KBC Bank Annual Report for 2020

To the reader

Company name

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

Difference between KBC Bank and KBC Group

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

Forward-looking statements

The expectations, forecasts and statements regarding future developments that are contained in the annual report are based on assumptions and assessments we made when drawing up this report in early March 2021. By their nature, forward-looking statements involve uncertainty. Various factors, most notably the coronavirus (Covid-19) crisis could cause actual results and developments to differ from the initial statements.

Versions and translation

The annual report is available in Dutch and English PDF versions. The Dutch PDF version is the original; the other language translations are unofficial versions. We have used the revised timetable (one year delay) for the introduction of ESEF (European Single Electronic Format) reporting, but we have made unofficial XHTML versions available in Dutch and English. The statutory auditor has not audited these XHTML versions. We have made every reasonable effort to avoid discrepancies between the different language and format versions. However, should such discrepancies exist, the Dutch PDF version will take precedence.

Articles 3:6 and 3:32 of the Belgian Companies and Associations Code (CAC)

These articles specify the minimum content of company and consolidated financial statements required by law. This information has been incorporated into the different sections of the ‘Report of the Board of Directors’, which also contains additional, non-compulsory information. To avoid repetition, reference is sometimes made to information presented in other sections of this report. KBC Bank has combined the reports for the company and consolidated financial statements. The Risk Report and the www.kbc.com website referred to in certain sections do not form part of the annual report.

Non-financial information statement

As required by Articles 3:6 §4 and 3:32 §2 of the CAC, we provide a statement on non-financial information at the highest consolidated level for a Belgian entity, i.e. (in the annual report of) KBC Group NV. That particular report is available at www.kbc.com. Nevertheless, most of the information in question is also provided in KBC Bank's annual report.

Contacts

Kurt De Baenst (General Manager, Investor Relations Office)
IR4U@kbc.be
KBC Group NV, Investor Relations Office, Havenlaan 2, 1080 Brussels, Belgium

Viviane Huybrecht (General Manager, Corporate Communication/Company Spokesperson)
pressofficekbc@kbc.be
KBC Group NV, Corporate Communication, Havenlaan 2, 1080 Brussels, Belgium

Filip Ferrante (General Manager, Corporate Sustainability)
csr.feedback@kbc.be
KBC Group NV, Corporate Sustainability, Havenlaan 2, 1080 Brussels, Belgium

Ratios used

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

Publisher

KBC Group NV, Havenlaan 2, 1080 Brussels, Belgium – VAT BE 0403.227.515 – RLP Brussels – Bank account 734-0051374-70.

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Report of the Board of Directors

Group profile

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

A year in which the coronavirus took central stage

Johan Thijs: 2020 will go down in history as a year in which a pandemic spread around the world at lightning speed causing immense human suffering. For the first time ever, large swathes of the world went into temporary lockdown, accompanied by an economic downturn that weighed exceptionally heavily on certain sectors. Unprecedented government intervention occurred to mitigate the short and longer-term impact, with the brighter prospect emerging towards the end of 2020 of vaccination in the months that followed. All the same, it remains difficult one year into the crisis to assess its overall human and economic consequences.

When the pandemic first broke out, our first response as an employer and service provider was to act swiftly to safeguard the health of our staff and clients and to guarantee continuity of service. Maximum use was made of teleworking and flexible teams, as well as reorganising workplaces and ensuring they were safe to work in. We set up a special crisis committee to help us keep close track of the situation and to share information. At the same time, we successfully maintained a high level of service to our clients in all our home markets, thanks not only to the expertise and commitment of all our employees, but also the efforts and investments we have made in recent years on the digital transformation front. We have also cooperated intensively with government bodies since the beginning of the coronavirus crisis to support all clients affected by the pandemic, through the efficient provision of support measures such as loan payment deferrals. In this way, the financial sector has been part of the solution to this crisis.

Digitalisation more than ever

Johan Thijs: The coronavirus crisis has accelerated the digital transition that society was already going through. We had already invested an exceptionally large amount in this transformation over the past few years, which was clearly money well spent when we see how tens of thousands of people have been able to continue working at home during lockdown without any noteworthy incidents, and how we have been able to offer our clients a high-quality service throughout.

More than ever, digital has become the new normal and we intend to go much further in that direction in the future. Our updated strategy, ‘Differently: the Next Level’ represents another gear-change towards achieving just that. Supported by Artificial Intelligence and data analysis, we aim to work in a solutions-driven way to proactively make life easier for our clients. If they wish, they can now count as standard on Kate, their personal, fully digital assistant. This represents an enormous step forwards in the services we provide, in which making our clients' lives easier will be the leitmotif as we evolve at an accelerated pace into a data-driven, solutions-oriented bank-insurer which, in addition to traditional bank-insurance solutions, also focuses on offering non-financial solutions. In doing so, we will – as always – put our clients at the centre of everything we do, living up to their choices and preferences.

Sustainability more than ever

Koenraad Debackere: We believe that the world emerging from the coronavirus crisis has to be a more sustainable one and we are working tirelessly to contribute to that scenario. Climate change in particular – besides the coronavirus, obviously – is a hot topic in society. We have committed ourselves to various international initiatives in the field of climate change and sustainability, and have significantly tightened our climate ambitions with our strategy update. Our approach to coal financing, for instance, is more stringent and we have also drafted a new policy on biodiversity. We have set ourselves more challenging targets in the area of sustainable investment and the financing of renewable energy. The decision was also taken to reduce our own greenhouse gas emissions by 80% by 2030 and to achieve full climate neutrality by the end of 2021 by offsetting the balance.

In June, meanwhile, we successfully issued our second green bond for an amount of 500 million euros. By issuing green bonds, we aim to create a closer link with socially responsible investors, to provide finance to clients directly involved in sustainable projects and to contribute to the development of a liquid and efficient green bond market. This will enable us to help finance the transition to a low-carbon economy. From our point of view, facilitating climate-related transitions for our clients is an important, client-oriented way to build a bridge to sustainability.

I’m pleased with the growing international recognition for our years of effort to make sustainability a strategic anchor point and for the pioneering role we play in this field.

A year of ongoing focus

Koenraad Debackere: Our core business is and will remain bank-insurance for retail clients in our six core markets of Belgium, the Czech Republic, Slovakia, Hungary, Bulgaria and Ireland. This focus will be as strong as ever, in our updated strategy too. Where it is possible, opportune and attractive, we aim to strengthen our position in those countries further.

For instance, following our acquisition in 2019 of the remaining stake in the building savings bank ČMSS in the Czech Republic, we expanded our position in the Slovakian banking market by acquiring 99.44% of OTP Banka Slovensko in 2020. The deal bolsters our market share in that country, where we have been present through ČSOB since 2002. We will be able to benefit from economies of scale and increase our visibility in this highly competitive market, which will benefit all our stakeholders. As such, the transaction is fully in line with our strategy, which focuses on becoming the reference group for retail clients, small and medium-sized enterprises and midcaps in all our core markets.

Net profit was adversely affected by the coronavirus crisis, but our solvency position remained robust

Johan Thijs: We knew when the pandemic broke out that the crisis would have a significant impact on banks. Firstly because, due primarily to the lockdowns, we had to set aside substantially higher loan loss provisions to cover the future impact of the coronavirus crisis. The epidemic also had an indirect negative impact on our net fee and commission income and net interest income. On the other hand, we kept our costs under deliberately tight control, through – for instance – additional efficiency measures. Together with a few one-off items, this gave us a total net profit for 2020 of 0.9 billion euros, which is obviously lower than the figure of approximately 2 billion euros that we had achieved the year previously. Our liquidity remained high and our solvency continued to be solid, with a common equity capital ratio of 15.2% at year-end 2020, or as much as 15.7% if we include the impact of temporary regulatory easing.

The economic environment in 2020 and beyond

Johan Thijs: 2020 was entirely overshadowed by the coronavirus epidemic, which caused the biggest shock since the Second World War and unparalleled economic harm. There is light at the end of the tunnel, however. The availability of effective vaccines and coordinated support through monetary and budgetary policy means that 2021 might well be a year of transition , back to a more normal world. All the same, the gravity of the shock is such that the European economy is only likely to return to pre-pandemic levels in the course of 2022.

The past year has proved that under challenging circumstances, we can continue to build not only on our strong foundations and earlier policy decisions but also – and actually more importantly – on the trust that you, our clients, employees, shareholders and other stakeholders have placed in us. I sincerely thank you for that.

Koenraad Debackere: It would be an understatement to say that my first year as Chairman of KBC's Board of Directors has been a riveting one. While KBC has not been spared the consequences of the coronavirus crisis, the position we find ourselves in is strong and, in many respects, enviable, with an updated, focused and data-driven strategy, underpinned by a robust solvency and liquidity position. This encourages me in my belief that our group will continue to live up to its ambition of remaining the reference for bank-insurance in all its core markets in the years ahead too.

Johan Thijs
Chief Executive Officer

Koenraad Debackere
Chairman of the Board of Directors

Area of operation and activities

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

Network and personnel

Network and personnel	
Bank branches (31-12-2020)	
Belgium	476
Central and Eastern Europe (Czech Republic, Slovakia, Hungary and Bulgaria)	766
Rest of the world	23
Number of staff (2020 average in FTEs)	approx. 29 000

Financial calendar

Financial communication is largely organised at KBC Group level. Financial information relating to KBC Bank is available at www.kbc.com > Investor Relations > Information on KBC Bank.

Financial calendar for KBC Group and KBC Bank	
FY 2020	KBC Group Annual Report for 2020 and Risk Report for 2020 available: 1 April 2021
	KBC Bank Annual Report for 2020 available: 1 April 2021
	AGM of KBC Bank: 28 April 2021
	AGM of KBC Group: 6 May 2021
1Q2021	Earnings release for KBC Group: 11 May 2021
2Q2021/1H2021	Earnings release for KBC Group: 5 August 2021
	Earnings release for KBC Bank: 2nd half of August 2021 (see www.kbc.com)
3Q2021/9M2021	Earnings release for KBC Group: 12 November 2021

The most up-to-date version of the financial calendar is available at www.kbc.com.

Long-term credit ratings

The table shows the long-term and short-term credit ratings of KBC Bank NV.

Credit ratings for KBC Bank (18 March 2021)	Long-term ratings (long-term debt ratings)	Short-term ratings
Fitch	A+ (negative outlook)	F1
Moody's	A1 (stable outlook)	P-1
Standard & Poor's	A+ (stable outlook)	A-1

Please refer to the respective credit rating agencies for definitions of the different ratings and methodologies.

Our business model

The strategy, business model and management structure of KBC Bank is embedded in that of the KBC group. A summary is given below of the business model of the KBC group, where KBC Bank is essentially responsible for the banking business and KBC Insurance for the insurance business. For more detailed information, please see the KBC Group annual report for 2020.

How do we create sustainable value? (KBC Group)

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

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

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

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

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

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

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

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

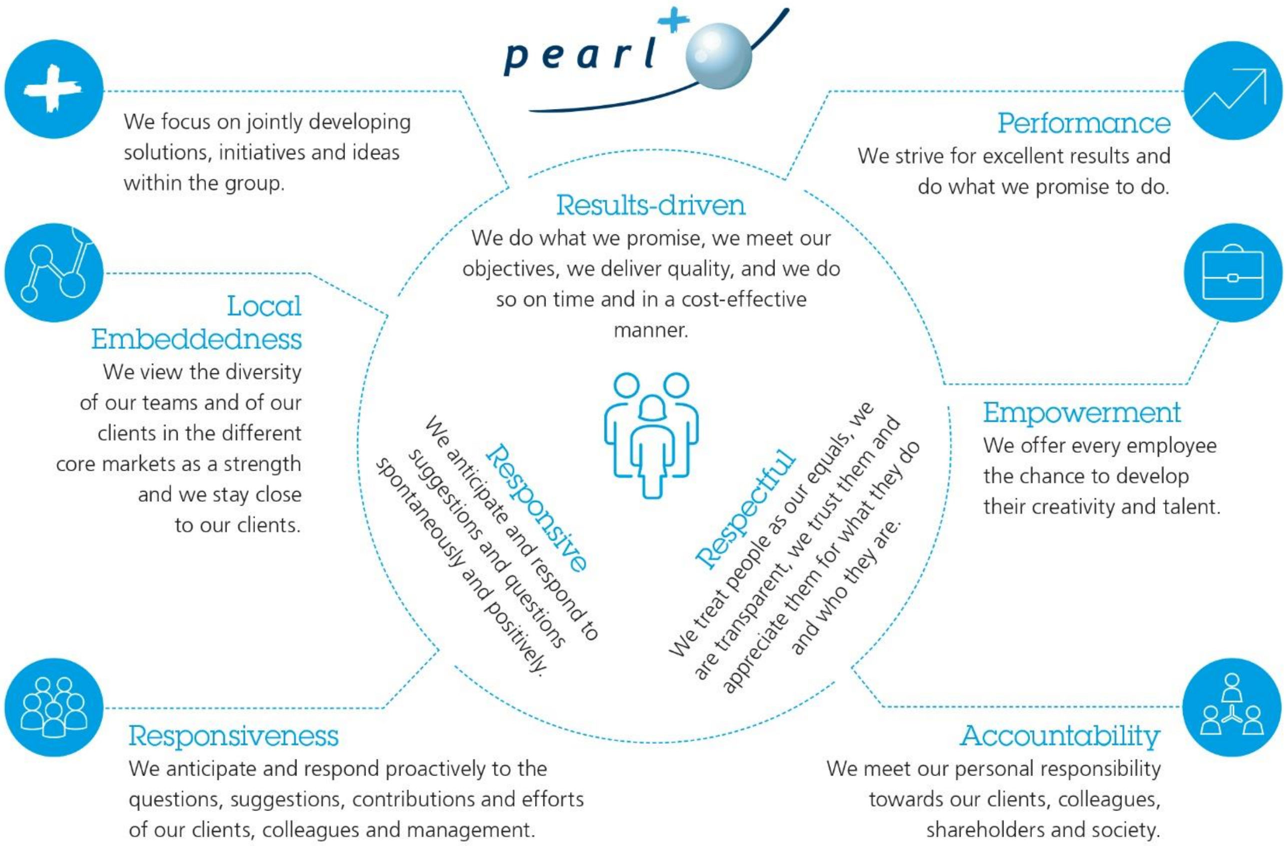
The main consequences of the coronavirus crisis are discussed in Note 1.4 of the 'Consolidated financial statements'.

What makes us who we are? (KBC Group)

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

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

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



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

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

What differentiates us from our peers? (KBC Group)

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

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

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

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

Our approach to sustainability
Sustainability is an integral part of our overall business strategy, which is anchored in our day-to-day activities. Our sustainability strategy, which is geared towards the local economy and society, consists of three cornerstones: encouraging responsible behaviour on the part of all our employees, increasing our positive impact on society and limiting any adverse social impact we might have.

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

Our strengths

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

Our challenges

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

In what environment do we operate? (KBC Group)

The world economy

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

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

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

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

Main challenges

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

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

	Belgium	Czech Republic	Slovakia	Hungary	Bulgaria	Ireland
Market environment in 2020[2]						
Change in GDP (real)	-6.3%	-5.6%	-5.2%	-5.1%	-3.8%	3.5%
Inflation (average annual increase in consumer prices)	0.4%	3.3%	2.0%	3.4%	1.2%	-0.5%
Unemployment (% of the labour force at year-end; Eurostat definition)	5.8%	3.1%	7.0%	4.1%	4.8%	19.8%
Government budget balance (% of GDP)	-9.7%	-6.7%	-8.0%	-9.0%	-3.0%	-5.0%
Public debt (% of GDP)	114.8%	37.5%	64.0%	80.2%	24.3%	60.0%
Forecast growth in real GDP in years ahead						
2021	4.0%	3.5%	4.6%	4.5%	3.0%	5.0%
2022	4.1%	4.5%	4.2%	5.0%	4.0%	4.0%
KBC group's position in each core country						
Main brands	KBC CBC KBC Brussels	ČSOB	ČSOB	K&H	UBB DZI	KBC Bank Ireland
Network	476 bank branches 336 insurance agencies Online channels	212 bank branches Insurance sold through various channels Online channels	175 bank branches Insurance sold through various channels Online channels	204 bank branches Insurance sold through various channels Online channels	175 bank branches Insurance sold through various channels Online channels	12 bank branches Insurance sold through various channels Online channels
Clients (millions, estimate)	3.7	4.2	0.8	1.6	1.4	0.3
- bank	3.4	3.7	0.6	0.9	0.9	0.3
Loan portfolio (in billions of EUR)	116	32	10	6	4	10
Deposits and debt securities (in billions of EUR)	146	42	9	9	5	5
Market share (estimate)						
- banking products	19%	21%	12%	11%	10%	8%[3]
- investment funds	28%	23%	12%	13%	18%	–
- life insurance	13%	8%	3%	3%	28%	–
- non-life insurance	9%	9%	4%	8%	10%	–
Contribution to net profit in 2020 (in millions of EUR, KBC Bank)	579	321	45	90	53	-44

1 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 and debt securities: deposits from customers and debt securities (excluding repos). The number of bank branches excludes self-service branches and the 11 KBC Bank branches established in the rest of Europe, the US and Southeast Asia. Market shares are based on the latest available data (e.g., from the end of September 2020).
2 Data based on estimates from early March 2021 and hence different from year-end 2020 data in Note 1.4 of the 'Consolidated financial statements'. Covid-19-adjusted unemployment rate for Ireland (national definition).
3 Retail segment (home loans and deposits for private individuals (excluding demand deposits)).

What are our main challenges? (KBC Group)

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

The world economy, the financial markets and demographic developments influence our results. Persistently low interest rates have become an important factor in recent years, exerting pressure on income and prompting a search for yield. Geopolitical developments could also have significant implications for the economy and hence our results. The coronavirus crisis, meanwhile, has shown just how overwhelming the impact of health risks can be. The same goes for climate change and the transition to a low-carbon society.

How are we addressing them?

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

Shifting client behaviour and competition

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

How are we addressing them?

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

Regulation

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

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

How are we addressing them?

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

Cyber risk and information security

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

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

How are we addressing them?

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

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

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

Our employees

Our HR policy features individual focuses in each country, so that we can respond in an optimum way to the local labour market. Our values group-wide, however, are the same and are founded on our PEARL+ business culture. It is our employees who give it tangible shape each day in all our group's core countries. The 'E' in PEARL+ stands for 'Empowerment', referring to our commitment to give every employee the space they need to develop their talent and creativity and to deploy it towards accomplishing our business strategy. Not only by learning, but also by communicating ideas and taking responsibility.

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

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

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

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

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

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

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

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

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

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

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

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

We invest in good social dialogue with employee representatives. This consultation covers a very wide range of themes, such as pay and employment conditions, reorganisation and well-being. It is organised primarily on an individual country and company basis to take account of the local legal and business-specific situations. The process also resulted in collective agreements being concluded in different countries in 2020. Meanwhile, an annual meeting of the European Works Council has been held at group level for over 20 years now to deal with topics of cross-border importance, so ensuring that there is a forum for discussing the impact of decision-making at group level too.

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

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

'People risk' is an important operational risk for human resources, which we closely track in collaboration with our risk department by means of a 'people risk dashboard'. In a financial sector that is changing very quickly, KBC would not be able to remain a reference in the European financial sector without the right employees with the right skills.

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

Our capital

Our activities are only possible if we have a solid capital base. At year-end 2020, KBC Group's total equity came to 21.5 billion euros and its capital was represented by 416 694 558 shares, an increase of 299 916 shares on the previous year, due to the capital increase reserved for staff that is carried out in December each year.

At year-end 2020, KBC Bank's total equity was 16.1 billion euros. The KBC Bank share is not traded on the stock market.

KBC Group is the sole shareholder of KBC Bank. KBC Group shares are held by a large number of shareholders in a number of countries. A group of shareholders consisting of MRBB, Cera, KBC Ancora and the Other core shareholders, constitute KBC Group's core shareholders. A shareholder agreement was concluded between these core shareholders in order to ensure shareholder stability and guarantee continuity within the group, as well as to support and co-ordinate its general policy. To this end, the core shareholders act in concert at the General Meeting of KBC Group NV and are represented on its Board of Directors. The current agreement applies for a ten-year period with effect from 1 December 2014. According to the most recent notifications, the core shareholders own 40% of our shares between them. More information on the KBC Group's shareholder structure can be found in the KBC Group annual report.

Our network and our relationships

Alongside staff and capital, our network and relationships are especially important to our activities. An overview of our network can be found under 'Market conditions in our most important countries in 2020'.

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

Our strategy

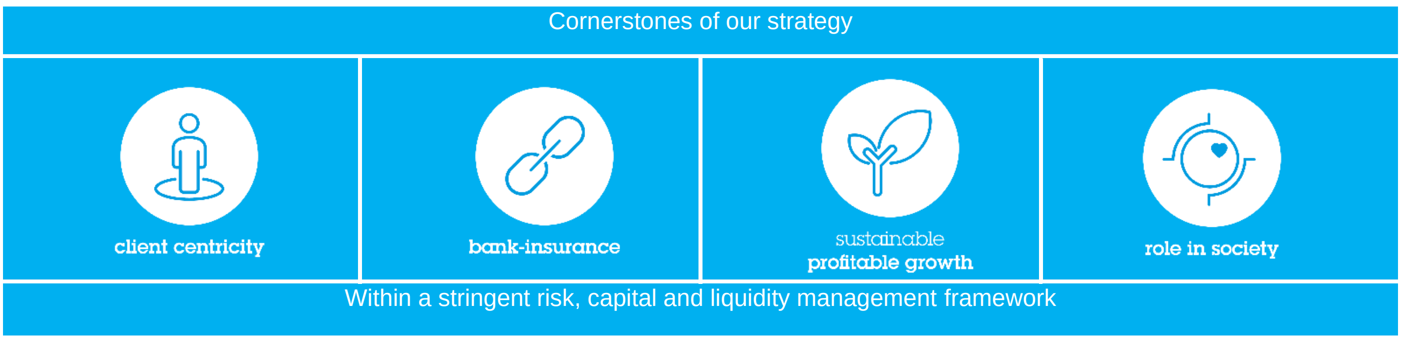
The strategy, business model and management structure of KBC Bank is embedded in that of the KBC group. A summary is given below of the strategy of the KBC group, where KBC Bank is essentially responsible for the banking business and KBC Insurance for the insurance business. For more detailed information, please see the KBC Group annual report for 2020.

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

Our strategy rests on the following principles:

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

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



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

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

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

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

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

'Differently: the Next Level'

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

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

We will now go a step further with our updated strategy, 'Differently: the Next Level'. It means that will make the interaction with our clients even more future-proof and smarter (i.e. reinforced by Artificial Intelligence) and that we will evolve from an omnichannel distribution model towards a digital-first model. The human factor remains important in both models and our staff and branches will be fully at the disposal of our clients. As is always the case, the client decides which distribution channel, digital or physical, is used to contact KBC. In a digital-first distribution model, digital interaction with clients will form the initial basis. We therefore aim over time to provide all relevant solutions via mobile apps. In addition to a digital product range, we will offer our clients digital advice and develop all processes and products as if they were sold digitally. We plan to invest approximately 1.4 billion euros in digitalisation in the period 2021-2023.

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

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

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

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

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

*Privacy, data protection, communication and inclus*ion

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

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

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

Follow-up

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

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

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

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

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

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

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

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

Bank-insurance+: Previously, we only offered our own bank and insurance products and services through our mobile apps. Open Banking and Insurance (OBI) is now well established. We will continue along our chosen path and will also offer non-financial solutions alongside traditional banking and insurance solutions in all our core countries. We refer to this as bank-insurance+. After all, to remain the reference, it is no longer enough simply to offer clients and prospects banking and insurance products.

It is also about solutions that help our clients save money (e.g., suggesting that they switch to a cheaper energy supplier), earn money (e.g., 'KBC Deals' discounts in Belgium), making everyday payments easier (e.g., paying automatically for parking) or supporting business activities (e.g., the BrightAnalytics reporting tool). We work with third parties to provide these solutions.

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

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

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

We focus on sustainable and profitable growth (KBC Group)

Developing long-term relationships with our clients is crucial if we are to secure our long-term future. Therefore, we do not pursue high short-term returns that come with excessive risks but rather focus on sustainable and profitable growth in the long run.

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

Recent examples:

- At the end of May 2019, we acquired the remaining 45% interest in the Czech building savings bank ČMSS. The deal means that ČSOB is now the sole owner of ČMSS. ČMSS will be rebranded as ČSOB Stavební spořitelna in 2021. This will mark the completion of its integration in the ČSOB Group and clients will in future find all housing related services under one roof and one brand.
- At the end of May 2020, we sold our 50% stake in the Slovenian life insurer NLB Vita, marking our complete withdrawal from Slovenia, which is not one of our group's core countries.

- At the end of November 2020, we finalised the agreement for the acquisition of 99.44% of OTP Banka Slovensko, which strengthens our position on the Slovakian banking market. The next logical step is the legal and operational merger of ČSOB in Slovakia and OTP Banka Slovensko, which will further consolidate ČSOB's current number four position on the Slovakian banking market in terms of assets.
- In February 2021, we reached agreement with NN to acquire its Bulgarian pension and life insurance businesses, a move that will enable us to further consolidate our position on our Bulgarian home market.

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

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

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

Moreover, stringent risk management in everything we do is an absolute precondition in terms of guaranteeing sustainability. For more information on this, see 'We aim to achieve our ambitions within a stringent risk management framework'. 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 Key Performance Indicators (KPIs) relating to sustainable and profitable growth are set out in the KBC Group annual report.

Our role in society: to be responsive to society's expectations (KBC Group)

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

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

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

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

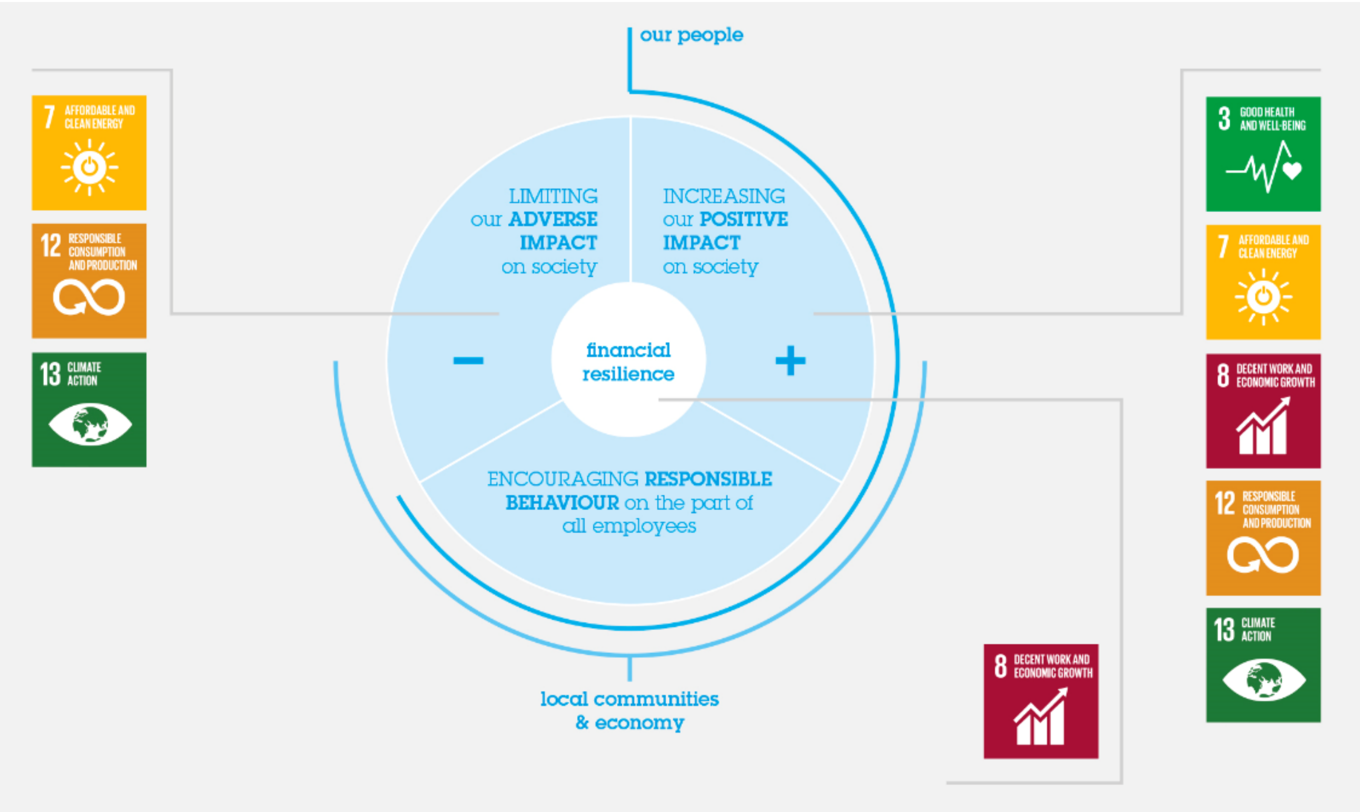
Given the difficulty of defining responsible behaviour, rather than drawing up guidelines for such behaviour we set out the underlying principles. These are presented in 'Compass for Responsible Behaviour'. Responsible behaviour is especially relevant for a bank-insurer when it comes to appropriate advice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

We developed an e-learning course in 2020 to clarify the importance of responsible behaviour and to provide a framework to help our employees take difficult decisions when faced with dilemmas. The course is mandatory for all staff.

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

Sustainable Development Goals

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



Good health and well-being

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

Affordable and clean energy

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

Decent work and economic growth

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

Responsible consumption and production

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

Climate action

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

Aiming to enhance our positive impact on society

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

Focus areas	Description	How? A few recent examples:
Financial literacy	• Helping clients make the right choices through good and transparent advice, and clear communication. • Improving general public knowledge of financial concepts and products.	• 'Get-a-teacher' at KBC Belgium, which gives schools the opportunity to extend financial knowledge by 'ordering' a teacher from KBC. • Primary and secondary school lessons by ČSOB colleagues in the Czech Republic. • Hoedoekda?! Platform in Belgium through which we teach young people aged between 16 and 24 how to handle money.
Environmental awareness	• Reducing our environmental footprint through a diverse range of initiatives and objectives. • Developing products and services that can make a positive contribution to the environment.	• Issue of a second green bond. • Launch of a Green Lease product by UBB Interlease in Bulgaria. • Tightened coal-financing policy in the Czech Republic. • Offering, in collaboration with Olympus Mobility, several highly user-friendly and convenient mobility solutions in Belgium.
Entrepreneurship	• Contributing to economic growth by supporting innovative ideas and projects.	• Switch to digital support of start-ups during the pandemic (Start it @ČSOB, Start it @KBC) and organisation of extra webinars on topics with which entrepreneurs struggle. • Partnership with BRS, which supports microfinance and microinsurance businesses in the Southern Hemisphere. • Women in Tech' coaching pathway at Start it @KBC, which makes substantial efforts to attract more women entrepreneurs. • Collaboration between UBB and the Association of Bulgarian Leaders and Entrepreneurs in the ABLE Activator programme, which offers experience-focused entrepreneurship training to 30 students and young professionals under the age of 35.
Longevity and health	• Opting 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. • Choosing 'health' as the fourth pillar in Bulgaria, Slovakia, Hungary and Ireland. These core countries will develop products, services and projects geared towards improving general health, healthcare and quality of life.	• Helping track coronavirus-infected patients in the Czech Republic. • Donation by K&H in Hungary to hospitals battling the coronavirus for online purchases and electronic transfers. • 'Care calls' from KBC Bank Ireland to support elderly and vulnerable clients during the coronavirus crisis.

Limiting any negative impact we might have on society

We apply strict sustainability rules to our business activities in respect of human rights, the environment, business ethics and sensitive or controversial social themes.

In the light of constantly changing societal expectations and concerns, we review and update our sustainability policies at least every two years. The table sets out the most important of these policies.

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

Important KBC sustainability policies		Applies to
Blacklist of companies and activities	We place stringent ethical restrictions on businesses involved with controversial weapons systems (including nuclear and white phosphorous weapons) and on businesses viewed as 'serious' infringers of UN Global Compact Principles.	Lending, insurance, advisory, own investments, SRI and traditional funds, suppliers
Human rights	We have updated our human rights policy to bring us in line with the UN Guiding Principles on Business and Human Rights and UN Global Compact Principles. See also the separate section below.	Lending, insurance, advisory, own investments, SRI and traditional funds, suppliers, personnel
Controversial regimes	We do not wish to be involved in financial activities with controversial regimes that fundamentally violate human rights and lack any form of good governance, rule of law or economic freedom. We do, however, make an exception for 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, advisory, own investments, SRI and traditional 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, advisory
KBC Asset Management – traditional fund exclusions	In the case of traditional funds, we apply the minimum exclusions based on the blacklist of businesses that are involved with controversial weapons systems or which commit serious breaches of UN Global Compact Principles, and the policies on controversial regimes. What's more, investment products involving food-price speculation are entirely excluded. We have additionally decided to exclude the tobacco industry from KBC Asset Management's investment funds and from KBC's own investment portfolio.	Traditional funds
KBC Asset Management SRI exclusions	For SRI funds, we go even further in the exclusion and restriction of controversial activities like all fossil fuels, gambling, defence and fur.	SRI funds

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

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

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

Biodiversity:

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

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

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

Examples of measures in the event that infringements are detected:

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

Our sustainability governance

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

Sustainability governance

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

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

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

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

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

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

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

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

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

Our objectives

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

Focus on climate (KBC Group)

The climate aspect in our business model

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

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

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

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

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

Sustainability integrated into our remuneration policy

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

- The variable remuneration of Executive Committee members is linked to factors including the achievement of a number of collective targets. One such target is specifically related to progress in the area of sustainability, which is evaluated every six months via the KBC Sustainability Dashboard report. The Board of Directors evaluates, via the Remuneration Committee, the criteria by which Executive Committee members are assessed in this regard.
- Sustainability is also integrated in 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 since 2012 (reduced paper consumption, for instance).

Climate governance

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

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

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

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

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

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

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

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

The environmental and climate aspects of our sustainability policy

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

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

Important elements of our climate and environmental policy include:

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

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

- As a first step, we have begun to analyse our lending book. Analysing our investment and insurance portfolios will occur in a second phase. Based on a materiality assessment, as stipulated in the TCFD, we decided to focus on the sectors representing more than 5% of industrial loans designated as climate-sensitive and carbon-intensive. The aim is to perform a thorough analysis of these sectors from the climate perspective, in order to determine a strategy and objectives that will aid the concrete achievement of our climate commitment under the Paris Agreement. We use the term 'white paper' to reflect the open mind with which we embarked on the exercise.

- Based on a thorough analysis of the situation in one of our core countries, the results were then translated to the other countries, taking account of the local context, so that policy decisions can be taken for the entire group portfolio.
- We have drafted white papers for the energy, commercial real estate, agriculture, food production, building and construction, chemicals, transportation and metals sectors, as well as for three retail product lines: home loans, car loans and car leasing. These sectors represent roughly 80% of all greenhouse gas emissions in our core countries.
- The exercises will be extended in 2021 to the group's insurance and investment activities.

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

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

Examples of sustainability-related products and services	
Second green bond – June 2020	500-million-euro issue with a term of seven years. The proceeds will be used to finance loans for sustainable investments such as home loans and renewable energy projects. CO2e emissions avoided in this way amount to 120 337 tonnes annually.
SRI funds	Wide range of SRI funds, varying from best-in-class funds and funds with sustainable themes to more recent impact investing funds. Thorough screening is applied to determine which companies and countries belong to the investment universe for sustainable and socially responsible investment solutions. As of this year, moreover, all companies that can be linked to fossil fuels have been excluded from all our sustainable investment funds.
Green project finance	We are actively involved in the financing of renewable energy projects in all core countries. In Belgium, for instance, KBC Securities Project Finance reached the landmark of 1 billion euros in the financing of green energy projects, 900 million of which for wind farms. This places it amongst the leaders in project financing in Belgium. In Hungary, we financed the construction of seven new photovoltaic power stations with a total installed capacity of 28 MWp. The entire project has been developed by a group of Czech investors and represents a fine example of cross-border cooperation between KBC entities in the financing of renewable energy sources.
ČSOB Green Grants	In the Czech Republic, ČSOB helps entrepreneurs prepare energy audits and draw up the associated documentation. Thirty energy-saving projects were supported with Green Grants in 2020 for a total amount of 38 million euros.
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. KBC AM also wants to encourage businesses to use engagement to promote sustainable enterprise or to address a controversy.
Green Loans and Green Bonds for corporate clients	KBC Bank is promoting sustainable financial solutions amongst its corporate clients, including by means of Green and Sustainability Bonds and Green Loans and sustainability-linked loans. They are structured in accordance with the ICMA Green/Sustainability Bond Principles and the LMA Green/Sustainability-Linked Loan Principles. In 2020, specifically, KBC acted as arranger, for instance, for sustainability-linked loans for Elia, Euronav and Proximus as well as a new sustainable bond for the Flemish Community and a social bond for the Walloon Region.

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

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

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

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

- We endorsed the TCFD recommendations in December 2017.
- We follow and implement the different actions flowing from the EU Action Plan for Sustainable Finance to mobilise private capital in support of a resilient, low-carbon, resource-efficient and inclusive Europe.
- We are a member of the UN Environment Programme Finance Initiative (UNEP FI) and a Founding Signatory of the UNEP FI Principles on Responsible Banking (PRBs). We likewise endorse the Collective Commitment to Climate Action (CCCA) embedded in the PRBs. The CCCA brings together 38 banks, which have thrown their collective weight behind the pursuit of an entirely carbon-neutral economy and society by 2050. We have begun the first pilot projects to further develop shared methodologies that will help map the impact of climate change (see elsewhere in this section).
- We also endorse the UNEP FI Principles for Responsible Insurance and the Principles for Responsible Investment.
- As a board member of the International Capital Markets Association, we are playing our part in developing green bonds in the EU.
- We have been a signatory to the Equator Principles since 2004 and have integrated them in our lending policy.

Our climate risk management

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

Our benchmarks and targets

To support the transition to a low-carbon society, we defined a number of targets in the area of sustainability and climate several years ago. It relates to targets on limiting our own direct environmental impact (reducing our own greenhouse gas emissions and our use of green electricity) as well as targets for our indirect impact (volume of SRI funds, share of loans for renewable energy and the run-down of coal-related lending).

We significantly raised the bar for our climate ambitions in 2020, translating this into various targets (see the KBC Group annual report).

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

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

The KBC Group annual report contains a table that provides an overview of the loan portfolio for the most climate-sensitive industrial sectors. Additional information can be found in our Sustainability Report.

Our own environmental footprint

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

Focus on human rights (KBC Group)

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

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

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

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

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

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

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

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

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

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

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

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

Although the activities of a large financial group are exposed to risks that only become apparent in retrospect, we can currently identify a number of major challenges for our group. These are set out under 'In what environment do we operate?' in the 'Our business model' section.

As a bank-insurer, we are also exposed to the typical risks for the sector, such as credit risk, market risk on both trading and non-trading activities, technical insurance risk, liquidity risk, solvency risk, non-financial risk (including operational, compliance and reputational risk), business and strategic risk and climate risk. A list of these risks can be found in the table. A description of each type of risk can be found in the 'How do we manage our risks?' section

Sector-specific risks	How are we addressing them?
Credit risk	• Existence of a robust management framework • Recording impairment charges, taking risk-mitigating measures, optimising the overall credit risk profile, reporting, stress testing, etc. • Limit systems to manage concentration risk in the loan portfolio, etc.
Market risk in non-trading activities	• Existence of a robust management framework • Basis Point Value (BPV), sensitivity of net interest income, sensitivity per risk type, stress tests, limit tracking for crucial indicators, etc.
Non-financial risk (operational risk, compliance risk, reputational risk, business risk, strategic risk)	• Existence of a robust management framework • Group key controls, risk scans, key risk indicators, 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 ESG risks	• Gradual integration in existing management frameworks • Ongoing initiatives within the Sustainable Finance programme • Implementation of risk-mitigating measures, including policies on lending and investment portfolio • Estimation of short and long-term risks based on scenario and sensitivity analyses, etc.

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

Our financial report

- We review the consolidated results in this section of the annual report. A review of the non-consolidated results and balance sheet is provided in the ‘Company annual accounts’ section.
- The overall impact on the net result of fluctuations in the exchange rates of the main non-euro currencies was – on balance – limited.
- Information on financial instruments, hedge accounting and the use thereof is provided in the ‘Consolidated financial statements’ section (Notes 1.2, 3.3 and 4.1–4.8 among others) and in the ‘How do we manage our risks?’ section.
- We expect Basel IV (effective from 2023) to increase our risk-weighted assets (RWA) by approximately 8 billion euros (fully loaded, based on year-end 2020 figures).
- For information on significant post-balance-sheet events, see Note 6.8 of the ‘Consolidated financial statements’.
- All KBC Bank shares are owned by KBC Group. KBC Bank paid KBC Group a final dividend of 1 145 million euros for 2019.

Consolidated income statement

Consolidated income statement, KBC Bank (in millions of EUR)	2020	2019
Net interest income	4 015	4 153
Dividend income	19	35
Net result from financial instruments at fair value through profit or loss[1]	36	70
Net realised result from debt instruments at fair value through other comprehensive income	3	6
Net fee and commission income	1 975	2 085
Other net income	88	200
Total income	6 134	6 548
Operating expenses	-3 809	-3 797
Impairment	-1 126	-213
on financial assets at amortised cost and at fair value through other comprehensive income[2]	-1 068	-204
Share in results of associated companies	-11	3
Result before tax	1 188	2 541
Income tax expense	-255	-501
Net post-tax result from discontinued operations	0	0
Result after tax	933	2 040
Result after tax, attributable to minority interests	0	35
Result after tax, attributable to equity holders of the parent	933	2 005
Ratio of ‘result before tax’ to ‘average total assets’	0.44%	1.01%

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

Key consolidated balance sheet and solvency figures

Selected balance-sheet and solvency items, KBC Bank (in millions of EUR)	2020	2019
Total assets	284 399	253 917
Loans and advances to customers (excl. reverse repos)	157 650	153 781
Securities (equity and debt instruments)	52 585	46 260
Deposits from customers and debt securities (excluding repos)	217 199	203 839
Risk-weighted assets (Basel III, fully loaded)	92 903	89 838
Total equity	16 067	16 546
of which parent shareholders' equity	14 567	15 043
Common equity ratio (Basel III, fully loaded [transitional])	15.2% [15.7%]	14.7%
Liquidity coverage ratio (LCR)	147%	138%
Net stable funding ratio (NSFR)	146%	136%

Information on the retroactive restatement of certain balance sheet data for 2019 is provided in Note 1.1 of the 'Consolidated financial statements'.

The growth figures for the volume of loans and deposits have been systematically adjusted for exchange rate effects. 'Unchanged scope' means that no account has been taken of significant changes in the scope of consolidation, namely the inclusion of the Czech building savings bank ČMSS since June 2019 (seven months in the 2019 results and 12 months in the 2020 results, on the balance sheet at 31 December 2019 and at 31 December 2020) and the acquisition of the Slovakian bank OTP Banka Slovensko at the end of November 2020 (not in 2019 or 2020 results, not on the balance sheet at 31 December 2019 but on the balance sheet at 31 December 2020). We refer to this elsewhere in the report as the 'impact of changes in the scope of consolidation'. More information on this matter can be found in Note 6.6 of the 'Consolidated financial statements'.

Note 1.4 of the 'Consolidated financial statements' includes a diagram showing the impact of the coronavirus crisis on our results.

The growth figures for loans and deposits do not include intragroup transactions (between bank and group, and between bank and insurer).

Analysis of the result

Net interest income

Our net interest income came to 4 015 million euros in 2020, down 3% on its year earlier level. Factors such as the negative impact of interest-rate cuts by the Czech central bank, the depreciation of the Czech koruna and the Hungarian forint against the euro and lower reinvestment yields could not be fully compensated for by the positive effect of a larger loan and bond portfolio, higher margins on new production of home loans than those on the outstanding portfolios in Belgium, the Czech Republic and Slovakia, the effect of TLTRO III, ECB tiering and the impact of changes in the scope of consolidation.

Our loans and advances to customers (excluding reverse repos) went up by 3% in 2020 to 158 billion euros. Adjusted for the impact of the changes in the scope of consolidation, the figure was still 3%, with a 3% increase at the Belgium Business Unit, 1% at the Czech Republic Business Unit and 8% at the International Markets Business Unit (with growth in all countries). The volume of loans granted with payment deferral under the various coronavirus-related moratoriums amounted to 13.4 billion euros (according to the EBA definition and still on the balance sheet at year-end 2020). The moratorium had already expired by the end of December 2020 for roughly 8.7 billion euros of that amount (with 96% of payments resumed), leaving 4,7 billion euros outstanding at year-end 2020 under the various coronavirus-related moratoriums. In addition to this, we granted some 0.8 billion euros in loans that fall under the various coronavirus-related government guarantee schemes in our home markets. See Note 1.4 of the 'Consolidated financial statements' for more information.

Our total deposit volume (deposits from clients and debt securities, excluding repos) stood at 217 billion euros, an increase of 7% in 2020. Adjusted for the impact of the changes in the scope of consolidation, the figure was 6%, with 4% growth at the Belgium Business Unit, 9% at the Czech Republic Business Unit and 16% at the International Markets Business Unit (with growth in all countries apart from Ireland).

The net interest margin for our banking activities came to 1.84% compared to 1.95% in 2019. It amounted to 1.63% in Belgium, 2.31% in the Czech Republic and 2.60% at the International Markets Business Unit.

Net fee and commission income

Our net fee and commission income came to 1 975 million euros in 2020, down 5% on the year-earlier figure. This was primarily attributable to a decline in fees for asset management services, a reduction in fees for banking services (including for payments, which were down due to the lockdowns, and for loans, the effect of which was only partly offset by higher securities fees) and the depreciation of the Czech koruna and Hungarian forint against the euro.

At the end of 2020, our total assets under management at KBC Group level came to approximately 212 billion euros, down 2% on the year-earlier figure, which was almost entirely attributable to a limited net outflow. Most of these assets at year-end 2020 were managed at the Belgium Business Unit (194 billion euros) and the Czech Republic Business Unit (11 billion euros).

Other income

Other income came to an aggregate 146 million euros, as opposed to 311 million euros in 2019.

The 2020 figure includes 36 million euros in trading and fair value income. The initial impact of the pandemic outbreak on this results item was extremely negative, due to the sharp fall of the equity markets, wider credit spreads and lower long-term interest rates. While some of this was made up again in the three subsequent quarters, the trading and fair value income result for the financial year as a whole was still 34 million euros lower than in 2019. This decline is primarily attributable to the fall in the value of derivatives used for asset/liability management purposes, which more than cancelled out the increase in the contribution from dealing room results and the positive effect of various fair value adjustments.

Other income also included 19 million euros in received dividends (lower than the previous year as many companies adjusted their dividend policy in response to the coronavirus crisis), 3 million euros in the net realised result from debt instruments at fair value through other comprehensive income and 88 million euros in other net income. The latter is 112 million euros lower than in 2019, due to the existing 55% stake in ČMSS being revalued by +82 million euros in that year when the remaining 45% participating interest was purchased. More information on this matter can be found in Note 6.6 of the 'Consolidated financial statements'.

Operating expenses

Our expenses amounted to 3 809 million euros in 2020, roughly the same as the year-earlier figure. This reflected a number of factors such as lower staff expenses (including lower provisioning for variable remuneration and a fall in the average number of FTEs), several direct effects of the coronavirus crisis (lower expenses for facility services, marketing, events, travel and professional fees), a higher one-off, internal software-related charge made by KBC Group due to (i) the accounting policy for software being revised in 2020 (owing to the changed rules for software depreciation – see Note 1.1 of the 'Consolidated financial statements') and to a lesser extent to (ii) impairment recorded on software at KBC Group, as well as the fall in value of the Czech koruna and Hungarian forint against the euro. These factors offset the negative impact of a number of items, including wage drift, higher ICT costs and the changes in the scope of consolidation.

As a result, the cost/income ratio came to 62% (60% when adjusted for the higher one-off internal charge made by KBC Group in relation to software), as opposed to 58% in 2019. The ratio was 57% for the Belgium Business Unit, 53% for the Czech Republic Business Unit and 66% for the International Markets Business Unit.

Impairment

There was a net increase in loan loss impairment charges totalling 1 068 million euros in 2020, compared to just 204 million euros in 2019. This increase related chiefly to the fallout of the coronavirus crisis, for which the group set aside 783 million euros in collective impairment. The figure in question was calculated as the sum of 672 million euros obtained through an expert-based calculation ('management overlay' on the basis of certain stress assumptions depending on country, segment, sector and probability-weighted macroeconomic scenarios) and 111 million euros via the ECL models in response to updated macroeconomic variables. More information on this matter can be found in Note 1.4 of the 'Consolidated financial statements'.

The net increase in 2020 comprised 649 million euros for Belgium, 210 million euros for the Czech Republic, 42 million euros for Slovakia, 59 million euros for Hungary, 27 million euros for Bulgaria and 90 million euros for Ireland, as well as a small net reversal for the Group Centre (8 million euros).

As a result, the overall credit cost ratio amounted to 60 basis points in 2020, compared to 12 basis points in 2020. Disregarding the collective coronavirus-related impairment charges, the figure in 2020 would have been 16 basis points.

The proportion of (stage 3) impaired loans (see the 'Glossary of financial ratios and terms' for a definition) in our loan portfolio was 3.3% at year-end 2020, compared to 3.5% for 2019. This breaks down into 2.3% in Belgium, 2.3% in the Czech Republic and 6.9% at International Markets. For the group as a whole, the proportion of impaired loans more than 90 days past due came to 1.8%, compared to the year-earlier figure of 1.9%.

Other impairment charges came to a combined 58 million euros in 2020, and substantially reflected software depreciation and the accounting treatment of the various payment moratoria schemes related to the coronavirus crisis in our core countries (‘modification losses’ – see note 1.4 of the ‘Consolidated financial statements’). In 2019, other impairment charges came to just 10 million euros.

Income tax expense

Our income tax expense came to 255 million euros in 2020, compared to a year-earlier figure of 501 million euros. The reduction chiefly reflected the lower result before tax. Besides paying income tax, we pay special bank taxes. These amounted to 486 million euros compared to 475 million euros in 2019 and are included under ‘Operating expenses’.

Analysis of the balance sheet

Total assets

At the end of 2020, our consolidated total assets came to 284 billion euros, up 12% year-on-year. Risk-weighted assets (Basel III, fully loaded) increased by 3% to 93 billion euros. More information in this regard can be found in the ‘How do we manage our capital?’ section.

Loans and deposits

Our core banking business is to attract deposits and use them to provide loans. This clearly explains the importance of the figure for loans and advances to customers on the assets side of our balance sheet (158 billion euros (excluding reverse repos) at year-end 2020). Loans and advances to customers rose by 3% for the group as a whole. Adjusted for the impact of the changes in the scope of consolidation, the figure was also 3%, with 3% growth at the Belgium Business Unit, 1% at the Czech Republic Business Unit and 8% at the International Markets Business Unit (with growth in all countries). The main lending products at group level were again term loans (68 billion euros) and mortgage loans (71 billion euros). For information on payment deferrals due to the coronavirus crisis, see under ‘Net interest income’.

On the liabilities side, our customer deposits (deposits from customers and debt securities, excluding repos) grew by 7% to 217 billion euros. Adjusted for the impact of the changes in the scope of consolidation, the figure was 6%, with 4% growth at the Belgium Business Unit, 9% at the Czech Republic Business Unit and 16% at the International Markets Business Unit. The main deposit products at group level were again demand deposits (101 billion euros) and savings accounts (75 billion euros).

Securities

We also hold a portfolio of securities, which totalled roughly 53 billion euros at year-end 2020. The securities portfolio comprised 1% shares and almost 99% bonds (with bonds increasing by nearly 7 billion euros in 2020). At year-end 2020, 88% of these bonds consisted of government paper. A detailed list of these bonds is provided in the ‘How do we manage our risks?’ section.

Other assets and other liabilities

Other important items on the assets side of the balance sheet were loans and advances to credit institutions and investment firms (6 billion euros, up 1 billion euros on a year earlier), reverse repos (28 billion euros, up 1 billion euros on the year-earlier figure), derivatives (positive mark-to-market valuation of 6 billion euros mainly for interest rate contracts, 0.5 billion higher than in 2019), and cash, cash balances with central banks and other demand deposits with credit institutions (25 billion euros, 16 billion euros more than at year-end 2019, due primarily to the inclusion of 19.5 billion euros under TLTRO III in 2020).

Other significant items on the liabilities side of the balance sheet were derivatives (negative mark-to-market valuation of 7 billion euros mainly for interest rate contracts, up 0.5 billion euros year-on-year) and deposits from credit institutions and investment firms (35 billion euros, up 16 billion euros year-on-year).

Equity

On 31 December 2020, our total equity came to 16.1 billion euros. This figure included 14.6 billion euros in parent shareholders' equity and 1.5 billion euros in additional tier-1 instruments. Total equity fell by 0.5 billion euros in 2020, with the most important components in this respect being the inclusion of the annual profit (+0.9 billion euros), the dividend payment to KBC Group (-1.1 billion euros), a fall in translation differences (-0.3 billion euros, due largely to the depreciation in the reporting period of the Czech koruna and the Hungarian forint) and various smaller items.

On 31 December 2020, our common equity ratio (Basel III) stood at 15.7% (transitional: this includes the impact of temporary regulatory relaxation) or 15.2% (fully loaded), compared to 14.7% in 2019. Our leverage ratio came to 5.2% (fully loaded). Detailed calculations of our solvency indicators are given in the 'How do we manage our capital?' section. The liquidity position also remained excellent, as reflected in an LCR ratio of 147% and an NSFR ratio of 146%.

Our business units

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

- The Belgium Business Unit comprises the activities of KBC Bank NV and its Belgian subsidiaries, the most important of which are CBC Banque, KBC Asset Management, KBC Lease Group and KBC Securities.
- The Czech Republic Business Unit comprises all KBC's activities in the Czech Republic. These consist primarily of the activities of the ČSOB group (under the ČSOB Bank, Postal Savings Bank, Hypoteční banka, ČMSS and Patria brands).
- The International Markets Business Unit comprises the activities conducted by entities in the other Central and Eastern European core countries, namely ČSOB and OTP Banka Slovensko in Slovakia, K&H Bank in Hungary and UBB in Bulgaria, plus KBC Bank Ireland's operations.

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

Belgium

The economic context

As elsewhere, the pandemic and the exceptional measures taken in 2020 prompted an unprecedented fall in Belgian GDP. Midway through the year, economic activity was almost 15% lower than in the fourth quarter of 2019. The ensuing recovery in the third quarter, while robust, was far from complete. Moreover, the renewed surge in coronavirus infections in the fourth quarter, and the measures that had to be taken as a consequence, led to a slight contraction in economic activity. The upshot was an annualised fall in real GDP in 2020 of 6.3%. At year-end 2020, there was a shortfall of almost 4.8% compared with the production level at the end of 2019.

In response to the pandemic, the Belgian government introduced a raft of measures aimed at limiting job losses in the short term, including a temporary unemployment scheme for employees and a system of bridging entitlements for the self-employed to cushion the employment shock. These measures helped limit the rise in the number of unemployed job-seekers to 4.3% between year-end 2019 and year-end 2020. The Eurostat harmonised unemployment rate for Belgium, which excludes people who are temporarily unemployed, rose from 5.1% in January to 6.6% in September before falling again to 5.8% in December.

Belgian inflation based on the European harmonised consumer price index was very low in 2020, averaging 0.4% across the year, due mainly to a steep year-on-year decline in energy prices. House prices continued to surge ahead in 2020, rising by 3.7% on an annual basis due to strong investment demand.

In the absence of a straightforward exit from the coronavirus crisis, we think growth in real GDP in Belgium will only start to accelerate from mid-2021, in parallel with the rollout of the vaccine.

Figures for forecast GDP growth in 2021 and 2022 can be found under 'Market conditions in our core markets'.

Details of the main government coronavirus measures can be found in Note 1.4 of the 'Consolidated financial statements' section.

Specific objectives (KBC Group)

- To continue pursuing our strategy of putting the interests of the client at the heart of all the products and services we develop and at the centre of everything we do. Our focus here is on a 'digital first' approach with a human touch, and investing in the seamless integration of our various distribution channels. We are working on the further digitalisation of our banking, insurance and asset management services and exploiting new technologies and data to provide our clients with more personalised and proactive solutions. Our digital assistant 'Kate', launched in November 2020, is taking this to the next level.
- To support these activities, we are also fully engaged in introducing end-to-end straight-through processing into all our commercial processes, making full use of all technological capabilities such as artificial intelligence.
- To expand our service provision via our own and other channels. We collaborate to this end with partners through 'eco-systems' that enable us to offer our clients comprehensive solutions. We are also integrating a range of selected partners into our own mobile app and making our products and services available in the distribution channels of selected third parties.

- To exploit our potential in Brussels more efficiently via the separate new brand, KBC Brussels, which reflects the capital's specific cosmopolitan character and is designed to better meet the needs of the people living there.
- To grow bank-insurance further at CBC in specific market segments and to expand our presence and accessibility in Wallonia.
- To work tirelessly on the ongoing optimisation of our bank-insurance model in Belgium.
- To continue our pursuit of becoming the reference bank for SMEs and mid-cap enterprises in Belgium based on our thorough knowledge of the client and our personal approach.
- To express our commitment to Belgian society by taking initiatives in areas including environmental awareness, financial literacy, entrepreneurship and demographic ageing. We actively participate in the mobility debate and develop solutions.

