Equity positions (i.e. strategic (re)insurance participations, shares, investments in collective investment undertakings,…) in foreign currency are excluded from the FX hedging scope
- ✓ The remaining 'open' foreign currency positions are hedged against FX risk via cross-currency (interest rate) swaps, FX forward contracts, etc.

4.3.7 Inflation risk

Inflation – as an economic parameter – indirectly affects the life of companies in many respects, in much the same way as other parameters do (e.g. economic growth or the rate of unemployment). It is not easily quantifiable as a market risk concept. However, certain financial products or instruments have a direct link with inflation and their value is directly impacted by a change in market expectations.

The KBC Insurance Group is directly exposed to inflation risk, linked to either insurance claim accident years or to insurance claim development years, i.e.:

- Inflation linked to accident years.
  If a similar claim (e.g. the exact same car and damage) would happen later in time (e.g. five years later), would this impact the claim amount?
- Inflation linked to development years.
  If claim amounts are not paid out immediately (e.g. delayed or spread over time), would this impact the claim amount?

A specific example is workers 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).

The inflation risk inherently linked to the insurance activities of the KBC Insurance Group is regularly assessed and accordingly mitigated through:

- Correct price setting mechanisms.
- Investment in inflation-linked assets to hedge the inflation risk on the liability side, i.e.
    - Short- and mid-term inflation risk is hedged through inflation-linked bonds.
    - Long-term inflation risk is hedged through equity and real estate exposure.

4.4 Credit risk

Credit risk is the potential negative deviation from the expected value of a financial instrument arising from the non-payment or non-performance by a contracting party (for instance a borrower), due to that party's insolvency, inability or lack of willingness to pay or perform, or to events or measures taken by the political or monetary authorities of a particular country (country risk). Credit risk thus encompasses default risk and country risk, but also includes migration risk, which is the risk for adverse changes in credit ratings.

We manage our credit risk at both transactional and portfolio level. Managing credit risk at the transactional level means that we have sound practices, processes and tools in place to identify and measure the risks before and after accepting individual credit exposures. Limits and delegations are set to determine the maximum credit exposure allowed and the level at which acceptance decisions are taken. Managing the risk at portfolio level encompasses, *inter alia*, periodic measuring and analysing of risk embedded in the consolidated loan and investment portfolios and reporting on it, monitoring limit discipline, conducting stress tests under different scenarios and taking risk mitigating measures.

PLS limits and monitoring

From a KBC Group perspective, next to the banking entities, also the (re)insurance entities are limited in taking credit concentration risk in their portfolios by the Portfolio Limit System (PLS). This PLS has been in use for many years, and limits are monitored per asset class.

For the following 4 asset classes, concentrations are limited for the (re)insurance entities within KBC Group:

- ✓ PLS Sovereigns – has been reviewed in 2021
- ✓ PLS Sub-National Governments – will be reviewed in 2022
- ✓ PLS Financial Institutions – will be reviewed in 2022
- ✓ PLS Corporates and Non-Bank Financial Institutions – has been reviewed in 2021

PLS limit breaches are monitored ex-post on a quarterly basis. Breaches continue to be reported when remedial actions are not taken in time or when no remediation is deemed necessary (the latter can only be based on a motivated decision of the Extended Credit Committee), and need to be ratified by the Extended Credit Committee.

Reinsurance programs

Reinsurance contracts with reinsurance companies are always negotiated by the reinsurance department. In selecting reinsurance undertakings, price is never the only parameter, but KBC also takes into account knowledge transfer, the availability of tools & processes, as well as the financial security and stability of the reinsurance undertakings.

On a monthly basis all (re)insurance entities of KBC Insurance Group report the status of the reinsurance recoverables by counterparty to the Group Credit Risk Directorate (GCRD) (KBC Group Re on a quarterly basis). GCRD calculates the Group accumulation by counterparty and checks this against the limits set in the Portfolio Limit System. All possible breaches are reported to the Extended Credit Committee.

4.5 Liquidity risk

Liquidity risk is the risk that an organisation will be unable to meet its payment obligations as they come due, without incurring unacceptable losses.

The principal objective of our liquidity management is to enable the core business activities of the KBC Insurance Group to continue to generate revenue, even under adverse circumstances.

An insurance entity’s liquidity is managed by matching cashflows but is also managed through monitoring the Investment Policy amongst others by ensuring that sufficient investments are made in liquid assets. As a result, insurance entities are less sensitive for ‘real’ liquidity risk.

The nature of liquidity risk of insurance entities is not comparable to that of banking entities, mainly because of the different structure of the asset/liability profile. Banking activities normally have to cope with assets that have longer tenors than the corresponding liabilities. Insurance activities typically have assets that are shorter and much more liquid than the corresponding liabilities.

KBC has developed a Liquidity Risk Management Framework for Insurance entities (LRMF-I). This allows for an enhanced risk management practice including identification, measurement, reporting and response and follow-up on liquidity risk for Insurance entities. Within liquidity risk for the insurance entities, the distinction is made between liquidity risk of Life and Non-Life insurance activities.

4.5.1 Non-Life liquidity risk

Within the Non-Life insurance business, liquidity risk could arise if a catastrophe (e.g. natural disaster) would take place leading to huge claims and thus large cash demands. The cash outflows will typically take place over a longer time horizon (i.e. assessment of damage, legal procedures, etc.) and certain levels of claims are covered by reinsurance contracts.

KBC's reinsurance policy states that sufficient claims payment clauses have to be negotiated to ensure that the risk related to a timing mismatch between claims' payments and reinsurance recoverable is as much as possible restricted. More specifically, reinsurance contracts should include provisions allowing to make a request for immediate claim payment for large losses outside the usual accounting periods ('cash loss' clauses). In order to follow up on these (remaining) risks the (re)insurance exposure point risk will be assessed in the near future. Furthermore, the worst case exposure to liquidity risk will be analysed including the impact of re-insurance versus the default of reinsurance counterparties under a specific scenario and the quantity and quality of the options to cover outflows in the above scenario (e.g. liquid asset buffer, liquidity lines received, etc.).

4.5.2 Life liquidity risk

The Life insurance business could be confronted with liquidity risk as a result of:

- ✓ Changing market circumstances (e.g. movement in rates, competition, etc.) leading to a surge in early redemptions.
- ✓ Changing regulatory environment (e.g. change in beneficial tax regime) leading clients to switch to other non-insurance products (market-wide scenario).
- ✓ An idiosyncratic scenario where clients question the insurance company's creditworthiness and reduce their exposure.
- ✓ A pandemic-like scenario.
- ✓ A combination of the above (combined scenario).

These scenarios could result in a mass lapse of the portfolio. In all of these scenarios, the insurance company should have an adequate liquidity buffer (cash, liquid assets, contingent credit lines, etc.) to cope with these cash outflows. Apart from the idiosyncratic scenario, the time horizon in which the cashflows will take place, is expected to be rather long (i.e. longer than one month), hence reducing the risk of not being able to meet the liabilities at an acceptable cost (e.g. the market value of the assets will be lower than normally expected in the event of idiosyncratic stress situations). Furthermore and especially in the case of KBC Insurance NV, clients will lose their fiscal advantage in case of early surrender. Surrender risk is therefore partially mitigated through fiscal rules. The liquidity risk attached to Life insurance activities is assessed by an internal stress test ratio, as defined in the LRMF.

4.5.3 Contingent liquidity risk

Liquidity risk can also arise from off-balance sheet exposure at the insurance entities. Collateral agreements for derivative and non-derivative transactions could give rise to liquidity risk when it is required to post additional collateral in adverse market circumstances. These contingent outflows will materialise in the portfolios where the transactions are concluded. However, the off-balance sheet exposure that could give rise to liquidity risk in stressed market circumstances, is rather limited for KBC Insurance Group as well as KBC Insurance NV.

4.6 Operational risk

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

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

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 Product Approval Process (NAPP), 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 KBC 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. Also the maturity status of individual control objectives to mitigate those risks in the processes is defined on a Group-wide unified scale. In addition to this, a Group-wide uniform scale is used to express the overall internal control state of each process in each material entity and the overall internal control state of the entity. Group-wide tools are used by the three lines of defence to support the core activities of operational risk management. A standardised, near miss and loss data collection process is in place, including root cause analysis and appropriate response.
- ✓ Setting and cascading **risk appetite**: the risk appetite for operational risk is set in line with the overall requirements as defined in the Enterprise risk management framework.
- ✓ **Risk analysis, reporting & follow-up**: a uniform approach – strongly based on first line of defence accountability (business side) and challenges by the second line of defence (risk, compliance, legal and other experts) and assurance by the third line of defence (internal audit) – is in place with risk-based follow-up at both local and Group level.
Minimum standards for the operational risk management reporting process are defined. Besides regulatory required reporting, structural reporting to the Group Committees is performed every

quarter. The quality of the internal control environment and related risk exposure is reported to KBC's senior management via a management dashboard and to the NBB and ECB via the annual Internal Control Statement.

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 'cybercrime-related fraud', is one of the most material risks that financial institutions face these days.

Outsourcing risk management

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

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

Model risk management

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

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

Business continuity management including Crisis management

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

Next to this, a crisis management process is established, with a focus on both prevention and response. Crisis prevention focusses on reducing the probability of a crisis while crisis response focusses on effective and efficient acting upon the occurrence of a crisis. To enable this, tested and rehearsed crisis capabilities are implemented.

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

Operational Risk Management in the specific context of the Covid-19 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.

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.

4.7 Other material risks

4.7.1 Business environmental risk

Business environment risk is the risk arising from changes in external factors (the structural changes of macro- economic environment, regulation, technology, client behaviour, competitive landscape, socio-demographic environment, climate, etc.) that impact the demand for and/or profitability of our products and services.

Business environment risk is an inherent consequence of being in business. Even before Covid-19, KBC Insurance operated in a world of disruption, bringing opportunities but also challenges and risks, including a difficult macro-economic environment, high regulatory pressure and uncertainty, new technologies permeating all aspects of society and war for talent. The Covid-19 outbreak has only added to this uncertainty especially given the worldwide impact of the virus, as well as the fact that initial measures were insufficient to curb the pandemic and avoid a second wave.

- ✓ Increased attention for sustainability and climate change, as the consequences of climate change become increasingly visible and are changing the expectations, mindset, consumption and investment patterns of our stakeholders. We need to manage the impact of worldwide climate change on our insurance activities, considering physical risks (e.g. windstorm), transition risks (e.g. impact of new technologies) as well as sustainability regulation.
- ✓ The rise of new technologies, changing customer behaviour, consumer protection regulation and a distribution landscape that is more and more becoming digital pose new opportunities and threats. These elements may lead to disintermediation by putting pressure on the classic distribution model where the distributor builds up a strong relation with his customer. Key for the insurance industry is the ability to adapt to a rapidly changing world with multiple factors that challenge the business model.

- ✓ Together with the new technologies also incumbent or new players can weigh on KBC Insurance NV's performance.
- ✓ The continued low interest rate environment weighs on the profitability of the Life insurances.
- ✓ Different geopolitical factors, such as the Covid-19 crisis, trade wars, the uncertain outcome of the Brexit, EU budget discussions, … will continue to add uncertainty to the financial markets and may weigh on economic growth.

Business environment risk is mitigated through a thorough risk identification process and a sound corporate strategy. The updated corporate strategy "Differently: the next level", which builds further on the previous strategy and PEARL, is KBC's strategic answer to leverage on strengths and opportunities and to deal with weaknesses and threats in the fast changing business environment. It is intended to bring KBC to the next level by accelerating its transformation into a digital first, data-driven bank-insurer+ focusing on customer experience, operational excellence and corporate social responsibilities, including in the field of climate change.

More details on the mitigating actions can be found in chapter 2 Business & performance.

4.7.2 Climate risk

Climate risk is a subtype of ESG risk, the risk of (current or prospective) environmental, social or (corporate) governance (ESG) factors impacting KBC, directly or via its counterparties/exposures. Following the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), we differentiate within the risk arising from climate change between:

- ✓ *Physical risks: the risks arising from physical phenomena associated with both (chronic) climate or environmental trends such as changing weather patterns, rising sea levels, increasing temperature, biodiversity loss, resource scarcity, reduced water availability and changes in water and soil productivity, and (acute) extreme weather events including storms, floods, fires or heatwaves that may disrupt operations, value chains or damage property.*
- ✓ *Transition risks: the risks arising from disruptions and shifts associated with the transition to a low-carbon, climate resilient or environmentally sustainable economy. Examples include policy changes (e.g. imposition of carbon-pricing mechanisms, energy efficiency requirements or encouragement of sustainable use of environmental resources), climate-related litigation, technological changes/progress (e.g. old technology replaced by cleaner technology) and behavioural changes (e.g. consumers or investors shifting towards more sustainable products and services).*

Environmental, Social & Governance risks (ESG) risks, with a special focus on climate risk, are top of mind at KBC.

Also in society, sustainability and climate change are getting more and more attention as the consequences of climate change are becoming increasingly visible (evidenced by the 2021's Summer floods in Wallonia) and are changing the expectations, mindset, consumption and investment patterns of our stakeholders. At the UN Climate Change Conference in Glasgow (COP26), countries reaffirmed the Paris Agreement goal of limiting the increase in the global average temperature to well below 2°C above pre-industrial levels and stressed the urgency of action "in this critical decade," when carbon dioxide emissions must be drastically reduced to reach net zero around mid-century. Given the increased urgency, climate risk has been confirmed to be a top risk[9] for KBC.

Over 2021 next steps were taken to further integrate climate risk within all risk management frameworks and processes (such as risk identification, measurement & stress testing and risk appetite) and to deal with the specific challenges that are inherent to the assessment of climate risk (increasing efforts to make up for the lack of data and standardised methods to properly assess and measure climate-related risk and to evolve towards a more data-driven risk management approach, further build up relevant knowledge & expertise and gradually gain more insights).

As both physical and transition risks can be very disruptive for KBC and the broader financial sector and at the same time regulatory pressure is going up significantly, climate risk will remain one of the key focus points of 2022 and beyond. Efforts to further embed climate risk in the day-to-day risk management will continue.

4.7.3 Compliance risk

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

KBC aims to comply with all laws and regulation in the compliance domain, taking particularly account of conduct risk and the integrity dimension as non-compliance could lead to sanctions and impact on our reputation. For all KBC insurance entities, all relevant regulatory compliance domains are included in their Integrity Policy. The risk appetite is further translated in all Group Compliance Rules which contain the interpretation of regulatory requirements transposed into principles to be further detailed in procedures combined with a proper monitoring.

In 2021, effort continued with the Compliance Strategy enforced during 2019 to make Group Compliance future proof, to enhance KBC Group's culture & awareness regarding compliance and to move to one Compliance Function Group-wide. A large part of the Compliance efforts towards insurance will continue to be concentrated on:

Anti-Money Laundering (AML)

The prevention of money laundering and terrorism financing, including embargoes, has been a top priority for the Compliance Function for many years and will continue to be prioritised in 2022.

Insurance Distribution Directive (IDD)

Policy holder protection is crucial for KBC since it is essential for a client oriented approach with a focus on sustainable long term client relations. Ensuring qualitative advice via consistent prudential standards for insurance intermediaries, installing Duty of Care in general for all insurance products and more specific Suitability for Insurance-based investment (life) products are cornerstones.

[9] Top risks are selected during a yearly Group-wide exercise ('Risk scan') to identify and assess financial & non-financial top risks, i.e. risks that keep managers "awake at night" and can significantly impact KBC's business model, financial stability and long-term sustainability. The top risks identified are used as input for several strategic exercises such as risk appetite setting, the aligned planning cycle and stress testing. Climate risk has been identified as a top risk for some years now.

General Data Protection Regulation (GDPR)

Data protection aspects remain central to maximizing conformity with the GDPR which is applicable as of 25 May 2018. The implementation of GDPR-requirements continues in the context of the data driven digital first strategy of KBC.

Overall, maintaining the right balance between the regulatory requirements in place and upcoming, the new business and technological developments inherent in a data-driven strategy now and going forward, will stay challenging, and will require close monitoring of the risk profile for compliance risk during the next years.

4.7.4 Performance risk

Risks that drive business income (credit risk, market risk, technical insurance risk and strategic risk) all contribute to the performance of KBC Insurance Group, for which the Corporate strategy targets stability in earnings through the cycle.

4.7.5 Strategic risk

Strategic risk is the risk due to either not taking a strategic decision, taking a strategic decision that does not have the intended effect or not adequately implementing strategic decisions.

The rapidly changing environment and client expectations require a clear strategy and robust processes to identify and manage trends, opportunities and risks, to define strategic priorities and to follow up their implementation within a strict risk framework. KBC has put robust strategic processes in place to react to changing circumstances and adjust its corporate strategy, business model and risk management accordingly. There are no limits or targets related to strategic risk. Nevertheless, changes in the external environment are monitored and reported to the BoD.

4.7.6 Reputational risk

The risk arising from loss of confidence by or negative perception on the part of stakeholders – be it accurate or not – that can adversely affect a company's ability to maintain existing, or establish new, business/customer relationships and 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).

4.8 Other information

4.8.1 Prudent person principle

Aspects of prudent person principle applicable to company owned investments (mainly for KBC Insurance NV)

Security

The annual treasury strategy defines the interest rate position and the asset mix for the coming 3 years. This strategy is approved by GExCo and is within the Risk Appetite Statement.

The Investment policy sets the general framework for investments and integrates the different risk frameworks. These guidelines cover the different aspects of investments and ensure that assets are invested in a secure way and according to the overall risk appetite, which is set by the Board of Directors (BoD). The asset mix composition guidelines are translated into early warning alert levels on the composition of the asset mix.

Limits are defined, at the level of the board and the executive committee, for the main market risk types, i.e. interest rate risk, equity risk, currency risk, real estate risk. In addition limits are defined at the level of the Group Assets Liabilities Committee for intra-group liquidity facility, repo funding and external collateral swaps, based on the notional amount.

For investments into a new asset category or product, a NAPP (New and Active Process and Products) procedure is in place, identifying all risks and operational challenges.

Quality towards counterparty credit risk

There are procedures in place regarding investments in credit risk bearing assets, where the main principle states that new investments only occur in investment-grade bonds, or in case of externally unrated bonds, following approval where a minimum internal rating equivalent to investment-grade is required.

Monitoring of the existing portfolio (on a weekly basis) is based on the spread evolutions in the market.

For direct credit investments (such as the mortgage portfolio) clear criteria are included in the purchase contract with KBC Bank and all credits have passed the KBC Bank application criteria.

Concentration Risk

The PLS limits define a maximum investment amount per counterparty at the level of KBC Group NV.

Diversification

The asset mix is part of the annual treasury strategy exercise and defines the target asset mix for the coming years.

Maximum levels per type of asset are included in the asset mix composition guidelines.

For equity investments, a passive benchmarking strategy with limited tracking error is applied. Following this benchmark ensures diversification within the equity portfolio.

Liquidity

KBC follows theLiquidity Risk Management Framework which defines rules on measurement, monitoring, requirements and managing of liquidity risk.

Return

Investment selection is based on the return on allocated capital (ROAC), with a selection of individual names based on an analysis of risk/return with regard to rating and sector, with the intention to invest in good quality names and the conviction that they will stand until maturity.

