Annual Report 2022
KBC Group

KBC group passport

Our area of operation

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

Our goal and ambition

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

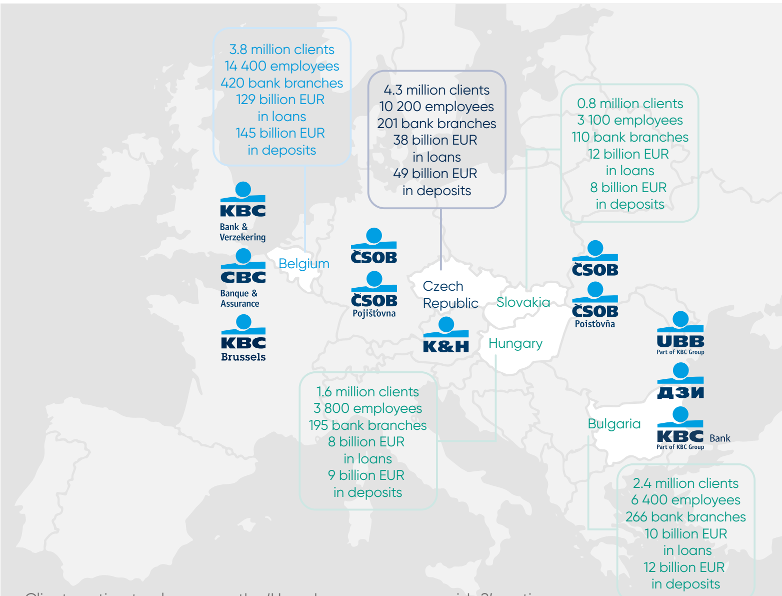
Our clients, staff and network as at 31-12-2022

Clients	13 million
Staff	42 000
Bank branches	1 215
Insurance network	298 agencies in Belgium, various distribution channels in Central and Eastern Europe

Our ratings as at 16-03-2023

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

Sustainability ratings	**CDP**	**Sustaina-lytics**	**S&P Global**	**MSCI**	**ISS ESG**	**FTSE 4good**
KBC Group	A	12.5	75/100	AAA	C+ prime	4.3/5



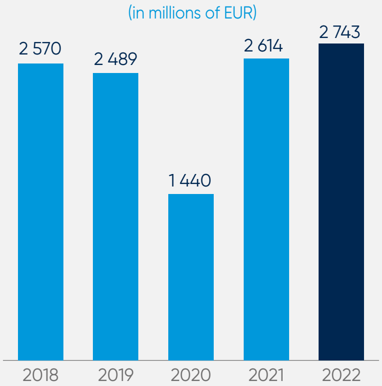
Clients: estimates; loans: see the 'How do we manage our risks?' section;
deposits: deposits from customers excluding debt securities and repos.
Loans and deposits for Belgium: includes the limited network of KBC Bank branches abroad.
Employees expressed in FTEs.

KBC group in 2022

- Digital strategy: further development of Kate, our digital assistant
- 2,7 billion EUR in net profit
- Sale of activities in Ireland
- Addressing challenging geopolitical and economic conditions
- Further tightening of our climate-related targets
- Reserve of 0.4 billion euros set aside to cover the direct and indirect consequences of the war in Ukraine
- Issuance of first social bond
- Acquisition of Bulgarian activities from Raiffeisen Bank International
- Publication of KBC Group's first Climate Report

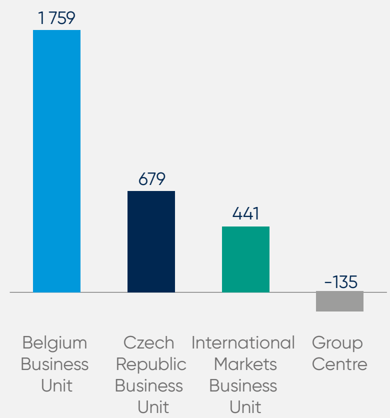
Net result

(in millions of EUR)



Breakdown of net result by business unit

(2022, in millions of EUR)



Key figures	2022	2021	2020	2019	2018
Consolidated balance sheet, end of period (in millions of EUR)					
Total assets	355 872	340 346	320 743	290 591	283 808
Loans and advances to customers (excluding reverse repos)	178 053	159 728	159 621	155 816	147 052
Securities	67 582	67 794	71 784	65 633	62 708
Deposits from customers and debt securities (excluding repos)	224 407	199 476	190 553	173 184	159 644
Technical provisions and liabilities under investment contracts, insurance	30 486	32 571	31 442	32 170	31 273
Total equity	20 807	23 077	21 530	20 222	19 633
Consolidated income statement (in millions of EUR)					
Total income	8 463	7 558	7 195	7 629	7 512
Operating expenses	-4 818	-4 396	-4 156	-4 303	-4 234
Impairment	-284	261	-1 182	-217	17
Net result, group share	2 743	2 614	1 440	2 489	2 570
Belgium	1 759	1 997	1 001	1 344	1 450
Czech Republic	679	697	375	789	654
International Markets	441	127	199	379	533
Group Centre	-135	-207	-135	-23	-67
Sustainability and gender diversity					
Own greenhouse gas emissions (in tonnes of CO_2 per FTE)	1.2	1.0	1.5	2.0	2.3
Proportion of renewable energy in loans to the energy sector (%)	63%	63%	61%	57%	44%
Volume of responsible investment funds (in billions of EUR)	32	32	17	12	9
Gender diversity in the workforce (percentage of women)	57%	56%	56%	57%	57%
Gender diversity in the Board of Directors (percentage of women)	38%	33%	38%	31%	31%
KBC share					
Number of shares outstanding, end of period (in millions)	417.2	416.9	416.7	416.4	416.2
Parent shareholders' equity per share, end of period (in EUR)	46.3	51.8	48.1	45.0	41.4
Average share price for the financial year (in EUR)	58.9	68.3	52.8	60.8	67.4
Share price at year-end (in EUR)	60.1	75.5	57.3	67.1	56.7
Gross dividend per share (in EUR)[1]	4.0	8.6	2.44	1.00	3.50
Basic earnings per share (in EUR)	6.46	6.15	3.34	5.85	5.98
Equity market capitalisation, end of period (in billions of EUR)	25.1	31.5	23.9	27.9	23.6
Financial ratios					
Return on equity	13%	13%	8%	14%	16%
Cost/income ratio, banking	57%	58%	58%	56%	56%
Combined ratio, non-life insurance	89%	89%	85%	90%	88%
Credit cost ratio, banking	0.08%	-0.18%	0.60%	0.12%	-0.04%
Common equity ratio (Danish compromise method, fully loaded)	15.3%	15.5%	17.6%	17.1%	16.0%

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

1 Of the interim dividend paid in November 2021, 2 euros were allocated to financial year 2020. The dividend for 2022 is subject to the approval of the General Meeting of Shareholders.

Our key performance indicators (KPIs) for the future

Client NPS score Target: top 2 at group level by year-end 2023	**Digital sales** Target: share of digital sales ≥ 40% for bank products and ≥ 25% for insurance products by year-end 2023	**Straight-through processing** Target: share of straight-through processing (STP) ≥ 60%	**Bank-insurance clients** Target: 85% of active clients by year-end 2023	**Stable bank-insurance clients** Target 27% of active clients by year-end 2023	**Strategic**
Responsible investment funds (RI) Target: share of RI funds ≥ 45% of Assets under Distribution ('direct client money') by 2025 and 55% by 2030; new production of RI funds ≥ 65% of total annual fund production by 2030; decrease in greenhouse gas intensity of companies in RI funds by 50% between 2019 and 2030	**Renewable energy loans** Target: share of renewable energy sources in the energy-sector loan portfolio ≥ 75% by 2030	**Greenhouse gas intensity of the loan portfolio** Target: decrease in greenhouse gas intensity of the energy, electricity, real estate, mortgage loans and loans provided for commercial residential real estate, automotive, agriculture, cement, steel and aluminium sectors and sub-sectors by 2030 and 2050 (see below)	**Own CO2e emissions** Target: -80% between 2015 and 2030 and achievement of complete climate neutrality for our direct footprint from year-end 2021 by offsetting the difference.	**Own renewable energy consumption** Target: 100% green electricity by 2030	**ESG**
Total income Target: CAGR for 2022-2025: ± 6.0% **Operating expenses excluding bank taxes** Target: CAGR for 2022-2025: ± 1.8%	**Credit cost ratio** Target: 25-30 basis points for the through-the-cycle credit cost ratio	**Combined ratio** Target: ≤ 92%	**Dividend payout ratio** Target: ≥ 50% (see 'Our strategy')	**Surplus capital** Target: > 15% (The Board of Directors decides on payment of portion exceeding 15% of common equity ratio, see below)	**Financial**

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

Table of Contents

Report of the Board of Directors

Consolidated financial statements

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

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

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

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

Translation and versions: The Annual Report is available in Dutch and English ESEF (European Single Electronic Format) versions and in Dutch, English and French PDF versions. The Dutch ESEF version is the original version; the other language translations are unofficial versions. We have made every reasonable effort to avoid discrepancies between the different language and format versions. However, should such discrepancies exist, the Dutch ESEF version will take precedence.

How do we determine what is sufficiently important to mention in our annual report?: We take our cue from relevant legislation and the International Financial Reporting Standards and take as much account as possible of the guidelines issued by the International Integrated Reporting Council, which also inspired the information we provide on value creation. We base our non-financial statement primarily on the GRI (Global Reporting Initiative) Standards and prepare our reports according to the GRI Universal and GRI Topic Standards. The GRI Content Index with the GRI indicators that have the greatest impact on our company can be found in our Sustainability Report at www.kbc.com. We also map our material topics using the Sustainability Accounting Standards Board (SASB) standards and have incorporated the relevant standards into the GRI Content Index/SASB Disclosure. These reporting frameworks emphasise materiality and relevance in reporting. Our efforts to determine which subjects are important to our stakeholders include carrying out a materiality analysis (see 'Stakeholder interaction and materiality analysis'). The results of the materiality analysis were validated by the Internal Sustainability Board, approved by the Executive Committee and submitted to the Board of Directors. Information on the scope of consolidation for financial information is provided in Note 6.5 of the 'Consolidated financial statements' section. Our sustainability data is collected through a group-wide process that includes strict hierarchical validation and applies as a minimum to all KBC entities in the core countries. In most cases, the data relates to the period from 1 October [t-1] – 30 September [t]. More information on the collection of sustainability data and the collection method used is provided in our Sustainability Report at www.kbc.com. We emphasise that, when we use terminology such as 'green' and 'sustainable', these terms in no way suggest that what we describe is already fully in line with the EU Taxonomy.

Disclaimer: The expectations, forecasts and statements regarding future developments that are contained in the annual report are based on the assumptions and assessments we made when drawing up this report at the start of March 2023. By their nature, forward-looking statements involve uncertainty. Various factors could cause actual results and developments to differ (considerably) from the initial statements.

A significant adjusting post-balance-sheet event affecting the 2022 financial statement: see Note 3.6 in the 'Consolidated financial statements' section.

Company annual accounts and additional information

Report of the Board of Directors

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

The year of Russia's invasion of Ukraine

Koenraad Debackere: '2022 will go on record as the year in which Russia invaded Ukraine. Just when concerns about the pandemic began to subside in some countries, Russia invaded Ukraine in February. The subsequent events caused a grave humanitarian crisis for the Ukrainian population, with countless casualties and fatalities, families being separated and millions of residents having fled the country. We express our heartfelt solidarity with all victims of the conflict in the region and with the large numbers of refugees in the various European host countries.

The brutal invasion also shook the global economy. Although our direct exposure to Ukraine, Belarus and Russia is very limited, we are keeping a close eye on the indirect macroeconomic consequences, such as the impact of the high oil and gas prices on inflation and economic growth, and the financial and operational spillover effects for us, our counterparties and our clients. For this purpose, we set aside a reserve of about 0.4 billion euros in 2022 to cover the related geopolitical and emerging risks.'

Continued focus on climate responsibility and sustainability in general

Johan Thijs: 'The new geopolitical environment should not divert attention from the other major challenges of our time. The climate crisis is unfolding in front of us and is causing extreme weather conditions that will become increasingly widespread. This means that we must act now if we are to minimise climate change and its consequences. As an integrated bank-insurance group, we seek to play a major role in the transformation needed to prevent catastrophic global warming. Together with our clients, we have started building a more climate-friendly loan portfolio and are shifting our focus to responsible investment. We encourage investments aimed at creating and supporting the transition to a greener society and are making every effort to help our clients and accommodate their needs on their journey towards more sustainable activities. We joined various international initiatives related to climate change and sustainability and we significantly tightened several of our sustainability targets in 2022. This included defining specific climate indicators for our lending activities in a few carbon-intensive sectors such as energy and real estate. Another important sustainability initiative was the issue of a first-ever social bond in August, with the yields being used to finance projects in the hospital sector.

We are especially proud that we are one of the 19 companies worldwide to have been awarded the Terra Carta seal in January 2023, in recognition of our commitment to creating a sustainable future. More details on how KBC puts sustainability into practice are provided in this Annual Report – and in particular – in our Sustainability Report and our Climate Report at www.kbc.com.

Rapid path to digitalisation

Johan Thijs: 'KBC has always been at the forefront of new digitality developments, the most visible example of which is our personal digital assistant Kate, which we further developed in 2022. Our ultimate objective continues to be ensuring maximum convenience for our clients. Already well established in Belgium and the Czech Republic, Kate was also launched in our other core countries in 2022. We are pleased to report that Kate's growth has exceeded our expectations. Our clients have been quicker to adopt Kate than we expected, while the digital assistant has also far outperformed the 2022 target in terms of autonomy. One of the most prominent innovations in 2022 was, undoubtedly, the launch of our own digital currency, the Kate Coin, which our clients will be able to use when making certain purchases or investments. Roughly 8 000 employees of our group were the first to test the Kate Coin at the Werchter Boutique festival in June, which they had been invited to as a reward for their work during the coronavirus period. The launch of Discai is another outstanding example of innovation. Set up with the aim of marketing our portfolio of artificial intelligence applications, Discai has now introduced the first AI solution into the market. We also receive external recognition for our continued successful efforts towards innovation and providing our clients with maximum convenience. In October 2022, independent international consulting firm Sia Partners once again named KBC Mobile one of the best mobile banking apps worldwide and the best mobile banking and insurance app in Belgium.'

Further geographic focus

Koenraad Debackere: 'Focus remains a particularly important aspect of our strategy. Our core business is and will remain bank-insurance for retail clients and corporates in a clear selection of core markets. Where it is possible, opportune and attractive, we aim to strengthen our position in those countries further. In early July 2022, we completed the acquisition of Raiffeisenbank Bulgaria. The combination

Johan Thijs

Koenraad Debackere

of Raiffeisenbank and UBB will allow us to significantly bolster our position in the Bulgarian banking market. This means that, over the past 15 years, KBC has carved out a position for itself as the largest investor in Bulgaria and has taken the lead in the process of consolidating the Bulgarian financial sector. We would like to extend a warm welcome to our new clients and colleagues, who are now part of our large family. In February 2022, we sold virtually the entire portfolio of non-performing mortgage loans of KBC Bank Ireland, and we also entered into an agreement for the sale of substantially all of KBC Bank Ireland's performing loan assets and its deposit book to Bank of Ireland. The latter transaction was finalised in early February 2023, which means that we have now effectively fully withdrawn from the Irish market.'

Excellent result in challenging conditions

Johan Thijs: 'In 2022, we were able to reverse the full remaining amount of impairments previously set aside for the coronavirus crisis, but we also set aside 0.4 billion euros in impairments for geopolitical and emerging risks to hedge the mostly indirect economic impact of the war in Ukraine on our loan portfolio. Our income grew by 12%, with the most striking component being higher net interest income, whereas our cost base obviously suffered from the inflationary pressure as well as from significantly higher bank taxes. This translated into an excellent net profit for 2022 totalling 2.7 billion euros, up 5% on the year-earlier result.
We will propose to the General Meeting of Shareholders a gross total dividend of 4 euros per share for 2022, comprising an interim dividend of 1 euro, paid in November 2022, and a final dividend of 3 euros, payable in May 2023. In addition, and in line with our capital allocation plan for 2022, we aim to pay out the surplus capital exceeding a 15% fully loaded common equity ratio in the form of a share buyback (subject to ECB approval) and/or an exceptional cash dividend. We also aim to pay out the capital release resulting from the sale transaction completed in Ireland (roughly 1 billion euros) in the form of a share buyback (subject to ECB approval) and/or an exceptional interim dividend. The Board of Directors will make the final decision on these matters in the first half of 2023.

The economic environment in 2022 and beyond

Koenraad Debackere: '2022 was dominated by two factors. In the first half of the year, the global economy continued its recovery in the wake of the pandemic, and the reopening of the economy and reduction in supply impediments boosted economic growth. However, during the year, especially the European economy increasingly felt the effects of the shock in commodity and energy prices resulting from the Russian invasion of Ukraine. After strong quarterly growth in the first half of the year, euro area growth dynamics decelerated and barely remained in positive territory in the fourth quarter. This means that the European economy seems to have averted a deep recession for now. The year 2023 is certain to bring great challenges as well. Monetary and budgetary policymakers must get the high inflation under control, while at the same time ensuring a minimal impact on growth. Rising interest rates have also put global debt issues back on the radar.
However, the results we posted this year and in previous years have demonstrated that we can continue to build on our solid foundations and our strategy even in challenging circumstances. This strategy is built entirely on the trust you, our dear client, employee, shareholder or other stakeholder, have placed in us. I sincerely thank you for that.'

Johan Thijs
Chief Executive Officer

Koenraad Debackere
Chairman of
the Board of Directors

Our business model

How do we create sustainable value?

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

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

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

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

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

In terms of climate, we as a bank-insurer have a direct influence on climate change through our own energy consumption. More important, however, is our indirect influence, through lending, holding an investment portfolio, providing investments to clients and insuring counterparties who can have a direct impact on the climate. We ourselves also feel the impact of climate change. Examples include higher levels of claims under the insurance we provide relating to consequences of extreme weather conditions and the impact on our loans or investments when relevant counterparties suffer the negative consequences of climate change or the transition to a lower-carbon society. We carefully consider these factors, not only to reduce or prevent adverse consequences, but also to contribute actively by launching sustainable products and services. We closely track our performance in this regard, to which end we apply specific targets. In 2022, as part of our Sustainable Finance Programme, we decided to develop a similar structured approach for the other environmental aspects.

"

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

"

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

How do we create value?

Raw materials

Financial capital	Total equity of 20.8 billion euros 253 billion euros in deposits and debt securities
Employees and brand	Approximately 42 000 employees Strong brands in all core countries, trusted partner Capacity to innovate
Infrastructure	Various electronic distribution platforms, apps, AI and underlying ICT systems >1 200 bank branches, various distribution channels for insurance
Clients and other stakeholders	13 million clients in 5 core countries Suppliers, government, regulators and other stakeholders
Environment and society	Direct use of electricity, gas, water, paper, etc. More important indirect impact through lending, investment portfolio, funds, insurance, etc.

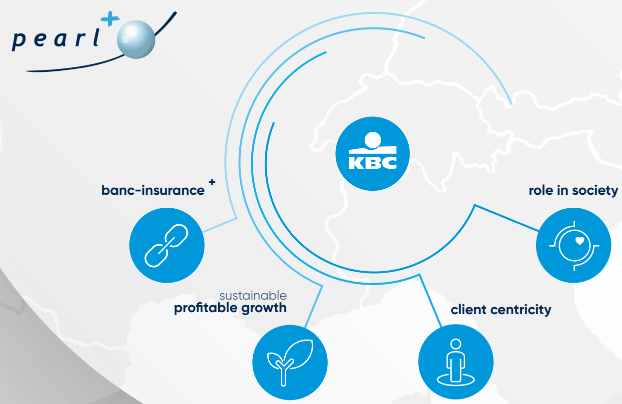
Activities

Goal and ambition

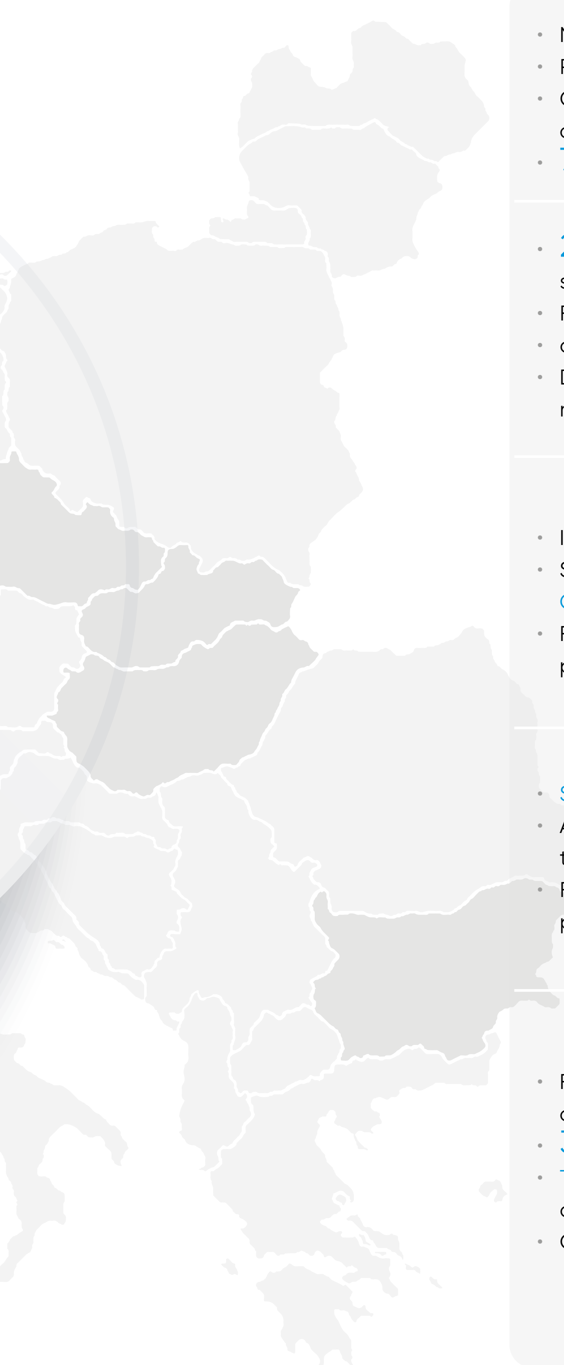
To offer proactive and data-driven solutions to meet our clients' needs.
To be the reference for bank-insurance in all our core markets

Core activities

Lending
Deposits
Insurance
Investments
Asset management
Payments
Other financial services



Most relevant SDGs for the group



Output and outcomes (selection 2022)	Goals and term (results: see 'Our strategy')
• Net profit of 2.7 billion euros • Robust capital and liquidity ratios • Cost/income ratio of 57% and combined ratio of 89% • 7% organic growth in loans and advances	• Growth of total income (2025) • Growth in operating expenses excluding bank taxes (2025) • Combined ratio (2022) • Credit cost ratio (through-the-cycle)
• 2.6 billion euros in remuneration paid to our staff • Firmly embedded PEARL+ business culture • around 151 000 registered training days • Diversity: 43% women in junior and middle management, 24% in senior management	• Employee engagement surveys (2022)
• Innovative digital, AI and data-driven approach • Success of digital assistant Kate, launch of Kate Coin • Focus on simplification and straight-through processes	• Share of digital sales (2023) • Straight-through processing score (2023)
• Stakeholder interaction process by country • Aggregate 1.3 billion euros paid in income taxes and bank taxes • Focus on financial literacy initiatives and promoting entrepreneurship	• Dividend payout ratio and surplus capital payout (2022) • Client NPS score (2023) • Share of bank-insurance clients (2023)
• Focus on environmental awareness initiatives and the issue of longevity and health care • 32 billion euros in responsible investment funds • Tightening and expansion of environmental and sustainability targets • Own CO_2 emissions, -70% compared to 2015	• Responsible investment funds (2025 and 2030) • Reduction in own CO_2 emissions (2030) • Share of electricity from renewable sources (2030) • Share of renewable energy loans (2030) • Greenhouse gas intensity in the various sectors in the loan portfolio (2030 and 2050)

What makes us who we are?

Our value creation	Our model	Our environment	Our capitals

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

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

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

pearl+

We focus on jointly developing solutions, initiatives and ideas within the group.

Performance
We strive for excellent results and do what we promise to do.

Local Embeddedness
We view the diversity of our teams and of our clients in the different core markets as a strength and we stay close to our clients.

Results-driven
We do what we promise, we meet our objectives, we deliver quality, and we do so on time and in a cost-effective manner.

Responsive
We anticipate and respond to suggestions and questions spontaneously and positively.

Respectful
We treat people as our equals, we are transparent, we trust them and appreciate them for what they do and who they are.

Empowerment
We offer every employee the chance to develop their creativity and talent.

Responsiveness
We anticipate and respond proactively to the questions, suggestions, contributions and efforts of our clients, colleagues and management.

Accountability
We meet our personal responsibility towards our clients, colleagues, shareholders and society.

What differentiates us from our peers?

1 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.

2 Our digital approach

Digital interaction with clients forms the basis of our business model in our strategy, not only in terms of sales and advice, but also in process and product development. In addition to a digital product range, therefore, we also offer our clients digital advice and develop all processes and products as if they had to be sold digitally. Artificial intelligence and data analysis will play an important part in digital sales and advice. Kate, our personal digital assistant, will feature prominently in this regard. We pay particular attention to the speed and simplicity with which we can serve our clients and take this into account when adjusting our internal processes. Of course, experts are still available in our branches or call centres to deal with more complex questions or provide advice at important moments in clients' lives. It is precisely because of the success of our digital approach that we can now free up more time to provide more clients with even better advice

3 Our strong geographical focus and local responsiveness

We focus on our core markets of Belgium, the Czech Republic, Slovakia, Hungary and Bulgaria. This selection of countries allows us to operate in a mix of mature and growth markets, taking advantage in the latter of the catch-up potential for financial services. We have a limited presence elsewhere in the world, including to support the activities of our corporate clients in our core markets. We want to build sustainable relationships with our local clients in our core countries. The goal is to know and understand our local clients better, pick up signals effectively and respond to them proactively, offer tailored products and services, and focus on the sustainable development of the different communities in which we operate. Where relevant, we facilitate collaboration among our core countries to avoid duplicating our efforts and to offer our clients the best solutions.

Our strengths and challenges

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
- Strong focus on sustainability. Ambitious climate targets that we also use to guide our clients towards a more sustainable future

4

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 financial resilience and 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.

5

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 41% of our shares at the end of 2022. These shareholders act in concert, thereby ensuring shareholder stability in our group.

Challenges

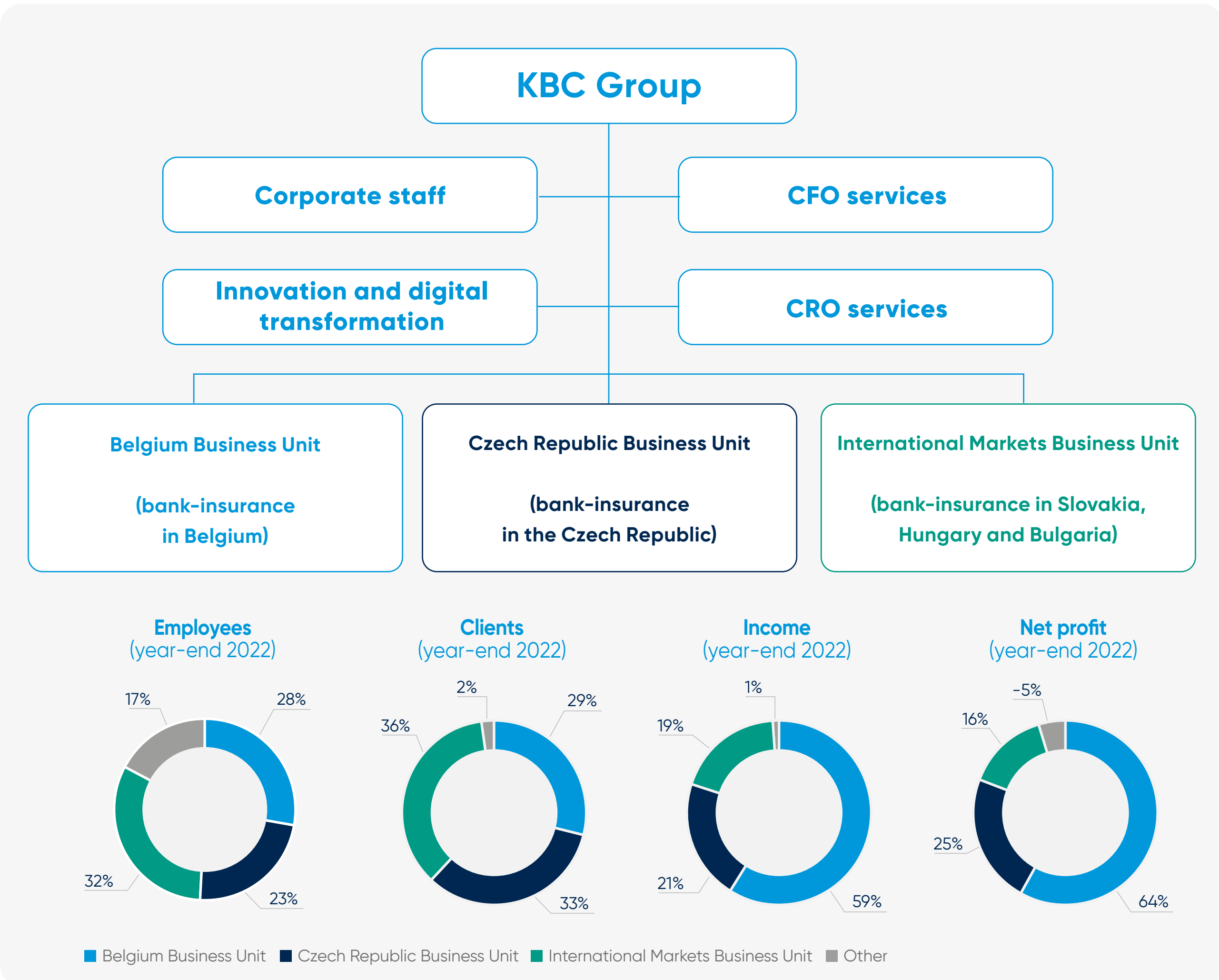
- A macroeconomic environment characterised by geopolitical challenges, higher interest rates, high inflation and population ageing.
- Impact of climate change on our and our clients' operations, and vice versa, and the use of opportunities related to the transition to a greener economy
- Stricter regulation in areas like client protection, solvency and the environment
- Changing client behaviour, competition and new players in the market
- New technologies and cyber crime

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

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

The most important matters discussed by the Board in 2022 are summarised in the 'Corporate governance statement'. We also deal there with our remuneration policy for senior management. The principle underpinning this policy – and the remuneration of all our staff – is that good performance deserves to be recognised. It is only fair that every employee who works hard is properly rewarded for their efforts, including by means of limited variable remuneration as part of an attractive and balanced remuneration policy.

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

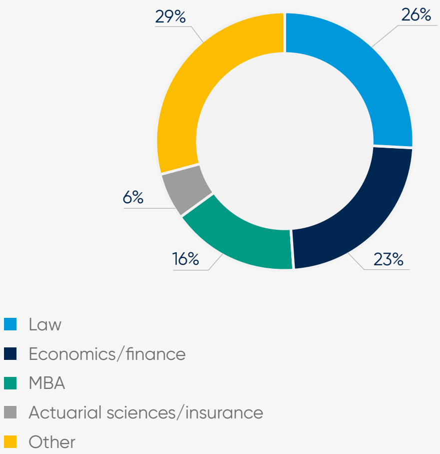


'Other' in the charts: a proportion of our employees work in other countries or in group functions; we also allocate part of our capital and earnings to the Group Centre; in 2022, Ireland was transferred from the International Markets Business Unit to the Group Centre on account of the sale transaction, which had not yet been finalised at year-end 2022 (see elsewhere in this report).

Composition of the Board of Directors (year-end 2022)

Members	16
Men/Women	10/6
Nationality	Belgian (14), Spanish (1), Czech/American (1)
Independent directors	3
Chairman	Koenraad Debackere
Attendance record	See the 'Corporate governance statement'
Principal qualifications	economics, law, actuarial sciences, management, mathematics, fiscal sciences, etc.

Qualifications held by members of the Board of Directors (year-end 2022)

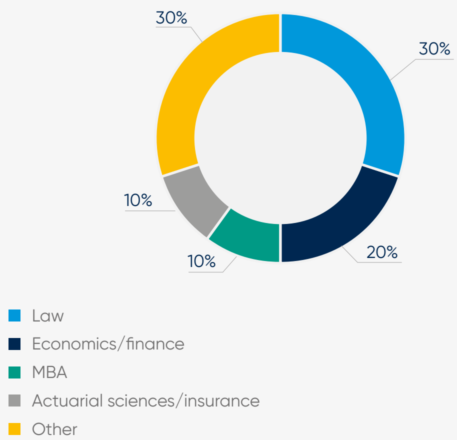


Rough breakdown based on all qualifications (various individuals have more than one degree)

Composition of the Executive Committee (year-end 2022)

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

Qualifications held by members of the Executive Committee (year-end 2022)



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

In what environment do we operate?

Having started its upward trend back in the second half of 2021, inflation reached new highs in Europe and the US after the Russian-Ukrainian war broke out in February 2022. The inflation was fuelled by significantly higher energy and commodity prices and subsequently seeped into the underlying core inflation, i.e. inflation excluding energy and food prices. Responding to this event, in March 2022 the Fed terminated its net purchases under the quantitative easing programme and sped up the tapering of its bond portfolio (quantitative tightening) in September. The Fed also used its interest rate channel to tighten its policy, raising the key rate in 2022 at a faster and more substantial rate than anticipated, from a target range of 0%-0.25% to a target range of 4.25-4.50% at year-end 2022. The Fed is likely to further raise its key rate target range in 2023.
Faced with the exceptional surge in inflation in 2022, the ECB also changed course. After discontinuing net purchases under its Pandemic Emergency Purchase Programme (PEPP) in March 2022, it did the same for its general Asset Purchase Programme (APP) in July 2022. The ECB then immediately started bringing its deposit rate back to normal levels, raising it from -0.50% to 2% at year-end 2022. We expect to see even higher interest rates in 2023. According to ECB reports, the bonds the ECB purchased under the PEPP will be reinvested on their maturity date until at least the end of 2024. The APP portfolio, for its part, will be phased out from March 2023 onwards as part of the quantitative tightening policy. The ECB's encouragement of the financial sector to make early repayments of the long-term liquidity provisions (TLTROs) is also in line with this policy.

The current rising interest rates and reduced liquidity supply pose a risk to the efficient transmission of the ECB's monetary policy to the euro area as a whole. In concrete terms, this could manifest itself in unfounded, widening spreads between euro area government bonds. The ECB has two instruments it can use as possible remedies. The first one is the option to flexibly reinvest the PEPP portfolio by specifically targeting dysfunctional markets. The second instrument is the new Transmission Protection Instrument (TPI), which allows the ECB to purchase bonds directly in problematic markets under certain conditions but nevertheless with full discretionary power vested in the ECB's Executive Board.

The turnaround in monetary policy in 2022 translated into a substantial and largely synchronous increase in US and German government bond yields. The German ten-year yield turned positive again as a result. Overall, the US and German yields rose from 1.52% and -0.18% to 3.88% and 2.56%, respectively, since the start of 2022. The spread between US and German government bond yields was volatile throughout the year and, overall, narrowed from approximately 180 to 130 basis points. If this interest rate differential narrows slightly in 2023, the euro will be able to gain more ground over the US dollar in 2023.

The global economy will again have to rise to exceptionally large challenges in 2023. Policymakers must get the high inflation under control while also ensuring that the economic landing is as soft as possible – a combination that creates tension between monetary and budgetary policies. Rising interest rates have also put global debt issues back on the radar.

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

What are our main challenges?

Climate change, global health risks and geopolitical challenges

Our financial performance is obviously impacted by the global economy in general, as well as by the financial markets and demographic trends. The coronavirus pandemic and the recent extreme weather conditions demonstrated that climate change and public health risks, too, can have a significant impact. And geopolitical developments, such as the war in Ukraine, also have major implications for the economy and hence our results.

How are we addressing them?

- We ensure in our long-term planning/scenario that our capital and liquidity positions 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.
- If it turns out that the models are not capturing the elevated credit risk resulting from specific events (the coronavirus crisis, the war in Ukraine, etc.), we will set aside additional reserves based on a management assessment.
- Where necessary (in response to the coronavirus crisis, for example), we take the measures needed to secure business accessibility and continuity.
- We have translated our environmental and climate change strategy into specific targets and have committed ourselves to several international climate change and sustainability initiatives.
- We constantly adjust our product and service offering by, for instance, responding to demand for sustainable products like green bonds, social bonds, sustainability-linked loans and sustainable pension saving.
- We aim to diversify our income sources to include more fee business, for example, alongside interest income.

Topics from our materiality analysis*

- Long-term resilience of our business model
- Sustainable and responsible service and product offering
- Sustainable and responsible asset management and investing
- Ethical business conduct & responsible behaviour
- Partner in the transformation to a more sustainable future
- Direct environmental impact of our activities
- Service offering stimulating the local economy
- Community engagement

Shifting client behaviour and competition

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

How are we addressing them?

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

Topics from our materiality analysis*

- Data protection and cyber security
- Fair, understandable & transparent information to clients
- Diverse and inclusive business culture
- Employee development and well-being
- Long-term resilience of our business model
- Accessibility and usability of products and services
- Inclusive service offering

Regulation

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

- Sustainability: EU measures to mobilise financial resources for sustainable growth including by means of tailored reporting (Corporate Sustainability Reporting Directive and Article 8 of the Taxonomy Regulation);
- Digitality: EU initiatives related to the impact of new technologies on the financial services sector and the responsibilities of digital service providers; regulations on crypto assets including the MiCA (Markets in Crypto-Assets) Regulation and the AML directive (digital assets).
- Data governance: a regulation (in force with effect from September 2023) that imposes conditions on the provision of data intermediation services, including intermediation services between data holders and potential data users.
- Prudential supervision: further implementation of amendments to the Bank Recovery and Resolution Directive (BRRD2); further follow-up of the transposition of the Basel IV standards into the Capital Requirements Regulation (CRR2) and Capital Requirements Directive (CRD5); implementation of the Digital Operational Resilience Act (DORA); revision of the Solvency II Directive; follow-up of the developments related to the draft Directive on recovery and resolution planning for insurance undertakings; further implementation of the consequences of the 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; new obligations ensuing from 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; we likewise study the impact on transformation and innovation projects.

Topics from our materiality analysis*

- Fair, understandable and transparent information to clients
- Long-term resilience of our business model
- Ethical business conduct & responsible behaviour
- Sustainable and responsible service and product offering
- Sustainable and responsible asset management and investing
- Data protection and cyber security
- Promotion of financial literacy

Cyber risks and data protection

Highly secure ICT systems are extremely important in an increasingly digital world where cyber attacks are a constant threat, with the potential to cause significant financial and reputational harm.
Our focus at KBC is on ensuring both our clients and our entities optimum protection against cyber crime.

How are we addressing them?

- We raise our employees' awareness of cyber risks by providing training in areas like phishing, smishing ('SMS phishing') and vishing ('voice phishing'), and cyber fraud in general. We use tests that train them to respond appropriately to various scenarios.
- 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 ICT and business perspective, so that we can offer maximum resistance and are able to remedy attacks swiftly and efficiently. We regularly evaluate our risk mitigation plans and adapt them as appropriate.
- Our group-wide Competence Centre for Information Risk Management & Business Continuity tracks all risks relating to data protection, cyber crime and operational ICT. The team informs and assists local entities, tests KBC's defence mechanisms and provides training.
- 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 by internal and external security experts.
- See also 'Non-financial risks' in 'How do we manage our risks?' and 'The client is at the centre of our business culture' in 'Privacy, data protection, communication and inclusion' as well as in our Sustainability Report at www.kbc.com.

Topics from our materiality analysis*

- Data protection and cyber security

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

Market conditions in our core markets in 2022

	Belgium	Czech Republic	Slovakia	Hungary	Bulgaria
Market environment in 2022[1]					
Change in GDP (real)	3.1%	2.5%	1.5%	4.9%	3.5%
Inflation (average annual increase in consumer prices)	10.3%	14.8%	12.1%	15.3%	13.0%
Unemployment rate (% of the labour force at year-end; Eurostat definition)	5.5%	2.3%	5.8%	4.0%	4.0%
Government budget balance (% of GDP)	-4.0%	-5.0%	-6.2%	-6.1%	-2.5%
Public debt (% of GDP)	105.0%	43.5%	62%	73.5%	23.0%
Forecast growth in real GDP in years ahead					
2023	0.6%	0.3%	0.9%	0.3%	0.7%
2024	1.2%	2. 6%	2.8%	3.6%	3.5%
KBC's position in each core country[2]					
Main brands	KBC CBC KBC Brussels	ČSOB	ČSOB	K&H	UBB DZI KBC Bank Bulgaria (formerly Raiffeisenbank Bulgaria)
Network	420 bank branches	201 bank branches	110 bank branches	195 bank branches	266 bank branches
	298 insurance agencies	Insurance sold through various channels	Insurance sold through various channels	Insurance sold through various channels	Insurance sold through various channels
	Online channels	Online channels	Online channels	Online channels	Online channels
Recent acquisitions or disposals[3] (2020-2021-2022)	-	-	Acquisition of OTP Banka Slovensko (2020)	-	Acquisition of NN's Bulgarian pension and life insurance business (2021). Acquisition of Raiffeisenbank Bulgaria (2022)
Clients (millions, estimate)	3.8	4.3	0.8	1.6	2.4
Loan portfolio (in billions of EUR)	129	38	12	8	10
Deposits (excl. debt securities) (in billions of EUR)	145	49	8	9	12
Market share (estimate) - banking products - investment funds - life insurance - non-life insurance	 20% 28% 12% 9%	 21% 24% 7% 9%	 12% 7% 2% 5%	 11% 11% 3% 7%	 19% 13% 26% 12%
Contribution to net profit in 2022 (in millions of EUR)	1 759	679	90	195	155

1 Data based on estimates in March 2023 and hence different from year-end 2022 data in Note 1.4 of the 'Consolidated financial statements'. Sale transactions were concluded for the operations of KBC Bank Ireland. Ireland accounted for 12 bank branches and 0.2 million clients at year-end 2022.

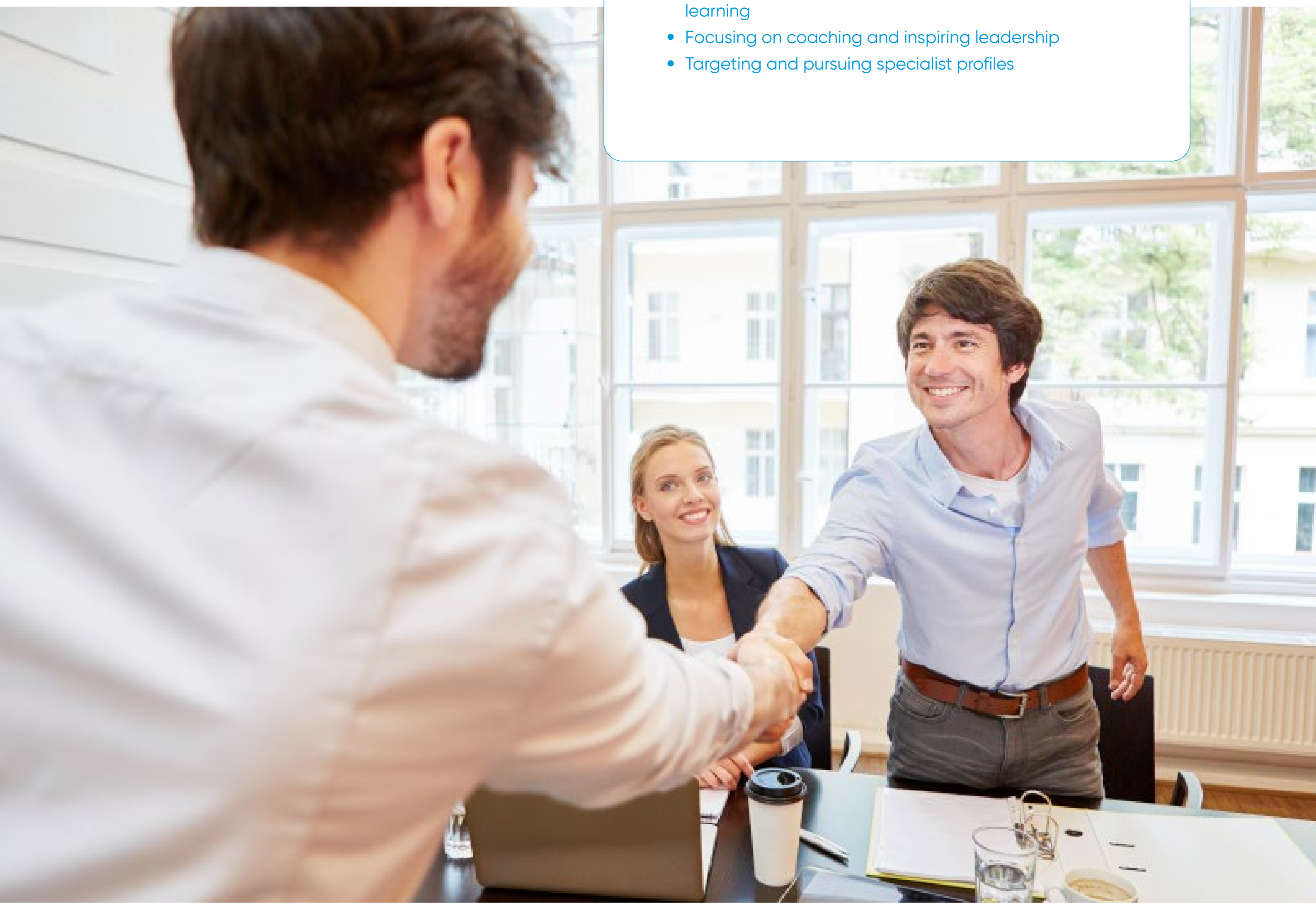
2 Market shares and client numbers: based on own estimates. For bank products: average market share for loans and deposits. In Belgium, the life insurance market share is based on reserves; for the other countries, it is based on premiums. Loan portfolio: see 'How do we manage our risks?'. Deposits: deposits from customers (excluding repos). The number of bank branches excludes self-service branches and the 11 KBC Bank branches established in the rest of Europe, the US and Southeast Asia. The market shares are based on the latest available data (e.g., from the end of September 2022).

3 See Note 6.6 of the 'Consolidated financial statements' for more details.

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

Main challenges

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



Our employees

Our values group-wide are the same and are founded on our PEARL+ business culture. 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. 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, such as the Team Blue Challenges and Group Inspiration Days, we aim 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.

It remains our fixed ambition to 'future-proof' our organisation and employees, and to keep the latter on board as much as possible and enable them to grow with KBC. We are committed to a learning culture, in which learning forms an integral part of our everyday activities. Our company is engaged in a transformation process right now (take the introduction of 'Kate', for instance) and needs different skills. We therefore ask our staff to be flexible and to focus on skills that are relevant. To achieve all this in a smart way, we use an AI-driven learning and talent platform that goes by the name of StiPPLE. This platform enables us to provide employees with the HR information they need to take their career to a higher level. The learning content they receive is tailored not only to the relevant skills but also the appropriate level of those skills. A digital butler helps them focus on the right output and development targets. StiPPLE also serves as an integrated marketplace for internal job openings, using the technology to match available jobs with qualified internal candidates. The digital learning and talent platform is now available in Belgium and a number of other countries. As Kate increasingly takes centre stage in the services we provide to our clients and in our business processes, we recently launched the Kate Academy.

We take the health and well-being of our employees very seriously, and no less so in the present post-pandemic environment. As a proper balance between business performance and employee well-being is more important than ever, we are looking for creative solutions to ensure that we can all continue to work in good health and with enthusiasm. In February 2022, Corporate HR set up a new department, Work Life Support, comprising the relevant departments that support workplace well-being with the objective of extending workers' professional lives. The new department develops integrated solutions for a preventive approach to burnouts and mental health issues, in order to support employees returning to work after a period of illness and for sustainable end-of-career proposals. Another point of focus is offering employees attractive working conditions in which they feel that coming to work has added value.

Prompting a wave of solidarity, the war in Ukraine led numerous colleagues in all core markets to roll up their sleeves and start initiatives to get relief supplies where they were needed, take in refugees, make housing available or initiate fundraising campaigns. KBC employees in Slovakia, for instance, are allowed to spend one day a year doing voluntary work, and many of them helped out in the border region. KBC in Belgium also joined in, raising the donations that Belgian KBC employees made to the national fundraising campaign for Ukraine ('Ukraine 12-12').

Having recruited some 760 new employees in Belgium in 2022, we are doing well in the quest for talent, but the search is still on for people with specialist skill sets that will help KBC to grow and expand. We introduced a new method of talent recruitment, in which the employee experience takes centre stage, turnaround times are much shorter and initial job interviews are conducted over video chat.

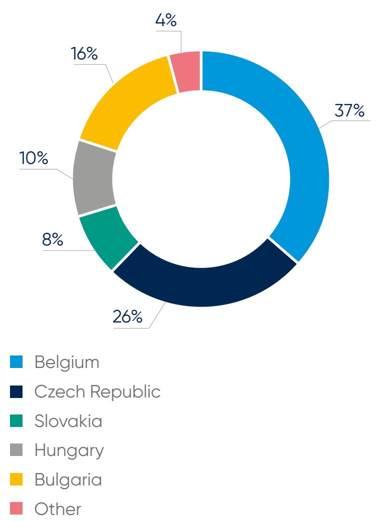
In 2022, KBC and CBC were certified as Top Employers in Belgium.

Our employees can rely on a competitive and fair salary plus supplementary benefits. In 2022, we also decided to provide a group-wide profit bonus to our employees, to thank them for their commitment and resilience, which led to strong results in the past year despite the challenging circumstances.

Good managers are key when it comes to bringing out the best in our employees and implementing the KBC strategy successfully. We therefore invest in the training and education of all our managers through various leadership programmes. Since the nature of leadership has changed since the pandemic, we introduced the 'Leading the Next Level' programme. Managers are provided with behavioural anchors, a self-scan and a team scan to give them new insights and allow them to work more effectively with their teams. In Belgium, for example, inspirational sessions are held to promote teamwork, which also extends to employees. In the Czech Republic, we introduced the innovative 'Future Leaders' and 'Future Leader of Leaders' programmes. To enable them to pursue a common vision, senior managers from across the group take part in the 'KBC University', an ambitious development programme. For instance, blockchain, web 3.0 and digital currency training courses were provided in 2022. Newly appointed senior managers complete a leadership programme in line with our PEARL+ business culture, as well as a strategy module. We are also actively working on a separate policy for top talent management, in which we identify future senior managers and fast-track them to face tomorrow's challenges. There is a special focus in this policy on gender diversity.

We keep close track of our employees' opinions. We launched two employee engagement surveys in 2022. In Belgium, the survey response rate was 75% in March, which rose to 77% in October. 72% of our employees report feeling engaged with KBC, which is an increase of 3 percentage points. Employee engagement is defined as pride in working for the company, motivation to be in the current role, and a sense of connection with KBC. It was precisely this sense of connection that was up 6 percentage points in 2022, as employees are proud of the stability of KBC as a company and of its innovative approach. For ČSOB Czech Republic, which has an employee engagement rate of 76%, we learned from the survey conducted in the second half of the year that 78% of staff are proud of ČSOB, 72% are motivated in their jobs, and 76% plan to remain at ČSOB in the next three years. Employee engagement rates for the other countries range from 58% to 70% (down slightly due to acquisition and integration projects).
The survey was incorporated in a wider survey in all countries. For Belgium, the survey was integrated into the Shape Your Future survey, which gauges the impact of the strategy in addition to employee engagement. The outcome of the survey reveals, for example, that 67% of our employees

Breakdown of workforce by country/region
(year-end 2022)



recognise how their job helps to put the KBC strategy into practice – a percentage that has remained roughly the same. Just over half of our employees state that they can express an opposing view without having to fear adverse consequences.
The surveys have also resulted in a number of measures, including initiatives to support managers in their coaching roles. Managers can access their results and choose to implement specific measures as necessary.

On 1 January 2023, KBC Belgium implemented a new distribution model for Retail. In the new model, which will be subject to leaner commercial control, we expect Kate to take over some of the duties of a number of Retail employees. As Retail positions cover relatively more complex duties, we will adapt our HR job model accordingly. As the new distribution model provides growth opportunities, we will increase the budget for promotions and similar events.

We do not make any distinction on the grounds of gender, age, religion, ethnic background or sexual orientation in our HR, recruitment and promotion policies or remuneration systems. Our policy, including a number of general principles, was published on www.kbc.com and we take part in the Bloomberg Gender Equality Index and the Workforce Disclosure Initiative.
Within the organisation, there are more specific guidelines in place. Our two specific focal areas are gender and people

with physical disabilities. Each of our entities will develop a plan containing specific improvement measures related to diversity and inclusion, and in setting up teams they do not just consider skills but also factors such as gender, age, cultural background, and so on. Since we feel this is an important issue, we maintain a zero-tolerance policy towards flagrantly disrespectful behaviour. We also raise diversity awareness among our employees in the form of inspiration sessions. KBC boasts a diversity and inclusion network organisation called 'Diversity Rocks', which has established one local group in every country. In terms of remuneration, a pay gap analysis is conducted every year. A study is being conducted in Belgium into the role of gender, compared to other factors, in decisions concerning remuneration, the outcome of which can be found in our Sustainability Report.

Number of staff, KBC group[1]	31-12-2022	31-12-2021
Total workforce		
Absolute number	41 947	40 428
FTEs	39 288	37 207
Breakdown, in % (based on FTEs)		
Belgium	37%	39%
Central and Eastern Europe	60%	57%
Rest of the world	4%	4%
Belgium Business Unit	28%	30%
Czech Republic Business Unit	23%	24%
International Markets Business Unit (excluding Ireland in 2022, including Ireland in 2021)	32%	33%
Group Functions and Group Centre (including Ireland in 2022, excluding Ireland in 2021)	17%	14%
Gender diversity (% of women, based on absolute numbers)		
In total workforce	57%	56%
In middle and junior management	43%	41%
In senior management (top 300)	24%	24%
On the Executive Committee	14%	14%
On the Board of Directors	38%	33%
By number of promotions per year	59%	59%
By age		
Younger than 30 years of age	14%	14%
30–50 years of age	56%	57%
Older than 50 years of age	30%	29%
Average age (years)	43	43
Additional information		
Proportion of part-time workers (as % of the total workforce)	16%	17%
Average seniority (years)	13	13
Number of days absent through illness per employee	9.0	8.0
Staff turnover (as % of the total workforce)[2]	15%	14%
Internal labour mobility (as % of the total workforce)[3]	15%	24%
Number of (registered) training days ('000)	151	135
Number of training days per employee	4.0	4.0
New acquisitions (in numbers)	5 120	3 799
Employees covered by a collective labour agreement (as % of the total workforce)	77%	82%

1 Please note that flexible DPP and DPC contracts (temporary contracts primarily for students) in the Czech Republic and Slovakia have also been included in the totals here (but not in the other subheadings or information). All figures starting from Gender diversity relate to the period 1 October [t-1]–30 September [t] (see the Sustainability Report for more details).
2 This includes mobility between the group's legal entities (with the exception of the shift between KBC Group and KBC Global Services)
3 Decrease from 2021: the 2022 figure excludes internal labour mobility resulting from organisational changes in Belgium.

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

Our group's acquisitions and disposals obviously also have an impact on HR. We are focussing on the technical HR details in preparation for the official acquisitions of NN and Raiffeisenbank in Bulgaria. In Ireland – for which a number of sale transactions were concluded – (see Note 6.6. in the 'Consolidated financial statements' section), we keep the lines of communication open with employees to provide them with maximum certainty regarding the pending sale transactions. The severance scheme KBC Ireland recently negotiated with its Employee Council offers employees what qualify as very favourable terms within the industry, which reflects the bank's great appreciation for the work of its employees.

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

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

Our capital

Our activities are only possible if we have a solid capital base. At year-end 2022, our total equity came to 20.8 billion euros and our capital was represented by 417 169 414 shares. Our shares are held by a large number of shareholders in a number of countries. A group of shareholders consisting of MRBB, Cera, KBC Ancora and the Other core shareholders constitute our core shareholders (see the 'Corporate governance statement' section for more information).

KBC share	2022	2021
Number of shares outstanding at year-end (in millions)	417.2	416.9
Share price for the financial year*		
Highest price (in EUR)	85.1	85.9
Lowest price (in EUR)	45.5	55.9
Average price (in EUR)	58.9	68.3
Closing price (in EUR)	60.1	75.5
Difference between closing price at financial year-end and previous financial year-end	-20%	+32%
Equity market capitalisation at year-end (in billions of EUR)	25.1	31.5
Average daily volume traded on Euronext Brussels (source: Eikon)		
In millions of shares	0.7	0.5
In millions of EUR	43	36
Equity per share (in EUR)	46.3	51.8

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

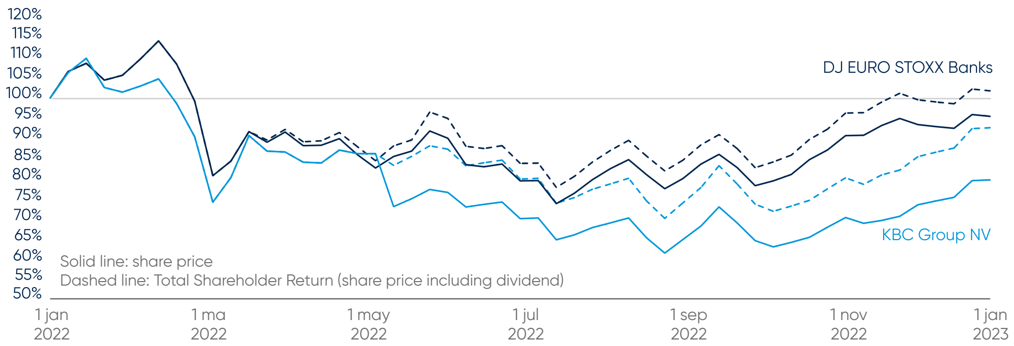
Shareholder structure of KBC Group NV (31 December 2022)*	**Number of shares at the time of disclosure**	**Percentage of the current number of shares**
KBC Ancora	77 516 380	18.6%
Cera	15 555 143	3.7%
MRBB	47 887 696	11.5%
Other core shareholders	30 623 645	7.3%
Subtotal for core shareholders	171 582 864	41.1%
Free float	245 586 550	58.9%
Total	417 169 414	100.0%

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

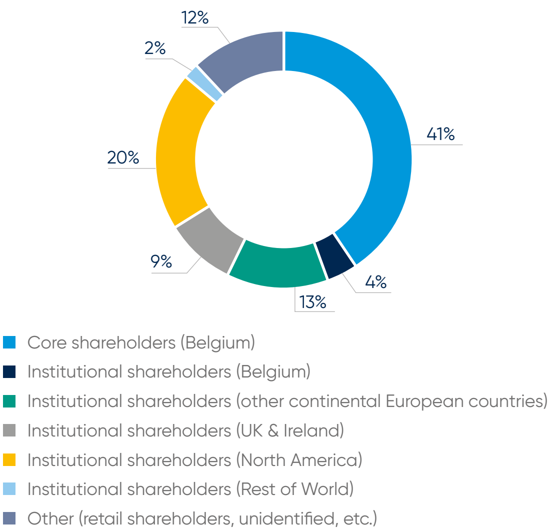
Dividend policy: see 'We aim to achieve our ambitions within a stringent risk management framework'. Dividend for 2022: see 'Consolidated statement of changes in equity' in the 'Consolidated financial statements' section.

KBC share price over one year

(31 December 2021 = 100%, end-of-week prices)



Breakdown of shareholder structure by country/region (September 2022, own estimates)



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

Ratings on 16 March-2023

Financial ratings for KBC group, KBC Bank and KBC Insurance[1]	Long-term debt rating	Outlook	Short-term debt rating
Fitch			
KBC Bank NV	A+	Stable	F1
KBC Group NV	A	Stable	F1
Moody's			
KBC Bank NV[2]	A2	Positive	P-1
KBC Group NV	Baa1	Positive	P-2
Standard & Poor's			
KBC Bank NV	A+	Stable	A-1
KBC Insurance NV	A	Stable	–
KBC Group NV	A-	Stable	A-2
Sustainability ratings, KBC group			**Score**
CDP			A
Sustainalytics ESG Risk Rating			12.5
S&P Global Sustainability Score			75/100
MSCI ESG Rating			AAA
ISS ESG Rating			C+ (Prime)
FTSE4Good ESG Rating			4.3/5

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

2 Long-term deposit rating of A1.

Our network and our relationships

Alongside staff and capital, our network and relationships are especially important to our activities. An overview of our network can be found under 'Market conditions in our core markets in 2022'.

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

Investor relations

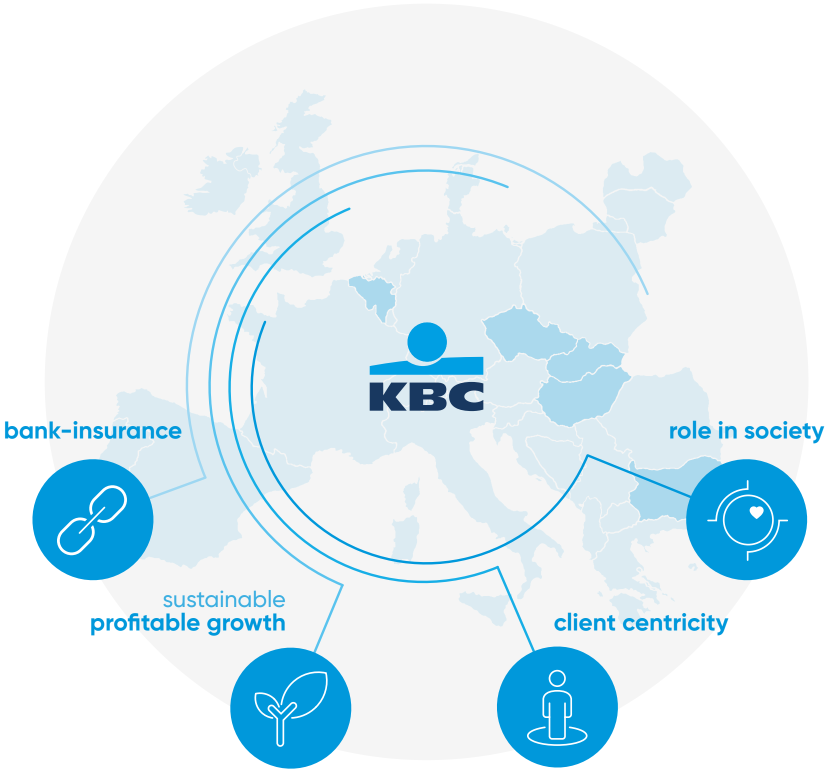
Our Investor Relations Office has the mission of providing analysts, investors, rating agencies and other parties with timely, transparent, consistent and relevant information on our business strategy, trends and financial data. This information is widely disseminated and is accessible to all interested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

Investor Relations	2022
Number of virtual roadshows (virtual and non-virtual)	37
Number of international virtual conferences (virtual and non-virtual)	11
Number of sell-side analysts tracking KBC (at year-end 2022)*	23
Sell-side analysts' recommendations for the KBC share (at year-end 2022)	
Buy/Outperform	35%
Hold/Neutral	52%
Sell/Underperform	13%

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

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

Our strategy



Our strategy rests on the following principles:

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

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

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

The client is at the centre of our business culture

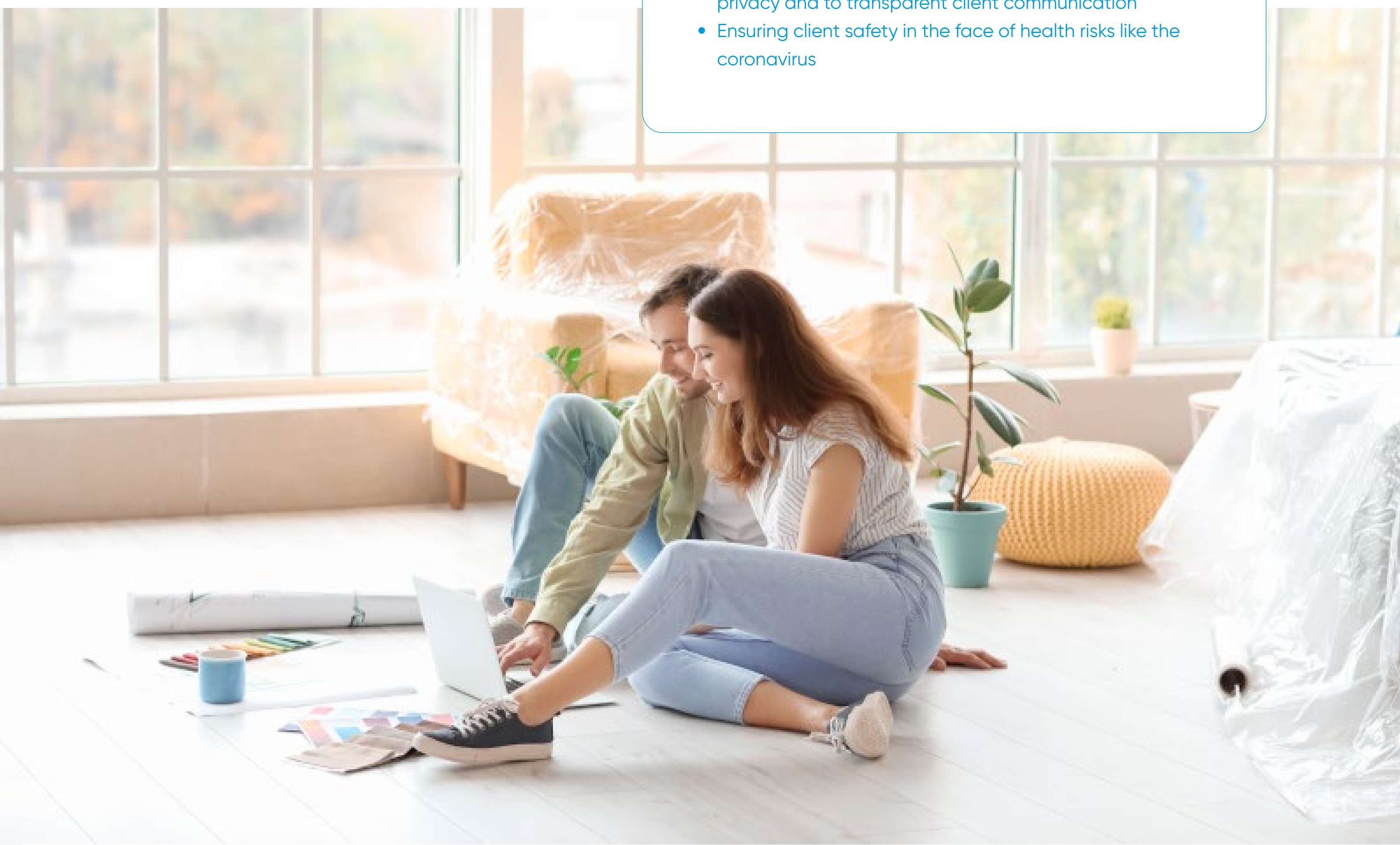
client centricity	bank-insurance	sustainable profitable growth	role in society

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

Within a stringent risk, capital and liquidity management framework

Main challenges

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



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

We continued to focus our efforts on client and employee safety in the wake of the coronavirus crisis, making a point of maintaining regular communications and offering a sensible mix of in-person and online events and meetings. We 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 moratoria. With the exception of an amount of 0.2 billion euros, most of the moratoria have now expired. In addition to this, we granted some 0.9 billion euros in loans that fall under the various coronavirus-related government guarantee schemes in our core markets.
For more details on moratoria and government guarantee schemes, see Note 1.4 of the 'Consolidated financial statements' in the 2020 and 2021 Annual Reports.

Russia invaded Ukraine in February 2022. Regrettably, the war was still ongoing at the time this Annual Report went to press. The tragedy unfolding in Ukraine is causing immense human suffering and is shaking the global economy. We express our heartfelt solidarity with all victims of the conflict and are hoping for a respectful, peaceful and lasting solution in the near future. Several countries have imposed economic sanctions on Russia. As a financial group, we naturally shoulder our responsibility to do business in a legal and ethical way and to comply with the various sanctions.

In all KBC core markets, our employees initiated relief campaigns for Ukraine and several of our people took in refugees, provided assistance and performed voluntary work. Several of our banks in our core markets helped meet the needs of Ukrainian refugees by providing an exemption from costs payable for specific financial services, and numerous charitable activities were carried out. The 'Ukraine 12-12' campaign was launched in Belgium. A special button in KBC Mobile allowed clients to make a donation to the campaign. In the Czech Republic, ČSOB pooled resources with relief agency People in Need and launched a fundraising campaign immediately after the war broke out. It also donated ICT equipment and provides clients with Ukrainian-language information on the website and by telephone. In Hungary, the K&H Foundation for a Healthy Society donated to five humanitarian organisations and doubled the amounts donated by employees. In Bulgaria, UBB donated the proceeds of the Easter for Everyone campaign and employees' donations to NGO Mother Ukraine for humanitarian aid to refugees arriving in Bulgaria. And in Slovakia, the ČSOB Foundation doubled the amounts that staff had donated to Človek v ohrození (People in Need) for aid to Ukraine and donated 3 euros for every runner participating in the 2022 ČSOB Bratislava Marathon.

Although our direct net exposure to Ukraine, Belarus and Russia is very limited (a mere 29 million euros at year-end 2022), it goes without saying that our activities are indirectly hit by the macroeconomic fallout from the conflict, such as the impact of the high oil and gas prices on inflation and economic growth, and the spillover effects for us, our counterparties and our clients. Given this situation, we recorded a reserve to cover geopolitical and emerging risks of 0.4 billion euros (see Note 1.4 of the 'Consolidated financial statements' section below for more details).

Access to financial services and solid financial advice for all sections of society contributes to economic development and forms the basis for financial and social integration. We fulfil our responsibility as a bank-insurer in this regard too, we promote financial literacy and seek by means of solid and transparent advice to help our clients make the right decisions. We realised more than ever during the coronavirus crisis just how important digital literacy is and we launched a variety of initiatives and guides, for instance, to help new users familiarise themselves with our mobile apps. With the introduction of the option to receive financial and economic news through KBC Mobile in 2022, we found yet another way to contribute to awareness-raising and financial education.

Sia Partners has named KBC Mobile one of the best mobile banking apps worldwide
Independent international consulting firm Sia Partners has once again named KBC Mobile the best mobile banking and insurance app in Belgium. KBC Mobile strengthened its leading position over last year. It even ranks third globally.

Digital First

Client expectations have shifted enormously in recent years, with efficient and user-friendly products and services becoming the norm, powered by technology. 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. For a few years now, we have been designing products, services and processes from a 'digital-first' perspective. This implies that they were modified before being digitalised 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 we have seen that clients increasingly demand more proactive and personal products and services in addition to speed and simplicity.

This is why we are transitioning 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. In a digital-first distribution model, digital interaction with clients will form the initial basis. We therefore aim over time to provide all relevant commercial 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.

For clients who so wish, Kate – our 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 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 focused on the mobile application for retail clients in Belgium and the Czech Republic, but in 2022 Kate was introduced in the other core countries of the group, i.e. in Bulgaria in February, and in Slovakia and Hungary in August. Kate for businesses (with a focus on SMEs) was launched in 2021 and is already available in the Czech Republic and Belgium.

Employees in the branch network and contact centres continue to function as a beacon of trust for our clients. The human touch is particularly important in more complex services and solutions and in matters requiring emotional intelligence. Our employees will also support, encourage and monitor use of digital processes, assisted by artificial intelligence, data and data analysis.

To guarantee our clients maximum ease of use and to be able to offer a growing number of possibilities via Kate, we will also change our internal processes, the way we supply our products and services, and how we organise ourselves internally. At the same time, this will require a further change in mentality and in-service training for our staff. For instance, Kate automates certain administrative acts, helping our clients as well as our employees save time. Our employees use this extra time to connect with clients and speak with them about anything that might be on their minds. Kate also helps prepare for appointments, which again saves our employees time.

In 2022 we launched our own banktech, Discai, through which we will be marketing our portfolio of innovative artificial intelligence applications. The first available application focuses on the fight against money laundering. Discai opts for a gradual go-to-market strategy and will collaborate with partners in distributing and integrating those applications. In the next phase, Discai will guide companies and organisations in several sectors in their search for high-performance and innovative solutions to technological and regulatory challenges they encounter in their respective fields.

In 2022 we were the first in Europe to introduce our own blockchain-based digital currency, the Kate Coin, which was fully developed within KBC. KBC retail clients who are interested can acquire Kate Coins and also use them through their Kate Coin wallet in KBC Mobile. This is a closed environment; the Kate Coin has no value outside this environment. Although the Kate Coin will initially be introduced in Belgium, it will eventually be rolled out throughout the KBC group. On Sunday 19 June, the first large-scale trial of the Kate Coin was completed at the Werchter Boutique music festival. During this event, no fewer than 8 000 attending KBC employees could try out the Kate Coins and use them to pay for their food and drinks.

Digitality in practice (2022)

- 46% of banking products and 24% of insurance products were sold through digital channels
- Nearly 85% of active KBC clients* were mobile users
- Some 2.9 million clients have already used Kate; roughly 1.9 million clients were active users
- The number of Kate use cases (retail) increased to 547
- The proportion of cases resolved fully autonomously by Kate E2E stood at 56% in Belgium and at 51% in the Czech Republic
- Launch of the Kate Coin, KBC's own virtual currency

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

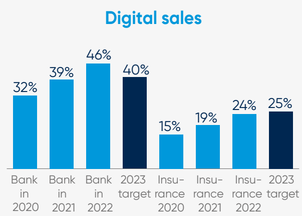
Privacy, data protection, communication and inclusion

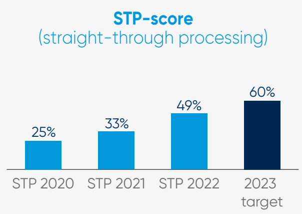
Digitalisation provides us with the opportunity to collect increasing amounts of data. This has helped us to learn more about our clients, advise them more effectively, and further improve their bank-insurance experience. However, this also comes with the obligation to use the available data in a responsible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

Follow-up

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

KPI	Description	Target and result
Client NPS score	A ranking is drawn up based on Net Promoter Scores for each core country. The rankings are aggregated at group level based on active* client numbers.	Target: top 2 ranking by year-end 2023 2022 result: top 2
Digital sales	Digital sales as a percentage of total sales, based on weighted average of a selection of core products.	Target: ≥ 40% for banking in 2023 and ≥ 25% for insurance in 2023 2022 result: 46% for banking 24% for insurance
Straight-through processing (STP)	The STP score is based on analysis of commercial core products. The STP ratio measures how many services that can be offered digitally are processed without human intervention from the moment of the interaction with the client to final agreement by KBC.	Target: STP potential ≥ 60% in 2023 2022 result: STP: 49%





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

We offer our clients a unique bank-insurance experience

client centricity	bank-insurance	sustainable profitable growth	role in society

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

Within a stringent risk, capital and liquidity management framework

Main challenges

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

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

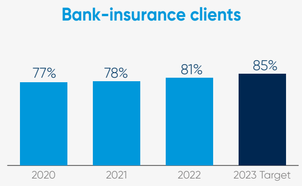
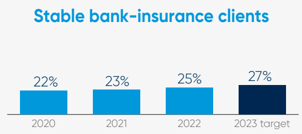
As stated earlier, we do everything we can to integrate our channels (bank branches and insurance agencies, contact centres, self-service terminals, the website, our home banking application and mobile apps). Because we are both a bank and an insurer, we can commit ourselves completely to this integrated approach and seamless service.

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 and support-service 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, one risk control 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. Of course, experts are still available in our branches or call centres to deal with more complex questions or provide advice at important moments in clients' lives. It is precisely because of the success of our digital approach that we can now free up more time to provide more clients with even better advice.

Previously, we only offered our own bank and insurance products and services through our mobile apps. As 'bank-insurance+' has been rolled out, we are now also offering non-financial solutions alongside traditional banking and insurance solutions in our core countries. 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. We work with third parties to provide these solutions.

Our bank-insurance model is already enabling us to achieve various commercial synergies. In Belgium, for instance, eight to nine out of ten clients who agreed home loans with KBC Bank in 2022 also took out mortgage protection cover with KBC Insurance, while more than nine out of ten purchased home insurance. At ČSOB in the Czech Republic, five to six out of ten clients who took out home loans in 2022 also purchased home insurance from the group. To give another example, across the group at year-end 2022, about 81% of active clients held at least one of the group's banking products and one of its insurance products, while roughly 25% actually held at least two banking and three insurance products (3-3 in Belgium). The number of bank-insurance clients of this type grew by 5% (1-1) and 7% (2-2 and 3-3 in Belgium) in 2022 respectively.

We use a number of Key Performance Indicators (KPIs) to track the success of our bank-insurance performance, the most important of which are listed in the following table (KBC Bank Ireland and the former Raiffeisenbank Bulgaria are not included in the 2022 figures).

KPI	Description	Target and result	
Share of bank-insurance clients	Share of bank-insurance clients (min.1 bank + 1 insurance product from the group) within total number of active bank clients*.	Target: ≥ 85% bank-insurance clients by 2023 2022 result: 81%	
Share of stable bank-insurance clients	Share of stable bank-insurance clients (min. 2 bank and 2 insurance products from the group [3-3 for Belgium]) within total number of active bank clients*.	Target: ≥ 27% stable bank-insurance clients by 2023 2022 result: 25%	

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

We focus on sustainable and profitable growth

client centricity	bank-insurance	sustainable profitable growth	role in society

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

Within a stringent risk, capital and liquidity management framework

Main challenges

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

> We want to generate more revenue from the fee business and insurance activities, alongside our interest income, as a diversified income base fosters sustainable and profitable growth.

Developing long-term relationships with our clients is crucial if we are to secure our long-term future. 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, i.e. Belgium, the Czech Republic, Slovakia, Hungary and Bulgaria. 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.

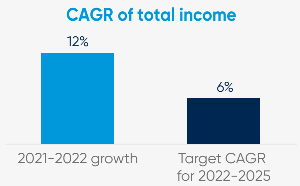
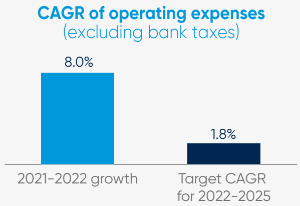
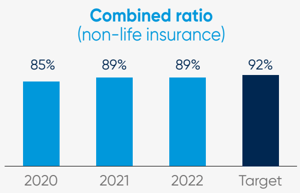
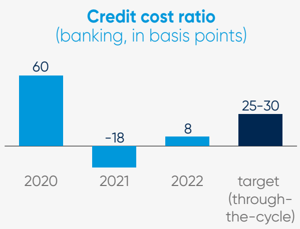
As a result of the withdrawal from Ireland, arising merger and acquisition opportunities beyond our core markets may be assessed (for approval of the Board of Directors) taking into account very strict strategic, financial, operational and risk criteria.

Recent examples (more details are provided in the 'Our business units' section and in Note 6.6 of the 'Consolidated financial statements'):

- In July 2021, we acquired NN's Bulgarian pension and life insurance business. This acquisition enables us to further expand our cross-selling opportunities through our already established bank-insurance presence in the Bulgarian market, allowing us to serve more clients and to benefit from economies of scale and increased visibility.
- In February, we sold virtually the entire portfolio of non-performing mortgage loans of KBC Bank Ireland, and in October 2021 the latter confirmed that it had entered into a legally binding agreement with Bank of Ireland relating to the sale of primarily KBC Bank Ireland's performing loan assets and its deposit book. The Irish Competition and Consumer Protection Commission (CCPC) approved the transaction in May 2022, and the Irish Minister for Finance gave his approval towards the end of the year. The sale was finalised in February 2023.
- In July 2022, we finalised the 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. Raiffeisenbank Bulgaria – now renamed KBC Bank Bulgaria – and UBB will merge their activities, which will allow KBC to bolster its position in the Bulgarian banking market even more. 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 and ensuring maximum convenience for our clients – it does help us to gain an understanding of our clients in order to improve 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.

Stringent risk management in everything we do is an absolute precondition in terms of guaranteeing sustainability. For more information on this, see 'We aim to achieve our ambitions within a stringent risk management framework'. We monitor our long-term performance and our focus on the real economy and sustainability via a number of Key Performance Indicators (KPIs), the most important of which are listed in the following table.

KPI	Description	Target and result	
CAGR of total income*	Compound annual growth rate (CAGR) of total income.	Target: CAGR for 2022-2025: ± 6.0% (target updated) 2021-2022 result: +12% year-on-year	
CAGR of operating expenses excluding bank taxes*	Compound annual growth rate (CAGR) of total operating expenses, excluding special bank taxes)	Target: CAGR for 2022-2025: ± 1.8% (target updated) 2021-2022 result: +8% year-on-year (+7% with exceptional and non-operating items, consolidation changes and exchange rate effects eliminated; see 'Our financial report')	
Combined ratio*	[technical insurance charges, including the internal cost of settling claims / earned insurance premiums] + [operating expenses / written insurance premiums] (for non-life insurance, and data after reinsurance).	Target: ≤ 92% 2022 result: 89%	
Credit cost ratio	[Net changes in impairment for credit risks] / [Average loan portfolio]. A negative value indicates a net reversal of impairment and hence a positive impact on results.	Target: 25-30 basis points for the through-the-cycle credit cost ratio 2022 result: 0.08% (excluding the reserves set aside for the coronavirus crisis and geopolitical and emerging risks: 0.00%)	

* Without taking into account the changes resulting from the adoption of IFRS 17 with effect from 2023.

Our role in society

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

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

Within a stringent risk, capital and liquidity management framework

Main challenges

- Integrating sustainability in key processes and business activities
- Setting targets to reduce the impact of our activities and implementing actions to reach those targets
- Consistently generating value for all our stakeholders in an uncertain environment
- Managing the risks that climate change poses to us and the companies we finance
- Complying with new and amended sustainability legislation
- Focus on responsible behaviour at all levels of our business

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

More information on how we engage with stakeholders and how we select the topics on which we report can be found under 'Stakeholder interaction and materiality analysis' in this Annual Report.