A few achievements in 2020 (KBC Group)

In the light of the coronavirus pandemic, we decided from the middle of March to restrict access to our branches to 'by appointment' only, and at the same time introduced a raft of physical safety measures (including plexiglass screens, face masks, sanitising gels and signage). This enabled us to combine offering the maximum level of service to our clients with the necessary measures to protect both them and our staff against coronavirus infection. At the same time, we worked intensively with government agencies to support all clients affected by the coronavirus, including by deferring loan payments (see below).

Use of our digital systems and apps (KBC Touch, KBC Mobile, the Business Dashboard, etc.) has clearly increased in recent years. This trend was reinforced by the lockdowns in 2020, leading very large numbers of our clients to discover new ways of using financial services securely and remotely, and resulting in a marked increase in digital contacts. We once again invested heavily in further expanding these digital systems, with the emphasis on solutions that make our clients' lives easier. The most important achievement in this regard was the launch of Kate, our digital assistant. More information about this can be found in 'The client is at the centre of our business culture'. We also expanded our banking and insurance apps further (e.g., making payments with wearables such as Fitbit Pay, the ability for companies to open a business account digitally, the launch of Apple Pay, the introduction of Matti, the new intelligent investment assistant for our Bolero online stock market platform, etc.) and added a large number of non-banking apps to our offering, including the ability to pay for car parking or public transport tickets, reserve bicycles on bike sharing platforms, enter and leave car parks using number plate recognition and pay automatically, and order cinema tickets. KBC Mobile can now even be used to view the goals and key match action of Jupiler Pro League matches in near-live time and to view all the highlights at the end of the weekend's fixtures.

We regularly review the way in which our clients use our different channels and use this information as a basis to continually optimise our physical and digital presence with a view to offering our clients more expertise, better accessibility and a first-class service. Against this backdrop, we decided to transform a number of our bank branches in 2020 and the opening months of 2021 into automated branches and to close a small number of branches because they handle only a relatively limited number of transactions and there are sufficient KBC alternatives in the locality. The staff affected were able to work elsewhere in KBC's branch network or at KBC Live, our contact centre. We also announced that we would be working with three other major banks in the coming years to develop an integrated ATM platform offering optimum accessibility.

Across the business unit as a whole, deposits rose by 4% in 2020. Lending went up by 3%, thanks mainly to a 7% increase in the volume of mortgage loans.

For several years now, we have been active in Brussels under the separate KBC Brussels brand, which has a metropolitan, innovative image and a tailored network. We continued to modernise the branch network in 2020 and to bolster the provision of remote advice via KBC Brussels Live. This service has gone down very well with our clientele in the capital, thanks to its ease of use and accessibility. This, together with a range of other initiatives, helped KBC Brussels attract over 4 000 new clients in 2020. We took several important steps in our growth strategy in Wallonia, too, which similarly resulted in the acquisition of over 15 000 new clients and growth in products such as home loans and insurance which outstripped that of the overall Walloon market.

Our bank-insurance model is already enabling us to achieve various commercial synergies. In 2020, for instance, roughly eight out of ten clients who agreed home loans with KBC Bank also took out mortgage protection cover with KBC Insurance, while nine out of ten purchased home insurance. There was a further increase of approximately 2% 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 as much as almost 5%. At year-end 2020, bank-insurance clients (with at least one banking and one insurance product from the group) accounted for 85% of the business unit's active clients. Stable bank-insurance clients (i.e. holding three banking and three insurance products) made up 31% of active clients.

We took a variety of initiatives once again to stimulate entrepreneurship, One example is the 'Women in Tech' coaching programme, launched by Start it @KBC in conjunction with Netwerk Ondernemen and Flanders Innovation & Entrepreneurship (VLAIO). The programme comprises a series of webinars in which female entrepreneurs share their experiences of founding a business and talk about how they overcame the obstacles they encountered on the way. An intensive coaching programme will start in 2021, aimed specifically at female business founders. A good example in the field of financial literacy is Hoedoekda?! (How do I do that?!), a platform where we show young people aged between 16 and 24 how to handle money. It addresses a range of different themes, such as budgets, payments, safety and security, working, housing, mobility and travel. We also joined Trooper in 2019 – a platform enabling clubs, societies and charities to raise money easily and in original ways. Members and supporters can support their favourite club or good cause by shopping online via Trooper, without it costing them anything extra.

We also continued to work on the transition to multi-mobility, successfully adapting to the changes in mobility patterns during the coronavirus pandemic and making much fewer journeys by car. Together with Olympus Mobility – KBC's mobility partner – we offer our clients a number of very user-friendly and useful mobility solutions, such as car-sharing (through Cambio), buying bus or train tickets or paying for parking. Clients have for some time been able to use KBC Mobile for sustainable pension saving and socially responsible investment with advice. From the middle of November, they were also able to set up a socially responsible investment plan and invest sustainably using their spare change. KBC is thus fully committed to facilitating socially responsible investment processes in KBC Mobile.

Czech Republic

The economic context

The performance of the Czech economy in 2020 was heavily influenced by the coronavirus crisis, which broke out in the Czech Republic in March. The growing restrictions on international trade disrupted the supply chains, which until then had been functioning smoothly. Eventually, these issues forced domestic companies to cut or in some cases even cease production. The restrictions imposed in the face of the pandemic also hit the service sector particularly hard (especially the hospitality and tourism sector) and were the main driver of the economic recession in the first half of the year. The gradual easing of the measures from the end of the second quarter opened the way for a recovery in almost all sectors of the economy, leading to very dynamic economic growth as early as the third quarter. Unfortunately, the autumn wave of the pandemic ushered in a second and third lockdown, which once again had an adverse impact mainly on the service sector. By contrast, the biggest domestic sector – manufacturing industry – proved to be largely immune to this wave of the pandemic.

The government introduced a number of measures to support affected companies and entrepreneurs, negatively impacting the government budget. The most important of these measures, which also proved to be a highly stabilising factor for the labour market, was a temporary unemployment measure, which has been deployed continuously since April. The unemployment rate rose to around 3% over the course of the year, but the vacancy rate also remained high.

In addition, a moratorium was introduced for the repayment of bank loans, as well as a temporary moratorium on rent payments. The Czech National Bank also responded to the exceptional economic situation by cutting its main interest rate by 200 basis points, relaxing mortgage lending criteria and lowering the countercyclical capital buffer for the banking sector. These moves led to a substantial reduction in interest rates and yields on the bond markets, though they did rise again slightly in the fourth quarter. The negative impact of the pandemic was reflected in increased risk aversion, as well as in the weakening of the Czech koruna, which lost up to 10% of its value against the euro within a short space of time. Even so, some of this depreciation was made good over the course of the year.

Figures for forecast GDP growth in 2021 and 2022 can be found under 'Market conditions in our core markets'.

Details of the main government coronavirus measures can be found in Note 1.4 of the 'Consolidated financial statements' section.

Specific objectives

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

A few achievements in 2020

We introduced several measures to protect our clients and staff as much as possible against the coronavirus crisis. Where possible, staff worked from home or in small teams, but for the most part our bank branches remained open. Our workplaces were adapted with enhanced health and safety measures, enabling our services to continue as normal. At the same time, we worked intensively with government agencies to support clients affected by the coronavirus, including by deferring loan payments (see below). We also helped at a call centre and with the national contact tracing operation. In the Czech Republic, too, the coronavirus crisis and the lockdowns led to accelerated growth in our digital channels. Our Internet banking services are already used by more than one million clients. The number of active users of our mobile banking app has increased by roughly one-third on an annual basis and the number of mobile banking transactions in 2020 almost doubled. We have been playing an important role in introducing the bank identity service (electronic identification) which should contribute to the overall national digitalisation.

We are constantly working to expand, improve and increase the user-friendliness of our platforms, including ČSOB Internet Banking, ČSOB Smart, ČSOB CEB, ČSOB Investment Portal and our DoKapsy app. We also introduced a number of new products and services to enable us to meet our clients' needs better in today's rapidly changing environment. The best example of this is the launch of Kate, our personalised digital assistant (see 'The client is at the centre of our business culture' for more information). New investment products include our successful Indigo app which offers automated algorithm-driven online investment facilities, and ČSOB Drobne, which allows users to invest small amounts by rounding up each payment. We have received a licence for MallPay – our ticket to the e-commerce world for our bank and insurance products. For our business clients, we offer the We.Trade blockchain platform. We use RPA and IPA to improve speed and reliability of our reactions to clients (we have already implemented 160 robots in various processes). We also combine digitalisation with environmental considerations, as illustrated by the launch of an eco-friendly payment card made from recycled plastic or usage of biometric signatures (a large part of our processes are paperless). Also, we offer our eScribe transcription service to clients with hearing difficulties.

Despite the coronavirus crisis, we recorded substantial growth in lending in 2020, with the volume of home loans, for example, rising by no less than 6% in the space of a year. Overall, our lending activities rose by 1% in 2020 and our deposits by 9%. These growth figures are adjusted for the depreciation of the Czech currency compared to the euro.

In 2019, we acquired the remaining portion of the building savings bank ČMSS, enabling ČSOB to consolidate its position as the leading institution on the home loan market. ČMSS will be rebranded as ČSOB Stavební spořitelna in 2021. This change will mean that clients can be offered various housing-related services under one roof and one brand.

Our bank-insurance model is already enabling us to achieve various commercial synergies. For example, around six out of ten ČSOB clients who took out home loans with the bank in 2020 also purchased home insurance from the group.

There was a further increase of approximately 8% in the number of active clients (clients with a current account to which their income is regularly credited) 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 6%. At year-end 2020, bank-insurance clients (with at least one banking and one insurance product from the group) accounted for 80% of the business unit's active clients. Stable bank-insurance clients (i.e. holding two banking and two insurance products) made up 17% of active clients.

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

On the environmental front, we further tightened up our energy policies, including the complete cessation of direct funding of thermal coal activities by the end of 2021. In addition, as a partner in POHO2030 (a project focusing on the reuse and afforestation of mining landscapes), ČSOB is helping with financial advice and publicity for one of the most important sustainability projects in northern Moravia, a region that has been badly affected by coal mining.

Staff from ČSOB have been volunteering since 2016 to visit schools and teach financial literacy. Several of our ambassadors received accreditation from the Ministry of Education in 2020 to provide training to teachers. Since the launch of the scheme, our ambassadors have given lessons to more than 36 000 children. Despite the difficult situation in 2020, more than 700 lessons were delivered to almost 5 000 students (albeit with some of them provided online).

As in previous years, we worked in partnership with a number of social not-for-profit organisations, with the focus this time being on responding rapidly to current needs in the face of the pandemic. For instance, during the coronavirus crisis we donated ICT equipment to vulnerable children and seniors via NGOs and schools. Start it @ČSOB also continued to provide full support to start-ups during the coronavirus period.

Lastly, we are committed to being a bank which offers easy access for everyone. For instance, new software designed for visually impaired clients was installed in our ATMs in the Czech Republic. As stated earlier, we also launched eScribe for clients with hearing difficulties, enabling them to receive transcriptions of communications (also via the call centre).

International Markets

The economic context

The course of the pandemic was also the biggest determinant of the macroeconomic performance of Slovakia, Hungary and Bulgaria in 2020. A huge downturn in the second quarter as a result of the lockdowns was followed in the third quarter by a pronounced economic recovery in the region. Despite the strong figures posted in the third quarter, none of the regional economies entirely made good the downturn in the first half of the year. The performance in the fourth quarter was much worse owing to the second wave of the coronavirus and the policy responses to it. The majority of lockdown measures impacted mainly on the demand side of the economy, especially the service sector, while the supply side fared better. This was important for the regional economies, where industry plays a crucial role. As a consequence, industrial output remained relatively strong. The resilience of German industrial output and the new, less stringent pandemic measures during the second wave help explain why the economies of Central Europe were less badly hit at that time.

The Hungarian forint came under pressure during both the first and second waves of the pandemic in 2020. In a bid to support the currency, the National Bank of Hungary (NBH) pursued a more restrictive policy, which had the effect of pushing up money market rates from April and again from October.

Bulgaria joined the ERM II system on 10 July 2020, a stepping stone on the way to the eventual introduction of the euro. During its membership of ERM II, Bulgaria will maintain the currency board for the lev against the euro, meaning it will not make use of the exchange rate fluctuation margin that is permitted under ERM II.

With real GDP growth of 3.5%, Ireland was the only KBC core market that recorded positive annual average economic growth in 2020. An important caveat in this regard is that Irish GDP figures are heavily distorted by the activities of large multinationals in the country, which means that underlying economic growth in Ireland is likely to be lower. Against the backdrop of the pandemic and given the importance of multinationals, Irish GDP is also influenced by developments in the pharmaceutical sector in relation to the coronavirus vaccine. In line with the general trend for the European economy, Irish inflation remained at very modest levels in 2020, with annual average inflation even being slightly negative (-0.5%).

Figures for forecast GDP growth in 2021 and 2022 can be found under 'Market conditions in our core markets'.

Details of the main government coronavirus measures can be found in Note 1.4 of the 'Consolidated financial statements' section.

Specific objectives

- The updated group strategy presents a number of challenges for all countries in the business unit, viz.:
  - To develop new and unique 'bank-insurance+' propositions.
  - To continue digitally upgrading our distribution model.
  - To drive up the volume of straight-through and scalable processing.
  - To increase the capacity in relation to data and AI to enable us to proactively offer relevant and personalised solutions.
  - To selectively expand our activities with a view to securing a top-three position in banking and a top-four position in insurance.
  - To implement a socially responsible approach in all countries, with a particular focus on environmental awareness, financial literacy, entrepreneurship and health.
- Country-specific:
  - To become the undisputed leader in the area of innovation in Hungary. We are aiming to raise profitability by targeting income through vigorous client acquisition in all banking segments and through more intensive cross-selling. We also aim to expand our insurance activities substantially, primarily through sales at bank branches and, for non-life insurance, via both online and traditional brokers.
  - To maintain our robust growth in strategic products in Slovakia (i.e. home loans, consumer finance, SME funding, leasing and insurance), partly through cross-selling to group clients and via digital channels. Other priorities include the sale of funds and increased fee income.
  - To focus – as regards the banking business in Bulgaria – on increasing our share of the lending market in all segments, while applying a robust risk framework. Our insurer, DZI, is likewise maintaining its goal of growing faster than the market in both life and non-life insurance, via the bank and other channels.
  - To focus fully on providing an outstanding client experience in Ireland. We aim to differentiate ourselves through the instant and proactive delivery of products and services and through a high level of accessibility (including mobile and contact centre). We will further develop our strong position in home loans and are fully committed to bank-insurance and to providing asset management products.

A few achievements in 2020

At the peak of the crisis, large numbers of head office staff in the International Markets Business Unit worked from home and/or in small teams, but the bank branches largely remained open. The workplaces were also rapidly adapted to meet the newly imposed health and safety requirements. A system was set up to ensure adequate communication to both staff and clients. Live events and meetings were replaced by digital events and meetings. There was also intensive collaboration with government agencies in the different countries to support all clients affected by the coronavirus, including by deferring loan payments (see below). Other measures included encouraging electronic payments (in Hungary, for example, a donation was made to hospitals whenever an electronic transaction was carried out), raising the limits for contactless payment cards in Ireland and Hungary, coronavirus-related adjustments to some life insurance products in Hungary and the creation of special teams to help clients in Ireland.

The coronavirus crisis also provided a boost for the use of our digital channels. For instance, the number of users of the mobile banking app in Hungary grew by more than 30% in the space of a year, while in Bulgaria the increase was even more spectacular, at over 50%.

We also developed several new products and services with a clear digital focus in 2020. For example, we launched a fully digital life insurance app in Ireland (see below), brought out a renewed and even more user-friendly online banking app in Slovakia (Moja ČSOB) with a ČSOB SmartToken authorisation tool, unveiled several new functions and features in K&H mobile banking in Hungary (including the ability to purchase various types of non-life insurance and apps that go beyond strict bank-insurance, i.e. having features for buying bus tickets, etc.), as well as rolling out a fully digital onboarding process for new clients and a video meeting service for questions about consumer and home loans in Bulgaria.

There was an increase across the business unit in deposits and lending, which went up by 20% and 11%, respectively (disregarding the recently acquired OTP Banka Slovensko (see below), the respective figures were +16% and +8%).

We also continued to develop the group's strategic focus. As part of this exercise, we sold our 50% stake in the life insurance company NLB Vita at the end of May 2020, meaning that we have now withdrawn completely from Slovenia, which is not one of our core markets. At the end of November 2020, we completed the acquisition of 99.44% of the shares in OTP Banka Slovensko. This company operates in Slovakia, where it has a share of almost 2% in the market for deposits and loans. This acquisition has bolstered our share of the Slovakian market, where we were already operating through ČSOB (see Note 6.6. in the 'Consolidated financial statements' for more information). The group launched its own life insurance company in Ireland, through which it is offering a range of innovative digital pension products. It is simple, worry-free and offers a tailor-made solution for the client. Lastly, we reached agreement with NN in February 2021 to acquire its Bulgarian pension and life insurance businesses, a move that will enable us to further consolidate our position on our Bulgarian home market.

Our focus on bank-insurance delivers many commercial synergies. For instance, group fire insurance was sold in conjunction with more than nine out ten new home loans taken out in Bulgaria and Slovakia, and nearly eight out of ten such loans taken out in Hungary. The number of active clients (clients with a current account to which their income is regularly credited) who hold at least one banking product and one insurance product from the group grew by a further 1% in 2020, while the number of active clients with at least two banking and two insurance products from the group increased by 3%. At year-end 2020, bank-insurance clients (with at least one banking and one insurance product from the group) accounted for 64% of the business unit's active clients. Stable bank-insurance clients (i.e. holding two banking and two insurance products) made up 17% of active clients.

We link our social projects to financial literacy, environmental responsibility, entrepreneurship and health. In Hungary, for example, K&H is devoting major efforts to media campaigns to show clients how to bank securely online. It also substantially broadened its range of sustainable and socially responsible investments, and the group was actively involved in the financing of green-certified office buildings in Budapest. In Slovakia, ČSOB focused its efforts on securing health gains, with a key role for prevention. As part of this campaign, ČSOB stresses the importance of regular health checks and rewards a healthy lifestyle by incorporating benefits into its life insurance products. In Bulgaria, UBB Interlease launched a Green Lease product for financing electric or hybrid vehicles and all kinds of equipment relating to renewable energy. The collaboration between UBB and The Association of the Bulgarian Leaders and Entrepreneurs (ABLE) was also broadened to incorporate the 'ABLE Activator' programme, which provides unique and intensive experience-oriented training in entrepreneurship to 30 students and young professionals below the age of 35. Lastly, KBC Bank Ireland increased its communications on digital wallets (Fitbit/Garmin/Apple Pay, etc.) during the coronavirus crisis in support of the campaign around safe shopping. It also continued to focus fully on its range of SRI funds.

How do the business units contribute to the group result?

Consolidated income statement, KBC Bank: Result after tax, attributable to equity holders of the parent (in millions of EUR)	2020	2019
Belgium Business Unit	579	932
Czech Republic Business Unit	321	743
International Markets Business Unit	144	329
Hungary	*90*	*156*
Slovakia	*45*	*69*
Bulgaria	*53*	*76*
Ireland	*-44*	*29*
Group Centre	-110	0
Total net result, KBC Bank	933	2 005

How do we manage our risks?

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

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

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

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

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

Risk innovation, transformation and straight through-processing

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

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

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

Moreover, the risk function is also accelerating its efforts to leverage the data available in the risk tools to further improve risk management and further increase efficiency. A group-wide initiative was launched to explore further opportunities with data analytics, machine learning and AI to modernise risk management across the different risk types and so facilitate a shift towards more proactive, continuous and dynamic risk management. In this respect, we are closely collaborating across functions and countries, and with our applied data analytics and IT departments. In addition, the risk function actively explores working with regulatory technology (RegTech) companies to complement the risk toolkit.

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

Coronavirus crisis

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

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

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

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

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

The coronavirus crisis has changed the interaction with management and our stakeholders. Therefore, a Group Crisis Committee (GCC) comprising all Country CEOs and the Executive Committee was set up to closely monitor the pandemic in order to swiftly decide on mitigating actions.

The transition to new ways of working due to this crisis (e.g., remotely, from backup locations and home offices) was well organised and without major incident. New information flows were swiftly established to provide management with the most up-to-date and relevant information.

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

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

Risk governance

Main elements in our risk governance model:

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

Relevant risk management bodies:

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

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

Components of a sound risk management

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

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

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

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

Risk identification

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

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

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

Risk measurement

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

Setting & cascading risk appetite

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

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

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

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

Risk analysis, reporting & follow-up

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

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

Stress testing

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

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

Credit risk

Managing credit risk

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

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

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

The building blocks for managing credit risk

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

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

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

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

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

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

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

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

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

Together with 'probability of default' and 'exposure at default', measures such as 'expected loss' and 'loss given default' form the building blocks for calculating the regulatory capital requirements for credit risk, as KBC has opted to use the Internal Ratings Based (IRB) approach. By the end of 2020, the main group entities and some smaller entities had adopted the IRB Advanced approach, apart from United Bulgarian Bank (UBB) in Bulgaria (Standardised approach) and ČSOB in Slovakia (IRB Foundation approach). 'Non-material' entities will continue to adopt the Standardised approach.

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

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

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

Impact of the coronavirus crisis on credit risk

The economic impact of the coronavirus pandemic has triggered an extraordinary challenge across the whole group, but particularly in relation to credit risk management.

At the onset of the coronavirus crisis in March 2020, we developed – amongst other things – supplementary ad hoc credit risk reporting for the Group Crisis Committee on requested payment holidays (later changed to granted). Requests for payment holidays are considered primary signals of imminent deterioration of credit quality in the portfolio and thus the primary pool for future PD migration or NPL formation. Subsequently, when the moratoria granted in the initial phase of the crisis were either set to expire or, where applicable, be extended for a certain period of time, this reporting was extended to provide an insight into the extent of the extensions and post-expiry repayment performance (e.g., loans going into arrears or receiving other forbearance treatment).

At year-end 2020, initial post-expiry data for the moratoria did not yet show a distinct trend in the post-payment holiday performance ('cliff effect') or an observable stratification in payment delinquency or other signs of distinct distress among sectors or activities. Obviously, such performance data is being monitored and analysed as the coronavirus crisis evolves. More information on the moratoria is provided in Note 1.4 of the 'Consolidated financial statements'.

As the coronavirus crisis is impacting economic activity unequally and non-traditionally across industrial sectors, we have increased our scrutiny of sectoral vulnerability and have adjusted the risk appetite for new production, incorporating specific sector views. We adopted a more restrictive risk appetite for sectors and sub-sectors considered at risk ('critically vulnerable'), curtailing new production. These critically vulnerable sectors and sub-sectors represent less than 5% of the industrial portfolio and include hospitality, entertainment and leisure, retail fashion and aviation. For a substantial additional part of the industrial portfolio, a guidance for credit underwriting has been one of 'caution' and a drive has been undertaken to select the 'best in class' counterparties within a sector, recognising the range in credit quality in any sector.

Lastly, since the second quarter of 2020, we have provided an estimate of expected credit losses in our existing loan portfolio that cannot be captured by the usual models given the macroeconomic variables underpinning the specific scenarios. Such management overlay is based on validated stress testing methodology and uses a stratified sector vulnerability classification (management overlay). More information in this regard is provided in Note 1.4 of the 'Consolidated financial statements'.

This management overlay constitutes the main financial impact of the coronavirus crisis in the 2020 impairment figures. In terms of staging, our existing approach remained unchanged, implying that no material parts of the portfolio have been forced towards 'Stage 2' and 'Stage 3'. On the other hand, the absolute amount and relative level of forbearance clearly reflect the impact of the coronavirus crisis. Indeed, as some of payment holidays have been granted outside the conditions for EBA-compliant moratoria (e.g., leasing activity in Belgium was not eligible for such general moratoria), such payment holidays were tagged as forbearance in line with prevailing forbearance rules. More information on EBA-compliant moratoria is provided in Note 1.4 of the 'Consolidated financial statements'.

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

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

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

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

Loan and investment portfolio		
Total loan portfolio	31-12-2020	31-12-2019
Total loan portfolio (in billions of EUR)		
Amount outstanding and undrawn	225	218
Amount outstanding	181	175
Loan portfolio breakdown by business unit (as a % of the outstanding portfolio)[1]		
Belgium[2]	64.0%	64.1%
Czech Republic	17.6%	18.4%
International Markets	16.6%	15.6%
Group Centre	1.8%	2.0%
Total	100.0%	100.0%
Loan portfolio breakdown by counterparty sector (as a % of the outstanding portfolio)[1]		
Private individuals	43.0%	41.7%
Finance and insurance	8.0%	7.6%
Governments	2.9%	2.9%
Corporates	46.1%	47.7%
Services	*10.8%*	*10.9%*
Distribution	*6.9%*	*7.3%*
Real estate	*6.3%*	*6.4%*
Building and construction	*3.9%*	*3.9%*
Agriculture, farming, fishing	*2.7%*	*2.7%*
Automotive	*2.5%*	*2.6%*
Other (sectors < 2%)	*13.2%*	*13.9%*
Total	100.0%	100.0%
Loan portfolio breakdown by region (as a % of the outstanding portfolio)[1,3]		
Home countries	86.7%	86.4%
Belgium	53.2%	*52.9%*
Czech Republic	16.6%	*17.6%*
Ireland	*5.8%*	*5.9%*
Slovakia	*5.7%*	*4.9%*
Hungary	*3.3%*	*3.1%*
Bulgaria	*2.1%*	*2.0%*
Rest of Western Europe	8.9%	8.6%
Rest of Central and Eastern Europe	0.2%	0.4%
North America	1.4%	1.5%
Asia	1.2%	1.5%
Other	1.6%	1.6%
Total	100.0%	100.0%

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%)	*26.4%*	*29.3%*
PD 2 (0.10% – 0.20%)	*11.9%*	*7.9%*
PD 3 (0.20% – 0.40%)	*14.9%*	*17.2%*
PD 4 (0.40% – 0.80%)	*12.8%*	*11.7%*
PD 5 (0.80% – 1.60%)	*12.9%*	*13.5%*
PD 6 (1.60% – 3.20%)	*8.7%*	*8.7%*
PD 7 (3.20% – 6.40%)	*4.7%*	*4.5%*
PD 8 (6.40% – 12.80%)	*2.1%*	*1.9%*
PD 9 (highest risk, ≥ 12.80%)	*1.5%*	*1.7%*
Unrated	*0.8%*	*0.2%*
Impaired		
PD 10	*1.5%*	*1.6%*
PD 11	*0.6%*	*0.7%*
PD 12	*1.2%*	*1.3%*
Total	100.0%	100.0%
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)	85.2%	85.2%
Stage 2 (significant increase in credit risk since initial recognition – not credit impaired) incl. POCI[5]	11.5%	11.3%
Stage 3 (significant increase in credit risk since initial recognition – credit impaired) incl. POCI[5]	3.3%	3.5%
Total	100.0%	100.0%

Impaired loan portfolio	31-12-2020	31-12-2019
Impaired loans (PD 10 + 11 + 12; in millions of EUR or %)		
Impaired loans[6]	5 902	6 160
Of which more than 90 days past due	3 220	3 401
Impaired loans by business unit (as a % of the impaired loan portfolio)[1]		
Belgium[2]	45.0%	43.5%
Czech Republic	12.2%	11.8%
International Markets	35.2%	37.7%
Ireland	*24.3%*	*26.9%*
Slovakia	*3.8%*	*2.3%*
Hungary	*1.9%*	*2.5%*
Bulgaria	*5.1%*	*6.1%*
Group Centre	7.6%	6.9%
Total	100.0%	100.0%
Impaired loans by sector (as a % of impaired loan portfolio)[1]		
Private individuals	35.4%	38.1%
Distribution	17.8%	18.6%
Services	9.7%	7.9%
Real estate	8.8%	7.8%
Building and construction	4.3%	4.4%
Automotive	3.1%	1.7%
Agriculture, farming, fishing	2.4%	2.4%
Machinery & heavy equipment	2.0%	1.9%
Other (sectors < 2%)	16.5%	17.3%
Total	100.0%	100.0%
Loan loss impairment (in millions of EUR)		
Impairment for Stage 1 portfolio	191	144
Impairment for Stage 2 portfolio, incl. POCI[5] (cured)	998	265
Impairment for Stage 3 portfolio, incl. POCI[5] (still impaired)	2 638	2 584
Of which impairment for impaired loans that are more than 90 days past due	2 044	*2 050*
Credit cost ratio		
Belgium Business Unit[2]	0.57%	0.22%
Czech Republic Business Unit	0.67%	0.04%
International Markets Business Unit	0.78%	-0.07%
Ireland	*0.88%*	*-0.32%*
Slovakia	*0.50%*	*0.14%*
Hungary	*1.05%*	*-0.02%*
Bulgaria	*0.73%*	*0.14%*
Group Centre	-0.23%	-0.88%
Total	0.60%	0.12%

Impaired loans ratio		
Belgium Business Unit[2]	2.3%	2.4%
Czech Republic Business Unit	2.3%	2.3%
International Markets Business Unit	6.9%	8.5%
Ireland	13.9%	*16.4%*
Slovakia	*2.3%*	*1.7%*
Hungary	*1.9%*	*2.8%*
Bulgaria	*7.7%*	*10.6%*
Group Centre	13.9%	12.4%
Total	3.3%	3.5%
Of which more than 90 days past due	*1.8%*	*1.9%*
Coverage ratio		
Loan loss impairment / impaired loans	44.7%	42.0%
Of which more than 90 days past due	*63.5%*	*60.3%*
Loan loss impairment / impaired loans (excl. mortgage loans)	52.3%	49.7%
Of which more than 90 days past due	*74.8%*	*71.7%*

1 Unaudited figures.

2 Also includes the small network of KBC Bank branches established in the rest of Europe, the US and Southeast Asia. These branches accounted for a total outstanding portfolio of approximately 6.6 billion euros at year-end 2020.

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 258-million-euro decrease between year-ends 2019 and 2020 breaks down as follows: a decrease of 22 million euros at the Belgium Business Unit, a decrease of 8 million euros at the Czech Republic Business Unit, a decrease of 250 million euros at the International Markets Business Unit and an increase of 22 million euros at the Group Centre.

7 Figures 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]	31-12-2020				31-12-2019			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Loan portfolio by country/business unit								
Belgium	53.5%	9.1%	1.5%	64.0%	53.7%	8.9%	1.5%	64.1%
Czech Republic	15.9%	1.3%	0.4%	17.6%	16.9%	1.1%	0.4%	18.4%
International Markets	14.3%	1.1%	1.1%	16.6%	13.0%	1.2%	1.3%	15.6%
Ireland	*4.6%*	*0.4%*	*0.8%*	*5.7%*	*4.4%*	*0.4%*	*0.9%*	*5.8%*
Slovakia	*4.9%*	*0.4%*	*0.1%*	*5.5%*	*4.2%*	*0.4%*	*0.1%*	*4.7%*
Hungary	*3.0%*	*0.2%*	*0.1%*	*3.2%*	*2.8%*	*0.2%*	*0.1%*	*3.1%*
Bulgaria	*1.8%*	*0.2%*	*0.2%*	*2.2%*	*1.6%*	*0.2%*	*0.2%*	*2.0%*
Group Centre	1.5%	0.0%	0.2%	1.8%	1.7%	0.1%	0.2%	2.0%
Total	85.2%	11.5%	3.3%	100.0%	85.2%	11.3%	3.5%	100.0%
Loan portfolio by sector								
Private individuals	38.9%	2.9%	1.2%	43.0%	37.5%	2.9%	1.3%	41.7%
Finance and insurance	7.7%	0.2%	0.0%	8.0%	7.2%	0.3%	0.0%	7.6%
Governments	2.9%	0.0%	0.0%	2.9%	2.9%	0.0%	0.0%	2.9%
Corporates	35.7%	8.3%	2.1%	46.1%	37.6%	8.0%	2.1%	47.7%
Total	85.2%	11.5%	3.3%	100.0%	85.2%	11.3%	3.5%	100.0%
Loan portfolio by risk class								
PD 1–4	62.5%	3.6%	–	66.1%	62.7%	3.4%	–	66.0%
PD 5–9	22.7%	7.9%	–	30.6%	22.6%	7.9%	–	30.4%
PD 10–12	–	–	3.3%	3.3%	–	–	3.5%	3.5%
Total	85.2%	11.5%	3.3%	100.0%	85.2%	11.3%	3.5%	100.0%
Total (in millions of EUR)	154 137	20 852	5 902	180 891	149 521	19 751	6 160	175 431

[1] Figures 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			31-12-2020					31-12-2019
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Impairment by country/business unit								
Belgium	2.6%	14.0%	31.7%	48.3%	2.2%	4.5%	37.4%	44.0%
Czech Republic	0.9%	6.0%	9.2%	16.1%	1.3%	2.2%	11.5%	15.0%
International Markets	1.5%	6.0%	18.7%	26.1%	1.3%	2.0%	25.4%	28.6%
Ireland	*0.3%*	*1.7%*	*9.8%*	*11.8%*	*0.1%*	*0.4%*	*13.6%*	*14.1%*
Slovakia	*0.5%*	*2.2%*	*4.2%*	*6.9%*	*0.4%*	*1.1%*	*3.3%*	*4.8%*
Hungary	*0.4%*	*1.6%*	*1.5%*	*3.5%*	*0.4%*	*0.3%*	*2.8%*	*3.5%*
Bulgaria	*0.2%*	*0.5%*	*3.2%*	*3.9%*	*0.4%*	*0.3%*	*5.6%*	*6.3%*
Group Centre	0.0%	0.0%	9.4%	9.5%	0.1%	0.2%	12.1%	12.4%
Total	5.0%	26.1%	68.9%	100.0%	4.8%	8.9%	86.3%	100.0%
Impairment by sector								
Private individuals	0.9%	6.3%	17.3%	24.4%	0.8%	2.7%	23.9%	27.3%
Finance and insurance	0.1%	0.9%	1.4%	2.4%	0.1%	0.1%	1.6%	1.9%
Governments	0.0%	0.0%	0.2%	0.3%	0.1%	0.0%	0.3%	0.3%
Corporates	4.0%	18.9%	50.1%	72.9%	3.8%	6.0%	60.5%	70.04%
Total	5.0%	26.1%	68.9%	100.0%	4.8%	8.9%	86.3%	100.0%
Impairment by risk class								
PD 1–4	1.0%	3.4%	–	4.4%	0.9%	0.5%	–	1.4%
PD 5–9	4.0%	22.7%	–	26.6%	3.9%	8.4%	–	12.3%
PD 10–12	–	–	68.9%	68.9%	–	–	86.3%	86.3%
Total	5.0%	26.1%	68.9%	100.0%	4.8%	8.9%	86.3%	100.0%
Total (in millions of EUR)	191	998	2 638	3 827	144	265	2 584	2 994

Forbearance measures

Forbearance measures consist of concessions towards a borrower facing, or about to face, financial difficulties. They may involve:

- lowering or postponing interest or fee payments;
- extending the term of the loan to ease the repayment schedule;
- capitalising arrears;
- declaring a moratorium (temporary principal and/or interest payment holidays);
- 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') and 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 (in millions of EUR) – movements between opening and closing balances							
Gross carrying value		Movements					
	Opening balance	Loans which have become forborne	Loans which are no longer considered to be forborne	Repayments	Write-offs	Other[1]	Closing balance
2020							
Total	3 075	1 912	-535	-355	-31	92	4 158
Of which KBC Bank Ireland	1 668	92	-222	-128	-0	7	1 417
2019							
Total	3 890	277	-712	-253	-137	10	3 075
Of which KBC Bank Ireland	2 195	98	-439	-57	-103	-26	1 668
Impairment		Movements					
	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
2020							
Total	516	156	-95	169	-82	-18	645
Of which KBC Bank Ireland	224	13	-30	66	-20	-2	251
2019							
Total	655	64	-173	69	-86	-13	516
Of which KBC Bank Ireland	353	22	-127	15	-38	-1	224

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.
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)
31-12-2020					
Total	2.4%	31.6%	12.7%	38.1%	17.7%
Of which KBC Bank Ireland	13.7%	0.0%	24.5%	43.5%	32.0%
By client segment[1]					
Private individuals[2]	2.3%	13.2%	20.0%	38.8%	28.0%
SMEs	2.8%	53.6%	8.7%	28.1%	9.5%
Corporations[3]	2.1%	38.5%	5.9%	45.3%	10.3%
31-12-2019					
Total	1.8%	13.2%	18.1%	43.4%	25.3%
Of which KBC Bank Ireland	16.5%	0.0%	24.9%	46.2%	28.9%
By client segment[1]					
Private individuals[2]	2.7%	7.9%	22.5%	42.6%	27.0%
SMEs	1.1%	24.6%	11.8%	35.1%	28.5%
Corporations[3]	1.2%	21.0%	9.9%	49.9%	19.2%

1 Unaudited.
2 97% of the forborne loans total relates to mortgage loans in 2020 (99% in 2019).
3 22% of the forborne loans relates to commercial real estate loans in 2020 (22% in 2019).

Other credit risks

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

Government securities in the investment portfolio of banking entities. We measure exposure to governments in terms of nominal value and book value. Such exposure relates mainly to EU states. We have put in place limiting caps for both non-core and core country sovereign bond exposure.

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

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

Other credit exposure (in billions of EUR)	31-12-2020	31-12-2019
Issuer risk[1]	0.02	0.05
Counterparty credit risk of derivatives transactions[2]	5.0	5.6

[1] Excluding a nominative list of central governments, and all exposure to EU institutions and multilateral development banks.
[2] After deduction of collateral received and netting benefits.

Structured credit exposure

The total net portfolio (i.e. excluding de-risked positions) of structured credit products amounted to 0.3 billion euros at year-end 2020 and consisted primarily of European residential mortgage-backed securities (RMBS). It was down 0.2 billion euros on its level at year-end 2019 due to redemptions. No new investments were made in 2020.

Regulatory capital

The regulatory capital requirements for credit risk increased from 6 809 million euros at the end of 2019 to 7 036 million euros at the end of 2020, driven largely by additional regulatory requirements, the acquisition of OTP Banka Slovensko and changes in volume and asset quality of portfolios in the core countries. For more details, please see the 'Credit risk' section in KBC's Risk Report, which is available at www.kbc.com.

Market risk in non-trading activities

Managing market non trading risk

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

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

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

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

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

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

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

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

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

Impact of coronavirus crisis on market risk non-trading

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

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

Interest rate risk and gap risk

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

Impact of a parallel 10-basis-point increase in the swap[2] curve for KBC Bank (in millions of EUR)	Impact on value[1] 2020	2019
Total	-64	-96

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

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

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

Swap BPV (10 basis points) of the ALM book * (in millions of EUR)	2020	2019
Average for 1Q	-77	-84
Average for 2Q	-72	-104
Average for 3Q	-76	-94
Average for 4Q	-64	-96
As at 31 December	-64	-96
Maximum in year	-77	-104
Minimum in year	-64	-84

* 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 total common equity tier-1 (CET1) capital. For the banking book at KBC group level, this risk came to 3.89% of CET1 capital at year-end 2020. This is well below the 15% threshold, which is monitored by the European Central Bank.

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

Interest sensitivity gap of the ALM book (including derivatives) (in millions of EUR)	≤ 1 month	1–3 months	3–12 months	1–5 years	5–10 years	> 10 years	Non-interest-bearing	Total
31-12-2020	17 408	-26 418	-668	3 781	4 692	1 003	201	0
31-12-2019	2 961	-1 982	945	6 471	6 863	2 419	-17 677	0

The interest sensitivity gap shows our overall position in interest rate risk. Generally, assets reprice over a longer term than liabilities, which means that KBC's net interest income benefits from a normal yield curve. The economic value of the KBC 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 a one percent upward shock to interest rates over a one-year period, assuming a constant balance sheet. For the banking activities, the analysis shows that net interest income would remain under pressure over the next year due to the low rate environment.

Credit spread risk

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

Revaluation reserve at fair value through other comprehensive income (FVOCI) at year-end 2020: the carrying value of the total government bond portfolio measured at FVOCI incorporated a revaluation reserve of 0.5 billion euros, before tax (86 million euros for Belgium, 64 million euros for France, 42 million euros for Italy and 259 million euros for the other countries combined).

Exposure to sovereign bonds at year-end 2020, carrying value[1] (in millions of EUR)						
Total (by portfolio)						Economic impact of +100 basis points[3]
	At amortised cost	At fair value through other comprehensive income (FVOCI)	Held for trading	Total	*For comparison purposes: total at year-end 2019*	
KBC core countries						
Belgium	9 687	877	751	11 316	10 550	-389
Czech Republic	8 338	726	1003	10 068	6 199	-609
Hungary	2 681	296	225	3 201	2 722	-170
Slovakia	3 088	191	27	3 305	2 473	-191
Bulgaria	882	378	32	1 291	1 077	-76
Ireland	1 147	65	0	1 212	1 329	-65
Other countries						
France	3786	911	51	4748	4 446	-245
Spain	1906	413	0	2319	1 251	-126
Italy	594	515	0	1110	2 159	-41
Poland	1 231	63	31	1 325	1 398	-40
US	1 038	0	0	1 038	1 016	-45
Rest[2]	3 961	508	357	4 826	4615	-124
Total carrying value	38 340	4 943	2 477	45 760	39 234	–
Total nominal value	36 711	4 371	2 279	43 361	36 804	–

1 The table excludes exposure to supranational entities of selected countries. No material impairment on the government bonds in portfolio.
2 Sum of countries whose individual exposure is less than 1 billion euros at year-end 2020.
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 -9 million euros, including supranational bonds, at year-end 2020).

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

Exposure to non-sovereign bonds at year-end, by rating: economic impact of +100 basis points (in millions of EUR)	31-12-2020	31-12-2019
Bonds rated AAA	-156	-153
Bonds rated AA+, AA, AA-	-60	-62
Bonds rated A+, A, A-	-10	-10
Bonds rated BBB+, BBB, BBB-	-15	-18
Non-investment grade and non-rated bonds	-29	-27
Total carrying value (excluding trading portfolio)	6 056	5 895

Equity risk

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

Equity portfolio of the KBC Bank (breakdown by sector, in %)		Banking activities
	31-12-2020	31-12-2019
Financials	56%	58%
Consumer non-cyclical	1%	0%
Communication	0%	0%
Energy	0%	0%
Industrials	5%	26%
Utilities	0%	0%
Consumer cyclical	4%	4%
Materials	0%	0%
Other and not specified	34%	11%
Total	100%	100%
In billions of EUR	0.27	0.26
of which unlisted	0.22	0.22

Impact of a 25% drop in equity prices (in millions of EUR)		Impact on value
	2020	2019
Total	-66	-64

Non-trading equity exposure (in millions of EUR)		Net realised gains (in income statement)		Net unrealised gains on year-end exposure (in equity)
	31-12-2020	31-12-2019	31-12-2020	31-12-2019
Total	–	–	12	27

Real estate risk

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

Impact of a 25% drop in real estate prices (in millions of EUR)		Impact on value
	2020	2019
Total	-98	-92

Inflation risk

Inflation indirectly affects the life of companies in many respects, as do other parameters (for instance, economic growth or the rate of unemployment). It is not easily quantifiable as a market risk concept. Certain financial products or instruments have a direct link with inflation and their value is directly impacted by a change in market expectations. In 2020, KBC Bank Group was not materially exposed to such products.

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 other entities has to be hedged, if material.

Since 2019, KBC has focused on stabilising the common equity ratio against foreign exchange fluctuations, which has improved KBC's capacity to cushion external shocks and is beneficial to all stakeholders. This implied a reduction in hedging participations.

Impact of a 10% decrease in currency value* (in millions of EUR)	Impact on value	
	31-12-2020	31-12-2019
CZK	-232	-200
HUF	-95	-78
BGN	-41	-35
USD	-2	-2

* Exposure for currencies where the impact exceeds 10 million euros.

Hedge accounting

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

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

Risk categories applying to hedge accounting

Interest rates

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

Interest rate derivatives can be designated as:

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

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

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

Foreign exchange

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

Hedge effectiveness

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

Effectiveness testing

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

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

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

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

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

Sources of hedge ineffectiveness

Ineffectiveness for interest rate swaps may occur due to:

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

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

Discontinuation of hedge accounting

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

Interest rate benchmarks

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

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

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

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

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

Capital sensitivity to market movements

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

CET1 sensitivity to main market drivers KBC Bank (as % points of CET1 ratio) IFRS impact caused by	31-12-2020	31-12-2019
+100-basis-point parallel shift in interest rates	0.3%	0.1%
+100-basis-point parallel shift in spread	-0.2%	-0.2%
-25% in equity prices	-0.3%	-0.3%

Regulatory capital

Regulatory capital for non-trading market activities totaled 17 million euros. It is used to cover foreign exchange exposures only, as KBC does not have any commodity exposures. In line with regulations, other types of non-trading market risk are covered through pillar II assessments.

Non-financial risks

Operational risk

Managing operational risk

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

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

The building blocks for managing operational risks

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

- Risk identification: identifying operational risks involves following up on legislation, as well as using the New and Active Products Process (NAPP), analysing key risk indicators, performing independent control monitoring activities, root cause analysis of near misses and losses and other risk events. A structured, process-based repository of Group Key Risks and related mitigating Group Key Control Objectives (GKCs) is in place to set top-down minimum standards for the risk and control environment. Self-assessments are performed by the first line of defence. The set of GKCs covers the complete process universe of the group and is designed to manage key operational risk types. A review process is in place to keep the repository in line with new or emerging operational risk types. Entities translate these Group Control Objectives into their operational process environment and supplement them with additional, local operational controls, if necessary. Dynamic trigger-based risk assessments are in place, based on the continuous screening of both internal and external risk events.
- Risk measurement: as operational risk is embedded in all aspects of the organisation, unified group metrics and scales are in place to define and support not only the underpinning of the risk profile of an entity, but also individual operational risk levels in the processes. The maturity status of individual control objectives to mitigate those risks in the processes is also defined on a group-wide unified scale. In addition, a group-wide uniform scale is used to express the overall internal control state of each process in each material entity and the overall internal control state of the entity. Group-wide tools are used by the three lines of defence to support the core activities of operational risk management. A standardised, near-miss and loss data collection process is in place, including root cause analysis and appropriate response.
- Setting and cascading risk appetite: the risk appetite for operational risk is set in line with the overall requirements as defined in the enterprise risk management framework.
- Risk analysis, reporting and follow-up: a uniform approach – strongly based on first line of defence accountability (business side) and challenges by the second line of defence (risk, compliance, legal and other experts) and assurance by the third line of defence (internal audit) – is in place with risk-based follow-up at both local and group level. Minimum standards for the operational risk management reporting process are defined. Besides regulatory required reporting, structural reporting to the group risk committees is performed every quarter. The quality of the internal control environment and related risk exposure is reported to KBC's senior management via a management dashboard and to the NBB, the FSMA and ECB via the annual Internal Control Statement.
- Stress testing: an annual stress test is performed to assess the adequacy of pillar 1 operational risk capital

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

Information risk management

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

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

Outsourcing risk management

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

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

Model risk management

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

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

Business continuity management including crisis management

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

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

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

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

Operational risk management in the specific context of the coronavirus pandemic

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

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

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

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

Compliance risk

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

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

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

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

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

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

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

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

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

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 914 million euros at the end of 2020, compared to 910 million euros at the end of 2019. This increase was the combined effect of the acquisition of OTP Banka Slovensko (resulting in an increase of 6 million euros in operational risk capital) and a slight decrease in average total income compared to its year-earlier level.

Reputational risk

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

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.

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

Business environment and strategic risks

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

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 and opportunities (e.g., by drafting a trend book) and to translate these into the KBC strategy and innovation roadmaps which are regularly reviewed.

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

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

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

Brexit

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

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

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

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

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

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

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

Market risk in trading activities

Managing market trading risk

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

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

The building blocks for managing market trading risk

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

- Risk identification: the risk function analyses the results of value and risk calculations, market developments, industry trends, new modelling insights, changes in regulations, etc. and draws up advice for the Group Markets Committee (GMC) with a view to changing or refining measurement methods, limits, hedging methods or positions. Furthermore, before a new or changed dealing room product or activity can be introduced, the risk function screens whether the risk aspects are correctly and sufficiently covered and provides risk advice that includes powers of veto and is part of the NAPP.
- Risk measurement: ownership of the definitions used for the group-wide measurement of trading market risk lies with the risk function. We measure risk via a number of parameters including nominal positions, concentrations, BPV, the so-called 'greeks' and scenario analysis. However, the primary tool we use for measuring and monitoring market risk exposures in the trading book is the Historical Value-at-risk (HVaR) method. VaR is defined as an estimate of the amount of economic value that might be lost on a given portfolio due to market risk over a defined holding period, with a given confidence level. We use the historical simulation method, which does not have to rely on assumptions regarding the distribution of price fluctuations or correlations, but is based on patterns of experience over the previous two years. Our HVaR model is used for both Management HVaR and for the calculation of regulatory capital. Regulatory HVaR is calculated using the relevant CRD IV standards (99% one-sided confidence interval, ten-day holding period). Management HVaR uses the same standards (except a one-day holding period is used), as it is more intuitive for senior management and is also in line with P&L reporting, day-to-day management, stop losses and back-testing.
- Setting and cascading risk appetite: the risk appetite for market risk in trading activities is set in line with the overall requirements as defined in our overarching risk management framework and is overseen by the GMC via a risk limit framework consisting of a hierarchy of limits and early warning indicators. These are defined down to desk level and, in addition to HVaR, include a series of secondary limits, with equity concentration limits, FX concentration limits and basis-point-value limits for interest rate risk and basis risk. The specific risk associated with a particular issuer or country is also subject to concentration limits. There are also scenario analysis limits and – where deemed appropriate – stress scenario limits involving multiple shifts of underlying risk factors.
- Risk analysis, monitoring, reporting and follow-up: in addition to the more proactive elements described under 'Risk identification', this involves compiling the necessary external and internal reports, issuing advice on business proposals, and monitoring and advising on the risks attached to the positions. We monitor and follow up the risks attached to the positions on a daily basis by means of the risk limit framework. Another important aspect of this building block is prudent valuation. We perform a daily independent middle-office valuation of front-office positions. Whenever the independent nature or the reliability of the valuation process is not guaranteed, we perform a monthly parameter review. Where applicable, we make adjustments to the fair value to reflect close-out costs, mark-to-model-related value adjustments, counterparty risk and liquidity risk. Risk monitoring is also carried out via internal assessments and a large variety of controls, including parameter reviews, daily reconciliation processes, analyses of the material impact of proxies and other periodic controls to ensure sound risk management. The GMC, which meets every four weeks, receives an extensive Core Report as well as periodic and ad hoc memos and reports. The GMC also receives a bi-weekly dashboard whose frequency is increased depending on market circumstances (for example we switched to a daily dashboard during the height of the coronavirus crisis). 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. Our 2020 review of the stress tests (as regards their mix and checking that they remain up-to-date and relevant) resulted in an additional historical stress test ('Early Covid-19' scenario) and an additional element in our hypothetical stress tests focusing on yield shifts in longer maturities (particularly affected during the turbulent market environment in March/April 2020). For more details about stress testing, please refer to the relevant sub-section of the 'Market risk management' section in KBC's Risk Report, which is available at www.kbc.com.

Impact of the coronavirus crisis on market trading risk

The global acceleration of the coronavirus pandemic hit Europe and the US hard during March, triggering unprecedented measures by governments and central banks, often fuelling already heightened volatility in the financial markets to levels not seen in many decades (with market movements more extreme than those seen at the height of the 2008 banking crisis).

Mitigating actions involved trimming down positions where action was needed, but leaving open positions where risk was manageable and losses deemed recoverable. Despite this environment, a moderate loss was recorded in the first quarter of 2020 mainly stemming from valuation adjustments, and the dealing rooms were comfortably back in profit by the end of the second quarter. Due to this market environment, the Group Crisis Committee received a daily report on market developments, position changes and P&L performance, which switched to bi-weekly reporting from mid-May reflecting the calmer markets, and returned to normal market risk reporting from August onwards. Regarding longer term effects, the stress tests have been updated and adapted as mentioned in the above section. Furthermore, some of the aspects covered in reporting to the Group Crisis Committee are now included in our GMC Core Report.

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)	2020	2019
Average for 1Q	6	7
Average for 2Q	9	7
Average for 3Q	9	8
Average for 4Q	9	6
As at 31 December	8	5
Maximum in year	11	9
Minimum in year	4	4

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

Breakdown by risk factor of trading HVaR (Management HVaR; in millions of EUR)	Average for 2020	Average for 2019
Interest rate risk	7.9	7.0
FX risk	1.1	0.8
FX options risk	0.7	0.5
Equity risk	1.0	0.7
Diversification effect	-2.5	-2.0
Total HVaR	8.2	7.0

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

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

Regulatory capital

Our low risk appetite for market risk in trading activities is illustrated by the fact that, during 2020, market risk RWA amounted to an average of less than 3% of KBC Group's total RWA. The vast majority of regulatory capital requirements are calculated using our Approved Internal Model which, in addition to HVaR, uses SVaR, which is one of the CRD III Regulatory Capital charges that entered into effect at year-end 2011. The calculation of an SVaR measure is based on the normal VaR calculations and follows the same methodological assumptions, but is constructed as if the relevant market factors were experiencing a period of stress. The period of stress is calibrated at least once a year (checked monthly to ensure the period is still valid) by determining which 250-day period between 2006 and the (then) present day produces the severest losses for the relevant positions. Business lines not included in the internal model calculations are measured according to the Standardised approach.

For more details about regulatory capital and how it developed between 2019 and 2020, please refer to KBC's Risk Report (available at www.kbc.com) which includes a breakdown of regulatory capital requirements for KBC Group's market risk per risk type.

Liquidity risk

Managing liquidity risk

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

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

The main sub-types of liquidity risk are:

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

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

The building blocks for managing liquidity risk

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

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

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

Impact of the coronavirus crisis on liquidity risk

Stressed or extreme market conditions can be triggered by crises such as the coronavirus pandemic. So far, KBC's liquidity position has been able to withstand the stress of the coronavirus crisis and remains very strong. A coronavirus stress test indicates that a prolonged stress period can be overcome.

Due to the challenges for the economy posed by the coronavirus crisis, the ECB decided in March 2020 to allow credit institutions to operate temporarily below the LCR targets. KBC participated in the targeted longer-term refinancing operation in June 2020 (TLTRO III), further supporting its LCR and NSFR figures. In July and December 2020, the ECB updated its measures aimed at preserving banks' capacity to absorb losses and to support the economy, specifying that banks are allowed to use their liquidity buffers until at least the end of 2021.

Maturity analysis

Liquidity risk (excluding intercompany deals)[1] (in billions of EUR)	<= 1 month	1–3 months	3–12 months	1–5 years	>5 years	On demand	Not defined	Total
31-12-2020								
Total inflows	38	9	22	75	95	8	38	284
Total outflows	44	16	10	23	5	161	25	284
Professional funding	28	3	3	1	0	3	0	38
Customer funding	6	8	5	12	2	158	0	192
Debt certificates	6	5	3	9	3	0	0	26
Other	4	0	0	0	0	0	25	29
Liquidity gap (excl. undrawn commitments)	-6	-7	12	52	90	-153	13	0
Undrawn commitments	–	–	–	–	–	–	40	40
Financial guarantees	–	–	–	–	–	–	10	10
Net funding gap (incl. undrawn commitments)	-6	-7	12	52	90	-153	-37	-50
31-12-2019[2]								
Total inflows	37	9	19	70	88	10	20	254
Total outflows	29	14	8	26	6	146	25	254
Professional funding	14	2	1	2	0	2	0	21
Customer funding	4	5	4	14	2	144	0	174
Debt certificates	7	8	3	10	3	0	0	30
Other	4	0	0	0	0	0	25	29
Liquidity gap (excl. undrawn commitments)	8	-5	10	45	83	-136	-5	0
Undrawn commitments	–	–	–	–	–	–	38	38
Financial guarantees	–	–	–	–	–	–	10	10
Net funding gap (incl. undrawn commitments)	8	-5	10	45	83	-136	-53	-48

1 Cashflows exclude interest rate flows consistent with internal and regulatory liquidity reporting. Inflows/outflows that arise from margin calls posted/received for MtM positions in derivatives are reported in the 'Not defined' bucket. 'Professional funding' includes all deposits from credit institutions and investment firms, as well as all repos. Instruments are classified on the basis of their first callable date. Some instruments are reported at fair value (on a discounted basis), whereas others are reported on an undiscounted basis (in order to reconcile them with Note 4.1 of the 'Consolidated financial statements' section). Due to the uncertain nature of the maturity profile of undrawn commitments and financial guarantees, these instruments are reported in the 'Not defined' bucket. The 'Other' category under 'Total outflows' contains own equity, short positions, provisions for risks and charges, tax liabilities and other liabilities.
2 An upgrade of the data source systems in 2020 improved the allocation of the different inflows and outflows to the correct time buckets. We have therefore restated the maturity analysis table for 2019, to allow for a proper view of changes in the maturity gaps over financial year 2020.