Ratio Assets covering liabilities

Historically, Belgian legislation imposed a rule to monitor if the assets were sufficient to cover the corresponding liabilities, i.e. the so called covering assets or ‘dekkingswaarde’. The legislation resulted in the calculation of the underlying ratio, which had to be kept above 100%.

$$Covering\ Assets\ Ratio = \frac{Affectatiewaarde^{10}}{Technische\ Reserves} > 100\%$$

Given the decreasing yield environment over the past years and since the technical reserves in the denominator of the ratio were book values, hence not subject to interest rate changes, the above ratio increased automatically and attaining a level above 100% was never a problem for KBC. However, since the introduction of Solvency II, the existing legislation on covering assets was replaced by the ‘prudent person’ principle. This ‘prudent person’ principle created the need for KBC to introduce new internal rules to monitor the covering asset requirement in such a way that it is pragmatic, manageable and does not lead to inefficient allocation of assets on the long term.

Given that KBC does not believe in an approach which mixes market and book values, a decision was made to calculate both a book value and a market value based ratio on a monthly basis, i.e.

[10] ‘Affectatiewaarde’ was defined somewhat strange, given that it was a combination of book values for government bonds and direct credits and market values for the other asset classes.

	Book Value approach	Martket Value approach
Formula	$\frac{Book\ Value_{Assets} - Repo}{Mathematical\ Reserves} > 100\%$	$\frac{Market\ Value_{Assets} - Repo}{Technical\ Provisions} > 100\%$
Pros	- Most in line with the former 'dekkingswaarden' approach - Pragmatic, manageable and consistent rule for both life & non-life - Future profits are gradually released - No steering on temporary IR, equity or spread movements - Parameter updates have no impact on the ratio	- Makes economically the most sense - Should be in line with evolutions in Value of Business In force (VBI) - Gives the best indication of the future rendability of the product
Cons		- Does it make sense to act on spread movements for an HTM investor? - Higher volatility can lead to inefficient allocation of assets

Table 38: Book Value approach vs. Market Value approach

Aspects of prudent person principle applicable to policy holder owned investments

KBC Insurance Group offer their clients also a wide range of Unit-Linked (Branch 23) products. In case of Branch 23 products, the net premium paid by the clients is invested into units of one or more internal (Branch 23) funds of KBC Insurance Group.

The investment strategy and risk profile of these internal funds are described in the contract with the client and the legal documentation (e.g. the management regulations PRIIPS Key Information Document). The internal funds linked to these Branch 23 products are invested in undertakings of collective investments (UCIs) or notes managed by KBC Asset Management NV or one of its subsidiaries. The Prospectus of these UCIs and notes are available to the investors.

KBC Asset Management NV ensures that UCI's are managed according the applicable legal investment restrictions (e.g. the UCITS Directive 2009/65/EC – UCITS, AIFMD provisions (in case it is a Luxembourg FCP following the law of 13/02/2007 (La loi FIS),…) and internal control processes safeguard the compliance of actual investments with the strategy and risk profile mentioned in the prospectus.

Liquidity

The net asset value of the internal funds is regularly calculated (on a daily or fortnightly basis) and, in accordance with the provisions set out in the legal documentation, the client is entitled to get – after deduction of the applicable costs and taxes – the net asset value of the units of these internal funds.

Best interest of policy holders and beneficiaries

The risk profile of the client determines the choice of the funds and the link with the underlying assets (UCI's/notes offered), and the advise process is compliant to IDD-MIFID.

The day to day execution of the investment strategy of the funds and the underlying assets is done in compliance with the KBC Asset Management NV ‘Best Execution & Client Order Handling Policy’.

4.8.2 Expected profits included in future premiums

The Commission Delegated Regulation[11] methodology corresponding with article 260 aimed at estimating the Expected profits included in future premiums as the difference between two technical provisions through the following process consisting of three steps, i.e.

- ✓ First step – The undertaking calculates the technical provisions using the best estimate assumptions.
- ✓ Second step – The undertaking calculates the technical provisions using a lapse rate equal to 100% for future premiums (i.e. none of the future premiums will be received), with all the other assumptions remaining unchanged and on the basis that all policies can be lapsed.
- ✓ Third step – The value of profits included in the future premiums is equal to the Technical provisions calculated in the Second step minus Technical Provisions as calculated in the First step.

The following tables provide a breakdown of the expected profits included in future premiums for KBC Insurance Group. The first table provides a split per material undertaking, while the second table gives a comparison between end of year 2021 and end of year 2020 figures (based on QRT S23.01 - Own Funds):

(in m EUR)	Life	Non Life	Total EPIFP
KBC Insurance NV (BE)	674	104	777
ČSOB Pojišťovna a.s. (CZ)	193	0	193
ČSOB Poisťovňa a.s. (SK)	21	0	22
K&H Insurance Zrt. (HU)	42	21	63
KBC Group Re (LU)	0	22	22
DZI Life Insurance Jsc (BG)	5	1	7
DZI General Insurance Jsc (BG)	0	5	5
Total	**935**	**154**	**1.088**

Table 39: Expected profits included in future premiums - split per entity (EOY 2021)

(in m EUR)	2020	2021	Change in amount
Expected profits included in future premiums (EPIFP) - Life business	811	935	124
Expected profits included in future premiums (EPIFP) - Non- life business	127	154	27
KBC Insurance Group	**937**	**1.088**	**151**

Table 40: Expected profits included in future premiums (KBC Ins Grp)

[11] “Commission Delegated Regulation (EU) 2015/35” of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II), European Commission, Brussels, 10 October 2014

4.8.3 Sensitivity analysis & stress testing on Solvency II required capital

Risk sensitivity and stress-testing exercises are set up to uncover risks that would otherwise remain unidentified and also to allow us to observe how risk measurements change under stressed conditions. These sensitivity exercises are performed on a regular basis.

Stress testing is an important risk management tool that adds value both to strategic processes and to day-to-day risk management (risk identification, risk appetite and limit setting, ...). As such, stress testing is an integral part of our risk management framework, and an important building block of ORSA (the Own Risk and Solvency Assessment).

Stress tests are performed internally within the insurance group or at local entity level or are initiated on a regular basis by the regulator (EIOPA[12] or local regulators). KBC also performs ad hoc integrated stress tests to test its vulnerability for specific risks and potential adverse conditions that may arise

[12] European Insurance and Occupational Pensions Authority

Valuation for solvency purposes

5 Valuation for solvency purposes

The following table provides both the Solvency II value used in the economic balance sheet and the accounting (IFRS) value for each material class of assets and liabilities. A description of how this value is determined can be found in the sections below.

A more detailed composition of the Solvency II values can be found in the QRT S.02.01 - Balance Sheet.

Economic balance sheet 31-12-2021 (m EUR)	IFRS Value	Solvency II Value	*Difference*
Goodwill & intangible assets	204	0	*-204*
Deferred tax assets	33	3	*-29*
Property (other than for own use)	150	261	*110*
Participations and related undertakings	296	292	*-4*
Equity Instruments	1.290	1.290	*0*
Bonds	17.990	18.677	*688*
Derivatives	21	21	*0*
Deposits other than cash equivalents	418	507	*89*
Assets held for index-linked and unit-linked funds	14.620	14.620	*0*
Loans & mortgages	2.076	2.299	*223*
Reinsurance recoverables	199	122	*-77*
Own shares	0	203	*203*
Other	1.046	949	*-97*
Total Assets	**38.343**	**39.244**	***901***
Economic balance sheet 31-12-2021 (m EUR)	**IFRS Value**	**Solvency II Value**	***Difference***
Technical provisions -non-life	3.164	2.283	*-880*
Technical provisions - Life (excl. Index-linked and unit-linked)	14.502	16.274	*1.772*
Technical provisions - Index-linked and unit-linked	14.620	14.297	*-323*
Deferred tax liabilities	302	338	*36*
Derivatives	19	19	*0*
Subordinated Loan (Tier2)	500	500	*0*
Other	1.246	1.230	*-15*
Total Liabilities	**34.353**	**34.942**	***589***
Excess Assets over Liabilities	**3.991**	**4.303**	***312***

Table 41: Economic balance sheet : assets & liabilities (KBC Ins Grp)

The table below gives for KBC Insurance Group a clear overview of how the IFRS value for ‘excess assets over liabilities’ is reconciled with the Solvency II value for ‘excess assets over liabilities’. The following parts of this section provide a more detailed view on the underlying methodological differences. Remark that the Technical provisions here do not contain reinsurance recoverables.

Reconciliation IFRS equity & assets over liabilities Solvency II	
(in m EUR)	**31/12/2021**
Share capital	65
Share premium	1.086
Treasury Shares	-203
Revaluation reserve debt securities (FVOCI)	567
Revaluation reserve equity instruments (FVOCI)	49
Revaluation reserve equity instruments (overlay apptoach)	496
Hedging reserve	0
Remeasurement of defined benefit obligations (after tax)	24
Reserves	1.380
Translation differences	18
Hedge of net investments in foreign operations	1
Net profit of the year (IFRS)	508
IFRS parent shareholder's equity	**3.991**
Minority interest	0
IFRS equity	**3.991**
Valuation differences between IFRS and Solvency II	0
of which: deduction intangible assets (after tax)	-194
of which: valuation difference participations	-4
of which: valuation difference real estate at fair value (after tax)	92
of which: valuation difference fair value loans and receivables (after tax)	234
of which: valuation fair value amortised cost bonds (after tax)	514
of which: valuation difference reinsurance recoverables	-58
of which: valuation difference technical liabilities (after tax)	-511
of which: treasury shares	203
of which: volatility adjustments	43
of which: other	-8
Assets over liabilities Solvency II	**4.303**

Table 42: Reconciliation IFRS and Solvency II

The main differences between IFRS and Solvency II valuations per asset class are:

- **Goodwill and intangible** assets are valued at zero under Solvency II. Under IFRS software (40m EUR) and goodwill (164m EUR) are included as well. Goodwill includes the goodwill paid on companies included in the scope of consolidation and in relation to the acquisition of activities and mainly relates to the acquisition of DZI Insurance, ČSOB Pojišt'ovna a.s. (CZ) and UBB Pension.
- The higher **net deferred tax liability** under Solvency II compared to IFRS is due to the deferred tax liabilities calculated on the difference between the IFRS and Solvency II balance sheet. The difference between Solvency II and IFRS liabilities is lower than the difference on the asset side, increasing deferred tax liabilities.

- ✓ **Property (other than for own use)** is valued at fair value under Solvency II, while under IFRS it is measured at initial cost minus accumulated depreciation and impairment losses. Value for which the property could be sold between knowledgeable willing parties in an arm's length transaction is much higher than the IFRS accounting value.
- ✓ **Equity instruments** are measured at fair value, both under IFRS as under Solvency II. Therefore, the difference between both views is minimal.
- ✓ **Bonds** are (mainly) valued using 2 valuation methods under IFRS:
  - Over 61% is valued at fair value through other comprehensive income (FVOCI), meaning the Solvency II value (fair value) equals the IFRS value;
  - A small 39% of the bonds is valued at amortized cost under IFRS, causing the difference between the IFRS view (amortized cost) and Solvency II view, where these bonds are also measured at fair value. Given the low interest rate environment, the fair value on these bonds is higher than the amortized cost value.
- ✓ **Assets held for index-linked and Unit-Linked funds** are equal under IFRS and Solvency II as both are measured at fair value. On liability side, a difference is noticed for Index-Linked and Unit-Linked TPs between IFRS and Solvency as management fees are included under Solvency II.
- ✓ **Deposits other than cash equivalents** are measured at amortized cost under IFRS and at fair value under Solvency II. Due to the decrease in interest rates, the Solvency II (fair) value is higher than the IFRS value.
- ✓ **Loans and mortgages** are valued at amortized cost under IFRS. Under Solvency II, these are valued at fair value. Fair value of these loans is higher than the amortized cost value given the lower interest rates.
- ✓ **Own Shares/treasury shares**: KBC Insurance NV has 203m EUR of treasury shares. Under IFRS equity (i.e. excess of assets over liabilities under IFRS) treasury shares are deducted from equity, meaning they are not part of the balance sheet. Under Solvency II treasury shares are reported on the Economic Balance Sheet as an asset. For determining the Available Own Funds under Solvency II, the treasury shares are deducted from the Excess of assets over liabilities.
- ✓ **Technical Provisions** under Solvency II consist of a best estimate and a risk margin. Best estimates corresponds to the probability-weighted average of future cashflows, which are discounted using the risk free rate and volatility adjustment. The risk margin is calculated using the Solvency Capital Requirement, the cost-of-capital as determined by the regulator and the risk free rate curve. IFRS technical provisions consists of different types of provisions (See 5.2 Technical provisions).

Economic balance steet 31-12-2021 (m EUR)	Bgaap Value	Solvency II Value	*Difference*
Goodwill & intangible assets	3	0	*-3*
Deferred tax assets	0	0	*0*
Property (other than for own use)	128	234	*107*
Participations and related undertakings	885	1.380	*495*
Equity Instruments	738	1.189	*451*
Bonds	14.971	16.397	*1.426*
Derivatives	1	0	*-1*
Deposits other than cash equivalents	408	495	*87*
Assets held for index-linked and unit-linked funds	13.634	13.634	*0*
Loans & mortgages	2.067	2.289	*221*
Reinsurance recoverables	145	110	*-35*
Own shares	203	203	*0*
Other	574	594	*19*
Total Assets	**33.758**	**36.525**	***2.768***
Economic balance steet 31-12-2021 (m EUR)	**Bgaap Value**	**Solvency II Value**	***Difference***
Technical provisions -non-life	2.716	1.762	*-954*
Technical provisions - Life (excl. Index-linked and unit-linked)	13.838	15.370	*1.532*
Technical provisions - Index-linked and unit-linked	13.634	13.346	*-288*
Deferred tax liabilities	2	241	*239*
Derivatives	7	18	*11*
Subordinated Loan (Tier2)	500	500	*0*
Other	1.691	995	*-696*
Total Liabilities	**32.389**	**32.233**	***-156***
Excess Assets over Liabilities	**1.368**	**4.293**	***2.924***

Table 43: Economic balance sheet : assets & liabilities (KBC Ins NV)

The table below gives for KBC Insurance NV a clear overview of how the BGAAP value for ‘excess assets over liabilities’ is reconciled with the Solvency II value for ‘excess assets over liabilities’. The following parts of this section provide a more detailed view on the underlying methodological differences (in m EUR). Remark that the technical provisions here do not contain reinsurance recoverables.

Reconciliation IFRS equity & assets over liabilities BGAAP Solvency II (in m EUR)	
Share capital	65
Share premium	1.086
Reserves	218
IFRS parent shareholder's equity	**1.368**
BGAAP equity	**1.368**
Valuation differences between IFRS and Solvency II	0
of which : deduction intangible assets	-3
of which: valuation difference real estate at fair value (after tax)	80
of which: valuation difference participations	495
of which: valuation difference fair value equity	451
of which: valuation fair value amortised cost bonds (after tax)	1.076
of which: valuation difference fair value loans and receivables (after tax)	231
of which: valuation difference reinsurance recoverables	-26
of which: valuation difference technical liabilities (after tax)	-217
of which: other	837
Assets over liabilities Solvency II	**4.293**

Table 44: Reconciliation IFRS and BGAAP Solvency II

The main differences between BGAAP and Solvency II valuations per asset class are:

- ✓ **Property (other than for own use)** is measured at fair value under Solvency II which explains the difference as under BGAAP property is measured at initial cost minus accumulated depreciation. The fair value (for which the property could be sold between knowledgeable willing parties in an arm's length transaction) is much higher than the BGAAP accounting value.
- ✓ Holdings in related undertakings, including participations are valued under Solvency II based on the net asset value according the economic balance for insurance companies and for non-insurance companies the net asset value is based on their IFRS financial statements. In BGAAP participating shares are recognized at acquisition costs less impairments, if any.
- ✓ **Equity instruments** are measured at fair value under IFRS and Solvency II and measured at cost (i.e. acquisition costs less impairments, if any) under BGAAP.
- ✓ **Bonds** are under Solvency II valued at fair value determined according to what is stipulated under IFRS13 Fair value. In BGAAP the bonds are valued at amortized costs less impairment, if any.
- ✓ **Assets held for index-linked and Unit-Linked funds** are equal under Solvency II and BGAAP as both are measured at fair value.
- ✓ **Deposits other than cash equivalents** are measured at amortized cost under BGAAP and at fair value under Solvency II. Due to the decrease in interest rates, the Solvency II (fair) value is higher than the BGAAP value.
- ✓ **Loans and mortgages** are valued at amortized cost under BGAAP. Under Solvency II, these are valued at fair value. Fair value of these loans is positive given the lower interest rates.
- ✓ **Own Shares/treasury shares**: KBC Insurance NV has 203m EUR of treasury shares. Under Solvency II and BGAAP treasury shares are reported on the Economic Balance Sheet as an asset. For

determining the Available Own Funds under Solvency II, the treasury shares are deducted from the Excess of assets over liabilities. In BGAAP an undistributable reserve as part of equity is being created.

- ✓ **Technical provisions** under Solvency II consist of a best estimate and a risk margin. Best estimates correspond to the probability-weighted average of future cashflows, which are discounted using the risk-free rate and volatility adjustment. The risk margin is calculated using the Solvency Capital Requirement, the cost-of-capital as determined by the regulator and the risk-free rate curve. Under the statutory accounts these are accounted for according to BGAAP; including the mathematical reserves, the unearned premium reserve, the claims reserve (incl. IBNR), the flashing light reserve and the equalization reserve etc.
- ✓ **Pension benefit obligations** are recognized under Solvency II in compliance with IAS19 employee benefits. Under BGAAP these pension benefit obligations for the defined benefit plans are not recognized.
- ✓ **Deferred tax liabilities** are recognized under Solvency II in compliance with IAS12 income taxes and are mainly the result of the non-realised gains included in the fair value of the bonds, partly compensated by valuation differences on the technical provisions.
- ✓ **Derivatives** fulfil the criteria of hedging instrument under BGAAP and as such are valued on a pro-rata temporis basis. For Solvency II derivatives are values on fair value basis.
- ✓ **Other liabilities** under BGAAP include the foreseen dividend pay-out, 525m for 2021 and the fund for future appropriation of 182m EUR.

5.1 Assets – material classes of assets

5.1.1 Solvency II value

5.1.1.1 Goodwill

Goodwill should be valued at zero *(Delegated Regulation (EU) 2015/35, Art. 12)*.

5.1.1.2 Deferred taxes

Deferred taxes, other than deferred tax assets arising from the carry forward of unused tax credits and the carry forward of unused tax losses, are valued on the basis of the difference between the Solvency II values and the values ascribed to assets and liabilities as recognised and valued for tax purposes *(Delegated Regulation (EU) 2015/35, Art. 15).*

5.1.1.3 Bonds, Equity Instruments and Loans & mortgages

- ✓ For Solvency II purposes, ‘Bonds’, ‘Equity instruments’ and ‘Loans & mortgages’ are valued at the amount for which they could be exchanged between knowledgeable willing parties in an at arm’s length transaction. This definition is in line with the IFRS definition of fair value.
- ✓ KBC defines 'fair value' as ‘the price that would be received to sell 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 distressed sale. A deviation from IFRS is however applicable for the valuation of financial liabilities, as Solvency II explicitly imposes that the fair value may not reflect the own credit risk (Delegated Regulation (EU) 2015/35, Article 14).

