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KBC Insurance N.V.

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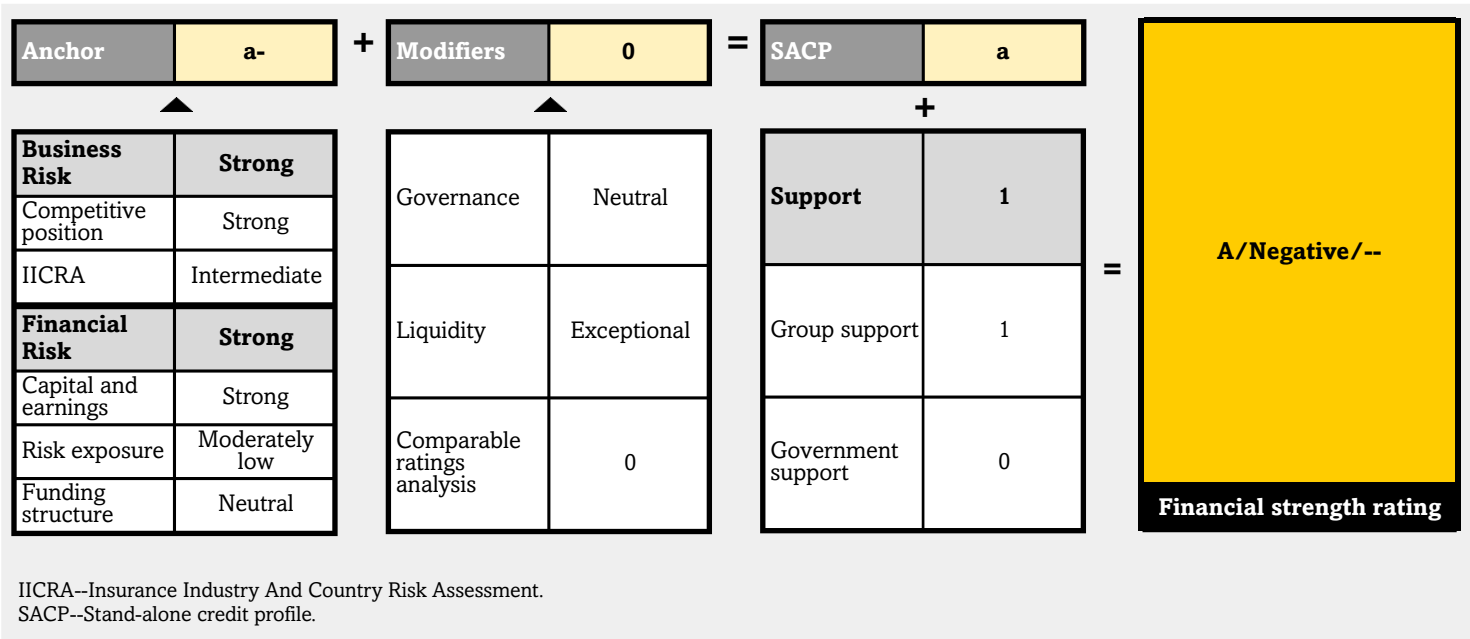
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KBC Insurance N.V.



The lower anchor is influenced by our view of the company's limited geographic footprint.

Credit Highlights

Overview	
Strengths	Weakness
Good diversification between life and nonlife insurance.	Limited geographic footprint.
Profitable bancassurance business model fostered by significant commercial and operational integration with KBC Bank N.V.	Constrained capital adequacy stemming from capital management at the group level.
Market leader in the unit-linked savings segment and one of the largest insurers in Belgium.	Significant share of savings contracts reserves with high guaranteed rates.

S&P Global Ratings expects KBC Insurance N.V. will maintain its prominent position in Belgium. With a 13% market share in life and 9% in nonlife insurance, KBC Insurance is market leader in unit linked segment. Our ratings on KBC Insurance also reflect the depth and breadth of its product range and distribution network in the Belgian market. The 'a-' anchor reflects higher earning concentration in Belgium and very recent improvement in capital position.

KBC Insurance's holds capital at the 'A' confidence level, as measured by our risk-based model. and we expect it will maintain this over the rating horizon through 2022. This reflects the change in the product mix to less capital intensive products and the the company's conservative reserving of its nonlife provisions. We also take into account a full upstream of the annual net profit to the parent, leaving limited growth potential in our measure of adjusted capital. This dividend policy reflects the insurer's strategy to foster the efficiency of KBC Group's capital structure.

