Strictly Confidential

# To the reader

## Company name

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

## Difference between KBC Insurance and KBC Group

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

## Post-balance-sheet events

The expectations, forecasts and statements regarding future developments that are contained in this report are based on assumptions and assessments we made when drawing up this report in early March 2024. By their nature, forward-looking statements involve uncertainty. Various factors could cause actual results and developments to differ from the initial statements.

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## Disclosure

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

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

In line with its general communication policy, KBC aims to communicate openly with the market about its exposure to risk. Risk management information is therefore provided in a separate section of the 2023 annual report of KBC and – more extensively – in this publication.

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

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

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

The information provided in this document has not been subject to an external audit. However, the disclosures have been checked for consistency with other existing risk reports and were subjected to a final screening by authorized risk management representatives to ensure quality. In addition, the 2023 Solvency & Financial Condition Report was distributed to the Group Executive Committee, the Board of Directors, as well as to the Risk & Compliance Committee to ensure appropriate approval was obtained from the management body, as requested under Solvency II.

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

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

This report has been published for some years and therefore comparisons are made with available Solvency II-related data of the previous year. Similar to last year, there is only one report both for KBC Insurance Group and KBC Insurance NV.

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

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

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# Management summary

## ENGLISH VERSION

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

- All of the material insurance entities are present in KBC's core markets and operate according to an integrated bank-insurance model.
- The KBC Insurance Group as well as KBC Insurance NV is strongly capitalised in terms of the level and quality of capital. The Solvency II ratio at 31 December 2023 is 206% (resp. 225% for KBC Insurance NV), more than double of the minimum requirement of 100%.
- KBC Insurance Group and KBC Insurance NV have a well-diversified – medium – risk profile, in line with the Risk Appetite Statement. It benefits from diversified activities that target retail, SME and mid-cap clients across multiple distribution channels.
- KBC Insurance's business model is strong and sustainable, with a strong P&L of 527m EUR in 2023 at KBC Insurance Group level (resp. 392m EUR for KBC Insurance NV).[3] Remark that in 2022 KBC Insurance Group's P&L of 635m EUR (resp. 546m EUR for KBC Insurance NV) was positively impacted by one-off gains, such as the sale of real estate subsidiary KBC Vastgoed Nederland.
- The very strong consolidated result of the KBC Insurance Group came is primarily due to:
    - A 45m EUR increase in the insurance service result (15m EUR for KBC Insurance NV) thanks to an increase in insurance revenues that exceeded the increase in insurance service expenses.
    - A 10m EUR increase in net fee and commission income, due in part to higher fee and commission income from investment-linked insurance contracts in Belgium (Unit-Linked products measured under IFRS 9) and an increase in fee and commission income from non-insurance subsidiaries ADD, VAB and UBB Pension Insurance Company.
    - A decrease in the net reinsurance result of 69m EUR, largely due to a decrease in amounts recoverable from the reinsurer (substantial claims relating to storms in 2022) and reinforced by an increase in reinsurance premiums payable.
    - An increase in the insurance finance expense, attributable to an increase in interest accretion of 55m EUR owing to rising average yield curves.
    - A drop in investment income due to lower net interest income and higher impairment, which were partly offset by an increase in other net income and an increase in the net result from financial instruments at fair value through profit or loss.
    - Higher operating expenses, partly due to wage indexation, higher marketing, ICT and facility expenses and higher bank and insurance tax.
    - Please note that the increases in the fair value of investments related to investment-linked insurance contracts (measured using the Variable Fee Approach under IFRS 17) are not taken into account here as, at the level of the income statement, they are fully neutralized by increases in the fair value of insurance liabilities related to the relevant investment-linked insurance contracts.

3 2022 numbers have been restated following the transition to IFRS17.

# NEDERLANDSTALIGE VERSIE

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

- Alle verzekeringsentiteiten zijn aanwezig in de kernmarkten van KBC en opereren volgens een geïntegreerd bankverzekeringsmodel.
- De KBC Verzekeringsgroep (resp. KBC Verzekeringen NV) is sterk gekapitaliseerd in termen van omvang en ook qua kwaliteit van kapitaal. De Solvency II-ratio bedroeg op 31 december 2023 206% (resp. 225% voor KBC Verzekeringen NV), dat is meer dan het dubbele van de minimumvereiste van 100%.
- KBC Verzekeringsgroep (resp. KBC Verzekeringen NV) heeft een goed gediversifieerde portefeuille met een medium risicoprofiel, dat in lijn is met de Risk Appetite Statement. De diversificatie tussen activiteiten zowel in retail, in SME alsook bij mid-cap klanten via verschillende distributiekanalen resulteert in positieve resultaten.
- Het zeer sterke geconsolideerde resultaat van KBC Verzekeringsgroep bedroeg 527m EUR (392m EUR voor KBC Verzekeringen NV) in 2023 tegenover 635m EUR (546m EUR voor KBC Verzekeringen NV) in 2022.[4] Bemerk dat de groepsresultaten van 2022 positief éénmalig geïmpacteerd werden door de verkoop van de KBC Vastgoed Nederland.
- Het geconsolideerde resultaat van de KBC-verzekeringsgroep en KBC Verzekeringen NV is voornamelijk gedreven door:
    - Een daling in de beleggingsopbrengsten te wijten aan lagere netto rente-inkomsten en hogere waardeverminderingen, dewelke deels gecompenseerd worden door een stijging in netto overige inkomsten en een toename van het nettoresultaat uit financiële instrumenten tegen reële waarde via winst- en verliesrekening. Merk op dat hierbij de reële waardestijgingen van investeringen ten opzichte van beleggingsverzekeringscontracten (gewaardeerd volgens de variabele vergoedingsbenadering onder IFRS 17) buiten beschouwing worden gelaten, aangezien deze op niveau van de winst- en verliesrekening volledig geneutraliseerd worden door de reële waardestijgingen van de verzekeringsverplichtingen ten opzichte van de desbetreffende beleggingsverzekeringscontracten.
    - Hogere exploitatiekosten onder meer door loonindexering, hogere marketing, ICT- en facilitaire kosten en hogere bank- en verzekeringsheffingen. Dit resulteert in een stijging van de niet-rechtstreeks toewijsbare exploitatiekosten met -40m EUR.

4 De cijfers van 2022 zijn aangepast als gevolg van de overgang naar IFRS17

# Business & performance

## Business

### Brief presentation of the KBC Insurance Group

**Our area of operation**

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

**Main Group companies**

| | |
|---|---|
| Belgium | KBC Insurance NV |
| Czech Republic | ČSOB Pojišťovna a.s. |
| Slovakia | ČSOB Poisťovňa a.s. |
| Hungary | K&H Biztosító |
| Bulgaria | DZI Insurance |
| Luxembourg | KBC Group Re |

**Our shareholders**

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

**Our clients, staff and network**

| | |
|---|---|
| Clients (estimate) | 6,6 million |
| Number of staff (2023 average in FTEs) | 4.067 |
| Insurance network | 292 agencies in Belgium<br>various distribution channels in Central and Eastern Europe |

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

| | | |
|---|---|---|
| KBC Insurance NV | Standard & Poor's | A |

**Management**

| | |
|---|---|
| CEO | Johan Thijs |
| Chairman of the Board of Directors | Koenraad Debackere |

**More information**

| | |
|---|---|
| Website | www.kbc.com |

## Business model

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

For more detailed information, please see the KBC Group annual report for 2023.

### How do we create sustainable value?

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

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

In terms of climate, we as an insurer have a direct influence on climate change through our own energy consumption. More important, however, is our indirect influence, e.g. through insuring counterparties who can have a direct impact on the climate. We ourselves also feel the impact of climate change. Example includes higher levels of claims under the insurance we provide relating to consequences of extreme weather conditions. We carefully consider these factors, not only to reduce or prevent adverse consequences, but also to contribute actively by launching sustainable products and services. We closely track our performance in this regard, to which end we apply specific targets. Since 2022, we have further expanded the scope of our Sustainable Finance Programme to other environmental aspects, such as biodiversity and circularity. 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.

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.

### What makes us who we are?

We sum up our business culture in the acronym 'PEARL+', which stands for Performance, Empowerment, Accountability, Responsiveness and Local Embeddedness. The '+' sign in PEARL+ symbolises our focus on the joint development and smart copying of solutions, initiatives and ideas throughout the Group so that they are easy to utilise and deploy throughout the Group, enabling us to work more efficiently, respond more quickly to change and make full use of local skills and talents group-wide. We encourage all our employees to behave in a way that is responsive, respectful and results-driven. An explanation of what we mean is given in the diagram.

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


## What differentiates us from our peers?

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

### Our digital approach
Digital interaction with clients forms the basis of our business model in our strategy, not only in terms of sales and advice, but also in process and product development. In addition to a digital product range, therefore, we also offer our clients digital advice and develop all processes and products as if they had to be sold digitally. Artificial intelligence and data analysis will play an important part in digital sales and advice. Kate, our personal digital assistant will feature prominently in this regard. Our experts naturally remain available at our branches and call centers to answer complex questions or provide advice at key life moments. The very success of our digital strategy allows us to free up more time to improve the advice we provide to clients.

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

### Our focus on local responsiveness
We want to build sustainable local relationships with our local clients in our core countries. 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 core countries to avoid duplicating our efforts and to offer our clients the best solutions.

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

**Our shareholder structure**

A special feature of our shareholder structure is the core shareholder syndicate consisting of Cera, KBC Ancora, MRBB and the other core shareholders, which together held roughly 41% of our shares at the end of 2023. These shareholders act in concert, thereby ensuring shareholder stability in our Group.

**Our strengths**

| | | | | | |
|---|---|---|---|---|---|
| Unique bank-insurance model and innovative, data-driven digital strategy, which enables us to respond immediately to our clients' needs | Strong commercial banking and insurance franchises in all our business units | Successful track record of underlying business results | Solid capital position and strong liquidity | Firmly embedded in the local economies of our core countries | Strong focus on sustainability. Ambitious climate targets that we also use to guide our clients towards a more sustainable future |

**Our challenges**

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

## Our employees, capital, network and relationships

### Our employees

Our values group-wide are the same and are founded on our PEARL+ business culture. The 'E' in PEARL+ stands for 'Empowerment', referring to our commitment to give every employee the space they need to develop their talent and creativity and to deploy it towards accomplishing our business strategy. The '+' in PEARL+ stands for co-creation across national borders and 'smart copying' between us. In this way, we can benefit even more from the wealth and diversity of our Group. We actively stimulate this culture amongst our employees. Through the various 'Team Blue' initiatives, such as the Team Blue Challenges and Group Inspiration Days, we aim to unite employees from different countries, to make them proud of their team and their company and enable them to draw on each other's experience. More information on this can be found in the KBC Group annual report.

### Our capital

Our activities are only possible if we have a solid capital base. At year-end 2023, KBC Group's total equity came to 24,3b EUR and its capital was represented by 417.305.876 shares. A major part of our activities involves transforming deposits and other forms of funding into loans. For that reason, funding through deposits and debt securities is an important raw material for our Group. We have therefore developed a strong retail/mid-cap deposit base in our core markets. We also regularly issue debt instruments, including via KBC IFIMA, KBC Bank and KBC Group NV itself. More information on the KBC Group's shareholder structure can be found in the KBC Group annual report.

### Our network and our relationships

Alongside staff and capital, our network and relationships are especially important to our activities. An overview of our network can be found under 'Market conditions in our core markets in 2023'. 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 of the KBC Group annual report.

### Investor Relations

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

# Strategy

## Strategy of KBC Insurance Group

A summary is given below of the strategy of the KBC Group. The strategy and management structure of KBC Insurance is embedded in that of the KBC Group. For more detailed information, please see the KBC Group annual report for 2023.

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


Our strategy resist on the following principles:

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

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

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

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

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. As a bank-insurer, we are committed to financial literacy. For example, by introducing the option to receive financial and economic news through KBC Mobile we contribute to awareness-raising and financial education. We also expect our employees to communicate with our clients in an accessible, clear, understandable and transparent manner.

**Digital first**

For a few years now, we have been designing products, services and processes from a 'digital-first' perspective to make them simpler, more user-friendly and scalable and that they allow a fast and appropriate response to our clients' questions and expectations. For clients who so desire, we will use the available data in an intelligent and appropriate manner, as we have seen that clients increasingly demand more proactive and personal products and services in addition to speed and simplicity.

This is why we are transitioning from an omnichannel distribution model towards a digital-first distribution model. The human factor remains important in both models and our staff and branches will be fully at the disposal of our clients. In a digital-first distribution model, digital interaction with clients will form the initial basis. We therefore aim over time to provide all relevant commercial solutions via mobile applications. In addition to a digital product range, we will offer our clients digital advice and develop all processes and products as if they were sold digitally.

Kate – our new personal digital assistant – plays an important role in digital sales and advisory, so that personalised and relevant solutions can be offered proactively. Clients can personally ask Kate questions regarding their basic financial transactions. They also receive regular discrete and proactive proposals at appropriate times in their mobile app to ensure maximum convenience. If the client accepts a proposal, the solution will be offered and processed completely digitally.

Employees in the branch network and contact centers continue to function as a beacon of trust for our clients. Our employees also support and encourage the use of digital processes and monitor this use, supported by artificial intelligence, data and data analysis.

To guarantee our clients maximum ease of use and to be able to offer a growing number of possibilities via Kate, we also changed our internal processes, the way we supply our products and services, and how we organise ourselves internally. At the same time, this requires a further change in mentality and in-service training for our staff. For instance, Kate automates certain administrative acts and answers questions, enabling employees to address other issues, saving valuable time which our employees can use to connect with clients and speak with them about anything that might be on their minds.

In 2022, we introduced the Kate coin, a first in Europe. Since the start of 2023, KBC clients have been able to acquire Kate Coins when purchasing certain products or services from us, such as a home loan, home insurance or saving spare change. They can then use the Kate Coins to save money by exchanging them for additional benefits and cashbacks. For instance, KBC clients can exchange Kate Coins when purchasing an investment plan, a prepaid card, personal accident insurance or family insurance and immediately enjoy a cashback. We significantly expanded the range of eligible products in the autumn. An entirely new feature is that Kate Coins can be acquired or spent when purchasing from one of our commercial partners. Clients receive a cashback immediately or after their next purchase with the same partner. The partners themselves determine the conditions and timing of their offer. KBC will systematically keep expanding the range of options and the collaboration with these partners.

In KBC Mobile, clients will be able to check out new partners where they can earn money, and in their Kate Coin Wallet they can see how many Kate Coins they have earned or spent with KBC and the various partners. In September 2023, independent international consulting firm Sia Partners once again named KBC Mobile the best mobile banking and insurance app in Belgium. KBC Mobile strengthened its leading position over last year and even ranks third globally. Sia Partners also named KBC's mobile app the best user experience for car and home insurance.

In the past three years, we have worked towards the digital transformation of our core business model. Pursuing this strategy, which we called 'Differently: the Next Level', we expanded our digital-first bank-insurance model, gave clients access to non-financial solutions, launched Kate and introduced Kate Coins. While all these efforts clearly produced benefits from the perspective of client experience and operational efficiency, the implementation of our digital transformation strategy is not yet complete. Over the past few years, we have launched a number of concepts and building blocks such as Digital First, Bank-insurance+, Kate and Kate Coins, which create added value when they interact. We are now bringing these components together in 'ecosystems', in which we offer our clients a new type of service, supporting them every step of the way in their search for solutions to housing, mobility, energy and other issues, using our own products and services as well as those of our partners and suppliers. This enables our clients to save and earn money in and beyond the traditional banking and insurance environment. We refer to this next step in our strategy as 'S.T.E.M., the Ecosphere', with S.T.E.M. standing for 'Save Time and Earn Money'.

**Privacy, data protection, communication and inclusion**

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

More information about our data protection policy can be found in the 'Corporate governance statement' section of the KBC annual report.

**Follow-up**

Since putting the interests of our clients at the heart of everything we do is the cornerstone of our strategy, we keep a close eye on their situation. We continuously survey our clients and organise regular debates with client panels. A specific dialogue is likewise maintained with NGOs, and a stakeholder debate also organised on a regular basis. We closely monitor our reputation and communicate this analysis to all the departments and individuals concerned, so they can take appropriate action.

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

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

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

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

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

In addition to operating as a single business, we pursue a digital-first, lead-driven and AI-led organisation. This means fully integrated front and back-end applications designed according to the 'digital first' principle. We are firmly committed to becoming data and AI-led in all our core countries, at their own pace. Kate (see previous section) is the key element within a data-led organisation of this kind. Our experts naturally remain available at our branches and call centres to answer complex questions or provide advice at key life moments.

Previously, through our mobile apps we only offered our bank and insurance products and services. As 'bank-insurance+' has been rolled out, we are now also offering non-financial solutions alongside traditional banking and insurance solutions in our core countries. These solutions are designed to help our clients save money (e.g., suggesting that they switch to a cheaper energy supplier), earn money (e.g., discounts using Kate coins in Belgium), making everyday payments easier (e.g., paying automatically for parking) or supporting business activities. We work with third parties to provide these solutions.

Our bank-insurance model is already enabling us to achieve various commercial synergies. In Belgium, for instance, eight to nine out of ten clients who agreed home loans with KBC Bank in 2023 also took out mortgage protection cover with KBC Insurance, while more than nine out of ten purchased home insurance. At ČSOB in the Czech Republic, five to six out of ten clients who took out home loans in 2023 also purchased home insurance from the Group. To give another example, across the Group at year-end 2023, about 77% of active clients held at least one of the Group's banking products and one of its insurance products, while roughly 24% actually held at least two banking and two insurance products (3-3 in Belgium). The number of bank-insurance clients of this type grew by 4% (1-1) and 7% (2-2 and 3-3 in Belgium) in 2023 respectively.

*The main key indicators (KPIs) related to bank insurance can be found in the KBC Group annual report.*

### *Principle 3: We focus on sustainable and profitable growth*

Developing long-term relationships with our clients is crucial if we are to secure our long-term future. 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 of Belgium, the Czech Republic, Slovakia, Hungary, Bulgaria. We view our presence in these countries as a long-term commitment and want to consolidate our presence there by means of organic growth or attractive acquisitions, in line with clear and strict strategic and financial criteria. As a result of the withdrawal from Ireland, arising merger and acquisition opportunities beyond our core markets may be assessed (for approval of the Board of Directors) taking into account very strict strategic, financial, operational and risk criteria.

Recent example (more details are provided in the 'Our business units' section and in Note 6.6 of the 'Consolidated financial statements' of the KBC Group annual report):

In July 2022, we finalised the agreement with Raiffeisen Bank International on the acquisition of Raiffeisenbank Bulgaria, a universal bank in Bulgaria offering private individuals, SMEs and business clients a full range of banking, asset management, leasing and insurance services. The legal merger of Raiffeisenbank Bulgaria and KBC's existing banking subsidiary UBB was registered on 10 April 2023. The new entity is named UBB and will bolster its position in the Bulgarian banking market even further. This acquisition will also create ample opportunity for insurance cross-selling with DZI.

We want to be in a position to deliver all our products and services in a top class manner. In the case of our core activities, we will retain production in-house. But for peripheral activities, we will mostly look to outsourcing or partnerships with (or in some cases acquisition of) specialists, including fintechs. In Belgium, for instance, we collaborate with a start-up that makes renovation estimates of buildings for our clients and that refers clients to the allowances and grants available to them. This is plainly not a core business of ours, but – besides advancing the level of client satisfaction and ensuring maximum convenience for our clients – it does help us to gain an understanding of our clients in order to improve our core business. If we have access to the details of these transactions – and subject to clients' consent – we can generate added value for our clients by proposing better solutions based on analysis, thereby saving them money or making their lives easier.

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

Stringent risk management in everything we do is an absolute precondition in terms of guaranteeing sustainability.

*The main key indicators (KPIs) related to sustainable and profitable growth can be found in the KBC Group annual report.*

### *Principle 4: Our role in society*

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

**Sustainable Development Goals (SDGs)**

The United Nations Sustainable Development Goals (SDGs) have had a significant impact on the design of our sustainability strategy. We believe we can have a greater impact by focusing on a limited number of SDG topics that are directly linked to our activities as a bank-insurer and have therefore opted to select five goals.

**Good health and well-being:** We aim to develop banking and insurance products that focus on health, health care and improving quality of life. Our social projects focus on themes like health and road safety and attempt to create even more impact. We promote a good work-life balance among our employees.

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

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

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

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

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

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

The basis of responsible behaviour is integrity, which requires honesty, fairness, transparency and confidentiality, as well as a healthy awareness of risk. Integrity and ethical values are also reflected in our 'Code of Conduct for KBC Group Employees'. Responsible behaviour is especially relevant for a bank-insurer when it comes to appropriate advice and sales. We pay particular attention, therefore, to training (including testing) and awareness. We developed an online training course to clarify the importance of responsible behaviour and provide a framework to help our employees take difficult decisions when faced with dilemmas. The online training course has also been incorporated into the onboarding programme for new staff. In 2023, a new initiative in the form of a mandatory webinar was launched to raise awareness of responsible behaviour. We communicate transparently on our rules and policy guidelines, which are published at www.kbc.com. More information on our Integrity Policy and its application is provided in the 'Corporate governance statement' section of KBC's annual report.

### Aiming to enhance our positive impact on society

We want to enhance our positive impact on society to which end we are focusing on areas in which we, as a bank-insurer, can create added value: financial literacy, entrepreneurship, environmental awareness and longevity and/or health. Our focus areas:

#### Environmental awareness

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

#### Financial literacy

We help clients make the right choices through sound and transparent advice, and clear communication. We improve general public knowledge of financial concepts and products. We aim to promote financial literacy among young people to enhance their knowledge of (Non-)Life insurances products.

#### Entrepreneurship

We contribute to economic growth by supporting innovative ideas and projects.

#### Longevity and health

We have opted for added value wrt. longevity especially in Belgium and the Czech Republic, adapting our range of products and services to the fact that people live longer. We focus on health in Bulgaria, Slovakia and Hungary developing products, services and projects geared towards improving general health, healthcare and quality of life.

**Limiting any negative impact we might have on society**

We apply strict sustainability rules to our business activities in respect of human rights, the environment, business ethics and sensitive or controversial social themes. In the light of constantly changing societal expectations and concerns, we review and update our sustainability policies at least every two years. A complete list of our sustainability policies – including for specific sectors such as coal and themes like biodiversity – can be found in our Sustainability Report.

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. See the KBC Group annual report for more detailed information on KBC's Sustainability governance.

**Focus on climate**

More extensive and in-depth information on the climate scenarios used, the determination of the most relevant sectors, the scope and boundaries of our climate standards, data and goals, and our approach to biodiversity, pollution, water management and circularity can be found in our Climate Report and our Sustainability Report at www.kbc.com.

*The climate and the environment in our business model*

As a bank-insurer, we have an influence on climate change in two ways. Firstly, through our own direct impact, including through our own energy consumption. Our dependence on natural resources is relatively limited, but we nevertheless manage our direct greenhouse gas emissions with the goal of steadily reducing them in line with fixed targets. More important is our indirect influence, through lending, holding an investment portfolio, providing investments to clients and insuring other parties who could have a significant impact on the climate and the environment. 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- and environmentally-sensitive sector portfolios, by engaging in a sustainability dialogue with our clients, by supporting companies that take account in their investment decisions of environmental, social and governance aspects, and by developing new, innovative business solutions in all our core countries to stimulate a low-carbon and circular economy.

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

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

*Climate and environmental governance*

Climate and environmental governance forms part of our general sustainability governance. A Sustainable Finance programme has been set up within the Group as part of the sustainability policy to focus on integrating the climate approach in the Group. The Sustainable Finance programme is directed by a programme manager from Corporate Sustainability, together with a Sustainable Finance Core Team. The Core Team is in contact with all relevant Group departments and also works closely with the sustainability teams in all core countries. A steering committee, chaired by the Group CFO, oversees the progress and the practical implementation of the various measures implemented under the Sustainable Finance programme. However, the main strategic decisions are taken by the Internal Sustainability Board (ISB), which is chaired by the Group CEO and comprises representatives of all core countries. 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. An external Sustainability Board advises Group Corporate Sustainability on all sustainability themes, including all aspects of our climate and environmental policy.

*The most important environmental and climate aspects of our sustainability policy*

Important elements of our climate and environmental policy include:

- The application and regular revision of a strict policy to limit the negative ecological impact of our activities through measures such as specific policies on energy and other socially sensitive sectors, 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;
- Creating awareness of environmental responsibility amongst our internal (employees) and external (clients, suppliers, etc.) stakeholders;
- Supporting our clients in their transition towards more sustainable business models, including through partnerships that provide them with advice and effective support in improving their energy performance;
- Adjusting our activities to limit the global temperature increase in line with the Paris Agreement and joining the UN's Collective Commitment to Climate Action;
- Tracking TCFD (Taskforce on Climate-related Financial Disclosures) recommendations: we catalogue our climate risks while also responding to the opportunities offered by the green transition. We contribute to the development of methodologies to measure the impact of the climate on our business model with a view to formulating evidence-based targets. We report on this in a transparent manner (also see our Sustainability Report).
- At the end of 2023, KBC Group also committed to reporting on its impact on nature in compliance with the recommendations of the Taskforce on Nature-related Financial Disclosures (TNFD). The first publication that is fully in line with the TNFD recommendations is expected in financial year 2025. In the meantime, the relevant actions we are taking in this regard will be described in our Sustainability Report.

Integrating climate-related risks, opportunities and targets into our sector approach remains a key challenge. The same holds true for other environmental aspects.

- We started out by analysing our credit portfolio and have already included our insurance portfolios in the analyses. Based on a materiality assessment, we focused on the sectors representing more than 5% of industrial loans designated as climate-sensitive and carbon-intensive. These analyses form the basis for determining a strategy and targets that must help us to effectively honour our climate commitment as part of the Paris Agreement. We use the term ‘white paper’ to reflect the open mind with which we embarked on the exercise.

- We have drawn up white papers for the energy, commercial real estate, agriculture, food production, building and construction, chemicals, transportation (including aviation and the maritime sector) and metals sectors, as well as for three retail product lines: home loans, car loans and car leasing. The white papers also consistently analysed the local context of all core countries, so that policy decisions can be taken for the entire Group portfolio. The white papers are regularly updated. Cross-sector white papers are also being drawn up on specific environmental themes.
- In 2022, these white papers formed the basis for our first Climate Report. The report contains a clear overview of our baseline measurement and the reduction targets for 2030 and 2050 we have set for the most relevant carbon-intensive industrial sectors and product lines in our lending activities, as well as the corresponding policy decisions taken to reach those targets. In our Sustainability Report, we annually report on the progress we have made on these targets.

We report on our approach, progress and challenges in the area of the environment through channels such as our Climate Report, our Sustainability Report, the annual report and via sustainability questionnaires. 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.

We want to be a partner for our clients in their transformation to a more sustainable future. KBC and its partner Encon have held meetings with large corporate clients in Belgium to help them make their business processes more sustainable, which has resulted in more than 130 consultancy contracts in 2023. Similar to the Encon partnership for larger companies, SMEs will also be able to request climate advice from specialist KBC subsidiary ecoWise, which has resulted in more than 200 contracts to date. ČSOB in the Czech Republic also supports its corporate clients through Green0meter, a platform that calculates carbon footprints, facilitates the collection of ESG data and provides personalised reports and advice.

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

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

We meet our responsibility through various international organisations and initiatives:

- We endorsed the TCFD recommendations in December 2017. At the end of 2023, we also committed to reporting on our nature-related approach in compliance with the TNFD recommendations as from financial year 2025.
- We follow and implement the different actions ensuing from the EU Action Plan for Sustainable Finance.
- We are a member of the UN Environment Programme Finance Initiative (UNEP FI) and a Founding Signatory of the UNEP FI Principles for Responsible Banking (PRBs).
- We endorse the UNEP FI Principles for Sustainable Insurance and the Principles for Responsible Investment.
- As a board member of the International Capital Markets Association, we are playing our part in developing green bonds in the EU.
- We have been a signatory to the Equator Principles since 2004 and have integrated them in our lending policy.

| Example of recent sustainability- and/or environment-related products/initiatives services (KBC Insurance Group)* |
| --- |
| In Belgium and Slovakia, our car insurance offers comprehensive cover and adequate support for electric and hybrid vehicles. For clients installing their own charging stations, this is automatically included in the home insurance policy in Belgium, which also covers other green investments such as solar panels and home batteries. We also offer our own multi-risk climate insurance for farmers and growers cultivating open-air crops, including fruit growers and arable farmers, to protect them from crop damage caused by extreme and rough weather conditions such as storm, hail, frost, ice, precipitation and drought. |

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

Further details regarding this topic can be found in the KBC Group annual report.

**Focus on human rights**

We meet our responsibility to respect human rights, social justice and labour rights throughout the Group, and we undertake to respect the letter and the spirit of:

- The Universal Declaration of Human Rights;
- The principles concerning fundamental rights in the eight International Labour Organisation core conventions as set out in the Declaration on Fundamental Principles and Rights at Work;
- The UN Declaration on the Rights of Indigenous Peoples;
- The OECD Guidelines for Multinational Enterprises on Responsible Business Conduct;
- The UK Modern Slavery Act, to which end KBC has published a Modern Slavery Statement since 2017.

In addition, we have been UN Global Compact signatories since 2006 and have incorporated the ten principles on human rights, labour, environment and anti-corruption in our policies, so that they are applied throughout our activities. We publish reports in order to be transparent about the progress we have made in implementing these principles. This information is available on the UN Global Compact website. It goes without saying that we comply with local laws, rules and regulations in the countries where we operate and with international and regional human rights treaties containing internationally recognised standards by which the business sector must abide.