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

Funding information

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

Funding mix	Information	31-12-2020	31-12-2019
Funding from customers[1]	Demand deposits, term deposits, savings deposits, other deposits, savings certificates and debt issues placed in the network	82%	84%
Debt issues placed with institutional investors	Including covered bonds[3], tier-2 issues, KBC Group NV senior debt	7%	8%
Net unsecured interbank funding	Including TLTRO[4]	12%	6%
Net secured funding[2]	Repo financing	-10%	-11%
Certificates of deposit	–	3%	5%
Total equity	Including AT1 issues	7%	8%
Total		100%	100%
in billions of EUR		237	210

1 Some 83% of this funding relates to private individuals and SMEs (year-end 2020).
2 Negative on account of KBC carrying out more reverse repo transactions than repo transactions.
3 In November 2012, we announced our 10-billion-euro Belgian residential mortgage covered bonds programme, which was extended to 17.5 billion euros in 2020. This programme gives KBC access to the covered bond market, allowing it to diversify its funding structure and reduce the cost of long-term funding.
4 In 2019, we repaid all TLTRO II funding and participated in TLTRO III for 2.5 billion euros. In 2020, we increased the participation in TLTRO III by almost 19.5 billion euros to just under 22 billion euros.

Liquid asset buffer

At year-end 2020, the KBC group had 64 billion euros' worth of unencumbered central bank eligible assets, 57 billion euros of which in the form of liquid government bonds (89%). The remaining available liquid assets were mainly other ECB/FED-eligible bonds (6%). Most of the liquid assets are expressed in our home market currencies. Available liquid assets were roughly four times the amount of net short-term wholesale funding, while funding from non-wholesale markets was accounted for by stable funding from core customer segments in our core markets.

LCR and NSFR

Two of the main regulatory liquidity measures are the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). Both are defined in the 'Glossary of financial ratios and terms'. At year-end 2020, our NSFR stood at 146%, while our LCR for 2020 came to 147%.

Climate-related and other ESG risks

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

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

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

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

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

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

Governance

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

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

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

Risk identification

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

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

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

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

Risk measurement

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

Setting & cascading risk appetite

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

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

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

Risk analysis, reporting & follow-up

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

A number of initiatives were started to improve our understanding of how to measure ESG and climate-related risks of our loan portfolio. Initially, ESG and climate-related risks are qualitatively assessed, e.g., by developing an environmental and social-sectoral heat map that triggers the business side, risk takers and decision makers to explicitly consider environmental and social risks in their assessments (credit acceptance, NAPP, stress testing, etc.). Significant efforts were also made in the development of quantitative assessments and climate-related valuation methods. The insights gained are part of our quest to further integrate these risks into our credit assessment processes and modelling (including expected credit losses) and to adapt our policies, where necessary. Moreover, 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. This approach will be more prominently applied in the risk assessment going forward.

Stress testing

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

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

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

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

How do me manage our capital?

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

Solvency at KBC Bank

We report the solvency of the bank based on IFRS data and according to the rules imposed by the regulator. For KBC Bank, this implies that we calculate our solvency ratios based on CRR/CRD IV. Since 30 June 2020, KBC has been using the transitional provision relating to IFRS 9. KBC Bank is subject to minimum solvency ratios. The fully loaded common equity ratio must be 10.45% according to the regulatory requirements.

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

As a result of its supervisory review and evaluation process (SREP), the competent supervisory authority (in KBC's case, the ECB) can require that higher minimum ratios be maintained (= pillar 2 requirements) because, for instance, not all risks are properly reflected in the regulatory pillar 1 calculations. Following the SREP for 2020, the ECB formally notified KBC of its decision (effective from 1 January 2021) to maintain the pillar 2 requirement (P2R) at 1.75% CET1 and the pillar 2 guidance (P2G) at 1% CET1.

The overall capital requirement for KBC is not only determined by the ECB, but also by the decisions of the local competent authorities in its core markets, required buffers (4.20% determined by the local competent authorities in KBC's core markets).

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

In total, this brings the fully loaded CET1 capital requirement to 10.45% (4.5% (pillar 1) + 1.75% (P2R) + 2.5% (conservation buffer) + 1.5% (systemic buffer) + 0.20% (countercyclical buffer)), with an additional P2G of 1% consolidated at KBC Bank level.

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

Regulatory capital requirements KBC Bank (consolidated)	31-12-2020	31-12-2020	31-12-2019
(in millions of EUR)	Fully loaded	Transitional	Fully loaded
Total regulatory capital, after profit appropriation	17 792	18 021	16 660
Tier-1 capital	15 585	16 078	14 704
Common equity	14 085	14 578	13 204
Parent shareholders' equity	14 567	14 567	15 043
Solvency adjustments	- 481	12	-1 840
Additional going concern capital	1 500	1 500	1 500
Tier-2 capital	2 206	1 942	1 957
Total weighted risk volume	92 903	92 635	89 838
Credit risk	78 785	78 518	75 786
Market risk	2 716	2 716	2 713
Operation risk	11 401	11 401	11 340
Common equity ratio	15.2%	15.7%	14.7%

Solvency KBC Bank CRR / CRD (consolidated) (in millions of EUR)	31-12-2020 Fully loaded	31-12-2020 Transitional	31-12-2019 Fully loaded
Total regulatory capital (after profit appropriation)	17 792	18 021	16 660
Tier-1 capital	15 585	16 078	14 704
Common equity	14 085	14 578	13 204
Parent shareholders' equity (excluding minorities)	14 567	14 567	15 043
Intangible fixed assets, incl. deferred tax impact (-)	- 346	- 346	- 338
Goodwill on consolidation, incl. deferred tax impact (-)	- 882	- 882	- 914
Minority interests	0	0	0
Hedging reserve (cash flow hedges) (-)	1 294	1 294	1 331
Valuation diff. in fin. liabilities at fair value - own credit risk (-)	- 13	- 13	- 9
Value adjustment due to the requirements for prudent valuation (-)	- 25	- 25	- 54
Dividend payout (-)	0	0	- 1 145
Coupon of AT1 instruments (-)	- 12	- 12	- 12
Deduction re. financing provided to shareholders (-)	- 57	- 57	- 57
Deduction re. Irrevocable payment commitments (-)	- 58	- 58	- 45
Deduction re NPL backstops (-)	- 11	- 11	0
IRB provision shortfall (-)	0	0	- 140
Deferred tax assets on losses carried forward (-)	- 371	- 371	- 458
Transitional adjustments to CET1	0	493	0
Limit on deferred tax assets from timing differences relying on future profitability and significant participations in financial sector entities (-)	0	0	0
Additional going concern capital	1 500	1 500	1 500
CRR compliant AT1 instruments	1 500	1 500	1 500
Minority interests to be included in additional going concern capital	0	0	0
Tier 2 capital	2 206	1 942	1 957
IRB provision excess (+)	427	427	130
Transitional adjustments to T2	0	- 264	0
Subordinated liabilities	1 779	1 779	1 827
Subordinated loans non-consolidated financial sector entities (-)	0	0	0
Minority interests to be included in tier 2 capital	0	0	0
Capital requirement			
Total weighted risk volume	92 903	92 635	89 838
Credit risk	78 785	78 518	75 786
Market risk	2 716	2 716	2 713
Operational risk	11 401	11 401	11 340
Solvency ratios			
Common equity ratio	15.16%	15.74%	14.70%
Tier-1 ratio	16.78%	17.36%	16.37%
CAD ratio	19.15%	19.45%	18.54%
Capital buffer			
Common equity capital	14 085	14 578	13 204
Required pillar 2 capital (10,45%)	9 708	9 680	9 388
Capital buffer vs pillar 2 target	4 377	4 898	3 815

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

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

Leverage ratio

At year-end 2020, our fully loaded leverage ratio at KBC Bank stood at 5.2% (see table below) as the higher total exposure was offset by a higher level of tier-1 capital. More details, including a description of the processes used to manage the risk of excessive leverage, can be found in KBC's Risk Report, which is available at www.kbc.com (the risk report has not been audited by the statutory auditor).

Leverage ratio (KBC Bank consolidated, CRD IV/CRR (Basel III)) In millions of EUR	31-12-2020 Fully loaded	31-12-2020 Transitional	31-12-2019 Fully loaded
Tier-1 capital	15 585	16 078	14 704
Total exposures	299 773	300 401	269 657
Total Assets	284 399	284 399	253 917
Transitional adjustment	0	628	0
Adjustment for derivatives	-4 158	-4 158	-2 882
Adjustment for regulatory corrections in determining Basel III Tier-1 capital	-1 750	-1 750	-2 053
Adjustment for securities financing transaction exposures	830	830	638
Off-balance sheet exposures	20 453	20 453	20 036
Leverage ratio	5.20%	5.35%	5.45%

ICAAP

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

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

Once a year, the ICAAP process generates a comprehensive report, which is presented to both top management and the supervisory bodies. In view of the coronavirus pandemic, the ECB allowed for a pragmatic approach to be taken in 2020, but KBC nevertheless submitted a complete report, including an assessment of the impact of the coronavirus crisis on KBC's capital adequacy.

Stress testing

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

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

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

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

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

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

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

The coronavirus crisis impacted the 2020 stress test planning as an ad hoc stress test was performed to assess the impact of the coronavirus crisis on our capital position, which confirmed our solid capital position.

Corporate governance statement

Composition of the Board and its committees at year-end 2020

Name	Position	Period served on the Board in 2020	Expiry date of current term of office	Board meetings attended	Non-executive directors	Shareholders' representatives	Independent directors	Members of the EC	AC	RCC
Number of meetings in 2020				14					8	9
DEBACKERE Koenraad[1]	Chairman	8 months	2024	7	●					
DEPICKERE Franky	Deputy Chairman of the Board	Full year	2023	14	●	●				9 (c)
THIJS Johan	President of the Executive Committee	Full year	2021	14				● (c)		
FALQUE Daniel	Executive Director	Full year	2024	14				●		
HOLLOWS John	Executive Director	Full year	2021	14				●		
LUTS Erik	Executive Director	Full year	2021	13				●		
POPELIER Luc	Executive Director	Full year	2021	14				●		
SCHEERLINCK Hendrik	Executive Director	Full year	2021	14				●		
VAN RIJSSEGHEM Christine	Executive Director	Full year	2022	14				●		
ARISS Nabil	Independent Director	Full year	2022	14	●		●		8	9
CALLEWAERT Katelijn	Non-Executive Director	Full year	2021	14	●	●				
DE BECKER Sonja	Non-Executive Director	Full year	2024	14	●	●				
KIRÁLY Júlia	Non-Executive Director	Full year	2023	14	●					
MAGNUSSON Bo	Independent Director	Full year	2024	14	●		●		8	9
PAPIRNIK Vladimira	Non-Executive Director	Full year	2023	14	●					
WITTEMANS Marc	Non-Executive Director	Full year	2022	14	●	●			8 (c)	

* Thomas Leysen, who was a director until 29 April 2020, attended seven Board meetings.

[1]. Chairman of the Board with effect on 1 November 2020.

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

Changes in the composition of the Board in 2020

- Thomas Leysen resigned from the Board following the General Meeting of 29 April 2020.
- Koenraad Debackere was appointed as director for a term of four years. The Board appointed him as Chairman of the Board with effect on 1 November 2020.
- Sonja De Becker, Daniel Falque and Bo Magnusson were re-appointed as directors for a new four-year term of office.

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

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

Proposed changes in the composition of the Board in 2021

Peter Andronov and David Moucheron are proposed by the Board, on the advice of the Nomination Committee, for appointment as directors for a term of four years. They will become executive directors following their appointment as members of the DC.

On the advice of the Nomination Committee Katelijn Callewaert, Johan Thijs, Luc Popelier and Erik Luts are nominated for reappointment as director for a new 4-year term of office, expiring after the general meeting in 2025, and John Hollows is nominated for reappointment as director for a new 1-year term of office, expiring after the general meeting in 2022.

The mandates of Hendrik Scheerlinck and Daniel Falque will expire at the end of the general meeting. The Board wishes to express its great appreciation and gratitude for the contribution they have made to our group.

Brief CV for the proposed new director:

Peter Andronov, born in Dobrich (Bulgaria) in 1969, graduated as a Master in Finance from the University of National and World Economy in Sofia (Bulgaria). Between 1994 and 1997 he worked as an analyst in a number of commercial banks. From 1997 to 2007 he held various positions (up to Head of the Banking Supervision Department) in the National Bank of Bulgaria. From 2005 to 2007, he led the Basel II project for Bulgaria and was a member of the Committee of European Banking Supervisors (CEBS) and the Banking Supervision Committee of the ECB. In 2007 he became CRO and since 2008 CEO of Cibank. Since 2011 he has been country manager of the KBC group in Bulgaria and since 2017 CEO of United Bulgarian Bank (UBB). He also has a rich academic experience.

David Moucheron, born in Mons in 1973, holds a Master in Law from the Université Catholique de Louvain (Louvain-La-Neuve), a Master in Tax Law from the EHSAL School of Business (Brussels) and an LL.M. from Columbia Law School (New York). From 1996 to 1999 he was a lawyer at De Bandt, van Hecke & Lagae (now Linklaters). Between 2000 and 2005, he worked as a consultant at McKinsey & Company. From 2006 to 2008, he was Executive Committee Secretary & Group CEO Chief of Staff of Fortis Group (now BNP Paribas Fortis). Then he was CEO of bpost bank (Brussels) between 2009 and 2015. He joined the KBC Group in 2015 as CEO of CBC Banque & Assurance. Since 2017, he has been CEO of K&H Bank and country manager of the KBC group in Hungary.

Composition of the EC (as at 31.12.2020)

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

Changes as of April 28, 2021:

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

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

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

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

- Johan Thijs, CEO (chief executive officer),
- Luc Popelier, CFO (chief financial officer),
- Christine Van Rijsseghem, CRO (chief risk officer),

- Peter Andronov, CEO International Markets division,
- John Hollows, CEO Czech Republic division,
- Erik Luts, Chief Innovation Officer,
- David Moucheron, CEO Division Belgium.

Statutory auditor

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

Main features of the internal control and risk management systems

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

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

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

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

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

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

Corporate culture and integrity policy

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

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

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

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

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

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

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

Combating corruption and bribery

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

The main risks associated with corruption and bribery include potential undue influence, conflicts of interest, non-objective pricing and subjective awarding of contracts. Given the potential consequences of these risks and especially the impact on the group's reputation, KBC pursues a policy of zero-tolerance towards fraud and gross malpractice.

Combating corruption and avoiding conflicts of interest, in general, are dealt with as part of an authoritative training course, which 510 KBC Bank, KBC Insurance and KBC Asset Management employees in Belgium attended in 2020, along with the tied insurance agents and their staff. 95% of staff working at Commercial Finance likewise received training on how to combat corruption and avoid conflicts of interest. At the group's Central European entities, the anti-corruption course is integrated into compliance training and provided face-to-face or via e-learning. 8 814 members of staff took this course in the Czech Republic, 2 600 in Slovakia and 424 in Hungary. In Bulgaria, training was provided to 1 974 employees and insurance agents. In Ireland, this training formed part of the compliance ethics e-learning course (1 350 staff members took this course).

Furthermore, some 95% of our top 300 senior managers had completed the KBC University training programme on corporate social responsibility.

Another element of the Anti-Corruption & Bribery Policy is the 'policy on gifts, donations and sponsorship' through which KBC endeavours to protect its employees and the other parties involved by means of criteria that have been drawn up to foster transparent and reasonable behaviour. This policy states that gifts, donations or invitations, whose equivalent value exceeds a certain sum (on an annual basis), must be reported to and approved by the competent executive committee/management level. In 2020, 84 incidents of this kind were approved in Belgium. In Central Europe, too, gifts and donations above a certain value have to be reported (16 such incidents were reported in the Czech Republic, four in Hungary, 11 in Slovakia and none in Bulgaria). There were no reports in Ireland.

Anti-money laundering practices

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

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

Precisely because KBC does not want to be involved in these activities, training courses are provided at regular intervals to all employees, tied agents and their staff. Furthermore, employees, tied agents and their staff are expected to strictly follow established procedures and guidelines and to exercise due vigilance when identifying customers and checking transactions. They are also expected to report anything suspicious to the Compliance function.

In 2020, the focus was on reviewing and updating the data on high-risk clients. Additional information was requested and transactions examined randomly using artificial intelligence (AI). An integrated, group-wide AI platform based on models and machine learning was developed and rolled out in Belgium and in the Central European countries where the group operates.

Responsible taxpayer

The basic principle behind the KBC Tax Strategy is that KBC Group NV and all its entities must act as responsible taxpayers, basing themselves on professionally executed compliance with tax laws, legitimate tax planning and supported by valid business objectives that take precedence over tax considerations. KBC does not take extremely aggressive tax positions simply because it wishes to safeguard its reputation as a responsible taxpayer, and it adheres to a strict tax risk management policy based on those principles. KBC staff are not allowed to provide clients with advice of a nature that might prompt them to commit tax fraud. Any tax advice or tax information provided must be legally correct and clearly worded. All of KBC's tax returns and tax payments are filed correctly and on time. When conducting tax audits, full disclosure in line with prevailing local tax legislation is the guiding principle. KBC reacts in good time to all legislative changes by investing in the necessary IT systems and by adapting its tax processes to ensure they comply with the new rules. Proper governance is in place to follow up and monitor the KBC Tax Strategy. In 2020, efforts were focused on DAC 6 compliance and reviewing the tax fraud prevention policy.

Whistleblower policy

KBC has a policy in place regarding 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. In 2020, the Group Compliance Rules were updated to include the requirements set out in the new EU Directive on whistleblowing.

KBC may 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 & Fraud Unit about every whistleblowing file. The whistleblower policy is required to be published internally and externally The whistleblower policy is required to be published internally and externally (available under 'Corporate Sustainability' at www.kbc.com).

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

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

1 The business side

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Shareholder structure on 31 December 2020

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

As far as the shareholder structure of KBC Bank NV at 31 December 2020 is concerned, all 995 371 469 shares were held by KBC Group NV.

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

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

Additional information

- Acquisition of treasury shares. KBC Bank NV and its subsidiaries do not hold any treasury shares.
- There were no conflicts of interest in financial year 2020 that fell within the scope of Articles 7:115, 7:116 and 7:117 of the Belgian Companies and Associations Code.
- The Board worked out an arrangement regarding transactions and other contractual ties between the company (including its affiliated companies) and its directors, not covered by the conflict of interest rule set out in the Companies and Associations Code. It was incorporated into the Corporate Governance Charter of KBC Bank NV, which was in force until year-end 2020.
- Discharge to directors and to the statutory auditor. It will be requested at the General Meeting to grant discharge to the directors and auditor for the performance of their mandate in financial year 2020.
- At year-end 2020, the AC comprised the following members:
    - Marc Wittemans (non-executive director), who holds a Master's Degree in Applied Economics, and degrees in Fiscal Sciences and Actuarial Sciences. He is Managing Director of MRBB CVBA, the holding company of the Boerenbond (farmers' union), and is the Chairman of the AC.
    - Nabil Ariss (independent director), who is a graduate of HEC Paris and the University of Chicago Booth School of Business. He has advised the boards of directors of companies, financial institutions and non-profit organisations on strategy, governance, organisation, business operations, mergers & acquisitions and business finance for more than 30 years, first at McKinsey then at J.P. Morgan, where he retired as Vice-Chairman. He is the founder of Fresnel1823, an independent business consultancy firm.
    - Bo Magnusson (independent director), who is a graduate of the High School Social Science Programme and holds certificates in Accounting, Macroeconomics, Treasury Management and Financial & Risk Management. He held different positions at SEB (1982-2011), including in the areas of accounting and finance. During his career there, he was Head of the Retail Division (2005-2008), Deputy President and CEO (2008-2011) and Head of Group Staff & Business Support (2009-2011). He was Chairman of the boards of Carnegie Investment Bank AB (2012-2019), SBAB Bank AB (2013-2019), Norrporten AB (2013-2016) and 4T Sverige AB (2012-2015). Mr Magnusson has been Deputy Chairman of the Board of Swedbank AB since 2019 and Chairman of the Board of Rikshem AB since 2016.

  These members possess the requisite individual and collective expertise in the activities conducted by the bank and in the areas of accounting and/or auditing, based on their education and extensive business experience.
- At year-end 2020, the RCC comprised the following members:
    - Franky Depickere (non-executive director), who holds Master's Degrees in Trade & Finance (UFSIA Antwerp) and in Financial Management (VLEKHO Business School). He was internal auditor at CERA Bank and has held positions and offices in various financial institutions. He is currently Managing Director at Cera and KBC Ancora. Mr Depickere is the Chairman of the RCC.
    - Nabil Ariss (independent director).
    - Bo Magnusson (independent director).

  It can be concluded on the basis of the profiles and competences of the members that each individual member and the RCC as a whole possess the requisite skills and experience.
- The Remuneration Committee of KBC Group NV is also authorised to act in relation to KBC Bank NV. It advises the Board of Directors of KBC Group NV regarding the remuneration policy pursued at both KBC Group NV and KBC Bank NV. At year-end 2020, the Remuneration Committee was made up of Koenraad Debackere (Chairman), Júlia Király and Philippe Vlerick.
- The Nomination Committee of KBC Group NV is also authorised to act in relation to KBC Bank NV. At year-end 2020, the Nomination Committee was made up of Koenraad Debackere (Chairman), Philippe Vlerick, Franky Depickere, Sonja De Becker and Vladimira Papirnik.
- In compliance with the laws on the incompatibility of offices held by managers of credit institutions, the following is a list of the external offices held by the executive managers and directors of KBC Bank NV in other companies, with the exception of those offices performed in companies within the meaning of Article 27, §3, para. three of the Act of 22 March 1993.

Annex 1
to the annual report of the board of directors for the financial year ending on 31 December 2020

Naamloze vennootschap (company with limited liability): KBC Bank NV
Trade register: Brussels 623 074
VAT number or national number: 462.920.226

Company name	Reg.office	Sector	Office held	Listed (N= not)	Share of capital held (N= none)
Nabil Ariss, Independent Director					
Fresnel1823 Limited	UK	Consulting	Executive Director	N	N
Callewaert Katelijn, Director					
Cera Beheersmaatschappij nv	Belgium	Management	Executive Director	N	N
Almancora Beheersmaatschappij NV	Belgium	Management	Executive Director	N	N
Cera cvba	Belgium	Management	Member of the Board	N	N
Sonja De Becker, Director					
SBB Accountants en Belastingconsulenten BV cvba	Belgium	Accountancy & consulting	Chairman of the Board of Directors	N	N
M.R.B.B. cvba	Belgium	Holding company	Chairman of the Board of Directors	N	N
SBB Bedrijfsdiensten BV cvba	Belgium	Accountancy & consulting	Executive Director	N	N
BB-Patrim cvba	Belgium	Holding company	Chairman of the Board of Directors	N	N
Agri Investment Fund cvba	Belgium	Holding company	Director	N	N
Acerta cvba	Belgium	Holding company	Director	N	N
Koenraad Debackere, Chairman of the Board of Directors					
Umicore	Belgium	Non-ferrous metals	Director	Euronext	N
Holding Wetenschapspark Waterschei NV	Belgium	Holding company	Director	N	N
Franky Depickere, Director					
Almancora Beheersmaatschappij nv	Belgium	Management	Executive Director	N	N
Cera cvba	Belgium	Management	Executive Director	N	N
Cera Beheersmaatschappij nv	Belgium	Management	Executive Director	N	N
Euro Pool System International BV	Netherlands	Packaging	Director	N	N
BRS Microfinance Coop cvba	Belgium	Finance	Director	N	33,85%
Julia Kiraly, Director					
Fintor Holding Ltd	Hungary	Management	Member of the Board	N	N
Bo Magnusson, Independent Director					
Rikshem AB	Sweden	Real estate	Chairman of the Board of Directors	N	N
Rikshem Intressenter AB	Sweden	Holding company	Chairman of the Board of Directors	N	N
Swedbank AB	Sweden	Banking industry	Vice president Board of Directors	IEX	N
Val Papirnik, Director					
Marc Wittemans, Director					
Aktiefinvest cvba	Belgium	Real estate	Executive Director/CEO - Chairman of the Board of Directors	N	N
Arda Immo nv	Belgium	Real estate	Chairman of the Board of Directors	N	19,06%
SBB Accountants en Belastingconsulenten bv cvba	Belgium	Accountancy & consulting	Director	N	N
SBB Bedrijfsdiensten bv cvba	Belgium	Accountancy & consulting	Director	N	N
M.R.B.B. cvba	Belgium	Holding company	Executive Director/CEO	N	N
Agri Investment Fund cvba	Belgium	Holding company	Director	N	N
Acerta cvba	Belgium	Holding company	Director	N	N
Acerta Consult cvba	Belgium	HR services	Director	N	N
Acerta Public nv	Belgium	IT services & software	Director	N	N
Acerta Verzekeringen cvba	Belgium	Insurance	Director	N	N
Shéhérazade développement cvba	Belgium	IT services & software	Director	N	N
Aveve NV	Belgium	Agricultural & horticultural	Director	N	N

Consolidated financial statements

Abbreviations used

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

Consolidated income statement

(in millions of EUR)	Note	2020	2019
Net interest income	3.1	4 015	4 153
Interest income	*3.1*	*5 919*	*6 792*
Interest expense	*3.1*	*- 1 904*	*- 2 639*
Dividend income	3.2	19	35
Net result from financial instruments at fair value through profit or loss	3.3	36	70
Net realised result from debt instruments at fair value through OCI	3.4	3	6
Net fee and commission income	3.5	1 975	2 085
Fee and commission income	*3.5*	*2 498*	*2 605*
Fee and commission expense	*3.5*	*- 523*	*- 520*
Net other income	3.6	88	200
TOTAL INCOME		6 134	6 548
Operating expenses	3.8	- 3 809	- 3 797
Staff expenses	*3.8*	*- 1 676*	*- 1 738*
General administrative expenses	*3.8*	*- 1 917*	*- 1 836*
Depreciation and amortisation of fixed assets	*3.8*	*- 216*	*- 223*
Impairment	3.10	- 1 126	- 213
on financial assets at AC and at FVOCI	*3.10*	*- 1 068*	*- 204*
on goodwill	*3.10*	*0*	*0*
other	*3.10*	*- 58*	*- 10*
Share in results of associated companies and joint ventures	3.11	- 11	3
RESULT BEFORE TAX		1 188	2 541
Income tax expense	3.12	- 255	- 501
RESULT AFTER TAX		933	2 040
attributable to minority interests	-	0	35
attributable to equity holders of the parent	**-**	**933**	**2 005**

- 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.
- As a result of the acquisition of the remaining 45% stake in the Czech building savings bank Českomoravská stavební spořitelna (ČMSS), now fully owned by KBC through ČSOB, the results of ČMSS have been fully consolidated since June 2019 (before then, it had been recorded according to the equity method). This means that ČMSS was fully consolidated for seven months in 2019 and for 12 months in 2020. As a result of the acquisition of 99.44% of the shares in OTP Banka Slovensko, the results of this Slovakian company will be fully consolidated from 1 January 2021. This means that OTP Banka Slovensko is not included in the 2019 results, nor in the 2020 results (see Note 6.6 for more details).

Consolidated statement of comprehensive income

(in millions of EUR)	2020	2019
RESULT AFTER TAX	933	2 040
attributable to minority interests	0	35
attributable to equity holders of the parent	933	2 005
OCI THAT MAY BE RECYCLED TO PROFIT OR LOSS	- 169	- 46
Net change in revaluation reserve (FVOCI debt instruments)	2	46
Fair value adjustments before tax	6	60
Deferred tax on fair value changes	- 2	- 11
Transfer from reserve to net result	- 2	- 3
Impairment	0	0
Net gains/losses on disposal	- 3	1
Deferred taxes on income	0	- 3
Net change in hedging reserve (cashflow hedges)	36	- 68
Fair value adjustments before tax	- 22	- 157
Deferred tax on fair value changes	6	36
Transfer from reserve to net result	53	53
Gross amount	69	71
Deferred taxes on income	- 17	- 17
Net change in translation differences	- 281	- 21
Gross amount	- 281	- 21
Deferred taxes on income	0	0
Hedge of net investments in foreign operations	74	4
Fair value adjustments before tax	95	- 13
Deferred tax on fair value changes	- 21	- 15
Transfer from reserve to net result	0	32
Gross amount	0	45
Deferred taxes on income	0	- 13
Net change in respect of associated companies and joint ventures	0	0
Gross amount	0	0
Deferred taxes on income	0	0
Other movements	- 1	- 6

(in millions of EUR)	2020	2019
OCI THAT WILL NOT BE RECYCLED TO PROFIT OR LOSS	- 41	57
Net change in revaluation reserve (FVOCI equity instruments)	8	7
Fair value adjustments before tax	9	10
Deferred tax on fair value changes	- 1	- 3
Net change in defined benefit plans	- 54	51
Remeasurements	- 68	66
Deferred tax on remeasurements	14	- 15
Net change in own credit risk	5	- 1
Fair value adjustments before tax	7	- 1
Deferred tax on fair value changes	- 2	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	723	2 051
attributable to minority interests	0	34
attributable to equity holders of the parent	723	2 017

- Revaluation reserves in 2020: the increase in the hedging reserve (cashflow hedge) of 36 million euros was accounted for by unwinding operations (unwinding the discount), partly offset by lower interest rates. The net change in defined benefit plans (-54 million euros) related mainly to the historically low discount rate for retirement benefit obligations, which failed to be adequately offset by the lower return on plan assets. This was largely compensated for by the impact of reinsurance established as of 2020 for the mortality risk in the KBC pension fund. The net change in translation differences (-281 million euros) was caused primarily by the weakening of the Czech koruna (CZK) and Hungarian forint (HUF) against the euro. This was only partly offset by the hedge of net investments in foreign operations (+74 million euros) because, since mid-2019, the new hedging policy of foreign exchange participations has been aimed at stabilising the group capital ratio (and not the parent shareholders' equity).
- Revaluation reserves in 2019: the 'revaluation reserve (FVOCI debt instruments)' rose by 46 million euros, boosted by a general decrease in interest rates, which also accounted for the negative net change in the hedging reserve (cashflow hedge) of -68 million euros, partly offset by unwinding operations (unwinding the discount). The net change in defined benefit plans (+51 million euros) related mainly to the positive returns on plan assets, partly offset by the lower discount rate. The net change in translation differences (-21 million euros) was limited on account of relatively stable exchange rates (Czech koruna and Hungarian forint).

Consolidated balance sheet

(in millions of EUR)	Note	31-12-2020	31-12-2019
ASSETS			
Cash, cash balances with central banks and other demand deposits with credit institutions	-	24 538	8 328
Financial assets	4.0	251 673	238 226
Amortised cost	*4.0*	*236 462*	*224 617*
Fair value through OCI	*4.0*	*5 902*	*5 890*
Fair value through profit or loss	*4.0*	*9 148*	*7 560*
of which held for trading	*4.0*	*8 735*	*7 307*
Hedging derivatives	*4.0*	*160*	*158*
Profit/loss on positions in portfolios hedged against interest rate risk	-	1 360	478
Tax assets	5.2	1 541	1 340
Current tax assets	*5.2*	*91*	*58*
Deferred tax assets	*5.2*	*1 450*	*1 282*
Non-current assets held for sale and disposal groups	5.11	19	1
Investments in associated companies and joint ventures	5.3	25	25
Property, equipment and investment property	5.4	3 290	3 411
Goodwill and other intangible assets	5.5	1 302	1 250
Other assets	5.1	652	858
TOTAL ASSETS		**284 399**	**253 917**
LIABILITIES AND EQUITY			
Financial liabilities	4.0	265 846	235 274
Amortised cost	*4.0*	*255 817*	*224 560*
Fair value through profit or loss	*4.0*	*8 710*	*9 543*
of which held for trading	*4.0*	*7 182*	*7 004*
Hedging derivatives	*4.0*	*1 318*	*1 170*
Profit/loss on positions in portfolios hedged against interest rate risk	-	99	- 122
Tax liabilities	5.2	93	107
Current tax liabilities	*5.2*	*48*	*62*
Deferred tax liabilies	*5.2*	*45*	*45*
Liabilities associated with disposal groups	5.11	0	0
Provisions for risks and charges	5.7	206	222
Other liabilities	5.8	2 088	1 890
TOTAL LIABILITIES		268 333	237 371
Total equity	5.10	16 067	16 546
Parent shareholders' equity	5.10	14 567	15 043
Additional tier-1 instruments included in equity	5.10	1 500	1 500
Minority interests	-	0	3
TOTAL LIABILITIES AND EQUITY		**284 399**	**253 917**

- The increase in the balance sheet total was largely attributable to TLTRO III (see Note 4.1 below).
- As a result of the acquisition of 99.44% of the shares in OTP Banka Slovensko, this Slovakian company was included in the balance sheet on 31 December 2020 (see Note 6.6 for more details).
- As a result of a change in accounting policies for intangible assets in 2020, the ‘Deferred tax assets’, ‘Deferred tax liabilities’, ‘Goodwill and other intangible assets’, and ‘Parent shareholders’ equity’ items were restated retroactively for 2019 (see Note 1.1).

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	Additional tier-1 instruments included in equity	Minority interests	Total equity
2020									
Balance at the end of the previous period	9 732	2 066	0	4 392	- 1 147	15 043	1 500	3	16 546
Net result for the period	0	0	0	933	0	933	0	0	933
Other comprehensive income for the period	0	0	0	- 1	- 209	- 210	0	0	- 210
Subtotal	0	0	0	932	- 209	723	0	0	723
Dividends	0	0	0	- 1 145	0	- 1 145	0	0	- 1 145
Coupon on AT1	0	0	0	- 52	0	- 52	0	0	- 52
Transfer from revaluation reserves to retained earnings on realisation	0	0	0	21	- 21	0	0	0	0
Impact business combinations	0	0	0	- 3	0	- 3	0	- 3	- 5
Change in minorities interests	0	0	0	0	0	0	0	0	0
Total change	0	0	0	- 246	- 231	- 476	0	- 3	- 479
Balance at the end of the period	9 732	2 066	0	4 146	- 1 378	14 567	1 500	0	16 067
2019									
Balance at the end of the previous period	8 948	895	0	5 473	- 1 167	14 150	2 400	159	16 709
Change in accounting policies	0	0	0	- 48	0	- 48	0	0	- 48
Adjusted balance at the end of previous period	8 948	895	0	5 425	- 1 167	14 102	2 400	159	16 661
Net result for the period	0	0	0	2 005	0	2 005	0	35	2 040
Other comprehensive income for the period	0	0	0	- 6	18	12	0	- 1	11
Subtotal	0	0	0	1 999	18	2 017	0	34	2 051
Dividends	0	0	0	- 906	0	- 906	0	0	- 906
Coupon on AT1	0	0	0	- 54	0	- 54	0	0	- 54
Issue/repurchase of AT1 included in equity	0	0	0	- 2	0	- 2	- 900	0	- 902
Capital increase	784	1 171	0	0	0	1 955	0	0	1 955
Transfer from revaluation reserves to retained earnings on realisation	0	0	0	- 1	1	0	0	0	0
Impact business combinations	0	0	0	- 2 068	0	- 2 068	0	- 190	- 2 258
Change in minorities interests	0	0	0	0	0	0	0	0	0
Total change	784	1 171	0	- 1 033	20	941	- 900	- 156	- 115
Balance at the end of the period	9 732	2 066	0	4 392	- 1 147	15 043	1 500	3	16 546

- Some changes were made to the table for the sake of readability. The various items in the ‘Total revaluation reserves’ column are now shown in a separate table below. An explanation of the changes in the revaluation reserves is provided under ‘Consolidated statement of comprehensive income’.
- For information on the change in accounting policies for intangible assets in 2020 (which resulted in ‘Parent shareholders’ equity’ being restated retroactively for 2019), see Note 1.1.
- For information on capital increases, additional tier-1 instruments, treasury share buybacks and the number of shares, see Note 5.10.
- The 'Dividends' item in 2020 (1 145 million euros) includes the final dividend for 2019 (paid in May 2020). The 'Dividends' item in 2019 (906 million euros) includes the final dividend for 2018 (paid in May 2019).
- In accordance with the ECB’s recommendation of 15 December 2020, which places a limit on dividend payments, it will be proposed to the General Meeting of Shareholders of May 2021 that no gross dividend be paid in May 2021 for financial year 2020.

(in millions of EUR)	31-12-2020	31-12-2019	01-01-2019
Revaluation reserve (FVOCI debt instruments)	218	216	170
Revaluation reserve (FVOCI equity instruments)	8	21	12
Hedging reserve (cashflow hedges)	- 1 294	- 1 331	- 1 263
Translation differences	- 371	- 89	- 69
Hedge of net investments in foreign operations	163	88	85
Remeasurement of defined benefit plans	- 103	- 49	- 99
Own credit risk through OCI	1	- 4	- 3
Total revaluation reserves	**- 1 378**	**- 1 147**	**- 1 167**

Consolidated cash flow statement

(in millions of EUR)	Note (1)	2020	2019
OPERATING ACTIVITIES			
Result before tax	Consolidated income statement	1 188	2 541
Adjustments for non-cash items in profit & loss		1 774	- 108
Result before tax from discontinued operations	Consolidated income statement	0	0
Depreciation, impairment and amortisation of property, plant and equipment, intangible fixed assets, investment property and securities	3.10, 4.2, 5.4, 5.5	289	248
Profit/Loss on the disposal of investments	-	- 8	- 101
Change in impairment on loans and advances	3.10	1 068	204
Change in other provisions	5.7	3	24
Other unrealised gains/losses	-	412	- 479
Income from associated companies and joint ventures	3.11	11	- 3
Cashflows from operating profit before tax and before changes in operating assets and liabilities	-	2 963	2 433
Changes in operating assets (excluding cash and cash equivalents)		- 7 121	- 5 113
Financial assets at amortised cost (excluding debt securities)	4.1	- 5 423	- 4 243
Financial assets at fair value through OCI	4.1	- 41	191
Financial assets at fair value through profit or loss	4.1	- 1 627	- 969
of which financial assets held for trading	*4.1*	*- 1 447*	*- 840*
Hedging derivatives	4.1	- 4	- 133
Operating assets associated with disposal groups, and other assets	-	- 26	40
Changes in operating liabilities (excluding cash and cash equivalents)		31 077	- 124
Financial liabilities at amortised cost	4.1	30 593	- 1 364
Financial liabilities at fair value through profit or loss	4.1	231	1 044
of which financial liabilities held for trading	*4.1*	*292*	*1 155*
Hedging derivatives	4.1	128	38
Operating liabilities associated with disposal groups and other liabilities	-	124	158
Income taxes paid	3.12	- 407	- 371
Net cash from or used in operating activities		26 511	- 3 175
INVESTING ACTIVITIES			
Purchase of debt securities at amortised cost	4.1	- 10 263	- 6 516
Proceeds from the repayment of debt securities at amortised cost	4.1	4 186	5 153
Acquisition of a subsidiary or a business unit, net of cash acquired (including increases in percentage interest held)	6.6	107	439
Proceeds from the disposal of a subsidiary or business unit, net of cash disposed of (including decreases in percentage interest held)		0	0
Purchase of shares in associated companies and joint ventures	-	- 10	- 12
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	- 47	- 29
Proceeds from the sale of investment property	5.4	36	55
Purchase of intangible fixed assets (excluding goodwill)	5.5	- 231	- 133
Proceeds from the sale of intangible fixed assets (excluding goodwill)	5.5	50	5
Purchase of property, plant and equipment	5.4	- 597	- 843
Proceeds from the sale of property, plant and equipment	5.4	293	334
Net cash from or used in investing activities		- 6 477	- 1 548

(in millions of EUR)	Note (1)	2020	2019
FINANCING ACTIVITIES			
Purchase or sale of treasury shares	Cons. statement of changes in equity	0	0
Issue or repayment of promissory notes and other debt securities	4.1	- 900	- 168
Proceeds from or repayment of subordinated liabilities	4.1	1 613	1 398
Principal payments under finance lease obligations		0	0
Cashflows related to equity transactions		0	- 2 205
Proceeds from the issuance of share capital	Cons. statement of changes in equity	0	1 955
Issue of additional tier-1 instruments	Cons. statement of changes in equity	0	- 902
Proceeds from the issuance of preference shares	Cons. statement of changes in equity	0	0
Dividends paid	Cons. statement of changes in equity	- 1 145	- 906
Coupon additional Tier-1 instruments		- 52	- 54
Net cash from or used in financing activities		- 484	- 883
CHANGE IN CASH AND CASH EQUIVALENTS			
Net increase or decrease in cash and cash equivalents		19 550	- 5 606
Cash and cash equivalents at the beginning of the period		29 089	34 467
Effects of exchange rate changes on opening cash and cash equivalents		- 891	228
Cash and cash equivalents at the end of the period		47 749	29 089
ADDITIONAL INFORMATION			
Interest paid (2)	3.1	- 1 904	- 2 639
Interest received (2)	3.1	5 919	6 792
Dividends received (including equity method)	3.2, 5.3	19	35
COMPONENTS OF CASH AND CASH EQUIVALENTS			
Cash and cash balances with central banks and other demand deposits with credit institutions	Consolidated balance sheet	24 538	8 328
Term loans to banks at not more than three months (excl. reverse repos)	4.1	1 393	467
Reverse repos with credit institutions and investment firms at not more than three months	4.1	26 422	24 963
Deposits from banks repayable on demand	4.1	- 4 604	- 4 669
Cash and cash equivalents belonging to disposal groups		0	0
Total		47 749	29 089
of which not available		*0*	*0*

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

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

- KBC uses the indirect method to report on cashflows from operating activities.
- Net cash from or used in operating activities:
    - In 2020, this item included funding under TLTRO III (19.5 billion euros), as well as the realised result and higher level of deposits from customers.
    - In 2019, this item included repayment of the amount borrowed under TLTRO II (6.5 billion euros), offset in part by new borrowing under TLTRO III (-2.5 billion euros) and the realised result.
- Net cash from or used in investing activities:
    - In 2020, this item included mainly additional investments in debt securities at amortised cost. It also included 107 million euros related to the acquisition of OTP Banka Slovensko (the acquisition price of 64 million euros was more than offset by the available cash and cash equivalents on the OTP Banka Slovensko balance sheet – more details are provided in Note 6.6).

- In 2019, this item included additional investments in debt securities at amortised cost, partly offset by 439 million euros related to the acquisition of the remaining 45% stake in ČMSS (the acquisition price of 240 million euros was more than offset by the available cash and cash equivalents on the ČMSS balance sheet – more details are provided in Note 6.6).

- Net cash from or used in financing activities:
  - In 2020, this item included:
    - the dividend payout (-1.1 billion euros);
    - the issue or repayment of promissory notes and other debt securities (KBC IFIMA, ČSOB (Czech Republic) and KBC Bank NV accounted for the bulk of the figure for 2020, which related primarily to 1.3 billion euros' worth of these instruments being issued and 2.3 billion euros being redeemed);
    - the proceeds from or repayment of subordinated liabilities (KBC IFIMA and KBC Bank NV accounted for the bulk of the figure for 2020, which related primarily to 1.7 billion euros' worth of instruments issued and 0.1 billion euros in redemptions).
  - In 2019, this item included:
    - the dividend payout (-0.9 billion euros);
    - the issue and repayment of additional tier-1 (AT1) instruments (on balance, -0.9 billion euros; see Note 5.10);
    - -2.2 billion euros relating to the acquisition of the remaining KBC Asset Management shares held by KBC Group;
    - a 2-billion-euro capital increase carried out at KBC Bank (by KBC Group);
    - the issue or repayment of promissory notes and other debt securities (KBC IFIMA, ČSOB (Czech Republic) and KBC Bank NV accounted for the bulk of the figure for 2019, which related primarily to 0.7 billion euros' worth of these instruments being issued and 0.9 billion euros being redeemed (primarily covered bonds));
    - the proceeds from or repayment of subordinated liabilities (KBC IFIMA and KBC Bank NV accounted for the bulk of the figure for 2019, which related primarily to 2.3 billion euros' worth of instruments issued and 0.8 billion euros in redemptions).

1.0 Notes on the accounting policies

Note 1.1: Statement of compliance

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

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

- Under Phase 1 and Phase 2 of the IBOR reform, the IASB made a number of amendments to IAS 39 (and to related standards), which provide temporary relief from adopting specific hedge accounting requirements for hedging relationships directly affected by this reform. Having already early applied the Phase 1 amendments, KBC has now also elected to early apply the Phase 2 amendments. For more information, see the 'How do we manage our risks?' section. The amendments to IAS 39 with regard to IBOR had no significant impact on our hedge accounting, as most hedging derivatives are based on EURIBOR (see Note 4.8.2. for the positions in hedging derivatives).
- The accounting policies for intangible assets were amended in 2020 to provide more relevant information by focusing on relevant and material software developments (relating to our digitalisation strategy from a front-end and/or back-end perspective). Only software above certain threshold levels may be capitalised, while software below them is recognised in operating expenses. This resulted in the derecognition of software with a low carrying value. In line with IAS 8 requirements, this change was applied retroactively (as though the new accounting policies were already in effect). As a result, certain balance sheet items for 2019 were restated retroactively, namely 'Goodwill and other intangible assets' (decrease of 56 million euros), 'Deferred tax assets' (increase of 6 million euros), 'Deferred tax liabilities' (decrease of 2 million euros) and 'Parent shareholders' equity' (decrease of 48 million euros). These changes had an impact on the following tables and notes, viz. the 'Consolidated balance sheet', the 'Consolidated statement of changes in equity', Note 5.2 and Note 5.5. Given the limited impact, the income statement for 2019 was not retroactively restated.

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

- Under Phase 2 of the IBOR reform, the IASB made a number of amendments to IAS 39 (and to related standards), which provide temporary relief from adopting specific hedge accounting requirements for hedging relationships directly affected by this reform. KBC elected to early apply these amendments.
- IFRS 17: in May 2017, the IASB issued IFRS 17 (Insurance Contracts), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. It will not have any impact on KBC Bank.
- 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.

Note 1.2: Summary of significant accounting policies

General/Basic principle

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

Financial assets

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

Financial assets – recognition and derecognition

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

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

Classification of equity instruments and debt instruments

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

Classification and measurement – debt instruments

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

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

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

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

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

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

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

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

Business model assessment

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

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

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

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

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

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

Reclassifications

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

Classification and measurement – equity instruments

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

- mandatorily measured at fair value through profit or loss (MFVPL) – only includes equity instruments held for trading (HFT);
- equity instruments elected to be measured at fair value through other comprehensive income (FVOCI);

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

Classification and measurement – derivatives (trading and hedging)

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

Trading derivatives

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

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

Hedging derivatives

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

Financial assets – impairment

Definition of default

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

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

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

Expected credit loss model (ECL model) – general

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

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

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

No ECLs are calculated for investments in equity instruments.

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

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

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

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

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

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

Significant increase in credit risk since initial recognition

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

Multi-tier approach (MTA) – bond portfolio

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

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

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

Loan portfolio

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

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

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

Measurement of ECL

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

ECL is calculated to reflect:

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

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

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

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

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

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

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

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

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

Purchased or originated credit impaired (POCI) assets

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

Significant judgements and uncertainties

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

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

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

Financial liabilities

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

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

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

Financial liabilities – recognition and derecognition

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

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

Financial liabilities – classification and measurement

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

- Financial liabilities held for trading (HFT). Held-for-trading liabilities are those incurred principally for generating a profit from short-term fluctuations in price or dealer's margin. A liability also qualifies as a trading liability if it belongs to a portfolio of financial instruments held for trading separately by the trading desk and for which there is a recent pattern of short-term profit-taking. Held-for-trading liabilities can include derivatives, short positions in debt and equity instruments, time deposits and debt certificates. Derivative liabilities are split by KBC into trading and hedging derivatives as in the case of derivative assets. Initially, held-for-trading liabilities are measured at fair value. At the end of the reporting period, derivative liabilities are measured at fair value. Fair value adjustments are always recorded in the income statement.
- Financial liabilities designated by the entity as liabilities at fair value through profit or loss upon initial recognition (FVO). Under IFRS 9, a financial liability or group of financial liabilities can be measured upon initial recognition at fair value, whereby fair value changes are recognised in the income statement except for fair value changes related to changes in own credit risk, which are presented separately in OCI. The fair value designation is used by KBC for the following reasons:
    - managed on an FV basis: KBC designates a financial liability or a group of financial liabilities at fair value where it is managed and its performance is evaluated on a fair value basis. It is used to account for (unbundled) deposit components (i.e. financial liabilities that do not include a discretionary participation feature);
    - accounting mismatch: the fair value option can be used when doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising gains and losses on them on different bases;
    - hybrid instruments: a financial instrument is regarded as hybrid when it contains one or more embedded derivatives that are not closely related to the host contract. The fair value option can be used when it is not possible to separate the non-closely-related embedded derivative from the host contract, in which case the entire hybrid instrument can be designated at fair value. This means that both the embedded derivative and the host contract are measured at fair value. KBC uses this option when structured products contain non-closely-related embedded derivatives, in which case both the host contract and the embedded derivative is measured at fair value.
- Financial liabilities measured at amortised cost (AC). KBC classifies most of its financial liabilities under this category, including those used to fund trading activities where no trading intent is present in them (e.g., issued bonds). These financial liabilities are initially measured at cost, which is the fair value of the consideration received including transaction costs. Subsequently, they are measured at amortised cost, which is the amount at which the funding liability was initially recognised minus principal repayments, plus or minus the cumulative amortisation of any difference between that initial amount and the maturity amount. The difference between the amount made available and the nominal value is recorded on an accruals basis as an interest expense. Interest expenses accrued but not yet paid are recorded under accruals and deferrals.

Financial liabilities – own credit risk

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

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

Financial liabilities – financial guarantee contract

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

Reverse repos and repos

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

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

Offsetting

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

Fair value

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

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

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

Hedge accounting

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

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

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

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

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

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

Leasing

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

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

Equity

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

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

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

Employee benefits

Short-term employee benefits

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

Post-employment benefits

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

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

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

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

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

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

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

Net fee and commission income

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

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

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

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

Government grants

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

Levies

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

Income tax

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

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

Current tax assets/liabilities

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

Deferred tax assets/liabilities

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

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

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

Deferred tax assets/liabilities are not discounted.

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 ‘Net other income’. Where a disposal falls within the definition of a discontinued operation, the net results are reported in a single line in the income statement (see ‘Discontinued operations’ below).

Investment property

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

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

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

Intangible assets

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

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

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

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

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

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

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

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

Impairment of non-financial assets

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

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

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

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

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

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

Provisions, contingent liabilities and contingent assets

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

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

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

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

Consolidated financial statements / interim financial statements

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

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

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

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

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

Business combinations and goodwill

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

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

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

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

Effects of changes in foreign exchange rates

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

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

Related-party transactions

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

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

Transactions with related parties must occur at arm's length.

Non-current assets held for sale and disposal groups, liabilities associated with disposal groups and discontinued operations

Non-current assets held for sale and disposal groups, liabilities associated with disposal groups

Non-current assets or groups of assets and liabilities held for sale are those where the carrying value will be recovered by KBC through a sale transaction, which is expected to qualify as a sale within a year, rather than through continued use. Non-current assets and liabilities held for sale are reported separately from the other assets and liabilities in the balance sheet at the end of the reporting date.

Discontinued operations

A discontinued operation refers to a part of KBC that has been disposed of or is classified as held for sale and:

- represents a separate major line of business or geographical area of operations; or
- is part of a single, coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

Results from discontinued operations are recognised separately in the income statement and in other comprehensive income and contain:

- the post-tax profit or loss of discontinued operations; and
- the post-tax gain or loss recognised on the measurement to fair value less the costs of the sale or disposal of the assets or group of assets.

Events after the reporting period

Events after the reporting date are defined as favourable or unfavourable events that occur between the reporting date and the date on which the financial statements are authorised for issue. There are two types of event after the reporting date:

- those which provide evidence of conditions that existed on the reporting date (adjusting events);
- those that are indicative of conditions that arose after the reporting date (non-adjusting events).

The impact of adjusting events has already been reflected in the financial position and financial performance for the current year. The impact and consequences of non-adjusting events are disclosed in the notes to the financial statements.

Exchange rates used*

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

* Rounded figures.

Note 1.3: Critical estimates and significant judgements

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

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

Note 1.4: Impact of the coronavirus crisis

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

We worked closely with government agencies to support all clients impacted by the coronavirus crisis by efficiently implementing various relief measures, including loan payment holidays. In our six core countries combined, we granted a total of 13.4 billion euros in loan payment deferrals (according to the EBA definition, at year-end 2020). The moratorium for approximately 8.7 billion euros of the total of 13.4 billion euros had already expired on 31 December 2020, with payments being resumed as normal for 96% of that figure.

We also granted 0.8 billion euros in loans under coronavirus-related state guarantee schemes (an overview of the different government and sector measures in each of our core countries is given on the next page).

Payment holidays (moratoria) granted due to the coronavirus crisis in 2020 (in billions of EUR)	Amount under moratoria in 2020 (still included in the balance sheet at 31-12-2020)	Of which moratoria had already expired at 31-12-2020
Total	13.4	8.7
By segment		
Mortgage loans (retail)	4.7	3.8
Loans to SMEs	4.0	2.1
Loans to large corporations	3.9	2.5
Other	0.8	0.3
By country		
Belgium	7.4	4.9
Czech Republic	2.2	2.2
Slovakia	0.8	0.3
Hungary (opt-out scheme)	1.6	0.0
Bulgaria	0.2	0.2
Ireland	1.2	1.1

Overview of the different government measures in each of our core countries (situation at the end of February 2021)

Belgium	Czech Republic	Slovakia	Hungary	Bulgaria	Ireland
Payment holidays (moratoria) for existing coronavirus-related loans					
• Opt-in: three months for consumer finance, six to nine months for mortgage loans and non-retail loans, (initially until 31 October 2020 but extended to 31 March 2021, with all payment holidays expiring at the end of June 2021 (maximum total deferral period of nine months)) • For private persons: deferral of principal and interest payments; only deferral of principal payments for non-retail clients • Interest is accrued over the deferral period, apart from households with net income of less than 1 700 euros. For the latter group, this results in a modification loss for the bank of 11 million euros in 2020	• Opt-in: three or six months (application period expired on 30 September 2020, with all payment holidays expiring at the end of October 2020) • Applicable for retail and non-retail clients • For private persons and entrepreneurs: deferral of principal and interest payments; only deferral of principal payments for non-retail clients • Interest is accrued over the deferral period, but must be paid in the final instalment, resulting in a modification loss for the bank of 5 million euros in 2020 • For consumer finance, interest during the deferral period may not exceed the two-week repo rate plus 8%	• Opt-in: nine months or six months (for leases) – payment holidays will mostly expire in the first quarter of 2021 • Applicable for retail clients, SMEs and entrepreneurs • Deferral of principal and interest payments • Interest is accrued over the deferral period, but the client has the option of paying all interest at once after the moratorium or paying it on a linear basis. The latter option would result in an immaterial modification loss for the group	• Opt-out: blanket moratorium until 31 December 2020 (since extended to 30 June 2021) • Applicable for retail and non-retail clients. The extended moratorium is subject to the same conditions as the initial moratorium • Deferral of principal and interest payments • Interest is accrued over the deferral period, but unpaid interest cannot be capitalised and must be collected on a linear basis during the remaining (extended) term of the loan. This resulted in a modification loss for the bank of 12 million euros in 2020	• Opt-in: nine months (until 31 December 2021 at the latest; application period expires on 31 March 2021) • Applicable for retail and non-retail clients • Deferral of principal payments with or without deferral of interest payments • The term is also extended by nine (or 6+3) months • Interest is accrued over the deferral period and must be paid in 12 months (consumer finance), 18 (or 12+6) months (non-retail clients) or 60 months (mortgage loans) in equal instalments	• Opt-in: three to six months (application period expired on 30 September 2020) • Applicable for mortgage loans, consumer finance and business bank loans with a repayment schedule • Deferral of principal and interest payments for up to six months (with review after three months) for mortgage loans and consumer finance, and three months for business bank loans • Option for clients to extend their loan term by up to six months to match the payment holiday • Interest is accrued over the deferral period
Guarantee schemes and liquidity assistance for new loans					
• A state guarantee scheme of up to 40 billion euros to cover losses incurred on future non-retail loans with a maximum term of 12 months and a maximum interest rate of 1.25%, granted before 31 December 2020 to viable companies. The guarantee covers 50% of losses above 3% and 80% of losses above 5% of the total loan loss • A revised state guarantee scheme of up to 10 billion euros has been in place since the third quarter of 2020 to cover losses on future SME loans with a term of between one and three years (since extended to five years) and a maximum interest rate of 2% (2.5% if the term is more than three years), which were granted before 31 December 2020 (since extended to June 2021). The guarantee covers 80% of all losses	• The Czech-Moravian Guarantee and Development Bank (CZMRB) launched several guarantee programmes (COVID II, COVID III Praha, COVID III) for working capital loans provided by commercial banks to non-retail clients. Up to 80% or 90% of the loan amount is guaranteed (depending on the programme and size of the company). Up to 25% of the interest on these loans is subsidised (COVID II). COVID III has been extended to June 2021 • Under its COVID Plus programme, the Export Guarantee and Insurance Corporation (EGAP) offers guarantees on loans provided by commercial banks. EGAP guarantees up to 90% of the loan amount, depending on the rating of the debtor. The programme is aimed at companies in which exports accounted for more than 20% of turnover in 2019	• Anti-Covid Guarantee programme offered by the Slovak Investment Holding (SIH) and aimed at SMEs, consists of two components: (i) an 80% state guarantee with a 50% portfolio cap and (ii) an interest rate subsidy of up to 4% per annum • In addition, financial aid in the form of state guarantee schemes, with guaranteed fee subsidy, can be provided by the (i) Export-Import-Bank of Slovakia (guarantee of up to 80% for loans under 2 million euros) and (ii) Slovak Investment Holding (guarantee of up to 90% for loans between 2 and 20 million euros). No portfolio cap	• A guarantee scheme is provided by Garantiqa and the Hungarian Development Bank. These state guarantees can cover up to 90% of loans with a maximum term of six years • The Hungarian National Bank's Funding for Growth scheme with a framework amount of 4.2 billion euros for SMEs that can receive loans with a maximum term of 20 years and at a maximum interest rate of 2.5% • The annual interest rate on personal loans granted by commercial banks may not exceed the central bank base rate by more than 5 percentage points (until 31 December 2020)	• 0.4 billion euros of state guarantees provided by the Bulgarian Development Bank to commercial banks. Of this amount, 0.1 billion euros is used to guarantee 100% of consumer finance, while 0.3 billion euros is planned to be used to guarantee 80% of non-retail loans	• The Irish authorities put substantial relief measures in place, including through the SBCI. The relief programmes for business clients are less relevant because KBC Bank Ireland caters mainly for retail clients

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

Item	Impact of the coronavirus crisis	More details in note/section:
Net interest income	Adversely impacted following multiple repo rate cuts by the Czech National Bank and what were generally low long-term interest rates. This impact was partly offset by lower funding costs thanks to the ECB's TLTRO III programme and higher loan volumes.	3.1
Financial instruments at FVPL	Very negative impact in the first quarter of 2020 due to plummeting stock markets, widening credit spreads and lower long-term interest rates. The negative result was more than offset in the subsequent three quarters. However, the result for the entire year was 34 million euros lower than its year-earlier level.	3.3
Net fee and commission income	Lower fees for asset management activities and a decrease in fees related to certain banking services, such as payment services (due in part to the lockdowns), partly offset by higher securities-related fee income.	3.5
Operating expenses	Lower operating expenses thanks to various cost-saving measures (resulting, amongst other things, in lower provisioning for variable remuneration and a reduction in FTEs) and lower marketing, travel, facility and event expenses (directly related to a lower level of activity caused by the lockdowns).	3.8
Impairment on loans (financial assets at AC and at FVOCI)	Significant increase in collective impairment charges (see below for a more detailed explanation).	3.10 and 4.2
Impairment on goodwill	Our annual assessment of goodwill impairment indicators (based on discounted cashflow analysis) showed no indication of any impairment to goodwill.	3.10 and 5.5
Impairment on other	Includes 29 million euros relating to modification losses in Belgium, the Czech Republic and Hungary due to the payment moratoria applied in these countries as a result of the coronavirus crisis.	3.10
Deferred taxes on income	We have examined whether taxable profit may become available against which the deductible temporary differences can be utilised based on projections for a period of eight to ten years. The conclusion of this analysis is that there are sufficient estimated taxable profits available.	3.12 and 5.2
Revaluation reserves	Fall in translation differences. For more information, see the text below the 'Consolidated statement of comprehensive income' table.	Consolidated statement of comprehensive income
Liquidity	Robust liquidity position maintained throughout the coronavirus crisis, supported in part by participation in the TLTRO III funding programme. The LCR amounted to 147% and NSFR to 146% at year-end 2020, compared to 138% and 136%, respectively, at year-end 2019.	'Liquidity risk' in 'How do we manage our risks?'
Solvency	Our solvency position remained robust, with a fully loaded common equity ratio of 15.2% (15.7% transitional) at year-end 2020 (compared to 14.7% at year-end 2019).	6.7 and 'How do we manage our capital?'
Retirement benefit obligations	Increase in employer's obligations for employee benefits (defined benefit obligations) due to the impact of the historically low discount rate. Plan assets maintained their value, because of the low level of interest rates and the steady recovery of the stock markets after the outbreak of the pandemic.	5.9

Overview of the impact of the coronavirus crisis on our activities in 2020

The 'Report of the Board of Directors' section contains additional information on the impact of the coronavirus crisis on the activities and stakeholders of the group, more specifically concerning the following:

- Our business model (see 'How do we create sustainable value?' and 'What are our main challenges?')
- The macroeconomic context (see 'In what environment do we operate?' and 'Our business units')
- Our clients (see 'The client is at the centre of our business culture' and 'Our business units')
- Our employees (see 'Our employees, capital, network and relationships')
- Society (see 'Our business units')
- Our risk management (see 'How do we manage our risks?')