- ✓ All internal valuation models used at KBC are validated by an independent Risk Validation Unit. In addition, the Executive Committee has appointed a Group Valuation Committee (GVC) to ensure that KBC and its entities meet all the legal requirements for measuring financial assets and liabilities at fair value. The GVC monitors consistent implementation of the KBC Valuation Framework, which consists of various guidelines, including the Group Market Value Adjustments Policy and the Group Parameter Review Policy. The GVC meets at least twice a quarter to approve significant changes in valuation methods (including, but not limited to, models, market data and inputs) or deviations from group policies for financial assets and liabilities measured at fair value. The committee is made up of members from Finance, Risk Management and the Middle Office. Valuation uncertainty measurements are made and reported to the GVC every semester. Lastly, certain fair values generated by valuation models are challenged by a team set up specifically for this purpose.
- ✓ Market value adjustments are recognised on all positions that are measured at fair value to cover close-out costs, adjustments for less liquid positions or markets, mark-to-model-related valuation adjustments, counterparty risk and funding costs. Credit value adjustments (CVAs) are used when measuring derivatives to ensure that the market value of the derivatives 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, geographical location and seniority of the exposure. A funding value adjustment (FVA) is a correction made to the fair value of 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 the value of the instruments.
- ✓ The IFRS9 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 measurement of financial instruments with quoted prices is based on a mark-to-market valuation derived from currently available transaction prices. No valuation technique (model) is involved.
- ✓ If there are no price quotations available, the reporting entity establishes fair value using a model based on observable or unobservable inputs. The use of observable inputs needs to be maximised, whereas the use of unobservable inputs has to be minimised.

- ✓ Observable inputs are also referred to as 'level 2 inputs' and reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Observable inputs reflect an active market. Examples of observable inputs are the risk-free rate, exchange rates, stock prices and implied volatility. Valuation techniques based on observable inputs include discounted cash flow analysis, reference to the current or recent fair value of a similar instrument, or third-party pricing, provided that the third-party price is in line with alternative observable market data.
- ✓ 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.
- ✓ The valuation methodology and the corresponding classification in the fair value hierarchy of the most commonly used financial instruments are summarised in the table below. This table provides an overview of the level in which the instruments are generally classified, but exceptions are possible. In other words, whereas the majority of instruments of a certain type are within the level indicated in the table, a small portion may actually be classified in another level.

	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)
Level 2	Plain vanilla/liquid derivatives	(Cross-currency) interest rate swaps (IRS), FX swaps, FX forwards, forward rate agreements (FRA), inflation swaps, dividend swaps, reverse floaters, bond future options, interest rate future options, overnight index swaps (OIS), FX resets	Discounted cashflow analysis based on discount and estimation curves (derived from quoted deposit rates, FX swaps and (CC)IRS)
		Caps & floors, interest rate options, European & American stock options, European & American FX options, forward starting options, digital FX options, FX strips of simple options, European swaptions, , European cancellable IRS, compound FX options	Option pricing model based on observable inputs (e.g. volatilities)
		Credit default swaps (CDS)	CDS model based on credit spreads
	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)
	Asset backed securities	Medium liquid asset backed securities	Third-party pricing (e.g. lead manager); prices corroborated by alternative observable market data, or using comparable spread method
	Debt instruments	KBC IFIMA own issues (liabilities)	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, target strike forwards, flexible forwards, Bermudan swaptions, digital interest rate options, quanto interest rate options, digital 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, double average rate options, inflation options, cancellable reverse floaters, American and Bermudan cancellable IRS, constant maturity swaps (CMS) CMS spread options, CMS interest rate caps/floors, (callable) range accruals, commodity swaps, outperformance options, auto-callable options	Option pricing model based on unobservable inputs (e.g. correlation)
	Illiquid credit-linked instruments	Collateralised debt obligations (notes)	Valuation model based on correlation of probability of default of underlying assets
	Private equity investments	Private equity and non-quoted participations	Based on the valuation guidelines of the European Private Equity & Venture Capital Association (EVCA)
	Illiquid bonds/asset backed securities	Illiquid bonds/asset backed securities that are indicatively priced by a single pricing provider in an inactive market	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)

5.1.1.4 Property (other than for own use)

Property other than for own use is valued at the amount for which they could be exchanged between knowledgeable willing parties in an at arm's length transaction under Solvency II.

5.1.1.5 Assets held for index-linked and Unit-Linked funds

Assets held for index-linked and Unit-Linked contracts (classified in line of business 31 (Branch 23) as defined in Annex I of Delegated Regulation (EU) 2015/35), are measured at fair value.

5.1.1.6 Deposits other than cash equivalents

Deposits other than cash equivalents are measured at fair value. The same principles are applied as discussed for 'Bonds', 'Equity instruments' and 'Loans & mortgages'.

5.1.1.7 Own shares

This is the total amount of own shares held directly by the group (also referred to as 'Treasury shares' under IFRS). The amount of own shares is deducted from the excess of assets over liabilities when determining the available capital.

5.1.2 IFRS value

To determine the IFRS value, reference can be made to the IFRS valuation rules applicable within KBC as included in the Annual Report of KBC Group Consolidated – Note 1.2: Summary of significant accounting policies.

5.1.2.1 Goodwill

Goodwill is defined as any 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. It is recognised as an intangible asset and is carried at cost less impairment losses. Goodwill is not amortised, but is tested for impairment at least once a year or if there is either internal or external evidence for doing so. An impairment loss is recognised if the carrying amount of the cash-generating unit to which the goodwill belongs exceeds its recoverable amount. Impairment losses on goodwill cannot be reversed. For each new business combination, KBC has to choose whether to measure minority interests at fair value or as their proportionate share of the acquiree's net identifiable assets. This choice determines the amount of goodwill recognised.

5.1.2.2 Deferred taxes

Deferred tax assets are recognised for all deductible temporary differences between the carrying value of assets and liabilities and their tax base, and for carry forward of unused tax losses and for carry forward 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 used against future taxable profits, KBC uses projections for a period between seven to eight years.

5.1.2.3 Bonds, Loans & Mortgages, Equity Instruments and Derivatives

KBC applies all the requirements of IFRS 9 as from 1 January 2018, except for the hedge accounting transactions which continued to be accounted for in accordance with IAS 39.

On initial recognition of a financial asset, KBC first assesses the contractual terms of the instrument in order to classify it as an equity or debt instrument. An equity instrument is defined as any contract that evidences a residual interest in another entity's net assets. In order to satisfy this condition, KBC reviews whether the instrument includes no contractual obligation for 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 which do not meet the criteria of equity instruments are classified as debt instruments by KBC.

Debt instruments

When KBC concludes that the financial asset is a debt instrument, then on initial recognition, it can be categorised in one of the following categories:

- ✓ Mandatorily measured at fair value through profit or loss (FVPL)
- ✓ Designated at initial recognition at fair value through profit or loss (FVO)
- ✓ Fair value through other comprehensive income (FVOCI)
- ✓ Amortised cost (AC)
- ✓ Fair value through profit or loss – overlay approach (only possible for debt instruments held in an activity connected with the insurance activity which do not pass the SPPI test) (FVI)

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

Further, 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 as at FVO:

- ✓ the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets
- ✓ and the contractual terms of the financial asset give rise on specified dates to cash flows 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 as at FVO:

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

A debt instrument is categorised as FVI when it is held in respect of a business activity that is connected to contracts in scope of IFRS 4 and if it is measured at fair value through profit or loss 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 for which KBC elected using the overlay approach. Regarding the application of the overlay approach more information is provided in section *"Overlay approach"* below.

Loans and advances are debt instruments held by the institutions that are not securities and are in general measured at amortised cost.

Equity instruments

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

- ✓ Mandatorily measured at fair value through profit or loss (FVPL)
- ✓ Equity instruments elected for fair value through other comprehensive income (FVOCI)
- ✓ Equity instruments held under an activity connected with the insurance activity, KBC applies the fair value through profit or loss – overlay (FVI)

KBC can designate equity instruments of the insurance activity in the FVI category, until the effective date of IFRS 17. The equity investments that KBC Insurance activity classifies as FVI shall meet both of the following criteria:

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

Regarding the application of the overlay approach more information is provided in section "*Overlay approach"* below.

Derivatives

KBC can recognise derivative instruments either for trading purpose or as hedging derivatives. Derivatives can have asset or liability positions depending on their actual market value.

- ✓ **Trading derivatives**
  Derivative instruments are always measured at fair value and KBC makes a distinction as follows:
  - Derivatives that are held with a hedging intent but for which hedge accounting cannot be or is not applied (economic hedge): Hedging instruments can be acquired with the intention of economically hedging an external exposure but without the application of hedge accounting. The interest component on 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 without hedging intent (trading derivative): KBC entities can also enter into a derivative position without any intention to hedge economically a position. Such activity can relate to closing / selling an external position in the near term or for short-term profit taking purposes. All fair value changes on such derivatives are recognised under *"Net result from financial instruments at fair value through profit or loss"*

- **Hedging derivatives**
  Hedging derivatives are derivatives which are specifically designated in a hedge relationship. The accounting process of the such derivatives are detailed in the section *"Hedge Accounting – Hedging Instrument"*.

Overlay approach

In accordance with the amendment to IFRS 4 issued in September 2016, KBC decided to use 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 reclassifies from the income statement to OCI the extra volatility related to the adoption of IFRS 9. The reclassified amounts are recognised in the overlay reserve within equity.

The overlay approach is applied for the financial assets of KBC's insurance activity that are eligible. The eligibility is based on the following criteria:

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

Financial assets can be designated under the overlay approach until the instrument:

- is derecognised
- when it is no longer held in respect of an activity that is connected with insurance contracts; or
- when at the beginning of any annual period KBC decides not applying the overlay approach for that particular instrument
- until IFRS 17's effective date

The application of the overlay approach requires retaining certain IAS 39 accounting policies for financial assets which are the following:

- Impairment on equity instrument: equity instruments held by the insurance activity of KBC were typically classified as AFS under IAS 39, under IFRS 9 they are classified at FVPL. The designation under the overlay approach requires applying the IAS 39 impairment on equity instruments. By using the overlay approach, all fair value changes are recognised in the overlay reserve but when the decline is significant (more than 30%) or prolonged (more than one year) compared to the acquisition cost then the fair value loss is recognised in the income statement. Any further decrease is also recognised directly in the income statement while increases are recognised in the overlay reserve

- ✓ Recognition of gain and losses in the income statement upon disposal of equity instruments: by designating the equity instruments connected to KBC's insurance activity under the overlay approach upon the sale of the equity instruments the accumulated overlay reserve in OCI is recycled to the income statement ensuring same results as under IAS 39
- ✓ Impairment on debt instrument: the KBC methodology for the calculation of Incurred But Not Reported (IBNR) impairments on non-defaulted debt securities booked at amortized cost (HTM (Held to maturity) and Loans & Receivables) is based on the Basel II IRB Advanced models with an emergence period of 1,5 months (no PIT factor is applied). No IBNR impairments are calculated for debt securities at fair value (AFS).

5.1.2.4 Property (other than for own use)

Property other than for own use or investment property is defined as a real estate property either built, purchased or acquired under a finance lease by KBC, which is held to earn rentals or capital appreciations rather than used by KBC for the supply of services or for administrative purposes.

Investment property is initially recognised at cost (including directly attributable costs). KBC subsequently measures investment property at initial cost minus accumulated depreciation and impairment losses.

5.1.2.5 Assets held for index-linked and Unit-Linked funds

Assets held for index-linked and Unit-Linked funds are recognised as investment contracts in financial assets mandatorily at fair value through P&L other than Held For Trading (MFVPL).

5.1.2.6 Deposits other than cash equivalents

Deposits other than cash equivalents are measured at amortised cost.

5.1.2.7 Own shares

If an entity reacquires its own equity instruments, those instruments ('treasury shares') are not recognised as an asset on the balance sheet but should be deducted from equity instead.

5.1.3 BGAAP

To determine the BGAAP value reference can be made to the BGAAP valuation rules applicable within KBC Insurance NV as included in the Annual Accounts of KBC Insurance NV in note 20 of the BGAAP valuation rules.

Under BGAAP assets and liabilities are measured at costs and no fair valuing is applied within the statutory accounts of KBC Insurance.

Formation expenses, intangible and tangible assets

Formation expenses are charged directly to the profit and loss account unless the Board of Directors decides otherwise.

Intangible fixed assets whose useful lifetime is limited are depreciated over five years unless the Board of Directors decides otherwise. Systems software is depreciated at the same rate as hardware and is therefore depreciated over a period of three years. Software other than systems software is depreciated over five years. Core systems with a longer useful life are depreciated straight line over an eight-year period. Core systems are types of standard software, including back-end data applications, for processing operations during the day and updates of the general ledger balances on the mainframe.

All tangible fixed assets are recognised at acquisition cost, less accumulated depreciation. They are recorded at acquisition cost, including ancillary, directly allocable costs (acquisition costs, non-deductible VAT etc.).

The rates of depreciation are determined on the basis of the anticipated useful economic life of the item and are applied according to the straight-line method. All tangible fixed assets are depreciated on an accruals basis from the time they are available for use. The ancillary costs are written off over the life of the asset. A write-down is charged for ancillary costs on the acquisition of land.

Equity shares

Participating interests and shares that are considered financial fixed assets are recognised at acquisition costs. Write downs are applied only in the event of a lasting impairment in or loss of value, established on the basis of the financial position, the profitability and the prospectus of the company concerned.

Impairment charges are written back immediately the stock market price rises, albeit to no more than the acquisition value.

Listed shares are recognised at acquisition cost and impaired if the stock market price is sustainably (> 1 year) or significantly (> 30%) lower than the book value, showing that the impairment is sufficiently lasting in nature. The impairment charge is then equal to the difference between the carrying value and the stock market price. Impairment charges are reversed immediately when the stock market price rises, albeit to no more than the acquisition value.

Unlisted shares are written down in the event of a lasting diminution in value or impairment justified by the state, profitability or prospects of the company in which the holdings, shares or profit-share certificates are held.

Bonds

Fixed-income securities are recognised at amortised costs and interest is recognised according to the effective interest method.

The fixed-income securities are impaired according to the principles that apply for the valuation of granted loans. When market value are declining below acquisition value, an impairment is recognised when there is uncertainty as to whether all or part of the receivable or security will be paid when due.

Fixed-income treasury securities (under 'other financial investments') serving to support liquidity are impaired if their market value is lower than the book value.

Impairment is booked on real estate certificates if their market value is less than their acquisition cost (LOCOM). These impairment charges are written back where the market value rises, up to a maximum of the acquisition cost of the underlying security.

Loans and advances

Loans and advances are recorded in the balance sheet for the outstanding principal amount, plus the interest past due and sundry costs to be paid by the customers. Loans classified as irrecoverable and doubtful, specific write-downs are posted on a case-by-case basis in order to cover the losses which are considered certain or likely to ensue on the outstanding loans.

Assets held for index-linked and Unit-Linked funds

Assets held for index-linked and Unit-Linked funds are recognised as investment contracts in financial assets mandatorily at fair value through P&L other than Held For Trading (MFVPL).

Deposits other than cash equivalents

Deposits other than cash equivalents are measured at amortised cost.

Own shares

If an entity reacquires its own equity instruments, those instruments ('treasury shares') are recognised as an asset on the balance sheet and an undistributable reserve is recognised for the same amount as part of equity.

5.2 Technical provisions

5.2.1 Solvency II value

In general, the technical provisions on the Solvency II economic balance sheet have to be calculated as the sum of a best estimate and a risk margin:

- ✓ The **best estimate** corresponds to the probability-weighted of future cashflows, taking into account the time value of money, using the relevant risk-free average interest rate term structure.

- ✓ The **risk margin** is calculated by determining the cost of providing an amount of eligible own funds equal to the Solvency Capital Requirement necessary to support the insurance and reinsurance obligations over their lifetime. The cost of capital rate is defined by the regulator, and is set at 6%.

An exception to the requirement to calculate a best estimate and a risk margin is made for insurance obligations for which the value can be replicated reliably using financial instruments for which a reliable market value is observable. The value of the technical provisions associated with these future cash flows shall be determined 'as a whole' (i.e. no separate calculation of best estimate and risk margin), based on the market value of the financial instruments.

Technical provisions Life in general relate for KBC Insurance Group to those insurance liabilities that are 'pursued on similar technical basis to that of Life insurance', even if they are not Life insurances from a pure legal perspective. In practice the classification into Life resp. Non-Life liabilities is based on the actuarial techniques used for calculating the technical provisions. This split up, specific for the Solvency II regulation framework, entails some classification differences with the IFRS balance sheet.

For calculation of the best estimate, within the Life respectively Non-Life obligations, the contracts have to be split up in so called 'homogeneous risk groups'. These are groups of contracts with similar characteristics and dynamics, for which the same assumptions can be used when projecting the insurance cash flows in the future. (See 0). Note that this list is also applicable to Non-Life and Health obligations.

In order to obtain the best estimate which corresponds to the probability-weighted average of future cashflows, the best estimate calculation must take into account all uncertainties in the cash flows. Note however that an allowance for uncertainty does not mean that additional margins should be included in the best estimate.

Including these uncertainties requires particular cashflow characteristics to be accounted for in the valuation methodology. This gives rise to specific assumptions on the uncertainty surrounding a number of factors, including the following:

- ✓ the timing, frequency and severity of insured events;
- ✓ claim amounts and the period needed to settle the claims;
- ✓ the amount of expenses;
- ✓ policyholder behaviour;
- ✓ expected future developments such as future demographic, legal, medical, technological, social, environmental developments including inflation, both entity- and portfolio-specific. For example, in a particular country, this may include changes as a result of legislation, tax measures or the cost of care;
- ✓ interdependency between two sources of uncertainty.

When calculating the best estimate, a projection of the estimated future cashflows is made.

The cashflows are subsequently discounted using the risk free interest rate term structure, as set-up and provided by the regulator. The volatility adjustment (VA) can be added to this curve in order to compensate the spread movements of the assets.

The VA is designed to protect insurers with long-term liabilities from the impact of volatility on the insurers' solvency position. The VA is based on a risk-corrected spread on the assets in a reference portfolio. It is defined as the spread between the interest rate applying to the assets in the reference portfolio and the corresponding risk-free rate, minus the fundamental spread (which represents default or downgrade risk). The VA is provided and updated by EIOPA and can differ for each major currency and country.

5.2.1.1 Contract boundaries applied to the valuation of technical provisions

Insurers shall recognize an insurance obligation falling within the boundary of the contract at whichever is the earlier of the date the undertaking becomes a party to the contract that gives rise to the obligation, or, the date the insurance cover begins. The obligation shall be derecognized only when it is extinguished, discharged, cancelled or expires.

The calculation of the best estimate should only include future cash-flows associated with existing insurance and reinsurance contracts, i.e. no future expected new business or contracts should be taken into account. Furthermore, all expected future premiums on existing contracts within the contract boundaries of the contract should be taken into account "irrespective of their profitability".

5.2.1.2 Homogeneous risk groups used to calculate the technical provisions

Undertakings should segment their (re)insurance obligations into homogeneous risk groups, and as minimum by line of business (LoB), when calculating the technical provisions. Obligations should be allocated to the line of business that best reflects the nature of the risks relating to the obligation. Hereby the principle of substance over form should be followed for the allocation. This means that the segmentation should reflect the nature of the risks underlying the contract (substance), rather than the legal form of the contract (form).

The segmentation into lines of business distinguishes between Life and Non-Life insurance obligations. As mentioned above, this distinction between Life and Non-Life insurance obligations should be based on the nature of the underlying risk:

- ✓ Insurance obligations of business that is pursued on a similar technical basis to that of Life insurance should be considered as Life insurance obligations, even if they are Non-Life insurance from a legal perspective;
- ✓ Insurance obligations of business that is not pursued on a similar technical basis to that of Life insurance should be considered as Non-Life insurance obligations, even if they are Life insurance from a legal perspective.