More detailed information regarding this topic can be found in the KBC Group annual report. Our human rights guidelines, blacklists and other relevant documentation are available at www.kbc.com.

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

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

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

Although the activities of a large financial Group are exposed to risks that only become apparent in retrospect, we can currently identify a number of major challenges for our Group.

As a bank-insurer, we are also exposed to the typical risks for the sector, such as credit risk, market risk on both trading and non-trading activities, operational, compliance and reputational risk, business and strategic risk, market risk in trading activities, liquidity risk, technical insurance risk, and climate-related and other ESG risks. A list of these risks can be found in the table below:

| Sector-specific risks | How are we addressing them? |
|---|---|
| **Credit risk** | Existence of a robust management framework<br>Recording impairment charges, taking risk-mitigating measures, optimizing the overall credit risk profile, reporting, stress testing, etc.<br>Limit systems to manage concentration risk in the loan portfolio, etc. |
| **Market risk in non-trading activities** | Existence of a robust management framework<br>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<br>Group key controls, risk scans, Key Risk Indicators (KRIs), etc.<br>Risk scans and monitoring of risk signals<br>Strict acceptance policy, stress tests, monitoring, etc. |
| **Market risk in trading activities** | Existence of a robust management framework<br>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<br>Drawing up and testing emergency plans for managing a liquidity crisis<br>Liquidity stress tests, management of funding structure, etc.. |
| **Technical insurance risks** | Existence of a robust management framework<br>Underwriting, pricing, claims reserving, reinsurance and claims handling policies, etc. |
| **Climate-related and other ESG risks** | These risks have been integrated into the existing risk management frameworks. |

## KBC Insurance NV's translation of the Group strategy

### Strategy of KBC Insurance NV

KBC Insurance NV will further align its strategy with this updated KBC Group Strategy 'S.T.E.M., the Ecosphere' over the course of 2024. KBC Insurance NV has clear ambitions on the Belgian market:

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

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

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

Digital-first designed processes remain key, complemented with tied agents, bank branches and remote centers as crucial human touchpoints. To extend our digital offer and stimulate digital use, KBC Insurance NV aims to keep making a digital product offer in both Non-Life and Life, across mass retail and commercial segments. Digital processes and human interaction will go hand in hand, and we need the commitment and efforts of our human channels to assist our customers in adopting our digital processes. This adoption generates operational efficiency in front- and back-offices. Combined with Kate, providing valuable insights and guidance, this enables our human channels to grow, and specifically our agents in selling more complex insurance solutions and guaranteeing a 100% pickup rate.

KBC Insurance NV expects its human channels (both tied agents and bank channels) to remain very important. Tied agents have a crucial role in our distribution model: as human experts for complex solutions, trusted advisors for customers, emotional support during claims, … and will remain our main physical channel as the increasing digital offer & use at banking side results in a contraction of physical presence of the retail bank network. Next to the tied agents also bank branches and KBC Live continue their role as trusted advisor to customers looking for insurance solutions. We expect this situation to continue in the following years, but already expanding our digital sales offer will enable KBC Insurance NV to make a fast transition to a more digitally intensive market as currently the case in e.g. UK and NL.

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

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

During a typical insurance customer journey – going from information to advice and eventually purchase – most customers prefer to touch upon multiple distribution channels (digital, remote and physical), while still expecting a seamless customer experience. In order to grow top-line revenue we need all distribution channels working perfectly together, reinforcing each other to deliver a 100% pick-up rate. This requires customer interactions to be monitored across all channels, allowing Kate to monitor and steer both the customer as the human channels.

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

Regarding optimal costumer solutions, KBC Insurance NV decided in 2023 to develop over the years to come an innovative and difficult-to-copy reference Employee Benefits proposition, containing pension, health and well-being services. This has led to a separate ‘Employee Benefits’ investment file, which will strengthen the position of KBC Insurance NV on the Life insurance market.

### Differently: the Next Level - the Bank-Insurance model

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

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

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

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

# Underwriting conditions in our home markets

## The world economy in our home countries in 2023

2023 was a year in which the large economies saw different growth rates. With the euro area still suffering from the after-effects of the 2022 energy price shock, in 2023 quarterly growth hovered around 0% (with annual average growth of 0,5%).

The US economy and US consumers in particular were affected to a far lesser extent, which translated into above-average quarterly growth up to and including the fourth quarter. Overall, this resulted in annual average growth of 2,5%. In the first quarter of 2023, growth optimism prevailed in China as the most restrictive coronavirus-related measures were lifted. However, in the next quarters a weak global economic cycle and an imbalance in domestic demand (with, among other things, a persistent crisis in the real estate sector) led to disappointing growth dynamics. Overall, annual average growth stood at 5,2%.

Inflation has peaked in both Europe and the US. The wave of disinflation in 2023 mainly arose from the fact that the high energy prices of 2022 gradually disappeared from the basis of comparison of year-on-year inflation. Towards the end of 2023, underlying core inflation (inflation excluding energy and food prices) contributed to the disinflation path. Consequently, the pace at which headline inflation in the euro area and the US will reach the Fed and ECB target of 2% largely depends on whether, and to what extent, new inflation triggers emerge in 2024.

Now that inflation seems to have peaked and monetary tightening measures have yet to reveal their delayed full impact on growth and inflation, both the Fed and the ECB reached the peak of their tightening cycle in 2023. The Fed's key rate reached the range of 5,25% to 5,50% in July, after which the ECB raised its deposit rate one last time to 4% in September. To lower inflation to the 2% target within a reasonable period of time, both central banks are expected to keep their rates at this restrictive level for some time to come. This means that the ECB is not likely to cut interest rates until halfway through 2024.

In March 2023, the ECB followed the Fed's example and started its quantitative tightening by not reinvesting maturing assets from its APP[5] portfolio. As is the case for the Fed, this tightening is expected to continue after the start of the interest rate reduction cycle in 2024. According to ECB communications, the ECB will phase out reinvestments of its current PEPP[6] portfolio from the second half of 2024, which means that the total portfolio will be reduced by an average of 7,5b EUR per month. The ECB will fully discontinue its reinvestments of the PEPP portfolio in 2025. After discontinuing these flexible PEPP reinvestments, the ECB will mainly rely on the Transmission Protection Mechanism (TPI) to keep intra-EMU yield spreads within acceptable limits.

Driven by rising key rates and normalising risk premiums, in 2023 US and German ten-year yields rose to around 5% and 3%, respectively, in the third quarter. However, both reference rates once again fell sharply in the fourth quarter to 4% and 2%, respectively, towards the end of 2023, followed by a moderate upward correction in January 2024.

The US dollar was volatile in 2023 as well, due to a flight to quality and (expected) interest rate and growth differentials. Overall, in 2023 the US dollar weakened slightly against the euro from roughly 1,07 to 1,10 dollars per euro.

The main policy challenge for 2024 is to strike a balance between pursuing a sufficiently restrictive (monetary) policy to reduce inflation to the 2% target on a lasting basis and avoiding a severe recession.

5 The ECB's asset purchase programme (APP) started as part of a package of non-standard monetary policy measures that also included targeted longer-term refinancing operations, and which was initiated in mid-2014 to support the monetary policy transmission mechanism and provide the amount of policy accommodation needed to ensure price stability.

6 The ECB's pandemic emergency purchase programme (PEPP) is a non-standard monetary policy measure initiated in March 2020 to counter the serious risks to the monetary policy transmission mechanism and the outlook for the euro area posed by the coronavirus (COVID-19) outbreak.

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

## Climate change, global health risks and geopolitical challenges

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

### How are we addressing them?

- We ensure in our long-term planning/scenario that our capital and liquidity 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.
- If turns out that the models are not capturing the increased credit risk resulting from specific events we will set aside additional reserves based on management's assessment.
- Where necessary (in response to the coronavirus crisis, for example), we take the measures needed to secure business accessibility and continuity.
- We have translated our environment and climate strategy into specific targets and have committed ourselves to several relevant international initiatives. The KBC Group annual report provides a detailed report on sustainability, as does our Sustainability Report, available at www.kbc.com.
- We constantly adjust our product and service offering by, for instance, responding to demand for sustainable products. We also want to be a partner for our clients in their transformation to a more sustainable future.
- 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 (from traditional players, online banks, fintechs, bigtechs, and so on), technological changes and shifting client behaviour. All this is is influencing clients' expectations, in terms of speed, digital interaction, proactivity, personalisation and relevance, and 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 – subject to clients' consent – 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.
- We actively monitor trends and analyse the market.
- 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 and automate products and processes (straight-through processing). Our digital assistant Kate is a great example of one of our solutions aimed at ensuring maximum convenience for our clients.

## Regulation

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

- Sustainability: EU measures to mobilise financial resources for sustainable growth including by means of tailored reporting.
- Digitality: EU initiatives on the impact of new technologies on the financial services sector (Digital Operational Resilience Act, Cyber Resilience Act, proposals for regulations on Financial Data Access, the digital euro and the European Digital Identity);.
- Artificial intelligence: the EU wants to regulate the sale, development and application of AI systems at the European level through a risk-based approach;
- Prudential supervision: revision of the Solvency II Directive; developments related to the reform of the Crisis Management & Deposit Insurance Framework; developments related to the draft Directive on recovery and resolution planning for insurance undertakings.

### How are we addressing them?

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

## Cyber risk and data protection

Following trends in the digital landscape, cyberattacks pose a constant threat in a rapidly digitalising world. Developments based on artificial intelligence increase the number of potential cyberattacks and introduce new ways of launching cyberattacks.Our focus at KBC is on ensuring both our clients and our entities optimum protection against cybercrime.

### How are we addressing them?

- We raise our employees' awareness of cyber risks by providing training in areas like phishing, smishing ('SMS phising') and vishing ('voice phishing'), and cyber fraud in general. We use simulation tests to check whether employees respond appropriately to various scenarios.
- We work to achieve highly secure and reliable ICT systems and data protection procedures.We are making every effort to collect threat intelligence and apply several tools that allow us to anticipate and respond to different cyber threats such as DDoS attacks and ransomware as quickly and accurately as possible.
- Our group-wide Competence Centre for Information Risk Management & Business Continuity tracks all risks relating to data protection, cyber-crime and operational ICT. The team informs and assists local entities, tests KBC's defence mechanisms and provides training.
- We are members of the Belgian Cyber Security Coalition – a knowledge and consultative platform consisting of around 50 public and private-sector enterprises and academics.
- We also have our entities' cyber risks and defence mechanisms evaluated on an annual basis by internal and external security experts.
- See also our Sustainability Report at www.kbc.com.

## Market conditions in our home countries in 2023

| | Belgium | Czech Republic | Slovakia | Hungary | Bulgaria |
|---|---|---|---|---|---|
| *Market environment in 2023* | | | | | |
| **Change in GDP (real)** | 1,5% | -0,4% | 1,2% | -0,6% | 1,9% |
| **Inflation (average annual increase in consumer prices)** | 2,3% | 12,1% | 11,0% | 17,0% | 8,6% |
| **Unemployment rate (% of the labour force at year-end; Eurostat definition)** | 5,7% | 2,8% | 5,8% | 4,4% | 4,3% |
| **Government budget balance (% of GDP)** | -4,6% | -3,8% | -6,1% | -6,0% | -3% |
| **Public debt (% of GDP)** | 105,8% | 43,9% | 57,5% | 72,5% | 22,0% |
| *Forecast growth in real GDP in years ahead* | | | | | |
| **2023** | 1,1% | 1,4% | 2,2% | 2,8% | 2,3% |
| **2024** | 1,1% | 3,1% | 3,3% | 3,6% | 3,0% |
| *KBC Insurance's position in each core country* | | | | | |
| **Main brands** | KBC & CBC & KBC Brussels | ČSOB | ČSOB | K&H | UBB & DZI |
| **Network** | 292 insurance agencies<br>Online channels | Insurance sold through various channels<br>Online channels | Insurance sold through various channels<br>Online channels | Insurance sold through various channels<br>Online channels | Insurance sold through various channels<br>Online channels |
| **Recent acquisitions or disposals** | | - | - | - | Acquisition of NN's Bulgarian pension and life insurance business (2021). |
| **Insurance clients (millions, estimate)** | 1,7 | 2,0 | 0,5 | 1,1 | 1,3 |
| **Market share (estimate)** | | | | | |
| **- Life insurance** | 12% | 7% | 2% | 3% | 32% |
| **- Non-Life insurance** | 9% | 10% | 5% | 7% | 12% |

# Performance

## Consolidated income statement

| (in m EUR) | 2023 | 2022 |
|---|---|---|
| Net interest income | 392 | 442 |
| *Interest income* | 544 | 468 |
| *Interest expense* | -152 | -26 |
| Insurance revenues before reinsurance | 2.690 | 2.431 |
| *Non-life* | 2.290 | 2.059 |
| *Life* | 400 | 373 |
| Dividend income | 40 | 39 |
| Net result from financial instruments at fair value through profit or loss | 106 | -63 |
| Net fee and commission income | 90 | 80 |
| *Fee and commission income* | 166 | 156 |
| *Fee and commission expense* | -76 | -76 |
| Insurance finance income and expense (for insurance contracts issued) | -313 | -96 |
| Net other income | 78 | 56 |
| **Total Income** | **3.082** | **2.890** |
| Operating expenses (excluding directly attributable from insurance) | -188 | -149 |
| *Total Opex without banking and insurance tax* | -541 | -483 |
| *Total banking and insurance tax* | -30 | -26 |
| *Minus: Opex allocated to insurance service expenses* | 382 | 361 |
| Insurance service expenses before reinsurance | -2.123 | -1.909 |
| Of which insurance commissions paid | -463 | -421 |
| *Non-Life* | 2.290 | 2.059 |
| *of which Non-life - Claim related expenses* | -1.159 | -1.079 |
| *Life* | -251 | -174 |
| Net result from reinsurance contracts held | -90 | -20 |
| Impairment | -2 | 3 |
| *on FA at amortised cost and at FVOCI* | -2 | 1 |
| *on goodwill* | 0 | 0 |
| *other* | -1 | 2 |
| **Operating Profit** | **679** | **814** |
| Share in results of associated companies and joint ventures | 0 | 0 |
| **Result Before Tax** | **679** | **814** |
| Income tax expense | -152 | -179 |
| Net post-tax result from discontinued operations | 0 | 0 |
| **Result After Tax** | **527** | **635** |
| attributable to minority interests | 0 | 0 |
| *of which relating to discontinued operations* | 0 | 0 |
| attributable to equity holders of the parent | 527 | 635 |
| *of which relating to discontinued operations* | 0 | 0 |

*Table 1: Consolidated income statement (KBC Ins Grp)*

## FY 2022 restated figures for IFRS 17

On 1 January 2023, the new accounting rules for the recognition, measurement and presentation of insurance contracts (IFRS 17) are mandatory for the reporting period beginning on 1 January 2023, replacing IFRS 4. The reference figures of 2022 in this report have been restated accordingly. IFRS 17 applies to all types of insurance contracts, regardless of the type of entities that issue them, as well as to financial instruments with discretionary participation features. As a consequence of the IFRS 17 implementation, the income statement of KBC Insurance has been updated to include the new items introduced by IFRS 17 (e.g., insurance revenues, insurance finance income and expense, and insurance service expenses). Other income statement line items that were related to IFRS 4 have been excluded or are presented differently.

## Net result

The very strong consolidated result of the KBC Insurance Group came to 527m EUR in 2023, a decline of -17% (-108m EUR) compared to last year, primarily due to:

- A 45m EUR increase in the insurance service result thanks to an increase in insurance revenues that exceeded the increase in insurance service expenses.
- A 10m EUR increase in net fee and commission income, due in part to higher fee and commission income from investment-linked insurance contracts in Belgium (Unit-Linked products measured under IFRS 9) and an increase in fee and commission income from non-insurance subsidiaries ADD, VAB and UBB Pension Insurance Company.
- A decrease in the net reinsurance result of -69m EUR, largely due to a decrease in amounts recoverable from the reinsurer (substantial claims relating to storms in 2022) and reinforced by an increase in reinsurance premiums payable.
- An increase in the insurance finance expense, attributable to an increase in interest accretion of -55m EUR owing to rising average yield curves.
- A drop in investment income due to lower net interest income and higher impairment, which were partly offset by an increase in other net income and an increase in the net result from financial instruments at fair value through profit or loss.
- Please note that the increases in the fair value of investments related to investment-linked insurance contracts (measured using the Variable Fee Approach under IFRS 17) are not taken into account here as, at the level of the income statement, they are fully neutralised by increases in the fair value of insurance liabilities related to the relevant investment-linked insurance contracts.
- Higher operating expenses, partly due to wage indexation, higher marketing, ICT and facility expenses and higher bank and insurance tax.

# Underwriting performance

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

The profit contribution of the most material entities is shown in the following table. Largest contributor to this result is of course KBC Insurance NV with 74% of the Group's result.

| (in m EUR) | 2023 | 2022 | Proportion % | Change in % |
|---|---|---|---|---|
| **KBC Insurance Group** | **527** | **635** | **100%** | **-17,0%** |
| *KBC Insurance NV* | 392 | 546 | 74% | -28% |
| *KBC Group Re* | 13 | 0 | 2% | |
| *ČSOB Pojišt'ovna a.s. CZ* | 117 | 62 | 22% | 89% |
| *ČSOB Poist'ovňa a.s. SK* | 6 | 11 | 1% | -40% |
| *K&H Biztosító* | 3 | 7 | 1% | -59% |
| *DZI Insurance* | 36 | 23 | 7% | 57% |
| *Other* | -40 | -14 | -8% | |

*Table 2: Profit contribution of the different entities*[7]

| (in m EUR) | Life | of which Life direct participa-ting (VFA) | Non-life | Non-technical | Total |
|---|---|---|---|---|---|
| 2023 | | | | | |
| **Insurance service result** | **149** | **12** | **418** | **0** | **567** |
| *Insurance revenues before reinsurance* | *400* | *25* | *2.290* | *0* | *2.690* |
| *Insurance service expenses* | *-251* | *-12* | *-1.872* | *0* | *-2.123* |
| *Of which Non-life - Claim related expenses* | *0* | *0* | *-1.159* | *0* | *-1.159* |
| **Investment result and insurance finance income and expenses** | **151** | **0** | **63** | **0** | **233** |
| **Investment result on assets** | **434** | **96** | **93** | **19** | **546** |
| *Net interest income* | *304* | *0* | *87* | *1* | *392* |
| *Dividend income* | *22* | *0* | *4* | *14* | *40* |
| *Net result from financial instruments at fair value through P&L* | *100* | *96* | *0* | *6* | *106* |
| *Net other income* | *10* | *0* | *2* | *-3* | *10* |
| *Impairment* | *-1* | *0* | *0* | *0* | *-2* |
| **Total insurance finance income and expenses before reinsurance** | **-283** | **-96** | **-30** | **0** | **-313** |
| *Interest accretion* | *-186* | *0* | *-31* | *0* | *-217* |
| *Effect of changes in financial assumptions and foreign exchange differences* | *-1* | *0* | *1* | *0* | *-1* |
| *Changes in fair value re. liabilities of IFRS 17 unit linked contracts* | *-96* | *-96* | *0* | *0* | *-96* |
| **Net insurance and investment result before reinsurance** | **300** | **12** | **481** | **19** | **800** |
| **Net result from reinsurance contracts held** | **-3** | **0** | **-87** | **0** | **-90** |
| *Premiums paid to the reinsurer* | *-30* | *0* | *-95* | *0* | *-125* |
| *Commissions received* | *7* | *0* | *10* | *0* | *17* |
| *Amounts recoverable from reinsurer* | *21* | *0* | *0* | *0* | *21* |
| *Total (ceded) reinsurance finance income and expense* | *0* | *0* | *-2* | *0* | *-2* |
| **Net insurance and investment result after reinsurance** | **297** | **12** | **394** | **19** | **710** |
| **Non-directly attributable income and expenses** | **10** | **-1** | **-50** | **9** | **-31** |
| *Net fee and commission income* | *67* | *0* | *-2* | *24* | *90* |
| *Net other income* | *-1* | *0* | *0* | *69* | *68* |
| *Operating expenses (incl. banking and insurance tax)* | *-56* | *-1* | *-48* | *-83* | *-188* |
| *Impairment - Other* | *0* | *0* | *0* | *0* | *-1* |
| *Share in results of assoc. comp & joint-ventures* | *0* | *0* | *0* | *0* | *0* |
| **Income tax** | **0** | **0** | **0** | **-152** | **-152** |
| **Result after tax** | **307** | **11** | **344** | **-124** | **527** |
| *Attributable to minority interest* | *0* | *0* | *0* | *0* | *0* |
| ***Attributable to equity holders of the parent*** | ***0*** | ***0*** | ***0*** | ***0*** | ***527*** |

7 2022 numbers have been restated following the transition to IFRS17

| (in m EUR) | Life | of which Life direct participa-ting (VFA) | Non-life | Non-technical | Total |
|---|---|---|---|---|---|
| 2022 | | | | | |
| **Insurance service result** | **198** | **9** | **324** | **0** | **522** |
| *Insurance revenues before reinsurance* | *373* | *23* | *2.059* | *0* | *2.431* |
| *Insurance service expenses* | *-174* | *-14* | *-1.735* | *0* | *-1.909* |
| *Of which Non-life - Claim related expenses* | *0* | *0* | *-1.079* | *0* | *-1.079* |
| **Investment result and insurance finance income and expenses** | **179** | **0** | **95** | **0** | **318** |
| **Investment result on assets** | **272** | **-65** | **99** | **43** | **414** |
| *Net interest income* | *305* | *0* | *110* | *27* | *442* |
| *Dividend income* | *20* | *0* | *4* | *15* | *39* |
| *Net result from financial instruments at fair value through P&L* | *-65* | *-65* | *5* | *-2* | *-63* |
| *Net other income* | *12* | *0* | *-20* | *1* | *-8* |
| *Impairment* | *0* | *0* | *0* | *3* | *3* |
| **Total insurance finance income and expenses before reinsurance** | **-92** | **66** | **-4** | **0** | **-96** |
| *Interest accretion* | *-157* | *0* | *-4* | *0* | *-161* |
| *Effect of changes in financial assumptions and foreign exchange differences* | *-1* | *0* | *0* | *0* | *-1* |
| *Changes in fair value re. liabilities of IFRS 17 unit linked contracts* | *66* | *66* | *0* | *0* | *66* |
| **Net insurance and investment result before reinsurance** | **377** | **10** | **419** | **43** | **840** |
| **Net result from reinsurance contracts held** | **-1** | **0** | **-19** | **0** | **-20** |
| *Premiums paid to the reinsurer* | *-28* | *0* | *-81* | *0* | *-109* |
| *Commissions received* | *12* | *0* | *9* | *0* | *21* |
| *Amounts recoverable from reinsurer* | *15* | *0* | *54* | *0* | *69* |
| *Total (ceded) reinsurance finance income and expense* | *0* | *0* | *-1* | *0* | *-1* |
| **Net insurance and investment result after reinsurance** | **376** | **10** | **400** | **43** | **819** |
| **Non-directly attributable income and expenses** | **20** | **-1** | **-37** | **12** | **-5** |
| *Net fee and commission income* | *62* | *0* | *-2* | *19* | *80* |
| *Net other income* | *0* | *0* | *0* | *64* | *64* |
| *Operating expenses (incl. banking and insurance tax)* | *-42* | *-1* | *-35* | *-71* | *-149* |
| *Impairment - Other* | *0* | *0* | *0* | *0* | *0* |
| *Share in results of assoc. comp & joint-ventures* | *0* | *0* | *0* | *0* | *0* |
| **Income tax** | **0** | **0** | **0** | **-179** | **-179** |
| **Result after tax** | **396** | **9** | **363** | **-124** | **635** |
| *Attributable to minority interest* | *0* | *0* | *0* | *0* | *0* |
| ***Attributable to equity holders of the parent*** | ***0*** | ***0*** | ***0*** | ***0*** | ***635*** |

*Table 3: Underwriting performance (KBC Ins Grp)*[8]

8 2022 numbers have been restated following the transition to IFRS17

## Split Non-Life and Life result

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

**Results from Non-Life insurance business**

- The 'Result before tax' generated by the Non-Life insurance business for 2023 (344m EUR) was lower than in 2022 (363m EUR).
- In 2023, 'Insurance revenues before reinsurance' totalled 2.290m EUR, an increase of 11% on the year-earlier figure. They grew by +9% in Belgium, by +15% in the Czech Republic, and by +15% in the three other Central and Eastern European markets combined. Sales of Non-Life insurance stood at 2.351m EUR and rose by 12% year-on-year, with growth in virtually all countries and classes of insurance due to a combination of volume and rate increases.
- Insurance service expenses before reinsurance' came to -1.872m EUR in 2023, an 8% increase on the year-earlier figure. Of this amount, 'Non-Life claim-related expenses' came to -1.159m EUR in 2023, a 7% increase on the year-earlier figure.
- This increase is visible in most markets and is driven partly by adjustments made to the parameters of the insurance models, higher claims and inflation.
- The 'Non-Life non-claim-related expenses' component rose partly due to higher commissions (related to the higher insurance revenues), higher costs and an additional insurance tax in Hungary.
- The 'Result from reinsurance contracts held' in 2023 was -87m EUR, compared to -19m EUR in 2022. This decline is due to an increase in reinsurance premiums payable, as well as lower reinsurance amounts recovered.
- Taking into account the higher 'Insurance revenues', the increase in 'Insurance service expenses' and the 'Result from reinsurance contracts held', the combined ratio came to a favorable 87.0% (a slight increase on the year-earlier level).

| Non-Life in % | 2023 | 2022 | Change in % |
|---|---|---|---|
| Net claim ratio | 55,7% | 55,6% | +0,1 pp |
| Net cost ratio | 31,3% | 31,0% | +0,3 pp |
| Net combined ratio KBC Insurance | 87,0% | 86,6% | +0,4 pp |

*Table 4: Net combined ratio (KBC Ins Grp)*

| Net Combined Ratio | | 2023 | 2022 |
|---|---|---|---|
| *KBC Insurance NV (part BEL)* | | 85,20% | 84,00% |
| *ČSOB Pojišťovna a.s. CZ* | | 84,40% | 82,90% |
| *ČSOB Poisťovňa a.s. SK* | | 101,00% | 89,60% |
| *K&H Biztosító* | | 104,70% | 93,50% |
| | *excl. windfall tax* | 96,60% | 88,60% |
| *DZI Insurance* | | 87,30% | 90,10% |
| **KBC Insurance Group** | | **87,00%** | **86,60%** |

*Table 5: Net combined ratio per entity (KBC Ins Grp)*

**Results from Life insurance business**

- At 307m EUR, the 'Result before tax' generated by the Life insurance business in 2023 was 22% lower than the figure for 2022 (396m EUR).
- In 2022, the result was positively impacted by a reversal of a loss component for an amount of, on balance, 67m EUR (before tax) on mainly modern savings products in Belgium, driven by increased interest rates. This negative impact was offset partly by a release of the CSM[9] in Belgium in 2023 in response to a change made to a parameter in the insurance models in relation to the coverage units.
- 'Non-directly attributable income and expenses' dropped by 52%, from +20m EUR in 2022 to 10m EUR in 2023, primarily due to an increase in operating expenses that are not directly attributable to insurance contracts because of the effect of inflation/wage indexation, combined with higher ICT, facility and marketing costs and a higher insurance tax in Hungary, partly offset by an increase in 'Net fee and commission income'.
- Sales of Life insurance products amounted to 2.328m EUR, a 12% increase compared to 2022 thanks to higher sales of Unit-Linked products in Belgium in particular. The share of Non-Unit-Linked and Unit-Linked products in our total sales of Life insurance in 2023 stood at 42% and 52%, respectively, with the rest consisting of hybrid products (mainly in the Czech Republic).

| Sales Life (m EUR) | 2023 | 2022 |
|---|---|---|
| **Total** | **2.328** | **2.071** |
| IFRS 17 - non-unit-linked | 975 | 978 |
| IFRS 17 - unit-linked | 171 | 99 |
| IFRS 17 - hybrid | 131 | 115 |
| Non-IFRS 17 | 1.051 | 880 |

*Table 6: Overview of the Sales Life portfolio (KBC Ins Grp)*

Further split up of the sales Life (Guaranteed and Unit-Linked) per entity is given in next table:

| | 2023 | | 2022 | |
|---|---|---|---|---|
| Sales Life (in m EUR) | Total | % | Total | % |
| **Total** | **2.328** | **100%** | **2.071** | **100%** |
| *KBC Insurance NV* | 1.923 | 82,6% | 1.749 | 84,5% |
| *ČSOB Pojišťovna a.s. CZ* | 188 | 8,1% | 173 | 8,3% |
| *ČSOB Poisťovňa a.s. SK* | 35 | 1,5% | 30 | 1,4% |
| *K&H Biztosító* | 63 | 2,7% | 38 | 1,8% |
| *DZI Insurance* | 119 | 5,1% | 81 | 3,9% |

*Table 7: Total sales of Life insurance (KBC Ins Grp)*

**Non-technical result**

- The non-technical result includes the results from non-insurance subsidiaries, such as VAB and ADD, as these subsidiaries of KBC Insurance cannot be assigned to either the Life or the Non-Life business.
- Furthermore, the non-technical result also includes the investment income from equity (mainly net interest income from bonds) and income tax.
- The non-technical result after tax came to -124m EUR in 2023, the same as in 2022.
- The non-technical result before tax dropped by -27m EUR, primarily due to lower net interest income (-25m EUR) and higher operating expenses (-12m EUR), which were offset only partly by higher net fee and commission income (5m EUR) and higher other net income (5m EUR).