Details regarding the impact of the coronavirus crisis on loan impairment charges in 2020

Our ECL models are not able to adequately reflect all the specifics of the coronavirus crisis or the various government measures implemented in the different countries to support households, SMEs and corporate entities through this crisis.

Therefore, an expert-based calculation at portfolio level is required via a management overlay. In the first quarter of 2020, this calculation was limited to a certain number of sectors and sub-sectors. Driven by significant uncertainty around the coronavirus crisis, the scope of the management overlay was expanded from the second quarter to include all sectors in our corporate and SME portfolios, as well as our retail portfolio. The expected credit loss due to the coronavirus crisis was recalculated in subsequent quarters using the same method, but with due consideration taken of more recent economic scenarios.

Only minor shifts in the probability of default have been observed in our portfolio in 2020, which is reflected in stable staging percentages (see Note 4.2.1). Please note that, in line with ECB/ESMA/EBA guidance, not one EBA-compliant government measure taken before the end of September 2020, or one new measure taken between October and December 2020, has led to automatic staging.

Loan and investment portfolio	2020	2019
Total outstanding loan portfolio (in billions of EUR)	181	175
By type of counterparty		
Retail	43%	42%
Of which mortgage loans	*40%*	*38%*
Of which consumer finance	*3%*	*3%*
SMEs	22%	22%
Corporates	35%	37%
By IFRS 9 ECL stage		
Stage 1	85.2%	85.2%
Stage 2	11.5%	11.3%
Stage 3	3.3%	3.5%

As regards the performing portfolio at year-end 2020, a three-step approach was applied to estimate the additional impact of the coronavirus crisis:

- This was done using a method that starts from KBC's updated macroeconomic forecasts at year-end 2020 (see the 'Economic scenarios' section below). The base-case scenario was translated into expert-based stress migration matrices, per country and for each segment. The portfolio was transformed using this migration matrix, which resulted in a certain portion being moved to inferior PD classes or assigned 'default' status, a certain portion remaining unchanged and a minor portion being improved. After this transformation, the ECL was calculated again based on the new portfolio structure, including staging. The estimated impact on ECL under the coronavirus base-case scenario was then determined as the difference between the ECL calculated on the portfolio before and after applying the stressed migration matrix.
- Subsequently, a sectoral effect was incorporated into the calculation to refine the coronavirus-related ECL in order to reflect some sectors being more heavily affected than others, which is not yet included in the migration matrices. All exposures in the SME and corporate portfolio were classified as high, medium or low risk based on the expected impact of the coronavirus crisis on the relevant sector (no sectoral stress was applied to mortgage loans and consumer finance). Based on this classification, the following expert-based weights have been applied to the ECL impact: 150% for high risk sectors, 100% for medium risk sectors and 50% for low risk sectors. This resulted in an ECL for each sector under the coronavirus base-case scenario. There were no major changes to the sector breakdown of high, medium and low risk during the course of 2020, just a few minor reallocations of underlying activities from 'high' to 'medium' or even to 'low' risk. Similarly, there were only very limited shifts from 'medium' to 'high' risk. The table shows the situation at 31 December 2020.
- Lastly, a probability-weighted management overlay was calculated based on the base-case, optimistic and pessimistic scenarios and attributed weights. An expert-based scaling factor was applied to the estimated ECL for each sector under the coronavirus base-case scenario from the previous step to determine the collective impact of the coronavirus crisis under optimistic and pessimistic scenarios. The final overlay was determined by weighting the resulting coronavirus-related ECL under the three scenarios as follows: 55% for the base case, 10% for the optimistic and 35% for the pessimistic scenario.

Loan and investment portfolio for SMEs and corporate entities, based on vulnerability to coronavirus	2020
Loan and investment portfolio for SMEs and corporate entities (in billions of EUR)	*103*
High-risk sectors	*24%*
Distribution (retail and wholesale)	*5.4%*
Automotive	*3.5%*
Services (entertainment, leisure and retirement homes)	*3.4%*
Commercial real estate	*2.9%*
Metals	*1.9%*
Machinery and heavy equipment	*1.6%*
Hotels, bars and restaurants	*1.3%*
Shipping (transport)	*1.1%*
Building and construction	*1.0%*
Other (sector total <1%)*	*1.9%*
Medium-risk sectors	*41%*
Low-risk sectors	*35%*

* Includes aviation.

For the non-performing portfolio, an additional impact assessment was performed on a portfolio basis for collectively managed 'Stage 3' exposures, based on the expert judgement of local risk management departments. Additional impairment due to the coronavirus crisis for individually assessed 'Stage 3' loans are already reflected in specific impairment charges (hence already designated through profit or loss) and thus not taken into account in the management overlay.

The three-step approach applied to the performing portfolio and the additional impact assessment of the non-performing portfolio resulted in a collective coronavirus-related ECL figure of 783 million euros for 2020 (6% in 'Stage 1', 86% in 'Stage 2', and 8% in 'Stage 3').

- In 2020, the ECL models captured an impact of 111 million euros through the updated macroeconomic variables used in the calculation.
- The total coronavirus-related management overlay at year-end 2020 was 672 million euros. The management overlay is fully presented as 'Stage 2', with the exception of the management overlay on the existing non-performing portfolio.

In summary:

- For financial year 2020, impairment on loans totalling 1 068 million euros was recognised. It comprised:
  - collective impairment charges related to the coronavirus crisis: 783 million euros (111 million euros captured by ECL models, and a management overlay of 672 million euros);
  - other impairment charges: 285 million euros.
- Including the total coronavirus-related ECL, the credit cost ratio amounted to 0.60% in 2020. Disregarding the collective coronavirus-related ECL, it would have been 0.16%. In 2019, the credit cost ratio amounted to 0.12%.

Coronavirus-related ECL by sector risk, performing portfolio (in millions of EUR, 2020)	High-risk sectors (at 150%)	Medium-risk sectors (at 100%)	Low-risk sectors (at 50%)	Mortgage and other retail loans	Total
Base-case scenario	241	194	60	123	618
Optimistic scenario	200	160	53	98	511
Pessimistic scenario	334	272	81	243	930

Collective coronavirus-related ECL by country, performing and non-performing portfolio (in millions of EUR, 2020)	Optimistic scenario	Base-case scenario	Pessimistic scenario	Weighted (10% optimistic scenario + 55% base-case scenario + 35% pessimistic scenario)	Non-performing portfolio	Total
Belgium	338	358	464	393	20	413
Czech Republic	95	137	195	153	9	162
Slovakia	23	32	48	37	0	37
Hungary	25	45	81	56	0	56
Bulgaria	7	17	26	19	5	24
Ireland	23	29	116	59	32	91
Total	511	618	930	717	66	783

Economic scenarios

The coronavirus pandemic continues to be the main driver of the global economy. The roll-out of various vaccines will stimulate economic recovery in the medium term, though levels of recovery are uncertain and will vary by country. The possible resurgence of virus outbreaks remains a concern and is causing many countries to maintain or even extend precautionary measures.

Because of this uncertainty, we continue to work with three alternative scenarios: a base-case scenario, a more optimistic scenario and a more pessimistic scenario. The probability of one of these scenarios materialising is 10% for the optimistic, 55% for the base case and 35% for the pessimistic scenario.

Optimistic scenario	Base-case scenario	Pessimistic scenario
Virus spread and impact brought more quickly under control thanks to sooner-than-expected large-scale availability of vaccines, speeding up the end of social distancing and other precautionary measures	Start of vaccination campaign and more extensive testing and tracing allow for only a very limited relaxation of the precautionary measures in the first half of 2021. Normalisation of socio-economic activity underpinned by the large-scale rollout of effective vaccines starting from mid-2021. The vaccination process will take time, with the result that socio-economic activity is not expected to return to normal until 2022	The virus reappears and continues to weigh on society and the economy following setbacks in the vaccination process (logistical issues, lower-than-expected immunity rates, etc.)
Steep and steady recovery from the first half of 2021 with a fast return to pre-pandemic levels of activity	Gradual recovery. From the second half of 2021, the large-scale vaccination campaign will stimulate recovery to pre-pandemic levels of activity by the end of 2023	Another (series of) shock(s) takes place, leading to an interrupted and unsteady path to recovery
Sharp, short V-pattern	U-pattern	More L-like pattern, with right leg only slowly increasing

The following table gives the scenarios for three key indicators (GDP growth, unemployment rate and house price index) for each of our core countries for the coming years. After that, we take into account a gradual linear transition towards a stable situation.

Macroeconomic scenario – key indicators (situation at year-end 2020)	2020	2021			2022		
Scenario:	Base case	Optimistic	Base case	Pessimistic	Optimistic	Base case	Pessimistic
Real GDP growth							
Belgium	-7.4%	6.8%	0.9%	-4.5%	3.6%	4.1%	1.6%
Czech Republic	-6.5%	4.4%	2.7%	-2.0%	4.1%	5.0%	3.2%
Hungary	-6.0%	6.3%	3.5%	-1.0%	4.5%	4.8%	3.5%
Slovakia	-6.8%	7.0%	4.2%	1.6%	4.8%	4.2%	3.2%
Bulgaria	-5.0%	4.0%	3.0%	-1.0%	3.0%	4.0%	2.0%
Ireland	2.5%	6.0%	4.0%	1.0%	6.0%	4.0%	1.0%
Unemployment rate							
Belgium	5.8%	6.2%	7.2%	8.2%	5.9%	6.9%	8.0%
Czech Republic	3.3%	3.5%	4.2%	5.2%	3.3%	4.0%	5.6%
Hungary	4.8%	4.2%	5.0%	7.0%	4.0%	4.6%	6.5%
Slovakia	8.0%	8.0%	9.5%	12.0%	7.5%	8.0%	10.0%
Bulgaria	8.0%	6.0%	10.0%	12.0%	4.3%	7.0%	11.0%
Ireland	18.0%	5.0%	7.0%	14.0%	4.0%	6.0%	10.0%
House price index							
Belgium	3.0%	2.0%	-3.0%	-5.0%	2.5%	1.0%	-2.0%
Czech Republic	6.7%	3.6%	1.5%	-3.0%	4.0%	2.0%	-1.0%
Hungary	-1.0%	2.5%	-1.0%	-4.0%	3.5%	2.0%	-1.0%
Slovakia	9.0%	3.5%	1.2%	-4.0%	4.0%	2.0%	-1.0%
Bulgaria	1.0%	1.0%	0.0%	-1.0%	3.0%	3.0%	0.0%
Ireland	0.0%	3.0%	0.0%	-3.0%	4.0%	1.0%	-3.0%

Ireland's unemployment rate for 2020 is more indicative of temporary lay-offs than permanent job losses and, as such, may improve rapidly as vaccines are rolled out in Ireland.

2.0 Notes on segment reporting

Note 2.1: Segment reporting based on the management structure

Detailed information on the group's management structure and the results per segment can be found in the 'Our business units' section (which has not been audited by the statutory auditor). Based on IFRS 8, KBC has identified the Executive Committee and Board of Directors as 'chief operating decision-makers', responsible for allocating the resources and assessing the performance of the different parts of the company. The operating segments are based on the internal financial reporting to these policy bodies and on the location of the company's activities, resulting in geographical segmentation.

The three operating segments are (essentially):

- the Belgium Business Unit (all activities in Belgium);
- the Czech Republic Business Unit (all activities in the Czech Republic);
- the International Markets Business Unit (activities in Ireland, Hungary, Slovakia and Bulgaria, reported together in accordance with IFRS 8.16).

For reporting purposes, there is also a Group Centre (comprising the results of the holding company, items that have not been allocated to the other business units, and the results of companies to be divested).

Segment reporting

- The policy bodies analyse the performance of the segments based on a number of criteria, with the 'Result after tax' being the most important results indicator. The segment data is based entirely on IFRS data (with no adjustments).
- In principle, we assign a group company in its entirety to one specific segment/business unit. Exceptions are only made for those items that cannot clearly be allocated to a specific segment, such as charges attached to the subordination of loans (such items are recognised under Group Centre).
- We allocate the funding cost of participating interests to the Group Centre.
- Transactions among the different segments are reported at arm's length.
- We recognise 'Net interest income' in the segment information without dividing it up into 'Interest income' and 'Interest expense'. This is permitted under IFRS because the bulk of the business units' income is in the form of interest, and management assesses and co-ordinates those business units primarily on the basis of net interest income.
- We do not provide any information on income from sales to external clients per group of products or services, since the information is prepared at consolidated level chiefly for each business unit, and not per client group or product group.

Note 2.2: Results by segment

(in millions of EUR)	Belgium Business unit	Czech Republic Business unit	International Markets Business unit	*Of which: Hungary*	*Slovakia*	*Bulgaria*	*Ireland*	Group Centre	Total
2020									
Net interest income	2 170	986	877	*255*	*197*	*139*	*286*	- 19	4 015
Dividend income	17	1	0	*0*	*0*	*0*	*0*	0	19
Net result from financial instruments at fair value through profit or loss	49	7	33	*28*	*9*	*0*	*- 4*	- 53	36
Net realised result from debt instruments at fair value through OCI	0	1	2	*1*	*2*	*0*	*0*	0	3
Net fee and commission income	1 348	287	342	*212*	*71*	*63*	*- 3*	- 3	1 975
Net other income	70	12	5	*4*	*8*	*2*	*- 9*	0	88
TOTAL INCOME	3 655	1 294	1 260	*500*	*286*	*204*	*269*	- 74	6 134
Operating expenses	- 2 215	- 689	- 830	*- 304*	*- 185*	*- 118*	*- 224*	- 76	- 3 809
Impairment	- 663	- 224	- 247	*- 84*	*- 44*	*- 27*	*- 91*	8	- 1 126
of which on FA at amortised cost and at fair value through OCI	- 649	- 210	- 217	*- 59*	*- 42*	*- 27*	*- 90*	8	- 1 068
on goodwill	0	0	0	*0*	*0*	*0*	*0*	0	0
other	- 14	- 14	- 30	*- 25*	*- 2*	*0*	*- 2*	0	- 58
Share in results of associated companies and joint ventures	- 9	- 2	0	*0*	*0*	*0*	*0*	0	- 11
RESULT BEFORE TAX	769	379	183	*113*	*57*	*59*	*- 46*	- 142	1 188
Income tax expense	- 190	- 58	- 39	*- 22*	*- 12*	*- 6*	*2*	32	- 255
Net post-tax result from discontinued operations	0	0	0	*0*	*0*	*0*	*0*	0	0
RESULT AFTER TAX	579	321	144	*90*	*45*	*53*	*- 44*	- 110	933
attributable to minority interests	0	0	0	*0*	*0*	*0*	*0*	0	0
attributable to equity holders of the parent	579	321	144	*90*	*45*	*53*	*- 44*	- 110	933
(a) Of which non-cash expenses	- 46	- 81	- 90	- 33	- 16	- 13	- 28	0	- 217
Depreciation and amortisation of fixed assets	- 46	- 81	- 88	- 31	- 16	- 13	- 28	0	- 216
Other	1	1	- 2	- 2	0	0	0	0	- 1
Acquisitions of non-current assets (*)	454	219	202	92	61	24	25	0	875

* Non-current assets held for sale and disposal groups, investment property, property, plant and equipment, investments in associated companies, and goodwill and other intangible assets.

(in millions of EUR)	Belgium Business unit	Czech Republic Business unit	International Markets Business unit	*Of which: Hungary*	*Slovakia*	*Bulgaria*	*Ireland*	Group Centre	Total
2019									
Net interest income	2 104	1 247	845	*246*	*199*	*136*	*263*	- 42	4 153
Dividend income	34	0	0	*0*	*0*	*0*	*0*	0	35
Net result from financial instruments at fair value through profit or loss	78	- 86	47	*33*	*4*	*14*	*- 4*	31	70
Net realised result from debt instruments at fair value through OCI	4	0	2	*1*	*1*	*0*	*0*	0	6
Net fee and commission income	1 388	332	366	*234*	*76*	*58*	*- 2*	- 2	2 085
Net other income	108	100	- 11	*2*	*9*	*1*	*- 23*	2	200
TOTAL INCOME	3 716	1 593	1 250	*516*	*289*	*210*	*235*	- 11	6 548
Operating expenses	- 2 151	- 707	- 871	*- 333*	*- 191*	*- 118*	*- 229*	- 68	- 3 797
Impairment	- 244	- 16	15	*0*	*- 10*	*- 7*	*33*	32	- 213
of which on FA at amortised cost and at fair value through OCI	- 241	- 12	18	*1*	*- 11*	*- 5*	*33*	32	- 204
on goodwill	0	0	0	*0*	*0*	*0*	*0*	0	0
other	- 3	- 4	- 4	*- 2*	*1*	*- 3*	*0*	0	- 10
Share in results of associated companies and joint ventures	- 6	8	0	*0*	*0*	*0*	*0*	0	3
RESULT BEFORE TAX	1 316	879	394	*183*	*87*	*85*	*39*	- 48	2 541
Income tax expense	- 348	- 136	- 64	*- 27*	*- 18*	*- 9*	*- 10*	48	- 501
Net post-tax result from discontinued operations	0	0	0	*0*	*0*	*0*	*0*	0	0
RESULT AFTER TAX	967	743	329	*156*	*69*	*76*	*29*	0	2 040
attributable to minority interests	35	0	0	*0*	*0*	*0*	*0*	0	35
attributable to equity holders of the parent	932	743	329	*156*	*69*	*76*	*29*	0	2 005
(a) Of which non-cash expenses	- 45	- 86	- 90	*- 36*	*- 16*	*- 13*	*- 26*	1	- 220
Depreciation and amortisation of fixed assets	- 46	- 88	- 90	*- 35*	*- 16*	*- 13*	*- 26*	0	- 223
Other	1	2	- 1	- 1	0	0	0	1	3
Acquisitions of non-current assets (*)	539	174	292	76	65	98	53	0	1 005

(*) Non-current assets held for sale and disposal groups, investment property, property, plant and equipment, investments in associated companies, and goodwill and other intangible assets.

How do the business units contribute to the group result?

Preliminary remark

The growth figures for the volume of loans and deposits have been systematically adjusted for exchange rate effects. 'Unchanged scope' means that no account has been taken of significant changes in the scope of consolidation, namely the inclusion of the Czech building savings bank ČMSS since June 2019 (seven months in the 2019 results and 12 months in the 2020 results, on the balance sheet at 31 December 2019 and at 31 December 2020) and the acquisition of the Slovakian bank OTP Banka Slovensko at the end of November 2020 (not in 2019 or 2020 results, not on the balance sheet at 31 December 2019 but on the balance sheet at 31 December 2020). We refer to this elsewhere in the report as the 'impact of changes in the scope of consolidation'. More information on this matter can be found in Note 6.6 of the 'Consolidated financial statements'.

Contribution of the Belgium Business Unit

The Belgium Business Unit recorded a net result of 579 million euros in 2020, compared with 932 million euros a year earlier.

Net interest income (3 170 million euros) rose by 2%, due principally to factors including the positive effect of TLTRO III, ECB tiering and growth in lending volumes which more than offset the negative impact of factors such as low reinvestment yields. The net interest margin in Belgium fell from 1.69% in 2019 to 1.63% in 2020. The volume of loans and advances to customers (101 billion euros, excluding reverse repos) rose by 3%, while deposits from customers and debt securities (146 billion euros, excluding repos) went up by 5% (growth rates exclude any changes in the scope of consolidation and currency effects). Information on loan payment deferrals under the various support measures related to the coronavirus crisis can be found in Note 1.4 of the 'Consolidated financial statements'.

At 1 348 million euros, our net fee and commission income fell by 3% year-on-year. On balance, there was a net increase in fees for our banking services (particularly related to securities), but this was cancelled out by the lower contribution made by our asset management activities and higher distribution fees paid for the sale of funds.

The other income items chiefly comprised dividends received on securities held in our portfolios (17 million euros), trading and fair value income (49 million euros) and other net income (70 million euros, including the results of KBC Autolease, as well as miscellaneous smaller one-off items).

Our costs in Belgium rose by 3% 2 215 million euros. The negative influence of factors such as wage drift, higher software-related expenses owing to the changed depreciation rules for software (see Note 1.1 of the 'Consolidated financial statements') and higher bank taxes was only partly offset by strict cost control, as reflected in a reduction in average FTEs, lower accruals for variable remuneration, lower marketing, travel, facilities and event costs (the last four items fell as a direct result of the lockdowns) savings in the form of lower accruals for bonuses, a reduction in the average FTE count and lower marketing, travel, facilities and event costs (the last four items fell as a direct result of the lockdowns). As a result, the cost/income ratio of the banking activities came to 57.2%, compared to 57.7% in 2019.

We recorded 649 million euros in loan loss impairment charges, as opposed to 241 million in 2019. This sharp increase came about mainly because of collective impairments being set aside for the coronavirus crisis (413 million euros – see Note 1.4 in the 'Consolidated financial statements'). In terms of our overall loan portfolio, impairment amounted to 57 basis points, compared with 22 basis points in 2019. Approximately 2.3% of the Belgium Business Unit's loan portfolio at year-end 2020 was impaired (see 'Glossary of financial ratios and terms' for definition), compared with 2.4% a year earlier. Impaired loans that were more than 90 days past due accounted for 1.1% of the portfolio (the same as in 2019). Impairment of assets other than loans in 2020 (14 million euros) related primarily to the accounting impact of payment moratoria schemes due to the coronavirus crisis.

Contribution of the Czech Republic Business Unit

In 2020, the Czech Republic Business Unit recorded a net profit of 321 million euros, compared with 743 million euros a year earlier. The average exchange rate of the Czech koruna against the euro fell by 3% compared with the previous year.

Net interest income in the Czech Republic 986 million euros) declined by 21%, reflecting a number of negative factors, including the effect of interest rate cuts by the CNB, pressure on margins (for example, on home loans) and the depreciation of the Czech koruna, despite the positive impact of the full consolidation of ČMSS with effect from June 2019 (the 'ČMSS effect'). The net interest margin in the Czech Republic fell from 3.04% in 2019 to 2.31% in 2020. Deposits from customers and debt securities (42 billion euros, excluding repos) went up by 9% year-on-year, whereas loans and advances to customers (29 billion euros, excluding reverse repos) rose by 1% (growth rates exclude any changes in the scope of consolidation and currency effects). Information on loan payment deferrals under the various support measures related to the coronavirus crisis can be found in Note 1.4 of the 'Consolidated financial statements'.

Our net fee and commission income (287 million euros) declined by 14%. The lower contribution from fees for banking services (such as payments) and the negative impact of the depreciation of the Czech koruna were only partially offset by the positive ČMSS effect.

The other income items chiefly comprised trading and fair value income (7 million euros) and other net income (12 million euros). This last item was 88 million euros lower than in 2019, when there was a positive one-off effect of 82 million euros resulting from the revaluation of the existing 55% stake in ČMSS when the remaining 45% stake was acquired.

Costs fell by 3% to 689 million euros in 2020. The negative influence of factors such as wage drift, higher software-related expenses owing to the changed depreciation rules for software (see Note 1.1 of the 'Consolidated financial statements'), the ČMSS effect and higher bank taxes was more than offset by cost savings in the form of lower accruals for bonuses, a reduction in the average FTE count, lower marketing, travel, facilities and event costs (the last four items fell as a direct result of the lockdowns) and the lower exchange rate of the Czech koruna. Excluding the currency effect and bank taxes, the level of expenses remained roughly unchanged. Consequently, the cost/income ratio for the banking activities came to 53.3%, as opposed to 44.4% in 2019.

Loan loss impairment charges came to 210 million euros in 2020, compared to a year-earlier figure of 12 million euros. This increase came about mainly because of collective impairments being set aside for the coronavirus crisis (162 million euros – see Note 1.4 in the 'Consolidated financial statements'). In terms of our overall loan portfolio, impairment amounted to 67 basis points, compared with 4 basis points in 2019. Approximately 2.3% of the business unit's loan portfolio at year-end 2020 was impaired, unchanged on its year-earlier level. Impaired loans that were more than 90 days past due accounted for 1.0% of the portfolio (as opposed to 1.3% in 2019). Impairment of assets other than loans in 2020 (14 million euros) related primarily to software and the accounting impact of payment moratoria schemes due to the coronavirus crisis.

Contribution of the International Market Business Unit

In 2020, the net result at our International Markets Business Unit amounted to 144 million euros, as opposed to 329 million euros a year earlier. Hungary accounted for 90 million euros of this figure, Slovakia for 45 million euros, Bulgaria for 53 million euros and Ireland for 44 million euros.

Net interest income for the business unit as a whole amounted to 877 million euros in 2020, up 4% on the year-earlier figure, despite the depreciation of the Hungarian forint against the euro. The business unit's average net interest margin narrowed from 2.64% to 2.60%, although loan and deposit volumes increased. Deposits from customers and debt securities in the business unit (28 billion euros, excluding repos) increased by 16%, with a slight fall in Ireland (-3%) but strong growth in Slovakia (+17%), Hungary (+24%) and Bulgaria (+22%). Loans and advances to customers across the business unit as a whole (27 billion euros, excluding reverse repos) were up 8% on their year-earlier level, with growth in all countries (+3% for Ireland, +6% for Slovakia, +19% for Hungary and +12% for Bulgaria). These growth rates exclude changes in the scope of consolidation and currency effects (if OTP Banka Slovensko is included, loans and advances to customers in the business unit as a whole increased by 11% and deposits by 20%). Information on loan payment deferrals under the various support measures related to the coronavirus crisis can be found in Note 1.4 of the 'Consolidated financial statements'.

Net fee and commission income (342 million euros) fell by 7%, due largely to lower contributions from asset management activities (especially in Hungary) and banking services (mainly in Slovakia) and the depreciation of the Hungarian forint.

The other income items chiefly comprised trading and fair value income (33 million euros) and other income (5 million euros, including a number of one-off items, such as -9 million euros in relation to the tracker mortgage review in Ireland (see Note 3.6 in the 'Consolidated financial statements' section)).

Costs fell by 5% to 830 million euros in 2020, thanks to strict cost control measures, the direct impact of the coronavirus crisis (for example, lower marketing, travel, facilities and event expenses) and the depreciation of the Hungarian forint. Consequently, the cost/income ratio for the banking activities came to 65.9%, as opposed to 69.7% in 2019.

There was a 217-million-euro net increase in loan loss impairment charges in 2020, compared with a net reversal of 18 million euros in 2019. This increase came about mainly because of collective impairments being set aside for the coronavirus crisis (208 million euros – see Note 1.4 in the section 'Consolidated financial statements'). At individual country level, loan loss impairment came to 90 million euros in Ireland, 59 million euros in Hungary, 42 million euros in Slovakia and 27 million euros in Bulgaria. In terms of our overall loan portfolio, loan loss impairment charges for the business unit as a whole amounted to 78 basis points compared with -7 basis points in 2019 (the negative figure for 2019 indicates a net reversal of impairment and hence a positive impact on the results). The figures per country were 88 basis points for Ireland, 105 basis points for Hungary, 50 basis points for Slovakia and 73 basis points for Bulgaria. Approximately 6.9% of the business unit's loan portfolio at year-end 2020 was impaired, compared with 8.5% a year earlier. Impaired loans that were more than 90 days past due accounted for 4.2% of the business unit's loan portfolio (as opposed to 5.1% in 2019). Impairment of assets other than loans in 2020 (30 million euros) was related in part to software and the accounting impact of payment moratoria schemes due to the coronavirus crisis.

Group Centre

Besides financial reporting for the three business units, we also report on a separate Group Centre. In 2020, the Group Centre generated a net result of -110 million euros, compared with 0 million euros a year earlier.

Included in this figure are certain costs related to capital and liquidity management, (funding) costs related to the holding of participating interests and the results of the remaining companies scheduled for run-down (including the former Antwerp Diamond Bank and KBC Finance Ireland).

Note 2.3: Balance-sheet information by segment

The table below presents some of the main on-balance-sheet products by segment.

(in millions of EUR)	Belgium Business unit	Czech Republic Business unit	International Markets Business unit	*Of which: Hungary*	*Slovakia*	*Bulgaria*	*Ireland*	Group Centre	Total
31-12-2020									
Deposits from customers and debt securities (excl. repos)	146 335	41 655	28 151	*8 998*	*8 641*	*5 473*	*5 040*	1 058	217 199
Demand deposits	59 267	24 651	17 381	*7 401*	*5 186*	*3 528*	*1 266*	0	101 299
Savings accounts	55 299	14 052	5 511	*891*	*1 464*	*732*	*2 425*	0	74 862
Time deposits	6 862	773	4 717	*489*	*1 667*	*1 213*	*1 348*	0	12 352
Debt securities	22 740	1 694	360	*217*	*143*	*0*	*0*	1 058	25 852
Other	2 168	486	181	0	181	0	0	0	2 835
Loans and advances to customers (excl. reverse repos)	101 130	29 099	27 421	*4 938*	*9 016*	*3 501*	*9 966*	1	157 650
Term loans	53 584	8 584	6 320	*2 302*	*2 731*	*1 224*	*64*	0	68 488
Mortgage loans	37 758	16 190	16 929	*1 600*	*4 707*	*778*	*9 844*	0	70 876
Other	9 788	4 325	4 171	1 036	1 578	1 500	58	1	18 285
31-12-2019									
Deposits from customers and debt securities (excl. repos)	138 824	39 624	24 131	*7 979*	*6 513*	*4 469*	*5 169*	1 260	203 839
Demand deposits	50 480	21 828	13 639	*6 289*	*3 786*	*2 556*	*1 007*	0	85 947
Savings accounts	51 686	12 673	4 699	*875*	*1 353*	*754*	*1 718*	0	69 058
Time deposits	8 833	1 900	5 242	*637*	*1 001*	*1 160*	*2 445*	0	15 974
Debt securities	25 491	2 738	340	*178*	*162*	*0*	*0*	1 260	29 829
Other	2 334	485	212	0	212	0	0	0	3 031
Loans and advances to customers (excl. reverse repos)	98 883	29 857	25 041	*4 621*	*7 506*	*3 155*	*9 760*	1	153 781
Term loans	53 247	9 068	5 584	*2 033*	*2 355*	*1 155*	*41*	0	67 899
Mortgage loans	35 246	15 768	15 584	*1 596*	*3 641*	*693*	*9 654*	0	66 597
Other	10 390	5 021	3 873	992	1 509	1 308	65	1	19 285

3.0 Notes to the income statement

Note 3.1: Net interest income

(in millions of EUR)	2020	2019
Total	**4 015**	**4 153**
Interest income	**5 919**	**6 792**
Interest income on financial instruments calculated using the effective interest rate method		
Financial assets at AC	4 768	5 334
Financial assets at FVOCI	100	95
Hedging derivatives	375	483
Financial liabilities (negative interest)	229	52
Other	8	15
Interest income on other financial instruments		
Financial assets MFVPL other than held for trading	14	8
Financial assets held for trading	426	804
Of which economic hedges	*382*	*778*
Other financial assets at FVPL	0	0
Interest expense	**-1 904**	**-2 639**
Interest expense on financial instruments calculated using the effective interest rate method		
Financial liabilities at AC	- 842	-1 323
Financial assets (negative interest)	- 81	- 70
Hedging derivatives	- 621	- 651
Other	- 3	- 4
Interest expense on other financial instruments		
Financial liabilities held for trading	- 329	- 544
Of which economic hedges	*- 296*	*- 506*
Other financial liabilities at FVPL	- 25	- 40
Net interest expense relating to defined benefit plans	- 3	- 7

- Financial liabilities (negative interest rate)’ and ‘Financial assets (negative interest rate)’: these rates relate mainly to transactions with central banks, interbank and professional counterparties, and targeted long-term refinancing operations (TLTRO). More information on TLTRO can be found in Note 4.1.
- For information on the impact of the coronavirus crisis, see Note 1.4.

Note 3.2: Dividend income

(in millions of EUR)	2020	2019
Total	19	35
Equity instruments MFVPL other than held for trading	0	0
Equity instruments held for trading	13	26
Equity instruments at FVOCI	6	9

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

(in millions of EUR)	2020	2019
Total	36	70
Breakdown by IFRS portfolio		
Financial instruments MFVPL other than held for trading and overlay	5	2
Trading instruments (including interest on non-ALM trading derivatives and fair value changes on all trading instruments)	- 175	15
Other financial instruments at FVPL	- 8	- 35
Foreign exchange trading	296	137
Fair value adjustments in hedge accounting	- 82	- 50
Hedge accounting broken down by type of hedge	0	0
Fair value micro hedges	- 3	- 5
Changes in the fair value of the hedged items	- 19	- 3
Changes in the fair value of the hedging derivatives	16	- 3
Cashflow hedges	5	- 3
Changes in the fair value of the hedging derivatives, ineffective portion	5	- 3
Hedges of net investments in foreign operations, ineffective portion	0	0
Portfolio hedge of interest rate risk	10	37
Changes in the fair value of the hedged items	677	479
Changes in the fair value of the hedging derivatives	- 667	- 443
Discontinuation of hedge accounting for fair value hedges	- 19	- 11
Discontinuation of hedge accounting in the event of cashflow hedges	- 74	- 67
Breakdown by driver		
Market value adjustments (xVA)	13	1
MTM ALM derivatives	- 106	- 19
Dealing room and other	128	88

- ALM hedging derivatives (recognised in hedge accounting): the interest component of these derivatives is recognised under 'Net interest income'. Fair value changes in hedging derivatives, excluding those for which an effective cashflow hedge relationship exists, are recognised under 'Net result from financial instruments at fair value through profit or loss'. Under fair value hedge accounting, changes in the fair value of hedged assets are also recognised under this heading, and offsetting takes place insofar as the hedge is effective. ALM hedging derivatives not recognised in hedge accounting (and therefore classified as trading instruments) are treated in the same way, except most of the related assets are not recognised at fair value (i.e. not marked-to-market).
- Day 1 profit: when the transaction price in a non-active market differs from the fair value of other observable market transactions in the same instrument or from the fair value based on a valuation technique whose variables include only data from observable markets, the difference between the transaction price and the fair value (day 1 profit) is taken to profit or loss. If this is not the case (i.e. the variables do not include only data from observable markets), day 1 profit is reserved and is released in profit or loss during the life and until the maturity of the financial instrument, if significant.
- Foreign exchange trading includes all realised and unrealised foreign exchange results (when the monetary assets and liabilities are revalued), regardless of the IFRS portfolio, except for financial assets and liabilities measured through profit or loss, for which the revaluation is included in the fair value correction.
- The effectiveness of the hedge is determined according to the following methods:
  - For fair value micro hedging, we use the dollar offset method on a quarterly basis, with changes in the fair value of the hedged item offsetting changes in the fair value of the hedging instrument within a range of 80%–125%.
  - For cashflow hedges, we compare the designated hedging instrument with a perfect hedge of the hedged cashflows on a prospective (by BPV measurement) and retrospective basis (by comparing the fair value of the designated hedging instrument with the perfect hedge). The effectiveness of both tests must fall within a range of 80%–125%.
  - We use the rules set out in the European version of IAS 39 (carve-out) to assess the effectiveness of fair value hedges for a portfolio of interest rate risk. IFRS does not permit net positions to be reported as hedged items, but does allow hedging instruments to be designated as a hedge of a gross asset position (or a gross liabilities position, as the case may be).

Specifically, we make sure that the volume of assets (or liabilities) in each maturity bucket is greater than the volume of hedging instruments allocated to the same bucket.

- For information on the impact of the coronavirus crisis, see Note 1.4.

Note 3.4: Net realised result from debt instruments at fair value through OCI

The realised result from debt instruments at fair value through OCI was not material in 2020 and 2019.

Note 3.5: Net fee and commission income

(in millions of EUR)	2020	2019
Total	1 975	2 085
Fee and commission income	2 498	2 605
Fee and commission expense	- 523	- 520
Breakdown by type		
Asset Management Services	986	1 058
Fee and commission income	1 040	1 110
Fee and commission expense	- 54	- 52
Banking Services	901	936
Fee and commission income	1 231	1 273
Fee and commission expense	- 330	- 337
Distribution	88	91
Fee and commission income	227	222
Fee and commission expense	- 139	- 132

- The lion's share of the fees and commissions related to lending is recognised under 'Net interest income' (effective interest rate calculations).
- For information on the impact of the coronavirus crisis, see Note 1.4.

Note 3.6: Other net income

(in millions of EUR)	2020	2019
Total	88	200
of which gains or losses on		
Sale of financial assets measured at amortised cost	11	14
Repurchase of financial liabilities measured at amortised cost	0	9
of which other, including:	77	178
Income from (mainly operational) leasing activities, KBC Lease Group	56	52
One-off effect revaluation of 55% share in CMSS	0	82
Settlement of legacy legal cases	0	9
Provisioning for tracker mortgage review	- 9	- 23

- Provisioning for the tracker mortgage review concerns KBC Bank Ireland, which – like all major lenders in Ireland at the time – had offered tracker mortgages (i.e. between 2003 and 2008). In December 2015, the Central Bank of Ireland (CBI) requested the Irish banking industry, including KBC Bank Ireland, to undertake a broad and wide-ranging examination of tracker-mortgage related issues. The purpose of the tracker mortgage review was to identify cases where clients' contractual rights under the terms of their mortgage agreements had not been fully honoured and/or lenders had not fully complied with the various requirements and standards regarding disclosure and transparency for the client. In situations where client detriment was identified from this examination, KBC Bank Ireland had to provide appropriate redress and compensation in line with the CBI 'Principles for Redress'. The bank recognised a provision of 4 million euros in 2016 and 116 million euros in 2017 in respect of redress and compensation for clients identified as being impacted. In 2018, most of the clients affected duly received redress and compensation payments. In 2019, a provision of 23 million euros was recorded (including 14 million euros as a provision for a potential sanction). In 2020, a provision of 9 million euros was set aside (4 million euros of which related to the sanction).

- Settlement of legal cases in 2019 relates to cases in the Czech Republic (6 million euros) and Group Centre (3 million euros).
- Revaluation of existing shareholding in ČMSS in 2019 concerned one-off earnings of 82 million euros in the Czech Republic resulting from the revaluation of KBC's 55% stake in ČMSS, following the acquisition of the remaining 45% stake in that company in the second quarter of 2019 (for more details, see Note 6.6).

Note 3.7: Insurance results

Applies to KBC Group and KBC Insurance, but not to KBC Bank.

Note 3.8: Operating expenses

(in millions of EUR)	FY 2020	FY 2019
Total	- 3 809	- 3 797
Staff expenses	- 1 676	- 1 738
General administrative expenses	- 1 917	- 1 836
of which bank taxes	*- 486*	*- 475*
Depreciation and amortisation of fixed assets	- 216	- 223

- General administrative expenses include repair and maintenance expenses, advertising costs, rent, professional fees, various (non-income) taxes, utilities and other such expenses. They also include expenses related to the special tax imposed on financial institutions in various countries (totalling 486 million euros in 2020 and 475 million euros in 2019). The figure for 2020 comprises 274 million euros in the Belgium Business Unit, 41 million euros in the Czech Republic Business Unit, 20 million euros in Slovakia, 17 million euros in Bulgaria, 103 million euros in Hungary and 31 million euros in Ireland.
- For information on the impact of the coronavirus crisis, see Note 1.4.
- Share-based payments are included under staff expenses.

Note 3.9: Personnel

	2020	2019
Total average number of persons employed (in full-time equivalents)	28 838	29 530
By employee classification		
Blue-collar staff	56	57
White-collar staff	28 618	29 308
Senior management	164	165

- The figures in the table are annual averages, which – in terms of scope – may differ from year-end figures that are provided elsewhere.
- The staff numbers for ČMSS (which was fully consolidated from June 2019 following the acquisition of the remaining 45% stake in that company) are included for seven-twelfths of the year (i.e. for the June-December period) in the 2019 figures and for the full year in the 2020 figures. The staff numbers for OTP Banka Slovensko (acquired at the end of November 2020) have not yet been included in the 2020 figures.
- In May 2019, we began optimising our group-wide governance model, aimed at further improving our operational efficiency. This optimisation exercise has implications for some of our employees (see the 'Our employees, capital, network and relationships' section).

Note 3.10: Impairment (income statement)

(in millions of EUR)	2020	2019
Total	- 1 126	- 213
Impairment on financial assets at AC and at FVOCI	- 1 068	- 204
Of which impairment on financial assets at AC	- 1 068	- 204
By product		
Loans and advances	- 1 067	- 182
Debt securities	1	- 1
Off-balance-sheet commitments and financial guarantees	- 2	- 21
By type		
Stage 1 (12-month ECL)	- 43	- 20
Stage 2 (lifetime ECL)	- 724	47
Stage 3 (non-performing; lifetime ECL)	- 302	- 237
Purchased or originated credit impaired assets	1	6
Of which impairment on financial assets at FVOCI	0	0
Debt securities	0	0
Stage 1 (12-month ECL)	0	0
Stage 2 (lifetime ECL)	0	0
Stage 3 (non-performing; lifetime ECL)	0	0
Impairment on goodwill	0	0
Impairment on other	- 58	- 10
Intangible fixed assets (other than goodwill)	- 17	- 5
Property, plant and equipment (including investment property)	- 9	- 3
Associated companies and joint ventures	0	0
Other	- 32	- 2

- Impairment on financial assets at AC and at FVOCI is also referred to as 'Impairment on loans'. In 2020, it comprised the following:
  - a net increase of 649 million euros for the Belgium Business Unit (241 million euros a year earlier);
  - a net increase of 210 million euros for the Czech Republic Business Unit (12 million euros a year earlier);
  - a net reversal of 8 million euros for the Group Centre (32 million euros a year earlier); and
  - a net increase of 217 million euros for the International Markets Business Unit (net reversal of 18 million euros a year earlier). The 2020 figure for the International Markets Business Unit breaks down into:
    - a net increase of 90 million euros Ireland (net reversal of 33 million euros in 2019);
    - a net increase of 58 million euros Hungary (net reversal of 1 million euros in 2019);
    - a net increase of 42 million euros Slovakia (net increase of 11 million euros in 2019); and
    - a net increase of 27 million euros Bulgaria (net increase of 5 million euros in 2019).
- In 2020, impairment on loans included 783 million euros for collective coronavirus-related ECL (see Note 1.4).
- In 2020, impairment on other ('Intangible fixed assets (other than goodwill)') included a software impairment of 14 million euros recorded in the fourth quarter, relating to software development projects that were partially or completely abandoned (6 million euros of which in the Czech Republic, 5 million euros in Hungary, 2 million euros in Slovakia and 1 million euros in Bulgaria).
- Impairment on other ('Other') includes 29 million euros relating to modification losses in Belgium, the Czech Republic and Hungary due to the payment moratoria schemes implemented in these countries as a result of the coronavirus crisis (see Note 1.4 of this report for more information).
- The loan portfolio accounts for the largest share of the financial assets. Based on internal management reports, the composition and quality of the loan portfolio is set out in detail in the 'How do we manage our risks?' section (under 'Credit risk'). All parts of that particular section which have been audited by the statutory auditor are listed at the start of the section. Among other things, this section 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 driven by the counterparty's internal (and, if applicable, external) credit rating. Variables used in PD models include financial ratios and behavioural parameters (arrears).
  - EAD represents the estimated outstanding debt at the time of default and depends on the existing outstanding debt and any changes permitted under the contract and normal repayments. Variables used in these models include product types and repayment schedules.
  - LGD is the estimated size of the loss relative to the outstanding debt at the time of default. LGD is presented as a percentage of the outstanding debt and is determined by historical amounts recovered on similar claims. Variables used in these models include collateral types and financial ratios.
- On 31 December 2020, there were over 100 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 for the next three years.
- Our ECL models are not able to adequately reflect all the specifics of the coronavirus crisis or the various government measures implemented in the different countries to support households, SMEs and corporate entities through this crisis. Therefore, an expert-based calculation at portfolio level has been performed that takes due account via a management overlay of the macroeconomic situation and the different government measures (see Note 1.4 for more details).
- We use three different forward-looking macroeconomic scenarios (with different probability weightings) to measure ECL. The weightings at year-end 2020 were 55% for the 'base' scenario, 10% 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 1.9 billion euros at the end of 2019 and 1.8 billion euros at the end of 2020) shows that the 'base' scenario generates an ECL of 1.7 billion euros (1.1 billion euros in 2019), which is 0.4 billion euros lower than for the 'down' scenario (0.1 billion euros in 2019) and 0.1 billion euros higher than for the 'up' scenario (0.0 billion euros in 2019). The assessed scenario-weighted collective ECL (that was recognised) amounted to 1.8 billion euros (1.1 billion euros in 2019). Please note that these amounts take into account the coronavirus-related management overlay (by scenario) at year-end 2020 (see Note 1.4).

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

(in millions of EUR)	2020	2019
Total	-11	3
Of which:		
ČMSS	-	9
Mallpay	-2	0
Isabel NV	1	1
Payconiq International S.A.	-7	-4
Joyn International NV	-3	-2
Bancontact Payconiq Company NV	0	- 1

- The share in results of associated companies and joint ventures in 2019 is accounted for primarily by ČMSS, a joint venture of ČSOB in the Czech Republic. KBC became the sole owner of ČMSS in June 2019 following the acquisition of the remaining 45% stake in that company, which has been fully consolidated since then. More details are provided in Note 5.3 and Note 6.6.
- Impairment on (goodwill on) associated companies and joint ventures is included in 'Impairment' (see Note 3.10). The share in results of associated companies and joint ventures does not therefore take this impairment into account.

Note 3.12: Income tax expense

(in millions of EUR)	2020	2019
Total	- 255	- 501
By type		
Current taxes on income	- 407	- 371
Deferred taxes on income	152	- 130
Tax components		
Result before tax	1 188	2 541
Income tax at the Belgian statutory rate	25.00%	29.58%
Income tax calculated	- 297	- 752
Plus/minus tax effects attributable to		
differences in tax rates, Belgium – abroad	70	205
tax-free income	4	58
adjustments related to prior years	- 1	5
adjustments to deferred taxes due to change in tax rate	- 2	- 2
unused tax losses and unused tax credits to reduce current tax expense	0	7
unused tax losses and unused tax credits to reduce deferred tax expense	3	0
reversal of previously recognised deferred tax assets due to tax losses	0	- 7
other (amongst others non-deductible expenses)	- 31	- 15

- For information on tax assets and tax liabilities, see Note 5.2.
- Change in tax rate in 2020: the reform of the Belgian corporation tax regime in 2017 included a further decrease in the tax rate from 29.58% to 25% starting in financial year 2020. This had a recurring positive impact on the income statement from then on, because of the lower tax rate applying to the Belgian group companies. The decrease will not affect outstanding deferred tax assets and liabilities (and, consequently, total equity), as they already take account of the reduced tax rate.
- For information on the impact of the coronavirus crisis, see Note 1.4.
- Breakdown of activities by country:

  The table below provides a better insight into the activities of KBC Bank at the consolidated level, broken down by country, and complies with the Royal Decree of 27 November 2014 (amending the royal decrees concerning the financial statements and consolidated financial statements of credit institutions, investment firms and management companies of undertakings for collective investment).

  The names of the different entities and the nature of their activities in each of the countries in this table can be found in the information included in the scope of consolidation (see Note 6.5).

in million euros	Turnover (1)	Average number of employees in FTE	Result before tax	Income tax expense	Current tax on income	Deferred tax	Received government funding	Turnover (1)	Average number of employees in FTE	Result before tax	Income tax expense	Current tax on income	Deferred tax	Received government funding
KBC home Countries (incl. Ireland)														
Belgium	3 178	9 808	380	- 112	- 214	102	0	3 216	10 203	921	- 241	- 128	- 112	0
Czech Republic	1 315	8 533	388	- 60	- 101	41	0	1 615	8 562	887	- 138	- 134	- 4	0
Hungary	496	3 359	113	- 22	- 24	1	0	514	3 499	183	- 27	- 26	- 2	0
Slovakia	275	2 589	57	- 12	- 20	8	0	280	2 537	90	- 19	- 18	- 1	0
Bulgaria	200	2 893	59	- 6	- 6	0	0	205	2 993	85	- 9	- 8	- 1	0
Ireland	416	1 301	97	- 16	- 14	- 2	0	416	1 338	215	- 32	- 22	- 10	0
Other countries														
Great Britain	46	37	20	- 5	- 4	0	0	75	50	22	- 8	- 2	- 6	0
USA (2)	33	50	10	- 5	- 1	- 3	0	29	52	14	- 1	- 1	0	0
France (2)	44	53	19	- 6	- 7	2	0	47	58	19	- 6	- 6	0	0
Netherlands (2)	30	26	19	- 5	- 6	1	0	35	26	29	- 7	- 7	0	0
Luxembourg	49	39	40	- 13	- 9	- 4	0	56	46	47	- 6	- 12	7	0
Romania	3	0	3	0	0	0	0	4	0	4	0	0	0	0
Germany (2)	13	21	- 9	5	0	5	0	11	21	5	- 1	0	- 1	0
Hong Kong (2)	9	37	1	0	0	0	0	13	42	7	- 1	- 1	0	0
Singapore (2)	14	48	- 2	0	0	0	0	18	55	9	- 1	- 1	0	0
Poland (2)	0	0	0	0	0	0	0	0	0	0	0	0	0	0
China (2)	13	38	- 5	2	- 1	3	0	15	43	6	- 2	- 3	1	0
Italy	0	6	- 2	0	0	0	0	0	6	- 1	0	0	0	0
India	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	6 134	28 838	1 188	- 255	- 407	152	0	6 548	29 530	2 541	- 501	- 371	- 130	0

(1) Based on 'Total income'

(2) Including branches KBC Bank

4.0 Notes on the financial assets and liabilities on the balance sheet

Note 4.1: Financial assets and liabilities, breakdown by portfolio and product

(in millions of EUR)	AC	FVOCI	MFVPL excl. HFT	HFT	FVO	Hedging deriva-tives	Total
FINANCIAL ASSETS, 31-12-2020							
Loans and advances to credit institutions and investment firms (excl. reverse repos)	6 342	0	0	0	0	0	**6 342**
of which repayable on demand and term loans to banks at not more than three months							**1 393**
Loans and advances to customers (excl. reverse repos)	157 263	0	387	0	0	0	**157 650**
Trade receivables	1 685	0	0	0	0	0	**1 685**
Consumer credit	5 476	0	273	0	0	0	**5 749**
Mortgage loans	70 767	0	109	0	0	0	**70 876**
Term loans	68 484	0	5	0	0	0	**68 488**
Finance lease	5 747	0	0	0	0	0	**5 747**
Current account advances	4 285	0	0	0	0	0	**4 285**
Other	818	0	0	0	0	0	**818**
Reverse repos (2)	27 869	0	0	0	0	0	**27 869**
with credit institutions and investment firms	27 444	0	0	0	0	0	**27 444**
with customers	425	0	0	0	0	0	**425**
Equity instruments	0	213	7	488	0	0	**707**
Debt securities issued by	43 630	5 689	20	2 539	0	0	**51 878**
Public bodies	38 340	4 943	0	2 477	0	0	**45 760**
Credit institutions and investment firms	3 545	717	0	19	0	0	**4 281**
Corporates	1 745	29	20	42	0	0	**1 837**
Derivatives	0	0	0	5 705	0	160	**5 864**
Other (3)	1 357	0	0	4	0	0	**1 361**
Total	236 462	5 902	414	8 735	0	160	**251 673**
FINANCIAL ASSETS, 31-12-2019							
Loans and advances to credit institutions and investment firms (excl. reverse repos)	5 397	0	0	0	0	0	**5 397**
of which repayable on demand and term loans to banks at not more than three months							**467**
Loans and advances to customers (excl. reverse repos)	153 563	0	218	0	0	0	**153 781**
Trade receivables	1 884	0	0	0	0	0	**1 884**
Consumer credit	5 383	0	122	0	0	0	**5 505**
Mortgage loans	66 512	0	85	0	0	0	**66 597**
Term loans	67 888	0	10	0	0	0	**67 899**
Finance lease	5 926	0	0	0	0	0	**5 926**
Current account advances	4 986	0	0	0	0	0	**4 986**
Other	984	0	0	0	0	0	**984**
Reverse repos (2)	26 393	0	0	0	0	0	**26 393**
with credit institutions and investment firms	25 445	0	0	0	0	0	**25 445**
with customers	948	0	0	0	0	0	**948**
Equity instruments	0	176	7	832	0	0	**1 015**
Debt securities issued by	38 239	5 714	28	1 264	0	0	**45 245**
Public bodies	33 236	4 851	0	1 148	0	0	**39 234**
Credit institutions and investment firms	3 238	805	0	20	0	0	**4 062**
Corporates	1 766	58	28	96	0	0	**1 948**
Derivatives	0	0	0	5 211	0	158	**5 370**
Other (3)	1 025	0	0	0	0	0	**1 025**
Total	224 617	5 890	252	7 307	0	158	**238 226**

(in millions of EUR)	AC	HFT	FVO	Hedging derivatives	Total
FINANCIAL LIABILITIES, 31-12-2020					
Deposits from credit institutions and investment firms (excl. repos)	34 613	0	0	0	**34 613**
of which repayable on demand					**4 604**
Deposits from customers and debt securities (excl. repos)	215 570	101	1 528	0	**217 199**
Demand deposits	101 299	0	0	0	**101 299**
Time deposits	12 218	16	117	0	**12 352**
Savings accounts	74 862	0	0	0	**74 862**
Special deposits	2 543	0	0	0	**2 543**
Other deposits	291	0	0	0	**291**
Certificates of deposit	6 613	0	5	0	**6 618**
Savings certificates	454	0	0	0	**454**
Non-convertible bonds	8 296	85	1 264	0	**9 645**
Non-convertible subordinated liabilities	8 992	0	142	0	**9 135**
Repos (4)	3 571	0	0	0	**3 571**
with credit institutions and investment firms	3 288	0	0	0	**3 288**
with customers	283	0	0	0	**283**
Derivatives	0	5 387	0	1 318	**6 705**
Short positions	0	1 694	0	0	**1 694**
In equity instruments	0	12	0	0	**12**
In debt securities	0	1 682	0	0	**1 682**
Other (5)	2 064	0	0	0	**2 064**
Total	255 817	7 182	1 528	1 318	**265 846**
FINANCIAL LIABILITIES, 31-12-2019					
Deposits from credit institutions and investment firms (excl. repos)	18 731	0	0	0	**18 731**
of which repayable on demand					**4 669**
Deposits from customers and debt securities (excl. repos)	201 077	223	2 539	0	**203 839**
Demand deposits	85 947	0	0	0	**85 947**
Time deposits	15 751	39	184	0	**15 974**
Savings accounts	69 058	0	0	0	**69 058**
Special deposits	2 465	0	0	0	**2 465**
Other deposits	566	0	0	0	**566**
Certificates of deposit	10 638	0	8	0	**10 646**
Savings certificates	1 027	0	0	0	**1 027**
Non-convertible bonds	8 251	183	2 200	0	**10 635**
Non-convertible subordinated liabilities	7 374	0	147	0	**7 521**
Repos (4)	2 566	0	0	0	**2 566**
with credit institutions and investment firms	2 262	0	0	0	**2 262**
with customers	304	0	0	0	**304**
Derivatives	-	5 073	0	1 170	**6 243**
Short positions	-	1 708	0	0	**1 708**
In equity instruments	-	14	0	0	**14**
In debt securities	-	1 693	0	0	**1 693**
Other (5)	2 187	0	0	0	**2 187**
Total	224 560	7 004	2 539	1 170	**235 274**

(1) The carrying value comes close to the maximum credit exposure.