KBC has segmented the insurance business corresponding to these regulations.

A homogeneous risk group is a set of (re)insurance obligations which are managed together and which have similar risk characteristics in terms of, for example, underwriting risk, risk profile of policyholders, product features, etc. The risks in each group should be sufficiently similar to allow for a reliable valuation of the technical provisions.

We can distinguish between two different types of unbundling of an insurance contract. Where an insurance contract includes Life and Non-Life (re)insurance obligations, it should be unbundled into its Life and Non-Life parts. This is known as unbundling for segmentation purposes. The other type is known as unbundling for calculation of the technical provisions.

In the end, the result of the segmentation should be such that the entire portfolio of risks is covered, avoiding double counting or exclusion of certain business.

Currently there are 36 lines of business defined on Group level which belong to 4 different categories (Life, Non-Life, SLT Health and NSLT Health). These categories and lines of business are described in section 5.2 of the Group Guidelines and match the lines of business mentioned in the SII legislation. The group level Guidelines also contain examples how certain business should be categorised. Every line of business is subdivided into separate homogenous risk groups, which are named Risk Buckets (RBs) internally at KBC Insurance. Using these RBs KBC Insurance tries to capture the different factors that determine the risk characteristics of every liability. This way it is possible to capture the different risks of every liability.

5.2.1.3 Technical Provisions (Life business)

When projecting future cashflows for Life obligations, so-called ‘similar to Life techniques’ are used.

In principle, these Life obligation cashflow projections are made on a policy-by-policy basis. Only in situations when such a calculation is unpractical policies can be grouped together and the methodology is then applied to the group of policies. This grouping is subject to strict conditions (for instance, it must give approximately the same results as a calculation made on a policy-by-policy basis).

The following cashflows should be taken into account when generating the best estimate of Life insurance obligations:

The **cash inflows** should at least include the gross premiums (after tax) included in the contract boundaries at the valuation date. It should be noted that contract boundaries may in some cases not be the same for IFRS and Solvency II.

In addition, all cashflows resulting from these premiums are taken into account, e.g. expenses, commissions and guarantees.

Investment returns (interests earned, dividends, etc.) are not taken into account. In the case of Unit-Linked contracts, only the risk premiums related to the non-hedgeable portion of the liabilities are taken into account.

The **cash outflows** must include at least:

- ✓ Benefit payments to policyholders and beneficiaries. The benefit cash outflows should include (non-exhaustive list):
  - Maturity benefits
  - Death benefits
  - Disability benefits
  - Surrender benefits
  - Annuity payments
  - Profit sharing bonuses (e.g. financial or mortality profit sharing)
  - Payments with respect to additional riders
- ✓ Claims payments incurred by the insurer in providing contractual benefits that are paid in kind (if they exist).
- ✓ Expenses that are incurred in servicing insurance obligations, such as: administrative expenses, investment management expenses, claims management expenses, acquisition expenses, overhead expenses. The projection of expenses has to include future expected inflation.

The cashflow projection method also includes options and guarantees that are related to the contract.

A **contractual option** is defined as a right to change the benefits, to be exercised at the discretion of its holder (generally the policyholder), on terms that are established in advance. Thus, in order to trigger an option, a deliberate decision of its holder is necessary. Examples of such options are:

- ✓ Surrender value option: the policyholder has the right to fully or partially surrender the policy and receive a pre-defined lump sum amount.
- ✓ Paid-up policy: the policyholder has the right to stop paying premiums and change the policy status to paid-up. Payments may not be reactivated in the future.
- ✓ Dormancy option: the policyholder has the right to partially or completely stop paying premiums, but with the option to reactivate the payments in the future.
- ✓ Annuity conversion option: the policyholder has the right to convert a lump-sum survival benefit into an annuity at a pre-defined minimum rate of conversion.
- ✓ Policy conversion option: the policyholder has the right to convert from one policy to another at pre-determined terms and conditions.
- ✓ Extended coverage option: the policyholder has the right to extend the coverage period when the original contract expires, without having to produce further evidence of health.

The contractual options within the business of KBC Insurance NV which are pre-determined in the contract include the following;

- ✓ Surrender value option
- ✓ Paid-up policy option

The derivation of the specific paid-up and surrender probabilities is set out in separate documents describing the lapse parameters.

A **financial guarantee** is present when there is the possibility to pass losses to the undertaking or to receive additional benefits as a result of changed financial variables (e.g. investment return of the underlying asset portfolio, performance of indices, etc.). In the case of guarantees, the trigger is generally automatic (the mechanism would be set in the policy's terms and conditions) and thus not dependent on a deliberate decision of the policyholder.

The following is a non-exhaustive list of examples of common financial guarantees embedded in Life insurance contracts:

- ✓ <u>Guaranteed invested capital</u>: include a capital guarantee of the initial investment amount, usually up to a set percentage. This can be considered as a 0% interest rate guarantee.
  e.g. a guaranteed return of investment in Unit-Linked funds.
- ✓ <u>Guaranteed minimum investment return</u>: minimum interest rate is guaranteed,
  e.g. investment insurance with a guaranteed minimum return plus a variable – but not guaranteed – profit sharing amount.
- ✓ <u>Minimum guaranteed benefits</u>: e.g. return of initial investment.

If contracts are expected to benefit from profit sharing, this profit sharing must also be included in the projection of the cashflows.

KBC Insurance NV has the following Life insurance contracts where the financial guarantee is embedded in the contract:

- ✓ Contract with a guaranteed minimum interest return.

KBC Insurance NV also has contracts where the benefits are based on a declaration of KBC and the timing or the amount of the benefits is at its own discretion:

- ✓ Contracts with profit sharing.

Where insurance and reinsurance contracts include financial guarantees, contractual options or future discretionary benefits, the present value of cash flows arising from those contracts may depend both on the expected outcome of future events and developments and on how the actual outcome in certain scenarios could deviate from the expected outcome. The methods used to calculate the best estimate should take such dependencies into account.

At KBC we calculate in the time value of financial options and guarantees (TVOG), both the optionality of lapse (contractual option) and profit sharing (financial option) as they are correlated (both depending on economic scenarios).

More specifically the embedded optionality is coming from:

- ✓ Future profit sharing to the policy holder, which is based on the return of the own asset portfolio;
- ✓ Lapse behaviour (currently only full surrenders, but might also be dormancy in the future), which is linked to the economic environment (10Y OLO).

According to the Solvency II regulatory framework, obligations arising from Health insurance must be assigned to 'Health SLT' (similar to Life techniques) if the actuarial methods used to calculate these cashflow projections are similar as the ones mentioned in this subchapter.

5.2.1.4 Technical Provisions (Non-Life business)

The same general principles as outlined in 'Technical provisions (Life business)' apply to Non-Life obligations. When projecting future cashflows for Non-Life obligations, so called 'similar to Non-Life techniques' are used. Specifically for Non-Life obligations, Solvency II requires calculations to be performed separately for 'premium provisions' and 'provisions for claims outstanding':

- ✓ The **premium provisions** relate to claim events occurring after the valuation date and during the remaining in-force period (coverage period) of existing policies held by the undertaking.
  The calculation of the gross BE of the premium provision relates to:
    - All expected future premiums for existing policies
    - All future claim payments for existing policies
        - Arising from future events
        - Past the valuation date
        - That will be insured under the insurer's existing policies that have not yet expired
    - Expenses (allocated and unallocated claims expenses, as well as ongoing administration of in-force policies, acquisition costs, overhead expenses, investment management expenses) related to the above

- ✓ The **provisions for claims outstanding** relate to claim events that have already occurred but that are not settled yet, regardless of whether the claims arising from these events have been reported or not.

Both types of provisions are calculated according to different (standard) actuarial techniques.

The **premium provision** is calculated on the assumption that the portfolio of policies in a certain line of business is stable enough, so that claims experience from the past can be used to make predictions of claims that will occur in the future. In addition, the assumptions regarding the timing of future cashflows are based on past claims experience.

For the **claims provisions**, different techniques are used depending on the claim sizes (attritional, large and extra-large claims). An estimate is also made for those claims that have already occurred but which have not yet been reported at valuation date. The best estimate for claims outstanding also includes provisions for claim handling costs, both internal and external costs.

It should be noted that provisions for annuities stemming from Non-Life contracts form part of the Life technical provisions.

According to the Solvency II regulatory framework, obligations arising from health insurance must be assigned to 'Health NSLT' (non-similar to Life techniques) if the actuarial methods used to calculate these cashflow projections are similar as the ones mentioned in this subchapter.

The table below provides an overview of the best estimate provisions of the Non-Life and the health non-similar to Life lines of business, gross of ceded reinsurance, measured according to the Solvency II valuation principles above.

Line of business (in m EUR)	Best Estimate gross of reinsurance recoverables (in m EUR)	%
	1.600	**85,5%**
Motor vehicle liability insurance	806	43,1%
Other Motor Insurance	82	4,4%
Marine, aviation and transport insurance	5	0,2%
Fire and other damage to property insurance	249	13,3%
General liability insurance	344	18,4%
Credit and suretyship insurance	1	0,1%
Legal Expenses insurance	77	4,1%
Assistance	7	0,4%
Miscellaneous financial loss	10	0,5%
Proportional Motor Vehicle Liability reinsurance	0	0,0%
Proportional Other Motor insurance reinsurance	0	0,0%
Proportional Marine, aviation and transport reinsurance	0	0,0%
Proportional Fire and other damage to property reinsurance	2	0,1%
Proportional General liability reinsurance	0	0,0%
Proportional Credit and suretyship reinsurance	0	0,0%
Proportional Legal Expenses reinsurance	0	0,0%
Proportional Miscellaneous financial loss reinsurance	-1	0,0%
Non-Proportional Casualty reinsurance	17	0,9%
Non-Proportional Property reinsurance	0	0,0%
Non-Proportional Marine, aviation and transport reinsurance	0	0,0%
	272	**14,5%**
Medical Expense insurance	15	0,8%
Income Protection insurance	-1	-0,1%
Workers' Compensation insurance	255	13,6%
Proportional Medical expense reinsurance	0	0,0%
Proportional Income Protection reinsurance	0	0,0%
Proportional Workers' compensation reinsurance	1	0,0%
Non-Proportional Health Reinsurance	1	0,1%
	1.872	**100%**
Breakdown by Solvency II lines of business of the best estimate Non-Life provisions gross of ceded reinsurance (situation at 31.12.2021)		

Table 45: Best Estimate Non-Life 2021 (KBC Ins Grp)

Line of business (in m EUR)	Best Estimate gross of reinsurance recoverables (in m EUR)	%
	1.137	80,3%
Motor vehicle liability insurance	573	40,5%
Other Motor Insurance	22	1,6%
Marine, aviation and transport insurance	0	0,0%
Fire and other damage to property insurance	152	10,8%
General liability insurance	298	21,1%
Credit and suretyship insurance	0	0,0%
Legal Expenses insurance	76	5,4%
Assistance	4	0,3%
Miscellaneous financial loss	3	0,2%
Proportional Motor Vehicle Liability reinsurance	0	0,0%
Proportional Other Motor insurance reinsurance	0	0,0%
Proportional Marine, aviation and transport reinsurance	0	0,0%
Proportional Fire and other damage to property reinsurance	1	0,1%
Proportional General liability reinsurance	0	0,0%
Proportional Credit and suretyship reinsurance	0	0,0%
Proportional Legal Expenses reinsurance	0	0,0%
Proportional Miscellaneous financial loss reinsurance	0	0,0%
Non-Proportional Casualty reinsurance	7	0,5%
Non-Proportional Property reinsurance	0	0,0%
Non-Proportional Marine, aviation and transport reinsurance	0	0,0%
	278	19,7%
Medical Expense insurance	14	1,0%
Income Protection insurance	8	0,5%
Workers' Compensation insurance	255	18,0%
Proportional Medical expense reinsurance	0	0,0%
Proportional Income Protection reinsurance	0	0,0%
Proportional Workers' compensation reinsurance	1	0,1%
Non-Proportional Health Reinsurance	0	0,0%
	1.415	100%

Breakdown by Solvency II lines of business of the best estimate Non-Life provisions gross of ceded reinsurance (situation at 31.12.2021)

Table 46: Best Estimate Non-Life 2021 (KBC Ins NV)

5.2.1.5 Technical Provisions (total)

The following tables present the gross best estimate, the risk margin and the reinsurance recoverables of the KBC Insurance Group and KBC Insurance NV, consistent with the figures on the Economic Balance Sheet at end of year 2021.

The best estimates and reinsurance recoverables are discounted at the EIOPA risk free rate, including the volatility adjustment as described in the previous paragraphs:

Lines of Business (in m EUR)	Best Estimate - gross of reinsurance	Risk Margin	Reinsurance Recoverables	Net Technical Provisions
Non-Life	**1.872**	**411**	**136**	**2.147**
Non-Life (excl. Health)	1.600	335	131	1.805
Health (similar to Non-Life)	272	76	5	342
Life (incl. Index-Linked & Unit-Linked)	**29.879**	**692**	**-14**	**30.585**
Life (excl. Health and IL & UL)	15.053	459	-13	15.525
Health (similar to Life)	666	96	-2	764
Index-Linked & Unit-Linked	14.160	137	0	14.297
Total	**31.751**	**1.104**	**122**	**32.732**

Table 47: Technical Provisions Life and Non-Life (KBC Ins Grp)

Lines of Business (in m EUR)	Best Estimate - gross of reinsurance	Risk Margin	Reinsurance Recoverables	Net Technical Provisions
Non-Life	**1.416**	**346**	**130**	**1.632**
Non-Life (excl. Health)	1.138	277	125	1.290
Health (similar to Non-Life)	278	69	5	342
Life (incl. Index-Linked & Unit-Linked)	**28.168**	**548**	**-20**	**28.736**
Life (excl. Health and IL & UL)	14.274	340	-16	14.629
Health (similar to Life)	666	91	-4	761
Index-Linked & Unit-Linked	13.229	117	0	13.346
Total	**29.584**	**893**	**110**	**30.368**

Table 48: Technical Provisions Life and Non-Life (KBC Ins NV)

5.2.2 IFRS value / BGAAP value

5.2.2.1 Provisions for unearned premiums and unexpired risk

For the primary business, the provision for unearned premiums is in principle calculated on a daily basis, based on the gross premiums.

For inward treaties, i.e. reinsurance business accepted, the provision for unearned premiums is calculated for each contract separately on the basis of the information communicated by the ceding undertaking and, where necessary, supplemented on the basis of the company's own experience regarding the evolution of the risk over time.

The provision for unearned premiums for the Life insurance business is recorded under the provision for the Life insurance group of activities.

Life insurance provision

Except for Unit-Linked Life insurance products, this provision is calculated according to current actuarial principles, except taken into account the provision for unearned premiums, the ageing reserve, the provision for annuities payable but not yet due, etc. In principle,these provisions are calculated separately for every insurance contract.

For accepted business (if any), a provision is constituted for each individual contract, based on the information supplied by the ceding undertaking and supplemented, where necessary, by the company's own past experience.

Besides the rules set out below, an additional provision is set aside as required by law. The following rules apply:

- ✓ **Valuation according to the prospective method**. This method is applied for the provisions for conventional Non Unit-Linked Life insurance policies, modern Non Unit-Linked universal Life insurance policies offering a guaranteed rate of interest on future premium payments and for the provision for extra-legal benefits for employees in respect of current annuities. Calculations according to prospective actuarial formulas are based on the technical assumptions made in the contracts.
- ✓ **Valuation according to the retrospective method**. This method is applied for the provision for modern Non Unit-Linked universal Life insurance policies and for the provision for extra-legal benefits for employees in respect of new supplementary premium payments. Calculations according to retrospective actuarial formulas are based on the technical assumptions made in the contracts, though no account is taken of future payments.

Provision for claims outstanding

For **claims reported**, the provision is in principle 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. Where appropriate, a provision is set aside on a prudent basis for possible liabilities arising for claims files already closed.

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, such as supplementary workmen's compensation provisions.

Provision for profit sharing and rebates

This heading includes the provision for the profit share that has been allocated but not yet awarded at the end of the financial year for both the group of Life insurance activities and the group of Non-Life insurance activities.

Liability Adequacy Test (LAT)

A liability adequacy test is performed to evaluate current liabilities, detect possible deficiencies and recognise them in profit or loss.

Equalization and catastrophe provision (for KBC Insurance NV)

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

Ceded reinsurance and retrocession

The effect of reinsurance business ceded and retrocession is entered as an asset and calculated for each contract separately, supplemented where necessary by the company's own past experience regarding the evolution of the risk over time.

Evolution of the differences in technical provisions between Solvency II and IFRS value

When looking at the evolution of the differences between Solvency II and IFRS value over 2021, the main differences arise mostly from volatility adjustment and interest rate changes.

- ✓ During 2021, the volatility adjustment decreased from 7bp to 3bp. This decrease led to a lower discounting curve for the Best Estimates under Solvency II compared to previous year. Due to this, the impact caused by the volatility adjustment decreased by approximately 46 m EUR. The VA currently decreases the technical provisions by 58 m EUR.
- ✓ The risk free interest rates increased over the horizon. This increase led to a difference of 933 m EUR .
- ✓ Other evolutions move in the same direction as interest rates (+120 m EUR) and mainly consist of changes in portfolio and risk margin.

Revaluation technical provisions (in m EUR)	1.007
Due to volatility adjustment	-46
Due to interest rate changes	933
Due to other (portfolio evolutions, risk margin,…)	120

Table 49: Revaluation technical provisions

5.3 Other liabilities

5.3.1 Solvency II value

Deferred taxes

Deferred taxes, other than deferred tax assets arising from the carry forward of unused tax credits and the carry forward of unused tax losses, are valued on the basis of the difference between the Solvency II values and the values ascribed to assets and liabilities as recognised and valued for tax purposes (Delegated Regulation (EU) 2015/35, Art. 15).

5.3.2 IFRS value

To determine the IFRS value reference can be made to the IFRS valuation rules applicable within KBC, as included in the Annual Report of KBC Group Consolidated – Note 1 2: Summary of significant accounting policies.

Deferred taxes

Deferred tax liabilities are recognised for all taxable temporary differences between the carrying amount of an asset or liability and its tax base. They are measured using the tax rates that are substantially 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 which reflects the tax consequences that would follow from the manner in which the entity expects to recover or settle the carrying amount of the underlying asset or liability at the balance sheet date.

Financial Liabilities

Financial instruments or their component parts are classified as liabilities or as equity in accordance with the substance of the contractual arrangements on initial recognition 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;
- ✓ KBC has a contractual obligation to settle the financial instrument in a variable number of its own equity instruments

A financial instrument is classified as an equity instrument if both of the conditions are not met and in that case is covered under the section *"Equity".*

- ✓ **Financial liabilities held for trading**
  Held-for-trading liabilities are those incurred principally for the purpose of 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.
Trading liabilities can include derivative liabilities, short positions in debt and equity instruments, time deposits and debt certificates. In connection with derivative liabilities KBC makes similarly distinction between trading and hedging derivatives as in case for derivative assets.
Initially, held-for-trading liabilities are measured at fair value. At the end of the reporting date, trading liabilities are measured at fair value. Fair value adjustments are always recorded in the income statement.