[9] Contractual Service Margin (CSM), being the unearned profit that is released from the balance sheet in P&L over the term of the contract based on services provided, i.e. there are no day one gains.

**Income tax expense**

The income tax expense for 2023 totalled -152m EUR, or 22% on average, similar to its year-earlier level.

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

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

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

## Results 2023 of KBC Insurance NV

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

KBC Insurance NV's financial performance remained strong in 2023 with a Solvency II ratio of 225% at year-end and a net result of 392m EUR. The Solvency II ratio was 225% at year-end. The 2023 net result of KBC Insurance NV is composed of:

- Non-Life: 240m EUR (see further for more details)
- Life: 239,5m EUR (see further for more details)
- Non-technical result: 43m EUR

**Result 2023 from the Non-Life insurance business at KBC Insurance NV**

The table below provides an overview of the Non-Life results for 2023 compared to last year 2022:

| (in m EUR) | 2023 | 2022 | Change in amount | Change in % |
|---|---|---|---|---|
| *Insurance service result - before reinsurance* | 274 | 193 | 81 | 42% |
| *Insurance revenues - before reinsurance* | 1.395 | 1.277 | 118 | 9% |
| *Insurance service expenses (ISE) - before reinsurance* | -1.121 | -1.084 | -37 | 3% |
| *Investment result on assets* | 62 | 95 | -33 | -34% |
| *Insurance finance income or expense (IFIE)* | -14 | 1 | -16 | … |
| **Net insurance & investment result - before reinsurance** | **322** | **289** | **33** | **11%** |
| *Net result from (ceded) reinsurance contracts held* | -62 | 22 | -85 | … |
| **Net insurance & investment result - after reinsurance** | **260** | **312** | **-52** | **-17%** |
| *Other profit or loss* | -20 | -16 | -4 | 24% |
| **Non-Life Result (before tax)** | **240** | **296** | **-56** | **-19%** |

*Table 8: Results Non-Life (KBC Ins NV)*

| (in m EUR) | 2023 | 2022 | Change in amount | Change in % |
|---|---|---|---|---|
| **Result before tax** | **230** | **287** | **-57** | **-19,8%** |
| *Insurance service result* | 274 | 193 | 81 | 42,1% |
| *Ceded reinsurance result* | -62 | 22 | -85 | -377,4% |
| *Other profit/loss* | -33 | -25 | -8 | 32,7% |
| *Financial result* | 52 | 97 | -45 | -46,8% |

*Table 9: Results Non-Life (KBC Ins NV)[10]*

[10] 2022 numbers have been restated following the transition to IFRS17

The result before tax is -57m EUR lower than last year. Higher insurance service result is more than offset by a lower ceded reinsurance result and a lower financial result.

Higher insurance service result is a combination of higher insurance revenues (+118m EUR) and higher insurance service expenses (-37m EUR). The latter is explained by a higher negative impact re several recurrent parameter updates, higher premium linked commissions in line with increasing premium income, higher directly attributable expenses and a more negative impact of normal claims mainly due to a higher number of claims than the very low level of 2022. This is only partly offset by +63m EUR lower gross storm impact, as 2022 was largely impacted by storm Eunice, and a more favorable impact of XL-claims vs. 2022.

Ceded reinsurance result is -85m EUR lower than in 2022 due to higher ceded premiums (-13m EUR; as a result of inflation, portfolio growth and hardening of the market) together with lower recuperations; 2022 included material storm and XL claims).

The financial result is 45m EUR lower than last year, primarily explained by a lower investment result due to much lower NII re. capital indexation on inflation linked bonds. Besides this, insurance finance income & expenses are 16m EUR lower which is a combination of changing locked-in curves due to increasing market rates and the change from older claim reserves with lower locked-in rates to more recent claim reserves with higher locked-in rates, leading to higher finance expenses.

*Combined ratio*

In 2023, the net combined ratio increased, which is mainly explained by an increase of the claims ratio due to the negative impact of several parameter updates in 2023, a higher normal claim level than the very low level in 2022 and only partly offset by lower storm impact and lower XL claims. Note a small increase in the cost ratio too.

| Non-Life in % | 2023 | 2022 | Change in % |
|---|---|---|---|
| Net claim ratio | 55,3% | 54,1% | +1,2 pp |
| Net cost ratio | 30,9% | 30,5% | +0,4 pp |
| Net combined ratio KBC Insurance | 86,3% | 84,7% | +1,6 pp |

*Table 10: Net combined ratio (KBC Ins NV)*[11]

The detailed net combined ratios for the different classes of business are mentioned hereunder:

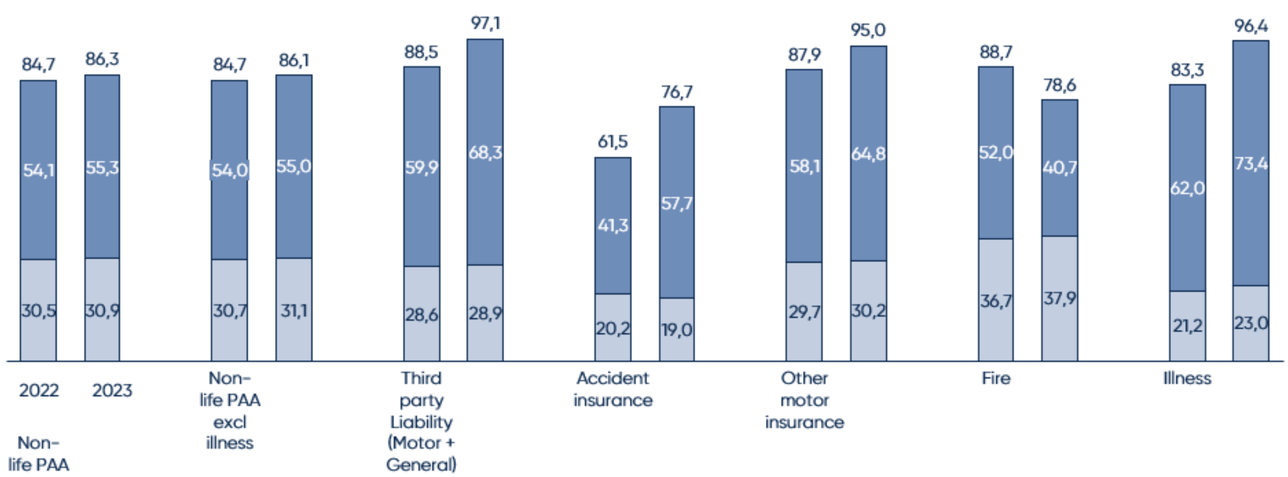


*Table 11: Net combined ratio for different classes of business (KBC Ins NV)*

[11] 2022 numbers have been restated following the transition to IFRS17

### Result 2023 from Life insurance business at KBC Insurance NV

The tables below provide an overview of the IFRS 17 Life results for 2023 compared to 2022.

| | Including non recurring results | | | | Excluding non recurring results | | | |
|---|---|---|---|---|---|---|---|---|
| (in m EUR) | 2023 | 2022 | Change in amount | Change in % | 2023 | 2022 | Change in amount | Change in % |
| **Result before tax** | **239** | **381** | **-142** | **-37,3%** | **244** | **247** | **-3** | **-1,1%** |
| *Investment result on assets* | 290 | 331 | -41 | -12,3% | 282 | 286 | -4 | -1,3% |
| *Insurance Finance Income or expense (IFIE)* | -161 | -132 | -29 | 21,7% | -161 | -149 | -12 | 8,3% |
| *Insurance service result (after reinsurance)* | 81 | 147 | -66 | -44,9% | 85 | 74 | 11 | 14,6% |
| *Net fee & commission income* | 68 | 63 | 5 | 7,8% | 68 | 63 | 5 | 7,8% |
| *OPEX - non directly attributable (incl. bank. & ins. tax)* | -38 | -27 | -11 | 42,0% | -29 | -27 | -2 | 8,6% |
| **Result before tax excluding non recurring results** | **244** | **247** | **-3** | **-1,1%** | | | | |
| *Non recurring results* | -5 | 134 | -139 | -103,9% | | | | |

*Table 12: Life results (KBC Ins NV)* [12]

| | Including non recurring results | | | | Excluding non recurring results | | | |
|---|---|---|---|---|---|---|---|---|
| (in m EUR) | 2023 | 2022 | Change in amount | Change in % | 2023 | 2022 | Change in amount | Change in % |
| **Insurance service result (after reinsurance)** | **81** | **147** | **-66** | **-45,0%** | **85** | **74** | **11** | **14,7%** |
| *CSM & RA Release* | 96 | 79 | 17 | 22,1% | 100 | 79 | 21 | 27,2% |
| *Experience result* | -24 | -17 | -7 | 42,7% | -24 | -17 | -7 | 42,7% |
| *Changes in loss component* | -7 | 70 | -77 | -110,0% | -7 | -3 | -4 | 150,5% |
| *Past services* | 9 | 9 | 0 | 1,2% | 9 | 9 | 0 | 1,2% |
| *Life PAA result* | 8 | 7 | 0 | 3,2% | 8 | 7 | 0 | 3,2% |
| *Ceded result* | -1 | -1 | 1 | -48,8% | -1 | -1 | 1 | -48,8% |

*Table 13: Life results by component (KBC Ins NV)*[13]

| | Including non recurring results | | | | Excluding non recurring results | | | |
|---|---|---|---|---|---|---|---|---|
| (in m EUR) | 2023 | 2022 | Change in amount | Change in % | 2023 | 2022 | Change in amount | Change in % |
| **Insurance service result (after reinsurance)** | **81** | **147** | **-66** | **-45,0%** | **85** | **74** | **11** | **14,7%** |
| *Risk & savings (pte 300)* | 92 | 155 | -63 | -40,9% | 96 | 82 | 13 | 16,4% |
| *Investments (pte 310)* | -5 | -4 | 0 | 10,8% | -5 | -4 | 0 | 10,8% |
| *Riders Individual (pte 821)* | -12 | -10 | -2 | 24,3% | -12 | -10 | -2 | 24,3% |
| *Hybrid products (pte 340)* | -1 | 0 | -1 | 0,0% | -1 | 0 | -1 | 0,0% |
| *Riders group (pte 921)* | 7 | 7 | 0 | 3,5% | 7 | 7 | 0 | 3,5% |
| *Ceded result* | -1 | -1 | 1 | -48,8% | -1 | -1 | 1 | -48,8% |

*Table 14: Life results by portfolio (KBC Ins NV)*[14]

[12] 2022 numbers have been restated following the transition to IFRS17
[13] 2022 numbers have been restated following the transition to IFRS17
[14] 2022 numbers have been restated following the transition to IFRS17

Life results (+239m EUR) are 142m EUR lower than previous year.

- 2022 was highly impacted by non-recurring results:
  - +73m EUR: one-off positive impact resulting from an update of the profit margin assumption on future premiums for modern savings products
  - +71m EUR: sale of real estate subsidiary KBC Vastgoed Nederland
  - -26m EUR: loss on the sale of low yielding long term bonds
  - +16m EUR: positive IFIE (Insurance Finance Income of Expense) cost in Jan 2022
    - at the start of IFRS17 no expected crediting rate was available for the first month and IFIE was calculated at locked-in rate in Jan 2022
- 2023 was only marginally impacted by non-recurring results
  - -9m EUR: extra impairment on IT and business expenses GOLF
  - -4m EUR: less CSM release because of update of the coverage units (Jan 2023)
  - +5m EUR: positive impact of release w.r.t outstanding warranties re. KBC Vastgoed
  - +3m EUR: sale of real estate

Excluding non-recurring results, life results (244m EUR) are 3m EUR lower than previous year.

| (in m EUR) | 2023 | 2022 | Change in amount | Change in % |
|---|---|---|---|---|
| **Net fee & commission income** | **68** | **63** | **5** | **7,8%** |
| *Gross production class 23* | 1753 | 2552 | -799 | -31,3% |
| *Class 23 net placement result* | 7 | 5 | 2 | 33,3% |
| *Class 23 management fees* | 64 | 61 | 3 | 4,1% |
| *Other net fee & commission income* | -3 | -4 | 1 | -16,5% |

*Table 15: Life net fee & commission income*[15]

**Net fee & commission income** (+68m EUR) was 5m EUR higher than previous year:

- lower gross production, but at net higher entry fee % (0,40% YTD2312 vs 0,20% YTD2212; cashbacks & commercial actions on entry fee in YTD2212);
- higher management fees: higher average AuD[16] in YTD23 resulting from positive market performance in 2023 (+8,7%) vs negative market performance in YTD22 (-14,5%) and overall positive net production in 2023 (successful launches of structured funds).

**CSM increased** by +181m EUR (from 1.474m EUR to 1.655m EUR):

[15] 2022 numbers have been restated following the transition to IFRS17
[16] AuD = Assets under Distribution

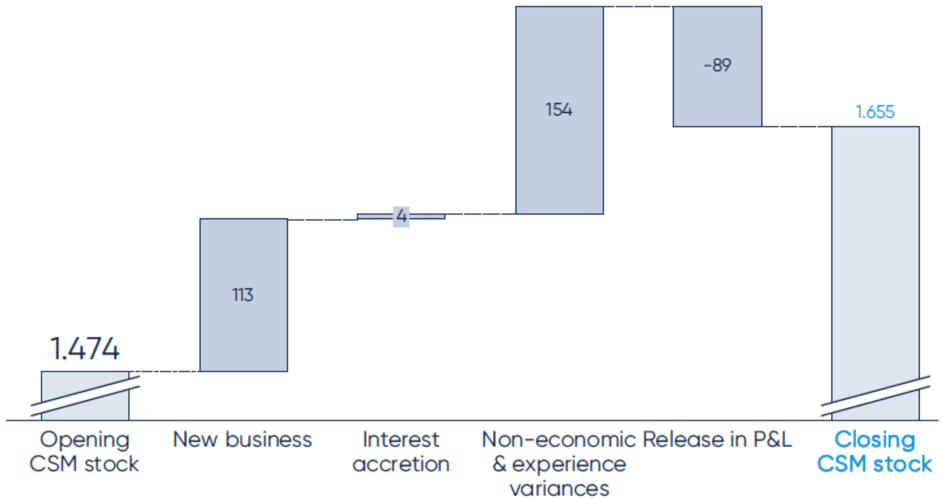


*Table 16: Evolution CSM Life portfolio*

## Investment performance[17]

| (in m EUR) | 2023 | 2022 |
|---|---|---|
| Net interest income | 392 | 442 |
| *Interest income* | 544 | 468 |
| *Interest expense* | -152 | -26 |
| Insurance revenues before reinsurance | 2.690 | 2.431 |
| *Non-life* | 2.290 | 2.059 |
| *Life* | 400 | 373 |
| Dividend income | 40 | 39 |
| Net result from financial instruments at fair value through profit or loss | 106 | -63 |
| Net fee and commission income | 90 | 80 |
| *Fee and commission income* | 166 | 156 |
| *Fee and commission expense* | -76 | -76 |
| Insurance finance income and expense (for insurance contracts issued) | -313 | -96 |
| Net other income | 78 | 56 |
| **Total Income** | **3.082** | **2.890** |

*Table 17: Net interest income (KBC Ins Grp)*

The table above gives an overview of the investment income for 2023 and 2022:

We have identified the following developments underlying the investment result:

- A decline in 'Net interest income' of -50m EUR, caused primarily by lower income from inflation-linked bonds (an increase in inflation indices that was less pronounced in 2023 than it was in 2022) and higher costs on subordinated loans, which was offset only partly by increased interest income from bonds in most home markets.
- A slight increase in 'Dividend income' of 1m EUR.

[17] 2022 numbers have been restated following the transition to IFRS17

- The 169m EUR in 'Net result from financial instruments at fair value through profit or loss' was primarily due to the increase in the fair value (161m EUR) of investments related to investment-linked insurance contracts measured under IFRS 17, resulting from favourable stock market developments.
- The increase in 'net other income' was largely driven by the negative result in 2022 arising from realised losses on the sale of low-yielding bonds in 2022.

### Bond portfolio

The bond portfolio represents the most material part of the investment portfolio, i.e. 77% representing a market value of 15,4b EUR. The composition of the bond portfolio itself is stable, i.e. it consists of:

- 68% government bonds, corresponding to a market value of 10,5b EUR.
- 32% corporate bonds, corresponding to a market value of 4,9b EUR.

When focusing on the market value of the bond portfolio an increase of 280m EUR is observed. However, the evolution in market value as such is not sufficient to fully understand how the bond portfolio evolved over the past year, as it can be biased by evolutions in the interest rate term structure. To have a clear understanding of the bond portfolio evolution, additional information (such as the evolution in duration and the evolution in credit quality) should be investigated.

### Loans & Mortgages

The loans & mortgages portfolio is almost exclusively linked to KBC Insurance NV. The evolution of the outstanding principal amount (nominal) in the credit portfolio shows a decrease by -12m EUR (or -0,7%) compared to end-of-year 2022. The evolution on market value is mainly driven by the evolution in nominal value as the interest rates decreased only slightly. Belonging to a bank-insurance Group, KBC Insurance NV can benefit from the expertise and infrastructure which is available at the bank side, regarding the commercial aspects and risk assessment of the mortgages and other direct loans.

### Equity

Equities are a material part of the investment portfolio of KBC Insurance Group, representing 8,3% of the portfolio or 1,7b EUR. Compared to last year the equity exposure has increased by 93m EUR. The equity value increase of 93m EUR is a result of the strong performance of the equity market during 2023 and the purchase of shares in investment funds.

Further information with regard to the asset mix and the investment policy in general can be found in subsection Risk profile below.

## Performance of other activities

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

# System of governance

## Governance, remuneration and fit & proper policy

### Governance of KBC Insurance Group

#### Main insurance companies of KBC Insurance Group

The main entities of the KBC Insurance Group are:

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

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

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

#### Shareholder structure and corporate bodies of KBC Insurance NV

**Shareholder structure**

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

*Table 18: Shareholder structure*

**Corporate bodies of KBC Insurance NV**

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

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

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

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

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

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

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

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

**General remarks**

All entities mentioned have their own governance structure.

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

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

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

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

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

These mechanisms relate, inter alia, to:

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

*Role of the Country Teams*

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

*Role of the Group Communities and the role of the GM Group Communities & Insurance*

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

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

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

Group Risk, Group compliance, the Group actuarial function and Group audit (at the level of the KBC Insurance Group and the KBC Group) include the findings of insurance subsidiaries - second and third line of defence functions in their reports, which are submitted to :

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

**Governance of the Belgian activities of KBC Insurance NV (“KBC Insurance Products”)**

*Management Committees at the level of the Belgium Business Unit*

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

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

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

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

*Management Committees at the level of Insurance Products Belgium*

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

- The Insurance Products Management Committee, which manages the KBC Insurance Products Directorate as a whole. It develops the overall strategy of KBC Insurance Products and monitors the business, operational and insurance risk;
- The Insurance Products Risk Management Committee, which mission is to anchor the knowledge about Solvency II and the underlying parameters; come to a transparent, documented risk policy; discuss risk related topics; inform about Solvency II and follow up the Solvency II- & IFRS 17-topics, e.g. parameters, cost allocation, documentation; to support management in ALM matters;
- The Life & Health insurance activities are managed by following committees: a New & Active Product Process Committee, a Risk Management Committee and an Operational Management Committee;
- Non-Life insurance activities are managed by the following committees: a New & Active Product Process Committee, a Risk Management Committee and an Operational Management Committee.

*Reporting by the control functions*

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

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

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

*ČSOB Pojišťovna a.s –Czech Republic Business Unit*
*Representatives of the shareholders in ČSOB Pojišťovna, a.s*

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

ČSOB Bank has one representative on the Supervisory Board, one on the Audit Committee and one on the Nomination & Remuneration Committee. The representative of ČSOB Bank on the Supervisory Board is the CEO and he fosters cooperation between ČSOB Bank and the insurance company, in particular by aligning their respective strategies.

*Management committees of the insurance company*

ČSOB Pojišťovna a.s has the following management committees to assist its executive body:

- New & Active Product Process Committee;
- Investment Committee;
- Local Risk & Capital Oversight Committee;
- Reserving and Parameter Committee.

*Reporting by the local control functions*

The local risk function, Compliance function and actuarial function (known as the second line of defence), and the local Audit function (known as the third line of defence) report their findings on the activities of ČSOB Pojišťovna a.s. to:

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

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

*Representation of KBC Insurance NV*

KBC Insurance NV, the sole shareholder of ČSOB Poisťovňa a.s., has two representatives on the Supervisory Board, i.e. the CEO of the International Markets Business Unit and the General Manager Group Communities & Insurance. It has one representatives on the Remuneration Committee: the CEO of the International Markets Business Unit (member of the Executive Committee of KBC Insurance). It has one representative on the Audit, Risk & Compliance Committee, i.e. the General Manager Group Communities & Insurance.

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

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

*Management committees of the insurance subsidiaries*

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

- New & Active Product Process committees;
- Investment committees;

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

*Reporting by the local control functions*

The local risk function, compliance function and actuarial function (known as the second line of defence) and the local Audit function (known as the third line of defence) report their findings on the activities to:

- The management of the insurance subsidiary;
- The Audit, Risk & Compliance Committee of the insurance subsidiary.

### *KBC Group Re*

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

*Management structure of KBC Group Re*

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

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

The Board is composed of at least 3 members (currently 5) appointed by the General Meeting. It consists of 4 non-executive members, i.e. the Senior General Manager responsible for the insurance activities of the Belgium Business Unit, the General Manager in charge of the Group Communities and Insurance Division, two senior managers of the KBC Insurance Products Directorate (BU BE) and the Managing Director.

The Managing Director is the sole Executive Director.

*Audit Risk and Compliance Committee*

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

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

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

The external auditors are invited at least once a year.

*Reporting of the local control functions*

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

**Overview of the legal and operational structure**

**1. KBC Group level**

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

**2. Business Unit level**

| CSOB P CZ | CSOB P SK | K&H Ins | DZI Ins/DZI Gen Ins | KBC Ins | KBC Group Re |
|---|---|---|---|---|---|
| CZ BU Management Committee | International Markets BU Management Committee | | | Belgium BU Management Committee | |
| | | | | Insurance ALM Committee | |
| | | | | Belgium BU Risk, ALM & Capital Committee | |

**3. Legal structure**

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

**4. Management structure**

Committees within Insurance entity

| CSOB P CZ | CSOB P SK | K&H Ins | DZI Ins/DZI Gen Ins | KBC Ins | KBC Group Re |
|---|---|---|---|---|---|
| NAPP | NAPP | NAPP | NAPP | NAPP | NAPP |
| Investment Committee | Investment Committee | Investment Council | Investment Committee | Insurance Products Management Committee | Investment Committee |
| Local Risk & Capital Oversight Committee | | | Local Risk & Capital Oversight Committee | Non-Life Insurance Risk Management Committee | Team Level Committee |
| | | | | Non-Life Insurance Operational Management Committee | |
| | | | | Life Insurance Risk Management Committee | |
| | | | | Life Insurance Operational Management Committee | |

Committees at Country level

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

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

| |
|---|
| Group Communities & Insurance Division |

*Table 19: Overview of the legal and operational structure*

## Remuneration

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

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

### Fit & proper policy

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

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

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

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

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

- The Executive Committee as a whole should have deep knowledge and experience relating to finance, risk management, compliance, audit, actuarial analysis, internal control, information management, innovation and technological transformation, change management, organization, societal issues and the legal and regulatory issues;
- The Executive Committee must have a deep knowledge and experience of the financial industry and of financial markets;
- The Executive Committee must have a deep knowledge and experience of KBC's strategy and business model, and of the banking and insurance activities which are developed within KBC Group;

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

The process involves the following steps:

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

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

- They must have the appropriate knowledge and experience for the corresponding position and domain, realised or to be realised through education and training (diploma/on the job) or relevant work experience;
- They must have good communication skills;
- They must act loyal and responsive;
- They must have professional behaviour by providing sufficient guarantees to fulfil the position in a conscientious and independent manner, with specific and strong attention to the independence (conflict of interests) and pastimes.

The process involves the following steps:

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

# Risk Management in KBC Group

## Risk governance

Main elements in our risk governance model:

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

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

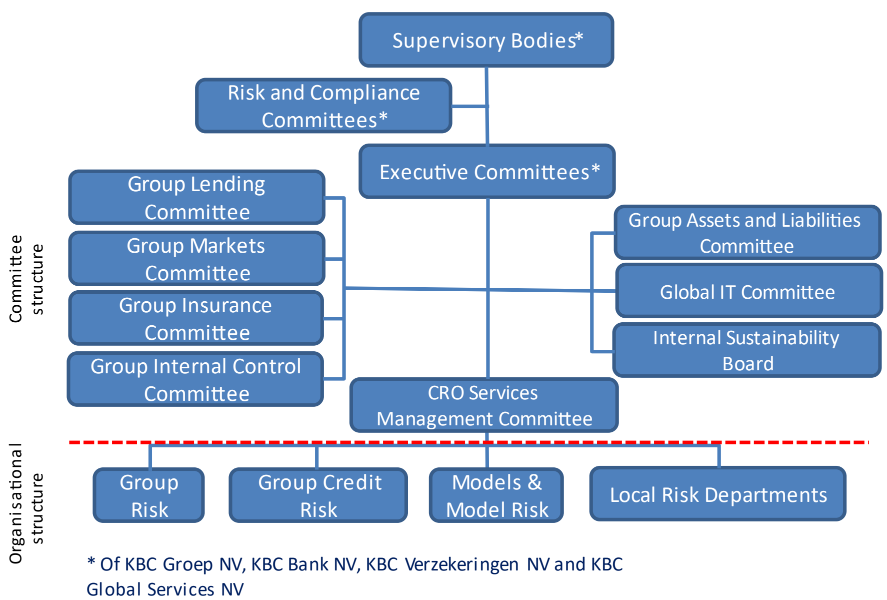


*Figure 1: Schematic overview of the risk governance model*

Relevant risk management bodies

Risk and Compliance Committee:

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

Executive Committee:

- Makes proposals to the Board of Directors about risk appetite – including strategy –and the Enterprise Risk Management Framework;
- Decides on further cascading of the Group's risk appetite through the organisation by allocating capital and defining local targets and limits and by approving limit changes and overruns within their delegation;
- Monitors risk exposure compared to the Group's risk appetite, and report on it;
- Approves and monitor implementation of the vision, mission, and strategy of CRO Services;
- Decides on the risk type specific frameworks and the integrated risk management framework;
- Monitors implementation of the KBC Risk Management Framework.

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, markets and insurance, respectively) support the Executive Committee in integrated risk monitoring;
- The Group Internal Control Committee supports the Executive Committee in monitoring and strengthening the quality and effectiveness of KBC's internal control system.

Business Committees:

- The Group Asset & Liability Committee handles matters related to ALM and liquidity risk;
- The Global IT Committee handles matters related to information technology and information security risk;
- The Internal Sustainability Board handles matters related to environmental, social and governance (ESG) risks.

A Risk Committee structure (consisting of one or more committees, proportional to the materiality of the risks, and with clear roles and responsibilities) must also be established at local level.

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 Group has established independent Chief Risk Officers (CROs) as members of Executive Bodies and/or Business Unit Management Committees. Close collaboration with the business is assured since they take part in the local decision-making process and, if necessary, can exercise a right of veto. Independence of the CROs is achieved through a direct reporting line to the Group CRO. For each main risk type, a Risk Competence Centre has been assigned at Group level. Most of these competence centres are extended virtual teams made up of Group and local experts working together.

Next to this, insurance companies are required to maintain an internal governance and control framework that ensures a well-functioning internal risk management. In this light, KBC issues periodic opinions on the quality, capacity and skills of the risk function. The 2023 iteration of the exercise concluded that overall, the risk function has sufficient capacity to perform sound risk management. A more proactive approach and external hiring were successful to fill in the vacancies. In light of the ongoing war for talent, attention is required to attract and retain specific experienced profiles (e.g., cyber experts), especially at local level. A multi-location strategy (central and nearshored teams) and groupwide steering in specific areas (e.g., Information security) help to mitigate resource issues (both from a quantitative and qualitative perspective). KBC's risk-based capacity assessment also indicates that a sufficient mix of experience and maturity is present in the risk function. The support of the employees in their progression, the wide availability of trainings and the presence of experienced staff in all teams ensure that the risk function has adequate skills and expertise available. Nevertheless, there are some attention points:

- Expertise in ESG risk management remains challenging and further knowledge should be built up;
- In areas such as cyber, cloud and digitization we should continue to invest to keep knowledge at par with internal and external evolutions;
- We have to keep evolving regulatory requirements and constant advancement in the area digitalization as well as data driven decision making (e.g. skills/knowledge related to AI and machine learning).

## Risk Management Framework and building blocks

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

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

As KBC is a Financial Conglomerate covering multiple financial sectors and active in a wide range of activities, the KBC Risk Management Framework combines a holistic, integrated and enterprise-wide view on risk in the Enterprise Risk Management Framework and a more detailed risk-type specific view in the risk-type specific frameworks.