(2) The amount of the reverse repos (before netting) is virtually identical to the amount of the underlying assets (that have been lent out).

(3) Financial assets not included under 'Loans and advances to customers' as they are not directly related to commercial lending.

(4) The amount of the repos (before netting) is virtually identical to the amount of the underlying assets (that have been lent out), with the assets being partly reflected on the balance sheet and partly obtained through reverse repo transactions.

(5) Financial liabilities not included under deposits from customers as they are not directly related to commercial deposit acquisition.

- '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 two green bonds (for 500 million euros each), which have been recognised at amortised cost.
- More information on major new debt issues or redemptions is provided under the 'Consolidated cashflow statement'.
- 'Deposits from credit institutions and investment firms' include funding obtained from the ECB's TLTRO programme (in 2019, 6.5 billion euros had been repaid under TLTRO II and 2.5 billion euros drawn down under TLTRO III; a further 19.5 billion euros was drawn down under TLTRO III in 2020, bringing the total amount borrowed under that programme to 22 billion euros at year-end 2020). 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 figure of 123 million euros in interest income (negative interest rate)).
- Transferred financial assets that continue to be recognised in their entirety: KBC regularly lends and/or sells securities with the commitment to buy them back at a later date (repo transactions). Securities lent or sold with such a commitment are transferred to the counterparty, and, in exchange, KBC receives cash or other financial assets. However, KBC retains the main risks and income relating to these securities, and, therefore, continues to recognise them on its balance sheet. In addition, a financial liability is recognised equalling the cash received.
- At year-end 2020, KBC had transferred the following types of financial asset, which continued to be recognised in their entirety: repo transactions and securities lent out with a carrying value of 9 001 million euros (debt instruments classified as 'Held for trading' (1 132 million euros), as 'Measured at fair value through OCI' (1 137 million euros) and as 'Measured at amortised cost' (6 732 million euros)); and an associated financial liability with a carrying value of 3 151 million euros (1 142 million euros classified as 'Held for trading', 1 143 million euros as 'Measured at fair value through OCI' and 867 million euros as 'Measured at amortised cost'). At year-end 2019, KBC had transferred the following types of financial asset, which continued to be recognised in their entirety: repo transactions and securities lent out with a carrying value of 8 966 million euros (debt instruments classified as 'Held for trading' (539 million euros), as 'Measured at fair value through OCI' (351 million euros) and as 'Measured at amortised cost' (8 077 million euros)); and an associated financial liability with a carrying value of 2 566 million euros (547 million euros classified as 'Held for trading', 344 million euros as 'Measured at fair value through OCI' and 1 675 million euros as 'Measured at amortised cost'). It should be noted that KBC has more transferred financial assets on its balance sheet than repo transactions, due to the fact that the cash legs of certain repo transactions are offset against reverse repo transactions if they are carried out with the same counterparty, in the same currency and with the same maturity date.
- For information about the acquisition of OTP Banka Slovensko, see Note 6.6.

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

Note 4.2.1: Impaired financial assets

	31-12-2020			31-12-2019		
(in millions of EUR)	Carrying value before impairment	Impairment	Carrying value after impairment	Carrying value before impairment	Impairment	Carrying value after impairment
FINANCIAL ASSETS AT AMORTISED COST						
Loans and advances (*)	195 169	- 3 694	191 474	188 207	- 2 854	185 353
Stage 1 (12-month ECL)	170 394	- 168	170 226	164 151	- 130	164 021
Stage 2 (lifetime ECL)	19 359	- 992	18 367	18 495	- 254	18 241
Stage 3 (lifetime ECL)	5 277	- 2 517	2 760	5 380	- 2 444	2 936
Purchased or originated credit impaired assets (POCI)	139	- 18	121	182	- 26	155
Debt Securities	43 638	- 8	43 630	38 251	- 12	38 239
Stage 1 (12-month ECL)	43 604	- 5	43 599	38 175	- 4	38 171
Stage 2 (lifetime ECL)	30	- 1	30	69	- 2	67
Stage 3 (lifetime ECL)	3	- 2	1	7	- 6	1
Purchased or originated credit impaired assets (POCI)	0	0	0	0	0	0
FINANCIAL ASSETS AT FAIR VALUE THROUGH OCI						
Debt Securities	5 690	- 1	5 689	5 715	- 1	5 714
Stage 1 (12-month ECL)	5 688	- 1	5 687	5 715	- 1	5 714
Stage 2 (lifetime ECL)	2	0	2	0	0	0
Stage 3 (lifetime ECL)	0	0	0	0	0	0
Purchased or originated credit impaired assets (POCI)	0	0	0	0	0	0

(*) The carrying value after impairment in this note is equal to the sum of the lines Loans and advances to credit institutions and investment firms (excl. reverse repos), Loans and advances to customers (excl. reverse repos) and Reverse repos in note 4.1 (in the column Measured at amortised cost)

- The increase in impairment relates mainly to the collective coronavirus-related ECL (see Note 1.4).
- The table does not contain any stage transfers that underlie the management overlay for the forecast collective coronavirus-related ECL, due to the fact that they are determined based on a collective statistical approach and, therefore, cannot be individually linked to specific loans. Taking into account the impact of the management overlay on staging, this would result in a carrying value (before impairment) of loans and advances of an estimated 162, 26 and 7 billion euros in Stages 1, 2 and 3, respectively (or a net transfer of 4% of the total portfolio from 'Stage 1' to 'Stage 2' and 1% from 'Stage 1' and 'Stage 2' to 'Stage 3' – see Note 1.4 for more information).
- In 2020, 'Stage 2' and 'Stage 3' financial assets with a net carrying value of 5 065 million euros were subject to modifications that did not result in derecognition. The gross carrying value of 'Stage 1' financial assets subject to modifications that did not result in derecognition came to 11 890 million euros in 2020. The corresponding figures for 2019 were 213 million euros and 712 million euros, respectively. Modification gains or losses are recognised under impairment (see Note 3.10)
- In 2020, financial assets at amortised cost with a gross carrying value of 106 million euros were written off, but were still subject to enforcement activities (the corresponding figure in 2019 was 651 million euros and related mainly to Ireland's legacy portfolio).

Note 4.2.2: Impairment details

(in millions of EUR)	31-12-2020 Stage 1 Subject to 12-month ECL	Stage 2 Subject to lifetime ECL	Stage 3 Subject to lifetime ECL (non-performing)	Subject to lifetime ECL (purchased or originated credit impaired)	Total	31-12-2019 Stage 1 Subject to 12-month ECL	Stage 2 Subject to lifetime ECL	Stage 3 Subject to lifetime ECL (non-performing)	Subject to lifetime ECL (purchased or originated credit impaired)	Total
LOANS AND ADVANCES AT AMORTISED COST										
Impairment on 01-01-2020	130	254	2 444	26	2 854	112	305	3 062	42	3 522
Movements with an impact on results (1)	31	725	352	0	1 107	20	- 49	278	- 6	242
Transfer of financial assets										
Stage 1 (12-month ECL)	- 7	129	74	0	196	- 5	66	53	0	114
Stage 2 (lifetime ECL)	5	- 70	282	0	217	4	- 61	212	1	156
Stage 3 (lifetime ECL)	0	25	- 30	0	- 4	0	8	- 34	- 2	- 27
New financial assets (2)	23	14	5	0	42	34	18	25	0	77
Changes in risk parameters	29	637	84	1	751	- 2	- 55	39	- 3	- 21
Changes in the model or methodology	- 8	- 3	- 7	0	- 18	- 3	- 10	0	0	- 13
Derecognised financial assets (3)	- 9	- 13	- 90	- 2	- 113	- 8	- 14	- 36	- 3	- 60
Other	- 2	4	33	- 1	35	0	- 1	17	0	16
Movements without an impact on results	7	13	- 278	- 8	- 266	- 2	- 2	- 897	- 9	- 910
Derecognised financial assets	0	0	- 323	- 8	- 332	- 6	- 11	- 944	- 13	- 975
Changes in the scope of consolidation	9	20	67	0	96	4	10	84	0	98
Transfers under IFRS 5	0	0	0	0	0	0	0	0	0	0
Other	- 2	- 6	- 22	0	- 30	1	- 1	- 37	4	- 33
Impairment on 31-12-2020	168	992	2 517	18	3 694	130	254	2 444	26	2 854
DEBT SECURITIES AT AMORTISED COST										
Impairment on 01-01-2020	4	2	6	0	12	5	1	6	0	11
Movements with an impact on results (1)	0	- 1	0	0	- 1	0	1	0	0	1
Transfer of financial assets										
Stage 1 (12-month ECL)	0	0	0	0	0	0	2	0	0	2
Stage 2 (lifetime ECL)	0	0	0	0	0	0	0	0	0	0
Stage 3 (lifetime ECL)	0	0	0	0	0	0	0	0	0	0
New financial assets (2)	0	0	0	0	0	0	0	0	0	0
Changes in risk parameters	0	- 1	0	0	- 1	0	- 1	0	0	- 1
Changes in the model or methodology	0	0	0	0	0	0	0	0	0	0
Derecognised financial assets	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0
Movements without an impact on results	0	0	- 3	0	- 3	0	0	0	0	0
Derecognised financial assets (3)	0	0	- 3	0	- 3	0	0	0	0	0
Changes in the scope of consolidation	0	0	0	0	0	0	0	0	0	0
Transfers under IFRS 5	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0
Impairment on 31-12-2020	5	1	2	0	8	4	2	6	0	12
DEBT SECURITIES AT FAIR VALUE THROUGH OCI										
Impairment on 01-01-2020	1	0	0	0	1	1	0	0	0	1
Movements with an impact on results (1)	0	0	0	0	0	0	0	0	0	0
Transfer of financial assets										
Stage 1 (12-month ECL)	0	0	0	0	0	0	0	0	0	0
Stage 2 (lifetime ECL)	0	0	0	0	0	0	0	0	0	0
Stage 3 (lifetime ECL)	0	0	0	0	0	0	0	0	0	0
New financial assets (2)	0	0	0	0	0	0	0	0	0	0
Changes in risk parameters	0	0	0	0	0	0	0	0	0	0
Changes in the model or methodology	0	0	0	0	0	0	0	0	0	0
Derecognised financial assets	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0
Movements without an impact on results	0	0	0	0	0	0	0	0	0	0
Derecognised financial assets (3)	0	0	0	0	0	0	0	0	0	0
Changes in the scope of consolidation	0	0	0	0	0	0	0	0	0	0
Transfers under IFRS 5	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0
Impairment on 31-12-2020	1	0	0	0	1	1	0	0	0	1

(1) Amounts recovered in respect of loans that have already been written off are recycled to the income statement and recorded as 'Impairment on financial assets at amortised cost and at fair value through OCI'. However, they have not been included in this table since they do not have any impact on impairment losses on the balance sheet.

(2) Also includes impairment related to new financial assets resulting from off-balance-sheet commitments and financial guarantees already given being called.

(3) Derecognition without an impact on results occurs when the impairment adjustment has already been made upfront (for example, at the moment of the sale agreement (disposals) or before the write-off). Derecognition with an impact

- The increase in impairment relates mainly to the collective coronavirus-related ECL (see Note 1.4).
- 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)	31-12-2020 Maximum credit exposure (A)	Collateral and other credit enhancements received (B)	Net (A-B)	31-12-2019 Maximum credit exposure (A)	Collateral and other credit enhancements received (B)	Net (A-B)
Subject to impairment	275 567	125 671	149 896	263 788	128 066	135 722
of which Stage 3 'non-performing' (AC and FVOCI)	*2 922*	*2 538*	*384*	*3 188*	*2 737*	*451*
Debt securities	49 319	112	49 207	43 953	69	43 885
Loans and advances (excl. reverse repos)	163 605	93 535	70 071	158 961	91 810	67 150
Reverse repos	27 869	27 800	69	26 393	26 373	20
Other financial assets	1 357	0	1 357	1 025	0	1 025
Off-balance-sheet liabilities	33 416	4 224	29 192	33 456	9 814	23 642
Not subject to impairment	8 814	1 774	7 040	6 879	1 844	5 035
Debt securities	2 559	0	2 559	1 292	0	1 292
Loans and advances (excl. reverse repos)	387	368	19	218	171	47
of which FVO	0	0	0	0	0	0
Reverse repos	0	0	0	0	0	0
Derivatives	5 864	1 406	4 458	5 370	1 673	3 696
Other financial assets	4	0	4	0	0	0
Off-balance-sheet liabilities	0	0	0	0	0	0
Total	284 381	127 445	156 936	270 667	129 910	140 757

- Maximum credit exposure for a financial asset is the net carrying value. Besides the amounts on the balance sheet, maximum credit exposure also includes the undrawn portion of irrevocable credit lines, financial guarantees granted and other irrevocable commitments.
- The loan portfolio 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.

Financial instruments subject to offsetting, enforceable master netting agreements and similar arrangements (in millions of EUR)	Gross amounts of recognised financial instruments	Gross amounts of recognised financial instruments set off	Net amounts of financial instruments presented in the balance sheet	Amounts not set off in the balance sheet			Net amount
				Financial instruments	Cash collateral	Securities collateral	
FINANCIAL ASSETS, 31-12-2020							
Derivatives	11 565	5 700	5 864	3 040	843	331	1 650
Derivatives (excluding central clearing houses)	5 818	0	5 818	3 040	843	331	1 604
Derivatives with central clearing houses (*)	5 746	5 700	46	0	0	0	46
Reverse repos, securities borrowing and similar arrangements	38 010	10 141	27 869	1 466	0	26 390	13
Reverse repos	38 010	10 141	27 869	1 466	0	26 390	13
Securities borrowing	0	0	0	0	0	0	0
Other financial instruments	0	0	0	0	0	0	0
Total	49 575	15 841	33 734	4 506	843	26 721	1 663
FINANCIAL LIABILITIES, 31-12-2020							
Derivatives	14 634	7 929	6 705	3 041	2 376	494	795
Derivatives (excluding central clearing houses)	6 649	0	6 649	3 041	2 376	494	738
Derivatives with central clearing houses (*)	7 985	7 929	57	0	0	0	57
Repos, securities lending and similar arrangements	13 711	10 141	3 571	1 467	0	2 102	1
Repos	13 711	10 141	3 571	1 467	0	2 102	1
Securities lending	0	0	0	0	0	0	0
Other financial instruments	0	0	0	0	0	0	0
Total	28 345	18 069	10 276	4 508	2 376	2 596	796
FINANCIAL ASSETS, 31-12-2019							
Derivatives	9 807	4 437	5 370	2 636	1 175	246	1 313
Derivatives (excluding central clearing houses)	5 323	0	5 323	2 636	1 175	246	1 266
Derivatives with central clearing houses (*)	4 484	4 437	47	0	0	0	47
Reverse repos, securities borrowing and similar arrangements	40 314	13 921	26 393	587	0	25 768	37
Reverse repos	40 314	13 921	26 393	587	0	25 768	37
Securities borrowing	0	0	0	0	0	0	0
Other financial instruments	0	0	0	0	0	0	0
Total	50 120	18 358	31 763	3 223	1 175	26 014	1 351
FINANCIAL LIABILITIES, 31-12-2019							
Derivatives	12 173	5 930	6 243	2 612	1 762	619	1 250
Derivatives (excluding central clearing houses)	6 174	0	6 174	2 612	1 762	619	1 181
Derivatives with central clearing houses (*)	5 999	5 930	69	0	0	0	69
Repos, securities lending and similar arrangements	16 487	13 921	2 566	1 406	0	1 160	0
Repos	16 487	13 921	2 566	1 406	0	1 160	0
Securities lending	0	0	0	0	0	0	0
Other financial instruments	0	0	0	0	0	0	0
Total	28 660	19 851	8 809	4 018	1 762	1 779	1 250

(*) For the central clearing houses the offsetting refers to the offsetting between the derivatives and the related cash collateral. The amount of cash collateral with central clearing houses at the end of 2020 is 2.228 mio and 1.493 mio at the end of 2019 (the figures at the end of 2019 have been restated accordingly in the table)

- The criteria for offsetting are met if KBC currently has a legally enforceable right to set off the recognised financial assets and financial liabilities and intends either to settle the transactions on a net basis, or to realise the financial asset and settle the financial liability simultaneously. Financial assets and financial liabilities that are set off relate to financial instruments that were traded on (central) clearing houses.
- The amounts presented in the 'Financial instruments' column under the 'Amounts not set off in the balance sheet' heading are for financial instruments entered into under an enforceable master netting agreement or similar arrangement that does not meet the criteria defined in IAS 32. These amounts refer to situations in which offsetting can only be applied if one of the counterparties defaults, becomes insolvent or goes bankrupt. The same principle applies for financial instruments given or received as collateral. The value given in the table for non-cash collateral received (in the 'Securities collateral' column under the 'Amounts not set off in the balance sheet' heading) is the market value. This is the value that is used if one of the counterparties defaults, becomes insolvent or goes bankrupt.

Note 4.4: Fair value of financial assets and liabilities – general

Fair value of financial assets and liabilities that are not measured at fair value in the balance sheet	Financial assets measured at amortised cost		Financial liabilities measured at amortised cost	
(in millions of EUR)	Carrying value	Fair value	Carrying value	Fair value
FINANCIAL ASSETS, 31-12-2020				
Loans and advances to credit institutions and investment firms (incl. reverse repos)	33 786	33 790	-	-
Loans and advances to customers (incl. reverse repos)	157 688	160 024	-	-
Debt securities	43 630	46 432	-	-
Other	1 357	1 357	-	-
Total	236 462	241 604	-	-
Level 1	-	42 951	-	-
Level 2	-	35 587	-	-
Level 3	-	163 065	-	-
FINANCIAL LIABILITIES, 31-12-2020				
Deposits from credit institutions and investment firms (incl. repos)	-	-	37 901	38 199
Deposits from customers and debt securities (incl. repos)	-	-	215 853	217 149
Liabilities under investment contracts	-	-	0	0
Other	-	-	2 064	2 063
Total	-	-	255 817	257 411
Level 1	-	-	-	32
Level 2	-	-	-	117 702
Level 3	-	-	-	139 677
FINANCIAL ASSETS, 31-12-2019				
Loans and advances to credit institutions and investment firms (incl. reverse repos)	30 842	31 096	-	-
Loans and advances to customers (incl. reverse repos)	154 512	155 913	-	-
Debt securities	38 239	40 063	-	-
Other	1 025	1 025	-	-
Total	224 617	228 097	-	-
Level 1	-	35 575	-	-
Level 2	-	41 643	-	-
Level 3	-	150 879	-	-
FINANCIAL LIABILITIES, 31-12-2019				
Deposits from credit institutions and investment firms (incl. repos)	-	-	20 993	21 148
Deposits from customers and debt securities (incl. repos)	-	-	201 381	201 213
Liabilities under investment contracts	-	-	0	0
Other	-	-	2 187	2 173
Total	-	-	224 560	224 534
Level 1	-	-	-	10
Level 2	-	-	-	95 396
Level 3	-	-	-	129 128

- All internal valuation models are validated by an independent Risk Validation Unit. In addition, the Executive Committee has appointed a Group Valuation Committee (GVC) to ensure that KBC and its entities meet all the legal requirements for measuring financial assets and liabilities at fair value. The GVC monitors consistent implementation of the KBC Valuation Framework, which consists of various guidelines, including the Group Valuation Policy, the Group XVA & AVA Policy and the Group Parameter Review Policy. The GVC meets at least twice a quarter to approve significant changes in valuation methods or deviations from group policies for financial assets and liabilities measured at fair value. The committee is made up of members from Finance, Risk Management and the Middle Office. Valuation uncertainty measurements are made and reported to the GVC every six months. Certain fair values generated by valuation models are challenged by a team set up specifically for this purpose.
- The fair value of mortgage and term loans not measured at fair value in the balance sheet (see table) is calculated by discounting contractual cashflows at the risk-free rate. This calculation is then adjusted for credit risk by taking account of margins obtained on similar, but recently issued, loans or by using a spread derived from the listed-bond spread. The fair value

of the main portfolios takes account of prepayment risks and cap options. The fair value of demand and savings deposits (both of which are repayable on demand) is presumed to be equal to their carrying value.

- As a result of the first-time adoption of IFRS 9 on 1 January 2018, debt instruments with a total carrying value of 15 060 million euros have been reclassified from 'Available-for-sale assets' to 'Financial assets held at amortised cost'. Due to this reclassification, changes in fair value (before tax) totalling -147 million euros were not recorded in the revaluation reserve in 2020 (-107 million euros in 2019). The fair value of this reclassified portfolio (after redemptions) amounted to 8 182 million euros at year-end 2020 (10 350 million euros at year-end 2019).

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

(in millions of EUR)				31-12-2020				31-12-2019
Fair value hierarchy	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
FINANCIAL ASSETS AT FAIR VALUE								
Mandatorily measured at fair value through profit or loss (other than held for trading)	16	0	398	414	22	0	231	252
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	387	387	0	0	218	218
Equity instruments	0	0	7	7	0	0	7	7
Investment contracts (insurance)	0	0	0	0	0	0	0	0
Debt securities	16	0	4	20	22	0	6	28
of which sovereign bonds	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Other	0	0	0	0	0	0	0	0
Held for trading	2 642	5 125	968	8 735	1 680	4 428	1 200	7 307
Loans and advances to credit institutions and investment firms (incl. reverse repos)	0	0	0	0	0	0	0	0
Loans and advances to customers (incl. reverse repos)	0	0	0	0	0	0	0	0
Equity instruments	487	0	0	488	573	258	0	832
Debt securities	2 153	373	13	2 539	1 107	156	1	1 264
of which sovereign bonds	*2 121*	*356*	*0*	*2 477*	*1 051*	*96*	*0*	*1 148*
Derivatives	1	4 749	955	5 705	0	4 013	1 199	5 211
Other	0	4	0	4	0	0	0	0
FVO	0	0	0	0	0	0	0	0
Loans and advances to credit institutions and investment firms (incl. reverse repos)	0	0	0	0	0	0	0	0
Loans and advances to customers (incl. reverse repos)	0	0	0	0	0	0	0	0
Debt securities	0	0	0	0	0	0	0	0
of which sovereign bonds	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
At fair value through OCI	5 541	95	266	5 902	5 529	105	257	5 890
Equity instruments	47	6	160	213	10	6	160	176
Debt securities	5 494	89	106	5 689	5 519	99	96	5 714
of which sovereign bonds	*4 910*	*0*	*33*	*4 943*	*4 792*	*26*	*34*	*4 851*
Hedging derivatives	0	160	0	160	0	158	0	158
Derivatives	0	160	0	160	0	158	0	158
Total	8 198	5 381	1 632	15 211	7 231	4 691	1 687	13 609
FINANCIAL LIABILITIES AT FAIR VALUE								
Held for trading	1 697	4 294	1 191	7 182	1 708	3 275	2 021	7 004
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	16	85	101	0	39	183	223
Derivatives	3	4 278	1 106	5 387	0	3 236	1 837	5 073
Short positions	1 694	0	0	1 694	1 708	0	0	1 708
Other	0	0	0	0	0	0	0	0
Designated at fair value	0	377	1 151	1 528	0	657	1 883	2 539
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	377	1 151	1 528	0	657	1 883	2 539
Liabilities under investment contracts	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0
Hedging derivatives	0	1 318	0	1 318	0	1 170	0	1 170
Derivatives	0	1 318	0	1 318	0	1 170	0	1 170
Total	1 697	5 990	2 342	10 028	1 708	5 102	3 903	10 714

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

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

- In 2020, KBC transferred 61 million euros' worth of financial assets and liabilities out of level 1 and into level 2. It also reclassified approximately 11 million euros' worth of financial assets and liabilities from level 2 to level 1. Most of these reclassifications were carried out due to a change in the liquidity of government bonds and corporate bonds.
- In 2019, KBC transferred 129 million euros' worth of financial assets and liabilities out of level 2 and into level 1. Most of these reclassifications were carried out due to changes in the liquidity of government bonds and corporate bonds.

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

- In 2020, significant movements in financial assets and liabilities classified in level 3 of the fair value hierarchy included the following:
  - Financial assets held for trading: the fair value of derivatives declined by 244 million euros, due primarily to instruments that had reached maturity, only partly offset by new transactions.
  - Financial assets measured at fair value through profit or loss (other than held for trading): the fair value of loans and advances increased by 169 million euros, primarily on account of new transactions, partly offset by changes in fair value.
  - Financial liabilities held for trading: the fair value of derivatives declined by 731 million euros, owing primarily to a combination of sales of existing positions, instruments that had reached maturity and changes in fair value, partly offset by new transactions. The fair value of issued debt instruments fell by 99 million euros, due mainly to debt instruments that had reached maturity.
  - Financial liabilities measured at fair value through profit or loss: the fair value of issued debt instruments declined by 732 million euros on account of a combination of repurchases of existing positions, settlement operations and changes in fair value, partly offset by new issues.

- In 2019, significant movements in financial assets and liabilities classified in level 3 of the fair value hierarchy included the following:
  - Financial assets held for trading: the fair value of derivatives rose by 280 million euros, due primarily to changes in fair value and new transactions, partly offset by instruments that had reached maturity. The fair value of debt instruments fell by 76 million euros, owing primarily to sales.
  - Financial assets measured at fair value through profit or loss (other than held for trading): the fair value of loans and advances increased by 133 million euros, primarily on account of new transactions, partly offset by instruments that had reached maturity.
  - Financial liabilities held for trading: the fair value of derivatives increased by 468 million euros, mainly attributable to changes in fair value and new transactions, partly offset by instruments that had reached maturity.
  - Financial liabilities measured at fair value through profit or loss: the fair value of debt instruments increased by 660 million euros, primarily on account of new issues and changes in fair value.
- 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 valued using third-party pricing sources, with KBC not developing any unobservable inputs itself. Consequently, KBC does not disclose specific quantitative information or sensitivity analyses regarding (changes in) unobservable inputs.

Note 4.8: Derivatives

Note 4.8.1 Trading derivatives

	31-12-2020				31-12-2019			
(in millions of EUR)	Carrying value		Notional amount (*)		Carrying value		Notional amount (*)	
	Assets	Liabilities	Purchased	Sold	Assets	Liabilities	Purchased	Sold
Total	5 705	5 387	413 844	414 100	5 211	5 073	403 895	396 911
Interest rate contracts	3 337	2 788	249 360	248 230	3 155	2 829	221 827	213 545
of which interest rate swaps and futures	*2 860*	*2 600*	*235 528*	*240 089*	*2 650*	*2 654*	*202 044*	*202 371*
of which options	*477*	*188*	*13 832*	*8 141*	*505*	*176*	*19 783*	*11 174*
Foreign exchange contracts	1 747	1 772	144 941	146 602	1 078	1 077	157 414	159 168
of which currency and interest rate swaps, FX swaps and futures	*1 642*	*1 703*	*141 212*	*141 452*	*1 032*	*1 037*	*153 711*	*153 556*
of which options	*105*	*69*	*3 729*	*5 150*	*46*	*39*	*3 703*	*5 611*
Equity contracts	600	808	19 158	18 883	968	1 158	24 283	23 826
of which equity swaps	*562*	*570*	*17 236*	*17 218*	*917*	*963*	*22 164*	*22 163*
of which options	*38*	*237*	*1 922*	*1 665*	*51*	*195*	*2 118*	*1 663*
Credit contracts	0	0	4	4	0	0	4	4
of which credit default swaps	*0*	*0*	*4*	*4*	*0*	*0*	*4*	*4*
Commodity and other contracts	20	19	381	381	10	9	368	369

(*) In this table, both legs of the derivatives are reported in the notional amounts.

Note 4.8.2 Hedging derivatives

31-12-2020

(in millions of EUR)	Hedging instrument					Hedged item				Impact on equity	
	Notional amount (1)		Carrying value		Change in fair value of hedging instruments as basis for recognising hedge ineffectiveness for the period (2)		Carrying value		Change in fair value of hedged items as basis for recognising hedge ineffectiveness for the period (2)	Ineffective portion recognised in profit or loss	Effective portion recognised in OCI
Hedging strategy	Pur-chased	Sold	Assets	Liabilities		Type	Total (incl. fair value changes)	Of which accumulated fair value adjustments			
Fair value micro hedge											
Interest rate swaps	21 738	21 738	23	535	16	Debt securities held at AC	5 600	100	- 83		
Currency and interest rate swaps	0	0	0	0	0	Loans and advances at AC	866	477	136		
						Debt securities held at FVOCI	2 206	96	9		
						Debt securities issued at AC	14 695	386	- 86		
						Deposits at AC	114	- 4	5		
Total	21 738	21 738	23	535	16	Total			- 19	- 3	-
Portfolio hedge of interest rate risk											
Interest rate swaps	61 964	61 964	68	94	- 660	Debt securities held at AC	13	1	0		
Currency and interest rate options	2 385	0	6	0	- 7	Loans and advances at AC	53 809	1 295	889		
						Debt securities held at FVOCI	14	1	- 1		
						Debt securities issued at AC	0	0	0		
						Deposits at AC	9 594	96	- 212		
Total	64 349	61 964	73	94	- 667	Total			677	10	-
Cashflow hedge (micro hedge and portfolio hedge)											
Interest rate swaps	20 938	20 938	41	687	- 29						
Currency and interest rate swaps	225	230	10	2	7						
Total	21 163	21 169	50	689	- 22	Total			27	5	- 1 430
Hedge of net investments in foreign operations											
Total (3)	1 490	1 517	13	385	84	Total			- 84	0	132

(1) In this table, both legs of the derivatives are reported in the notional amounts.

(2) Ineffectiveness is recognised in 'Net result from financial instruments at fair value through profit or loss' (also see Note 3.3).

(3) Carrying value liabilities: hedging instruments in the form of foreign currency deposits.

31-12-2019

(in millions of EUR)	Hedging instrument					Hedged item				Impact on equity	
	Notional amount (1)		Carrying value		Change in fair value of hedging instruments as basis for recognising hedge ineffectiveness for the period (2)		Carrying value		Change in fair value of hedged items as basis for recognising hedge ineffectiveness for the period (2)	Ineffective portion recognised in profit or loss	Effective portion recognised in OCI
Hedging strategy	Pur-chased	Sold	Assets	Liabilities		Type	Total (incl. fair value changes)	Of which accumulated fair value adjustments			
Fair value micro hedge											
Interest rate swaps	19 848	19 848	16	445	- 3	Debt securities held at AC	4 561	197	34		
Currency and interest rate swaps	0	0	0	0	0	Loans and advances at AC	751	367	55		
						Debt securities held at FVOCI	2 687	89	13		
						Debt securities issued at AC	13 000	300	- 103		
						Deposits at AC	192	4	- 1		
Total	19 848	19 848	16	445	- 3	Total			- 3	- 5	-
Portfolio hedge of interest rate risk											
Interest rate swaps	42 730	42 730	67	70	- 417	Debt securities held at AC	23	1	- 7		
Currency and interest rate options	2 640	0	12	0	- 26	Loans and advances at AC	35 487	463	445		
						Debt securities held at FVOCI	21	1	1		
						Debt securities issued at AC	0	0	0		
						Deposits at AC	7 551	- 114	41		
Total	45 369	42 730	78	70	- 443	Total			479	37	-
Cashflow hedge (micro hedge and portfolio hedge)											
Interest rate swaps	20 845	20 845	47	653	- 154						
Currency and interest rate swaps	69	64	6	2	- 2						
Total	20 914	20 909	53	655	- 156	Total			153	- 3	- 1 405
Hedge of net investments in foreign operations											
Total (3)	1 328	1 357	11	418	114	Total			- 114	0	36

(1) In this table, both legs of the derivatives are reported in the notional amounts.
(2) Ineffectiveness is recognised in 'Net result from financial instruments at fair value through profit or loss' (also see Note 3.3).
(3) Carrying value liabilities: hedging instruments in the form of foreign currency deposits.

- The Treasury departments of the various entities manage the interest rate risk. To prevent rate movements from having a negative impact, the maturities of assets and liabilities are adjusted on the balance sheet using interest rate swaps and other derivatives.
- As regards the relationship between risk management and hedge accounting policy, ‘economic’ management takes priority and risks are hedged in accordance with the general ALM framework. Only then is a decision made on which, if any, of these techniques will be used to limit any resulting accounting mismatch.
- The balances remaining in the cashflow hedge reserve from any hedging relationships for which hedge accounting is no longer applied came to -290 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 -100 million euros. These adjustments are amortised to profit or loss.
- Also see the paragraph on hedge accounting in the ‘How do we manage our risks?’ section and Note 3.3.

Estimated cashflows from cashflow hedging derivatives per time bucket (in millions of EUR)	Inflow	Outflow
Not more than three months	9	- 9
More than three but not more than six months	20	- 42
More than six months but not more than one year	73	- 95
More than one but not more than two years	128	- 280
More than two but not more than five years	290	- 707
More than five years	139	- 1 204

5.0 Notes on other balance sheet items

Note 5.1: Other assets

(in millions of EUR)	31-12-2020	31-12-2019
Total	652	858
Income receivable (other than interest income from financial assets)	44	48
Other	608	810

Note 5.2: Tax assets and tax liabilities

(in millions of EUR)	31-12-2020	31-12-2019
CURRENT TAXES		
Current tax assets	91	58
Current tax liabilities	48	62
DEFERRED TAXES	1 405	1 237
Deferred tax assets by type of temporary difference	1 611	1 490
Employee benefits	123	110
Losses carried forward	394	491
Tangible and intangible fixed assets	53	46
Provisions for risks and charges	7	7
Impairment for losses on loans and advances	341	204
Financial instruments at fair value through profit or loss and fair value hedges	108	81
Fair value changes, financial assets at FVOCI, cashflow hedges and hedges of net investments in foreign operations	477	480
Technical provisions	0	0
Other	107	71
Deferred tax liabilities by type of temporary difference	206	253
Employee benefits	12	12
Losses carried forward	0	0
Tangible and intangible fixed assets	44	38
Provisions for risks and charges	0	0
Impairment for losses on loans and advances	4	4
Financial instruments at fair value through profit or loss and fair value hedges	49	102
Fair value changes, financial assets at FVOCI, cashflow hedges and hedges of net investments in foreign operations	64	69
Technical provisions	0	0
Other	31	28
Recognised as a net amount in the balance sheet as follows:		
Deferred tax assets	1 450	1 282
Deferred tax liabilities	45	45
Unused tax losses and unused tax credits	127	131

- 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 (+168 million euros in 2020) breaks down as follows:
  - an increase in deferred tax assets: +121 million euros;
  - a decrease in deferred tax liabilities: -47 million euros.
- The change in deferred tax assets was accounted for chiefly by:
  - the increase in deferred tax assets via the income statement (+116 million euros due primarily to higher deferred tax assets on impairment for losses on loans and advances (triggered by the recognition of collective coronavirus-related ECL)). Deferred tax assets also increased under 'Other' in the table mainly on account of KBC Credit Investments NV's bond portfolio at amortised cost being transferred to KBC Bank NV. These increases were partly offset by the decrease in deferred tax assets due to losses being carried forward.
- The change in deferred tax liabilities was accounted for chiefly by:
  - the decrease in deferred tax liabilities via the income statement: -36 million euros (owing primarily to the decline in financial instruments at fair value through profit or loss (-44 million euros));
- The deferred tax assets presented in the balance sheet are attributable primarily to KBC Bank.
- As a result of a change in the accounting policy for intangible assets in 2020, 'Deferred tax assets' and 'Deferred tax liabilities' were restated retroactively (see Note 1.1).

Note 5.3: Investments in associated companies and joint ventures

(in millions of EUR)	31-12-2020	31-12-2019
Total	25	25
Overview of investments, including goodwill		
Mallpay	5	2
Isabel NV	9	8
Payconiq International S.A.	10	13
Joyn International NV	- 6	- 6
Bancontact Payconiq Company NV	5	5
Other	2	3
Goodwill on associated companies and joint ventures		
Gross amount	0	0
Accumulated impairment	0	0
Breakdown by type		
Unlisted	25	25
Listed	0	0
Fair value of investments in listed associated companies and joint ventures	0	0

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

Note 5.4: Property and equipment and investment property

(in millions of EUR)				31-12-2020	31-12-2019
Property, equipment				2 948	3 051
Investment property				342	360
Rental income				35	36
Direct operating expenses from investments generating rental income				10	10
Direct operating expenses from investments not generating rental income				2	3
MOVEMENTS TABLE	Land and buildings	IT equipment	Other equipment	Total property and equipment	Investment property
2020					
Opening balance	1 486	70	1 495	3 051	360
Acquisitions	156	30	411	597	47
Disposals	- 42	- 5	- 240	- 286	- 33
Depreciation	- 108	- 27	- 20	- 155	- 29
Other movements	- 30	- 3	- 225	- 258	- 3
Closing balance	1 462	64	1 421	2 948	342
Accumulated depreciation and impairment	*1 319*	*192*	*745*	*2 256*	*248*
Fair value 31-12-2020					548
2019					
Opening balance	1 139	54	1 361	2 554	350
Acquisitions	210	38	595	843	29
Disposals	- 89	- 2	- 233	- 323	- 47
Depreciation	- 100	- 25	- 26	- 151	- 27
Other movements	326	5	- 202	129	54
Closing balance	1 486	70	1 495	3 051	360
Accumulated depreciation and impairment	1 319	196	722	2 237	234
Fair value 31-12-2019					524

- 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 0.1 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.

Note 5.5: Goodwill and other intangible assets

(in millions of EUR)	Goodwill	Software developed in-house	Software developed externally	Other	Total
2020					
Opening balance	914	85	245	6	1 250
Acquisitions	0	178	52	0	231
Disposals	0	- 15	- 34	- 1	- 50
Amortisation	0	- 19	- 41	- 2	- 61
Other movements	- 32	55	- 91	0	- 68
Closing balance	882	285	131	4	1 302
Accumulated amortisation and impairment	*72*	*209*	*370*	*24*	*675*
2019					
Opening balance	750	106	178	16	1 050
Change in accounting policies	0	- 54	- 1	0	- 56
Adjusted opening balance	750	52	177	16	994
Acquisitions	167	43	89	2	300
Disposals	0	0	- 1	- 5	- 6
Amortisation	0	- 24	- 47	- 2	- 72
Other movements	- 3	15	27	- 5	34
Closing balance	914	85	245	6	1 250
Accumulated amortisation and impairment	*72*	*116*	*463*	*22*	*674*

- 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.
- As a result of a change in the accounting policy for intangible assets in 2020, 'Goodwill and other intangible assets' was restated retroactively for 2019 (see Note 1.1).
- For goodwill in respect of recent acquisitions, see Note 6.6.
- Impairment testing: a test was carried out to establish whether impairment on goodwill had to be recognised (see table and Note 3.10). This impairment test is performed at least once a year. We also carry out a high level assessment on a quarterly basis to see whether there is an indication of impairment. In the test, each entity is regarded as a separate cash-generating unit. Each entity has a specific risk profile and it is rare to have different profiles within a single entity.
- Impairment on goodwill under IAS 36: recognised in profit or loss if the recoverable amount of an investment is lower than its carrying value. The recoverable amount is defined as the higher of the value in use (calculated based on discounted cashflow analysis) and the fair value (calculated based on multiple analysis, etc.) less costs to sell.
- The main group companies to which goodwill relates are listed in the table. All of these companies have been valued using the discounted cashflow method. The discounted cashflow method calculates the recoverable amount of an investment as the present value of all future free cashflows of the business. This method is based on long-term projections about the company's business and the resulting cashflows (i.e. projections for a number of years ahead and the residual value of the business at the end of the specific projection period). These long-term projections are the result of an assessment of past and present performances combined with external sources of information on future performances in the respective markets and the global macroeconomic environment. The terminal growth rate is determined using a long-term average market growth rate. The present value of these future cashflows is calculated using a compound discount rate which is based on the capital asset pricing model (CAPM). A risk-free rate, a market-risk premium (multiplied by an activity beta), and a country risk premium (to reflect the impact of the economic situation of the country where KBC is active) are also used in the calculation. KBC has developed two distinct discounted cashflow models, viz. a bank model and an insurance model. Free cashflows in both cases are the dividends that can be paid out to the company's shareholders, account taken of the minimum capital requirements.

Goodwill outstanding (in millions of EUR)	31-12-2020	31-12-2019	Discount rates throughout the specific period of cashflow projections	
			31-12-2020	31-12-2019
K&H Bank	190	209	13,6% - 10,9%	14,0% - 11,6%
ČSOB (Czech Republic)	273	280	12,4% - 9,1%	12,1% - 9,7%
CMSS	162	167	12,5% - 9,3%	11,9% - 9,6%
United Bulgarian Bank	110	110	10,3% - 9,7%	11,2% - 10,7%
KBC Asset Management NV	114	114	9,3% - 9,1%	10,0% - 9,6%
KBC Commerical Finance	21	21	9,2% - 9,1%	10,0% - 9,7%
Rest	12	12	-	-
Total	882	914	-	-

- The period to which the cashflow budgets and projections relate is 12 years in most cases. This longer period is used to take account of the expected convergence of the Central and Eastern European economies with their more mature counterparts. This significant assumption is used in the model to reflect the dynamism of the economies in Central and Eastern Europe.
- The growth rate used to extrapolate the cashflow projections after that period is equal to the expected long-term growth rate of gross domestic product. This rate depends on the country and varied between 1,2% and 1,7% in 2020 (between 1.2% and 1.7% in 2019).
- No sensitivity analysis was carried out for entities where the recoverable amount exceeded the carrying value to such a large extent that no reasonably possible change in the key assumptions would result in the recoverable amount being less than or equal to the carrying value. The table gives an indication for the other entities of the change in key assumptions that would lead to their recoverable amount equalling their carrying value.

Change in key assumptions[1]	Increase in discount rate[2]	Decrease in terminal growth rate[3]	Increase in targeted solvency ratio[4]	Decrease in annual net profit	Increase in annual impairment charges
United Bulgarian Bank	0.3%	–	0.5%	2%	7%
ČMSS	0.4%	–	–	7%	22%
K&H Bank	0.7%	–	1.2%	7%	23%
KBC Commercial Finance	3.0%	–	–	27%	81%

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 12.2%–12.1% bracket for KBC Commercial Finance, the 14.3%–11.6% bracket for K&H Bank, the 12.9%–9.7% bracket for ČMSS and the 11.5%–9.8% bracket for United Bulgarian Bank.
3 Not relevant as it would mean that the terminal growth rate will be negative.
4 Absolute increase in the tier-1 capital ratio (not relevant for KBC Commercial Finance and ČMSS).

Note 5.6: Technical provisions, insurance

Applies to KBC Group and KBC Insurance, but not to KBC Bank.

Note 5.7: Provisions for risks and charges

Note 5.7.1: Overview

(in millions of EUR)	31-12-2020	31-12-2019
Total provisions for risks and charges	206	222
Provisions for off-balance-sheet commitments and financial guarantees	143	138
Provisions for other risks and charges	63	85
Provisions for restructuring	7	7
Provisions for taxes and pending legal disputes	31	54
Other	25	24

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
31-12-2020				
Provisions on 01-01-2020	13	17	107	138
Movements with an impact on results				
Transfer of financial assets				
Stage 1 (12-month ECL)	- 1	3	4	6
Stage 2 (lifetime ECL)	1	- 3	8	6
Stage 3 'non-performing' (lifetime ECL)	0	1	- 1	- 1
New financial assets	5	0	0	5
Changes in risk parameters during the reporting period	8	- 2	- 5	1
Changes in the model or methodology	0	0	0	0
Derecognised financial assets	- 1	0	- 2	- 2
Other	0	0	0	0
Movements without an impact on results				
Derecognised financial assets	0	0	- 13	- 13
Changes in the scope of consolidation	1	0	0	2
Transfers under IFRS 5	0	0	0	0
Other	0	0	1	1
Provisions on 31-12-2020	26	17	99	143
31-12-2019				
Provisions on 01-01-2019	12	17	99	129
Movements with an impact on results				
Transfer of financial assets				
Stage 1 (12-month ECL)	0	4	0	4
Stage 2 (lifetime ECL)	0	- 1	14	13
Stage 3 'non-performing' (lifetime ECL)	0	0	0	0
New financial assets	4	1	1	6
Changes in risk parameters during the reporting period	- 2	- 3	7	2
Changes in the model or methodology	0	0	0	0
Derecognised financial assets	- 2	0	- 2	- 4
Other	0	0	0	0
Movements without an impact on results				
Derecognised financial assets	0	0	- 8	- 8
Changes in the scope of consolidation	0	0	0	1
Transfers under IFRS 5	0	0	0	0
Other	0	- 1	- 4	- 4
Provisions on 31-12-2019	13	17	107	138

- Also see Note 6.1.

Note 5.7.3: Details of provisions for other risks and charges

(in millions of EUR)	Provision for restructuring	Provision for taxes and pending legal disputes	Other	Total
2020				
Opening balance	7	54	24	85
Movements with an impact on results				
Amounts allocated	5	17	9	31
Amounts used	- 4	- 29	- 5	- 38
Unused amounts reversed	0	- 11	- 2	- 13
Transfers out of/into liabilities associated with disposal groups	0	0	0	0
Changes in the scope of consolidation	0	3	0	3
Other	0	- 3	- 1	- 4
Closing balance	7	31	25	63
2019				
Opening balance	6	48	28	82
Movements with an impact on results				
Amounts allocated	5	28	5	39
Amounts used	- 3	- 19	- 4	- 26
Unused amounts reversed	- 2	- 3	- 4	- 10
Transfers out of/into liabilities associated with disposal groups	0	0	0	0
Changes in the scope of consolidation	0	0	0	1
Other	0	0	- 2	- 2
Closing balance	7	54	24	85

- For most of the provisions recorded, no reasonable estimate can be made of when they will be used.
- Other provisions included those set aside for miscellaneous risks.
- Information relating to the main legal disputes pending: claims filed against KBC group companies are – in keeping with IFRS rules – treated on the basis of an assessment of whether they will lead to an outflow of resources (i.e. ‘probable outflow’, ‘possible outflow’ or ‘remotely probable outflow’). Provisions are set aside for ‘probable outflow’ cases (see ‘Notes on the accounting policies’). No provisions are constituted for ‘possible outflow’ cases, but information is provided in the financial statements if such cases might have a material impact on the balance sheet (i.e. when the claim could lead to a possible outflow of more than 50 million euros). All other claims (‘remotely probable outflow’), of whatever magnitude, that represent a minor or no risk at all do not have to be reported. The most important cases are listed below. The information provided is limited in order not to prejudice the position of the group in ongoing litigation.
- Possible outflow: On 6 October 2011, Irving H. Picard, trustee (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 one of a whole set made by the Trustee against several banks, hedge funds, feeder funds and investors (all defendants referred to below as the ‘joint defence group’). A protracted lawsuit has been conducted based on procedural remedies relating to the applicability of the Bankruptcy Code’s ‘safe harbor’ and ‘good defenses’ rules to subsequent transferees (as is the case for KBC Investments Ltd), as detailed in previous disclosures. In June 2015, the Trustee amended the original claim, with the sum sought being increased to 196 million US dollars. A court ruling dismissing the Trustee’s claim was issued on 3 March 2017. The Trustee appealed and on 28 February 2019 the Court of Appeals for the Second Circuit reversed the dismissal. A *certiorari* petition filed on 30 August 2019 was dismissed by the US Supreme Court on 2 June 2020. As a result, the merits of the case will be heard by the bankruptcy court. KBC still believes there is a strong basis for dismissal of the claim against it, as there are a number of other defences that can be raised together with the joint defence group. The proceedings could take several more years.

Note 5.8: Other liabilities

(in millions of EUR)	31-12-2020	31-12-2019
Total	2 088	1 890
Breakdown by type		
Retirement benefit obligations or other employee benefits	499	439
Accrued charges (other than from interest expenses on financial liabilities)	339	277
Other	1 250	1 174

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

Note 5.9: Retirement benefit obligations

(in millions of EUR)	31-12-2020	31-12-2019
DEFINED BENEFIT PLANS		
Reconciliation of defined benefit obligations		
Defined benefit obligations at the beginning of the period	2 319	2 152
Current service cost	90	84
Interest cost	17	32
Actuarial gain or loss resulting from changes in demographic assumptions	- 4	1
Actuarial gain or loss resulting from changes in financial assumptions	186	181
Experience adjustments	- 77	- 39
Past-service cost	0	0
Other	- 78	- 92
Plan amendments	0	0
Benefits paid	- 75	- 72
Exchange differences	- 8	4
Curtailments	0	0
Transfers under IFRS 5	0	0
Changes in the scope of consolidation	0	0
Other	5	- 24
Defined benefit obligations at the end of the period	2 452	2 319
Reconciliation of the fair value of plan assets		
Fair value of plan assets at the beginning of the period	1 947	1 670
Actual return on plan assets	17	238
Expected interest income on plan assets, calculated based on the market interest rates of high-quality corporate bonds	*15*	*25*
Employer contributions	65	65
Plan participant contributions	19	19
Benefits paid	- 75	- 72
Other	- 7	26
Exchange differences	- 7	4
Settlements	0	0
Transfers under IFRS 5	0	0
Changes in the scope of consolidation	0	0
Other	0	22
Fair value of plan assets at the end of the period	1 965	1 947
of which financial instruments issued by the group	*16*	*29*
of which property occupied by KBC	*5*	*4*
Funded status		
Plan assets in excess of defined benefit obligations	- 486	- 372
Reimbursement rights	0	0
Asset ceiling limit	0	- 36
Unfunded accrued/prepaid pension cost	- 486	- 408
Movement in net liabilities or net assets		
Unfunded accrued/prepaid pension cost at the beginning of the period	- 408	- 462
Amounts recognised in the income statement	- 74	- 71
Amounts recognised in other comprehensive income	- 68	66
Employer contributions	65	65
Other	- 1	- 6
Exchange differences	1	0
Transfers under IFRS 5	0	0
Changes in the scope of consolidation	0	0
Other	- 2	- 6
Unfunded accrued/prepaid pension cost at the end of the period	- 486	- 408
Amounts recognised in the income statement	- 74	- 71
Current service cost	- 90	- 84
Interest cost	- 3	- 7
Plan participant contributions	19	19
Other	0	0
Past-service cost	0	0
Curtailments	0	0
Settlements	0	0
Changes in the scope of consolidation	0	0
Changes to the amounts recognised in other comprehensive income	- 68	66
Actuarial gain or loss resulting from changes in demographic assumptions	4	- 1
Actuarial gain or loss resulting from changes in financial assumptions	- 186	- 181
Actuarial result on plan assets	2	213
Experience adjustments	77	39
Adjustments to asset ceiling limits	36	- 15
Other	- 3	11
DEFINED CONTRIBUTION PLANS		
Expenses for defined contribution plans	- 19	- 18

- Retirement benefits that are actively accrued for the Belgium-based staff of KBC Bank and most of its Belgian subsidiaries are accrued exclusively through the KBC pension fund. Up until year-end 2018, employer-funded retirement benefits had accrued primarily through a defined benefit plan, where the benefit is calculated based on the final salary of employees before they retire, the number of years they had been in the plan and a formula that applies a progressive rate scale. A defined contribution plan was introduced on 1 January 2014 for all new employees and any employees who had chosen to switch to it. In this plan, a contribution is deposited based on the current monthly salary and the amounts deposited are paid out together with the (guaranteed) return on retirement. Both types of pension plan are managed by the KBC pension fund, which uses the services of KBC Asset Management for the investment strategy. In addition, there are a number of smaller, closed group insurance schemes from the past that will continue to be funded and are managed by the KBC pension fund. On 1 January 2019, a new defined contribution plan was introduced to replace the one introduced in 2014. All employees were again given the one-time option of switching from the defined benefit plan to the new defined contribution plan. As of December 31, 2020, there were 59% actively affiliated employees in the defined benefit plan and 41% in the defined contribution plan. As of December 31, 2019, the figures were 61% and 39%, respectively.
- Since 1 January 2020, the insurance risks related to death and disability (for active pension fund participants and supplementary to the pension plan) have been fully reinsured through an external reinsurance programme. This had the following IFRS-related impact:
  - Death: retirement benefit obligations: -61.8 million euros; staff expenses: -1.3 million euros.
  - Disability: retirement benefit obligations: -9.9 million euros; staff expenses: -0.4 million euros.
- There are no significant defined benefit plans in the other core countries.

Additional information on retirement benefit obligations (in millions of EUR)	2020	2019	2018	2017	2016
Changes in main headings in the main table					
Defined benefit obligations	2 452	2 319	2 152	2 124	2 126
Fair value of plan assets	1 965	1 947	1 670	1 699	1 600
Unfunded accrued/prepaid pension cost	- 486	- 408	- 462	- 407	- 500
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
Impact on retirement benefit obligations (*)	182	182	- 29	4	- 147

* Arising from defined benefit plans. A plus sign signifies an increase in the obligation (in absolute value), a minus sign a decrease in the obligation (in absolute value).

Additional information on retirement benefit obligations: DEFINED BENEFIT PLANS	**KBC pension fund**
Composition (31-12-2020)	
Equity instruments	39%
Bonds	48%
Real estate	12%
Cash	1%
Investment funds	0%
of which illiquid assets	*10%*
Composition (31-12-2019)	
Equity instruments	40%
Bonds	46%
Real estate	11%
Cash	3%
Investment funds	0%
of which illiquid assets	*9%*
Contributions expected in 2021 (in millions of EUR)	38
Regulatory framework	Pension plans are registered in collective labour agreements and incorporated into a set of regulations. Annual reporting of funding levels to supervisory authorities (FSMA/NBB). Any underfunding must be reported immediately to the supervisory authorities.
Risks for KBC	Investment risk and inflation risk.
ALM policy	The hedging portfolio hedges against interest rate risk and inflation risk using interest rate swaps. The return portfolio aims to generate an extra return.
Plan amendments	A new version of the employer-funded DC plan was introduced on 1 January 2019. All employees affiliated in the DB plan had a one-off opportunity to switch to the DC plan for future contributions.
Curtailments and settlements	Not applicable.
Discounting method	Based on BVAL quotes for various time buckets of AA-rated corporate bonds. The resulting yield curve is converted into a zero coupon curve. The curve becomes flat for maturities of 22 years and longer.
Key actuarial assumptions	
Average discount rate	0.09%
Expected rate of salary increase	2.00%
Expected inflation rate	1.65%
Expected rate of increase in pensions	-
Weighted average duration of the obligations	12 years
Impact of changes in the assumptions used in the actuarial calculation of the retirement benefit obligations	
Increase in the retirement benefit obligations on 31-12-2020 consequent on:	
a decrease of 1% in the discount rate	13.88%
an increase of 1% in the expected inflation rate	10.98%
an increase that is 1% higher than the expected real increase in salary	14.29%
the age of retirement being 65 for all active employees	0.48%
an increase of one year in life expectancy	-
The impact of the following assumptions has not been calculated:	Decreasing mortality rates: pension benefits are paid out in capital, so longevity risk is immaterial. Staff turnover rates: the expected rate is very low.