Sustainable Development Goals (SDGs)

In 2015, the United Nations drew up a development plan with 17 ambitious targets for 2030. These Sustainable Development Goals (SDGs) set the global agenda for governments, businesses and society when it comes to tackling the major challenges in the field of sustainable development, such as ending poverty, protecting the planet and guaranteeing prosperity for all. 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 on the five goals where, we believe, KBC can have the greatest impact and make the greatest contribution.

Good health and well-being

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

Affordable and clean energy

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

Decent work and economic growth

Our banking and insurance business supports entrepreneurship and job creation and contributes to sustainable economic growth. We support new businesses and invest in innovation and technology through alliances with start-ups and fintechs. We play an important role in protecting basic labour rights, fair pay, equal opportunities and training and development opportunities for all our employees. In association with BRS, we also offer microfinancing and microinsurance activities to provide rural businesses and farmers in the Global South access to financial services, thereby 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 responsible investment funds. We endeavour to mitigate our own negative impact on the environment by dealing sustainably with energy, paper, water, mobility and waste and by reducing our greenhouse gas emissions.

Climate action

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

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

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

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

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

We developed an e-learning course to clarify the importance of responsible behaviour and to provide a framework to help our employees take difficult decisions when faced with dilemmas. The vast majority of all KBC employees had completed this course by the end of 2022. The online training course has also been incorporated into the onboarding programme for new staff.

New initiatives intended to raise awareness of responsible behaviour are being scheduled for 2023, including a mandatory webinar and a specific internal website that will be accessible to all staff members and to which all countries will be encouraged to make a contribution.

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.

In January 2023, KBC received the Terra Carta seal in recognition of its commitment to creating a sustainable future. We are one of the 19 companies worldwide to have been awarded the 2022 Terra Carta seal. The Sustainable Market Initiative's Terra Carta Seal recognises global companies which are driving innovation and demonstrating their commitment to, and momentum towards, creating genuinely sustainable markets. Designed by Sir Jony Ive, the Terra Carta Seal embodies the vision and ambition of His Majesty King Charles III and the Terra Carta, as a recovery plan for Nature, People and Planet. The Terra Carta Seal is underpinned by Corporate Knights' Annual Global 100 Top Sustainable Corporations List and the wider principles of the Terra Carta.

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.

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

- Resumption of educational programmes by KBC employees in schools to enhance financial literacy among young people in Belgium, the Czech Republic and Hungary after the coronavirus measures were lifted.
- Launch in Bulgaria of an educational programme focusing on ESG topics in collaboration with the Faculty of Economics of Sofia University.
- Lending to education sector: 1.2 billion euros.

Environmental awareness

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

Examples

- Reduction in our direct environmental footprint and net climate neutrality relative to our direct footprint since 2021.
- Publication of the first Climate Report in October 2022, including new environmental objectives.
- Supporting clients seeking to make energy upgrades to their homes thanks to KBC's investment in start-up Setle.
- Issue of green bonds.
- Coordination of sustainability-related loans provided to our corporate clients in line with the Sustainability-Linked Loan Principles.
- For further details, see 'Focus on climate'.

Longevity and health

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

Examples

- Issuance of the first social bond in 2022
- ATMs equipped with voice recognition technology for visually impaired clients and eScribe for hearing-impaired clients in the Czech Republic.
- Financial and material aid to sick children through the K&H MediMagic programme in Hungary.
- Helpline for elderly people in the Czech Republic operated by specially trained call centre agents who help them manage their banking business.
- Loans provided for senior care and healthcare sectors: 6.2 billion euros.

Entrepreneurship

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

Examples

- Further expansion of Start it @KBC in Belgium as the first Walloon branch was opened at the start of 2022.
- Providing rural businesses and farmers in the Global South access to financial services in association with BRS (microfinancing and microinsurance activities).
- Active use of Start it @KBC to support women entrepreneurs in the start-up world.
- Introduction of Start it @UNI, a programme targeting university students in the Czech Republic that helps them increase their prospects of success in the market when launching their projects.

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

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

Important KBC sustainability policies		Applies to
KBC Asset Management – responsible investment exclusions	For responsible investment, we go even further in the exclusion and restriction of controversial activities like all fossil fuels, gambling, defence and fur.	Responsible investment funds
New policies (effective 1 January 2023)	Coal: although we fully maintain our stringent policy on companies that still have coal-based electricity and heat generation capacity, we did decide to permit specific, targeted funding of renewable energy projects initiated by new clients who still have such capacity (as was already the case for existing clients). This decision was inspired by the desire to facilitate and assist the energy transition for all companies and is subject to very stringent conditions, including a strict separation between this type of loan and the company's other activities. The funding of coal-to-gas, coal-to-liquid and coalbed methane projects is now also expressly excluded. Biodiversity: the first restrictions for cattle farming have been introduced, as KBC now refuses to fund or insure companies having more than 200 000 ruminants in order to limit both methane emissions and improper land use. We also expanded our definition of 'protected areas' from the IUCN Green List (59 areas) to all category I and II areas on the IUCN's list of protected areas (9 889 areas in Europe, 454 of which are located in our core countries).	Lending, insurance, advice

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.

Sustainability governance

Board of Directors: is regularly briefed by the Executive Committee on the sustainability strategy, including its policy on climate change, as well as other relevant sustainability issues such as gender diversity. Since climate-related risks have been classified as a top risk, the Risk and Compliance Committee monitors sustainability risks closely. The Board evaluates the implementation of the sustainability strategy using a Sustainability Dashboard and expresses its opinion on major changes to sustainability policies.

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

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

Group Corporate Sustainability: responsible for developing, implementing and supervising the sustainability strategy. The team reports to the Internal Sustainability Board on the implementation of the strategy and prepares the Sustainability Dashboard. The department is led by the Senior General Manager of Group Corporate Sustainability, who reports directly to the Group CEO.

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

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

General Managers of Sustainability in every core country: bear ultimate responsibility for all matters pertaining to sustainability in their country. They are part of senior management and were appointed at the end of 2022 to replace the local Corporate Sustainability Coordinators. They are responsible for integrating the Internal Sustainability Board's decisions and the goals of the Sustainable Finance Programme. They are part of the local country organisation and, therefore, are subject to hierarchical reporting. As they work closely with both the local ISB representative and Group Corporate Sustainability, they also come under the functional direction of the Senior General Manager of Group Corporate Sustainability.

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

External Sustainability Board: consists chiefly of sustainability experts from the academic world and advises Group Corporate Sustainability on sustainability policy and strategy.

Responsible Investing Advisory Board: supervises the screening of the responsible nature of KBC Asset Management's responsible investment funds.

Focus on the climate

In September 2022, we published our first interim Climate Report, in which we detailed our efforts, objectives and performance in our role as CCCA signatory. The report outlines our baseline and the first targets we have set for the most essential carbon-intensive industrial sectors and product lines in our lending activities and describes how we use our asset management activities to take concrete steps towards a climate-resilient future. The report is available at www.kbc.com.

More extensive and in-depth information on the climate scenarios used, the determination of the most essential sectors and the scope and boundaries of our climate standards, data and goals can be found in our Climate Report and our Sustainability Report at www.kbc.com.

The climate aspect in our business model

As a bank-insurer, we have an influence on climate change in two ways. Firstly, by limiting our own energy consumption. 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 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, or the impact on our loans or investments when relevant counterparties suffer the negative consequences of climate change (resulting from long-term drought and prolonged periods of heat in the summer of 2022, for example) or the transition to a lower-carbon society (which can lead to repayment problems). It also relates to the influence we experience from possible changes to the relevant legislation and capital requirements, litigation, changes in client behaviour (including the risk of missed opportunities), the impact of rising market prices on greenhouse gas emissions, and technological innovations.

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

The aim is to chart the resilience of our business model going forward, taking account of different climate scenarios and time horizons, using specific measuring and reporting instruments (see below).

Climate governance

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

- A Sustainable Finance programme has been set up within the group as part of the sustainability policy to focus on integrating the climate approach across the entire group.
- The Sustainable Finance programme is directed by a programme manager from Group Corporate Sustainability, together with a core team comprising representatives of the most relevant departments. The Core Team is in contact with all other group departments and also works closely with the sustainability teams in all core countries.
- A steering committee, chaired by the Group CFO, oversees the progress and the practical implementation of the various measures implemented under the Sustainable Finance programme. However, the main strategic decisions are taken by the Internal Sustainability Board (ISB), which is chaired by the Group CEO and comprises representatives of all core countries, as the ISB has become the most important platform for steering sustainability policy at group level, including our climate approach.
- The programme's progress is also regularly discussed in the Executive Committee and the Board of Directors, with reference, among other things, to the KBC Sustainability Dashboard.

> In 2022, we published specific targets for the first time for the greenhouse gas intensity of our loans in various economic sectors.

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

The environmental and climate aspects of our sustainability policy

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

Important elements of our climate and environmental policy include:

- the application and regular revision of a strict policy to limit the negative ecological impact of our activities through measures such as specific policies on energy and other socially sensitive sectors, 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 internal 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.
- 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 white papers also consistently analysed the local context of all core countries, so that policy decisions can be taken for the entire group portfolio. The white papers are updated once every two years and even once every year for the main sectors and product lines.
- In 2022, these white papers formed the basis for our first Climate Report. The report contains a clear overview of our baseline measurement and the reduction targets for 2030 and 2050 we have set for the most essential carbon-intensive industrial sectors and product lines in our lending activities, as well as the corresponding policy decisions taken to reach those targets. PwC has audited the baseline measurement calculated for the climate targets KBC has set for its lending activities.

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

Sustainalytics and Vigeo). We regularly tighten up our approach, taking account of scientific and technological developments, social trends and the changing views of our stakeholders and also invite regular challenges by our External Sustainability Board.

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

Some examples of recent sustainability- and/or environment-related products and initiatives (KBC group)*

Issue of the first-ever social bond	In August 2022, KBC became the first financial institution in Belgium to issue a social bond, which is used to (re)finance projects in the hospital sector. The issue involved an amount of 750 million euros with an 8-year maturity and a coupon of 3%.
Responsible investment funds	Wide range of responsible investment funds, including ECO-themed funds and impact investing funds. Thorough screening is applied to determine which companies and countries belong to the investment universe for responsible investment solutions. Moreover, all companies that can be linked to fossil fuels have been excluded from all our responsible investment funds.
Project finance	We are actively involved in financing renewable energy projects in all core countries and in our neighbouring countries. Last year, KBC Securities' Project Finance Team funded renewable energy with an installed capacity of 86.3 MWp, for example by concluding successful transactions in onshore and offshore wind energy in the Netherlands and Germany and by acquiring its first stake in an offshore wind project in the United Kingdom. In the Czech Republic, ČSOB granted Enery, an Austrian operator of renewable energy generated by solar panels – the number 2 in the Czech market – a refinancing facility for solar projects totalling 21.1 MW.
Making homes more sustainable	We offer several products to support the most energy-efficient homes and to encourage renovation and investments in energy-efficiency measures. For example, KBC Bank has provided the Flemish 0% loan since January 2021 (which is to be replaced by an interest rate discount for home and apartment renovations in 2023) and – through its investment in start-up Setle – provides support to clients seeking to make home energy upgrades. Setle makes renovation estimates of buildings and refers clients to the allowances and grants available to them. We support the transition to energy-efficient homes in our other core countries, too, by providing mortgage loans and renovation loans under favourable conditions.
More sustainable transport	Around two thirds of the new vehicles in the KBC Autolease fleet are currently electric or hybrid vehicles. Having 25 000 bicycles in its portfolio, KBC Autolease is also a market leader in bicycle leasing. We have partnered with the Flemish government to offer its employees bicycle leasing as a sustainable mobility alternative. In Slovakia, ČSOB Leasing works with its partners to actively promote the use of no-emission and low-emission vehicles.
Non-life insurance: climate-related product features	In Belgium and Slovakia, our car insurance offers comprehensive cover and adequate support for electric and hybrid vehicles. For clients installing their own charging stations, this is automatically included in the home insurance policy in Belgium, which also covers other green investments such as solar panels and home batteries. We also offer our own multi-risk climate insurance for farmers and growers cultivating open-air crops, including fruit growers and arable farmers, to protect them from crop damage caused by extreme and rough weather conditions such as storm, hail, frost, ice, precipitation and drought.

Some examples of recent sustainability- and/or environment-related products and initiatives (KBC group)*

Proxy voting by KBC Asset Management	KBC Asset Management lives up to its responsibility to represent clients who invest in companies via our equity funds at shareholders' meetings.
Green loans and green bonds for corporate clients	KBC is promoting sustainable financial solutions amongst its corporate clients in all core countries, including by means of green and sustainability bonds and green and sustainability-linked loans. We also operate in the syndicated market of sustainability-linked loans and frequently arranged such loans on a bilateral basis last year. KBC also acts as a sustainability coordinator, assisting companies in integrating sustainability features into their long-term bank credit facilities.
Carbon footprint calculation tool	In Belgium, we support our corporate and SME clients in calculating their carbon footprint. The tool used for this purpose has now also been rolled out to other core countries. In Bulgaria, we also developed a specific carbon footprint calculator for our agricultural clients in collaboration with the Institute of Agricultural Economics.

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

We want to be a partner for our clients in their transformation to a more sustainable future. KBC and its partner Encon have held no fewer than 400 meetings with large corporate clients in Belgium to help them make their business processes more sustainable, which has resulted in more than 250 consultancy contracts. Similar to the Encon partnership for corporate clients, in the near future SMEs will also be able to request climate advice from specialist KBC subsidiary ecoWise.

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

One of the pillars of our sustainability and climate policy is the focus on responsible investment. Our greatly expanded product range enables clients to stock their portfolios exclusively with responsible products, and in our digital sales process we offer the responsible option by default. If both the traditional option and its responsible counterpart are available, our employees in the regular sales channel will first offer clients the responsible investment. All of KBC's responsible investment funds in Belgium comply with the 'Towards Sustainability' quality standard developed at the instigation of and monitored by the Central Labelling Agency. These days, an increasing number of clients opt for responsible investment funds.

We meet our responsibility through various international organisations and initiatives and report on this in our Sustainability Report and elsewhere.

- We endorsed the TCFD recommendations in December 2017.
- We follow and implement the different actions ensuing from the EU Action Plan for Sustainable Finance.
- We are a member of the UN Environment Programme Finance Initiative (UNEP FI) and a Founding Signatory of the UNEP FI Principles for Responsible Banking (PRBs). We likewise endorse the Collective Commitment to Climate Action (CCCA).
- We also endorse the UNEP FI Principles for Sustainable Insurance and the Principles for Responsible Investment.
- As a board member of the International Capital Markets Association, we are playing our part in developing green bonds in the EU.
- We have been a signatory to the Equator Principles since 2004 and have integrated them in our lending policy.

Our benchmarks, data and targets

Indirect impact of our lending and asset management activities

We use leading methodologies such as PCAF and PACTA to measure the climate impact of certain sectors and the transition process in the loan portfolio. More information in this regard can be found in our Climate Report at www.kbc.com. For the third year now, KBC Asset Management is using a method for mapping the climate impact of all investment funds in its portfolio. This analysis, based on TRUCOST data and methodology, was applied for the second time in 2022 to KBC Insurance's proprietary investment portfolio and to the investments of the KBC Pension Fund.

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

Financed (scope 3) emissions (estimated greenhouse gas emissions associated with our lending activities)		30-09-2022			31-12-2021	
	million tonnes CO2e	% of financed emissions	% of loans outstanding	million tonnes CO2e	% of financed emissions	% of loans outstanding
White paper on sectors and products	34.0	61%	64%	37.7	66%	66%
Agriculture, farming, fishing[1]	9.1	16%	3%	9.5	17%	3%
Real estate and home loans[1]	3.5	6%	45%	6.9	12%	47%
Energy[1]	4.0	7%	2%	5.9	10%	2%
Building and construction[1]	4.6	8%	4%	4.0	7%	4%
Food and beverage production	3.5	6%	2%	3.3	6%	2%
Automotive industry and vehicle funding[1]	3.4	6%	5%[2]	3.2	6%	5%[2]
Metals[1]	3.5	6%	2%	2.8	5%	1%
Chemicals	2.4	4%	1%	2.1	4%	1%
Other sectors	22.2	39%	36%	19.3	34%	34%
Total	56.2	100%	100%	57.0	100%	100%

1 Targets are being defined for these sectors or their sub-sectors (see below and see the Climate Report at www.kbc.com). The emissions calculation for 'Agriculture, farming, fishing' and 'Real estate' does not include KBC Bank Bulgaria and KBC Ireland.

2 Vehicle operating leases are not included in these figures (the calculations of financed emissions are based on the net carrying value of the leased vehicles).

How did we define our sector climate targets? Based on climate science aligned with targets from the Paris Agreement and taking into account the local context, all KBC entities engaged in lending or leasing activities prepared projections for the expected portfolio-specific and sector-specific decarbonisation development, ultimately resulting in company targets. All targets were aggregated into a single projection at KBC group level, which is compared with climate benchmarks derived from climate scenarios with a 'less than 2°C' policy target, i.e. courses of action that are in line with our CCCA commitment. More information in this regard can be found in our Climate Report. Seeking to have the climate targets verified by an independent party, KBC Bank and its consolidated entities signed a commitment letter with the Science Based Targets initiative (SBTi) at the end of 2022 to commit themselves to having their climate targets validated by SBTi within two years of signing.

Although the figures in the table above include KBC Ireland (for which sale transactions have been concluded) and the recently acquired Raiffeisenbank Bulgaria (renamed KBC Bank Bulgaria), these two entities are not part of our climate targets (see below).

Still closely monitoring the ongoing net-zero initiatives, we also opted to focus on the diligent pursuit of the objectives stated in this report in all our lending activities and in all core countries before assuming new obligations (see the Sustainability Report for more details).

We also defined more stringent targets for our asset management activities, including for the importance of responsible investment funds and the carbon intensity of corporate investments in these funds.

The Internal Sustainability Board, the Executive Committee and the Board of Directors have discussed and approved the climate targets. No climate targets have been set for the insurance business to date, since insufficient research and reporting methods are available at this time.

The targets are presented in the table below.

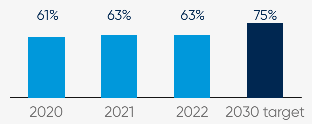
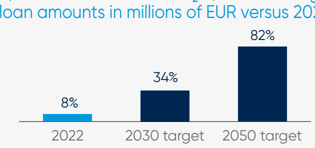
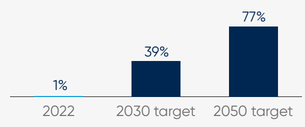
Own direct impact
The impact of our own activities as a bank-insurer is very limited, especially when compared to industrial companies and our indirect impact through lending and other activities, We nevertheless also calculate our own direct greenhouse gas impact (including from our own buildings and own fleet) and apply certain targets in that regard.

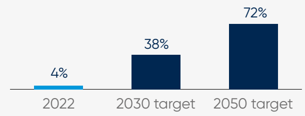
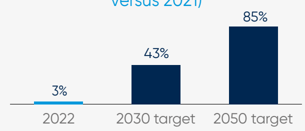
Data on our own environmental footprint are set out below. The data and calculations of the greenhouse gas emissions have been verified by Vinçotte in accordance with ISO 14064-3. Furthermore, since 2021 we have invested in climate projects to offset the portion of our emissions that we are currently unable to reduce. This means that KBC has been net climate neutral since 2021. The projects selected also contribute to biodiversity enhancement and protection and to local communities.

For further information on our environmental footprint, including more detailed descriptions, the methodology and scope of the calculations and compensation projects, see our Sustainability Report. The targets are presented in the table below.

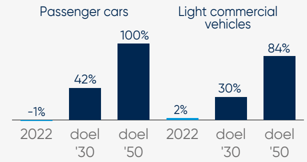
Own environmental footprint, KBC group[1]	2022	2021
Electricity consumption (in thousands of kWh)	126 326	124 027
Gas and heating-oil consumption (in thousands of kWh)	61 372	69 879
Commuter and business travel (in millions of km)[4]	218	162
Paper consumption (in tonnes)	1 694	2 017
CO_2e emissions (in thousands of tonnes, see next table)[2]	44	37
Own environmental footprint – greenhouse gas emissions in tonnes of CO2 – KBC group[1,2]		
Scope 1 emissions are those from direct energy consumption, coolant emissions and own-fleet emissions from business and commuter travel.	21 596	19 511
Scope 2 emissions (market-based) are those from indirect energy consumption (electricity, district heating, cooling and steam).	3 482	3 857
Scope 3 emissions as listed here are those from business and commuter travel (excluding those from our own fleet, which are counted under Scope 1 emissions), emissions relating to paper and water consumption and to waste-processing.	18 803	13 473
Total	43 882	36 841
Total per FTE	1.2	1.0 (1.1 [3])

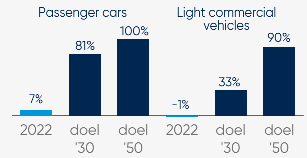
1 The data relates to the period from 1 October [t-1] – 30 September [t].
2 For 2022, CO_2 emissions break down as follows (in thousands of tonnes): 17 in Belgium, 12 in the Czech Republic, 4 in Slovakia, 5 in Hungary, 5 in Bulgaria and 0.5 in the rest of the world.
3 From 2022, the figures take into account the acquisition of Raiffeisenbank Bulgaria and an improved calculation method for determining vehicle emissions (WLTP instead of NEDC). On a like-for-like basis, the 2021 figure would be 1.1.
4 The increase is partly attributable to the post-pandemic recovery.

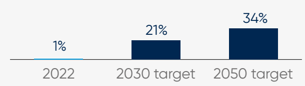
KPI	Description	Target and result	Development	Actions and plans
TARGETS FOR THE INDIRECT IMPACT OF OUR LENDING AND ASSET MANAGEMENT ACTIVITIES				
Renewable energy loans	[Amount of loans to businesses in the renewable energy sectors] / [total energy-sector loan portfolio]	Target: 75% by 2030 (target tightened in 2022) 2022 result: 63%	**Renewable energy loans** (as % of total lending to the energy sector) 	We aim to support the decarbonisation of the energy system in all segments by financing additional renewable energy production capacity and encouraging energy efficiency. In this respect, we endorse the energy plans of local authorities in our core countries, which must comply with the rules of the European 'Fit for 55' package and the green deal ambition plan. We are the leading bank in terms of funding offshore wind energy in Belgium and operate in this market in the United Kingdom, Germany and the Netherlands.
Greenhouse gas intensity Loans to the energy sector	Percentage difference [tonnes of CO_2e / loan amounts in millions of EUR] in the relevant period	Target: -34% by 2030 (and -82% by 2050) from 2021 (new target since 2022) 2022 result: -8% from 2021	**Reduction of greenhouse gas intensity Loans to the energy sector as a whole** (based on tonnes of CO_2e / outstanding loan amounts in millions of EUR versus 2021) 	
Greenhouse gas intensity Loans to electricity producers	Percentage difference [kg of CO_2e / MWh] in the relevant period	Target:-39% by 2030 (and -77% by 2050) from 2021 (new target since 2022) 2022 result: -1% from 2021	**Reduction of greenhouse gas intensity Loans to electricity producers** (based on kg of CO_2e / MWh, versus 2021) 	

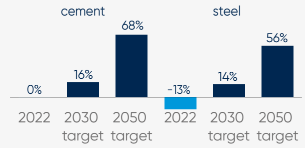
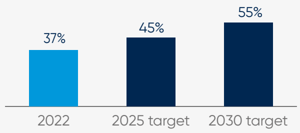
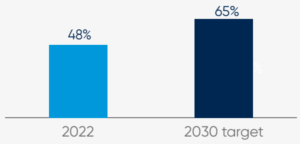
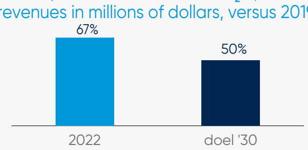
KPI	Description	Target and result	Development	Actions and plans
Greenhouse gas intensity Loans to the real estate sector (mortgage loans and corporate loans for commercial real estate, excluding real estate development)	Percentage difference [tonnes of CO_2e / loan amounts in millions of EUR] in the relevant period	Target: -38% by 2030 (and -72% by 2050) from 2021 (new target since 2022) 2022 result: -4% from 2021	**Reduction of greenhouse gas intensity Loans to the real estate sector** (based on tonnes of CO_2e / outstanding loan amounts in millions of EUR versus 2021) 	Seeking to encourage clients to improve the energy performance of their property and to focus on property with a more favourable EPC rating, we will provide them with information about sustainable construction and renovation and grants, team up with partners in the area of energy efficiency and supervise construction or renovation projects. We also intend to gradually offer the best possible interest rates on loans for buildings with a favourable EPC rating and/or to support this aspect by means of energy-efficient renovations after/upon purchase.
Greenhouse gas intensity Mortgage loans and loans provided for commercial residential real estate (mortgage loans and corporate loans for commercial residential real estate, excluding real estate development)	Percentage difference [kg of CO_2e / sq m/year] in the relevant period	Target: -43% by 2030 (and -85% by 2050) from 2021 (new target since 2022) 2022 result: -3% from 2021	**Reduction of greenhouse gas intensity Mortgage loans and loans provided for commercial residential real estate** (based on kg of CO_2e / sq m/year, versus 2021) 	

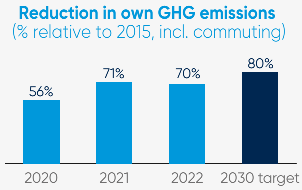
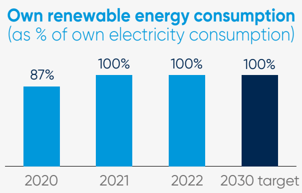
<table>
<tr><th>KPI</th><th>Description</th><th>Target and result</th><th>Development</th><th>Actions and plans</th></tr>
<tr><td>Greenhouse gas intensity Car loans and financial car leasing</td><td>Percentage difference [grams of CO_2 / km] in the relevant period</td><td>Target for passenger cars:-42% by 2030 (and -100% by 2050), and for light commercial vehicles: -30% by 2030 (and -84% by 2050) from 2021
(new targets since 2022)

2022 result: passenger cars +1% (due to post-pandemic recovery) and light commercial vehicles -2% from 2021</td><td>Reduction of greenhouse gas intensity Car loans and financial car leasing
(based on grams of CO_2 / km, versus 2021)

</td><td rowspan="2">We will encourage clients to choose greener means of transport, such as all-electric or hybrid electric vehicles, public transport, bicycles or a combination of all of the above. KBC already offers bicycle leasing and bicycle insurance in some countries. New services and targeted pricing should enhance the appeal of using alternative forms of transport.</td></tr>
<tr><td>Greenhouse gas intensity Operational car leasing</td><td>Percentage difference [grams of CO_2 / km] in the relevant period</td><td>Target for passenger cars: -81% by 2030 (and -100% by 2050), and for light commercial vehicles: -33% by 2030 (and -90% by 2050) from 2021
(new targets since 2022)

2022 result: passenger cars -7% and light commercial vehicles +1% from 2021 (due to post-pandemic recovery)</td><td>Reduction of greenhouse gas intensity Operational car leasing
(based on grams of CO_2 / km, versus 2021)

</td></tr>
<tr><td>Greenhouse gas intensity Loans to the agricultural sector</td><td>Percentage difference [tonnes of CO_2e / loan amounts in millions of EUR] in the relevant period</td><td>Target: -21% by 2030 (and -34% by 2050) from 2021
(new target since 2022)

2022 result:
-1% from 2021</td><td>Reduction of greenhouse gas intensity Loans to the agricultural sector
(based on tonnes of CO_2e / outstanding loan amounts in millions of EUR versus 2021)

</td><td>We will inform, inspire and support our clients in reducing their emission of greenhouse gases (methane, nitrous oxide and CO2). We encourage efficiency improvements and investments in renewable energy, and in Flanders, for instance, we promote the use of a high-quality carbon footprint calculator to advise clients on emission-reduction measures.</td></tr>
</table>

KPI	Description	Target and result	Development	Actions and plans
Greenhouse gas intensity Loans to cement, steel and aluminium producers	Percentage difference [tonnes of CO_2e / tonnes of cement/steel/ aluminium] in the relevant period	Target: cement -16% by 2030 (and -68% by 2050), steel -14% by 2030 (and -56% by 2050) from 2021 (new targets since 2022) Our exposure to aluminium is very small and should remain below the global benchmark of the aluminium industry at all times 2022 result: cement -0.4%, steel +13% from 2021 (see the Sustainability Report), aluminium +1% from 2021	**Reduction of greenhouse gas intensity Cement and steel producers** (based on tonnes of CO2 / tonnes of cement or steel, versus 2021) 	For these sectors, we expect new clients to have transition plans in place for CO2 reduction that are in line with the 2030 targets KBC has set. We will also actively monitor our clients' progress with their decarbonisation strategies.
Responsible investment funds (RI)	[Volume of RI funds] / [Assets under Distribution (AUD or 'direct client money')] [New annual production of RI funds] / [Total production of new funds] Percentage difference [tonnes of CO_2e / turnover in millions of USD] of companies in the responsible funds in the relevant period	Target: • 45% of AUD by 2025 and 55% by 2030. • new production of RI funds at least 65% of total annual production by 2030 • decrease in greenhouse gas intensity of companies in the responsible funds by 50% by 2030 from 2019 (new or tightened targets in 2022) 2022 result: 37% of AUD in total 48% of new production Greenhouse gas intensity of companies: -67%	**Responsible Investment funds** (in % of total AUD)  **Annual Responsible Investment fund production** (in % of total new fund production)  **Reduction of greenhouse gas intensity Responsible fund companies** (based on tonnes of CO_2e / revenues in millions of dollars, versus 2019) 	We ask investors to state their sustainability preferences and take these into account when providing investment advice. KBC Asset Management has signed up to Climate Action 100+. The purpose of this initiative is to reach out to companies that have significant potential to contribute to the transition to clean energy. Our responsible investment policy is supervised by the independent Responsible Investing Advisory Board, consisting of academics.

KPI	Description	Target and result	Development	Actions and plans
TARGETS FOR OUR OWN DIRECT ENVIRONMENTAL IMPACT				
Own CO2e emissions	Reduction in own greenhouse-gas emissions; compared to 2015	Target: 80% reduction between 2015 and 2030 and achievement of complete climate neutrality for our own footprint from year-end 2021 by offsetting the difference 2015-2022 result: -70% including commuting As in 2021, we already achieved net climate neutrality in 2022 by offsetting our remaining direct emissions through the purchase of carbon credits of high-quality climate projects		The main sources of our direct CO2 emissions are our direct energy consumption and transport. Examples of initiatives intended to reduce our own environmental footprint are the switch to 100% electricity from renewable sources, the installation of photovoltaic panels on our own buildings, and a reorientation of the mobility policy for our employees towards public transport, bicycles and electric vehicles. Like many other companies, we adjusted the operational hours and settings of the heating systems in our head offices to save energy. More information can be found in our Sustainability Report at www.kbc.com.
Own electricity consumption from renewable sources	[Electricity from renewable sources] / [total electricity consumption]	Target: 100% green electricity by 2030 2022 result: 100%		

See our Sustainability Report for the 2021 baseline values.

Targets for greenhouse gas intensity in lending activities: excluding KBC Bank Ireland and the recently acquired Raiffeisenbank Bulgaria, the data relates to the period from 1 October [t-1] – 30 September [t].

Sustainability integrated into our remuneration policy

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

- The variable remuneration of Executive Committee members is linked to factors including the achievement of a number of collective targets. One such target is specifically related to progress in the area of sustainability, which is evaluated every six months via the KBC Sustainability Dashboard report. The Board of Directors evaluates, via the Remuneration Committee, the criteria by which Executive Committee members are assessed in this regard. More information is provided under 'Remuneration report' in the 'Corporate governance statement' section.
- Sustainability is also integrated into management's variable remuneration. At least 10% of the variable

remuneration received by senior management depends on the achievement of individual targets agreed in advance as part of the group's sustainability policy, including climate policy.

- The non-recurrent results-based bonus paid to employees in Belgium has been partially linked to environmental targets (the ratio between the number of green kilometres and the number of commuting kilometres, for instance).

Our climate risk management

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

EU Taxonomy

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

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

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

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

Six environmental objectives are laid out in the Taxonomy Regulation:

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

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

Article 8 of the Taxonomy Regulation requires financial and non-financial undertakings covered by the Non-Financial Reporting Directive (NFRD) to include information in their non-financial information statements on how, and to what extent, their activities are associated with environmentally sustainable economic activities. The Disclosure Delegated Act specifies the content and presentation of the information to be disclosed.

In the Disclosure Delegated Act (hereinafter 'DDA') a phased approach is introduced. From 1 January 2022 on, until 31 December 2023, financial undertakings shall disclose only on taxonomy eligibility for CCM and for CCA. As of 1 January 2024, key performance indicators on taxonomy alignment regarding all environmental objectives shall be disclosed. On 1 January 2023, a number of nuclear and gas activities were added to the list of eligible CCM and CCA activities under the Complementary Climate Delegated Act.

KBC Group NV is a large undertaking that is required to publish non-financial information under the NFRD, and is as such also subject to the disclosure obligations described in the Disclosure Delegated Act. Although the Disclosure Delegated Act does not specify how to deal with the reporting of a group containing different types of financial undertakings, the European Commission has indicated that if the parent company is a credit institution all prudentially consolidated entities must be included in the relevant credit institution's taxonomy reporting. As we also apply this principle to our insurance activities, we will report on our activities as credit institution and as insurer. Given the differences in reporting requirements, no consolidated view can be presented at KBC Group NV level.

In this second reporting, data availability remains a challenge. It is prescribed in Article 8,4 of the Disclosure Delegated Act that financial undertakings shall use the most recently available data of their counterparties. Our (corporate) counterparties which are subject to the NFRD have now disclosed this information for the first time, as their disclosure obligation entered into force simultaneously with the disclosure obligation for financial undertakings. KBC is currently processing and incorporating this client information in the KBC reporting, which will result in an increase in the mandatory eligibility percentages. Since not all counterparties are subject to the NFRD and not all client information is available, we choose (as suggested by the Platform on Sustainable Finance) to also disclose voluntary eligibility percentages, which, for the corporate counterparties, are based on approximations and information available within the Group. Where appropriate, these approximations are transparently explained. Data availability and data quality are continuously monitored and appropriate action is taken to make progress on this level – see our initiatives described in the 'Sustainable Finance' section of our 2022 Sustainability Report.

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

KBC as a credit institution

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

The mandatory eligibility percentage for the assets of our credit institutions is 37.89% (compared to 33.65% in 2021). The 2022 figure includes mortgage loans and car loans to households, as well as the eligible exposure to financial and non-financial counterparties (including those subject to the NFRD), based on available client information. In the 2021 reporting period, the available information was limited to mortgage loans.

The voluntary eligibility percentage for the assets of our credit institutions is 55.73% (compared to 33.79% in 2021). The following assumptions were made to calculate these voluntary percentages:

- The following counterparties are taken into account: financial corporations, non-financial corporations (both those subject and not subject to the NFRD), households and local governments.
- In order to define whether an exposure is taxonomy-eligible or not, we first look at the available client information. Should there be insufficient client information, we define eligibility based on the main NACE code of the counterparty. If that NACE code is described in the Climate Delegated Act or the Complementary Climate Delegated Act, the linked exposure is considered taxonomy-eligible. If the NACE code is not available, or not at the level required, then the exposure is considered to be non-eligible. The voluntary eligibility percentages show a strong increase compared to their year-earlier figure, owing to improved data quality and availability.
- In order to define whether a counterparty is subject to NFRD disclosure obligations or not, we look at criteria as defined in the NFRD: listed or unlisted, number of FTE, balance sheet total and turnover of our counterparty.

Mandatory and voluntary EU Taxonomy reporting, KBC Group: activities as credit institution

					31-12-2022					31-12-2021
	Total (in millions of EUR)	***% of total assets***	**Taxonomy-eligible – mandatory reporting** (in %)	**Taxonomy-non-eligible – mandatory reporting** (in %)	**Taxonomy-eligible – voluntary reporting** (in %)	**Total** (in millions of EUR)	***% of total assets***	**Taxonomy-eligible – mandatory reporting** (in %)	**Taxonomy-non-eligible – mandatory reporting** (in %)	**Taxonomy-eligible – voluntary reporting** (in %)
Assets included in taxonomy (numerator and denominator)	112 201	*34.55%*	67.97%	32.03%	70.64%	94 749	*31.00%*	65.44%	34.56%	65.71%
Non-financial counterparties (not subject to NFRD)	75 835	*23.35%*	–	–	43.41%	71 356	*23.35%*	–	–	–
Derivatives	528	*0.16%*	–	–	–	274	*0.09%*	–	–	–
On demand interbank loans	608	*0.19%*	–	–	–	598	*0.20%*	–	–	–
Other assets	12 130	*3.74%*	–	–	–	17 292	*5.66%*	–	–	–
Assets included in taxonomy (denominator only)	89 101	*27.44%*	–	–	–	89 520	*29.30%*	–	–	–
Total assets included in taxonomy	201 301	*61.99%*	37.89%	62.11%	55.73%	184 269	*60.30%*	33.65%	66.35%	33.79%
Central governments and central banks	114 931	*35.39%*	–	–	–	112 456	*36.80%*	–	–	–
Trade portfolio	8 493	*2.62%*	–	–	–	8 850	*2.90%*	–	–	–
Assets not included in taxonomy	123 424	*38.01%*	–	–	–	121 306	*39.70%*	–	–	–
Total assets*	324 726	*100.00%*	23.49%	76.51%	34.55%	305 575	*100.00%*	20.29%	79.71%	20.37%

* Before impairment on loans and bonds

KBC as (re)insurer

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

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

Investments

The mandatory eligibility percentage related to investments is 5.82% (compared to 3.69% in 2021). The 2022 figure includes mortgage loans to households, as well as the eligible exposure to financial and non-financial counterparties (including those subject to the NFRD), based on available client information. In the 2021 report, the available information was limited to mortgage loans to households.

KBC's voluntary eligibility percentage related to investments, based on own information and assumptions, is 22.33% (compared to 7.28% in 2021). The same assumptions were used as those stated for the credit institutions. The sharp increase compared to the year-earlier figure is attributable to increased availability of investment contract data.

Mandatory and voluntary EU Taxonomy reporting, KBC Group: activities as (re)insurer

	31-12-2022					31-12-2021				
	Total (in millions of EUR)	***% of total assets***	**Taxonomy-eligible – mandatory reporting** (in %)	**Taxonomy-non-eligible – mandatory reporting** (in %)	**Taxonomy-eligible – voluntary reporting** (in %)	**Total** (in millions of EUR)	***% of total assets***	**Taxonomy-eligible – mandatory reporting** (in %)	**Taxonomy-non-eligible – mandatory reporting** (in %)	**Taxonomy-eligible – voluntary reporting** (in %)
Investments included in taxonomy (numerator and denominator)	19 725	*56.74%*	6.67%	93.33%	23.03%	22 947	*59.22%*	4.23%	95.77%	8.36%
Non-financial counterparties (not subject to NFRD)	2 417	*6.95%*	-	-	20.78%	2 860	*7.38%*	-	-	-
Derivatives	69	*0.20%*	-	-	-	21	*0.05%*	-	-	
On demand interbank loans	377	*1.09%*	-	-	-	509	*1.31%*	-	-	-
Investments included in taxonomy (denominator only)	2 863	*8.24%*	-	-	-	3 390	*8.75%*	-	-	-
Total investments included in taxonomy	22 588	*64.98%*	5.82%	94.18%	22.33%	26 337	*67.97%*	3.69%	96.31%	7.28%
Central governments and central banks	10 627	*30.57%*	-	-	-	11 158	*28.80%*	-	-	-
Other assets not included in taxonomy (reinsurance assets, intangible assets, other assets, etc.)	1 549	*4.46%*	-	-	-	1 253	*3.23%*	-	-	-
Assets not included in taxonomy	12 176	*35.02%*	-	-	-	12 411	*32.03%*	-	-	-
Total assets*	34 764	*100.00%*	3.78%	96.22%	14.51%	38 748	*100.00%*	2.51%	97.49%	4.95%

* Before impairment on loans and bonds

Underwriting activities

The mandatory eligibility percentage related to underwriting activities is 48.77% (only for CCA) (47.71% in 2021). This percentage does not depend on information to be received from our counterparties, but can be entirely defined based on the perils covered – as prescribed in the Climate Delegated Act. The table below provides more details regarding the mandatory eligibility percentage versus total gross written premiums for the non-life underwriting activities.

Mandatory EU Taxonomy reporting, KBC Group: activities as (re)insurer, underwriting activities non-life

	31-12-2022			31-12-2021		
	Total (in millions of EUR)	**Taxonomy-eligible** (in %)	**Taxonomy-non-eligible** (in %)	**Total** (in millions of EUR)	**Taxonomy-eligible** (in %)	**Taxonomy-non-eligible** (in %)
Total gross written premiums	2 162	48.77%	51.23%	1 984	47.71%	52.29%

Focus on human rights

We meet our responsibility to respect human rights, social justice and labour rights throughout the group, and we undertake to respect the letter and the spirit of: (i) the Universal Declaration of Human Rights; (ii) the principles concerning fundamental rights in the eight International Labour Organisation core conventions as set out in the Declaration on Fundamental Principles and Rights at Work; (iii) the UN Declaration on the Rights of Indigenous Peoples; (iv) the OECD Guidelines for Multinational Enterprises and (v) the UK Modern Slavery Act, to which end KBC has published a Modern Slavery Statement since 2017. In addition, we have been UN Global Compact signatories since 2006 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 publish reports in order to be transparent about the progress we have made in implementing these principles. This information is available on the UN Global Compact website. It goes without saying that we comply with local laws, rules and regulations in the countries where we operate and with international and regional human rights treaties containing internationally recognised standards by which the business sector must abide.

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

KBC views its employees' rights to freedom of association, collective bargaining, a healthy and safe workplace, and freedom from discrimination as fundamental. We are thus fully committed to respecting and upholding our employees' human rights. We likewise expect our employees to apply and respect human rights in the performance of their duties. These principles are dealt with in more detail in the 'Code of Conduct for KBC Group Employees' and the 'KBC Diversity & Inclusion Policy' (see www.kbc.com). Strict national and international laws and regulations are in place in all our core countries to protect human rights. We expect our employees to act in accordance with the regulations and to behave responsibly in everything they do. We also have specific procedures in place to guarantee compliance and to deal with complaints, including the 'Policy for the Protection of Whistleblowers'.

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

We expect our clients to at least comply with local and international laws and regulations, and our Compliance department ensures that this is the case. Our day-to-day operations are all performed subject to the KBC Group Policy on Blacklisted Companies, the KBC Group Human Rights Policy and the KBC Group Policy on Controversial Regimes. These exclude companies or countries that are involved in, for instance, a serious infringement of human rights or with controversial weapons systems. We also pay considerable attention to privacy and data protection and closely monitor compliance with them. Where relevant, we ask our clients to demonstrate their compliance with particular industry standards in which respect for human rights is an important aspect. We have developed a specific due diligence process for lending, insurance activities and advice. This likewise incorporates procedures to deal with any infringements that are detected. For instance, businesses can be excluded from all our activities, an exit strategy can be launched or special conditions imposed on existing loans and insurance cover. In the event of doubt, the advice is sought of the Group Corporate Sustainability department. Our investment activities (asset management and own investments) are also subject to internal screening. Responsible investment funds, moreover, have to meet additional controls.

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

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

Indicators relating to human rights, KBC group	2022	2021
Clients		
Project finance (and project-related corporate loans) subject to Equator Principles (Category A/B/C)*	0/3/21	0/5/12
Number of Corporate Sustainability department recommendations on ESG cases (positive recommendation/positive under strict conditions/negative recommendation)	177/45/48	177/36/38
Suppliers		
Number of suppliers that have signed the Code of Conduct for Suppliers	3 042	3 200

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

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

client centricity	bank-insurance	sustainable profitable growth	role in society

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

Within a stringent risk, capital and liquidity management framework

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

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

Although the activities of a large financial group are exposed to risks that only become apparent in retrospect, we can currently identify a number of major challenges for our group. These are set out under 'In what environment do we operate?' in the 'Our business model' section. As a bank-insurer, we are also exposed to the typical risks for the sector, which are listed in the following table. A description of each type of risk can be found in the 'How do we manage our risks?' section.

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

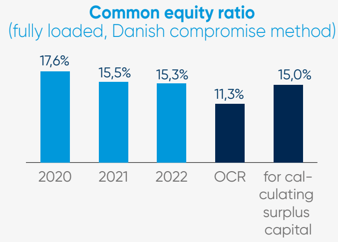
In addition to the comprehensive monitoring of risk indicators (see the 'How do we manage our risks?' section), we monitor our solvency and liquidity performance using a number of ratios, the most important of which are listed in the following table.

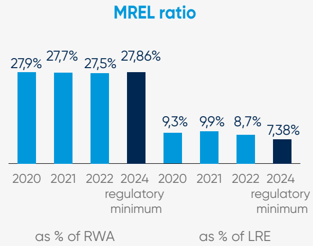
Dividend policy

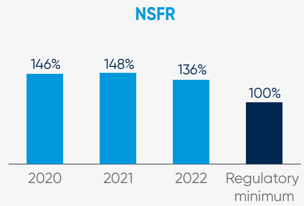
Our dividend policy comprises:

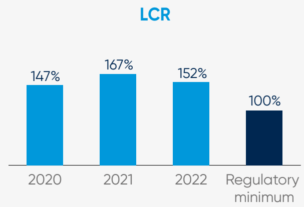
- a payout ratio (i.e. dividend + AT1 coupon) of at least 50% of consolidated profit for the financial year;
- an interim dividend of 1 euro per share (payable in November of the financial year) as an advance on the total dividend for the financial year.
- In addition to the payment ratio of 50% of the consolidated profit, the Board of Directors decides every year (when announcing the annual results) at its own discretion on the payment made to the shareholders of the capital exceeding a 15% fully loaded common equity ratio (surplus capital). This may occur in the form of a cash dividend, a share buy-back, or a combination of both.

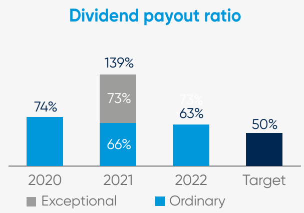
Regulatory and own ratios	Description	Target and result
Common equity ratio	[common equity tier-1 capital] / [total weighted risks]. The calculation is fully-loaded and according to the Danish compromise method. See the 'How do we manage our capital?' section.	Overall capital requirement: 11.3% (see 'How do we manage our capital?') Every year, the Board of Directors decides on the payment made to the shareholders of the capital exceeding a 15% fully loaded common equity ratio (surplus capital)* . 2022 result: 15.3%
MREL ratio	[own funds and eligible liabilities] / [Total risk-weighted assets (RWA)] and [own funds and eligible liabilities] / [Leverage ratio exposure amount (LRE)]	Regulatory minimum: 27.86% of RWA (2024) and 7.38% of LRE (2024) 2022 result: 27.5% of RWA and 8.7% of LRE
Net stable funding ratio (NSFR)	[available amount of stable funding] / [required amount of stable funding]	Regulatory minimum: 100% 2022 result: 136%
Liquidity coverage ratio (LCR)	[stock of high-quality liquid assets] / [total net cash outflows over the next 30 calendar days]	Regulatory minimum: 100% 2022 result: 152%
Dividend payout ratio	[dividend and coupon to be paid on the additional tier-1 instruments included in equity] / [total consolidated results]	Target: ≥ 50%* 2022 result: 63%*











* In addition, and in line with our capital allocation plan for 2022, we aim to pay out the surplus capital exceeding a 15% fully loaded common equity ratio in the form of a share buyback (subject to ECB approval) and/or an exceptional cash dividend. We also aim to pay out the capital release resulting from the sale transaction completed in Ireland in the form of a share buyback (subject to ECB approval) and/or an exceptional interim dividend. The Board of Directors will make the final decision on these matters in the first half of 2023.

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

Our financial report (consolidated)

- Consolidated net profit: 2.7 billion euros in 2022, a 5% increase on the year-earlier level.
- Reserve set aside to cover geopolitical and emerging risks and reversal of the remaining reserve set aside for the coronavirus crisis.
- Increase in income mainly attributable to higher net interest income, trading and fair value income and the technical insurance result.
- Organic growth in lending and deposits, increased sales of non-life insurance and life insurance, lower assets under management due to lower asset prices.
- Increase in costs due to several factors, including inflation and wage indexation, higher ICT costs, significantly higher bank taxes and a few exceptional and/or non-operating items.
- Robust solvency and liquidity positions maintained.

Consolidated income statement, KBC group (simplified, in millions of EUR)	**2022**	**2021**
Net interest income	5 161	4 451
Non-life insurance (before reinsurance)	881	782
Earned premiums	*2 033*	*1 885*
Technical charges	*-1 153*	*-1 103*
Life insurance (before reinsurance)	92	45
Earned premiums	*1 163*	*1 196*
Technical charges	*-1 071*	*-1 150*
Ceded reinsurance result	-2	25
Dividend income	59	45
Net result from financial instruments at fair value through profit or loss[1]	406	145
Net realised result from debt instruments at fair value through other comprehensive income	-22	6
Net fee and commission income	1 847	1 836
Other net income	40	223
Total income	**8 463**	**7 558**
Operating expenses	-4 818	-4 396
Impairment	-284	261
on financial assets at amortised cost and at fair value through other comprehensive income[2]	*-154*	*334*
Share in results of associated companies and joint ventures	-10	-5
Result before tax	**3 351**	**3 418**
Income tax expense	-608	-804
Result after tax	**2 743**	**2 614**
Result after tax, attributable to minority interests	0	0
Result after tax, group share	**2 743**	**2 614**
Return on equity	13%	13%
Result after tax on average total assets	0.8%	0.8%
Cost/income ratio, group	57%	58%
Combined ratio, non-life insurance	89%	89%
Credit cost ratio, banking	0.08%	-0.18%

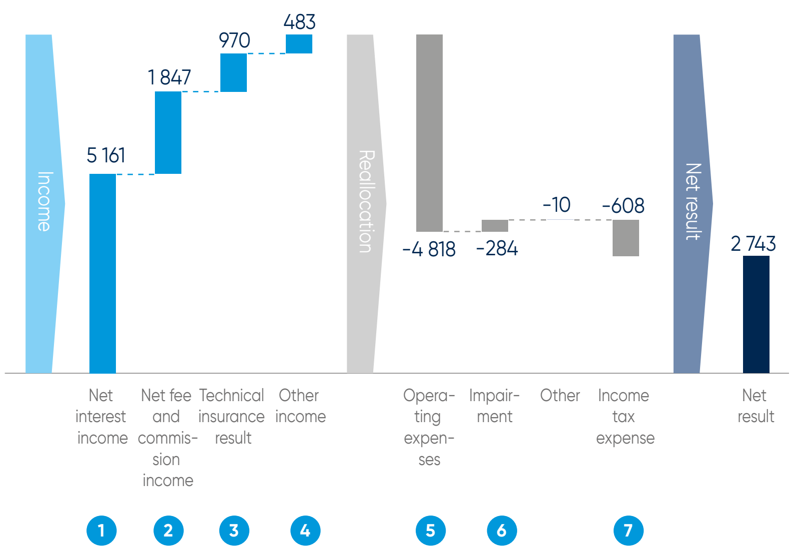
1 Also referred to as 'Trading and fair value income'
2 Also referred to as 'Loan loss impairment'

Key consolidated balance sheet, solvency and liquidity figures, KBC group (in millions of EUR)	**2022**	**2021**
Total assets	355 872	340 346
Loans and advances to customers (excluding reverse repos)	178 053	159 728
Securities (equity and debt instruments)	67 582	67 794
Deposits from customers (excluding debt securities and repos)	224 407	199 476
Technical provisions (before reinsurance) and liabilities under investment contracts, insurance	30 486	32 571
Total equity	20 807	23 077
Common equity ratio (Basel III, Danish compromise method, fully loaded)	15.3%	15.5%
Leverage ratio (Basel III, Danish compromise method, fully loaded)	5.3%	5.4%
Liquidity coverage ratio (LCR)	152%	167%
Net stable funding ratio (NSFR)	136%	148%

- Impact of the sale transactions (which had not yet been finalised at year-end 2022) on KBC Bank Ireland's loan and deposit portfolios: all assets and liabilities were transferred to 'Non-current assets held for sale and disposal groups' on the assets side of the balance sheet and to 'Liabilities associated with disposal groups' on the liabilities side of the balance sheet (they will be derecognised upon completion of the sale transactions). The results of the assets will continue to be recognised in the relevant income statement items (and the relevant ratios) until completion of the transactions. We transferred KBC Bank Ireland from the International Markets Business Unit to the Group Centre on 1 January 2022.
- The organic growth figures for the volume of loans and deposits have been adjusted for exchange rate effects, for the acquired Raiffeisenbank Bulgaria (now renamed KBC Bank Bulgaria) and for re-inclusion of KBC Bank Ireland's still outstanding portfolio (which has been transferred to other items for accounting purposes; see above). We have also allocated Ireland to the Group Centre in the organic figures for both 2022 and 2021.
- More information on this matter can be found in Note 6.6 of the 'Consolidated financial statements'.
- A significant adjusting post-balance-sheet event affecting the 2022 financial statement: see Note 3.6 in the 'Consolidated financial statements' section.

Our financial result

Achievement of net result for 2022
(in millions of EUR)



Net interest income 1

Our net interest income amounted to 5 161 million euros in 2022, up 16% on the year-earlier figure. This was mainly attributable to improved reinvestment yields in all core countries, growth in the loan and deposit volumes (see below), higher income from funding, the consolidation of Raiffeisenbank Bulgaria (now renamed KBC Bank Bulgaria) since the third quarter of 2022 and a positive exchange rate effect, partly offset by the negative impact of factors including pressure on credit margins in nearly all core countries, the cancellation in the third quarter of negative interest charged on corporate and SME current accounts and the loss of a positive effect of ECB tiering at the end of July 2022.

Our loans and advances to customers (excluding reverse repos) stood at 178 billion euros and, at first sight, increased by 11% in 2022. This entailed organic growth of 7%, with an 8% increase at the Belgium Business Unit, 5% at the Czech Republic Business Unit and 17% at the International Markets Business Unit (with solid growth in all three countries). Our total deposit volume (deposits from clients, excluding debt securities and repos) stood at 224 billion euros and, at first sight, increased by 12% in 2022. This entailed organic growth of 8%, with 11% growth at the Belgium Business Unit (6% if the

volatile deposit development at the branches abroad is excluded), 7% at the Czech Republic Business Unit and 8% at the International Markets Business Unit (with growth in all three countries).
The net interest margin for our banking activities came to 1.96% compared to 1.81% in 2021. It amounted to 1.68% in Belgium, 2.55% in the Czech Republic and 3.00% at the International Markets Business Unit.

Net fee and commission income 2

Our net fee and commission income came to 1 847 million euros in 2022, a slight growth of 1% on the year-earlier figure. The positive impact of the consolidation of Raiffeisenbank Bulgaria and higher fees for banking services (especially for payments) was largely offset by lower fees for asset management services (lower entry fees) and higher distribution fees, mainly related to higher sales of insurance products.
At the end of 2022, our total assets under management came to approximately 206 billion euros, 13% less than a year earlier, due to lower asset prices (-15%), combined with limited net inflow (2%). Most of these assets at year-end 2022 were managed at the Belgium Business Unit (184 billion euros) and the Czech Republic Business Unit (15 billion euros).

Insurance premiums and technical charges 3

Our technical insurance result (earned premiums less technical charges plus the ceded reinsurance result) amounted to 970 million euros.
Non-life insurance contributed 881 million to this result, This is a 9% increase on the year-earlier level thanks to higher premium income (+8%), which more than offset the negative impact of a lower ceded reinsurance result and higher technical charges (+4%, positively impacted by a release of technical provisions in the Czech Republic resulting from a reassessment of the confidence level of technical provisions). The combined ratio at group level amounted to an excellent 89%, maintaining the year-earlier level.
Life insurance accounted for 89 million euros of the technical insurance result, compared to the year-earlier figure of 43 million euros. This is partly the result of the above-mentioned release of technical provisions in the Czech Republic. In compliance with IFRS, certain types of life insurance (most unit-linked products) have been excluded from the figures for premiums and technical charges in the life insurance business. If the premium income from such products is included, premium income from the life insurance business totalled 2 085 million euros, 6% more than in 2021. This growth was fully attributable to unit-linked life-insurance products in Belgium. For the group as a whole, products offering guaranteed rates accounted for 48% of premium income from the life insurance business in 2022, and unit-linked products for 52%.

Other income 4

Other income came to an aggregate 483 million euros, well above the year-earlier figure of 419 million euros.
The 2022 figure includes 406 million euros in trading and fair value income, a strong increase compared to the year-earlier figure of 145 million euros, which is mainly attributable to the positive change in the market value of derivatives used for asset/liability management purposes and higher dealing room income. The remaining other income included 59 million euros in dividend income, -22 million euros in the net realised result from debt instruments at fair value through other comprehensive income and 40 million euros in other net income. The latter is a 183-million-euro drop on the year-earlier figure, mainly on account of losses on the sale of bonds, and a negative impact relating to the arbitral award delivered in the arbitration proceedings against ICEC-Holding in the Czech Republic in February 2023 (see Note 3.6 in the 'Consolidated financial statements' section for more details), despite an – overall – higher amount of other one-off items (for 2022, mainly the 68-million-euro gain on the sale of a real estate subsidiary).

Operating expenses 5

At first sight, our costs rose by 10% to 4 818 million euros in 2022. They comprise bank taxes totalling 646 million euros, an increase of no less than 23% in one year's time that is partly due to an extraordinary payment into the deposit guarantee fund on account of Sberbank Hungary and a new bank and insurance tax in Hungary in the reporting period. Excluding the exceptional bank taxes, the impact of the consolidation of Raiffeisenbank Bulgaria (including the associated integration expenses and euro adoption costs), exchange rate effects and several one-off items (see below), operating expenses rose by roughly 7%. This increase is primarily due to the inflation-related wage drift, higher ICT expenses, facility and marketing costs and higher professional fees. The main one-off items in 2022 not mentioned above were an additional profit bonus for staff (compared to a smaller coronavirus-related bonus in the reference period) and one-off expenses related to the sale of the Irish portfolios (compared to a larger impact in the reference period).
The cost/income ratio came to 57% in 2022. If we exclude the exceptional and/or non-operating items (see the 'Glossary of financial ratios and terms' at the end of this report for more information) from the calculation, the ratio came to 54%, compared to 55% in 2021. If we leave out the bank taxes altogether, the cost/income ratio for 2022 came to just 49%, compared to 51% in 2021.

Impairment 6

There was a net increase of loan loss impairment charges totalling 154 million euros in 2022, compared to a net reversal of 334 million euros in 2021. The 2022 figure comprises the full reversal of the remaining provision for the coronavirus crisis (-255 million euros) and a net reversal of impairment on individual loans (-21 million euros), which was more than offset

by additional one-off impairment charges related to the sale transactions in Ireland (17 million euros) and especially by a new reserve set aside to cover geopolitical and emerging risks (413 million euros; partly to absorb the direct and indirect consequences of the war in Ukraine and the impact on the loan portfolio). Taking into account the effect of the acquisition of Raiffeisenbank Bulgaria, the reserve set aside to cover geopolitical and emerging risks amounted to 429 million euros at year-end 2022. The net reversal in the reference period was mainly attributable to the partial reversal of the reserve set aside for the coronavirus crisis, partly offset by one-off impairment charges related to the sale transactions in Ireland. More information on the reserves set aside to cover geopolitical and emerging risks and for the coronavirus crisis can be found in Note 1.4 of the 'Consolidated financial statements' section.
The total net increase of 154 million euros in 2022 breaks down as follows: 35 million euros for Belgium, 46 million euros for the Czech Republic, 19 million euros for Slovakia, 29 million euros for Hungary, 30 million euros for Bulgaria and a net reversal of 5 million euros for the Group Centre (related primarily to Ireland).
For the group as a whole, the credit cost ratio amounted to 0.08% for 2022 (0.00% excluding the amounts set aside for geopolitical and emerging risks and the reversal of the remaining reserve set aside for the coronavirus crisis), as opposed to -0.18% for 2021 as a whole (0.09% excluding the partial reversal of the reserve set aside for the coronavirus crisis). A negative figure represents a positive impact on the result.

The proportion of (stage 3) impaired loans (see the 'Glossary of financial ratios and terms' for a definition) in our loan portfolio was 2.1% at year-end 2022, compared to 2.9% for 2021. The impaired loans ratio for 2022 amounted to 1.9% in Belgium, 1.7% in the Czech Republic and 1.9% at the International Markets Business Unit. For the group as a whole, the proportion of impaired loans more than 90 days past due came to 1.1%, compared to the year-earlier figure of 1.5%. A substantial part of the drop in impaired loans is related to the sale of KBC Bank Ireland's non-performing loan portfolio in February 2022.
Other impairment charges came to an aggregate 130 million euros in 2022, as opposed to 72 million euros in 2021. In 2022, these were mostly impairments of real estate, the impact of the interest rate cap in Hungary and one-off impairment charges on non-current assets in Ireland related to the sale transaction.

Income tax expense 7

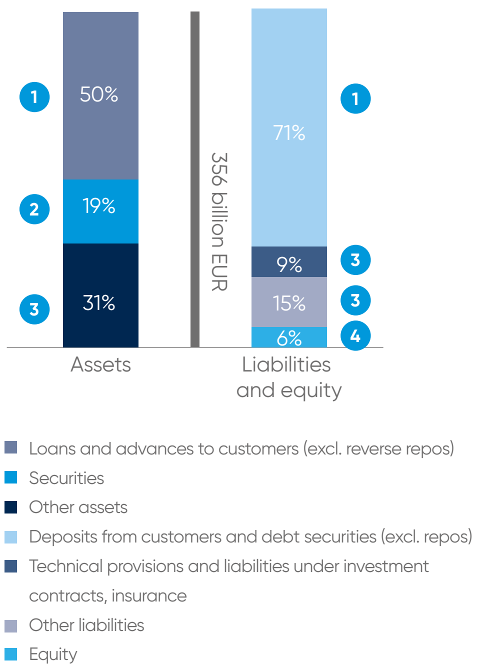
Our income tax expense came to 608 million euros in 2022, compared to a year-earlier figure of 804 million euros. Despite a slightly higher result before tax, the decrease is partly due to one-off items related to the sale transactions in Ireland in both years. Besides paying income tax, we pay special bank taxes. These amounted to 646 million euros compared to 525 million euros in 2021 and are included under 'Operating expenses'.

Our balance sheet

Loans and deposits 1

Our core banking business is to attract deposits and use them to provide loans. This explains the importance of the figure for loans and advances to customers on the assets side of our balance sheet (178 billion euros (excluding reverse repos) at year-end 2022). At first sight, loans and advances to customers went up by around 11% for the group as a whole. This entailed organic growth of 7%, with 8% growth at the Belgium Business Unit, 5% at the Czech Republic Business Unit and 17% at the International Markets Business Unit (with growth in all countries). The main lending products at group level were again term loans (83 billion euros; +11% excluding the acquisition of Raiffeisenbank Bulgaria) and mortgage loans (74 billion euros; +8% excluding Raiffeisenbank Bulgaria). On the liabilities side, our customer deposits (deposits from customers, excluding debt securities and repos) grew by 12% to 224 billion euros. This entailed organic growth of 8%, with 11% growth at the Belgium Business Unit (6% excluding the branches abroad), 7% at the Czech Republic Business Unit and 8% at the International Markets Business Unit. The main deposit products at group level were again demand deposits (122 billion euros; +5% excluding Raiffeisenbank Bulgaria) and savings accounts (77 billion euros; +3% excluding Raiffeisenbank Bulgaria). Debt securities issued accounted for 28 billion euros, 6% more than the previous year. More information on this matter can be found in Note 4.1 of the 'Consolidated financial statements' section.

Balance sheet components (year-end 2022)



Securities 2

We also hold a portfolio of securities at the bank and at the insurer (where it serves primarily as an investment in the life insurance context), which totalled roughly 68 billion euros at year-end 2022, roughly the same as the year-earlier figure. The securities portfolio comprised 3% shares and 97% bonds At year-end 2022, 82% of these bonds consisted of government paper, the most important being Czech, Belgian, French, Slovak, Hungarian, Spanish and Bulgarian . A detailed list of these bonds is provided in the 'How do we manage our risks?' section.

Other assets and other liabilities 3

Other important items on the assets side of the balance sheet were loans and advances to credit institutions and investment firms (4 billion euros, down 46% on the year-earlier figure, due in part to lower collateral management volumes in Belgium and a shift to balances with central banks in Hungary), reverse repos (20 billion euros, down 19% on the year-earlier figure), derivatives (positive mark-to-market valuation of 7 billion euros mainly for interest rate and foreign exchange contracts, up 19% on the year-earlier figure, due mainly to an increase in foreign exchange contracts (for instance, CZK/EUR)), investment-linked life insurance contracts (13 billion euros, down 13% year-on-year, due mainly to negative market value adjustments), and cash, cash balances with central banks and other demand deposits with credit institutions (51 billion euros, up 27% on the year-earlier figure, due primarily to higher balances at the central banks).

Other significant items on the liabilities side of the balance sheet were the technical provisions and liabilities under the insurer's investment contracts (an aggregate 30 billion euros, down roughly 6% year-on-year), repos (11 billion euros, three times higher than the year-earlier figure), derivatives (negative mark-to-market valuation of 9 billion euros, mainly for interest rate and foreign exchange contracts, up 28% on the year-earlier level, due mainly to an increase in foreign exchange contracts (for instance, CZK/EUR)) and deposits from credit institutions and investment firms (25 billion euros, down 35% year-on-year, partly due to a repayment of part of the amount borrowed under TLTRO III).

Significant amounts under 'Non-current assets held for sale and disposal groups' (8 billion euros at year-end 2022) and 'Liabilities associated with disposal groups' (2 billion euros at year-end 2022) relate to the sale transaction of the – primarily performing – Irish loan portfolio and deposit book which had not yet been finalised at year-end 2022 (see Note 6.6 in the 'Consolidated financial statements' section).

Equity 4

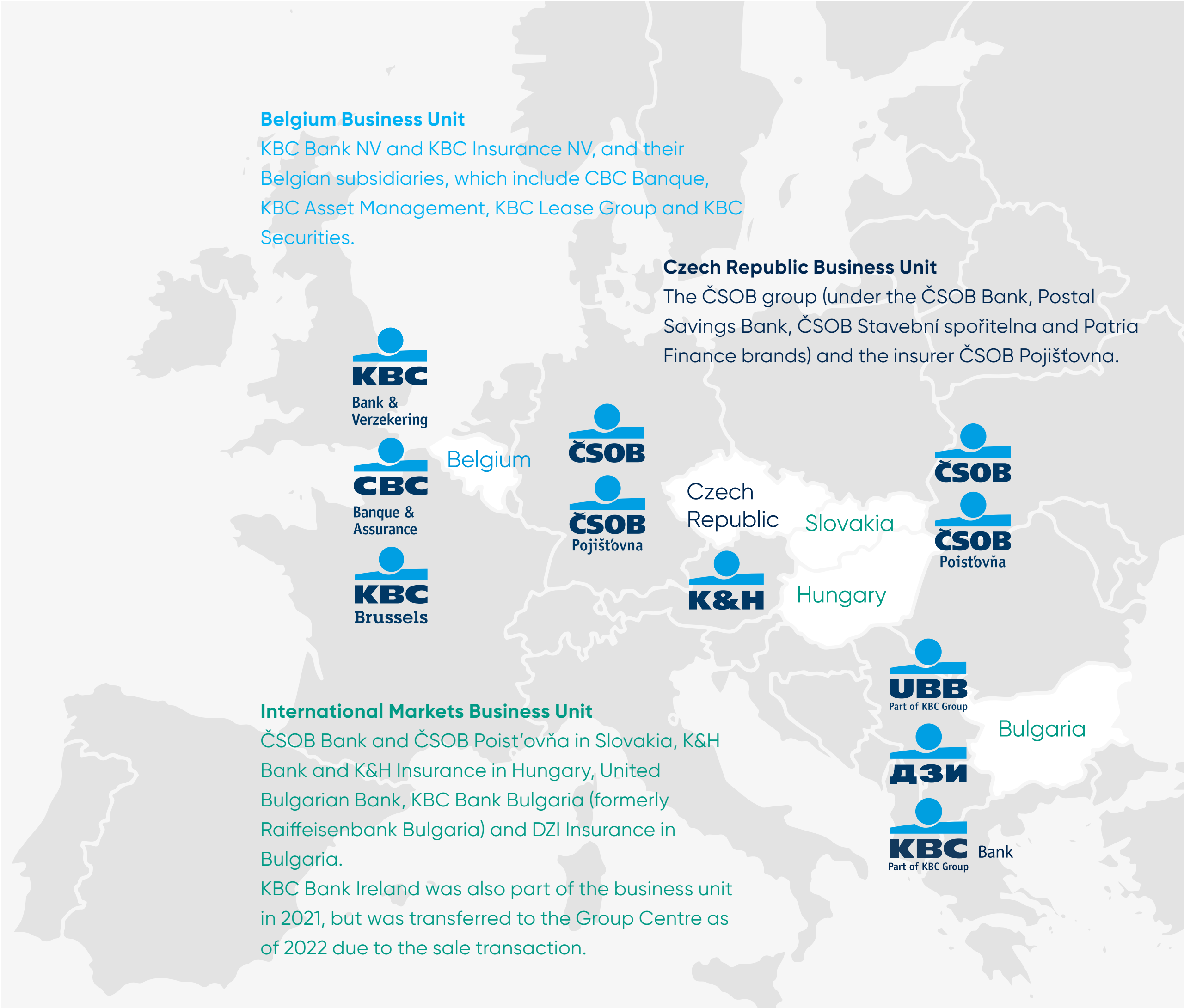
On 31 December 2022, our total equity came to 20.8 billion euros. This figure included 19.3 billion euros in parent shareholders' equity and 1.5 billion euros in additional tier-1 instruments. Total equity fell by 2.3 billion euros in 2022, attributable to the combined effect of a number of items, including the profit for the financial year (+2.7 billion euros), the distribution of the final dividend in May and the interim dividend in November (7.60 euros and 1.00 euro per share, respectively, or -3.6 billion euros in total), a drop in the revaluation reserves (-1.4 billion euros) and a number of minor items. For more details, see 'Consolidated statement of changes in equity' in the 'Consolidated financial statements' section.

On 31 December 2022, our common equity ratio (Basel III, under the Danish compromise method) stood at 15.3% (fully loaded), compared to 15.5% in 2021. In 2022, the acquisition of Raiffeisenbank Bulgaria accounted for a decrease of approximately 0.9 percentage points; it should be noted that, upon completion, the sale transaction in Ireland which had not yet been finalised at year-end 2022 will ultimately have a positive impact on the common equity ratio of around 0.9 percentage points. Our leverage ratio came to 5.3% (fully loaded). Detailed calculations of our solvency indicators are given in the 'How do we manage our capital?' section. The group's liquidity position also remained excellent, as reflected in an LCR ratio of 152% and an NSFR ratio of 136%.

Additional information and guidance

- The overall impact on the net result of fluctuations in the exchange rates of the main non-euro currencies was – on balance – limited to 13 million euros (mainly due to the appreciation of the Czech koruna, partly offset by the depreciation of the Hungarian forint).
- Information on financial instruments, hedge accounting and the use thereof is provided in the 'Consolidated financial statements' section (Notes 1.2, 3.3, and 4.1–4.8 among others) and in the 'How do we manage our risks?' section.
- For information on significant post-balance-sheet events, see Note 6.8 of the 'Consolidated financial statements'.
- For a review of the result for each business unit, see 'Our business units'.
- Guidance for 2023 (see the general disclaimer at the beginning of this Annual Report; based on IFRS 4, i.e. without considering the changes resulting from IFRS 17; see Note 6.10):
  - Total income: approximately 9.4 billion euros (including a one-off positive effect of 0.4 billion euros on completion of the Irish sale transaction), of which roughly 5.7 billion euros in net interest income.
  - Operating expenses excluding bank taxes: approximately 4.4 billion euros.
  - Credit cost ratio: 20-25 basis points (lower than the through-the-cycle credit cost ratio of 25-30 basis points), excluding any movement in the ECL buffer.
- More information on interest sensitivity is provided in our company presentation for the fourth quarter of 2022, available at www.kbc.com.
- The impact of Basel IV will be implemented in stages. The impact of first-time application on the risk-weighted assets in 2025 is estimated to be approximately 3 billion euros (based on total assets at the end of 2022).

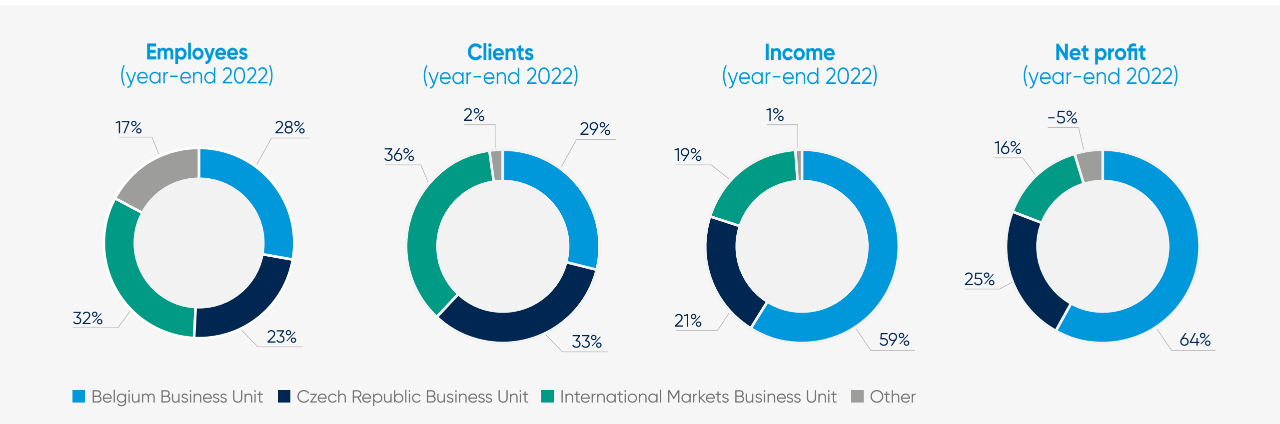
Our business units



Belgium Business Unit
KBC Bank NV and KBC Insurance NV, and their Belgian subsidiaries, which include CBC Banque, KBC Asset Management, KBC Lease Group and KBC Securities.

Czech Republic Business Unit
The ČSOB group (under the ČSOB Bank, Postal Savings Bank, ČSOB Stavební spořitelna and Patria Finance brands) and the insurer ČSOB Pojišťovna.

International Markets Business Unit
ČSOB Bank and ČSOB Poist'ovňa in Slovakia, K&H Bank and K&H Insurance in Hungary, United Bulgarian Bank, KBC Bank Bulgaria (formerly Raiffeisenbank Bulgaria) and DZI Insurance in Bulgaria.
KBC Bank Ireland was also part of the business unit in 2021, but was transferred to the Group Centre as of 2022 due to the sale transaction.



Belgium

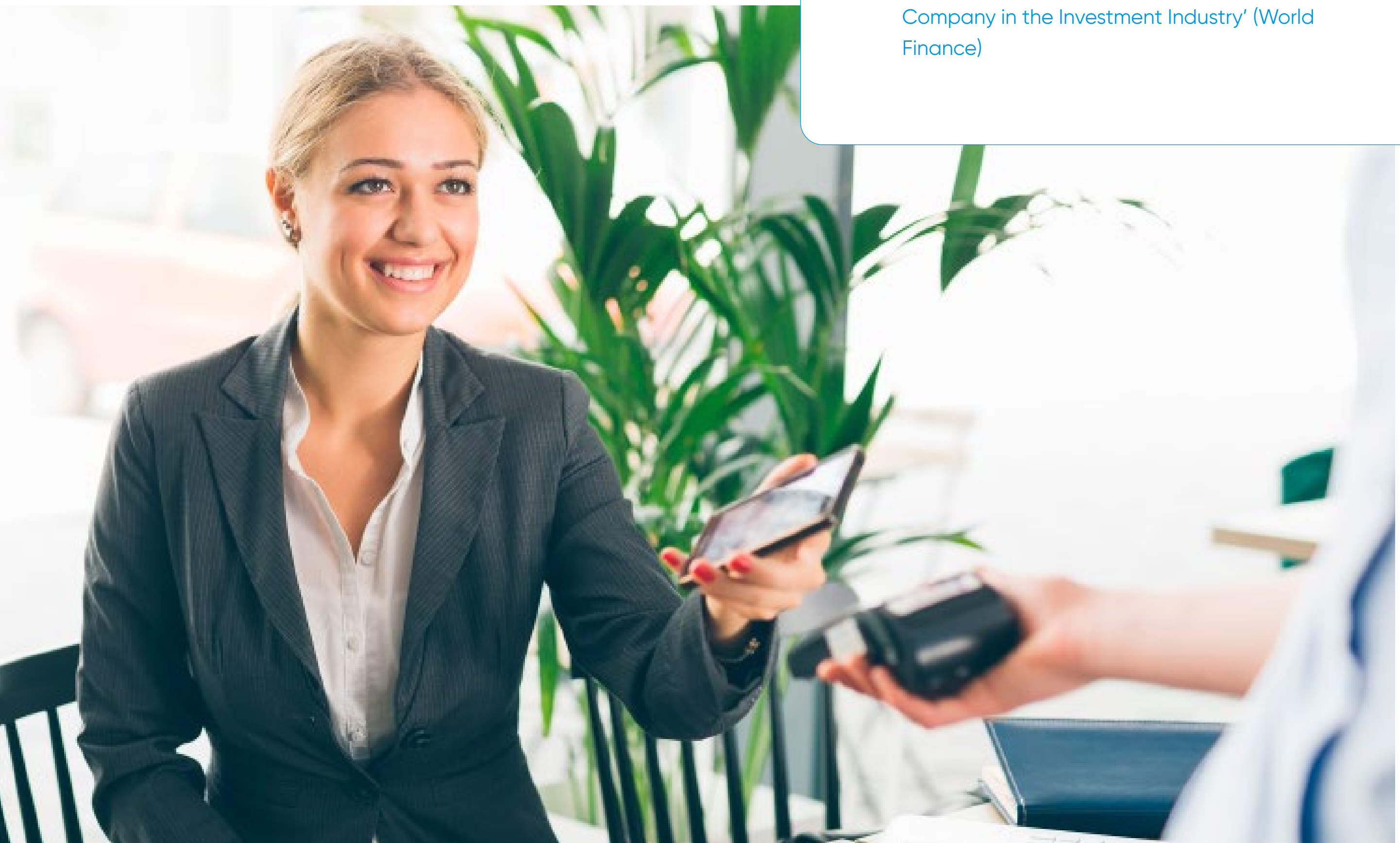
Macroeconomic context

The Belgian economy continued to grow in 2022 despite the Ukraine and energy crises and, overall, recorded solid annual growth of 3.1%. This resulted partly from a strong first half of the year, but even more so from a major spillover of last year's events. Private consumption was the main driver of GDP growth, which was slightly surprising against the backdrop of a severe decline in consumer confidence since the Russian invasion of Ukraine at the end of February. Demand was still slightly underpinned by post-pandemic recovery, whereas wage indexation mitigated the impact of high inflation on real family incomes.

The labour market also held up well in 2022, but did lose some momentum as the year progressed. Although the employment rate was up 1.6% on the year-earlier level, the number of unemployed people also rose by 5.1% in the same period. The energy inflation peak caused Belgian inflation, measured according to the harmonised index, to climb substantially to no less than 13.1% in October. It fell back to 10.2% towards the end of the year as energy inflation declined, but core inflation nevertheless continued its upward trend. At 10.3%, the average inflation figure for 2022 as a whole was more than three times that of 2021.
The ten-year rate of Belgian linear bonds (OLOs) rose from approximately 0.2% at year-end 2021 to 3.2% at year-end 2022. The yield spread with the corresponding German Bund rose from 36 basis points at the start of the year to 60 basis points at the end of the year. The Belgian government's shortfall was reduced further in 2022, but did remain high at 4.5% of GDP as extensive measures were introduced to absorb the impact of energy prices.

Figures for forecast GDP growth in 2023 and 2024 can be found under 'Market conditions in our core markets'.

- 'Bank of the Year 2022' (The Banker)
- 'Best Bank 2022' (Global Finance)
- 'Best Bank Europe 2022' (Capital Finance International)
- KBC named 'Best Bank' and 'Best Digital Bank'; Bolero named 'Best Investment Bank' in 2022 (Spaargids Awards)
- 'Top Employer Belgium 2022' (Top Employers Institute)
- 'Best innovation in Retail Banking' and 'Best Commercial Bank Belgium 2022' (International Banker)
- KBC Asset Management: 'Most Sustainable Company in the Investment Industry' (World Finance)



Specific objectives

- We put the client at the heart of all the products and services we develop and at the centre of everything we do. Our focus here is on a 'digital first' approach with a human touch, and investing in the seamless integration of our various distribution channels. We are working on the further digitalisation of our banking, insurance and asset management services and exploiting new technologies and data to provide our clients with more personalised and proactive solutions. Our digital assistant 'Kate' is taking this to the next level.
- To support these activities, we are also fully engaged in introducing end-to-end straight-through processing into all our commercial processes, making full use of all technological capabilities such as artificial intelligence. This is how we increase our efficiency, which allows us to invest in a strong branch network boasting more expertise and a higher number of Private Banking and Commercial Banking branches (see below).
- We expand our service delivery via our own and other channels by collaborating with partners through 'eco-systems' that enable us to offer our clients comprehensive solutions. We are also integrating a range of selected partners into our own mobile app and making our products and services available through the distribution channels of selected third parties.
- We aim for further growth of bank-insurance at CBC in specific market segments and expansion of our accessibility in Wallonia, again with a strong focus on 'Digital First with a human touch'.
- We work tirelessly on the ongoing optimisation of our bank-insurance model in Belgium.
- We express our commitment to Belgian society by leading the way in the sustainability revolution. We are making our banking, insurance and asset management products more sustainable to create financial leverage in achieving global climate targets. We aim to be more than a provider of pure bank-insurance services. As a partner in the climate transition, we are working with other partners on developing housing, mobility and energy solutions. We also continue to focus on financial literacy, entrepreneurship and population ageing.