We believe that a favorable combined ratio offsets the impact of an adverse macroenvironment. Lower investment income and lower sales in life segments will have a negative impact on KBC Insurance's earning. We expect the insurer's net income will decline to below €300 million for 2020. However, we expect earning will recover to more than €300 million in 2021 thanks to, in particular, the technical performance of nonlife insurance in Belgium, which has

historically been higher than the market. We expect KBC Insurance will maintain a combined ratio (loss and expense) of 90%-94%.

Outlook: Negative

Our negative outlook on KBC Insurance mirrors that on KBC Group N.V., which reflects increased risks to asset quality and earnings from the economic and market effects of the COVID-19 pandemic. Although we note KBC Group's significant revenue diversity, robust balance sheet, and the unprecedented fiscal and monetary response from Belgian and European authorities, a deep and extended economic downturn could significantly increase impairment losses and weaken revenue over our two-year outlook horizon.

Downside scenario

Although unlikely, we could lower the ratings on KBC Insurance if we revised down our assessment of KBC Group's group stand-alone credit profile, or if we no longer considered KBC Insurance a core subsidiary of KBC Group.

Upside scenario

Although unlikely in the short term, we could raise the ratings on KBC Insurance if we revised up our assessment of KBC Group's group SACP.

Key Assumptions

- Long-term interest rates to stay negative or close to zero until 2023 for most Europe regions.
- Real GDP for Belgium to contract by 7.6% in 2020, increasing by 5.5% in 2021 and 3.4% in 2022.
- Unemployment rate in Belgium was 5.4% in 2019 and will likely increase marginally in the next three years.

KBC Insurance N.V.--Key Metrics

	2021f	2020f	2019	2018	2017
Gross premium written (mil. €)	>2,900	>2,800	3,065.0	2,962.0	2,784.0
P/C: net combined ratio (%)	<94	<94	90.3	88.7	88.2
P/C: return on revenue (%)	15.0	15.0	14.1	15.5	16.6
Life new business margin (%)	>5	>5	8.0	9.0	9.9
Net income (mil. €)	>300	<300	480.0	470.0	465.0
Total shareholder equity	~2,900	~2,900	3,425.0	2,729.0	3,051.0
Return on shareholders' equity (%)	>10	>10	15.6	16.2	15.5
S&P Global Ratings capital adequacy*	Strong	Strong	Strong	Satisfactory	Moderately Strong

f--S&P Global Ratings forecast. *The Moderately strong assessment in 2016 and 2017 reflects the rating construction under the previous insurance criteria framework.

Business Risk Profile: Strong

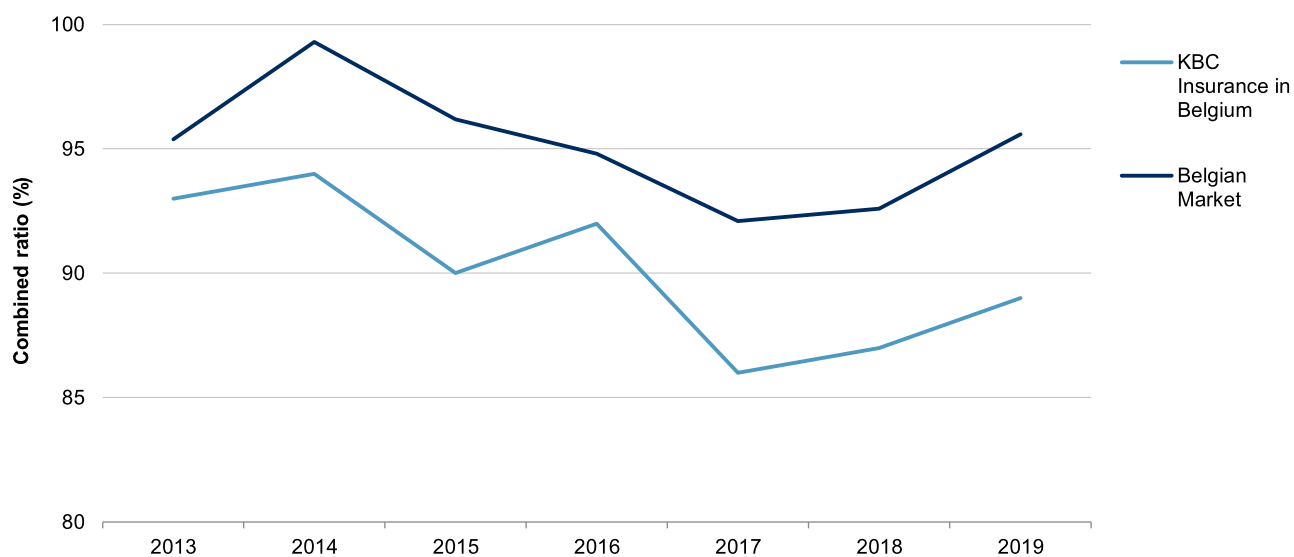
KBC Insurance's leading position in its home country Belgium, from where it derives over 70% of its gross written premiums, underpins its strong business risk profile. The company benefits from a strong distribution network of bank branch and tied agents.