Additional information on retirement benefit obligations – DEFINED CONTRIBUTION PLANS	KBC pension fund
Contributions expected in 2021 (in millions of EUR)	20
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 minimum guaranteed interest rate.
Discounting method	Based on BVAL quotes for various time buckets of AA-rated corporate bonds. The resulting yield curve is converted into a zero coupon curve. The curve becomes flat for maturities of 22 years and longer.
Key actuarial assumptions	
Average discount rate	0.30%
Weighted average duration of the obligations	20 years
Impact of changes in the assumptions used in the actuarial calculation of the retirement benefit obligations	
Increase in the retirement benefit obligations on 31-12-2020 consequent on:	
a decrease of 1% in the discount rate	22%
the age of retirement being 65 for all active employees	0.06%

Note 5.10: Parent shareholders' equity and additional tier-1 instruments

Quantities	31-12-2020	31-12-2019
Ordinary shares	**995 371 469**	**995 371 469**
of which ordinary shares that entitle the holder to a dividend payment	*995 371 469*	*995 371 469*
of which treasury shares	*0*	*0*
Additional information		
Par value per share (in EUR)	9.78	9.78
Number of shares issued but not fully paid up	0	0

- Ordinary shares: ordinary shares of no nominal value. All ordinary shares carry voting rights and each share represents one vote. No participation certificates or non-voting shares have been issued.
- On 31 December 2020, 995 371 469 ordinary shares were in circulation, all of which belonged to KBC Group NV.
- Additional tier-1 (AT1) instruments (these securities are classified as equity instruments under IAS 32 and the coupon is treated as a dividend):
  - In April 2018, KBC Group issued 1 billion euros in AT1 securities and underwrote an AT1 security for the same amount at KBC Bank (a perpetual AT1 instrument with a seven year first-call date and a temporary write-down trigger should the common equity ratio fall below 5.125% and an initial coupon of 4.45% per annum, which is payable every six months).
  - In February 2019, KBC Group issued 500 million euros in AT1 securities and underwrote an AT1 security for the same amount at KBC Bank (a perpetual AT1 instrument with a five year first-call date and a temporary write-down trigger should the common equity ratio fall below 5.125% and an initial coupon of 4.95% per annum, which is payable every six months).

Note 5.11: Non-current assets held for sale and discontinued operations (IFRS 5)

- No principal group companies fell under the scope of IFRS 5 in 2019 and 2020.

6.0 Other notes

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

(in millions of EUR)	31-12-2020			31-12-2019		
	Nominal amount	Provision	Net exposure	Nominal amount	Provision	Net exposure
Undrawn portion of credit lines granted						
Stage 1	36 059	22	36 036	34 959	11	34 949
Stage 2	4 034	11	4 024	3 070	7	3 062
Stage 3 – non-performing	40	9	31	115	3	112
Total	40 133	42	40 091	38 144	21	38 123
of which irrevocable credit lines	*23 542*	*18*	*23 524*	*22 981*	*12*	*22 969*
Financial guarantees given						
Stage 1	7 767	4	7 764	8 436	3	8 433
Stage 2	1 703	6	1 697	1 668	10	1 658
Stage 3 – non-performing	169	90	79	192	104	88
Total	9 639	100	9 539	10 295	116	10 179
Other commitments given						
Total	354	1	353	308	0	308
Total						
Off-balance-sheet commitments and financial guarantees	50 126	143	49 983	48 748	138	48 610

- Fair value of financial guarantees: based on the available market value.
- The carrying value of financial assets pledged by KBC as collateral came to 61 438 million euros for liabilities and 4 192 million euros for contingent liabilities (44 756 million euros and 3 301 million euros, respectively, in 2019). At year-end 2020, some 17.4 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 (10.9 billion euros at year-end 2019).
- There is an obligation to return collateral received (which may be sold or repledged in the absence of default by the owner; see table) in its original form, or possibly in cash. Collateral can be called in if loans are terminated for various reasons such as default or bankruptcy. In the event of bankruptcy, the collateral will be sold by the receiver. In other cases, the bank will organise the foreclosure itself or take possession of the collateral. Collateral received that relates to OTC derivatives is primarily cash, which is recognised by KBC on the balance sheet (and is not included in the table). More details are provided in Note 4.3.
- Collateral acquired through foreclosure came to 0.01 billion euros in 2020 (0.02 billion euros in 2019).

Collateral received (which may be sold or repledged in the absence of default by the owner) (in millions of EUR)	Fair value of collateral received		Fair value of collateral sold or repledged	
	31-12-2020	31-12-2019	31-12-2020	31-12-2019
Financial assets	40 466	41 128	10 933	11 047
Equity instruments	8	10	2	1
Debt securities	40 261	40 881	10 931	11 046
Loans and advances	197	236	0	0
Cash	0	0	0	0
Other	0	0	0	0

Note 6.2: Leasing

(in millions of EUR)	31-12-2020	31-12-2019
Finance lease receivables		
Gross investment in finance leases, receivable	6 136	6 293
At not more than one year	1 482	1 613
At more than one but not more than five years	3 350	3 422
At more than five years	1 304	1 257
Unearned future finance income on finance leases	388	366
Net investment in finance leases	5 747	5 926
At not more than one year	1 394	1 537
At more than one but not more than five years	3 148	3 240
At more than five years	1 206	1 150
of which unguaranteed residual values accruing to the benefit of the lessor	*40*	*46*
Accumulated impairment for uncollectable lease payments receivable	55	44
Operating lease receivables		
Future aggregate minimum rentals receivable under non-cancellable operating leases	503	518

- KBC acts only to a limited extent as a lessee in operational and financial leasing.
- Finance leases: KBC offers finance lease products ranging from equipment and vehicle leasing to real estate leasing. In Belgium, finance leases are typically sold through KBC group’s branch network, and that channel is becoming increasingly important in Central Europe, too.
- Operating leases: involve primarily full service car leases, which are sold through the KBC Bank and CBC Banque branch network and through an internal sales team. Full service car leasing activities are being further developed in Central Europe, too.

Note 6.3: Related-party transactions

Transactions with related parties, excluding key management (in millions of EUR)	Parent entities with joint control	Subsidiaries and other entities of group	Associated companies	Joint ventures	Other	Total	Parent entities with joint control	Subsidiaries and other entities of group	Associated companies	Joint ventures	Other	Total
						2020						2019
Assets	1	649	93	34	7	784	16	1 217	107	40	7	1 387
Loans and advances	0	251	39	1	0	291	7	800	38	1	0	846
Equity instruments (including investments in associated companies and joint ventures)	1	97	53	29	0	180	3	92	68	33	0	196
Other	0	301	1	4	7	313	7	326	1	6	7	345
Liabilities	10 446	1 093	93	4	373	12 010	7 493	796	93	0	365	8 748
Deposits	80	769	18	4	351	1 222	122	713	14	0	356	1 205
Other financial liabilities	10 191	258	0	0	0	10 449	7 341	17	0	0	0	7 357
Other	175	66	75	0	23	339	31	66	80	0	9	185
Income statement	- 929	- 55	- 4	0	0	- 987	- 808	- 52	- 2	0	- 5	- 867
Net interest income	- 74	- 142	- 1	0	0	- 217	- 83	- 152	- 1	0	0	- 236
Interest income	6	1	1	0	0	8	2	0	1	0	0	3
Interest expense	- 80	- 143	- 1	0	0	- 225	- 85	- 152	- 1	0	0	- 239
Earned premiums, insurance (before reinsurance)	0	0	0	0	0	0	0	0	0	0	0	0
Technical insurance charges (before reinsurance)	0	0	0	0	0	0	0	0	0	0	0	0
Dividend income	0	0	1	0	0	2	0	0	1	0	0	1
Net fee and commission income	0	80	- 1	0	2	81	0	85	0	0	2	87
Fee and commission income	0	178	0	0	2	181	1	189	0	0	2	192
Fee and commission expense	0	- 99	- 1	0	0	- 100	- 1	- 103	- 2	0	0	- 105
Net other income	0	- 17	- 1	0	0	- 18	0	- 17	- 1	0	- 5	- 23
General administrative expenses	- 854	24	- 2	0	- 2	- 835	- 724	32	- 2	0	- 2	- 697
Undrawn portion of loan commitments, financial guarantees and other commitments												
Given by the group	0	3 798	0	18	111	3 927	0	5 122	0	0	74	5 197
Received by the group	0	0	0	0	0	0	0	0	0	0	0	0

Transactions with key management (members of the Board of Directors and Executive Committee) (in millions of EUR) (*)	2020	2019
Total (*)	2	2
Breakdown by type of remuneration		
Short-term employee benefits	2	2
Post-employment benefits	0	0
Defined benefit plans	0	0
Defined contribution plans	0	0
Other long-term employee benefits	0	0
Termination benefits	0	0
Share-based payments	0	0
Stock options (units)		
At the beginning of the period	0	0
Granted	0	0
Exercised	0	0
Composition-related changes	0	0
At the end of the period	0	0
Advances and loans granted to key management and partners	2	2

(*) Remuneration to key management or partners of the consolidating company on the basis of their activity in that company, its subsidiaries and associated companies, including the amount of retirement pensions granted to former key management staff on that basis.

- The 'Subsidiaries and KBC group entities' heading in the first table includes transactions with unconsolidated subsidiaries (transactions with consolidated subsidiaries have already been eliminated from the consolidated financial statements) and transactions with other KBC group entities (primarily KBC Insurance).
- The 'Other' heading in the first table includes KBC Ancora, Cera and MRBB.
- All related-party transactions occur at arm's length.
- Key management comprises the members of the Board of Directors and Executive Committee of KBC Bank NV. More detailed information on remuneration paid to key management staff is provided in the 'Corporate governance statement' section.
- There were no significant impairment charges vis-à-vis related parties.

Note 6.4: Statutory auditor's remuneration

Statutory auditor's remuneration (PwC, in EUR)	2020	2019
KBC Parent company and its subsidiaries		
Standard audit services	6 139 087	5 814 977
Other services	413 229	649 561
Other certifications	404 150	562 842
Tax advice	0	0
Other non-audit assignments	9 079	48 645
KBC Parent company (alone)		
Standard audit services	1 998 195	1 975 819
Other services	82 948	62 541

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

The main group companies are shown in the table. A complete list of group companies (included in or excluded from the scope of consolidation) is provided at www.kbc.com > About us > Our structure.

KBC Bank: main companies included in the scope of consolidation at year-end 2020					
Company	Registered office	Company number	Share of capital held at group level (in %)	Business unit (*)	Activity
KBC Bank NV	Brussels – BE	462.920.226	100.00	BE/GC	credit institution
CBC BANQUE SA	Namur – BE	403.211.380	100.00	BE	credit institution
Československá Obchodná Banka a.s.	Bratislava – SK	--	100.00	IM	credit institution
Československá Obchodní Banka a.s.	Prague – CZ	--	100.00	CZ	credit institution
KBC Asset Management NV	Brussels – BE	469.444.267	100.00	BE	asset management
KBC Autolease NV	Leuven – BE	422.562.385	100.00	BE	leasing
KBC Bank Ireland Plc.	Dublin – IE	--	100.00	IM	credit institution
KBC Commercial Finance NV	Brussels – BE	403.278.488	100.00	BE	factoring
KBC IFIMA SA	Luxembourg – LU	--	100.00	GC	financing
KBC Securities NV	Brussels – BE	437.060.521	100.00	BE	stockbroker
K&H Bank Zrt.	Budapest – HU	--	100.00	IM	credit institution
Loan Invest NV	Brussels – BE	889.054.884	100.00	BE	securitisation
OTP Banka Slovensko a.s.	Bratislava – SK	--	99.44	IM	credit institution
United Bulgarian Bank AD	Sofia – BG	--	99.91	IM	credit institution

(*) BE = Belgium Business Unit, CZ = Czech Republic Business Unit, IM = International Markets Business Unit, GC = Group Centre.

- 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 KBC Bank 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 for that purpose. Between 2006 and 2016, these entities were established as Irish public limited companies or Irish private limited companies under the Irish Companies Act 2014. 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 (like equity-linked swaps, interest-linked swaps, total return swaps and repo transactions). 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 2020, the assets under management at these entities amounted to 9.1 billion euros.
    - Sponsored unconsolidated structured entities are defined as structured entities where KBC Bank or one of its subsidiaries acts as arranger of the issuance programme, but where the decision-making power of the entities does not reside with KBC Bank or one of its subsidiaries. As a result, these entities are not consolidated.

- At year-end 2020, KBC Bank had received income from unconsolidated structured entities in the form of management fees (4 million euros), administrative agent fees (1 million euros) and accounting fees (1 million euros).

- At year-end 2020, 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

- 2019: ČMSS
  - At the end of May 2019, ČSOB acquired the remaining 45% stake in ČMSS from Bausparkasse Schwäbisch Hall for a total consideration of 240 million euros. As a result of that deal, ČMSS is now fully owned by ČSOB, enabling the latter to consolidate its position as the largest financial solutions provider for housing in the Czech Republic.
  - The impact of the acquisition is included in the consolidated figures contained in this report. Since June 2019, the results of ČMSS have been fully consolidated into each line of the income statement (before then, the results had been recorded under 'Share in results of associated companies and joint ventures' in proportion to the 55% shareholding). ČMSS has also been fully consolidated in the balance sheet since June 2019 (before then, it had been recorded under 'Investments in associated companies and joint ventures', in accordance with the equity method). The one-off gain of 82 million euros, which related to the revaluation of the group's existing 55% stake in ČMSS, was recorded under 'Net other income'.
  - KBC recognised goodwill of 167 million euros in its consolidated financial statements, which was accounted for by the profitability of ČMSS (based on the results achieved in previous years and the business plan for the years ahead), along with revenue synergies (additional product sales through cross-selling) and cost synergies (relating in part to head office functions, such as Internal Audit, Procurement, ALM, Legal and Finance). Goodwill is not deductible for tax purposes.
  - The deal had an impact of -0.3 percentage points on KBC Group NV's common equity ratio in 2019.
  - The table below shows the fair value of the main assets and liabilities involved in the acquisition of ČMSS, as well as the company's contribution to the group's income statement (from June to December 2019).

- 2020: OTP Banka Slovensko
  - At the end of November 2020, we completed the acquisition of 99.44% of the shares in OTP Banka Slovensko for a total consideration of 64 million euros (the deal did not contain any contingent consideration arrangements). OTP Banka Slovensko operates on the Slovakian market as a universal bank. It has a share of nearly 2% in the market for deposits and loans and has close to 200 000 clients. This acquisition strengthens our market share in Slovakia, where we have been operating through ČSOB since 2002. We will be able to benefit from economies of scale and increase our visibility in this highly competitive market, to the benefit of all our stakeholders.
  - The impact of the acquisition is included in the consolidated balance sheet figures in this report. The results of OTP Banka Slovensko will only be fully consolidated into each line of the income statement from 1 January 2021.
  - KBC did not include any goodwill or badwill in its consolidated financial statements at the end of 2020, because the consideration was virtually identical to OTP'S equity (taking into account specific, negative fair value adjustments that KBC had identified during the due diligence process). It should be noted that IFRS 3 (Business Combinations) allows the amount of goodwill to be adjusted during the 12-month measurement period starting from the acquisition date. The amount of goodwill is therefore temporary and subject to change (primarily fair value changes in the loan portfolio, which will continue to be screened over the next few months). Goodwill is not deductible for tax purposes.
  - The acquisition had only a limited impact on KBC's capital position (-0.2% on the common equity ratio).
  - The table below shows the fair value of the main assets and liabilities involved in the acquisition of OTP Banka Slovensko.

in millions of EUR	12/31/2019	12/31/2020
Purchase or sale	Purchase	Purchase
Percentage of shares bought (+) or sold (-) in the relevant year	ČMSS 45%	OTP Banka Slovenska 99,44%
Total share percentage at the end of the relevant year	100%	99.44%
For business unit/segment	Czech Republic	Slovakia
Deal date (month and year)	May 2019	November 2020
Incorporation of the result of the company in the result of the group as of:	01-06-2019	01-01-2021
Purchase price	240	64
Cashflow for acquiring or selling companies less cash and cash equivalents acquired	439	107
Recognised amounts of identifiable assets acquired and liabilities assumed - provisional fair value at 31 May 2019	5/31/2019	12/31/2020
Cash and cash balances with central banks	729	171
Financial assets	4 959	1 179
Amortised cost	4 855	1 176
Fair value through OCI	103	2
Hedging derivatives	0	0
Fair value adjustments of hedged items in portfolio hedge of interest rate risk	15	0
Tax assets	4	16
Property and equipment	20	12
Goodwill and other intangible assets	39	0
Other assets	7	2
of which: cash and cash equivalents (included in the assets above)	*729*	*171*
Financial liabilities	5 384	1 048
Measured at amortised cost	5 362	1 048
Hedging derivatives	22	0
Tax liabilities	10	
Provisions for risks and charges	1	5
Other liabilities	33	21
of which: cash and cash equivalents (included in the liabilities above)	*50*	*0*

Contribution made by ČMSS to the consolidated income statement (equity method applied to 55% stake for first five months of 2019; wholly owned and fully consolidated from 1 June 2019):

(in millions of EUR)	2019
Net interest income	49
Dividend income	0
Net result from financial instruments at fair value through profit or loss	1
Net realised result from debt instruments at fair value through OCI	0
Net fee and commission income	15
Net other income	82
TOTAL INCOME	146
Operating expenses	- 30
Impairment	- 3
on financial assets at AC and at FVOCI	*- 3*
Share in results of associated companies and joint ventures	9
RESULT BEFORE TAX	121
Income tax expense	- 6
RESULT AFTER TAX	116
attributable to minority interests	0
attributable to equity holders of the parent	116

Note 6.7: Risk management and capital adequacy

Capital management is a key management process relating to all decisions on the level and composition of our capital, both for banking and insurance. It covers all instruments that are positioned to absorb losses in going concern and/or gone concern situations. Capital management aims to achieve the best possible balance between regulatory requirements, investor expectations, rating agencies' views and management ambitions. Ultimate accountability for capital management lies with the Board of Directors.

Capital management entails a broad scope of activities covering strategic topics (such as defining policies, targets, etc.), frameworks and models (e.g., for regulatory capital, internal capital, cost of equity, measuring performance, etc.), planning and allocation (e.g., allocating capital to business, planning capital instrument issuances, forecasting capital ratios, etc.), implementation (e.g., dividends, capital transactions) and monitoring (including current solvency positions at various levels, compliance with group policies and regulatory requirements).

ICAAP (Internal Capital Adequacy Assessment Process) consists of numerous business and risk processes that together contribute to the aim of being adequately capitalised at all times in view of our risk profile and the quality of our risk management and control environment.

We report the solvency of the bank based on IFRS data and according to the rules imposed by the regulator.

This implies that we calculate our solvency ratios based on CRR/CRD IV. KBC began applying the transitional provisions for IFRS 9 on 30 June 2020. KBC Bank is subject to minimum solvency ratios. The main measure is the transitional common equity ratio, with the minimum regulatory requirement being 10.45%. This includes the pillar 1 minimum requirement (4.5%), the pillar 2 requirement (1.75% set by the ECB following its supervisory review and evaluation process) and the buffer requirements (4.20% set by the local competent authorities in KBC's core markets). At year-end 2020, the transitional common equity ratio was 15.7%.

(in millions of EUR)	KBC Bank (consolidated) CRR/CRD	
	31-12-2020	31-12-2019
	Transi-tional	*Fully loaded*
Total regulatory capital, after profit appropriation	18 021	16 660
Tier-1 capital	16 078	14 704
Common equity	14 578	13 204
Parent shareholders' equity	14 567	15 043
Solvency adjustments	12	-1 840
Additional going concern capital (1)	1 500	1 500
Tier-2 capital (2)	1 942	1 957
Total weighted risk volume (3)	92 635	89 838
Common equity ratio	15.7%	14.7%

(1) Contains perpetual subordinated loans with a fully discretionary and non-cumulative interest payment. The securities also include a loss-absorption mechanism, more specifically a temporary write-down if the CET1 ratio falls below 5,125%. See also note 5.10.
(2) Contains subordinated loans with a fixed maturity date of which the principal amount and interest payment in the going concern cannot be canceled.
(3) It is not the responsibility of the statutory auditor to ensure that the RWA internal models meet the approval criteria as laid down in the regulatory standards.

- More detailed information is provided in the 'How do we manage our capital?' section of this report and in KBC's Risk Report.
- The loan portfolio accounts for the largest share of the financial assets. Based on internal management reports, the composition and quality of the loan portfolio is set out in detail in the 'How do we manage our risks?' section (under 'Credit risk'). The information required in relation to risks (in accordance with IFRS 4 and IFRS 7) is provided in those parts of the 'How do we manage our risks?' section which have been audited by the statutory auditor and which constitute part of the financial statements.

Note 6.8: Post-balance-sheet events

Significant non-adjusting events between balance sheet date and the date on which the financial statements were approved for publication by the Board of Directors (18 March 2021):

- None.

Note 6.9: General information on the company

Name:	KBC Bank NV.
Incorporated:	17 March 1998.
Country of incorporation:	Belgium.
Registered office:	Havenlaan 2, 1080 Brussels, Belgium.
VAT:	BE 0462.920.226.
RLP:	Brussels.
Website:	https://www.kbc.com

E-mail address reserved for shareholders and bondholders:

IR4U@kbc.be

Legal form:	*naamloze vennootschap* (company with limited liability) under Belgian law; organisation of public interest; the company is a credit institution that is subject to the prudential supervision of the National Bank of Belgium and the European Central Bank.
Life:	undefined.
Object:	In Belgium or abroad, for its own account or for account of third parties, the company has as object the execution of all banking operations in the widest sense, as well as the exercise of all other activities which banks are or shall be permitted to pursue (Article 2 of the Articles of Association).

Documents open to public inspection:

The Articles of Association of the company are open to public inspection at the Registry of the Dutch-speaking division of the Brussels Business Court and are published on www.kbc.com. The financial statements and annual report are filed with the National Bank of Belgium and are available at www.kbc.com. The annual report can also be obtained from the company's registered office and will be sent to those requesting it. Extracts of minutes concerning decisions on the appointment, resignation and the termination of the offices of members of the Executive Committee and the Board of Directors are published in the appendices to the Belgian Official Gazette. Financial reports about the company are published on www.kbc.com.

General Meeting of Shareholders:

A General Meeting is held every year at the company’s registered office or at any other place indicated in the convening notice, at 11 a.m. on the Wednesday immediately prior to the last Thursday of April, or, if this day is a statutory public holiday or bank holiday, at 11 a.m. on the business day immediately before it. Each share gives entitlement to one vote.

For information on the general meeting of shareholders and the right of shareholders to take part in such meetings, see Article 21 et seq. of the Articles of Association, which are available at www.kbc.com.

Statutory auditor’s report

FREE TRANSLATION FROM DUTCH ORIGINAL

STATUTORY AUDITOR'S REPORT TO THE GENERAL SHAREHOLDERS' MEETING OF KBC BANK NV ON THE CONSOLIDATED ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2020

We present to you our statutory auditor's report in the context of our statutory audit of the consolidated accounts of KBC Bank NV (the "Company") and its subsidiaries (jointly "the Group"). This report includes our report on the consolidated accounts, as well as the other legal and regulatory requirements. This forms part of an integrated whole and is indivisible.

We have been appointed as statutory auditor by the general meeting of 24 April 2019, following the proposal formulated by the board of directors and following the recommendation by the audit committee and the proposal formulated by the workers' council. Our mandate will expire on the date of the general meeting which will deliberate on the annual accounts for the year ended 31 December 2021. We have performed the statutory audit of the consolidated accounts of KBC Bank NV for 5 consecutive years.

Report on the consolidated accounts

Unqualified opinion

We have performed the statutory audit of the Group's consolidated accounts, which comprise the consolidated balance sheet as at 31 December 2020, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cashflow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information, and which is characterised by a consolidated balance sheet total of EUR 284.399 million and a profit for the year (attributable to equity holders of the parent) of EUR 933 million.

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

Basis for unqualified opinion

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

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

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

PwC Bedrijfsrevisoren BV - PwC Reviseurs d'Entreprises SRL - Financial Assurance Services
Maatschappelijke zetel/Siège social: Woluwe Garden, Woluwedal 18, B-1932 Sint-Stevens-Woluwe
T: +32 (0)2 710 4211, F: +32 (0)2 710 4299, www.pwc.com
BTW/TVA BE 0429.501.944 / RPR Brussel - RPM Bruxelles / ING BE43 3101 3811 9501 - BIC BBRUBEBB / BELFIUS BE92 0689 0408 8123 - BIC GKCC BEBB

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Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated accounts of the current period. These matters were addressed in the context of our audit of the consolidated accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Estimation uncertainty with respect to financial instruments measured at fair value

Description of the Key Audit Matter

Details regarding the financial instruments measured at fair value at year-end 31 December 2020 are included in Note 4.5 to the consolidated accounts. For information regarding the determination of fair value please refer to Note 1.2. of the Summary of significant accounting policies and Note 4.4 to the consolidated accounts.

Valuation techniques and models used for certain financial instruments are inherently subjective and involve various assumptions regarding pricing. In addition, the number of factors influencing the determination of fair value can be extensive and can vary both by type of instrument and/or within instrument types. This is particularly the case for financial instruments disclosed in level 2 and 3 in Note 4.5 to the consolidated accounts, the fair value of financial instruments in level 1 being subject to limited judgment.

The use of different valuation techniques and assumptions could produce significantly different estimates of fair value. An overview of the main valuation techniques used is disclosed in Notes 4.4 and 4.5 to the consolidated accounts. Furthermore, market value adjustments are recognized on certain positions that are measured at fair value with fair value changes reported in profit or loss or in equity. These adjustments are determined by the current market conditions, the evolution in credit risk parameters, the interest rate environment and cost of funding, all impacting the fair value measurements of the Group's portfolio measured at fair value. The main market value adjustments applied are disclosed in Note 1.2 to the consolidated accounts. As the use of different assumptions could produce different estimates of fair value, we consider this as a key audit matter.

How our Audit addressed the Key Audit Matter

We obtained an understanding of the internal control framework related to the valuation of financial instruments, including price testing and model validation. We assessed the appropriateness of the model validation methodology with the assistance of our valuation experts and we performed a recalculation of the fair valuation on a sample basis. This includes the assessment of market data, inputs and key assumptions as critical factors used in the fair value models, based on our experience and market practice.

Based on our procedures we found that management's outcome of the models used for the fair value of the level 2 and 3 financial instruments, in the context of the estimation uncertainty concerned, fell within a reasonable and acceptable range of outcomes.

Finally, we assessed the completeness and accuracy of the disclosures relating to the fair values of these financial instruments to assess compliance with disclosure requirements included in the International Financial Reporting Standards as adopted by the European Union.

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Estimation uncertainty with respect to impairment allowances for loans and advances

Description of the Key Audit Matter

The appropriateness of the impairment allowances for loans and advances at amortised cost requires significant judgment of management. Measuring impairment allowances for loans and advances under IFRS 9 requires an assessment of 12-month or lifetime expected credit losses and the assessment of significant increases in credit risk or whether loans and advances at amortised cost are in default.

The COVID-19 pandemic has limited the ability of the expected credit loss models to adequately reflect all the consequences of the resulting economic conditions and government measures, requiring the recognition of "overlays" in addition to the expected credit losses produced by the models.

At year-end 31 December 2020 information regarding impairment allowances for loans and advances is included in Note 4.2 to the consolidated accounts, in application of the policies as described in Note 1.2. of the Summary of significant accounting policies policies.

Information concerning the impact of the COVID-19 pandemic on the expected credit losses is included in Note 1.4 to the consolidated accounts.

At year-end 31 December 2020 the gross loans and advances at amortised cost amount to EUR 195.169 million, the total impairment at that date amounts to EUR 3.694 million.

The assessment of significant increases in credit risk, the assessment of whether loans and advances at amortised cost are in default and the measurement of 12-month or lifetime expected credit losses are part of the estimation process of the Group and are, amongst others, based on macroeconomic scenarios, credit risk models, triggers indicating a significant increase in credit risk and default triggers, the financial condition of the counterparty and the expected future cash flows or the value of collateral.

The "overlays" recognised in addition to the expected credit losses produced by the models consider expert inputs, sector effects and a probability weighted scenario impact.

The use of different modelling techniques, scenarios and assumptions could lead to different estimates of impairment charges on loans and advances. As the loans and advances represent the majority of the Group's balance sheet and given the related estimation uncertainty on impairment charges, we consider this as a key audit matter.

How our Audit addressed the Key Audit Matter

Our audit procedures included an assessment of the overall governance of the credit and impairment process of the Group, including the 12-month and lifetime expected loss modelling processes and the COVID-19 "overlay" approach. We have assessed and tested the design and operating effectiveness of the controls within the loan origination process, risk management process and the estimation process for determining impairment allowances. For loan impairment allowances determined on an individual basis we have performed, for a sample of corporate credit files, a detailed review of loans granted by the Group. We challenged the default triggers and the quantification including forecasts of future cash flows, valuation of underlying collateral and estimates of recovery on default. We found no material exceptions in these tests.

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For the loan 12-month and lifetime expected credit loss impairment allowances, we challenged the significant increases in credit risk triggers and the macroeconomic scenarios and tested the underlying models including the Group's model approval and validation process.

We also tested the mathematical accuracy of the calculations used to determine the "overlays" and assessed their reasonability.

Finally, we assessed the completeness and accuracy of the disclosures, including the disclosures concerning the COVID-19 "overlays" and whether the disclosures are in compliance with the International Financial Reporting Standards as adopted by the European Union.

In our view, the impairments estimated by management, including the COVID-19 "overlays", are within a reasonable range of outcomes in view of the overall loans and advances and the related uncertainties as disclosed in the consolidated accounts.

Responsibilities of the board of directors for the preparation of the consolidated accounts

The board of directors is responsible for the preparation of consolidated accounts that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium, and for such internal control as the board of directors determines is necessary to enable the preparation of consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated accounts, the board of directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the board of directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Statutory auditor's responsibilities for the audit of the consolidated accounts

Our objectives are to obtain reasonable assurance about whether the consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated accounts.

In performing our audit, we comply with the legal, regulatory and normative framework applicable to the audit of the consolidated accounts in Belgium. A statutory audit does not provide any assurance as to the Group's future viability nor as to the efficiency or effectiveness of the board of directors' current or future business management at Group level. Our responsibilities in respect of the use of the going concern basis of accounting by the board of directors are described below.

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As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors.

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

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

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

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

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

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

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Other legal and regulatory requirements

Responsibilities of the board of directors

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

Statutory auditor's responsibilities

In the context of our engagement and in accordance with the Belgian standard which is complementary to the International Standards on Auditing (ISAs) as applicable in Belgium, our responsibility is to verify, in all material respects, the directors' report on the consolidated accounts and to report on these matters.

Aspects related to the directors' report on the consolidated accounts

In our opinion, after having performed specific procedures in relation to the directors' report on the consolidated accounts, this directors' report is consistent with the consolidated accounts for the year under audit, and it is prepared in accordance with article 3:32 of the Companies' and Associations' Code.

In the context of our audit of the consolidated accounts, we are also responsible for considering, in particular based on the knowledge acquired resulting from the audit, whether the directors' report is materially misstated or contains information which is inadequately disclosed or otherwise misleading. In light of the procedures we have performed, there are no material misstatements we have to report to you.

Regarding non-financial information, as mentioned in the directors' report, the information is provided at the level of the highest Belgian consolidating entity, KBC Group NV, in the directors' report on the consolidated accounts.

Statements related to independence

- Our registered audit firm and our network did not provide services which are incompatible with the statutory audit of the consolidated accounts, and our registered audit firm remained independent of the Group in the course of our mandate.
- The fees for additional services which are compatible with the statutory audit of the consolidated accounts referred to in article 3:65 of the Companies' and Associations' Code are correctly disclosed and itemized in the notes to the consolidated accounts.

Other statement

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

Sint-Stevens-Woluwe, 23 March 2021

The statutory auditor
PwC Bedrijfsrevisoren BV
represented by

Roland Jeanquart

Roland Jeanquart
Accredited auditor

Gregory Joos
Accredited auditor

Company annual accounts

10				9	EUR	
NAT.	Date Filed	N°	P.	E.	D.	**C-inst 1.1**

ANNUAL ACCOUNTS IN EUR (in thousands)

NAME: KBC BANK

Legal Form: NV
Address: Havenlaan N°.: 2 Box:
Postal Code: 1080 Municipality: BRUSSELS
Country: België
Register of Legal Persons (RLP) - Chamber of Commerce: Brussels
Internet address*: http://www.kbc.be

Company Number 0462.920.226

Date 29/10/2020 of the deposition of the partnership deed OR of the most recent document mentioning the date of publication of the partnership deed and the act changing the articles of association.

ANNUAL ACCOUNT approved by the General Meeting of 28/04/2021

concerning the financial year covering the period from 01/01/2020 till 31/12/2020

Previous period from 01/01/2019 till 31/12/2019
The amounts of the previous financial year are / ~~are not~~ ** identical to those which have been previously published.

COMPLETE LIST WITH name, first name, profession, residence-address (address, number, postal code, municipality) and position with the enterprise, OF DIRECTORS, MANAGERS and AUDITORS

	Period on the Board in 2020	End of current term of office
CHAIRMAN OF THE BOARD OF DIRECTORS:		
Mr. Thomas LEYSEN, Rosier 21, 2000 Antwerpen	Till 29/04/2020	
Dhr. Koenraad DEBACKERE, A. Stesselstraat 8, 3012 Leuven	From 01/11/2020	2024
CHAIRMAN OF THE EXECUTIVE COMMITTEE		
Mr. Johan THIJS, Havenlaan 2, 1080 Brussel	entire year	2021

Members: see next page

Enclosed to these annual accounts:
- the report of the statutory auditor
- the annual report of the Board of Directors to the ordinary General Meeting of shareholders

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Total number of pages deposited:
Number of the pages of the standard form not deposited for not being of service: -

Signature (name and position)	Signature (name and position)
J. THIJS	K. DEBACKERE
Chairman of the Executive Committee	Chairman of the Board of Directors

* Optional Statement
** Delete where appropriate

LIST OF DIRECTORS, MANAGERS AND AUDITORS (continuation from previous page)

Members:

Mr. Nabil ARISS, Havenlaan 2, 1080 Brussel	entire year	2022
Mrs. Katelijn CALLEWAERT, Havenlaan 2, 1080 Brussel	entire year	2021
Mrs. Sonja DE BECKER, Meerbeekstraat 20, 3071 Erps-Kwerps	entire year	2024
Mr. Franky DEPICKERE, Havenlaan 2, 1080 Brussel	entire year	2023
Mr. Koenraad DEBACKERE, A. Stesselstraat 8, 3012 Leuven	from 29/04/2020	2024
Mr. Daniel FALQUE, Havenlaan 2, 1080 Brussel	entire year	2024
Mr. John HOLLOWS, Havenlaan 2, 1080 Brussel	entire year	2021
Mrs. Julia KIRALY, Havenlaan 2, 1080 Brussel	entire year	2022
Mr. Erik LUTS, Havenlaan 2, 1080 Brussel	entire year	2021
Mr. Bo MAGNUSSON, Taptogatan 6, Stockholm 115 26, Sweden	entire year	2024
Mrs. Vladimira PAPIRNIK, Havenlaan 2, 1080 Brussel	entire year	2022
Mr. Luc POPELIER, Havenlaan 2, 1080 Brussel	entire year	2021
Mr. Hendrik SCHEERLINCK, Havenlaan 2, 1080 Brussel	entire year	2021
Mrs. Christine VAN RIJSSEGHEM, Havenlaan 2, 1080 Brussel	entire year	2022
Mr. Marc WITTEMANS, Beatrijslaan 91, 3110 Rotselaar	entire year	2022

AUDITOR:

PwC Auditors BV 0429.501.944
Woluwedal 18, 1932 Sint-Stevens-Woluwe, Belgium
Function: Commissioner, Member Number: B00009
Mandate : appointed 24/04/2019 till 2022

Represented by:

Jeanquart Roland (Membership IBR A01313)
Auditor
Woluwedal 18 , 1932 Sint-Stevens-Woluwe, België

Gregory Joos (Membership IBR A02025)
Auditor
Woluwedal 18 , 1932 Sint-Stevens-Woluwe, België

DECLARATION ABOUT SUPPLEMENTARY AUDITING OR ADJUSTMENT MISSION

The managing board declares that the assignment neither regarding auditing nor adjusting has been given to a person who was not authorised by law pursuant to art. 34 and 37 of the Law of 22nd April 1999 concerning the auditing and tax professions.

The annual accounts ~~have~~ / have not* been audited or adjusted by an external accountant or auditor who is not a statutory auditor.

If YES, mention here after: name, first names, profession, residence-address of each external accountant or auditor, the number of membership with the professional Institute ad hoc and the nature of this engagement:

A. Bookkeeping of the undertaking**,
B. Preparing the annual accounts**,
C. Auditing the annual accounts and/or
D. Adjusting the annual accounts.

If the assignment mentioned either under A or B is performed by authorised accountants or authorised accountants-tax consultants, information will be given on: name, first names, profession and residence-address of each authorised accountant or accountant-tax consultant, his number of membership with the Professional Institute of Accountants and Tax consultants and the nature of this engagement.

Name, first name, profession, residence-address	Number of membership	Nature of the engagement (A, B, C and/or D)

* Delete where appropriate.

** Optional disclosure.

BALANCE SHEET AFTER APPROPRIATION

(in thousands)

ASSETS	Notes	Code	Current period	Previous period
I. Cash in hand, balances with central banks and post office banks		10100	18.138.039	1.308.954
II. Treasury bills eligible for refinancing at central banks		10200	419.495	212.993
III. Loans and advances to credit institutions	5.1	10300	19.136.496	18.256.807
A. Repayable on demand		10310	631.387	718.501
B. Other loans and adv. (with agreed maturity dates)		10320	18.505.110	17.538.305
IV. Loans and advances to customers	5.2	10400	81.714.093	91.749.805
V. Debt securities and other fixed-income securities	5.3	10500	57.691.678	39.796.732
A. Issued by public bodies		10510	27.131.665	14.796.487
B. Issued by other borrowers		10520	30.560.014	25.000.246
VI. Shares and other variable-yield securities	5.4	10600	485.378	829.602
VII. Financial fixed assets	5.5/ 5.6.1	10700	18.357.287	17.356.361
A. Participating interests in affiliated enterprises		10710	14.939.193	15.249.706
B. Participating interests in other enterprises linked by participating interests		10720	82.046	108.610
C. Other shares held as financial fixed assets		10730	28.974	18.433
D. Subordinated loans to affiliated enterprises and to other enterprises linked by participating interests		10740	3.307.074	1.979.612
VIII. Formation expenses and intangible fixed assets	5.7	10800	61.751	62.449
IX. Tangible fixed assets	5.8	10900	1.573.095	1.495.396
X. Own shares		11000	0	0
XI. Other assets	5.9	11100	1.065.544	1.042.446
XII. Accrued income	5.10	11200	7.418.222	6.868.474
TOTAL ASSETS		19900	206.061.079	178.980.019

(in thousands)

	Notes	Code	Current Period	Previous Period
LIABILITIES				
THIRDPARTY FUNDS		201/208	190.259.500	163.815.187
I. Amounts owed to credit institutions	5.11	20100	36.852.899	20.330.390
A. Repayable on demand		20110	4.354.587	4.921.849
B. Amounts owed as a result of the rediscounting of trade bills		20120	0	0
C. Other debts with agreed maturity dates or periods of notice		20130	32.498.312	15.408.541
II. Amounts owed to customers	5.12	20200	117.873.547	109.219.783
A. Savings deposits		20210	45.726.954	41.909.921
B. Other debts		20220	72.146.593	67.309.863
1. repayable on demand		20221	58.015.857	49.971.384
2. with agreed maturity dates or periods of notice		20222	14.130.735	17.338.479
3. as a result of the rediscounting of trade bills		20223	0	0
III. Debts evidenced by certificates	5.13	20300	18.533.128	17.963.817
A. Debt securities and other fixed-income securities in circulation		20310	7.658.095	7.893.357
B. Other		20320	10.875.033	10.070.459
IV. Other liabilities	5.14	20400	1.121.465	2.072.657
V. Accrued charges and deferred income	5.15	20500	4.846.530	5.021.105
VI. Provisions and deferred taxes		20600	129.345	151.144
A. Provisions for liabilities and charges		20610	129.345	151.144
1. Pensions and similar obligations		20611	18.149	21.736
2. Taxation		20612	0	0
3. Other liabilities and charges	5.16	20613	111.196	129.409
B. Deferred taxes		20620	0	0
VII. Fund for general banking risks		20700	331.423	87.222
VIII. Subordinated liabilities	5.17	20800	10.571.163	8.969.069
OWN FUNDS		209/213	15.801.579	15.164.831
IX. CAPITAL	5.18	20900	9.732.238	9.732.238
A. Subscribed capital		20910	9.732.238	9.732.238
B. Uncalled capital (-)		20920	0	0
X. Share premium account		21000	2.066.339	2.066.339
XI. Revaluation surpluses		21100	0	0
XII. Reserves		21200	643.157	610.428
A. Legal reserve		21210	630.183	597.454
B. Reserves not available for distribution		21220	0	0
1. In respect of own shares held		21221	0	0
2. Other		21222	0	0
C. Untaxed reserves		21230	12.973	12.973
D. Reserves available for distribution		21240	0	0
XIII. Profits (losses (-)) brought forward (+)/(-)		21300	3.359.846	2.755.827
TOTAL LIABILITIES		29900	206.061.079	178.980.019

(in thousands)

OFF BALANCE SHEET CAPTIONS	Notes	Code	Current period	Previous period
I. Contingent liabilities	5.22	30100	9.278.072	11.788.261
A. Non-negotiated acceptances		30110	14.468	30.413
B. Guarantees serving as direct credit substitutes		30120	2.340.014	3.955.437
C. Other guarantees		30130	5.487.454	6.479.972
D. Documentary credits		30140	1.436.135	1.322.440
E. Assets charged as collateral security on behalf of third parties		30150	0	0
II. Commitments which could give rise to a risk	5.22	30200	26.478.224	36.227.203
A. Firm credit commitments		30210	1.448.330	10.678.092
B. Commitments as a result of spot purchases of transferable or other securities		30220	308.092	424.648
C. Undrawn margin on confirmed credit lines		30230	24.721.802	25.124.464
D. Underwriting and placing commitments		30240	0	0
E. Commitments as a result of open-ended sale and repurchase agreements		30250	0	0
III. Assets lodged with the credit institution		30300	246.566.395	242.821.100
A. Assets held by the credit institution for fiduciary purposes		30310	5.548.098	5.375.241
B. Safe custody and equivalent items		30320	241.018.297	237.445.859
IV. Uncalled amounts of share capital		30400	0	20.407

INCOME STATEMENT (presentation in vertical form)

(in thousands)

		Notes	Code	Current Period	Previous period
I. Interest receivable and similar income		5.23	40100	2.653.717	2.807.270
A. Of which: from fixed-income securities			40110	608.638	571.367
II. Interest payable and similar charges			40200	1.224.983	1.573.583
III. Income from variable-yield securities		5.23	40300	764.943	2.009.281
A. From shares and other variable-yield securities			40310	12.764	26.201
B. From participating interests in affiliated enterprises			40320	749.446	1.976.948
C. From participating interests in other enterprises linked by participating interests			40330	2.441	5.668
D. From other shares held as financial fixed assets			40340	292	464
IV. Commissions receivable		5.23	40400	1.177.645	1.818.568
A. Brokerage and related commissions			40410	623.123	631.576
B. Management, consultancy and conservation commissions			40420	29.263	32.011
C. Other commissions received			40430	525.259	1.154.981
V. Commissions payable			40500	357.128	930.859
VI. Profit (loss) on financial transactions	(+)/(-)	5.23	40600	454.975	265.702
A. On trading of securities and other financial instruments			40610	452.146	261.132
B. On disposal of investment securities			40620	2.829	4.571
VII. General administrative expenses			40700	2.041.148	1.986.425
A. Remuneration, social security costs and pensions			40710	787.109	815.048
B. Other administrative expenses			40720	1.254.038	1.171.377
VIII. Depreciation/amortization of and other write-downs on formation expenses, intangible and tangible fixed assets			40800	201.715	160.781
IX. Decrease in write downs on receivables and in provisions for off balance sheet captions 'I. Contingent liabilities' and 'II. Commitments which could give rise to a risk'	(+)/(-)		40900	208.972	231.569
X. Decrease in write-downs on the investment portfolio of debt securities, shares and other fixed-income or variable-yield securities	(+)/(-)		41000	-340	-279
XI. Utilization and write-backs of provisions for liabilities and charges other than those included in the off balance sheet captions	(+)/(-)		41100	-20.562	-16.657
XII. Provisions for liabilities and charges other than those included in the off balance sheet captions			41200	9.941	12.916
XIII. Transfer from (Transfer to) the fund for general banking risks	(+)/(-)		41300	-244.201	8.570
XIV. Other operating income		5.23	41400	402.300	372.216
XV. Other operating charges		5.23	41500	61.611	47.212
XVI. Profits (losses) on ordinary activities before taxes	(+)/(-)		41600	1.124.782	2.355.198

(in thousands)

		Notes	Code	Current period	Previous period
XVII. Extraordinary income			41700	9.560	1.800
A. Adjustments to depreciation/amortization of and to other write-downs on intangible and and tangible fixed assets			41710	0	0
B. Adjustments to write-downs on financial fixed assets			41720	1.087	1.120
C. Adjustments to provisions for extraordinary liabilities and charges			41730	410	90
D. Gain on disposal of fixed assets			41740	8.008	145
E. Other extraordinary income		5.25	41750	55	446
XVIII. Extraordinary charges			41800	418.072	223.374
A. Extraordinary depreciation/amortization of and extraordinary write-downs on formation expenses and intangible and tangible fixed assets			41810	0	1.266
B. Write-downs on financial fixed assets			41820	415.223	220.781
C. Provisions for extraordinary liabilities and charges	(+/-)		41830	451	67
D. Loss on disposal of fixed assets			41840	2.398	1.257
E. Other extraordinary charges		5.25	41850	0	3
XIX. Profits (Losses) for the period before taxes	(+/-)		41910	716.270	2.133.624
XIXbis. A. Transfer to deferred taxes			41921	0	11
B. Transfer from deferred taxes			41922	24	628
XX. Income taxes	(+/-)	5.26	42000	61.714	57.110
A. Income taxes			42010	64.579	63.685
B. Adjustement of income taxes and write-back of tax provisions			42020	2.865	6.574
XXI. Profits (Losses) for the period	(+/-)		42100	654.580	2.077.130
XXII. Transfer to untaxed reserves	(+/-)		42200	0	0
XXIII. Profit (Losses) for the period available for appropriation	(+/-)		42300	654.580	2.077.130

APPROPRIATION ACCOUNT

(in thousands)

		Code	Current period	Previous period
A. Profit (loss) to be appropriated	(+)/(-)	49100	3.410.407	4.022.603
1. Profit (loss) for the period available for appropriation	(+)/(-)	(42300)	654.580	2.077.130
2. Profit (loss) to be carried forward	(+)/(-)	(21300P)	2.755.827	1.945.473
B. Transfers from capital and reserves		49200	0	0
1. From capital and share premium account		49210	0	0
2. From reserves		49220	0	0
C. Transfers to capital and reserves		49300	32.729	103.857
1. To capital and share premium account		49310	0	0
2. To the legal reserve		49320	32.729	103.857
3. To other reserves		49330	0	0
D. Profit (loss) to be carried forward	(+)/(-)	49400	3.359.846	2.755.827
E. Shareholders' contribution in respect of losses		49500	0	0
F. Profit to be distributed		49600	17.833	1.162.920
1. Dividends		49610	0	1.144.677
2. Director's or manager's entitlements		49620	0	0
3. Other allocations		49630	17.833	18.243

NOTES

I. STATEMENT OF LOANS AND ADVANCES TO CREDIT INSTITUTIONS (Assets caption III)

(in thousands)

	Code	Current period	Previous period
A. FOR THE CAPTION AS A WHOLE	(10300)	19.136.496	18.256.807
1. Loans and advances to affiliated enterprises	50101	11.153.060	9.434.302
2. Loans and advances to other enterprises linked by participating interests	50102	0	0
3. Subordinated loans and advances	50103	0	0
B. OTHER LOANS AND ADVANCES TO CREDIT INSTITUTIONS (with agreed maturity dates or periods of notice)	(10320)	18.505.110	17.538.305
1. Trade bills eligible for refinancing with the central bank of the country(ies) of establishment of the credit	50104	0	
2. Breakdown according to the remaining maturity			
a. Up to 3 months	50105	9.656.404	
b. Over 3 months up to 1 year	50106	1.888.771	
c. Over 1 year up to 5 years	50107	6.005.450	
d. Over 5 years	50108	948.479	
e. Undated	50109	6.005	

II. STATEMENT OF LOANS AND ADVANCES TO CUSTOMERS (Assets caption IV)

(in thousands)

	Code	Current Period	Previous Period
1. Loans to affiliated enterprises	50201	5.736.847	14.778.123
2. Loans to other enterprises linked by participating interests	50202	101.850	109.245
3. Subordinated loans	50203	15.001	22.151
4. Trade bills eligible for refinancing with the central bank of the country or countries where the credit institution is established	50204	0	0
5. Breakdown according to the remaining maturity :			
a. Up to 3 months	50205	13.115.533	
b. Over 3 months up to 1 year	50206	4.360.949	
c. Over 1 year up to 5 years	50207	16.372.234	
d. Over 5 years	50208	47.690.876	
e. Undated	50209	174.500	
6. Breakdown of customer loans based on the type of debtor			
a. Claims on government	50210	4.015.162	4.325.006
b. Retail exposures	50211	33.438.527	30.842.873
c. Claims on enterprises	50212	44.260.404	56.581.926
7. Breakdown by type :			
a. Trade bills (including own acceptance)	50213	34.411	
b. Loans and advances as a result of leasing and similar agreements	50214	1.901.071	
c. Fixed-rate loans	50215	1.479.738	
d. Mortgage loans	50216	28.908.248	
e. Other term loans with a maturity over 1 year	50217	34.564.643	
f. Other loans and advances	50218	14.825.982	
8. Geographical breakdown			
a. Belgian origin	50219	70.999.785	
b. Foreign	50220	10.714.308	
9. Details of mortgage loans with reconstitution of capital or linked to life insurance and capitalization contracts			
a. Principal sums initially lent	50221	0	
b. Reconstitution fund and mathematical reserves relating to these loans	50222	0	
c. Net amount outstanding (a-b)	50223	0	

III. STATEMENT OF DEBT SECURITIES AND OTHER FIXED-INCOME SECURITIES (Assets caption V)

(in thousands)

	Code	Current period	Previous period
A. GENERAL	(10500)	57.691.678	39.796.732
1. Securities issued by affiliated enterprises	50301	24.426.256	30.007.462
2. Securities issued by enterprises linked by participating interests	50302	0	0
3. Securities representing subordinated loans	50303	3.312.399	11.488
4. Country analysis of the securities issued			
a. By public bodies	50304	9.741.016	
b. By other borrowers	50305	17.390.648	
c. Belgian issuers other than public bodies	50306	8.588.299	
d. Foreign issuers other than public bodies	50307	21.971.715	
5. Listing			
a. Book value of listed securities	50308	36.486.014	
b. Market value of listed securities	50309	37.793.559	
c. Book value of unlisted securities	50310	21.205.664	
6. Maturities			
a. Remaining maturity of up to one year	50311	21.885.872	
b. Remaining maturity of over one year	50312	35.805.807	
7. Analysis by portfolio			
a. Trading portfolio	50313	2.483.646	
b. Investment portfolio	50314	55.208.032	
8. Trading portfolio			
a. Difference between market value (if higher) and acquisition cost (for securities marked to market)	50315	13.900	
b. Difference between market value (if higher) and carrying value (for securities valued in accordance with Art. 35ter §2 para. 2)	50316	0	
9. Investment portfolio			
a. Difference between redemption value (if higher) and carrying value	50317	46.158	
b. Difference between redemption value (if lower) and carrying value	50318	1.553.619	

(in thousands)

			Code	Current period	Previous period
B. ANALYSIS OF THE CARRYING VALUE OF INVESTMENT SECURITIES					
1.	**As at end of the preceding period**		50323P	xxxxxxxxxxxxxxx	38.669.123
2.	**Movements during the the period**	(+/-)	50319	16.549.525	
	a . Acquisitions		50320	239.857.654	
	b . Sales		50321	222.948.339	
	c . Adjustments by application of Article 35ter §4 and 5	(+/-)	50322	-359.790	
3.	**Acquisition cost as at end of the period**		50323	55.218.648	
4.	**Transfers between portfolios**				
	a . Transfers from the investment portfolio to the trading portfolio		50324	0	
	b . Transfers from the trading portfolio to the investment portfolio		50325	0	
	c . Impact on result		50326	0	
5.	**Write-Downs as at end of the period**		50332P	xxxxxxxxxxxxxxx	11.904
6.	**Movements during the the period**	(+/-)	50327	-1.288	
	a . Recorded		50328	88	
	b . Excess written back		50329	432	
	c . Cancellations		50330	-944	
	d . Transfers from one caption to another	(+/-)	50331	0	
7.	**Write-downs as at end of the period**		50332	10.615	
8.	**Carrying value as at end of the period**		(50314)	55.208.032	

(in thousands)

		Codes	Current period	Previous period
IIIBIS THEMATIC CITIZENS LENDING				
1.	**Total amount drawn**	50340	79.465	179.629
	a. Bonds	50341	79.465	179.629
	b. Allowed interbank loans	50342	0	0
2.	**Use of assets**	50350	1.044.684	1.193.196
	a. Citizens Lending	50351	1.044.684	1.193.196
	b. Investment pursuant to art. 11	50352	0	0
	c. Interbank loans drawn	50353	0	0
3.	**Income from realized investments pursuant to art. 11**	50360	0	0

IV. STATEMENT OF SHARES AND OTHER VARIABLE-YIELD SECURITIES (Assets caption VI)

(in thousands)

	Code	Current Period	Previous Period
A. GENERAL REPORT	(10600)	485.378	829.602
1. Country analysis of the issuers of securities			
a. Belgian issuers	50401	250.109	295.895
b. Foreign issuers	50402	235.269	533.707
2. Listing			
a. Carrying value	50403	474.342	
b. Market value	50404	450.037	
c. Carrying value of unlisted securities	50405	11.036	
3. Analysis by portfolio			
a. Trading portfolio	50406	476.125	
b. Investment portfolio	50407	9.254	
4. Trading portfolio			
a. Difference between market value (if higher) and acquisition cost (for securities marked to market)	50408	23.853	
b. Difference between market value (if higher) and carrying value (for securities valued in accordance with Article 35ter §2 paragraph 2)	50409	0	

(in thousands)

B. ANALYSIS OF THE CARRYING VALUE OF INVESTMENT SECURITIES		Code	Current period	Previous period
1. Acquisition cost as at the end of the period		50414P	xxxxxxxxxxxxxxx	20.781
2. Movements during the the period	(+)/(-)	50410	-936	
a. Acquisitions		50411	1	
b. Sales		50412	0	
c. Other adjustments	(+/-)	50413	-937	
3. Acquisition cost as at end of the period		50414	19.845	
4. Transfers between portfolios				
a. Transfers from the investment portfolio to the trading portfolio		50415	0	
b. Transfers from the trading portfolio to the investment portfolio		50416	0	
c. Impact on result		50417	0	
5. Write-downs as per end of the period		50423P	xxxxxxxxxxxxxxx	10.587
6. Movements during the period	(+)/(-)	50418	4	
a. Recorded		50419	5	
b. Excess written back		50420	0	
c. Cancellations		50421	0	
d. Transfers from one caption to another	(+)/(-)	50422	0	
7. Write-downs as at end of the period		50423	10.591	
8. Carrying value as at end of the period		(50407)	9.254	

V. STATEMENT OF FINANCIAL FIXED ASSETS (Assets caption VII)

(in thousands)

	Code	Current period	Previous period
A. GENERAL			
1. Breakdown of financial fixed assets by economic sector			
a. Participating interests in enterprises that are credit institutions	50501	7.331.355	7.367.512
b. Participating interests in enterprises that are not credit institutions	50502	7.607.838	7.882.195
c. Participating interests in enterprises linked by participating interests that are credit institutions	50503	6	6
d. Participating interests in enterprises linked by participating interests that are not credit institutions	50504	82.040	108.604
e. Other shares held as financial fixed assets in enterprises that are credit institutions	50505	0	0
f. Other shares held as financial fixed assets in enterprises that are not credit institutions	50506	28.974	18.433
g. Subordinated loans in linked enterprises that are credit institutions	50507	252.500	214.500
h. Subordinated loans in linked enterprises that are not credit institutions	50508	3.054.574	1.765.112
i. Subordinated loans in enterprises with participation interests that are credit institutions	50509	0	0
j. Subordinated loans in enterprises with participation interests that are not credit institutions	50510	0	0
2. Listings			
a. Participating interests in affiliated listed enterprises	50511	0	
b. Participating interests in affiliated not listed enterprises	50512	14.939.193	
c. Participating interests in other enterprises linked by participating interests that are listed	50513	0	
d. Participating interests in other enterprises linked by participating interests that are not listed	50514	82.046	
e. Other shares held as financial fixed assets in enterprises that are listed	50515	12.889	
f. Other shares held as financial fixed assets in enterprises that are not listed	50516	16.085	
g. Amount of subordinated loans represented by listed securities	50517	0	

(in thousands)

B. ANALYSIS OF THE CARRYING VALUE OF FINANCIAL FIXED ASSETS IN AFFILIATED ENTERPRISES	Code	Current period	Previous period
1. Acquisition cost at the end of the period	50522P	xxxxxxxxxxxxxxx	17.334.768
2. Movements during the period (+/-)	50518	89.480	
a. Acquisitions	50519	102.051	
b. Sales and disposals	50520	12.571	
c. Transfers from one caption to another (+/-)	50521	0	
3. Acquisition cost as at the end of the period	50522	17.424.248	
4. Revaluation surpluses	50528P	xxxxxxxxxxxxxxx	0
5. Movements during the period (+/-)	50523	0	
a. Recorded	50524	0	
b. Acquisitions from third parties	50525	0	
c. Cancellations	50526	0	
d. Transfers from one caption to another (+/-)	50527	0	
6. Revaluation surpluses as at the end of the period	50528	0	
7. Write-downs as at the end of the period	50535P	xxxxxxxxxxxxxxx	2.085.062
8. Movements during the period (+/-)	50529	399.993	
a. Recorded	50530	400.000	
b. Excess written back	50531	7	
c. Acquisitions from third parties	50532	0	
d. Cancellations	50533	0	
e. Transfers from one caption to another (+/-)	50534	0	
9. Write-downs as at end of the period	50535	2.485.055	
10. Net carrying value as at the end of the period	10710	14.939.193	

(in thousands)

C. ANALYSIS OF THE CARRYING VALUE OF FIXED FINANCIAL ASSETS IN ENTERPRISES LINKED BY PARTICIPATING INTERESTS		Code	Current period	Previous period
1. Acquisition cost as at end of the period		50540P	xxxxxxxxxxxxxxx	120.470
2. Movements during the period	(+/-)	50536	-22.084	
a. Acquisitions		50537	11.323	
b. Sales and disposals		50538	33.407	
c. Transfers from one caption to another	(+/-)	50539	0	
3. Acquisition cost as at end of the period		50540	98.386	
4. Revaluation surpluses at the end of the period		50546P	xxxxxxxxxxxxxxx	0
5. Movements during the period	(+/-)	50541	0	
a. Recorded		50542	0	
b. Acquisitions from third parties		50543	0	
c. Cancellations		50544	0	
d. Transfers from one caption to another	(+/-)	50545	0	
6. Revaluation surpluses at the end of the period		50546	0	
7. Write-downs as at the end of the period		50553P	xxxxxxxxxxxxxxx	11.861
8. Movements during the period	(+/-)	50547	4.479	
a. Recorded		50548	8.100	
b. Excess written back		50549	3.621	
c. Acquisitions from third parties		50550	0	
d. Cancellations		50551	0	
e. Transfers from one caption to another	(+/-)	50552	0	
9. Write-downs as at the end of the period		50553	16.340	
10. Net carrying value as at end of the period		10720	82.046	

(in thousands)

		Code	Current period	Previous period
D. ANALYSIS OF THE CARRYING VALUE OF OTHER SHARES HELD AS FINANCIAL FIXED ASSETS				
1. Acquisition cost as at the end of the period		50558P	xxxxxxxxxxxxxxx	21.761
2. Movements during the period	(+/-)	50554	10.380	
a. Acquisitions		50555	13.681	
b. Sales and disposals		50556	3.301	
c. Transfers from one caption to	(+/-)	50557	0	
3. Acquisition cost as at the end of the period		50558	32.141	
4. Revaluation surpluses at the end of the period		50564P	xxxxxxxxxxxxxxx	0
5. Movements during the period	(+/-)	50559	0	
a. Recorded		50560	0	
b. Acquisitions from third parties		50561	0	
c. Cancellations		50562	0	
d. Transfers from one caption to	(+/-)	50563	0	
6. Revaluation surpluses as at end of the period		50564	0	
7. Write-downs as at the end of the period		50571P	xxxxxxxxxxxxxxx	3.328
8. Movements during the period	(+/-)	50565	-161	
a. Recorded		50566	118	
b. Excess written back		50567	280	
c. Acquisitions from third parties		50568	0	
d. Cancellations		50569	0	
e. Transfers from one caption to	(+/-)	50570	0	
9. Write-downs as at the end of the period		50571	3.166	
10. Net carrying value as at the end of the period		10730	28.974	

(in thousands)

		Code	Current period	Previous period
E. ANALYSIS OF THE CARRYING VALUE OF SUBORDINATED LOANS TO AFFILIATED ENTERPRISES				
1. Net carrying value as at end of the period		50579P	xxxxxxxxxxxxxxx	1.979.612
2. Movements during the period	(+)/(-)	50572	1.327.462	
a. Additions		50573	1.342.830	
b. Reimbursements		50574	11.021	
c. Write-downs		50575	-4.347	
d. Amounts written back		50576	0	
e. Realized exchange gains/losses	(+)/(-)	50577	0	
f. Other	(+)/(-)	50578	0	
3. Net carrying value as at the end of the period		50579	3.307.074	
4. Accumulated write-downs as at the end of the period		50580	0	

(in thousands)

F. ANALYSIS OF THE CARRYING VALUE OF SUBORDINATED LOANS TO ENTERPRISES LINKED BY PARTICIPATING INTERESTS		Code	Current period	Previous period
1. Net carrying value as at the end of the period		50588P	xxxxxxxxxxxxxxx	0
2. Movements during the period	(+)/(-)	50581	0	
a. Additions		50582	0	
b. Reimbursements		50583	0	
c. Write-downs		50584	0	
d. Amounts written back		50585	0	
e. Realized exchange gains/losses	(+)/(-)	50586	0	
f. Other	(+)/(-)	50587	0	
3. Net carrying value as at the end of the period		50588	0	
4. Accumulated write-downs as at the end of the period		50589	0	

VI LIST OF ENTERPRISES IN WHICH THE INSTITUTION HOLDS A PARTICIPATING INTEREST

A. SHARE IN THE CAPITAL AND OTHER RIGHTS IN OTHER COMPANIES

List enterprises in which the enterprise holds a participating interest within the meaning of the Royal Decree of September 23 rd 1992
and other enterprises in which the institution holds rights in the amount of at least 10% of the capital issued.