Developments in 2022

client centricity

In 2022 too, we continued to invest heavily in expanding our digital systems, with the emphasis on solutions aimed at making our clients' lives easier and helping them save time and money. The most important achievement in 2022 was the further development of Kate, our digital assistant, including the launch of our own digital currency, the Kate Coin. More information about this can be found in 'The client is at the centre of our business culture'. We also launched a number of other banking and insurance applications in the past year. One of these is the new KBC CyberSecure Insurance for our retail clients, which provides security against financial loss resulting from fraud, swindling or online identity theft, and psychological support if clients have suffered online reputational harm. Over the past few years, we have also added a large number of non-banking applications to our range of services in KBC Mobile, including the ability to compare energy rates, receive financial and economic news, pay for car parking or public transport tickets, enter and leave car parks using number plate recognition and pay automatically, order cinema tickets, and make donations for Ukraine (e.g., to 'Ukraine 12-12'), The Warmest Week (see below) and other good causes.
Our experts naturally remain available at our branches and at KBC Live to answer complex questions or provide advice at key life moments. The human touch continues to take centre stage in our strategy, while the success of our digital strategy also allows us to free up more time to improve the advice we provide to clients. That is why are committed to improving the availability of our experts and expanding the number of Private Banking and Commercial Banking branches. From 2023 onwards, we will double the number of Private Banking branches and clients with assets of at least 250 000 euros will have access to more than 500 relationship managers. In commercial banking, all expertise related to the more complex needs of self-employed persons, SMEs and corporate banking clients is in the hands of more than 250 relationship managers in 24 Commercial Banking branches – three times the number of branches available in 2022.
We are also continuously exploring ways to further optimise our accessibility. To this end, in April 2022 we launched an experiment involving the provision of services at home intended to provide non-digital and less mobile retail clients with extensive local KBC presence, even in areas where no KBC bank branch is available. Following a client's request, an experienced KBC employee will drive to the client's home in a vehicle with distinct KBC livery (the 'KBC-Belmobiel') to provide the services requested by the client. We are now rolling out the service in the whole of Flanders. And last but not least, to ensure optimum service delivery and accessibility we are working with several other major banks in rolling out a new network of bank-neutral ATMs in Belgium. As part of this interbank collaboration, cash points will be available at convenient locations for clients to withdraw cash. Specifically for CBC in Wallonia, we would like to highlight the launch of CBC Pure Online, a digital branch for private individuals and professionals that provides a comprehensive range of bank-insurance products.

sustainable profitable growth

We again recorded substantial growth in deposits and lending in 2022. Across the business unit as a whole, our deposits (excluding debt securities) rose again by 11%, or 6% excluding the volatile deposit growth in the network of branches abroad. Loans and advances to customers went up by 8%, thanks in part to a 7% increase in the volume of mortgage loans. Assets under management dropped by 15% in 2022, almost exclusively attributable to falling asset prices.
As stated earlier, we are also specifically aiming for further growth of CBC in Wallonia and expansion of our accessibility in Wallonia. In 2022, the number of clients grew by around 22 000 (net) as a result of these efforts.

bank-insurance

Our bank-insurance model is delivering numerous commercial synergies. In 2022, for instance, more than nine out of ten clients who agreed home loans with KBC Bank also purchased home insurance with KBC Insurance, while between eight and nine out of ten took out mortgage protection cover. There was a further increase of nearly 3% in the number of active clients (clients with a current account into which their income is regularly paid) who hold at least one KBC banking product and one KBC insurance product, while the number of active clients with at least three banking and three insurance products from KBC increased by almost 4%. At year-end 2022, bank-insurance clients (with at least one banking and one insurance product from the group) accounted for 81% of the business unit's active clients. Stable bank-insurance clients (i.e. holding three banking and three insurance products) made up 30% of active clients.

role in society

We once again took a variety of initiatives to stimulate entrepreneurship. For example, we further expanded Start it @KBC, the largest accelerator for start-ups in Belgium, and at the end of January 2022 we also opened the first branch in Wallonia with the aim of strengthening the Walloon start-up and scale-up ecosystem and connecting it to the networks in Flanders, Brussels and other countries. Start it @KBC – in the pursuit of an equal gender balance – actively encourages women entrepreneurship and keeps a close eye on women entrepreneurs among the pitch participants.
In August 2022, we issued our first social bond, worth 750 million euros, which is used for healthcare investments.
The selection of a hospital portfolio is not a random choice.

> ‘Being a company that is firmly rooted in society, KBC wants to do its part to help eliminate inequality of opportunity. People who have opportunities are able to grow, dream and start a business. That is why we wholeheartedly support The Warmest Week.’

Healthcare is at the core of our activities as a bank-insurer and the sector is facing a tremendous transition due to the coronavirus pandemic as well as other factors.

As regards environmental awareness, our aim is not only to reduce our own footprint, but also to actively assist our clients in their transition to more sustainable business models. For instance, KBC relationship managers in Belgium initiated in-depth discussions on sustainability with both large corporate clients and SMEs. An increasing number of these clients requested an estimate of their own carbon footprint, which we provide, to use as a basis for an action plan mapping out a more sustainable future for their business. A pilot project was also set up to give owners of non-residential real estate a greater understanding of the energy efficiency of their property assets, which included scientifically-based scenario analyses.

When it comes to the transition, the main focus for private individuals is on their homes. Although financing and insuring homes is obviously a core activity for us as a bank-insurer, in the past few years our clients also reaped the benefits of partnerships with third parties that went beyond financial services. These benefits included group purchases or the option to compare energy prices or, more recently, providing support to clients seeking to renovate their homes to make them more energy-efficient (through our investment in Setle).

In 2022, we also committed to supporting The Warmest Week – with the theme of ‘social disadvantage’ – as its exclusive partner. As part of the fundraising campaign, many events were organised to raise funds for the Warmest Week Fund, to support 270 selected projects fighting against social disadvantage.

In efforts to accelerate sustainable mobility, the Flemish government introduced company bicycles for its employees, offering them the option to lease a company bicycle as of November 2022. The Flemish government collaborates with KBC Autolease for this purpose.

Contribution to group result

Net result
1 759 million euros
(-12%)

Net interest income
2 826 million euros (+12%)

Technical insurance result
479 million euros (+8%)

Net fee and commission income
1 265 million euros (-4%)

Operating expenses
2 647 million euros (+9%)

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

Cost/income ratio
53% (51%)

Combined ratio
90% (90%)

Credit cost ratio
0.03% (-0.26%)

Impaired loans ratio
1.9% (2.2%)

- 12% growth in net interest income, mainly driven by higher reinvestment yields and loan volume growth, partly offset by lower margins on the loan portfolio.
- 4% drop in net fee and commission income due to lower fees for asset management services (especially entry fees) and higher distribution fees.
- 8% increase in the technical insurance result. For non-life insurance, the increase in technical charges was more than offset by growth in premium income. The increase in life insurance sales – including investment contracts without a discretionary participation feature, which are excluded from the IFRS figures – was fully attributable to unit-linked life insurance.
- 8% drop in other income items. Growth in dividend income on securities in the portfolio, a strong drop in trading and fair value income and an increase in other income (attributable to a one-off item).
- 9% increase in costs; with exceptional and/or non-operating items eliminated (such as the additional profit bonus for staff, etc.), the increase was 8%, due mainly to inflation and wage indexation and higher ICT costs.
- 35-million-euro net increase in impairment on loans related to the reserve set aside to cover geopolitical and emerging risks, partly offset by a reversal of the remaining reserve set aside for the coronavirus crisis (see Note 1.4 in the 'Consolidated financial statements' section) and a limited net reversal for individual loans.

Figures for 2022 (the figures in brackets are for, or indicate the difference compared to, 2021). Technical insurance result = earned premiums - technical charges + ceded reinsurance result. A detailed breakdown of the income statement for each business unit and each country can be found in 'Note 2.2: Results by segment' in the 'Consolidated financial statements' section.

Czech Republic

Macroeconomic context

In 2022, the Czech economy was hit by the energy crisis on the back of the Russian invasion of Ukraine. In the second half of the year, rising energy prices and the associated consequences for consumer price inflation prompted a spike in inflation, which reached nearly 18% in September.
Nominal wages did not keep up with inflation, confronting Czech households with a drop in real wages of more than 8%. This triggered a substantial deterioration in consumer confidence and a material negative contribution of household consumption to GDP dynamics in the second half of the year, which resulted in a recession. The downward trend in household consumption was partly offset by stock building in the first half of the year and by the recovery of foreign trade in the second half of the year.
The unemployment rate remained more or less stable above 2.2% throughout 2022 and the labour market remained tight. Various sectors consistently reported the labour shortage as a major factor limiting production at the end of the year.

The external balance deteriorated significantly in 2022 as the high energy prices pushed up nominal imports and supply chain disruptions slowed down exports in the first half of 2022, translating into a current-account deficit of an estimated 5% of GDP.
The Czech National Bank raised its key rate to 7% in the first half of the year in response to the high inflation and expectations of more inflation increases, but took a more cautious approach in the second half of the year – partly in view of the deterioration of the real economy – and left the key rate unchanged. The Czech National Bank also used a small portion of its substantial foreign exchange reserves (approximately 60% of GDP at the start of 2022) to prevent a weakening of the koruna.

Figures for forecast GDP growth in 2023 and 2024 can be found under 'Market conditions in our core markets'.

- 'Best Bank', 'Best SME bank', 'Best Trade Finance Provider in the Czech Republic' in 2022 (Global finance)
- 'Best Bank in the Czech Republic' in 2022 (Euromoney)
- 'Best Private Bank in the Czech Republic' in 2022 (the Banker)
- 'Outstanding Leader in ESG-Related Loans in CEE', 'Financial Leader in Sustaining Communities in CEE', 'Outstanding Leader in Sustainability Transparency in CEE', 'Best Bank for Sustainable Finance in the Czech Republic' (Global Finance)
- ČSOB Pojišťovna: 'Best Non-life Insurance Company' and 'Most Client-Friendly Non-life Insurance Company in the Czech Republic' (Hospodářské noviny Awards)

Specific objectives

- To retain our reference position in banking and insurance services by offering our retail, SME and mid-cap clients a hassle-free, no-frills client experience.
- To use data and AI to proactively offer personalised solutions to our clients, including via Kate, our personalised digital assistant.
- To continue the further digitalisation and to introduce new and innovative products and services, including open bank-insurance solutions aimed at boosting the financial well-being of our clients.
- To concentrate on rolling out straight-through processing and further simplifying our products, our head office, and our distribution model, in order to enable us to operate even more cost-effectively.
- To further increase the client base and further strengthen our market position, especially in insurance and investment services.
- To strengthen our business culture based on the values responsive, respectful and results-driven.
- To become the reference in advisory services in terms of climate change and sustainable lending and investments. To also express our social engagement by focusing on financial literacy, entrepreneurship, population ageing and cybersecurity.

Developments in 2022

client centricity

Partly as a result of the past lockdowns, in recent years we saw rapid growth in the use of our digital channels, and mobile banking in particular. In September 2022, the ČSOB Smart mobile app exceeded the milestone of 1 million active users. The number of active users of all our digital channels combined rose by approximately 18% last year to 1.6 million. In the past few years we also gradually added even more services to our smartphone apps, with the most important achievement being the option of using Kate, our personalised digital assistant. The Czech version of Kate is now available in ČSOB Smart, DoKapsy and CEB Mobile for businesses (see 'The client is at the centre of our business culture' for more information). The DoKapsy app now also allows users to read news articles, buy tickets for Prague Integrated Transport (PID) and receive tips for trips in the area. Other new products and services include ČSOB NaDobrouVěc (ČSOB ForGoodCause), giving clients the option to make a small donation to a charity with every card payment they make. The service can be opened in ČSOB Smart or by asking our virtual assistant Kate. Just like last year, our cyber risk insurance was particularly successful with nearly 120 000 new insurance policies taken out through ČSOB Smart in 2022.

Poštovní spořitelna (Postal Savings Bank) was renamed ČSOB Poštovní spořitelna in June. Clients of ČSOB Poštovní spořitelna now have better access to all of the ČSOB group's services, including the most state-of-the-art digital environment. The extensive branch network is unparalleled and even makes ČSOB Poštovní spořitelna the most accessible bank in the Czech market today. By extension, this applies to ČSOB as a whole, as we now serve all ČSOB clients in all branches and post offices.

The year 2022 was also marked by the Russian invasion of Ukraine, which prompted a flow of refugees and a wave of solidarity. More information about the various initiatives launched by ČSOB and the other group companies can be found in 'The client is at the centre of our business culture'.

sustainable profitable growth

We again recorded substantial growth in lending in 2022. Overall, our loans and advances to customers went up by 5% in 2022, partly as a result of the growth in home loans (+4%). Our deposits (excluding debt securities) also went up by 7%. We adjusted these growth figures for foreign-exchange effects. Assets under management grew by 7%; the decline in asset prices was more than offset by net inflow.

bank-insurance

Our bank-insurance model is delivering numerous commercial synergies.

For example, around five to six out of ten ČSOB group clients who took out home loans with the bank in 2022 also purchased home insurance from the group. There was a further increase of 9% in the number of active clients (clients with a current account into which their income is regularly paid) who hold at least one banking product and one insurance product from the group, while the number of active clients with at least two banking and two insurance products from the group increased by 10%. At year-end 2022, bank-insurance clients (with at least one banking and one insurance product from the group) accounted for 86% of the business unit's active clients. Stable bank-insurance clients (i.e. holding two banking and two insurance products) made up 20% of active clients.

role in society

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

As part of our efforts to raise environmental awareness, we aim to actively assist our clients in implementing sustainability initiatives. For instance, we offer our clients mortgage loans at attractive rates for energy-efficient homes, which provide benefits when they decide to fund their EPC-category A or B investment plans, and consumer loans to finance energy-saving technologies (such as photovoltaic panels, heat pumps and home insulation) at an interest-rate discount. We have pooled resources with external energy specialists to offer our clients the option to discuss their construction and renovation plans for their family home with experts.

Regarding the initiatives to stimulate entrepreneurship, Start it@ČSOB continues to be the most important initiative. In 2022, we also organised a Green Challenge acceleration aimed at sustainable start-ups and we launched Start it @UNI, a programme targeting university students in which we work with the incubators of selected Czech universities to help students increase their prospects of success in the market when launching their projects.

Our focus on population ageing led us to set up a helpline specifically for elderly people that is operated by specially trained staff. In 2022, call centre colleagues handled more than 80 000 calls on this line. We also offer the e-book 'Senior's Guide to the World of Finance', which gives practical advice on finance and safe Internet use.

As financial literacy is a natural and important topic to us and we are convinced that financial education should start

at an early age, we developed a unique ČSOB financial and digital education training programme for schools.
Our employees have been visiting Czech schools since 2016 with the aim of teaching pupils and students how to handle money in a fun and interactive way. Until year-end 2022, a total of 545 of our employees visited 500 schools to teach more than 50 000 pupils and students in 2 800 classes.
In 2021 we developed the application ČSOB Filip, a children's guide to the financial world showing real situations children encounter on their path towards adulthood. The app is available in the Google Store and the App store and has been downloaded over 6 000 times to date. We added specific cyber-risk and sustainability information in 2022.
We are collaborating with the Czech Association of Paraplegics to check whether our branches are truly barrier-free; any shortcomings are eliminated. We are also scrutinising all ČSOB applications and websites from the perspective of visually impaired users, and all our ATMs are equipped with speech navigation for the visually impaired.
We also offer eScribe, an online speech transcription service for the hearing impaired, allowing them to communicate with bank staff.

Contribution to group result

Net result
679 million euros
(-7%)

Net interest income
1 313 million euros (+29%)

Technical insurance result
289 million euros (+26%)

Net fee and commission income
213 million euros (-5%)

Operating expenses
927 million euros (+10%)

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

Cost/income ratio
52% (53%)

Combined ratio
83% (87%)

Credit cost ratio
0.13% (-0.42%)

Impaired loans ratio
1.7% (1.8%)

- 5% increase in the average exchange rate of the Czech koruna against the euro. The growth figures in the table and the analysis have been calculated excluding foreign-exchange effects.
- 29% growth in net interest income, driven by higher reinvestment yields and loan volume growth, partly offset by lower margins on the loan portfolio.
- 5% drop in net fee and commission income, mainly due to lower fees for asset management services and higher distribution fees for insurance products, despite an increase in fees for banking services (including for payment transactions).
- 26% higher technical insurance result. Growth in non-life insurance thanks to higher premium income and lower technical charges, only partly offset by a lower reinsurance result. Drop in life insurance sales due to lower sales of unit-linked life insurance.
- Drop in all other income items combined. Increase in trading and fair value income and sharp fall in other net income, due mainly to a negative impact relating to the arbitral award delivered in the arbitration proceedings against ICEC-Holding in the Czech Republic in February 2023 (see Note 3.6 in the 'Consolidated financial statements' section for more details).
- 10% increase in costs; with exceptional and/or non-operating items eliminated (such as the additional profit bonus for staff), the cost increase was 9%, mainly due to inflation, wage drift and higher ICT and marketing costs.
- 46-million-euro net increase in impairment on loans related to the reserve set aside to cover geopolitical and emerging risks, partly offset by the reversal of the remaining reserve set aside for the coronavirus crisis (see Note 1.4 in the 'Consolidated financial statements' section) and a net reversal for individual loans.

Figures for 2022 (the figures in brackets are for, or indicate the difference compared to, 2021). Technical insurance result = earned premiums - technical charges + ceded reinsurance result. A detailed breakdown of the income statement for each business unit and each country can be found in 'Note 2.2: Results by segment' in the 'Consolidated financial statements' section.

International Markets

Macroeconomic context in Slovakia, Hungary and Bulgaria

Although Slovakia, Hungary and Bulgaria mostly followed the euro area's economic growth path in the first half of 2022, the Hungarian economy contracted in the third quarter and inevitably ended up in a technical recession.
The surge in inflation in 2022 was more substantial in the Central European economies than in the euro area. This was mainly driven by the major dependence on energy imports and tight labour market conditions. Annual average inflation in Slovakia, Hungary and Bulgaria stood at 12.1%, 15.3% and 13.0% respectively, well above the euro area's figure of 8.4%. The National Bank of Hungary (NBH) responded by significantly raising its base rate even further from 2.4% at the start of 2022 to 13%. In 2022, the Hungarian forint suffered severely from the general risk aversion in the financial markets. The currency was volatile and the resulting substantial depreciation of the exchange rate against the euro in 2022 greatly contributed to the inflationary pressure. At its weakest point, the forint stood at around 430 forints per euro. Seeking to support the forint, in the fourth quarter the NBH therefore created additional interest rate facilities in addition to the traditional base rate, which prompted a significant rise in the short-term money market interest rate. The forint again recovered on the back of this measure and declining risk aversion in the financial markets towards the end of the year. On balance, however, it depreciated substantially in 2022, from approximately 370 to 400 forints per euro.
In 2022, the Bulgarian economy's quarterly growth rate was more or less in line with euro area growth. In addition to high energy prices and the direct impact of the conflict in Ukraine, political instability was another major factor as this policy uncertainty weighs on economic sentiment and the investment climate. Meanwhile, the Bulgarian economy continues to face a consistently tight labour market, which is largely attributable to the unfavourable demographic development.

Figures for forecast GDP growth in 2023 and 2024 can be found under 'Market conditions in our core markets'.

- UBB: 'Best Service in Trade Finance' (Euromoney), 'Best Trade Finance Provider 2022 in Bulgaria' (Global Finance)
- ČSOB: 'Best Sub-custodian Bank' and 'Best Trade Finance Provider 2022 in Slovakia' (Global Finance)
- K&H: 'Best Trade Finance Provider 2022 in Hungary' (Global Finance)
- UBB: 'ESG Strategy Award in the financial services sector' (PWC)
- UBB: 'First Bulgarian bank in Digital Banking Maturity Survey' (Deloitte)

Specific objectives

- The group strategy presents a number of challenges for all countries in the business unit, viz.:
  - To develop new and unique 'bank-insurance+' propositions.
  - To continue digitally upgrading our distribution model.
  - To drive up the volume of straight-through and scalable processing.
  - To increase the capacity in relation to data and AI to enable us to proactively offer relevant and personalised solutions.
  - To selectively expand our activities with a view to securing a top-three position in banking as well as in insurance.
  - To implement a socially responsible approach in all countries, with a particular focus on environmental awareness, financial literacy, entrepreneurship and health.
- Country-specific:
  - To become the undisputed leader in the area of innovation in Hungary. We are aiming to raise profitability by targeting income through vigorous client acquisition in all banking segments and through more intensive cross-selling. We also aim to expand our insurance activities substantially, primarily through sales at bank branches for life insurance and both online and via agents, brokers and bank branches for non-life insurance.
  - To maintain our robust growth in strategic products in Slovakia (i.e. home loans, consumer finance, SME funding, leasing and insurance), partly through cross-selling to group clients and via digital channels. Other priorities include the sale of funds and increased fee income.
  - In Bulgaria we focus on the merger between UBB and the acquired Raiffeisenbank Bulgaria to create the leading bank in Bulgaria, including in the area of digitalisation and innovation, and to become the reference in bank-insurance in all segments. Our insurer, DZI, is likewise maintaining its goal of growing faster than the market in both life and non-life insurance.
  - Ireland: Ireland was part of the International Markets Business Unit until year-end 2021, but was then transferred to the Group Centre in view of the pending sale transactions (see also 'Developments in 2022').

Developments in 2022

client centricity

Partly as a result of the past lockdowns, in recent years we saw rapid growth in the use of our digital channels, and mobile banking in particular, in Slovakia, Hungary and Bulgaria, in line with our other core countries. For instance, the number of mobile banking users grew by around 17% in Slovakia, 17% in Hungary and 19% in Bulgaria (UBB), after growth of 15%, 30% and 30% respectively, a year earlier.

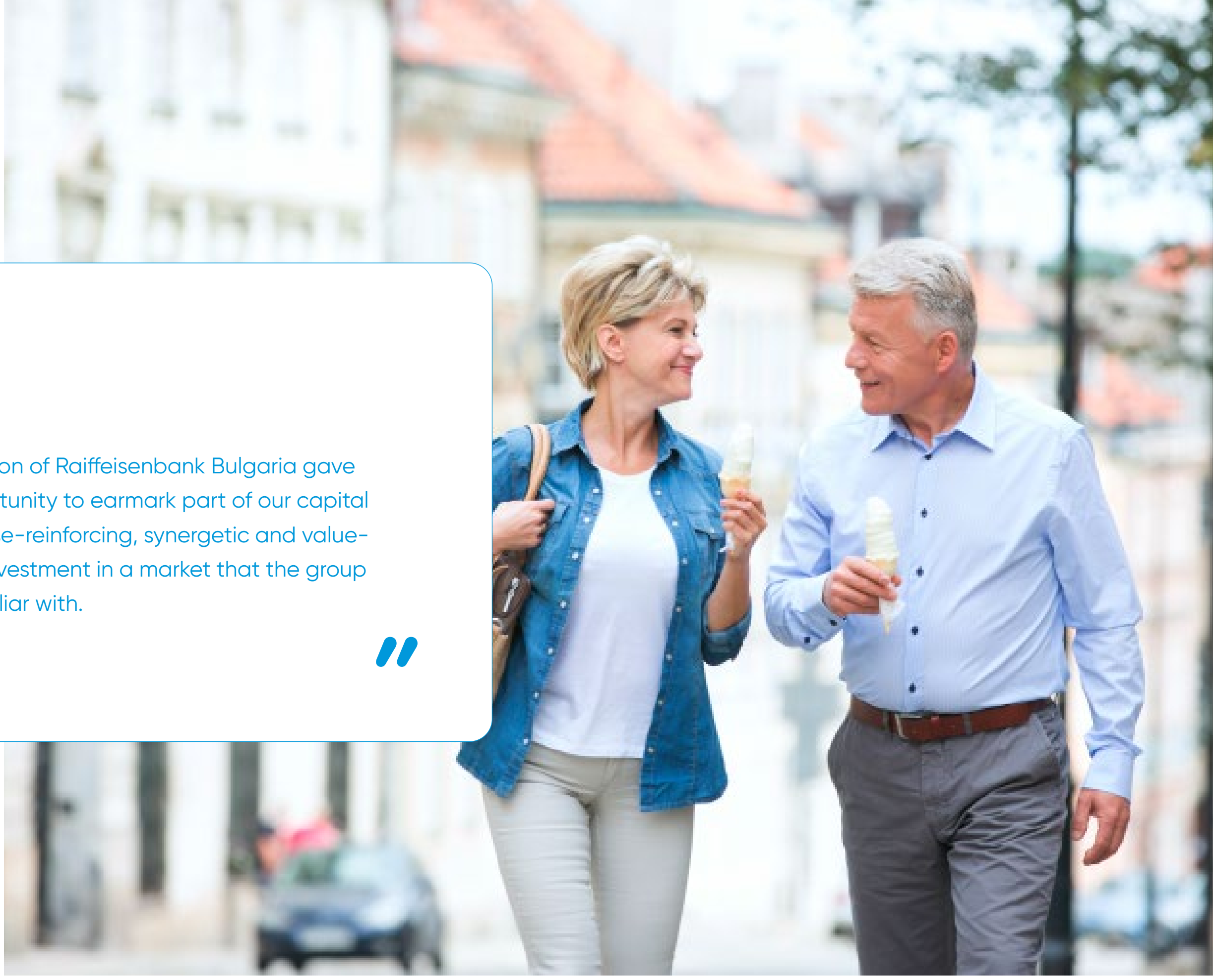
We also developed several new products and services with a clear digital focus. As a result, we saw double-digit growth in the share of digital sales for the second year in a row. Based on the key banking products, this already accounts for roughly a third of the total sales in the three countries (for UBB: 31% in 2022 versus 24% in 2021 and 10% in 2020; K&H Bank: 42% in 2022 versus 33% in 2021 and 15% in 2020; ČSOB Bank: 30% in 2022 versus 18% in 2021 and 10% in 2020). The most important achievement was of course the launch of Kate, our digital assistant, in all three countries in 2022 (see 'The client is at the centre of our business culture' for more information). Other examples of new and innovative products and services are the launch of the UBB Agro Carbon Emissions Calculator in Bulgaria (a digital tool for calculating the carbon footprint of agricultural companies and proposing improvements, which contains links to companies that provide support), the introduction of Garmin & Xiaomi Pay (in addition to Apple Pay and Google Pay) in Hungary, and ČSOB SmartPOS in Slovakia (a simple portable payment terminal in smartphones). And, as is the case in Belgium and the Czech Republic, we gradually added a number of services to the smartphone apps in the various countries that go beyond pure bank-insurance services, such as features for buying public transport tickets and paying for car parking in Slovakia.

The year 2022 was also marked by the Russian invasion of Ukraine, which prompted a flow of refugees and a wave of solidarity. More information about the various initiatives in our group companies can be found in 'The client is at the centre of our business culture'.

sustainable profitable growth

For the business unit as a whole (excluding exchange rate effects and excluding Ireland, which was part of the business unit until 2021), in 2022 deposits (excluding debt securities) grew by roughly 25% and loans and advances to customers grew by nearly 40%, both obviously benefiting strongly from the inclusion of the acquired Raiffeisenbank Bulgaria (see below). Excluding Raiffeisenbank Bulgaria, deposits rose by 8% and loans and advances to customers grew by 17%, both showing strong growth in each of the three countries (10% deposit growth and 15% growth in loans and advances in Slovakia, 6% and 18% in Hungary, and 10% and 19% in Bulgaria).

We continued to sharpen the group's geographical focus. In July 2022, we completed the acquisition of Raiffeisenbank Bulgaria, a universal bank in Bulgaria offering private individuals, SMEs and corporate entities a full range of banking, asset management, leasing and insurance services. Raiffeisenbank Bulgaria, now renamed KBC Bank Bulgaria, and UBB will merge their activities, which will allow KBC to bolster its position in the Bulgarian banking market even



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

further. The acquisition will also create ample opportunity for insurance cross-selling with DZI.

In February 2022, KBC Bank Ireland sold nearly all of its non-performing mortgage loan portfolio of roughly 1.1 billion euros in a transaction financed by funds managed by CarVal Investors. In October 2021, KBC Bank Ireland confirmed that it had entered into a legally binding agreement with Bank of Ireland relating to the sale of substantially all of KBC Bank Ireland's performing loan assets and its deposit book to Bank of Ireland Group. As part of the transaction, the latter also acquired a small non-performing mortgage loan portfolio. The Irish Competition and Consumer Protection Commission (CCPC) approved the transaction in May 2022, and the Irish Minister for Finance gave his approval in early December 2022. The transaction was ultimately finalised in early February 2023.

More information on all of the acquisitions and disposals stated above, including the expected impact on the group's capital ratio, can be found in Note 6.6 of the 'Consolidated financial statements'.

bank-insurance

Our focus on bank-insurance delivers many commercial synergies. For instance, group fire insurance was sold in conjunction with more than nine out of ten new home loans taken out in Bulgaria and Slovakia, and nearly seven out of ten such loans taken out in Hungary. Across the business unit as a whole (but excluding the recently acquired Raiffeisenbank Bulgaria), the number of active clients (clients with a current account into which their income is regularly paid) who hold at least one banking product and one insurance product from the group grew by 4% in 2022, while the number of active clients with at least two banking and two insurance products from the group increased by 9%. At year-end 2022, bank-insurance clients (with at least one banking and one insurance product from the group) accounted for 74% of the business unit's active clients. Stable bank-insurance clients (i.e. holding two banking and two insurance products) made up 24% of active clients.

The acquisition of Raiffeisenbank Bulgaria will provide bank-insurance in Bulgaria with an additional boost in the years ahead.

role in society

We link our social projects to financial literacy, environmental responsibility, entrepreneurship and health. Some examples of recent projects: The Start it community is represented in all our core countries and focuses on increasing women's involvement, including in Slovakia, Bulgaria and Hungary. Various programmes have been initiated to support women in starting up their own business. As environmental responsibility remains another important focus area, UBB developed a user-friendly application to calculate greenhouse gas emissions in the agricultural sector (see above). In August 2022, K&H also launched the K&H Green Home Loan for the purchase of energy-efficient homes and renovation projects. K&H also continues to work on financial education for young people, organising the K&H 'Ready, Steady, Match!' contest last year as well. A total of 10 000 students took part in last year's contest themed 'sustainability and digital developments'. In Bulgaria, we collaborated with Sofia University to start an educational programme in which KBC employees share their knowledge of a wide range of ESG topics with students. We also launched the mobile health app 'Kaksi' ('How are you?') to motivate our clients to live healthier lives and to reward them with discounts with our partners. The mobile app has various convenient functionalities, including the option for clients to easily make an appointment with a physician, access their own health file or send an SOS alert containing their location and health information.

Contribution to group result

Net result
441 million euros
(+4%)

Slovakia
90 million euros
(+7%)

Hungary
195 million euros
(-14%)

Bulgaria
155 million euros
(+36%)

Net interest income
888 million euros (+31%)

Technical insurance result
205 million euros (+12%)

Net fee and commission income
376 million euros (+22%)

Operating expenses
906 million euros (+23%)

Impairment on loans
78 million euros increase
(40-million-euro reversal)

Cost/income ratio
57% (60%)

Combined ratio
85% (86%)

Credit cost ratio
0.31% (-0.19%)

Impaired loans ratio
1.9% (2.5%)

- As of 2022, Ireland is no longer part of the International Markets Business Unit. We also removed the country from the 2021 growth and reference figures in the table and the analysis.
- 31% growth in net interest income, due in part to the consolidation of Raiffeisenbank Bulgaria (responsible for one third of the growth), higher reinvestment yields and organic loan volume growth in all countries, partly offset by lower margins on the loan portfolio (in Hungary and Bulgaria in particular).
- 22% increase in net fee and commission income, owing primarily to the consolidation of Raiffeisenbank Bulgaria (responsible for half of the growth) and to higher fees for banking services in Hungary in particular.
- 12% higher technical insurance result. Increase in non-life insurance mainly on account of growth in premium income combined with unchanged technical charges. Increase in life insurance sales (including investment contracts without DPF, which are excluded from the IFRS figures), especially thanks to Bulgaria.
- Other income items more than doubled. Strong increase in trading and fair value income and drop in other income.
- 23% increase in costs, chiefly owing to the consolidation of Raiffeisenbank Bulgaria (responsible for one third of the growth in costs) and sharply higher bank taxes (responsible for half of the growth in costs; due to the special contribution relating to Sberbank Hungary and the additional bank tax in Hungary).
- 78-million-euro net increase in impairment on loans related to the reserve set aside to cover geopolitical and emerging risks and a net increase in impairment on individual loans, partly offset by a reversal of the remaining reserve set aside for the coronavirus crisis (see Note 1.4 in the 'Consolidated financial statements' section). At individual country level: net increase of 19 million euros in Slovakia, 29 million euros in Hungary and 30 million euros in Bulgaria.

Figures for 2022 (the figures in brackets are for, or indicate the difference compared to, 2021). Technical insurance result = earned premiums - technical charges + ceded reinsurance result. A detailed breakdown of the income statement for each business unit and each country can be found in 'Note 2.2: Results by segment' in the 'Consolidated financial statements' section.

Group Centre

Besides financial reporting for the three business units, we also report on a separate Group Centre. In 2022, the Group Centre generated a net result of -135 million euros, compared to -207 million euros a year earlier (-505 million euros if Ireland is retroactively added to 2021).

This consisted of (Ireland retroactively added to 2021):
- Traditional items, such as the operating expenses of our group's holding-company activities, certain costs related to capital and liquidity management and funding and other costs related to the holding of participating interests (-190 million euros in 2022 as opposed to -67 million euros in 2021). The figure for 2021 also included a positive amount of 28 million euros in badwill related to OTP Banka Slovensko.
- The results for Ireland: 37 million euros in 2022 as opposed to -298 million euros in 2021. The results of KBC Bank Ireland include a significant amount (-31 million euros in 2022, -361 million euros in 2021) of one-off items relating to the sale transactions.
- The results of the other companies scheduled for run-down, including the portfolio of the former Antwerp Diamond Bank, KBC Finance Ireland and various other items, etc. (16 million euros in 2022 as opposed to -140 million euros in 2021).

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

How do we manage our risks?

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

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

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

Introduction

KBC operates in a fast-changing environment characterised by volatility, uncertainty, complexity and ambiguity. The financial industry is in the midst of its biggest transition yet. On the one hand, there is the digital transformation, leading to new digital opportunities, whereas the downside for those who fall behind is growing disproportionately. Furthermore, the financial sector has an important role to play in the transition towards a green and sustainable economy. At the same time, KBC needs to deal with global and geopolitical challenges and mounting regulatory pressure and uncertainty.

In the aftermath of the worldwide coronavirus pandemic, the Russian invasion of Ukraine and the sanctions imposed by the West sent a shockwave through the world economy, resulting in elevated inflation, driven in part by surging energy prices. This caused a slowdown in economic growth and put additional pressure on the financial industry.

The invasion of Ukraine occurred at a time when other emerging risks had already started to weigh on the EU economy. International supply chains were constrained on the rebound from the coronavirus pandemic. The war aggravated these inflationary tendencies through peaking commodity (most notably food and metals) and energy (gas) prices. These emerging risks impact not only retail clients through increasing cost of living and higher repayment schemes due to increasing interest rates; Corporate and SME clients are also affected by supply chain issues, wage inflation and increasing commodity and energy prices. We are therefore keeping a very close eye on these risks and the impact on the group and its clients, both financially and operationally.

In addition, we face the same strategic challenges as the entire financial sector:

- Potential consequences of climate change and other environmental, social and governance (ESG) challenges are becoming increasingly tangible. Financial institutions not only need to reflect upon their own activities, taking into account all new regulations, but also need to help clients make the transition towards a more sustainable world and optimise their own energy consumption or carbon footprint.
- Changing client behaviour and expectations. Based on experience with innovative companies such as big techs, clients are in search of convenience, instant delivery of products and services and personal advice anywhere and at any time. Given today's client needs, processes have to be instant, data-driven and friction-free. This means that interactions with clients (digital as well as human) need to be exceptional in terms of client experience and operational efficiency.
- The future is data-driven. Artificial intelligence, big data analysis and automation technologies are making digital interactions smarter, for simple tasks as well as in support of more complex operations. This affects how banks interact with their clients. Distribution models need to be reassessed to find the right mix between human (physical or remote) and digital channels, the concrete role of humans, and how to support them using digital technologies. While digital leads are used to drive business, a positive customer journey is to be ensured at all times. At the same time, these new technologies also provide opportunities to make our risk management more effective and efficient.
- New business models are emerging, including industrialisation of banking and insurance (B2B2C alongside B2C), platformification and decentralised finance. This drives us to increase our ambition from 'merely' digitalising our traditional banking and insurance business towards 'broadening our distribution' (i.e. all-in-one, creating ecosystems that combine financial and non-financial services).

With its data-driven digital strategy and ambition to contribute to a more sustainable world, KBC is responding to these key challenges which, in turn, also involve certain risks for KBC. Therefore, the risk function has the clear ambition to support KBC in achieving its strategic objectives, to contribute to its resilience and agility, to provide management and the Supervisory Board with insights supporting risk-conscious decision making and inform them about the risks KBC is facing. The risk function therefore regularly assesses and updates its strategy. We have therefore defined three key pillars: the first is to support, advise and challenge business in its transformation journey, aiming to keep KBC's control environment up to standards and our risk profile within the appetite, the second is to transform in sync with the business environment and the corporate strategy, and our third pillar is to invest in our people.

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

In addition, we continue to enhance our risk management toolkit through innovation, i.e. becoming more data-driven and looking into opportunities offered by new technologies, and becoming more straight-through via optimisation of our processes and tools. As the goal is to obtain a complete view of the risks for the entire group and individual entities quickly, efficiently and without compromising on quality, we have been focusing in recent years on group-wide tool implementation, process simplification and automation in all risk domains. Moreover, the risk function is also accelerating its efforts to leverage the data available in the risk tools and the business processes to further improve risk management and increase efficiency.

Lastly, effective risk management is not possible without strong human capital management: we continue to invest in our people and take initiatives to attract, engage, motivate and train them to build the workforce of the future. We focus on building a diverse, inclusive and positive working environment. We also structurally raise awareness about innovation and develop expertise in new trends and technologies. We continue to invest in knowledge sharing of innovation, technology and trends to further reinforce our risk management practices. These efforts are all to ensure that our risk professionals acquire the relevant digital skills to continue providing expert risk advice.

Risk governance

Main elements in our risk governance model:

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

Relevant risk management bodies:

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

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

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

Components of sound risk management

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

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

Risk identification

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

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

The Climate Risk Impact Map is a yearly risk identification process aiming to identify, for different time horizons and different climate scenarios, the most material climate risk drivers, both physical and transition risks, impacting KBC's businesses and portfolios.

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

The internal and external environment are scanned on a continuous basis and using all possible sources of information to detect events or changes that might or will impact the KBC group, either directly or indirectly. Risk signals are collected at all levels of the organisation (group and local) and provide a summary of the identified risks and their potential impact for KBC. Where possible, remedial actions are proposed.

Risk measurement

Risk measurement aims to quantify the various risks we are exposed to. Once risks have been identified, various attributes can be assessed, such as impact, probability of occurrence, size of exposure, etc., with the help of risk measures. The KBC risk framework provides an overview of the risk measures in use within KBC, both regulatory and internally defined, for its specific scope.

Setting and cascading risk appetite

KBC's tolerance for risk is captured via the notion of 'risk appetite'. The risk appetite expresses – both qualitatively and quantitatively – how much and what kind of risk we want to take and within which boundaries it should be managed.

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

Risk appetite is made explicit via the 'risk appetite statement' (RAS), which is decided at both group and local level. The RAS reflects the view of the Board of Directors and top management on risk-taking in general and on the acceptable level and composition of risks, ensuring coherence with the desired return. The statement is built on risk appetite objectives that are directly linked to the corporate strategy and provides a qualitative description of KBC's playing field. The high-level risk appetite objectives are further detailed in a set of qualitative and quantitative statements for each of the different risk types. The long-term risk appetite is expressed as being High, Medium or Low and is monitored based on a set of risk measures for which risk thresholds are defined. Lastly, risk appetite is translated into risk-type-specific group limits/targets, which are further cascaded down to the entities.

Although risk appetite is expressed on a three-year horizon, specific risks such as climate risk will impact KBC mostly in the medium to longer term. As of this year, the risk appetite statement therefore also signals potential climate change challenges beyond three years, to trigger and steer the strategic debate on whether, for example, more mitigating actions are needed.

Risk analysis, reporting and follow-up

Risk analysis and reporting aim to give transparency on risk-taking by providing management with a comprehensive, forward-looking and *ex-post* view on how the risk profile evolved and in which context the group operates. Internal and external reports are prepared for the various stakeholders. As management is expected to take relevant action based on the risk analysis and risk reporting, it is essential that the proposed actions are tailored to the relevant stakeholders.

Stress testing

Stress testing is an important process that supports the decision-making process by simulating the potential negative impact of specific events and/or movements in risk factors on KBC's (financial) condition. Stress tests range from plausible to exceptional and even extreme events or scenarios. In addition to all regulatory imposed stress tests, KBC actively uses internal stress testing as a key risk management tool.

Credit risk

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

Managing credit risk

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

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

The building blocks for managing credit risk

- Risk identification: a vital part of the credit risk identification process is capturing credit risk signals, both at transactional and portfolio level. Both the internal and external environment are scanned for events or developments that have already occurred or could occur and which directly or indirectly have or could have a significant impact on credit quality. Risk signals provide an overview of the identified risk and outline the possible impact for KBC and, if possible, propose remedial actions. The appropriate risk management committees are periodically informed of relevant signals or observations. Risk signals that are considered material are reported to the Executive Committee. In addition, thematic and sectoral deep dives are performed to gain further insights into credit risk.
  New and upcoming prudential (capital) credit risk regulation, product or client-specific regulation and legislation is followed up at group or local level to ensure that amended or new regulations are promptly implemented in policy and instructions.
  A specific risk identification process is the leading indicator process designed to identify emerging credit risks that could lead to impairment. The main objective is to have a reliable estimate of impairment for the current quarter at an early stage, thus avoiding surprises. It is part of the quarterly reporting round on loan and bond impairment. Another specific process is the Climate Risk Impact Map which identifies the climate risk drivers that are the most material for credit risk, both in banking and insurance (investment) activities.
- Risk measurement: credit risk measurement involves a quantitative expression of a credit risk on a portfolio of instruments/exposures by applying a model or methodology. A minimum group-wide set of credit risk

measurements is defined and can be complemented with local measurements.
Central to this is the risk class, with a ranking being made based on the Probability of Default (PD) and the Loss Given Default (LGD). The latter reflects the estimated loss that would be incurred if an obligor were to default. In order to determine the risk class, we have developed various rating models for measuring how creditworthy borrowers are and for estimating the expected loss of various types of transactions. A number of uniform models throughout the group (models for governments, banks, large companies, etc.) are in place, while others have been designed for specific geographic markets (SMEs, private individuals, etc.) or types of transaction. We use the same internal rating scale throughout the group.
We use the output generated by these models to split the non-defaulted loan portfolio into internal rating classes ranging from 1 (lowest risk) to 9 (highest risk) for the PD. We assign PD 10 to PD 12 to a defaulted obligor. PD class 12 is assigned when either one of the obligor's credit facilities is terminated by the bank, or when a court order is passed instructing repossession of the collateral. PD class 11 groups obligors that are more than 90 days past due (in arrears or overdrawn), but that do not meet PD 12 criteria. PD class 10 is assigned to obligors for which there is reason to believe that they are unlikely to pay (on time), but that do not meet the criteria for classification as PD 11 or PD 12. 'Defaulted' status is fully aligned with the 'non-performing' and 'impaired' statuses. Obligors in PD classes 10, 11 and 12 are therefore referred to as 'defaulted' and 'impaired'. Likewise, 'performing' status is fully aligned with the 'non-defaulted' and 'non-impaired' statuses.
Impairment losses are recorded according to IFRS 9 requirements (calculated on a lifetime expected credit loss (ECL) basis for defaulted borrowers and on a 12-month or lifetime ECL basis for non-defaulted borrowers, depending on whether there has been a significant increase in credit risk and a corresponding shift from 'Stage 1' to 'Stage 2'). Specific collective IFRS 9 models are used for this purpose, except for material defaulted borrowers, which are assessed individually to estimate ECL.
Together with 'probability of default' and 'exposure at default', measures such as 'expected loss' and 'loss given default' form the building blocks for calculating the regulatory capital requirements for credit risk, as KBC has opted to use the Internal Ratings-Based (IRB) approach. By the end of 2022, the main group entities and some smaller entities had adopted the IRB Advanced approach, apart from United Bulgarian Bank (UBB) and Raiffeisenbank Bulgaria (now KBC Bank Bulgaria) in Bulgaria (both Standardised approach) and ČSOB in Slovakia (IRB Foundation approach). 'Non-material' entities will continue to adopt the Standardised approach.

- Setting and cascading risk appetite: the KBC Risk Appetite Statement makes explicit the amount of credit risk KBC is able and willing to accept in pursuit of its strategic objectives. Credit risk appetite is made tangible by assigning credit risk limits and early warning levels to a limited set of credit risk (signal) indicators, which are valid for one year.
  Primary credit risk limits are decided by the Board of Directors or the Executive Committee. These entail limits on Expected Loss (EL), Stressed Credit Loss and Credit Risk Weighted Asset (RWA) – and for new home loan production – Loan-to-Value (LTV) and Debt-Service-To-Income (DSTI). These limits are supplemented by a portfolio limit system (PLS) framework to constrain concentration risk on counterparty groups or authorities and other credit risk limits set at group or local level that include sector and activity limits and limits on risks, such as counterparty credit risk for professional transactions or issuer risk.
  The risk playing field is also determined by group-wide risk boundaries defined in Credit Risk Standards, which aim to align risk management of specific credit-risk-related topics throughout the group by defining restrictions and/or recommendations.
- Risk analysis, monitoring, reporting and follow up: the credit portfolio is analysed on a continuous basis. In addition to portfolio analyses performed by business, the local and group credit risk departments analyse the credit risk profile of the loan portfolio in order to obtain an independent view of the evolution of credit risk. Results of the analyses are reported to the appropriate risk committees. It is the responsibility of both line management and the risk committees to respond, i.e. to keep or bring risks in line with the risk appetite. Corrective action plans can be taken to avoid (further) credit risk, reduce it (mitigation), transfer the risk or accept it.
- Stress testing: stress testing is a core component of sound credit risk management and is performed at local and group level.

Shift from the coronavirus pandemic to Russia/Ukraine conflict and energy crisis impact on credit risk

Since the start of the coronavirus pandemic at the beginning of 2020, several initiatives have been taken to monitor and manage the ensuing credit risks. In early 2022, the impact of the pandemic subsided and hence the Covid restrictions were phased out. However, the start of the Russia-Ukraine conflict in February and the associated disruption of worldwide energy markets presented new challenges for credit risk management.

The Russia-Ukraine conflict has an impact on KBC's credit portfolio through different drivers. Besides the relatively limited direct impact through exposure to counterparties based in Russia, Ukraine and Belarus, there is also an indirect impact. There may be indirect exposure to clients with material activity in or dependence towards the countries involved in the conflict. As the likelihood of major Russian gas supply cut-offs increased (or materialised for certain countries), indirect exposure can also be to clients' vulnerability to disruptions in the Russian oil or gas supply or to the additional pressure on previously already soaring energy/commodity prices and inflation in general.

For private individuals, soaring energy bills and inflationary pressures on prices for other goods and services affect their credit repayment capacity. If not alleviated, this would result in payment problems with home loans and consumer finance facilities. For businesses, the strong increase in energy costs has – in energy-intensive sectors – negatively impacted profit margins and cash buffers, unless the cost increases could be built into sales prices. The evolution in energy markets has resulted in some industrial companies shutting down production facilities (e.g., in fertilisers and aluminium production) as production had become loss-making.

These impacts, in turn, lead to disruptions in other industries, while the resulting (temporary) unemployment put further financial strain on individuals already affected by soaring energy bills. In addition, private individuals may adjust their consumption patterns away from discretionary spending, which has the potential to imperil some sectors due to reduced demand.

The European Commission and national governments have put in place initiatives to mitigate the impact of soaring energy prices on the economy and on the financial standing of businesses and private individuals. While these measures are having an effect and may involve the participation of lenders in financial concessions or forbearance measures, a response resulting in full mitigation is not believed to be forthcoming. Also, the budgetary room for governments to intervene to any significant extent has been reduced, as the management of the coronavirus crisis has already eaten into their financial buffers and reserves.

Based on traditional credit risk metrics (such as forbearances, arrears, and PD deterioration) a deterioration in credit quality was not (yet) visible in the KBC portfolios at the end of 2022. However, an uptick in downgrades and defaults is expected in 2023 (note: we estimate the credit cost ratio for 2023 at 20-25 basis points, still below the through-the-cycle credit cost ratio of 25-30 basis points) .

Credit risk management actions have been taken to anticipate, measure, mitigate and manage the above emerging risks. Accordingly, portfolios are being monitored more closely, sensitivity analysis on energy costs has been pursued, origination processes have been adjusted (e.g., to reflect increased living expenses for home loans) and watchlists have been established.

Finally, since the Russian invasion of Ukraine, impairment management overlays have been booked for the geopolitical and emerging risks and vulnerable portfolios and sub-portfolios have been earmarked for increased risk. For related figures, including the phasing out of the overlay for the coronavirus crisis, we refer to Note 1.4 in the Consolidated Annual Accounts.

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

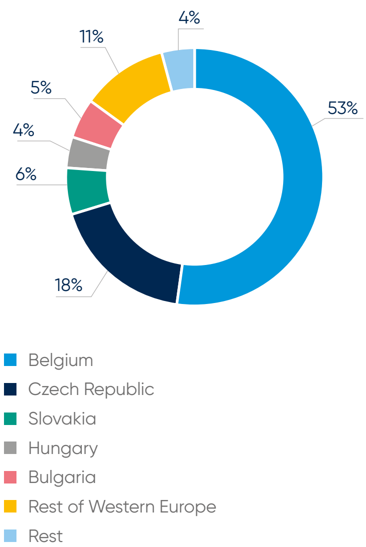
Credit risk arises in both the banking and insurance activities of the group. As regards the banking activities, the main source of credit risk is the bank's loan portfolio. It includes all the loans and guarantees that KBC has granted to individuals, companies, governments and banks. Debt securities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

The loan and investment portfolio as defined in this section differs from 'Loans and advances to customers' in Note 4.1 of the 'Consolidated financial statements' section.

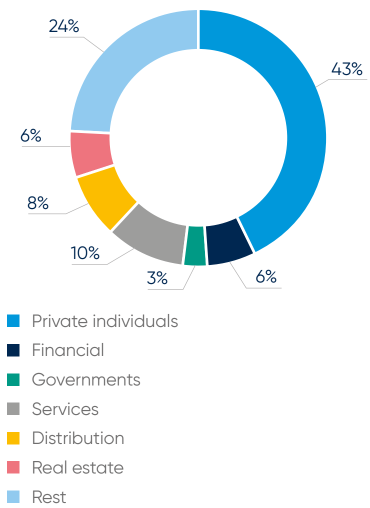
For more information, please refer to the 'Glossary of financial ratios and terms'.

Composition of loan and investment portfolio, 31-12-2022

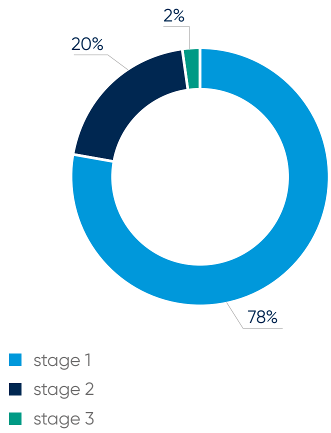
Country



Sector



ECL Stage



Loan and investment portfolio, banking

A: Total loan portfolio	31-12-2022	31-12-2021
Total loan portfolio (in billions of EUR)		
Amount outstanding and undrawn	259	237
Amount outstanding	206	188
Loan portfolio breakdown by business unit (as a % of the outstanding portfolio)[1]		
Belgium[2]	63%	63%
Czech Republic	19%	19%
International Markets (including Ireland in 2021)	14%	17%
Group Centre (including Ireland in 2022)	5%	1%
Total	100%	100%
Loan portfolio breakdown by counterparty sector (as a % of the outstanding portfolio)[1]		
Private individuals	43%	44%
Finance and insurance	6%	6%
Governments	3%	3%
Corporates	48%	47%
Services	*10%*	*10%*
Distribution	*8%*	*8%*
Real estate	*6%*	*6%*
Building and construction	*4%*	*4%*
Agriculture, farming, fishing	*3%*	*3%*
Automotive	*2%*	*2%*
Other (sectors < 2%)	*14%*	*14%*
Total	100%	100%

	31-12-2022	31-12-2021
Loan portfolio breakdown by region (as a % of the outstanding portfolio)[1,3]		
Belgium	*53%*	*54%*
Czech Republic	*18%*	*18%*
Slovakia	*6%*	*6%*
Hungary	*4%*	*4%*
Bulgaria	*5%*	*2%*
Rest of Western Europe (including Ireland)	*11%*	*13%*
Rest of Central and Eastern Europe	0%	0%
North America	1%	1%
Asia	1%	1%
Other	1%	1%
Total	100%	100%
Loan portfolio breakdown by risk class (as a % of the outstanding portfolio, based on internal rating scale)[1]		
Unimpaired		
PD 1 (lowest risk, default probability ranging from 0.00% up to, but not including, 0.10%)	*25%*	*25%*
PD 2 (0.10% – 0.20%)	*13%*	*13%*
PD 3 (0.20% – 0.40%)	*13%*	*17%*
PD 4 (0.40% – 0.80%)	*18%*	*13%*
PD 5 (0.80% – 1.60%)	*15%*	*13%*
PD 6 (1.60% – 3.20%)	*8%*	*8%*
PD 7 (3.20% – 6.40%)	*4%*	*4%*
PD 8 (6.40% – 12.80%)	*1%*	*2%*
PD 9 (highest risk, ≥ 12.80%)	*1%*	*1%*
Unrated	*0%*	*1%*
Impaired		
PD 10	*1.0%*	*1.4%*
PD 11	*0.3%*	*0.6%*
PD 12	*0.8%*	*1.0%*
Total	100%	100%
Loan portfolio breakdown by IFRS 9 ECL Stage[4] (as a % of the outstanding portfolio)[1,7]		
Stage 1 (no significant increase in credit risk since initial recognition)	78%	83%
Stage 2 (significant increase in credit risk since initial recognition – not credit impaired) incl. POCI[5]	20%	14%
Stage 3 (significant increase in credit risk since initial recognition – credit impaired) incl. POCI[5]	2%	3%
Total	100%	100%

B: Impaired loan portfolio	31-12-2022	31-12-2021
Impaired loans (PD 10 + 11 + 12; in millions of EUR or %)		
Impaired loans[6]	4 350	5 454
Of which more than 90 days past due	*2 289*	*2 884*
Impaired loans by business unit (as a % of the impaired loan portfolio)[1]		
Belgium[2]	57%	48%
Czech Republic	15%	12%
International Markets (including Ireland in 2021)	13%	32%
Ireland	–	*23%*
Slovakia	*3%*	*3%*
Hungary	*3%*	*3%*
Bulgaria	*6%*	*4%*
Group Centre (including Ireland in 2022)	15%	8%
Total	100%	100%

	31-12-2022	31-12-2021
Impaired loans by sector (as a % of the impaired loan portfolio)[1]		
Private individuals	21%	34%
Distribution	19%	16%
Real estate	11%	9%
Services	10%	11%
Building and construction	7%	4%
Automotive	5%	5%
Agriculture, farming, fishing	4%	3%
Hotels, bars and restaurants	3%	3%
Food producers	2%	2%
Other (sectors < 2%)	18%	14%
Total	100%	100%
Loan loss impairment (in millions of EUR)		
Impairment for Stage 1 portfolio	134	127
Impairment for Stage 2 portfolio, incl. POCI[5] (cured)	694	559
Impairment for Stage 3 portfolio, incl. POCI[5] (still impaired)	2 048	2 569
Of which impairment for impaired loans that are more than 90 days past due	*1 547*	*1 905*
Credit cost ratio		
Belgium Business Unit[2]	0.03%	-0.26%
Czech Republic Business Unit	0.13%	-0.42%
International Markets Business Unit (including Ireland in 2021)	0.31%	0.36%
Ireland	–	*1.43%*
Slovakia	*0.17%*	*-0.16%*
Hungary	*0.42%*	*-0.34%*
Bulgaria	*0.43%*	*-0.06%*
Group Centre (including Ireland in 2022)	-0.04%	0.28%
Total	0.08%	-0.18%
Impaired loans ratio		
Belgium Business Unit[2]	1.9%	2.2%
Czech Republic Business Unit	1.7%	1.8%
International Markets Business Unit (including Ireland in 2021)	1.9%	5.7%
Ireland	–	*12.0%*
Slovakia	*1.2%*	*1.6%*
Hungary	*2.0%*	*2.1%*
Bulgaria	*2.8%*	*5.3%*
Group Centre (including Ireland in 2022)	6.6%	21.5%
Total	2.1%	2.9%
Of which more than 90 days past due	*1.1%*	*1.5%*
Coverage ratio		
Loan loss impairment / impaired loans	47%	47%
Of which more than 90 days past due	*68%*	*66%*
Loan loss impairment / impaired loans (excl. mortgage loans)	50%	51%
Of which more than 90 days past due	*71%*	*73%*

1 Unaudited figures.

2 Also includes the small network of KBC Bank branches established in the rest of Europe, the US and Southeast Asia (with a total outstanding portfolio of 7 billion euros at year-end 2022).

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

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

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

6 Figures differ from those appearing in Note 4.2 of the 'Consolidated financial statements' section, due to differences in scope. The 1 104-million-euro decrease between 2022 and 2021 breaks down as follows: decrease of 98 million euros at the Belgium Business Unit, increase of 4 million euros in the Czech Republic, decrease of 32 million euros in Slovakia, increase of 11 million euros in Hungary , increase of 42 million euros in Bulgaria (118 million euros of which due to the consolidation of Raiffeisenbank Bulgaria), decrease of 1 025 million euros in Ireland (largely due to the sale of the largest part of the non-performing portfolio) and decrease of 6 million euros for the rest.

7 Figures as at 31 December 2021 before impact of the management overlay (for more information, see Note 4.2.1 of the 'Consolidated financial statements' section).

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

Loan portfolio breakdown by IFRS 9 ECL stage[1]				31-12-2022				31-12-2021
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Loan portfolio by country/business unit								
Belgium	48.1%	13.4%	1.2%	62.7%	51.1%	10.9%	1.4%	63.4%
Czech Republic	15.2%	3.1%	0.3%	18.6%	17.0%	1.5%	0.3%	18.8%
International Markets (including Ireland in 2021)	10.6%	3.1%	0.3%	13.9%	14.6%	1.2%	0.9%	16.8%
Ireland	–	–	–	–	*4.6%*	*0.3%*	*0.7%*	*5.6%*
Slovakia	*4.5%*	*1.1%*	*0.1%*	*5.6%*	*4.8%*	*0.5%*	*0.1%*	*5.4%*
Hungary	*2.3%*	*1.2%*	*0.1%*	*3.7%*	*3.3%*	*0.2%*	*0.1%*	*3.5%*
Bulgaria	*3.7%*	*0.8%*	*0.1%*	*4.7%*	*2.0%*	*0.2%*	*0.1%*	*2.3%*
Group Centre (including Ireland in 2022)	4.1%	0.3%	0.3%	4.7%	0.8%	0.0%	0.2%	1.0%
Total	78.0%	19.9%	2.1%	100%	83.5%	13.6%	2.9%	100.0%
Loan portfolio by sector								
Private individuals	37.5%	5.2%	0.4%	43.2%	40.1%	3.3%	1.0%	44.4%
Finance and insurance	5.6%	0.2%	0.0%	5.9%	5.8%	0.2%	0.0%	6.0%
Governments	2.8%	0.2%	0.0%	3.1%	2.7%	0.1%	0.0%	2.8%
Corporates	32.1%	14.2%	1.6%	47.9%	34.9%	10.0%	1.9%	46.8%
Total	78.0%	19.9%	2.1%	100%	83.5%	13.6%	2.9%	100.0%
Loan portfolio by risk class								
PD 1–4	61.4%	6.1%	–	67.5%	62.3%	5.1%	–	67.4%
PD 5–9	16.6%	13.8%	–	30.4%	21.2%	8.5%	–	29.7%
PD 10–12	–	–	2.1%	2.1%	–	–	2.9%	2.9%
Total	78.0%	19.9%	2.1%	100%	83.5%	13.6%	2.9%	100.0%
Total (in millions of EUR)	160 412	40 958	4 350	205 720	157 264	25 683	5 454	188 400

1 Figures as at 31 December 2021 before impact of the management overlay (for more information, see Note 4.2.1 of the 'Consolidated financial statements' section).

Impairment broken down by IFRS 9 ECL Stage				31-12-2022				31-12-2021
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Impairment by country/business unit								
Belgium	1.8%	9.7%	34.4%	45.9%	1.7%	8.5%	34.0%	44.2%
Czech Republic	1.3%	6.7%	10.2%	18.1%	1.1%	3.9%	9.8%	14.8%
International Markets (including Ireland in 2021)	1.4%	6.9%	9.5%	17.8%	1.1%	4.7%	23.9%	29.7%
Ireland	–	–	–	–	*0.1%*	*1.0%*	*16.7%*	*17.8%*
Slovakia	*0.4%*	*2.8%*	*2.7%*	*5.9%*	*0.5%*	*1.9%*	*3.0%*	*5.4%*
Hungary	*0.3%*	*2.1%*	*1.9%*	*4.3%*	*0.3%*	*1.4%*	*1.6%*	*3.3%*
Bulgaria	*0.7%*	*1.9%*	*4.9%*	*7.5%*	*0.2%*	*0.5%*	*2.6%*	*3.2%*
Group Centre (including Ireland in 2022)	0.2%	0.8%	17.1%	18.2%	0.0%	0.1%	11.2%	11.3%
Total	4.7%	24.1%	71.2%	100%	3.9%	17.2%	78.9%	100.0%
Impairment by sector								
Private individuals	1.3%	7.8%	12.8%	21.9%	0.8%	4.5%	23.5%	28.8%
Finance and insurance	0.2%	0.1%	1.6%	2.0%	0.1%	0.1%	1.1%	1.3%
Governments	0.0%	0.0%	0.3%	0.4%	0.0%	0.0%	0.2%	0.3%
Corporates	3.2%	16.1%	56.4%	75.7%	2.9%	12.6%	54.1%	69.5%
Total	4.7%	24.1%	71.2%	100%	3.9%	17.2%	78.9%	100.0%
Impairment by risk class								
PD 1–4	1.4%	1.9%	–	3.3%	0.7%	1.8%	–	2.6%
PD 5–9	3.3%	22.3%	–	25.5%	3.2%	15.4%	–	18.5%
PD 10–12	–	–	71.2%	71.2%	–	–	78.9%	78.9%
Total	4.7%	24.1%	71.2%	100%	3.9%	17.2%	78.9%	100.0%
Total (in millions of EUR)	134	694	2 048	2 875	127	559	2 569	3 255

Acquisition of Raiffeisenbank Bulgaria and pending sale of the remaining Irish portfolio

Two major scope events occurred in 2022 (for a detailed explanation, see Note 6.6 of the 'Consolidated financial statements' section):

- In 2022, KBC finalised the acquisition of Raiffeisenbank Bulgaria (meanwhile renamed KBC Bank Bulgaria). Consequently, the loan portfolio of that entity is included in the 2022 group portfolio figures in this section. The table below provides selected data for KBC Bank Bulgaria separately.
- In 2022, KBC Bank Ireland finalised the sale of a portfolio of non-performing mortgage loans. This is already reflected in the group portfolio figures in this section. KBC Bank Ireland also entered into a legally binding agreement regarding the sale of substantially all of its performing loans and the remaining portfolio of non-performing mortgage loans, but as at year-end 2022, the latter agreement had not yet been finalised. Consequently, these loans remained included in the 2022 group portfolio figures in this section. The table below provides selected data for this portfolio.

Loan and investment portfolio 31-12-2022*	Remaining KBC Bank Ireland portfolio (pending sale)	Newly acquired Raiffeisenbank Bulgaria (now KBC Bank Bulgaria)
Included in the 2022 loan portfolio figures in this chapter?	yes	yes
Total loan portfolio (amount outstanding; in millions of EUR)	8 132	4 526
Breakdown by counterparty sector (as a % of the outstanding portfolio)		
Retail	99%	39%
Of which mortgages	*98%*	*19%*
SME	1%	16%
Corporations	0%	45%
Breakdown by country (as a % of the outstanding portfolio)		
Ireland	100%	0%
Bulgaria	0%	93%
Other	0%	7%
Impaired loans (PD 10 + 11 + 12; in millions of EUR)	230	118
Credit cost ratio	-0.07%	-0.03%
Impaired loans ratio	2.8%	2.6%
Coverage ratio	55%	64%

* More details can be found in the 4Q2022 quarterly report, on www.kbc.com.

Forbearance measures

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

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

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

On-balance-sheet exposures with forbearance measures: gross carrying value (in millions of EUR)	Opening balance	Loans which have become forborne	Loans which are no longer considered to be forborne	Repayments	Write-offs	Other[1]	Closing balance
2022							
Total	3 681	668	-1 088	-436	-16	129	2 939
Of which KBC Bank Ireland	*16*	*0*	*0*	*-6*	*0*	*0*	*11*
2021							
Total	4 158	1 692	-371	-670	-28	-1 100	3 681
Of which KBC Bank Ireland	*1 417*	*76*	*0*	*-251*	*0*	*-1 226*	*16*

On-balance-sheet exposures with forbearance measures: impairment (in millions of EUR)	Opening balance	Existing impairment on loans which have become forborne	Decrease in impairment because loans are no longer forborne	Increase in impairment on forborne loans	Decrease in impairment on forborne loans	Other[2]	Closing balance
2022							
Total	445	197	-171	52	-118	22	428
Of which KBC Bank Ireland	*15*	*0*	*0*	*0*	*-6*	*0*	*9*
2021							
Total	645	154	-68	266	-164	-388	445
Of which KBC Bank Ireland	*251*	*23*	*0*	*170*	*-69*	*-360*	*15*

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

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

Forborne loans	As a % of the outstanding portfolio	Breakdown by PD class (as a % of the entity's portfolio of forborne loans)			
		PD 1-8	PD 9	PD 10 (impaired, less than 90 days past due)	PD 11-12 (impaired, 90 days and more past due)
31-12-2022					
Total	2%	39%	15%	33%	13%
Of which KBC Bank Ireland	*4%*	*0%*	*49%*	*29%*	*22%*
By client segment[1]					
Private individuals[2]	1%	45%	17%	26%	12%
SMEs	2%	44%	11%	34%	12%
Corporations[3]	2%	31%	16%	37%	16%
31-12-2021					
Total	3%	39%	12%	33%	16%
Of which KBC Bank Ireland	*12%*	*0%*	*25%*	*41%*	*34%*
By client segment[1]					
Private individuals[2]	2%	21%	18%	35%	25%
SMEs	3%	57%	8%	27%	8%
Corporations[3]	3%	44%	9%	35%	13%

1 Unaudited.

2 90% of the forborne loans total relates to mortgage loans in 2022 (95% in 2021).

3 26% of the forborne loans relates to commercial real estate loans in 2022 (27% in 2021).

Other credit risks in the banking activities

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

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

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

Other credit exposure, banking

(in billions of EUR)	31-12-2022	31-12-2021
Issuer risk[1]	0.03	0.02
Counterparty credit risk of derivatives transactions[2]	3.9	4.4

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

2 After deduction of collateral received and netting benefits.

Credit risk exposure in the insurance activities

For the insurance activities, credit exposure exists primarily in the investment portfolio and towards reinsurance companies. We have guidelines in place for the purpose of controlling credit risk within the investment portfolio with regard to, for instance, portfolio composition and ratings.

The upper part of the table below shows the market value of the investment portfolio of the insurance entities broken down by asset type under Solvency II, while the lower part provides more details of the bond and other fixed-income security components of the portfolio.

Investment portfolio of KBC group insurance entities (in millions of EUR, market value)[1]	**31-12-2022**	**31-12-2021**
Per asset type (Solvency II)		
Securities	16 444	20 102
Bonds and alike	*15 278*	*18 791*
Shares	*1 097*	*1 290*
Derivatives	*69*	*21*
Loans and mortgages	2 153	2 806
Loans and mortgages to clients	*1 780*	*2 299*
Loans to banks	*374*	*507*
Property and equipment and investment property	309	305
Unit-linked investments[2]	12 771	14 620
Investments in associated companies	295	292
Other investments	8	12
Total	31 981	38 137
Details for bonds and other fixed-income securities		
By external rating[3]		
Investment grade	99%	99%
Non-investment grade	1%	1%
Unrated	0%	0%
By sector[3]		
Governments	65%	66%
Financial[4]	24%	23%
Other	11%	11%
By remaining term to maturity[3]		
Not more than 1 year	9%	8%
Between 1 and 3 years	18%	18%
Between 3 and 5 years	17%	15%
Between 5 and 10 years	29%	29%
More than 10 years	27%	29%

1 The total carrying value amounted to 32 897 million euros at year-end 2022 and to 37 018 million euros at year-end 2021. Figures differ from those appearing in Note 4.1 of the 'Consolidated financial statements' section, due to asset class reporting under Solvency II.

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

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

4 Including covered bonds and non-bank financial companies.

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

Credit exposure to (re)insurance companies by risk class[1]: EAD and EL[2] (in millions of EUR)	**EAD 2022**	**EL 2022**	**EAD 2021**	**EL 2021**
AAA up to and including A-	171	0.1	196	0.1
BBB+ up to and including BB-	17	0.0	9	0.0
Below BB-	0	0.0	0	0.0
Unrated	0	0.0	0	0.0
Total	188	0.1	205	0.1

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

Regulatory capital

The regulatory capital requirements for credit risk increased to 7 571 million euros at the end of 2022 from 7 213 million euros at the end of 2021, driven largely by the acquisition of Raiffeisenbank Bulgaria, volume growth and asset quality changes of portfolios in the core countries. For more details, please see the 'Credit risk' section in KBC's Risk Report, which is available at www.kbc.com.

Market risk in non-trading activities

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

Managing market risk in non-trading activities

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

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

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

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

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

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

- Setting risk appetite: limits cover all material risks faced by the ALM function: interest rate risk, equity risk, real estate risk and foreign exchange risk for the consolidated entities are approved by the Board of Directors and limits for each local entity are approved by the Executive Committee.

  The treasury departments, acting as the first line of defence, measure and manage interest rate risk on a playing field defined by the risk appetite and the limits. They take into account measurement of prepayment and other option risks in the banking book and manage a balanced investment portfolio. Management of the positions implies that the treasury function uses derivatives to hedge against imbalances, due to interest rate and foreign exchange risks. To avoid profit and loss volatility that would result from the different accounting treatment of balance sheet investment items and derivatives, hedge accounting techniques are widely applied.

- Risk analysis, response and follow-up: besides regulatory required reporting, structural reporting to the ALCO is performed. The reporting process includes a sign-off process to ensure data accuracy.

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

Impact of geopolitical and emerging risks on non-trading market risk

After the markets had learned to live with the aftermath of the coronavirus crisis, they were shocked by the Russian aggression against Ukraine. Although our Central Europe subsidiaries share some borders with Ukraine, KBC had limited investments in the belligerent countries and it did not materially impact the banking books.
However, the increase in inflation and interest rates, which were already observed prior to the invasion, accelerated beyond expectations, fundamentally changing the challenges faced by the treasury department. The quest for decent returns on investments has been replaced by renewed risks for outflows. Moreover, credits sold in times of high interest rates bear a larger prepayment risk. Tested scenarios showed the risk is material, but manageable. At the end, the solid and well-balanced structure of our banking books, as well as a prudent approach in the management of non-maturity deposits, allowed KBC to contain the risks and keep the balance sheet healthy.

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

Interest rate risk and gap risk

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

Impact of a parallel 10-basis-point increase in the swap[1] curve for the KBC group, impact on value[2] (in millions of EUR)	**2022**	**2021**
Banking	-36	-69
Insurance	4	24
Total	-32	-45

1 In accordance with market standards, sensitivity figures are based on a risk-free curve (swap curve).
2 Full market value, regardless of accounting classification or impairment rules.

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

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

Swap BPV (10 basis points) of the ALM book, banking activities* (in millions of EUR)	**2022**	**2021**
Average for 1Q	-75	-65
Average for 2Q	-66	-64
Average for 3Q	-70	-60
Average for 4Q	-36	-69
As at 31 December	-36	-69
Maximum in year	-75	-69
Minimum in year	-36	-60

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

In line with European Banking Authority guidelines, we conduct an outlier stress test at regular intervals by applying six different scenarios to the banking books (material currencies). The worst-case scenario is set off against tier-1 capital. For the banking book at KBC group level, this risk came to -3% of tier-1 capital at year-end 2022. This is well below the 15% threshold, which is monitored by the European Central Bank.

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

Interest sensitivity gap of the ALM book (including derivatives), banking activities (in millions of EUR)*	**≤ 1 month**	**1–3 months**	**3–12 months**	**1–5 years**	**5–10 years**	**> 10 years**	**Non-interest-bearing**	**Total**
31-12-2022	-24 177	11 472	-10 910	7 621	6 314	21	9 659	0
31-12-2021	1 745	-12 310	-8 919	5 529	5 687	1 104	7 164	0

* Please note that the 'Non-interest bearing' bucket includes Cash at Central Banks and non-maturity deposits that are kept overnight. For 2022 this amounted in total to +27.8 billion euros and for 2021 this was +20.6 billion euros. In case allocated to the "<1 month bucket" we come to an overall positive gap in the first month

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

An analysis of net interest income is performed by measuring the impact of different interest rate scenarios over a three-year period.

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

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

Expected cashflows (not discounted), life insurance activities (in millions of EUR)	**0–1 year**	**1–2 years**	**2-3 years**	**3-4 years**	**4-5 years**	**>5 years**	**Total**
31-12-2022							
Fixed-income assets backing liabilities, guaranteed component	1 233	1 489	855	1 048	844	8 738	14 208
Equity							929
Property							112
Other (no maturity)							95
Liabilities, guaranteed component	1 367	1 201	807	882	834	9 474	14 566
Difference in time-sensitive expected cashflows	-134	288	48	166	11	-737	-358
Mean duration of assets							6.66 years
Mean duration of liabilities							8.76 years
31-12-2021							
Fixed-income assets backing liabilities, guaranteed component	1 371	1 281	1 385	847	1 044	8 856	14 784
Equity							*987*
Property							*171*
Other (no maturity)							*152*
Liabilities, guaranteed component	1 758	748	1 223	840	895	9 859	15 323
Difference in time-sensitive expected cashflows	- 387	534	162	7	148	-1 003	-539
Mean duration of assets							6.97 years
Mean duration of liabilities							9.93 years

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

Breakdown of the reserves for non-unit-linked life insurance by guaranteed interest rate, insurance activities	31-12-2022	31-12-2021
5.00% and higher	3%	3%
More than 4.25% up to and including 4.99%	7%	7%
More than 3.50% up to and including 4.25%	4%	4%
More than 3.00% up to and including 3.50%	9%	9%
More than 2.50% up to and including 3.00%	3%	3%
2.50% and lower	72%	71%
0.00%	2%	2%
Total	100%	100%

Credit spread risk

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

Exposure to sovereign bonds at year-end 2022, carrying value[1] (in millions of EUR)

	At amortised cost	At fair value through other comprehensive income (FVOCI)	Held for trading	Total	For comparison purposes: total at year-end 2021	Economic impact of +100 basis points[3]
KBC core countries						
Belgium	8 750	1 840	230	10 820	13 020	-553
Czech Republic	11 316	1 126	1 159	13 601	12 481	-626
Hungary	2 362	161	99	2 621	3 085	-77
Slovakia	3 334	265	17	3 615	3 689	-173
Bulgaria	1 795	530	28	2 353	1 722	-84
Other countries						
France	4 463	1 032	25	5 520	6 546	-231
Spain	2 023	558	0	2 581	2 717	-78
Ireland	1 016	204	0	1 220	1 356	-53
Poland	875	180	9	1 065	1 335	-27
US	1 558	15	0	1 573	1 319	-55
Italy	268	908	0	1 176	1 286	-36
Rest[2]	6 461	1 316	100	7 876	5 951	-379
Total carrying value	44 219	8 135	1 667	54 021	54 507	–
Total nominal value	44 953	8 772	1 812	55 537	52 796	–

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

2 Sum of countries whose individual exposure is less than 1 billion euros at year-end 2022.

3 Theoretical economic impact in fair value terms of a parallel 100-basis-point upward shift in the spread over the entire maturity structure. Only a portion of this impact is reflected in profit or loss and/or equity. Figures relate to non-trading positions in sovereign bonds for the banking and insurance businesses (impact on trading book exposure was quite limited and amounted to 14 million euros, including supranational bonds, at year-end 2022).

At year-end 2022, the carrying value of the total government bond portfolio measured at fair value through other comprehensive income (FVOCI) incorporated a revaluation reserve of -0.8 billion euros, before tax (-217 million euros for Belgium, -165 million euros for France, -59 million euros for the Czech Republic, -45 million euros for Hungary and -277 million euros for the other countries combined).

In addition to the sovereign portfolio, the KBC group holds a non-sovereign bond portfolio (banks, corporations, supranational bodies).

Exposure to non-sovereign bonds at year-end, by rating: economic impact of +100 basis points (in millions of EUR)	31-12-2022	31-12-2021
Bonds rated AAA	-108	-125
Bonds rated AA+, AA, AA-	-115	-133
Bonds rated A+, A, A-	-109	-126
Bonds rated BBB+, BBB, BBB-	-34	-46
Non-investment grade and non-rated bonds	-21	-31
Total carrying value (excluding trading portfolio)	11 505	10 703

Equity risk

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

Equity portfolio of the KBC group	Banking activities		Insurance activities		Group	
(breakdown by sector, in %)	31-12-2022	31-12-2021	31-12-2022	31-12-2021	31-12-2022	31-12-2021
Financials	69%	68%	20%	17%	27%	25%
Consumer non-cyclical	0%	0%	11%	11%	9%	10%
Communication	0%	0%	3%	2%	2%	1%
Energy	0%	0%	0%	0%	0%	0%
Industrials	12%	10%	42%	41%	38%	36%
Utilities	0%	0%	0%	0%	0%	0%
Consumer cyclical	4%	4%	21%	25%	19%	22%
Materials	0%	0%	2%	2%	2%	2%
Other and not specified	14%	17%	1%	1%	3%	3%
Total	100%	100%	100%	100%	100%	100%
In billions of EUR*	0.22	0.26	1.33	1.46	1.55	1.72
of which unlisted	0.21	0.26	0.14	0.15	0.35	0.41

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

Impact of a 25% drop in equity prices , impact on value (in millions of EUR)	2022	2021
Banking activities	-55	-64
Insurance activities	-333	-366
Total	-387	-429

Non-trading equity exposure	Net realised gains (in income statement)		Net unrealised gains on year-end exposure (in equity)	
(in millions of EUR)	31-12-2022	31-12-2021	31-12-2022	31-12-2021
Banking activities	–	–	12	29
Insurance activities	176	123	199	555
Total	176	123	211	584

Real estate risk

The groups' real estate businesses hold a limited real estate investment portfolio. KBC Insurance also holds a diversified real estate portfolio, as an investment for non-life reserves and long-term life activities. The real estate exposure is viewed as a long-term hedge against inflation risks and as a way of optimising the risk/return profile of these portfolios.

Impact of a 25% drop in real estate prices, impact on value (in millions of EUR)	**2022**	**2021**
Bank portfolios	-94	-97
Insurance portfolios	-78	-94
Total	-172	-191

Inflation risk

Inflation can impact a financial company indirectly in many ways, for instance via changes in interest rates or operational costs. Inflation in general therefore is not easily quantifiable as a market risk concept. However, certain financial products or instruments have a direct link with inflation and their value is directly impacted by a change in market expectations. KBC Bank uses indexed bonds as an opportunity to diversify its asset portfolio. At KBC Insurance, it relates specifically to workmen's compensation insurance, where particularly in the case of permanent or long-term disabilities an annuity benefit is paid to the insured person (with the annuity being linked to inflation by law). KBC Insurance partly mitigates the risks by investing in inflation-linked bonds and complements its inflation hedging programme by investing in real estate and shares, as these assets are traditionally correlated with inflation and do not have a maturity date.

The banking business holds a 600-million-euro portfolio of indexed bonds. For the insurance activities, the undiscounted value of the inflation-sensitive cashflows was estimated at 515 million euros, against which a 452-million-euro portfolio of indexed bonds at market value and 28.7 million euros in direct and indirect real estate were held.

Foreign exchange risk

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

KBC focuses on stabilising the common equity ratio against foreign exchange fluctuations.

Impact of a 10% decrease in currency value* (in millions of EUR)	**31-12-2022**	**Banking** **31-12-2021**	**31-12-2022**	**Insurance** **31-12-2021**
CZK	-231	-243	-31	-30
HUF	-100	-107	-7	-5
BGN	-96	-42	-17	-19
USD	-1	3	-47	-56

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

Hedge accounting

Assets and liabilities management uses derivatives to mitigate interest rate and foreign exchange risks. The aim of hedge accounting is to reduce the volatility in P&L resulting from the use of these derivatives.
KBC decided not to apply hedge accounting to credit and equity risks. When the necessary criteria are met, it is applied to remove the accounting mismatch between the hedging instrument and the hedged item. For more information about hedge accounting, please see 'Notes on the accounting policies' in the 'Consolidated financial statements' section.