This is reflected in the structure of the KBC Risk Management Framework diagram below:

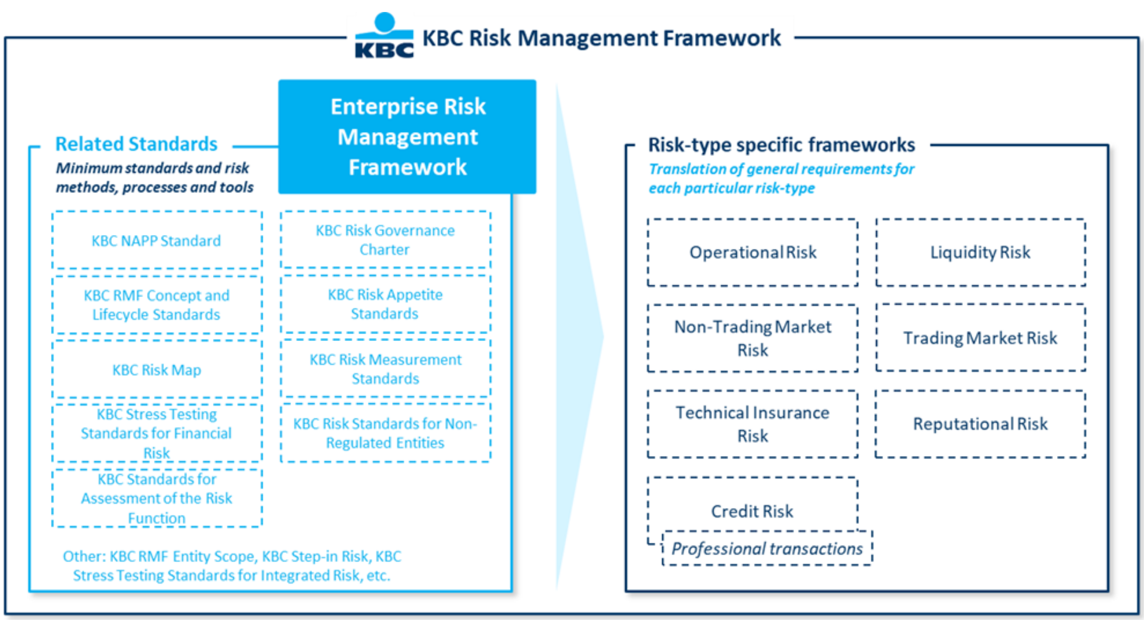


*Figure 2: Structure of the KBC Risk Management Framework*

## Risk management at KBC Insurance NV

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

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

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

Insurance Products Risk Management Committee: the mission of the meeting is to

- Anchor the knowledge about Solvency II and the underlying parameters;
- Come to a transparent, documented risk policy;
- Discuss risk related topics;
- Inform about Solvency II;
- Follow up the Solvency II- & IFRS 17-topics, e.g. parameters, cost allocation, documentation
- Support management in ALM matters.

Insurance Products Life/Non-Life Management Committee: the mission of the meeting is to

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

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

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

## Own risk & solvency assessment

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

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

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

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

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

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

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

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

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

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

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

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

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

# Other key functions of KBC Insurance Group

## Actuarial function

The Solvency II regulatory framework requires an actuarial function to be installed as one of the independent control functions (in addition to the risk management, compliance and internal audit functions) at the level of each insurance entity and at insurance group level. An actuarial function holder is appointed to take charge of the actuarial function's activities. Basically, the task of such a function is to ensure that the company's Board of Directors or Supervisory Board is fully informed of technical actuarial topics in an independent manner.

The main tasks of the actuarial function are to:

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

### Governance of the actuarial functions

The governance of the actuarial function within KBC is described in the actuarial function charters (both at the level of KBC Group, KBC Insurance NV and at the level of the local entities). On the 21st of December 2023, the Boards of Directors (BoD) of KBC Group and KBC Insurance NV approved on the annual update of the actuarial function charter of KBC Group and of KBC Insurance NV. The changes to the charters mostly related to the strengthening of and the clarification on the applied governance at the level of KBC Group and KBC Insurance NV, e.g. to ensure independence and sufficiency of resources of the function.

The governance model is set up in such way to ensure the independence of the actuarial function:

- The actuarial function of KBC Group and KBC Insurance NV are located in the second line of defence, and are hence independent from the business (incl. the actuarial departments) situated in the first line of defence.
- The actuarial function Holder of KBC Group and KBC Insurance NV have direct access to their CRO and to the Chair of their RCC, both for ad hoc and recurring topics as well as in case of escalation.
- The actuarial function Holder of KBC Group and KBC Insurance NV report to their RCC and BoD and inform their Executive Committee.

### Staffing of the actuarial functions

The actuarial function at the level of KBC Group and Insurance NV leverages resources from the risk functions at group level (resources from the insurance competence centre at Group Risk and from the validation team at Model & Model Risk). The risk based capacity exercise therefore also included the assessment by the respective actuarial function Holders on required resources for the actuarial function of KBC Insurance NV and KBC Group in terms of quantity, skills and expertise. The assessment leads to a formal, binding and documented FTE commitment from the risk function towards the actuarial function of KBC Group and KBC Insurance NV.

Staff is assigned to a task based on their level of expertise, skill and seniority. Experienced colleagues with extensive knowledge facilitate knowledge transfer to junior colleagues through on-the-job training. This balanced mix is present per task performed i.e. junior colleagues are always supported by senior experienced colleagues.

Based on input provided in the Actuarial Function Report, the RCC assesses the quality, capacity, skills and independence of the actuarial function.

### Actuarial Function Report

In line with Solvency II regulatory requirements and the actuarial function Charters, the actuarial function of KBC Group and KBC Insurance NV produce a written report on an annual basis submitted for decision to the BoD of KBC Group and KBC Insurance NV (the Actuarial Function Report or AFR). This reporting is done via the RCC of KBC Group and KBC Insurance NV.

The AFRs must document all tasks that have been undertaken by the actuarial functions and their results, and must clearly identify any deficiencies and give recommendations as to how such deficiencies should be remedied.

The AFRs should as a minimum contain following sections:

- Executive Summary
- Adequacy of Technical Provisions
- Opinion on underwriting policy
- Opinion on adequacy of reinsurance arrangements
- Assessment on the actuarial function (i.e. including an assessment of the quality, independence and resources of the actuarial function)
- Contribution to Risk Management
- Activity report and follow-up of recommendations

## Compliance function

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

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

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

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

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

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

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

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

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

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

## Audit function

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

The responsibilities of a KBC Group internal audit department are:

- To provide independent reasonable assurance to the Board of Directors, the Audit Committee and the Executive Committee on the quality and effectiveness of the risk management, internal control and governance processes and systems in place;
- To support the Board of Directors, the Audit Committee and the Executive Committee in taking up their responsibilities in these processes;
- To report any serious issues or risks which it becomes aware of and to undertake any required investigations into high-risk situations in co-operation with Compliance department (e.g. possible fraud, non-compliance with laws, internal guidelines or procedures);
- To make clear and actionable recommendations which address weaknesses noted during its work and to follow up on the implementation status of these recommendations;
- To co-ordinate with other audit and review entities, including the Statutory Auditors and the Belgian and local Supervisors, to maximise the efforts of all such entities and to minimise unnecessary overlap and/or disruption. It will hold to this end regular meetings with the Statutory Auditors and with the Supervisors;

- To carry out any assignment or projects entrusted to it by the Board of Directors, the Audit Committee or the Executive Committee.

To safeguard its independence and objectivity:

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

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

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

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

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

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

## Internal Control System

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

- First line of defence: business entities

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

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

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

*Table 20: Roles and responsibilities of the first line of defence*

- Second line of defence: Risk, compliance, actuarial function, tax, legal function, Group finance

  Independent of the business side, the second-line risk and control functions formulate their own opinion regarding the risks confronting KBC. In this way, they provide an adequate degree of certainty that the first-line is keeping these risks under control, without taking over primary responsibility from the first line. How the Risk Management function, the Compliance function and the actuarial function are set-up and play there role within the organisation is explained under the respectively sections above.
  Due to the specific tasks of each specific function, each second line can also assume first-line accountability, e.g.:
    - Tax declarations by Group Tax;
    - Financial reporting by Group Finance;
    - Calculations of risk metrics by the risk function;

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

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

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

As the Internal Control System needs to be coherent and consistent across KBC Group it is shaped by second and third line of defence. The KBC Internal Control Statement Policy links to:

- The Operational Risk Management Framework, which is part of the Enterprise Risk Management Framework. This framework sets the standards for efficient and effective management of operational risks throughout the KBC Group.
- The Compliance Charters, Policies and Rules that establish the status of the Compliance function and define the roles and responsibilities of the Compliance function and the business for efficient an effective management of compliance risks throughout the KBC Group.
- The Internal Audit Charter and Internal Audit methodology (compliant with IIA standards) that provide insight into the role and responsibilities of the Internal Audit function and the Audit methodology used within KBC Group.
- The ICS Guidelines of Group Operational Risk and Group Compliance and the ‘Audit Opinion on the quality of the Internal Control’ standards of Corporate Audit that give more specific guidance, in preparation of the Internal Control Statement (= yearly assessment of the state and quality of the Internal Control System).

# Outsourcing

## General outsourcing approach at the level of KBC Group

KBC Group has set the following strategic goals:

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

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

- KBC aims to maximise the retention and development of its internal knowledge of all aspects related to the bank-insurance model, as well as the related processes and activities;
- In particular, functions, processes, activities that include KBC-specific proprietary information, intellectual property rights, trade secrets, know-how creating a competitive market advantage for KBC over its peers

('Core KBC Know-How'), can never be outsourced to a third party, i.e. an entity outside the KBC Group ('External outsourcing');
- To the extent that technological or economic developments justify the outsourcing of some activities, the KBC Group strives for a maximal retention of knowledge and control of these activities. Therefore, the KBC Group initially turns to the shared services centres within the Group ('Internal Outsourcing');
- In the event of outsourcing, KBC aims for the highest possible quality level in order to ensure and guarantee long-term objectives and clients' interests.

## Outsourcing principles

The KBC Group has an extensive policy on regulated outsourcing. This policy is similarly applicable to internal and external outsourcing. The policy describes the definition of outsourcing as applied within the Group, an extensive process description, Group coordination and central notification, and the monitoring principles.

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

The outsourcing entity is accountable for the risk assessment of an outsourcing initiative. The outsourcing entity has to follow the Group Outsourcing Process Guidance which provides the minimum requirements and related information regarding the execution of the outsourcing process.

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

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

## Intragroup outsourcing

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

KBC Group NV and subsidiary KBC Global Services NV provide the following functions on behalf of KBC Insurance:

- Audit;
- Compliance;
- Tax;
- ICT Development;
- ICT Operations;
- ICT Workstations;
- ICT Kate for delivering the Kate SaaS solution ("Kate") including system integration, infrastructure outsourcing, service management and application outsourcing. Kate is the personal financial assistant for customers of the KBC Group entities;
- Risk– other than Group Credit Risk;
- Commercial Communication;
- Customer Communication;
- Facility Services – dead archive;
- Facility Services – dynamic filing;
- CSR;

- Procurement;
- Application management – EUC.

In addition, a number of tasks common to KBC Bank and KBC Insurance are being outsourced to KBC Bank NV to create synergy:

- Risk – Group Credit Risk;
- KBC Bank is responsible for providing a qualitative persons database. In addition, they provide high-performance management applications and a documented instruction framework that must guarantee correct use of the database;
- As for the management of assets, KBC Insurance relies on KBC Bank to manage real estate and the credit portfolio KBC Insurance holds under its investments;
- Applied Data Analytical Modelling;
- All these activities are considered to be critical or important operational functions or activities for KBC Insurance.

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

- KBC Insurance NV relies on VAB and 24+, Belgian subsidiaries of KBC Insurance NV, and on the shared service centres of KBC Group in Brno (Czech Republic) and Varna (Bulgaria) for specific insurance-related tasks;
- For the management of its assets KBC Insurance NV relies on other companies within the KBC Group. For discretionary asset management, it relies on KBC Asset Management. For operational tasks relating to the payment of Life insurance policies and for customer guidance in the digital sales process, KBC Insurance also relies on KBC Bank and CBC Banque.

To be complete KBC Insurance is supported by KBC Group NV for a number of non-core services (Corporate HR, legal, Inspection, …).

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

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

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

# Risk profile

## Introduction

An important input when setting capital thresholds is the assessment of the risks KBC Insurance faces. KBC Insurance therefore puts great importance on adequate identification of all material risks, so that they can be managed appropriately (measured, analysed and limited) and can be taken into account to determine adequate capitalization.

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

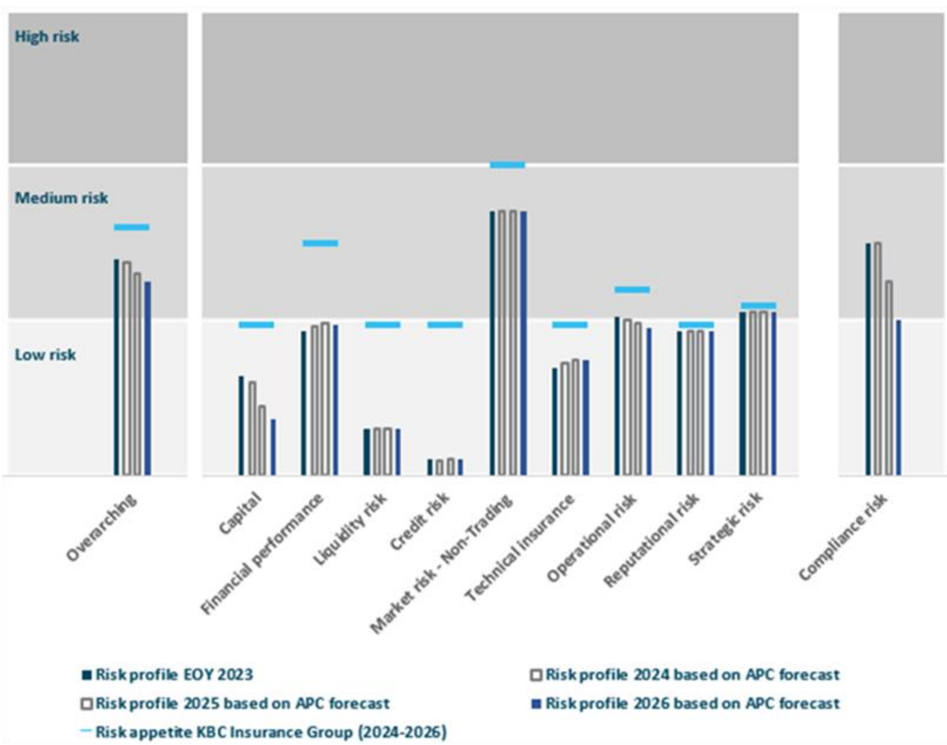


*Figure 3: Risk appetite versus risk profile (2023-2026) (KBC Ins Grp)*

In December 2023, the BoD decided to keep the risk appetite unchanged compared to last year, except for operational risk (which can be in lower end of medium, but with clear constraints, striking an adequate balance between maintaining a strong internal control environment and accommodating for large change projects) and for compliance risk (exceptions to the overall low risk ambition are allowed for certain GDPR-related risks linked to IT systems and databases).

Based on the updated business plans and underpinning exercises performed throughout 2023, the high level risk appetite and risk profile specification per risk type for KBC Insurance Group were approved as part of the Risk Appetite Statement and APC plan in December 2023. The risk appetite and profile of KBC Insurance NV is in line. Projections show that the overall risk profile of KBC Insurance Group and KBC Insurance NV decreases towards 2026. The improved lower risk profile in capital, operational and compliance risk is only partly offset by slightly higher performance and technical insurance risk profiles. All risk profiles remain well within the risk appetite across the entire APC horizon.

Note that no risk appetite is set for ESG risk as this risk will materialize through the traditional risk types. The ESG risk appetite objective is therefore reflected in the qualitative statements per risk type.

Climate risk and other environmental risks are to be seen as (potential) additional risk drivers, which will increase the risk profile of several risk types if not sufficiently mitigated. The risk can be triggered both by transitional drivers (changing climate policies and regulation, changing technology and changing consumer preferences, with uncertain impact on our risk profile) and by physical drivers (global warming increasing physical damage from e.g. floods and drought, increasing risk of diseases, lower life expectancy, etc.).

### Solvency capital requirement – overall

The table below shows the SCR evolution over 2023 for KBC Insurance Group. Similar evolution can be noticed for KBC Insurance NV. See section on Capital management for further details on Solvency capital requirement.

| (in m EUR) | 2023 | 2022 | Nominal change |
|---|---|---|---|
| *SCR Non-Life* | 786 | 714 | 72 |
| *SCR Health* | 278 | 230 | 48 |
| *SCR Life* | 1.131 | 1.114 | 17 |
| *SCR Market risk* | 1.434 | 1.252 | 182 |
| *SCR Counterparty default risk* | 124 | 122 | 2 |
| **Total Scr Before Diversification** | **3.752** | **3.431** | **321** |
| *Diversification benefits* | -1.293 | -1.185 | -108 |
| **Total Scr After Diversification** | **2.459** | **2.246** | **213** |
| *SCR Operational Risk* | 124 | 118 | 6 |
| *Adjustment loss absorbing effect TP* | -119 | -110 | -8 |
| *Adjustment deferred taxes* | -460 | -421 | -38 |
| **Total After Diversification And Adjustments** | **2.005** | **1.833** | **172** |

*Table 21: Evolution SCR (KBC Ins Grp) – breakdown per submodule*

The SCR of KBC Insurance Group increased over 2023 with 172m EUR, largely driven by higher equity markets & interest rate evolutions. Main positive underlying movements are:

- The increase of equity risk (linked to the higher equity markets);
- The increase of currency risk (due to the higher value of foreign currency equity positions);
- The increase of concentration risk (due to higher exposure towards KBC Bank).
- The increase in underwriting risk (linked to a portfolio update and a correction in the calculation of the SCR Non-Life CAT).

This is partially compensated by a lower interest rate risk, which is a direct consequence of the movement in interest rates.

# Underwriting risk

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

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

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

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

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

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

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

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

- Concentration risk:
  Main concentration risk that can be observed for the underwriting risk:
  - Natural catastrophe risks (e.g. storms, floods, earthquakes);
  - Non-natural catastrophe risks or 'man-made' catastrophe risks (e.g. pandemic events, big losses);
  - Concentration risks linked to specific activities (e.g. nuclear risk, terrorism risks).

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

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

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

- Risk mitigation:

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

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

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

## Solvency Capital Requirement (SCR) – underwriting risk

| (in m EUR) | 2023 | 2022 | Nominal change | Relative Change |
|---|---|---|---|---|
| **Total SCR Underwriting before diversification** | **2.195** | **2.058** | **137** | **6,66%** |
| *SCR Life Underwriting* | 1.131 | 1.114 | 17 | 1,52% |
| *SCR Non-Life Underwriting* | 786 | 714 | 72 | 10,10% |
| *SCR Health Underwriting* | 278 | 230 | 48 | 20,83% |

*Table 22: SCR underwriting risk (KBC Ins Grp)*

| (in m EUR) | 2023 | 2022 | Nominal change | Relative change |
|---|---|---|---|---|
| **Total SCR Underwriting before diversification** | **1.815** | **1.732** | **84** | **4,83%** |
| *SCR Life Underwriting* | 974 | 959 | 15 | 1,61% |
| *SCR Non-Life Underwriting* | 575 | 552 | 23 | 4,09% |
| *SCR Health Underwriting* | 267 | 221 | 46 | 20,68% |

*Table 23: SCR underwriting risk (KBC Ins NV)*

While the risk profile is stable, the capital charge for underwriting risks (before diversification) rose over 2023 by 84m EUR at KBC Insurance NV level, reinforced at Group level by an additional increase of 53m EUR driven by the Central European entities.

## Best estimate valuations of insurance liabilities

| (in m EUR) | 2023 | 2022 | Nominal change |
|---|---|---|---|
| Technical Provisions - Non-Life | 2.267 | 2.090 | 177 |
| *Non-Life (excl. Health)* | 1.968 | 1.822 | 145 |
| *Health (similar to Non-Life)* | 300 | 268 | 31 |
| Technical Provisions - Life (incl. Index-Linked & Unit-Linked) | 26.692 | 24.815 | 1.877 |
| *Life (excl. Health and IL & UL)* | 12.382 | 12.014 | 368 |
| *Health (similar to Life)* | 430 | 389 | 41 |
| *Index-Linked & Unit-Linked* | 13.880 | 12.412 | 1.468 |
| **Total net Technical Provisions** | **28.959** | **26.906** | **2.054** |

*Table 24: Net Technical provisions (excl. reinsurance recoverables) (KBC Ins Grp)*

| (in m EUR) | 2023 | 2022 | Nominal change |
|---|---|---|---|
| Technical Provisions - Non-Life | 1.610 | 1.515 | 94 |
| *Non-Life (excl. Health)* | 1.307 | 1.248 | 59 |
| *Health (similar to Non-Life)* | 303 | 268 | 35 |
| Technical Provisions - Life (incl. Index-Linked & Unit-Linked) | 25.090 | 23.346 | 1.743 |
| *Life (excl. Health and IL & UL)* | 11.623 | 11.262 | 361 |
| *Health (similar to Life)* | 436 | 394 | 42 |
| *Index-Linked & Unit-Linked* | 13.030 | 11.690 | 1.340 |
| **Total Net Technical Provisions** | **26.699** | **24.862** | **1.838** |

*Table 25: Net Technical provisions (excl. reinsurance recoverables) (KBC Ins NV)*

Technical provisions net of reinsurance increase over 2023 with 2.054m EUR at KBC Insurance Group level, mainly driven by the evolution of KBC Insurance NV (1.838m EUR). A large proportion of the 1.838 EUR in KBC Insurance NV is explained by the increase in Index-Linked and Unit-Linked products (1.340 EUR).

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

The Liability Adequacy Test (LAT) evaluated whether the IFRS 4 accounting reserves were adequate to cover the best estimate liabilities. In case the test showed a deficiency (i.e. accounting reserves < best estimates) a deficiency reserve had to be recognized on the IFRS balance sheet, meaning a loss in P&L. Due to the start of IFRS 17 as of the 1st of January 2023, this test is no longer required as IFRS 4 accounting reserves are replaced by best estimates in IFRS 17. Instead, IFRS 17 requires an 'onerous contract test' and a loss must be recognized immediately in P&L. 4Q 2022 was thus the last period where the LAT was reported to the Group Insurance Committee. KBC Insurance NV and K&H however still perform a local LAT exercise (both for life and non-life insurance).

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

## Life risk

In the tables below, an overview is provided of the KBC Insurance Group's (resp. KBC Insurance NV's) Best Estimates / Net Technical provisions for the Life business at end of year 2023.

| Lines of Business (in m EUR) | Best Estimate - gross of reinsurance | Risk Margin | Reinsurance Recoverables | Net Technical Provisions | % |
|---|---|---|---|---|---|
| **Life (incl. Index-Linked & Unit-Linked)** | **25.955** | **724** | **-13** | **26.692** | **100%** |
| *Life (excl. Health and IL & UL)* | 11.860 | 511 | -11 | 12.382 | 46,4% |
| *Health (similar to Life)* | 375 | 53 | -2 | 430 | 1,6% |
| *Index-Linked & Unit-Linked* | 13.720 | 160 | 0 | 13.880 | 52,0% |

*Table 26: Life Best Estimates/Net Technical provisions end of year 2023 (KBC Ins Grp)*

| Lines of Business (in m EUR) | Best Estimate - gross of reinsurance | Risk Margin | Reinsurance Recoverables | Net Technical Provisions | % |
|---|---|---|---|---|---|
| **Life (incl. Index-Linked & Unit-Linked)** | **24.482** | **589** | **-18** | **25.090** | **100%** |
| *Life (excl. Health and IL & UL)* | 11.203 | 406 | -14 | 11.623 | 46,3% |
| *Health (similar to Life)* | 384 | 47 | -4 | 436 | 1,7% |
| *Index-Linked & Unit-Linked* | 12.895 | 136 | 0 | 13.030 | 51,9% |

*Table 27: Life Best estimates/Net Technical provisions end of year 2023 (KBC Ins NV)*

The majority of this premium volume comes from KBC Insurance NV (including both the guaranteed-rate and Unit-Linked businesses) as shown in table below:

| Sales Life (in m EUR) | 2023 Total | % | 2022 Total | % |
|---|---|---|---|---|
| **Total** | **2.328** | **100%** | **2.071** | **100%** |
| *KBC Insurance NV* | 1.923 | 82,6% | 1.749 | 84,5% |
| *ČSOB Pojišťovna a.s. CZ* | 188 | 8,1% | 173 | 8,3% |
| *ČSOB Poisťovňa a.s. SK* | 35 | 1,5% | 30 | 1,4% |
| *K&H Biztosító* | 63 | 2,7% | 38 | 1,8% |
| *DZI Insurance* | 119 | 5,1% | 81 | 3,9% |

*Table 28: Sales Life (KBC Ins Grp) – split per entity*

Total sales Life volume increased in 2023 with 257m EUR, as shown in the table above. This was mainly driven by an increase in KBC Insurance NV (174m EUR), explained by an increase of the total Unit-Linked portfolio with 172m EUR as shown in the table below.

| Sales Life (in m EUR) | 2023 Unit-Linked | 2023 Guaranteed interest products | 2023 Hybrid | 2023 Total | 2022 Unit-Linked | 2022 Guaranteed interest products | 2022 Hybrid | 2022 Total |
|---|---|---|---|---|---|---|---|---|
| **Total** | **1.218** | **979** | **131** | **2.328** | **974** | **983** | **115** | **2.071** |
| *KBC Insurance NV* | 1.047 | 872 | 4 | 1.923 | 875 | 874 | 0 | 1.749 |
| *ČSOB Pojišťovna a.s. CZ* | 20 | 48 | 119 | 188 | 17 | 50 | 105 | 173 |
| *ČSOB Poisťovňa a.s. SK* | 9 | 18 | 8 | 35 | 3 | 18 | 9 | 30 |
| *K&H Biztosító* | 49 | 14 | 0 | 63 | 25 | 14 | 0 | 38 |
| *DZI Insurance* | 93 | 26 | 0 | 119 | 53 | 28 | 0 | 81 |

*Table 29:Sales Life (KBC Ins Grp) – split (non) Unit-Linked*

## Non-Life risk

An overview of the KBC Insurance Group's Best Estimates / Net Technical provisions for the Non-Life business at end of year 2023 is provided in the tables below.

| Lines of Business (in m EUR) | Best Estimate - gross of reinsurance | Risk Margin | Reinsurance Recoverables | Net Technical Provisions | % |
|---|---|---|---|---|---|
| **Non-Life** | **1.916** | **419** | **67** | **2.267** | **100%** |
| *Non-Life (excl. Health)* | 1.690 | 344 | 66 | 1.968 | 86,8% |
| *Health (similar to Non-Life)* | 226 | 74 | 1 | 300 | 13,2% |

*Table 30: Non-Life Best Estimates/Net Technical provisions end of year 2023 (KBC Ins Grp)*

| Lines of Business (in m EUR) | Best Estimate - gross of reinsurance | Risk Margin | Reinsurance Recoverables | Net Technical Provisions | % |
|---|---|---|---|---|---|
| **Non-Life** | **1.358** | **311** | **59** | **1.610** | **100%** |
| *Non-Life (excl. Health)* | 1.122 | 246 | 60 | 1.307 | 81,0% |
| *Health (similar to Non-Life)* | 236 | 65 | -1 | 303 | 19,0% |

*Table 31: Non-Life Best estimates/Net Technical provisions end of year 2023 (KBC Ins NV)*

The table below illustrates the premium split per entity for the Non-Life portfolio: 61% comes from KBC Insurance NV, followed by 20% from Czech Republic.

| Non-Life Gross written premiums (in m EUR) | 2023 Gross Written Premium | % | 2022 Gross Written Premium | % |
|---|---|---|---|---|
| **Total** | **2.351** | **100%** | **2.093** | **100%** |
| *KBC Insurance NV* | 1.427 | 60,7% | 1.298 | 62,0% |
| *ČSOB Pojišťovna a.s. CZ* | 480 | 20,4% | 417 | 19,9% |
| *ČSOB Poisťovňa a.s. SK* | 82 | 3,5% | 74 | 3,5% |
| *K&H Biztosító* | 179 | 7,6% | 149 | 7,1% |
| *DZI Life Insurance Jsc (BG)* | 0 | 0,0% | 0 | 0,0% |
| *DZI General Insurance Jsc (BG)* | 184 | 7,8% | 155 | 7,4% |

*Table 32: Non-Life Gross written premium 2022-2023 (KBC Ins Grp) – split per entity*

# Market risk

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

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

- Mismatches in the insurance activities between liabilities in the Non-Life and Life businesses and the corresponding covering assets;
- The risks associated with holding an investment portfolio for the purpose of (re)investing shareholders' equity;
- The structural currency exposure stemming from the activities abroad (investments in foreign currency, results posted at branches or subsidiaries abroad, foreign exchange risk linked to the currency mismatch between the insurer's liabilities and its corresponding investments).

The management of the ALM risk strategy at KBC is the responsibility of the Group Executive Committee, assisted by the Group Asset Liability Committee, which has representatives from both the business side and the risk function.

Group and Local treasury are responsible for day-to-day operational management of the ALM Risks. They are the first line ALM business. The treasury departments measure and manage this market risk within the playing field defined by the risk appetite. KBC's ALM limits are approved at two levels. On the one hand, limits at the level of the Insurance Group for interest rate risk, equity risk, real estate risk and foreign exchange risk, which are approved by the Board of Directors. On the other hand limits at the level of the solo entities for interest rate risk, equity risk, real estate risk and foreign exchange risk, which are approved by the Group Executive Committee. Together this forms the playing field for KBC's solid first line of defence for ALM risk.

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

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

- A broad range of risk measurement methods such as Basis-Point-Value (BPV), interest rate gap analysis, key rate report (i.e. BPV per time bucket) and economic sensitivities, accompanied by a limit framework that is monitored on a frequent basis.
- Capital sensitivities arising from investment book positions that impact available regulatory capital (e.g. bonds that are classified as fair value through other comprehensive income).
- Stress testing and sensitivity analysis.