NAME, full address of the REGISTERED OFFICE and for the enterprise governed by Belgian law, the COMPANY NUMBER	Shares held				Information from the most recent period for which annual accounts are available			
	directly			by subsidiaries	Annual accounts dated	Currency	Own funds	Net result
	Type	Number	%	%			(+) or (-) (in thousands units)	
1. Affiliated enterprises								
Almafin Real Estate NV Brussels BE0403355494	Ordinary	62.000	100,00	0,00	31/12/2019	EUR	21.309	137
Almaloisir & Immobilier SAS Nice FR35428620439	Ordinary	328	100,00	0,00	31/12/2019	EUR	41	-15
Bel Rom Sapte SRL Parter RO18908106	Ordinary	16.429.999	99,99	0,01	31/12/2019	RON	150.235	14.400
CBC Banque SA Namur BE0403.211.380	Ordinary	2.989.625	100,00	0,00	31/12/2019	EUR	674.662	6.391.833
Ceskoslovenska Obchodni Banka AS Praha CZ699000761	Ordinary	292.750.002	100,00	0,00	31/12/2019	CZK	93.268.000	22.016.000
C Plus SAS Voisins Le Bretonneux FR7983222020003	Ordinary	50.000	83,33	0,00	31/12/2016	EUR	-12.696	-10
CSOB SK Bratislava SK7020000218	Ordinary	8.886	100,00	0,00	31/12/2019	EUR	805.897	70.147
Hello Shopping Park SRL Parter RO18574766	Ordinary	10.000.000	100,00	0,00	31/12/2019	RON	127.429	3.076
Immo-Antares NV Brussels BE0456398361	Ordinary	2.375	95,00	5,00	30/11/2019	EUR	-1.625	913
Immo-Basilix NV Brussels BE0453348801	Ordinary	2.500	100,00	0,00	30/09/2020	EUR	-193	-56
Immobilière Distri-Land NV Brussels BE0436440909	Ordinary	1.094	87,52	0,00	31/12/2019	EUR	381	9
Immo Mechelen City Center NV Brussels BE0635828862	Ordinary	100	100,00	0,00	31/03/2020	EUR	62	0
Immo Namott NV Brussels BE0840412849	Ordinary	100	100,00	0,00	31/12/2019	EUR	62	0
Immo-Quinto NV Brussels BE0466000470	Ordinary	142.935	100,00	0,00	31/12/2019	EUR	5.197	-16
Immo Retail Libramont BV Brussels BE0733944263	Ordinary	10	100,00	0,00	31/12/2019	EUR	0	0
Immo-Zénobe Gramme NV Brussels BE0456572664	Ordinary	100	100,00	0,00	31/12/2019	EUR	81	6
Julienne Holdings SARL Luxemburg LU	Cat. A	4.500	90,00	0,00	31/12/2019	EUR	-31.469	-1.238
K&H Bank ZRT Budapest HU17780120	Ordinary	140.978.164.412	100,00	0,00	31/12/2019	HUF	356.907.000	50.414.000
KB-Consult NV Brussels BE0437623220	Ordinary	364.543	99,95	0,05	31/12/2019	EUR	784	-14
KBC Asset Management NV Brussels BE0469444267	Ordinary	5.766.805	100,00	0,00	31/12/2019	EUR	154.575	323.205
KBC Autolease NV Leuven BE0422562385	Ordinary	184.994	100,00	0,00	31/12/2019	EUR	7.875	15.265
KBC Bail Immobilier France SAS Lille FR19487504995	Ordinary	1.500.000	100,00	0,00	31/12/2019	EUR	15.037	331
KBC Bank Ireland PLC Dublin IE8F86824G	Ordinary	827.892.018	99,99	0,01	31/12/2019	EUR	1.243.848	32.083
KBC Commercial Finance NV Brussels BE0403278488	Ordinary	120.000	100,00	0,00	31/12/2019	EUR	9.459	4.510
KBC Credit Investments NV Brussels BE0887849512	Ordinary	4.999.999	99,99	0,01	31/12/2019	EUR	4.806.508	129.545
KBC Focus Fund NV Brussels BE0403552563	Ordinary	300.000	100,00	0,00	31/12/2019	EUR	4.702	-358
KBC Ifima NV Luxemburg NL005967181B01	Ordinary	22.679	100,00	0,00	31/12/2019	EUR	7.647	786

KBC Immolease NV Leuven BE0444058872	Ordinary	1.000.428	100,00	0,00	31/12/2019	EUR	26.672	5.076
KBC Investments LTD London GB778102912	Ordinary	105.000.100	100,00	0,00	31/12/2019	USD	423.521	16.771
KBC Lease Belgium NV Leuven BE0426403684	Ordinary	267.181	100,00	0,00	31/12/2019	EUR	11.003	4.794
KBC Net Lease Investments LLC New York US	Ordinary	1	100,00	0,00	31/12/2019	USD	794	1.331
KBC Real Estate Luxembourg SA Luxemburg LU21567326	Ordinary	3.098	99,93	0,07	31/12/2019	EUR	17.117	2.452
KBC Securities NV Brussels BE0437060521	Ordinary	1.899.517	100,00	0,00	31/12/2019	EUR	52.645	4.351
KBC Securities USA LLC New York US	Ordinary	100	0,06	0,00	31/12/2019	USD	7.841	-475
KBC Vastgoedinvesteringen NV Brussels BE0455916925	Ordinary	57.967	100,00	0,00	31/12/2019	EUR	-3.756	148
KBC Vastgoedportefeuille België Brussels BE0438007854	Ordinary	57.768	100,00	0,00	31/12/2019	EUR	10.913	1.903
Luxembourg North Distribution SA Luxemburg LU19453469	Ordinary	11	11,00	89,00	31/12/2019	EUR	106	72
Midas Life Settlements LLC New York US	Ordinary	100	100,00	0,00	31/12/2019	USD	183	-12
Poelaert Invest NV Brussels BE0478381531	Ordinary	10.000	100,00	0,00	31/12/2019	EUR	12.385	1.367
Reverse Mortgage Loan Trust 2008-1 New York US	Ordinary	1	100,00	0,00	31/12/2019	USD	2.618	2.156
Soluz.io NV Mechelen BE0711710576	Cat. A	249.002	98,07	0,00	31/12/2019	EUR	-249	-310
Start It X NV Antwerp BE0730852042	Ordinary	1.000	100,00	0,00		EUR	0	0
UBB Interlease AD Sofia BG	Ordinary	3.474.648	100,00	0,00	31/12/2019	BGN	83.337	2.055
United Bulgarian Bank AD Sofia BG	Ordinary	75.893.450	99,90	0,00	31/12/2019	BGN	1.376.690	154.835
World Alliance Financial LLC New York US	Ordinary	1	100,00	0,00	31/12/2019	USD	-61	-56
2. Enterprises linked by participating interests >=20% en <= 50%								
Bancontact Payconiq Company NV Brussels BE0675984882	Cat. B	12.414.111	22,49	0,00	31/12/2019	EUR	20.530	-1.364
Banking Funding Company NV Brussels BE0884525182	Ordinary	12.437	20,25	0,00	31/12/2019	EUR	794	58
Batopin NV Sint-Joost-ten-Node BE0744908035	Ordinary	20.000	25,00	0,00		EUR	0	0
BRS Microfinance Coop CVBA Leuven BE0508996711	Cat. C	7.500.000	33,84	0,00	31/12/2019	EUR	22.748	287
Gasco Group NV Willebroek BE0887290177	Ordinary	2.531.250	28,12	0,00	31/12/2019	EUR	-21.588	-675
Gemma Frisius-Fonds K.U. Leuven NV Leuven BE0477960372	Cat. A	4.000	40,00	0,00	31/12/2019	EUR	15.058	-654
Go Connect BV Grimbergen BE0653775248	Cat. C	124	25,00	0,00	31/12/2019	EUR	968	-112
Immo Beaulieu NV Brussels BE0450193133	Ordinary	1.000	50,00	0,00	30/06/2019	EUR	68	128
Isabel NV Brussels BE0455530509	Ordinary	253.322	25,33	0,00	31/12/2019	EUR	39.296	8.161
Joyn International NV Hasselt BE0578946577	Cat. B	283.353.580	49,73	0,00	31/12/2019	EUR	-6.170	-2.477
Justinvest NV Antwerp BE0476658097	Ordinary	50	33,33	0,00	31/12/2019	EUR	762	111
OTP Banka Slovensko AS Bratislava SK	Ordinary	69.352.919	99,44	0,00	31/12/2019	EUR	114.595	2.297
Payconiq International SA Luxemburg LU131239768	Ordinary	743.511	42,40	0,00	31/12/2019	EUR	33.785	-11.137
Rabot Invest NV Antwerp BE0479758733	Ordinary	60	25,00	0,00	31/12/2019	EUR	275	106

3. Enterprises linked by participating interests >=10% en <= 20%								
Baekeland II NV Gent BE0876424296	Ordinary	2.000.000	18,01	0,00	31/12/2019	EUR	170	-220
Bedrijvencentra Limburg NV Hasselt BE0425902353	Ordinary	1.800	12,50	0,00	31/12/2019	EUR	4.060	48
Bedrijvencentrum Zaventem NV Zaventem BE 0426496726	Ordinary	350	11,26	0,00	31/12/2019	EUR	450	-53
Belgian Mobile ID NV Brussels BE0541659084	Ordinary	73.093	14,99	0,00	31/12/2019	EUR	2.352	-11.261
Designcenter De Winkelhaak NV Borgerhout BE0470201857	Cat. A/B	124	19,46	0,00	31/12/2019	EUR	632	34
Europay Belgium NV Brussels BE0434197536	Ordinary	4.932	14,61	0,00	31/12/2019	EUR	1.734	257
Impulse Microfinance Investment Fund NV Wilrijk BE0870792160	Ordinary	2.000	17,56	0,00	31/12/2019	EUR	1.772	68
QBIC Feeder Fund NV Gent BE0846493561	Cat. B	4.000	14,71	0,00	31/12/2019	EUR	17.447	381
Rural Impulse Luxemburg LU	Ordinary	15.000	16,66	0,00	31/12/2017	EUR	16.596	7.117
Storesquare NV Roeselare BE0554814066	Ordinary	951.576	16,95	0,00	31/12/2019	EUR	2.055	-1.679
Visa Belgium CVBA Brussels BE0435551972	Ordinary	23	13,06	0,56	30/09/2020	EUR	1.554	-147
Vives NV Louvain-La-Neuve BE0862398591	Cat. A/B	2.500	14,69	0,00	31/12/2019	EUR	565	1.479

B. ENTERPRISES FOR WHICH THE CREDIT INSTITUTION HAS UNLIMITED LIABILITY IN ITS CAPACITY OF FULLY LIABLE PARTNER OR MEMBER

The annual accounts of any enterprise to which the enterprise is unlimited liable will be added to the present accounts and published jointly.
Departure from that requirement will be mentioned in the second column referring to the appropiate code (A or B), explained hereafter.

The annual accounts of the enterprise:

A. are published by filing with the National Bank of Belgium;

B. are effectively published in another Member State of the EEC as laid down in Article 3 of the Directive 2009/101/EEC;

C. are fully consolidated or proportionally consolidated in the reporting institution's accounts which have been prepared audited and published in accordance with the Royal Decree of September 23 rd 1992 on the consolidated accounts of institutions.

Name and full address of registered office and, for enterprises governed by Belgian law, VAT number or national identification number	Code, if any

VII. STATEMENT OF FORMATION EXPENSES AND INTANGIBLE FIXED ASSETS

(in thousands)

		Code	Current period	Previous period
A. Formation expenses				
1. Net carrying value as at the end of the period		50705P	xxxxxxxxxxxxxxx	0
2. Movements during the period		50701	0	
a. New expenses incurred		50702	0	
b. Amortization		50703	0	
c. Other	(+)/(-)	50704	0	
3. Net carrying value as at the end of the period		50705	0	
4. Of which				
a. Expenses of formation or capital increase, loan issue expenses and other formation expenses		50706	0	
b. Reorganization costs		50707	0	

(in thousands)

		Code	Current period	Previous period
B. GOODWILL				
1. Acquisition cost as at the end of the period		50712P	xxxxxxxxxxxxxxx	47.939
2. Movements during the period		50708	1.251	
a. Acquisitions, including own construction		50709	1.251	
b. Sales and disposals		50710	0	
c. Transfers from one caption to another	(+)/(-)	50711	0	
3. Acquisition cost as at the end of the period		50712	49.190	
4. Amortizations and write-downs as at the end of the period		50719P	xxxxxxxxxxxxxxx	14.382
5. Movements during the period		50713	10.839	
a. Recorded		50714	10.839	
b. Excess written back		50715	0	
c. Acquisitions from third parties		50716	0	
d. Cancellations		50717	0	
e. Transfers from one caption to another	(+/-)	50718	0	
6. Amortizations and write-downs as at the end of the period		50719	25.220	
7. Net carrying value as at the end of the period		50720	23.969	

(in thousands)

		Code	Current period	Previous period
C. COMMISSIONS FOR ATTRACTING NEW BUSINESS WITH CUSTOMERS				
1. Acquisition cost as at the end of the period		50725P	xxxxxxxxxxxxxxx	0
2. Movements during the period		50721	0	
a. Acquisitions, including own construction		50722	0	
b. Sales and disposals		50723	0	
c. Transfers from one caption to another	(+)/(-)	50724	0	
3. Acquisition cost as at the end of the period		50725	0	
4. Amortizations and write-downs as at the end of the period		50732P	xxxxxxxxxxxxxxx	0
5. Movements during the period		50726	0	
a. Recorded		50727	0	
b. Excess written back		50728	0	
c. Acquisitions from third parties		50729	0	
d. Cancellations		50730	0	
e. Transfers from one caption to another	(+)/(-)	50731	0	
6. Amortizations and write-downs as at the end of the period		50732	0	
7. Net carrying value as at end of the period		50733	0	

(in thousands)

		Code	Current period	Previous period
D. OTHER INTANGIBLE FIXED ASSETS				
1. Acquisition cost as at end of the period		50738P	xxxxxxxxxxxxxxx	72.745
2. Movements during the period		50734	23.208	
a. Acquisitions, including own construction		50735	23.247	
b. Sales and disposals		50736	39	
c. Transfers from one caption to another	(+)/(-)	50737	0	
3. Acquisition cost as at end of the period		50738	95.953	
4. Amortizations and write-downs as at end of the period		50745P	xxxxxxxxxxxxxxx	43.854
5. Movements during the period		50739	14.318	
a. Recorded		50740	14.349	
b. Excess written back		50741	31	
c. Acquisitions from third parties		50742	0	
d. Cancellations		50743	0	
e. Transfers from one caption to another	(+)/(-)	50744	0	
6. Amortizations and write-downs as at the end of the period		50745	58.172	
7. Net carrying value as at the end of the period		50746	37.781	

VIII. TANGIBLE FIXED ASSETS (Assets caption IX)

(in thousands)

		Code	Current period	Previous period
A. LAND AND BUILDINGS				
1. Acquisition cost as at the end of the period		50805P	xxxxxxxxxxxxxxx	1.310.438
2. Movements during the period	(+)/(-)	50801	-7.327	
a. Acquisition, including own construction		50802	14.554	
b. Sales and disposals		50803	21.881	
c. Transfers from one caption to another	(+)/(-)	50804	0	
3. Acquisition cost as at the end of the period		50805	1.303.111	
4. Revaluation surpluses as at the end of the period		50811P	xxxxxxxxxxxxxxx	58.395
5. Movements during the period	(+)/(-)	50806	-640	
a. Recorded		50807	0	
b. Acquisitions from third parties		50808	0	
c. Cancellations		50809	640	
d. Transfers from one caption to another	(+)/(-)	50810	0	
6. Revaluation surpluses as at the end of the period		50811	57.755	
7. Amortizations and write-downs as at the end of the period		50818P	xxxxxxxxxxxxxxx	852.183
8. Movements during the period	(+)/(-)	50812	15.250	
a. Recorded		50813	31.572	
b. Excess written back		50814	0	
c. Acquisitions from third parties		50815	0	
d. Cancellations		50816	16.322	
e. Transfers from one caption to another	(+)/(-)	50817	0	
9. Amortizations and write-downs as at the end of the period		50818	867.433	
10. Net carrying value as at the end of the period		50819	493.433	

(in thousands)

B. PLANT, MACHINERY AND EQUIPMENT		Code	Current period	Previous period
1. Acquisition cost as at the end of the period		50824P	xxxxxxxxxxxxxxx	10.185
2. Movements during the period	**(+)/(-)**	50820	-2.458	
a. Acquisition, including own construction		50821	190	
b. Sales and disposals		50822	2.648	
c. Transfers from one caption to another	(+)/(-)	50823	0	
3. Acquisition cost as at the end of the period		50824	7.728	
4. Revaluation surpluses as at the end of the period		50830P	xxxxxxxxxxxxxxx	0
5. Movements during the period	**(+)/(-)**	50825	0	
a. Recorded		50826	0	
b. Acquisitions from third parties		50827	0	
c. Cancellations		50828	0	
d. Transfers from one caption to another	(+)/(-)	50829	0	
6. Revaluation surpluses as at the end of the period		50830	0	
7. Amortization and write-downs as at the end of the period		50837P	xxxxxxxxxxxxxxx	9.808
8. Movements during the period	**(+)/(-)**	50831	-2.410	
a. Recorded		50832	230	
b. Excess written back		50833	724	
c. Acquisitions from third parties		50834	0	
d. Cancellations		50835	1.917	
e. Transfers from one caption to another	(+)/(-)	50836	0	
9. Amortizations and write-downs as at the end of the period		50837	7.397	
10. Net carrying value as at the end of the period		50838	330	

(in thousands)

		Code	Current period	Previous period
C. FURNITURE AND VEHICLES				
1. Acquisition cost as at the end of the period		50843P	xxxxxxxxxxxxxxx	32.767
2. Movements during the period	**(+)/(-)**	50839	-1.155	
a. Acquisition, including own construction		50840	266	
b. Sales and disposals		50841	1.421	
c. Transfers from one caption to another	(+)/(-)	50842	0	
3. Acquisition cost as at the end of the period		50843	31.612	
4. Revaluation surpluses as at the end of the period		50849P	xxxxxxxxxxxxxxx	0
5. Movements during the period	**(+)/(-)**	50844	0	
a. Recorded		50845	0	
b. Acquisitions from third parties		50846	0	
c. Cancellations		50847	0	
d. Transfers from one caption to another	(+)/(-)	50848	0	
6. Revaluation surpluses as at the end of the period		50849	0	
7. Amortizations and write-downs as at the end of the period		50856P	xxxxxxxxxxxxxxx	16.221
8. Movements during the period	**(+)/(-)**	50850	-1.200	
a. Recorded		50851	186	
b. Excess written back		50852	242	
c. Acquisitions from third parties		50853	0	
d. Cancellations		50854	342	
e. Transfers from one caption to another	(+)/(-)	50855	-803	
9. Amortizations and write-downs as at the end of the period		50856	15.020	
10. Net carrying value as at the end of the period		50857	16.591	

(in thousands)

		Code	Current period	Previous period
D. LEASING AND OTHER SIMILAR RIGHTS				
1. Acquisition cost as at the end of the period		50862P	xxxxxxxxxxxxxxx	133.039
2. Movements during the period	(+)/(-)	50858	26.663	
a. Acquisition, including own construction		50859	33.863	
b. Sales and disposals		50860	7.200	
c. Transfers from one caption to another	(+)/(-)	50861	0	
3. Acquisition cost as at the end of the period		50862	159.702	
4. Revaluation surpluses as at the end of the period		50868P	xxxxxxxxxxxxxxx	0
5. Movements during the period	(+)/(-)	50863	0	
a. Recorded		50864	0	
b. Acquisitions from third parties		50865	0	
c. Cancellations		50866	0	
d. Transfers from one caption to another	(+)/(-)	50867	0	
6. Revaluation surpluses as at the end of the period		50868	0	
7. Amortizations and write-downs as at the end of the period		50875P	xxxxxxxxxxxxxxx	38.053
8. Movements during the period	(+)/(-)	50869	2.937	
a. Recorded		50870	7.233	
b. Excess written back		50871	0	
c. Acquisitions from third parties		50872	0	
d. Cancellations		50873	4.296	
e. Transfers from one caption to another	(+)/(-)	50874	0	
9. Amortizations and write-downs as at the end of the period		50875	40.990	
10. Net carrying value as at the end of the period		50876	118.713	
11. Of which				
a. Land and buildings		50877	118.713	
b. Plant, machinery and equipment		50878	0	
c. Furniture and vehicles		50879	0	

(in thousands)

		Code	Current period	Previous period
E. OTHER TANGIBLE FIXED ASSETS				
1. Acquisition cost as at the end of the period		50884P	xxxxxxxxxxxxxxx	1.156.362
2. Movements during the period	(+)/(-)	50880	168.276	
a. Acquisition, including own construction		50881	347.432	
b. Sales and disposals		50882	179.157	
c. Transfers from one caption to another	(+)/(-)	50883	0	
3. Acquisition cost as at the end of the period		50884	1.324.638	
4. Revaluation surpluses as at the end of the period		50890P	xxxxxxxxxxxxxxx	0
5. Movements during the period	(+)/(-)	50885	0	
a. Recorded		50886	0	
b. Acquisitions from third parties		50887	0	
c. Cancellations		50888	0	
d. Transfers from one caption to another	(+)/(-)	50889	0	
6. Revaluation surpluses as at the end of the period		50890	0	
7. Amortizations and write-downs as at the end of the period		50897P	xxxxxxxxxxxxxxx	289.525
8. Movements during the period	(+)/(-)	50891	91.086	
a. Recorded		50892	138.559	
b. Excess written back		50893	352	
c. Acquisitions from third parties		50894	0	
d. Cancellations		50895	47.924	
e. Transfers from one caption to another	(+)/(-)	50896	803	
9. Amortizations and write-downs as at the end of the period		50897	380.610	
10. Net carrying value as at the end of the period		50898	944.027	

(in thousands)

		Code	Current period	Previous period
F. ASSETS UNDER CONSTRUCTION AND ADVANCE PAYMENTS				
1. Acquisition cost as at the end of the period		50903P	xxxxxxxxxxxxxxx	0
2. Movements during the period	(+)/(-)	50899	0	
a. Acquisition, including own construction		50900	0	
b. Sales and disposals		50901	0	
c. Transfers from one caption to another	(+)/(-)	50902	0	
3. Acquisition cost as at the end of the period		50903	0	
4. Revaluation surpluses as at the end of the period		50909P	xxxxxxxxxxxxxxx	0
5. Movements during the period	(+)/(-)	50904	0	
a. Recorded		50905	0	
b. Acquisitions from third parties		50906	0	
c. Cancellations		50907	0	
d. Transfers from one caption to another	(+)/(-)	50908	0	
6. Revaluation surpluses as at the end of the period		50909	0	
7. Amortization and write-downs as at the end of the period		50916P	xxxxxxxxxxxxxxx	0
8. Movements during the period	(+)/(-)	50910	0	
a. Recorded		50911	0	
b. Excess written back		50912	0	
c. Acquisitions from third parties		50913	0	
d. Cancellations		50914	0	
e. Transfers from one caption to another	(+)/(-)	50915	0	
9. Amortizations and write-downs as at the end of the period		50916	0	
10. Net carrying value as at the end of the period		50917	0	

IX. OTHER ASSETS (Assets caption XI)

(in thousands)

Breakdown (if the amount in this caption is significant)	Current period
Option contracts	734.686
Amounts to be awarded already received	91.255
Paid to European Resolution Fund - 15% is not recognized in the income statement	50.357
Tax receivables	39.405
Invested assets in connection with pension liabilities for the NY branch	7.710
Life insurance for the NY branch	106.149
Other	35.984

X. DEFERRED CHARGES AND ACCRUED INCOME (Assets caption XII)

(in thousands)

	Code	Current period
1. Deferred charges	51001	46.355
2. Accrued income	51002	7.371.867

X.bis REINVESTMENT OF SEGREGATED CUSTOMER FUNDS

	Code	Current period
Total	51003	0

XI. STATEMENT OF AMOUNTS OWED TO CREDIT INSTITUTIONS (Liabilities caption I)

(in thousands)

	Code	Current period	Previous period
1. Amounts due to affiliated enterprises	51101	2.229.800	2.552.070
2. Amounts due to other enterprises linked by participating interests	51102	0	0
3. Breakdown of debts other than on sight according to their remaining maturity			
a. Up to 3 months	51103	8.961.856	
b. Over 3 months up to 1 year	51104	1.117.528	
c. Over 1 year up to 5 years	51105	22.418.928	
d. Over 5 years	51106	0	
e. Undated	51107	0	

XII. STATEMENT OF AMOUNTS OWED TO CUSTOMERS (Liabilities caption II)

(in thousands)

	Code	Current period	Previous period
1. Affiliated enterprises	51201	2.588.804	2.969.471
2. Other enterprises linked by participating interests	51202	114.823	111.139
3. Breakdown according to the remaining maturity			
a. Repayable on demand	51203	58.015.857	
b. Up to 3 months	51204	6.887.177	
c. Over 3 months up to 1 year	51205	2.136.006	
d. Over 1 year up to 5 years	51206	3.468.621	
e. Over 5 years	51207	1.564.919	
f. Undated	51208	45.800.966	
4. Breakdown of debt owed to customers depending on the nature of the debtors			
a. Debt owed to government	51209	3.292.226	3.166.556
b. Debt owed to private persons	51210	67.033.902	61.439.703
c. Debt owed to enterprises	51211	47.547.419	44.613.525
5. Geographical breakdown of debt owed to customers			
a. Of Belgian origin	51212	100.408.183	
b. Of foreign origin	51213	17.465.363	

XIII. STATEMENT OF DEBTS EVIDENCED BY CERTIFICATES (liabilities caption III)

(in thousands)

	Code	Current period	Previous period
1. Debts represented by a certificate that, to the knowledge of the institution, are debts owed to affiliated companies.	51301	6.350.695	311.280
2. Debts represented by a certificate that, to the knowledge of the institution, are debts owed to companies linked by participating interests.	51302	0	0
3. Breakdown of debt represented by certificates in accordance to their remaining maturity.			
a. Up to 3 months	51303	10.915.847	
b. Over 3 months up to 1 year	51304	1.363.498	
c. Over 1 year up to 5 years	51305	4.566.860	
d. Over 5 years	51306	1.686.924	
e. Undated	51307	0	

XIV. OTHER LIABILITIES (liabilities caption IV)

(in thousands)

	Code	Current period
1. Taxes, remuneration and social security charges due to the tax authorities	51401	0
a. Overdue debts	51402	0
b. Unmatured debts	51403	0
2. Taxes, remuneration and social security charges due to the National Social Security Office	51404	0
a. Overdue debts	51405	0
b. Unmatured debts	51406	0
3. Taxes		
a. Taxes payable	51407	33.954
b. Estimated tax liabilities	51408	267
4. Other liabilities		
Breakdown if the amount in this caption is significant		
Option contracts		617.890
Payables to personnel		156.533
Pension debt towards NY branch employees		7.104
Confirmed outstanding debts		75.869
Intercompany debts related to global trading activities		82.309
Suppliers		118.045
Taxes		22.068
Other		7.427

XV. ACCRUED CHARGES AND DEFERRED INCOME (liabilities caption V)

(in thousands)

	Code	Current period
1. Accrued charges	51501	4.716.456
2. Deferred income	51502	130.074

XVI. PROVISIONS FOR OTHER LIABILITIES AND CHARGES (liabilities VI.A.3)

(in thousands)

	Current period
Breakdown of liabilities (VI.A.3) if the amounts in this caption are significant	
Credit commitments	83.534
Litigation and operational disputes	8.428
Provision for other risks and future expenses	15.157
Provision for disability payments	2.379
Other	1.698

XVII. STATEMENT OF SUBORDINATED LIABILITIES (liabilities caption VIII)

(in thousands)

	Code	Current period	Previous period
1. Subordinated debts due to affiliated enterprises	51701	10.571.163	8.916.957
2. Subordinated debts due to other enterprises linked by participating interests	51702	0	0

	Code	Current period
3. Charges as a result of subordinated liabilities	51703	150.982

4. For each subordinated loan, the following information: reference number, the ISO code of the currency, the amount of the loan in the currency of the loan, the remuneration arrangements, the due date and, if no due date is determined, the terms of duration, where appropriate the circumstances in which the institution is required to repay in advance, the conditions for the subordination and if appropriate, the conditions for the conversion into capital or into some other form of liability.

N°	0462.920.228	C-inst 5.17

Detail of each subordinated loan :

Reference nummer	Currency	Amount	Maturity date or conditions governing the maturity	a) Circumstances in which the entreprise is required to repay b) Conditions for the subordititaion c) Conditions for conversion into capital
1	EUR	1.000.000	24/04/2018 - 24/04/2025 Deposits originated by KBC Group - AT1	a) Unconditional
2	EUR	500.000	05/03/2019 - 05/03/2024 Deposits originated by KBC Group - AT1	a) Unconditional
3	EUR	174.669	24/07/2014 - 24/07/024 Deposits originated by KBC Group - Tier2	a) Unconditional
4	EUR	9.921	06/03/2015 - 06/03/2025 Deposits originated by KBC Group - Tier2	a) Unconditional
5	EUR	749.319	11/03/2015 - 11/03/2027 Deposits originated by KBC Group - Tier2	a) Unconditional
6	EUR	746.644	03/09/2019 - 03/12/2024 Deposits originated by KBC Group - Tier2	a) Unconditional
7	EUR	749.708	26/04/2016 - 26/04/2021 Deposits originated by KBC Group - Holdco	a) Unconditional
8	EUR	749.772	18/10/2016 - 18/10/2023 Deposits originated by KBC Group - Holdco	a) Unconditional
9	EUR	1.249.956	01/03/2017 - 01/03/2022 Deposits originated by KBC Group - Holdco	a) Unconditional
10	EUR	750.000	24/05/2017 - 24/11/2022 Deposits originated by KBC Group - Holdco	a) Unconditional
11	EUR	24.981	04/10/2017 - 04/10/2027 Deposits originated by KBC Group - Holdco	a) Unconditional
12	EUR	498.706	27/06/2018 - 27/06/2023 Deposits originated by KBC Group - Holdco	a) Unconditional
13	EUR	749.303	25/01/2019 - 25/01/2024 Deposits originated by KBC Group - Holdco	a) Unconditional
14	EUR	498.690	24/01/2020 - 24/01/2030 Deposits originated by KBC Group - Holdco	a) Unconditional
15	EUR	496.728	16/06/2020 - 16/06/2027 Deposits originated by KBC Group - Holdco	a) Unconditional
16	EUR	747.656	10/09/2020 - 10/09/2025 Deposits originated by KBC Group - Holdco	a) Unconditional
17	USD	122.239	Continuous issued Deposits originated by KBC IFIMA	a) Fiscal requalification
18	EUR	497.634	10/04/2019 - 10/04/2025 Euro Medium Term Note	a) Unconditional
19	EUR	255.235	24/06/2019 - 25/01/2024 Euro Medium Term Note	a) Unconditional

XVIII. STATEMENT OF CAPITAL

A. CAPITAL

	Code	Current period (in thousands)	Previous period (in thousands)
1. Subscribed capital			
a. Subscribed capital as at the end of the preceding period	20910P	xxxxxxxxxxxxxx	9.732.238
b. Subscribed capital as at the end of the period	(20910)	9.732.238	

	Code	Amounts (in thousands)	Number of shares (in units)
c. Changes during the period		0	0
d. Structure of the capital			
e. Categories of shares			
Ordinary shares entitled to dividend		9.732.238	995.371.469
f. Registered shares	51801	xxxxxxxxxxxxxx	995.371.469
g. Bearer and or dematerialized shares	51802	xxxxxxxxxxxxxx	

	Code	Uncalled capital	Called but unpaid capital
2. CAPITAL NOT PAID UP			
a. Uncalled capital	(20920)	0	xxxxxxxxxxxxxx
b. Called but unpaid capital	51803	xxxxxxxxxxxxxx	0
c. Shareholders still owing capital payment			

	Code	Current period (in thousands)
3. OWN SHARES		
a. Held by the reporting institution itself		
* Amount of capital held	51804	0
* Corresponding number of shares	51805	0
b. Held by its subsidiaries		
* Amount of capital held	51806	0
* Corresponding number of shares	51807	0
4. SHARE ISSUANCE COMMITMENTS		
a. Following the exercise of conversion rights		
* Amount of convertible loans outstanding	51808	0
* Amount of capital to be subscribed	51809	0
* Maximum corresponding number of shares to be issued	51810	0
b. Following the exercise of subscription rights		
* Number of subscription rights outstanding	51811	0
* Amount of capital to be subscribed	51812	0
* Maximum corresponding number of shares to be issued	51813	0
5. AUTHORIZED CAPITAL NOT ISSUED	51814	0

	Code	Current period
6. SHARES NOT REPRESENTING CAPITAL		
a. Repartition		
* Number of parts	51815	0
* Number of votes	51816	0
b. Breakdown by shareholder		
* Number of parts held by the reporting institution itself	51817	0
* Number of parts held by its subsidiaries	51818	0

B. SHAREHOLDER STRUCTURE OF THE INSTITUTION AT YEAR END, ACCORDING TO THE NOTIFICATIONS RECEIVED BY THE INSTITUTION

KBC Groep NV	Number of shares:	995.371.469

XIX. BREAKDOWN OF BALANCE SHEET, IF MORE THAN 15 MILLION EUROS, IN EUROS AND IN FOREIGN CURRENCY

(in thousands)

	Code	Current period
1. Total Assets		
a. In Euro	51901	177.142.241
b. In foreign currency (equivalent in EUR)	51902	28.918.838
2. Total liabilities		
a. In Euro	51903	182.743.227
b. In foreign currency (equivalent in EUR)	51904	23.317.852

XX. FIDUCIARY TRANSACTIONS ACCORDING TO ARTICLE 27TER §1 PARAGRAPH 3

(in thousands)

	Current period
Concerned assets and liabilities items	

XXI. STATEMENT OF GUARANTEED DEBTS AND OBLIGATIONS

(in thousands)

	Current period
A. MORTGAGES (amount of enrollment or carrying amount of the collateralized buildings, if this is less)	
1. Collateral provided by the institution or irrevocably promised on its own assets as security for debts and obligations of the institution	
a. Liabilities	
b. Off balance sheet	
2. Collateral provided by the institution or irrevocably promised on its own assets as security for debts and commitments of third parties	

	(in thousands) Current period
B. PLEDGE OF THE TRADING FUND (total enrollment)	
1. Collateral provided by the institution or irrevocably promised on its own assets as security for debts and obligations of the institution	
a. Liabilities	
b. Off balance sheet	
2. Collateral provided by the institution or irrevocably promised on its own assets as security for debts and obligations of third parties	

(in thousands)

	Current period
C. PLEDGE OF OTHER ASSETS (book value of pledged assets)	
1. Collateral provided by the institution or irrevocably promised on its own assets as security for debts and obligations of the institution	
a. Liabilities	
Discounting, repurchase agreements and secured advances	14.295.266
Asset Pledge requirement KBC New York	101.860
Asset Pledge National Bank of Belgium	23.887.565
Asset Pledge Bancontact	143.523
Asset Clearstream Banking SA	661.001
Covered bonds	17.463.427
b. Off-balance sheet	
Cash & Bond Collateral wrt derivatives	3.010.194
Clearing Margin Derivatives	991.534
Securities Lending	105.747
2. Collateral provided by the institution or irrevocably promised on its own assets as security for debts and commitments of third parties	

	(in thousands) Current period
D. COLLATERAL ON FUTURE ASSETS (total assets in question)	
1. Collateral provided by the institution or irrevocably promised on its own assets as security for debts and obligations of the institution	
a. Liabilities	
b. Off-balance sheet	
2. Collateral provided by the institution or irrevocably promised on its own assets as security for debts and obligations of third parties	

XXII. STATEMENT OF CONTINGENT LIABILITIES AND COMMITMENTS WITH POTENTIAL CREDIT RISK (off balance sheet I and II)

(in thousands)

	Codes	Current period	Previous period
1. Total contingent liabilities on behalf of affiliated companies	52201	2.982.443	4.991.675
2. Total contingent liabilities on behalf of companies linked by participating interests	52202	232	281
3. Total commitments with a potential credit risk to affiliated companies	52203	0	0
4. Total commitments with a potential risk with regard to companies linked by participating interests	52204	0	0

XXIII. OPERATING RESULTS (items I to XV of the income statement)

(in thousands)

	Code	Current period	Previous period
1. Breakdown of operating income according to origin			
a. Interest and similar income	(40100)	2.653.717	2.807.270
* Belgian sites	52301	2.414.529	2.437.143
* Foreign offices	52302	239.188	370.127
b. Income from fixed-income securities: shares and other variable-yield securities	(40310)	12.764	26.201
* Belgian sites	52303	859	2.450
* Foreign offices	52304	11.905	23.752
c. Income from fixed-income securities: investments in affiliated companies	(40320)	749.446	1.976.948
* Belgian sites	52305	749.446	1.976.948
* Foreign offices	52306	0	0
d. Income from fixed-income securities: shares in companies linked by participating interests	(40330)	2.441	5.668
* Belgian sites	52307	2.441	5.668
* Foreign offices	52308	0	0
e. Income from fixed-income securities: other shares held as fixed financial assets	(40340)	292	464
* Belgian sites	52309	292	464
* Foreign offices	52310	0	0
f. Commissions received	(40400)	1.177.645	1.818.568
* Belgian sites	52311	1.149.387	1.787.577
* Foreign offices	52312	28.258	30.990
g. Profit on financial transactions	(40600)	454.975	265.702
* Belgian sites	52313	454.373	268.252
* Foreign offices	52314	601	-2.549
h. Other operating income	(41400)	402.300	372.216
* Belgian sites	52315	393.378	357.450
* Foreign offices	52316	8.922	14.766
2. Employees on the personnel register			
a. Total number at the closing date	52317	9.117	9.489
b. Average number of employees in full-time equivalents	52318	8.405	8.767
* Management Personnel	52319	76	82
* Employees	52320	8.329	8.685
* Workers	52321	0	0
* Other	52322	0	0
c. Number of actual worked hours	52323	11.887.455	12.105.372
3. Personnel			
a. Remuneration and direct social benefits	52324	560.444	578.730
b. Employers' social security	52325	139.666	144.894
c. Employers' premiums for extra statutory insurance	52326	56.539	58.071
d. Other personnel	52327	23.615	26.909
e. Retirement and survivors' pensions	52328	6.845	6.444
4. Provisions for pensions and similar obligations			
a. Increase (+)	52329	3.150	7.118
b. Decrease (-)	52330	8.537	11.869

(in thousands)

	Code	Current period	Previous period
5. Breakdown of other operating income if this represents a significant amount			
a. Leasing activities		187.096	133.491
b. Recalculations to / recuperations of group companies		157.354	160.816
c. Other		57.850	77.909
6. Other operating expenses			
a. Corporate taxes	52331	40.127	38.602
b. Other	52332	21.483	8.610
c. Analysis of other operating expenses if this represents a significant amount			
7. Operating revenue from affiliated companies	52333	5.526.275	5.961.034
8. Operating costs relating to affiliated companies	52334	4.455.953	4.056.805

XXIV. STATEMENT OF OFF BALANCE SHEET OPERATIONS ON SECURITIES, CURRENCIES AND OTHER FINANCIAL INSTRUMENTS WHICH BRING NO OBLIGATION WITH A POTENTIAL CREDIT RISK ACCORDING TO HEADING II OF THE OFF BALANCE SHEET ITEMS

(in thousands)

	Code	Current period
A. TYPES OF OPERATIONS (amounts on the closing date of the accounts)		
1. Securities transactions		
a. Forward purchases and sales of securities and marketable securities	52401	0
* of which: not intended for hedging purposes	52402	0
2. Exchange transactions (amounts to be provided)		
a. Forward exchange contracts	52403	106.562.958
* of which: not intended for hedging purposes	52404	106.539.166
b. Currency and interest rate swaps	52405	50.767.261
* of which: not intended for hedging purposes	52406	49.116.469
c. Currency futures	52407	0
* of which: not intended for hedging purposes	52408	0
d. Options on currencies	52409	8.886.629
* of which: not intended for hedging purposes	52410	8.886.629
e. Forward exchange contracts	52411	0
* of which: not intended for hedging purposes	52412	0
3. Transactions in other financial instruments		
Forward transactions in interest rate (nominal / notional reference)		
a. Interest rate swap agreements	52413	433.040.803
* of which: not intended for hedging purposes	52414	353.895.566
b. Interest futures transactions	52415	7.134.129
* of which: not intended for hedging purposes	52416	7.134.129
c. Future Interest rate Agreements	52417	4.643.327
* of which: not intended for hedging purposes	52418	4.643.327
d. Interest rate options	52419	25.117.895
* of which: not intended for hedging purposes	52420	22.732.722
Other purchase and sales (sale / purchase price agreed between parties)		
e. Other option transactions	52421	3.774.795
* of which: not intended for hedging purposes	52422	3.774.795
f. Other futures transactions	52423	281.572
* of which: not intended for hedging purposes	52424	281.572
g. Other forward purchases and sales	52425	14.000
* of which: not intended for hedging purposes	52426	14.000

(in thousands)

		Code	Current period
B. QUANTIFICATION OF THE IMPACT ON THE RESULTS OF THE DEROGATION OF VALUATION RULE UNDER article 36bis, § 2 RELATING TO THE FORWARD TRANSACTIONS IN INTEREST RATE			
1. Forward transactions in interest rate regarding treasury management			
a. Nominal / notional reference amount on the closing date of accounts		52427	0
b. Difference between market value and book value	(+)/(-)	52428	0
2. Forward transactions in interest rate regarding ALM (*)			
a. Nominal / notional reference amount on the closing date of accounts		52429	60.171.005
b. Difference between market value and book value	(+)/(-)	52430	-1.603.947
3. Forward transactions in interest rate without the effect of risk reduction (LOCOM)			
a. Nominal / notional reference amount on the closing date of accounts		52431	11.859
b. Difference between market value and book value	(+)/(-)	52432	588

(*) Including forward transactions regarding securitizations of loans (nominal value 8 397 366 KEUR). The MtM Value of the deals amount to (612 930 KEUR).

XXV. EXTRAORDINARY RESULTS

(in thousands)

	Code	Current period
1. Realised gains on transfer of fixed assets to affiliated companies	52501	0
2. Incurred losses on transfer of fixed assets to affiliated companies	52502	0
3. Breakdown of the other exceptional income if it comprises significant amounts		0
4. Breakdown of the other extraordinary costs if they comprise significant amounts		0

XXVI. INCOME TAXES

(in thousands)

	Code	Current period
1. Income taxes for the year	52601	-61.718
a. Taxes and withholding taxes due or paid	52602	-55.960
b. Excess of income tax prepayments and of withholding taxes	52603	275
c. Estimated additional charges for income taxes	52604	-6.033
2. Income taxes for previous years	52605	-2.862
a. Additional income taxes due or paid	52606	0
b. Additional charges for income taxes, estimated (included in liabilities)	52607	-2.862
3. Main sources of differences between the profit before tax, as stated in the financial statements, and the estimated taxable income		
Movements in taxable reserves and provisions		217.243
The specific tax system applicable to gains and losses on shares		402.002
The application of the foreign tax credit scheme on dividends received		-751.576
Disallowed expenses (other than write-downs, losses on shares, revenue participation and corporation tax)		41.667

4. Impact of extraordinary results on the amount of income taxes for the year

Realised gains and incurred losses on shares under financial fixed assets (gains not taxable and losses not deductible)		-409.931
Write-downs (not deductible) and write-backs (not taxable) on shares under financial fixed assets		-411.018

	Code	Current period
5. Sources of deferred taxes		
a. Deferred tax assets	52608	1.967.465
* Accumulated tax losses deductible from future taxable profits	52609	1.209.263
* Other deferred tax assets		758.202
Taxable impairments		667.008
Taxable supplies		77.489
Other taxable reserves		13.705
b. Passive deferrals	52610	0
* Breakdown of the passive deferrals		

XXVII. VALUE ADDED TAX AND TAXES BORNE BY THIRD PARTIES

(in thousands)

	Code	Current period	Previous period
1. Charged value added tax			
a. To the reporting institution (deductible)	52701	224.597	247.499
b. By the reporting institution	52702	228.777	219.691
2. Amounts withheld on behalf of third parties as			
a. Payroll tax	52703	142.325	149.942
b. Withholding tax	52704	91.416	116.017

XXVIII. OFF-BALANCE SHEET RIGHTS AND COMMITMENTS (INCLUDED TRANSACTIONS WITH RELATED PARTIES)

A. OFF BALANCE SHEET RIGHTS AND COMMITMENTS

	Code	Current period
1. Substantial commitments to acquire fixed assets		
2. Substantial commitments to dispose of fixed assets		

3. Amount, type and form of significant litigation and other significant commitments

Significant disputes pending:

We value claims brought against companies of the KBC group according to their risk assessment (probable, possible or unlikely). We create provisions for the files with a risk assessment of a probable loss (see Notes to the accounting policies). As long as the receivable is assessed as possible (the files with risk assessment potential loss), we do not make any provisions, but provide an explanation in the financial statements if they could have a significant impact on the balance sheet (i.e. if the receivable could lead to a possible outflow of more than 50 million euros). All other exposures (with risk-estimated improbable loss), regardless of their magnitude, that present little or no risk do not need to be disclosed. We list the most important files below. We keep the information limited so as not to interfere with the group's position in pending litigation.

Possible outflow:

On October 6, 2011, Irving H. Picard, receiver (hereinafter referred to as the “Trustee”) for the liquidation of Bernard L. Madoff Investments Securities LLC (& Bernard L. Madoff), appointed KBC Investments Ltd (a wholly owned subsidiary of KBC Bank) for the bankruptcy court in New York for the claw-back of approximately USD 110.000.000 as a result of transfers from Madoff (through a feeder fund that KBC had lent to Harley) to KBC entities. the trustee against various banks, hedge funds, feeder funds and investors (hereinafter referred to as the “joint defense group”).
A lengthy trial was conducted based on procedural defenses regarding the applicability of the 'Safe Habor' and 'Good defenses' rules of the Bankruptcy Act to subsequent assignees (such as is the case for KBC Investments Ltd), as set out in the previous notices. In June 2015, the bankruptcy trustee amended the original claim, resulting in an increase in the amount claimed to USD 196.000.000.
On March 3, 2017, a court ruling was issued rejecting the Trustee's claim. The Trustee has appealed and the Court of Appeal reversed the rejection on February 28, 2019. A petition filed on August 30, 2019 (“Certioriari petition”) was rejected by the US Supreme Court on June 2, 2020. As a result, the merits of the case will be heard by the bankruptcy court.
KBC still believes that there is a strong basis for the claim against KBC to be dismissed, as there are a number of other defenses that can be raised together with the joint defense group. The procedure can still take several years.

Other significant liabilities.

The bank irrevocably guarantees all the sums, indebtedness, obligations and liabilities outstanding on 31 December 2020 of the following companies, which are consequently exempt from publication on a consolidated basis.

KBC Asset Management NV

4. Where appropriate, a brief description of the system of supplementary retirement or survivor benefit of the personnel or the executives, stating the measures taken to cover the resulting charges

A system of additional pension provisions, a supplementary death capital, orphan's interest and invalidity allowances is provided for all staff members. For all staff who have been employed since 2014, this is organised via the KBC Pension Fund in a "fixed contribution" plan. This means that the amount of these provisions depends on the employee's remuneration over the course of his career. For staff who were already in service before 2014, these provisions are organised within the framework of a "defined benefit" plan, which means that the amount of these provisions depends on the final remuneration, the number of years of service and the age at the time of retirement. Since 2015, the target plan to be achieved is therefore a closed plan (no more new accessions).

These pension provisions are fully financed by the employer by means of annual allowances that are charged to the result. These allowances in the defined benefit plan are calculated on an actuarial basis using the aggregate cost method. The allowances in the "defined contribution" plan are calculated as a percentage of the individual, actual remuneration; for contribution plans, a statutory minimum return guarantee is applicable, which currently amounts to 1.75%. The allowances are paid to the KBC Pension Fund, which is responsible for the management of the reserves thus formed, their payment and the administration.

In addition, a supplementary pension plan (fixed contribution plan) is provided, based exclusively on the personal contributions of the employees through deductions from salary payments. The legal return guarantee currently amounts to 1.75%. This plan was discontinued on 1 January 2019. In other words, no new accessions will take place and it only exists for those staff who were already members of this plan before 1/1/2019 and who have opted to continue the plan beyond 1/1/2019. Here too, the management, payment and administration of this plan has been entrusted to the KBC pension fund.

	Code	Current period
5. Pensions that are borne by the institution itself: the estimated amount of obligations arising from past services	52801	
Bases and methods of estimation		

6. Nature and business purpose of off balance sheet arrangements

Provided that the risks or benefits of such arrangements are material and to the extent that disclosure of the risks or benefits is necessary for assessing the financial situation of the institution;
where appropriate, the financial consequences of these operations for the facility must also be mentioned:

KBC Bank NV is a member of a VAT grouping.

KBC Bank has set up a company for investments in debt securities, called Loan Invest NV, which has acquired loans of KBC Bank, using funds received from the issuance of securities.

KBC Bank carries an important part of these securities on its balance sheet. The interest risk carried by Loan Invest NV is covered by interest rate swaps concluded between Home Loan Invest and KBC Bank, so that this operation has a limited effect on the ALM management of the bank and on the income statement. The balance sheet shows a decrease of loans for an amount of 11.008 million euros and an increase of investment securities for an amount of 8.397 million euros. KBC Bank NV has a subordinated claim on Loan Invest NV, worth 2.955 million euros.

The main reason for setting up this operation is to make part of the loans of KBC Bank more liquid, as the securities issued by Loan Invest NV and held by KBC Bank are eligible for refinancing with the ECB. As a consequence the main purpose of this operation is improving the liquidity risk of the bank.

Note that Loan Invest NV is listed as a “Special Purpose Entity”, included in the consolidated reporting of KBC Bank.

The annual accounts of Loan Invest NV are available at the Central Balance Sheet Office.