Risk categories applying to hedge accounting

Interest rates

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

Interest rate derivatives can be designated as:
- Hedges of the fair value of recognised assets or liabilities. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss, together with any changes in the fair value

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

KBC uses macro hedge accounting strategies for homogeneous portfolios of smaller items, where the frequency of occurrence or the relatively small size of the average operation renders the one-to-one relationship sub-optimal. This is the case for *inter alia* mortgages, loans to SMEs or customer deposits. Macro hedge strategies may be dynamic and undergo frequent changes based on balancing the portfolio ('open portfolio hedge'), among other things.
The micro hedge designation is used when large individual assets or liabilities are hedged. Typical assets are large corporate loans and bond acquisitions for which the credit spread profile is relevant. Liabilities can include KBC's own issues or specific long-term facilities offered by a central bank. Micro hedges are either fair-value or cashflow based.

Foreign exchange

KBC has strategic investments denominated in non-euro currencies. The net asset value of significant participations is partly funded in the local currency by deposits and foreign exchange derivatives, to ensure stability of the CET1 ratio. By using hedges of net investments in foreign operations, the foreign exchange component is reported in equity until realisation (unwinding of funding due to liquidation, dividend payments or other decreases in net asset value).
KBC also has a limited portfolio of foreign-currency-denominated bonds that are funded through euro proceeds. These bonds are hedged by cross-currency interest rate swaps to create a synthetic EUR fixed-rate interest income. Cashflow hedge accounting (microhedge) is performed to mitigate foreign exchange volatility.

Hedge effectiveness

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

Effectiveness testing

For interest rates, several prospective and retrospective tests are performed to ensure the relationship between the hedged item and the hedging instrument qualifies for the hedge accounting strategy.
Prospective tests are mostly based either on a sensitivity analysis (verifying if the basis point value of the hedged portfolio relative to the hedging instrument stays within the 80-125% interval) or volume tests (if the principal amount of hedge-eligible items exceeds the notional volume of hedging instruments expected to be repriced or repaid in each specified time bucket).
For macro cashflow hedges, extensive forward-looking analyses assess the sufficient likelihood that the future volume of hedged items will largely cover the volume of hedging instruments. A hedge ratio – measuring the proportion of a portfolio that is hedged by derivatives – is calculated for each hedging strategy.
The retrospective effectiveness test of the hedge relationship is periodically carried out by comparing the change in fair value of the portfolio of hedging instruments relative to the change in fair value of the hedged eligible items imputable to the hedged risk over a given period (the ratio of fair value changes remains within the 80-125% interval).
For foreign exchange hedging, effectiveness is ensured by adjusting the sum of the nominal amount of the funding deals and foreign exchange derivatives to the targeted hedge amount of the strategic participations. For foreign-currency-denominated bonds swapped into euro, the start date, maturity date and coupon dates are also matched.

Sources of hedge ineffectiveness

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

Regarding the hedge of the net investment in foreign currency, the interest rate component from the hedging instruments can be a source of inefficiency. The counterparty risk on the hedging instrument, even if collateralised, can also be a source of inefficiency.

Discontinuation of hedge accounting

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

Capital sensitivity to market movements

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

CET1 sensitivity to main market drivers (under Danish compromise), KBC group (as % points of CET1 ratio), IFRS impact caused by:	31-12-2022	31-12-2021
+100-basis-point parallel shift in interest rates	-0.1%	0.3%
+100-basis-point parallel shift in spread	-0.1%	-0.2%
-25% in equity prices	-0.1%	-0.3%

Regulatory capital

Regulatory capital for non-trading market activities totalled 22 million euros. It is used to cover foreign exchange exposures only, as KBC does not have any commodity exposures. In line with regulations, other types of non-trading market risk are covered through pillar II assessments.

Non-financial risks

Operational risk

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

Managing operational risk

The Extended Competence Centre for Operational Risk, which consists of risk experts at both group and local level, cooperates with other expert functions covering the nine operational sub-types: Information Technology risk, Information Security risk, Business Continuity risk, Process risk, Outsourcing and Third-Party risk, Model risk, Legal risk, Fraud risk, and Personal and Physical Security risk. KBC's approach is perfectly aligned with the Basel requirements for Operational Resilience and the EU Digital Operational Resilience Act (DORA).

The building blocks for managing operational risks

- Risk identification: includes following up on legislation, using the New and Active Products Process (NAPP), the Climate Risk Impact Map indicating the climate risks that might materialise and potentially impact operational risk, performing risk scans to identify and analyse risks, analysing key risk indicators, performing independent control monitoring activities, root cause analysis of near misses and losses and other risk events. A structured, process-based repository of Group Key Risks and related mitigating Group Key Control Objectives (GKCs) is in place to set top-down minimum standards for the risk and control environment. Self-assessments are performed by the first line of defence. GKCs are defined for all group-wide end-to-end processes and are 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 GKCs 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: 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. Group-wide tools are used by the three lines of defence to support the core activities of operational risk management. In addition, a group-wide uniform scale is used to express the overall internal control state of each process in each material entity and the overall internal control state of the entity. The group-wide automated data-driven risk measurement of processes, resulting in Internal Control Statement (ICS) process scores, being determined on the following indicators:
  - The control maturity reflecting the effectiveness of Group Key Controls and the Zero Tolerance 'Blacklisted Companies';
  - The number of outstanding action plans and audit recommendations (incl. risk acceptances);
  - Losses (and legal claims);
  - Process-specific indicators for Outsourcing and the New and Active Products Process (NAPP).

  An annual stress test is performed to assess the adequacy of pillar 1 operational risk capital.
- Setting and cascading risk appetite: the risk appetites for operational risk overall and for the nine operational risk sub-types individually are set in line with the overall requirements as defined in the Enterprise Risk Management Framework.
- Risk analysis, reporting and follow-up: a uniform approach – strongly based on first line of defence accountability (business side) and challenges by the second line of defence (risk, fraud, legal and other experts) and assurance by the third line of defence (internal audit) – is in place with risk-based follow-up at both local and group level. Minimum standards for the operational risk management reporting process are defined. Structural reporting to the Group Internal Control Committee (GICC) is performed on a quarterly basis. Regular reporting and follow-up is presented in the Integrated Risk Report (IRR) which is brought to the Executive Committee, the Risk & Compliance Committee and the Board of Directors. The quality of the internal control environment and related risk profile is reported to KBC's senior management and to the NBB, the FSMA and the ECB via the annual Internal Control Statement.
- Stress testing: operational risk scenarios or potential events are considered in the context of risk-type-specific or integrated stress tests.

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

Information risk management

Information risk management encompasses the risks of information security, information technology and business continuity management, the latter including crisis management. Information security risk is one of the most material risks that financial institutions face these days.

The mission of KBC's Competence Centre for Information Risk Management (IRM) is to help protect KBC against threats to data and information, such as loss of integrity, loss of confidentiality and unplanned availability. It supports local risk and teams acting as the first line of defence for information risk management. The competence centre includes an internationally recognised and certified Group Cyber Emergency & Response Team (CERT).

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

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

  Metrics have been defined at the Group Key Control level to underpin control effectiveness with facts and figures. Examples include, but are not limited to asset management statistics, employee phishing campaign click rates, website vulnerability patching speeds and other metrics related to threats to KBC clients and companies.
- Setting and cascading risk appetite: the risk appetite for information technology, information security and BCM risk is set in line with the overall requirements as defined in our Enterprise Risk Management Framework and is overseen by the Group Internal Control Committee (GICC) and is approved by the Executive Committee and the Board of Directors
- Risk analysis, reporting and follow-up: Information Security and Information Technology risks are assessed by the three lines of defence and continuously monitored via a group-wide detailed risk assessment tool. The status of Information Risk Management is frequently reported to internal as well as external stakeholders.
- Stress testing enables KBC entities to deal with local cyber crises and handle major incidents. To assure that Information Security and Information Technology risks are effectively controlled, a number of challenges are performed throughout the group on a regular basis, such as ethical hacking exercises, technical Cyber Resilience & Readiness Testing, detailed investigations, employee phishing tests, crisis simulations and other incident drills.

Outsourcing risk management

Regulatory requirements regarding follow up, measurement and reporting of outsourcing risk have increased over the years. As contracting external service providers is an essential part of operational processes and intragroup outsourcing is an important aspect of the KBC strategy, the need to focus on outsourcing risk remains a key element of the group-wide risk management at KBC.
To ensure robust management of its outsourcing processes and risks, KBC has put in place a group-wide outsourcing framework, which comprises a group-wide Outsourcing Policy and group-wide Outsourcing Risk Standards. Both policy and standards are supported by first and second lines of defence guidance to ensure a standardised approach, in compliance with the EBA Guidelines on Outsourcing, throughout the whole of the KBC group.
Key control objectives are in place to adequately mitigate risks arising from either external or internal outsourcing during the full life cycle of a service provider, from selection and pre-contractual stages to renewal, termination and exit strategies. Qualitative risk governance of KBC outsourced activities is ensured by regular risk assessments, their frequency being defined by the criticality of the outsourced activity.

Model risk management

KBC's data-driven strategy is powered by an expanding set of advanced models. AI-based models are becoming an increasingly common sight across business domains (banking, insurance, asset management).
In line with the internal model risk management standards, all such models are centrally inventoried on a dedicated platform, periodically assessed for their risks and labelled accordingly. This labelling takes into account model uncertainty, model impact and materiality as well as the strength and maturity of controls applied to the model. The resulting labels allow KBC to manage its model risk profile, define priorities and establish action plans.

Business continuity management, including crisis management

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

The BCM process is a mature process within the group, with a focus on both prevention and response. Crisis prevention focuses on reducing the probability of a crisis, while crisis response focuses on the effective and efficient handling of a crisis should one occur. To enable this, practical scenarios called runbooks are available on how to handle an ongoing crisis.

Impact of geopolitical and emerging risks on operational risk management

In 2022, the coronavirus pandemic caused minimal operational impact. In all entities of the group a new way of working, including teleworking, marked an end to the special coronavirus policies and a return to normal operations. The initial close monitoring of operational risks related to the coronavirus reverted back to business as usual. During monthly Business Continuity Management (BCM) status checks, the potential impact of the coronavirus continues to be monitored. In 2022, no major issues, losses or incidents related to the pandemic occurred.

Since the beginning of 2022, American and European institutions have warned us about an increased risk of disruptive cyber-attacks on critical infrastructure and institutions such as telecoms, energy, financial markets infrastructure, etc., following the outbreak of the war between Russia and Ukraine.

During the second half of 2022, we observed an increased number and variety of cyber-attacks (e.g., DDoS and password spraying) targeting KBC entities and other financial institutions. A minority of these attacks can be attributed to increased cyber activity in the context of the Ukraine-Russia conflict. However, these attacks had limited impact on the targeted KBC entities and our clients and no significant losses were incurred.

KBC Group's Information Security and IT department as well as the local entities remain vigilant, with constant monitoring procedures in place. Several actions were initiated to further mitigate the risk, such as:

- An assessment of possible risks related to IT vendors with exposure towards the countries involved in the war;
- Limiting access to the KBC network from countries involved in the war.

Measures are continuously evaluated, prompting additional actions as needed (e.g., a revision of the preventative standards and the investments in new tools to enhance KBC's protection against this increasing threat).

Compliance risk

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

The Compliance function's role is twofold: on the one hand, it provides advice from an independent viewpoint on the interpretation of laws and regulations pertaining to the domains it covers. This preventive role has come about through Group Compliance Rules that define minimum requirements for the entire group, the provision of procedures and instructions, tailored training courses, daily advice and independent opinions in the New and Active Products Process, information on new regulatory developments to the governance bodies and support of group strategy, and the implementation of legal and regulatory requirements by the various businesses concerned.
On the other hand – as the second line of defence – it carries out risk-based monitoring to ensure the adequacy of the internal control system. More specifically, monitoring allows it to verify whether legal and regulatory requirements are being correctly implemented in the compliance domains. It also aims to ensure the effectiveness and efficiency of the controls performed by the first line of defence. Moreover, quality controls are performed in the main group entities to assure the Board of Directors that the compliance risk is being properly assessed.

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

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

The prevention of money laundering and terrorism financing, including embargoes, has been a top priority for the Compliance function during the last three years and will continue to be prioritised in 2023. It is an area where knowledge of the client (Know Your Customer (KYC)), updating their profiles and monitoring transactions (Know Your Transaction (KYT)) are essential. Efforts are continuously made to adapt the organisation to a constantly changing regulatory environment, particularly with regard to clients who present an increased risk and for whom additional information is required. A Financial Crime Unit was set-up to enhance synergies between AML (Anti Money Laundering), embargoes and Fraud. The Compliance function is also closely following the EU developments at the level of the new AML Authority (AMLA) and regulatory provisions expected in 2024.

It goes without saying that the interests of the client come first. Given this position, the control functions ensure that, under the New and Active Products Process, the launch of any new products conforms with the many legal and regulatory provisions in place, such as MiFID II, the Insurance Distribution Directive (IDD) and other local and EU Regulations, as well as being in line with KBC's values. In 2022, particular attention was devoted to sustainable investments/ESG (Environmental, Social and Governance) characteristics in MiFID and IDD as well as to the sustainable finance strategy. These efforts will be pursued in 2023.

Data protection aspects remain central to maximising conformity with GDPR. Since 2020, Kate, the voice personal assistant, has gained maturity and can increasingly facilitate the everyday lives of our clients. Efforts in 2021 and 2022 were largely concentrated on Cloud developments, taking into account the consequences of Schrems II (transfer of data to third countries) while maintaining the right balance between the regulatory requirements in place and the technological developments inherent in a data-driven strategy now and going forward.

Regulatory capital requirements

When calculating operational risk (including compliance risk) capital, we use the Standardised approach under Basel III. Operational risk capital at KBC group level totalled 975 million euros at the end of 2022, compared to 920 million euros at the end of 2021. This increase of 5.9% originates from the acquisition of Raiffeisenbank Bulgaria (24 million euros) and a higher total income.

Reputational risk

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

Reputation is a valuable asset in business and this certainly applies to the financial services industry, which thrives to a large extent on trust. Reputational risk is mostly a secondary 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 put the clients' interests at the heart of what we do and foster trust by treating the client fairly and honestly.

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

Business environment and strategic risks

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

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

The Corporate strategy 'Differently: the next level' is KBC's strategic answer to deal with changes in the business environment such as changing client behaviour, financial distintermediation, increasing digitalisation, and climate change. The strategy further enhances KBC's competitive position by creating a digital-first, data-driven bank-insurer+ (see the 'Our strategy' section).

Business environment risks are assessed as part of the strategic planning process, which starts with a risk scan that identifies the top financial and non-financial risks. These risks are quantified both in likely scenarios and in several stress scenarios. Exposure to the identified business environment risks is also monitored on an ongoing basis by means of risk signals which are reported to top management (e.g., risks emerging from the Russian-Ukrainian conflict and the ensuing energy and other supply-side disruptions were quickly picked up via risk signals and translated into action plans).

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

Market risk in trading activities

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

Managing market risk

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

The building blocks for managing market risk

- Risk identification: the risk function analyses the results of value and risk calculations, market developments, industry trends, new modelling insights, changes in regulations, etc. and draws up advice for the Group Markets Committee (GMC) with a view to changing or refining measurement methods, limits, hedging methods or positions. Furthermore, before a new or changed dealing room product or activity can be introduced, the risk function screens whether the risk aspects are correctly and sufficiently covered and provides risk advice that includes powers of veto and is part of the NAPP. Also, to identify climate risk drivers that are most material for trading market risk, an annual Climate Risk Impact Map is drafted and presented to the GMC.
- Risk measurement: ownership of the definitions used for the group-wide measurement of trading market risk lies with the risk function. We measure risk via a number of parameters including nominal positions, concentrations, BPV, the so-called 'greeks' and scenario analysis. However, the primary tool we use for measuring and monitoring market risk exposures in the trading book is the Historical Value-at-risk (HVaR) method. VaR is defined as an estimate of the amount of economic value that might be lost on a given portfolio due to market risk over a defined holding period, with a given confidence level. We use the historical simulation method, which does not have to rely on assumptions regarding the distribution of price fluctuations or correlations, but is based on patterns of experience over the previous two years. Our HVaR model is used for both Management HVaR and for the calculation of regulatory capital. Regulatory HVaR is calculated using the relevant CRD IV standards (99% one-sided confidence interval, ten-day holding period). Management HVaR uses the same standards, except that a one-day holding period is used, as this is more intuitive for senior management and is also in line with P&L reporting, day-to-day management, stop losses and back-testing.
- Setting and cascading risk appetite: the risk appetite for market risk in trading activities is set in line with the overall requirements as defined in our overarching risk management framework and is overseen by the GMC via a risk limit framework consisting of a hierarchy of limits and early warning indicators. These are defined down to desk level and, in addition to HVaR, include a series of secondary limits, with equity concentration limits, FX concentration limits and basis-point-value limits for interest rate risk and basis risk. The specific risk associated with a particular issuer or country is also subject to concentration limits. There are also scenario analysis limits and – where deemed appropriate – stress scenario limits involving multiple shifts of underlying risk factors.
- Risk analysis, monitoring, reporting and follow-up: in addition to the more proactive elements described under 'Risk identification', this involves compiling the necessary external and internal reports, issuing advice on business proposals, and monitoring and advising on the risks attached to the positions. We monitor and follow up the risks attached to the positions on a daily basis by means of the risk limit framework. Another important aspect of this building block is prudent valuation. We perform a daily independent middle-office valuation of front-office positions. Whenever the independent nature or the reliability of the valuation process is not guaranteed, we perform a monthly parameter review. Where applicable, we make adjustments to the fair value to reflect close-out

costs, mark-to-model-related value adjustments, counterparty risk and liquidity risk. Risk monitoring is also carried out via internal assessments and a large variety of controls, including parameter reviews, daily reconciliation processes, analyses of the material impact of proxies and other periodic controls to ensure sound risk management. The GMC, which meets every month, receives an extensive Core Report as well as periodic and ad hoc memos and reports. The GMC also receives a dashboard halfway between the monthly meetings whose frequency is increased (up to daily, if needed) depending on market circumstances. The Executive Committee ratifies the minutes of the GMC meetings and also receives market-risk-related information and risk signals in its monthly Integrated Risk Report.

- Stress testing: in addition to the risk limit framework, we conduct extensive stress tests on our positions on a weekly basis. Whereas the HVaR model captures potential losses under normal market conditions, stress tests show the impact of exceptional circumstances and events with a low degree of probability. The historical and hypothetical stress-test scenarios incorporate both market risk and the liquidity aspects of disruptions in the market. The stress tests are discussed at GMC meetings to enable the members to gain an insight into potential weaknesses in the positions held by the group. During 2022, our review of the stress tests (as regards their mix and checking that they remain up-to-date and relevant) resulted in the recalibration of the tenor basis shifts and the cross-currency basis shifts used in our interest rate hypothetical stress tests, with no other changes deemed necessary. For more details about stress testing, please refer to the relevant sub-section of the 'Market risk management' section in KBC's Risk Report, which is available at www.kbc.com.

Impact of geopolitical and emerging risks on trading market risk

The high volatility and nervousness in the markets, amidst geopolitical tensions, high inflation figures, recession fears and the uncertainties surrounding the timing and extent of central banks' monetary tightening, has persisted throughout 2022. Although this increased market activity and volatility has been conducive to the dealing room P&L, even the small mismatches and residual positions arising from the inexact (macro) hedging of the positions resulting from facilitating clients led to increased P&L volatility. Notwithstanding the actions taken by the dealing room to lower P&L volatility, market risk RWAs for trading activities at year-end 2022 were approximately 16% higher than at year-end 2021 due to the market turmoil increasing the market risk RWA derived from our Approved Internal Model (please refer to KBC's Risk Report, available at www.kbc.com for more information). However, KBC's low risk appetite for market risk in trading activities is illustrated by the fact that, despite this increase, the 2022 market risk RWA for trading activities remained at about 3% of KBC Group's total RWA.

Risk analysis and quantification

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

Market risk (Management HVaR) (in millions of EUR)	2022	2021
Average for 1Q	8	8
Average for 2Q	9	8
Average for 3Q	10	7
Average for 4Q	9	7
As at 31 December	7	7
Maximum in year	12	11
Minimum in year	6	4

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

Breakdown by risk factor of trading HVaR for the KBC group (Management HVaR; in millions of EUR)	Average for 2022	Average for 2021
Interest rate risk	8.6	7.6
FX risk	1.3	1.1
FX options risk	0.3	0.2
Equity risk	0.8	0.9
Diversification effect	-2.1	-2.3
Total HVaR	8.9	7.5

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

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

Regulatory capital

The vast majority of regulatory capital requirements are calculated using our Approved Internal Model which, in addition to HVaR, uses SVaR, which is one of the CRD III Regulatory Capital charges that entered into effect at year-end 2011. The calculation of an SVaR measure is based on the normal VaR calculations and follows the same methodological assumptions, but is constructed as if the relevant market factors were experiencing a period of stress.

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

For more details about regulatory capital and how it developed between 2021 and 2022, please refer to KBC's Risk Report (available at www.kbc.com) which includes a breakdown of regulatory capital requirements for KBC Group's market risk per risk type.

Liquidity risk

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

Managing liquidity risk

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

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

The building blocks for managing liquidity risk

- Risk identification: the NAPP process, the Climate Risk Impact Map, the risk scan, stress testing and materiality assessments are important tools used for risk identification. An annual assessment of key risk drivers impacting liquidity is performed as well. When relevant, risk signals are presented in Treasury Risk Reports and Integrated Risk Reports.
- Risk measurement: identified liquidity risks are measured by means of both regulatory metrics such as the Liquidity Coverage Ratio (LCR, which stood at 152%) and the Net Stable Funding Ratio (NSFR, which stood at 136%), and internal metrics on, for example, the funding mix and concentration and the composition of the liquid asset buffer. In the maturity analysis table below, KBC's structural liquidity risk is illustrated by grouping the assets and liabilities according to the remaining term to maturity (using the contractual maturity date). The difference between the cash inflows and outflows is referred to as the 'net funding gap'.
- Setting and cascading risk appetite: the Board of Directors sets the overall risk appetite objective for liquidity in close cooperation with the Executive Committee. The Group Asset and Liability Committee (GALCO) then translates this risk appetite for liquidity into liquidity risk measures and sets the limits for these measures.
- Risk analysis, reporting and follow-up: to mitigate day-to-day liquidity risk, group-wide trends in funding liquidity and funding needs are monitored continuously by the Group Treasury function. A Liquidity Contingency Plan drafted by the Group Treasury function is in place to address possible liquidity crisis situations and is tested at least annually.
- Stress testing: liquidity stress tests assess KBC's liquidity contingency risk by measuring how the liquidity buffer of the group's bank and insurance entities changes under extreme stressed scenarios. This buffer is based on assumptions regarding liquidity outflows and liquidity inflows resulting from actions to increase liquidity. The liquidity buffer has to be sufficient to cover liquidity needs over (i) a period that is required to restore market confidence in the group following a KBC-specific event, (ii) a period that is required for markets to stabilise after a general market event and (iii) a combined scenario, which takes a KBC-specific event and a general market event into account. This information is fed into the Liquidity Contingency Plan.

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

Impact of geopolitical and emerging risks on liquidity risk

Stressed or extreme market conditions can be triggered by crises such as the coronavirus pandemic or the Russian-Ukrainian conflict. KBC's liquidity position has been able to withstand these stresses and remains very strong.

KBC participated in the targeted longer-term refinancing operation (TLTRO) in 2020 and 2021 for 24.5 billion euros, further supporting its LCR and NSFR figures. In 2022, KBC made a first partial repayment.

Maturity analysis

Liquidity risk (excluding intercompany deals)* (in billions of EUR)	**<= 1 month**	**1–3 months**	**3–12 months**	**1–5 years**	**>5 years**	**On demand**	**Not defined**	**Total**
31-12-2022								
Total inflows	6	12	20	82	115	53	34	322
Total outflows	38	20	29	24	5	178	29	322
Professional funding	*6*	*0*	*20*	*5*	*0*	*4*	*0*	*36*
Customer funding	*19*	*9*	*8*	*12*	*3*	*174*	*0*	*226*
Debt certificates	*8*	*11*	*1*	*7*	*1*	*0*	*0*	*28*
Other	*4*	*0*	*0*	*0*	*0*	*0*	*29*	*33*
Liquidity gap (excl. undrawn commitments)	-32	-8	-9	58	111	-125	5	0
Undrawn commitments	–	–	–	–	–	–	-47	-47
Financial guarantees	–	–	–	–	–	–	-11	-11
Net funding gap (incl. undrawn commitments)	-32	-8	-9	58	111	-125	-53	-58
31-12-2021								
Total inflows	7	10	23	75	101	43	44	303
Total outflows	20	19	10	41	4	178	31	303
Professional funding	*7*	*1*	*3*	*24*	*0*	*6*	*0*	*41*
Customer funding	*5*	*11*	*3*	*10*	*2*	*172*	*0*	*203*
Debt certificates	*4*	*7*	*4*	*6*	*2*	*0*	*0*	*24*
Other	*4*	*0*	*0*	*0*	*0*	*0*	*31*	*35*
Liquidity gap (excl. undrawn commitments)	-13	-9	13	34	96	-135	13	0
Undrawn commitments	–	–	–	–	–	–	-43	-43
Financial guarantees	–	–	–	–	–	–	-10	-10
Net funding gap (incl. undrawn commitments)	-13	-9	13	34	96	-135	-41	-54

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

Note this structural liquidity gap does not include the concept of a Liquid Asset Buffer (i.e. the fact that KBC can monetise its liquid bonds at all times via repo or pledging). Rather, cash generating capacity from bonds is in this table only visible at final maturity of the bond. As a result, the net funding gaps shown in the first buckets in the table are a clear overestimation of the risk as in practice KBC would monetise its Liquid Asset Buffer (96 bln EUR at end of year 2022 of which 49 bln EUR unencumbered central bank eligible assets and the remainder cash & withdrawable Central Bank receivables) for addressing these net outflows.

Funding information

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

Funding mix	Information	31-12-2022	31-12-2021
Funding from customers[1]	Demand deposits, term deposits, savings deposits, other deposits, savings certificates and debt issues placed in the network	79%	78%
Debt issues placed with institutional investors	Including covered bonds, tier-2 issues, KBC Group NV senior debt	6%	7%
Net unsecured interbank funding	Including TLTRO	7%	12%
Net secured funding[2]	Repo financing	-3%	-8%
Certificates of deposit	–	3%	2%
Total equity	Including AT1 issues	7%	9%
Total		100%	100%
in billions of EUR		287	258

1 Some 83% of this funding relates to private individuals and SMEs at year-end 2022.
2 Negative on account of KBC carrying out more reverse repo transactions than repo transactions.

Liquid asset buffer

At year-end 2022, the KBC group had 49 billion euros' worth of unencumbered central bank eligible assets, 40 billion euros of which in the form of liquid government bonds (81%). The remaining available liquid assets were mainly covered bonds (14%). Most of the liquid assets are expressed in our home market currencies. The funding from non-wholesale markets was accounted for by stable funding from core customer segments in our core markets.

Technical insurance risk

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

Managing technical insurance risk

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

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

The building blocks for managing technical insurance risk

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

Reinsurance

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

- Limits per policy;
- Diversification of the portfolio across product lines and geographical regions;
- Reinsurance.

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

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

Impact of geopolitical and emerging risks on technical insurance risk

KBC had no direct insurance exposure in property insurance to either Russia or Ukraine when the conflict started, hence there was no material impact on KBC's profitability. Indirectly, there was the jump in energy prices and the attendant high inflation rate, which increased the average claim cost in Non-Life insurance. Actions were taken and planned to mitigate the impact on profitability through premium adjustments, monitoring of claims and keeping the technical insurance risk profile within the risk appetite.

Impact of natural catastrophes on technical insurance risk

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

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

Adequacy of technical provisions

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

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

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

- The claims-settlement figures incorporate all amounts that can be allocated to individual claims, including the Incurred But Not Reported (IBNR) and Incurred But Not Enough Reserved (IBNER) provisions, and the external claims handling expenses, but do not include internal claims settlement expenses and provisions for amounts expected to be recovered;
- All provisions for claims to be paid at the end of 2022 have been included and are before reinsurance, adjusted to eliminate intercompany amounts related to KBC Group Re, the KBC group's own reinsurance company. This makes it possible to first pool the reinsurance risks internally and then, in a subsequent stage, go to the reinsurance market.

The loss triangles are provided in the table below. The first row in the table shows the total claims burden (claims paid plus provisions) for the claims that occurred during a particular year, as estimated at the end of the year of occurrence. The following rows indicate the situation at the end of the subsequent calendar years. We restated the amounts to reflect exchange rates at year-end 2022.

Loss triangles, KBC Insurance (in millions of EUR)	Year of occurrence 2013	Year of occurrence 2014	Year of occurrence 2015	Year of occurrence 2016	Year of occurrence 2017	Year of occurrence 2018	Year of occurrence 2019	Year of occurrence 2020	Year of occurrence 2021	Year of occurrence 2022
Estimate at the end of the year of occurrence	915	990	940	1 024	1 000	1 072	1 149	1 018	1 262	1 328
1 year later	771	880	796	888	882	939	1 019	897	1 167	–
2 years later	700	826	751	825	849	894	989	859	–	–
3 years later	678	805	720	811	833	876	967	–	–	–
4 years later	674	789	708	806	816	846	–	–	–	–
5 years later	665	781	697	787	789	–	–	–	–	–
6 years later	663	779	690	782	–	–	–	–	–	–
7 years later	661	770	676	–	–	–	–	–	–	–
8 years later	659	765	–	–	–	–	–	–	–	–
9 years later	653	–	–	–	–	–	–	–	–	–
Current estimate	653	765	676	782	789	846	967	859	1 167	1 328
Cumulative payments	592	689	587	643	653	691	746	635	785	587
Current provisions	61	76	89	139	136	155	221	223	381	741

Actuarial function

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

The main tasks of the actuarial function are to:

- Coordinate the calculation of technical provisions;
- Ensure the appropriateness of the methodologies and underlying models used, as well as the assumptions made, in the calculation of technical provisions;
- Assess the sufficiency and quality of the data used in the calculation of technical provisions;
- Compare best estimates against experience;
- Inform the administrative, management or supervisory body of the reliability and adequacy of the calculation of technical provisions;
- Oversee the calculation of technical provisions when there is insufficient data of appropriate quality to apply a reliable actuarial method;
- Express an opinion on the overall underwriting policy;
- Express an opinion on the adequacy of reinsurance arrangements; and
- Contribute to the effective implementation of the risk management system, in particular with respect to the risk modelling underlying the calculation of the capital requirements.

Regulatory capital

Solvency II sets out the regulatory capital requirements for the insurance companies. The Solvency capital ratio stood at 203% at year-end 2022 versus 201% at year-end 2021. Solvency II results and more detailed information on ratios are provided in our Solvency & Financial Condition Report, which is available at www.kbc.com.

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

Climate-related and other ESG risks

ESG risks are the risks of (current or prospective) Environmental, Social or (corporate) Governance factors impacting KBC, either directly or via its counterparties and exposures:

- Environmental risk is the risk arising from climate change (climate risk) or from other environmental degradation such as biodiversity loss, scarcity of fresh water, (air, water and soil) pollution and waste.
- Social risk is the risk arising from changing expectations about relationships with employees, suppliers, clients and communities e.g., labour and workforce considerations, human rights and poverty, community impact, client relationships, etc.
- Governance risk is the risk arising from changing expectations concerning corporate governance, anti-corruption & anti-bribery, and transparency.

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

ESG risks are identified in our risk taxonomy as key risks related to KBC's business environment. ESG risks are considered as key drivers of the external environment which manifest themselves through (all) other traditional risk areas, such as credit risk, technical insurance risk, market risk, operational and reputational risk. As such, we do not consider ESG as standalone risk types.

Within the industry, risk assessment methodologies are more advanced for climate risk compared to some other ESG risk areas.
With regard to environmental risks, KBC also initially focused on the integration of climate risk within all risk management frameworks and processes, but is increasingly taking steps towards the integration of these risks (such as biodiversity loss, water stress, pollution and waste risk) into its processes, for example by strictly adhering to KBC's Biodiversity Policy (see 'Setting and cascading risk appetite'), by considering environmental risks in our loan/review origination process and by reporting on environmental risks to the Board of Directors as part of our regular risk reporting.
Considering social and governance risks, several Compliance domains as described in KBC's Compliance Charter closely link with social and governance risks (e.g., Corporate Governance, Conduct, Embargo, Investor protection, Data protection, Ethics & Fraud, Consumer protection and anti-money laundering). Within our operational risk management processes, controls are in place for managing cyber risk, model risk (e.g., avoiding bias in models, ensuring ethical AI), business continuity (e.g., ensuring continuity of services to customers), legal risk, personal and physical security risk (with respect to personnel and clients). More details are provided in 'Non-financial risks' in this section.

Climate risk has been reconfirmed as a top risk for KBC since 2018. Following the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), for climate and other environmental risks, we differentiate between:

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

KBC approaches climate risk from a double materiality perspective, concentrating on both:

- Financial materiality (outside-in view), looking at the impact of climate change on our business. Transition risks, for example, can lead to sudden repricing of assets, market volatility and credit losses resulting from financing obsolete (brown) technology or infrastructure, impacting lending and investment portfolios, whereas physical risks can increase the level of claims under the insurance policies we provide as well as the value of our assets or collateral;
- Environmental and social materiality (inside-out view), looking at our business' impact on the climate. In that regard, by signing the Collective Commitment to Climate Action (CCCA) in 2019, we stated publicly that we want to play a leading role and be a significant lever in the process of transitioning to a more sustainable society and a low-carbon economy, including by committing to aligning our portfolios and business strategy with the Paris Agreement to keep global warming below 2°C while striving for a target of 1.5°C. As a CCCA signatory, we published our Climate Report in September 2022 including stringent decarbonisation targets for the relevant priority sectors covering the majority of our lending portfolio.

For a full elaboration on how we manage climate and other ESG risks, we refer to our Risk Report, which is available at www.kbc.com.

Governance

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

- The management of climate-related risks is fully embedded in our existing Risk Management Governance.
- Within our Audit Framework, ESG risks are covered in multiple audit tracks.
- Risk is part of the core team of the Sustainable Finance Programme, which focuses on integrating climate-related matters throughout the group.
- The senior general managers of Group Risk and Group Credit Risk are members of the Sustainable Finance Programme Steering Committee as well as the Sustainable Finance Data & Metrics Steering Committee and the Risk Function is also represented on the Internal Sustainability Board.
- The Board of Directors, the Risk & Compliance Committee and the Executive Committee are the prime recipients of the various outputs of the main risk management processes.
- As strong embeddedness in the local organisation is a key requirement, a similar governance is in place in each of KBC's core countries, with local general sustainability managers having been appointed and local risk functions taking active part in locally established sustainability committees.
- Sustainability has been integrated into the remuneration systems for our employees and especially our senior management.

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

Risk identification

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

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

- Climate risk, Cyber risk, Compliance risks (including Anti-Money Laundering, GDPR and Embargo) and Conduct risk have, for some years, been identified as top risks by the Group Executive Committee and Board of Directors.
- ESG risk signals are regularly reported to the Group Executive Committee, the Risk & Compliance Committee and the Board of Directors, via the Integrated Risk Report.
- Since 2020, strategic sectoral projects (so-called 'White Papers') are set up, with a focus on our credit business, advisory services and insurance activities, for eight carbon-intensive industrial sectors and three product lines (see 'Focus on climate' in the 'Report of the Board of Directors' section). The White Papers clearly analyse the challenges and technological developments of each sector and business line including the relevant European and local regulations and action plans, their impact on KBC's portfolios in terms of climate-related risks and opportunities, which reporting metrics can be used to steer these portfolios and so on. They also provide an initial outline of possible risk-mitigating measures, commercial policy adjustments and how we can steer the portfolio in line with the Paris Agreement (e.g., through decarbonisation targets).
- Sustainability and climate-related policies are taken into account when deciding on new products or services. Particular attention is devoted to the adequate 'green' labelling of newly developed products, aligned with regulatory frameworks such as the EU Taxonomy and the International Capital Markets Association (ICMA) Green Bond framework.
- Substantial progress was made in 2022 regarding physical risk assessments for our loan and insurance portfolios. As flood risk is deemed to be one of the most prominent physical risks within KBC's portfolios, we performed a flood risk assessment in line with the UNEP FI methodology on various home loans, corporate/SME and property insurance portfolios which are naturally more sensitive to evolutions in flood risk.
- A sector-based environmental and social (E&S) sectoral heat map is implemented into the loan origination and review processes as a screening tool to identify hot spots in terms of E&S risks in the corporate and SME loan book. Based on this heat map, a sectoral E&S risk portfolio monitoring report is prepared, giving management insight into the overall E&S riskiness of KBC's industrial loan portfolio. Additionally, in order to support business, credit advisors and decision makers in assessing environmental and social risks during loan origination, KBC has implemented the ESG Assessment Guide in the loan origination/review process (including several credit acceptance criteria). For the full Corporate and SME segment, the client's governance aspects (e.g., organisational structure, ethical considerations, past controversies, etc.) are also part of this due diligence process.
- For larger credit files, an Internal Carbon Price (ICP) tool is used to understand and assess the financial impact of

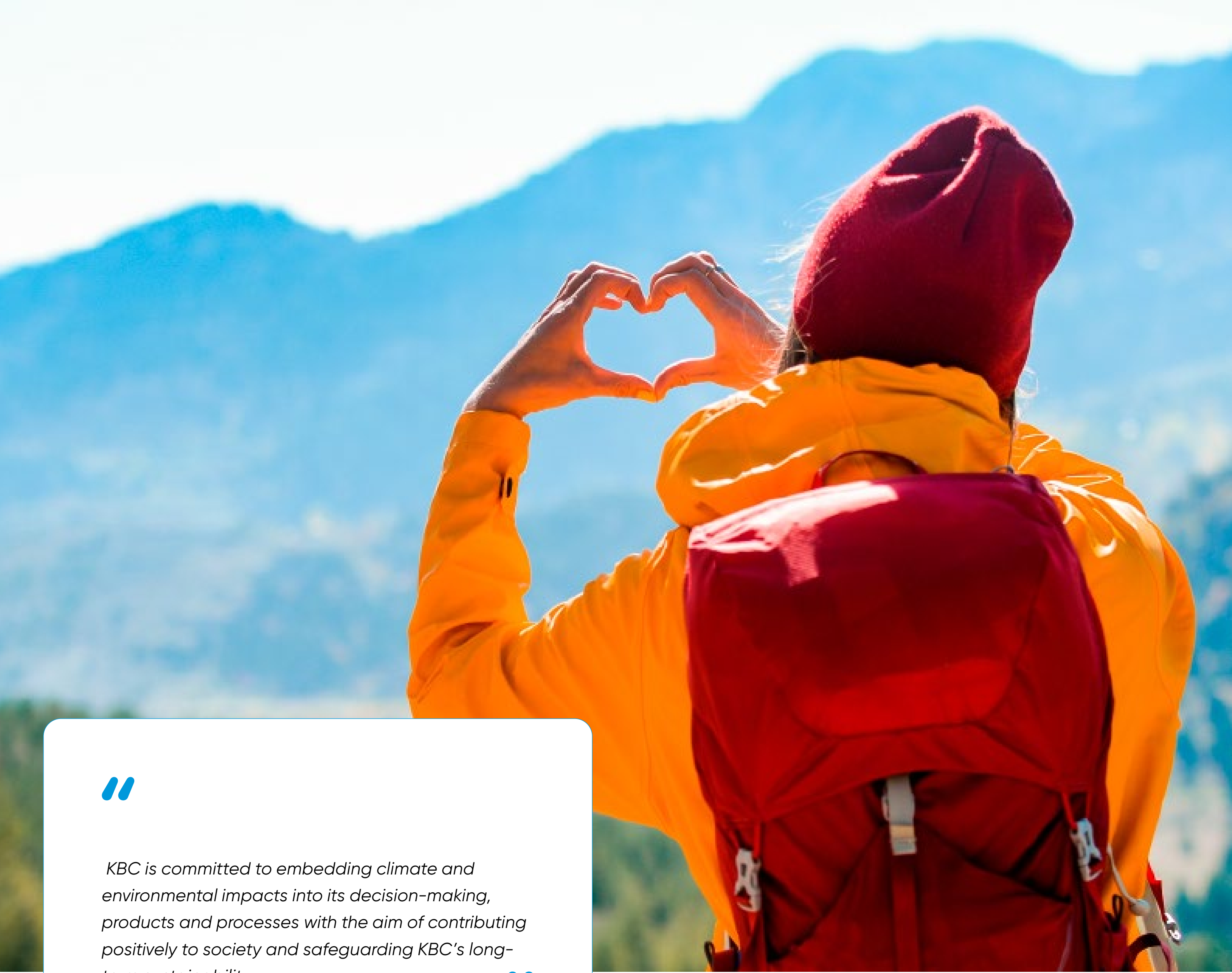
greenhouse gas-intensive companies. Further steps are taken to identify other activities in which the use of ICP would be relevant.

- Client dialogues are an essential part of KBC's approach to better understanding how business clients deal with sustainability challenges and to supporting them in this transition.
- For our non-life property insurance portfolio, we assess more extreme weather conditions (such as changes in storm and precipitation patterns and changes in the frequency of floods) through a number of internal and external measures and stress tests in order to analyse their potential impact. External broker and vendor models are used in KBC Insurance to model extreme events of this kind. KBC insists on an active dialogue regarding the inclusion of climate change in the scenario analysis performed by these providers. Physical risks in other regions around the world are also closely monitored, as they can affect the global reinsurance market on which KBC relies. Moreover, reinsurance counterparties' insights on KBC's portfolios are shared with KBC.
- In 2021, KBC developed a Climate Risk Impact Map. This annual risk identification process aims to identify, for different time horizons and different climate scenarios, the most material climate risk drivers impacting KBC's businesses and portfolios. For more details on methodology and results, we refer to our Risk Report. Since 2022, the conclusions of the Climate Risk Impact Map have been fed into our risk management processes. An extended elaboration on the Climate Risk Impact Map and its results are included in the 2022 Risk Report, which is available at www.kbc.com.
- We took several initiatives to further increase ESG risk awareness, for example by following up on new and changing regulations through a Sustainable Finance Legal Working Group, by regularly reporting on ESG risk signals to senior management and by organising internal communication and training for (risk) staff and management.

Risk measurement

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

- The Paris Agreement Capital Transition Assessment (PACTA) methodology helps us to determine whether the companies in our loan portfolio are following a transition path in line with targets set by various climate transition scenarios. The scope of the 2022 PACTA exercise covers carbon-intensive activities within the steel, automotive, shipping, aviation, power, oil & gas, coal and cement sectors. Its results confirm that, within the industrial loan portfolio, KBC only has limited exposure to companies that contribute the most to global CO_2 emissions in line with the existing activity scope of PACTA: KBC's granted exposure in the scope of PACTA amounts to only 3.2% of the total industrial loan book (excluding loans to SMEs, private persons, financial institutions, insurance companies and authorities).
- KBC Asset Management assesses the carbon footprint of investment products it offers using TRUCOST data and methodology. This methodology is also used to analyse KBC Insurance's investment book and KBC's Pension Funds.
- In 2021 and 2022 we rolled out the UNEP FI transition risk assessment methodology to highly climate-relevant sectors and their relevant sub-segments, covering a similar scope as the White Paper exercises. After selecting six different climate scenarios, we assessed the impact of a transition to a low-carbon economy by estimating how the portfolios' Expected Loss (EL) could potentially change if these scenarios were to materialise. The analyses' results highlighted the need for client interaction in the (sub-) sectors deemed most vulnerable to the low-carbon transition, so as to gain a better understanding of how these (sub-)sectors are mitigating the transition risks they are exposed to. The exercise's results still serve as important input for several climate-related processes, such as the Climate Risk Impact Map and the White Paper exercises. More information on the original assessment is available in the 2021 Risk Report at www.kbc.com.
- In 2022, for the fourth consecutive year, we calculated the financed emissions of our portfolios using the Partnership for Carbon Accounting Financials (PCAF) methodology. As in 2021, we used PCAF to calculate the associated financed emissions of our entire loan portfolio.
- For more details on the above-mentioned measurement methodologies, please refer to our Risk Report and Sustainability Report, which are available at www.kbc.com.



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

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

Setting and cascading risk appetite

KBC's Risk Appetite Statement evolves in sync with changes in the internal and external context and the strategic ambitions. KBC's risk appetite covers all material risks that KBC is exposed to, with particular attention for risks which dominate the external environment now and in the future. Given the increased importance KBC assigns to climate risk, a specific risk appetite objective is included in KBC's Risk Appetite Statement, covering both perspectives of 'double materiality'.

Other objectives also address other ESG themes, including:

- Promoting a strong corporate culture which encourages responsible behaviour and is supported by a promotion and remuneration policy with a sustainable and long-term view;
- Aiming to attract, develop and retain high-quality and committed staff;
- Promoting strong Corporate Governance and Risk & Compliance Management and taking into account the internal and external context as key drivers to enhance the organisation's resilience and to create value.

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

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

- From a credit risk perspective, KBC aims to limit the adverse impact of its activities on the environment and society and to stimulate positive impact, based on a responsible lending culture, the principles of which are laid out in the Credit Risk Standard on Sustainable and Responsible Lending. In line with its updated climate-related ambitions, KBC Group has defined targets to reduce future exposures to non-sustainable activities, while facilitating the transition towards a sustainable economy by providing financing to its clients for this purpose. The credit risk playing field is made tangible through Credit Risk Standards and group-wide policies that impose restrictions and recommendations with regard to credit risk.
- All treasury investment decisions are taken in line with the single binding framework, which defines the screening criteria for responsible investments.
- KBC has the ambition to keep its operational risk under control and to be well prepared for a variety of crises, including those with a climate risk driver, in order to avoid disruption of services and to be maximally protected against cybercrime. Integrity, availability and confidentiality of our company data and the data of our clients is of utmost importance.
- To manage reputational risks, KBC promotes a strong corporate culture that encourages responsible behaviour throughout the entire organisation, including in terms of social and environmental responsibility.
- To manage our compliance risks, we aim to comply with laws and regulations in the Compliance domains as determined by KBC's Compliance Charter, taking particular account of conduct risk and the integrity dimension.
- From an insurance perspective, KBC Group aims to limit the adverse impact of its activities on the environment and society, and to stimulate a positive impact, based on a responsible insurance culture and according to the principles described in the KBC Group Sustainability Framework. In line with its updated climate-related ambitions, KBC Insurance will further elaborate its policies and client engagement in sustainability. To support stability in earnings and capital for our insurance business, appropriate risk mitigation is implemented by reinsurance programmes protecting against the impact of large claims or accumulation of losses and by a diversified exposure across all core markets.

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

When integrating climate risk reflections into our risk appetite process, we not only focus on short-term impacts, but also take extended time horizons into consideration. Potential short-, medium- and long-term impacts as identified in the Climate Risk Impact Map (see 'Risk identification') provide input for our risk appetite discussions so that (early) warning signals can be given in case of expected material impacts (for all time horizons) with the aim of steering the strategic debate and initiating risk-mitigation actions in a timely manner (e.g., making policy adjustments or setting additional targets and limits).

Our first interim Climate Report further details KBC's commitment, decarbonisation targets in our role as a CCCA signatory. These ensure that our banking portfolios and business strategy are aligned with the Paris Agreement to keep global warming well below 2°C.

Risk analysis, monitoring, reporting and follow-up

Indicators for climate-related risks and opportunities are integrated into the KBC Sustainability Dashboard and allow us to monitor progress in the implementation of our sustainability strategy and to make adjustments when necessary.

The Board of Directors, the Risk & Compliance Committee and the Executive Committee are the prime recipients of the main risk management reports (e.g., ICAAP/ILAAP/ORSA, Integrated Risk Reporting, Risk Appetite, etc.). Given that ESG risks are already well integrated into ICAAP/ILAAP/ORSA and related analyses, these risks are extensively addressed in these reports.

The growing attention for the management of environmental, social and governance (ESG) risk is also reflected in several legislative initiatives. For banks under ECB remit (such as KBC), for instance, supervisory requirements are formulated in the ECB guide on climate-related and environmental risks. In 2022, the ECB assessed our approach towards the expectations outlined in the guide, and the progress made on our implementation plans to reach full compliance, by means of the 2022 ECB thematic review of climate-related and environmental risk management practices. This review built further on the 2021 Questionnaires and made use of deep dives on our climate-related and environmental risk strategies, as well as governance and risk management frameworks and processes.

Since data are important to further monitor and steer our portfolios, to set targets and to be able to meet the various regulatory requirements (e.g., from EU Taxonomy disclosure regulation, EBA Pillar 3 requirements, Corporate Sustainability Reporting Directive (CSRD)), a dedicated Data and Metrics Project within the Sustainable Finance Programme is coordinating the data collection in all of our core countries. As of this year, the EBA templates on Pillar 3 disclosures on ESG-risk are included in the Risk Report, where a full overview of these templates can be found.

Stress testing

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

Climate stress test exercises and usage of climate scenarios will continue to be gradually enhanced following new insights from, for instance, our internal climate risk map (see 'Risk identification') or other methodological tracks which will help us to better translate the impact of climate pathways to financial parameters.

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

How do we manage our capital?

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

Solvency reporting

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

CRR/CRD implements the Basel rules in Europe and is updated from time to time. When new requirements are implemented, a transitional period during which these rules are gradually phased in may be allowed. Currently, KBC makes use of transitional measures regarding Tier-2 instruments issued under third-country law without a contractual bail-in recognition clause and the IFRS 9 transitional measures (applied as from the second quarter of 2020). The latter makes it possible to add back a portion of the increased impairment charges to common equity capital (CET1) when provisions unexpectedly rise due to a worsening macroeconomic outlook, during the transitional period until 31 December 2024 .

Based on the banking regulation package (CRR/CRD), profit can be included in CET1 capital only after the profit appropriation decision by the final decision-making body (for KBC Group this is the General Meeting). The ECB can allow the inclusion of interim or annual profit in CET1 capital before the decision by the General Meeting. In that case, the foreseeable dividend should be deducted from the profit that is included in CET1. Considering that our dividend policy of 'at least 50%' does not include a maximum, the ECB requires the use of a 100% payout to determine the foreseeable dividend. Consequently, KBC Group no longer requests ECB approval to include interim or annual profit in CET1 capital before the decision of the General Meeting. As such, the annual profit of 2022 and the final dividend for 2022 will be recognised in the *transitional* CET1 of the first quarter of 2023, which will be reported after the General Meeting. Since 31 December 2021, the *fully loaded* figures immediately reflect the interim or annual profit, taking into account our Dividend Policy and/or any dividend proposal/decision by the Board of Directors.

The general rule under CRR/CRD for insurance participations is that an insurance participation is deducted from common equity at group level, unless the competent authority grants permission to apply a risk weighting instead (Danish compromise). Since the fourth quarter of 2020, the revised CRR/CRD requires the use of the equity method, unless the competent authority allows institutions to apply a different method. KBC Group has received ECB approval to continue to use the historical carrying value (a historical carrying value of 2 469 million euros) for risk weighting (370%), after having deconsolidated KBC Insurance from the group figures.

Solvency requirements

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

As a result of its supervisory review and evaluation process (SREP), the competent supervisory authority (in KBC's case, the ECB) can require that higher minimum ratios be maintained (= pillar 2 requirements). Following the SREP cycle for 2022, the ECB formally notified KBC that the pillar 2 requirement (P2R) remains unchanged at 1.86%. The pillar 2 guidance (P2G) remains unchanged at 1% of CET1.

The overall capital requirement for KBC is determined not only by the ECB, but also by the decisions of the local competent authorities in its core markets. The most recently announced countercyclical buffer rates by the countries

where KBC's relevant credit exposures are located correspond to a countercyclical buffer at KBC group level of 0.75%, compared to 0.45% in 2021, as authorities in the Czech Republic, Slovakia, Bulgaria and Hungary have decided to increase the countercyclical capital buffers.

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

On 1 May 2022, the National Bank of Belgium (NBB) introduced a sectoral systemic risk buffer. This replaces the former risk-weighted assets (RWA) add-on for exposures secured by residential real estate in Belgium and is to be held by all banks that apply the Internal Ratings-Based approach (IRB). The amount of the CET1 capital buffer corresponds to 9% of the RWA for the exposures secured by residential real estate in Belgium, which corresponds to 0.19% of total RWA for KBC Group consolidated.

Altogether, this brings the fully loaded CET1 requirement (under the Danish compromise) to 11.30%, with an additional pillar 2 guidance (P2G) of 1%. Note that the overall fully loaded CET1 requirement (under the Danish Compromise) would be 10.49% instead of 11.30% were the P2R split according to Article 104a of Capital Requirement Directive V to be applied.

The data above reflect the situation as known on 31 December 2022, without taking into account changes – if any – communicated after that date.

The intention to distribute surplus capital (see 'We aim to achieve our ambitions within a stringent risk management framework') either through a share buyback or an additional exceptional dividend, is not yet reflected in the solvency figures.

Solvency figures under CRR/CRD

Solvency at group level (consolidated; under CRR/CRD, Danish compromise method) (in millions of EUR)	**31-12-2022 Fully loaded**	**31-12-2022 Transitional**	**31-12-2021 Fully loaded**	**31-12-2021 Transitional**
Total regulatory capital, after profit appropriation[1]	**20 100**	**18 742**	**19 445**	**20 733**
Tier-1 capital	**18 318**	**16 974**	**17 724**	**18 998**
Common equity[2]	**16 818**	**15 474**	**16 224**	**17 498**
Parent shareholders' equity (after deconsolidating KBC Insurance)	19 623	16 982	20 049	17 708
Intangible fixed assets, incl. deferred tax impact (-)	-609	-609	-539	-539
Goodwill on consolidation, incl. deferred tax impact (-)	-1 178	-1 178	-746	-746
Minority interests	0	0	0	0
Hedging reserve, cashflow hedges (-)	936	936	1 108	1 108
Valuation differences in financial liabilities at fair value – own credit risk (-)	-40	-40	-16	-16
Value adjustment due to requirements for prudent valuation (-)[3]	-31	-31	-28	-28
Dividend payout (-)	-1 252	0	-3 168	0
Coupon on AT1 instruments (-)	-12	-12	-12	-12
Deduction with regard to financing provided to shareholders (-)	-57	-57	-57	-57
Deduction with regard to irrevocable payment commitments (-)	-90	-90	-72	-72
Deduction regarding NPL backstops (-)[4]	-158	-158	-68	-68
Deduction with regard to pension plan assets (-)	-143	-143	0	0
IRB provision shortfall (-)	0	0	0	-31
Deferred tax assets on losses carried forward (-)	-172	-172	-227	-227
Transitional adjustments to CET1	0	46	0	478
Limit on deferred tax assets from timing differences relying on future profitability and significant participations in financial entities (-)	0	0	0	0
Additional going concern capital	**1 500**	**1 500**	**1 500**	**1 500**
CRR-compliant AT1 instruments	1 500	1 500	1 500	1 500
Minority interests to be included in additional going concern capital	0	0	0	0
Tier-2 capital	**1 782**	**1 767**	**1 721**	**1 735**
IRB provision excess (+)	284	136	224	493
Transitional adjustments to Tier-2 capital	0	-46	0	-493
Subordinated liabilities	1 498	1 677	1 497	1 735
Subordinated loans to non-consolidated financial sector entities (-)	0	0	0	0
Minority interests to be included in tier-2 capital	0	0	0	0
Total weighted risk volume	**109 981**	**109 966**	**104 646**	**104 362**
Banking	100 300	100 285	95 120	94 836
Credit risk	85 003	84 988	80 971	80 687
Market risk[5]	3 132	3 132	2 665	2 665
Operational risk	12 166	12 166	11 484	11 484
Insurance	9 133	9 133	9 133	9 133
Holding-company activities and elimination of intercompany transactions	548	548	392	392
Solvency ratios				
Common equity ratio (or CET1 ratio)	15.3%	14.1%	15.5%	16.8%
Tier-1 ratio	16.7%	15.4%	16.9%	18.2%
Total capital ratio	18.3%	17.0%	18.6%	19.9%

1 The difference between the fully loaded and the transitional figure as at 31-12-2022 is explained by the net result for 2022 (2 641 million euros under the Danish Compromise method), the proposed final dividend (-1 252 million euros), the impact of the IFRS 9 transitional measures and IRB excess/shortfall (+148 million euros) and the grandfathered tier-2 subordinated debt instruments (-179 million euros).

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

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

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

5 The HVAR and SVAR multiplier used for the calculation of market risk is equal to 3.5.

The fully loaded CET1 ratio dropped from 15.5% at year-end 2021 to 15.3% at year-end 2022. The acquisition of KBC Bank Bulgaria (-0.9% pt.) and organic RWA growth (-0.3% pt.) is fully absorbed by the retained earnings (+1.3% pt.), hence still keeping the CET1 ratio at 15.6%. The remaining 0.30% pt. drop to 15.3% is explained by various 'technical items' moving in a negative direction, being mainly FVOCI (-2% pt.) and NPL backstop (-0.1% pt.).

The impact on the common equity ratio of the most significant acquisitions and disposals in 2022 and 2021 is described in Note 6.6 of the 'Consolidated financial statements' section.

Solvency at group level (consolidated; CRR/CRD, deduction method) (in millions of EUR)	**31-12-2022 Fully loaded**	**31-12-2022 Transitional**	**31-12-2021 Fully loaded**	**31-12-2021 Transitional**
Common equity	16 056	14 574	15 392	16 745
Total weighted risk volume	105 114	104 752	99 603	99 518
Common equity ratio	15.3%	13.9%	15.5%	16.8%

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

Maximum Distributable Amount

Amounts for distribution (dividend payments, payments related to additional tier-1 instruments or variable remuneration) are limited when the combined buffer requirements described above are breached. This limitation is referred to as Maximum Distributable Amount (MDA) thresholds.

Buffer compared to the Overall Capital Requirement (consolidated; under CRR/CRD, Danish compromise method)	**31-12-2022 Fully loaded**	**31-12-2022 Transitional**	**31-12-2021 Fully loaded**	**31-12-2021 Transitional**
CET1 Pillar 1 minimum	4.50%	4.50%	4.50%	4.50%
Pillar 2 requirement to be satisfied with CET1	1.05%	1.05%	1.05%	0.98%
Capital conservation buffer	2.50%	2.50%	2.50%	2.50%
Buffer for systemically important institutions (O-SII)	1.50%	1.50%	1.50%	1.50%
Systemic risk buffer	0.19%	0.19%	0.00%	0.00%
Entity-specific countercyclical buffer	0.75%	0.40%	0.45%	0.17%
Overall Capital Requirement (OCR) – with P2R split, CRD Article 104a(4)	10.49%	10.14%	10.00%	9.66%
Pillar 2 requirement that can be satisfied with AT1 & T2	0.81%	0.81%	0.81%	0.77%
Overall Capital Requirement (OCR) (A)[1], no P2R split	11.30%	10.95%	10.81%	10.42%
CET1 used to satisfy shortfall in AT1 bucket (B)	0.14%	0.14%	0.07%	0.06%
CET1 used to satisfy shortfall in T2 bucket (C)[2]	0.38%	0.39%	0.36%	0.34%
CET1 requirement for MDA (A+B+C)	11.82%	11.48%	11.23%	10.82%
CET1 capital (in millions of EUR)	16 818	15 474	16 224	17 498
CET1 buffer (= buffer compared to MDA) (in millions of EUR)	3 820	2 846	4 470	6 204

1 Situation as known at 31 December 2022 (not taking into account changes communicated after that date).
2 The fully loaded tier-2 capital excludes the tier-2 instruments grandfathered under CRR2; these instruments are included in the actual (transitional) tier-2 capital for the period of grandfathering, in line with CRR2 and the COREP 3.0 reporting framework (introduced as from 2Q 2021 reporting).

Solvency figures under FICOD

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

KBC is required to satisfy the pillar 1 requirements. No pillar 2 requirements or management target are defined at the level of the FICOD ratio.

Solvency at group level (consolidated; FICOD method) (in millions of EUR)	**31-12-2022 Fully loaded**	**31-12-2022 Transitional**	**31-12-2021 Fully loaded**	**31-12-2021 Transitional**
Common equity	17 873	17 405	17 861	19 370
Total weighted risk volume	123 755	123 740	120 873	120 589
Common equity ratio	14.4%	14.1%	14.8%	16.1%

Leverage ratio

Leverage ratio at group level (consolidated; under CRR/CRD, Danish compromise method) (in millions of EUR)	**31-12-2022 Fully loaded**	**31-12-2022 Transitional**	**31-12-2021 Fully loaded**	**31-12-2021 Transitional**
Tier-1 capital	18 318	16 974	17 724	18 998
Total exposure	346 481	346 538	326 792	292 365
Total assets	355 872	355 872	340 346	340 346
Deconsolidation of KBC Insurance	-30 267	-30 267	-34 026	-34 026
Transitional adjustment	0	57	–	617
Adjustment for derivatives	-3 032	-3 032	-1 656	-1 656
Adjustment for regulatory corrections in determining tier-1 capital	-2 347	-2 347	-1 665	-1 696
Adjustment for securities financing transaction exposures	813	813	1 016	1 016
Central bank exposures	0	0	–	-35 014
Off-balance sheet exposures	25 442	25 442	22 776	22 776
Leverage ratio	5.3%	4.9%	5.4%	6.5%

The higher transitional ratio (in comparison with the fully loaded ratio) reflects the exclusion of central bank exposures (CRR Article 500b; applied between the end of September 2021 and the end of March 2022).

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

Minimum requirement for own funds and eligible liabilities (MREL)

Besides the ECB and NBB, which supervise KBC on a going concern basis, KBC is also subject to requirements set by the Single Resolution Board (SRB). The SRB is developing resolution plans for the major banks in the euro area.

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

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

- 27.86% of RWA as from 1 January 2024 (including a Combined Buffer Requirement of 4.94% as from 4Q23), with an intermediate target as from 1 January 2022 reaching 26.22% at year-end 2022 (including a Combined Buffer Requirement of 4.59%);
- 7.38% of LRE as from 1 January 2024.

To ensure that KBC's HoldCo senior debt is eligible for the subordinated MREL target (i.e. to make sure that no excluded liabilities ranking pari passu with or junior to HoldCo senior debt are present in KBC Group NV), KBC Group NV has been converted into a Clean HoldCo for the purpose of resolution as from June 2022. Consequently, KBC's entire MREL stack is considered subordinated.

MREL (in millions of EUR)	**31-12-2022**	**31-12-2021**
Own funds and eligible liabilities (transitional)	30 269	28 924
CET1 capital (consolidated, CRR/CRD, Danish compromise method)	15 474	17 498
AT1 instruments (consolidated, CRR/CRD)	1 500	1 500
T2 instruments (consolidated, CRR/CRD)	1 767	1 735
Subordinated liabilities (issued by KBC Group NV but not included in AT1 & T2)	6	753
Senior debt (issued by KBC Group NV, nominal amount, remaining maturity > 1 year)	11 522	7 437
Risk Weighted Assets (RWA)	109 966	104 362
MREL as a % of RWA	27.5%	27.7%
Leverage Ratio Exposure Amount (LRE)	346 538	292 365
MREL as a % of LRE	8.7%	9.9%

Information on ICAAP, ORSA and stress testing is provided in KBC's Risk Report, available on www.kbc.com'.

Corporate governance statement

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

Unless otherwise indicated, the period dealt with runs from 1 January 2022 to 31 December 2022.

A number of terms have been abbreviated as follows in this section of the annual report:

- Board of Directors: Board
- Executive Committee: EC
- Audit Committee: AC
- Risk & Compliance Committee: RCC
- Companies and Associations Code: CAC
- The Belgian Act of 25 April 2014 on the legal status and supervision of credit institutions: The Banking Act

Composition of the Board and its committees

The following table shows the members of the Board and its committees on 31 December 2022. A list of the external offices held by all members of the Board is provided at www.kbc.com, as is a brief CV for each director. The number of meetings attended is shown in the columns relating to the committees.


Koenraad Debackere


Philippe Vlerick


Johan Thijs


Alain Bostoen


Katelijn Callewaert


Erik Clinck


Sonja De Becker


Franky Depickere

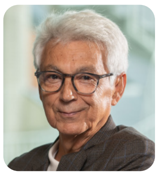

Frank Donck


Liesbet Okkerse


Vladimira Papirnik


Luc Popelier


Alicia Reyes Revuelta


Theodoros Roussis


Christine Van Rijsseghem


Marc Wittemans

Company	Primary responsibility	Period served on the Board in 2022	Expiry date of current term of office	Board meetings attended	Non-executive directors	Core shareholders' representatives	Independent directors	EC	AC	RCC	Nomination Committee	Remuneration Committee
	Number of meetings in 2022			10					7	9	6	7
Koenraad Debackere	Chairman of the Board	Full year	2023	10	■		■				6 (c)	7 (c)
Philippe Vlerick	Deputy Chairman of the Board; CEO of the Vlerick Group	Full year	2025	10	■	■					6	7
Johan Thijs	President of the EC and Executive Director, KBC	Full year	2024	10				■ (c)				
Alain Bostoen	CEO, Christeyns Group	Full year	2023	10	■	■						
Katelijn Callewaert	Managing Director, Cera and KBC Ancora	Full year	2025	10	■	■						
Erik Clinck	Executive Director, Enactus Belgium	Full year	2024	10	■	■						
Sonja De Becker	Chairperson, MRBB	Full year	2024	10	■	■				4*	6	
Franky Depickere	Managing Director; CEO of Cera and KBC Ancora	Full year	2023	10	■	■				9 (c)	6	
Frank Donck	Managing Director, 3D	Full year	2023	10	■	■				8		
Liesbet Okkerse	Financial Director, Zoersel Municipality and Public Social Welfare Centre	Full year	2024	10	■	■						
Vladimira Papirnik	Retired Partner, Squire Patton Boggs (US) LLP	Full year	2024	10	■		■		7	9	6	
Luc Popelier	Executive Director, KBC	Full year	2025	10				■				
Alicia Reyes Revuelta	Director at several companies	8 months	2026	6	■		■		5			3
Theodoros Roussis	CEO, Ravago Group	Full year	2024	9	■	■						
Christine Van Rijsseghem	Executive Director, KBC	Full year	2026	10				■				
Marc Wittemans	Managing Director/CEO, MRBB	Full year	2026	10	■	■			7 (c)	5*		

Statutory auditor: PricewaterhouseCoopers (PwC), represented by Damien Walgrave and Jeroen Bockaert.

Secretary to the Board: Wilfried Kupers.

(c) Chairman of this committee.

* Sonja De Becker became a member of the RCC in August 2022, replacing Marc Wittemans.

Changes in the composition of the Board in 2022

- Christine van Rijsseghem and Marc Wittemans were re-appointed as directors for a four-year term of office.
- Alicia Reyes Revuelta was appointed as non-executive, independent director on the Board, and member of the Audit Committee and the Remuneration Committee for a four-year term of office.

Changes in the composition of the Board proposed to the General Meeting on 04 May 2023

- Katelijn Callewaert and Marc Wittemans will resign as directors with effect from the general meeting. The Board would like to express its gratitude for the contribution they have made to the KBC group over many years.
- On the advice of the Nomination Committee and subject to the supervisory authority's approval, the Board will propose that Marc De Ceuster and Raf Sels be appointed as directors for a four-year term of office.
- On the advice of the Nomination Committee, Koenraad Debackere, Franky Depickere, Alain Bostoen and Frank Donck are nominated for reappointment as directors for a four-year term of office

Brief CV for the proposed new director(s):

- Born in Brecht on 1 December 1962, Marc De Ceuster holds a Doctor's degree in Applied Economics and a Master's Degree in Law. He is Professor of Financial Economics at the University of Antwerp, where he teaches in the domains of Financial Economics, Derivative Financial Instruments and Risk Management. He has also published in several international journals. In the past, he held the position of part-time Director of Risk Management at Deloitte (2001-2005) and chaired the Policy Committee of the University of Antwerp Business School (2005-2008). Between 2009 and 2015, he served on the Board of Directors as observer for the Flemish Regional Government and subsequently as Director of KBC Group (and member of the Audit Committee and the Risk & Compliance Committee), and from 2018 to 2019 he was an independent director of Arkea Direct Bank. In late 2019, he joined the Board of Directors of Almancora Management Company as an independent director, where he first served as Chairman of the Audit Committee and then as Chairman of the Board of Directors, the Remuneration Committee and the Nomination Committee.
- Born in Lommel on 12 January 1973, Raf Sels holds a Bachelor's Degree in Business Management Accountancy & Tax from Provinciaal Hoger Handelsinstituut in Hasselt and is also a Certified Tax Accountant (ITAA). He furthered his education taking a variety of management and financial courses. Having started out as a consultant in an accounting firm, in 1996 Raf joined SBB Accountants & Adviseurs, where he first held a number of commercial positions before becoming COO of the company in 2011 and rising to the position of CEO in 2016. Since 2022, he has been CEO and Executive Director of Maatschappij voor Roerend Bezit van de Boerenbond (MRBB) BV. Furthermore, Raf sits on the Board of Directors of several MRBB group companies.

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

The Group Executive Committee (EC)

						
Johan Thijs	Peter Andronov	Aleš Blažek	Erik Luts	David Moucheron	Luc Popelier	Christine Van Rijsseghem
°1965	°1969	°1972	°1960	°1973	°1964	°1962
Belgian	Bulgarian	Czech	Belgian	Belgian	Belgian	Belgian
Master's Degree in Science (Applied Mathematics) and Actuarial Sciences (KU Leuven)	Master's Degree in Finance (University of National and World economy in Sofia)	Master's Degree in Law (Charles University Law School in Prague)	Master's Degree in Pedagogy (KU Leuven)	Master's Degree in Law (UCL)	Master's Degree in Applied Economics (UFSIA Antwerp)	Master's Degree in Law (UGent)
Joined company in* 1988	Joined company in* 2007	Joined company in* 2014	Joined company in* 1988	Joined company in* 2015	Joined company in* 1988	Joined company in* 1987
Group CEO (Chief Executive Officer)	CEO of the International Markets Business Unit	CEO of the Czech Republic Business Unit	CIO (Chief Innovation Officer)	CEO of the Belgium Business Unit	CFO (Chief Financial Officer)	CRO (Chief Risk Officer)

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

Changes in 2022:

- After reaching the age limit, John Hollows resigned as member of the EC with effect from 5 May 2022. Aleš Blažek was appointed by the Board as member of the EC and CEO of the Czech Republic Business Unit, with effect from 5 May 2022.

Governance model

On 31 December 2022, the Board had 16 members, namely:

- Its Chairman, who is an independent director;
- Two independent directors;
- Three members of the EC (the Group CEO, the Group CFO and the Group CRO);
- Ten representatives of the core shareholders.

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

The core shareholders (Cera, KBC Ancora, MRBB and the other core shareholders) have concluded a shareholder agreement in order to ensure shareholder stability and a long-term focus for the management of KBC Group NV, as well as to support and coordinate its general policy. To this end, the core shareholders act in concert at the General Meeting of KBC Group NV and were represented on its Board by ten directors at year-end 2022.

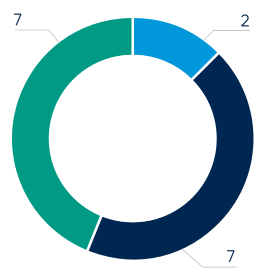
Therefore, there is no majority of independent directors on the Board. However, KBC has placed a strong emphasis on selecting high-calibre, independent directors at the level of KBC Group NV, as well as on the boards of KBC Bank and KBC Insurance. These individuals are of high standing, come from diverse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

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

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

Composition of the Board of Directors

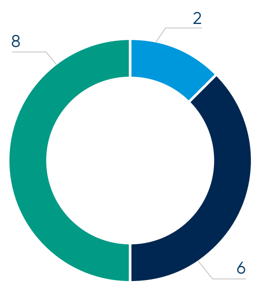
Number of years on the Board



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

(average: 10 years)

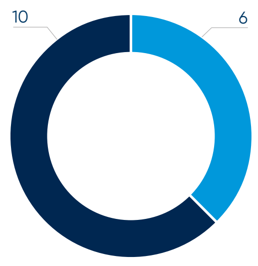
Age



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

(average: 59 years)

Sex



- Female
- Male

Diversity policy

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

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

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

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

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

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

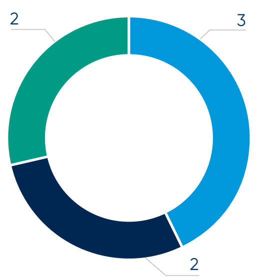
The Board will see to it that this diversity policy is applied properly when deciding on the profile of a new director or a new member of the EC.

The Nomination Committee regularly checked to see whether this policy was being applied in practice and established that this was the case in 2022. The change in the composition of the EC described above has further increased diversity by adding more Central European-based experience.

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

Composition of the Executive Committee

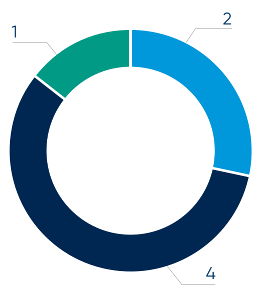
Number of years on the Executive Committee



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

(average: 6 years)

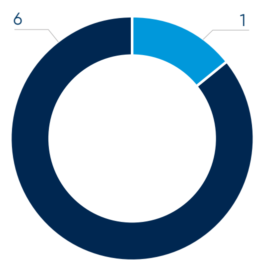
Age



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

(average: 56 years)

Sex



- Female
- Male

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

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

On 31 December 2022, the AC had two independent directors within the meaning of and in line with the criteria set out in Article 7:87 of the CAC and in Code 2020:

- Vladimira Papirnik, who holds a Juris Doctor Degree (Northwestern University (US), 1982). She was a senior partner in the law firm of Squire Patton Boggs and – until June 2017 – worked in both Prague and Chicago. Ms Papirnik continues to work on projects for the firm and its clients. She specialises in corporate law (mergers and acquisitions, corporate governance).
- Alicia Reyes Revuelta, who holds a Master's Degree in Law, Economics and Business Administration (ICADE, Madrid) and a PhD in Quantitative Methods and Financial Markets (ICADE, Madrid). She has held senior management positions at Bear Stearns, Olympo Capital and Wells Fargo, and is currently an independent Board Member of Ferrovial and Banco Sabadell and a Fellow Professor at the Institute of Finance and Technology (University College London).

The Chairman of the AC is:

- Marc Wittemans (non-executive director), who holds a Master's Degree in Applied Economics, and degrees in Fiscal Sciences and Actuarial Sciences. He was Managing Director of MRBB CVBA, the holding company of the Boerenbond (farmers' union), until the end of August. Marc De Ceuster (see CV above) will succeed him as Chairman of the AC with effect from the general meeting in 2023.

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

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

On 31 December 2022, the RCC of KBC Group NV had one independent director within the meaning of and in line with the criteria set out in Article 7:87 of the CAC and in Code 2020:

- Vladimira Papirnik (see CV above)

The other members of the RCC are:

- Franky Depickere (non-executive director), who holds Master's Degrees in Trade & Finance (UFSIA Antwerp) and in Financial Management (VLEKHO Business School). He was internal auditor at CERA Bank and has held positions and offices in various financial institutions. He is currently Managing Director at Cera and KBC Ancora. Mr Depickere is the Chairman of the RCC.
- Frank Donck (non-executive director), who holds a Master's Degree in Law (UGent) and a Master's Degree in Finance (Vlerick Business School). He is Managing Director of 3D NV, Chairman of Atenor Group NV and Barco NV, and an independent director at Elia System Operator Group NV and Luxempart SA. He also holds directorships at several unlisted companies. Mr Donck is a member of the Belgian Corporate Governance Commission.
- Sonja De Becker (non-executive director), who holds a Master's Degree in Law (KU Leuven). She has held several positions at Boerenbond and Landelijke Gilden, where she was Chair from 2015 to 2022. She is currently the Chair of MRBB, Arvesta, Agri Investment Fund, SBB Accountants & Adviseurs and Actiefinvest, and Director at Acerta.

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

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

On 31 December 2022, the Remuneration Committee had two independent directors within the meaning of and in line with the criteria set out in Article 7:87 of the CAC and in Code 2020:

- Koenraad Debackere (independent director and Chairman of the Board), who holds a Master of Science in Electromechanical Engineering and a Doctor's degree in Management. He is an ordinary Professor at the Faculty of Economics and Business at KU Leuven, Managing Director of KU Leuven Research & Development and Chairman of the KU Leuven Association. He is also an independent director at Umicore NV. Koenraad Debackere chairs the Remuneration Committee.
- Alicia Reyes Revuelta (see CV above).

The other member of the Remuneration Committee is:

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

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

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

On 31 December 2022, the Nomination Committee of KBC Group NV had two independent directors within the meaning of and in line with the criteria set out in Article 7:87 of the CAC and in Code 2020:

- Koenraad Debackere, Chairman of the Nomination Committee (see CV above)
- Vladimira Papirnik (see CV above)

The other members of the Nomination Committee are:

- Franky Depickere (see CV above)
- Philippe Vlerick (see CV above)
- Sonja De Becker (see CV above)

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

Application of and non-compliance with Code 2020

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

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

As specified above, on 31 December 2022 the Nomination Committee was composed of five directors, one of whom was the Chairman of the Board (who is also an independent director), a second independent director, and three who represented the core shareholders. Therefore, two independent directors sit on this committee. Furthermore, an independent director of KBC Bank is invited to attend every meeting of the Nomination Committee. In this way, three independent directors are involved in its activities.

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

Code 2020 also stipulates that the 'Corporate governance statement' must contain all relevant information on events that affected governance. No such events occurred in 2022.

Statutory auditor

The statutory auditor, PwC Bedrijfsrevisoren BV (PwC), was represented by Messrs Damien Walgrave and Jeroen Bockaert. Details of the statutory auditor's remuneration are provided in Note 6.4 of the 'Consolidated financial statements' section.

Report on the activities of the Board and its committees in 2022

Board of Directors (Board)

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

- The strategy and operations in the Czech Republic, Bulgaria, and Markets business units/countries, and in Corporate HR, KBC Asset Management and Shared Services;
- The phasing out of the operations of KBC Ireland;
- Managing the impact of the geopolitical crisis;
- The capital policy and dividend policy;
- The implementation of IFRS 17;
- The IT strategy and digital transformation (including Kate and strategy, transformation and innovation trends);
- Implementing the (re)insurance strategy;
- Reviewing the corporate sustainability strategy and the Sustainable Finance Programme;
- The HR policy;
- The ICAAP-ILAAP Report;
- The Risk Appetite Statement;
- The risk reports;
- The compliance reports and the Compliance function;
- Reviewing the Internal Control Statement;
- The establishment of KBC Global Services;
- The Board's self-assessment.

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

Regular training sessions were also organised for all members of the Board (newly appointed directors also followed an extensive induction programme). The following topics were addressed: ESG, hedge accounting, crisis communication, capital rules, the economic outlook (including the underlying methods applied), crypto and IFRS 17.

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

Audit Committee (AC)

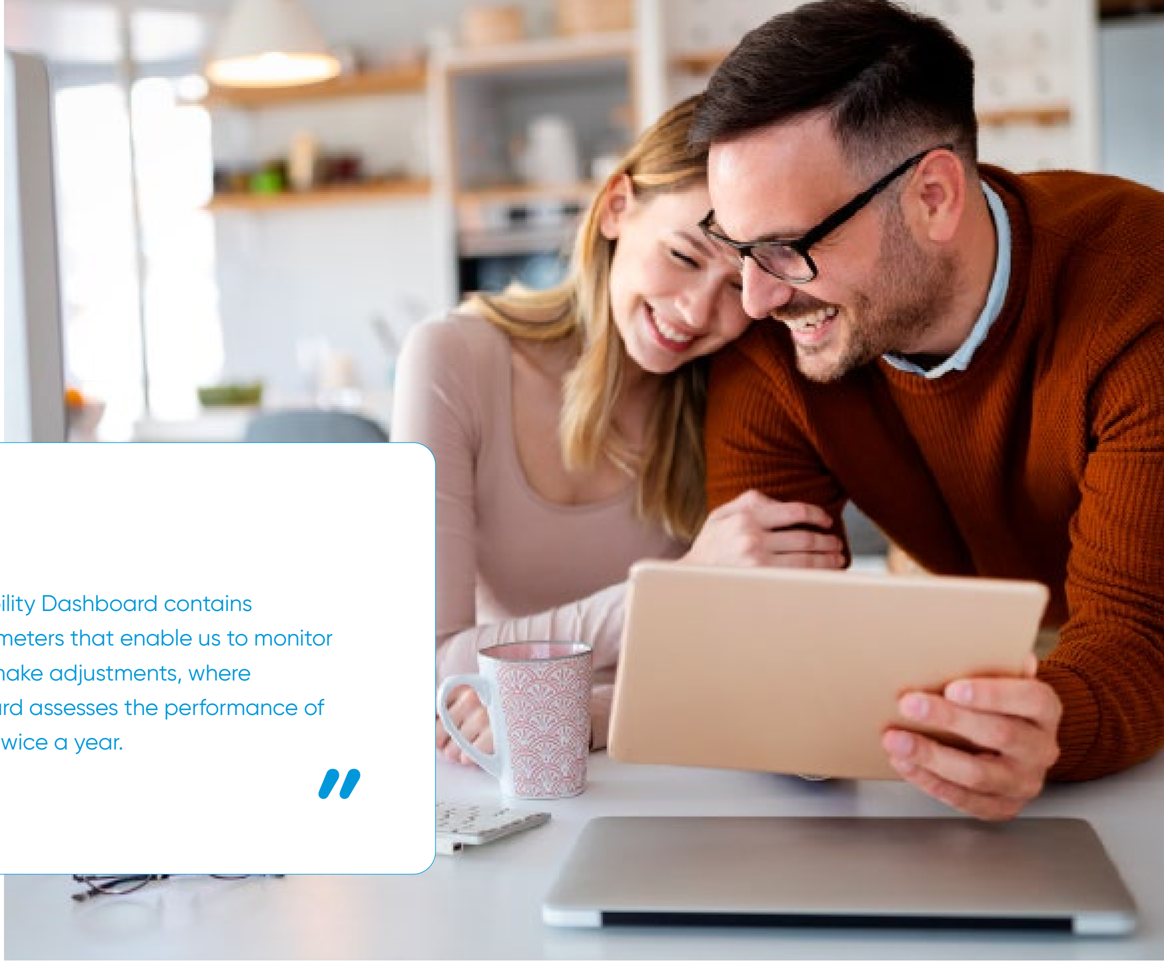
The AC is tasked with a number of responsibilities, including advising the Board on the integrity of financial reporting and the effectiveness of the internal control process and risk management. It provides guidance to the internal audit function and supervises the external auditor. The AC of KBC Group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

The AC also examined:

- The statement of effective management with regard to the assessment of internal control systems and the monitoring of the resulting action plans;
- Intra-group conflicts of interest;
- The results of inspections performed by the supervisory authorities and the action plans drawn up by management;
- The evaluation of the internal audit function and the corresponding remuneration;
- The implementation of the new IFRS 17 rules. A number of training sessions were also organised for this purpose.