## Interest Rate Risk

In 2023, the interest rates remained at a high level, but started to decrease in the last quarter except for the short term rate due to ECB's policies. This led to an increase in market value of both assets (considering the large bond portfolio of KBC Insurance NV) and liabilities. The main technique used to measure interest rate risks in the ALM view is the +10 BPV method, which measures the extent to which the net asset value of the portfolio would change if interest rates were to go up by 10 basis points across the entire interest rate term structure. A negative (positive) BPV figure indicates a decrease (increase) in the net asset value of the portfolio.

| Interest (Swap +10 BPV) limit KBC Insurance Group (in k EUR) | +10 Swap BPV | | | |
|---|---|---|---|---|
| | 31-12-2023 | 31-12-2022 | Absolute Change | Relative Change (%) |
| **KBC Insurance Group** | **12.162** | **22.232** | **-10.070** | **-45,30%** |
| *KBC Insurance NV* | 14.915 | 22.912 | -7.997 | -34,90% |
| *KBC Group Re* | -870 | -695 | -175 | 25,18% |
| *K&H Biztosító* | -353 | -262 | -91 | 34,73% |
| *ČSOB Poisťovňa a.s. SK* | 32 | 124 | -92 | -74,19% |
| *ČSOB Pojišťovna a.s. CZ* | -492 | 1.076 | -1.568 | -145,72% |
| *DZI Insurance* | -1.070 | -923 | -147 | 15,93% |

*Table 33: Impact of a parallel 10bp increase in the risk-free int rate curve (KBC Ins Grp)*

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

Where the Group's insurance activities are concerned, the fixed-income investments for the Non-Life reserves are invested with the aim of matching the projected pay-out patterns for claims, based on extensive actuarial analysis or well-considered cyclical benchmark profiles.

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

The tables below summarise the exposure to interest rate risk in the Life insurance activities, according to the ALM view. The interest rate sensitive assets and liabilities, relating to Life insurance business offering guaranteed rates, are grouped according to the expected timing of cash flows. It should be stressed that the Life insurance liabilities are not only covered by the interest rate sensitive assets which are shown in underlying tables. Next to these interest rate sensitive assets, the balance sheet also contains:

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

| Interest rate risk per 31/12/2023 | | | | | | | |
|---|---|---|---|---|---|---|---|
| in m EUR | Expected cash flows (undiscounted) | | | | | | |
| (except for duration, which is expressed in years) | 0-1 year | 1-2 year | 2-3 year | 3-4 year | 4-5 year | > 5 years | Total |
| Fixed-income assets backing liabilities, guaranteed component | 1.787 | 741 | 932 | 787 | 1.044 | 8.225 | 13.516 |
| Equity | 0 | 0 | 0 | 0 | 0 | 0 | 937 |
| Property | 0 | 0 | 0 | 0 | 0 | 0 | 108 |
| Other (no maturity) | 0 | 0 | 0 | 0 | 0 | 0 | 299 |
| Liabilities guaranteed component | 1.595 | 1.201 | 807 | 882 | 834 | 9.474 | 14.793 |
| Difference in expected cash flows | 192 | -460 | 125 | -95 | 210 | -1.250 | 67 |
| **Mean duration of assets** | | | | | | | **6,72** |
| **Mean duration of liabilities** | | | | | | | **7,92** |

| Interest rate risk per 31/12/2022 | | | | | | | |
|---|---|---|---|---|---|---|---|
| in m EUR | Expected cash flows (undiscounted) | | | | | | |
| (except for duration, which is expressed in years) | 0-1 year | 1-2 year | 2-3 year | 3-4 year | 4-5 year | > 5 years | Total |
| Fixed-income assets backing liabilities, guaranteed component | 1.233 | 1.489 | 855 | 1.048 | 844 | 8.738 | **14.208** |
| Equity | 0 | 0 | 0 | 0 | 0 | 0 | **929** |
| Property | 0 | 0 | 0 | 0 | 0 | 0 | **112** |
| Other (no maturity) | 0 | 0 | 0 | 0 | 0 | 0 | **95** |
| Liabilities guaranteed component | 1.367 | 1.201 | 807 | 882 | 834 | 9.474 | **14.566** |
| Difference in expected cash flows | -134 | 288 | 48 | 166 | 11 | -737 | **777** |
| **Mean duration of assets** | | | | | | | **6,66** |
| **Mean duration of liabilities** | | | | | | | **8,76** |

*Table 34: Expected undiscounted interest rate sensitive CF for Life (KBC Ins Grp)*

| Interest rate risk per 31/12/2023 | | | | | | | |
|---|---|---|---|---|---|---|---|
| in m EUR (except for duration, which is expressed in years) | Expected cash flows (undiscounted) | | | | | | |
| | 0-1 year | 1-2 year | 2-3 year | 3-4 year | 4-5 year | > 5 years | Total |
| Fixed-income assets backing liabilities, guaranteed component | 1.626 | 659 | 863 | 735 | 946 | 7.235 | 12.064 |
| Equity | 0 | 0 | 0 | 0 | 0 | 0 | 937 |
| Property | 0 | 0 | 0 | 0 | 0 | 0 | 102 |
| Other (no maturity) | 0 | 0 | 0 | 0 | 0 | 0 | 299 |
| Liabilities guaranteed component | 1.567 | 771 | 847 | 818 | 706 | 8.664 | 13.374 |
| Difference in expected cash flows | 59 | -112 | 16 | -83 | 239 | -1.430 | 29 |
| **Mean duration of assets** | | | | | | | **6,76** |
| **Mean duration of liabilities** | | | | | | | **9,15** |

| Interest rate risk per 31/12/2022 | | | | | | | |
|---|---|---|---|---|---|---|---|
| in m EUR (except for duration, which is expressed in years) | Expected cash flows (undiscounted) | | | | | | |
| | 0-1 year | 1-2 year | 2-3 year | 3-4 year | 4-5 year | > 5 years | Total |
| Fixed-income assets backing liabilities, guaranteed component | 1.120 | 1.327 | 772 | 973 | 651 | 7.686 | **12.530** |
| Equity | 0 | 0 | 0 | 0 | 0 | 0 | **886** |
| Property | 0 | 0 | 0 | 0 | 0 | 0 | **104** |
| Other (no maturity) | 0 | 0 | 0 | 0 | 0 | 0 | **95** |
| Liabilities guaranteed component | 1.352 | 1.190 | 786 | 859 | 811 | 8.610 | **13.608** |
| Difference in expected cash flows | -232 | 137 | -14 | 114 | -160 | -924 | **6** |
| **Mean duration of assets** | | | | | | | **6,79** |
| **Mean duration of liabilities** | | | | | | | **8,70** |

*Table 35: Expected undiscounted interest rate sensitive CF for Life (KBC Ins NV)*

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

The tables below show the evolution of the Life insurance reserves broken down by the corresponding interest rate guarantee. Note that for specific Life insurance portfolios in the CE insurance undertakings (i.e. ČSOB Pojišťovna SK), there is a very high interest rate guarantee (> 5%) which is not only applicable to the existing reserves, but is contractually also applicable to new premiums.

| Life Insurance Reserves by Interest Rate Guarantee (in m EUR) | 31-12-2023 | | 31-12-2022 | | Change | |
|---|---|---|---|---|---|---|
| | Amount reserve | Proportion (%) | Amount reserve | Proportion (%) | Absolute | Relative (%) |
| 5,00% and higher | 364 | 2,84% | 334 | 2,59% | 29,25 | 8,75% |
| More than 4,25% up to and including 4,99% | 749 | 5,85% | 844 | 6,55% | -94,48 | -11,20% |
| More than 3,50% up to and including 4,25% | 457 | 3,57% | 494 | 3,83% | -37,31 | -7,55% |
| More than 3,00% up to and including 3,50% | 1.167 | 9,11% | 1.220 | 9,47% | -53,58 | -4,39% |
| More than 2,50% up to and including 3,00% | 418 | 3,27% | 389 | 3,01% | 29,64 | 7,62% |
| More than 0,00% up to and including 2,50% | 9.350 | 73,03% | 9.331 | 72,38% | 18,80 | 0,20% |
| 0,00% | 299 | 2,33% | 280 | 2,17% | 18,78 | 6,71% |
| **Total** | **12.804** | **100,00%** | **12.892** | **100,00%** | **-88,90** | **-0,69%** |

*Table 36: Breakdown of the Non-UL Life ins reserves by guaranteed int rate (KBC Ins Grp)*

| Life Insurance Reserves by Interest Rate Guarantee (in m EUR) | 31-12-2023 | | 31-12-2022 | | Change | |
|---|---|---|---|---|---|---|
| | Amount Reserve | Proportion (%) | Amount Reserve | Proportion (%) | Absolute | Relative (%) |
| 5,00% and higher | 0 | 0,00% | 1 | 0,01% | -0,50 | -72,17% |
| More than 4,25% up to and including 4,99% | 749 | 6,17% | 844 | 6,89% | -94,48 | -11,20% |
| More than 3,50% up to and including 4,25% | 455 | 3,74% | 492 | 4,01% | -36,87 | -7,50% |
| More than 3,00% up to and including 3,50% | 1.167 | 9,60% | 1.220 | 9,96% | -53,58 | -4,39% |
| More than 2,50% up to and including 3,00% | 306 | 2,52% | 271 | 2,21% | 35,20 | 12,99% |
| More than 0,00% up to and including 2,50% | 9.235 | 75,98% | 9.208 | 75,13% | 27,17 | 0,30% |
| 0,00% | 242 | 1,99% | 221 | 1,80% | 20,68 | 9,35% |
| **Total** | **12.154** | **100,00%** | **12.256** | **100,00%** | **-102,37** | **-0,84%** |

*Table 37: Breakdown of Non-UL Life ins reserves by guaranteed int rate (KBC Ins NV)*

### Treasury strategy

The 2023 treasury strategy aimed to maintain the interest rate gap of the existing insurance business at a constant level. However, for new long-term Life insurance business (average duration of 20 years) the investment horizon of the corresponding fixed income assets was dynamically determined depending on the level of the interest rates the investment horizon can vary between 10 and 20 years.
For other new Life insurance business the 2023 treasury strategy was a continuation of the 2022 treasury strategy.

The 2024 treasury strategy is developed along the same lines as the 2023 treasury strategy with the exception that the investment horizon for fixed income assets for the new long-term Life insurance business will return to a 10-year cyclical benchmark, which was the standard approach in the past.

## Credit spread risk

From an ALM perspective, KBC manages the credit spread risk for inter alia the sovereign portfolio by monitoring the extent to which the value of the sovereign bonds would change if credit spreads were to go up by 100 basis points across the entire curve. This economic sensitivity is illustrated in the table below together with a breakdown per country.

| Spread Risk Sensitivity 31/12/2023 | +100bp Spread BPV (in m EUR) | Proportion of total +100bp Spread BPV |
|---|---|---|
| **KBC Core Countries** | **-439,3** | **50,5%** |
| *Belgium* | -301,8 | 34,7% |
| *Czech Republic* | -69,8 | 8,0% |
| *Slovakia* | -37,6 | 4,3% |
| *Ireland* | -10,4 | 1,2% |
| *Bulgaria* | -11,2 | 1,3% |
| *Hungary* | -8,4 | 1,0% |
| **Southern Europe** | **-53,9** | **6,2%** |
| *Italy* | -16,3 | 1,9% |
| *Portugal* | -17,3 | 2,0% |
| *Spain* | -20,3 | 2,3% |
| *Greece* | 0,0 | 0,0% |
| **Other Countries** | **-376,4** | **43,3%** |
| *France* | -160,8 | 18,5% |
| *Poland* | -4,5 | 0,5% |
| *Germany* | -29,6 | 3,4% |
| *United Kingdom* | -9,8 | 1,1% |
| *Austria* | -22,5 | 2,6% |
| *Netherlands* | -24,7 | 2,8% |
| *Rest* | -124,5 | 14,3% |
| **Total** | **-869,7** | **100%** |

*Table 38: Spread risk sensitivity (+100bp) of sovereign bonds (KBC Ins Grp)*

| Spread Risk Sensitivity 31/12/2023 | +100bp Spread BPV (in m EUR) | Proportion of total +100bp Spread BPV |
|---|---|---|
| **KBC Core Countries** | **-341,8** | **45,4%** |
| *Belgium* | -298,3 | 39,6% |
| *Slovakia* | -32,9 | 4,4% |
| *Ireland* | -10,0 | 1,3% |
| *Bulgaria* | -0,4 | 0,1% |
| *Czech Republic* | -0,2 | 0,0% |
| *Hungary* | 0,0 | 0,0% |
| **Southern Europe** | **-52,7** | **7,0%** |
| *Italy* | -16,0 | 2,1% |
| *Portugal* | -16,7 | 2,2% |
| *Spain* | -20,0 | 2,7% |
| *Greece* | 0,0 | 0,0% |
| **Other Countries** | **-358,9** | **47,6%** |
| *France* | -158,4 | 21,0% |
| *Germany* | -29,0 | 3,9% |
| *Austria* | -20,9 | 2,8% |
| *Poland* | -4,2 | 0,6% |
| *Netherlands* | -23,5 | 3,1% |
| *United Kingdom* | -9,3 | 1,2% |
| *Rest* | -113,6 | 15,1% |
| **TOTAL** | **-753,4** | **100%** |

*Table 39: Spread risk sensitivity (+100bp) of sovereign bonds (KBC Ins NV)*

## Equity risk

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

Underlying tables give a view on the breakdown of the equity portfolio by sector for KBC Insurance Group and KBC Insurance NV, showing a well-diversified portfolio with the largest exposure towards the industrial and consumer cyclical sector. Note that with respect to the previous report, a switch from MSCI sectors to NACE sectors was made. This table contains a restatement of the 31/12/2022 numbers according to the new approach.

| Breakdown Equity Portfolio by Sector | 31-12-2023 | 31-12-2022 |
|---|---|---|
| **Total** | **100%** | **100%** |
| *Agriculture, forestry and fishing* | 0,0% | 0,0% |
| *Mining of metal, lignite and coal* | 0,0% | 1,0% |
| *Manufacturing* | 42,3% | 41,8% |
| *Electricity, gas, steam and air conditioning supply* | 0,0% | 0,2% |
| *Water supply; Sewerage, waste management and remediation activities* | 0,0% | 0,4% |
| *Construction* | 1,4% | 1,7% |
| *Wholesale and retail trade* | 12,0% | 1,7% |
| *Transportation and Storage* | 1,4% | 1,7% |
| *Accommodation and food service activities* | 1,2% | 1,9% |
| *Information and communication* | 12,6% | 15,1% |
| *Financial and insurance activities* | 21,7% | 19,0% |
| *Real Estate Activities* | 0,2% | 0,5% |
| *Professional, scientific and technical activities* | 2,2% | 1,3% |
| *Administrative and support service activities* | 1,8% | 0,6% |
| *Public administration and defence; compulsory social security* | 0,0% | 0,0% |
| *Education* | 0,0% | 0,0% |
| *Human health and social work activities* | 1,6% | 3,3% |
| *Arts, entertainment and recreation* | 0,2% | 0,3% |
| *Other services activities* | 0,1% | 0,1% |
| *Activities of households as employers* | 0,0% | 0,0% |
| *Activities of extraterritorial organisations and bodies* | 0,0% | 0,0% |
| *Unknown* | 1,4% | 9,4% |

*Table 40: Breakdown equity portfolio (excl. strategic participations) by sector (KBC Ins Grp)*

| Breakdown Equity Portfolio by Sector | 31-12-2023 | 31-12-2022 |
|---|---|---|
| **Total** | **100%** | **100%** |
| *Agriculture, forestry and fishing* | 0,0% | 0,0% |
| *Mining of metal, lignite and coal* | 0,0% | 1,0% |
| *Manufacturing* | 43,3% | 42,7% |
| *Electricity, gas, steam and air conditioning supply* | 0,0% | 0,2% |
| *Water supply; Sewerage, waste management and remediation activities* | 0,0% | 0,4% |
| *Construction* | 1,5% | 1,8% |
| *Wholesale and retail trade* | 11,8% | 11,2% |
| *Transportation and Storage* | 1,4% | 1,7% |
| *Accommodation and food service activities* | 0,8% | 1,6% |
| *Information and communication* | 13,1% | 14,6% |
| *Financial and insurance activities* | 21,1% | 18,4% |
| *Real Estate Activities* | 0,2% | 0,5% |
| *Professional, scientific and technical activities* | 2,4% | 1,4% |
| *Administrative and support service activities* | 2,0% | 0,7% |
| *Public administration and defence; compulsory social security* | 0,0% | 0,0% |
| *Education* | 0,0% | 0,0% |
| *Human health and social work activities* | 1,6% | 3,4% |
| *Arts, entertainment and recreation* | 0,2% | 0,3% |
| *Other services activities* | 0,1% | 0,1% |
| *Activities of households as employers* | 0,0% | 0,0% |
| *Activities of extraterritorial organisations and bodies* | 0,0% | 0,0% |
| *Unknown* | 0,4% | 0,0% |

*Table 41: Breakdown equity portfolio (excl. strategic participations) by sector (KBC Ins NV)*

## Property risk

KBC Insurance NV has a real estate portfolio, which is held as an investment for Non-Life reserves and long-term Life activities. The real estate exposure is viewed as a long-term hedge against inflation risk and as a way of optimising the risk/return profile of these portfolios.

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

| Real Estate limit KBC Insurance Group | Limit 2023 | Real Estate Shock (25%) | | Change | |
|---|---|---|---|---|---|
| | Maximum | 31/12/2023 | 31/12/2022 | Absolute | Relative (%) |
| KBC Insurance Group | 164,0 | 114,7 | 105,1 | 9,6 | 9,1% |

*Table 42: Impact of a 25% drop in real estate prices (KBC Ins Grp)*

| Real Estate limit KBC Insurance NV | Limit 2023 | Real Estate Shock (25%) | | Change | |
|---|---|---|---|---|---|
| | Maximum | 31/12/2023 | 31/12/2022 | Absolute | Relative (%) |
| KBC Insurance NV | 150,0 | 107,0 | 96,5 | 10,5 | 10,9% |

*Table 43: Impact of a 25% drop in real estate prices (KBC Ins NV)*

## Foreign exchange or currency risk and FX exposure

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

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

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

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

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

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

In practice the requirement as stated in the Non-Trading Market Risk Management Framework is implemented as follows by the solo (re)insurance entities:

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

## Inflation risk

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

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

- Inflation linked to accident years
  If a similar claim (e.g. the exact same car and damage) would happen later in time (e.g. five years later), would this impact the claim amount?
- Inflation linked to development years

If claim amounts are not paid out immediately (e.g. delayed or spread over time), would this impact the claim amount?

- Inflation linked to operational costs.

A specific example is workers compensation insurance, where particularly in the case of permanent or long-term disabilities, an annuity benefit is paid to the insured person (with the annuity being linked to inflation by law).

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

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

# Credit risk

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

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

## PLS limits and monitoring

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

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

- PLS Sovereigns;
- PLS Sub-National Governments;
- PLS Financial Institutions;
- PLS Corporates and Non-Bank Financial Institutions.

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

### Reinsurance programs

Reinsurance contracts with reinsurance companies are always negotiated by the reinsurance department. In selecting reinsurance undertakings, price is never the only parameter, but KBC also takes into account knowledge transfer, the availability of tools & processes, as well as the financial security and stability of the reinsurance undertakings. As a rule, only reinsurance undertakings with a Standard & Poor's (S&P) rating of minimum BBB are accepted. For long tail contracts a minimum S&P rating of A- is required. In order to mitigate the counterparty default risk, KBC also negotiates claims deposits to limit the credit risk to an absolute minimum.

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

## Liquidity risk

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

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

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

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

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

### Non-Life liquidity risk

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

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

## Life liquidity risk

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

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

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

## Contingent liquidity risk

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

# Operational risk

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

In the area op operational risk, the Group Executive Committee is supported by the Group Internal Control Committee in the domain of strengthening the quality and effectiveness of KBC's internal control system. The governance, rules and procedures on the performance of operational risk management throughout KBC Group are outlined in the Operational Risk Management Framework. The framework is aligned with the Basel requirement for Operational Resilience and the EU Digital Operational Resilience Act – Regulation (EU) 2022/2554. Its implementation is coordinated and monitored by the Operational Risk Competence Centre of Group Risk, which consists of risk experts at both Group and local level. The Competence Centre cooperates with other expert functions covering the nine operational risk subtypes: Information Technology, Information Security, Business Continuity, Process, Outsourcing and Third-Party, Model, Legal, Fraud and Personal and Physical Security risk. A number of group-wide building blocks are defined to ensure adequate management of operational risks:

- Risk identification: KBC identifies its operational risks based on various sources like following up on legislation, using the output of the New and Active Products Process, performing risk scans, analysing key risk indicators and performing independent control monitoring activities and root cause analyses of operational incidents, near misses and losses. A structured repository of operational risks and related mitigating controls is in place, whereby a review process ensures that the repository remains in line with new or emerging operational risk subtypes. Risk self-assessments on the operational business lines are performed by the first line of defence with the aim to identify additional local risks and possible controls gaps. Dynamic trigger-based risk assessments are executed based on the continuous screening of both internal and external risk events. On top of that, regular proactive scanning of the environment is performed in order to identify external or internal (cyber) trends which could negatively impact our company in a direct or indirect way. These are also known as risk signals and are reported via the Integrated Risk Report.
- Risk measurement: Unified Group metrics and scales are in place to determine individual (inherent and residual) operational risk levels in the business lines and to underpin the risk profile of an entity, in a comprehensive and integrated way across operational risk subtypes and across KBC Group and its entities.
- In addition, a groupwide uniform scale is used to express the internal control state of business lines and KBC entities. The data-driven risk evaluation of the control environment results in Internal Control Statement scores based on the indicators derived out of the groupwide tooling: e.g.:
    - The control maturity reflecting the effectiveness of the controls;
    - The number of outstanding action plans and audit recommendations;
    - Risk acceptances;
    - Operational losses (and legal claims);
    - Near misses.
- Setting and cascading risk appetite: For operational risk, a risk appetite is set on the overarching level as well as on the level of each operational risk subtype. The risk profile measures to which extent KBC Group and its entities are exposed to each risk subtype. The operational risk profile in relation to the operational risk appetite is discussed as part of the Operational and Compliance Core report to the Group Internal Control Committee.
- Risk analysis, reporting & follow-up: Operational risk analysis and reporting aim to give management a transparent and comprehensive, forward looking and ex-post view on the evolution of the risk profile and the context in which KBC operates. Structural reporting via the Operational and Compliance Risk Report and the Integrated Risk Report and to the Global IT Committee is in place. The Global IT Committee serves as the governance structure to ensure alignment on Information Security and IT strategy across the Group. The maturity of the internal control environment is once a year reported via the annual Internal Control Statement to the Group Executive Committee / Risk and Compliance Committee / Board and to the NBB, the FSMA and the ECB. Stress testing: the Competence Centre for Operational Risk delivers scenarios with a potential negative impact on KBC's (financial) position in preparing the KBC entities for (extreme) crisis situations. These scenarios describe specific operational risk events which range from plausible to exceptional or even extreme and/or movements in operational risk loss impacts according to baseline and adverse scenario. E.g.: stress testing enables KBC entities to deal with local cyber crises and handle major incidents. To assure that Information Security and Information Technology risks are effectively mitigated, a number of challenges are performed throughout the Group on a regular basis, such as ethical hacking exercises, technical Cyber

Resilience & Readiness Testing, detailed investigations, employee phishing tests, crisis simulations and other incident drills.

The broad spectrum of operational risks is categorised into a number of sub-risk types. In 2023, specific attention was paid to:

## Information risk management

Information risks encompass the risks of information security, information technology and business continuity management, the latter including crisis management. Information security risk is one of the most significant risks that financial institutions face today, as it is driven by increasingly important external (such as geopolitical tensions, cybercrime, technological growth and innovation, e.g. Artificial Intelligence) and internal factors (such as further digitization, experiments with emerging technology,...).

KBC's Competence Centre for Information Risk Management is part of Group Risk and comprises both the traditional assurance activities (setting standards, challenging controls, groupwide reporting) as well as KBCs internationally recognised and certified Group Cyber Emergency & Response Team.

## Outsourcing risk management

Outsourcing risk management is a specific aspect of Third Party risk management. Regulatory requirements regarding follow-up, measurement and reporting of outsourcing risk have increased over the years. As contracting external service providers is an essential part of operational processes and intragroup outsourcing is an important aspect of the KBC strategy, the focus on outsourcing risk remains a key element of the groupwide risk management at KBC.

To ensure robust management of its outsourcing processes and risks, KBC has put in place a groupwide outsourcing framework, which comprises a groupwide Outsourcing Policy and groupwide Outsourcing Risk Standards. Both policy and standards are supported by first and second lines of defence guidance to ensure a standardised approach, in compliance with the EBA and EIOPA Guidelines on Outsourcing, throughout the whole KBC Group.

Key control objectives are in place to adequately mitigate risks arising from either external or internal outsourcing during the full life cycle of a service provider: from selection and pre-contractual stages to renewal, termination and exit strategies. Qualitative risk governance of KBC outsourced activities is ensured by regular risk assessments (including a set of mandatory sub risks: Process, IT, Information Security, ESG, Model, Fraud, Legal, Concentration, Offshoring and Step-in), their frequency being defined by the criticality of the outsourced activity.

## Model risk management

KBC's data-driven strategy is underpinned by an expanding set of advanced mathematical, statistical and numerical models to support decision making, measure and manage risk, manage businesses and streamline processes. AI-based models are also becoming an increasingly common feature across the different business domains (banking, insurance, asset management). As the use of models increases, so does the importance of recognising, understanding and mitigating risks related to the design, implementation or use of models, in order to protect both KBC and its clients.

KBC's model risk management standards establish a framework for identifying, understanding and efficiently managing model risk, similarly to any other risk type.

## Business continuity management, including crisis management

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

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

# Other material risks

## Business environment risk

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

Business environment risk is an inherent consequence of being in business. Therefore no risk appetite and no risk profile is set for this risk as it defines the scene, driven by the external context in which KBC Insurance has to operate (e.g. macro-economic environment, upcoming regulation, …). The final top risks of 2023 identified at the level of KBC Insurance Group and approved by the BoD address the various macro-economic developments: political interference, regulatory/supervisory interference, cyber risk, abrupt behavioural shifts, credit risk, third party, process & execution risk, climate & other environmental risk, compliance & conduct risk, tech-driven business interruption.

Given the high pace of change in the outside world (incl. macro-economic and geopolitical uncertainties) and the increasing challenging competitive environment, the uncertainty in which the insurance industry operates remains on a permanent high. Moreover, the intensity of political, regulatory and supervisory interference continues to increase further. Governments are creating an uncertain business environment in which they are increasingly targeting insurance companies to levy taxes in support of government budgets or in which they are shifting costs towards the insurance sector. Also due to recent inflation spikes, certainly in CE countries, claims costs increased significantly which cannot be fully offset by the increase in premiums.

Business environment risk is mitigated through a thorough risk identification process and a sound corporate strategy. The updated Corporate strategy, “S.T.E.M., the Ecosphere”, communicated in the second half of 2023, is KBC’s strategic answer to deal with changes in our business environment. More information on KBC Insurance’s specific translation can be found in section 2 regarding ‘Business & performance’.

The sustainability of KBC’s business model is evidenced by a strong performance, despite the financial and economic challenges posed by the difficult macro-economic environment

There are no limits or targets related to business risk. Changes in the external environment are monitored on an ongoing basis by means of risk signals which are reported to top management.

## Climate risk

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

- *Physical risks: the risks arising from physical phenomena associated with both (chronic) climate or environmental trends such as changing weather patterns, rising sea levels, increasing temperature, biodiversity loss, resource scarcity, reduced water availability and changes in water and soil productivity, and* *(acute) extreme weather events including storms, floods, fires or heatwaves that may disrupt operations, value chains or damage property.*

- *Transition risks: the risks arising from disruptions and shifts associated with the transition to a low-carbon, climate resilient or environmentally sustainable economy. Examples include policy changes (e.g. imposition of carbon-pricing mechanisms, energy efficiency requirements or encouragement of sustainable use of environmental resources), climate-related litigation, technological changes/progress (e.g. old technology replaced by cleaner technology) and behavioural changes (e.g. consumers or investors shifting towards more sustainable products and services).*

Environmental, Social & Governance risks (ESG), with a special focus on climate risk, are top of mind at KBC. Given the increased urgency, climate risk was reconfirmed as a top risk in 2023 and has been allocated increased attention and resources.

In 2023, the scope of the exercise was broadened from climate to environmental risks, via a pilot risk identification exercise on three other environmental risks (biodiversity loss, pollution, water stress). In this respect, further improvements were made during 2023 to incorporate environmental risk in the risk appetite. As the impact of environmental risk exceeds the three year horizon, early warnings are now included to signal potential longer term risk appetite breaches and to trigger debate on whether mitigating actions need to be taken in the short term. Environmental risk is not shown separately in our risk appetite as this risk will impact / materialize through the traditional risk types. It is therefore to be seen as a (potential) additional risk driver, which will increase the risk profile of several risk types if not sufficiently mitigated. Pending the development of more specific ESG risk measures, the potential impact from environmental risk on the risk profiles of the different risk types was assessed mostly in a qualitative way based on the conclusions of the Environmental Risk Impact Map for KBC Insurance Group. The Environmental Risk Impact Map reflects, for every risk type, the impact of transition and physical risk by:

- ✓ Distinguishing between different drivers of transition risk (policy, technology, consumer preference) and physical risk (dependent on environmental risk type).
- ✓ Considering three distinct scenarios (Net Zero 2050, Delayed Transition and Current policies), which are widely adopted within the financial industry.
- ✓ For three different time horizons: short (APC horizon), medium (between 4 and 10 years), long term (beyond 10 years).