- ✓ **Financial liabilities upon initial recognition designated by the entity at fair value through profit or loss**
  IFRS 9 allows measuring a (group of) financial liability(s) on initial recognition at fair value, whereby fair value changes are recognized in profit or loss except for fair value changes related to the 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 a FV basis: KBC designates a financial liability or group of financial liabilities at fair value when these are managed and their performance are evaluated on a fair value basis. It is used to account for (unbundled) deposit components (i.e. financial liabilities not including a discretionary participation feature)
  - Accounting mismatch: Fair value option can be used when the use eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.
  - Hybrid instruments: A financial instrument is regarded as a hybrid instrument 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 and then the entire hybrid instrument can be designated at fair value. This results that both the embedded derivative and the host contract are measured at fair value. KBC uses this option when, for example, structured products contain non closely related embedded derivatives, in which case both the host contract and the embedded derivative are measured at fair value.
- ✓ **Financial liabilities measured at amortised cost**
  KBC classifies most of its financial liabilities under this category, also those used to fund trading activities, when the trading intent is not present in the financial liabilities (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 and 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.

5.3.3 BGAAP

To determine the BGAAP value reference can be made to the BGAAP valuation rules applicable within KBC, as included in the Annual Accounts of KBC Insurance NV– Note 20 on the accounting policies.

Deferred taxes

Under BGAAP deferred taxes are not recognised.

Financial Liabilities

Financial liabilities are measured at amortised cost.

5.4 Alternative methods for valuation

Not applicable to the KBC Insurance Group.

Capital management

6 Capital Management

The solvency of KBC Insurance Group/KBC Insurance NV is calculated on the basis of Solvency II, conform the pillar 1 requirements. KBC Insurance Group is subject to the Solvency II regime as well as all its insurance subsidiaries. To determine solvency at group level, the accounting consolidation method is used. An overview of all undertakings in the scope of the group can be found in QRT 32.01.

A solvency ratio of 100% is required as a minimum by the regulator. Within KBC, the capital management process aims at reaching an optimal balance between regulatory requirements, rating agencies views, market expectations and management ambitions. It is a key management process relating to all decisions on the level and composition of the capital, both at group level and towards our subsidiaries.

An important process in this context is the 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 entity level. The APC is not only about planning, it is also about closely monitoring the execution of the plan in all its aspects. Such monitoring is reflected in dedicated reports, drawn up by the various Group functions.

In addition to APC, KBC Insurance Group and its insurance and reinsurance subsidiaries conduct an ORSA. See 3.2.4 Own risk & solvency assessment.

6.1 Solvency II ratio

6.1.1 KBC Insurance Group

As also stated in the 'Capital adequacy' section of the Annual Report, the Solvency II ratio of KBC Insurance Group amounted to 201% at the end of 2021, which is an decrease of 21pp compared to year-end 2020. KBC Insurance Group does not use any of the transitional measures.

The main drivers of the year-on-year evolution of the Solvency II ratio (including volatility adjustment) are:

- ✓ Decision to pay out 2020 profits as dividend on top of the 2021 dividend;
- ✓ Lower corporate spreads on the short term, partly compensated by higher Italian & Hungarian government spreads leading to a slightly lower volatility adjustment (VA from 7bps to 3bps).
- ✓ Although there was an increase in equity markets (MSCI World index increased by 31%), the negative impact of the symmetric adjustment (SA) leads to a decrease of the Solvency II ratio.
- ✓ Acquisition of the NN portfolio.

This was partly compensated by

- ✓ Increasing interest rate curves
- ✓ Model & Parameter updates.

Solvency, KBC Insurance Group (including volatility adjustment)		
(in m EUR)	31/12/2020	31/12/2021
Own funds	**3.868**	**4.075**
Tier 1	3.368	3.574
IFRS parent shareholders' equity	3.815	3.991
Dividend pay-out	0	-525
Deduction of intangible assets and goodwill (after tax)	-136	-194
Valuation differences (after tax)	-383	267
Volatility adjustment	89	43
Other	-16	-8
Tier 2	500	500
Subordinated loans	500	500
Tier 3	0	3
Deferred taxes	0	3
Solvency Capital Requirement (SCR)	**1.744**	**2.029**
Solvency II ratio	**222%**	**201%**
Solvency surplus above SCR	2.124	2.046

Table 50: Own funds (KBC Ins Grp)

In the table above, the line valuation differences contains among other things the valuation differences between IFRS and Solvency II for the assets as well as for the liabilities. This item has increased considerably over 2021 because of the large steepening and increase in interest rates which has a higher impact on the liabilities compared to the assets, as the liabilities have a longer duration.

Also note there is Tier-3 capital which consists of 3m EUR of net deferred tax assets regarding CSOB Slovakia and UBB. As deferred tax assets and the deferred tax liabilities can only be netted if they relate to taxes levied by the same tax authority, this amount cannot be netted with the net deferred tax liability amounts of the other group entities. The amount of Tier-3 capital is smaller than 0,2% of SCR and can be taken into account fully for the SII ratio calculation.

6.1.2 KBC Insurance NV

As also stated in the 'Capital adequacy' section of the Annual Report, the Solvency II ratio of KBC Insurance NV amounted to 215%, which is a decrease of 23pp compared to year-end 2020. KBC Insurance NV does not use any of the transitional measures.

Solvency, KBC Insurance NV (including volatility adjustment)		
(in m EUR)	31/12/2020	31/12/2021
Own funds	**3.861**	**4.065**
Tier 1	3.360	3.564
BGAAP parent shareholders' equity	1.724	1.368
Dividend pay-out	0	-525
Valuation differences (after tax)	1.238	1.852
Volatility adjustment	109	32
Other	289	837
Tier 2	500	500
Subordinated loans	500	500
Solvency Capital Requirement (SCR)	**1.624**	**1.892**
Solvency II ratio	**238%**	**215%**
Solvency surplus above SCR	2.237	2.173

Table 51: Own funds (KBC Ins NV)

The line 'Other' contains:

- ✓ The valuation difference between BGAAP and Solvency II for derivatives for 2020 and 2021.

- ✓ The amount in the funds for future allocation (158m EUR in 2020 and 182m in 2021), which is zero under Solvency II and reported as other liability in BGAAP.
- ✓ Profit appropriation: profit premium and dividend to be paid are part of the other liabilities in the BGAAP balance sheet, while these are not included in the Solvency II economic balance sheet. This amounts to 525m for 2021.

6.2 Own funds

6.2.1 Basic own funds

The total available capital of KBC Insurance Group amounted to 4.075 m EUR end of year 2021. For KBC Insurance NV the available capital amounted to 4.065m EUR at Q4 2021.

KBC Insurance Group

This amount comprises solely basic own fund items, which are eligible to cover the Solvency Capital Requirement and the Minimum Capital Requirement.

More information about 'Own funds' can be found in QRT S.23.01.- Own Funds.

(in m EUR)	31/12/2020	31/12/2021	Nominal change
Share capital	65	65	0
Share premium	1.086	1.086	0
Surplus funds	0	0	0
Reconciliation reserve	2.217	2.420	203
Excess assets over liablilties	3.571	4.303	732
Expected dividend payments	0	-525	-525
Own shares	-203	-203	0
Other own fund items	-1.151	-1.154	-3
Tier 1 capital	**3.368**	**3.571**	**203**
Tier 2	500	500	0
Tier 2 capital	**500**	**500**	**0**
Deferred tax Assets	**0**	**3**	**3**
Tier 3 capital	**0**	**3**	**3**
Total available basic own funds	**3.868**	**4.075**	**207**

Table 52: Available basic own funds (KBC Ins Grp)

Tier-1 capital amounted to 3.571m EUR at end of year 2021, up 207m EUR on its year-earlier level, due to an increase in excess of assets over liabilities (+732m EUR - more details below), partly compensated by the expected dividend pay-out of 525m EUR.

The increase in excess of assets over liabilities with 732m EUR is caused by both an increase in assets and a decrease in liabilities a.o. changing interest rate curves, parameter updates and value of equity.

Tier-2 capital consists of a 10-year, subordinated, Solvency II-compliant Tier-2 loan granted by KBC Group to KBC Insurance for a nominal amount of 500m EUR on 18 March 2015.

Tier-3 capital consists of 3m EUR of net deferred tax assets regarding CSOB Slovakia and UBB.

Economic balance sheet (in m EUR)	2020	2021
Investments (other than assets held for index-linked and unit linked funds)	21.544	21.162
Equities	1.231	1.290
Bonds	19.155	18.677
Government bonds	12.994	12.703
Corporate bonds	6.154	5.952
Other bonds	7	22
Other investments	1.158	1.194
Assets held for index-linked and unit linked funds	13.831	14.620
Loans & mortgages	2.506	2.299
Cash & equivalents	205	449
Other	612	715
Total Assets	**38.697**	**39.244**
Technical provisions - Non-Life	2.192	2.283
Best estimate	1.815	1.872
Risk margin	376	411
Technical provisions - Life (excl. Index-linked and unit-linked)	17.230	16.274
Best estimate	16.677	15.719
Risk margin	553	555
Technical provisions index-linked and unit linked funds	13.679	14.297
Debt owed to credit institutions	467	443
Other	1.557	1.645
of which Deferred tax liabilities	244	338
Total Liabilities	**35.126**	**34.942**
Excess Assets over Liabilities	**3.571**	**4.303**

Table 53: Economic Balance sheet (KBC Ins Grp)

As deferred tax assets and the deferred tax liabilities can only be netted if they relate to taxes levied by the same tax authority, a small amount of deferred tax assets (3m) is included on the asset side of the Economic Balance Sheet, relating to CSOB Poj. SK and UBB. All other entities have a net deferred tax liability, which is shown on the liability side of the EBS and amounts up to 338m EUR

KBC Insurance NV

(in m EUR)	31/12/2020	31/12/2021	Nominal change
Share capital	65	65	0
Share premium	1.086	1.086	0
Surplus Funds	158	182	24
Reconciliation reserve	2.052	2.232	180
Excess assets over liabilities	3.564	4.293	729
Dividend payments	0	-525	-525
Own shares	-203	-203	0
Other own fund items	-1.308	-1.332	-24
Tier 1 capital	**3.360**	**3.564**	**204**
Tier 2	500	500	0
Tier 2 capital	**500**	**500**	**0**
Total available basic own funds	**3.861**	**4.065**	**204**

Table 54: Available basic own funds (KBC Ins NV)

Tier-1 capital amounted to 3.564m EUR at year-end 2021, up 204m EUR on its year-earlier level, due to movements in excess of assets over liabilities, caused mainly by an increase in excess of assets over liabilities (+729m EUR more details below), partly compensated by the expected dividend pay-out of 525m EUR.
Tier-2 capital consists of a 10-year, subordinated, Solvency II-compliant tier-2 loan granted by KBC Group to KBC Insurance for a nominal amount of 500m EUR on 18 March 2015.

The increase in excess of assets over liabilities with 729m EUR is caused by both an increase in assets and a decrease in liabilities a.o: changing interest rate curves, parameter updates and value of equity.

Economic balance sheet (in m EUR)	31/12/2020	31/12/2021
Investments (other than assets held for index-linked and unit linked funds)	20.130	19.751
Equities	1.127	1.189
Bonds	16.916	16.397
Government bonds	11.154	10.799
Corporate bonds	5.755	5.577
Other bonds	7	22
Other investments	2.088	2.165
Assets held for index-linked and unit linked funds	12.819	13.634
Loans & mortgages	2.496	2.289
Cash & equivalents	104	322
Other	455	530
Total Assets	**36.004**	**36.525**
Technical provisions - Non-Life	1.713	1.762
Best estimate	1.397	1.416
Risk margin	316	346
Technical provisions - Life (excl. Index-linked and unit-linked)	16.295	15.370
Best estimate	15.845	14.939
Risk margin	451	431
Technical provisions index-linked and unit linked funds	12.703	13.346
Debt owed to credit institutions	467	443
Other	1.263	1.312
of which Deferred tax liabilities	126	241
Total Liabilities	**32.440**	**32.233**
Excess Assets over Liabilities	**3.564**	**4.293**

Table 55:Economic Balance sheet (KBC Ins NV)

6.2.2 Ancillary own funds

No ancillary own funds are taken into account, as these funds are not available.

6.2.3 Material differences between equity

KBC Insurance Group

In the table below, a reconciliation is made between IFRS equity as shown in the financial statements of KBC Insurance Group and the excess of assets over liabilities according to Solvency II.

Reconciliation IFRS equity & assets over liabilities Solvency II	
(in m EUR)	31/12/2021
Share capital	65
Share premium	1.086
Treasury Shares	-203
Revaluation reserve debt securities (FVOCI)	567
Revaluation reserve equity instruments (FVOCI)	49
Revaluation reserve equity instruments (overlay apptoach)	496
Hedging reserve	0
Remeasurement of defined benefit obligations (after tax)	24
Reserves	1.380
Translation differences	18
Hedge of net investments in foreign operations	1
Net profit of the year (IFRS)	508
IFRS parent shareholder's equity	**3.991**
Minority interest	0
IFRS equity	**3.991**
Valuation differences between IFRS and Solvency II	0
of which: deduction intangible assets (after tax)	-194
of which: valuation difference participations	-4
of which: valuation difference real estate at fair value (after tax)	92
of which: valuation difference fair value loans and receivables (after tax)	234
of which: valuation fair value amortised cost bonds (after tax)	514
of which: valuation difference reinsurance recoverables	-58
of which: valuation difference technical liabilities (after tax)	-511
of which: treasury shares	203
of which: volatility adjustments	43
of which: other	-8
Assets over liabilities Solvency II	**4.303**

Table 56: Reconciliation IFRS and Solvency II

The reason for the valuation differences between IFRS equity according to the financial statements and the excess of assets over Liabilities according to Solvency II as shown in the table, are explained in chapter 5 ‘Valuation for solvency purposes’.

KBC Insurance NV

In the table below, a reconciliation is made between BGAAP equity as shown in the financial statements of KBC Insurance NV and the excess of assets over liabilities according to Solvency II.

Reconciliation IFRS equity & assets over liabilities BGAAP Solvency II (in m EUR)	
Share capital	65
Share premium	1.086
Reserves	218
BGAAP equity	**1.368**
Valuation differences between IFRS and Solvency II	
of which : deduction intangible assets	-3
of which: valuation difference real estate at fair value (after tax)	80
of which: valuation difference participations	495
of which: valuation difference fair value equity	451
of which: valuation fair value amortised cost bonds (after tax)	1.076
of which: valuation difference fair value loans and receivables (after tax)	231
of which: valuation difference reinsurance recoverables	-26
of which: valuation difference technical liabilities (after tax)	-217
of which: other	837
Assets over liabilities Solvency II	**4.293**

Table 57: Reconciliations BGAAP and Solvency II

The reasons for the valuation differences between BGAAP equity according to the financial statements and the excess of assets over liabilities according to Solvency II, as shown in the table, are explained in section 5 ‘Valuation for solvency purposes’.

6.3 Diversification effects

The calculation of the Solvency II capital requirement for the KBC Insurance Group is based on method 1 (the accounting-consolidation based method). In this method, the standard formula for the calculation of the Solvency Capital Requirement (SCR) is applied to the consolidated assets and liabilities. The following table shows the total SCR for the KBC Insurance Group as the sum of the SCR for its underlying material entities[13], compared to the result of the group SCR calculated according to the accounting-consolidation based method.

[13] In order to avoid double counting, the SCR of KBC Insurance NV and DZI Insurance already excludes the value of participations in other insurance undertakings part of KBC Insurance Group.

(in m EUR)	31/12/2021
KBC Insurance NV (BE)	1.708
KBC Group Re (LU)	82
DZI Insurance Jsc (BG)	73
ČSOB Poist'ovňa a.s. (SK)	30
ČSOB Pojišt'ovna a.s. (CZ)	147
K&H Insurance Zrt. (HU)	51
Stand-alone SCR	**2.090**
KBC Insurance Group	**2.029**
Diversification effect	-61

Table 58: Diversification effects at the level of KBC Ins Grp

Due to the composition of the KBC Insurance Group, where KBC Insurance NV accounts for most of the overall risk profile and capital requirements, the potential sources for diversification (such as geographical diversification) are limited (-61m EUR) and do not manifest themselves in a material way in the group calculation.

6.4 Solvency Capital Requirement & Minimum Capital Requirement

6.4.1 Solvency Capital Requirement 31/12/2021

In the standard formula, the SCR is calculated as the sum of different components. The KBC Insurance Group uses the distinguishable components (SCR Market Risk, SCR Counterparty Risk, SCR Life Risk, SCR Health Risk, and SCR Non-Life Risk) to calculate the Basic SCR (BSCR). Because there is some risk of overlap between the different components, diversification reduces the risk involved and the related SCR. After calculating the Basic SCR, three components are added in order to calculate the total SCR. These three elements are the Loss Absorbing Capacity of the Technical Provisions, the Loss Absorbing Capacity of the Deferred Taxes and the SCR Operational Risk.

- ✓ The Loss Absorbing Capacity of the Technical Provisions (LAC TP) is calculated according to Art. 206 of the Delegated Regulations 2015-35 and takes into account any legal, regulatory or contractual restrictions in the distribution of future discretionary benefits.
- ✓ The adjustment for the Loss Absorbing Capacity of the Deferred Taxes (LAC DT) is calculated according to Art. 207 of the Delegated Regulations 2015-35, whereby a decrease in deferred tax liabilities or an increase in deferred tax assets results in a negative adjustment for the loss-absorbing capacity of deferred taxes. If this adjustment is positive, the adjustment is nil.

KBC Insurance Group

The waterfall chart below shows the major components of the SCR, which stands at 1.744m EUR. The SCR Market Risk (1.581m EUR) is clearly the biggest contributor to the SCR. SCR Life Underwriting Risk (834m EUR) and SCR Non-Life underwriting Risk (626m EUR) are second and third, respectively. It should be noted that the total SCR for the underwriting risk accounts for 45% of undiversified basic Solvency II Pillar 1 capital.

More information on this matter can be found in QRT S.25.01 - Solvency Capital Requirement - Only Standard Formula.

Total eligible own funds to meet the group SCR amounted to about 4.075m EUR, which gives a Solvency II ratio of about 201%. This ratio is well above the minimum 100% required by the Delegated Regulations 2015-35.

The Minimum Capital Requirement (MCR) at group level is equal to the sum of the MCRs of the entities. At 31/12/2021, 3 out of 7 local entities reached the cap of the MCR, being 45% of their own SCR, including the two most material entities (KBC Insurance NV and ČSOB Pojišťovna a.s. (CZ)). Therefore, the evolution of the MCR will mainly follow the evolution of the SCR of the local entities.