Risk & Compliance Committee (RCC)

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



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

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

The RCC paid special attention to:

- Climate-related risk as part of the periodic reports from the risk function;
- Progress reports on the implementation of the EU data policy (GDPR, Schrems II), and other specific regulations, such as AML and MiFID;
- The statement of effective management with regard to the assessment of internal control systems and the monitoring of the resulting action plans;
- The ICAAP-ILAAP Report for 2022;
- The KBC ORSA Report for 2022;
- The KBC Recovery Plan for 2022;
- Information Security and Cyber Risk;
- The results of inspections performed by the supervisory authorities and the action plans drawn up by management;
- The updated Compliance Charter;
- The updated Integrity Policy;
- The updated Incompatibility Code;
- The Compliance Annual Report to the Board;
- The Data Protection Officer Report;
- The 2021 Conflict of Interest Report.

Nomination Committee

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

The main matters dealt with were:

- Appointments and re-appointments to the Board;
- Succession planning for the Board and the EC;
- The HR policy;
- Evaluation of the operations and composition of the Board.

Remuneration Committee

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

The main matters dealt with were:

- The assessment of the criteria for evaluating the EC in 2021;
- The criteria for evaluating the EC in 2022;
- The annual Remuneration Review;
- The indexation of the remuneration of the CEO and other EC members;
- The impact of the EBA guidelines on severance payments for EC members;
- The remuneration of Aleš Blažek;
- The impact of the surplus capital distribution and inflation on the value of the phantom stocks;

- The changes to the Remuneration Policy;
- The changes to the Remuneration Policy for members of the EC and of the Board;
- The preparation of the remuneration report;
- The retention bonuses for KBC Ireland and the KBC New York branch.

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

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

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

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

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

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

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

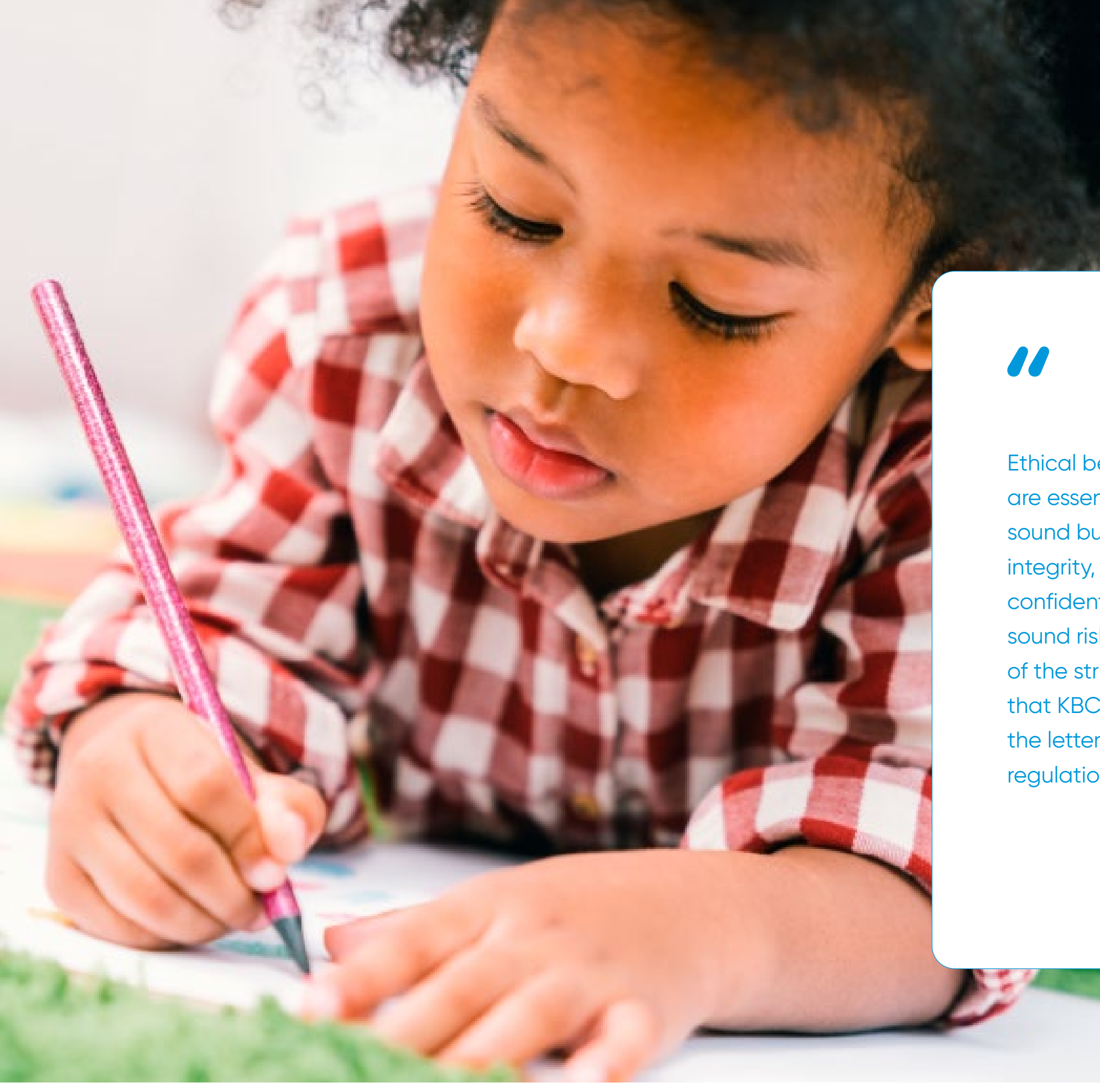
During the financial year 2022, the Board's decision to grant discharge to the members of the EC – in implementation of Article 7:109, § 3 of the CAC – required the application of Article 7:115 of the CAC. The proposal was discussed at the Board meeting of 17 March 2022, the relevant minutes of which are provided below:

It is explained that KBC Group NV has a dual governance model, though hybrid as at least three members of the Executive Committee must also be member of the Board of Directors. Article 7:109, § 3 CCA provides that, after the adoption of the annual accounts, the Board has to decide on the granting of discharge to the members of the Executive Committee. The Board has to describe the pecuniary consequences of the proposed decision and the justification for its decision.
The Board recognises that there is a conflict of interest of a patrimonial nature, but that there is no patrimonial impact since the Board does not intend to bring a claim for damages against the Executive Committee and its members.
The Board decides to grant discharge to the members of the Executive Committee.

There were no conflicts of interest that required the application of Article 7:116 or 7:117 of the CAC.

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

None.



> Ethical behaviour and integrity are essential components of sound business practice. Honesty, integrity, transparency and confidentiality, together with sound risk management, are part of the strict ethical standards that KBC stands for – both in the letter and the spirit of the regulations.

Measures regarding insider dealing and market manipulation

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

Main features of the internal control and risk management systems

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

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

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

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

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

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

Corporate culture and integrity policy

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

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

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

- Preventing the financial system being used for laundering money and funding terrorism, observing embargoes, and preventing proliferation financing of weapons of mass destruction;
- Preventing fiscal irregularities including special mechanisms and DAC 6;
- Protecting investors;
- Protecting privacy, including banking secrecy, privacy in electronic communication, confidentiality of information and the professional duty of discretion;
- Fostering ethics;
- Coordinating fraud prevention;
- Protecting insurance policyholders;
- Complying with anti-discrimination legislation;
- Respecting rules on consumer protection: market practices, payment and lending services, complaints handling by companies, rules on SME funding and Payment Services Directive II;
- Respecting the governance aspects of CRD IV and V, Solvency II and/or local laws, including the separation of duties between executive management and supervisory bodies, the functioning of committees, incompatibility of offices, sound remuneration policy, 'Fit & Proper' requirements, conflicts of interest, loans made to members of the EC and directors (and persons associated with them) and to shareholders with a significant participation, and the provision of advice on outsourcing and sustainability regulations.

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

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

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

Combating corruption and bribery

KBC has pursued a zero-tolerance policy towards any and all forms of corruption for years and does not tolerate any exceptions to this policy.

The 'KBC Anti-Corruption & Bribery Policy' not only affirms KBC's position in the fight against corruption, but is also geared towards preventing corruption in all its activities, including the activities carried out by KBC staff and by persons or entities who work for KBC or who represent KBC in any capacity.

Combating corruption and avoiding conflicts of interest, in general, are dealt with as part of both an authoritative training course and various digital training courses (see also the table below).

Another element of the Anti-Corruption & Bribery Policy is the 'policy on gifts, donations and sponsorship' through which KBC endeavours to protect its employees and the other parties involved by means of clear and unambiguous criteria that have been drawn up to foster transparent and reasonable behaviour. Gifts, donations, entertainment, invitations and/or sponsorship, whose equivalent value exceeds a certain sum (on an annual basis), must be reported to and approved by the competent executive committee/management level in advance. In 2022, 8 reports of this kind were approved in Belgium. In Central Europe, too, gifts and donations above a certain value have to be reported. Seven such reports were approved in the Czech Republic and six in Hungary, and there were no reports in any of the other countries.

Anti-money laundering practices

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

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

Training courses are provided at regular intervals to all employees, tied agents and their staff (see the following table).

Furthermore, employees, tied agents and their staff are expected to strictly follow established procedures and guidelines and to exercise due vigilance. This vigilance is promoted by applying a risk-based approach depending on a client's risk classification when identifying clients and checking transactions. If in doubt or where they detect a suspicious transaction, they are required to report this to Compliance.

An integrated, group-wide AI platform based on models and machine learning was developed to facilitate transaction monitoring and was rolled out in Belgium and in the Central European countries where the group operates.

Responsible taxpayer

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

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

Whistleblower policy

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

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

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

In 2022, ten reports were received at group level: five from the Czech Republic, one from Hungary, two from Slovakia and two from Bulgaria. Further investigation has confirmed

that, except for two cases, the other reports received were in fact whistleblower reports.

Data protection

The Internal Group Compliance rule on data protection sets out a strict privacy framework, which has to be observed as a minimum standard and implemented in every KBC Group entity. Each entity has appointed a data protection officer to inform and advise management and employees on their obligations in the field of privacy and data protection and to monitor compliance with regulations and policies relating to the protection of personal data.

We check the status of relevant topics through regular compliance monitoring programmes and use awareness campaigns and training to hold people's attention and ensure their knowledge remains up-to-date.

Given the importance of privacy and data protection, we keep our Executive Committee and the Risk and Compliance Committee of the Board of Directors informed through a quarterly report.
For more information about data protection and privacy, see 'The client is at the centre of our business culture' in the 'Our strategy' section.

Training courses completed, as % of the selected target audience, 2022	Training on ethics, avoiding conflicts of interest and combating corruption	Anti-money laundering training	Data protection training
Belgium (KBC Bank, KBC Insurance, KBC Securities, KBC Asset Management, tied insurance agents and their staff)	100%	90%	94%
Czech Republic (ČSOB Bank / ČSOB Pojišťovna)	99% / 100%	99% / 100%	98% / 100%
Slovakia (ČSOB Bank / ČSOB Poisťovňa)	99% / 99%	97% / 100%	98% / 99%
Hungary (K&H Bank / K&H Insurance)	99% / 96%	98% / 100%	98% / 98%
Bulgaria (UBB / DZI)	91% / 95%	99% / 93%	94% / 96%

The 'Three Lines of Defence' model

1 The business side

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1 Capital structure on 31 December 2022

The share capital was fully paid up and was represented by 417 169 414 shares of no nominal value. For more information, see the 'Company annual accounts and additional information' section.

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

Each year, KBC Group NV carries out a capital increase for its employees and the employees of certain of its Belgian subsidiaries. If the issue price of the new shares is less than the set closing price, the employee may not transfer these new shares for two years, starting from the payment date, unless he or she dies. The shares subscribed to by employees under the capital increase decided upon by the Board in November 2022 are blocked until 14 December 2024. The shares issued under the capital increase in 2021 also remain blocked (until 15 December 2023).

3 Holders of any securities with special control rights

None.

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

None.

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

The voting rights attached to the shares held by KBC Group NV and its direct and indirect subsidiaries are suspended. At 31 December 2022, these rights were suspended for two shares.

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

The core shareholders of KBC Group NV comprise KBC Ancora NV, its parent company Cera CV, MRBB BV, and a group of legal entities and individuals referred to as 'Other core shareholders'.
Based on the most recent notifications provided to KBC, their shareholdings are:

- KBC Ancora NV 77 516 380
- Cera CV 15 555 143
- MRBB BV 47 887 696
- Other core shareholders 30 623 645
- Total 171 582 864 (41.13% of total number of shares at 31 December 2022)

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

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

Appointment and replacement of members of the Board:
Following the approval of or notification to the supervisory authority, proposals to appoint nominated directors or to re-appoint directors are submitted by the Board to the General Meeting for approval. Each proposal is accompanied by a documented recommendation from the Board, based on the advice of the Nomination Committee. Without prejudice to the applicable legal provisions, nominations are communicated as a separate agenda item for the General Meeting at least thirty days before it is held. When nominating an independent director, the Board will state whether the individual meets the independence criteria set out in Article 7:87 of the CAC. The General Meeting appoints directors by a simple majority of votes cast. From among its non-executive members, the Board elects a chairman and one or more deputy chairmen, if necessary. Outgoing directors are always eligible for re-appointment. If, during the course of a financial year, a directorship falls vacant as a result of decease, resignation, dismissal or for any other reason, the remaining directors may provisionally arrange for a replacement and appoint a new director. In that case, the next General Meeting will proceed to a definitive appointment.

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

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

The General Meeting authorised the Board until 23 October 2023 to increase, in one or more steps, the share capital in cash or in kind, by issuing shares. The Board is also authorised until the same date to decide on one or several occasions to issue convertible bonds (whether subordinated or otherwise) or warrants that may or may not be linked to bonds (whether subordinated or otherwise) that could result in capital being increased. This authorisation related to a sum of 291 000 000 euros, where the Board is entitled – in the company's interest – to suspend or restrict the preferential subscription rights of existing shareholders, and to a sum of 409 000 000 euros, without the Board having the power to suspend or restrict preferential subscription rights. On 08 November 2022, the Board decided to use its authorisation to increase capital by issuing shares with preferential subscription rights cancelled to employees For more information, see 'Notes to the company annual accounts' in the 'Company annual accounts and additional information' section.
The General Meeting of 5 May 2022 authorised the Board, for a period of four years calculated from the announcement of the resolution, to acquire a maximum of 10% of the KBC Group NV shares on Euronext Brussels or another regulated market at a price per share that may not exceed the last closing price on Euronext Brussels preceding the date of acquisition plus 10%, and that may not be lower than one euro. The Board did not exercise this authorisation in 2022.
KBC Group NV and its *direct* subsidiaries no longer held any KBC Group NV shares at year-end 2022.

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

None.

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

None.

Shareholder structure on 31 December 2022

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

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

Shareholder structure on 31-12-2022 (based on the most recent notifications received pursuant to the Act of 2 May 2007)	Address	Number of KBC shares/voting rights (as a % of the current number of shares/voting rights)*	Notification relating to
Core shareholders			
KBC Ancora NV	Muntstraat 1, 3000 Leuven, Belgium	77 516 380 / 18.58%	1 December 2014
Cera CV	Muntstraat 1, 3000 Leuven, Belgium	11 127 166 / 2.67%	1 December 2014
MRBB BV	Diestsevest 32/5b, 3000 Leuven, Belgium	47 889 864 / 11.48%	1 December 2014
Other core shareholders	C/o Ph. Vlerick, Ronsevaalstraat 2, 8510 Bellegem, Belgium	32 020 498 / 7.68%	1 December 2014
Other shareholders			
BlackRock Inc.	55 East 52nd Street, New York, NY 10055, United States	20 651 401 / 4.95%	1 December 2022
FMR LLC	1209 Orange Street, Wilmington, New Castle County, Delaware 19801, United States	12 618 677 / 3.02%	7 December 2022

* Includes the 'voting rights that may be acquired if the instrument is exercised' as stated under 'B) Equivalent financial instruments' in the transparency notification. Any shareholders falling below the 3% notification threshold are no longer included in the table (unless they are a core shareholder). KBC publishes these notifications on www.kbc.com.

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

Within the framework of this law, KBC Group NV received a number of updated disclosures in July and November 2022. The entities and individuals referred to below act in concert.

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

Shareholder	Shareholding (quantity)	%[2]	Shareholder	Shareholding (quantity)	%[2]
KBC Ancora NV	77 516 380	18.58%	Niramore International SA	400 000	0.10%
MRBB BV	47 887 696	11.48%	Cecan Invest NV	397 563	0.10%
CERA CV	15 555 143	3.73%	Robor NV	359 606	0.09%
Plastiche Finance NV	4 380 500	1.05%	Rodep Comm. VA	305 000	0.07%
SAK AGEV	4 112 731	0.99%	Beluval NV	267 698	0.06%
VIM CVBA	4 032 141	0.97%	Bareldam SA	260 544	0.06%
3D NV	2 461 893	0.59%	Algimo NV	210 000	0.05%
Almafin SA	1 625 127	0.39%	Gavel NV	200 000	0.05%
De Berk BV	1 138 208	0.27%	Ibervest	190 000	0.05%
SAK PULA	981 450	0.24%	Promark International NV	110 000	0.03%
Rainyve SA	950 000	0.23%	STAK Iberanfra	120 107	0.03%
Alia SA	938 705	0.23%	Agrobos NV	75 000	0.02%
Stichting Amici Almae Matris	917 731	0.22%	Wilig NV	45 950	0.01%
Alginvest NV	840 901	0.20%	Filax Stichting	38 529	0.01%
Ceco CVA	666 499	0.16%	Hendrik Van Houtte CVA	36 000	0.01%
Cecan NV	682 697	0.16%	Kristo Van Holsbeeck BVBA	18 720	0.00%
Van Holsbeeck NV	524 656	0.13%	IBP Ravago OFP	9 833	0.00%
Sereno SA	492 408	0.12%			

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

	Shareholding (quantity)	%[2]		Shareholding (quantity)	%[2]
–	884 000	0.21%	–	55 000	0.01%
–	285 000	0.07%	–	53 435	0.01%
–	285 000	0.07%	–	49 162	0.01%
–	250 000	0.06%	–	48 318	0.01%
–	167 498	0.04%	–	41 446	0.01%
–	125 200	0.03%	–	38 000	0.01%
–	102 944	0.02%	–	30 000	0.01%
–	89 562	0.02%	–	23 131	0.01%
–	81 212	0.02%	–	10 542	0.00%
–	75 000	0.02%	–	3 431	0.00%
–	71 168	0.02%	–	837	0.00%
	63 562	0.02%			

1 No such disclosures were received.

2 The calculation is based on the total number of shares on 31 December 2022.

Remuneration report for financial year 2022

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

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

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

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

Non-compliance with the Corporate Governance Code

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

General framework

The policy for remunerating members of the Board and the EC is published in the Remuneration Policy for the Board of Directors and Members of the Executive Committee, which the General Meeting approved by nearly 90% of the votes on 5 May 2022. It provides details of the remuneration package for the members of the Board and members of the EC. The main principles for setting variable remuneration are set out below:

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

Clawback provisions

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

Remuneration awarded to non-executive directors

- The remuneration paid to non-executive directors consists solely of an annual fixed component of 20 000 euros (non-performance-related and non-results-based) plus the fee received for each meeting attended (5 000 euros). If meetings coincide with Board meetings of KBC Bank and/or KBC Insurance, the attendance fee will be paid just once to directors sitting on more than one of these Boards. Given his duties, the Deputy Chairman receives a higher fixed component (an additional 30 000 euros).
- In light of the considerable time he devotes to the ongoing supervision of KBC group affairs, the Chairman of the Board receives a different remuneration package that comprises solely a fixed component, which is set separately by the Remuneration Committee and approved by the Board. It amounts to 200 000 euros for the chairman of KBC Group NV and to 50 000 euros each for the chairmen of KBC Bank NV and KBC Insurance NV.
- The directors sitting on the AC and/or RCC receive an additional fixed emolument of 30 000 euros for the work they perform in that regard. Similarly, if meetings coincide with AC or RCC meetings of KBC Bank and/or KBC Insurance, the emolument will be paid just once to directors sitting on different committees. The chairmen of the AC and RCC receive a higher fixed emolument (an additional 30 000 euros and 100 000 euros, respectively). Directors sitting on either the Nomination Committee or the Remuneration Committee do not receive additional remuneration for the work they perform in that regard.
- In light of the considerable time required for directors residing outside Belgium to attend Board meetings, additional remuneration (attendance fees) of 2 500 euros is paid to them for each meeting attended. This does not apply to meetings held virtually or to virtual attendance at physical meetings.
- KBC Group NV does not grant loans to directors. Loans or guarantees may, however, be granted by KBC Group NV banking subsidiaries pursuant to Article 72 of the Banking Act of 25 April 2014, meaning that loans may be granted at terms applying to clients and approved by the Board.

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

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

Remuneration per individual director (on a consolidated basis, in EUR)	Remuneration (for FY 2022)	Remuneration for AC and RCC members (for FY 2022)	Attendance fees (for FY 2022)	Total
Koenraad Debackere	300 000	–	–	300 000
Alain Bostoen	30 000	–	50 000	80 000
Katelijn Callewaert	65 000	–	56 250	121 250
Eric Clinck	30 000	–	50 000	80 000
Sonja De Becker	40 000	–	50 000	90 000
Franky Depickere	65 000	130 000	56 250	251 250
Frank Donck	30 000	30 000	50 000	110 000
Alicia Reyes Revuelta	20 000	20 000	45 000	85 000
Liesbet Okkerse	30 000	–	50 000	80 000
Vladimira Papirnik	30 000	30 000	70 000	130 000
Theodoros Roussis	30 000	–	45 000	75 000
Philippe Vlerick	60 000	–	50 000	110 000
Marc Wittemans	40 000	60 000	50 000	150 000

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

- The remuneration of individual EC members is made up of the following components:
  - A fixed monthly emolument;
  - A defined pension contribution in a defined contribution plan;
  - An annual, profit-related variable emolument (the amount of which depends on the performance of the EC as a whole and on the performance of the institution);
  - An annual, individual variable emolument based on the performance by each member of the EC and on the example they set in respecting the group's values;
  - Any emolument for offices performed on behalf of KBC Group NV (exceptional).
- A quantitative risk-adjustment mechanism – the 'risk gateway' – is used to set the variable remuneration. It comprises a number of capital and liquidity parameters that have to be met before the variable remuneration component may be awarded. The parameters are set each year by the Board. If one of these parameters is not met, not only will this remuneration component not be awarded, but payment of deferred amounts relating to previous years will be suspended in that year, too.
- For members of the EC, the individual variable component is set on the basis of an assessment of the performance of the member in question. The Remuneration Committee broadly assesses each member of the EC against the aspects of our corporate culture and the aspect of being *Respectful* as a core value for the entire KBC organisation. On the basis of this assessment, the Remuneration Committee proposes a percentage between 0 and 100% to the Board. The Board then decides on this final score, which ultimately determines the size of the individual variable emolument.

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

* See 'What makes us who we are?'

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

Criteria for awarding members of the EC the profit-related variable remuneration component	Explanation	Weighting
Implementing strategy	Besides achieving any specific targets, the main focus is on what has been achieved in terms of client centricity, sustainability, encouraging responsible conduct, and innovation. In 2022, this mainly involved further steps in the implementation of the 'Next Level' strategy, further steps in the Sustainable Finance Programme, the integration exercise in Bulgaria, the execution of the exit plan in Ireland, the commencement of Discai's operations and the implementation of the Temenos platform.	25%
Realising financial plans	Comprises a number of financial parameters (return, profit, capital, and cost of credit) and assessment of the progress made in further implementing the bank-insurance model and income diversification. In 2022, emphasis was also placed on continuity in times of the coronavirus crisis and war in Ukraine.	25%
Strengthening the risk control environment	Assessed based on liquidity, capital and funding criteria, implementing recommendations made by Audit and the regulator, and the degree to which the internal control environment, including compliance, has improved. In 2022, great emphasis was also placed on measures intended to mitigate money laundering and cyber risks.	25%
Stakeholder satisfaction	Assessed based on results from client and employee satisfaction surveys and on progress made in terms of sustainability. A sustainability dashboard that contains numerous parameters is used for measuring sustainability in a range of areas, including our banking and insurance activities (e.g., the share of renewable energy loans in the loan portfolio and reducing financing of the coal sector), our role in society (e.g., our own ecological footprint), sustainable growth (e.g., managing risk and creating long-term value), reputation and HR policy.	25%

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

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

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

Relative importance of the different components of remuneration

- The variable component for 2022 is split into a collective profit-related variable emolument and an individual variable emolument.
- For 2022, the profit-related variable component for the President of the EC is set between 0 and 637 239 euros and the individual variable component between 0 and 314 763 euros. The limits for these components are 313 028 euros and 140 668 euros, respectively, for the other members of the EC.
- The final amount is set by the Board on the advice of the Remuneration Committee, based on an assessment of the individual and collective achievements during the previous financial year.

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

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

Pension arrangements, disability cover and death cover

- The members of the EC have a separate defined contribution plan that is funded entirely by KBC. When drawing up this plan, account was taken of the fact that the career of a member (and especially the President) of the EC is shorter than that of an average employee. In the pension formula, therefore, the first ten years that an individual sits on the EC are the ones in which a significant part of the supplementary pension is built up. The contribution that KBC makes to the pension plan amounts to 32% of the fixed emolument during those first ten years, 7% for the next five years and 3% starting from the sixteenth year of plan membership. A minimum return of 0% (capped at 8.25%) is guaranteed on the contributions. During the first ten years, the size of the payment made

into the pension fund is rather large, but declines to a fraction of what it had been previously starting from the eleventh year and even more markedly from the sixteenth year.
- The plan applies to all members of the EC who are resident in Belgium.
- The pension plan includes a death benefit, which equals four times the amount of the fixed emolument (or, if higher, the reserves that have been built at the time of death). Where applicable, there is also an orphan's pension, comprising a one-off benefit of 228 793 euros and an annuity of 7 420 euros per year.
- The invalidity benefit provided under the plan amounts to 881 131 euros per year.

Fixed and variable remuneration for 2022

- Figures for the fixed and variable remuneration components are given in the table.
- The Board decided that the members of the EC should be awarded collective profit-related variable remuneration for 2022 that equalled 97.79% (97.46% for the CRO). The relevant figures are given in the table. The Remuneration Committee established that virtually all of the KPIs set had been met or even exceeded.
- Implementing strategy: further progress was made with implementing the 'Next Level' strategy. In the area of sustainability, the climate report was published in September 2022, which also contained a number of specific, quantified long-term targets. The integration exercise in Bulgaria is on track, as is the exit from Ireland. Major strides were made in the implementation of the Temenos platform in Slovakia and Hungary, and Discai successfully commenced operations. On the advice of the Remuneration Committee, the Board of Directors therefore decided to award the maximum score here.
- Realising financial plans: despite the lingering effects of the coronavirus crisis at the start of 2022 and the subsequent economic slowdown resulting from the Ukraine crisis, KBC posted more than respectable results in 2022. On the advice of the Remuneration Committee, the Board of Directors therefore decided to award the maximum score here.
- Strengthening the risk control environment: the majority of the KPIs were met (audit recommendations, liquidity, funding and capital planning, historically low level of operating losses, etc.). Despite substantial efforts, a few areas – such as data quality and anti-money laundering issues – still require some work. This is partly due to the regulator consistently raising the bar in this area. On the advice of the Remuneration Committee, the Board of Directors decided to award a score of 98.7% for this component.
- Stakeholder satisfaction: employee satisfaction clearly improved. Substantial progress was made in terms of sustainability, as the sustainability report also shows. KBC is recognised as a frontrunner in this area in the financial sector, which resulted in KBC being awarded the Terra Carta Seal. The Net Promoter Score rose for a number of KBC entities, but not for all of them. Most of the reputation targets were met. On the advice of the Remuneration Committee, the Board of Directors decided to award a score of 92.5% for this component.
- Half of the variable remuneration component is paid in cash and the other half is awarded in the form of phantom stocks. As regards the cash component, 40% will be paid in 2023 and the remaining 60% spread equally over the next five years (2024 to 2028, inclusive). The amounts awarded are included in the table below.
- *Phantom stocks for 2022:* The number of phantom stocks is calculated on the basis of the average price of the KBC share during the first quarter of 2023. Like the other variable components, 40% will be awarded in 2023 and the remaining 60% spread equally over the next five years. Given that phantom stocks are to be retained for one year, they are paid out in cash one year after being awarded, which means that payment is spread over 2024 to 2029, inclusive. The amounts for which phantom stocks were awarded in this way for 2022 are given in the table below:

Amounts awarded in the form of phantom stocks (in EUR)	Total	Vesting in 2023	Vesting in 2024	Vesting in 2025	Vesting in 2026	Vesting in 2027	Vesting in 2028
Johan Thijs	465 812	186 327	55 897	55 897	55 897	55 897	55 897
John Hollows*	70 557	28 222	8 467	8 467	8 467	8 467	8 467
Erik Luts	217 528	87 013	26 103	26 103	26 103	26 103	26 103
Luc Popelier	211 667	84 667	25 400	25 400	25 400	25 400	25 400
Christine Van Rijsseghem	213 495	85 397	25 619	25 619	25 619	25 619	25 619
David Moucheron	211 667	84 667	25 400	25 400	25 400	25 400	25 400
Peter Andronov	215 887	86 357	25 906	25 906	25 906	25 906	25 906
Aleš Blažek*	84 127	33 652	10 095	10 095	10 095	10 095	10 095

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

Variable remuneration relating to previous years

- A portion of the (deferred) variable remuneration component awarded for 2017-2021 will be paid in 2023. The amounts paid are given in the table.
- A portion of the phantom stocks awarded for 2017-2020 was converted into cash at 72.28 euros per share in April 2022. The amounts paid are given in the table.

Severance payments in 2022

- None.

Other benefits

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

Overview

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

a) Remuneration paid to former members of the EC of KBC Group NV, 2022	Luc Gijsens		Daniel Falque		Hendrik Scheerlinck		John Hollows	
	Awarded	Paid	Awarded	Paid	Awarded	Paid	Awarded	Paid
Base remuneration (fixed)	–	–	–	–	–	–	615 154	615 154
Individual remuneration for financial year (variable)								
- cash	–	–	–	–	–	–	19 537	7 815
- phantom stocks	–	–	–	–	–	–	19 537	
Profit-related remuneration for financial year (variable)								
- cash	–	–	–	–	–	–	51 018	20 407
- phantom stocks	–	–	–	–	–	–	51 018	
Remuneration for previous financial years								
- individual variable remuneration	–	1 445	–	20 228	–	18 556	–	24 599
- profit-related variable remuneration	–	4 727	–	63 041	–	58 315	–	73 896
- phantom stocks	–	24 358	–	147 813	–	125 406	–	124 302
Sub-total (variable remuneration)	–	30 530	–	231 082	–	202 277	141 110	251 019
Defined contribution pension plan (contribution) (excl. taxes)	–	–	–	–	–	–	85 564	85 564
Other benefits	–	–	–	–	–	–	4 539	4 539
Total	–	30 530	–	231 082	–	202 277	846 367	956 276
Ratio of fixed to variable remuneration (%)	–	–	–	–	–	–	83/17	74/26

b) Remuneration paid to the current members of the EC of KBC Group NV (2022)	Johan Thijs (CEO)		Peter Andronov		Aleš Blažek* (8 months)		Erik Luts		David Moucheron		Luc Popelier		Christine Van Rijsseghem	
	Awarded	Paid	Awarded	Paid	Awarded	Paid	Awarded	Paid	Awarded	Paid	Awarded	Paid	Awarded	Paid
Base remuneration (fixed)	1 512 400	1 512 400	906 300	906 300	398 232	398 232	906 300	906 300	906 300	906 300	906 300	906 300	906 300	906 300
Individual remuneration for financial year (variable)														
- cash	154 234	61 694	62 832	25 133	20 475	8 190	64 473	25 789	58 612	23 445	58 612	23 445	60 956	24 382
- phantom stocks	154 234	–	62 832	–	20 475	–	64 473	–	58 612	–	58 612	–	60 956	-
Profit-related remuneration for financial year (variable)														
- cash	311 578	124 631	153 055	61 222	63 652	25 461	153 055	61 222	153 055	61 222	153 055	61 222	152 539	61 015
- phantom stocks	311 578	–	153 055	–	63 652	–	153 055	–	153 055	–	153 055	–	152 539	-
Remuneration for previous financial years														
- individual variable remuneration	–	44 906	–	3 863	–	–	-	23 829	–	3 552	–	23 447	–	24 981
- profit-related variable remuneration	–	121 869	–	10 855	–	–	-	69 169	–	10 855	–	73 896	–	74 431
- phantom stocks	–	291 144	–	–	–	–	-	127 574	–	–	–	148 969	–	152 149
Sub-total (variable remuneration)	931 624	644 244	431 773	101 073	168 254	33 651	435 056	307 583	423 334	99 074	423 334	330 979	426 990	336 958
Defined contribution pension plan (contribution) (excl. taxes)	604 960	604 960	256 702	256 702	171 133	171 133	290 016	290 016	290 016	290 016	290 016	290 016	290 016	290 016
Other benefits	18 247	18 247	7 314	7 314	3 437	3 437	12 621	12 621	7 961	7 961	14 060	14 060	9 653	9 653
Total	3 067 231	2 779 851	1 602 089	1 271 389	741 056	606 453	1 643 993	1 516 520	1 627 611	1 303 351	1 633 710	1 541 355	1 632 959	1 542 927
Ratio of fixed to variable remuneration (%)	70/30	77/23	73/27	92/8	77/23	94/6	74/26	80/20	74/26	92/8	74/26	79/21	74/26	78/22

* The net remuneration paid to Aleš Blažek is the same as that for the other members of the EC.

Top management remuneration in perspective

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

Top management remuneration in perspective	2018	2019	*(year-on-year change)*	2020	*(year-on-year change)*	2021	*(year-on-year change)*	2022	*(year-on-year change)*
Remuneration of EC members (in EUR)									
Johan Thijs	2 298 415	2 361 493	*+3%*	2 245 548	*-5%*	2 421 147	*+8%*	3 067 231	*+27%*
Peter Andronov	-	-	-	-	-	1 506 087 (12/12)	-	1 602 089	*+6%*
Aleš Blažek	-	-	-	-	-	-	-	1 111 584 (12/12)	-
Erik Luts	1 453 646	1 494 112	*+3%*	1 426 805	*-5%*	1 534 287	*+8%*	1 643 993	*+7%*
David Moucheron	-	-	-	-	-	1 520 236 (12/12)	-	1 627 611	*+7%*
Luc Popelier	1 456 816	1 488 162	*+2%*	1 420 447	*-5%*	1 527 022	*+8%*	1 633 710	*+7%*
Christine Van Rijsseghem	1 465 071	1 500 277	*+2%*	1 424 458	*-5%*	1 529 211	*+7%*	1 632 959	*+7%*
Average (excluding CEO)[1]	1 455 630	1 491 388	*+2%*	1 422 900	*-5%*	1 522 517	*+7%*	1 541 991	*+7%*[3]
Average salary of Belgian employees of KBC Group NV (in EUR)									
Average salary	90 416	90 780	*+0%*	92 124	*+1%*	94 312	*+2%*	109 106	*+16%*[4]
Lowest salary	42 587	43 259	*+2%*	46 448	*+7%*	47 767	*+3%*	53 559	*+12%*
Ratio of highest to lowest salary	1/54	1/55		1/48		1/51		1/57	
Performance indicators									
Group's net result (in millions of EUR)	2 570	2 489	*-3%*	1 440	*-42%*	2 614	*+82%*	2 743	*+5%*
Group's total income (in millions of EUR)	7 512	7 629	*+2%*	7 195	*-6%*	7 558	*+5%*	8 463	*+12%*
Own greenhouse gas emissions (in tonnes of CO2 per FTE)	2.27	1.97	*-13%*	1.54	*-22%*	1.02	*-34%*	1,16[2]	*+14%*
Volume of RI funds (in billions of EUR)	9.0	12.0	*+34%*	16.8	*+40%*	31.7	*+89%*	32,3	*+2%*
Common equity ratio (fully loaded)	16.0%	17.1%	*+7%*	17.6%	*+3%*	15.5%	*-12%*	15,3%	*-1%*

1 This calculation was based on the EC's composition at the time.
2 Includes KBC Bank Bulgaria for the first time and the impact of a new measuring methodology for vehicles/commuter travel (WLTP).
3 Excluding Aleš Blažek.
4 The increase was impacted by the separation of KBC Global Services.

Remuneration from 2023

- The result of the vote on the amended remuneration policy and remuneration report at the General Meeting of 5 May 2022 shows that the vast majority of shareholders endorse the policy and the report. The Remuneration Committee therefore decided not to make any other changes to the remuneration policy apart from the changes already decided on.
- As decided at the start of 2022, the remuneration of the CEO and the EC members has been linked to the development of the health index since 1 January 2023. Given the high inflation figure in 2022 and the fact that the index link would not be established until 2023, on the advice of the Remuneration Committee the Board decided to increase the remuneration of the CEO and the EC members in line with the development of the health index for 2022, i.e. +11.2%, with effect from 1 January 2023.

Sustainability information statement

(non-financial information)

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

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

When drawing up our annual report, we take as much account as possible of the guidelines issued by the International Integrated Reporting Council and base our consolidated non-financial statement on the Global Reporting Initiative (GRI) Sustainability Reporting Standards. The GRI is a sustainability reporting framework, providing universal guidelines for sustainability reporting and disclosing non-financial information. It sets out the quality principles and indicators for measuring and reporting on the economic, environmental and social performance impact, including the human rights impact. Full implementation of the 2021 GRI Sustainability Reporting Standards and the GRI/ SASB Content Index are discussed in our Sustainability Report, which is published at www.kbc.com.

The progress report on (sustainability) targets of the group's loan portfolio, calculations of our environmental footprint, and our Principles for Responsible Banking (PRB) self-assessment have been externally verified.

Consolidated financial statements

Abbreviations used

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

Significant adjusting post-balance-sheet event affecting the 2022 financial statements: see Note 3.6.

Consolidated income statement

(in millions of EUR)	Note	2022	2021
Net interest income	3.1	5 161	4 451
Interest income	*3.1*	*11 226*	*6 320*
Interest expense	*3.1*	*-6 064*	*-1 869*
Non-life insurance (before reinsurance)	3.7	881	782
Earned premiums	*3.7*	*2 033*	*1 885*
Technical charges	*3.7*	*-1 153*	*-1 103*
Life insurance (before reinsurance)	3.7	92	45
Earned premiums	*3.7*	*1 163*	*1 196*
Technical charges	*3.7*	*-1 071*	*-1 150*
Ceded reinsurance result	3.7	-2	25
Dividend income	3.2	59	45
Net result from financial instruments at fair value through profit or loss	3.3	406	145
of which result on equity instruments (overlay approach)	*3.3*	*86*	*104*
Net realised result from debt instruments at fair value through OCI	3.4	-22	6
Net fee and commission income	3.5	1 847	1 836
Fee and commission income	*3.5*	*2 804*	*2 692*
Fee and commission expense	*3.5*	*-957*	*-856*
Other net income	3.6	40	223
TOTAL INCOME		**8 463**	**7 558**
Operating expenses	3.8	-4 818	-4 396
Staff expenses	*3.8*	*-2 561*	*-2 457*
General administrative expenses	*3.8*	*-1 883*	*-1 583*
Depreciation and amortisation of fixed assets	*3.8*	*-374*	*-356*
Impairment	3.10	-284	261
on financial assets at amortised cost and at fair value through OCI	*3.10*	*-154*	*334*
on goodwill	*3.10*	*-5*	*-7*
other	*3.10*	*-125*	*-65*
Share in results of associated companies and joint ventures	3.11	-10	-5
RESULT BEFORE TAX		**3 351**	**3 418**
Income tax expense	3.12	-608	-804
Net post-tax result from discontinued operations	–	0	0
RESULT AFTER TAX	**–**	**2 743**	**2 614**
attributable to minority interests	–	0	0
of which relating to discontinued operations	–	*0*	*0*
attributable to equity holders of the parent	**–**	**2 743**	**2 614**
of which relating to discontinued operations	–	*0*	*0*
Earnings per share (in EUR)			
Ordinary	3.13	6.46	6.15
Diluted	3.13	6.46	6.15

- We have dealt with the main items in the income statement in the 'Report of the Board of Directors' under the 'Our financial report' and 'Our business units' sections. The statutory auditor has not audited these sections.
- The breakdown of interest income and interest expense on financial instruments calculated using the effective interest rate method and on other financial instruments (not calculated using the effective interest rate method) is provided in Note 3.1.
- The impact of the most important acquisitions and disposals made in 2022 and 2021 is set out in Note 6.6.
- A change in presentation has affected interest income and interest expense, but not net interest income (see Note 3.1 for more information).
- Overview of the impact of the overlay approach on the consolidated income statement: this approach has been applied to the equity instruments held by the group's insurance companies. These equity instruments, which have mainly been classified as 'Available for sale' under IAS 39, would be measured at FVPL under IFRS 9. For as long as IFRS 17 is not effective (until 31 December 2022), the overlay approach allows for increased volatility reported in the income statement as a result of applying IFRS 9 to be removed from the income statement to OCI. This increased volatility, which was reclassified out of 'Net result from financial instruments at FVPL' to 'Revaluation reserve (FVPL equity instruments) – overlay approach', relates to -350 million euros in unrealised changes in fair value in 2022 (-356 million euros before tax). That is the difference between (i) the result under IFRS 9 (without applying the overlay approach), i.e. -265 million euros, of which -270 million euros in realised and unrealised changes in fair value recognised in 'Net result from financial instruments at FVPL' and +5 million euros in taxes, and (ii) the result under IAS 39, i.e. 86 million euros, comprising a net realised result of 176 million euros and an impairment of -90 million euros. More details are provided in Note 1.2.
- More information on the adoption of IFRS 17 in 2023 can be found in Note 6.10.

Equity instruments held by the insurer in 2022: Illustration of the overlay approach (in millions of EUR)	Under IAS 39	Under IFRS 9 without overlay (FVPL option)	Impact of overlay	Under IFRS 9 with overlay
Realised results through profit or loss	176	176	–	176
Unrealised results through profit or loss	–	-446	-446	–
Impairment through profit or loss	-90	–	90	-90
Realised and unrealised results through OCI	-356	–	356	-356
Income tax expense (through profit or loss or OCI)	5	5	–	5
Total through profit or loss or OCI	-265	-265	0	-265

Consolidated statement of comprehensive income

(in millions of EUR)	2022	2021
RESULT AFTER TAX	**2 743**	**2 614**
attributable to minority interests	0	0
attributable to equity holders of the parent	2 743	2 614
OCI THAT MAY BE RECYCLED TO PROFIT OR LOSS	**-1 618**	**56**
Net change in revaluation reserve (FVOCI debt instruments)	-1 421	-487
Fair value adjustments before tax	-1 887	-619
Deferred tax on fair value changes	449	141
Transfer from reserve to net result	17	-9
Impairment	*-1*	*-4*
Net gains/losses on disposal	*22*	*-7*
Deferred taxes on income	*-4*	*2*
Net change in revaluation reserve (FVPL equity instruments) – overlay approach	-350	172
Fair value adjustments before tax	-270	279
Deferred tax on fair value changes	5	-4
Transfer from reserve to net result	-86	-104
Impairment	*90*	*20*
Net gains/losses on disposal	*-176*	*-123*
Deferred taxes on income	*0*	*0*
Net change in hedging reserve (cashflow hedges)	171	186
Fair value adjustments before tax	165	197
Deferred tax on fair value changes	-55	-62
Transfer from reserve to net result	61	52
Gross amount	*80*	*66*
Deferred taxes on income	*-19*	*-15*
Net change in translation differences	-14	272
Gross amount	-14	272
Deferred taxes on income	0	0
Hedge of net investments in foreign operations	-4	-84
Fair value adjustments before tax	-65	-113
Deferred tax on fair value changes	12	28
Transfer from reserve to net result	49	0
Gross amount	*66*	*0*
Deferred taxes on income	*-16*	*0*
Net change in respect of associated companies and joint ventures	0	0
Gross amount	0	0
Deferred taxes on income	0	0
Other movements	0	-2
OCI THAT WILL NOT BE RECYCLED TO PROFIT OR LOSS	**224**	**345**
Net change in revaluation reserve (FVOCI equity instruments)	2	56
Fair value adjustments before tax	2	57
Deferred tax on fair value changes	0	-1
Net change in defined benefit plans	222	291
Remeasurements	299	387
Deferred tax on remeasurements	-77	-96
Net change in own credit risk	1	-2
Fair value adjustments before tax	1	-2
Deferred tax on fair value changes	0	0
Net change in respect of associated companies and joint ventures	0	0
Remeasurements	0	0
Deferred tax on remeasurements	0	0
TOTAL COMPREHENSIVE INCOME	**1 350**	**3 015**
attributable to minority interests	0	0
attributable to equity holders of the parent	1 350	3 015

- Revaluation reserves in 2022: the net change in the 'revaluation reserve (FVPL equity instruments) – overlay approach' came to -350 million euros and was largely attributable to negative changes in fair value and to transfers to the net result (gains on sales offset in part by impairment charges. The net change in the 'revaluation reserve (FVOCI debt instruments)' came to -1 421 million euros, which was mainly accounted for by higher interest rates, related primarily to government bonds of European countries. The net change in the hedging reserve (cashflow hedge) of +171 million euros was mainly attributable to higher interest rates. The net change in defined benefit plans (+222 million euros) was accounted for by the impact of the higher discount rate applied to the liabilities, partly offset by the negative returns on plan assets and higher inflation. The net change in the 'revaluation reserve (FVOCI equity instruments)' was immaterial. The net change in translation differences (-14 million euros) was caused primarily by the depreciation of the Hungarian forint against the euro and the realisation of positive valuation differences in Czech koruna due to the dividend payout in the group, largely offset by the appreciation of the US dollar and the Czech koruna against the euro. The hedge of net investments in foreign entities (-4 million euros) was negatively impacted by the appreciation of the US dollar and the Czech koruna (only limited volumes of hedging instruments in Hungarian forint), largely offset by a reduced hedge in Czech koruna due to the dividend payout in the group.
- Revaluation reserves in 2021: the net change in the 'revaluation reserve (FVPL equity instruments) – overlay approach' came to +172 million euros and was largely attributable to positive changes in fair value, partly offset by transfers to the result (gains on sales offset in part by impairment charges). The net change in the 'revaluation reserve (FVOCI debt instruments)' came to -487 million euros, which was mainly accounted for by higher interest rates, related primarily to government bonds of various European countries. The net change in the hedging reserve (cashflow hedge) rose by 186 million euros, due primarily to the general increase in interest rates. The net change in defined benefit plans (+291 million euros) related mainly to higher discount rates applied to the liabilities and the positive returns on plan assets partly offset by a higher – and as of the third quarter of 2021 – market-based inflation curve. The net change in the 'revaluation reserve (FVOCI equity instruments)' came to 56 million euros, which was largely attributable to positive changes in fair value related to the amendment to the Articles of Association of an unlisted equity participation, as a result of which KBC is entitled to a higher amount of compensation in the event of an exit. The net change in translation differences (+272 million euros) was caused primarily by the appreciation of the Czech koruna against the euro, partly offset by the hedge of net investments in foreign entities (-84 million euros). The hedging policy of foreign exchange participations has been aimed at stabilising the group capital ratio (and not the parent shareholders' equity).

Consolidated balance sheet

(in millions of EUR)	Note	31-12-2022	31-12-2021
ASSETS			
Cash, cash balances with central banks and other demand deposits with credit institutions	–	51 427	40 653
Financial assets	4.0	291 262	281 658
Amortised cost	*4.0*	*255 444*	*240 128*
Fair value through OCI	*4.0*	*12 128*	*15 824*
Fair value through profit or loss	*4.0*	*23 147*	*25 422*
of which held for trading	*4.0*	*8 471*	*8 850*
Hedging derivatives	*4.0*	*542*	*283*
Reinsurers' share in technical provisions, insurance	5.6	192	191
Profit/loss on positions in portfolios hedged against interest rate risk	–	-4 335	-436
Tax assets	5.2	1 312	1 296
Current tax assets	*5.2*	*174*	*179*
Deferred tax assets	*5.2*	*1 138*	*1 117*
Non-current assets held for sale and disposal groups	5.11	8 054	10 001
Investments in associated companies and joint ventures	5.3	32	37
Property and equipment and investment property	5.4	3 560	3 568
Goodwill and other intangible assets	5.5	2 331	1 749
Other assets	5.1	2 036	1 630
TOTAL ASSETS		355 872	340 346
LIABILITIES AND EQUITY			
Financial liabilities	4.0	312 735	291 667
Amortised cost	*4.0*	*289 854*	*268 387*
Fair value through profit or loss	*4.0*	*22 303*	*22 187*
of which held for trading	*4.0*	*9 096*	*7 271*
Hedging derivatives	*4.0*	*577*	*1 094*
Technical provisions, before reinsurance	5.6	18 484	18 967
Profit/loss on positions in portfolios hedged against interest rate risk	–	-1 443	-863
Tax liabilities	5.2	283	435
Current tax liabilities	*5.2*	*150*	*87*
Deferred tax liabilities	*5.2*	*133*	*348*
Liabilities associated with disposal groups	5.11	2 020	4 262
Provisions for risks and charges	5.7	418	282
Other liabilities	5.8	2 568	2 520
TOTAL LIABILITIES		335 065	317 269
Total equity	5.10	20 807	23 077
Parent shareholders' equity	5.10	19 307	21 577
Additional tier-1 instruments included in equity	5.10	1 500	1 500
Minority interests	–	0	0
TOTAL LIABILITIES AND EQUITY		355 872	340 346

- The impact of the most important acquisitions and disposals made in 2022 and 2021 is set out in Note 6.6.
- The increase in the balance sheet total in 2022 was also largely attributable to higher outstanding repos, demand deposits and time deposits, resulting in higher cash balances with central banks and higher loans and advances to customers. These were cancelled out in part by a higher loss on positions in portfolios hedged against interest rate risk (on both assets and liabilities) due to the substantial interest rate hikes in 2022 and lower positions in credit institutions and investment firms (on the liabilities side mainly due to the repayment of part of the amount borrowed under TLTRO III (-9.1 billion euros; see Note 4.1)).

Consolidated statement of changes in equity

(in millions of EUR)	Issued and paid up share capital	Share premium	Treasury shares	Retained earnings	Total revaluation reserves	Parent share-holders' equity	Addi-tional tier-1 instru-ments included in equity	Minority interests	Total equity
2022									
Balance at the beginning of the period	1 460	5 528	0	14 272	318	21 577	1 500	0	23 077
Net result for the period	0	0	0	2 743	0	2 743	0	0	2 743
Other comprehensive income for the period	0	0	0	0	-1 394	-1 394	0	0	-1 394
Subtotal	0	0	0	2 743	-1 394	1 350	0	0	1 350
Dividends	0	0	0	-3 585	0	-3 585	0	0	-3 585
Coupon on additional tier-1 instruments	0	0	0	-50	0	-50	0	0	-50
Capital increase	1	14	0	0	0	15	0	0	15
Transfer from revaluation reserves to retained earnings upon realisation	0	0	0	18	-18	0	0	0	0
Purchase/sale of treasury shares	0	0	0	0	0	0	0	0	0
Change in minority interests	0	0	0	0	0	0	0	0	0
Total change	1	14	0	-873	-1 412	-2 270	0	0	-2 270
Balance at the end of the period	1 461	5 542	0	13 399	-1 094	19 307	1 500	0	20 807
2021									
Balance at the beginning of the period	1 459	5 514	-1	13 146	-88	20 030	1 500	0	21 530
Net result for the period	0	0	0	2 614	0	2 614	0	0	2 614
Other comprehensive income for the period	0	0	0	-2	403	401	0	0	401
Subtotal	0	0	0	2 612	403	3 015	0	0	3 015
Dividends	0	0	0	-1 433	0	-1 433	0	0	-1 433
Coupon on additional tier-1 instruments	0	0	0	-50	0	-50	0	0	-50
Capital increase	1	13	0	0	0	14	0	0	14
Transfer from revaluation reserves to retained earnings upon realisation	0	0	0	-3	3	0	0	0	0
Purchase/sale of treasury shares	0	0	1	0	0	1	0	0	1
Change in minority interests	0	0	0	0	0	0	0	0	0
Total change	1	13	1	1 126	406	1 547	0	0	1 547
Balance at the end of the period	1 460	5 528	0	14 272	318	21 577	1 500	0	23 077

- An explanation of the changes in the revaluation reserves is provided under 'Consolidated statement of comprehensive income'.
- For information on the shareholder structure, see the 'Report of the Board of Directors' in the 'Corporate governance statement' section.
- For information on capital increases, additional tier-1 instruments, treasury share buybacks and the number of shares, see Note 5.10.
- The 'Dividends' item in 2021 (1 433 million euros) includes the 2020 dividend of 0.44 euros and the interim dividend of 3.00 euros per share (paid in November 2021). The 'Dividends' item in 2022 (3 585 million euros) includes the final dividend of 7.60 euros per share (paid in May 2022) and the interim dividend of 1.00 euro per share (paid in November 2022).
- We will propose to the General Meeting of Shareholders of 4 May 2023 a final dividend of 4.0 euros per share related to 2022, comprising the interim dividend paid in November 2022 and a final dividend of 3 euros, payable in May 2023. See also 'We aim to achieve our ambitions within a stringent risk management framework' in the 'Report of the Board of Directors' section.

Composition of the 'Total revaluation reserves' column in the previous table (in millions of EUR)	31-12-2022	31-12-2021	31-12-2020
Total	-1 094	318	-88
Revaluation reserve (FVOCI debt instruments)	-779	642	1 130
Revaluation reserve (FVPL equity instruments) – overlay approach	146	496	325
Revaluation reserve (FVOCI equity instruments)	57	74	15
Hedging reserve (cashflow hedges)	-937	-1 108	-1 294
Translation differences	-124	-110	-382
Hedge of net investments in foreign operations	75	79	163
Remeasurement of defined benefit plans	467	246	-45
Own credit risk through equity	0	-1	1

Consolidated cashflow statement

(in millions of EUR)	Reference[1]	2022	2021
OPERATING ACTIVITIES			
Result before tax	Cons. income statement	3 351	3 418
Adjustments for:	–		
Result before tax from discontinued operations	*Cons. income statement*	*0*	*0*
Depreciation, impairment and amortisation of property and equipment, intangible fixed assets, investment property and securities	*3.10, 4.2, 5.4, 5.5*	*624*	*477*
Profit/Loss on the disposal of investments	–	*-85*	*-33*
Change in impairment on loans and advances	*3.10*	*155*	*-330*
Change in technical provisions (before reinsurance)	*5.6*	*-250*	*274*
Change in the reinsurers' share in the technical provisions	*5.6*	*3*	*-41*
Change in other provisions	*5.7*	*155*	*5*
Other unrealised gains/losses	–	*1 616*	*679*
Income from associated companies and joint ventures	*3.11*	*10*	*5*
Cashflows from operating profit before tax and before changes in operating assets and liabilities	–	5 578	4 455
Changes in operating assets (excluding cash and cash equivalents)	–	-7 360	-5 666
Financial assets at amortised cost (excluding debt securities)	*4.1*	*-12 667*	*-6 679*
Financial assets at fair value through OCI	*4.1*	*1 966*	*2 211*
Financial assets at fair value through profit or loss	*4.1*	*2 033*	*-797*
of which financial assets held for trading	*4.1*	*454*	*-131*
Hedging derivatives	*4.1*	*-253*	*-122*
Operating assets associated with disposal groups, and other assets	–	*1 560*	*-280*
Changes in operating liabilities (excluding cash and cash equivalents)	–	14 074	15 739
Financial liabilities at amortised cost	*4.1*	*16 406*	*15 289*
Financial liabilities at fair value through profit or loss	*4.1*	*195*	*956*
of which financial liabilities held for trading	*4.1*	*1 783*	*174*
Hedging derivatives	*4.1*	*-353*	*-33*
Technical provisions, before reinsurance	*5.6*	*-258*	*-170*
Operating liabilities associated with disposal groups, and other liabilities	–	*-1 916*	*-304*
Income taxes paid	3.12	-525	-485
Net cash from or used in operating activities		11 766	14 043
INVESTING ACTIVITIES			
Purchase of debt securities at amortised cost	4.1	-14 486	-7 931
Proceeds from the repayment of debt securities at amortised cost	4.1	10 254	9 452
Acquisition of a subsidiary or a business unit, including cash acquired (including increases in percentage interest held)	6.6	-94	-71
Proceeds from the disposal of a subsidiary or business unit, including cash disposed of (including decreases in percentage interest held)	–	111	0
Purchase of shares in associated companies and joint ventures	–	-5	-18
Proceeds from the disposal of shares in associated companies and joint ventures	–	0	0
Dividends received from associated companies and joint ventures	–	0	0
Purchase of investment property	5.4	-85	-15
Proceeds from the sale of investment property	5.4	15	23
Purchase of intangible fixed assets (excluding goodwill)	5.5	-345	-327
Proceeds from the sale of intangible fixed assets (excluding goodwill)	5.5	3	20
Purchase of property and equipment	5.4	-575	-603
Proceeds from the sale of property and equipment	5.4	246	292
Net cash from or used in investing activities		-4 960	822
FINANCING ACTIVITIES			
Purchase or sale of treasury shares	Cons. statement of changes in equity	0	1
Issue or repayment of promissory notes and other debt securities	4.1	1 033	279
Proceeds from or repayment of subordinated liabilities	4.1	-795	741
Proceeds from the issuance of share capital	Cons. statement of changes in equity	15	14
Issue of additional tier-1 instruments	Cons. statement of changes in equity	0	0
Dividends paid	Cons. statement of changes in equity	-3 585	-1 433
Coupon on additional tier-1 instruments	Cons. statement of changes in equity	-50	-50
Net cash from or used in financing activities		-3 382	-448

CHANGE IN CASH AND CASH EQUIVALENTS			
Net increase or decrease in cash and cash equivalents	–	3 424	14 417
Cash and cash equivalents at the beginning of the period	–	63 554	47 794
Effects of exchange rate changes on opening cash and cash equivalents	–	503	1 343
Cash and cash equivalents at the end of the period	–	67 481	63 554
ADDITIONAL INFORMATION			
Interest paid[2]	3.1	-6 064	-1 869
Interest received[2]	3.1	11 226	6 320
Dividends received (including equity method)	3.2 and 5.3	59	45
COMPONENTS OF CASH AND CASH EQUIVALENTS			
Cash and cash balances with central banks and other demand deposits with credit institutions	Cons. balance sheet	51 427	40 653
Term loans to banks at not more than three months (excluding reverse repos)	4.1	1 237	3 146
Reverse repos up to three months with credit institutions and investment firms	4.1	19 903	24 450
Deposits from banks repayable on demand	4.1	-5 085	-4 695
Cash and cash equivalents belonging to disposal groups	–	0	0
Total	–	67 481	63 554
of which not available	–	*0*	*0*

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

- KBC uses the indirect method to report on cashflows from operating activities.
- Net cash from or used in operating activities:
  - In 2022, this item included the realised result and strong deposit growth (mainly customer deposits) and repos, partly offset by a growing home loan and term loan portfolio and repayment of part of the amount borrowed under TLTRO III (9.1 billion euros);
  - In 2021, this item included strong deposit growth, TLTRO III (with an additional drawdown of 2.5 billion euros), as well as the realised result;
- Net cash from or used in investing activities:
  - In 2022, this item included additional investments in debt securities at amortised cost, as well as -42 million euros related to the acquisition of the Bulgarian operations of Raiffeisenbank (now renamed KBC Bank Bulgaria), -52 million euros related to the acquisition of a property company and +111 million euros related to the sale of KBC Verzekeringen Vastgoed Nederland BV.
  - In 2021, this item included investments in debt securities at amortised cost that had reached maturity, partly offset by new investments, as well as -71 million euros related to the acquisition of NN's Bulgarian pension and life insurance business;
- Net cash from or used in financing activities:
  - In 2022, this item included the dividend payout (-3.6 billion euros), the issue or repayment of promissory notes and other debt securities. KBC Ifima, KBC Group NV, ČSOB Czech Republic and KBC Bank NV accounted for the bulk of the figure for 2022, which related primarily to 5.6 billion euros' worth of these instruments being issued and 4.9 billion euros being redeemed. This item also included the proceeds from or repayment of subordinated liabilities. KBC Group NV accounted for the bulk of the figure for 2022, which related primarily to instruments redeemed.
  - In 2021, this item included the dividend payout (-1.4 billion euros), the issue or repayment of promissory notes and other debt securities. KBC Ifima, KBC Group NV, ČSOB Czech Republic and KBC Bank NV accounted for the bulk of the figure for 2021, which related primarily to 2.9 billion euros' worth of these instruments being issued and 2.4 billion euros being redeemed. This item also included the proceeds from or repayment of subordinated liabilities. KBC Group NV accounted for the bulk of the figure for 2021, which related primarily to instruments issued.

1.0 Notes on the accounting policies

Note 1.1: Statement of compliance

The consolidated financial statements of KBC Group NV, including all the notes, were authorised for issue on 16 March 2023 by the Board of Directors. They have been prepared in accordance with the International Financial Reporting Standards as adopted for use in the European Union ('endorsed IFRS') and present one year of comparative information. All amounts are shown in millions of euros and rounded to the million (unless otherwise stated).

No new IFRS standards became effective on 1 January 2022 that have significant consequences for KBC.

The following IFRS standards were issued but not yet effective in 2022. KBC will apply these standards when they become mandatory.

- IFRS 17: see Note 6.10.
- Amendments to IAS 1 Presentation of Financial Statements: the amended IAS 1 requires that companies provide information about material accounting policies rather than a list of their main accounting policies. KBC will apply this amendment when it becomes mandatory, i.e. in the 2023 Annual Report.
- Other: the IASB has published several limited amendments to existing IFRSs and IFRICs. They will be applied when they become mandatory, but their impact is currently estimated to be negligible.

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

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

Note 1.2: Summary of significant accounting policies

General / Basic principle

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

Financial assets

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

Financial assets – recognition and derecognition

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

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

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

Classification of equity instruments and debt instruments

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

Classification and measurement – debt instruments

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

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

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

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

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

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

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

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

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

Business model assessment

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

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

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

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

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

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

Reclassifications

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

Classification and measurement – equity instruments

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

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

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

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

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

Classification and measurement – derivatives (trading and hedging)

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

Trading derivatives

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

Hedging derivatives

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

Financial assets – impairment

Definition of default

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

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

Expected credit loss model (ECL model) – general

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

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

No ECLs are calculated for investments in equity instruments.

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

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

Significant increase in credit risk since initial recognition

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

Multi-tier approach (MTA) – bond portfolio

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

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

Loan portfolio

For the loan portfolio, KBC uses a five-tier approach. This MTA is a waterfall approach (i.e. if assessing the first tier does not result in a move into 'Stage 2', the second tier is assessed, and so on). In the end, if all tiers are assessed without triggering a migration to 'Stage 2', the financial asset remains in 'Stage 1'.
- Internal rating: this rating is used as the main criterion for assessing an increase in credit risk. It is a relative assessment that compares the PD upon initial recognition to that on the reporting date. KBC does the assessment at the level of the facility (i.e. contract) for each reporting period. The relative change in PD that triggers staging is an increase of two PD notches.
- Forbearance: forborne financial assets are always considered as 'Stage 2' unless they are already defaulted, in which case they are moved into 'Stage 3'.
- Days past due: KBC uses the backstop defined in the directive. A financial asset that is more than 30 days past due is moved into 'Stage 2'.
- Internal rating backstop: KBC uses an absolute level of PD as a backstop for financial assets that have to be moved into 'Stage 2'. This backstop corresponds to the highest PD (i.e. PD 9 based on KBC's internal rating) before a financial asset is considered defaulted.
- Management assessment: lastly, management review and assess the significant increase in credit risk for financial assets at an individual (i.e. counterparty) and portfolio level, when it is concluded that idiosyncratic events are not adequately captured in the first four tiers of the MTA (see above for a number of examples).

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

Measurement of ECL

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

ECL is calculated to reflect:
- an unbiased, probability-weighted amount;
- the time value of money; and
- information about past events, current conditions and forecast economic conditions.

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

KBC uses specific IFRS 9 models for PD, EAD and LGD in order to calculate ECL. As much as possible and to promote efficiency, KBC uses modelling techniques similar to those developed for prudential purposes (i.e. Basel models). More information on the credit risk models developed by KBC is provided in the 'Internal Modelling' section of the Risk Report at www.kbc.com. .That said, KBC ensures that the Basel models are adapted so they comply with IFRS 9.
- KBC removes the conservatism that is required by the regulator for Basel models;
- KBC adjusts how macroeconomic parameters affect the outcome to ensure that the IFRS 9 models reflect a 'point-in-time' estimate rather than one that is 'through the cycle' (as required by the regulator);
- KBC applies forward-looking macroeconomic information in the models.

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

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

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

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

Purchased or originated credit impaired (POCI) assets

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

Significant judgements and uncertainties

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

Overlay approach

In accordance with the amendment to IFRS 4 issued in September 2016, KBC uses the overlay approach to overcome the temporary consequences of the different effective dates of IFRS 9 and IFRS 17 (replacing IFRS 4). Accordingly, KBC uses the overlay approach, which means that the extra volatility related to the adoption of IFRS 9 is reclassified from the income statement to OCI. The reclassified amounts are recognised in the overlay reserve in OCI. The overlay approach is applied to those financial assets of KBC's insurance business that are eligible. Eligibility is based on the following criteria:
- Assets that are measured at FVPL under IFRS 9 that would not have been measured at FVPL in their entirety under IAS 39;
- All assets except those held in respect of an activity that is unconnected with contracts within the scope of IFRS 4.

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

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

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

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

Financial liabilities

Financial instruments or their component parts are classified on initial recognition as liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of financial liabilities and equity instruments. A financial instrument is classified as a liability if:
- KBC has a contractual obligation to deliver cash or another financial asset to the holder or to exchange another financial instrument with the holder under conditions that are potentially unfavourable to KBC; or
- KBC has a contractual obligation to settle the financial instrument in a variable number of its own shares.

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

Financial liabilities – recognition and derecognition

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

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

Financial liabilities – classification and measurement

KBC classifies recognised financial liabilities in three different categories, as provided for by IFRS 9:
- Financial liabilities held for trading (HFT). Held-for-trading liabilities are those incurred principally for generating a profit from short-term fluctuations in price or dealer's margin. A liability also qualifies as a trading liability if it belongs to a portfolio of financial instruments held for trading separately by the trading desk and for which there is a recent pattern of short-term profit-taking. Held-for-trading liabilities can include derivatives, short positions in debt and equity instruments, time deposits and debt certificates. Derivative liabilities are split by KBC into trading and hedging derivatives as in the case of derivative assets. Initially, held-for-trading liabilities are measured at fair value. At the end of the reporting period, derivative liabilities are measured at fair value. Fair value adjustments are always recorded in the income statement.
- Financial liabilities designated by the entity as liabilities at fair value through profit or loss upon initial recognition (FVO). Under IFRS 9, a financial liability or group of financial liabilities can be measured upon initial recognition at fair value, whereby fair value changes are recognised in the income statement except for fair value changes related to own credit risk, which are presented separately in OCI. The fair value designation is used by KBC for the following reasons:
  - managed on an FV basis: KBC designates a financial liability or a group of financial liabilities at fair value where it is managed and its performance is evaluated on a fair value basis. It is used to account for (unbundled) deposit components (i.e. financial liabilities that do not include a discretionary participation feature);
  - accounting mismatch: the fair value option can be used when doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising gains and losses on them on different bases;
  - hybrid instruments: a financial instrument is regarded as hybrid when it contains one or more embedded derivatives that are not closely related to the host contract. The fair value option can be used when it is not possible to separate the non-closely-related embedded derivative from the host contract. In that case the entire hybrid instrument can be designated at fair value. This means that both the embedded derivative and the host contract are measured at fair value. KBC uses this option when structured products contain non-closely-related embedded derivatives, in which case both the host contract and the embedded derivative is measured at fair value.
- Financial liabilities measured at amortised cost (AC). KBC classifies most of its financial liabilities under this category, including those used to fund trading activities where no trading intent is present in them (e.g., issued bonds). These financial liabilities are initially measured at cost, which is the fair value of the consideration received including transaction costs. Subsequently, they are measured at amortised cost, which is the amount at which the funding liability was initially recognised minus principal repayments, plus or minus the cumulative amortisation of any difference between that initial amount and the maturity amount. The difference between the amount made available and the nominal value is recorded on an accruals basis as an interest expense. Interest expenses accrued but not yet paid are recorded under accruals and deferrals.

Financial liabilities – own credit risk

For financial liabilities designated at fair value, IFRS 9 requires the financial liability to be measured at fair value upon initial recognition. Any changes in fair value are subsequently recognised in the income statement, except for those relating to own credit risk, which are presented separately in OCI.
Accordingly, movements in the fair value of the liability are presented in different places: changes in own credit risk are presented in OCI and all other fair value changes are presented in the income statement under 'Net result from financial instruments at fair value through profit or loss'. Amounts recognised in OCI relating to own credit risk are not recycled to the income statement even if the liability is derecognised and the amounts realised. Although recycling is prohibited, KBC does transfer the amounts in OCI to retained earnings within equity upon derecognition. The only situation in which presentation of own credit risk in OCI is not applied is where this would create an accounting mismatch in the income statement. This could arise if there is a close economic relationship between the financial liability designated at fair value (for which the own credit risk is recognised in OCI), while all changes in fair value of the corresponding financial asset are measured and recognised at fair value through profit or loss. This is the case with unit-linked investment contracts, where changes in fair value of the liability position are fully offset by the asset position.

Financial liabilities – financial guarantee contract

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

Reverse repos and repos

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

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

Offsetting

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

Fair value

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

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

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

Hedge accounting

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

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

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

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

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

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

Insurance contracts

General

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

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

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

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

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

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

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

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

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

Technical provisions – insurance contracts

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

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

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

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

Life insurance provisions

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

Provision for claims outstanding

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

Leasing

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

Equity

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

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

Employee benefits

Short-term employee benefits

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

Post-employment benefits

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

Net fee and commission income

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

Government grants

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

Levies

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

Income tax

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

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

Current tax assets/liabilities

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

Deferred tax assets/liabilities

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

Property and equipment

Property and equipment are recognised initially at cost (including directly allocable acquisition costs). KBC subsequently measures property and equipment at the initial cost less accumulated depreciation and impairment. The rates of depreciation are determined on the basis of the estimated useful life of the assets and are applied according to the straight-line method from the moment the assets are available for use. Property and equipment are derecognised upon disposal or when the relevant asset is permanently withdrawn from use and no future economic benefits are expected from its disposal. Gains or losses upon derecognition are recognised in the income statement in the period in which derecognition occurs.
Property and equipment are subject to impairment testing when there is an indication that the asset might have been impaired.
Depreciation charges, impairment losses and gains or losses on disposal are recognised under 'Operating expenses' in the income statement, with the exception of assets that are leased under operating leases (KBC as a lessor), for which the costs are recognised in 'Other net income'. Where a disposal falls within the definition of a discontinued operation, the net results are reported in a single line in the income statement (see 'Discontinued operations' below).

Investment property

Investment property is defined as a property built, purchased or acquired by KBC under a finance lease and is held to earn rentals or for the purpose of capital appreciation rather than being used by KBC for the provision of services or for administrative purposes.
Investment property is initially recognised at cost (including directly attributable costs). KBC subsequently measures it at the initial cost less accumulated depreciation and impairment.
The depreciation charge is recognised under 'Other net income' in the income statement.

Intangible assets

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

Separately acquired intangible assets (mainly software developed externally) are initially recognised at cost. Internally developed intangible assets (mainly software developed in-house) are recognised only if they arise from development and KBC can demonstrate:
- the technical feasibility of completing them;
- an intention to complete for use or sale;
- an ability to use or sell them;
- how the intangible assets will generate future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible assets;
- reliable measurement of the expenditure attributable to the intangible assets during their development.

Internally generated intangible assets are initially measured at the development costs directly attributable to the design and testing of the unique software controlled by KBC.
Directly attributable costs capitalised as part of the software developed in-house include software development employee costs and directly attributable overheads.
Research expenses, other development expenditure, costs associated with maintaining software and investment projects (large-scale projects introducing or replacing an important business objective or model) that do not meet the recognition criteria are recognised as an expense in the period they are incurred.

Intangible assets are subsequently carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation begins when the asset is available for use as intended by management. Software is amortised as follows:
- System software (initial purchased software forming an integral part with hardware) is amortised at the same rate as hardware.
- Standard software and customised software developed by a third party or developed in-house are amortised over five years according to the straight-line method from the time the software is available for use.
- Core systems (typically including deposit account processing, loan and credit processing, interfaces to the general ledger and reporting tools) are amortised over eight years according to the straight-line method.

Impairment of non-financial assets

When KBC prepares financial statements, it ensures that the carrying value of the non-financial asset does not exceed the amount that could be obtained from either using or selling it ('recoverable amount'). Property and equipment, investment property and software are subject to the impairment review only when there is objective evidence of impairment. Goodwill and intangible assets with an indefinite useful life are subject to impairment reviews at least annually and also reviewed for impairment indicators every quarter.
Indications that an impairment loss is required may stem from either an internal source (e.g., the condition of the asset) or an external source (e.g., new technology or a significant decline in the asset's market value).
When an impairment indicator is present, KBC reviews the asset's recoverable amount and the asset is impaired when its recoverable amount is lower than its carrying value at the reporting date. The recoverable amount is defined as the higher of the value in use and the fair value less cost to sell.
Value in use is defined as the discounted future cashflows expected to be derived from an asset or a cash-generating unit.
Impairment is borne at individual asset level, but when the individual asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, the recoverable amount is determined for the so-called 'cash-generating unit' (CGU) to which the asset or group of assets belongs. In forming the CGUs, KBC applies its own judgement to define the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. This process mainly applies to goodwill that has been recognised in relation to acquisitions.
Impairment losses are recognised in the income statement for the period in which they occur. An impairment loss can be reversed if the condition that triggered it is no longer present, except for goodwill, which can never be reversed. Impairment gains are recognised in the income statement for the period in which they occur.

Provisions, contingent liabilities and contingent assets

Provisions are recognised on the reporting date if and only if the following criteria are met:
- there is a present obligation (legal or constructive) due to a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation;
- a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the expenditure required to settle the obligation at balance sheet date. When the effect of time is material, the amount recognised as a provision is the net present value of the best estimate.
Due to its inherent nature, a provision requires management judgement regarding the amount and timing of probable future economic outflows.

Consolidated financial statements / interim financial statements

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

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

Consolidation threshold: subsidiaries are effectively included in the consolidated financial statements using the full consolidation method if at least two of the following materiality criteria are exceeded:
- Group share in equity is 2 500 000 euros;
- Group share in the result is 1 000 000 euros (absolute value);
- Group share in the balance sheet total is 100 000 000 euros.

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

Business combinations and goodwill

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

Goodwill is the excess of the cost of the acquisition over the acquirer's interest in the fair value of the identifiable assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. In order to complete the acquisition accounting and determine the goodwill item, KBC applies a measurement period of 12 months. The classification of the financial assets acquired and financial liabilities assumed in the business combination is based on the facts and circumstances existing at the acquisition date (except for lease and insurance contracts, which are classified on the basis of the contractual terms and other factors at the inception of the relevant contract).
Goodwill is presented under 'Goodwill and other intangible assets' and is carried at cost less impairment losses. Goodwill is not amortised, but is tested for impairment at least once a year or when there is objective evidence (external or internal) that it should be impaired. If the acquisition accounting is not complete because the 12-month measurement period has not elapsed, the goodwill is not considered as final and is only tested if there is objective evidence that the provisional goodwill is impaired.
For the purpose of testing goodwill for impairment, it is allocated to each of KBC's cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquired entity are assigned to those units. An impairment loss is recognised if the carrying value of the cash-generating unit to which the goodwill belongs exceeds its recoverable amount. Impairment losses on goodwill cannot be reversed.

Effects of changes in foreign exchange rates

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

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

Related-party transactions

A related party to KBC is either a party over which KBC has control or significant influence or a party that has control or significant influence over KBC. KBC defines its related parties as:
- KBC subsidiaries, KBC associates and joint ventures, KBC Ancora, Cera and MRBB;
- KBC key management staff (i.e. the Board of Directors and the Executive Committee of KBC Group NV).

Transactions with related parties must occur at arm's length.

Non-current assets held for sale and disposal groups, liabilities associated with disposal groups and discontinued operations

Non-current assets held for sale and disposal groups, liabilities associated with disposal groups

Non-current assets or groups of assets and liabilities held for sale are those where the carrying value will be recovered by KBC through a sale transaction, which is expected to qualify as a sale within a year, rather than through continued use. Non-current assets and liabilities held for sale are reported separately from the other assets and liabilities in the balance sheet at the end of the reporting date.

Discontinued operations

A discontinued operation refers to a part of KBC that has been disposed of or is classified as held for sale and:
- represents a separate major line of business or geographical area of operations; or
- is part of a single, coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

Results from discontinued operations are recognised separately in the income statement and in other comprehensive income and contain:
- the post-tax profit or loss of discontinued operations; and
- the post-tax gain or loss recognised on the measurement to fair value less the costs of the sale or disposal of the assets or group of assets.

Events after the reporting period

Events after the reporting date are defined as favourable or unfavourable events that occur between the reporting date and the date on which the financial statements are authorised for issue. There are two types of event after the reporting date:
- those which provide evidence of conditions that existed on the reporting date (adjusting events);
- those that are indicative of conditions that arose after the reporting date (non-adjusting events).

The impact of adjusting events has already been reflected in the financial position and financial performance for the current year. The impact and consequences of non-adjusting events are disclosed in the notes to the financial statements.

Main exchange rates used*

	Exchange rate at 31-12-2022		Exchange rate average in 2022	
	1 EUR = … … currency	Change relative to 31-12-2021 (positive: appreciation relative to EUR) (negative: depreciation relative to EUR)	1 EUR = … … currency	Change relative to average in 2021 (positive: appreciation relative to EUR) (negative: depreciation relative to EUR)
CZK	24.116	3%	24.569	5%
HUF	400.87	-8%	391.79	-9%

* Rounded figures.

Note 1.3: Critical estimates and significant judgements

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

Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. Significant areas of estimation uncertainty, and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are found in, but not limited to, notes 1.4, 3.3, 3.7, 3.10, 4.2, 4.4–4.8, 5.2, 5.5–5.7, 5.9, 6.1 and 6.10.

See also 'Climate-related and other ESG risks' in the 'How do we manage our risks?' section.

Note 1.4: Impact of the war in Ukraine and of the coronavirus crisis

Overview

In 2022, we fully reversed the reserves still outstanding (ECL) for the impact of the coronavirus crisis, totalling 289 million euros at year-end 2021 (see below). By contrast, we set aside a reserve for geopolitical and emerging risks of 429 million euros in 2022 on the back of the Russian invasion of Ukraine and the associated direct and indirect economic consequences (see below).

ECL outstanding for coronavirus-related, geopolitical and emerging risks by country (in millions of EUR)	Situation at year-end 2021	Change in coronavirus-related ECL in 2022	Impact of write-down of coronavirus-related ECL in 2022	Reserve set aside for geopolitical and emerging risks in 2022	Impact of acquisition of Raiffeisenbank Bulgaria (now renamed KBC Bank Bulgaria) in 2022	Situation at year-end 2022
Belgium	100	-100	–	145	–	145
Czech Republic	69	-67	-2	135	–	135
Slovakia	20	-18	-2	42	–	42
Hungary	37	-37	–	50	–	50
Bulgaria	12	-11	-1	23	16	39
Other (including Ireland)	51	-22	-29	18	0	18
Total	289	-255	-34	413	16	429

New reserve set aside for geopolitical and emerging risks

The destabilisation of the global economy and surging commodity prices brought on by the war between Russia and Ukraine have exacerbated the inflationary shock initially caused by problems in the supply chains, tax incentives and the rapid post-pandemic reopening. The rising inflationary pressure and a tightening labour market increased the pressure on central banks to bring their monetary policy back to normal levels. The combination of higher, more persistent inflation and more stringent monetary policy is affecting growth expectations. A more detailed explanation of the macroeconomic environment is provided under 'In what environment do we operate?' in the 'Report of the Board of Directors' section. We have assessed the impact of the main macroeconomic and geopolitical risks on our loan portfolio in this regard. As a result, a reserve was set aside for geopolitical and emerging risks, which amounted to 429 million euros at year-end 2022 (with 223 million euros being provisioned in the first quarter, 45 million euros in the second quarter, 103 million euros in the third quarter and 42 million euros in the fourth quarter, as well as an additional amount of 16 million euros related to the acquisition of Raiffeisenbank Bulgaria, which has since been renamed KBC Bank Bulgaria). The calculation and composition of the reserve (recognised under 'Impairment') at year-end 2022 can be found in the table.