KBC Insurance is the fourth largest insurer in Belgium after AG Insurance, AXA Belgium, and Ethias. KBC Insurance is also the market leader in the unit-linked savings segment, leveraging the group's expertise in asset management. Its share of the property/casualty (P/C) market is limited to 9% because it focuses on the group's bank branch network and tied agents, with a limited footprint within the Belgian large broker-led share of P/C activity.

For the Belgian activities, the company's combined ratio has been stronger than that of its peers by five percentage points on average over the past six years (see chart 1). We expect KBC Insurance will continue to outperform the Belgian P/C market, owing to its good knowledge of customers and strict underwriting rules. In the first six months of 2020, the group's combined ratio was exceptionally better, at 83% as per the company's calculations (the lower the combined ratio, the more profitable the insurer, and a ratio of more than 100% signifies an underwriting loss). Lower motor claims during lockdown benefited the company in first-half 2020, and partly offset higher property related claims and negative ceded reinsurance income.

Chart 1

KBC Insurance Historically Outperformed Peers In Non-Life Technical Performance On Its Domestic Market



Source: KBC Insurance, Assuralia.

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Through local subsidiaries, KBC Insurance also writes business in Central and Eastern Europe, mainly in the Czech Republic through CSOB Pojistovna a.s., in Slovakia through CSOB Poistovna a.s., in Hungary via K&H Biztosító, and in Bulgaria through DZI Insurance. KBC Insurance has also started pension savings in Ireland, where the group already operates banking activities via KBC Bank Ireland.

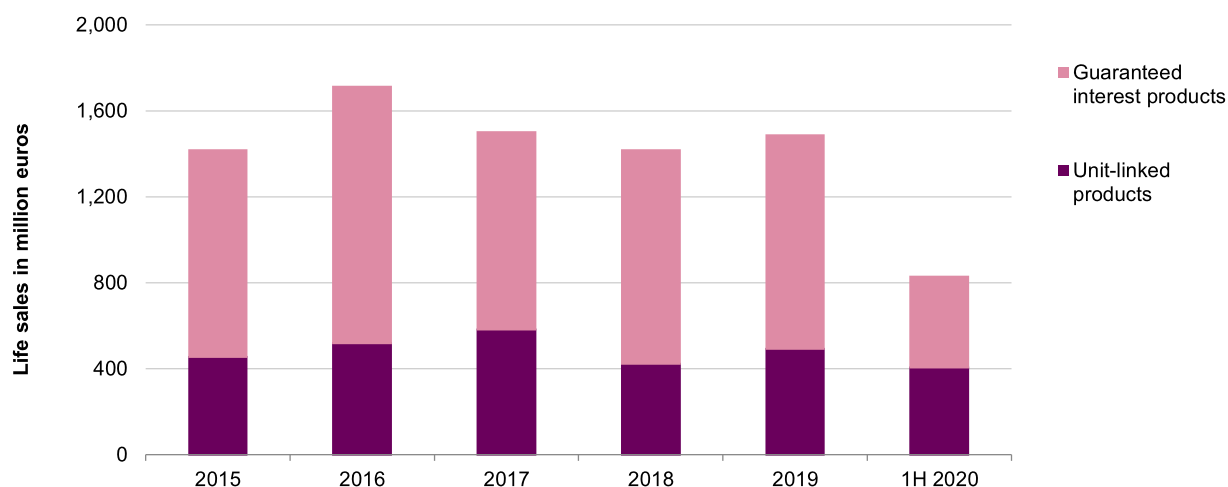
Financial Risk Profile: Strong

Over the past two years, KBC Insurance's capital adequacy improved to the 'A' confidence level, as measured by our risk-based model. Based on our analysis, we forecast capital adequacy will likely to remain in the 'A' range through 2022 thanks to solid earnings, a change in business mix toward less capital intensive products, and an adequate nonlife reserve surplus. Our forecast is based on the assumption that there will be full payout of profits as dividends to the parent, combined with moderate balance sheet growth and stable investment risk on the asset side.