The assessment was primarily reliant on expert judgement and already available measurements and insights (i.e., we aim for maximum reuse of performed methodological tracks, scenario analyses, stress tests, monitoring reports etc., currently primarily available for climate risk).

## Compliance risk

*The Compliance risk is the risk that a judicial, administrative or regulatory sanction is imposed on an institution and/or its employees because of a non-compliance with the laws and regulations pertaining to the compliance domains, resulting in loss of reputation and potential financial loss. This loss of reputation can also be the result of non-compliance with the internal policy in this regard and with the institution's own values and codes of conduct in relation to the integrity of its activities.*

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

In 2023, effort continued with the Compliance Strategy in force since 2019 to make Group Compliance future proof, to enhance KBC Group's culture & awareness regarding compliance and to move to one Compliance function group-wide. A large part of the Compliance efforts towards insurance will continue to be concentrated on:

**Anti-Money Laundering (AML)**

The prevention of money laundering and terrorism financing, including embargoes, has been a top priority for the Compliance function for many years. Numerous actions are taken to further decrease AML risk.

**Insurance Distribution Directive (IDD)**

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

**General Data Protection Regulation (GDPR)**

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

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

## Performance risk

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

Combining the view on the Non-Life and Life performance risk, the current performance risk profile is ‘low’. Overall, the risk profile is expected to increase, not because performance is expected to go down, but because many external factors create high uncertainty, making it more difficult to control performance.

## Strategic risk

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

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

A point of attention for the execution of the strategy is that it requires the implementation of several transformation and digitalization projects, while simultaneously a large amount of regulation that is issued by different parties has to be implemented as well, and this in a context of strict cost control.

## Reputational risk

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

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

The governance, rules and procedures and how reputational risk management should be performed throughout the Group are outlined in the Reputational Risk Management Framework. Its implementation is monitored by Group Risk and its Reputational Risk Competence Centre. Proactive and re-active management of reputational risk is the responsibility of business, supported by specialist units (including Group Communication, Investor Relations and Group Compliance).

# Other information

## Prudent person principle

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

*Security*

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

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

Limits are defined, at the level of the board and the executive committee, for the main market risk types, i.e. interest rate risk (+10 BPV), equity risk (39% stress), currency risk (99,9% calibrated stress per currency), real estate risk (25% stress). In addition limits are defined at the level of the Group Assets Liabilities Committee for intra-group liquidity facility, repo funding and external collateral swaps, based on the notional amount.

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

*Quality towards counterparty credit risk*

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

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

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

*Concentration Risk*

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

Furthermore, exposure on a single counterparty of maximum 10% of total assets is included as an early warning level.

*Diversification*

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

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

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

*Liquidity*

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

*Return*

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

*Ratio Assets covering liabilities*

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

Since the introduction of Solvency II, the existing legislation on covering assets became supplemented by the ‘prudent person’ principle. This ‘prudent person’ principle created the need for KBC to introduce new internal rules to monitor the covering asset requirement in such a way that it is pragmatic, manageable and does not lead to inefficient allocation of assets on the long term.

**Aspects of prudent person principle applicable to policy holder owned investments**

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

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

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

*Liquidity*

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

*Best interest of policy holders and beneficiaries*

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

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

## Expected profits included in future premiums

The Commission Delegated Regulation[18] methodology corresponding with article 260 aimed at estimating expected profits included in future premiums (EPIFP) as the described in the 3-step process below:

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

The following tables provide a breakdown of the expected profits included in future premiums for KBC Insurance Group. The first table provides a split per material undertaking, while the second table gives a comparison between end of year 2023 and end of year 2022 figures (based on QRT S23.01 - Own Funds):

| (in m EUR) | Life | Non Life | Total EPIFP |
|---|---|---|---|
| **Total** | **1.089** | **215** | **1.304** |
| *KBC Insurance NV* | 726 | 156 | 882 |
| *ČSOB Pojišťovna a.s. CZ* | 249 | 0 | 249 |
| *ČSOB Poisťovňa a.s. SK* | 31 | 0 | 31 |
| *K&H Biztosító* | 48 | 19 | 67 |
| *KBC Group Re* | 0 | 31 | 31 |
| *DZI Life Insurance Jsc (BG)* | 36 | 0 | 37 |
| *DZI General Insurance Jsc (BG)* | 0 | 8 | 8 |

*Table 44: Expected profits incl. in future premiums (KBC Ins Grp): split per entity*

| (in m EUR) | 2023 | 2022 | Change in amount |
|---|---|---|---|
| **KBC Insurance Group** | **1.304** | **1.186** | **118** |
| *Expected profits incl. in future premiums (EPIFP) - Life* | 1.089 | 999 | 90 |
| *Expected profits incl. in future premiums (EPIFP) - Non- life* | 215 | 186 | 29 |

*Table 45: Expected profits incl. in future premiums (KBC Ins Grp): evolution 2022 – 2023*

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

## Sensitivity analysis & stress testing on Solvency II required capital

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

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

Stress tests are performed internally within the Insurance Group or at local entity level or are initiated on a regular basis by the regulator (EIOPA[19] or local regulators). KBC also performs ad hoc integrated stress tests to test its vulnerability for specific risks and potential adverse conditions that may arise.

[19] European Insurance and Occupational Pensions Authority

# Valuation for solvency purposes

## Economic balance sheet

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

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

| Economic balance sheet 31-12-2023 (m EUR) | IFRS Value | Solvency II Value | Difference |
|---|---|---|---|
| **Total Assets** | **35.267** | **35.086** | **-180** |
| *Goodwill & intangible assets* | 210 | 0 | -210 |
| *Deferred tax assets* | 37 | 10 | -27 |
| *Property (other than for own use)* | 151 | 267 | 117 |
| *Participations and related undertakings* | 304 | 298 | -6 |
| *Equity Instruments* | 1.205 | 1.205 | 0 |
| *Bonds* | 15.620 | 15.387 | -233 |
| *Derivatives* | 40 | 40 | 0 |
| *Deposits other than cash equivalents* | 363 | 393 | 29 |
| *Assets held for index-linked and unit-linked funds* | 14.348 | 14.348 | 0 |
| *Loans & mortgages* | 1.926 | 1.768 | -159 |
| *Reinsurance recoverables* | 88 | 54 | -34 |
| *Own shares* | 0 | 203 | 203 |
| *Other* | 974 | 1.113 | 139 |
| **Total Liabilities** | **31.965** | **31.022** | **-943** |
| *Technical provisions -non-life* | 2.935 | 2.334 | -601 |
| *Technical provisions - Life (excl. Index-linked and unit-link* | 12.933 | 12.799 | -134 |
| *Technical provisions - Index-linked and unit-linked* | 14.389 | 13.880 | -509 |
| *Deferred tax liabilities* | 300 | 506 | 206 |
| *Derivatives* | 8 | 8 | 0 |
| *Subordinated Loan (Tier2)* | 501 | 501 | 0 |
| *Other* | 898 | 993 | 95 |
| **Excess Assets over Liabilities** | **3.302** | **4.065** | **763** |

*Table 46: Economic balance sheet: assets & liabilities (KBC Ins Grp)*

The table below gives for KBC Insurance Group a clear overview of how the IFRS value for ‘excess assets over liabilities’ is reconciled with the Solvency II value for ‘excess assets over liabilities’. The following parts of this section provide a more detailed view on the underlying methodological differences.

| Reconciliation IFRS equity & assets over liabilities Solvency II (in m EUR) | 31-12-2023 |
|---|---|
| Share capital | 65 |
| Share premium | 1.086 |
| Treasury Shares | -203 |
| Revaluation reserve debt securities (FVOCI) | -553 |
| Revaluation reserve equity instruments (FVOCI) | 208 |
| Revaluation reserve equity instruments (overlay apptoach) | 0 |
| Hedging reserve | 0 |
| Remeasurement of defined benefit obligations (after tax) | 45 |
| Reserves | 317 |
| Translation differences | 11 |
| Hedge of net investments in foreign operations | 1 |
| Net profit of the year (IFRS) | 527 |
| Insurance finance income and expense (IFIE) | 1.799 |
| **IFRS parent shareholder's equity** | **3.302** |
| Minority interest | 0 |
| **IFRS equity** | **3.302** |
| Valuation differences between IFRS and Solvency II | |
| Of which: deduction intangible assets (after tax) | -198 |
| Of which: valuation difference participations | -6 |
| Of which: valuation difference real estate at fair value (after tax) | 106 |
| Of which: valuation difference fair value loans and receivables (after tax) | -97 |
| Of which: valuation fair value amortised cost bonds (after tax) | -174 |
| Of which: valuation difference reinsurance recoverables | -27 |
| Of which: valuation difference technical liabilities (after tax) | 795 |
| Of which: treasury shares | 203 |
| Of which: volatility adjustments | 137 |
| Of which: other | 25 |
| **Assets over liabilities Solvency II** | **4.065** |

*Table 47: Reconciliation IFRS and Solvency II (KBC Ins Grp)*

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

- Goodwill and intangible assets are valued at zero under Solvency II. Under IFRS, software (45.4m EUR) and goodwill (164,5m EUR) are included as well. Goodwill includes the goodwill paid on companies included in the scope of consolidation and in relation to the acquisition of activities and mainly relates to the acquisition of DZI Insurance, ČSOB Pojišťovna a.s. (CZ) and UBB Pension.
- The higher net deferred tax liability under Solvency II compared to IFRS is due to the deferred tax liabilities calculated on the difference between the IFRS and Solvency II balance sheet. The difference between Solvency II and IFRS liabilities is more negative than the difference on the asset side, increasing deferred tax liabilities.
- Property (other than for own use) is valued at fair value under Solvency II, while under IFRS it is measured at initial cost minus accumulated depreciation and impairment losses. Value for which the property could be sold between knowledgeable willing parties in an arm's length transaction is much higher than the IFRS accounting value.
- Equity instruments are measured at fair value, both under IFRS as under Solvency II. Therefore, the difference between both views is minimal.
- Bonds are (mainly) valued using 2 valuation methods under IFRS:

  - Over 53% is valued at fair value through other comprehensive income (FVOCI), meaning the Solvency II value equals the IFRS value;
  - A small 47% of the bonds is valued at amortized cost under IFRS, causing the difference between the IFRS view (amortized cost) and Solvency II view, where these bonds are also measured at fair value. Given the high interest rate environment, the fair value on these bonds is lower than the amortized cost value.
- Assets held for Index-Linked and Unit-Linked funds are equal under IFRS and Solvency as both are measured at fair value. On liability side, a difference is noticed for Index-Linked and Unit-Linked Technical provisions between IFRS and Solvency as management fees are included under Solvency II.
- Deposits other than cash equivalents are measured at amortized cost under IFRS and at fair value under Solvency II. Due to the high interest rates, the Solvency II (fair) value is closer to the IFRS value.
- Loans and mortgages are valued at amortized cost under IFRS. Under Solvency II, these are valued at fair value. Fair value of these loans is lower than the amortized cost value given the higher interest rates.
- Own Shares/treasury shares: KBC Insurance NV has 203m EUR of treasury shares. Under IFRS equity (i.e. excess of assets over liabilities under IFRS) treasury shares are deducted from equity, meaning they are not part of the balance sheet. Under Solvency II treasury shares are reported on the Economic Balance Sheet as an asset. For determining the Available Own Funds under Solvency II, the treasury shares are deducted from the Excess of assets over liabilities.
- Technical provisions under Solvency II consist of a best estimate and a risk margin. The best estimate corresponds to the probability-weighted average of future cashflows, which are discounted using the risk free rate and volatility adjustment. The risk margin is calculated using the Solvency Capital Requirement, the cost-of-capital as determined by the regulator and the risk free rate curve. IFRS Technical provisions consists of different types of provisions (See section below on Technical provisions).

The following table provides for KBC Insurance NV both the Solvency II value used in the economic balance sheet and the accounting (BGAAP) value for each material class of assets and liabilities.

| Economic balance sheet 31-12-2023 (m EUR) | Bgaap Value | Solvency II Value | Difference |
|---|---|---|---|
| **Total Assets** | **33.011** | **32.508** | **-503** |
| *Goodwill & intangible assets* | 0 | 0 | 0 |
| *Deferred tax assets* | 0 | 0 | 0 |
| *Property (other than for own use)* | 132 | 244 | 112 |
| *Participations and related undertakings* | 1.157 | 1.346 | 189 |
| *Equity Instruments* | 860 | 1.105 | 245 |
| *Bonds* | 14.225 | 13.301 | -924 |
| *Derivatives* | 3 | 19 | 17 |
| *Deposits other than cash equivalents* | 282 | 308 | 26 |
| *Assets held for index-linked and unit-linked funds* | 13.436 | 13.436 | 0 |
| *Loans & mortgages* | 1.922 | 1.761 | -161 |
| *Reinsurance recoverables* | 134 | 41 | -93 |
| *Own shares* | 203 | 203 | 0 |
| *Other* | 658 | 743 | 86 |
| **Total Liabilities** | **31.643** | **28.431** | **-3.212** |
| *Technical provisions -non-life* | 3.040 | 1.669 | -1.371 |
| *Technical provisions - Life (excl. Index-linked and unit-link* | 13.445 | 12.041 | -1.404 |
| *Technical provisions - Index-linked and unit-linked* | 13.436 | 13.030 | -405 |
| *Deferred tax liabilities* | 2 | 413 | 411 |
| *Derivatives* | 11 | 8 | -2 |
| *Subordinated Loan (Tier2)* | 501 | 501 | 0 |
| *Other* | 1.208 | 768 | -440 |
| **Excess Assets over Liabilities** | **1.368** | **4.077** | **2.709** |

*Table 48: Economic balance sheet: assets & liabilities (KBC Ins NV)*

The table below gives for KBC Insurance NV a clear overview of how the BGAAP value for 'excess assets over liabilities' is reconciled with the Solvency II value for 'excess assets over liabilities'.

| Reconciliation BGAAP equity & assets over liabilities Solvency II (in m EUR) | 31-12-2023 |
|---|---|
| Share capital | 65 |
| Share premium | 1.086 |
| Reserves | 217 |
| **IFRS parent shareholder's equity** | **1.368** |
| **BGAAP equity** | **1.368** |
| Valuation differences between IFRS and Solvency II | 0 |
| *Of which: deduction intangible assets* | 0 |
| *Of which: valuation difference real estate at fair value (after tax)* | 84 |
| *Of which: valuation difference participations* | 189 |
| *Of which: valuation difference fair value equity* | 245 |
| *Of which: valuation fair value amortised cost bonds (after tax)* | -705 |
| *Of which: valuation difference fair value loans and receivables (after tax)* | -101 |
| *Of which: valuation difference reinsurance recoverables* | -70 |
| *Of which: valuation difference technical liabilities (after tax)* | 2.385 |
| *Of which: other* | 681 |
| **Assets over liabilities Solvency II** | **4.077** |

*Table 49: Reconciliation BGAAP equity & assets over liabilities with Solvency II (KBC Ins NV)*

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

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

- Technical provisions under Solvency II consist of a best estimate and a risk margin. Best estimates correspond to the probability-weighted average of future cashflows, which are discounted using the risk-free rate and volatility adjustment. The risk margin is calculated using the Solvency Capital Requirement, the cost-of-capital as determined by the regulator and the risk-free rate curve. Under the statutory accounts these are accounted for according to BGAAP; including the mathematical reserves, the unearned premium reserve, the claims reserve (incl. IBNR), the flashing light reserve and the equalization reserve.
- Pension benefit obligations are recognized under Solvency II in compliance with IAS19 employee benefits. Under BGAAP these pension benefit obligations for the defined benefit plans are not recognized.
- Deferred tax liabilities are recognized under Solvency II in compliance with IAS12 income taxes and are mainly the result of the valuation differences on the Technical provisions partly compensated by non-realised losses included in the fair value of the bonds. In BGAAP, deferred taxes are not recognized.
- Derivatives fulfil the criteria of hedging instrument under BGAAP and as such are valued on a pro-rata temporis basis. For Solvency II derivatives are values on fair value basis.
- Other liabilities under BGAAP include the foreseen dividend pay-out, 233m EUR for 2023 and the fund for future appropriation of 232m EUR.

# Assets – material classes of assets

## Solvency II value

### Goodwill

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

### Deferred taxes

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

### Bonds, Equity Instruments and Loans & mortgages

- For Solvency II purposes, ‘Bonds’, ‘Equity instruments’ and ‘Loans & mortgages’ are valued at the amount for which they could be exchanged between knowledgeable willing parties in an at arm’s length transaction. This definition is in line with the IFRS definition of fair value.
- KBC defines 'fair value' as ‘the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date’. Fair value is not the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distressed sale. A deviation from IFRS is however applicable for the valuation of financial liabilities, as Solvency II explicitly imposes that the fair value may not reflect the own credit risk (Delegated Regulation (EU) 2015/35, Article 14).
- All internal valuation models used at KBC are validated by an independent Risk Validation Unit. In addition, the Executive Committee has appointed a Group Valuation Committee to ensure that KBC and its entities meet all the legal requirements for measuring financial assets and liabilities at fair value. The Group Valuation Committee monitors consistent implementation of the KBC Valuation Framework, which consists of various guidelines, including the Group Market Value Adjustments Policy & Additional Value Adjustments and the Group Parameter Review Policy. The Group Valuation Committee meets at least twice a quarter to approve significant changes in valuation methods (including, but not limited to, models, market data and inputs) or deviations from Group policies for financial assets and liabilities measured at fair value. The committee is made up of members from Finance, Risk Management and the Middle Office. Valuation uncertainty

measurements are made and reported to the Group Valuation Committee every semester. Lastly, certain fair values generated by valuation models are challenged by a team set up specifically for this purpose.

- Market value adjustments are recognised on all positions that are measured at fair value to cover close-out costs, adjustments for less liquid positions or markets, mark-to-model-related valuation adjustments, counterparty risk and funding costs. Credit value adjustments are used when measuring derivatives to ensure that the market value of the derivatives is adjusted to reflect the credit risk of the counterparty. In making this adjustment, both the mark-to-market value of the contract and its expected future fair value are taken into account. These valuations are weighted based on the counterparty credit risk that is determined using a quoted credit default swap spread, or, if there is no such spread, on the counterparty credit risk that is derived from bonds whose issuers are similar to the derivative counterparty in terms of rating, sector, geographical location and seniority of the exposure. A funding value adjustment is a correction made to the fair value of derivatives in order to ensure that the (future) funding costs or income attached to entering into and hedging such instruments are factored in when measuring the value of the instruments.
- The IFRS9 fair value hierarchy prioritises the valuation techniques and the respective inputs into three levels.
- The fair value hierarchy gives the highest priority to 'level 1 inputs'. This means that, when there is an active market, quoted prices have to be used to measure the financial assets or liabilities at fair value. Level 1 inputs are prices that are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency (and that are quoted in active markets accessible to KBC). They represent actual and regularly occurring market transactions on an arm's length basis. The fair value measurement of financial instruments with quoted prices is based on a mark-to-market valuation derived from currently available transaction prices. No valuation technique (model) is involved.
- If there are no price quotations available, the reporting entity establishes fair value using a model based on observable or unobservable inputs. The use of observable inputs needs to be maximised, whereas the use of unobservable inputs has to be minimised.
- Observable inputs are also referred to as 'level 2 inputs' and reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Observable inputs reflect an active market. Examples of observable inputs are the risk-free rate, exchange rates, stock prices and implied volatility. Valuation techniques based on observable inputs include discounted cash flow analysis, reference to the current or recent fair value of a similar instrument, or third-party pricing, provided that the third-party price is in line with alternative observable market data.
- Unobservable inputs are also referred to as 'level 3 inputs' and reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions regarding the risks involved). Unobservable inputs reflect a market that is not active. For example, proxies and correlation factors can be considered to be unobservable in the market.
- The valuation methodology and the corresponding classification in the fair value hierarchy of the most commonly used financial instruments are summarised in the table below. This table provides an overview of the level in which the instruments are generally classified, but exceptions are possible. In other words, whereas the majority of instruments of a certain type are within the level indicated in the table, a small portion may actually be classified in another level.

| Level | Instrument type | Products | Valuation technique |
|---|---|---|---|
| **Level 1** | Liquid financial instruments for which quoted prices are regularly available | FX spots, exchange traded financial futures, exchange traded options, exchange traded stocks, exchange traded funds, liquid government bonds, other liquid bonds, liquid asset backed securities (ABS) in active markets | Mark-to-market (quoted prices in active markets) |
| **Level 2** | Plain vanilla/liquid derivatives | (Cross-currency) interest rate swaps (IRS), FX swaps, FX forwards, forward rate agreements (FRA), inflation swaps, dividend swaps, reverse floaters, bond future options, interest rate future options, overnight index swaps (OIS), FX resets | Discounted cashflow analysis based on discount and estimation curves (derived from quoted deposit rates, FX swaps and (CC)IRS) |
| | | Caps & floors, interest rate options, European stock options, European & American FX options, forward starting options, digital FX options, FX strips of simple options, European swaptions European cancellable IRS, compound FX options | Option pricing model based on observable inputs (e.g. volatilities) |
| | | Credit default swaps (CDS) | CDS model based on credit spreads |
| | Linear financial liabilities (without optional features) – cash instruments | Deposits, simple cashflows, repo transactions | Discounted cashflow analysis based on discount and estimation curves (derived from quoted deposit rates, FX swaps and (CC)IRS) |
| | Asset backed securities | Medium liquid asset backed securities | Third-party pricing (e.g. lead manager); prices corroborated by alternative observable market data, or using comparable spread method |
| | Debt instruments | KBC IFIMA own issues (liabilities) | Discounted cashflow analysis and valuation of related derivatives based on observable inputs |
| | Linear financial liabilities (cash instruments) | Loans, commercial paper | Discounted cashflow analysis based on discount and estimation curves (derived from quoted deposit rates, FX swaps and (CC)IRS) |
| **Level 3** | Exotic derivatives | Target profit forwards, target strike forwards, flexible forwards, Bermudan swaptions, digital interest rate options, quanto interest rate options, digital stock options, American & Asian stock options, barrier stock options, quanto digital FX options, FX Asian options, FX European barrier options, FX simple digital barrier options, FX touch rebates, double average rate options, inflation options, cancellable reverse floaters, American and Bermudan cancellable IRS, constant maturity swaps (CMS) CMS spread options, CMS interest rate caps/floors, (callable) range accruals, commodity swaps, outperformance options, auto-callable options | Option pricing model based on unobservable inputs (e.g. correlation) |
| | Illiquid credit-linked instruments | Collateralised debt obligations (notes) | Valuation model based on correlation of probability of default of underlying assets |
| | Private equity investments | Private equity and non-quoted participations | Based on the valuation guidelines of the European Private Equity & Venture Capital Association (EVCA) |
| | Illiquid bonds/asset backed securities | Illiquid bonds/asset backed securities that are indicatively priced by a single pricing provider in an inactive market | Third-party pricing (e.g. lead manager), where prices cannot be corroborated due to a lack of available/reliable alternative market data |
| | Debt instruments | KBC own issues (KBC IFIMA) | Discounted cashflow analysis and valuation of related derivatives based on unobservable inputs (indicative pricing by third parties for derivatives) |

### Property (other than for own use)

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

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

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

### Deposits other than cash equivalents

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

### Own shares

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

## IFRS value

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

### Goodwill

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

### Deferred taxes

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

### Bonds, Loans & Mortgages, Equity Instruments and Derivatives

KBC applies all the requirements of IFRS9 as from 1 January 2018, except for the hedge accounting transactions which continued to be accounted for in accordance with IAS39.

On initial recognition of a financial asset, KBC first assesses the contractual terms of the instrument in order to classify it as an equity or debt instrument. An equity instrument is defined as any contract that evidences a residual interest in another entity’s net assets. In order to satisfy this condition, KBC reviews whether the instrument includes no contractual obligation for the issuer to deliver cash or exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the issuer.

Any instruments which do not meet the criteria of equity instruments are classified as debt instruments by KBC.

**Debt instruments**

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

- Mandatorily measured at fair value through profit or loss (FVPL);
- Designated at initial recognition at fair value through profit or loss (FVO);
- Fair value through other comprehensive income (FVOCI);
- Amortised cost (AC);

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

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

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

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

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

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

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

**Equity instruments**

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

- Mandatorily measured at fair value through profit or loss (FVPL);
- Equity instruments elected for fair value through other comprehensive income (FVOCI);

**Derivatives**

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

- *Trading derivatives*
  Derivative instruments are always measured at fair value and KBC makes a distinction as follows:
  - Derivatives that are held with a hedging intent but for which hedge accounting cannot be or is not applied (economic hedge): Hedging instruments can be acquired with the intention of economically hedging an external exposure but without the application of hedge accounting. The interest

component on these derivatives is recognised under “Net Interest Income” while all other fair value changes are recognised under “Net result from financial instruments at fair value through profit or loss”;
    - Derivatives held without hedging intent (trading derivative): KBC entities can also enter into a derivative position without any intention to hedge economically a position. Such activity can relate to closing / selling an external position in the near term or for short-term profit taking purposes. All fair value changes on such derivatives are recognised under “Net result from financial instruments at fair value through profit or loss”.
- *Hedging derivatives*
  Hedging derivatives are derivatives which are specifically designated in a hedge relationship. The accounting process of the such derivatives are detailed in the section “Hedge Accounting – Hedging Instrument”.

### Property (other than for own use)

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

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

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

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

### Deposits other than cash equivalents

Deposits other than cash equivalents are measured at amortised cost.

### Own shares

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

## BGAAP value

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

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

**Formation expenses, intangible and tangible assets**

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

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

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

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

**Equity shares**

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

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

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

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

**Bonds**

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

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

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

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

**Loans and advances**

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

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

Assets held for index-linked and Unit-Linked funds are recognised as investment contracts valued at fair value as they cover liabilities whereby the policyholder bears the investment risk.

**Deposits other than cash equivalents**

Deposits other than cash equivalents are measured at amortised cost.

**Own shares**

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

# Technical provisions

## Solvency II value

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

- The best estimate corresponds to the probability-weighted average of future cashflows, taking into account the time value of money, using the relevant risk-free interest rate term structure;
- The risk margin is calculated by determining the cost of providing an amount of eligible own funds equal to the Solvency Capital Requirement necessary to support the insurance and reinsurance obligations over their lifetime. The cost of capital rate is defined by the regulator and is set at 6%.

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

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

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

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

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

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

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

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

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

### Contract boundaries applied to the valuation of Technical provisions

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

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

### Homogeneous risk groups used to calculate the Technical provisions

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

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

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

KBC has segmented the insurance business corresponding to these regulations.

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

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

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

Currently there are 36 lines of business defined on Group level which belong to 4 different categories (Life, Non-Life, SLT Health and NSLT Health), which match the lines of business mentioned in the Solvency II legislation. Every line of business is subdivided into separate homogenous risk groups. Using these homogenous risk groups KBC Insurance tries to capture the different factors that determine the risk characteristics of every liability. This way it is possible to capture the different risks of every liability.

### Technical provisions (Life business)

When projecting future cashflows for Life obligations, so-called 'similar to Life techniques' are used. In principle, these Life obligation cashflow projections are made on a policy-by-policy basis. Only in situations when such a calculation is unpractical, policies can be grouped together and the methodology is then applied to the group of policies. This grouping is subject to strict conditions (e.g. it must give approximately the same results as a calculation made on a policy-by-policy basis).

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

- The cash inflows should at least include the gross premiums (after tax) included in the contract boundaries at the valuation date. It should be noted that contract boundaries may in some cases not be the same for IFRS and Solvency II. In addition, all cashflows resulting from these premiums are taken into account, e.g. expenses, commissions and guarantees. Investment returns (interests earned, dividends, etc.) are not taken into account. In the case of Unit-Linked contracts, only the risk premiums related to the non-hedgeable portion of the liabilities are taken into account;
- The cash outflows must include at least:
  - The benefit cash outflows should include (non-exhaustive list):
    - Maturity benefits
    - Death benefits
    - Disability benefits
    - Surrender benefits
    - Annuity payments
    - Profit sharing bonuses (e.g. financial or mortality profit sharing)
    - Payments with respect to additional riders
  - Claims payments incurred by the insurer in providing contractual benefits that are paid in kind (if they exist);
  - Expenses that are incurred in servicing insurance obligations, such as administrative expenses, investment management expenses, claims management expenses, acquisition expenses, overhead expenses. The projection of expenses has to include future expected inflation.

The cashflow projection method also includes options and guarantees that are related to the contract. A contractual option is defined as a right to change the benefits, to be exercised at the discretion of its holder (generally the policyholder), on terms that are established in advance. Thus, in order to trigger an option, a deliberate decision of its holder is necessary. Examples of such options are:

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

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

- Surrender value option;
- Paid-up policy option.

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

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

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

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

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

- Contract with a guaranteed minimum interest return.

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

- Contracts with profit sharing.

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

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

More specifically, the embedded optionality is coming from:

- Future profit sharing to the policy holder;
- Lapse behaviour .