Risk, situation at year-end 2022	Background information	Impairment recognised in the balance sheet (in millions of EUR)
Direct group companies in Russia, Ukraine and Belarus	None	–
Direct exposure to Russia, Ukraine and Belarus	The net exposure relating to KBC's transfer risk in respect of Russia, Ukraine and Belarus amounted to 29 million euros at year-end 2022, owing chiefly to commercial exposure to Russian banks.	29
Indirect impact of the conflict on the loan portfolio	We expect the conflict to have an impact, through various channels, on our corporate and SME clients with important activities in Russia, Ukraine and Belarus and/or with a strong dependence on those markets for imports or exports (either directly or indirectly through a client or supplier) and/or with a specific vulnerability to disruptions in oil and/or gas supplies. Our analysis shows that for 2.8 billion euros in 'Stage 1' positions, which are not (yet) included in the standard staging assessment, credit risk has increased considerably. The recalculation of ECL over the full remaining lifetime of those positions, instead of the 12-month horizon, resulted in an impairment of 39 million euros in 2022.	39
Indirect impact ensuing from other emerging risks	We have established that the following sub-segments in our portfolio are at risk: • SMEs and other corporate entities in our client base active in economic sectors most affected by supply-chain problems and by rising commodity and energy prices, and who are already subject to a higher credit risk (for example, the automotive industry, chemicals and metals); • Retail clients with a limited buffer to absorb the higher cost of living and/or to make higher repayments ensuing from rising interest rates. The analysis shows that for 11.3 billion euros in 'Stage 1' positions, which are not (yet) included in the standard staging assessment, credit risk has increased considerably. The recalculation of ECL over the full remaining lifetime of those positions, instead of 12 months, resulted in an impairment of 304 million euros in 2022.	304
Impact of the macroeconomic scenarios	The model-driven ECL for geopolitical and emerging risks came to 57 million euros in 2022. The probabilities applied to the base-case, optimistic and pessimistic macroeconomic scenarios were adjusted from 80%, 10% and 10% to 60%, 5% and 35%, respectively, creating an additional impairment of 57 million euros. More information on the scenarios is provided below.	57
Acquisition of Raiffeisenbank Bulgaria	The consolidation of the Bulgarian operations of Raiffeisenbank International implies an ECL of 16 million euros (10 million for emerging risks and 6 million for the direct transfer risk), which does not affect the income statement. These amounts are already included in the previous rows of the table.	–
Total at year-end 2022		429

Impact of other measures

Surging energy prices and rising inflation have prompted initiatives aimed at supporting the purchasing power of families and the viability of companies. The governments in our core countries also expect the banking and insurance sector to support the economy:

- In Hungary, the exceptional geopolitical and macroeconomic conditions indirectly translated into a modification loss of 63 million euros in the mortgage loan and term loan portfolio (recognised in 'Impairment'), mainly due to the extension of the interest cap regulation until 30 June 2023 and the expansion of the scope of loans protected by the interest cap. Moreover, in 2022 bank taxes (recognised in 'Operating expenses') in Hungary were adversely impacted by the inclusion of 10 million euros net (provisioned in the first quarter of 2022 and partly recovered in the fourth quarter of 2022) as a result of an extraordinary payment into the Deposit Guarantee Fund due to the revoking of the licence of Sberbank Hungary by the Hungarian National Bank in early March 2022, allowing the payment of compensation for clients' deposits of up to 100 000 euros from the Deposit Guarantee Fund, and the booking of 78 million euros following the introduction of an additional sector tax for the banking and insurance sector.
- In light of the energy crisis, private individuals in Belgium meeting specific conditions have been able to request a temporary suspension of principal repayments since 1 October 2022. This did not lead to a modification loss or any additional impact on the ECL, as interest payments are not suspended and the impact of the transfer to 'Stage 2' of clients who submitted an application was already included in the collective assessments described above. Furthermore, the deductibility of the bank tax will be partly abolished as from 2023 to increase the banking industry's solidarity contribution.
- The government of the Czech Republic introduced a windfall tax, following which any excess profits will be taxed at 79% (19% standard business tax, 60% windfall tax), which will apply to major banks for the period 2023-2025.

Full reversal of the reserves set aside for the impact of the coronavirus crisis

In 2022, we fully reversed the reserves still outstanding for the impact of the coronavirus crisis. This resulted in a decrease of 289 million euros at year-end 2021 to 0 million euros at year-end 2022, including a reversal of 255 million euros through the income statement and the write-off of 34 million euros, due mainly to the sale of KBC Bank Ireland's non-performing loan portfolio (which did not affect the income statement). Please refer to the 2021 Annual Report, Note 1.4, for the calculation of coronavirus-related reserve at year-end 2021.

We were able to fully reverse the reserve set aside for the impact of the coronavirus crisis, since the coronavirus-related risks still present in our loan portfolio are included in the regular impairment process based on common credit risk indicators (probability of default, overdue amounts and forbearance), as they are no longer concealed by the moratoria on loan repayments.

Overview of the impact of the coronavirus crisis and the war in Ukraine on our activities

The 'Report of the Board of Directors' section contains additional information on the impact of the coronavirus crisis and of the war in Ukraine on the activities and stakeholders of the group, concerning the following:

- The macroeconomic context (see 'In what environment do we operate?' and 'Our business units')
- Our clients (see 'The client is at the centre of our business culture')
- Our employees (see 'Our employees, capital, network and relationships')
- Our risk management (see 'How do we manage our risks?')

Overview of economic scenarios used

Because of the economic uncertainty, we continue to work with three alternative scenarios: a base-case scenario, a more optimistic scenario and a more pessimistic scenario. The definition of each scenario reflects the latest developments regarding geopolitical and emerging risks and the economy, with the following probabilities assigned for year-end 2022: 60% for the base-case, 35% for the pessimistic and 5% for the optimistic scenario. The scenarios and probabilities applied are those used for the update at year-end 2022; obviously, the situation may have changed in the meantime.

Optimistic scenario ('ceasefire' scenario)	**Base-case scenario ('mild recession' scenario)**	**Pessimistic scenario ('deep recession' scenario)**
A long-term solution to the Russia-Ukraine conflict is on the horizon. The easing of certain sanctions by the West in the short term will mitigate the rise in energy and commodity prices, but policy (e.g., budgetary) remains consistently focused on the green transition and energy autonomy and the expansion of military capacity.	There will be no short-term solution to the Russia-Ukraine conflict. The West's sanctions will remain in effect for the foreseeable future. Although the rising energy and commodity prices are weighing on economic sentiment, no significant energy shortages are expected this or next winter. The negative impact on GDP growth is mitigated by supportive government policy. Monetary policy continues to normalise.	Further escalation of the Russia-Ukraine conflict will lead to further and stricter sanctions from the West, triggering further restrictions on Russia's energy and commodity exports, driving inflation even higher. Extreme shortages will lead to the rationing of energy and certain raw materials, pushing the economy into a deep recession. The impact of the sharp deterioration of economic sentiment on GDP growth is partly offset by the highly supportive economic policy.

The following table gives the scenarios for three key indicators for each of our core countries for the coming years. After that, we take into account a gradual linear transition towards a stable situation.

Macroeconomic scenario – key indicators (used for situation at year-end 2022)			2022			2023			2024
Scenario:	**Optimistic**	**Base case**	**Pessimistic**	**Optimistic**	**Base case**	**Pessimistic**	**Optimistic**	**Base case**	**Pessimistic**
Real GDP growth									
Belgium	3.1%	2.9%	2.6%	2.1%	0.2%	-2.5%	1.9%	1.4%	0.9%
Czech Republic	2.5%	2.5%	2.2%	1.6%	0.8%	-5.8%	3.7%	2.7%	1.0%
Hungary	5.9%	5.5%	4.8%	2.8%	0.0%	-4.2%	3.8%	3.6%	2.4%
Slovakia	1.6%	1.4%	1.2%	1.2%	0.6%	-5.4%	3.2%	2.8%	2.5%
Bulgaria	3.7%	2.8%	2.2%	3.0%	0.7%	-2.5%	3.5%	3.5%	0.6%
Unemployment rate									
Belgium	5.8%	6.0%	6.2%	5.6%	6.2%	6.8%	5.4%	6.0%	6.6%
Czech Republic	2.8%	2.8%	2.8%	2.7%	3.3%	6.0%	2.2%	2.9%	5.0%
Hungary	3.9%	4.1%	4.2%	3.8%	4.4%	6.5%	3.2%	3.8%	5.5%
Slovakia	6.2%	6.3%	8.0%	6.5%	7.0%	9.0%	6.3%	6.5%	8.0%
Bulgaria	4.3%	5.3%	6.2%	4.4%	6.0%	7.3%	4.3%	4.8%	6.4%
House price index									
Belgium	6.5%	5.0%	3.0%	4.0%	2.5%	-3.0%	3.0%	2.0%	-1.5%
Czech Republic	20.0%	17.5%	16.0%	5.0%	0.5%	-5.0%	5.0%	2.5%	-1.0%
Hungary	18.6%	16.0%	13.0%	10.0%	5.0%	-3.0%	6.0%	3.5%	0.0%
Slovakia	18.0%	15.0%	12.0%	7.0%	2.5%	-4.0%	5.0%	2.5%	-1.0%
Bulgaria	13.0%	12.0%	8.0%	9.0%	7.0%	-3.0%	4.0%	3.5%	0.0%

Note 1.5: Climate-related information

In line with the relevant ESMA recommendations, all notes and other sections in the Annual Report in which direct or indirect reference is made to the climate and climate-related risks are set out below.

In the 'Report of the Board of Directors':
- See 'How do we create sustainable value?' in 'Our business model'
- See 'What are our main challenges?' in 'Our business model'
- See 'Our role in society' and 'Focus on the climate' (this section also sets out our climate targets and information on the EU Taxonomy) in 'Our strategy'
- See 'Our business units' for each country under 'Our role in society'
- See 'Climate-related and other ESG risks' in 'How do we manage our risks?'

In the 'Consolidated financial statements' (in the notes below each table)
- Note 3.7.1: Overview (insurance results)
- Note 3.10: Impairment
- Note 4.1: Financial assets and liabilities, breakdown by portfolio and product
- Note 5.4: Property and equipment and investment property
- Note 5.5: Goodwill and other intangible assets
- Note 5.9: Retirement benefit obligations
- Note 6.2: Leasing

2.0 Notes on segment reporting

Note 2.1: Segment reporting based on the management structure

Detailed information on the group's management structure and the results per segment can be found in the 'Our business units' section (which has not been audited by the statutory auditor). Based on IFRS 8, KBC has identified the Executive Committee and Board of Directors as 'chief operating decision-makers', responsible for allocating the resources and assessing the performance of the different parts of the company. The operating segments are based on the internal financial reporting to those policy bodies and on the location of the company's activities, resulting in geographical segmentation.

The three operating segments are (essentially):
- the Belgium Business Unit (all activities in Belgium);
- the Czech Republic Business Unit (all activities in the Czech Republic);
- the International Markets Business Unit (activities in Hungary, Slovakia and Bulgaria, reported together in accordance with IFRS 8.16). The situation for Ireland is described below and in Note 6.6.

For reporting purposes, there is also a Group Centre (comprising the results of the holding company, items that have not been allocated to the other business units, and the results of companies to be divested).

Change with effect from 2022: the sale transactions for KBC Bank Ireland's loan assets and deposit book led us to transfer Ireland from the International Markets Business Unit to the Group Centre on 1 January 2022, without retroactive restatement of 2021. For the sake of comparison, however, Ireland is stated separately in the tables below (as part of the Group Centre in 2022 and as part of the International Markets Business Unit in 2021).

Segment reporting

- The policy bodies analyse the performance of the segments based on a number of criteria, with the 'Result after tax' being the most important results indicator. The segment data is based entirely on IFRS data (with no adjustments).
- In principle, we assign a group company in its entirety to one specific segment/business unit. Exceptions are only made for those items that cannot clearly be allocated to a specific segment, such as charges attached to the subordination of loans (such items are recognised under Group Centre).
- We allocate the funding cost of participating interests to the Group Centre. Any funding cost in respect of leveraging at KBC Group NV level is also recognised under Group Centre.
- Transactions among the different segments are reported at arm's length.
- We recognise 'Net interest income' in the segment information without dividing it up into 'Interest income' and 'Interest expense'. This is permitted under IFRS because the bulk of the business units' income is in the form of interest, and management assesses and co-ordinates those business units primarily on the basis of net interest income.
- We do not provide any information on income from sales to external clients per group of products or services, since the information is prepared at consolidated level chiefly for each business unit, and not per client group or product group.
- More information on the acquisition of Raiffeisenbank Bulgaria (now renamed KBC Bank Bulgaria) in 2022 is provided in Note 6.6.

Note 2.2: Results by segment

(in millions of EUR)	Belgium Business Unit	Czech Republic Business Unit	International Markets Business Unit	*Of which: Hungary*	*Slovakia*	*Bulgaria*	Group Centre	*Of which: Ireland*	KBC Group
INCOME STATEMENT FOR 2022									
Net interest income	2 826	1 313	888	*424*	*235*	*229*	134	*240*	5 161
Non-life insurance (before reinsurance)	488	208	174	*57*	*37*	*80*	11	*0*	881
Earned premiums	*1 261*	*403*	*352*	*140*	*70*	*142*	*17*	*0*	*2 033*
Technical charges	*-774*	*-195*	*-178*	*-83*	*-33*	*-62*	*-7*	*0*	*-1 153*
Life insurance (before reinsurance)	-42	90	44	*11*	*13*	*20*	-1	*0*	92
Earned premiums	*878*	*171*	*114*	*39*	*30*	*45*	*-1*	*0*	*1 163*
Technical charges	*-920*	*-82*	*-70*	*-28*	*-17*	*-25*	*0*	*0*	*-1 071*
Ceded reinsurance result	33	-9	-13	*-2*	*-3*	*-8*	-14	*0*	-2
Dividend income	54	1	1	*0*	*0*	*1*	4	*0*	59
Net result from financial instruments at fair value through profit or loss	142	152	118	*77*	*41*	*1*	-7	*-3*	406
Net realised result from debt instruments at fair value through OCI	-2	-12	-6	*-5*	*0*	*0*	-3	*0*	-22
Net fee and commission income	1 265	213	376	*219*	*72*	*86*	-6	*-2*	1 847
Other net income	226	-174	-1	*-3*	*-3*	*5*	-10	*-8*	40
TOTAL INCOME	4 989	1 784	1 582	*777*	*392*	*413*	108	*228*	8 463
Operating expenses[a]	-2 647	-927	-906	*-446*	*-253*	*-207*	-339	*-208*	-4 818
Impairment	-46	-61	-152	*-97*	*-21*	*-34*	-24	*-18*	-284
on financial assets at amortised cost and at fair value through OCI	*-35*	*-46*	*-78*	*-29*	*-19*	*-30*	*5*	*7*	*-154*
Share in results of associated companies and joint ventures	-9	-1	0	*0*	*0*	*0*	0	*0*	-10
RESULT BEFORE TAX	2 287	794	524	*234*	*118*	*172*	-254	*3*	3 351
Income tax expense	-529	-115	-83	*-38*	*-28*	*-17*	119	*34*	-608
Net post-tax result from discontinued operations	0	0	0	*0*	*0*	*0*	0	*0*	0
RESULT AFTER TAX	1 759	679	441	*195*	*90*	*155*	-135	*37*	2 743
attributable to minority interests	0	0	0	*0*	*0*	*0*	0	*0*	0
attributable to equity holders of the parent	**1 759**	**679**	**441**	***195***	***90***	***155***	**-135**	***37***	**2 743**
a Of which non-cash expenses	-58	-114	-89	*-40*	*-23*	*-26*	-120	*-31*	-381
Depreciation and amortisation of fixed assets	*-57*	*-114*	*-86*	*-38*	*-23*	*-24*	*-117*	*-26*	*-374*
Other	*0*	*0*	*-4*	*-2*	*0*	*-2*	*-3*	*-4*	*-7*
Acquisitions of non-current assets*	544	125	624	95	63	466	151	1	1 443

* Non-current assets held for sale and disposal groups, investment property, property and equipment, investments in associated companies, and goodwill and other intangible assets.

(in millions of EUR)	Belgium Business Unit	Czech Republic Business Unit	International Markets Business Unit	*Of which: Hungary*	*Slovakia*	*Bulgaria*	*Ireland*	Group Centre	KBC Group
INCOME STATEMENT FOR 2021									
Net interest income	2 533	972	962	*311*	*229*	*141*	*282*	-16	4 451
Non-life insurance (before reinsurance)	460	142	160	*52*	*35*	*73*	*0*	19	782
Earned premiums	*1 197*	*337*	*336*	*143*	*62*	*132*	*0*	*15*	*1 885*
Technical charges	*-737*	*-194*	*-176*	*-91*	*-26*	*-59*	*0*	*4*	*-1 103*
Life insurance (before reinsurance)	-55	61	39	*9*	*13*	*17*	*0*	-1	45
Earned premiums	*903*	*182*	*111*	*40*	*31*	*39*	*0*	*-1*	*1 196*
Technical charges	*-958*	*-121*	*-71*	*-31*	*-18*	*-23*	*0*	*0*	*-1 150*
Ceded reinsurance result	36	17	-16	*-2*	*-7*	*-7*	*0*	-12	25
Dividend income	38	1	1	*0*	*0*	*0*	*0*	5	45
Net result from financial instruments at fair value through profit or loss	224	95	23	*21*	*8*	*0*	*-5*	-198	145
Net realised result from debt instruments at fair value through OCI	2	-4	2	*2*	*0*	*0*	*0*	6	6
Net fee and commission income	1 320	214	305	*198*	*71*	*39*	*-3*	-3	1 836
Other net income	195	8	-7	*3*	*6*	*5*	*-21*	28	223
TOTAL INCOME	4 754	1 506	1 469	*592*	*356*	*268*	*253*	-171	7 558
Operating expenses[a]	-2 436	-803	-1 048	*-335*	*-260*	*-140*	*-313*	-109	-4 396
Impairment	303	126	-160	*9*	*15*	*-1*	*-183*	-7	261
on financial assets at amortised cost and at fair value through OCI	*309*	*142*	*-110*	*22*	*16*	*2*	*-149*	*-7*	*334*
Share in results of associated companies and joint ventures	-3	-3	0	*0*	*0*	*0*	*0*	0	-5
RESULT BEFORE TAX	2 618	827	262	*267*	*111*	*127*	*-243*	-288	3 418
Income tax expense	-621	-129	-135	*-40*	*-26*	*-13*	*-55*	81	-804
Net post-tax result from discontinued operations	0	0	0	*0*	*0*	*0*	*0*	0	0
RESULT AFTER TAX	1 997	697	127	*226*	*85*	*114*	*-298*	-207	2 614
attributable to minority interests	0	0	0	*0*	*0*	*0*	*0*	0	0
attributable to equity holders of the parent	**1 997**	**697**	**127**	***226***	***85***	***114***	***-298***	**-207**	**2 614**
a Of which non-cash expenses	-48	-96	-119	*-38*	*-19*	*-16*	*-46*	-83	-346
Depreciation and amortisation of fixed assets	*-57*	*-97*	*-120*	*-38*	*-19*	*-16*	*-46*	*-82*	*-356*
Other	*10*	*1*	*1*	*1*	*0*	*0*	*0*	*-2*	*10*
Acquisitions of non-current assets*	456	183	252	*83*	*75*	*80*	*14*	110	1 001

* Non-current assets held for sale and disposal groups, investment property, property and equipment, investments in associated companies, and goodwill and other intangible assets.

Note 2.3: Balance-sheet information by segment

The table below presents some of the main on-balance-sheet products by segment.

(in millions of EUR)	Belgium Business Unit	Czech Republic Business Unit	International Markets Business Unit	*Of which: Hungary*	*Slovakia*	*Bulgaria*	*Ireland*	Group Centre	*Of which: Ireland*	KBC Group
BALANCE SHEET AT 31-12-2022										
Deposits from customers and debt securities (excluding repos)	155 971	51 069	29 962	*9 515*	*8 421*	*12 026*	–	15 743	*418*	252 746
Demand deposits	*72 947*	*25 321*	*23 367*	*7 303*	*5 697*	*10 368*	–	*418*	*418*	*122 053*
Time deposits	*8 896*	*9 211*	*4 291*	*1 291*	*1 414*	*1 586*	–	*0*	*0*	*22 397*
Savings accounts	*60 802*	*14 344*	*1 833*	*722*	*1 086*	*25*	–	*0*	*0*	*76 979*
Debt securities	*10 951*	*1 767*	*295*	*200*	*96*	*0*	–	*15 325*	*0*	*28 338*
Other	*2 375*	*427*	*176*	0	129	*47*	–	*0*	*0*	*2 978*
Loans and advances to customers (excluding reverse repos)	117 221	35 445	25 384	*5 879*	*10 796*	*8 709*	–	3	*3*	178 053
Term loans	*61 768*	*10 581*	*10 544*	*2 970*	*3 013*	*4 561*	–	*2*	*2*	*82 894*
Mortgage loans	*44 326*	*19 696*	*9 638*	*1 681*	*6 114*	*1 843*	–	*0*	*0*	*73 660*
Other	*11 127*	*5 168*	*5 202*	1 228	1 668	2 306	–	*1*	*1*	*21 498*
BALANCE SHEET AT 31-12-2021										
Deposits from customers and debt securities (excluding repos)	142 282	46 239	24 652	*9 759*	*7 696*	*6 257*	*940*	12 920	–	226 093
Demand deposits	*64 458*	*28 042*	*19 598*	*8 137*	*5 443*	*5 077*	*940*	*0*	–	*112 097*
Time deposits	*4 784*	*2 123*	*2 281*	*445*	*656*	*1 180*	*0*	*0*	–	*9 187*
Savings accounts	*58 279*	*14 226*	*2 295*	*977*	*1 319*	*0*	*0*	*0*	–	*74 801*
Debt securities	*12 003*	*1 376*	*318*	*200*	*118*	*0*	*0*	*12 920*	–	*26 617*
Other	*2 758*	*473*	*160*	*0*	*160*	*0*	*0*	*0*	–	*3 391*
Loans and advances to customers (excluding reverse repos)	108 251	32 671	18 805	*5 413*	*9 417*	*3 973*	*3*	*0*	–	159 728
Term loans	*56 785*	*9 609*	*6 604*	*2 409*	*2 775*	*1 418*	*2*	*0*	–	*72 998*
Mortgage loans	*41 561*	*18 303*	*7 800*	*1 812*	*5 117*	*870*	*0*	*0*	–	*67 665*
Other	*9 905*	*4 758*	*4 402*	*1 191*	*1 524*	*1 685*	*1*	*0*	–	*19 065*

- The limited amounts for Ireland in 2021 and 2022 relate to the shift to the 'Non-current assets held for sale and disposal groups' and 'Liabilities associated with disposal groups' balance sheet items due to the sale transactions (see Notes 5.11 and 6.6).
- The growth for Bulgaria in 2022 related chiefly to the acquisition of Raiffeisenbank Bulgaria; see Note 6.6 for more information.

3.0 Notes to the income statement

Note 3.1: Net interest income

(in millions of EUR)	2022	2021
Total	5 161	4 451
Interest income	11 226	6 320
Interest income on financial instruments calculated using the effective interest rate method		
Financial assets at amortised cost	*7 973*	*4 797*
Financial assets at fair value through OCI	*251*	*286*
Hedging derivatives	*1 838*	*355*
Financial liabilities (negative interest rate)	*289*	*425*
Other	*130*	*25*
Interest income on other financial instruments		
Financial assets MFVPL other than held for trading	*35*	*24*
Financial assets held for trading	*710*	*407*
Of which economic hedges	*582*	*367*
Other financial assets at fair value through profit or loss	*0*	*0*
Interest expense	-6 064	-1 869
Interest expense on financial instruments calculated using the effective interest rate method		
Financial liabilities at amortised cost	*-2 320*	*-534*
Hedging derivatives	*-1 972*	*-604*
Financial assets (negative interest rate)	*-94*	*-253*
Other	*-5*	*-7*
Interest expense on other financial instruments		
Financial liabilities held for trading	*-1 639*	*-459*
Of which economic hedges	*-1 595*	*-414*
Other financial liabilities at fair value through profit or loss	*-33*	*-11*
Net interest expense relating to defined benefit plans	*-1*	*-1*

- 'Financial liabilities (negative interest rate)' and 'Financial assets (negative interest rate)': these rates relate mainly to transactions with central banks, interbank and professional counterparties, corporate clients, and targeted long-term refinancing operations (TLTRO). More information on TLTRO can be found in Note 4.1.
- The increase in interest income and interest expense from 'Hedging derivatives', 'Financial assets held for trading (of which economic hedges)' and 'Financial liabilities held for trading (of which economic hedges)' relates to a change in presentation of the negative interest on derivatives (at KBC Bank, in accordance with reporting on a solo basis ('Schema A') under Belgian GAAP, resulting in an increase in both interest income and interest expense of 450 million euros in 2022), and to the overall increase in interest rates in 2022.

Note 3.2: Dividend income

(in millions of EUR)	2022	2021
Total	59	45
Equity instruments MFVPL other than held for trading	35	28
Equity instruments held for trading	10	11
Equity instruments at FVOCI	15	6

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

(in millions of EUR)	2022	2021
Total	406	145
Total broken down by IFRS portfolio		
Financial instruments MFVPL other than held for trading and overlay	-1 949	1 172
Trading instruments (including interest on non-ALM trading derivatives and fair value changes in all trading derivatives)	567	435
Financial instruments to which the overlay approach is applied	86	104
Gains or losses on sale	*176*	*123*
Impairment	*-90*	*-20*
Other financial instruments at FVPL	1 942	-1 186
Foreign exchange trading	-90	-272
Fair value adjustments in hedge accounting	-150	-108
Hedge accounting broken down by type of hedge		
Fair value micro hedges	5	0
Changes in the fair value of the hedged items	*624*	*-307*
Changes in the fair value of the hedging derivatives	*-619*	*307*
Cashflow hedges	-3	0
Changes in the fair value of the hedging derivatives, ineffective portion	*-3*	*0*
Hedges of net investments in foreign operations, ineffective portion	0	0
Portfolio hedge of interest rate risk	0	5
Changes in the fair value of the hedged items	*-3 254*	*-815*
Changes in the fair value of the hedging derivatives	*3 254*	*820*
Discontinuation of hedge accounting for fair value hedges	-75	-46
Discontinuation of hedge accounting in the event of cashflow hedges	-77	-66
Total broken down by driver		
Market value adjustments (MVA)	80	67
Change in the value of derivatives used for asset/liability management purposes	-14	-197
Financial instruments to which the overlay approach is applied and other	96	113
Dealing room	245	162

- ALM hedging derivatives (recognised in hedge accounting): the interest component of these derivatives is recognised under 'Net interest income'. Fair value changes in hedging derivatives, excluding those for which an effective cashflow hedge relationship exists, are recognised under 'Net result from financial instruments at fair value through profit or loss'. Under fair value hedge accounting, changes in the fair value of hedged assets are also recognised under this heading, and offsetting takes place insofar as the hedge is effective. ALM hedging derivatives not recognised in hedge accounting (and therefore classified as trading instruments) are treated in the same way, except most of the related assets are not recognised at fair value (i.e. not marked-to-market).
- Day 1 profit: when the transaction price in a non-active market differs from the fair value of other observable market transactions in the same instrument or from the fair value based on a valuation technique whose variables include only data from observable markets, the difference between the transaction price and the fair value (day 1 profit) is taken to profit or loss. If this is not the case (i.e. the variables do not include only data from observable markets), day 1 profit is reserved and is released in profit or loss during the life and until the maturity of the financial instrument. KBC has reserved these day 1 profits for limited amounts since January 2022.
- Financial instruments to which the overlay approach is applied: see the comments under the consolidated income statement.
- Foreign exchange trading includes all realised and unrealised foreign exchange results (when the monetary assets and liabilities are revalued), regardless of the IFRS portfolio, except for financial assets and liabilities measured at fair value through profit or loss, for which the revaluation is included in the fair value correction. Note that (unrealised) foreign exchange gains/losses on claims provisions (insurance) and on the financial instruments hedging the claims provisions are included under 'Technical charges'. (Unrealised) foreign exchange gains/losses on the reinsurers' share of claims provisions and on the financial instruments hedging such provisions are included under 'Ceded reinsurance result'.
- Under IFRS 9, investment contracts (insurance) are included under 'Financial instruments mandatorily measured at fair value through profit or loss' in accordance with their 'managed on a FV basis' business model, whereas liabilities under investment contracts are included under 'Financial instruments at fair value through profit or loss'. This resulted in amounts being offset against each other in 'Financial instruments MFVPL other than held for trading and overlay' and 'Financial instruments at fair value through profit or loss' in the above table (-1 893 million euros and +1 893 million euros in 2022 and +1 195 million euros and -1 195 million euros in 2021).
- The effectiveness of the hedge is determined according to the following methods:

- For fair value micro hedging, we use the dollar offset method on a quarterly basis, with changes in the fair value of the hedged item offsetting changes in the fair value of the hedging instrument within a range of 80%–125%.
- For cashflow hedges, we compare the designated hedging instrument with a perfect hedge of the hedged cashflows on a prospective (by BPV measurement) and retrospective basis (by comparing the fair value of the designated hedging instrument with the perfect hedge). The effectiveness of both tests must fall within a range of 80%–125%.
- We use the rules set out in the European version of IAS 39 (carve-out) to assess the effectiveness of fair value hedges for a portfolio of interest rate risk. IFRS does not permit net positions to be reported as hedged items, but does allow hedging instruments to be designated as a hedge of a gross asset position (or a gross liabilities position, as the case may be). Specifically, we make sure that the volume of assets (or liabilities) in each maturity bucket is greater than the volume of hedging instruments allocated to the same bucket.

Note 3.4: Net realised result from debt instruments at fair value through OCI

- In 2022, the realised result from debt instruments at fair value through OCI was impacted by a realised loss of -22 million euros on the sale of low-yielding bonds. The realised result from debt instruments at fair value through OCI was not material in 2021.

Note 3.5: Net fee and commission income

(in millions of EUR)	2022	2021
Total	1 847	1 836
Fee and commission income	2 804	2 692
Fee and commission expense	-957	-856
Breakdown by type		
Asset management services	1 175	1 196
Fee and commission income	*1 230*	*1 274*
Fee and commission expense	*-54*	*-78*
Banking services	1 021	950
Fee and commission income	*1 489*	*1 330*
Fee and commission expense	*-468*	*-380*
Distribution	-349	-311
Fee and commission income	*85*	*87*
Fee and commission expense	*-434*	*-398*

- The lion’s share of the fees and commissions related to lending is recognised under ‘Net interest income’ (effective interest rate calculations).
- The acquisition of Raiffeisenbank Bulgaria mainly impacted net commission income from banking services (see Note 6.6 for more details).

Note 3.6: Other net income

(in millions of EUR)	2022	2021
Total	40	223
of which gains or losses on		
Sale of financial assets measured at amortised cost	-79	6
Repurchase of financial liabilities measured at amortised cost	0	0
Other, including:	119	218
Income from operational leasing activities	*106*	*98*
Income from VAB Group	*50*	*50*
Gain on sale of KBC Tower in Antwerp	*–*	*13*
Settlement of legal cases (excl. ICEC-Holding)	*0*	*6*
Provisioning for tracker mortgage review	*0*	*-18*
Badwill	*–*	*28*
Gain on sale of real estate subsidiary (KBC Vastgoed Nederland)	*68*	*-*
Arbitration proceedings against ICEC-Holding	*-149*	*-*

- In 2022, gains or losses on the sale of financial assets measured at amortised cost mainly concerned the realised loss on the exceptional sale of low-yielding bonds in Belgium, the Czech Republic and Hungary in particular.
- Provisioning for the tracker mortgage review concerns KBC Bank Ireland, which – like all major lenders in Ireland at the time – had offered tracker mortgages (i.e. between 2003 and 2008). In December 2015, the Central Bank of Ireland (CBI) requested the Irish banking industry, including KBC Bank Ireland, to undertake a broad and wide-ranging examination of tracker-mortgage related issues. The purpose of the tracker mortgage review was to identify cases where clients' contractual rights under the terms of their mortgage agreements had not been fully honoured and/or lenders had not fully complied with the various requirements and standards regarding disclosure and transparency for the client. In situations where client detriment was identified from this examination, KBC Bank Ireland had to provide appropriate redress and compensation in line with the CBI 'Principles for Redress'. The bank recognised an additional provision of 18 million euros in 2021 in this respect.
- Badwill: in 2021 we recognised 28 million euros in badwill for OTP Banka Slovensko (see Note 6.6 in the 2021 Annual Report).
- Arbitration proceedings against ICEC-Holding, a.s. (significant adjusting post-balance-sheet event affecting the 2022 financial statements): on 17 February 2023, ČSOB in the Czech Republic received an arbitral award in the arbitration proceedings against ICEC-HOLDING, a.s. ČSOB was being sued in the arbitration proceedings as the legal successor of Investiční a poštovní banka (IPB), whose business activities were acquired by ČSOB in 2000. The proceedings were initiated by ICEC-Holding, a.s., in 2007. The plaintiff, ICEC-HOLDING, a.s., claims that IPB breached its contractual duties in 1999, entitling ICEC-HOLDING, a.s., to damages and a contractual penalty. The claim itself is not in any way related to ČSOB's business activities and is to be considered part of the IPB legacy. In the delivered arbitral award, the Court of Arbitration ordered ČSOB to pay ICEC-HOLDING, a.s., an amount of CZK 3.7 billion, along with the costs of the proceedings in the amount of CZK 5.0 million, payable within fifteen days of the delivery of the award. The plaintiff failed in the remainder of its claim and the arbitration panel ordered it to pay ČSOB the costs of the proceedings in the amount of CZK 17.4 million. ČSOB will consider possible further legal steps leading to the revision of this award. The payment of damages and contractual penalties will have an adverse financial impact on ČSOB and KBC Group. In accordance with IFRS, ČSOB is required to provision the full amount of CZK 3.7 billion in its 2022 income statement, impacting KBC Group's 2022 income statement to the extent of -149 million euros before tax (-121 million euros after tax). The common equity ratio (Danish compromise method, fully loaded) at the end of 2022 decreases from 15.4% to 15.3%.

Note 3.7: Insurance results

- As a bank-insurer, we present our financial information on an integrated basis (i.e. banking and insurance activities combined). Information on the banking and insurance businesses is provided separately in the annual reports of KBC Bank and KBC Insurance (available at www.kbc.com). This note provides information on the insurance results alone.
- The figures include intragroup transactions between bank and insurance entities (the results for insurance contracts concluded between the group's bank and insurance entities, interest that insurance companies receive on their deposits with bank entities, commissions that insurance entities pay to bank branches for sales of insurance, etc.) in order to give a more accurate view of the profitability of the insurance business. A reconciliation of the earned premiums stated in the consolidated income statement and in Note 3.7.1 is presented in the table below the overview.
- Of the items stated in Note 3.7.1, only 'Earned premiums, insurance (before reinsurance)', 'Technical charges, insurance (before reinsurance)' and 'Ceded reinsurance result' are presented on separate lines in the group's income statement (with a minor adjustment, as shown in the smaller table below the main table). As part of our integrated bank-insurance concept, all the other lines in the insurance schedule below – together with the group's banking activities – are included in the group's income statement and related notes.
- Additional information on the insurance business is provided separately in Note 3.7, Note 5.6, Note 6.5 and Note 6.7, in the 'How do we manage our risks?' section and in the annual report of KBC Insurance (available at www.kbc.com).

Note 3.7.1: Overview

(in millions of EUR)	Life	Non-life	Non-technical account	Total
2022				
Earned premiums, insurance (before reinsurance)	1 163	2 054	0	3 217
of which changes in the provision for unearned premiums	*-1*	*-71*	*0*	*-72*
Technical charges, insurance (before reinsurance)	-1 071	-1 154	0	-2 225
Claims paid	*-1 399*	*-1 029*	*0*	*-2 428*
Change in technical provisions	*419*	*-115*	*0*	*304*
Other technical result	*-91*	*-9*	*0*	*-100*
Net fee and commission income	-4	-403	0	-407
Ceded reinsurance result	-3	1	0	-2
General administrative expenses	-152	-285	-3	-440
Internal claims settlement expenses	*-9*	*-65*	*0*	*-74*
Indirect acquisition costs	*-32*	*-68*	*0*	*-100*
Administrative expenses	*-110*	*-152*	*0*	*-263*
Investment management fees	*0*	*0*	*-3*	*-3*
Technical result	-67	213	-3	143
Investment income*	383	112	38	534
Technical-financial result	316	325	36	677
Share in results of associated companies and joint ventures	–	–	0	0
RESULT BEFORE TAX	316	325	36	677
Income tax expense	–	–	–	-117
RESULT AFTER TAX	–	–	–	560
attributable to minority interests	–	–	–	*0*
attributable to equity holders of the parent	–	–	–	*560*
2021				
Earned premiums, insurance (before reinsurance)	1 196	1 905	0	3 101
of which changes in the provision for unearned premiums	*-1*	*-48*	*0*	*-49*
Technical charges, insurance (before reinsurance)	-1 150	-1 106	0	-2 256
Claims paid	*-1 163*	*-872*	*0*	*-2 036*
Change in technical provisions	*-1*	*-223*	*0*	*-224*
Other technical result	*14*	*-10*	*0*	*4*
Net fee and commission income	-5	-367	0	-372
Ceded reinsurance result	-2	27	0	25
General administrative expenses	-149	-255	-2	-407
Internal claims settlement expenses	*-9*	*-59*	*0*	*-68*
Indirect acquisition costs	*-31*	*-68*	*0*	*-98*
Administrative expenses	*-109*	*-128*	*0*	*-238*
Investment management fees	*0*	*0*	*-2*	*-2*
Technical result	-110	204	-2	91
Investment income*	382	92	69	543
Technical-financial result	271	296	66	634
Share in results of associated companies and joint ventures	–	–	0	0
RESULT BEFORE TAX	271	296	66	634
Income tax expense	–	–	–	-125
RESULT AFTER TAX	–	–	–	508
attributable to minority interests	–	–	–	*0*
attributable to equity holders of the parent	–	–	–	*508*

* Investment income (in millions of euros, for 2022 and 2021, respectively) comprises: 'Net interest income' (428, 398), 'Net dividend income' (39, 31), 'Net result from financial instruments at fair value through profit or loss' (91, 117), 'Other net income' (-9, 1), 'Net realised result from debt instruments at fair value through OCI' (-16, -2) and 'Impairment' (1, -3). The 'Non-technical account' also includes the results from non-insurance subsidiaries, such as VAB group and ADD, and a number of real estate companies. They have been included in the note for the 'insurance business' given that they are KBC Insurance subsidiaries (but as they cannot be recognised under 'Life' or 'Non-life', they are included under 'Non-technical account'). The 'Non-technical account' also includes the investment income from equity (i.e. mainly interest income from bonds).

- The figures relating to earned premiums do not include investment contracts without DPF, which largely correspond to unit-linked contracts. The margin on these products is recognised under 'Net fee and commission income'.
- 'Non-life technical charges' consist mainly of paid claims, changes in claims provisions, changes in the deficiency provision, recourse received, changes in recourse estimations and other technical charges. 'Life technical charges' consist primarily of paid claims, changes in claims provisions, changes in the life insurance provision, changes in the provision for (non-unbundled) unit-linked products, bonuses (profit-sharing), changes in the deficiency provision and other technical charges.
- An overview of the insurer's investment portfolio can be found in the 'How do we manage our risks?' section (in the 'Investment portfolio of KBC group insurance entities' table, which constitutes part of the financial statements).
- In the vast majority of cases, internal acquisition costs are recognised immediately in the income statement (i.e. not spread).
- In 2022, the non-life technical result was negatively impacted by factors including extreme weather conditions, such as flooding and storms (especially in Belgium, having a gross impact of 107 million euros, which comes down to 53 million euros after reinsurance). 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 (the gross impact of the latter totalled 110 million euros, which comes down to 87 million euros after reinsurance, 45 million euros of which above the legal limit (i.e. the ceiling introduced in Belgian law on the intervention of insurers in the event of very large floods), but which is still within the limit agreed between the Belgian insurance sector and the Walloon government). In 2022, the Life and Non-life technical result benefited from a release of technical reserves in the Czech Republic (31 million euros and 10 million euros, respectively) resulting from a reassessment of the confidence level of technical provisions.
- More information on the acquisition of certain life and pension insurance policies from NN in Bulgaria in 2021 is provided in Note 6.6.
- See also 'Climate-related and other ESG risks' in the 'How do we manage our risks?' section.

Reconciliation of the earned premiums stated in the consolidated income statement and in Note 3.7.1 (in millions of EUR)	**2022**	**2021**
Non-life insurance (before reinsurance) – Earned premiums		
In the consolidated income statement	2 033	1 885
Addition of premiums from intragroup transactions between bank and insurer	21	20
In Note 3.7.1	2 054	1 905
Life insurance (before reinsurance) – Earned premiums		
In the consolidated income statement	1 163	1 196
Addition of premiums from intragroup transactions between bank and insurer	1	1
In Note 3.7.1	1 163	1 196

Note 3.7.2: Life insurance

(in millions of EUR)	**2022**	**2021**
Total	1 163	1 196
By IFRS category		
Insurance contracts	884	900
Investment contracts with DPF	280	296
By type		
Accepted reinsurance	0	0
Primary business	1 163	1 196
Breakdown of primary business		
Individual premiums	816	831
Single premiums	*44*	*61*
Periodic premiums	*773*	*770*
Premiums under group contracts	347	365
Single premiums	*26*	*50*
Periodic premiums	*321*	*315*
Total sales of life insurance (including investment contracts without DPF)		
Unit-linked	1 089	942
Guaranteed-rate	996	1 022
Total	2 085	1 964

- As required under IFRS, we use deposit accounting for a number of investment contracts without DPF. This means that the premium income and technical charges from these contracts are not recognised under 'Earned premiums' and 'Technical charges', but that the margins on them are reported under 'Net fee and commission income'. Investment contracts without DPF are more or less the same as unit-linked contracts, which in 2021 accounted for premium income of 0.9 billion euros and in 2022 for premium income of 1.1 billion euros. Premium income generated by investment contracts without DPF (under deposit accounting) is included in 'Total sales of life insurance', as presented in the lower part of the table. These sale volumes, therefore, comprise earned insurance premiums plus premiums from contracts that are subject to deposit accounting.

Note 3.7.3: Non-life insurance

(in millions of EUR)	Earned premiums (before reinsurance)	Technical insurance charges (before reinsurance)	Operating expenses (before reinsurance)	Ceded reinsurance	Total
2022					
Total	2 054	-1 154	-688	1	213
Accepted reinsurance	30	-26	-10	18	12
Primary business	2 024	-1 128	-678	-17	201
Accident & health (classes 1 & 2, excl. industrial accidents)	128	-60	-41	0	27
Industrial accidents (class 1)	94	-95	-18	-1	-21
Motor, third-party liability (class 10)	525	-321	-156	-2	45
Motor, other classes (classes 3 & 7)	360	-212	-124	-1	23
Shipping, aviation, transport (classes 4, 5, 6, 7, 11 & 12)	9	-2	-3	-2	2
Fire and other damage to property (classes 8 & 9)	622	-327	-231	-5	58
General third-party liability (class 13)	156	-45	-51	-6	54
Credit and suretyship (classes 14 & 15)	0	0	0	0	0
Miscellaneous pecuniary losses (class 16)	30	-13	-11	1	7
Legal assistance (class 17)	65	-40	-23	0	2
Assistance (class 18)	36	-11	-20	0	4
2021					
Total	1 905	-1 106	-622	27	204
Accepted reinsurance	27	-11	-9	-3	4
Primary business	1 878	-1 095	-614	30	200
Accident & health (classes 1 & 2, excl. industrial accidents)	123	-53	-40	0	28
Industrial accidents (class 1)	89	-77	-16	0	-4
Motor, third-party liability (class 10)	512	-305	-148	-4	55
Motor, other classes (classes 3 & 7)	320	-179	-108	3	36
Shipping, aviation, transport (classes 4, 5, 6, 7, 11 & 12)	7	-2	-2	-1	1
Fire and other damage to property (classes 8 & 9)	569	-343	-211	28	44
General third-party liability (class 13)	142	-92	-46	1	6
Credit and suretyship (classes 14 & 15)	0	0	0	0	0
Miscellaneous pecuniary losses (class 16)	22	-9	-8	3	9
Legal assistance (class 17)	62	-28	-22	0	13
Assistance (class 18)	31	-6	-13	0	12

Note 3.8: Operating expenses

(in millions of EUR)	2022	2021
Total	-4 818	-4 396
Staff expenses	- 2 561	-2 457
General administrative expenses	-1 883	-1 583
ICT	*-558*	*-462*
Facility expenses	*-224*	*-210*
Marketing and communications	*-109*	*-86*
Professional service fees	*-157*	*-125*
Other	*-190*	*-175*
Bank taxes	*-646*	*-525*
Depreciation and amortisation of fixed assets	-374	-356

- The total expenses went up by 10% in 2022 compared to 2021.
- The most important non-operating and/or exceptional items in this respect were the inclusion of the acquired Raiffeisenbank Bulgaria in the scope of consolidation and the associated integration expenses with effect from July 2022, the payment of a one-off coronavirus-related bonus to staff in 2021 and an exceptional profit bonus in 2022, one-off expenses related to the sale transactions in Ireland in 2022 and 2021, and exceptional additional bank taxes in Hungary in 2022. Excluding the non-operating and/or exceptional items and exchange rate effects, the total expenses went up by 7%, due mainly to indexation and wage drift and higher ICT costs.
- For information on the average number of persons employed, see Note 3.9; information on the remuneration of members of the Executive Committee and the Board of Directors is provided under 'Remuneration report' in the 'Corporate governance statement' section; details of the statutory auditor's remuneration (PWC) are provided in Note 6.4.
- Share-based employee benefits are included under 'Staff expenses': since 2000, KBC has launched several stock option plans for its employees. There were no longer any outstanding options at year-end 2021 and 2022.
- Information on the capital increase reserved for KBC group employees can be found in the 'Company annual accounts and additional information' section. In 2022, this resulted in the recognition of a limited employee benefit (2 million euros) as the issue price was lower than the market price. Information regarding the price of the KBC share can be found in the 'Report of the Board of Directors' section.

Note 3.9: Personnel

(number)	2022	2021
Total average number of persons employed (in full-time equivalents)	37 946	37 194
By legal entity		
KBC Bank	28 741	28 558
KBC Insurance	4 024	3 953
KBC Group NV (holding company) and KBC Global Services NV (cost-sharing structure)	5 181	4 683
By employee classification		
Blue-collar staff	389	383
White-collar staff	37 306	36 558
Senior management	251	253

- The figures in the table are annual averages, which – in terms of scope – may differ from year-end figures that are provided elsewhere.
- The 2022 figures contain the acquired Raiffeisenbank Bulgaria (now renamed KBC Bank Bulgaria) for six months and still contain KBC Bank Ireland, as the sale had not yet been finalised at year-end 2022.

Note 3.10: Impairment (income statement)

(in millions of EUR*)	2022	2021
Total	-284	261
Impairment on financial assets at AC and at FVOCI (impairment on loans)	-154	334
By IFRS category		
Financial assets at amortised cost	*-155*	*330*
Financial assets at fair value through OCI	*1*	*4*
By product		
Loans and advances	*-177*	*315*
Debt securities	*-2*	*3*
Off-balance-sheet commitments and financial guarantees	*25*	*15*
By type		
Stage 1 (12-month ECL)	*5*	*74*
Stage 2 (lifetime ECL)	*-106*	*449*
Stage 3 (lifetime ECL)	*-60*	*-191*
Purchased or originated credit impaired assets	*8*	*2*
By business unit/country		
Belgium	*-35*	*309*
Czech Republic	*-46*	*142*
International Markets	*-78*	*-110*
Slovakia	*-19*	*16*
Hungary	*-29*	*22*
Bulgaria	*-30*	*2*
Ireland in 2021	*–*	*-149*
Group Centre	*5*	*-7*
Of which Ireland in 2022	*7*	*–*
Impairment on goodwill	-5	-7
Impairment on other	-125	-65
Intangible fixed assets (other than goodwill)	-34	-35
Property and equipment (including investment property)	-18	-17
Associated companies and joint ventures	0	0
Other	-73	-13

* Positive figures indicate a reversal and hence a positive impact on results

- Impairment on loans:
  - In 2022, this item included a full reversal of the remaining 255 million euros in coronavirus-related ECL (see Note 1.4), net provisioning of 413 million euros for geopolitical and emerging risks (see Note 1.4), net provisioning of 17 million euros related to the sale transactions in Ireland (see Note 6.6) and a net reversal of 21 million euros for several individual loans.
  - In 2021, this item included a net reversal of collective coronavirus-related ECL totalling 494 million euros (see Note 1.4), net provisioning of 178 million euros related to the sale transactions in Ireland (see Note 6.6) and a net reversal of 18 million euros for several individual loans.
- The impact of the extreme weather conditions, including flooding and storms, in 2022 and 2021 on (impairment on) loans was insignificant.
- Impairment on other:
  - In 2022, this item included an impairment of tangible and intangible assets relating to the sale transactions in Ireland, impairment of real estate and modification losses related to the provision of the interest cap regulation in Hungary.
  - In 2021, this item included impairment of tangible and intangible assets relating to the sale transactions in Ireland and modification losses.
- The loan portfolio accounts for the largest share of the financial assets. Based on internal management reports, the composition and quality of the loan portfolio is set out in detail in the 'How do we manage our risks?' section (under 'Credit risk'). All parts of that particular section which have been audited by the statutory auditor are listed at the start of the section. Among other things, this section also provides more information on impaired loans (Stage 3).
- For information on total impairment recognised in the balance sheet, see Note 4.2.
- More background information and methodology for KBC's ECL model is provided in the accounting policies under 'Financial assets – impairment' in Note 1.2.

- KBC uses specific models for PD, EAD and LGD in order to calculate ECL. It is essential to take account of historical observations and forward-looking projections in this respect.
  - PD represents the probability of a counterparty defaulting in the next 12 months or during the entire term of the facility (depending on which IFRS 9 'Stage' the facility is in). The PD is determined by the counterparty's internal (and, if applicable, external) credit rating. Variables used in PD models include financial ratios and behavioural parameters (arrears).
  - EAD represents the estimated outstanding debt at the time of default and depends on the existing outstanding debt and any changes permitted under the contract and normal repayments. Variables used in these models include product types and repayment schedules.
  - LGD is the estimated size of the loss relative to the outstanding debt at the time of default. LGD is presented as a percentage of the outstanding debt and is determined by historical amounts recovered on similar claims. Variables used in these models include collateral types and financial ratios.
- On 31 December 2022, there were around 80 different IFRS 9 models. In addition to several group-wide models, we have separate PD, EAD and LGD models for each of our core countries. In accordance with the Basel grouping approach, we use the type of counterparty (private individuals, SMEs, companies, governments, etc.) to determine the scope of an IFRS 9 model. Each model allows for differentiation in terms of facility type (term loans, revolving facilities, etc.) and collateral type (mortgages, pledges on business assets, guarantees, etc.). Examples of IFRS 9 models include 'Banks', 'Belgian private persons – home loans', 'Czech corporates', 'Bulgarian corporates and SMEs' and 'Central governments'. Detailed documentation is available for each PD, EAD and LGD model. The main models are subject to review by external auditors. The Basel models, which the IFRS 9 models are based on, are subject to external control performed by the supervisory authorities.
- We create the models for the various portfolios using typical PD, EAD and LGD inputs, as well as macroeconomic variables to the extent that there is a statistical relationship. The macroeconomic variables are GDP growth, the unemployment rate, policy interest rates, the exchange rate, government bond yields, house prices and inflation. As a result of regular back-testing, models may change and macroeconomic variables may be reassessed. Note 1.4 presents the optimistic, pessimistic and base-case scenarios for the three key indicators (GDP growth, unemployment rate and house price index) for each of our core countries.
- As set out under 'Climate-related and other ESG risks' in the 'How do we manage our risks?' section, KBC considers ESG risks in its credit risk management processes. The vulnerability of individual clients to specific ESG risks may become apparent during the term of the loan in client-specific credit risk figures, such as credit risk ratings and collateral valuations affecting the ECL calculation. Especially in terms of climate risk, which may have considerable consequences for certain sectors in the longer term, the impact on our loan portfolio is not expected to occur within the time horizon considered for the ECL measurement.
- Our ECL models are not able to adequately reflect all the specifics of the direct and indirect consequences of the war in Ukraine and the coronavirus crisis. Therefore, an expert-based calculation at portfolio level has been performed that takes due account of the macroeconomic situation (see Note 1.4).
- We use three different forward-looking macroeconomic scenarios (with different probability weightings) to measure ECL. The weightings at year-end 2022 were 60% for the 'base' scenario, 5% for the 'up' scenario and 35% for the 'down' scenario. The forecast horizon is 30 years. For further information on the key macroeconomic parameters, see Note 1.4.
- A sensitivity analysis of the impact of these multiple economic scenarios on the collectively assessed ECL (i.e. without the ECL for individually assessed loans of 1.6 billion euros at the end of 2022 and 1.7 billion euros at the end of 2021) shows that the 'base' scenario generates an ECL of 1.0 billion euros (0.9 billion euros in 2021), which is 0.1 billion euros lower than for the 'down' scenario (0.1 billion euros in 2021) and 0.0 billion euros higher than for the 'up' scenario (0.1 billion euros in 2021). The assessed scenario-weighted collective ECL (that was recognised) amounted to 1.0 billion euros (0.9 billion euros in 2021). These amounts take into account the ECL relating to geopolitical and emerging risks at year-end 2022 (see Note 1.4).

Collectively assessed ECL by country (2022, in billions of EUR)	100% base-case scenario	100% optimistic scenario	100% pessimistic scenario
Total	1.0	1.0	1.1
Belgium	0.3	0.3	0.3
Czech Republic	0.3	0.3	0.4
Slovakia	0.1	0.1	0.1
Hungary	0.1	0.1	0.1
Bulgaria	0.2	0.1	0.2
Rest	0.0	0.0	0.0

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

(in millions of EUR)	2022	2021
Total	-10	-5
Of which		
Isabel NV	*2*	*2*
Joyn International NV	*-1*	*1*
Bancontact Payconiq Company NV	*1*	*1*
Payconiq International SA	*-6*	*-6*
Skip Pay, s.r.o.	*0*	*-3*
Batopin NV	*-3*	*-1*
IGLUU s.r.o.	*-1*	*0*
Immoscoop 2.0 BV	*-2*	*0*

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

Note 3.12: Income tax expense

(in millions of EUR)	2022	2021
Total	-608	-804
By type		
Current taxes on income	-525	-485
Deferred taxes on income	-83	-319
Tax components		
Result before tax	3 351	3 418
Income tax at the Belgian statutory rate	25.00%	25.00%
Income tax calculated	-838	-855
Plus/minus tax effects attributable to		
differences in tax rates, Belgium – abroad	*131*	*106*
tax-free income	*130*	*86*
adjustments related to prior years	*4*	*-4*
adjustments to deferred taxes due to change in tax rate	*-1*	*-1*
unused tax losses and unused tax credits to reduce current tax expense	*2*	*1*
unused tax losses and unused tax credits to reduce deferred tax expense	*28*	*2*
reversal of previously recognised deferred tax assets due to tax losses	*0*	*-59*
other (including non-deductible expenses)	*-63*	*-81*

- For information on tax assets and tax liabilities, see Note 5.2.
- In 2021, the 'Reversal of previously recognised deferred tax assets due to tax losses' item includes the one-off negative impact of 51 million euros due to the derecognition of deferred tax assets as a result of the sale transactions in Ireland. Taxes in 2022 were bolstered by a one-off recognition of 51 million euros in deferred tax assets, partly due to the increase in business tax in the UK from 19% to 25% and the recognition of a deferred tax asset in Ireland (see also Note 6.6).
- Following the conversion of the Pillar 2 rules into a European Directive, KBC has conducted an initial analysis of the impact of these rules on its organisation. These new rules are expected to have limited impact on KBC and as a result of specific circumstances in certain entities the effective tax rate would fall to below 15%. A more detailed estimate will be prepared based on a more detailed interpretation of the top-up taxes and safe harbour rules in the countries with local KBC presence.
- The table on the next page shows the country-by-country reporting.

(in millions of EUR)	Average number of FTEs	Revenues from third-party sales[1]	Revenues from intra-group transactions with other tax jurisdictions[2]	Result before tax	Income tax accrued – current year	Income taxes paid on a cash basis	Retained earnings	Tangible assets other than cash and cash equivalents[3]	Government grants received
2022									
KBC core countries									
Belgium	13 959	4 712	598	1 801	-261	-229	12 423	2 260	0
Czech Republic	10 166	1 794	-554	816	-157	-128	1 582	548	0
Slovakia	3 685	753	-28	229	-40	5	643	153	0
Hungary	3 241	364	4	118	-26	-18	-182	185	0
Bulgaria	5 482	401	-8	174	-18	-17	-115	209	0
Other countries									
China	35	1	0	0	-1	0	0	-3	0
Germany	22	1	0	0	-1	-1	0	0	0
France	56	5	-2	9	-2	-2	1	0	0
Great Britain	39	17	8	16	17	17	528	-1	0
Hong Kong	36	1	0	1	0	0	0	0	0
Ireland	1 069	341	107	130	-9	-9	-1 665	18	
Italy	7	0	0	0	0	0	0	0	0
Luxembourg	39	59	-125	48	-27	7	157	137	0
The Netherlands	25	4	0	1	0	0	5	40	0
Romania	0	3	0	3	0	0	20	33	0
Singapore	43	2	0	1	0	0	0	0	0
USA	43	4	0	2	0	0	0	-20	0
Total	37 946	8 463	0	3 351	-525	-376	13 399	3 560	0
2021									
KBC core countries									
Belgium	14 223	4 259	46	2 018	-356	-333	12 886	2 130	0
Czech Republic	10 029	1 508	-53	845	-132	-101	2 051	560	0
Slovakia	3 683	572	-8	268	-41	-29	651	164	0
Hungary	3 513	329	7	111	-15	-15	-217	203	0
Bulgaria	4 203	259	-13	128	-13	-12	-176	193	0
Ireland	1 192	343	139	-134	-4	-4	-1 630	47	0
Other countries									
China	45	9	0	3	3	3	0	1	0
Germany	23	14	0	13	8	8	0	0	0
France	52	50	-2	30	21	21	1	1	0
Great Britain	37	46	1	13	10	10	521	1	0
Hong Kong	40	8	0	1	1	1	0	1	0
Italy	8	0	0	-2	-2	-2	0	0	0
Luxembourg	39	75	-117	63	-7	10	162	142	0
The Netherlands	21	35	0	30	20	20	7	74	0
Romania	0	4	0	4	0	0	17	34	0
Singapore	39	9	0	11	9	11	0	1	0
USA	49	39	0	17	13	15	0	17	0
Total	37 194	7 558	0	3 418	-485	-398	14 272	3 568	0

Countries with zero FTEs and whose figures are below 0.5 million euros (i.e. rounded to zero in the table) have been excluded.
1 Corresponds to 'Total income' in the income statement.
2 If this column contains a positive figure for a particular jurisdiction, it means that all group entities in that jurisdiction combined had more intra-group income than intra-group expenses compared with other tax jurisdictions. If the figure is negative, it means that all group entities in this jurisdiction combined had less intra-group income than intra-group expenses arising compared with other tax jurisdictions.
3 Corresponds to 'Property and equipment and investment property' in the balance sheet.

Note 3.13: Earnings per share

(in millions of EUR)	2022	2021
Result after tax, attributable to equity holders of the parent	2 743	2 614
Coupon on AT1 instruments	-50	-50
Net result used to determine basic earnings per share	2 694	2 564
Weighted average number of ordinary shares outstanding (millions of units)	417	417
Basic earnings per share (EUR)	6.46	6.15

- Diluted earnings per share are currently almost the same as basic earnings per share.

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

Sale of activities in Ireland: the financial assets and liabilities of KBC Bank Ireland that are part of the sale transaction(s) have been included under 'Non-current assets held for sale and disposal groups' and 'Liabilities associated with disposal groups' since the third quarter of 2021 (see Note 5.11 and Note 6.6 for more information) and have therefore not been included in the following tables.

Note 4.1: Financial assets and liabilities, breakdown by portfolio and product

(in millions of EUR)	Measured at amortised cost (AC)	Measured at fair value through other compre-hensive income (FVOCI)	Mandatorily measured at fair value through profit or loss (MFVPL) excl. HFT and overlay	Measured at fair value – overlay approach (overlay)	Held for trading (HFT)	Desig-nated at fair value[1] (FVO)	Hedging Deriva-tives	Total	*Total pro forma excluding KBC Bank Bulgaria (formerly Raiffeisen-bank Bulgaria)*
FINANCIAL ASSETS, 31-12-2022									
Loans and advances to credit institutions and investment firms (excl. reverse repos)	4 240	0	13	0	1	0	0	4 254	*4 203*
of which loans and advances to banks repayable on demand and term loans to banks at not more than three months								*1 237*	*1 237*
Loans and advances to customers (excluding reverse repos)	177 427	0	625	0	0	0	0	178 053	*174 083*
Trade receivables	*2 818*	*0*	*0*	*0*	*0*	*0*	*0*	*2 818*	*2 729*
Consumer credit	*6 222*	*0*	*430*	*0*	*0*	*0*	*0*	*6 652*	*5 977*
Mortgage loans	*73 465*	*0*	*196*	*0*	*0*	*0*	*0*	*73 660*	*72 891*
Term loans	*82 894*	*0*	*0*	*0*	*0*	*0*	*0*	*82 894*	*80 744*
Finance lease	*6 368*	*0*	*0*	*0*	*0*	*0*	*0*	*6 368*	*6 117*
Current account advances	*4 886*	*0*	*0*	*0*	*0*	*0*	*0*	*4 886*	*4 885*
Other	*774*	*0*	*0*	*0*	*0*	*0*	*0*	*774*	*740*
Reverse repos[2]	20 186	0	0	0	33	0	0	20 219	*20 219*
with credit institutions and investment firms	*20 018*	*0*	*0*	*0*	*33*	*0*	*0*	*20 050*	*20 050*
with customers	*168*	*0*	*0*	*0*	*0*	*0*	*0*	*168*	*168*
Equity instruments	0	315	13	1 237	430	0	0	1 994	*1 989*
Investment contracts (insurance)[6]	0	0	12 771	0	0	0	0	12 771	*12 771*
Debt securities	52 030	11 813	17	0	1 728	0	0	65 588	*64 871*
Public bodies	*44 219*	*8 135*	*0*	*0*	*1 667*	*0*	*0*	*54 021*	*53 390*
Credit institutions and investment firms	*5 160*	*1 621*	*0*	*0*	*9*	*0*	*0*	*6 790*	*6 747*
Corporates	*2 651*	*2 057*	*17*	*0*	*53*	*0*	*0*	*4 777*	*4 733*
Derivatives	0	0	0	0	6 279	0	542	6 821	*6 813*
Other[3]	1 561	0	0	0	0	0	0	1 561	*1 561*
Total	255 444	12 128	13 439	1 237	8 471	0	542	291 262	*286 511*
FINANCIAL ASSETS, 31-12-2021									
Loans and advances to credit institutions and investment firms (excl. reverse repos)	7 920	0	0	0	1	0	0	7 920	-
of which loans and advances to banks repayable on demand and term loans to banks at not more than three months								*3 146*	-
Loans and advances to customers (excl. reverse repos)	159 167	0	560	0	0	0	0	159 728	-
Trade receivables	*2 090*	*0*	*0*	*0*	*0*	*0*	*0*	*2 090*	-
Consumer credit	*5 470*	*0*	*381*	*0*	*0*	*0*	*0*	*5 851*	-
Mortgage loans	*67 486*	*0*	*179*	*0*	*0*	*0*	*0*	*67 665*	-
Term loans	*72 998*	*0*	*0*	*0*	*0*	*0*	*0*	*72 998*	-
Finance lease	*5 815*	*0*	*0*	*0*	*0*	*0*	*0*	*5 815*	-
Current account advances	*4 819*	*0*	*0*	*0*	*0*	*0*	*0*	*4 819*	-
Other	*490*	*0*	*0*	*0*	*0*	*0*	*0*	*490*	-
Reverse repos[2]	24 978	0	0	0	0	0	0	24 978	-
with credit institutions and investment firms	*24 861*	*0*	*0*	*0*	*0*	*0*	*0*	*24 861*	-
with customers	*117*	*0*	*0*	*0*	*0*	*0*	*0*	*117*	-
Equity instruments	0	321	8	1 366	448	0	0	2 144	-
Investment contracts (insurance)[6]	0	0	14 620	0	0	0	0	14 620	-
Debt securities	47 172	15 503	17	0	2 958	0	0	65 650	-
Public bodies	*41 475*	*10 514*	*0*	*0*	*2 517*	*0*	*0*	*54 507*	-
Credit institutions and investment firms	*3 310*	*2 245*	*0*	*0*	*357*	*0*	*0*	*5 912*	-
Corporates	*2 387*	*2 744*	*17*	*0*	*84*	*0*	*0*	*5 232*	-
Derivatives	0	0	0	0	5 443	0	283	5 727	-
Other[3]	892	0	0	0	0	0	0	892	-
Total	240 128	15 824	15 205	1 366	8 850	0	283	281 658	-

(in millions of EUR)	Measured at amortised cost (AC)	Held for trading (HFT)	Designated at fair value (FVO)	Hedging derivatives	Total	*Total pro forma excluding KBC Bank Bulgaria (formerly Raiffeisenbank Bulgaria)*
FINANCIAL LIABILITIES, 31-12-2022						
Deposits from credit institutions and investment firms (excl. repos)	24 819	0	0	0	24 819	*24 737*
of which deposits from banks repayable on demand					*5 085*	*5 085*
Deposits from customers and debt securities (excl. repos)	251 496	44	1 205	0	252 746	*247 585*
Demand deposits	*122 053*	*0*	*0*	*0*	*122 053*	*117 401*
Time deposits	*22 280*	*44*	*73*	*0*	*22 397*	*21 960*
Savings accounts	*76 979*	*0*	*0*	*0*	*76 979*	*76 954*
Special deposits	*2 710*	*0*	*0*	*0*	*2 710*	*2 663*
Other deposits	*268*	*0*	*0*	*0*	*268*	*268*
Subtotal deposits from customers (excl. repos)	*224 290*	*44*	*73*	*0*	*224 407*	*219 246*
Certificates of deposit	*9 321*	*0*	*1*	*0*	*9 322*	*9 322*
Savings certificates	*104*	*0*	*0*	*0*	*104*	*104*
Non-convertible bonds	*15 621*	*0*	*1 006*	*0*	*16 627*	*16 627*
Non-convertible subordinated liabilities	*2 160*	*0*	*126*	*0*	*2 285*	*2 285*
Repos[4]	11 091	7	0	0	11 097	*11 097*
with credit institutions and investment firms	*10 852*	*7*	*0*	*0*	*10 859*	*10 859*
with customers	*239*	*0*	*0*	*0*	*239*	*239*
Liabilities under investment contracts[6]	0	0	12 002	0	12 002	*12 002*
Derivatives	0	8 038	0	577	8 615	*8 605*
Short positions	0	1 007	0	0	1 007	*1 007*
In equity instruments	*0*	*5*	*0*	*0*	*5*	*5*
In debt securities	*0*	*1 002*	*0*	*0*	*1 002*	*1 002*
Other[5]	2 448	0	0	0	2 448	*2 370*
Total	289 854	9 096	13 207	577	312 735	*307 403*
FINANCIAL LIABILITIES, 31-12-2021						
Deposits from credit institutions and investment firms (excl. repos)	38 047	0	0	0	38 047	-
of which deposits from banks repayable on demand					*4 695*	-
Deposits from customers and debt securities (excl. repos)	224 759	21	1 312	0	226 093	-
Demand deposits	*112 097*	*0*	*0*	*0*	*112 097*	-
Time deposits	*9 106*	*21*	*60*	*0*	*9 187*	-
Savings accounts	*74 801*	*0*	*0*	*0*	*74 801*	-
Special deposits	*2 962*	*0*	*0*	*0*	*2 962*	-
Other deposits	*428*	*0*	*0*	*0*	*428*	-
Subtotal deposits from customers (excl. repos)	*199 395*	*21*	*60*	*0*	*199 476*	-
Certificates of deposit	*6 273*	*0*	*0*	*0*	*6 273*	-
Savings certificates	*253*	*0*	*0*	*0*	*253*	-
Non-convertible bonds	*15 892*	*0*	*1 118*	*0*	*17 011*	-
Non-convertible subordinated liabilities	*2 946*	*0*	*134*	*0*	*3 080*	-
Repos[4]	3 293	2	0	0	3 295	-
with credit institutions and investment firms	*2 888*	*2*	*0*	*0*	*2 890*	-
with customers	*405*	*0*	*0*	*0*	*405*	-
Liabilities under investment contracts[6]	0	0	13 603	0	13 603	-
Derivatives	0	5 619	0	1 094	6 713	-
Short positions	0	1 628	0	0	1 628	-
In equity instruments	*0*	*18*	*0*	*0*	*18*	-
In debt securities	*0*	*1 611*	*0*	*0*	*1 611*	-
Other[5]	2 288	0	0	0	2 288	-
Total	268 387	7 271	14 916	1 094	291 667	-

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

- 'Non-convertible bonds' comprise mainly KBC Bank, KBC Group, ČSOB and KBC IFIMA issues. They are usually recognised under 'Measured at amortised cost'. However, if they contain closely related embedded derivatives, they are recorded under 'Designated at fair value' (see accounting policies). This item also includes three green bonds (for 500, 500 and 750 million euros each) and a social bond (for 750 million euros), which have been recognised at amortised cost.
- More information on major new debt issues or redemptions is provided under the 'Consolidated cashflow statement'.
- 'Deposits from credit institutions and investment firms' include funding obtained from the ECB's TLTRO programme (15.4 billion euros at year-end 2022, 9.1 billion euros less than at year-end 2021 on account of redemptions). KBC calculates these deposits using the effective interest rate method, with the rate being adjusted should we fail to meet the conditions (similar to a floating rate instrument), as per paragraph B.5.4.5 of IFRS 9. KBC's management has reasonable assurance that KBC will comply with the conditions attached (including the level of lending to households and non-financial companies) and hence the interest has accordingly been recognised (a gross amount of 112 million euros in interest income (negative interest rate) in 2022 and 242 million euros in 2021).
- Transferred financial assets that continue to be recognised in their entirety: KBC regularly lends and/or sells securities with the commitment to buy them back at a later date (repo transactions). Securities lent or sold with such a commitment are transferred to the counterparty, and, in exchange, KBC receives cash or other financial assets. However, KBC retains the main risks and income relating to these securities, and, therefore, continues to recognise them on its balance sheet. In addition, a financial liability is recognised equalling the cash received.

Transferred financial assets that continue to be recognised in their entirety (carrying value, in millions of EUR)	**31-12-2022**	**31-12-2021**
Transferred financial assets that continue to be recognised in their entirety: repo transactions and securities lent out	17 425	13 762
Held for trading	960	1 221
Fair value through OCI	860	1 474
Amortised cost	15 605	11 067
Associated financial liability	10 534	2 936
Held for trading	689	335
Fair value through OCI	609	362
Amortised cost	9 236	2 239

- It should be noted that KBC has more transferred financial assets on its balance sheet than repo transactions, due to the fact that the cash legs of certain repo transactions are offset against reverse repo transactions if they are carried out with the same counterparty, in the same currency and with the same maturity date. Moreover, there is a legally enforceable right, and an intention, to settle the transactions on a net basis or to realise the financial asset and settle the financial liability simultaneously.
- More information on the acquisition of Raiffeisenbank Bulgaria in 2022 is provided in Note 6.6.
- The loan portfolio accounts for the largest share of the financial assets. We report on estimated greenhouse gas emissions associated with lending and other activities and have defined objectives for reducing the greenhouse gas intensity of loans we have provided to the energy sector, electricity producers and the real estate sector, mortgage loans and loans provided for commercial residential real estate, as well as loans provided to the automotive industry and financial and operational car leasing (see Note 6.2), the agricultural sector, and cement, steel and aluminium producers. See 'Focus on climate' in the 'Report of the Board of Directors' section for a more detailed explanation. More details can also be found in our Climate Report and our Sustainability Report at www.kbc.com.

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

Note 4.2.1: Impaired financial assets

(in millions of EUR)	Carrying value before impairment	Impairment	Carrying value after impairment
31-12-2022			
Financial assets at amortised cost: Loans and advances*	204 473	-2 619	201 853
Stage 1 (12-month ECL)	163 846	-110	163 736
Stage 2 (lifetime ECL)	36 577	-635	35 941
Stage 3 (lifetime ECL)	3 616	-1 796	1 820
Purchased or originated credit impaired assets (POCI)	434	-77	357
Financial assets at amortised cost: Debt securities	52 048	-18	52 030
Stage 1 (12-month ECL)	51 909	-7	51 903
Stage 2 (lifetime ECL)	130	-4	126
Stage 3 (lifetime ECL)	8	-7	1
Purchased or originated credit impaired assets (POCI)	0	0	0
Financial assets at fair value through OCI: Debt securities	11 818	-4	11 813
Stage 1 (12-month ECL)	11 753	-3	11 750
Stage 2 (lifetime ECL)	65	-2	63
Stage 3 (lifetime ECL)	0	0	0
Purchased or originated credit impaired assets (POCI)	0	0	0
31-12-2021			
Financial assets at amortised cost: Loans and advances*	194 638	-2 573	192 065
Stage 1 (12-month ECL)	167 426	-104	167 322
Stage 2 (lifetime ECL)	23 131	-507	22 624
Stage 3 (lifetime ECL)	3 493	-1 848	1 645
Purchased or originated credit impaired assets (POCI)	588	-114	474
Financial assets at amortised cost: Debt securities	47 181	-9	47 172
Stage 1 (12-month ECL)	47 155	-5	47 150
Stage 2 (lifetime ECL)	24	-3	21
Stage 3 (lifetime ECL)	1	-1	1
Purchased or originated credit impaired assets (POCI)	0	0	0
Financial assets at fair value through OCI: Debt securities	15 509	-6	15 503
Stage 1 (12-month ECL)	15 418	-3	15 415
Stage 2 (lifetime ECL)	91	-3	88
Stage 3 (lifetime ECL)	0	0	0
Purchased or originated credit impaired assets (POCI)	0	0	0

* The carrying value after impairment in this note corresponds to the sum of the 'Loans and advances to credit institutions and investment firms (excl. reverse repos)', 'Loans and advances to customers (excl. reverse repos)' and 'Reverse repos' in Note 4.1 (in the 'Measured at amortised cost' column).

- Acquisition of Raiffeisenbank Bulgaria (now renamed KBC Bank Bulgaria):
  - The carrying value before impairment at year-end 2022 included 4.7 billion euros for KBC Bank Bulgaria, of which 4.1 billion euros in loans and advances (3.2, 0.8 and 0.1 billion euros in Stages 1, 2 and 3, respectively), 0.5 billion euros in debt securities at amortised cost and 0.1 billion euros in debt securities at fair value through OCI. KBC Bank Bulgaria's portfolios account for 1.8% of the entire KBC group.
  - Impairment at year-end 2022 included 113 million euros for KBC Bank Bulgaria, of which 106 million euros in loans and advances (10, 30 and 66 million euros in Stages 1, 2 and 3, respectively), and 7 million euros in debt securities at amortised cost. These impairment valuations partly deviate from the methodology set out in the accounting policies (particularly as regards the forward-looking information, IFRS 9 models and criteria used to determine a significant increase in credit risk). The integration of KBC Bank Bulgaria in 2023 will also involve the alignment of the accounting policies at KBC Bank Bulgaria for determining impairment.
- Carrying value before impairment of loans and advances at amortised cost: increase of 9.8 billion euros in 2022, due primarily to:
  - The acquisition of Raiffeisenbank Bulgaria (see above).
  - An organic net increase in the loan portfolio (mainly mortgage loans and term loans, in all countries).
  - This increase was partly offset by a decrease of the carrying value before impairment of loans and advances (excluding reverse repos) and the reverse repos to credit institutions and investment firms.
- Carrying value before impairment of loans and advances at amortised cost in 'Stage 2': increase of 13.4 billion euros in 2022, due primarily to:
  - The migration to 'Stage 2' based on a collective approach of 'Stage 1' loans (see also Note 1.4) that have indirect exposure to Russia, Ukraine and Belarus (i.e. as a result of the military conflict; 2.8 billion euros) and/or are vulnerable to emerging risks (11.3 billion euros).
  - The acquisition of Raiffeisenbank Bulgaria (see above).
  - This was partly offset by the discontinuation of the collective 'Stage 2' transfer of loans vulnerable to coronavirus-related risks (3.1 billion euros in receivables that had been moved to 'Stage 2' at year-end 2021). The remaining coronavirus-related risks in our loan portfolio are included in the regular indicators used to assess considerable credit risk increases (probability of default, forbearance and the number of days past due), which are no longer concealed by the moratoria.
  - Please note that the migration of loans from 'Stage 1' to 'Stage 2' based on the collective approach resulted in a net decrease of 3.6 billion euros of the carrying value before impairment of loans and advances at amortised cost in 'Stage 1', which was partly offset by the organic net increase in the loan portfolio and the acquisition of Raiffeisenbank Bulgaria.
  - Also note that the migration predicted in the management overlay at the time is not reflected in the 2021 year-end figures, because it was determined based on a collective approach and, therefore, could not be individually linked to specific loans. Taking into account the impact of the management overlay on staging at year-end 2021, this would result in a carrying value before impairment of loans and advances of an estimated 165.4, 24.3 and 4.3 billion euros in Stages 1, 2 and 3, respectively (or net migration of 1% of the total portfolio from 'Stage 1' to 'Stage 2' and 0.4% from 'Stage 1' and 'Stage 2' to 'Stage 3').
- Carrying value before impairment of debt securities at amortised cost: increase of 4.9 billion euros in 2022, almost entirely in 'Stage 1':
  - More than half of this increase concerns (issues by) public bodies, one third concerns credit institutions and investment firms, and the remaining part concerns corporates, and related primarily to net investments.
- Impairment: increase of 0.1 billion euros in 2022, due to:
  - The acquisition of Raiffeisenbank Bulgaria (see above).
  - For information on other changes, see Note 3.10.
- See also 'Climate-related and other ESG risks' in the 'How do we manage our risks?' section.
- In 2022, 'Stage 2' and 'Stage 3' financial assets with a net carrying value of 471 million euros have been subject to modifications in the past that did not result in derecognition. The gross carrying value of 'Stage 1' financial assets subject to modifications in the past that did not result in derecognition came to 1 088 million euros in 2022. The corresponding figures for 2021 were 1 712 million euros and 509 million euros, respectively. Modification gains or losses are recognised under impairment (see Note 3.10).
- In 2022, financial assets at amortised cost with a gross carrying value of 80 million euros were written off, but were still subject to enforcement activities; the corresponding figure in 2021 was 72 million euros.

Note 4.2.2: Impairment details

(in millions of EUR)	Stage 1 Subject to 12-month ECL	Stage 2 Subject to lifetime ECL	Stage 3 Subject to lifetime ECL	Subject to lifetime ECL (purchased or originated credit impaired)	Total
2022					
LOANS AND ADVANCES AT AMORTISED COST					
Impairment on 1 January	104	507	1 848	114	2 573
Movements with an impact on results[1]	-6	96	147	-8	230
Transfer of financial assets					
Stage 1 (12-month ECL)	*-22*	*158*	*60*	*0*	*197*
Stage 2 (lifetime ECL)	*4*	*-83*	*95*	*0*	*16*
Stage 3 'non-performing' (lifetime ECL)	*0*	*26*	*-54*	*-3*	*-31*
New financial assets[2]	40	43	10	0	93
Changes in risk parameters during the reporting period	-16	-23	90	-5	48
Changes in the model or methodology	-1	3	0	0	2
Derecognised financial assets[3]	-10	-26	-59	-1	-97
Other	-1	-2	4	0	2
Movements without an impact on results	12	32	-199	-29	-184
Derecognised financial assets[3]	0	-1	-296	-7	-304
Changes in the scope of consolidation	14	32	88	0	133
Transfers under IFRS 5	0	0	0	0	0
Other	-2	1	9	-21	-13
Impairment on 31 December	110	635	1 796	77	2 619
DEBT SECURITIES AT AMORTISED COST					
Impairment on 1 January	5	3	1	0	9
Movements with an impact on results[1]	2	0	1	0	3
Transfer of financial assets					
Stage 1 (12-month ECL)	*0*	*0*	*0*	*0*	*0*
Stage 2 (lifetime ECL)	*0*	*-1*	*1*	*0*	*0*
Stage 3 'non-performing' (lifetime ECL)	*0*	*0*	*0*	*0*	*0*
New financial assets[2]	1	0	0	0	1
Changes in risk parameters during the reporting period	0	1	0	0	1
Changes in the model or methodology	0	0	0	0	0
Derecognised financial assets[3]	0	0	0	0	0
Other	0	0	0	0	0
Movements without an impact on results	0	1	5	0	6
Derecognised financial assets[3]	0	0	-1	0	-1
Changes in the scope of consolidation	0	1	6	0	7
Transfers under IFRS 5	0	0	0	0	0
Other	0	0	0	0	0
Impairment on 31 December	7	4	7	0	18
DEBT SECURITIES AT FAIR VALUE THROUGH OCI					
Impairment on 1 January	3	3	0	0	6
Movements with an impact on results[1]	0	-1	0	0	-1
Transfer of financial assets					
Stage 1 (12-month ECL)	*0*	*0*	*0*	*0*	*0*
Stage 2 (lifetime ECL)	*0*	*0*	*0*	*0*	*0*
Stage 3 'non-performing' (lifetime ECL)	*0*	*0*	*0*	*0*	*0*
New financial assets[2]	0	0	0	0	0
Changes in risk parameters during the reporting period	0	-1	0	0	-1
Changes in the model or methodology	0	0	0	0	0
Derecognised financial assets[3]	0	0	0	0	0
Other	0	0	0	0	0
Movements without an impact on results	0	0	0	0	0
Derecognised financial assets[3]	0	0	0	0	0
Changes in the scope of consolidation	0	0	0	0	0
Transfers under IFRS 5	0	0	0	0	0
Other	0	0	0	0	0
Impairment on 31 December	3	2	0	0	4

2021					
LOANS AND ADVANCES AT AMORTISED COST					
Impairment on 1 January	168	992	2 517	18	3 695
Movements with an impact on results[1]	-62	-454	242	-2	-276
Transfer of financial assets					
Stage 1 (12-month ECL)	*-12*	*99*	*42*	*0*	*129*
Stage 2 (lifetime ECL)	*6*	*-116*	*80*	*0*	*-30*
Stage 3 'non-performing' (lifetime ECL)	*0*	*20*	*-36*	*0*	*-16*
New financial assets[2]	25	14	7	0	45
Changes in risk parameters during the reporting period	-57	-426	214	1	-269
Changes in the model or methodology	0	-1	0	0	-1
Derecognised financial assets[3]	-24	-48	-84	-2	-158
Other	0	2	20	0	22
Movements without an impact on results	-2	-32	-911	98	-847
Derecognised financial assets[3]	0	0	-286	-12	-299
Changes in the scope of consolidation	0	0	4	0	4
Transfers under IFRS 5	-3	-31	-540	0	-574
Other	1	0	-90	110	21
Impairment on 31 December	104	507	1 848	114	2 573
DEBT SECURITIES AT AMORTISED COST					
Impairment on 1 January	6	1	2	0	9
Movements with an impact on results[1]	-1	2	0	0	1
Transfer of financial assets					
Stage 1 (12-month ECL)	*0*	*0*	*0*	*0*	*0*
Stage 2 (lifetime ECL)	*0*	*0*	*0*	*0*	*0*
Stage 3 'non-performing' (lifetime ECL)	*0*	*0*	*0*	*0*	*0*
New financial assets[2]	1	0	0	0	1
Changes in risk parameters during the reporting period	-2	3	0	0	1
Changes in the model or methodology	0	0	0	0	0
Derecognised financial assets[3]	0	0	0	0	-1
Other	0	0	0	0	0
Movements without an impact on results	0	0	-1	0	-1
Derecognised financial assets[3]	0	0	-1	0	-1
Changes in the scope of consolidation	0	0	0	0	0
Transfers under IFRS 5	0	0	0	0	0
Other	0	0	0	0	0
Impairment on 31 December	5	3	1	0	9
DEBT SECURITIES AT FAIR VALUE THROUGH OCI					
Impairment on 1 January	6	3	0	0	9
Movements with an impact on results[1]	-3	0	0	0	-4
Transfer of financial assets					
Stage 1 (12-month ECL)	*0*	*0*	*0*	*0*	*0*
Stage 2 (lifetime ECL)	*0*	*-1*	*0*	*0*	*-1*
Stage 3 'non-performing' (lifetime ECL)	*0*	*0*	*0*	*0*	*0*
New financial assets[2]	0	0	0	0	0
Changes in risk parameters during the reporting period	-3	0	0	0	-3
Changes in the model or methodology	0	0	0	0	0
Derecognised financial assets[3]	-1	0	0	0	-1
Other	0	0	0	0	0
Movements without an impact on results	0	0	0	0	0
Derecognised financial assets[3]	0	0	0	0	0
Changes in the scope of consolidation	0	0	0	0	0
Transfers under IFRS 5	0	0	0	0	0
Other	0	0	0	0	0
Impairment on 31 December	3	3	0	0	6

1 Amounts recovered in respect of loans that have already been written off are recycled to the income statement and recorded as 'Impairment on financial assets at amortised cost and at fair value through OCI'. However, they have not been included in this table since they do not have any impact on impairment losses on the balance sheet.
2 Also includes impairment related to new financial assets resulting from off-balance-sheet commitments and financial guarantees already given being called.
3 Derecognition without an impact on results occurs when the impairment adjustment has already been made upfront (for example, at the moment of the sale agreement (disposals) or before the write-off). Derecognition with an impact on results occurs when the impairment adjustment takes place at the same time (for instance, in the case of debt forgiveness).