At the KBC Insurance Group, the focus is more on the SCR than the MCR in follow-up, because it is the most stringent risk measure of the two:

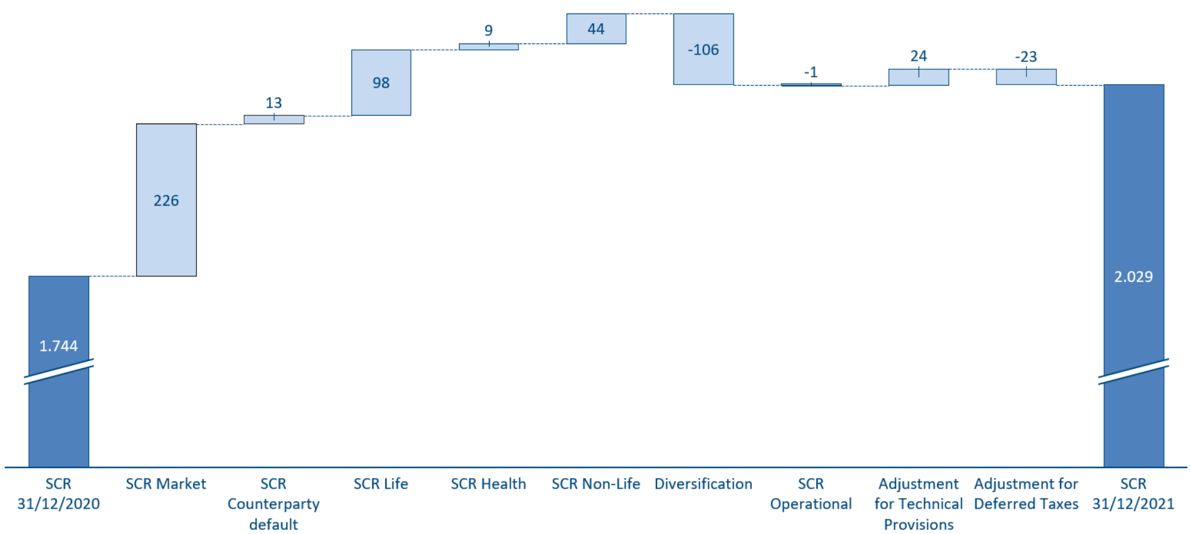


Figure 6: Waterfall graph of SCR (KBC Ins Grp)

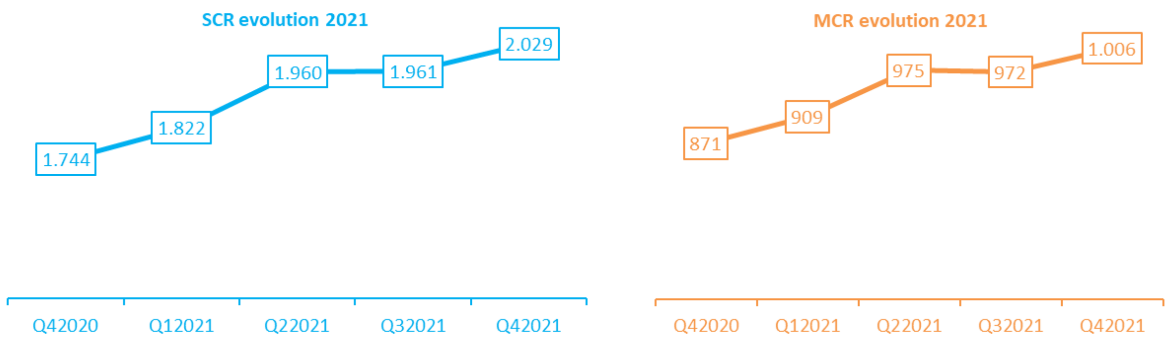


Figure 7: Evolution of SCR/MCR in 2020 (KBC Ins Grp)

(in m EUR)	2020	2021	Nominal change
SCR Non-Life	583	626	44
SCR Health	305	314	9
SCR Life	735	834	98
SCR Market risk	1.355	1.581	226
SCR Counterparty default risk	101	114	13
TOTAL SCR before diversification	**3.079**	**3.469**	**390**
Diversification benefits	-1.027	-1.133	-106
TOTAL SCR before diversification	**2.052**	**2.337**	**284**
SCR Operational Risk	139	138	-1
Adjustment loss absorbing effect TP	-54	-30	24
Adjustment deferred taxes	-393	-415	-23
TOTAL after diversification and adjustments	**1.744**	**2.029**	**284**

Table 59: Nominal components of SCR (KBC Ins Grp)

The SCR of KBC Insurance Group increases over 2021 with 284m EUR, largely driven by the higher equity markets & portfolio growth. Main positive underlying movements are:

- ✓ the increase of equity risk (linked to the higher equity markets)
- ✓ the increase of SCR currency risk (due to the higher value of foreign currency equity positions).
- ✓ The increase of lapse risk (due to parameter updates and portfolio growth).

Note that the adjustment for deferred taxes amounts up to 415m EUR by the end of 2021. It is a consolidation of the adjustment for deferred taxes at entity level.

KBC Insurance NV

The SCR of KBC Insurance NV increases over 2021 with 268m EUR. Main underlying movements are the same as for KBC Insurance Group.

The waterfall chart below (in m EUR) shows the major components of the SCR, which stands at 1.892m EUR. The SCR Market Risk (1.591m EUR) is clearly the biggest contributor to the SCR. SCR Life Underwriting

Risk (696m EUR) and SCR Non-Life underwriting Risk (502m EUR) are second and third, respectively. It should be noted that the total SCR market risk accounts for 50.07% of undiversified basic Solvency II Pillar 1 capital.

More information on this matter can be found in Quantitative Reporting Template (QRT) S.25.01.21.

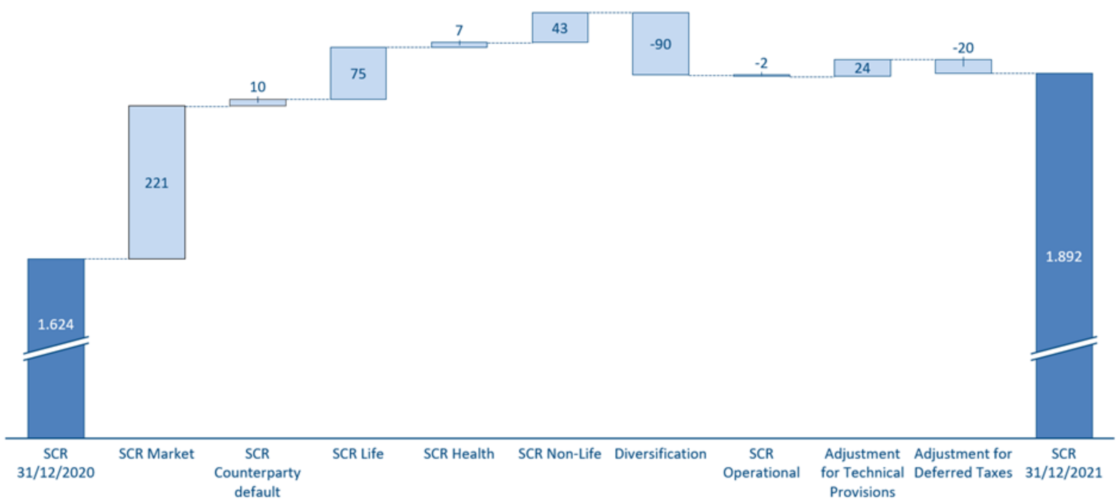


Figure 8: Waterfall graph of SCR (KBC Ins NV)

The charts below (in m EUR) focus on how the Solvency Capital Requirement (SCR) and Minimum Capital Requirement (MCR) change over time.

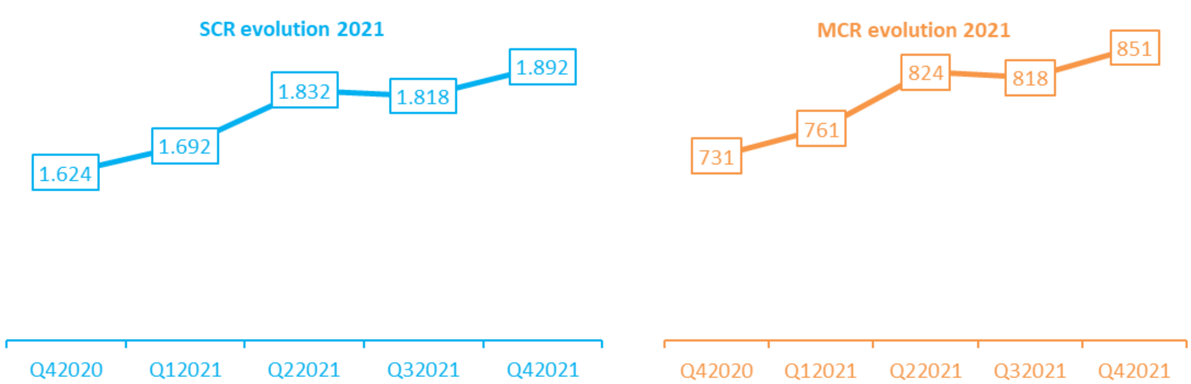


Figure 9: Evolution of SCR/MCR in 2021 (KBC Ins NV)

(in m EUR)	2020	2021	Nominal change
SCR Non-Life	459	502	43
SCR Health	294	301	7
SCR Life	621	696	75
SCR Market risk	1.370	1.591	221
SCR Counterparty default risk	77	87	10
TOTAL SCR before diversification	**2.821**	**3.177**	**356**
Diversification benefits	-892	-982	-90
TOTAL SCR before diversification	**1.929**	**2.195**	**266**
SCR Operational Risk	119	117	-2
Adjustment loss absorbing effect TP	-55	-31	24
Adjustment deferred taxes	-369	-390	-20
TOTAL after diversification and adjustments	**1.624**	**1.892**	**268**

Table 60: Nominal components of SCR (KBC Ins NV)

6.4.2 Adjustment of Deferred Taxes

The adjustment for deferred taxes amounts up to 390m EUR by the end of 2021. The maximum amount of the adjustment for deferred taxes has been taken into account of the SCR because the Deferred Tax Asset (DTA) creation after shock was less than the outcome of the recoverability test and the net Deferred Tax Liability (DTL) position on the balance sheet.

- ✓ **Net DTL position on the balance sheet :** DTL – DTA
  - Deferred tax assets and deferred tax liabilities are netted when KBC Insurance NV has a legally enforceable right to set off current tax assets against current tax liabilities and if the deferred tax assets and the deferred tax liabilities relate to taxes levied by the same tax authority.
  - DTA is fully compensated by DTL, which is further justified by the fact that the duration gap between assets and liabilities is well managed.

  This results for KBC Insurance NV in a net DTL position: KBC Insurance NV recognizes 241m EUR of deferred tax liabilities on the EBS. So, there are more profits expected in the future compared to losses.

  More information on how deferred tax assets and deferred tax liabilities are calculated can be found in Chapter 5: Valuation for solvency purposes.

- ✓ **Outcome of Recoverability test :** represents the tax that can be recovered after an extreme stress event. This tax can be recovered due to probable future profits after the stress event. These future profits have been calculated according to the following assumptions:
  - Projection is based on the 5 years budget plan, which is extrapolated to 10 years;
  - Severe haircuts are applied on the last 5 years;
  - For the extreme stress event a 1/200 event is assumed. Calibrated parameters for the extreme stress event are applied for year 1-2-3 after the shock;
  - Positive double counting with the net DTL position on balance sheet is eliminated.

6.5 Use of the duration-based equity risk sub-module in the calculation of SCR

Due to the demands of the National Bank of Belgium, and noting that the requisite ring-fenced funds do not exist in Belgium, the Solvency Capital Required calculation method using a duration based equity is not applicable.

6.6 Differences between the standard formula and any internal model used

KBC Insurance NV has opted to calculate the Solvency Capital Requirements based on the standard formula (without any simplifications), rather than calculating them with a self-developed (partial) internal model. Therefore, further information has not been included here.

6.7 Non-compliance with the MCR and non-compliance with the SCR

As the KBC Insurance Group/KBC Insurance NV has not faced any form of non-compliance with either the Minimum Capital Requirement or the Solvency Capital Requirement during the reporting period, further information has not been included.

As demonstrated by the various sensitivities calculated as part of the ORSA process, we also expect compliance with Minimum and Solvency Capital Requirement under adverse circumstances in the forward looking view.

6.8 Use of undertaking specific parameters

The KBC Insurance Group/KBC Insurance NV did not opt to use undertaking specific parameters to calculate the Solvency Capital Requirements. Therefore, further information has not been included here.

6.9 Any other information

No other information to be included.

Annex

Annex

Transactions with related parties

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

Table 61: Transactions with related parties

Transactions with key management

Transactions with key management (members of the Board of Directors and Executive Committee) (in millions of EUR) (*)	2020	2021
Total (*)	0,3	0,4
Breakdown by type of remuneration	0,0	0,0
Short-term employee benefits	0,3	0,4
Post-employment benefits	0,0	0,0
Defined benefit plans	0,0	0,0
Defined contribution plans	0,0	0,0
Other long-term employee benefits	0,0	0,0
Termination benefits	0,0	0,0
Share-based payments	0,0	0,0
Stock options (units)	0,0	0,0
At the beginning of the period	0,0	0,0
Granted	0,0	0,0
Exercised	0,0	0,0
Composition-related changes	0,0	0,0
At the end of the period	0,0	0,0
Advances and loans granted to key management and partners	0,0	0,0

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

Table 62: Transactions with key management

7 Solvency and Financial Condition Report MVBh

SFCR

Maatschappij voor Brandherverzekering CV (MVBh)

Based on situation as at 31 December 2021

1. Introduction

Insurance activities of KBC Insurance NV in Belgium include their reinsurance subsidiary Maatschappij voor Brandherverzekering CV (MVBh), a fire reinsurance company, which is discussed in this section.

In general the policies which are applicable to KBC Insurance NV are applicable as well to MVBh, taking into account the limited nature, small scale and simplicity of the risks inherent in its business.

Name, legal form and address
Maatschappij voor Brandherverzekering CV
Professor Roger Van Overstraetenplein 2
3000 Leuven (Belgium)
Our supervisory authority
National Bank of Belgium
De Berlaimontlaan 14
1000 Brussels
Our external auditor
PWC Bedrijfsrevisoren
Woluwedal 18
1932 Sint-Stevens-Woluwe
Representative: Tom Meuleman

2. Business and performance

2.1 Business

Local insurers, characterised by the very local nature of their activities, still have a role to play in society and therefore remain socially relevant since they belong to a local community's social network that mutualises its risks. Their risk profile is generally defensive and well under control. They are very often legally incorporated as 'mutual insurance association' or in some cases as 'insurance cooperative'.

These mutual insurers actually only write policies against fire damage and ancillary perils for 'simple risks' (together with the minor liability and legal expenses insurance cover that can typically be included in these fire policies), mainly located in their local municipality or neighbouring municipalities in West and East Flanders.

MVBh was incorporated on April 10th 1917, as published in the enclosures to the Belgian Official Gazette dated May 21st 1917, charter n°. 1763. Its mission is to conclude reinsurance contracts against fire damage and ancillary perils with the above-mentioned local insurers, in order to allow them to maintain their cooperative structure.

MVBh accepts 100% of technical insurance risks of these local insurers. Since underwriting results of all affiliated insurers are mutualised within MVBh, a stable revenue stream for local insurers can be generated through yearly profit participation.

KBC Insurance NV is MVBh’s largest shareholder, holding 24.799 shares, out of a total of 27.525 (slightly more than 90%). The remaining shares (slightly less than 10%) are owned by 34 local insurers.

MVBh is a reinsurance cooperative (“coöperatieve vennootschap”). Characteristic for cooperative companies is that their shareholders are clients or providers as well. KBC Insurance NV provides MVBh with insurance products, premium rates, underwriting policy, claims settlement policy, claims reserving policy, policy and claims administration processes and -systems, network expertise and support provided to business managers of the mutual insurers and insurance cooperatives, 1st line Actuarial function, end user computing, retrocession, inward and outward reinsurance administration.

MVBh’s size is small since reinsurance activities are limited to local insurers which do not grow in number and have limited growth opportunities due to their local character.

Since insurance cooperative “Pittemse Brandverzekering CVBA” has become shareholder and client of MVBh in the course of 2019, to MVBh’s knowledge there are no other remaining mutual insurance associations or insurance cooperatives, in scope of MVBh’s business model, actively in business, which are currently not part of MVBh’s cooperative structure. MVBh’s board of directors has initiated a debate about tactical and strategic profitable growth opportunities. A number of measures, some of which are in execution mode, can be taken to incentivize these 34 mutual associations and insurance cooperatives to grow, professionalise, rejuvenate, modernize their local management structure where needed and provide future-proof services to their policyholders (modernisation of local bye-laws, creation of local websites, digitally unlock conclusion and management of insurance policies, marketing initiatives, …). A strategic exercise on how to prepare their cooperative insurance’s future is underway.

MVBh’s organisation has been kept very simple due to the simplicity of its activities as well as its small size, without compromising its risk management. MVBh is supported not only by KBC Insurance NV, but also KBC Bank NV and KBC Group NV (finance, accounting, tax, ALM management, legal, data quality, human resources, business continuity, Risk, Compliance, 2nd line Actuarial function, internal audit).

MVBh pays proper compensation for services received, in line with KBC Group’s transfer pricing principles and practices.

2.2 Underwriting performance

The following table has been derived from statutory financial statements and demonstrates the historical underwriting profitability of the company:

	2017	2018	2019	2020	2021
Gross earned premium *(in k EUR)*	7.278	7.365	7.959	8.270	8.291
Gross earned premium (100%)	100,0%	100,0%	100,0%	100,0%	100,0%
Gross incurred losses	-20,4%	-26,0%	-31,7%	-37,2%	-47,3%
Change in equalization reserves	-7,5%	0,0%	-1,1%	-0,6%	0,4%
Profit participation to clients	-20,1%	-20,0%	-17,4%	-15,0%	-10,0%
Expenses and commissions	-25,5%	-25,1%	-25,1%	-25,0%	-24,9%
Gross technical balance	26,5%	28,9%	24,7%	22,2%	18,2%
Other items	-0,1%	-0,1%	0,0%	-0,1%	-0,2%
Investment income and expenses	11,2%	0,8%	1,5%	1,0%	2,1%
Gross technical - financial balance	37,6%	29,6%	26,1%	23,1%	20,1%
Retrocession balance	-26,6%	-26,6%	-24,5%	-22,2%	-18,2%
Net balance	11,0%	3,0%	1,6%	0,9%	1,9%
Net technical balance = Gross technical balance - Retrocession balance	-0,1%	2,3%	0,2%	0,0%	0,0%

Table 63: Statutory financial statement, underwriting profitability (MVBh)

2.3 Investment performance

The following information has been copied from statutory financial statements:

(in k EUR)	2017	2018	2019	2020	2021
Investment income	1.042	212	206	107	201
Dividends	63	4	36	11	113
Fixed income	121	99	84	76	74
Term deposits					
Impairment reversals	161	40	70	0	0
Realized capital gains	697	58	2	0	0
Other	0	11	15	20	14
Investment expenses	226	153	89	26	23
Asset management expenses	14	6	5	4	3
Investment management expenses	28	31	20	21	20
Impairments	2	70	0	1	0
Realized capital losses	182	46	65	0	0
Investment income, net of expenses	816	59	117	82	178
Average statutory balance sheet total	13.133	13.544	13.675	13.673	14.395
Return on average balance sheet total	6,2%	0,4%	0,9%	0,6%	1,2%

Table 64: Investment performance (MVBh)

2.4 Post balance sheet events

In February 2022 three heavy windstorms (Dudley, Eunice and Franklin) gave rise to a large number of claims, also in Belgium, and more specifically in West- and East-Flanders. Since not all claims for compensation of original insureds by MVBh's clients have been received, it is too early at the moment to provide a reliable estimate of total financial impact. Although a significant part of this impact will be covered by MVBh's ceded reinsurance, these storms will anyhow have a negative impact on technical non-life results of the 1st quarter of 2022.

It is MVBh's intention to transform, as from January 1st 2023 onwards, from reinsurance undertaking to reinsurance agency. In our opinion legal and supervisory reporting requirements which MVBh is subject to have grown disproportionately compared to MVBh's premium volume, limited nature of its activities and simplicity of the risks it is exposed to. Therefore MVBh wishes to renounce its reinsurance license, assume the statute of reinsurance agency which implies much simpler mandatory requirements, and implement an alternative solution for future servicing of the mutual insurers without compromising its cooperative background. Therefore MVBh's mission will be to perform all reinsurance intermediation activities with the objective to establish reinsurance contracts against fire and allied perils, between KBC Insurance NV in its capacity of (and taking over the role of) reinsurance undertaking on the one hand and the mutual insurers on the other hand.