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

## Technical provisions (Non-Life business)

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

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

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

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

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

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

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

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

| Line of business (in m EUR) | Best Estimate gross of reinsurance recoverables (in m EUR) | % |
|---|---|---|
| **Non-Life (excl. Health)** | **1.690** | **88,2%** |
| *Motor vehicle liability insurance* | 850 | 44,4% |
| *Other Motor Insurance* | 120 | 6,3% |
| *Marine, aviation and transport insurance* | 8 | 0,4% |
| *Fire and other damage to property insurance* | 245 | 12,8% |
| *General liability insurance* | 311 | 16,2% |
| *Credit and suretyship insurance* | 0 | 0,0% |
| *Legal Expenses insurance* | 108 | 5,6% |
| *Assistance* | 14 | 0,7% |
| *Miscellaneous financial loss* | 14 | 0,7% |
| *Proportional Motor Vehicle Liability reinsurance* | 2 | 0,1% |
| *Proportional Other Motor insurance reinsurance* | 0 | 0,0% |
| *Proportional Marine, aviation and transport reinsurance* | 0 | 0,0% |
| *Proportional Fire and other damage to property reinsurance* | 4 | 0,2% |
| *Proportional General liability reinsurance* | -2 | -0,1% |
| *Proportional Credit and suretyship reinsurance* | 0 | 0,0% |
| *Proportional Legal Expenses reinsurance* | 0 | 0,0% |
| *Proportional Miscellaneous financial loss reinsurance* | 4 | 0,2% |
| *Non-Proportional Casualty reinsurance* | 10 | 0,5% |
| *Non-Proportional Property reinsurance* | 0 | 0,0% |
| *Non-Proportional Marine, aviation and transport reinsurance* | 2 | 0,1% |
| **Health (similar to Non-Life)** | **226** | **11,8%** |
| *Medical Expense insurance* | 18 | 0,9% |
| *Income Protection insurance* | -6 | -0,3% |
| *Workers' Compensation insurance* | 213 | 11,1% |
| *Proportional Medical expense reinsurance* | 0 | 0,0% |
| *Proportional Income Protection reinsurance* | 0 | 0,0% |
| *Proportional Workers' compensation reinsurance* | 0 | 0,0% |
| *Non-Proportional Health Reinsurance* | 0 | 0,0% |
| **Total** | **1.916** | **100,0%** |

*Table 50: Best Estimate Non-Life 2023 per line of business (KBC Ins Grp)*

| Line of business (in m EUR) | Best Estimate gross of reinsurance recoverables (in m EUR) | % |
|---|---|---|
| **Non-Life (excl. Health)** | **1.121** | **82,6%** |
| *Motor vehicle liability insurance* | 574 | 42,3% |
| *Other Motor Insurance* | 35 | 2,6% |
| *Marine, aviation and transport insurance* | 0 | 0,0% |
| *Fire and other damage to property insurance* | 139 | 10,2% |
| *General liability insurance* | 260 | 19,2% |
| *Credit and suretyship insurance* | 0 | 0,0% |
| *Legal Expenses insurance* | 94 | 7,0% |
| *Assistance* | 8 | 0,6% |
| *Miscellaneous financial loss* | 4 | 0,3% |
| *Proportional Motor Vehicle Liability reinsurance* | 0 | 0,0% |
| *Proportional Other Motor insurance reinsurance* | 0 | 0,0% |
| *Proportional Marine, aviation and transport reinsurance* | 0 | 0,0% |
| *Proportional Fire and other damage to property reinsurance* | 3 | 0,2% |
| *Proportional General liability reinsurance* | 0 | 0,0% |
| *Proportional Credit and suretyship reinsurance* | 0 | 0,0% |
| *Proportional Legal Expenses reinsurance* | 0 | 0,0% |
| *Proportional Miscellaneous financial loss reinsurance* | 0 | 0,0% |
| *Non-Proportional Casualty reinsurance* | 4 | 0,3% |
| *Non-Proportional Property reinsurance* | 0 | 0,0% |
| *Non-Proportional Marine, aviation and transport reinsurance* | 0 | 0,0% |
| **Health (similar to Non-Life)** | **236** | **17,4%** |
| *Medical Expense insurance* | 16 | 1,2% |
| *Income Protection insurance* | 7 | 0,5% |
| *Workers' Compensation insurance* | 213 | 15,7% |
| *Proportional Medical expense reinsurance* | 0 | 0,0% |
| *Proportional Income Protection reinsurance* | 0 | 0,0% |
| *Proportional Workers' compensation reinsurance* | 0 | 0,0% |
| *Non-Proportional Health Reinsurance* | 0 | 0,0% |
| **Total** | **1.358** | **100,0%** |

*Table 51: Best Estimate Non-Life 2023 per line of business (KBC Ins NV)*

## Technical provisions (total)

The following tables present the gross best estimate, the risk margin and the reinsurance recoverables of KBC Insurance Group and KBC Insurance NV, consistent with the figures on the Economic Balance Sheet at end of year 2023. The best estimates and reinsurance recoverables are discounted at the EIOPA risk free rate, including the volatility adjustment as described in the previous paragraphs:

| Lines of Business (in m EUR) | Best Estimate - gross of reinsurance | Risk Margin | Reinsurance Recoverables | Net Technical Provisions |
|---|---|---|---|---|
| Non-Life | 1.916 | 419 | 67 | 2.267 |
| *Non-Life (excl. Health)* | 1.690 | 344 | 66 | 1.968 |
| *Health (similar to Non-Life)* | 226 | 74 | 1 | 300 |
| Life (incl. Index-Linked & Unit-Linked) | 25.955 | 724 | -13 | 26.692 |
| *Life (excl. Health and IL & UL)* | 11.860 | 511 | -11 | 12.382 |
| *Health (similar to Life)* | 375 | 53 | -2 | 430 |
| *Index-Linked & Unit-Linked* | 13.720 | 160 | 0 | 13.880 |
| **Total** | **27.870** | **1.143** | **54** | **28.959** |

*Table 52: Total net Technical provisions 2023 (KBC Ins Grp)*

| Lines of Business(in m EUR) | Best Estimate - gross of reinsurance | Risk Margin | Reinsurance Recoverables | Net Technical Provisions |
|---|---|---|---|---|
| Non-Life | 1.358 | 311 | 59 | 1.610 |
| *Non-Life (excl. Health)* | 1.122 | 246 | 60 | 1.307 |
| *Health (similar to Non-Life)* | 236 | 65 | -1 | 303 |
| Life (incl. Index-Linked & Unit-Linked) | 24.482 | 589 | -18 | 25.090 |
| *Life (excl. Health and IL & UL)* | 11.203 | 406 | -14 | 11.623 |
| *Health (similar to Life)* | 384 | 47 | -4 | 436 |
| *Index-Linked & Unit-Linked* | 12.895 | 136 | 0 | 13.030 |
| **Total** | **25.840** | **900** | **41** | **26.699** |

*Table 53: Total net Technical provisions 2023 (KBC Ins NV)*

## IFRS value

**General**

KBC applies all the requirements of IFRS 17 as from 1 January 2023.

### Scope

In general, the following types of contracts within KBC are in scope of IFRS 17: Non-Life insurance contracts, reinsurance contracts (accepted & ceded), Life insurance contracts being the non-unit-linked contracts, the unit-linked contracts and the hybrid products, and investment contracts with discretionary participating features if issued by a KBC insurance entity.

In general, the following types of contracts are out of scope of IFRS 17: investment contracts without discretionary participating features (IFRS 9), major part of the unit-linked contracts of KBC Insurance Belgium (IFRS 9) as these insurance contracts do not contain significant insurance risk, credit cards including certain cover issued by a KBC Bank entity (IFRS 15), and roadside assistance contracts (IFRS 15).

*Distinct non-insurance components are separated from the insurance components in the contract and thus accounted for in accordance with the appropriate IFRS. Level of aggregation*

IFRS 17 calculations are performed at an aggregated level, rather than contract by contract, taking into account the following four dimensions:

- IFRS 17 portfolio (aggregation of contracts subject to similar risks and managed together);
- Annual cohort (year of inception of the policy);
- Profitability of the group of contracts (onerous, profitable, doubtful; assessed at inception);
- Set of contracts (aggregation of contracts with a homogeneous profitability expectation).

*Aggregation by IFRS 17 portfolio*

IFRS 17 portfolios are country-specific and driven by the local product mix (similar risks) and the way in which the local insurance business is managed (managed together). As a minimum, the portfolios are broken down into:

- Life
  - Unit-linked
  - Non-unit-linked
  - Hybrid products
- Non-Life
  - Personal insurance
  - Liabilities – Motor Third-Party Liability (MTPL)
  - Liabilities – other than MTPL
  - Property (including other) other than fully comprehensive
  - Fully comprehensive
  - Accepted reinsurance
- Ceded reinsurance

*Aggregation by annual cohort*

KBC applies annual cohorts (a cohort is a time bucket of contracts issued in the same year), aligned with the start and end of the financial year of KBC. On 23 November 2021, the EU published a Regulation endorsing IFRS 17 Insurance Contracts, including the amendments to the original IFRS 17 and a solution for the annual cohort requirement for certain types of insurance contracts, for use in the European Union. KBC will not apply the European optional exemption from the annual cohort requirement.

*Aggregation by group of contracts: onerous, profitable or doubtful*

*BBA and VFA – Expected profitability on initial recognition*

For contracts measured according to the Building Block Approach (BBA, see below) and the Variable Fee Approach (VFA, see below), the allocation to the onerous, profitable or doubtful group of contracts (GoC) is determined based on the presence of a Contractual Service Margin (CSM is the unearned profit in the group of contracts at inception) under different risk adjustment levels (i.e. compensation for uncertainty in the amount and timing of future cashflows):

- If CSM < 0 when risk adjustment is calculated at a 75% confidence level, the onerous group of contracts
- If CSM > 0 when risk adjustment is calculated at a 75% confidence level AND
  - if CSM < 0 when the risk adjustment is calculated at a 90% confidence level, the doubtful group of contracts
  - if CSM > 0 when the risk adjustment is calculated at a 90% confidence level, the profitable group of contracts

*PAA – Expected profitability on initial recognition*

For the Premium Allocation Approach (PAA), facts and circumstances indicating that the group of contracts can be onerous is assessed by the IFRS 17 expected economic combined ratio being more than 100%. This ratio differs from the externally published combined ratio. The IFRS 17 expected economic combined ratio is calculated for a set of contracts on an annual basis. Consequently, the new business of a year is assigned to one specific group of contracts under IFRS 17. In exceptional cases, when qualitative information reveals facts and circumstances indicating a negative trend in the IFRS 17 expected economic ratio, a recalculation is performed during the financial year.

*Aggregation by set of contracts*

A set of contracts is an aggregation of contracts with a homogeneous profitability expectation. A set of contracts (SoC) is defined such that the conclusion on the expected profitability of the SoC and the associated classification (i.e. profitable, doubtful or onerous) equals the conclusion that would have been reached if the expected profitability assessment had been carried out at the level of the individual contract.

*Measurement*

IFRS 17 applies uniform measurement principles for insurance liabilities that take into account the insurance contract characteristics.

- The general model, the Building Block Approach (BBA), is applied to most Life products.
- The optional Premium Allocation Approach (PAA) is a simplified measurement model that can be used when meeting the PAA eligibility criteria and is applied to most Non-Life products and reinsurance contracts.
- The Variable Fee Approach (VFA) is an adjusted Building Block Approach for Life insurance contracts where cashflows to be paid to the policyholder significantly depend on the return of the invested assets. This is a mandatory measurement model when fulfilling the VFA eligibility criteria and is applied to unit-linked products and some hybrid products of Central European entities.

Only one measurement model can be applied to each IFRS 17 portfolio.

The insurance liabilities represent all rights and obligations arising from insurance contracts issued and consist of two components, namely a Liability for Remaining Coverage (LRC) and a Liability for Incurred Claims (LIC).

## Measurement of Life insurance liabilities

The Life insurance liabilities are mostly valued according to either the BBA or the VFA model: valuation according to the BBA is applied to calculate the liability for non-unit-linked Life insurance contracts and for some hybrid products.

Valuation according to the VFA is applied in Central European entities to calculate the liability for unit-linked contracts and some hybrid products where the cashflows to be paid to the policyholder depend significantly on the return of the invested assets.

*Valuation according to the Building Block Approach (BBA)*

The insurance liability consists of the following four blocks:

- Actuarially estimated value of expected future cashflows;
- Discounting to convert the estimation into a present value;
- Risk adjustment as compensation for the uncertainty in the amount and timing of the expected future cashflows;
- Contractual Service Margin (CSM), being the unearned profit that is released from the balance sheet in P&L over the term of the contract based on services provided, i.e. there are no day one gains.

*Estimation of expected future cashflows*

The basic principle is that Solvency II cashflows are used to ensure consistency with IFRS 17.

The IFRS 17 estimation of future cashflows deviates from Solvency II on the following points:

- Under Solvency II all expenses are included in the Best Estimate. Under IFRS 17 expenses are divided into directly attributable costs and non-directly attributable costs. Directly attributable costs are expenses directly related to insurance contracts. Only these directly attributable costs are included in the estimation of expected future cashflows.

- Under Solvency II contracts where the insurer is at risk, tacit renewals and contracts where the coverage period starts in the future are within the Solvency II contract boundary. Under IFRS 17 cashflows are within the contract boundary if they arise from rights and obligations that exist during the reporting period
- in which the entity can compel the policyholder to pay the premiums; or
- in which the entity has a substantive obligation to provide services.

Contracts under which the insurer provides cover, i.e. under which the insurer is at risk, are within the IFRS 17 contract boundaries. Tacit renewals for Non-Life insurance contracts and contracts with a coverage period starting in the future are outside the IFRS 17 contract boundaries.

Level of aggregation of projected cashflows: the Solvency II aggregation levels are Lines of Business (LoBs) and risk buckets. The IFRS 17 unit of account is based on portfolios, cohorts and expected profitability.

*Discounting – time value of money*

A discount rate is created per currency, in line with the currency of the cashflows. The starting point for the creation of the curves are observable market prices of a set of assets with multiple durations.

The inflation assumptions for the nominal cashflows and the discount rates are consistent. Inflation is taken into account in the projection of the cashflows. Notwithstanding the reference to ‘cashflows’, the standard allows the same discount curve to be applied to all cashflows in the same contract. This simplification is applied at KBC.

For cashflows that vary with underlying items, the discount rate is determined by means of a top-down approach.

Cashflows that vary with underlying items are typically cashflows such as interest-rate guarantees on future premiums that are not fixed at inception of the contract, future profit sharing, future lapses, etc. A top-down approach is achieved by using a risk-free rate adjusted with a spread based on a reference portfolio of assets. Such a portfolio is based on the current asset mix an entity holds. In addition, the discount curve must only reflect the characteristics of the insurance liabilities. The risk-taking curve is adjusted to exclude the part not related to the insurance liabilities.

Per currency, a last liquid point (LLP) is set at the level of KBC that is consistent for all entities. The last liquid points per currency are defined by taking the last available tenor for the risk-free rate in the relevant currency.

For long-term Life insurance contracts, the cashflows are modelled over a duration of 110 years. The Ultimate Forward Rate (UFR) is the rate of the 110-year tenor to which the discount curve must converge. This UFR is defined as the sum of an expected real rate and an expected inflation rate.

For cashflows that do not vary with underlying items, KBC chooses to apply the bottom-up approach. The bottom-up approach is determined by adding an illiquidity premium on top of a risk-free rate, so that the discount curve reflects the illiquidity characteristics of the insurance contract liabilities. This approach is used for Non-Life liabilities for incurred claims. The illiquidity premium is the premium demanded by the policyholder because the insurance contract liabilities cannot be easily converted into cash at fair market value.

*Risk adjustment of Life insurance obligations*

The risk adjustment for non-financial risk is the compensation that the entity requires for bearing the uncertainty about the amount and timing of cashflows that arises from non-financial risk. It is a buffer on top of the Best Estimate future cashflows which represents a 50% probability of being able to fulfil future obligations and thus a 50% probability of not being able to meet future obligations for outstanding contracts.

Life insurance obligations are characterised by (long-term) cashflows based on biometric parameters.

The risk adjustment is defined as the difference between the Value at Risk (VaR) and the best estimate of future cashflows as part of the fulfilment cashflows. The VaR is calculated at a 75% confidence level.

Non-financial risks included in the VaR model are mortality risk, longevity risk, morbidity/disability risk, lapse risk, expense risk and revision risk. The correlations between the different risk types are in line with the correlation matrix of Solvency II.

*Contractual Service Margin*

The contractual service margin (CSM) represents the unearned profit the insurer will recognise in P&L as services are provided under the insurance contracts. The CSM is recognised in the balance sheet as part of the insurance liability on initial recognition in order to avoid a day one gain. The CSM on the balance sheet is released gradually over time, on the basis of services provided in the period, and should be zero at the end of the coverage period for a group of contracts.

The CSM release pattern is based on coverage units in the GoC. The number of coverage units is the quantity of services provided by the insurer under the contracts in that GoC, determined by considering for each contract the quantity of the benefits provided to the policyholder under a contract and its expected coverage period. The CSM amount recognised in P&L is the amount of coverage units allocated to the current period for the insurance coverage provided in the current period.

The number of coverage units is reassessed at the end of each reporting period to reflect the most up-to-date assumptions of the contract.

KBC has opted to reflect the time value of money on coverage units. By discounting the coverage units, a more stable allocation of the CSM to P&L is achieved.

*Valuation according to the Variable Fee Approach (VFA)*

Under the VFA, the CSM mainly reflects the fee that KBC expects to earn on the market value of the Assets under Management (AUM), also referred to as 'underlying items'.

The CSM is determined as the net of the fair value of the underlying items and the total entity obligation to the policyholder. The change in the variable fee that impacts the CSM is determined as the net of:

- the change in the fair value of the underlying items; and
- the change in the total entity obligation to the policyholder.

KBC applies the simplification of a combined amount rather than the different CSM unlocking adjustments separately.

Under the VFA, the difference in measurement from BBA lies in the subsequent measurement of direct participating contracts. All changes in fulfilment cashflows are absorbed by the CSM, until the CSM becomes negative and a loss is recognised in P&L.

In Belgium, the insurance company has discretion over the amount of profit sharing allocated to policyholders. The policyholder does not have an 'enforceable right' to participate in the returns of the insurance company, which means that the VFA eligibility criteria are not fulfilled and the BBA is applied.

## Measurement of Non-Life insurance liabilities

Valuation according to the PAA is applied for the liability for most Non-Life products. The PAA Liability for Remaining Coverage (LRC) reflects the premium receipts and the acquisition cashflows adjusted for amounts recognised in the income statement on a pro rata temporis basis. When an insured claim arises, a Liability for Incurred Claims (LIC) is recognised, which is similar to the BBA LIC (see below).

In the case of onerous contracts, an additional liability to cover expected future losses is added to the LRC on the balance sheet and a loss is recognised immediately in P&L.

*Valuation according to the Premium Allocation Approach*

The PAA LRC reflects only premiums received and acquisition cashflows. As such, to appropriately present the insurance liability on a cash basis, an adjustment is performed by netting insurance payables and receivables against the LRC value.

A provision for the internal cost of settling claims is included, which is calculated as a percentage based on past experience.

The risk adjustment for Non-Life insurance obligations is only calculated for claims incurred. Consequently, only reserve risk is taken into account. Comparable with Life obligations, a Value at Risk method (VaR) is used, but here it is calculated at a 90% confidence level.

## Subsequent measurement

*BBA/VFA – Liability for Remaining Coverage*

At the end of each reporting period, subsequent to initial recognition, KBC updates its estimates and assumptions to reflect the most up-to-date situation. As a result of these updates, the carrying amount of fulfilment cashflows will vary from one period to another.

Subsequent measurement under BBA/VFA for the LRC is driven by:

- experience adjustments (either absorbed by the CSM (i.e. related to future service) or recorded in the insurance result (i.e. related to current or past service) and portfolio rollforward;
- non-economic parameter updates to the fulfilment cashflows;
- economic parameter updates to the fulfilment cashflows;
- CSM release.

*PAA – Liability for Remaining Coverage*

Under the PAA, the LRC is unwound on a pro rata temporis basis to obtain the so-called ‘earned premiums’, i.e. the premium reserve and the deferred acquisition commissions. At the end of each reporting period, acquisition cashflows are amortised (i.e. recorded as an insurance service expense) and some of the premium receipts are earned (i.e. recorded as insurance revenue). Both components of the LRC are allocated to P&L on the basis of passage of time or the expected timing of incurred claims and benefits, if that pattern better reflects the release from risk.

*BBA/VFA/PAA – Liability for Incurred Claims*

Any changes to the Liability for Incurred Claims are recorded in the income statement. Depending on the driver of such changes, they are either recorded in:

- Insurance service expenses
  - Main drivers: updates of fulfilment cashflows, i.e. higher or lower total expected claim payments, changes in the statistical percentage of internal claims handling expenses, etc.; or
- Insurance finance income or expenses
  - Main drivers: a change in the discount rate, interest from deposits at the ceding company.

## Other matters

KBC has opted for a year-to-date approach, i.e. a recalculation of previously reported quarters, with the impact of the recalculation being included in the current period.

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

When looking at the evolution of the differences between Solvency II and IFRS value over 2023, the main difference arise mostly from interest rate changes while the impact due to volatility adjustment changes decreased significantly. Furthermore, it's important to mention that in 2022 IFRS 4 was still applied while in 2023 we use IFRS 17. This is the main reason the 'other' category has a much bigger impact compared to previous years.

- During 2023, the volatility adjustment decreased from 19bp to 17bp. This decrease led to a smaller discounting curve for the best estimates under Solvency II compared to the previous year. Due to this, the impact caused by the volatility adjustment decreased by approximately 23m EUR. The volatility adjustment end-of-year 2023 decreases the Technical provisions by 137m EUR.
- The risk-free interest rates decreased by the end of 2023. This decrease led to a difference of 410m EUR.
- Other evolutions move in the same direction as interest rates (-997m EUR) and mainly consist of changes in portfolio, risk margin and the change from IFRS 4 to IFRS 17.

| Revaluation technical provisions (in m EUR) | -1.430 |
|---|---|
| Due to Solvency II volatility adjustment | -23 |
| Due to Solvency II interest rate changes | -410 |
| Due to other (portfolio evolutions, risk margin,IFRS4 to IFRS 17…) | -997 |

*Table 54: Revaluation Technical provision (KBC Ins NV)*

## BGAAP value

### Provisions for unearned premiums and unexpired risk

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

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

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

**Life insurance provision**

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

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

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

- Valuation according to the prospective method: this method is applied for the provisions for conventional Non Unit-Linked Life insurance policies, modern Non Unit-Linked universal Life insurance policies offering a guaranteed rate of interest on future premium payments and for the provision for extra-legal benefits for

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

**Provision for claims outstanding**

For claims reported, the provision is in principle measured separately in each case, taking into account the known facts in the claims file, on the basis of the amounts still due to the injured parties or beneficiaries, plus external costs of settling claims. Where benefits have to be paid in the form of an annuity, the amounts to be set aside for that purpose are calculated using recognised actuarial methods.

For ‘claims incurred but not reported’ at balance sheet date, an IBNR (Incurred But Not Reported) provision is set aside. In the primary business, this IBNR provision is based on a lump sum per class of insurance depending upon past experience and the trend in the insured portfolio. For extraordinary events, additional amounts are added to the IBNR provision.

For ‘claims incurred but not enough reserved’ at balance sheet date, an IBNER (Incurred But Not Enough Reserved) provision is set aside if the adequacy procedures demonstrate that the other claims provisions are insufficient to meet future liabilities. This provision contains amounts for claims which have already been reported but which, for technical reasons, could not yet be recorded in the claims file. Where appropriate, a provision is set aside on a prudent basis for possible liabilities arising for claims files already closed.

A provision for the internal cost of settling claims is calculated at a percentage that is based on past experience.

Additional provisions are also constituted as required by law, such as supplementary workmen’s compensation provisions.

**Provision for profit sharing and rebates**

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

**Liability Adequacy Test (LAT)**

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

**Equalization and catastrophe provision (for KBC Insurance NV)**

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

**Ceded reinsurance and retrocession**

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

# Other liabilities

## Solvency II value

### Deferred taxes

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

## IFRS value

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

### Deferred taxes

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

### Financial Liabilities

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

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

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

- Financial liabilities held for trading
  Held-for-trading liabilities are those incurred principally for the purpose of generating a profit from short-term fluctuations in price or dealer’s margin. A liability also qualifies as a trading liability if it belongs to a portfolio of financial instruments held for trading separately by the trading desk and for which there is a recent pattern of short-term profit-taking.
  Trading liabilities can include derivative liabilities, short positions in debt and equity instruments, time deposits and debt certificates. In connection with derivative liabilities KBC makes similarly distinction between trading and hedging derivatives as in case for derivative assets.
  Initially, held-for-trading liabilities are measured at fair value. At the end of the reporting date, trading liabilities are measured at fair value. Fair value adjustments are always recorded in the income statement.
- Financial liabilities upon initial recognition designated by the entity at fair value through profit or loss

IFRS9 allows measuring a (group of) financial liability(s) on initial recognition at fair value, whereby fair value changes are recognized in profit or loss except for fair value changes related to the changes in own credit risk which are presented separately in OCI. The fair value designation is used by KBC for the following reasons:

- Managed on a FV basis: KBC designates a financial liability or group of financial liabilities at fair value when these are managed and their performance are evaluated on a fair value basis. It is used to account for (unbundled) deposit components (i.e. financial liabilities not including a discretionary participation feature)
- Accounting mismatch: Fair value option can be used when the use eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.
- Hybrid instruments: A financial instrument is regarded as a hybrid instrument when it contains one or more embedded derivatives that are not closely related to the host contract. The fair value option can be used when it is not possible to separate the non-closely related embedded derivative from the host contract and then the entire hybrid instrument can be designated at fair value. This results that both the embedded derivative and the host contract are measured at fair value. KBC uses this option when, for example, structured products contain non closely related embedded derivatives, in which case both the host contract and the embedded derivative are measured at fair value.

- Financial liabilities measured at amortised cost
  KBC classifies most of its financial liabilities under this category, also those used to fund trading activities, when the trading intent is not present in the financial liabilities (e.g.: issued bonds). These financial liabilities are initially measured at cost, which is the fair value of the consideration received including transaction costs. Subsequently they are measured at amortised cost, which is the amount at which the funding liability was initially recognised minus principal repayments and plus or minus the cumulative amortisation of any difference between that initial amount and the maturity amount. The difference between the amount made available and the nominal value is recorded on an accruals basis as an interest expense. Interest expenses accrued, but not yet paid, are recorded under accruals and deferrals.

### BGAAP value

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

#### Deferred taxes

Under BGAAP deferred taxes are not recognised.

#### Financial Liabilities

Financial liabilities are measured at amortised cost.

## Alternative methods for valuation

Not applicable to the KBC Insurance Group.

# Capital Management

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

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

## Solvency II ratio

### KBC Insurance Group

As also stated in the ‘Capital adequacy’ section of the annual report, the Solvency II ratio of KBC Insurance Group amounted to 206% at the end of 2023, which is an increase of 3pp compared to year-end 2022. KBC Insurance Group does not use any of the transitional measures.

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

- A decrease of the interest rates, mainly on the short term, in the last two month of the year.

This was almost fully counterbalanced by

- An increase in equity markets reinforced by a significant increase of the symmetric adjustment.

| Solvency, KBC Insurance Group (including volatility adjustment) (in m EUR) | 31/12/2023 | 31/12/2022 |
|---|---|---|
| **Own funds** | **4.130** | **3.721** |
| Tier 1 | 3.619 | 3.193 |
| *IFRS parent shareholders' equity* | 3.302 | 2.157 |
| *Dividend pay-out* | -233 | -309 |
| *Deduction of intangible assets and goodwill (after tax)* | -198 | -194 |
| *Valuation differences (after tax)* | 587 | 1.382 |
| *Volatility adjustment* | 137 | 150 |
| *Other* | 25 | 6 |
| Tier 2 | 501 | 501 |
| *Subordinated loans* | 501 | 501 |
| Tier 3 | 10 | 27 |
| *Deferred taxes* | 10 | 27 |
| **Solvency Capital Requirement (SCR)** | **2.005** | **1.833** |
| **Solvency II ratio** | **206%** | **203%** |
| Solvency surplus above SCR | 2.125 | 1.888 |

*Table 55: Own funds / Solvency II ratio (KBC Ins Grp)*

In the table above, the line "valuation differences" contains among other things the valuation differences between IFRS and Solvency II for the assets as well as for the liabilities. This item has decreased considerably over 2023 because of the decrease in interest rates at year-end 2023 .

Also note there is Tier-3 capital which consists of 10m EUR of net deferred tax assets regarding CSOB Czech Republic and DZI. As deferred tax assets and the deferred tax liabilities can only be netted if they relate to taxes levied by the same tax authority, this amount cannot be netted with the net deferred tax liability amounts of the other Group entities. The amount of Tier-3 capital is smaller than 2% of SCR and can be taken into account fully for the Solvency II ratio calculation.