- The change in impairment in 2022 relates mainly to the reserve set aside to cover geopolitical and emerging risks and the full reversal of the remaining reserves set aside for the coronavirus crisis (see Note 1.4) and the changes in the scope of consolidation, partly offset by the elimination of the impairment on derecognised financial assets.
- Changes in the scope of consolidation: relates mainly to the acquisition of Raiffeisenbank Bulgaria.
- The vast majority of the staging is triggered by a collective management assessment and relative changes in PD (see the multi-tier approach outlined in Note1.2 under 'Significant increase in credit risk since initial recognition').
- For information on provisions for commitments and financial guarantees, see Note 5.7.2.
- For information regarding the impact of changes in impairment on the income statement, see Note 3.10.
- The loan portfolio accounts for the largest share of the financial assets. Based on internal management reports, the composition and quality of the loan portfolio is set out in detail in the 'How do we manage our risks?' section (under 'Credit risk'). All parts of that particular section which have been audited by the statutory auditor are listed at the start of the section.

Note 4.3: Maximum credit exposure and offsetting

(in millions of EUR)	Maximum credit exposure (A)	Collateral and other credit enhancements received (B)	Net (A-B)
31-12-2022			
Subject to impairment	326 705	132 743	193 962
of which Stage 3 'non-performing' (AC and FVOCI)	*2 106*	*1 550*	*556*
Debt securities	63 843	98	63 745
Loans and advances (excl. reverse repos)	181 668	99 415	82 252
Reverse repos	20 186	20 131	55
Other financial assets	1 561	0	1 561
Off-balance-sheet liabilities	59 447	13 099	46 348
Irrevocable	*38 832*	*6 741*	*32 091*
Revocable	*20 616*	*6 358*	*14 258*
Not subject to impairment	9 239	2 213	7 026
Debt securities	1 745	0	1 745
Loans and advances (excl. reverse repos)	639	593	46
of which designated upon initial recognition at fair value through profit or loss (FVO)	*0*	*0*	*0*
Reverse repos	33	33	0
Derivatives	6 821	1 588	5 234
Other financial assets	0	0	0
Off-balance-sheet liabilities	0	0	0
Total	335 944	134 956	200 987
31-12-2021			
Subject to impairment	309 988	127 140	182 848
of which Stage 3 'non-performing' (AC and FVOCI)	*2 072*	*1 584*	*488*
Debt securities	62 675	93	62 582
Loans and advances (excl. reverse repos)	167 087	90 770	76 317
Reverse repos	24 978	24 877	101
Other financial assets	892	0	892
Off-balance-sheet liabilities	54 357	11 400	42 957
Irrevocable	*36 957*	*6 031*	*30 926*
Revocable	*17 401*	*5 370*	*12 031*
Not subject to impairment	9 263	2 294	6 969
Debt securities	2 976	0	2 976
Loans and advances (excl. reverse repos)	561	545	16
of which designated upon initial recognition at fair value through profit or loss (FVO)	*0*	*0*	*0*
Reverse repos	0	0	0
Derivatives	5 727	1 749	3 977
Other financial assets	0	0	0
Off-balance-sheet liabilities	0	0	0
Total	319 251	129 434	189 818

- Maximum credit exposure for a financial asset is the net carrying value. Besides the amounts on the balance sheet, maximum credit exposure also includes the undrawn portion of irrevocable credit lines, financial guarantees granted and other irrevocable commitments.
- The main types of collateral and other credit enhancements received relate to mortgages on real estate (mainly collateral for mortgage loans), securities lent out (mainly as a collateral for reverse repos), off-balance-sheet financial guarantees received and collateral of movable property. Mortgage loans with an LTV (loan-to-value) greater than 100% are limited to 0.6 billion euros or 0.7% of the entire mortgage loan portfolio at year-end 2022.
- The loan portfolio accounts for the largest share of the financial assets. Based on internal management reports, the composition and quality of the loan portfolio is set out in detail in the 'How do we manage our risks?' section (under 'Credit risk'). All parts of that particular section which have been audited by the statutory auditor are listed at the start of the section.
- Collateral and credit enhancements received: recognised at market value and limited to the outstanding amount of the relevant loans.
- The maximum credit exposure for the KBC Bank Ireland financial assets has not been included in the above figures (see Note 5.11 for more information).

Financial instruments subject to offsetting, enforceable master netting agreements and similar arrangements	Gross amount of recognised financial instruments	Gross amounts of recognised financial instruments set off	Net amounts of financial instruments presented in the balance sheet	Amounts not set off in the balance sheet			Net amount
(in millions of EUR)				Financial instruments	Cash collateral	Securities collateral	
31-12-2022							
FINANCIAL ASSETS							
Derivatives	32 380	25 559	6 821	4 485	1 302	67	968
Derivatives (excluding central clearing houses)	*6 601*	*0*	*6 601*	*4 485*	*1 302*	*67*	*748*
*Derivatives with central clearing houses**	*25 779*	*25 559*	*220*	*0*	*0*	*0*	*220*
Reverse repos, securities borrowing and similar arrangements	25 694	5 475	20 219	0	0	20 210	8
Reverse repos	*25 694*	*5 475*	*20 219*	*0*	*0*	*20 210*	*8*
Securities borrowing	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Other financial instruments	0	0	0	0	0	0	0
Total	58 074	31 034	27 040	4 485	1 302	20 277	976
FINANCIAL LIABILITIES							
Derivatives	31 462	22 846	8 615	4 492	1 095	447	2 582
Derivatives (excluding central clearing houses)	*8 329*	*0*	*8 329*	*4 492*	*1 095*	*447*	*2 296*
*Derivatives with central clearing houses**	*23 132*	*22 846*	*286*	*0*	*0*	*0*	*286*
Repos, securities lending and similar arrangements	16 573	5 475	11 097	0	0	11 082	15
Repos	*16 573*	*5 475*	*11 097*	*0*	*0*	*11 082*	*15*
Securities lending	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Other financial instruments	0	0	0	0	0	0	0
Total	48 035	28 322	19 713	4 492	1 095	11 529	2 597
31-12-2021							
FINANCIAL ASSETS							
Derivatives	13 969	8 242	5 727	2 731	1 298	112	1 586
Derivatives (excluding central clearing houses)	*5 619*	*0*	*5 619*	*2 731*	*1 298*	*112*	*1 478*
*Derivatives with central clearing houses**	*8 349*	*8 242*	*107*	*0*	*0*	*0*	*107*
Reverse repos, securities borrowing and similar arrangements	38 160	13 182	24 978	67	0	24 900	10
Reverse repos	*38 160*	*13 182*	*24 978*	*67*	*0*	*24 900*	*10*
Securities borrowing	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Other financial instruments	0	0	0	0	0	0	0
Total	52 129	21 425	30 704	2 798	1 298	25 012	1 596
FINANCIAL LIABILITIES							
Derivatives	16 084	9 372	6 713	3 015	1 793	640	1 265
Derivatives (excluding central clearing houses)	*6 608*	*0*	*6 609*	*3 015*	*1 793*	*640*	*1 161*
*Derivatives with central clearing houses**	*9 476*	*9 372*	*104*	*0*	*0*	*0*	*104*
Repos, securities lending and similar arrangements	16 477	13 182	3 295	160	0	3 135	1
Repos	*16 477*	*13 182*	*3 295*	*160*	*0*	*3 135*	*1*
Securities lending	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Other financial instruments	0	0	0	0	0	0	0
Total	32 562	22 554	10 008	3 174	1 793	3 774	1 266

* For central clearing houses, the offsetting procedure refers to the amount of offsetting between derivatives and related cash collateral. Cash collateral with central clearing houses amounted to 2 712 million euros at year-end 2022 and 1 130 million euros at year-end 2021.

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

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

- In line with European Banking Authority guidelines, we conduct an outlier stress test on a quarterly basis by applying six different scenarios to the banking books (material currencies). The worst-case scenario is set off against tier-1 capital. For the banking book at KBC group level, this risk came to -3% of tier-1 capital at year-end 2022. This -3% is well below the -15% Tier 1 threshold,

which is monitored by the ECB. Note that this -3% of tier-1 capital at year-end 2022 is equivalent to a -0.4% points impact on the end of year 2022 fully loaded CET1 ratio.
- The table shows the changes in economic value of equity under six different interest rate scenarios. To test these six scenarios, we combine the shift in the yield curves with changes in maturities depending on clients' behaviour (e.g., interest-rate-driven prepayment behaviour) and use a run-off balance sheet where maturing items are not replaced. The bank also analyses the impact of different interest rate scenarios on its net interest income.

Supervisory shock scenarios (in millions of EUR, material currencies)*	Changes of the economic value of equity End of 4Q2022	End of 2Q2022
1 Parallel up	-491	-1 163
2 Parallel down	370	600
3 Steepener	-55	-207
4 Flattener	-26	-3
5 Short rates up	-179	-343
6 Short rates down	102	176

* Supervision of the underlying internal models' compliance with the approval criteria as provided for in the standards imposed by the regulator does not come under the responsibility of the statutory auditor.

- Note that the above stress test covers the full balance sheet (full economic view), with compensating effects across the balance sheet, whereas the table below focuses on some parts of the balance sheet.
- Furthermore, taking into account 1) KBCs large stock of high-quality liquid assets (approximately 92 billion euros on average in 2022), which consist of cash and bonds which can be repoed in the private market and at the central banks, 2) 48% of total customer deposits at KBC are covered by the Deposit Guarantee and 3) 83% of total customer deposits consisting of more stable retail & SME clients, the unrealised losses on the debt securities portfolio at amortised cost do not need to be realised for liquidity purposes and are therefore irrelevant from a capital perspective.

Fair value of financial instruments that are not measured at fair value in the balance sheet	Financial assets at amortised cost		Financial liabilities at amortised cost	
(in millions of EUR)	Carrying value	Fair value	Carrying value	Fair value
31-12-2022				
FINANCIAL ASSETS				
Loans and advances to credit institutions and investment firms (incl. reverse repos)	24 258	24 211	–	–
Loans and advances to customers (incl. reverse repos)	177 596	163 972	–	–
Debt securities	52 030	46 886	–	–
Other	1 561	1 561	–	–
Total	255 444	236 630	–	–
Level 1	–	43 364	–	–
Level 2	–	31 917	–	–
Level 3	–	161 349	–	–
FINANCIAL LIABILITIES				
Deposits from credit institutions and investment firms (incl. repos)	–	–	35 671	35 207
Deposits from customers and debt securities (incl. repos)	–	–	251 735	250 485
Liabilities under investment contracts	–	–	0	0
Other	–	–	2 448	2 448
Total	–	–	289 854	288 140
Level 1	–	–	–	47
Level 2	–	–	–	111 093
Level 3	–	–	–	176 999
31-12-2021				
FINANCIAL ASSETS				
Loans and advances to credit institutions and investment firms (incl. reverse repos)	32 780	32 789	–	–
Loans and advances to customers (incl. reverse repos)	159 285	160 037	–	–
Debt securities	47 172	47 878	–	–
Other	892	892	–	–
Total	240 128	241 595	–	–
Level 1	–	44 062	–	–
Level 2	–	36 737	–	–
Level 3	–	160 797	–	–
FINANCIAL LIABILITIES				
Deposits from credit institutions and investment firms (incl. repos)	–	–	40 935	41 003
Deposits from customers and debt securities (incl. repos)	–	–	225 164	225 299
Liabilities under investment contracts	–	–	0	0
Other	–	–	2 288	2 286
Total	–	–	268 387	268 588
Level 1	–	–	–	24
Level 2	–	–	–	105 714
Level 3	–	–	–	162 850

- All internal valuation models are validated by an independent Risk Validation Unit. In addition, the Executive Committee has appointed a Group Valuation Committee (GVC) to ensure that KBC meets all the legal requirements for measuring financial assets and liabilities at fair value. The GVC monitors consistent implementation of the KBC Valuation Framework, which consists of various guidelines, including the Group Valuation Policy, the Group Market Value Adjustments Policy and the Group Parameter Review Policy. The GVC meets at least twice a quarter to approve significant changes in valuation methods (including, but not limited to, models, market data and inputs) or deviations from group policies for financial assets and liabilities measured at fair value. The committee is made up of members from Finance, Risk Management and the Middle Office. Valuation uncertainty measurements are made and reported to the GVC every six months. Certain fair values generated by valuation models are challenged by a team set up specifically for this purpose.
- The fair value of mortgage and term loans not measured at fair value in the balance sheet (see table) is calculated by discounting contractual cashflows at the risk-free rate. This calculation is then adjusted for credit risk by taking account of margins obtained on similar, but recently issued, loans or by using a spread derived from the listed-bond spread. The fair value of the main portfolios takes account of prepayment risks and cap options. The fair value of time deposits is calculated by discounting contractual cashflows at the risk-free rate. The fair value of demand and savings deposits is presumed to be equal to their carrying value.
- As a result of the first-time adoption of IFRS 9 on 1 January 2018, debt instruments with a total carrying value of 15 060 million euros have been reclassified from 'Available-for-sale assets' to 'Financial assets held at amortised cost'. Due to this reclassification, changes in fair value (before tax) totalling -566 million euros were not recorded in the revaluation reserve in 2022 (-199 million euros in 2021). The fair value of this reclassified portfolio (after redemptions) amounted to 4 668 million euros at year-end 2022 (5 753 million euros at year-end 2021).
- The difference between the fair value and the carrying value of the financial instruments at amortised cost was caused by the substantial interest rate hikes in 2022. As a hold-to-collect business model is applied on the assets side, interim changes in fair value are less relevant. In addition, part of this difference has already been recorded under fair value hedges for a portfolio of interest rate risk, which is presented separately on the balance sheet (on both the assets and the liabilities side) in the 'Profit/loss on positions in portfolios hedged against interest rate risk' balance sheet item. Furthermore, there are ALM interest derivatives not recognised in hedge accounting.

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

Fair value hierarchy				31-12-2022				31-12-2021
(in millions of EUR)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS AT FAIR VALUE								
Mandatorily measured at fair value through profit or loss other than held for trading (including overlay)								
Loans and advances to credit institutions and investment firms (incl. reverse repos)	0	13	0	13	0	0	0	0
Loans and advances to customers (incl. reverse repos)	0	0	625	625	0	0	560	560
Equity instruments	1 131	0	118	1 250	1 323	0	52	1 374
Investment contracts (insurance)	12 638	134	0	12 771	14 365	254	0	14 620
Debt securities	12	0	5	17	14	0	3	17
of which sovereign bonds	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Held for trading								
Loans and advances to credit institutions and investment firms (incl. reverse repos)	0	34	0	34	0	1	0	1
Loans and advances to customers (incl. reverse repos)	0	0	0	0	0	0	0	0
Equity instruments	429	0	0	430	448	0	0	448
Debt securities	1 480	244	4	1 728	1 522	1 432	4	2 958
of which sovereign bonds	*1 444*	*223*	*0*	*1 667*	*1 441*	*1 076*	*0*	*2 517*
Derivatives	3	5 547	729	6 279	1	4 482	961	5 443
Other	0	0	0	0	0	0	0	0
Designated upon initial recognition at fair value through profit or loss (FVO)								
Loans and advances to credit institutions and investment firms (incl. reverse repos)	0	0	0	0	0	0	0	0
Loans and advances to customers (incl. reverse repos)	0	0	0	0	0	0	0	0
Debt securities	0	0	0	0	0	0	0	0
of which sovereign bonds	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
At fair value through OCI								
Equity instruments	18	1	297	315	15	1	306	321
Debt securities	9 508	2 070	235	11 813	12 269	2 963	271	15 503
of which sovereign bonds	*7 003*	*1 059*	*73*	*8 135*	*8 751*	*1 711*	*52*	*10 514*

Hedging derivatives								
Derivatives	0	542	0	542	0	283	0	283
Total								
Total financial assets at fair value	25 219	8 585	2 014	35 818	29 956	9 416	2 157	41 529
FINANCIAL LIABILITIES AT FAIR VALUE								
Held for trading								
Deposits from credit institutions and investment firms (incl. repos)	0	7	0	7	0	2	0	2
Deposits from customers and debt securities (incl. repos)	0	44	0	44	0	21	0	21
Derivatives	2	6 911	1 125	8 038	1	4 410	1 209	5 619
Short positions	884	123	0	1 007	1 582	47	0	1 628
Designated at fair value								
Deposits from credit institutions and investment firms (incl. repos)	0	0	0	0	0	0	0	0
Deposits from customers and debt securities (incl. repos)	0	74	1 131	1 205	0	61	1 251	1 312
Liabilities under investment contracts	12 002	0	0	12 002	13 603	0	0	13 603
Hedging derivatives								
Derivatives	0	479	98	577	0	696	398	1 094
Total								
Total financial liabilities at fair value	12 887	7 638	2 355	22 881	15 185	5 238	2 857	23 280

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

	Instrument type	Products	Valuation technique
Level 1	Liquid financial instruments for which quoted prices are regularly available	FX spots, exchange traded financial futures, exchange traded options, exchange traded stocks, exchange traded funds, liquid government bonds, other liquid bonds, liquid asset backed securities (ABS) in active markets	Mark-to-market (quoted prices in active markets), for bonds: BVAL or vendor data.
Level 2	Plain vanilla/liquid derivatives	(Cross-currency) interest rate swaps (IRS), FX swaps, FX forwards, forward rate agreements (FRA), inflation swaps, dividend swaps and futures, reverse floaters, bond future options, interest rate future options, overnight index swaps (OIS), FX resets	Discounted cashflow analysis based on discount and estimation curves (derived from quoted deposit rates, FX swaps and (CC)IRS)
		Caps & floors, interest rate options, European stock options, European & American FX options, forward starting options, digital FX options, FX strips of simple options, European swaptions, European cancellable IRS, compound options	Option pricing model based on observable inputs (e.g., volatilities)
	Linear financial liabilities (without optional features) – cash instruments	Deposits, simple cashflows, repo transactions	Discounted cashflow analysis based on discount and estimation curves (derived from quoted deposit rates, FX swaps and (CC)IRS)
	Semi-liquid bonds/asset backed securities	Semi-liquid bonds/asset backed securities	BVAL, prices corroborated by alternative observable market data, or using comparable spread method
	Debt instruments	KBC IFIMA own issues (liabilities), mortgage bonds held by ČSOB	Discounted cashflow analysis and valuation of related derivatives based on observable inputs
	Linear financial assets (cash instruments)	Loans, commercial paper	Discounted cashflow analysis based on discount and estimation curves (derived from quoted deposit rates, FX swaps and (CC)IRS)
Level 3	Exotic derivatives	Target profit forwards, flexible forwards, American & Asian stock options, Bermudan swaptions, digital interest rate options, quanto interest rate options, digital stock options, composite stock options, barrier stock options, quanto digital FX options, FX Asian options, FX European barrier options, FX simple digital barrier options, FX touch rebates, inflation options, Bermudan cancellable IRS, constant maturity swaps (CMS), CMS spread swaps, CMS spread options, CMS interest rate caps/floors, (callable) range accruals, outperformance options, auto-callable options, lookback options, commodity swaps and forwards	Option pricing model based on observable inputs (e.g., correlation)
	Illiquid credit-linked instruments	Collateralised debt obligations (notes)	Valuation model based on correlation of probability of default of underlying assets
	Private equity investments	Private equity and non-quoted participations	Based on the valuation guidelines of the European Private Equity & Venture Capital Association
	Illiquid bonds/asset backed securities	Illiquid (mortgage) bonds/asset backed securities that are indicatively priced by a single pricing provider in an inactive market	BVAL, third-party pricing (e.g., lead manager), where prices cannot be corroborated due to a lack of available/reliable alternative market data
	Debt instruments	KBC own issues (KBC IFIMA)	Discounted cashflow analysis and valuation of related derivatives based on unobservable inputs (indicative pricing by third parties for derivatives)
	Structured loans	Government-regulated loans with leveraged interest rates and exotic early repayment schedules (K&H)	Discounted cashflow analysis and valuation of related derivatives based on unobservable inputs

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

- In 2022, KBC transferred 77 million euros' worth of financial assets and liabilities out of level 1 and into level 2, and 434 million euros' worth of financial assets and liabilities out of level 2 and into level 1. The corresponding figures for 2021 were 206 million euros and 294 million euros, respectively. Most of these reclassifications were carried out due to a change in the liquidity of government bonds and corporate bonds.

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

- In 2022, significant movements in financial assets and liabilities classified in level 3 of the fair value hierarchy included the following:
  - Financial assets measured at fair value through profit or loss (other than held for trading): the fair value of loans and advances increased by 65 million euros, primarily on account of new transactions, partly offset by changes in market inputs and instruments that had reached maturity. The fair value of unlisted shares rose by 66 million euros, due primarily to new transactions.
  - Financial assets at fair value through OCI: the fair value of debt instruments decreased by 36 million euros, primarily on account of instruments reaching maturity and changes in market inputs.
  - Financial assets held for trading: the fair value of derivatives decreased by 232 million euros, due mainly to sales of existing positions and changes in market inputs, only partly offset by new purchases and reclassifications into level 3.
  - Financial liabilities held for trading: the fair value of derivatives decreased by 83 million euros, due mainly to sales of existing positions and changes in market inputs, only partly offset by new purchases and reclassifications into level 3.
  - Financial liabilities relating to hedging derivatives: the fair value of derivatives decreased by 300 million euros due to changes in market inputs.
  - Financial liabilities measured at fair value through profit or loss: the fair value of issued debt instruments decreased by 120 million euros, primarily on account of transactions reaching maturity and the sale of existing positions, only partly offset by new transactions.
- In 2021, significant movements in financial assets and liabilities classified in level 3 of the fair value hierarchy included the following:
  - Financial assets measured at fair value through profit or loss (other than held for trading): the fair value of loans and advances increased by 173 million euros, primarily on account of new transactions, only partly offset by changes in market inputs and instruments that had reached maturity. The fair value of debt instruments fell by 34 million euros, owing primarily to changes in market inputs.
  - Financial liabilities held for trading: the fair value of derivatives increased by 103 million euros, due mainly to changes in market inputs and new transactions, partly offset by sales. The fair value of issued debt instruments fell by 85 million euros, due mainly to instruments that had reached maturity.
  - Financial liabilities relating to hedging derivatives: the fair value of derivatives increased by 398 million euros due to reclassifications in level 3 owing to an optimisation of the classification method.
  - Financial liabilities measured at fair value through profit or loss: the fair value of debt instruments increased by 100 million euros, primarily on account of new issues, partly offset by sales.
- Some level 3 assets are associated or economically hedged with identical level 3 liabilities, which means that KBC's exposure to unobservable inputs is lower than would appear from the gross figures. Most of the level 3 instruments are also valued using third-party pricing sources, with KBC not developing any unobservable inputs itself. The main unobservable inputs applied by KBC to the valuation of exotic derivatives include: mean reversion parameter on Bermudan swaptions, equity cross-correlations and volatilities for certain stock options, interest-rate correlations for CMS spread options, and the funding costs used to determine the forward equity prices as part of the valuation of certain equity derivatives. The change in fair value resulting from a change in these inputs to reflect reasonably possible alternative assumptions is insignificant.

Note 4.8: Derivatives

- In terms of volume of the notional amounts of the derivatives, approximately 77% are trading derivatives and approximately 23% are hedging derivatives.
- The majority of trading derivatives are effectively included in the trading book but are largely economically hedged (limited open positions) by other trading derivatives (such as derivative transactions initiated by commercial clients that are economically hedged) or by balance sheet positions (such as currency positions), which leads to large volumes of notional amounts but also to result-neutral revaluations on a net basis.
- A limited number of trading derivatives are ALM derivatives included in the banking book, which are used to hedge economic risk. These are not subject to hedge accounting. Hedge accounting is applied to most of the ALM interest rate contracts. Only a limited number of the ALM derivatives for foreign currencies are included in hedge accounting.

Note 4.8.1: Trading derivatives

(in millions of EUR)				31-12-2022				31-12-2021
	Carrying value		Notional amounts*		Carrying value		Notional amounts*	
	Assets	Liabilities	Purchased	Sold	Assets	Liabilities	Purchased	Sold
Total	6 279	8 038	567 205	568 302	5 443	5 619	491 716	503 818
Interest rate contracts	2 642	3 678	379 270	377 754	3 056	2 788	291 100	301 289
of which interest rate swaps and futures	*2 429*	*3 542*	*368 144*	*371 294*	*2 731*	*2 669*	*278 999*	*294 056*
of which options	*214*	*136*	*11 126*	*6 460*	*325*	*119*	*12 101*	*7 232*
Foreign exchange contracts	3 166	3 620	174 787	177 841	1 722	1 880	185 800	187 835
of which currency and interest rate swaps, forward foreign exchange transactions and futures	*3 081*	*3 509*	*171 878*	*172 361*	*1 668*	*1 830*	*182 613*	*183 020*
of which options	*85*	*112*	*2 909*	*5 480*	*54*	*50*	*3 187*	*4 816*
Equity contracts	452	720	12 812	12 371	646	935	14 494	14 376
of which equity swaps	*414*	*410*	*10 553*	*10 394*	*620*	*637*	*12 607*	*12 651*
of which options	*37*	*311*	*2 259*	*1 977*	*26*	*298*	*1 888*	*1 725*
Credit contracts	0	0	0	0	0	0	4	4
of which credit default swaps	*0*	*0*	*0*	*0*	*0*	*0*	*4*	*4*
Commodity and other contracts	20	19	337	335	19	17	318	314

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

Note 4.8.2: Hedging derivatives

31-12-2022

(in millions of EUR)	Hedging instrument					Hedged item				Impact on equity	
	Notional amounts[1]		Carrying value		Change in fair value of hedging items used as basis for recognising hedge ineffectiveness for the period[2]	Type	Carrying value		Change in fair value of hedged items used as basis for recognising hedge ineffectiveness for the period[2]	Ineffective portion recognised in profit or loss	Effective portion recognised in OCI
Hedging strategy	Purchased	Sold	Assets	Liabilities			Total (including fair value changes)	Of which accumulated fair value adjustments			
Fair value micro hedge											
Interest rate swaps	22 753	22 753	185	102	-619	Debt securities held at AC	4 007	-684	-323		
Currency and interest rate swaps	0	0	0	0	0	Loans and advances at AC	683	70	-310		
						Debt securities held at FVOCI	1 342	-152	-176		
						Debt securities issued at AC	14 624	-1 334	1 432		
						Deposits at AC	0	0	0		
Total	22 753	22 753	185	102	-619	Total			624	5	-
Portfolio hedge of interest rate risk											
Interest rate swaps	123 930	123 930	209	261	3 172	Debt securities held at AC	359	-122	-123		
Currency and interest rate options	1 762	0	101	0	82	Loans and advances at AC	104 980	-4 207	-3 769		
						Debt securities held at FVOCI	23	-6	-6		
						Debt securities issued at AC	0	0	0		
						Deposits at AC	14 574	-1 432	644		
Total	125 692	123 930	310	261	3 254	Total			-3 254	0	-
Cashflow hedge (micro hedge and portfolio hedge)											
Interest rate swaps	20 073	20 073	47	115	177						
Currency and interest rate swaps	1 204	1 257	0	39	-13						
Total	21 277	21 330	47	154	164	Total			-167	-3	-1 046
Hedge of net investments in foreign operations											
Total[3]	1 755	1 807	0	505	18	Total			-18	0	20

1 In this table, both legs of the derivatives are reported in the notional amounts.
2 Ineffectiveness is recognised in 'Net result from financial instruments at fair value through profit or loss' (also see Note 3.3).
3 Hedging instruments in the form of foreign currency deposits.

31-12-2021

(in millions of EUR)	Hedging instrument					Hedged item				Impact on equity	
	Notional amounts[1]		Carrying value		Change in fair value of hedging items used as basis for recognising hedge ineffectiveness for the period[2]	Type	Carrying value		Change in fair value of hedged items used as basis for recognising hedge ineffectiveness for the period[2]	Ineffective portion recognised in profit or loss	Effective portion recognised in OCI
Hedging strategy	Purchased	Sold	Assets	Liabilities			Total (including fair value changes)	Of which accumulated fair value adjustments			
Fair value micro hedge											
Interest rate swaps	22 027	22 027	98	407	307	Debt securities held at AC	3 576	-360	-394		
Currency and interest rate swaps	0	0	0	0	0	Loans and advances at AC	857	391	-114		
						Debt securities held at FVOCI	1 900	25	-79		
						Debt securities issued at AC	15 998	98	282		
						Deposits at AC	0	0	-2		
Total	22 027	22 027	98	407	307	Total			-307	0	-
Portfolio hedge of interest rate risk											
Interest rate swaps	89 467	89 467	110	183	809	Debt securities held at AC	11	-1	-2		
Currency and interest rate options	1 981	0	21	0	11	Loans and advances at AC	74 412	-504	-1 772		
						Debt securities held at FVOCI	13	-1	-1		
						Debt securities issued at AC	0	0	0		
						Deposits at AC	13 632	-862	960		
Total	91 448	89 467	131	183	820	Total			-815	5	-
Cashflow hedge (micro hedge and portfolio hedge)											
Interest rate swaps	21 249	21 249	24	502	177						
Currency and interest rate swaps	711	721	26	0	19						
Total	21 960	21 970	50	502	196	Total			-196	0	-1 197
Hedge of net investments in foreign operations											
Total[3]	1 904	1 965	5	420	-109	Total			109	0	20

1 In this table, both legs of the derivatives are reported in the notional amounts.
2 Ineffectiveness is recognised in 'Net result from financial instruments at fair value through profit or loss' (also see Note 3.3).
3 Hedging instruments in the form of foreign currency deposits.

- The sharp change in fair value of the hedging instruments and the hedged items in the fair value micro hedges and fair value hedges for a portfolio of interest rate risk for 2022 are attributable to the substantial increase in market interest rates.
- The Treasury departments of the various entities manage the interest rate risk. To prevent rate movements from having a negative impact, the maturities of assets and liabilities are adjusted on the balance sheet using interest rate swaps and other derivatives.
- As regards the relationship between risk management and hedge accounting policy, 'economic' management takes priority and risks are hedged in accordance with the general ALM framework. Only then is a decision made on which, if any, of these techniques will be used to limit any resulting accounting mismatch.
- The balances remaining in the cashflow hedge reserve from any hedging relationships for which hedge accounting is no longer applied came to -166 million euros. The accumulated amount of fair value hedge adjustments remaining on the balance sheet for any hedged items that have ceased to be adjusted for hedging gains and losses amounted to -24 million euros. These adjustments are amortised to profit or loss.
- The difference between the 'Profit/loss on positions in portfolios hedged against interest rate risk' balance sheet item and accumulated fair value adjustments following portfolio hedges of interest rate risk as included in Note 4.8.2 is attributable to accumulated fair value adjustments regarding discontinued fair value hedges not included in Note 4.8.2 but included in the balance sheet.
- The accumulated fair value adjustments of the hedged assets involved in portfolio hedges of interest rate risk dropped in 2022 due to the general increase in interest rates. The 'Profit/loss on positions in portfolios hedged against interest rate risk' balance sheet item on the liabilities side of the balance sheet also became more negative for the same reason.
- Also see the paragraph on hedge accounting in the 'How do we manage our risks?' section and Note 3.3.

Estimated cashflows from cashflow hedging derivatives per time bucket (in millions of EUR)	Inflow	Outflow
Not more than three months	7	-38
More than three but not more than six months	33	-95
More than six months but not more than one year	123	-274
More than one but not more than two years	222	-514
More than two but not more than five years	505	-960
More than five years	545	-849

5.0 Notes on other balance sheet items

Note 5.1: Other assets

(in millions of EUR)	31-12-2022	31-12-2021
Total	2 036	1 630
Debtors arising out of direct insurance operations	457	404
Debtors arising out of reinsurance operations	89	78
Deposits with ceding companies	8	10
Prepaid charges and accrued income	565	441
Other	917	696

Note 5.2: Tax assets and tax liabilities

(in millions of EUR)	31-12-2022	31-12-2021
CURRENT TAXES		
Current tax assets	174	179
Current tax liabilities	150	87
DEFERRED TAXES	1 005	769
Deferred tax assets by type of temporary difference	1 475	1 413
Employee benefits	78	82
Losses carried forward	186	247
Tangible and intangible fixed assets	77	126
Provisions for risks and charges	49	21
Impairment for losses on loans and advances	219	273
Financial instruments at fair value through profit or loss and fair value hedges	142	113
Fair value changes, available-for-sale assets, financial instruments at FVOCI, cashflow hedges and hedges of net investments in foreign operations	594	476
Technical provisions	42	30
Other	88	47
Deferred tax liabilities by type of temporary difference	470	644
Employee benefits	99	37
Losses carried forward	0	0
Tangible and intangible fixed assets	41	34
Provisions for risks and charges	9	9
Impairment for losses on loans and advances	3	3
Financial instruments at fair value through profit or loss and fair value hedges	131	132
Fair value changes, available-for-sale assets, financial instruments at FVOCI, cashflow hedges and hedges of net investments in foreign operations	44	292
Technical provisions	115	106
Other	29	33
Recognised as a net amount in the balance sheet as follows:		
Deferred tax assets	1 138	1 117
Deferred tax liabilities	133	348
Unused tax losses and unused tax credits	151	177

- Deferred tax assets are recognised to the extent that it is probable that, on the basis of realistic financial projections, taxable profit will be available against which the deductible temporary differences can be utilised in the foreseeable future (limited to a period of eight to ten years).
- Unused tax losses and unused tax credits concern tax losses of group companies which are not capitalised due to insufficient proof of future taxable profit. Most tax losses and tax credits can be carried forward for 20 years or more.
- The net change in deferred taxes (+236 million euros in 2022) breaks down as follows:
  - The change in deferred tax assets of (+62 million euros) was accounted for chiefly by:
    - a net increase in deferred tax assets on account of changes in the revaluation reserve for financial instruments measured at fair value through OCI, cashflow hedges and hedges of net investments in foreign operations (+118 million euros);
    - a decrease in deferred tax assets via the income statement of 74 million euros, mainly due to the usage and write-offs of losses carried forward, partly offset by the one-off recognition of deferred tax assets, due in part to the increase in business tax in the UK from 19% to 25% and the recognition of deferred tax assets in Ireland (-61 million euros net) as a result of lower deferred tax assets on impairment for losses on loans and advances (-18 million euros) and on non-current assets (-12 million euros). In addition, the arbitration proceedings against ICEC-Holding (see Note 3.6) have led to an increase in deferred tax assets via the income statement of 28 million euros.
    - changes in technical provisions of +12 million euros;
  - The change in deferred tax liabilities of -174 million euros was accounted for chiefly by:
    - a decrease in deferred tax liabilities on account of changes in the revaluation reserve for financial instruments measured at fair value through OCI, cashflow hedges and hedges of net investments in foreign operations (-249 million euros);
    - changes in defined benefit plans of +62 million euros and to a lesser extent the technical provisions (+9 million euros).
- The deferred tax assets presented in the balance sheet are attributable primarily to KBC Bank, KBC Insurance, ČSOB in the Czech Republic and KBC Bank Ireland.

Note 5.3: Investments in associated companies and joint ventures

(in millions of EUR)	31-12-2022	31-12-2021
Total	32	37
Overview of investments, including goodwill		
Skip Pay, s.r.o.	–	3
IGLUU s.r.o.	2	–
Immoscoop 2.0 BV	1	–
Isabel NV	12	11
Joyn International NV	0	1
Bancontact Payconiq Company NV	7	6
Payconiq International SA	7	9
Batopin NV	1	4
Other	2	4
Goodwill on associated companies and joint ventures		
Gross amount	0	0
Accumulated impairment	0	0
Breakdown by type		
Unlisted	32	37
Listed	0	0
Fair value of investments in listed associated companies and joint ventures	0	0

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

Note 5.4: Property and equipment and investment property

(in millions of EUR)	31-12-2022	31-12-2021
Property and equipment	2 989	3 050
Investment property	571	518
Rental income	50	57
Direct operating expenses from investments generating rental income	15	15
Direct operating expenses from investments not generating rental income	1	2

MOVEMENTS TABLE	Land and buildings	IT equipment	Other equipment	Total property and equipment	Investment property
2022					
Opening balance	1 479	117	1 454	3 050	518
Acquisitions	37	68	470	575	85
Disposals	-30	-1	-204	-235	-13
Depreciation	-120	-60	-25	-205	-31
Other movements	7	6	-209	-196	12
Closing balance	1 373	130	1 486	2 989	571
accumulated depreciation and impairment	*1 570*	*446*	*876*	*2 892*	*376*
Fair value	–	–	–	–	827
2021					
Opening balance	1 561	138	1 437	3 136	555
Acquisitions	113	43	448	603	15
Disposals	-57	-4	-205	-266	-17
Depreciation	-119	-64	-24	-207	-33
Other movements	-19	4	-201	-216	-2
Closing balance	1 479	117	1 454	3 050	518
accumulated depreciation and impairment	*1 487*	*446*	*832*	*2 766*	*412*
Fair value	–	–	–	–	792

- Annual rates of depreciation: mainly 3% for buildings (including investment property), 33% for IT equipment, between 5% and 33% for other equipment. No depreciation is charged for land.
- There was a small amount (around 0.4 billion euros) for commitments for the acquisition of property and equipment. There are no material restrictions on title, or on property and equipment pledged as security for liabilities.
- Most investment property is valued by an independent expert on a regular basis and by in-house specialists on an annual basis, based primarily on the capitalisation of the estimated rental value and on unit prices of similar real property. Account is taken of all the market inputs available on the date of the assessment (including location and market situation, type of building and construction, state of repair, use, etc.).
- Certain other investment property is valued annually by in-house specialists based on the current annual rental per building and expected rental movements and on an individual capitalisation rate per building.
- The impact of the heavy flooding and other extreme weather conditions in 2022 and 2021 on property and equipment and investment property (in this case, our branch network) and on the associated impairment was insignificant. For more information, see 'Climate-related and other ESG risks' in the 'How do we manage our risks?' section.
- The impact of our own activities as a bank-insurer on the environment is very limited, especially when compared to industrial companies and our indirect impact through lending and other activities, and stems mainly from our buildings and vehicles (commuting). We nevertheless also calculate our own direct greenhouse gas impact and apply certain targets in that regard. See 'Focus on climate' in the 'Report of the Board of Directors' section for a more detailed explanation. More details can also be found in our Climate Report and our Sustainability Report at www.kbc.com.

Note 5.5: Goodwill and other intangible assets

(in millions of EUR)	Goodwill	Software developed in-house	Software developed externally	Other	Total
2022					
Opening balance	913	559	263	13	1 749
Acquisitions	438	262	73	9	783
Disposals	0	0	-1	-3	-4
Amortisation	0	-90	-78	-1	-169
Other movements	-6	-12	-8	-2	-28
Closing balance	1 346	719	250	16	2 331
accumulated amortisation and impairment	*260*	*646*	*836*	*56*	*1 797*
2021					
Opening balance	845	386	301	20	1 551
Acquisitions	56	234	84	9	383
Disposals	0	0	-12	-10	-21
Amortisation	0	-62	-85	-2	-149
Other movements	12	1	-24	-3	-14
Closing balance	913	559	263	13	1 749
accumulated amortisation and impairment	*255*	*794*	*859*	*53*	*1 961*

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

Goodwill outstanding	31-12-2022	31-12-2021	Discount rates throughout the specific period of cashflow projections	
(in millions of EUR)			31-12-2022	31-12-2021
K&H Bank	173	188	17.3%-13.3%	11.4%-10.6%
ČSOB (Czech Republic)	259	251	13.9%-12.8%	10.6%-8.7%
ČSOB Stavební sporitelna	176	171	13.2%-12.8%	10.6%-8.8%
United Bulgarian Bank and Raiffeisenbank Bulgaria (now KBC Bank Bulgaria)	544	110	12.5%-12.2%	10.6%-9.2%
DZI Insurance	75	75	10.5%-8.1%	8.6%-7.2%
KBC Commercial Finance	21	21	9.9%-9.9%	8.8%-8.7%
Pension Insurance Company UBB	56	56	9.3%-9.1%	-
Rest	42	42	–	–
Total	1 346	913	–	–

- The period to which the cashflow budgets and projections relate is 10 years in most cases. This longer period is used to take account of current strong growth in the Central and Eastern European countries, where the growth rate is expected to develop towards a more moderate level in the longer term.
- The growth rate used to extrapolate the cashflow projections after that period is equal to the expected long-term growth rate of the gross domestic product. This rate depends on the country and varied between 3.2% and 4.7% in 2022 (between 1.2% and 1.7% in 2021).
- The discount rates applied have been raised considerably since last year, but on a net basis they only have a limited impact on valuations given the higher cashflow budgets resulting from improved net interest income.
- No sensitivity analysis was carried out for entities where the recoverable amount exceeded the carrying value to such a large extent that no reasonably possible change in the key assumptions would result in the recoverable amount being less than or equal to the carrying value. The table gives an indication for the other entities of the change in key assumptions that would lead to their recoverable amount equalling their carrying value.

Change in key assumptions[1]	Increase in discount rate[2]	Decrease in terminal growth rate	Increase in targeted solvency ratio[3]	Decrease in annual net profit	Increase in annual impairment charges
ČSOB Stavební sporitelna	2.5%	8.0%	6.4%	12%	-
United Bulgarian Bank and Raiffeisenbank Bulgaria (now KBC Bank Bulgaria)	0.6%	4.2%	1.0%	6%	38%
Pension Insurance Company UBB	4.0%	-	-	47%	-

1 Needless to say account should be taken of the fact that a change in these assumptions could affect other assumptions used to calculate the recoverable amount.
2 Based on a parallel shift and absolute increase in the discount rate curve. Discount rates are in the 15.7%-15.3% bracket for ČSOB Stavební sporitelna, the 13.1%-12.8% bracket for United Bulgarian Bank and KBC Bank Bulgaria, and in the 13.3%-13.1% bracket for Pension Insurance Company UBB.
3 Absolute increase in the tier-1 capital ratio.

Note 5.6: Technical provisions, insurance

(in millions of EUR) Technical provisions	Gross 31-12-2022	Reinsurance 31-12-2022	Gross 31-12-2021	Reinsurance 31-12-2021
Total	18 484	192	18 967	191
Insurance contracts, Non-life	4 154	180	3 967	181
Provision for unearned premiums	885	5	814	4
Provision for claims outstanding	3 025	175	2 908	176
Provision for profit sharing and rebates	2	0	3	0
Other technical provisions	242	0	242	0
Insurance contracts, Life	8 348	12	8 511	10
Provision for unearned premiums	19	1	18	1
Life insurance provision	7 945	8	8 080	8
Provision for claims outstanding	165	4	197	1
Provision for profit sharing and rebates	37	0	28	0
Other technical provisions	181	0	187	0
Investment contracts with DPF, Life	5 982	0	6 489	0
Life insurance provision	5 918	0	6 418	0
Provision for claims outstanding	11	0	16	0
Provision for profit sharing, rebates and other	53	0	55	0
Movements table	**2022**	**2022**	**2021**	**2021**
Insurance contracts, Non-life				
Opening balance	3 967	181	3 676	137
Movements reflected in earned premiums (income statement)	71	1	48	2
Movements reflected in technical charges (income statement)	115	-3	222	41
Payments regarding claims of previous financial years	*-412*	*-42*	*-328*	*-22*
Provision for new claims	*610*	*37*	*625*	*66*
Surplus/shortfall of claims provision for previous financial years	*-113*	*28*	*-112*	*2*
Cost of profit sharing	*-1*	*0*	*0*	*0*
Other movements with an impact on results	*31*	*-26*	*38*	*-5*
Movements reflected in balance sheet	*2*	*1*	22	1
Closing balance	4 154	180	3 967	181
Insurance contracts, Life				
Opening balance	8 511	10	8 315	8
Movements reflected in earned premiums (income statement)	1	0	1	0
Movements reflected in technical charges (income statement)	-175	2	71	2
New business (net of risk premium and charges)	*590*	*0*	*633*	*0*
Payments (including funding of risk premium)	*-844*	*0*	*-776*	*0*
Accretion of interest	*159*	*0*	*166*	*2*
Cost of profit sharing	*20*	*0*	*13*	*0*
Provision for new claims and change in provision for claims outstanding	*-38*	*3*	*-3*	*0*
Fair value adjustments of unit-linked contracts (not unbundled)	*-70*	*0*	*32*	*0*
Other movements with an impact on results	*7*	*0*	*6*	*1*
Movements reflected in balance sheet	11	0	124	0
Closing balance	8 348	12	8 511	10
Investment contracts with DPF, Life				
Opening balance	6 489	0	6 727	0
Movements reflected in technical charges (income statement)	-244	0	-70	0
New business (net of risk premium and charges)	*266*	*0*	*281*	*0*
Payments (including funding of risk premium)	*-593*	*0*	*-461*	*0*
Accretion of interest	*85*	*0*	*92*	*0*
Cost of profit sharing	*8*	*0*	*6*	*0*
Provision for new claims and change in provision for claims outstanding	*-9*	*0*	*12*	*0*
Fair value adjustments of unit-linked contracts (not unbundled)	*0*	*0*	*0*	*0*
Other movements with an impact on results	*0*	*0*	*0*	*0*
Movements reflected in balance sheet	-263	0	-168	0
Closing balance	5 982	0	6 489	0

- Technical provisions relate to insurance contracts and investment contracts with a discretionary participation feature (DPF).
- Liabilities under investment contracts without DPF are measured at fair value. These liabilities concern mainly unit-linked contracts, which are recognised under financial liabilities (see Note 4.1).
- Technical provisions for life insurance are calculated using various assumptions. Judgement is required when making these assumptions and the assumptions used are based on various internal and external sources of information. At present, IFRS 4 refers extensively to local accounting principles for the recognition of technical provisions. These provisions are generally calculated using the technical assumptions that were applicable at the inception of the insurance contract and are subject to liability adequacy tests. The key assumptions are:
  - mortality and morbidity rates, which are based on standard mortality tables and adapted where necessary to reflect the group's own experience;
  - expense assumptions, which are based on current expense levels and expense loadings;
  - the discount rate, which is generally equal to the technical interest rate, remains constant throughout the life of the policy, and in some cases is adjusted to take account of legal requirements and internal policy decisions.
  - It should be noted that assumptions may vary depending on the type of life insurance (e.g., conventional versus modern), the generation of contracts (mainly the time when the contract is entered into and the applicable terms and conditions) and the country (since we have insurance companies in five of our core markets), making it impossible to quantify these assumptions for the entire group. This is illustrated by the following two points: (i) The discount rate follows the historical market rate and since it concerns a life portfolio, most of which has existed for a long time and also has a long maturity, there are considerable differences within the portfolio. In Belgium alone, discount rates range from 4.75% for the oldest rates to 0.5% and lower for certain modern products. (ii) In terms of mortality risk, unisex mortality tables are used in Belgium, based on the standard 'MK/FK' mortality tables for products sold from 2012 on (before 2012, separate mortality tables were used for men and women). Corrections may still be made to these standard tables, with due consideration being given to the segmentation criteria of the relevant policies. As a result, the range of mortality tables used is extensive.
- Assumptions for the technical provisions for claims outstanding are based on past claims experience relating to claim numbers, claim payments and claims handling costs, and adjusted to take account of such factors as anticipated market experience, claims inflation and external factors such as court awards and legislation. The technical provision for claims outstanding is generally not discounted except when long-term obligations and/or annuities (industrial accidents, guaranteed income and hospitalisation insurance) are involved.
- In 2022, a reassessment of the confidence level of technical provisions resulted in a release of technical reserves in the Czech Republic (31 million euros in Life and 10 million euros in Non-Life technical result). In 2021, there were no changes in assumptions leading to a significant change in the valuation of insurance assets and liabilities.
- The 'Movements reflected in the balance sheet' item in 2021 also includes the impact of the life insurance business acquired from NN in Bulgaria (see Note 6.6).
- See also 'Climate-related and other ESG risks' in the 'How do we manage our risks?' section.
- Information relating to IFRS 17 can be found in Note 6.10.

Note 5.7: Provisions for risks and charges

Note 5.7.1: Overview

(in millions of EUR)	31-12-2022	31-12-2021
Total provisions for risks and charges	418	282
Provisions for off-balance-sheet commitments and financial guarantees	114	130
Provisions for other risks and charges	305	152
Provisions for restructuring	*92*	*87*
Provisions for taxes and pending legal disputes	*192*	*45*
Other	*20*	*20*

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

(in millions of EUR)	Subject to 12-month ECL	Subject to lifetime ECL	Subject to lifetime ECL – non-performing	Total
31-12-2022				
Provisions on 1 January	19	21	91	130
Movements with an impact on results				
Transfer of financial assets				
Stage 1 (12-month ECL)	*-6*	*10*	*6*	*10*
Stage 2 (lifetime ECL)	*0*	*-5*	*7*	*2*
Stage 3 'non-performing' (lifetime ECL)	*0*	*6*	*-2*	*4*
New financial assets	8	4	0	12
Changes in risk parameters during the reporting period	-1	1	-45	-45
Changes in the model or methodology	0	0	0	0
Derecognised financial assets	-1	-1	-1	-3
Other	0	-5	0	-5
Movements without an impact on results				
Derecognised financial assets	0	0	0	0
Changes in the scope of consolidation	1	2	3	6
Other	0	1	1	2
Provisions on 31 December	19	35	60	114
31-12-2021				
Provisions on 1 January	26	17	99	143
Movements with an impact on results				
Transfer of financial assets				
Stage 1 (12-month ECL)	*-2*	*4*	*0*	*2*
Stage 2 (lifetime ECL)	*0*	*-4*	*2*	*-1*
Stage 3 'non-performing' (lifetime ECL)	*0*	*1*	*-1*	*0*
New financial assets	6	1	1	8
Changes in risk parameters during the reporting period	-9	2	-13	-20
Changes in the model or methodology	0	0	0	0
Derecognised financial assets	-2	-1	0	-4
Other	0	0	0	0
Movements without an impact on results				
Derecognised financial assets	0	0	0	0
Changes in the scope of consolidation	0	0	0	0
Other	1	1	2	4
Provisions on 31 December	19	21	91	130

- Also see Note 6.1.

Note 5.7.3: Details of provisions for other risks and charges

(in millions of EUR)	Provisions for restructuring	Provisions for taxes and pending legal disputes	Other	Total
2022				
Opening balance	87	45	20	152
Movements with an impact on results				
Amounts allocated	*13*	*163*	*9*	*185*
Amounts used	*-7*	*-11*	*-7*	*-26*
Unused amounts reversed	*0*	*-6*	*-2*	*-8*
Transfers out of/into liabilities associated with disposal groups	0	0	0	0
Changes in the scope of consolidation	0	1	2	2
Other	0	1	-1	0
Closing balance	92	192	20	305
2021				
Opening balance	7	32	27	66
Movements with an impact on results				
Amounts allocated	*84*	*28*	*9*	*120*
Amounts used	*-4*	*-16*	*-15*	*-35*
Unused amounts reversed	*-1*	*-1*	*-1*	*-3*
Transfers out of/into liabilities associated with disposal groups	0	0	0	0
Changes in the scope of consolidation	0	2	0	2
Other	1	0	0	1
Closing balance	87	45	20	152

- The change in the restructuring provision in 2021 relates mainly to Ireland (see Note 6.6). For most of the other provisions recorded, no reasonable estimate can be made of when they will be used.
- For details on 'Provisions for taxes and pending legal disputes' in 2022, see Note 3.6.
- Other provisions included those set aside for miscellaneous risks.
- Information relating to the main legal disputes pending: claims filed against KBC group companies are – in keeping with IFRS rules – treated on the basis of an assessment of whether they will lead to an outflow of resources (i.e. 'probable outflow', 'possible outflow' or 'remotely probable outflow'). Provisions are set aside for 'probable outflow' cases (see 'Notes on the accounting policies'). No provisions are constituted for 'possible outflow' cases, but information is provided in the financial statements if such cases might have a material impact on the balance sheet (i.e. when the claim could lead to a possible outflow of more than 50 million euros). All other claims ('remotely probable outflow'), of whatever magnitude, that represent a minor or no risk at all do not have to be reported. The most important cases are listed below. The information provided is limited in order not to prejudice the position of the group in ongoing litigation.
- Possible outflow: on 6 October 2011, Irving H. Picard, trustee (the 'trustee') for the liquidation of Bernard L. Madoff Investments Securities LLC (& Bernard L. Madoff), sued KBC Investments Ltd (a full subsidiary of KBC Bank) before the bankruptcy court in New York to claw back approximately 110 million US dollars' worth of transfers made to KBC entities by Madoff (through a feeder fund that KBC had lent to Harley International). This claim is just one of a whole set made by the trustee against several banks, hedge funds, feeder funds and investors ('joint defense group'). A lengthy litigation process was conducted on the basis of preliminary objections in respect of the applicability of the Bankruptcy Code's 'safe harbor' and 'good defenses' rules, as well as prudential limitations on U.S. courts' powers in international cases, to subsequent transferees (as is the case for KBC Investments Ltd), as detailed in previous disclosures. In June 2015, the Trustee stated his intention to amend the original claim which led to increase the amount claimed to USD 196 000 000. A court ruling dismissing the claim of the Trustee was issued on 3 March 2017. The Trustee appealed and the appellate court ('Court of Appeals for the Second Circuit') reversed the dismissal on 28 February 2019. A certiorari petition filed on 30 August 2019 was dismissed by the US Supreme Court on 2 June 2020. As a consequence the merits of the case are handled by the Bankruptcy Court. On 30 August 2021, in two other appeals by other defendants, the Court of Appeals for the Second Circuit reversed the burden of proof from an initial burden on the Trustee to adequately demonstrate the defendant's lack of good faith to a burden on the defendant to prove its good faith. On 1 August 2022, the Bankruptcy Court issued a decision determining the structure of the proceedings. In this context, on 5 August 2022 the Trustee amended his complaint by reducing his claim to a principal of USD 86 million. On 18 November 2022, KBC submitted a motion to dismiss the amended complaint for lack of specific jurisdiction of the US court. The final reply supporting its motion must be submitted on or before 10 March 2023. A hearing will then be held in April 2023. Despite the increased burden of proof, KBC still believes it has good and credible defenses, both procedurally and on the merits, including demonstrating its good faith. The procedure may still take several years.

Note 5.8: Other liabilities

(in millions of EUR)	31-12-2022	31-12-2021
Total	2 568	2 520
Retirement benefit obligations or other employee benefits	93	184
Deposits from reinsurers	115	98
Accrued charges (other than from interest expenses on financial liabilities)	360	364
Other	2 000	1 874

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

Note 5.9: Retirement benefit obligations

(in millions of EUR)	31-12-2022	31-12-2021
DEFINED BENEFIT PLANS		
Reconciliation of defined benefit obligations		
Defined benefit obligations at the beginning of the period	3 335	3 387
Current service cost	129	134
Interest cost	26	8
Actuarial gain or loss resulting from changes in demographic assumptions	-10	-3
Actuarial gain or loss resulting from changes in financial assumptions	-814	-31
Experience adjustments	58	-16
Past service cost	0	-11
Benefits paid	-129	-120
Other	-14	-14
Defined benefit obligations at the end of the period	2 580	3 335
Reconciliation of the fair value of plan assets		
Fair value of plan assets at the beginning of the period	3 244	2 849
Actual return on plan assets	-499	363
Expected interest income on plan assets, calculated based on market yields on high quality corporate bonds	*25*	*7*
Employer contributions	94	90
Plan participant contributions	19	18
Benefits paid	-129	-120
Other	16	44
Fair value of plan assets at the end of the period	2 746	3 244
of which financial instruments issued by the group	*0*	*24*
of which property occupied by KBC	*2*	*4*
Funded status		
Plan assets in excess of defined benefit obligations	166	-90
Reimbursement rights	0	0
Asset ceiling limit	-12	-37
Unfunded accrued/prepaid pension cost	153	-128
Movement in net liabilities or net assets		
Unfunded accrued/prepaid pension cost at the beginning of the period	-128	-537
Amounts recognised in the income statement	-112	-107
Amounts recognised in other comprehensive income	299	387
Employer contributions	94	90
Other	-1	40
Unfunded accrued/prepaid pension cost at the end of the period	153	-128
Amounts recognised in the income statement	-112	-107
Current service cost	-129	-134
Interest cost	-1	-2
Plan participant contributions	19	18
Other	0	11
Changes to the amounts recognised in other comprehensive income	299	387
Actuarial gain or loss resulting from changes in demographic assumptions	10	3
Actuarial gain or loss resulting from changes in financial assumptions	814	31
Actuarial result on plan assets	-524	356
Experience adjustments	-58	16
Adjustments to asset ceiling limits	25	-37
Other	31	19
DEFINED CONTRIBUTION PLANS		
Expenses for defined contribution plans	-21	-20

- Retirement benefits that are actively accrued for the Belgium-based staff of KBC Bank, KBC Insurance and most of their Belgian subsidiaries are accrued exclusively through the KBC pension fund. Up until year-end 2018, employer-funded retirement benefits had accrued primarily through a defined benefit plan, where the benefit is calculated based on the final salary of employees before they retire, the number of years they had been in the plan and a formula that applies a progressive rate scale. A defined contribution plan was introduced on 1 January 2014 for all new employees and any employees who had chosen to switch to it. In this plan, a contribution is deposited based on the current monthly salary and the amounts deposited are paid out together with the (guaranteed) return on retirement. Both types of pension plan are managed by the KBC pension fund, which uses the services of KBC Asset Management for the investment strategy. In addition, there are a number of smaller, closed group insurance schemes from the past that will continue to be funded and are managed by the KBC pension fund. On 1 January 2019, a new defined contribution plan was introduced to replace the one introduced in 2014. All employees were again given the one-time option of switching from the defined benefit plan to the new defined contribution plan. At year-end 2022, 55% of employees were active participants in the defined benefit plan and 45% in the defined contribution plan (the corresponding figures at year-end 2021 were 58% and 42%).
- From 2021, the expected age of retirement of each employee and the expected wage inflation based on an inflation curve derived from the market value of inflation-linked bonds are taken into account in the calculation of the gross defined benefit obligations.
- Since 1 January 2020, the insurance risks related to death and disability are fully reinsured through an external reinsurance programme.
- As regards the management of the assets, the share of responsible investments came to around 67% at the end of December. The aim is for the KBC Pension Fund investment portfolio to be carbon-neutral by 2050. In 2021 and 2022, the first measurements were carried out to determine the greenhouse gas intensity (Scopes 1 and 2) of listed bonds and shares. The exercise will be repeated annually to allow for a quantitative follow-up of the target.
- As part of the sale transaction in Ireland, the outstanding defined benefit plans were transferred from Ireland to KBC Bank Belgium. Net assets under this plan amounted to 24 million euros at year-end 2022.
- As a result of the sharp increase in interest rates, the accrued benefits often exceed the current value of the liability of the guaranteed minimum under the defined contribution plan, and therefore sensitivity to interest rate changes is limited.
- A new discount curve, supplied by an approved external supplier, was used for a model adjustment at the end of the year. If the same method had been used to determine the curve at the start of the year, the pension plan liability would have been 76 million euros lower.
- There are no significant defined benefit plans in the group's other core countries.

Additional information on retirement benefit obligations (in millions of EUR)	2022	2021	2020	2019	2018
Changes in main headings in the main table					
Defined benefit obligations	2 580	3 335	3 387	3 212	2 945
Fair value of plan assets	2 746	3 244	2 849	2 791	2 369
Unfunded accrued/prepaid pension cost	153	-128	-537	-457	-598
Impact of changes in the assumptions used in the actuarial calculation of plan assets and retirement benefit obligations					
Impact on plan assets	0	0	0	0	0
Impact on retirement benefit obligations*	-825	-35	253	250	-35

* Arising from defined benefit plans. A plus sign indicates an increase in the (absolute value of) the obligation, a minus sign a decrease.

Additional information on retirement benefit obligations: DEFINED BENEFIT PLANS, KBC pension fund	
Composition (31-12-2022)	
Equity instruments	37%
Bonds	46%
Real estate	14%
Cash	3%
of which illiquid assets	*18%*
Composition (31-12-2021)	
Equity instruments	38%
Bonds	47%
Real estate	13%
Cash	2%
of which illiquid assets	*11%*

Contributions expected in 2023 (in millions of EUR)	47
Regulatory framework	Pension plans are registered in collective labour agreements and incorporated into a set of regulations. Annual reporting of funding levels to supervisory authorities (FSMA/NBB). Any underfunding must be reported immediately to the supervisory authorities.
Risks for KBC	Investment risk and inflation risk.
ALM policy	The hedging portfolio hedges against interest rate risk and inflation risk using interest rate swaps. The return portfolio aims to generate an extra return.
Plan amendments	A new version of the employer-funded defined contribution plan was introduced on 1 January 2019. All employees who had been signed up to the defined benefit plan were given the one-time option of switching to this new plan.
Curtailments and settlements	Not applicable.
Discounting method	Based on quotes for various time buckets of AA-rated corporate bonds. The derived bond yields are converted into a zero coupon curve.
Key actuarial assumptions	
Average discount rate	3.98%
Expected rate of salary increase	3.22%
Expected inflation rate	2.89%
Expected rate of increase in pensions	–
Weighted average duration of the obligations	10 years
Impact of changes in the assumptions used in the actuarial calculation of the retirement benefit obligations	
Increase in the retirement benefit obligations on 31-12-2022 consequent on:	
a decrease of 1% in the discount rate	11.73%
an increase of 1% in the expected inflation rate	9.22%
an increase that is 1% higher than the expected real increase in salary	12.21%
an increase of one year in life expectancy	–
The impact of the following assumptions has not been calculated:	Decreasing mortality rates. Pension benefits are paid out in capital, so longevity risk is immaterial. Staff turnover rates: sensitivity to changes remains limited.

Additional information on retirement benefit obligations: DEFINED CONTRIBUTION PLANS, KBC pension fund

Contributions expected in 2023 (in millions of EUR)	42
Regulatory framework	Pursuant to the Belgian Supplementary Pensions Act, the employer must guarantee a minimum return of 1.75% on employee and employer contributions.
Risks for KBC	Investment risk.
Valuation	Retirement benefit obligations are measured on the basis of the accrued benefits on the reporting date, making a projection of these benefits (at the rate of interest guaranteed by law) until the expected age of retirement, and discounting the resulting benefits. KBC offers two types of defined contribution plan: one that is financed through employee contributions and one through employer contributions. The valuation of retirement benefit obligations for the employer-funded defined contribution plan takes account of future contributions. However, it is not taken into account for the valuation of the employee-funded defined contribution plan, because the employer's obligation for that plan only relates to the guaranteed minimum interest rate.
Discounting method	Based on quotes for various time buckets of AA-rated corporate bonds. The derived bond yields are converted into a zero coupon curve.
Key actuarial assumptions	
Average discount rate	4.13%
Weighted average duration of the obligations	17 years
Impact of changes in the assumptions used in the actuarial calculation of the retirement benefit obligations	
Increase in the retirement benefit obligations on 31-12-2022 consequent on:	
a decrease of 1% in the discount rate	1.00%

Note 5.10: Parent shareholders' equity and additional tier-1 instruments

Quantities	31-12-2022	31-12-2021
Ordinary shares	417 169 414	416 883 592
of which ordinary shares that entitle the holder to a dividend payment	417 169 414	416 883 592
of which treasury shares	2	2
Additional information		
Par value per share (in EUR)	3.51	3.51
Number of shares issued but not fully paid up	0	0

- Ordinary shares: ordinary shares of no nominal value. All ordinary shares carry voting rights and each share represents one vote. No participation certificates or non-voting shares have been issued. The shares are listed on Euronext Brussels.
- Capital increases: the number of KBC Group NV shares went up by 285 822 in 2022 and by 189 034 in 2021, due to new shares being issued following the capital increases reserved for staff. For more information, see the 'Company annual accounts and additional information' section.
- Share buybacks: there were no buyback programmes in 2022 and 2021. Treasury shares: at year-end 2022, KBC group companies held 2 KBC shares in portfolio (the same number as in 2021. For information on the authorisation to increase capital and to repurchase own shares, see the 'Company annual accounts and additional information' section.
- Additional tier-1 (AT1) instruments (these securities are classified as equity instruments under IAS 32 and the coupon is treated as a dividend):
  - In April 2018, KBC issued 1 billion euros in AT1 securities (a perpetual AT1 instrument with a seven year first-call date and a temporary write-down trigger should the common equity ratio fall below 5.125% and an initial coupon of 4.25% per annum, which is payable every six months).
  - In February 2019, KBC issued 500 million euros in AT1 securities (a perpetual AT1 instrument with a five year first-call date and a temporary write-down trigger should the common equity ratio fall below 5.125% and an initial coupon of 4.75% per annum, which is payable every six months).

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

KBC Bank Ireland: Non-current assets held for sale and disposal groups and Liabilities associated with disposal groups (in millions of EUR)	31-12-2022	31-12-2021
ASSETS		
Loans and advances to customers (excl. reverse repos)	8 049	9 998
Consumer credit	*18*	*32*
Mortgage loans	*7 938*	*9 871*
Term loans	*84*	*83*
Current account advances	*10*	*12*
Liabilities		
Deposits from customers and debt securities (excl. repos)	1 929	3 999
Demand deposits	*303*	*481*
Time deposits	*494*	*949*
Savings accounts	*1 132*	*2 569*
Deposits from credit institutions and investment firms (excl. repos)	91	263
Of which repayable on demand	*35*	*257*

- At the end of August 2021, KBC Bank Ireland reached agreement on the disposal of a non-performing mortgage loan portfolio in a transaction financed by funds managed by CarVal Investors. The deal was finalised in early February 2022, which means that the relevant assets and liabilities are not included in the figures for year-end 2022 in the table.
- In October 2021, KBC Bank Ireland also confirmed that it had entered into a legally binding agreement with Bank of Ireland relating to the sale of substantially all of KBC Bank Ireland's performing loan assets and its deposit book to Bank of Ireland Group (see Note 6.6 for more details). Since we consider all the requirements under IFRS 5 to have been met, these sales resulted in a shift to the 'Non-current assets held for sale and disposal groups' and 'Liabilities associated with disposal groups' items
- Maximum credit exposure: the maximum credit risk associated with 'Non-current assets held for sale and disposal groups' amounted to 8.0 billion euros, of which 7.9 billion euros in collateral and other credit enhancements received (10.0 billion euros and 9.8 billion euros, respectively, at year-end 2021).

6.0 Other notes

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

(in millions of EUR)			31-12-2022			31-12-2021
	Nominal amount	Provision	Net exposure	Nominal amount	Provision	Net exposure
Undrawn portion of credit lines granted						
Stage 1	39 134	17	39 117	38 414	17	38 397
Stage 2	8 077	26	8 051	4 770	16	4 754
Stage 3	51	13	38	42	4	38
Total	47 262	56	47 206	43 226	37	43 189
of which irrevocable credit lines	*26 618*	*27*	*26 591*	*25 802*	*14*	*25 788*
Financial guarantees given						
Stage 1	7 600	2	7 598	8 675	2	8 673
Stage 2	3 139	8	3 131	1 678	5	1 673
Stage 3	119	44	76	153	86	67
Total	10 858	54	10 805	10 506	93	10 413
Other commitments given						
Total	1 440	4	1 436	756	1	755
Total						
Off-balance-sheet commitments and financial guarantees	59 561	114	59 447	54 488	130	54 357

- Fair value of financial guarantees: based on the available market value.
- The carrying value of financial assets pledged by KBC as collateral came to 59 753 million euros for liabilities and 5 291 million euros for contingent liabilities (66 386 million euros and 3 961 million euros, respectively, in 2021). At year-end 2022, some 16.6 billion euros' worth of residential mortgage loans and cash collections were entered in the cover asset register for the special estate of the covered bond programme (16.6 billion euros at year-end 2021).
- There is an obligation to return collateral received (which may be sold or repledged in the absence of default by the owner; see table) in its original form, or possibly in cash. Collateral can be called in if loans are terminated for various reasons such as default or bankruptcy. In the event of bankruptcy, the collateral will be sold by the receiver. In other cases, the bank will organise the foreclosure itself or take possession of the collateral. Collateral received that relates to OTC derivatives is primarily cash, which is recognised by KBC on the balance sheet (and is not included in the table). More details are provided in Note 4.3.
- Collateral acquired through foreclosure came to 4 million euros in 2022 (4 million euros in 2021).
- The increase in 'Stage 2' relates to the collective stage transfer linked to 'Stage 1' loans (see also Note 1.4) that have indirect exposure to Russia, Ukraine and Belarus.

Collateral received (which may be sold or repledged in the absence of default by the owner) (in millions of EUR)	Fair value of collateral received		Fair value of collateral sold or repledged	
	31-12-2022	31-12-2021	31-12-2022	31-12-2021
Financial assets	30 126	39 863	7 792	11 862
Equity instruments	16	11	2	1
Debt securities	29 876	39 633	7 790	11 860
Loans and advances	234	219	0	0
Cash	0	0	0	0
Other	0	0	0	0

Note 6.2: Leasing

(in millions of EUR)	31-12-2022	31-12-2021
Finance lease receivables		
Gross investment in finance leases, receivable	6 836	6 155
At not more than one year	*1 378*	*1 504*
At more than one but not more than five years	*4 069*	*3 421*
At more than five years	*1 389*	*1 230*
Unearned future finance income on finance leases	468	340
Net investment in finance leases	6 368	5 815
At not more than one year	*1 226*	*1 427*
At more than one but not more than five years	*3 842*	*3 239*
At more than five years	*1 300*	*1 149*
of which unguaranteed residual values accruing to the benefit of the lessor	36	*34*
Accumulated impairment for uncollectable lease payments receivable	35	47
Contingent rents recognised in the income statement	111	83
Operating lease receivables		
Future aggregate minimum rentals receivable under non-cancellable operating leases	513	494
Contingent rents recognised in the income statement	0	0

- KBC acts only to a limited extent as a lessee in operational and financial leasing.
- Finance leases: KBC offers finance lease products ranging from equipment and vehicle leasing to real estate leasing. In Belgium, finance leases are typically sold through KBC group's branch network, and that channel is becoming increasingly important in Central Europe, too.
- Operating leases: involve primarily full service car leases, which are sold through the KBC Bank and CBC Banque branch network and through an internal sales team. Full service car leasing activities are being further developed in Central Europe, too. The increased importance of leasing hybrid and all-electric vehicles supports the transition to green mobility, and the segment of (electric) company bicycles also continued to grow.
- We report on estimated greenhouse gas emissions associated with lending, leasing and other activities and, in that context, have defined objectives for reducing the greenhouse gas intensity of our financial and operational car leasing. See 'Focus on climate' in the 'Report of the Board of Directors' section for a more detailed explanation. More details can also be found in our Climate Report and our Sustainability Report at www.kbc.com.

Note 6.3: Related-party transactions

Transactions with related parties, excluding key management (in millions of EUR)	2022 Subsidiaries	2022 Associated companies	2022 Joint ventures	2022 Other	2022 Total	2021 Subsidiaries	2021 Associated companies	2021 Joint ventures	2021 Other	2021 Total
Assets	147	107	33	0	287	144	111	42	142	439
Loans and advances	15	89	0	0	104	21	94	0	100	214
Equity instruments (including investments in associated companies and joint ventures)	131	19	33	0	184	124	17	42	0	183
Other	0	0	0	0	0	0	0	0	41	41
Liabilities	54	74	0	593	721	40	89	0	838	968
Deposits	54	10	0	590	654	40	20	0	831	891
Other financial liabilities	0	0	0	0	0	0	0	0	0	0
Other	1	63	0	3	67	1	69	0	8	77
Income statement	-1	-2	0	-1	-3	0	-3	0	0	-3
Net interest income	0	1	0	0	0	0	-1	0	0	-1
Interest income	*0*	*2*	*0*	*0*	*2*	*0*	*0*	*0*	*0*	*0*
Interest expense	*0*	*-1*	*0*	*0*	*-1*	*0*	*-1*	*0*	*0*	*-1*
Earned premiums, insurance (before reinsurance)	0	0	0	0	0	0	0	0	0	0
Technical insurance charges (before reinsurance)	0	0	0	0	0	0	0	0	0	0
Dividend income	4	1	0	4	9	5	2	0	4	11
Net fee and commission income	1	0	0	2	3	1	-1	0	2	3
Fee and commission income	*1*	*0*	*0*	*2*	*3*	*1*	*0*	*0*	*2*	*3*
Fee and commission expense	*0*	*0*	*0*	*0*	*0*	*0*	*-1*	*0*	*0*	*-1*
Other net income	1	-1	0	0	0	-3	-1	0	1	-3
General administrative expenses	-7	-2	0	-7	-16	-4	-2	0	-7	-13
Undrawn portion of loan commitments, financial guarantees and other commitments										
Given by the group	0	0	0	50	50	0	0	0	74	74
Received by the group	0	0	0	0	0	0	0	0	0	0

Transactions with key management (members of the Board of Directors and Executive Committee of KBC Group NV) (in millions of EUR)*	2022	2021
Total*	13	14
Breakdown by type of remuneration		
Short-term employee benefits	11	10
Post-employment benefits	2	2
Defined benefit plans	*0*	*0*
Defined contribution plans	*2*	*2*
Other long-term employee benefits	0	0
Termination benefits	0	2
Share-based payments	0	0
Stock options (units)		
At the beginning of the period	0	0
Granted	0	0
Exercised	0	0
Composition-related changes	0	0
At the end of the period	0	0
Advances and loans granted to key management and partners	1	1

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

- The 'Subsidiaries' heading in the first table includes transactions with unconsolidated subsidiaries (transactions with consolidated subsidiaries have already been eliminated from the consolidated financial statements).
- The 'Other' heading in the first table includes KBC Ancora, Cera and MRBB.
- All related-party transactions occur at arm's length.
- Key management comprises the members of the Board of Directors and Executive Committee of KBC Group NV. More detailed information on remuneration paid to key management staff is provided in the 'Corporate governance statement' section.
- There were no significant impairment charges vis-à-vis related parties.

Note 6.4: Statutory auditor's remuneration

Statutory auditor's remuneration (PwC, in EUR)	2022	2021
KBC Group NV and its subsidiaries		
Standard audit services	8 524 658	7 598 504
Other services		
Other certifications	892 844	749 213
Tax advice	0	0
Other non-audit assignments	2 225	94 705
KBC Group NV (alone)		
Standard audit services	570 825	272 449
Other services	250 890	108 348

Note 6.5: Subsidiaries, joint ventures and associated companies

KBC Group: main companies included in the scope of consolidation at year-end 2022

Company	Registered office	Company number	Share of capital held at group level (in %)	Business unit[1]	Activity
KBC Bank (group)					
KBC Bank NV	Brussels – BE	0462.920.226	100.00	BEL/GRP	credit institution
KBC Bank Bulgaria EAD (formerly Raiffeisenbank Bulgaria)[2]	Sofia – BG	--	100.00	IMA	credit institution
CBC BANQUE SA	Namur – BE	0403.211.380	100.00	BEL	credit institution
Československá Obchodná Banka a.s.	Bratislava – SK	--	100.00	IMA	credit institution
Československá Obchodní Banka a.s.	Prague – CZ	--	100.00	CZR	credit institution
KBC Asset Management NV	Brussels – BE	0469.444.267	100.00	BEL	asset management
KBC Autolease NV	Leuven – BE	0422.562.385	100.00	BEL	leasing
KBC Bank Ireland Plc[2]	Dublin – IE	--	100.00	GRP	credit institution
KBC Commercial Finance NV	Brussels – BE	0403.278.488	100.00	BEL	factoring
KBC IFIMA SA	Luxembourg – LU	--	100.00	GRP	financing
KBC Securities NV	Brussels – BE	0437.060.521	100.00	BEL	stockbroker
K&H Bank Zrt.	Budapest – HU	--	100.00	IMA	credit institution
Loan Invest NV	Brussels – BE	0889.054.884	100.00	BEL	securitisation
United Bulgarian Bank AD	Sofia – BG	--	99.91	IMA	credit institution
KBC Insurance (group)					
KBC Insurance NV	Leuven – BE	0403.552.563	100.00	BEL/GRP	insurance company
ADD NV	Heverlee – BE	0406.080.305	100.00	BEL	insurance broker
KBC Group Re SA	Luxembourg – LU	--	100.00	GRP	reinsurance company
ČSOB Pojišťovna a.s.	Pardubice – CZ	--	100.00	CZR	insurance company
ČSOB Poisťovňa a.s.	Bratislava – SK	--	100.00	IMA	insurance company
DZI (group)	Sofia – BG	--	100.00	IMA	insurance company
Groep VAB NV	Zwijndrecht – BE	0456.920.676	100.00	BEL	driving school/roadside assistance
K&H Biztosító Zrt.	Budapest – HU	--	100.00	IMA	insurance company
KBC group					
Discai NV	Brussels – BE	0773.435.537	100.00	GRP	software company
KBC Group NV	Brussels – BE	0403.227.515	100.00	GRP	bank-insurance holding company
KBC Bank (group)	various locations	--	100.00	various	credit institution
KBC Global Services NV	Brussels – BE	0772.332.707	100.00	GRP	cost-sharing structure
KBC Insurance (group)	various locations	--	100.00	various	insurance company

1 BEL: Belgium Business Unit; CZR: Czech Republic Business Unit: IMA: International Markets Business Unit; GRP = Group Centre.
2 See Note 6.6.

- The KBC group's legal structure has one single entity – KBC Group NV – in control of two underlying companies, viz. KBC Bank NV and KBC Insurance NV, as well as companies such as Discai NV and KBC Global Services NV (see the 'Company annual accounts and additional information' section). KBC Bank and KBC Insurance have several subsidiaries and sub-subsidiaries. In addition, the main group companies are shown in the table. A complete list of group companies (included in or excluded from the scope of consolidation) is provided at www.kbc.com > About us > Our structure.
- Companies eligible for consolidation are effectively included in the consolidated accounts if two of the following criteria are met: (i) the group's share in equity exceeds 2.5 million euros (ii) the group's share in the results exceeds 1 million euros (iii) the balance sheet total exceeds 100 million euros. The combined balance sheet total of the companies excluded from consolidation may not amount to more than 1% of the consolidated balance sheet total.
- All (material) entities (including structured entities (SPVs)) over which the consolidating entity exercises, directly or indirectly, exclusive control are consolidated according the method of full consolidation. To assess whether or not structured entities have to be consolidated, KBC uses the principles set out in IFRS 10, as well as thresholds for inclusion in consolidation (see previous bullet point).