(in thousands)

B. TRANSACTIONS WITH RELATED PARTIES

Indication of such transactions if they are significant, including the amount of these transactions, the nature of the relationship with the related party and any other information on transactions that would be required to obtain a better understanding of the financial situation of the institution:

Related party	The nature of the relationschip	Current period
CBC BANQUE SA	Other option transactions	19.002
	Guarantees given	26.563
	Guarantees received	2.434.675
	Interest rate options	564.498
	Options on currencies	74.139
	Interest rate swap agreements	8.637.016
	Forward exchange contracts	387.126
	Currency and interest rate swaps	6.519
CESKOSLOVENSKA OBCHODNA BANKA AS.	Guarantees received	491.980
	Interest rate options	23.091
	Options on currencies	36.947
	Interest rate swap agreements	5.852.017
	Forward exchange contracts	163.724
CESKOSLOVENSKA OBCHODNI BANKA AS	Other option transactions	145.745
	Guarantees given	17.107
	Guarantees received	2.490.869
	Interest rate options	553.758
	Options on currencies	658.169
	Interest rate swap agreements	67.046.476
	Forward exchange contracts	21.381.025
	Currency and interest rate swaps	2.033.185
JOYN INTERNATIONAL NV	Guarantees received	1.470
	Committed lines	1.340
K&H BANK ZRT.	Other option transactions	3.838
	Guarantees given	66.631
	Guarantees received	295.952
	Interest rate options	39.418
	Options on currencies	578.948
	Interest rate swap agreements	9.594.036
	Forward exchange contracts	1.724.672
	Currency and interest rate swaps	229.371
	Assets pledged as collateral	9.799
KBC ASSET MANAGEMENT NV	Guarantees given	252.149
	Guarantees received	3.100
	Forward exchange contracts	84.326
	Committed lines	30.000
KBC AUTOLEASE NV	Committed lines	148.405
KBC BAIL IMMOBILIER FRANCE SA	Guarantees received	54.399
	Committed lines	20.125
KBC BANK IRELAND PLC.	Guarantees given	819.298
	Guarantees received	3.892.903
	Interest rate swap agreements	3.614.366
	Forward exchange contracts	547.310
	Committed lines	193.590
	Currency and interest rate swaps	685.772
KBC COMMERCIAL FINANCE NV	Guarantees given	343.726
	Guarantees received	3.763
	Committed lines	2.700.000
KBC GROEP NV	Guarantees received	60.040
	Interest rate swap agreements	500.000
	Committed lines	20.000

Related party	The nature of the relationschip	
KBC IFIMA SA	Other option transactions	322.613
	Other forward purchases and sales	7.000
	Guarantees given	844.917
	Interest rate options	15.215
	Interest rate swap agreements	635.938
KBC IMMOLEASE NV	Committed lines	38.466
KBC LEASE BELGIUM NV	Guarantees received	4.850
	Committed lines	144.237
KBC SECURITIES NV	Other option transactions	1.508
	Guarantees given	2.445
	Guarantees received	8.140
	Committed lines	500.000
KBC VERZEKERINGEN NV	Guarantees given	2.898
	Guarantees received	2.777.380
	Interest rate swap agreements	393.500
	Committed lines	8.000
LOAN INVEST NV	Interest rate swap agreements	8.397.367
POELAERT INVEST NV	Interest rate swap agreements	42.530
UNITED BULGARIAN BANK AD	Guarantees given	7.996
	Guarantees received	181.856
	Interest rate swap agreements	60.000
	Forward exchange contracts	720.379
	Assets pledged as collateral	200.016

C. Nature and financial impact of the significant events after the balance sheet date which are not taken into account in the income statement or the balance sheet

XXIX. FINANCIAL RELATIONS WITH

(in thousands)

	Code	Current period
A. DIRECTORS AND MANAGERS, INDIVIDUALS OR CORPORATE BODIES WHO CONTROL THE INSTITUTION DIRECTLY OR INDIRECTLY WITHOUT BEING RELATED TO IT OR OTHER COMPANIES CONTROLLED DIRECTLY OR INDIRECTLY BY THESE PEOPLE		
1. Amounts receivable from these persons	52901	224.359
a. Conditions on amounts receivable		
b. Possibly refunded amount or amount which is waived		
All related party transactions occur at arm's length.		
2. Guarantees granted on their behalf	52902	0
a. Principal terms of the guarantees granted		
3. Other significant commitments undertaken in their favour	52903	0
a. Main conditions of these obligations		
4. Direct and indirect remuneration and pensions, included in P&L, provided that such disclosure does not concern exclusively or mainly the situation of a single identifiable person		
a. To directors and managers	52904	346
b. To former directors and former managers	52905	0

	Code	Current period
B. THE AUDITOR(S) AND THE PEOPLE HE (SHE) IS (ARE) RELATED TO		
1. Remuneration of the auditor(s)	52906	1.998
2. Fees for exceptional services or special services provided to the company by the auditor(s)		
a. Other audit services	52907	83
b. Tax advisory services	52908	0
c. Other non-audit services	52909	0
3. Fees for exceptional services or special services provided to the company by persons with whom the auditor(s) is(are) related		
a. Other audit services	52910	0
b. Tax advisory services	52911	0
c. Other non-audit services	52912	0

4. Statements in accordance with Article 133, § 6 of the Company Code

XXX. POSITIONS IN FINANCIAL INSTRUMENTS

(in thousands)

	Code	Current period
1. Financial instruments to be received by the institution on behalf of clients	53001	3.183.977
2. Financial instruments to be delivered by the institution to clients	53002	3.973.991
3. Financial instruments of clients held in custody by the institution	53003	227.904.664
4. Financial Instruments from clients given in custody by the institution	53004	154.214.445
5. Financial Instruments from clients held as collateral by the institution	53005	2.395.341
6. Financial Instruments from clients given as collateral by the institution	53006	0

XXXI. COUNTRY BY COUNTRY INFORMATION

Information to be provided by the institutions referred to in Article 4(1)(3) of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms amending Regulation (EU) No 648/2012 with the exception of those undertakings which draw up and publish consolidated accounts in accordance with the Royal Decree of 23 September 1992 on the consolidated accounts of credit institutions, investment firms and collective investment undertakings.

DENOMINATION of the branch, subsidiary or joint subsidiary Nature of activities	Financial year				
COUNTRY	Number of employees *in full-time equivalents*	Turnover (= Interest income and similar income + income from variable-income securities + commissions received + gain on financial transactions)	Profit (Loss) before taxes	Tax on the results	Government grants received

XXXII. DERIVATIVES NOT ESTIMATED AT FAIR VALUE

FOR EACH CATEGORY OF DERIVATIVE FINANCIAL INSTRUMENTS NOT BE VALUED ON THE BASIS OF FAIR VALUE

(in thousands EUR)

Category of financial derivatives	Hedge risk	Speculation/ hedging	Volume	Period		Previous Period	
				Book value	Fair value	Book Value	Fair value
Interest rate swaps	Interest rate risk	Hedging	79.015.237	-139.871	-2.079.154	-101.475	-1.472.055
Cross currency interest rate swaps	Interest- and currency risk	Hedging	269.091	7.132	3.063	318	12.986

FINANCIAL FIXED ASSETS CARRIED AT AN AMOUNT IN EXCESS OF FAIR VALUE

	Book value	Fair value
Amount of individual assets or appropriate groupings of those assets		
Reasons for not reducing the book value		
Informations that suggest than the book value will be recovered		

XXXII. DECLARATION ON CONSOLIDATED ACCOUNTS

A. TO BE COMPLETED BY ALL CREDIT INSTITUTIONS

The institution has drawn up and has published consolidated annual accounts and a consolidated annual report*

~~**The institution does not draw up consolidated annual accounts nor a consolidated annual report because she is exempted due to following reason(s)***~~

The institution does not, solely nor jointly, control one or more subsidiaries governed by Belgian or foreign law*
The institution is a subsidiary of a parent company that draws up and publishes consolidated accounts, in which the annual accounts are included through consolidation*

Justification of compliance with the conditions set out in Article 4 of the Royal Decree of September 23rd 1992:

Name and full address of the registered office and, for institutions governed by Belgian law, the company number of the parent company publishing the consolidated accounts by virtue of which the exemption is granted

B. TO BE COMPLETED BY INSTITUTIONS WHICH ARE SOLELY OR JOINTLY-HELD SUBSIDIARIES

Name and full address of the registered office and, for companies governed by Belgian law, the company number of the parent company or companies preparing and publishing the consolidated accounts in which the accounts of the reporting institution are consolidated **:

KBC GROEP NV
HAVENLAAN 2, 1080 BRUSSEL
0403.227.515
The parent company draws up consolidated annual accounts and publishes these consolidated annual accounts.

If the parent company or companies are governed by foreign law, state the place where the above-mentioned consolidated accounts may be obtained **:

* Delete where appropriate
** If the accounts are consolidated at several levels, give details of the largest and smallest aggregate to which the reporting institution belongs as a subsidiary and for which consolidated accounts are prepared and published

C. FINANCIAL RELATIONSHIPS OF THE GROUP LED BY THE COMPANY IN BELGIUM WITH THE AUDITOR(S) OR PEOPLE HE (THEY) IS (ARE) RELATED TO: Statement in accordance with article 133, paragraph 6 of the Company Law

(in thousands)

	Code	Current period
D. FINANCIAL RELATIONSHIPS OF THE GROUP LED BY THE COMPANY IN BELGIUM WITH THE AUDITOR(S) OR PEOPLE HE (THEY) IS (ARE) RELATED TO: Statement in accordance with article 134, paragraphs 4 and 5 of the Company Law		
1. Auditor's fees for carrying out an auditor's mandate on the level of the group led by the company that publishes the information	53201	6.139
2. Fees for exceptional services or special services rendered in this group by the auditor(s)		
a. Other audit services	53202	333
b. Tax consultancy services	53203	0
c. Other non-audit services	53204	0
3. Fees for the people who are related to the auditor(s) for carrying out an auditor's mandate on the level of the group led by the company that publishes the information	53205	0
4. Fees for exceptional services or special services rendered in this group by the people who are related to the auditor(s)		
a. Other audit services	53206	71
b. Tax consultancy services	53207	0
c. Other non-audit services	53208	9

XXXIII. Relationships with associates (*) :

(in thousands)

	Code	Current period
1. Amount of financial assets	**53101**	**58.190**
- Holdings	53102	20.190
- Subordinated loans	53103	38.000
- Other claims	53104	0
2. Receivables form associated companies	**53105**	**306.241**
- On more than one year	53106	101.201
- within one year	53107	205.040
3. Debts to associates	**53108**	**98.885**
- On more than one year	53109	74.140
- within one year	53110	24.746
4. Personal and real guarantees :	**53111**	**22.307**
- made by the company or irrevocably promised as security for debts or liabilities of associates	53112	22.087
- Held by associates or irrevocably promised as security for the debts or obligations of the company	53113	219
5. Other significant financial commitments :	**53114**	**0**

(*) Associates within the meaning of Article 12 of the companies code.

Valuation rules KBC Bank

1. General

The accounting principles and valuation rules are conform to Belgian accounting legislation and the provisions of the Royal Decree of 23 September 1992 on the annual accounts of credit institutions.

The annual accounts are made up as at 31 December after profit appropriation.

In conformity with Article 3 of the above-mentioned Royal Decree, the annual accounts are drawn up according to the principle of a true and fair view. A transparent, clear and consistent financial reporting is important for KBC Bank as a financial institution. As such, KBC aims to align as much as possible, within the possibilities of the Belgian accounting law and the systems, with the international accounting standards IFRS, as applied for the consolidated annual accounts.

2. Valuation rules

CURRENCY TRANSLATION

All monetary items denominated in foreign currency are translated into their equivalent in euros at the spot rate at balance sheet date. Negative and positive valuation differences, except for those relating to the financing of shares and investments in foreign currency and to dotation capital for foreign branches, are recorded in the profit and loss account.

Non-monetary items are valued on the basis of the historical rate at acquisition or, where appropriate, on the basis of the exchange rate at which the currency used to pay the price was purchased.

For transactions that entailed funding (lending), the rate of the day is used if there is no exchange rate.

Income and charges denominated in foreign currency are stated in the profit and loss account at the rate prevailing when they were recognised. Foreign-currency income and expenditure which is hedged in advance is recorded in euros on the basis of the fixed rate.

Translation of the financial statements of foreign branches outside the euro zone:

balance sheet items are translated at the closing exchange rate prevailing at year-end, profit and loss account items are translated based on average rates. For this purpose, each month's profit or loss is translated into euros at the rate prevailing at the end of that month.

The translation difference at balance sheet date, resulting from translating the profit and loss account on the basis of average rates, is taken to the profit and loss account as profit on financial transactions.

AMOUNTS RECEIVABLE

Interest collected in advance and similar income (including such additional compensation as fees for foreign loans) for the entire loan period cannot be taken to the profit and loss account immediately, and is therefore posted to an accruals and deferrals heading. At month-end, the amount earned is written to the profit and loss account.

Origination and processing fees charged are taken to profit and loss immediately on the inception of the loans and advances concerned, credit insurance premiums are taken to the profit and loss account annually when paid.

Commissions due (payable in advance) for bank guarantees given are recorded in the profit and loss account immediately. The commissions received by KBC Bank for credit broking are charged to the profit and loss account when the credit is disbursed.

Amounts receivable arising from advances and cash deposits are recorded in the balance sheet for the amount made available.

The difference between the amount made available and the nominal value (discount) is recognised on an accruals basis according to the straight- line method as interest receivable via the accruals and deferrals accounts.

Dated commercial credit, consumer credit, home loans and receivables arising from leasing contracts are recorded in the balance sheet in the outstanding principal amount, plus the interest past due and sundry costs to be paid by customers. Interest received but not yet due (interest collected in advance) is recorded in the profit and loss account on an accruals basis via the accruals and deferrals headings.

The other amounts receivable are recognised in the balance sheet at nominal value.

Loans and advances that are transferred through securitisation operations where the transfer qualifies as a sale under NBB/BNB guidelines no longer constitute bank assets and consequently may not appear on the balance sheet of KBC Bank, although the amount is required to be recorded in the contingent accounts. Until the securitisation operation comes to an end, the entry in the contingent accounts is required to be adjusted at the end of each month to reflect customers' loan repayments. Any gains realised on the sale of securitised assets are taken to the profit and loss account immediately at the time of the sale.

If the sales price is made up entirely or in part of a variable element dependent on the buyer's operating profit, this element will only be taken to the profit and loss account when the operating profit is known and this element is therefore fixed.

In synthetic securitisation operations, the (credit) risk in respect of the underlying (loan) portfolio is all that is transferred to a third party, and this by means of a credit default swap, for example, and not through the effective transfer/sale of the (loan) receivables.

In other words, the loans remain on the balance sheet. Transactions used to hedge the company's own loan receivables are recognised as guarantees given or received. Transactions relating to the trading portfolio are recorded as interest rate swaps.

Both types of transaction are marked to market and taken to profit and loss, unless carried out on an illiquid market (in this case, positive valuation differences are posted to an accruals and deferrals heading, and negative valuation differences to the profit and loss account).

For loans with an uncertain outcome, general provisions are set aside and specific write-downs are charged. All interest and various other receivables which have remained unpaid for three months after having become payable will not be recognised in the profit and loss account.

Non-specific write-downs are calculated for domestic loans with an uncertain outcome on the basis of the principal amount whose repayment is uncertain, the percentage susceptible to reclassification (that portion of the 'uncertain outcome' portfolio that might become 'doubtful') and the loss percentage.

For loans classified as irrecoverable and doubtful, specific write-downs are posted on a case-by-case basis and charged to the assets heading in the annual accounts in which the risks appear, in order to cover the losses which are considered certain or likely to ensue on the outstanding loans. Interest due and charges are written to reserves.

Loans are classified as irrecoverable and doubtful if the loan balance is payable and if debt-recovery procedures have been initiated in or out of court.

The amount of any security is equal to the principal amount registered. Personal security is recorded in the accounts in the amount that can be obtained if execution is levied.

SECURITIES

Securities are recognised at acquisition cost at the time of purchase, excluding costs and less subscription fees. The ancillary costs attendant on acquisition are charged directly to the result.

- *Investment portfolio*

Fixed-income investment securities are recorded at acquisition cost, less or plus the matured portion of the premium or discount.

The difference between the acquisition cost and the redemption value is reflected as an interest item in the profit and loss account on an accruals basis over the remaining term to maturity of the securities. It is included in the profit and loss account on a discounted basis, based on the internal rate of return at the time of purchase.

Perpetual debt is valued at the lower of acquisition cost and market value.

If redemption of a security is uncertain or doubtful, an impairment is recorded according to the principles that apply for the valuation of amounts receivable.

If securities are sold, their carrying value is determined on a case-by-case basis. Gains or losses are posted directly to the profit and loss account.

Listed shares and other variable-yield securities are valued each month at the lower of acquisition cost and market value at balance sheet date. Other securities are valued at least once a year, based on the annual accounts for the previous year. File administrators are responsible for ensuring that any significant negative developments during the course of the year are also dealt with.

No value impairments are posted for shares hedged against a decline in price by means of an option.

- *Trading portfolio*

Securities belonging to the trading portfolio are marked to market. The resulting valuation differences are recorded in the profit and loss account under heading VI: 'Profit (Loss) on financial transactions'.

FINANCIAL FIXED ASSETS

Included in KBC Bank's holdings or participating interests are the rights (shares) held in other companies with a view to creating specific, lasting ties with them.

If there are no lasting ties and the shares are acquired for resale, then this investment will not be considered a financial fixed asset, but rather as part of the investment portfolio, regardless of the size of the shareholding and the influence that could be exerted on the management of the company in question through this shareholding.

Participating interests and shares that are considered financial fixed assets are recognised at acquisition cost.

Write-downs are applied only in the event of a lasting impairment in or loss of value, established on the basis of the financial position, the profitability and the prospects of the company concerned.

Participating interests, shares and share certificates classified as financial fixed assets may be revalued if, in light of their usefulness to the company, they exhibit an incontestable and lasting increase in value.

Regardless of whether they are represented by securities, subordinated loans and advances to associated companies and companies linked by participating interests are valued according to the same principles as non-subordinated loans and advances.

FORMATION EXPENSES AND INTANGIBLE FIXED ASSETS

All formation expenses referred to in the Royal Decree on the annual accounts of credit institutions are charged directly to the profit and loss account for the financial year as administrative expenses.

Capitalised goodwill is depreciated according to the straight-line method over a period of five years, unless the Board of Directors decides otherwise.

The following rules apply to software that has been developed in-house: all charges relating to continuity projects, as well as any research expenses for investments, are taken directly to the profit and loss account. However, development expenses (both internal and external) for investments are capitalised as an intangible fixed asset and written off over a period of five years. Investments are large-scale projects that introduce or replace an important business objective or model. Systems software is depreciated at the same rate as hardware, being written off according to the straight-line method over a period of three years.. Software other than systems software is depreciated over five years. Core systems with a longer useful life are depreciated straight line over an eight-year period. Core systems are types of standard software, including back-end data applications, for processing operations during the day and updates of the general ledger balances on the mainframe.

At KBC Bank, intangible fixed assets recorded are capitalised at acquisition cost including ancillary costs, and are written off on an accruals basis during the first year of investment.

TANGIBLE FIXED ASSETS

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

The rates of depreciation are determined on the basis of the anticipated useful economic life of the item and are applied according to the straight-line method. All tangible fixed assets are depreciated on an accruals basis from the time they are available for use.

The ancillary costs are written off over the life of the asset. A write-down is charged for ancillary costs on the acquisition of land.

When tangible fixed assets are sold, realised gains or losses are taken immediately to the profit and loss account. If these assets are destroyed, the remaining amount to be written off is charged directly to the result.

Tangible fixed assets that exhibit an incontestable and lasting appreciation in value compared to their carrying value may be revalued. This surplus is written off over the average residual useful life of the assets in question.

CREDITORS

Amounts owed as a result of advances or cash deposits received are recorded in the balance sheet in the amount made available, plus or minus any difference between this amount and the redemption price of the portion that has already accrued. The difference between the amount made available and the nominal value is reflected as interest on an accruals basis in the profit and loss account.

PROVISIONS FOR LIABILITIES & CHARGES

Provisions for liabilities and charges are intended to cover losses or charges, the nature of which is clearly defined and which at balance sheet date are either likely or certain to be incurred, but the amount of which is uncertain.

- *Pensions*

Concerned here are commitments with regard to retirement and survivor's pensions, benefits paid out on early retirement and other similar pensions or allowances (related mainly to employees' leaving employment early and end-of-career schemes).

- *Taxation*

This provision covers the commitments that may arise from a change in the tax base or in the calculation of tax. It is set aside in anticipation of additional tax charges (not yet assessed) for past financial years, for the amount that is disputed.

- *Other liabilities and charges*

This is a residual heading in respect of the provisions referred to above and includes provisions for legal disputes, commitment credit and indirect taxes.

FUND FOR GENERAL BANK RISKS

A fund for general banking risks is created as a general buffer for the expected future credit losses calculated on a 1-year time horizon (one year expected credit loss) inherent in the normal loan portfolio and fixed-interest securities for which there are no payment difficulties (loans with a probability of default from 1 to 9).

FINANCIAL INSTRUMENTS

-Valuation rules for trading and non-trading activities

Where trading activities are concerned, the unrealised profit or loss on revaluation is recognised at least at the end of every month. This revaluation takes into account any interest flows that have already been recognised on an accruals basis. In the event of a sale, liquidation or expiration, the profit/loss on the position is recognised immediately. Where illiquid currencies or securities are concerned, no profit on revaluation is recognised.

The existing strategic positions the dealing room takes for its own account via derivatives with a view to generating a profit on the long term by way of capital gains or interest spreads are valued according to the same principles used for illiquid interest rate positions.

For non-trading activities, where interest rate instruments are concerned, the gains or losses realised are only recognised on an accruals basis over the corresponding term. The valuation of non-interest-rate instruments (e.g., share option premiums) matches the valuation of the hedged position. In addition, non-trading activities carried out for the purpose of general, long-term management of interest rate products denominated in a foreign currency (macro-hedging) are also valued according to the 'lower of cost and market' principle, along with the associated on-balance-sheet products. Profit or loss on similar transactions carried out for general EUR ALM interest rate management purposes is recognised solely on an accruals basis.

Option premiums that are paid in advance are only taken to the profit and loss account on the due date or on liquidation, with the exception of option premiums for caps, floors and collars that have been concluded for hedging purposes (accruals-basis recognition). In the meantime, they are posted under the 'Other assets' or 'Other liabilities' items. Option premiums relating to trading activities are revalued at least at the end of every month.

-Valuation of derivatives

All derivatives are always recorded under specific off-balance-sheet headings on the transaction date. Amounts are released from the off-balance-sheet headings once the outcome of the transaction is definitive, even if the underlying term only starts at that time for certain interest rate products (e.g., FRAs).

Trading transactions are marked to market, and the mark-to-market (dirty price) value is recognised in the trading results.

Non-trading transactions are included in interest income on an accruals basis, which is the case for interest payable and interest receivable relating to interest rate swaps and foreign currency interest rate swaps. The swap difference arising on FX swaps (and FX outrights) is also released to the results on an accruals basis. The results from interest rate futures and FRAs are included in the profit and loss account spread over the term of the underlying hedged item. Equity swaps are treated in the same way as interest rate swaps. In practice, equity swaps (just like options) are only recorded in the trading book and consequently marked to market. KBC Bank makes use of the derogation allowed by the NBB/BNB to Article 36*bis* of the Royal Decree on the annual accounts of credit institutions. This derogation makes it possible to take interest rate derivatives that do not meet the hedging criteria to the profit and loss account on an accruals basis (interest rate derivatives classified as ALM or treasury management instruments).

-Hedging criteria for forward interest rate transactions:

The general criteria are set out in Article 36*bis* of the Royal Decree on the annual accounts of credit institutions of 23 September 1992:

- the hedged item or the combination of comparable hedged items must expose the credit institution to a risk of interest rate fluctuation;
- the transaction must be recorded in the books as a hedge from its inception;
- there must be a close correlation between fluctuations in the value of the hedged item and fluctuations in the value of the hedge; in the case of hedging options, there must be a correlation between fluctuations in the value of the hedged item and fluctuations in the value of the underlying financial instrument.

In addition, specific company criteria apply. All these criteria must be met: if one criterion is no longer satisfied, the hedge will be considered a trading transaction and be subject to the appropriate accounting treatment.

Hedging combinations that involve derivatives and are terminated before maturity will be considered trading transactions once the underlying position to be hedged no longer exists.

Future interest rate positions can be hedged if it is reasonably certain that the position will actually materialise. Moreover, the amount, term and interest rate conditions must be sufficiently certain.

-Calculation of unrealised profit/loss on revaluation

Derivatives are always valued on a contract basis; positive and negative valuation differences are not netted in the accounting records. Only for calculating capital adequacy requirements relative to market risks is the market risk calculated on a net basis per counterparty.

For forward interest rate and similar products (namely forward foreign exchange products), valuation occurs on the basis of the net present value of future, determinable cash flows using a single yield curve per currency, which is used throughout the bank. Any adjustments for operational and liquidity risks are deducted from the initial revaluation. Options are valued according to the usual valuation models. For interest rate products, calculations are always based on the assumption of a liquid market, provided the underlying currencies are liquid.

If a credit granted to a counterparty is classified as ‘doubtful’ or ‘irrecoverable’, the receivables and commitments stemming from off-balance-sheet products involving the same counterparty will be given the same classification. For loans and advances, write-downs may be recorded; for commitments, provisions will be set aside.

KBC Bank NV
Company annual report for financial year 2020

Pursuant to Article 119 of the Companies Code, KBC Bank NV has combined the reports for its company and consolidated financial statements. You can find this ‘combined’ report in the ‘Report of the Board of Directors’ section of the KBC Bank Annual Report.

The accounting information provided in the ‘Report of the Board of Directors’ is based on the consolidated IFRS accounting policies. In order to provide the reader of the company financial statements, based on Belgian accounting policies (B-GAAP), with a true and fair view of the company, an additional brief explanation is given. In addition, other information to be published that is not included in the ‘Report of the Board of Directors’ has been included here too.

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Notes to the company annual accounts

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

Balance sheet

KBC Bank NV (x1000 EUR)	31/12/2020	31/12/2019	Difference
Assets	**206 061 079**	**178 980 019**	**27 081 061**
Cash and cash balances with central banks	18 557 534	1 521 947	17 035 587
Amounts receivable from credit institutions	19 136 496	18 256 807	879 690
Amounts receivable from clients	81 714 093	91 749 805	-10 035 711
Bonds and other fixed-income securities	57 691 678	39 796 732	17 894 946
Shares and other variable-yield securities	485 378	829 602	-344 224
Financial fixed assets	18 357 287	17 356 361	1 000 927
Formation expenses, tangible and intangible fixed assets	1 634 845	1 557 845	77 000
Other assets	1 065 544	1 042 446	23 099
Deferred charges and accrued income	7 418 222	6 868 474	549 748
Liabilities	**206 061 079**	**178 980 019**	**27 081 061**
Amounts payable to credit institutions	36 852 899	20 330 390	16 522 509
Amounts payable to clients	117 873 547	109 219 783	8 653 763
Debts represented by securities	18 533 128	17 963 817	569 312
Other amounts payable	1 121 465	2 072 657	-951 192
Accrued charges and deferred income	4 846 530	5 021 105	-174 575
Provisions for liabilities and charges and deferred taxes	129 345	151 144	-21 800
General fund for banking risk	331 423	87 222	244 201
Subordinated loans	10 571 163	8 969 069	1 602 094
Equity	15 801 579	15 164 831	636 748

Balance sheet total

Total assets were up 27 billion euros on their year-earlier level, mainly as a result of TLTRO borrowings (19.5 billion euros), additional savings deposits (3.8 billion euros) and a net increase in funds on current accounts and time deposit accounts (5.1 billion euros).

The branches abroad held 4.23% of the bank's total assets (3.50% at the end of 2019).

Netting on the balance sheet

The criteria for offsetting are met if KBC currently has a legally enforceable right to set off the recognised financial assets and financial liabilities and intends either to settle the transactions on a net basis, or to realise the financial asset and settle the financial liability simultaneously.

Netting disclosure (x1000 EUR)	Bruto amounts		Netting	Netted amounts	
	Assets	Liabilities		Assets	Liabilities
repos - reverse repos	19 408 212	14 204 505	10 142 319	9 265 893	4 062 186

Cash, cash balances with central banks and amounts receivable from credit institutions

Depending on conditions on the interbank market, excess cash is deposited at central banks or placed on the interbank market. The required amount of MREL instruments depends on the balance sheet total.

Loans and advances to customers

'Loans and advances to customers' fell by 10 billion euros to 81.7 billion euros due to various movements, including the cessation of funding for KBC Credit Investments (9 billion euros), a new securitisation operation involving loans for SMEs (4.6 billion euros) and an increase in home loans (up 2.8 billion euros).

Bonds and other fixed-income securities

The total portfolio of fixed-income securities rose by 17.9 billion euros to 57.7 billion euros, owing primarily to the purchase of 13.8 billion euros' worth of securities from KBC Credit Investments and the repurchase of Home Loan Invest notes following the new securitisation operation (see above) (2.3 billion euros).

Securities issued by public authorities represented 47% of the portfolio.

Financial fixed assets

'Financial fixed assets' went up by 1 billion euros to 18.4 billion euros, which was attributable to a subordinated loan being granted to Home Loan Invest under the new securitisation operation (2020 sub-fund).

Other asset items

'Deferred charges and accrued income' was mostly made up of accrued interest and the revaluation of derivatives (such as IRS). The item increased by 0.6 billion euros due to the effect of mark-to-market accounting.

Amounts payable to credit institutions

'Amounts payable to credit institutions' increased by 16.5 billion euros to 36.9 billion euros, mainly as a result of TLTRO borrowings.

Amounts payable to clients and debts represented by securities

Total customer deposits went up by 9.2 billion euros to 136.4 billion euros, reflecting:

- an increase in savings deposits and demand deposits (11.8 billion euros)
- a decline in time deposits (-3.4 billion euros)
- a slight increase in short-term certificates of deposit (0.8 billion euros)

Fund for general banking risks

The coronavirus crisis triggered additional provisioning of 0.2 billion euros.

Accrued charges and deferred income

'Accrued charges and deferred income' was made up primarily of interest payable and the revaluation of derivatives. The slight decline in this item was attributable to the effect of mark-to-market accounting.

Subordinated liabilities

'Subordinated liabilities rose by 1.6 billion euros following the issue of Senior Holdco instruments, fully underwritten by KBC Group NV.

Equity

Equity grew by 0.6 billion euros to 15.8 billion euros.

Clearing of derivative positions

Derivative assets and derivative liabilities against central clearing houses are being cleared day by day by cash settlement (assets against cash collateral received and liabilities against cash collateral paid).
In the table below positions are reported before and after 'cash collateral' settlement.

Clearing disclosure	Gross amounts		Clearing		Net amounts	
(x1000 EUR)	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Derivatives	12 418 531	12 422 629	5 701 548	7 930 223	6 716 983	4 492 405

Profit and loss account

KBC Bank NV (x1000 EUR)	31/12/2020	31/12/2019	Difference
Gross income from ordinary activities	3 871 469	4 768 596	-897 126
Operating charges	-2 304 473	-2 194 418	-110 055
Write-downs and provisions	-442 214	-218 979	-223 234
Profit on ordinary activities	1 124 782	2 355 198	-1 230 416
Extraordinary result	-408 512	-221 574	-186 938
Taxes	-61 690	-56 494	-5 196
Result for the period to be appropriated	**654 580**	**2 077 130**	**-1 422 550**

(x1000 EUR)	31/12/2020	31/12/2019	Difference
Net interest income	1 428 735	1 233 687	195 048
Income from variable-yield securities	764 943	2 009 281	-1 244 338
Net fee and commission income	820 517	887 709	-67 192
Results from financial transactions	454 975	265 702	189 272
Other operating income	402 300	372 216	30 084
Gross income from ordinary activities	**3 871 469**	**4 768 596**	**-897 126**

‘Gross income from ordinary activities’ came to 3.9 billion euros, down 0.9 billion euros on its 2019 level.

Details of this decline are given in the table above.

- There was a limited increase in ‘Net interest income’ of 195 million euros, due primarily to continuing pressure on interest margins.
- ‘Income from variable-yield securities’ fell by 1 244.3 million euros, due mainly to a lower dividend at KBC Credit Investments and no dividend being paid by ČSOB in the Czech Republic.
- ‘Net fee and commission income’ declined by 67 million euros, falling mainly because of lower revenues from the provision of investment services and the sale of investment funds.
- ‘Results from financial transactions’ rose by 189.3 million euros, primarily on account of the gains realised on the early termination of derivatives with KBC Credit Investments.
- ‘Other operating income’ grew by 30 million euros.

(x1000 EUR)	31/12/2020	31/12/2019	Difference
General administrative charges	-2 041 148	-1 986 425	-54 722
Depreciation of and amounts written off tangible and intangible fixed assets	-201 715	-160 781	-40 934
Other operating charges	-61 611	-47 212	-14 399
Operating charges	**-2 304 473**	**-2 194 418**	**-110 055**

Operating charges (including ‘Depreciation of tangible and intangible fixed assets’ and ‘Other operating charges’) edged up in 2020 to -2.3 billion euros, primarily reflecting higher software amortisation (-21 million euros) and a change in the accounting policy for capitalising software (-77 million euros).

(x1000 EUR)	31/12/2020	31/12/2019	Difference
Write-downs on loans	-208 972	-231 569	22 597
Write-downs on investment portfolio	340	279	61
Provisions	-233 581	12 311	-245 892
Write-downs and provisions	**-442 214**	**-218 979**	**-223 234**

Slightly lower individual write-downs were recorded on corporate loans in financial year 2020 compared to a year earlier.

In financial year 2020, an additional provision of -195 million euros was set aside as a result of the coronavirus crisis (recognised under 'Fund for general banking risks'). Separately from this coronavirus-related provision, a general provision of -50 million euros was also recognised, whereas in financial year 2019 this item had consisted primarily of a reversal of the provision for the fund for general banking risks (8.5 million euros).

At -409 million euros, the **extraordinary result** was accounted for by a write-down on the participating interest in KBC Credit Investments.

Income tax was up slightly on its level for financial year 2019, but was still limited as a result of outstanding tax losses carried forward and the specific tax system for dividends received from subsidiaries.

Event during the year

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

The 'Report of the Board of Directors' section contains additional information on the impact of the coronavirus crisis on the activities and stakeholders of the group, more specifically concerning the following:

- our business model (see 'How do we create sustainable value?' and 'What are our main challenges?')
- the macroeconomic context (see 'In what environment do we operate?' and 'Our business units')
- our clients (see 'The client is at the centre of our business culture' and 'Our business units')
- our employees (see 'Our employees, capital, network and relationships')
- society (see 'Our business units')
- our risk management (see 'How do we manage our risks?')

Additional information

Information on branch offices

KBC Bank has 10 branches abroad, more specifically in New York, London, Paris, Rotterdam, Singapore, Hong Kong, Shanghai, Dublin, Germany and Italy.

Public disclosures of notional amounts covered by the collateral exemption under the European Market Infrastructure Regulation (see Article 11(14)(d)) or EMIR (Benchmark Regulation 648/2012)

When counterparties apply an intragroup exemption under the European Market Infrastructure Regulation, they should publicly disclose information in order to ensure transparency in respect of market participants and potential creditors. This is particularly important for the potential creditors of the counterparties in terms of assessing risks. The disclosure aims at preventing misperception that OTC derivative contracts are centrally cleared or subject to risk mitigation techniques when it is not the case.

Article 20 of Delegated Regulation 149/2013 provides more details with regard to the disclosure obligation:

The information on an intragroup exemption to be disclosed publicly shall include:

(a) the legal counterparties to the transactions including their identifiers in accordance with Article 3 of Implementing Regulation (EU) No. 1247/2012 (Article 3 contains the counterparty data covered by the reporting obligation under the European Market Infrastructure Regulation):
- KBC Bank NV, LEI code: 6B2PBRV1FCJDMR45RZ53
- CBC Banque SA, LEI code: DVCTKZJG5QM5XGM4TR05

(b) the relationship between the counterparties:
CBC Banque SA is a subsidiary of KBC Bank NV

(c) whether the exemption is a full exemption or a partial exemption;
Full exemption

(d) the notional aggregate amount of the OTC derivative contracts for which the intragroup exemption applies

(in EUR equivalent)

Currency and interest rate swaps	398 646 920,91
Options on currencies	74 953 360,92
Interest rate swap agreements	8 637 016 306,57
Interest rate options	564 497 651,24

ACCOUNTANT REPORT

10				9	EUR
NAT.	Date Filed	N°	P.	E.	D.

C-inst 1.1

Social Balance Sheet

NAME: KBC BANK

Legal Form: NV
Address: Havenlaan N°.: 2 Box:
Postal Code: 1080 Municipality: BRUSSELS
Country: België
Register of Legal Persons (RLP) - Chamber of Commerce: Brussels
Internet address*: http://www.kbc.be

Company Number 0462.920.226

concerning the financial year covering the period from 01/01/2020 till 31/12/2020

Previous period from 01/01/2019 till 31/12/2019
The amounts of the previous financial year are / ~~are not~~ ** identical to those which have been previously published.

SOCIAL REPORT (in euro)

Numbers of joint industrial committees which are competent for the enterprise:	310				

STATEMENT OF THE PERSONS EMPLOYED

EMPLOYEES RECORDED IN THE STAFF REGISTER

During the current period	Codes	Total	1. Male	2. Female
Average number of employees				
Full-time	1001	5 582	3 352	2 230
Part-time	1002	3 344	769	2 575
Total of full-time equivalents (VTE)	1003	8 067	3 904	4 163
Number of hours actually worked				
Full-time	1011	8 274 010	5 021 758	3 252 252
Part-time	1012	3 008 061	602 200	2 405 861
Total	1013	11 282 072	5 623 958	5 658 114
Personnel costs				
Full-time	1021	512 364 709,18	333 695 009,13	178 669 700,05
Part-time	1022	204 922 801,19	50 176 023,76	154 746 777,43
Total	1023	717 287 510,37	383 871 032,88	333 416 477,49
Advantages in addition to wages	1033	15 881 267,15	8 499 183,85	7 382 083,30

During the previous period	Codes	P. Total	1P. Male	2P. Female
Average number of employees	1003	8 424	4 079	4 345
Number of hours actually worked	1013	11 476 424	5 765 251	5 711 173
Personnel costs	1023	738 618 612,00	399 753 177,00	338 865 435,00
Advantages in addition to wages	1033	16 005 220,00	8 662 302,00	7 342 918,00

	Codes	1. Full-time	2. Part-time	3. Total in full-time equivalents
At the closing date of the current period				
Number of employees recorded in the personnel register	105	5 521	3 270	7 962,8
By nature of the employment contract				
Contract for an indefinite period	110	5 369	3 264	7 806,0
Contract for a definite period	111	152	6	156,8
Contract for the execution of a specifically assigned work	112	0	0	0
Replacement contract	113	0	0	0
According to the gender and by level of education				
Male	120	3 313	752	3 855,9
primary education	1200	0	0	0
secondary education	1201	245	117	326,3
higher education (non-university)	1202	1 987	498	2 349,0
university education	1203	1 081	137	1 180,7
Female	121	2 208	2 518	4 106,8
primary education	1210	0	0	0
secondary education	1211	202	316	434,3
higher education (non-university)	1212	1 296	1 667	2 545,5
university education	1213	710	535	1 127,0
By professional category				
Management staff	130	60	6	63,3
Employees	134	5 461	3 264	7 899
Workers	132	0	0	0
Other	133	0	0	0

HIRED TEMPORARY STAFF AND PERSONNEL PUT AT THE ENTERPRISE'S DISPOSAL

During the current period	Codes	1. Temporary personnel	2. Persons put at the disposal of the enterprise
Average number of employees	150	21	0
Number of hours actually worked	151	41 210	0
Charges of the enterprise	152	1 642 780,00	0

TABLE OF PERSONNEL CHANGES DURING THE CURRENT PERIOD

ENTRIES	Codes	1. Full-time	2. Part-time	3. Total in full-time equivalents
Number of employees recorded on the personnel register during the financial year	205	240	54	283
By nature of the employment contract				
Contract for an indefinite period	210	171	53	213
Contract for a definite period	211	69	1	70
Contract for the execution of a specifically assigned work	212	0	0	0
Replacement contract	213	0	0	0

DEPARTURES	Codes	1. Full-time	2. Part-time	3. Total in full-time equivalents
The number of employees with a in the staff register listed date of termination of the contract during the period	305	378	283	561
By nature of the employment contract				
Contract for an indefinite period	310	337	281	518
Contract for a definite period	311	41	2	42
Contract for the execution of a specifically assigned work	312	0	0	0
Replacement contract	313	0	0	0
According to the reason for termination of the employment contract				
Retirement	340	34	147	115
Unemployment with company bonus	341	0	0	0
Dismissal	342	34	27	54
Other reason	343	310	109	392
Of which: the number of persons who continue to render services to the enterprise at least half-time on a self-employed basis	350	0	0	0

INFORMATION WITH REGARD TO TRAINING RECEIVED BY EMPLOYEES DURING THE CURRENT PERIOD

	Codes	Male	Codes	Female
Total number of official advanced professional training projects at company expense				
Number of participating employees	5801	3 236	5811	3 637
Number of training hours	5802	37 189	5812	40 843
Costs for the company	5803	4 150 564,00	5813	4 664 896,00
of which gross costs directly linked to the training	58031	3 968 116,00	58131	4 459 838,00
of which paid contributions and deposits in collective funds	58032	182 449,00	58132	205 057,00
of which received subsidies (to be deducted)	58033	0,00	58133	0,00
Total number of less official and unofficial advance professional training projects at company expense				
Number of participating employees	5821	3 986	5831	4 667
Number of training hours	5822	89 581	5832	102 943
Costs for the company	5823	5 166 904,00	5833	6 049 659,00
Total number of initial professional training projects at company expense				
Number of participating employees	5841	0	5851	0
Number of training hours	5842	0	5852	0
Costs for the company	5843	0	5853	0

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STATUTORY AUDITOR'S REPORT TO THE GENERAL SHAREHOLDERS' MEETING OF KBC BANK NV ON THE ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2020

We present to you our statutory auditor's report in the context of our statutory audit of the annual accounts of KBC Bank NV (the "Company"). This report includes our report on the annual accounts, as well as the other legal and regulatory requirements. This forms part of an integrated whole and is indivisible.

We have been appointed as statutory auditor by the general meeting of 24 April 2019, following the proposal formulated by the board of directors and following the recommendation by the audit committee and the proposal formulated by the workers' council. Our mandate will expire on the date of the general meeting which will deliberate on the annual accounts for the year ended 31 December 2021. We have performed the statutory audit of the annual accounts of KBC Bank NV for 5 consecutive years.

Report on the annual accounts

Unqualified opinion

We have performed the statutory audit of the Company's annual accounts, which comprise the balance sheet as at 31 December 2020, and the profit and loss account for the year then ended, and the notes to the annual accounts, characterised by a balance sheet total of EUR 206.061 million and a profit and loss account showing a profit for the year of EUR 655 million.

In our opinion, the annual accounts give a true and fair view of the Company's net equity and financial position as at 31 December 2020, and of its results for the year then ended, in accordance with the financial-reporting framework applicable in Belgium.

Basis for unqualified opinion

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

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

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts of the current period. These matters were addressed in the context of our audit of the annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

PwC Bedrijfsrevisoren BV - PwC Reviseurs d'Entreprises SRL - Financial Assurance Services
Maatschappelijke zetel/Siège social: Woluwe Garden, Woluwedal 18, B-1932 Sint-Stevens-Woluwe
T: +32 (0)2 710 4211, F: +32 (0)2 710 4299, www.pwc.com
BTW/TVA BE 0429.501.944 / RPR Brussel - RPM Bruxelles / ING BE43 3101 3811 9501 - BIC BBRUBEBB / BELFIUS BE92 0689 0408 8123 - BIC GKCC BEBB

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Estimation uncertainty with respect to financial instruments measured at fair value

Description of the Key Audit Matter

Details regarding the measurement of financial instruments at year-end 31 December 2020 are included in Notes to the annual accounts III (bonds), IV (equity securities), on the face of the balance sheet for the derivatives contracts and Note IX Other assets for the option contracts. The applicable valuation rules are described in Note 7 to the annual accounts (chapters “Securities” and “Financial instruments”).

For certain financial instruments a quoted price is not readily available to determine fair value. Valuation techniques and models used to determine fair value in these cases are inherently subjective and involve various assumptions regarding pricing. In addition, the number of factors influencing the determination of fair value can be extensive and can vary both by type of instrument and/or within instrument types. The use of different valuation techniques and assumptions could produce significantly different estimates of fair value. As the use of different assumptions could produce different estimates of fair value, we consider this as a key audit matter.

How our Audit addressed the Key Audit Matter

We obtained an understanding of the internal control framework related to the valuation of financial instruments, including price testing and model validation. We assessed the appropriateness of the model validation methodology with the assistance of our valuation experts and we performed a recalculation of the fair valuation on a sample basis. This includes the assessment of market data, inputs and key assumptions as critical factors used in the fair value models, based on our experience and market practice. Based on our procedures we found that management’s outcome of the models used for the fair value of certain financial instruments for which a quoted price is not readily available, in the context of the estimation uncertainty concerned, fell within a reasonable and acceptable range of outcomes.

Estimation uncertainty with respect to impairment allowances for receivables on clients

Description of the Key Audit Matter

The appropriateness of the impairment allowances for receivables on clients requires significant judgment of management. Measuring impairment allowances requires an assessment of the risk that a counterparty will not respect all of its contractual obligations. As disclosed in Note 7 to the annual accounts, the Company applies for the measurement of the fund for general banking risks and of the impairment allowances in the annual accounts prepared under Belgian GAAP, a methodology which is partly aligned with IFRS.

The COVID-19 pandemic has limited the ability of the expected credit loss models used to determine the fund for general banking risks to adequately reflect all the consequences of the resulting economic conditions and government measures, requiring the recognition of “overlays” in addition to the expected credit losses produced by the models.

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At year-end 31 December 2020 information regarding impairment allowances for receivables on clients and on the fund for general banking risks are included respectively in line 40900 and line 41300 of the profit and loss accounts, in application of the valuation rules as described in Note 7 to the annual accounts (chapters “Receivables” and “Fund for general banking risks”). At year-end 31 December 2020 the receivables on clients amount to EUR 81.714 million.

The identification of impairment, the determination of the recoverable amount and the determination of the 12-month expected credit losses, which is the basis for the fund for general banking risks, are part of the estimation process at the Company and are, amongst others, based on macroeconomic scenarios, credit risk models, default triggers, the financial condition of the counterparty, the expected future cash flows or the value of collateral.

The “overlays” recognised in addition to the expected credit losses produced by the models consider expert inputs, sector effects and a probability weighted scenario impact.

The use of different modelling techniques, scenarios and assumptions could lead to different estimates of impairment charges on receivables on clients or to a different fund for general banking risks. As the receivables on clients represent the majority of the Company's balance sheet and given the related estimation uncertainty on impairment charges, including the fund for general banking risks, we consider this as a key audit matter.

How our Audit addressed the Key Audit Matter

Our audit procedures included an assessment of the overall governance of the Company's credit and impairment process, including the 12-month expected loss modelling process and the COVID-19 “overlay” approach. We have assessed and tested the design and operating effectiveness of the controls within the loan origination process, risk management process and the estimation process for determining impairment allowances. For loan impairment allowances determined on an individual basis we have performed, for a sample of corporate credit files, a detailed review of loans granted by the Company. We challenged the default triggers and the quantification including forecasts of future cash flows, valuation of underlying collateral and estimates of recovery on default. We found no material exceptions in these tests.

For the 12-month expected credit loss, determining the fund for general banking risks, we challenged the macroeconomic scenarios and tested the underlying models including the Company’s model approval and validation process.

We also tested the mathematical accuracy of the calculations used to determine the “overlays” and assessed their reasonability.

In our view, the impairments and the fund for general banking risks estimated by management are within a reasonable range of outcomes in view of the overall receivables on clients and the related uncertainties.

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Responsibilities of the board of directors for the preparation of the annual accounts

The board of directors is responsible for the preparation of annual accounts that give a true and fair view in accordance with the financial-reporting framework applicable in Belgium, and for such internal control as the board of directors determines is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, the board of directors is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the board of directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Statutory auditor's responsibilities for the audit of the annual accounts

Our objectives are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts.

In performing our audit, we comply with the legal, regulatory and normative framework applicable to the audit of the annual accounts in Belgium. A statutory audit does not provide any assurance as to the Company's future viability nor as to the efficiency or effectiveness of the board of directors' current or future business management.Our responsibilities in respect of the use of the going concern basis of accounting by the board of directors are described below.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors.

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

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

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

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

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

Other legal and regulatory requirements

Responsibilities of the board of directors

The board of directors is responsible for the preparation and the content of the directors' report, of the documents required to be deposited by virtue of the legal and regulatory requirements as well as for the compliance with the legal and regulatory requirements regarding bookkeeping, with the Companies' and Associations' Code and with the Company's articles of association.

Statutory auditor's responsibilities

In the context of our engagement and in accordance with the Belgian standard which is complementary to the International Standards on Auditing (ISAs) as applicable in Belgium, our responsibility is to verify, in all material respects, the directors' report, certain documents required to be deposited by virtue of legal and regulatory requirements, as well as compliance with the articles of association and certain requirements of the Companies' and Associations' Code, and to report on these matters.

Aspects related to the directors' report

In our opinion, after having performed specific procedures in relation to the directors' report, the directors' report is consistent with the annual accounts for the year under audit, and it is prepared in accordance with the articles 3:5 and 3:6 of the Companies' and Associations' Code.

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In the context of our audit of the annual accounts, we are also responsible for considering, in particular based on the knowledge acquired resulting from the audit, whether the directors' report is materially misstated or contains information which is inadequately disclosed or otherwise misleading. In light of the procedures we have performed, there are no material misstatements we have to report to you.

Regarding non-financial information, as mentioned in the directors' report, the information is provided at the level of the highest Belgian consolidating entity, KBC Group NV, in the directors' report on the consolidated accounts.

Statement related to the social balance sheet

The social balance sheet, to be deposited in accordance with article 3:12, §1, 8° of the Companies' and Associations' Code, includes, both in terms of form and content, the information required under this Code, including, but not limited to, in relation to salaries and education, and does not present any material inconsistencies with the information we have at our disposition in our engagement.

Statements related to independence

- Our registered audit firm and our network did not provide services which are incompatible with the statutory audit of the annual accounts and our registered audit firm remained independent of the Company in the course of our mandate.
- The fees for additional services which are compatible with the statutory audit of the annual accounts referred to in article 3:65 of the Companies' and Associations' Code are correctly disclosed and itemized in the notes to the annual accounts.

Other statements

- Without prejudice to formal aspects of minor importance, the accounting records were maintained in accordance with the legal and regulatory requirements applicable in Belgium.
- The appropriation of results proposed to the general meeting complies with the legal provisions and the provisions of the articles of association.
- There are no transactions undertaken or decisions taken in breach of the Company's articles of association or the Companies' and Associations' Code that we have to report to you.
- This report is consistent with the additional report to the audit committee referred to in article 11 of the Regulation (EU) N° 537/2014.

Sint-Stevens-Woluwe, 23 March 2021

The statutory auditor
PwC Bedrijfsrevisoren BV
represented by

Roland Jeanquart
Accredited auditor

Gregory Joos
Accredited auditor

Additional information

Ratios used

Common equity ratio

A risk-weighted measure of the group's solvency based on common equity tier-1 capital Changes to the capital rules are gradually being implemented to allow banks to build up the necessary capital buffers. The capital position of a bank, when account is taken of the transition period, is referred to as the ‘transitional’ view. The capital position based on full application of all the rules – as would be the case after this transition period – is referred to as ‘fully loaded’.

Information on how this ratio is calculated can be found in the ‘How do we manage our capital?’ section.

Cost/income ratio

Gives an impression of relative cost efficiency (costs relative to income). We also use the same methodology to calculate this ratio for each business unit.

Calculation (in millions of EUR or %)	Reference	2020	2019
Operating expenses (A)*	‘Operating expenses’ in the consolidated income statement	3 809	3 797
/			
Total income (B)	‘Total income’ in the consolidated income statement	6 134	6 548
= (A) / (B)		62% (60%*)	58%

* Excluding the higher one-off internal charge made by KBC Group in relation to software.

Coverage ratio

Indicates the proportion of impaired loans (see ‘Impaired loans ratio’ for definition) that are covered by impairment charges. The numerator and denominator in the formula relate to all impaired loans, but may be limited to impaired loans that are more than 90 days past due (the figures for that particular calculation are given in the 'Loan and investment portfolio' table in the ‘How do we manage our risks?’ section).

Calculation (in millions of EUR or %)	Reference	2020	2019
Specific impairment on loans (A)	‘Loan and investment portfolio’ table in the ‘How do we manage our risks?’ section	2 638	2 584
/			
Outstanding impaired loans (B)	‘Loan and investment portfolio’ table in the ‘How do we manage our risks?’ section	5 902	6 160
= (A) / (B)		45%	42%

Credit cost ratio

Gives an idea of loan impairment charges recognised in the income statement for a specific period, relative to the total loan portfolio (see 'Loan portfolio' for definition). In the longer term, this ratio can provide an indication of the credit quality of the portfolio. A negative figure indicates a net reversal of impairment and hence a positive impact on the results. We also use the same methodology to calculate this ratio for each business unit.

Calculation (in millions of EUR or %)	Reference	2020	2019
Net changes in impairment for credit risks (A)	Consolidated income statement’: component of 'Impairment’	1 068	204
/			
Average outstanding loan portfolio (B)	‘Loan and investment portfolio’ table in the ‘How do we manage our risks?’ section	177 542	170 128
= (A) / (B)		0.60%	0.12%

When the ratio for 2020 is calculated without including collective coronavirus-related impairment charges, the numerator falls by 783 million euros, giving a credit cost ratio of 0.16%.

Impaired loans ratio

Indicates the proportion of impaired loans in the loan portfolio (see 'Loan portfolio' for definition) and, therefore, gives an idea of the creditworthiness of the portfolio. Impaired loans are loans where it is unlikely that the full contractual principal and interest will be repaid/paid. These loans have a KBC default status of PD 10, PD 11 or PD 12. Where appropriate, the numerator in the formula may be limited to impaired loans that are more than 90 days past due (PD 11 + PD 12). Relevant figures for that calculation are given in the 'Loan and investment portfolio' table in the 'How do we manage our risks?' section. We also use the same methodology to calculate this ratio for each business unit.

Calculation (in millions of EUR or %)	Reference	2020	2019
Amount outstanding of impaired loans (A)	'Loan and investment portfolio' table in the 'How do we manage our risks?' section	5 902	6 160
/			
Total loan portfolio (B)	'Loan and investment portfolio' table in the 'How do we manage our risks?' section	180 891	175 431
= (A) / (B)		3.3%	3.5%

The table does not contain any impact of stage transfers that underlie the management overlay for the forecast collective coronavirus-related ECL, due to the fact that they are determined based on a collective statistical approach and, therefore, cannot be individually linked to specific loans. See also Note 4.2.1.

Leverage ratio

Gives an idea of the bank's solvency, based on a simple non-risk-weighted ratio.

Calculation (in millions of EUR or %)	Reference	2020	2019
Regulatory available tier-1 capital (A)	Solvency of KBC Bank' table in the 'How do we manage our capital?' section	15 585	14 704
/			
Total exposure measures (total of non-risk-weighted on and off-balance sheet items, with a number of adjustments) (B)	Based on the Capital Requirements Regulation (CRR)	299 773	269 657
= (A) / (B)		5.2%	5.5%

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	2020	2019
Stock of high-quality liquid assets (A)	Based on the European Commission's Delegated Act on LCR.	81 833	74 884
/			
Total net cash outflows over the next 30 calendar days (B)		55 714	54 415
= (A) / (B)		147%	138%

Loan portfolio

Gives an idea of the magnitude of (what are mainly traditional) lending activities.

Calculation (in millions of EUR)	Reference	2020	2019
Loans and advances to customers (A)	Note 4.1, component of 'Loans and advances to customers'	157 650	153 781
+			
Reverse repos (not with central banks) (B)	Note 4.1, component of 'Reverse repos with credit institutions and investment firms'	3 537	2 356
+			
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'	6 056	5 894
+			
Other exposures to credit institutions (E)	-	4 009	4 629
+			
Financial guarantees granted to clients (F)	Note 6.1, component of 'Financial guarantees given'	7 924	8 167
+			
Impairment on loans (G)	Note 4.2, component of 'Impairment'	3 703	2 866
+			
Non-loan-related receivables (H)	-	-818	-984
+			
Other (I)	Component of Note 4.1	-1 171	-1 279
= (A)+(B)+(C)+(D)+(E)+(F)-(G)-(H)+(I)		180 891	175 431

Net interest margin

Gives an idea of the net interest income (one of the most important sources of revenue for the group) relative to the average total interest-bearing assets of the banking activities. We also use the same methodology to calculate this ratio for each business unit.

Calculation (in millions of EUR or %)	Reference	2020	2019
Net interest income* (A)	Consolidated income statement': component of 'Net interest income'	3 788	3 853
/			
Average interest-bearing assets* (B)	Consolidated balance sheet': component of 'Total assets'	203 616	194 731
= (A) / (B) X 360/number of calendar days		1.84%	1.95%

* After elimination of all divestments and volatile short-term assets used for liquidity management purposes.

Net stable funding ratio (NSFR)

Gives an idea of the bank's structural liquidity position in the long term, more specifically the extent to which the group is able to overcome liquidity difficulties over a one-year period.

Calculation (in millions of EUR or %)	Reference	2020	2019
Available amount of stable funding (A)	As of 2020: Regulation (EU) 2019/876 dd. 20-05-2019	209 932	174 977
/			
Required amount of stable funding (B)		143 901	128 845
= (A) / (B)		146%	136%

Total assets under management

Total assets under management (AuM) comprise third-party assets and KBC group assets managed by the group's various asset management companies (KBC Asset Management, ČSOB Asset Management, etc.), as well as assets under advisory management at KBC Bank. The assets, therefore, consist mainly of KBC investment funds and unit-linked insurance products, assets under discretionary and advisory management mandates of (mainly retail, private banking and institutional) clients, and certain group assets. The size and development of total AuM are major factors behind net fee and commission income (generating entry and management fees) and hence account for a large part of any change in this income line. In that respect, the AuM of a fund that is not sold directly to clients but is instead invested in by another fund or via a discretionary/advisory management portfolio, are also included in the total AuM figure, in view of the related work and any fee income linked to them.

Calculation (in billions of EUR)	Reference	2020	2019
Belgium Business Unit (A)	-	194.5	199.9
+			
Czech Republic Business Unit (B)		11.4	10.8
+			
International Markets Business Unit (C)		5.7	4.9
= (A)+(B)+(C)		211.6	215.6

Management certification

‘I, Rik Scheerlinck, Chief Financial Officer of KBC Bank, certify on behalf of the Executive Committee of KBC Bank NV that, to the best of my knowledge, the financial statements, which are based on the relevant standards for annual accounts, fairly present in all material respects the assets, the financial condition and results of KBC Bank NV and its consolidated subsidiaries, and that the annual report provides a fair overview of the development, results and the situation of KBC Bank NV and its consolidated subsidiaries, as well as an overview of the main risks and uncertainties to which they are exposed.’