### KBC Insurance NV

As also stated in the 'Capital adequacy' section of the annual report, the Solvency II ratio of KBC Insurance NV amounted to 225%, same as in 2022. KBC Insurance NV does not use any of the transitional measures.

| Solvency, KBC Insurance NV (including volatility adjustment)<br>(in m EUR) | 31/12/2023 | 31/12/2022 |
|---|---|---|
| Own funds | 4.142 | 3.728 |
| *Tier 1* | 3.641 | 3.228 |
| *BGAAP parent shareholders' equity* | 1.368 | 1.368 |
| *Dividend pay-out* | -233 | -309 |
| *Valuation differences (after tax)* | 1.699 | 1.310 |
| *Volatility adjustment* | 126 | 135 |
| *Other* | 681 | 723 |
| Tier 2 | 501 | 501 |
| *Subordinated loans* | 501 | 501 |
| **Solvency Capital Requirement (SCR)** | **1.842** | **1.659** |
| **Solvency II ratio** | **225%** | **225%** |
| Solvency surplus above SCR | 2.300 | 2.069 |

*Table 56: Own funds / Solvency II ratio (KBC Ins NV)*

The line 'Other' contains:

- The amount in the funds for future allocation (232m in 2023), which is zero under Solvency II and reported as other liability in BGAAP;
- Profit appropriation: profit premium and dividend to be paid are part of the other liabilities in the BGAAP balance sheet, while these are not included in the Solvency II economic balance sheet. This amounts to 235m EUR for 2023.

# Own funds

## Basic own funds

The total available capital of KBC Insurance Group amounted to 4.130 m EUR end of year 2023. For KBC Insurance NV the available capital amounted to 4.142m EUR end of year 2023.

### KBC Insurance Group

This amount comprises solely basic own fund items, which are eligible to cover the Solvency Capital Requirement and the Minimum Capital Requirement. More information about 'Own funds' can be found in QRT S.23.01.- Own Funds.

| (in m EUR) | 31/12/2023 | 31/12/2022 | Nominal change |
|---|---|---|---|
| Tier 1 capital | 3.619 | 3.193 | 426 |
| *Share capital* | 65 | 65 | 0 |
| *Share premium* | 1.086 | 1.086 | 0 |
| *Surplus funds* | 0 | 0 | 0 |
| *Reconciliation reserve* | 2.468 | 2.042 | 426 |
| *Excess assets over liablilties* | 4.065 | 3.732 | 333 |
| *Expected dividend payments* | -233 | -309 | 76 |
| *Own shares* | -203 | -203 | 0 |
| *Other own fund items* | -1.161 | -1.178 | 17 |
| Tier 2 | 501 | 501 | 0 |
| *Tier 2 capital* | 501 | 501 | 0 |
| Deferred tax Assets | 10 | 27 | -17 |
| *Tier 3 capital* | 10 | 27 | -17 |
| **Total available basic own funds** | **4.130** | **3.721** | **409** |

*Table 57: Available basic own funds (KBC Ins Grp)*

Tier-1 capital amounted to 3.619m EUR at end of year 2023, up 426m EUR on its year-earlier level, due to an increase in the excess of assets over liabilities (+333m EUR more details below), and by the lower expected dividend pay-out compared to 2022 of 233m EUR, which is 76m EUR lower compared to a year earlier.

The increase in the excess of assets over liabilities with 333m EUR is caused by higher increase in assets compared to the increase in liabilities due to a.o. changing interest rate curves and value of equity.

Tier-2 capital consists of a 10-year, subordinated, Solvency II-compliant Tier-2 loan granted by KBC Group to KBC Insurance for an amount of 501m EUR on 18 March 2015.

Tier-3 capital consists of 10m EUR of net deferred tax assets regarding CSOB Czech Republic and DZI.

### KBC Insurance NV

| (in m EUR) | 31/12/2023 | 31/12/2022 | Nominal change |
|---|---|---|---|
| Share capital | 65 | 65 | 0 |
| *Share premium* | 1.086 | 1.086 | 0 |
| *Surplus Funds* | 232 | 232 | 0 |
| *Reconciliation reserve* | 2.258 | 1.845 | 413 |
| *Excess assets over liabilities* | 4.077 | 3.739 | 338 |
| *Dividend payments* | -233 | -309 | 76 |
| *Own shares* | -203 | -203 | 0 |
| *Other own fund items* | -1.382 | -1.382 | 0 |
| *Tier 1 capital* | 3.641 | 3.228 | 413 |
| Tier 2 | 501 | 501 | 0 |
| *Tier 2 capital* | 501 | 501 | 0 |
| **Total available basic own funds** | **4.142** | **3.728** | **413** |

*Table 58: Available basic own funds (KBC Ins NV)*

Tier-1 capital amounted to 3.641m EUR at year-end 2023, up 413m EUR on its year-earlier level, caused mainly by an increase in the excess of assets over liabilities (+338m EUR more details below), and by the expected dividend pay-out of 233m EUR, which is 76m EUR lower compared to a year earlier.

The increase in the excess of assets over liabilities with 338m EUR is caused by higher increase in assets compared to the increase in liabilities due to a.o. changing interest rate curves and value of equity.

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

### Ancillary own funds

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

### Material differences between equity

The reason for the valuation differences between IFRS equity according to the financial statements and the excess of assets over Liabilities according to Solvency II are explained in the chapter above 'Valuation for solvency purposes'.

The reasons for the valuation differences between BGAAP equity according to the financial statements and the excess of assets over liabilities according to Solvency II, are explained in the chapter above 'Valuation for solvency purposes'.

## Diversification effects

The calculation of the Solvency II capital requirement for the KBC Insurance Group is based on method 1 (the accounting-consolidation based method). In this method, the standard formula for the calculation of the Solvency Capital Requirement (SCR) is applied to the consolidated assets and liabilities. The following table shows the total SCR for the KBC Insurance Group as the sum of the SCR for its underlying material entities[20], compared to the result of the Group SCR calculated according to the accounting-consolidation based method.

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

| (in m EUR) | 31-12-2023 |
|---|---|
| KBC Insurance NV | 1.694 |
| KBC Group Re | 86 |
| DZI Insurance | 80 |
| ČSOB Poisťovňa a.s. SK | 29 |
| ČSOB Pojišťovna a.s. CZ | 166 |
| K&H Biztosító | 59 |
| **Stand-alone SCR** | **2.113** |
| KBC Insurance Group | 2.005 |
| **Diversification effect** | **-108** |

*Table 59: Diversification effects in SCR at the level of KBC Ins Grp*

Due to the composition of the KBC Insurance Group, where KBC Insurance NV accounts for most of the overall risk profile and capital requirements, the potential sources for diversification (such as geographical diversification) are limited (-108m EUR) and do not manifest themselves in a material way in the Group calculation.

# Solvency Capital Requirement & Minimum Capital Requirement

## Solvency Capital Requirement 31/12/2023

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

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

### KBC Insurance Group

The table and waterfall chart below show the major components of SCR, which stands at 2.005m EUR end-of-year 2023. The SCR Market Risk (1.434m EUR) is the biggest contributor to the SCR. SCR Life Underwriting Risk (1.131m EUR) and SCR Non-Life Underwriting Risk (786m EUR) are second and third, respectively. It should be noted that the total SCR for the Underwriting risks, with Health Underwriting (278m EUR), accounts for 58% of undiversified basic Solvency II Pillar 1 capital.

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

The Minimum Capital Requirement (MCR) at Group level is equal to the sum of the MCRs of the entities. At 31/12/2023, CSOB Poj. SK and ČSOB Pojišťovna a.s. (CZ) reached the cap of the MCR, being 45% of their own SCR, and the rest of the entities remained within the limits with the most material entity (KBC Insurance NV) close to the cap, but with a higher margin compared to last year. Therefore, the evolution of the MCR will mainly follow the evolution of the SCR of the local entities.

| (in m EUR) | 2023 | 2022 | Nominal change |
|---|---|---|---|
| *SCR Non-Life* | 786 | 714 | 72 |
| *SCR Health* | 278 | 230 | 48 |
| *SCR Life* | 1.131 | 1.114 | 17 |
| *SCR Market risk* | 1.434 | 1.252 | 182 |
| *SCR Counterparty default risk* | 124 | 122 | 2 |
| **Total Scr Before Diversification** | **3.752** | **3.431** | **321** |
| *Diversification benefits* | -1.293 | -1.185 | -108 |
| **Total Scr After Diversification** | **2.459** | **2.246** | **213** |
| *SCR Operational Risk* | 124 | 118 | 6 |
| *Adjustment loss absorbing effect TP* | -119 | -110 | -8 |
| *Adjustment deferred taxes* | -460 | -421 | -38 |
| **Total After Diversification And Adjustments** | **2.005** | **1.833** | **172** |

*Table 60: Evolution SCR (KBC Ins Grp) – breakdown per submodule*

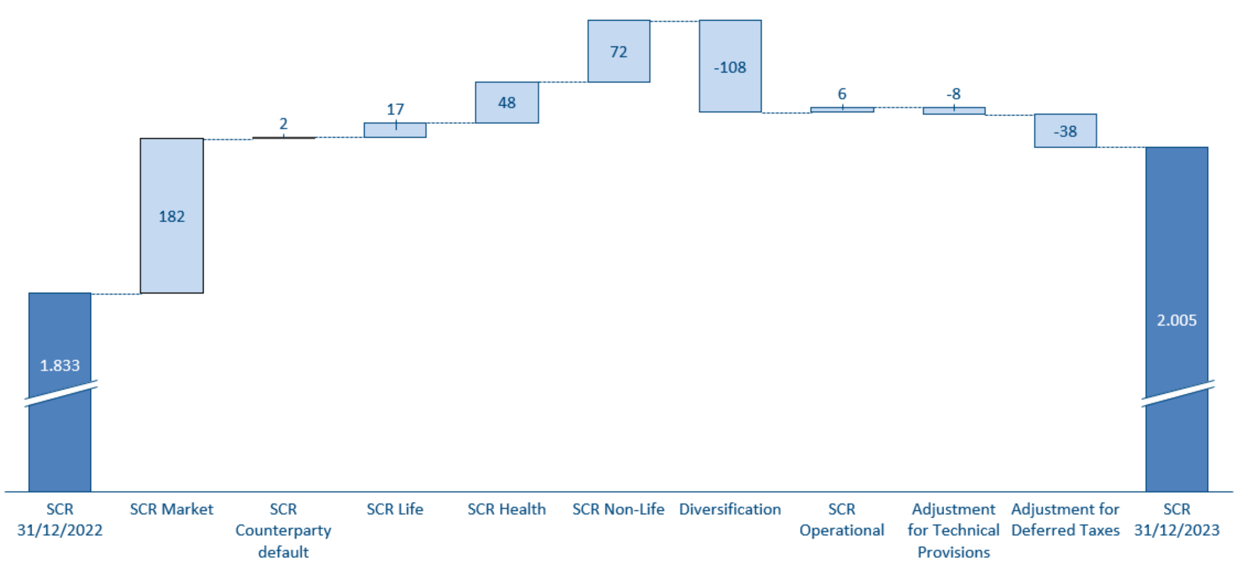


*Figure 4: Waterfall graph of evolution SCR 2022 – 2023 (KBC Ins Grp)*

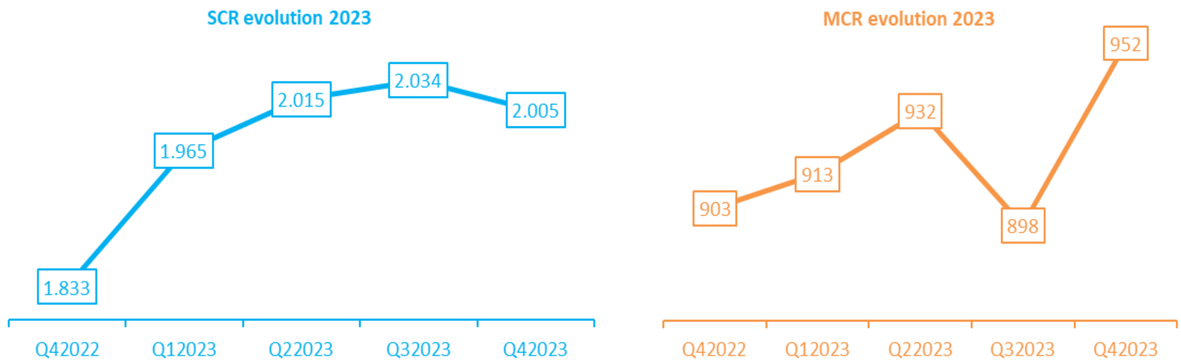


*Figure 5: Quarterly evolution of SCR and MCR in 2023 (KBC Ins Grp)*

The SCR of KBC Insurance Group increases over 2023 with 172m EUR, largely driven by the underlying movements:

- the increase of equity risk (linked to the higher equity markets);
- the increase of currency risk (due to higher value of foreign currency equity positions);
- the increase of concentration risk (due to lower exposure towards KBC Bank);
- the increase in health underwriting risk (due to growth in the portfolio);
- the increase in Non-Life underwriting risk (linked to a portfolio update and a correction in the calculation of the SCR Non-Life CAT).

This is compensated by a lower interest rate risk, which is a direct consequence of the movement in interest rates. Note that the adjustment for deferred taxes amounts up to 460m EUR by the end of 2023. It is a consolidation of the adjustment for deferred taxes at entity level.

### KBC Insurance NV

The SCR of KBC Insurance NV increases over 2023 with 183m EUR. Main underlying movements are the same as for KBC Insurance Group.

The table below shows the major components of the SCR, which stands at 1.842m EUR. The SCR Market Risk (1.500m EUR) is clearly the biggest contributor to the SCR. SCR Life Underwriting Risk (974m EUR) and SCR Non-Life Underwriting Risk (575m EUR) are second and third, respectively. It should be noted that the total SCR market risk accounts for 44% of undiversified basic Solvency II Pillar 1 capital.

More information on this matter can be found in Quantitative Reporting Template (QRT) S.25.01.21.

| (in m EUR) | 2023 | 2022 | Nominal change |
|---|---|---|---|
| **Total Scr Before Diversification** | **3.411** | **3.099** | **312** |
| *SCR Non-Life* | 575 | 552 | 23 |
| *SCR Health* | 267 | 221 | 46 |
| *SCR Life* | 974 | 959 | 15 |
| *SCR Market risk* | 1.500 | 1.279 | 221 |
| *SCR Counterparty default risk* | 96 | 88 | 8 |
| Diversification benefits | -1.112 | -1.028 | -83 |
| **Total Scr After Diversification** | **2.299** | **2.071** | **229** |
| *SCR Operational Risk* | 100 | 96 | 4 |
| *Adjustment loss absorbing effect TP* | -127 | -115 | -12 |
| *Adjustment deferred taxes* | -431 | -393 | -38 |
| **Total After Diversification And Adjustments** | **1.842** | **1.659** | **183** |

*Table 61: Evolution SCR (KBC Ins NV) – breakdown per submodule*

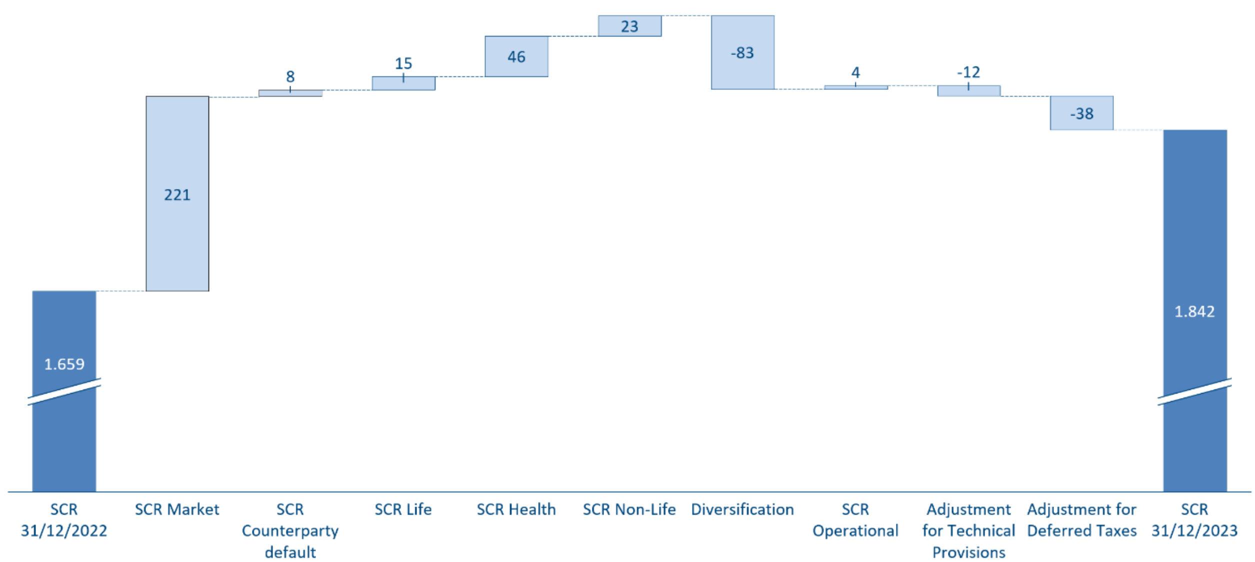


*Figure 6: Waterfall graph of evolution SCR 2022 – 2023 (KBC Ins NV)*

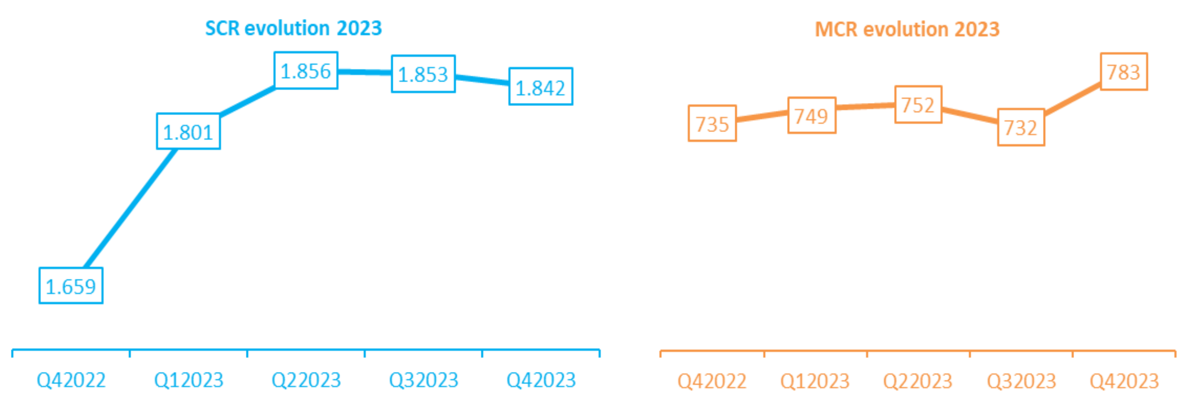


*Figure 7: Quarterly evolution of SCR and MCR in 2023 (KBC Ins NV)*

### Adjustment of Deferred Taxes

The adjustment for deferred taxes amounts up to 460m EUR for KBC Insurance Group (431m EUR for KBC Insurance NV) by the end of 2023. The maximum amount of the adjustment for deferred taxes has been taken into account of the SCR because it can be proven that there are sufficient future profits in an after-shock environment.

- Net DTL position on the balance sheet : DTL – DTA
  - ✓ Deferred tax assets (DTA) and deferred tax liabilities (DTL) are netted when KBC Insurance NV has a legally enforceable right to set off current tax assets against current tax liabilities and if the deferred tax assets and the deferred tax liabilities relate to taxes levied by the same tax authority;
  - ✓ DTA is fully compensated by DTL, which is further justified by proving that the losses underlying the DTA occur before the profits underlying the DTL.

  This results for KBC Insurance NV in a net DTL position: KBC Insurance NV recognizes 413m EUR of deferred tax liabilities on the Economic Balance Sheet. So, there are more profits expected in the future compared to losses.

More information on how deferred tax assets and deferred tax liabilities are calculated can be found in Chapter 5: Valuation for solvency purposes.

- Outcome of Recoverability test : represents the tax that can be recovered after an extreme stress event. This tax can be recovered thanks to probable future profits after the stress event. These future profits have been calculated according to the following assumptions:
  - ✓ Projection is based on the 5 years budget plan, which is extrapolated to 10 years;
  - ✓ Haircuts are applied on the last 5 years;
  - ✓ For the extreme stress event a 1/200 event is applied .
  - ✓ Calibrated parameters for the extreme stress event are applied for year 1-2-3-4-5 after the shock;
  - ✓ Double counting with the net DTL position on balance sheet is eliminated.

## Use of the duration-based equity risk sub-module in the calculation of SCR

Due to the demands of the National Bank of Belgium, and noting that the requisite ring-fenced funds do not exist in Belgium, the Solvency Capital Required calculation method using a duration based equity is not applicable.

## Differences between the standard formula and any internal model used

KBC Insurance Group and KBC Insurance NV have opted to calculate the Solvency Capital Requirements based on the standard formula (without any simplifications), rather than calculating them with a self-developed (partial) internal model. Therefore, further information has not been included here.

# Non-compliance with the MCR and non-compliance with the SCR

As KBC Insurance Group and KBC Insurance NV have not faced any form of non-compliance with either the Minimum Capital Requirement or the Solvency Capital Requirement during the reporting period, further information has not been included.

As demonstrated by the various sensitivities calculated as part of the ORSA process, we also expect compliance with Minimum and Solvency Capital Requirement under adverse circumstances in the forward looking view.

# Use of undertaking specific parameters

KBC Insurance Group and KBC Insurance NV did not opt to use undertaking specific parameters to calculate the Solvency Capital Requirements. Therefore, further information has not been included here.

# Any other information

No other information to be included.

# ANNEX

## Glossary

### Annuity

A contract that provides a series of regular payments (both amount and timing) by the insurer (amount payable / benefit) under specified conditions for a specified period of time.

*An annuity may begin at a specified time after the issuing of the contract (deferred annuity), or following a specified trigger such as death or disability, e.g. orphans' benefits or disability annuities. Annuity benefits under an insurance contract typically end upon the death of the insured person, or cease upon recovery of the insured from disability or after a predefined period. Coverage may relate to one or two persons, respectively single-Life or joint-Life.*

*The contract can be funded by the policyholder by means of a single premium or through a series of instalments. The amount of regular payments to the beneficiary may be fixed or not, i.e. variable or fixed annuity, certain or temporary. Annuity contracts are sold on an individual and group basis.*

### Asset-liability management (ALM)

The ongoing process of formulating, implementing, monitoring and revising strategies for both on-balance-sheet and off-balance-sheet items, in order to achieve an organisation's financial objectives, given the organisation's risk tolerance and other constraints.

### Best Estimate

The best estimate shall correspond to the probability-weighted average of future cash-flows, taking account of the time value of money (expected present value of future cash-flows), using the relevant risk-free interest rate term structure.

The calculation of the best estimate shall be based upon up-to-date and credible information and realistic assumptions and be performed using adequate, applicable and relevant actuarial and statistical methods.

The cash-flow projection used in the calculation of the best estimate shall take account of all the cash in- and out-flows required to settle the insurance and reinsurance obligations over the lifetime thereof.

### BPV (Basis Point Value)

The measure that reflects the change in the net present value of interest rate positions, due to an upward parallel shift of 10 basis points (i.e. 0,10%) in the zero coupon curve.

### Business environment risk

Business risk is the risk arising from changes in external factors that impact the demand for and/or profitability of our products and services. Risk factors that are taken into consideration include the macroeconomic environment, the regulatory framework, client behaviour, the competitive landscape and the socio-demographic environment. Business risk is assessed on the basis of structured risk scans. Strategic risk is the risk caused by not taking a strategic decision, by taking a strategic decision that does not have the intended effect or by not adequately implementing strategic decisions.

### Catastrophe risk

The risk that a single event, or series of events, of major magnitude, usually over a short period (often 72 hours), leads to a significant deviation in actual claims from the total expected claims.

*The notion of catastrophe risk is per definition relative to the financial position of the individual insurer and any significance will need to be defined in mathematical terms. The exact definition of what constitutes a catastrophe hence varies per insurer.*

### Credit risk

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

### EIOPA (European Insurance and Occupational Pensions Authority)

The successor to the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS), EIOPA is part of the European System of Financial Supervision consisting of three European Supervisory Authorities and the European Systemic Risk Board. It is an independent advisory body to the European Parliament and the Council of the European Union. EIOPA's core responsibilities are to support the stability of the financial system, transparency of markets and financial products, as well as the protection of insurance policyholders, pension scheme members and beneficiaries.

### Equity risk

The risk of a change in value caused by deviations of the actual market values of equities and/or income from equities from their expected values

### Fair value

The amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. Market-consistent value or fair value is based on relative pricing or the 'no arbitrage' argument.

### Foreign exchange risk

The risk of a change in value caused by the fact that actual foreign currency exchange rates differ from those expected.

*Foreign exchange risk can arise if the assets and liabilities of an insurer are not in the same currency, or if contracts for administrative and other services are contracted in a currency different to the currency implied in the premium determination.*

### Guaranteed benefit

Payments or other benefits to which a particular policyholder or investor has an unconditional right that is not subject to the contractual discretion of the issuer.

The unconditional right of the policyholder implies that no condition is subject to the insurer's discretion, nor to insurer's performance. Hence, a guaranteed benefit, or its determination, is contractually stipulated without any ability of the insurer to influence that benefit, neither by discretion nor by its performance. Accordingly, a guarantee is a risk bearing feature, since the amount to be paid might deviate from the earnings of the insurer, without the ability of the insurer to avoid that.

### Health insurance

Generic term applying to all types of insurance indemnifying or reimbursing for losses (e.g. loss of income) caused by illness or disability, or for expenses of medical treatment necessitated by illness or disability.

### IBNR (Incurred but not Reported) reserves

IBNR is the abbreviation of incurred but not reported reserves (IBNR), these are the reserves for claims that become due with the occurrence of the events covered under the insurance policy, but have not been reported yet.

### Inflation risk

The risk of a change in value caused by a deviation of the actual market-consistent value of assets and/or liabilities from their expected value, due to inflation, e.g. price inflation, wage inflation, etc., leading to an unanticipated change in insurance cost and/or impact of an insurance contract, e.g. with respect to contract limits.

### Insurance contract

A contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or its beneficiary if a specified uncertain future event (the insured event) affects the policyholder.

### Insurance risk

The potential negative deviation from the expected value of an insurance contract or pension claim (or a portfolio thereof).

### Interest rate risk

The potential negative deviation from the expected value of a financial instrument or portfolio thereof due to changes in the level or in the volatility of interest rates.

### Lapse risk

The potential negative deviation from the expected value of an insurance contract or a portfolio thereof due to unexpected changes in policy lapses. Note that the term surrender risk refers specifically to contracts with surrender value.

### Life insurance

Category of insurance contracts for which the benefit payment is based on the occurrence of death, disability, or critical illness of the insured within the specified coverage term, or on the life status of the insured at maturity.

Life insurance offers life and/or death coverage of the insured in the form of a single or multiple (as well regular in case of an annuity) lump sum payments to a beneficiary.

Health insurance products are often sold as a rider to a (group) Life contract. In *sensu stricto* these are not Life insurance, because they do not relate to the occurrence of death.

### Liquidity risk

Liquidity risk is the risk that an organisation will be unable to meet its payment obligations as they come due because of the inability to liquidate assets or obtain adequate funding (liability liquidity risk) or the risk that it cannot easily unwind or offset specific exposures without significantly lowering market prices because of inadequate market depth or market disruptions (asset liquidity risk).

## Market risk

The potential negative deviation from the expected value of a financial instrument (or portfolio thereof) due to changes in the level or volatility of market prices.

## Market value

The cost that would be incurred or the gain that would be realised if an outstanding contract was replaced at current market prices (also called replacement value).

## MCR (Minimum Capital Requirement)

The capital level representing the final threshold that triggers ultimate supervisory measures in the event that it is breached.

## Non-Life insurance

Generic term used to refer to all types of insurance business other than Life insurance, including for example Property insurance, Liability insurance, Motor insurance, Accident insurance and Health insurance.

## Operational risk

The potential negative deviation from the expected value of the organisation resulting from inadequate or failed internal processes and systems, human error or sudden external events, whether man-made or natural. Operational risk excludes business, strategic and reputational risk.

## ORSA (Own Risk and Solvency Assessment)

The Own Risk and Solvency Assessment covers the entirety of the processes and procedures employed for identifying, assessing, monitoring, managing, and reporting on the short- and long-term risks a (re)insurance undertaking faces or may face, and for determining the own funds necessary to ensure that the undertaking's overall solvency needs are met at all times.

## Risk appetite

Risk appetite, as defined by the Board of Directors, is the amount and type of risk that KBC is able and willing to accept in pursuit of its strategic objectives. While the ability to accept risk is limited by financial (e.g. available capital) and non-financial regulatory and legal constraints, the willingness to accept risk depends on the interests of various stakeholders (shareholders, creditors, employees, management, regulators, clients, etc.). Risk appetite aims to find the right balance of satisfaction for all stakeholders.

## Risk margin

A generic term, representing the value of the deviation risk of the actual outcome compared with the best estimate, expressed in terms of a defined risk measure

The term 'risk margin' in the context of Solvency II refers to the amount above the best estimate liability.

## Solvency II

Solvency II is a project, initiated by the European Commission in 2001, and resulted in the European directive 2009/138/EC of 25/11/2009 (Solvency II) which establishes capital requirements and risk management standards that apply across the EU and affect all areas of an insurer's operations. Solvency II aims to move away from the idea that 'one approach fits all' and thus encourages companies to manage risk in a way which is appropriate to the size and nature of their business in order to provide protection to policyholders by reducing the risk of insolvency to insurers.

## SCR (Solvency Capital Requirement)

The amount of capital to be held by an insurer to meet the Pillar I requirements under the Solvency II regime.

## Spread risk

The risk of a change in value due to a deviation of the actual market price of credit risk from the expected price of credit risk.

## Underwriting risk

The risk of a change in value due to a deviation of the actual claims payments from the expected amount of claims payments (including expenses).

Total underwriting risk for Non-Life insurance includes the total of claims risk and expense risk for claims. For Life insurance it includes the total of lapse, surrender and biometric risks, as well as expense risk for claims.

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