3. System of Governance

3.1 Legal management structure

Dual structure

MVBh is managed according to a dual model, which draws a distinction between:

- ✓ The '**board of directors**', which has the task of setting strategy, determining general policy, supervising operational management and performing acts which are reserved to the board of directors in accordance with applicable legislation and MVBh's bye-laws.

- ✓ The '**executive committee**', which is responsible for the operational management of the company.

The board of directors is composed of at least seven directors, who are nominated by the general assembly. The board of directors is composed of (three) executive directors, who constitute the executive committee and are in charge of MVBh's operational management, and non-executive directors (four of which represent the mutual associations – MVBh shareholders, the other representing KBC Insurance NV). They are exclusively natural persons.

The non-executive directors, who are therefore no members of the executive committee, always constitute a majority within the board of directors. The chairman of the board of directors is a non-executive director.

The board of directors assumes final accountability for MVBh. Therefore the board of directors determines and controls more specifically:

- ✓ MVBh's strategy and objectives;

- ✓ the risk policy, including general risk tolerance limits.

Moreover, the board of directors oversees the executive committee and its functioning.

The executive committee is composed of three executive members of the board of directors (natural persons) together constituting a board. They are nominated and dismissed by the board of directors.

The executive committee is accountable for elaborating, executing and pursuing the strategy decided upon by the board of directors, taking into account MVBh's values, risk appetite and policies.

Committees

Based upon article 52 of the Insurance and Reinsurance Supervision Act dated 13 March 2016, the tasks assigned to the audit committee, the remuneration committee and the risk committee are executed by the board of directors of MVBh as a whole.

3.2 Operational management structure

MVBh has no employees on its payroll. Activities which are not performed by members of the executive committee, are performed by KBC Group NV, KBC Bank NV and KBC Insurance NV staff.

3.3 (Critical or important) outsourcing

The outsourcing approach of MVBh is embedded in the approach of KBC Group and KBC Insurance NV. With the aim of providing its clients the best possible service, MVBh appeals to the knowledge and efficiency present in the Belgian-based entities of KBC Group. No activities or functions are outsourced to external parties.

KBC Group NV provides Audit, Risk management, tax, as well as, along with KBC Bank NV, finance services. The Compliance function is not formally outsourced; necessary guidance and support from KBC Group NV, Group Compliance directorate is, however, provided. MVBh's CRO is accountable for the Risk function and takes up some of the concerned tasks and activities. However, others are formally outsourced to KBC Group NV's risk management directorate.

KBC Insurance NV supports MVBh with the following services:

- ✓ Underwriting, acceptance of insurance policies;
- ✓ Administration of insurance policies;
- ✓ Settlement of claims reported by the mutual insurers and insurance cooperatives (both from administrative and content-wise perspective);
- ✓ Network expertise and support provided to business managers of the mutual insurers and insurance cooperatives;
- ✓ Administration of incoming and outgoing reinsurance contracts;
- ✓ End user computing services;
- ✓ Actuarial tasks in execution of the calculation of the solvency position.

The first three services are performed by KBC Insurance NV as part of a retrocession agreement between MVBh and KBC Insurance NV.

MVBh considers all these activities to be critical or important functions or activities.

MVBh's CRO also takes up the role of outsourcing function holder.

3.4 Independent control functions

General

MVBh's internal control system is based upon the **three lines of defence** concept:

- ✓ The CEO and deputy CEO, assisted by the relevant parties to which functions, activities or operational tasks have been assigned or outsourced, as 1st line of defence, have full ownership of their risks.
- ✓ The CRO, who also takes accountability for the Compliance and Actuarial functions, assisted by the relevant parties to which some of the relating activities or tasks have been outsourced, or which provide necessary guidance, constitute the 2nd line of defence.
- ✓ The internal and external Audit functions constitute the 3rd line of defence.

The persons executing the independent control functions are independent of the operational functions of MVBh. They report at least twice a year directly to the board of directors about the execution of their task and inform the executive committee.

Risk management function, Compliance function and Actuarial function

In accordance with article 56, §3, 2nd subsection, 2° of the Insurance and Reinsurance Supervision Act, the head of the risk management function is a member of the executive committee of MVBh. This executive committee member is the acting Chief Risk Officer (CRO), is actively involved in determining MVBh's risk strategy and all policy decisions having a significant impact on the risks and can provide a full picture of the whole range of risks MVBh is exposed to (key function holder).

The Risk management function within MVBh is partially outsourced to KBC Group NV, under the general supervision of the CRO of MVBh.

This person also takes accountability for the Compliance and Actuarial functions. These three independent control functions are executed independently from one another.

The Compliance function ascertains that MVBh, the directors, employees (if any) and authorized representatives comply with legal and regulatory provisions regulating the reinsurance activity (in particular the rules with respect to integrity and behaviour applying to this activity).

The Compliance function also assesses potential consequences of changes in the legal framework for MVBh's activities and identifies and assesses compliance risks.

The Actuarial function ascertains that MVBh uses an adequate underwriting methodology, coordinates and controls the calculation of the technical provisions and provides an opinion on MVBh's retrocession programme, in accordance with article 59 of the Insurance and Reinsurance Supervision Act.

Internal Audit function

The board of directors has approved MVBh's current internal audit charter on December 2nd, 2019.

For internal audit MVBh relies on the corporate audit directorate of KBC Group NV. The internal Audit function provides the board of directors and executive committee with an independent assessment of the quality and effectiveness of the internal controls, risk management and governance system of MVBh.

The person who is accountable for the internal Audit function or the person designated for these purposes, communicates his findings and recommendations with the board of directors and executive committee.

3.5 Remuneration policy

The KBC remuneration policy applies to KBC insurance entities Group-wide. The policy consists of remuneration principles that reflect the Solvency II directive 2015/35, including a governance structure and decision-making processes with the involvement of the internal control functions.

The principles are being applied for all staff and 'identified staff', meaning the members of KBC Insurance NV's board of directors, its executive committee, those responsible for the independent control functions and all other staff whose activities could have a material impact on the risk profile of KBC Insurance NV. These identified staff members are identified through an effective identification process.

The remuneration principles promote sound and effective risk management and effectively prevent remuneration arrangements which encourage excessive risk-taking, through several mechanisms in the remuneration process such as the risk gateway, the use of quantitative risk adjusted measures such as the risk adjusted profit, risk objectives etc. The remuneration principles consist of measures to prevent conflicts of interest and are aligned with the strategy, business and risk appetite of KBC Insurance group and the underlying entities.

Members of MVBh's executive committee receive a fixed remuneration. There is no variable component.

Apart from a pension plan for MVBh's chairman of the executive committee there are no supplementary pension or early retirement schemes for the members of the administrative, management or supervisory body and other key function holders.

3.6 Fit & proper requirements

MVBh's requirements concerning skills, knowledge and expertise applicable to the persons who effectively run MVBh or have other key functions as well as its process for their appointment and assessing their fitness and propriety are identical to the ones determined at KBC group level.

No loans, credits or suretyships have been granted to members of the board of directors (whether smaller or larger than 100.000 EUR).

4. Risk Profile

4.1 Underwriting risk

MVBh only writes reinsurance business with local Belgian mutual insurers and limits underwriting to fire business and allied perils. Reinsurance is on a 100% quota–share basis.

Mutual insurers only write policies against fire damage and ancillary perils for ‘simple risks’ (together with the minor liability and legal expenses insurance cover that can typically be included in these fire policies), mainly located in their local municipality or neighbouring municipalities in West and East Flanders.

Underlying policies relative to product offering, underwriting, pricing, reserving and claims settlement are copied from the ones applied by KBC Insurance NV.

Underwriting limits, in terms of sums insured, as defined by the inward reinsurance contracts, must be strictly applied.

Technical insurance risk represents a significant part of all risks within MVBh. Moreover, technical insurance performance is the decisive factor in determining how much profit is returned by MVBh to clients–mutual insurers. Therefore, limiting volatility of technical insurance performance is key.

The reinsurance portfolio, gross of proportional retrocession, is adequately protected by non-proportional retrocession cover, in terms of deductible, limit and amount of cover on an annual basis, against the consequences of large individual claims or claims in risk concentrations.

Due to the local character of MVBh’s ceding companies–local insurers, risk locations may be geographically highly concentrated. These concentrations are mapped on a regular basis. As explained in the previous paragraph, ensuing risks are adequately retroceded.

MVBh monitors the underwriting performance of individual mutual insurers, and encourages individual mutual insurers to eliminate systematic underperformance, compared to their peers.

MVBh conducts portfolio checks on (at least) a yearly basis, aiming at controlling compliance with the above-mentioned policies, monitoring evolution of claims ratios of individual local insurers, and detecting and rectifying potential errors and mistakes.

MVBh pays appropriate attention to opinions of the Actuarial function holder, and takes appropriate measures, if necessary.

MVBh’s exposures to natural catastrophes (i.e. windstorm, hail, flood and earthquake), man-made catastrophes, as well as large individual fire claims, are analysed on a regular basis and reported to the board of directors (cf. ORSA report).

Within the framework of the annual internal control statement process, an assessment is made of the implementation status of the Risk Management Framework for technical insurance risk. Items which are identified for improvement must be tackled systematically.

4.2 Market risk

Market risks represent a significant part of overall risks which MVBh is exposed to, triggered by (i) the investment of shareholders' funds and (ii) differences between risk profiles of cash–flows, originating from reinsurance liabilities on the one hand and assets, covering reinsurance liabilities on the other hand. Being exposed to market risks is an inevitable consequence of operating in the (re)insurance business.

Creating sustainable shareholder value from managing these market risks is not MVBh's core expertise. Therefore MVBh must rely on KBC Insurance Group's expertise with respect to market risk and investment portfolio management. So–called "ALM limits" must be set specifically for MVBh. Compliance with these limits is reported at every meeting of the board of directors.

4.3 Credit risk

Counterparty default risk on issuers of financial instruments is managed within the 'ALM limits' framework mentioned above, relying on KBC group's expertise with respect to credit risk management.

MVBh's credit risk largely stems from counterparty default risk exposure to KBC Insurance NV, originating from retrocession contracts. KBC Insurance NV is indeed MVBh's preferred retrocessionaire.

Although credit risk is quite significant within MVBh's overall risk profile because of counterparty default risk exposure to KBC Insurance NV, MVBh accepts this risk.

4.4 Liquidity risk

This risk may emerge when a catastrophic event occurs which generates high incurred claims in the reinsurance portfolio, more specifically when a time gap occurs between the moment MVBh is expected to pay these claims to its ceding companies on the one hand, and the moment the retroceded part can be recovered from the retrocessionaire on the other hand.

This risk has been neutralised by the retrocession contract through a clause which foresees the possibility for MVBh to request cash claims from its retrocessionaire once a contractually determined threshold has been exceeded.

4.5 Operational risk

MVBh endorses the Group-wide framework for non-financial risk management and business continuity management.

In as far as relevant for MVBh, non-financial risk management tools such as group key controls, internal control statement, competition compliance program, etc. are applied.

For its business continuity plan, MVBh is obviously highly dependent on KBC Insurance NV and KBC group.

MVBh analyses the adequacy of business processes both systematically and on an ad-hoc basis.

Compliance with the Group-wide framework for non-financial risk management and business continuity management is ascertained by an adequate execution of the local operational risk manager's and business continuity manager's roles. Guidance and steering for the execution of these roles is provided by the KBC Business Unit Belgium's risk management and crisis management departments.

Audit recommendations are executed in a timely and correct manner.

4.6 Other material risks

Business risk

Portfolio growth depends to a large extent on local insurers' business managers' willingness to place business with the local insurer. Professional relationship management with these local business managers is key.

MVBh's development is very closely linked to local Belgian mutual insurers' development. Should, for example, their survival be compromised due to unrealistically high regulatory obligations, MVBh's future would inevitably be jeopardized.

The Insurance and Reinsurance Supervision Act imposes strict requirements on (re)insurance undertakings to ensure their solvency. Should mutual insurers have to comply with these requirements, they would inevitably have to cease business. Fortunately, the bill allows for a 'soft' regime in a number of cases, including for 'small' insurers.

Mutual insurers (i.e., MVBh's clients) have assumed the regime of 'small' insurers, which reinsure 100% of their insurance obligations, entailing a huge simplification of their solvency regime i.e.:

- ✓ The Insurance and Reinsurance Supervision Act is (quasi) not applicable;
- ✓ The insurance undertaking must submit an application file for registration with the National Bank of Belgium (NBB) and demonstrate it complies with all required conditions;
- ✓ NBB must approve the application for registration;
- ✓ Once approved, the insurance undertaking will be listed on a specific register to be published on NBB's website;
- ✓ NBB may decide at its discretion to further regulate all additional information requirements, either on an individual or a general basis.

Application files for registration have been submitted by the mutual insurers to the NBB in 2017, and approved by the NBB. They are now listed on the NBB's website.

Reputation risk

The reputation of MVBh is a strategic asset of the firm. We aim to protect and grow our reputation in the eyes of our clients by managing our business in a responsible manner.

MVBh champions a strong compliance culture and has zero tolerance for any intentional violation of mandatory legal norms that are sanctioned with criminal penalties against our company, its directors or employees, or administrative measures which could result in the revocation, suspension, modification or nonrenewal of the licenses issued to MVBh.

Regular reporting to the KBC Group Compliance division is done in compliance with Group Compliance Rules.

Concentration risk

KBC Insurance NV is MVBh's preferred reinsurer. MVBh is also exposed to KBC Bank, through current, savings and investment accounts, as well as, potentially, term deposits and other securities. KBC Insurance NV and KBC Bank NV maintain close (commercial) relationships. Potential impact on MVBh of ensuing contagion risk is adequately monitored and kept under control.

The global limit relative to counterparty default risk, withheld in the ALM limit framework, applies to KBC group as a whole. On top of that comes exposure to KBC Insurance generated by MVBh's retrocession programme, as well as exposure to KBC Bank due to current and savings accounts which are held by MVBh with KBC Bank in view of its daily operations. Outstanding balances of these accounts are kept at a minimum level to ensure smooth daily operations. Surpluses are transferred to KBC Asset Management, and from then onwards fall within the global limit relative to counterparty default risk.

5. Valuation for Statutory Reporting Purposes

5.1 Impairments

For both financial fixed assets and unlisted shares, recorded under 'other financial assets', impairments are entered in the books in case of durable depreciations in value.

Listed shares are impaired in case their market value is sustainably (longer than one year) or significantly (more than 30%) lower than their book value, demonstrating that the depreciation in value is sufficiently durable.

The resulting impairments equal the difference between book value and market value.

The recorded impairments are reversed as soon as the market value is higher again, up to the purchase value at maximum.

For treasury investments, impairments are recorded when the realisation value of the investment at balance sheet date is lower than the purchase value.

For the other receivables and fixed income securities, impairments are recorded when reimbursement at maturity date is fully or partially uncertain or at risk.

Impairments are not maintained if, at fiscal year–end, they are higher than when based upon a current assessment, in accordance with the standards used at the time the impairments were recorded.

5.2 Provisions for risks and costs

At fiscal year–end, all foreseeable risks and charges which originated during the fiscal year are provisioned for, in accordance with the provisions of the Royal Decree of 17 November 1994.

5.3 Technical provisions

The technical provisions for claim payments to be made in the future are calculated per claim or per contract, taking known elements of the file into account.

5.4 Revaluations

Financial fixed assets as well as investment securities can be revalued when they show a certain and permanent capital gain compared to their purchase value.

Actual values can be found in template SE.02.01.16.

5.5 Other

In case of sale of securities the accounting value of sold securities is determined in accordance with a system of individualization of these securities. Gains or losses are taken immediately in P&L.

6. Valuation for Solvency Purposes

6.1 Assets

Valuation bases for solvency purposes are identical to the ones used by KBC Insurance NV. Actual values can be found in QRT S.02.01.02.

6.2 Technical provisions

In general, expected future cash flows related to reinsurance liabilities have been calculated and documented by KBC Insurance NV's Non-Life actuarial department in accordance with technical provisions guidelines as provided by KBC Group and taking into account the Risk Measurement Framework of KBC. We will briefly describe the **main principles**.

<u>Pre-claim versus post-claim Non-Life obligations</u>

For Non-Life obligations, separate cash-flow projections are made relative to:

- ✓ claim events that are expected to occur after the valuation date and during the remaining in-force period of existing contracts (pre-claim liabilities);
- ✓ claim events that have already occurred but that are not settled yet, regardless of whether the claims arising from these events have been reported or not (post-claim liabilities).

<u>Gross liabilities versus retrocession recoverables</u>

- ✓ Cash-flow projections are initially made on a gross basis, without deduction of retrocession recoverables;
- ✓ Retrocession recoverables are valued separately. They are included on the asset side of the economic balance sheet, and are calculated separately for Non-Life pre-claim and post-claim expected cash flows. Their valuation allows for expected losses due to counterparty default (i.e., the reinsurer); the impact thereof is however negligible.

<u>Segmentation into homogeneous risk groups</u>

Reinsurance liabilities have been grouped according to the nature of their risks, and calculations have been done separately for fire and allied perils (including natural catastrophes), general third-party liability ensuing from insured buildings, and legal expenses linked to the latter. These homogeneous risk groups have a one-to-one link with Solvency II lines of business (LOB) 19, 20 and 22:

- ✓ LOB 19 – proportional Non-Life reinsurance – fire and other damage to property insurance;
- ✓ LOB 20 – proportional Non-Life reinsurance – general liability insurance;
- ✓ LOB 22 – proportional Non-Life reinsurance – legal expenses insurance.

Where required by Solvency II regulations (i.e., if both parties are committed), future premiums on existing contracts are taken into account in valuing current liabilities. All contracts incept at 1 January, with a minimum 3-month cancellation period, ending on 30 September. Tacit renewal of these reinsurance contracts implies both parties are committed; therefore, in this case, at 31 December, the next generation of reinsurance contracts is within scope of the valuation of reinsurance liabilities.

Technical provisions are calculated according to the 'Mark to Model' method; i.e., a theoretical 'transfer value' is calculated at which the liabilities would be valued when transferred to another company. This includes the calculation of the:

- ✓ discounted best estimate of liabilities: models are used to generate cash-flow projections. The present value is then calculated at the risk-free discounting yield curve;
- ✓ risk margin: in such a manner as to ensure that the value of the technical provisions is equivalent to the amount that (re)insurance undertakings would be expected to require in order to take over and meet the (re)insurance obligations. It is calculated according to the cost of capital approach; i.e. the present value of the cost of holding expected required capital during the remaining lifetime of the liabilities.

At present only deterministic calculations are made.

The matching adjustment referred to in Article 77b of Directive 2009/138/EC, the volatility adjustment referred to in Article 77d, the transitional risk-free interest rate term structure referred to in Article 308c and the transitional deduction referred to in Article 308d are either not relevant or not applied.

Overview of Solvency II technical provisions

The enclosed table provides an overview, as at 31 December 2021 of Solvency II technical provisions (cf. also QRT S.17.01.02):

- ✓ broken down into pre-claim and post-claim obligations;
- ✓ broken down into gross and retroceded obligations;
- ✓ per Solvency II line of business.

All amounts in the SOLVENCY II columns are expressed in terms of 'liabilities'; i.e. a negative liability represents an asset.