- Disclosures of interests in other entities (IFRS 12)
  - Significant judgements and assumptions
    - In general, funds managed by KBC are not included in the scope of consolidation, as they do not meet the three criteria of control (power, exposure to a variable return and ability to use such power to affect those returns).
    - Joint entities in which KBC does not hold 50% of the share capital are classified as joint ventures, since it has joint control over these entities based on shareholder agreements. Based on the Articles of Association and/or shareholder agreements, voting rights in (and therefore the control of) the joint venture are spread evenly across the different shareholders and decisions may only be taken by unanimity.
  - Interests in subsidiaries
    - For the vast majority of the entities, the voting rights are materially equal to the ownership rights.
    - Pursuant to the joint capital decision, specific pillar-II levels have been set to ensure that certain minimum capital ratios are respected, which impose certain restrictions on the repatriation of capital and distribution of dividends.
    - With regard to Loan Invest NV, KBC is exposed to loan losses on the mortgage portfolio and, therefore, recognises impairment losses on them where necessary.
  - Interests in unconsolidated structured entities
    - KBC Bank NV is arranger and dealer of a number of 40-billion-euro medium term notes programmes issued by 19 unconsolidated structured entities established in Ireland for that purpose. Their primary business is to raise money by issuing notes in order to buy financial assets (such as securities, bonds and deposits) and to enter into related derivative and other contracts. They provide investment opportunities for clients by providing economies of scale, a diversification of credit risk and a high level of granularity. Each structured entity has a prospectus that was approved by the Central Bank of Ireland (available at www.kbc.be/prospectus/spv). However, the structured entities are not consolidated because they fail to meet the three criteria for consolidation (power, exposure to a variable return and ability to use such power to affect those returns). At year-end 2022, the assets under management at these entities amounted to 5.2 billion euros.
    - Sponsored unconsolidated structured entities are defined as structured entities where KBC or one of its subsidiaries acts as arranger of the issuance programme, but where the decision-making power of the entities does not reside with KBC or one of its subsidiaries. As a result, these entities are not consolidated.
    - In 2022, KBC had received income from unconsolidated structured entities in the form of management fees (24 million euros) and accounting fees (1 million euros).
    - At year-end 2022, KBC held 2 billion euros' worth of notes issued by the unconsolidated structured entities. Its liabilities towards the unconsolidated structured entities amounted to 1.5 billion euros and comprised mainly time deposits (1.4 billion euros).
    - Any potential decrease in the value of the notes is passed on to the end-client, which means it will have no impact on KBC.
- At year-end 2022, no group companies were active in the extractive industry. As a result, no consolidated report on payments to governments has been prepared (see Art.3:8 § 1 of the Companies and Associations Code).

Note 6.6: Main changes in the scope of consolidation

- **2021: Acquisition of NN's Bulgarian pension and life insurance business**
  - In July 2021, we completed the acquisition of NN's Bulgarian pension and life insurance business for a total consideration of 77.7 million euros (the deal did not contain any contingent consideration arrangements). This acquisition comprises all the shares of NN Pension Insurance Company EAD in Bulgaria (which has been renamed Pension Insurance Company UBB EAD) and all the assets and liabilities of NN Insurance Co. Ltd. – Sofia Branch. This deal will enable UBB and DZI to further expand their cross-selling opportunities through their already established bank-insurance presence in the Bulgarian market, allowing them to serve more clients and to benefit from economies of scale and increased visibility.
  - The impact of the acquisition is included in the consolidated balance sheet figures. The results of the operations concerned have been fully consolidated in the income statement since 1 August 2021. In the last five months of 2021, the impact amounted to +5 million euros in total income (mainly net commission income), -4 million euros in operating expenses, and +1 million euros in result after tax.
  - KBC recognised goodwill of 56 million euros in its consolidated financial statements for Pension Insurance Company UBB EAD. This is accounted for by this company's profitability (based on the results achieved in previous years and the business plan for the years ahead) and enables UBB and DZI to further expand their cross-selling opportunities through their already established bank-insurance presence in the Bulgarian market, allowing them to serve more clients and to benefit from economies of scale and increased visibility. KBC has not recorded any goodwill or badwill on the acquisition of all assets and liabilities of NN Insurance Co. Ltd. – Sofia Branch because the consideration was virtually identical to the net value of the assets and liabilities acquired (taking into account specific fair value adjustments). Goodwill is not deductible for tax purposes.
  - The deal had no impact on KBC Group NV's capital position.
  - The table below shows the fair value of the main assets and liabilities involved in the acquisition of the relevant NN activities.
- **2022: Acquisition of Bulgarian activities from Raiffeisen Bank International (KBC Bank Bulgaria)**
  - In July 2022, we finalised the agreement with Raiffeisen Bank International on the acquisition of 100% of the shares in Raiffeisenbank (Bulgaria) EAD for a total consideration of 1 009 million euros in cash (the deal did not contain any contingent consideration arrangements). The transaction also includes the subsidiaries Raiffeisen Leasing Bulgaria, Raiffeisen Asset Management (Bulgaria), Raiffeisen Insurance Broker and Raiffeisen Service. Raiffeisenbank (Bulgaria) EAD was renamed KBC Bank Bulgaria EAD, and the subsidiaries were also renamed. The bank had a market share in Bulgaria of an estimated 8% in terms of assets, a network of 122 bank branches, roughly 2 500 employees and 600 000 clients.
  - The transaction had not yet been finalised at year-end 2021 and was therefore not included in the consolidated balance sheet figures of year-end 2021, but it was included in the figures of year-end 2022. The results of KBC Bank Bulgaria have been fully consolidated in the income statement since the third quarter of 2022. The impact in the second half of 2022 amounted to: +108 million euros in total income (mainly 70 million euros in net interest income and 36 million euros in net commission income), -51 million euros in operating expenses, -5 million euros in impairment and +47 million euros in result after tax. More information on the impact of the consolidation of KBC Bank Bulgaria on the financial assets and liabilities can be found in Note 4.1.
  - KBC recognised goodwill of 433 million euros in its consolidated financial statements, taking into account limited fair value adjustments. This is accounted for by the quality of the acquired entity, which is expressed in the qualitative loan portfolio and profitability (based on the results achieved in previous years and the business plan for the years ahead). It allows KBC to expand its client base and benefit from economies of scale (through considerable cost synergies for the office network and head office in Bulgaria and through revenue synergies, including from higher sales of DZI insurance products) and greater visibility as a result. The acquisition offers KBC the opportunity to earmark its surplus capital for a value-increasing transaction in a market that the group is highly familiar with. In principle, IFRS 3 (Business Combinations) allows the amount of goodwill to be adjusted during the 12-month measurement period starting from the acquisition date (IFRS 3.45). This means that the amount of goodwill is temporary and subject to change, although there are currently no indications that the goodwill calculation will be subject to any major adjustments. Goodwill is not deductible for tax purposes.
  - The transaction had an impact of -0.9 percentage points on KBC Group's common equity ratio in the third quarter of 2022.
  - KBC Bank Bulgaria will legally merge with United Bulgarian Bank (UBB) in 2023.
  - The table below shows the fair value of the main assets and liabilities involved in the acquisition of Raiffeisenbank Bulgaria.

Impact of the most important acquisitions and disposals (in millions of EUR)	2022: Raiffeisenbank Bulgaria (KBC Bank Bulgaria)	2021: NN's Bulgarian pension and life insurance business
Percentage of shares bought or sold in the relevant year	purchase 100.00%	purchase 100.00%
Percentage of shares after deal	100.00%	100.00%
For business unit	International Markets	International Markets
Deal date (month and year)	June 2022	June 2021
Results of the relevant company/business recognised in the group result as from:	June 2022	August 2021
Purchase price or sale price*	1 009	78
Cashflow for acquiring or selling companies less cash and cash equivalents acquired or sold	-42	-71
Amounts recognised for the purchased assets and liabilities (fair value)		
Situation on:	7 July 2022	31 July 2021
Cash and cash balances with central banks	1 053	7
Financial assets	4 686	106
Amortised cost	*4 521*	*1*
Fair value through OCI	*132*	*58*
Fair value through profit or loss	30	47
Hedging derivatives	*4*	*0*
Tax assets	2	0
Investments in associated companies and joint ventures	*2*	*0*
Property and equipment	*35*	*1*
Goodwill and other intangible assets	*15*	*0*
Other assets	*20*	*5*
Cash and cash equivalents (included in the above assets)	*1 053*	*7*
Financial liabilities	5 150	36
Held for trading	*19*	*0*
Amortised cost	*5 130*	*0*
Hedging derivatives	*0*	*36*
Technical provisions, before reinsurance	0	59
Provisions for risks and charges	9	0
Other liabilities	21	3
Cash and cash equivalents (included in the above liabilities)	*28*	*0*

* A further 58 million euros was paid for an additional tier-1 instrument issued by Raiffeisenbank Bulgaria, included in equity at nominal value.

- **Sale of activities in Ireland (not yet fully finalised at year-end 2022)**
  - At the end of August 2021, KBC Bank Ireland reached agreement on the disposal of a non-performing mortgage loan portfolio of roughly 1.1 billion euros in a transaction financed by funds managed by CarVal Investors. The deal was finalised in early February 2022. The loans will be managed by Pepper Finance Corporation (Ireland) DAC as the legal title holder of the loans. Pepper is supervised by the Central Bank of Ireland.
  - The transaction had an impact on the income statement of -120 million euros in 2021 and +3 million euros in 2022 (see the detailed table below). The transaction created marginal capital growth with an impact on the common equity ratio of approximately 2 basis points and a decline in risk-weighted assets of 0.8 billion euros in 2021. The finalisation of the deal resulted in a decrease in the 'Non-current assets held for sale and disposal groups' balance sheet item of 0.6 billion euros in 2022.
  - In October 2021, KBC Bank Ireland also confirmed that it had entered into a legally binding agreement with Bank of Ireland relating to the sale of substantially all of KBC Bank Ireland's performing loan assets and its deposit book to Bank of Ireland Group. The latter will also acquire a small non-performing mortgage loan (and credit card balances) portfolio. The Irish Competition and Consumer Protection Commission (CCPC) approved the transaction in May 2022, and the Irish Minister for Finance gave his approval in early December 2022. The transaction was finalised on 3 February 2023. The acquisition, initially totalling approximately 6.4 billion euros, includes approximately 7.6 billion euros in performing mortgage loans, approximately 0.1 billion euros in mainly performing commercial and consumer loans, approximately 0.2 billion euros in non-performing mortgage loans and approximately 1.8 billion euros in deposits.
  - The transaction had an impact on the income statement of -241 million euros in 2021 and -35 million euros in 2022 (see the detailed table below). In the first quarter of 2023, the transaction will have a positive impact of around 0.4 billion euros. When

finalised, the transaction will also positively impact the common equity ratio by approximately 0.9 percentage points (due in part to a reduction in risk-weighted assets).

- In 2022, Ireland was transferred from the International Markets Business Unit to the Group Centre (without retroactive restatement).

Impact of the transactions relating to Ireland on financial year 2021 and 2022: one-off items* (in millions of EUR)	**Sale transaction for non-performing loans**	**Sale transaction for remaining loans and deposits and scheduled settlement**	**Total**
2022			
Total income	6	1	6
Operating expenses	0	-32	-33
Impairment	-2	-38	-41
*on financial assets at amortised cost and at fair value through OCI**	-2	-15	-17
other	0	-24	-24
Income tax expense	0	36	36
RESULT AFTER TAX	3	-35	-31
2021			
Total income	0	-3	-3
Operating expenses	-7	-91	-97
Impairment	-129	-81	-210
*on financial assets at amortised cost and at fair value through OCI**	*-129*	*-49*	*-178*
other	*0*	*-32*	*-32*
Income tax expense	16	-67	-51
RESULT AFTER TAX	-120	-241	-361

* The impairment is caused by a comparison between the sale price of the impaired loans and the net carrying value of the underlying loans.

Note 6.7: Risk management and capital adequacy

Capital management is a key management process relating to all decisions on the level and composition of our capital, both for banking and for insurance. It covers all instruments that are positioned to absorb losses in going concern and/or gone concern situations. Capital management aims to achieve the best possible balance between regulatory requirements, investor expectations, rating agencies' views and management ambitions. Ultimate accountability for capital management lies with the Board of Directors.

Capital management entails a broad scope of activities covering strategic topics (such as defining policies, targets, etc.), frameworks and models (e.g., for regulatory capital, internal capital, cost of equity, measuring performance, etc.), planning and allocation (e.g., allocating capital to business, planning capital instrument issuances, forecasting capital ratios, etc.), implementation (e.g., dividends, capital transactions) and monitoring (including current solvency positions at various levels, compliance with group policies and regulatory requirements).

ICAAP (Internal Capital Adequacy Assessment Process) consists of numerous business and risk processes that together contribute to the aim of being adequately capitalised at all times in view of our risk profile and the quality of our risk management and control environment. In addition to the integrated approach at group level, KBC Insurance and its insurance and reinsurance subsidiaries conduct an Own Risk and Solvency Assessment (ORSA) on a regular basis, in accordance with Solvency II requirements.

We report the solvency of the group, the bank and the insurance company based on IFRS data and according to the rules imposed by the regulator.

- For the KBC group and KBC Bank, this implies that we calculate our solvency ratios based on CRR/CRD. KBC began applying the transitional provisions for IFRS 9 and certain tier-2 instruments on 30 June 2020. KBC has received authorisation from the regulator to apply a risk weighting to the participation in KBC Insurance (Danish compromise method) at KBC group level. The KBC group and KBC Bank are subject to minimum solvency ratios.
- In accordance with the regulatory requirement, the common equity ratio of the KBC group must be 11.30% (fully loaded) at year-end 2022. This includes the pillar 1 minimum requirement (4.5%), the pillar 2 requirement (1.86% set by the ECB following its supervisory review and evaluation process) and the buffer requirements (4.94% set by the local competent authorities in KBC's core markets). At year-end 2022, the fully loaded common equity ratio came to 15.3% (see the 'How do we manage our capital?'

section for more information). At year-end 2022, the transitional common equity ratio came to 14.1%, which represented a capital buffer of 3.1% relative to the minimum requirement of 10.95%.
- In accordance with the regulatory requirement, the common equity ratio of KBC Bank must be 10.92% (transactional) at year-end 2022. At year-end 2022, the transitional common equity ratio was 14.2%.
- The solvency of KBC Insurance is calculated on the basis of Solvency II (the minimum requirement is 100%). At year-end 2022, the Solvency II ratio came to 203% relative to the minimum requirement of 100%.

Key solvency figures for the KBC group, KBC Bank and KBC Insurance (in millions of EUR)		KBC group (consolidated) CRR/CRD transitional		KBC Bank (consolidated) CRR/CRD transitional		KBC Insurance (consolidated) Solvency II
	31-12-2022	31-12-2021	31-12-2022	31-12-2021	31-12-2022	31-12-2021
Total regulatory capital, after profit appropriation	18 742	20 733	17 516	17 964	3 721	4 075
Tier-1 capital	16 974	18 998	15 749	16 210	3 220	3 574
Common equity	15 474	17 498	14 249	14 710	–	–
Parent shareholders' equity (after deconsolidating KBC Insurance for the KBC group)	*16 982*	*17 708*	*15 618*	*14 912*	*2 157*	*3 991*
Solvency adjustments	*-1 508*	*-210*	*-1 370*	*-202*	*1 063*	*-416*
Additional going concern capital[1]	1 500	1 500	1 500	1 500	–	–
Tier-2 capital[2]	1 767	1 735	1 768	1 754	500	500
Total weighted risk volume (RWA)[3]	109 966	104 362	100 285	94 836	–	–
Credit risks	*84 988*	*80 687*	*84 988*	*80 687*	–	–
Market risks	*3 132*	*2 665*	*3 132*	*2 665*	–	–
Operational risks	*12 166*	*11 484*	*12 166*	*11 484*	–	–
Insurance risks	*9 133*	*9 133*	–	–	–	–
Holding-company activities and elimination of intragroup transactions	*548*	*392*	–	–	–	–
Solvency capital requirement (insurance)	–	–	–	–	1 833	2 029
Common equity ratio (group, bank)	14.1%	16.8%	14.2%	15.5%	–	–
Solvency II ratio (insurance)	–	–	–	–	203%	201%

1 Includes perpetual subordinated loans with fully discretionary, non-cumulative interest payments. The securities also have a loss absorption mechanism (i.e. a temporary write-down trigger should the common equity tier-1 ratio fall below 5.125%). Also see Note 5.10.
2 Includes subordinated loans with a fixed maturity date where principal and interest payments cannot be cancelled in a going concern.
3 Supervision of the RWA internal models' compliance with the approval criteria as provided for in the standards imposed by the regulator does not come under the responsibility of the statutory auditor.

- More detailed information is provided in the 'How do we manage our capital?' section of this report and in KBC's Risk Report.
- The loan portfolio accounts for the largest share of the financial assets. Based on internal management reports, the composition and quality of the loan portfolio is set out in detail in the 'How do we manage our risks?' section (under 'Credit risk'). The information required in relation to risks (in accordance with IFRS 4 and IFRS 7) is provided in those parts of the 'How do we manage our risks?' section which have been audited by the statutory auditor and which constitute part of the financial statements.

Note 6.8: Post-balance-sheet events

Significant non-adjusting events between balance sheet date and the date on which the financial statements were approved for publication by the Board of Directors (16 March 2023):
- 3 February 2023: completion of the sale of the Irish portfolios to Bank of Ireland Group. see Note 6.6 for more information.

Significant adjusting post-balance-sheet events between balance sheet date and the date on which the financial statements were approved for publication by the Board of Directors (16 March 2023):
- see Note 3.6.

Note 6.9: General information on the company

- Name KBC Group.
- Incorporated: 9 February 1935 as the Kredietbank; the present name dates from 2 March 2005.
- Country of incorporation: Belgium.
- Registered office: Havenlaan 2, 1080 Brussels, Belgium.
- VAT: BE 0403.227.515.
- RLP: Brussels.
- Website: https://www.kbc.com
- E-mail address reserved for shareholders and bondholders: IR4U@kbc.be
- Legal form: *naamloze genoteerde vennootschap* (listed company with limited liability) under Belgian law. The company is a mixed financial holding company that is subject to the prudential supervision of the National Bank of Belgium and the European Central Bank.
- Life: undefined.
- Object (Article 2 of the Articles of Association, which are available at www.kbc.com):
  The company has as its object the direct or indirect ownership and management of shareholdings in other companies, including but not restricted to credit institutions, insurance companies and other financial institutions.
  The company also has as object to provide services to third parties, either for its own account or for the account of others, including to companies in which the company has an interest – either directly or indirectly – and to (potential) clients of those companies.
  The object of the company is also to acquire in the broadest sense of the word (including by means of purchase, hire and lease), to maintain and to operate resources, and to make these resources available in the broadest sense of the word (including through letting and granting rights of use) to the beneficiaries referred to in the second paragraph.
  In addition, the company may function as an intellectual property company responsible for, among other things, the development, acquisition, management, protection and maintenance of intellectual property rights, as well as for making these rights available, granting rights of use in respect of these rights and/or transferring these rights.
  The company may also perform all commercial, financial and industrial transactions that may be useful or expedient for achieving the object of the company and that are directly or indirectly related to this object. The company may also by means of subscription, contribution, participation or in any other form whatsoever participate in all companies, businesses or institutions that have a similar, related or complementary activity.
  In general, the company may, both in Belgium and abroad, perform all acts which may contribute to the achievement of its object.
- Documents open to public inspection: the Articles of Association of the company can be found at the Registry of the Dutch-speaking division of the Brussels Business Court and at www.kbc.com and www.notaris.be/statuten. The financial statements, the annual report and the statutory auditor's reports regarding the financial statements are filed with the National Bank of Belgium and are available at www.kbc.com. The annual report can also be obtained from the company's registered office and will be sent to those requesting it. Extracts of minutes concerning decisions on the appointment and the termination of the offices of members of the Executive Committee and the Board of Directors are published in the appendices to the Belgian Official Gazette. Financial reports about the company are published in the financial press and/or on www.kbc.com. Convening notices of general meetings of shareholders are published in the Belgian Official Gazette, in at least one national newspaper, in the media and on www.kbc.com.
- For information on the general meeting of shareholders and the right of shareholders to take part in such meetings, see Article 23 et seq. of the Articles of Association, which are available at www.kbc.com.

Note 6.10: IFRS 17

Background information

- In May 2017, the IASB issued IFRS 17 (Insurance Contracts), a new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. On 1 January 2023, IFRS 17 replaced IFRS 4 (Insurance Contracts) that was issued in 2005. IFRS 17 applies to all types of insurance contracts, regardless of the type of entities that issue them, as well as to financial instruments with discretionary participation features. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model (the 'Building Block Approach' or 'BBA'), supplemented by a specific adaptation for contracts with direct participation features (the 'Variable Fee Approach' or 'VFA') and a simplified approach (the 'Premium Allocation Approach' or 'PAA') mainly for short-duration contracts.
- Where necessary, the interpretation of IFRS 17 was gradually adjusted when new information became available from external or in-house sources. Changes to the original standard, which were published by the IASB in June 2020, are also taken into account. On 23 November 2021, the EU published a Regulation endorsing IFRS 17 (Insurance Contracts), including the amendments to the original IFRS 17 and a solution for the annual cohort requirement for certain types of insurance contracts, for use in the European Union. KBC will not apply the European optional exemption from the annual cohort requirement.

Main differences between IFRS 4 and IFRS 17

- For Non-life insurance, income continues to be recognised primarily in earned premiums, and discounting under IFRS 17 represents the main difference in claims provisions. The undiscounted claims provisions under IFRS 4 are replaced by a discounted best estimate of future cashflows under IFRS 17, plus a risk adjustment for uncertainty (i.e. a safety margin).
- Under IFRS 4, the premiums received for Life insurance are recognised as earned premiums. Under IFRS 17, the premiums received are broken down into their various components. The savings component (as part of the premium received) is no longer recognised in the income statement. Income is spread over the term of the contract based on the services provided and claims and expenses expected during the period. While earnings per product are the same as earnings per product under IFRS 4, the earnings are recognised differently over time.
- The IFRS 4 actuarial reserves for Life insurance are replaced by a discounted best estimate of future cashflows under IFRS 17, plus a risk adjustment for uncertainty (i.e. a safety margin) and a contractual service margin (CSM, similar to unearned profit).
- Technical charges under IFRS 4 are presented in a more transparent way under IFRS 17, by presenting the insurance service result – comprising insurance revenue and insurance service expenses – separately from insurance finance income or expenses (IFIE). Finance income or expenses is a new concept under IFRS 17 resulting from the discounting of insurance liabilities.
- When facts and circumstances suggest doubtful contracts, under IFRS 17 the expected losses concerned are recognised immediately in the income statement.
- While IFRS 17 generally does not affect insurance business profitability, the timing of recognition of the result may vary, especially for long-term life insurance. Since changes in estimates (for instance, based on updated mortality tables) are absorbed in the CSM and therefore recognised in the result over time, we expect to see less volatility in the result.
- Following the introduction of IFRS 17, 'Financial assets at fair value – overlay approach' has been abolished. KBC Insurance has chosen to reclassify its shares held in portfolio based on this overlay approach to FVOCI equity instruments (without recycling). As a result, only the dividend income will now be recognised in the income statement.
- IFRS 17 does not affect:
  - KBC Insurance's Solvency II ratio;
  - KBC Group's common equity ratio (Danish compromise method): at consolidated group level, KBC Insurance is treated as an investee and measured at historical carrying value;
  - KBC Group's dividend policy.

Uniform measurement principles

- IFRS 17 introduces uniform measurement principles for insurance liabilities, which factor in insurance contract features. At KBC, the Building Block Approach (BBA) and Variable Fee Approach (VFA) measurement models are used for long-term life insurance contracts; the Premium Allocation Approach (PAA) measurement model is used for short-term non-life insurance contracts and for reinsurance (including ceded), provided they meet the PAA eligibility criteria. Certain investment contracts (primarily in Belgium) are included under IFRS 9 instead of IFRS 17.
- As required under IFRS 17, the curves used to discount cashflows that vary based on the underlying items (mainly for life insurance) based on the top-down approach (using a risk-free rate, adjusted with a spread based on a reference portfolio of assets and excluding the part not related to the insurance liabilities for discounting), while the bottom-up approach (i.e. risk-free rate + illiquidity premium) is used to discount cashflows that do not vary based on the underlying items (mainly for non-life insurance).
- Under IFRS 17, insurance liabilities are measured at the current rate, which means that the impact of the time value of money is revalued at the current rate each closing period. A choice needs to be made whether to recognise the impact of the changes in the current rate in the income statement or in other comprehensive income (OCI). In its accounting policies, KBC has chosen to disaggregate insurance finance income or expenses (IFIE) between the income statement and OCI. This means that the interest expense on the insurance liability over the reporting period is recorded in the income statement – this interest expense is determined based on the locked-in rate (i.e. the interest rate curve applicable at inception of the IFRS 17 contract) – and that the impact of changes in the market rate over the reporting period is recorded in OCI.
- The IFRS 17 insurance and reinsurance assets and liabilities represent all rights and obligations arising from a portfolio of contracts as a single insurance contract asset or liability. A division is made under IFRS 17 between insurance contracts issued (i.e. direct business and accepted reinsurance) and reinsurance contracts held (i.e. ceded reinsurance). To correctly present the insurance liabilities and ceded reinsurance receivables, an adjustment is applied by offsetting the outstanding insurance and reinsurance payables and receivables (for instance, premiums receivable and fees payable) against the Liability for Remaining Coverage (LRC)/Asset for Remaining Coverage (ARC).
- The risk adjustment for non-financial risks is the compensation the entity needs to bear the uncertainty of the amount and the timing of cashflows arising from non-financial risks. It is a buffer on top of the best estimate of future cashflows that represents a 50% probability that future liabilities can be met. Life insurance liabilities are characterised by long-term cashflows based on biometric parameters. The risk adjustment is defined as the difference between the Value at Risk (VaR) and the best estimate of future cashflows in the context of meeting the liabilities. Non-financial risks included in the VaR model are mortality risk, longevity risk, illness/disability risk, lapse risk, expense risk and revision risk. The correlations between the different types of risk have been drawn from the Solvency II correlation matrix. Since the risk adjustment for non-life insurance liabilities is only calculated for damages suffered, only the reserve risk is taken into account. A Value at Risk method is used, as is the case for life insurance liabilities. The risk adjustment for non-life is calculated at a confidence level of 90% and the risk adjustment for life is set at a confidence level of 75%.
- When transitioning from IFRS 4 to IFRS 17, KBC applies the Full Retrospective Approach (FRA) for recent years for which the required historical data is available that allows KBC to make these FRA transition calculations. Applying the FRA for non-recent years is impracticable due to either a lack of historical data (data and hypotheses) or high costs associated with making information from the past available for FRA transition calculations, where these costs outweigh the benefits. Where the FRA is impracticable, the Fair Value Approach (FVA) is predominantly used to determine the CSM on the transition date. The Modified Retrospective Approach (MRA) is rarely applied as this transition approach is overly complex and the costs do not outweigh the benefits. KBC calculates a fair value according to IFRS 13 based on the IFRS 17 cashflows and subsequently adjusts a few assumptions or parameters. The adjustments relate to the inclusion in the IFRS 13 fair value of total expenses, i.e. including non-directly attributable expenses, and to the inclusion of a risk premium that covers not only non-financial risk but also operational risk, lapse risk, system and integration expenses and capital funding costs. All past years are combined into a single cohort for the FVA transition calculations. The FVA CSM ensues from cost and risk margin differences under IFRS 17 and IFRS 13 measurement approaches. The OCI amount on the transition date under the FVA is determined in accordance with the transition exemptions provided in IFRS 17.

Level of aggregation

- IFRS 17 calculations are performed at an aggregated level and take into account:
  - IFRS 17 portfolios (an aggregation of contracts with similar risks that are managed together)
  - Annual cohorts (the year in which the policy was taken out)
  - Group of contracts (having the same profitability expectation at inception)
- The IFRS 17 Life group portfolios allow KBC to report at the level of guaranteed-interest (class 21), unit-linked (class 23) and hybrid products. For Non-life, reports are prepared at the level of property, liability and personal insurance. New production is aggregated in annual cohorts. Contracts are allocated to a group of contracts that have the same profitability characteristics upon initial recognition (i.e. at inception of the policy).

Impact of the first-time adoption of IFRS 17

- The table shows which IFRS 4 or IFRS 9 insurance-related assets and liabilities are or are not measured under IFRS 17 at year-end 2021:
  - Assets and liabilities that will not be measured under IFRS 17 are included under IFRS 9 (Financial Instruments).
  - Assets and liabilities that are covered by IFRS 17 are subject to differences in presentation (movements between assets and liabilities, which do not affect equity) and valuation differences. The latter may affect equity through retained earnings or the revaluation reserves (Insurance finance income or expense through OCI, after reinsurance).

Impact of the transition to IFRS 17 (in millions of EUR)		Situation as at 31-12-2021 (IFRS 4)	Not measured under IFRS 17	Measured under IFRS 17	Presentation change	Measure-ment change (impact on equity)	Situation as at 01-01-2022 (IFRS 17)
Reported under IFRS 4	Reported under IFRS 17						
Reported as assets	Reported as assets	1 824	1 097	726	-684	-29	1 111
Reinsurers' share in technical provisions, insurance	*Ceded reinsurance assets*	*191*	*0*	*191*	*-149*	*-29*	*13*
Other assets	*Other assets*	*1 633**	*1 097*	*535*	*-535*	*0*	*1 097*
Reported as liabilities	Reported as liabilities	35 090	15 943	19 147	-691	1 456	35 855
Technical provisions, before reinsurance	*Insurance contract obligations*	*18 967*	*197*	*18 770*	*-511*	*1 456*	*19 912*
Non-life	*Non-life*	*3 967*	*0*	*3 967*	*-501*	*-401*	*3 065*
Life	*Life*	*15 000*	*197*	*14 803*	*-10*	*1 857*	*16 847*
Liabilities under investment contracts (measured under IFRS 9)	*Liabilities under investment contracts (measured under IFRS 9)*	*13 603*	*13 464*	*139*	*57*	*0*	*13 661*
Other liabilities	*Other liabilities*	*2 520*	*2 283*	*237*	*-237*	*0*	*2 283*
Impact of transition to IFRS 17 (excluding reclassification of financial assets (IFRS 9) as a result of the transition to IFRS 17)							
Impact on equity before tax		–	–	–	–	-1 485	–
on retained earnings		–	–	–	–	*-1 419*	–
on revaluation reserves		–	–	–	–	*-65*	–
Impact on equity after tax		–	–	–	–	-1 102	–
on retained earnings		–	–	–	–	*-1 054*	–
on revaluation reserves		–	–	–	–	*-48*	–
Impact of reclassification of financial assets (IFRS 9) as a result of the transition to IFRS 17							
Impact on equity before tax		–	–	–	–	574	–
on retained earnings		–	–	–	–	*71*	–
on revaluation reserves		–	–	–	–	*503*	–
Impact on equity after tax		–	–	–	–	428	–
on retained earnings		–	–	–	–	*71*	–
on revaluation reserves		–	–	–	–	*357*	–
Total impact of transition to IFRS 17 (including reclassification of financial assets (IFRS 9) as a result of the transition to IFRS 17)							
Total impact on equity after tax		–	–	–	–	-673	–
on retained earnings		–	–	–	–	*-983*	–
on revaluation reserves		–	–	–	–	*309*	–

* The difference with the 1 630 million euros on the balance sheet at year-end 2021 is due to the addition of insurance-related items included in other balance sheet items.

- Conclusions:
  - The full net impact (after tax) of the transition to IFRS 17, including the reclassification of financial assets (IFRS 9) came to -673 million euros, as a result of:
    - IFRS 17 valuation differences: the negative impact on equity (-1 485 million euros before tax; -1 102 million euros after tax) caused by the transition to IFRS 17 is attributable to the life business, partly offset by non-life.
      - Life (impact of -1 857 million euros before tax): is measured mainly on the basis of the Building Block Approach, which results in an increase in insurance liabilities. Higher insurance liabilities are largely accounted for by the application of a different discount rate (under IFRS 4 liabilities are discounted using the higher guaranteed rate, whereas under IFRS 17 they are discounted using the lower current rate at transition).
      - Non-life (impact of +372 million euros before tax): the decrease in insurance liabilities is mainly attributable to the use of the Premium Allocation Approach. The lower insurance liabilities are accounted for by a combination of the application of a best estimate under IFRS 17 and the impact of discounting (not applied under IFRS 4).
    - The first-time adoption of IFRS 17 also permits a reclassification of financial assets available to the insurance companies in order to avoid an accounting mismatch between assets and liabilities. As a result, bonds in the amount of 5 234 million euros were transferred from 'Financial assets at amortised cost' to 'Financial assets at fair value through OCI', whereas bonds in the opposite direction amounted to 2 235 million euros. This translated into a positive net impact after tax of 428 million euros on equity. As a general principle, KBC has decided to classify bonds used to hedge life insurance liabilities as FVOCI, and bonds used to hedge non-life insurance liabilities as amortised cost (90%) and FVOCI (10%).
    - The first-time adoption of IFRS 17 also resulted in the abolition of 'Financial assets at fair value – overlay approach' (see above), leading to a transfer of shares in the amount of 1 366 million euros to 'Financial assets at fair value through OCI' (FVOCI). The transfer does not have a net impact on equity, but it does result in a shift from 'Retained earnings' (-71 million euros, pertaining to impairment recognised in the past) and the 'Revaluation reserve (FVPL equity instruments) – overlay approach' (496 million euros) to the 'Revaluation reserve (FVOCI equity instruments)'.
  - Liabilities that will not be measured under IFRS 17 are mainly investment contracts in Belgium, which will be included under IFRS 9 (Financial Instruments) (no changes compared with IFRS 4).
  - Differences in presentation: these pertain to the adjustment applied by offsetting the outstanding insurance payables and receivables (for instance, premiums receivable and fees payable) against the Liability for Remaining Coverage (LRC) or the Asset for Remaining Coverage (ARC).
  - The CSM release model is based on coverage units in the group of contracts (GoC). The number of coverage units is the volume of services the insurer provides under the contracts in that GoC, which is determined by taking into account, for each contract, the total payments a policyholder receives under a contract and the expected period of cover. The CSM amount included in the income statement is the number of coverage units allocated to the current period for the insurance cover provided in the current period.
  - The number of coverage units is reassessed at the end of every reporting period in order to reflect the most up-to-date contract assumptions. KBC has chosen to present the time value of money on coverage units. Discounting the coverage units helps achieve a more stable allocation of the CSM to the income statement. KBC applies 'multivariate coverage units' for contracts under which multiple services are provided, i.e. insurance cover, investment return services and investment management services, and charges the following items:
    - Coverage units are determined based on individual payment components.
    - Each component is assigned a weight to reflect an appropriate service level.

    These weights appropriately reflect the CSM release based on the volume of work carried out for each service.
  - Contracts under which the insurer provides cover, i.e. where the insurer runs risks, fall within the IFRS 17 contract boundaries. Tacit renewals of non-life insurance policies and contracts with a future period of cover fall outside the IFRS 17 contract boundaries.
  - On the transition date, ceded reinsurance assets and insurance contract obligations amounted to 13 million euros and 19 912 million euros, respectively. More information can be found in the table. On the transition date, total insurance contract obligations excluding PAA consisted of contracts subject to the Fair Value Approach (FVA) (16 388 million euros), the Full Retroactive Approach (FRA) (586 million euros) and the Modified Retrospective Approach (MRA) (199 million euros).

Overview of ceded reinsurance assets and insurance contract obligations, in millions of EUR, 01-01-2022	Total	PAA	BBA	VFA
Ceded reinsurance assets				
By portfolio	13	13	–	–
- Life	*-18*	*-18*	–	–
- Non-life	*32*	*32*	–	–
Insurance contract obligations				
By portfolio, profitability label, product and business unit	**19 912**	**2 739**	**16 157**	**1 016**
Total Life	16 847	60	15 771	1 016
By profitability label				
- Profitable contracts	*16 466*	–	–	–
- Doubtful contracts	*0*	–	–	–
- Onerous contracts	*381*	–	–	–
By product				
- Unit-linked contracts	*899*	*0*	*0*	*899*
- Non-unit-linked contracts	*15 700*	*60*	*15 640*	*0*
- Hybrid contracts	*248*	*0*	*131*	*117*
By business unit				
- Belgium	*14 906*	*59*	*14 847*	*0*
- Czech Republic	*1 157*	*0*	*630*	*527*
- International Markets	*784*	*1*	*294*	*489*
- Group Centre	*0*	*0*	*0*	*0*
Total Non-life	3 065	2 679	386	0
By profitability label				
- Profitable contracts	*2 802*	–	–	–
- Doubtful contracts	*183*	–	–	–
- Onerous contracts	*80*	–	–	–
By product				
- Personal insurance	*1 096*	*710*	*386*	–
- Liabilities	*1 385*	*1 385*	*0*	–
- Property, incl. other	*583*	*583*	*0*	–
By business unit				
- Belgium	*2 470*	*2 084*	*386*	*0*
- Czech Republic	*305*	*305*	*0*	*0*
- International Markets	*276*	*276*	*0*	*0*
- Group Centre	*14*	*14*	*0*	*0*
By component	**19 912**	**2 739**	**16 157**	**1 016**
LRC	17 447	428	16 023	996
- Best estimate	*15 383*	–	*14 540*	*844*
- Risk adjustment	*178*	–	*170*	*9*
- CSM	*1 383*	–	*1 240*	*142*
- Loss component	*76*	–	*74*	*2*
- LRC PAA	*428*	*428*	–	–
LIC	2 465	2 312	134	19
- Best estimate	*2 193*	*2 044*	*130*	*19*
- Risk adjustment	*272*	*268*	*4*	*0*

STATUTORY AUDITOR'S REPORT TO THE GENERAL SHAREHOLDERS' MEETING OF KBC GROUP NV ON THE CONSOLIDATED ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2022

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

We have been appointed as statutory auditor by the general meeting of 5 May 2022, following the proposal formulated by the board of directors and following the recommendation by the audit committee and the proposal formulated by the works' council. Our mandate will expire on the date of the general meeting which will deliberate on the annual accounts for the year ended 31 December 2024. We have performed the statutory audit of the Group's consolidated accounts for seven consecutive years.

Report on the consolidated accounts

Unqualified opinion

We have performed the statutory audit of the Group's consolidated accounts, which comprise the consolidated balance sheet as at 31 December 2022, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information, and which is characterised by a consolidated balance sheet total of EUR 355.872 million and a profit for the year (attributable to equity holders of the parent) of EUR 2.743 million.

In our opinion, the consolidated accounts give a true and fair view of the Group's net equity and consolidated financial position as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium.

Basis for unqualified opinion

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

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

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

Key audit matters

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

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Estimation uncertainty with respect to impairment allowances for loans and advances

Description of the Key Audit Matter

The appropriateness of impairment allowances for loans and advances measured at amortised cost requires significant management judgement. Measuring impairment allowances for loans and advances measured at amortised cost under IFRS 9 requires an assessment of 12-month or lifetime expected credit losses and the assessment of significant increases in credit risk or whether loans and advances measured at amortised cost have defaulted.

The geopolitical and emerging risks that have arisen in the course of 2022 limit the ability of the expected credit models to adequately reflect all the consequences of the resulting economic conditions, requiring the recognition of post-model adjustments in addition to the expected credit loss provisions produced by the models.

Information regarding impairment allowances for loans and advances measured at amortised cost is included in Note 4.2 to the 31 December 2022 consolidated accounts, in application of the policies as described in Note 1.2 “Summary of significant accounting policies”. Information concerning the impact of the geopolitical and emerging risks is included in Note 1.4 to the consolidated accounts.

At year-end 31 December 2022, the carrying value before impairment of loans and advances measured at amortised cost amounts to EUR 204.473 million, the total corresponding impairment at that date amounts to EUR 2.619 million.

The assessment of significant increases in credit risk, the assessment of whether loans and advances at amortised cost are in default and the measurement of 12-month or lifetime expected credit losses are part of the estimation process of the Group and are, amongst others, based on macroeconomic scenarios, credit risk models, triggers indicating a significant increase in credit risk and default triggers, the financial condition of the counterparty and the expected future cash flows or the value of collateral.

The determination of post-model adjustments recognised in addition to the expected credit loss provisions produced by the models encompasses expert inputs to identify vulnerable clients.

The use of different modelling techniques, scenarios and assumptions, including in the determination of the post-model adjustments, could lead to different estimates of impairment allowances on loans and advances measured at amortised cost. As the loans and advances measured at amortised cost represent the majority of the Group’s balance sheet and given the related estimation uncertainty on impairment allowances we consider this as a key audit matter.

How our Audit addressed the Key Audit Matter

Our audit procedures comprised an assessment of the overall governance of the credit and impairment process of the Group, including the 12-month and lifetime expected loss modelling processes and the geopolitical and emerging risks post-model adjustment approach. We have assessed and tested the design and operating effectiveness of the controls within the loan origination process, risk management process and the estimation process for determining impairment allowances. For loan impairment allowances determined on an individual basis, we have performed, for a sample of corporate and SME credit files, a detailed review; we challenged the default triggers and the quantification including forecasts of future cash flows, valuation of underlying collateral and estimates of recovery on default.

For the 12-month and lifetime expected credit loss impairment allowances, we challenged the adequacy of significant increase in credit risk triggers and the macroeconomic scenarios and, together with our experts, we tested the underlying models including the Group's model approval and independent validation process.

We also assessed the completeness of the identification of vulnerable clients by management in the determination of the post-model adjustments and tested the mathematical accuracy of the calculations to determine these adjustments and assessed their reasonability.

Finally, we assessed the completeness and accuracy of the disclosures, including the disclosures concerning the geopolitical and emerging risks post-model adjustments and whether the disclosures are in compliance with the International Financial Reporting Standards as adopted by the European Union.

In our view, the impairments estimated by management, including the geopolitical and emerging risks post-model adjustments, are within a reasonable range of outcomes in view of the overall loans and advances and the related uncertainties as disclosed in the consolidated accounts.

Portfolio fair value hedge of interest rate risk on core deposits

Description of the Key Audit Matter

KBC Group accounts for a Portfolio Fair Value Hedge of interest rate risk on core deposits as allowed under IAS39 as adopted by the European Union. As a result of the steep increase in reference interest rates in some of the countries the Group is active in, the resulting single line item that reflects the cumulative change in fair value of the core deposits in scope of this hedge strategy due to changes in interest rates has increased significantly and amounts to a debit on the liabilities of EUR 1.432 million per 31 December 2022 (as disclosed in Note 4.8.2 to the consolidated accounts), in application of the policies as described in Note 1.2 "Summary of significant accounting policies". The increased magnitude of this single line item resulted in an increased focus area for the Group to monitor whether the requirements, in particular adequate prospective and retrospective hedge effectiveness testing; to pursue applying hedge accounting in these strategies continued to be met.

How our Audit addressed the Key Audit Matter

We obtained an understanding of the internal control framework related to hedge accounting and have tested the key internal controls related to hedge accounting documentation, (de-)designation of hedging instruments, prospective- and retrospective hedge effectiveness testing. We assessed the appropriateness of the hedge accounting- and hedge effectiveness methodology related to the Portfolio Fair Value Hedge of interest rate risk on core deposits. This includes the assessment of data inputs and key assumptions as critical factors used in the hedge accounting process, based on data provided by the Group, our experience and market practice.

Based on our procedures we found that the use of the related hedge accounting methodology was adequately documented and that the hedge effectiveness tests were adequately carried out.

Finally, we assessed the completeness and accuracy of the disclosures relating to the Portfolio Fair Value Hedge of interest rate risk on core deposits to assess compliance with disclosure requirements included in the International Financial Reporting Standards as adopted by the European Union.

Estimation uncertainty with respect to technical insurance provisions

Description of the Key Audit Matter

At year-end 31 December 2022 the technical insurance provisions (before reinsurance) amount to EUR 18.484 million. For detailed information regarding the valuation of the technical insurance provisions, please refer to disclosure Note 1.2 “Summary of significant accounting policies” and Note 5.6 to the consolidated accounts, as well as to the “Technical insurance risk” section of the annual report.

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

How our Audit addressed the Key Audit Matter

We used our internal actuarial experts to assist us in performing our audit procedures. We performed procedures on the design and operating effectiveness of the Group’s controls to ascertain that the data used in the valuation of the technical provisions arising from insurance contracts are adequate and complete. These procedures include data analysis based on business rules and follow-up procedures on exceptions.

We performed testing of the Group’s procedures to determine the aforementioned assumptions, testing of the assumptions based on market observable data and actuarial analysis through backtesting of the assumptions used.

For the non-life insurance business, we have independently recalculated the level of adequacy of the claims reserves based on recognized actuarial techniques. We then compared our results with the results of the Group and obtained the necessary underlying documentation to justify material differences observed, if any.

For the life insurance business, we reviewed the analysis prepared by management of the movements of technical provisions for life insurance and, if necessary, examined the elements of the reconciliation. On a sample basis, we have also verified the accuracy of the (incoming and outgoing) cash flows used in the liability adequacy test.

We discussed the outcome of the actuarial analysis with the actuarial function holder of the Group. Our procedures have allowed us to assess the valuation and the setting of the technical insurance provisions.

Finally, we assessed the completeness and accuracy of the disclosures regarding technical insurance provisions to assess compliance with disclosure requirements included in the International Financial Reporting Standards as adopted by the European Union.

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

The board of directors is responsible for the preparation of consolidated accounts that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium, and for such internal control as the board of directors determines is necessary to enable the preparation of consolidated accounts that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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

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

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

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

- Evaluate the overall presentation, structure and content of the consolidated accounts, including the disclosures, and whether the consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

Other legal and regulatory requirements

Responsibilities of the board of directors

The board of directors is responsible for the preparation and the content of the directors' report on the consolidated accounts and the other information included in the annual report on the consolidated accounts.

Statutory auditor's responsibilities

In the context of our engagement and in accordance with the Belgian standard which is complementary to the International Standards on Auditing (ISAs) as applicable in Belgium, our responsibility is to verify, in all material respects, the directors' report on the consolidated accounts and the other information included in the annual report on the consolidated accounts and to report on these matters.

Aspects related to the directors' report on the consolidated accounts and to the other information included in the annual report on the consolidated accounts

In our opinion, after having performed specific procedures in relation to the directors' report on the consolidated accounts, this directors' report is consistent with the consolidated accounts for the year under audit and is prepared in accordance with article 3:32 of the Companies' and Associations' Code.

In the context of our audit of the consolidated accounts, we are also responsible for considering, in particular based on the knowledge acquired resulting from the audit, whether the directors' report on the consolidated accounts and the other information included in the annual report on the consolidated accounts, containing:

- The company balance sheet, income statements and profit appropriation; and
- Notes to the company annual accounts

is materially misstated or contains information which is inadequately disclosed or otherwise misleading. In light of the procedures we have performed, there are no material misstatements we have to report to you.

The non-financial information required by virtue of article 3:32, §2 of the Companies' and Associations' Code is included in the directors' report on the consolidated accounts. The Company has prepared the non-financial information, based on Global Reporting Initiative (GRI) Standards. However, in accordance with article 3:80, §1, 5° of the Companies' and Associations' Code, we do not express an opinion as to whether the non-financial information has been prepared in accordance with the Global Reporting Initiative (GRI) Standards as disclosed in the directors' report on the consolidated accounts.

Statements related to independence

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

European Uniform Electronic Format (ESEF)

We have also verified, in accordance with the draft standard on the verification of the compliance of the financial statements with the European Uniform Electronic Format (hereinafter "ESEF"), the compliance of the ESEF format with the regulatory technical standards established by the European Delegate Regulation No. 2019/815 of 17 December 2018 (hereinafter: "Delegated Regulation").

The board of directors is responsible for the preparation, in accordance with ESEF requirements, of the consolidated financial statements in the form of an electronic file in ESEF format (hereinafter "digital consolidated financial statements") included in the annual financial report.

Our responsibility is to obtain sufficient appropriate evidence to conclude that the format and marking language of the digital consolidated financial statements comply in all material respects with the ESEF requirements under the Delegated Regulation.

Based on the work we have performed, we believe that the format of and marking of information in the digital consolidated financial statements included in the annual financial report of KBC Group NV per 31 December 2022 comply in all material respects with the ESEF requirements under the Delegated Regulation.

Other statement

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

Diegem, 31 March 2023

The statutory auditor
PwC Reviseurs d'Entreprises SRL / PwC Bedrijfsrevisoren BV
represented by

DocuSigned by:
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DocuSigned by:
BE79946D8858484...

Damien Walgrave
Accredited auditor

Jeroen Bockaert
Accredited auditor

The company annual accounts of KBC Group NV are presented here in abridged form. A full set of these accounts will be submitted for approval to the General Meeting of Shareholders of 4 May 2023.
The company annual accounts, the report of the Board of Directors and the statutory auditor's report are filed with the National Bank of Belgium. These documents are available free of charge from KBC Group NV, Investor Relations Office, IRO, Havenlaan 2, 1080 Brussels, Belgium. They can also be viewed at www.kbc.com.
The statutory auditor has delivered an unqualified audit opinion on the company annual accounts of KBC Group NV.
The company annual accounts have been prepared according to Belgian accounting standards (B-GAAP) and are, therefore, not comparable with the figures prepared in accordance with IFRS in the other sections of this report.

Company annual accounts and additional information

Company balance sheet, income statement and profit appropriation

Balance sheet after profit appropriation (B-GAAP)

(in millions of EUR)	31-12-2022	31-12-2021
Fixed assets	**32 820**	**30 263**
Intangible fixed assets	0	297
Property and equipment	0	84
Land and buildings	0	22
Plant, machinery and equipment	0	52
Furniture and vehicles	0	7
Other tangible fixed assets	0	1
Assets under construction and advance payments	0	1
Financial fixed assets	32 820	29 882
Affiliated companies	32 819	29 881
Participating interests	16 368	16 012
Amounts receivable	16 451	13 869
Other companies linked by participating interests	1	1
Participating interests	1	1
Other financial assets	0	0
Current assets	**557**	**353**
Amounts receivable at more than one year	0	0
Stocks and contracts in progress	0	0
Amounts receivable within one year	10	58
Trade receivables	10	55
Other amounts receivable	0	3
Current investments	300	0
Own shares	0	0
Other investments	300	0
Cash at bank and in hand	80	125
Accrued charges and deferred income	166	169
Total assets	**33 377**	**30 615**
Equity	**15 512**	**13 307**
Capital	1 461	1 460
Issued capital	1 461	1 460
Share premium account	5 510	5 498
Reserves	1 287	1 287
Legal reserves	146	146
Other reserves not available for distribution	1	1
Untaxed reserves	190	190
Reserves available for distribution	949	949
Profit (Loss (-)) carried forward	7 255	5 063
Provisions and deferred taxes	**0**	**7**
Provisions for liabilities and charges	0	7
Pensions and similar obligations	0	7
Other liabilities and charges	0	1
Amounts payable	**17 865**	**17 301**
Amounts payable at more than one year	14 754	11 119
Financial debt	14 754	11 119
Subordinated loans	3 683	3 681
Non-subordinated bonds	11 071	7 437
Amounts payable within one year	2 990	6 062
Amounts payable at more than one year falling due within the year	1 700	2 750
Trade debt	1	37
Taxes, remuneration and social security charges	15	65
Income tax expense	1	3
Remuneration and social security charges	14	62
Other amounts payable	1 274	3 209
Accrued charges and deferred income	121	120
Total liabilities	**33 377**	**30 615**

Income statement (B-GAAP)

(in millions of EUR)	31-12-2022	31-12-2021
Operating income	499	1 019
Turnover	449	926
Increase (decrease (-)) in stocks of finished goods, work and contracts in progress	0	0
Own construction capitalised	35	70
Other operating income	15	23
Non-recurring operating income	0	0
Operating charges	504	1 019
Goods for resale, raw materials and consumables	0	0
Services and other goods	254	560
Remuneration, social security charges and pensions	213	370
Depreciation of and amounts written off formation expenses and intangible and tangible fixed assets	38	88
Provisions for liabilities and charges: amounts set aside and amounts reversed	-1	-1
Other operating charges	1	2
Non-recurring operating charges	0	0
Operating profit (loss (-))	**-6**	**0**
Financial income	4 089	407
Recurring financial income	4 089	407
Income from financial fixed assets	3 862	236
Income from current assets	4	5
Other financial income	224	167
Non-recurring financial income	0	0
Financial charges	215	168
Recurring financial charges	215	168
Debt charges	212	165
Amounts written down on current assets: increase and decrease	0	0
Other financial charges	3	3
Non-recurring financial charges	0	0
Profit (Loss (-)) for the period, before tax	**3 869**	**240**
Transfers from deferred taxes	0	0
Transfers to deferred taxes	0	0
Income tax	3	5
Profit (Loss (-)) for the period	**3 866**	**235**
Profit (Loss (-)) for the period available for appropriation	**3 866**	**235**

Profit appropriation (B-GAAP)

(in millions of EUR)	31-12-2022	31-12-2021
Profit (Loss (-)) to be appropriated	**8 930**	**9 495**
Profit (Loss (-)) for the period available for appropriation	3 866	235
Profit (Loss (-)) carried forward from the previous period	5 063	9 260
Transfers to equity	**0**	**0**
To the legal reserves	0	0
To other reserves	0	0
Profit (Loss (-)) to be carried forward	**7 255**	**5 063**
Profit to be distributed	**1 674**	**4 432**
Dividends	1 668	4 418
Directors' entitlements	0	0
Employees/other allocations	6	13

Dividend

We will propose to the General Meeting of Shareholders that the profit for appropriation for the 2022 financial year be distributed as shown in the table. This means that we will propose a gross final dividend of 3 euros per share, bringing the total gross dividend related to 2022 to 4 euros per share (see also 'Consolidated statement of changes in equity' in the 'Consolidated financial statements' section).

Notes to the company annual accounts

Note 1: Financial fixed assets (B-GAAP)

(in millions of EUR)	Participating interests in affiliated companies	Amounts receivable from affiliated companies	Participating interests in companies linked by participating interests
Carrying value at 31-12-2021	**16 012**	**13 869**	**1**
Acquisitions in 2022	355	5 411	0
Disposals in 2022	0	-2 829	0
Other changes in 2022	0	0	0
Carrying value at 31-12-2022	**16 368**	**16 451**	**1**

- Participating interests in affiliated companies are mainly the shareholdings in KBC Bank NV and KBC Insurance NV, as well as in KBC Global Services NV (see below for more details) and Discai.
- The amounts receivable from affiliated companies related to loans to KBC Bank NV in the form of additional tier-1 capital (1.5 billion euros in total), tier-2 capital (2.2 billion euros), tier-3 capital (12.3 billion euros) and a subordinated perpetual loan of 0.5 billion euros to KBC Insurance NV.
- The main changes in 2022 related to new loans to KBC Bank NV in the form of tier-3 capital (5.4 billion euros). In addition, 2.8 billion euros in tier-3 capital reached maturity.
- In compliance with the MREL subordination requirement, KBC Group NV was converted to a clean holding company, whose main operations involve financing activities and group-wide control activities and functions. The clean holding company will facilitate the Single Point of Entry strategy in the event of settlement of KBC Group NV. As a result, only a number of control functions, the financial holding activities and the issue of equity and MREL instruments can remain at the level of the financial holding company KBC Group NV; all other activities (other group functions, Shared Services & IT) were transferred to KBC Global Services NV as of 1 June 2022.

Note 2: Changes in equity (B-GAAP)

(in millions of EUR)	31-12-2021	Capital increase for staff	Appropriation	31-12-2022
Capital	1 460	1	–	1 461
Share premium account	5 498	12	–	5 510
Reserves	1 287	–	–	1 287
Profit (Loss) carried forward	5 063	–	2 192	7 255
Equity	**13 307**	**13**	**2 192**	**15 512**

- At year-end 2022, the company's issued capital amounted to 1 460 538 768.64 euros, represented by 417 169 414 shares of no nominal value. The share capital is fully paid up.
- A capital increase under the authorisation to increase capital carried out on 16 December 2022 and reserved exclusively for employees of KBC Group NV and certain of its Belgian subsidiaries resulted in 285 822 shares being issued at a price of 44.47 euros per share. These shares are blocked for two years, since the issue price was less than the closing price of the KBC share on 14 November 2022. By carrying out this capital increase, the group aims to strengthen ties with its staff and the staff of its Belgian subsidiaries. Given the limited extent of the capital increase, the financial ramifications for existing shareholders are minor. All of the shares issued in 2022 will also be entitled to dividend from the 2022 financial year (with the exception of the interim dividend paid by the company in November 2022).
- The authorisation to increase capital may be exercised up to and including 23 October 2023 for an amount of 695 535 817.03 euros, with suspension of the preferential subscription rights of existing shareholders being restricted to a maximum of 286 535 817.03 euros. Based on an accounting par value of 3.51 euros a share, a maximum of 198 158 352 new KBC Group NV shares can therefore be issued, with the possibility to suspend the preferential subscription rights attached to a maximum of 81 634 135 of these shares.

Note 3: Shareholders

- Treasury shares: at year-end 2022, the KBC group held 2 treasury shares (with KBC Securities), the same as in 2021.
- The average accounting par value of the KBC share came to 3.51 euros in 2022.
- Notifications received: we received a number of notifications in 2022 pursuant to the Belgian Act of 2 May 2007 concerning the disclosure of significant participations. All notifications we receive are published in detail on www.kbc.com.

Notifications received in 2022 (% voting rights in KBC Group NV)	Situation as at	Voting securities	Financial instruments that are treated as voting securities	Total
The Capital Group Companies	16 March 2022	4.95%	–	4.95%
The Capital Group Companies	24 March 2022	5.01%	–	5.01%
FMR LLC	10 May 2022	2.72%	0.60%	3.32%
FMR LLC	17 May 2022	3.17%	0.14%	3.32%
The Capital Group Companies	12 July 2022	4.93%	–	4.93%
The Capital Group Companies	21 October 2022	2.99%	–	2.99%
FMR LLC	10 November 2022	2.94%	0.03%	2.97%
BlackRock Inc.	22 November 2022	4.90%	0.12%	5.02%
BlackRock Inc.	23 November 2022	4.83%	0.12%	4.96%
BlackRock Inc.	24 November 2022	4.95%	0.12%	5.07%
BlackRock Inc.	25 November 2022	4.85%	0.12%	4.98%
BlackRock Inc.	28 November 2022	4.96%	0.12%	5.08%
BlackRock Inc.	1 December 2022	4.83%	0.12%	4.95%
FMR LLC	7 December 2022	3.02%	0.01%	3.03%

Note 4: Balance sheet at 31-12-2022

- The balance sheet total amounted to 33 377 million euros, compared to 30 615 million euros at year-end 2021.
- 'Financial fixed assets' are discussed in Note 1.
- 'Current assets' amounted to 557 million euros, whereas the year-earlier figure was 353 million euros. The change is largely attributable to a deposit (under 'Current investments') of 300 million euros in 2022.
- 'Equity' is dealt with in Note 2.
- 'Amounts payable' totalled 17 865 million euros, compared with 17 301 million euros at year-end 2021. The change relates mainly to the increase in 'Non-subordinated loans' (+3.6 billion euros) and decrease in 'Other amounts payable' (-1.9 billion euros, due to the dividend payout).

Note 5: 2022 result

- Net profit totalled 3 866 million euros, as opposed to 235 million euros a year earlier.
- 'Operating income' fell by 51% and 'Operating charges' by 51% year-on-year, relating primarily to the transfer to KBC Global Services (see Note 1).
- 'Financial income' was up 3 682 million euros (due to the increase in dividends received from subsidiaries) and 'Financial charges' rose by 47 million euros year-on-year.

Note 6: Additional information

- For more information on the statutory auditor's remuneration, see Note 6.4 in the 'Consolidated financial statements' section.
- At year-end 2022, KBC Group NV had two branch offices.
- KBC Group NV uses financial instruments to hedge interest rate risks. At year-end 2022, the outstanding notional amount of interest rate swaps used for hedging such risks was 500 million euros.
- KBC Group NV is the issuing entity for all loss absorbing instruments (shareholders' capital, AT1, T2 and MREL-eligible instruments). In principle, the financial resources are transferred to KBC Bank and KBC Insurance in the same or a similar format and with a similar term. Consequently, the maturity of the liability issued by KBC Group matches that of the loans to its subsidiaries. Dividends payable by KBC Group are financed by dividends receivable from KBC Bank and KBC Insurance. Any temporary liquidity shortfalls can be covered by issuing short-term debt securities under the Short Term Certificate of Deposit Programme.
- The information required in accordance with Article 3:6 of the Belgian Companies and Associations Code that has not been provided above (including the non-financial information statement) appears in the 'Report of the Board of Directors' section.

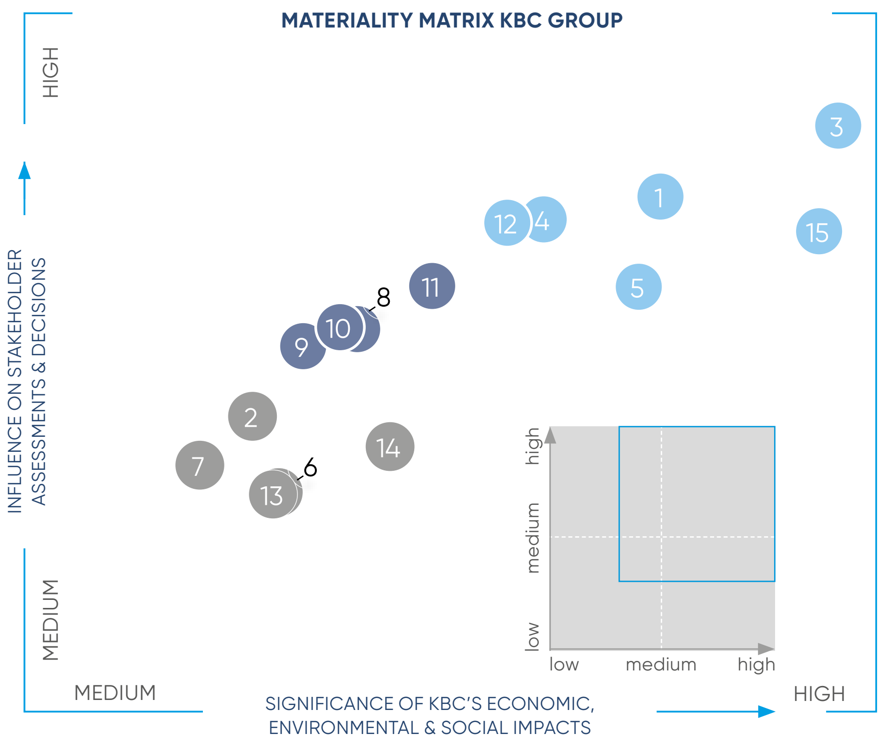
Stakeholder interaction and materiality analysis

The materiality analysis is carried out every two years. This analysis allows us to gain a better understanding and take account of our stakeholder's views on material themes relating to human rights and KBC's economic, social and environmental performance. In collaboration with a renowned, specialised third party, we conducted a new analysis in 2022. Our core countries were also actively involved in the process, so as to ensure that the expectations of our local stakeholders (core shareholders, clients, employees, investors, suppliers, NGOs, regulators and sector organisations) in our core countries were represented in the analysis. The double materiality perspective and revised GRI standards served as a guideline for the materiality analysis.

Materiality analysis explained step by step

1. Step 1: Identifying and assessing our stakeholder groups.
2. Step 2: Screening internal and external sources to create a list of potentially material themes.
3. Step 3: Meeting with the members of the External Sustainability Board and identification of 15 material themes.
4. Step 4: Assessment of our stakeholders' expectations of, and engaging in dialogue with, our management to gain insight into the 15 material themes.
5. Step 5: Review of the outcome of the materiality analysis at the Internal Sustainability Board, validation by the Executive Committee and presentation to the members of the Board of Directors.

The illustration and table show the main themes for KBC in 2022 and where in the report these themes are discussed.



- 3 Sustainable and responsible service and product offering
- 15 Ethical business conduct & responsible behaviour
- 1 Long-term resilience of our business model
- 5 Partner in the transformation to a more sustainable future
- 4 Sustainable and responsible asset management and investing
- 12 Data protection and cyber security
- 11 Fair, understandable & transparent information to clients
- 8 Service offering stimulating the local economy
- 10 Promotion of financial literacy
- 9 Accessibility and usability of products and services
- 14 Employee development and well-being
- 2 Direct environmental impact of our activities
- 6 Community engagement
- 13 Diverse and inclusive business culture
- 7 Inclusive service offering

Important topics	Information in this report (selection)
Sustainable and responsible service and product offering	• See 'How do we create sustainable value?' and 'In what environment do we operate?' in 'Our business model' • See 'Our role in society', 'Focus on the climate' and 'Focus on human rights' in 'Our strategy'. • Our business units • See 'Climate-related and other ESG risks' in 'How do we manage our risks?'
Ethical business conduct & responsible behaviour	• See 'What makes us who we are?' in 'Our business model' • See 'Our role in society' and 'Focus on human rights' in 'Our strategy' • See 'Main features of the internal control and risk management systems' in 'Corporate governance statement'
Long-term resilience of our business model	• See 'In what environment do we operate?' in 'Our business model' • See 'The client is at the centre of our business culture' in 'Our strategy' • See 'Our financial report' • See 'Our strategy' • See 'How do we manage our risks? and 'How do we manage our capital?'
Partner in the transformation to a more sustainable future	• See 'Our role in society' and 'Focus on the climate' in 'Our strategy' • Our business units
Sustainable and responsible asset management and investing	• See 'How do we create sustainable value?' and 'In what environment do we operate?' in 'Our business model' • See 'Our role in society', 'Focus on the climate' and 'Focus on human rights' in 'Our strategy' • See 'Climate-related and other ESG risks' in 'How do we manage our risks?'
Data protection and cyber security	• See 'In what environment do we operate?' in 'Our business model' • See 'The client is at the centre of our business culture' in 'Our strategy' • See 'Main features of the internal control and risk management systems' in 'Corporate governance statement' • See 'Non-financial risks' in 'How do we manage our risks?'
Development and well-being of our employees	• See 'Our employees, capital, network and relationships' in 'Our business model'

Social impact:
The top-three most significant themes from the previous analysis remained unchanged in 2022, but with a change in ranking order. 'Sustainable and responsible service and product offering' gained in significance from both our management's and our stakeholders' perspective. 'Long-term resilience of our business model' went down slightly in rank, while 'Sustainable and responsible service and product offering' and 'Partner in the transformation to a more sustainable future' moved up in the general ranking. 'Sustainable and responsible asset management and investing' moved one spot down in 2022, owing to the increased materiality of 'Sustainable and responsible service and product offering' and 'Partner in the transformation to a more sustainable future'.

Impact on KBC:
Besides the social impact of the 15 material themes, our analysis also involved desktop research and in-depth interviews with the Members of the Executive Committee and of the Board of Directors to gauge the impact of these themes on KBC. The three most impactful material themes for KBC are 'Long-term resilience of our business model', 'Data protection and cyber security' and 'Development and well-being of our employees'.

Glossary of financial ratios and terms

Besides the ratios and terms required by law or IFRS, we also use our own ratios and definitions, known as 'alternative performance measures' (APM). We identify them by including 'APM' in the heading and adding the calculation.

Assets under management (APM)

See 'Total assets under management'.

Basic and diluted earnings per share

Gives an idea of the amount of profit over a certain period that is attributable to one share (and, where applicable, including dilutive instruments). A detailed calculation can be found in Note 3.13 of the 'Consolidated financial statements' section.

Combined ratio (non-life insurance) (APM)

Gives insight into the technical profitability (i.e. after eliminating investment returns, among other items) of the non-life insurance business, more particularly the extent to which insurance premiums adequately cover claim payments and expenses. The combined ratio takes ceded reinsurance into account. We also use the same methodology to calculate this ratio for each business unit.

Calculation (in millions of EUR or %)	**Reference**	**2022**	**2021**
Technical insurance charges, including the internal cost of settling claims (A)	Note 3.7	1 147	1 081
/			
Earned insurance premiums (B)	Note 3.7	1 976	1 841
+			
Operating expenses (C)	Note 3.7	625	565
/			
Written insurance premiums (D)	Note 3.7	2 025	1 875
= (A/B) + (C/D)		89%	89%

Common equity ratio

A risk-weighted measure of the group's solvency based on common equity tier-1 capital Changes to the capital rules are gradually being implemented to allow banks to build up the necessary capital buffers. The capital position of a bank, when account is taken of the transition period, is referred to as the 'transitional' view. The capital position based on full application of all the rules – as would be the case after this transition period – is referred to as 'fully loaded'. A detailed calculation can be found under 'Solvency at group level' in the 'How do we manage our capital?' section.

Cost/income ratio (APM)

Gives an impression of the relative cost efficiency (costs relative to income) of the group. We also use the same methodology to calculate this ratio for each business unit. Where relevant, we also eliminate exceptional and/or non-operating items when calculating the cost/income ratio. This calculation aims to give a better idea of the relative cost efficiency of the pure business activities.

Calculation (in millions of EUR or %)	**Reference**	**2022**	**2021**
Cost/income ratio			
Operating expenses (A)	'Operating expenses' in the 'Consolidated income statement'	4 818	4 396
/			
Total income (B)	'Total income' in the 'Consolidated income statement'	8 463	7 558
= (A) / (B)		57%	58%
Cost/income ratio with exceptional and/or non-operating items eliminated			
Operating expenses (A)	'Operating expenses' in the 'Consolidated income statement'	4 818	4 396
Exceptional and/or non-operational items (a1*)		-168	-105
/			
Total income (B)	'Total income' in the 'Consolidated income statement'	8 463	7 558
Impact of the *mark-to-market v*aluation of ALM derivatives (b1)		-(-14)	-(-197)
Exceptional and/or non-operational items (b2*)		-(-62)	-(-25)
= (A-a1) / (B-b1-b2)		54%	55%

* The exceptional and/or non-operational costs in 2022 included costs relating to the sale transactions in Ireland, the exceptional profit bonus to staff, the exceptional bank taxes in Hungary, and the integration expenses connected with the acquisition of Raiffeisenbank Bulgaria (now KBC Bank Bulgaria); in 2021 this included costs relating to the sale transactions in Ireland, the exceptional coronavirus-related bonus to staff, and the reversal of a provision for expenses connected with the sale of the KBC Tower in Antwerp. The exceptional and/or non-operational income in 2022 included income relating to the sale of a property company, the negative impact relating to the arbitration proceedings against ICEC-Holding in the Czech Republic, and various smaller items; in 2021 this included -45 million euros related to the floods in Belgium (claim payments above the legal limit), badwill related to OTP Banka Slovensko and various smaller items. Detailed breakdowns of all exceptional/non-operational items (per quarter) can be found in our General Investor Presentations at www.kbc.com.

Coverage ratio (APM)

Indicates the proportion of impaired loans (see 'Impaired loans ratio' for definition) that are covered by specific impairment charges. The numerator and denominator in the formula relate to all impaired loans, but may be limited to impaired loans that are more than 90 days past due (the figures for that particular calculation are given in the 'Loan and investment portfolio, banking' table in the 'How do we manage our risks?' section).

Calculation (in millions of EUR or %)	Reference	2022	2021
Specific impairment on loans (A)	'Loan and investment portfolio, banking' table in the 'How do we manage our risks?' section	2 048	2 569
/			
Impaired loans (B)	'Loan and investment portfolio, banking' table in the 'How do we manage our risks?' section	4 350	5 454
= (A) / (B)		47%	47%

Credit cost ratio (APM)

Gives an idea of loan impairment charges recognised in the income statement for a specific period, relative to the total loan portfolio (see 'Loan portfolio' for definition). In the longer term, this ratio can provide an indication of the credit quality of the portfolio. We also use the same methodology to calculate this ratio for each business unit.

Calculation (in millions of EUR or %)	Reference	2022	2021
Net changes in impairment for credit risks (A)	'Consolidated income statement': Note 3.10, component of 'Impairment'	155	-329
/			
Average loan portfolio (B)	'Loan and investment portfolio, banking' table in the 'How do we manage our risks?' section	197 052	184 640
= (A) / (B)		0.08%	-0.18%

When the ratio is calculated without including the reserves set aside for the impact of the coronavirus crisis and to cover geopolitical and emerging risks, the numerator is calculated excluding the net reversal of 494 million euros in 2021 and the net increase of 158 million euros in 2022, giving a credit cost ratio of 0.09% in 2021 and 0.00% in 2022.

Dividend payout ratio (APM)

Gives an idea of the extent to which KBC Group NV distributes its annual profit (and, therefore, also indirectly the extent to which profits are used to strengthen the capital reserves). More information on the group's dividend distribution policy can be found under 'We aim to achieve our ambitions within a stringent risk management framework' in the 'Our strategy' section. The amount of dividend for 2022 is subject to the approval of the General Meeting of Shareholders.

Calculation (in millions of EUR or %)	Reference	2022	2021
Amount of dividend to be distributed (including interim dividend) (A)	Consolidated statement of changes in equity	1 668	3 585*
+			
Coupon on additional tier-1 instruments included in equity (B)	Consolidated statement of changes in equity	50	50
/			
Net result, group share (C)	Consolidated income statement	2 743	2 614
= (A+B) / (C)		63%	139%

* When calculating the dividend payout ratio, we allocated 2 euros of the interim dividend paid in November 2021 (3 euros per share entitled to dividend) to financial year 2020 and 1 euro to financial year 2021.

In addition, and in line with our capital allocation plan for 2022, we aim to pay out the surplus capital exceeding a 15% fully loaded common equity ratio in the form of a share buyback (subject to ECB approval) and/or an exceptional cash dividend. We also aim to pay out the capital release resulting from the sale transaction completed in Ireland in the form of a share buyback (subject to ECB approval) and/or an exceptional interim dividend. The Board of Directors will make the final decision on these matters in the first half of 2023.

Impaired loans ratio (APM)

Indicates the proportion of impaired loans in the loan portfolio (see 'Loan portfolio' for definition) and, therefore, gives an idea of the creditworthiness of the portfolio. Impaired loans are loans where it is unlikely that the full contractual principal and interest will be repaid/paid. These loans have a KBC default status of PD 10, PD 11 or PD 12. Where appropriate, the numerator in the formula may be limited to impaired loans that are more than 90 days past due (PD 11 + PD 12). Relevant figures for that calculation are given in the 'Loan and investment portfolio, banking' table in the 'How do we manage our risks?' section. We also use the same methodology to calculate this ratio for each business unit.

Calculation (in millions of EUR or %)	**Reference**	**2022**	**2021**
Amount of impaired loans (A)	'Loan and investment portfolio, banking' table in the 'How do we manage our risks?' section	4 350	5 454
/			
Total loan portfolio (B)	'Loan and investment portfolio, banking' table in the 'How do we manage our risks?' section	205 720	188 400
= (A) / (B)		2.1%	2.9%

Leverage ratio

Gives an idea of the group's solvency, based on a simple non-risk-weighted ratio. A detailed calculation can be found under 'Solvency at group level' in the 'How do we manage our capital?' section.

Life insurance sales (APM)

Total sales of life insurance comprise life insurance premiums and unit-linked life insurance premiums (as required under IFRS, we use margin deposit accounting for most of these unit-linked contracts, which means they are not recognised under 'Earned insurance premiums').

Calculation (in millions)	**Reference**	**2022**	**2021**
Life insurance – Earned premiums before reinsurance (A)	Income statement	1 163	1 196
+			
Life insurance: difference between written premiums and earned premiums before reinsurance (B)	-	1	1
+			
Investment contracts without DPF (unit-linked), margin deposit accounting (C)	-	922	768
(A)+(B)+(C)		2 085	1 964

Liquidity coverage ratio (LCR)

Gives an idea of the bank's liquidity position in the short term, more specifically the extent to which the group is able to overcome liquidity difficulties over a one-month period. It is the average of 12 end-of-month LCR figures.

Calculation (in millions of EUR or %)	**Reference**	**2022**	**2021**
Stock of high-quality liquid assets (A)	Based on the European Commission's Delegated Act on LCR and the European Banking Authority's guidelines for LCR disclosure	91 928	108 642
/			
Total net cash outflows over the next 30 calendar days (B)		60 820	65 399
= (A) / (B)		152%	167%

Loan portfolio (APM)

Gives an idea of the magnitude of (what are mainly traditional) lending activities.

Calculation (in millions of EUR)	Reference	2022	2021
Loans and advances to customers (A)	Note 4.1, component of 'Loans and advances to customers'	178 053	159 728
+			
Reverse repos (not with central banks) (B)	Note 4.1, component of 'Reverse repos with credit institutions and investment firms'	785	719
+			
Debt instruments issued by corporates and by credit institutions and investment firms (banking) (C)	Note 4.1, component of 'Debt instruments issued by corporates and by credit institutions and investment firms'	6 157	4 830
+			
Other exposures to credit institutions (D)	-	4 072	4 392
+			
Financial guarantees granted to clients (E)	Note 6.1, component of 'Financial guarantees given'	10 222	9 040
+			
Impairment on loans (F)	Note 4.2, component of 'Impairment'	2 636	2 581
-			
Insurance entities (G)	Note 4.1, component of 'Loans and advances to customers'	-1 997	-2 077
-			
Non-loan-related receivables (H)	-	-602	-338
+			
Other (I)	Component of Note 4.1; Note 5.11	6 394	9 525
= (A)+(B)+(C)+(D)+(E)+(F)-(G)-(H)+(I)		205 720	188 400

Market capitalisation

Provides an indication of the stock market value of the KBC group.

Calculation (in EUR or quantity)	Reference	2022	2021
Closing price of KBC share (in EUR) (A)	–	60.1	75.5
X			
Number of ordinary shares (in millions) (B)	Note 5.10	417.2	416.9
= (A) X (B) (in billions of EUR)		25.1	31.5

Minimum requirement for own funds and eligible liabilities (MREL)

Indicates the extent to which a bank has sufficient own funds and eligible liabilities available for bail-in. MREL and bail-in are based on the principle that shareholders and debt-holders should bear losses first if a bank fails. The ratio is expressed as a percentage of Risk-Weighted Assets (RWA) or Leverage Ratio Exposure Amount (LRE). A detailed calculation can be found under 'Solvency at group level' in the 'How do we manage our capital?' section.

Net interest margin (APM)

Gives an idea of the net interest income of the banking activities (one of the most important sources of revenue for the group) relative to the average total interest-bearing assets of the banking activities. We also use the same methodology to calculate this ratio for each business unit.

Calculation (in millions of EUR or %)*	Reference	2022	2021
Net interest income of the banking activities (A)	'Consolidated income statement': component of 'Net interest income'	4 450	3 863
/			
Average interest-bearing assets of the banking activities* (B)	'Consolidated balance sheet': component of 'Total assets'	224 014	211 020
= (A) / (B) X 360/number of calendar days		1.96%	1.81%

* The net interest margin is the net interest income of the banking activities excluding dealing rooms and the net interest impact of ALM FX swaps and repos.

Net stable funding ratio (NSFR)

Gives an idea of the bank's structural liquidity position in the long term, more specifically the extent to which the group is able to overcome liquidity difficulties over a one-year period.

Calculation (in millions of EUR or %)	**Reference**	**2022**	**2021**
Available amount of stable funding (A)	Regulation (EU) 2019/876 of 20 May 2019	209 271	218 124
/			
Required amount of stable funding (B)		153 767	147 731
= (A) / (B)		136%	148%

Parent shareholders' equity per share (APM)

Gives the carrying value of a KBC share, i.e. the value in euros represented by each share in the parent shareholders' equity of KBC.

Calculation (in millions of EUR or quantity)	**Reference**	**2022**	**2021**
Parent shareholders' equity (A)	Consolidated balance sheet	19 307	21 577
/			
Number of ordinary shares less treasury shares (in millions at period-end) (B)	Note 5.10	417.2	416.9
= (A) / (B) (in EUR)		46.3	51.8

Return on equity (APM)

Gives an idea of the relative profitability of the group, more specifically the ratio of the net result to equity.

Calculation (in millions of EUR or %)	**Reference**	**2022**	**2021**
Result after tax, attributable to equity holders of the parent (A)	'Consolidated income statement'	2 743	2 614
-			
Coupon on the additional tier-1 instruments included in equity (B)	'Consolidated statement of changes in equity'	-50	-50
/			
Average parent shareholders' equity, excluding the revaluation reserve for FVOCI and for FVPL – overlay (C)	'Consolidated statement of changes in equity'	20 124	19 463
= (A-B) / (C)		13%	13%

Total assets under management (APM)

Total assets under management consist of direct client money (Assets under Distribution), group assets (including pension funds), funds-of-funds assets and assets under advisory management. Total assets under management comprise assets managed by the group's various asset management companies (KBC Asset Management, ČSOB Asset Management, etc.), and assets under advisory management at KBC Bank. The size and development of total assets under management are major factors behind net fee and commission income (generating entry and management fees) and hence determine a large part of any development in this income line.

Calculation (in billions of EUR)	**2022**	**2021**
Belgium Business Unit (A)	184.1	215.6
+		
Czech Republic Business Unit (B)	15.1	14.0
+		
International Markets Business Unit (C)	6.9	6.5
= (A)+(B)+(C)	206.1	236.2
Comprising		
Direct client money or Assets under distribution	87	98
Investment advice	40	47
Funds of funds	60	69
Group assets, including pension funds	19	23

Management certification

"I, Luc Popelier, Chief Financial Officer of the KBC group, certify on behalf of the Executive Committee of KBC Group NV that, to the best of my knowledge, the financial statements, which are based on the relevant standards for annual accounts, fairly present in all material respects the assets, the financial condition and results of KBC Group NV, including its consolidated subsidiaries, and that the annual report provides a fair overview of the development, the results and the situation of KBC Group NV, including its consolidated subsidiaries, as well as an overview of the main risks and uncertainties to which they are exposed."

Contact details and calendar

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Calendar for 2023	
Publication of the Annual Report, the Sustainability Report and the Risk Report for 2022	3 April 2023
General Meeting of Shareholders (agenda available at www.kbc.com)	4 May 2023
Earnings release for 1Q 2023	16 May 2023
Earnings release for 2Q 2023	10 August 2023
Earnings release for 3Q 2023	9 November 2023

The most up-to-date version of the financial calendar is available at www.kbc.com.

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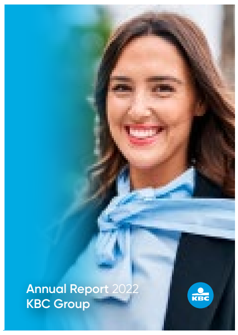
Annual Report



- Provides information on the business model, strategy, sustainability, governance, financial performance, risks and capital. We apply the principles of integrated reporting wherever possible.
- www.kbc.com > Investor Relations > Reports > Annual Reports

Sustainability Report

- Focuses on our sustainability strategy. Contains detailed non-financial data and is prepared according to the GRI Universal and Topic Standards and SASB Standards for Commercial Banks.
- www.kbc.com > Corporate Sustainability > Reporting

Risk Report

- Provides greater detail on the group's risk and capital management.
- www.kbc.com > Investor Relations > Reports > Risk Reports

Report to Society

- Drawn up for each core country and looks more closely at how KBC accepts its role in society.
- www.kbc.com > Corporate Sustainability

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