KBC Insurance is moving toward less-capital-intensive products, and discontinued the sale of eight guaranteed life insurance products in second-half 2019. In 2019, 30% of KBC Insurance's traditional life insurance reserves had a minimum guaranteed rate above 2.50%, which reduced from 33% in 2018. Given the medium-tailed nature of guaranteed savings business in Belgium (the guarantee expires after eight years) and the high share of unit-linked business, we do not view this as a long-term threat to the company's balance sheet.

Chart 2

Leader In Unit-Linked Business In Belgium, Average 33% Of Life Sales Over The Past Five Years



Source: Company's financial report

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We assess KBC Insurance's sensitivity to interest rates as limited in view of the relatively close match between assets and guaranteed liabilities.

The funding structure does not raise any particular concern given KBC Insurance's financial leverage is less than 15%. This includes an intra-group subordinated debt of €500 million and a limited pension deficit.

Other Key Credit Considerations

Governance

KBC Insurance's governance reflects the company's ability to set and execute long-term strategic goals that are in line with KBC Group's long-term objectives, and within reach.

Liquidity

The company's liquidity level is not a concern, owing to the strength of available liquidity sources and the company's relatively liquid asset portfolio.

Group support

We view KBC Insurance and KBC Group Re as core to KBC Group N.V. We understand from the Belgian banking resolution framework that insurance operations would be outside the scope of a potential bail-in process. We therefore equalize our ratings on KBC Insurance with KBC's 'a' group SACP, which does not include a notch of support from additional loss-absorption capacity. Such support can only apply to the group's banking operating companies.

Accounting considerations

KBC Insurance reports annually under International Financial Reporting Standards. An important share of the company's life insurance revenue stems from investment contracts, which are not booked as insurance premiums.

Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | Property/Casualty: Assessing Property/Casualty Insurers' Loss Reserves, Nov. 26, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

Appendix

KBC Insurance N.V.--Credit Metrics History		
Ratio/Metric	2019	2018
S&P Global Ratings capital adequacy	Strong	Satisfactory
Total invested assets	37,310.0	35,574.0
Total shareholder equity	3,425.0	2,729.0
Gross premiums written	3,065.0	2,962.0
Net premiums written	3,040.0	2,921.0

KBC Insurance N.V.--Credit Metrics History (cont.)

Ratio/Metric	2019	2018
Net premiums earned	3,040.0	2,921.0
Reinsurance utilization (%)	0.8	1.4
EBIT	617.0	633.0
Net income (attributable to all shareholders)	480.0	470.0
Return on assets (including investment gains/losses) (%)	1.7	1.7
Return on shareholders' equity (reported) (%)	15.6	16.2
P/C: net combined ratio (%)	90.3	88.7
P/C: net expense ratio (%)	34.0	35.9
P/C: return on revenue (%)	14.1	15.5
Life: Net expense ratio (%)	12.3	13.0
EBITDA fixed-charge coverage (x)	51.7	31.7
EBIT fixed-charge coverage (x)	51.7	31.7
Financial obligations / EBITDA adjusted	1.0	1.0
Financial leverage including pension deficit as debt (%)	13.4	16.8
Net investment yield (%)	2.3	2.6
Net investment yield including investment gains/losses (%)	2.8	2.9

Business And Financial Risk Matrix

Business risk profile	Financial risk profile							
	Excellent	Very Strong	Strong	Satisfactory	Fair	Marginal	Weak	Vulnerable
Excellent	aa+	aa	aa-	a+	a-	bbb	bb+	b+
Very Strong	aa	aa/aa-	aa-/a+	a+/a	a-/bbb+	bbb/bbb-	bb+/bb	b+
Strong	aa-/a+	a+/a	a/a-	a-/bbb+	bbb+/bbb	bbb-/bbb-	bb-/bb-	b+/b
Satisfactory	a	a/a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bb+/bb	bb-/b+	b/b-
Fair	a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb/bb-	b+/b	b-
Weak	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b/b-	b-
Vulnerable	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b+/b	b/b-	b-	b-

Note: Where table indicates two possible outcomes, we determine the anchor as follows: For financial risk profiles that we assess as satisfactory or stronger, we consider the relative strength of both the business risk and financial risk profiles within the cell. This is based on a holistic assessment of the relative strengths of the rating factors of the business risk profile and financial risk profile. For financial risk profiles that we assess as fair or weaker, we typically place more weight on the relative strength of the rating factors of the financial risk profile.

Ratings Detail (As Of December 14, 2020)***Operating Company Covered By This Report****KBC Insurance N.V.**

Financial Strength Rating

Local Currency

A/Negative/--

Issuer Credit Rating

Local Currency

A/Negative/--

Domicile

Belgium

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and

Ratings Detail (As Of December 14, 2020)*(cont.)

debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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