The discounted best estimate of gross liabilities is composed of (i) a positive value for the discounted best estimate of gross post-claim liabilities, and (ii) a negative one for the best estimate of gross pre-claim liabilities. This negative value reflects the economic profits expected to be generated by the 2022 generation of inward reinsurance contracts.

These expected economic profits are of course uncertain, and the risk margin, the larger part of which covers the pre-claim liabilities, represents the amount that (re)insurance undertakings would be expected to require in order to take over and meet the (re)insurance obligations. Note that the risk margin is relevant only with respect to gross liabilities. A breakdown is available along the line of business criterion only.

As explained in MVBh's risk appetite statement, for the profit sharing policy to be achieved a net economic return any one accident year T, ex–ante, based on the Solvency II best estimate, as at 31/12/(T–1), of net pre–claim insurance liabilities, expressed as a % of net reinsurance premium, of close to 0% has to be targeted. At 31/12/2021 this is actually the case since overall net pre-claim reinsurance liabilities are almost equal to zero (i.e. 464 EUR).

Comparison between Solvency II and statutory valuation

The enclosed table also compares Solvency II with statutory technical provisions.

Provisions for unexpired risks as at 31 December 2021 don't figure in the statutory balance sheet since (almost) all underlying policies have a principal premium due date at 1 January. As reinsurance contracts are renewed as at 1 January 2022, the Solvency II economic balance sheet contains pre-claim liabilities related to these renewed contracts.

The equalisation reserves do not figure in the Solvency II economic balance sheet.

All amounts in the SOLVENCY II and STATUTORY columns are expressed in terms of 'liabilities'; i.e. a negative liability represents an asset.

A negative (STATUTORY MINUS SOLVENCY II) figure represents a statutory deficiency whereas a positive figure represents a statutory redundancy, compared to the Solvency II economic balance sheet.

Since statutory valuation bases are very prudent, not surprisingly, gross liabilities represent a statutory redundancy.

However, retroceded liabilities represent a statutory deficiency since:

- ✓ the statutory balance sheet doesn't contain pre-claim liabilities towards MVBh's retrocessionaire, whereas the Solvency II economic balance sheet does, since in Solvency II, gross pre-claim obligations are expected to generate a profit, all of which will be due to the retrocessionaire;
- ✓ post-claim retrocession recoveries are overestimated in the statutory balance sheet, compared to the Solvency II economic balance sheet.

Liabilities, net of retroceded obligations, represent a statutory redundancy, compared to the Solvency II economic balance sheet.

	(in k EUR)	SOLVENCY II				STATUTORY (BGAAP)			STATUTORY (BGAAP) MINUS SOLVENCY II			
	Reinsurance liabilities	*Pre-claim*	*Post-claim*	*Risk margin*	*Total*	*Pre-claim*	*Post-claim*	*Total*	*Pre-claim*	*Post-claim*	*Risk margin*	*Total*
Gross	- LOB 19 (Fire)	-1.302	3.826	213	2.737	0	4.349	4.349	1.302	523	-213	1.612
	- LOB 20 (GTPL)	-12	20	0	9	0	32	32	12	12	0	23
	- LOB 22 (LA)	-7	5	0	-2	0	5	5	7	0	0	7
	- Equalization reserves					1.732		1.732	1.732			1.732
	- Total	-1.321	3.852	213	2.745	1.732	4.387	6.119	3.053	535	-213	3.374
Retroceded	- LOB 19 (Fire)	1.286	-2.773		-1.487	0	-2.822	-2.822	-1.286	-49		-1.335
	- LOB 20 (GTPL)	23	-15		8	0	-27	-27	-23	-12		-35
	- LOB 22 (LA)	13	-3		10	0	-3	-3	-13	0		-12
	- Total	1.321	-2.791		-1.469	0	-2.852	-2.852	-1.321	-61		-1.383
Net	- LOB 19 (Fire)	-16	1.053	213	1.250	0	1.527	1.527	16	474	-213	277
	- LOB 20 (GTPL)	11	6	0	17	0	5	5	-11	0	0	-12
	- LOB 22 (LA)	5	3	0	8	0	3	3	-5	0	0	-6
	- Equalization reserves					1.732		1.732	1.732			1.732
	- Total	0	1.061	213	1.275	1.732	1.535	3.267	1.731	473	-213	1.991

Table 65: Overview of SII and statutory (BGAAP) technical provisions as at 31/12/2021 (MvBH)

6.3 Other liabilities

Valuation bases are identical to the ones used by KBC Insurance NV.

7. Capital Management

7.1 Own funds

We refer to QRT S.23.01.01 to show that total unrestricted Tier 1 basic own funds of 10.922.765 EUR are eligible and available to meet SCR and MCR. There are no ancillary own funds.

The origins of differences with statutory own funds are listed in the following table. Note that the correction of own funds relates to a last minute change of the BGAAP statutory accounts which was too small to consider in the QRT reporting.

	SE.02.01.16 *(in k EUR)*	Solvency II value	Statutory accounts value	Difference
	Own funds	10.923	8.326	2.597
	Correction	129		129
	Foreseeable dividends	0	0	0
	Difference	11.052	8.326	2.726
Assets	Listed equities	1	1	0
Assets	Collective investments undertakings	2.725	2.098	627
Assets	Government bonds	3.914	3.808	106
Assets	Corporate bonds	4.254	4.166	87
Assets	Reinsurance recoverables	1.469	2.852	-1.383
Liab.	Technical provisions	2.745	6.119	-3.374
Liab.	Deferred tax liabilities	86	0	86
	TOTAL [ASSETS - LIABILITIES]			2.726

Table 66: Differences between Solvency II and statutory valuations (MvBH)

7.2 Solvency Capital Requirement and Minimum Capital Requirement

MVBh's SCR calculations are based upon the standard formula. No (partial or full) internal model is used. As shown in QRT S.25.01.21, the SCR as at 31 December 2021 amounts to 3.014.540 EUR giving rise to a solvency ratio of 362% of SCR.

Non-Life underwriting risk (1.543.956 EUR), market risk (1.506.250 EUR), counterparty default risk (760.449 EUR), and operational risk (248.742 EUR) are the largest risks MVBh is exposed to.

No simplified calculations, nor undertaking-specific parameters are used.

The MCR is considerably higher than the SCR i.e. 3.600.000 EUR (as shown in QRT S.28.01.01), giving rise to a solvency ratio of 303% of MCR.

The Solvency II ratio with respect to the SCR is of course higher than the Solvency II ratio with respect to the MCR. When considering the solvency ratios, the SCR is less relevant in our case.

List of abbreviations

List of abbreviations

(3)LOD	(Three) Line(s) Of Defence
(A)RCC	(Audit,) Risk & Compliance Committee
(G)ExCo	(Group) Executive Committee
(N)SLT	(Non-) Similar to Life Techniques
AFH	Actuarial Function Holder
ALCO	Asset Liability Committee
ALM	Asset-Liability Management
AML	Anti-Money Laundering
APC	Alignment of Planning Cycle(s)
BE	Best Estimates
BoD	Board of Directors
BPV	Basis Point Value
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CORM	Compliance Risk Manager
CRO	Chief Risk Officer
DTL	Deferred Tax Liabilities
EBS	Economic Balance Sheet
EIOPA	European Insurance and Occupational Pensions Authority
EOY	End Of Year
EPIFP	Expected Profits Included in Future Premiums
EU	European Union
FATCA	Foreign Account Tax Compliance Act

FIFV	Financial liabilities designated at Fair Value through profit or loss
FRA	Forward Rate Agreements
FX	Foreign exchange
GDPR	General Data Protection Regulation
GIC	Group Insurance Committee
GICC	Group Internal Control Committee
GLC	Group Lending Committee
GMC	Group Markets Committee
G-RISK	Group Risk
GVC	Group Valuation Committee
GWP	Gross Written Premium
HR	Human Resources
HTM	Held To Maturity
IAS	International Accounting Standard
IBNER	Incurred But Not Enough Reserved
IBNR	Incurred But Not Reported
ICO	Intercompany
ICT	Information & Communication Technology
IDD	Insurance Distribution Directive
IFRS	International Financial Reporting Standards
IM MC	International Markets Management Committee
IR(R)	Interest Rate (Risk)
IT	Information Technology
L&R	Loans & Receivables
LAC DT	Loss Absorbing Capacity Deferred Taxes

LAT	Liability Adequacy Test
LGD(irr)	Loss Given Default (irrecoverable)
LoB	Line of Business
LRMF(i)	Liquidity Risk Management Framework (insurance)
LTG	Long Term Guarantee
MCR	Minimum Capital Requirement
MiFID	Markets in Financial Instruments Directive
MRBB	Maatschappij voor Roerend Bezit van de Boerenbond cvba
NAPP	New and Active Product Process
NBB	National Bank of Belgium
NII	Net Interest Income
NL	Non-Life
NSLT	Non Similar to Life Techniques
ORSA	Own Risk & Solvency Assessment
P&L	Profit & Loss
PD	Probability of Default
PLS	Portfolio Limit System
QRT	Quantitative Reporting Template
Risk ManCo	Risk Management Committee
RM	Risk Margin
RMF	Risk Management Framework
ROE	Return On Equity
S&P	Standard & Poor’s
SA	Symmetric Adjustment
SCR	Solvency Capital Requirements

SFCR	Solvency and Financial Condition Report
SII	Solvency II
SII SF	Solvency II Standard Formula
SME	Small and Medium-sized Enterprises
SRI	Socially Responsible Investing
SSC	Shared Service Centres
T1/T2	Tier 1 / Tier 2
TP	Technical Provisions
VA	Volatility Adjustment
VaR	Value At Risk

Glossary

Glossary

3 LOD (Three Lines of Defence)

The 3 LOD model ensures the resilience of KBC's risk and control environment and safeguards the sustainability of our business model going forward. In this model, Business acts as the first line of defence, Risk as one of the second lines and Internal Audit as the third line. They all work together in order to prevent big impact losses for the KBC group.

Annuity

A contract that provides a series of regular payments (both amount and timing) by the insurer (amount payable / benefit) under specified conditions for a specified period of time.

An annuity may begin at a specified time after the issuing of the contract (deferred annuity), or following a specified trigger such as death or disability, e.g. orphans' benefits or disability annuities. Annuity benefits under an insurance contract typically end upon the death of the insured person, or cease upon recovery of the insured from disability or after a predefined period. Coverage may relate to one or two persons, respectively single-Life or joint-Life.

The contract can be funded by the policyholder by means of a single premium or through a series of instalments. The amount of regular payments to the beneficiary may be fixed or not, i.e. variable or fixed annuity, certain or temporary. Annuity contracts are sold on an individual and group basis.

Asset-liability management (ALM)

The ongoing process of formulating, implementing, monitoring and revising strategies for both on-balance-sheet and off-balance-sheet items, in order to achieve an organisation's financial objectives, given the organisation's risk tolerance and other constraints.

Best Estimate

The best estimate shall correspond to the probability-weighted average of future cash-flows, taking account of the time value of money (expected present value of future cash-flows), using the relevant risk-free interest rate term structure.

The calculation of the best estimate shall be based upon up-to-date and credible information and realistic assumptions and be performed using adequate, applicable and relevant actuarial and statistical methods.

The cash-flow projection used in the calculation of the best estimate shall take account of all the cash in- and out-flows required to settle the insurance and reinsurance obligations over the lifetime thereof.

BPV (Basis Point Value)

The measure that reflects the change in the net present value of interest rate positions, due to an upward parallel shift of 10 basis points (i.e. 0,10%) in the zero coupon curve.

Business risk

Business risk is the risk arising from changes in external factors that impact the demand for and/or profitability of our products and services. Risk factors that are taken into consideration include the macroeconomic environment, the regulatory framework, client behaviour, the competitive landscape and the socio-demographic environment.

Business risk is assessed on the basis of structured risk scans. 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.

Catastrophe risk

The risk that a single event, or series of events, of major magnitude, usually over a short period (often 72 hours), leads to a significant deviation in actual claims from the total expected claims.

The notion of catastrophe risk is per definition relative to the financial position of the individual insurer and any significance will need to be defined in mathematical terms. The exact definition of what constitutes a catastrophe hence varies per insurer.

Credit risk

Credit risk is the potential negative deviation from the expected value of a financial instrument arising from the non-payment or non-performance by a contracting party (for instance, a borrower, guarantor, insurer or re-insurer, counterparty in a professional transaction or issuer of a debt instrument), due to that party’s insolvency, inability or lack of willingness to pay or perform, or to events or measures taken by the political or monetary authorities of a particular country (country risk). Credit risk thus encompasses default risk and country risk, but also includes migration risk, which is the risk for adverse changes in credit ratings.

EBS (Economic Balance Sheet)

Balance sheet statement based on one of those accounting approaches using market-consistent values for all current assets and current obligations relating to in-force business, including off-balance sheet items.

Depending on the reporting approach different items can be recognised or not recognised in the balance sheet, as well the definition of a current resource or obligation can vary from approach to approach. The economic balance sheet provides the market-consistent value of the shareholder equity.

EIOPA (European Insurance and Occupational Pensions Authority)

The successor to the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS), EIOPA is part of the European System of Financial Supervision consisting of three European Supervisory Authorities and the European Systemic Risk Board. It is an independent advisory body to the European Parliament and the Council of the European Union. EIOPA’s core responsibilities are to support the stability of the financial system, transparency of markets and financial products, as well as the protection of insurance policyholders, pension scheme members and beneficiaries.

EL (Expected Loss)

The expected value of losses due to default over a specified horizon. EL is typically calculated by multiplying the Probability of Default (a percentage) by the Exposure At Default (an amount) and Loss Given Default (a percentage). It is always considered 'an expectation' due to the 'Probability of Default' factor.

Eligible capital

Capital (either on or off-balance sheet) which, under regulatory rules, may be taken into account (fully or partially) in determining the insurer’s available capital for solvency purposes.

Equity risk

The risk of a change in value caused by deviations of the actual market values of equities and/or income from equities from their expected values

Fair value

The amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. Market-consistent value or fair value is based on relative pricing or the ‘no arbitrage' argument.

Foreign exchange risk

The risk of a change in value caused by the fact that actual foreign currency exchange rates differ from those expected.

Foreign exchange risk can arise if the assets and liabilities of an insurer are not in the same currency, or if contracts for administrative and other services are contracted in a currency different to the currency implied in the premium determination.

Guaranteed benefit

Payments or other benefits to which a particular policyholder or investor has an unconditional right that is not subject to the contractual discretion of the issuer.

The unconditional right of the policyholder implies that no condition is subject to the insurer’s discretion, nor to insurer’s performance. Hence, a guaranteed benefit, or its determination, is contractually stipulated without any ability of the insurer to influence that benefit, neither by discretion nor by its performance. Accordingly, a guarantee is a risk bearing feature, since the amount to be paid might deviate from the earnings of the insurer, without the ability of the insurer to avoid that.

Health insurance

Generic term applying to all types of insurance indemnifying or reimbursing for losses (e.g. loss of income) caused by illness or disability, or for expenses of medical treatment necessitated by illness or disability.

IBNR (Incurred but not Reported) reserves

IBNR is the abbreviation of incurred but not reported reserves (IBNR), these are the reserves for claims that become due with the occurrence of the events covered under the insurance policy, but have not been reported yet.

Inflation risk

The risk of a change in value caused by a deviation of the actual market-consistent value of assets and/or liabilities from their expected value, due to inflation, e.g. price inflation, wage inflation, etc., leading to an unanticipated change in insurance cost and/or impact of an insurance contract, e.g. with respect to contract limits.

Insurance contract

A contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or its beneficiary if a specified uncertain future event (the insured event) affects the policyholder.

Insurance risk

The potential negative deviation from the expected value of an insurance contract or pension claim (or a portfolio thereof).

Interest rate risk

The potential negative deviation from the expected value of a financial instrument or portfolio thereof due to changes in the level or in the volatility of interest rates.

Lapse risk

The potential negative deviation from the expected value of an insurance contract or a portfolio thereof due to unexpected changes in policy lapses. Note that the term surrender risk refers specifically to contracts with surrender value.

Life insurance

Category of insurance contracts for which the benefit payment is based on the occurrence of death, disability, or critical illness of the insured within the specified coverage term, or on the life status of the insured at maturity.

Life insurance offers life and/or death coverage of the insured in the form of a single or multiple (as well regular in case of an annuity) lump sum payments to a beneficiary.

Health insurance products are often sold as a rider to a (group) Life contract. In *sensu stricto* these are not Life insurance, because they do not relate to the occurrence of death.

Liquidity risk

Liquidity risk is the risk that an organisation will be unable to meet its payment obligations as they come due because of the inability to liquidate assets or obtain adequate funding (liability liquidity risk) or the risk that it cannot easily unwind or offset specific exposures without significantly lowering market prices because of inadequate market depth or market disruptions (asset liquidity risk).

Market risk

The potential negative deviation from the expected value of a financial instrument (or portfolio thereof) due to changes in the level or volatility of market prices.

Market value

The cost that would be incurred or the gain that would be realised if an outstanding contract was replaced at current market prices (also called replacement value).

MCR (Minimum Capital Requirement)

The capital level representing the final threshold that triggers ultimate supervisory measures in the event that it is breached.

Non-Life insurance

Generic term used to refer to all types of insurance business other than Life insurance, including for example Property insurance, Liability insurance, Motor insurance, Accident insurance and Health insurance.

Operational risk

The potential negative deviation from the expected value of the organisation resulting from inadequate or failed internal processes and systems, human error or sudden external events, whether man-made or natural. Operational risk excludes business, strategic and reputational risk.

ORSA (Own Risk and Solvency Assessment)

The Own Risk and Solvency Assessment covers the entirety of the processes and procedures employed for identifying, assessing, monitoring, managing, and reporting on the short- and long-term risks a (re)insurance undertaking faces or may face, and for determining the own funds necessary to ensure that the undertaking's overall solvency needs are met at all times.

Risk appetite

Risk appetite, as defined by the Board of Directors, is the amount and type of risk that KBC is able and willing to accept in pursuit of its strategic objectives. While the ability to accept risk is limited by financial (e.g. available capital) and non-financial regulatory and legal constraints, the willingness to accept risk depends on the interests of various stakeholders (shareholders, creditors, employees, management, regulators, clients, etc.). Risk appetite aims to find the right balance of satisfaction for all stakeholders.

Risk margin

A generic term, representing the value of the deviation risk of the actual outcome compared with the best estimate, expressed in terms of a defined risk measure

The term 'risk margin' in the context of Solvency II refers to the amount above the best estimate liability.

Solvency II

Solvency II is a project, initiated by the European Commission in 2001, and resulted in the European directive 2009/138/ EC of 25/11/2009 (Solvency II) which establishes capital requirements and risk management standards that apply across the EU and affect all areas of an insurer's operations. Solvency II aims to move away from the idea that 'one approach fits all' and thus encourages companies to manage risk in a way which is appropriate to the size and nature of their business in order to provide protection to policyholders by reducing the risk of insolvency to insurers.

SCR (Solvency Capital Requirement)

The amount of capital to be held by an insurer to meet the Pillar I requirements under the Solvency II regime.

Spread risk

The risk of a change in value due to a deviation of the actual market price of credit risk from the expected price of credit risk.

Underwriting risk

The risk of a change in value due to a deviation of the actual claims payments from the expected amount of claims payments (including expenses).

Total underwriting risk for Non-Life insurance includes the total of claims risk and expense risk for claims. For Life insurance it includes the total of lapse, surrender and biometric risks, as well as expense risk for claims.

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