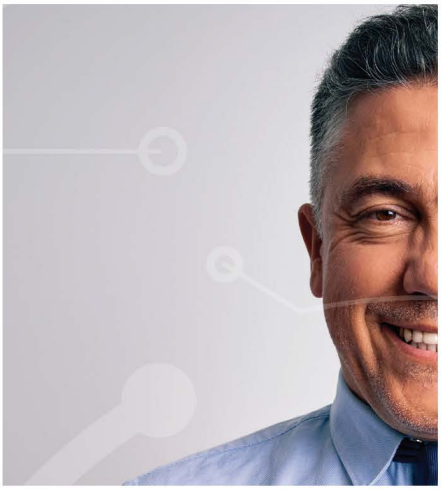





Risk Report

KBC Group

2020






KBC

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Introduction: Financial highlights in 2020, Risk Statement & Disclosure Policy

KBC is an integrated bank-insurance group, whose main focus is on retail clients and small and medium-sized enterprises. We occupy leading positions in our home markets of Belgium, Central and Eastern Europe (Czech Republic, Hungary, Slovakia and Bulgaria) and Ireland, where we specialise in retail bank-insurance and asset management activities. Elsewhere around the world, the group has established a presence in selected countries and regions.

Financial highlights in 2020

Due to the coronavirus pandemic, KBC's P&L was substantially impacted but KBC remained profitable, with even stronger capital and liquidity ratios.

Key figures	31-12-2020	31-12-2019
Net result (in millions of EUR)	1 440	2 489
CET1-ratio (fully loaded)	17.6%	17.1%
LCR	147%	138%
MREL/TLOF	10.1%	10.4%

Table 1 – Key figures

Profit was mostly impacted by:

- Low interest rates: net interest income down by 150 million euros;
- Lower fee and commission income, including Asset Management (-125 million euros);
- Impairments on financial assets (up 871 million euros), mostly due to IFRS 9 overlay; as credit losses have not yet materialised, a buffer of almost 800 million euros remains to absorb future losses;
- Partly offset by strong non-life insurance results (+109 million euros) and cost cutting (-147 million euros).

Capital and liquidity remained strong:

- With a common equity tier-1 ratio (Basel III fully loaded based on Danish compromise) of 17.6% at year-end, well above the current theoretical minimum capital requirement of 7.95% (as a result of the announced ECB and National Bank measures which provided significant temporary relief on the minimum capital requirements). The capital requirement was 11.45% (which includes the 2.50% capital conservation buffer as well as the Pillar 2 Guidance);
- A fully loaded Basel III leverage ratio of 6.4% at year-end 2020;

- The MREL ratio based on the 'hybrid view' definition of SRB amounted to 10.1% as a percentage of total liabilities and own funds (TLOF). On this basis, the SRB/NBB requires KBC Group NV to achieve a MREL ratio of 9.67% as a percentage of TLOF as from 31 December 2021;
- Solvency II ratio of 222% at group level (including volatility adjustment), ranking KBC Insurance among the better-capitalised companies in the insurance industry;
- Continued robust liquidity position at year-end, with NSFR at 146% and LCR at 147% (i.e. 12-month average LCR). Both ratios are well above the minimum regulatory requirements;
- Underpinning of risk appetite in place for the different risk types.

Risk statement

KBC Group is a Financial Conglomerate (FICO), combining bank, insurance and asset management activities, which offers clear benefits, including in terms of income diversification, cost efficiency and a one-stop-shop experience for our clients.

As a financial institution KBC is exposed to risks that are typical for the financial sector, including both financial risks (e.g., credit risk, market risk, insurance risks) and non-financial risks (e.g., operational risks, compliance risks, business risks). Our integrated FICO business model makes some of those risks more prominent, requiring additional processes to adequately manage them.

KBC has a solid risk governance and management system in place with regularly updated risk frameworks and policies – taking into account changes in the internal and external context and new regulatory requirements – including a clearly defined risk appetite for each risk type, a mature product approval process and a deeply embedded risk culture throughout the three lines of defence.

The updated corporate strategy 'Differently: The Next Level' requires increased attention for risks that could compromise the implementation of KBC's digital-first, data-driven strategy, which focuses on client experience, operational excellence and corporate social responsibilities. Most of these challenges are situated in the operational and compliance risk domains. Although these risks were already top of mind, some of them were pushed (even) further to the forefront. This includes process and outsourcing risk, information security risk, IT risk, and data availability and quality. Being among the top risks for the coming years, climate and sustainability risks are also receiving increased attention.

In addition to adjusting to the updated corporate strategy, risk management was heavily focused on handling the coronavirus pandemic, which caused tremendous disruption worldwide and has greatly added to the uncertainty of KBC's highly challenging business environment. Operational resilience and agility were put to the test as we switched to a new way of – primarily remote – working, but business continuity was safeguarded at all times and key risk management processes remained fully operational. Frequent and comprehensive crisis monitoring was put in place. In terms of operational risk this included:

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

Until now, no major issues or incidents have been reported due to the coronavirus crisis and operational losses were even lower in 2020 than in previous years.

As a result of the pandemic, movements in financial markets were even more extreme than during the 2008 crisis. Interest rates were pushed further down and moratoria and other regulatory measures were put in place. These events challenged the management of our financial risks, more specifically market risk, liquidity risk and especially credit risk. KBC's strong control environment helped to successfully withstand these challenges, demonstrating that KBC's Risk management is robust and adequate.

Disclosure policy

In line with its general communication policy, KBC aims to be as open as possible when communicating to the market about its exposure to risk. Risk management information is therefore provided in a separate section of the 2020 Annual Report of KBC Group NV and – more extensively – in this publication.

The most important regulations governing risk and capital management are the Basel III capital requirements applying to banking entities, and the Solvency II capital framework applying to insurance entities. In 2014, the Basel II capital requirements were replaced by the Basel III framework, with a final implementation date of 1 January 2020. Solvency I has been replaced by the fundamentally reformed Solvency II framework, which officially entered into force in January 2016.

The 2020 Risk Report is based on Basel III's third pillar and in accordance with the resulting disclosure requirements of the Capital Requirements Regulation and Capital Requirements Directive (CRR/CRD) of the European Union. Requirements relating to activities that are not applicable/do not exist for KBC are, therefore, not included. Although the disclosures mostly refer to the Basel III first-pillar risk metrics and focus on banking entities, KBC – as a bank-insurance company – has decided to extend the scope to include the insurance activities in order to provide an overall view of the KBC group's risk exposure and risk management activities.

To ensure that a comprehensive view is provided, the market risk (non-trading-related, i.e. Asset and Liability Management) inherent in KBC Insurance's activities have also been included. Furthermore, as they are managed in an overarching group-wide fashion, the disclosures on non-financial risks have been drawn up to include detailed information at KBC group level (banking and insurance combined). Furthermore, liquidity risk is described from a group perspective. Detailed information on the technical insurance risk borne by KBC Insurance has also been included.

Information is disclosed at the highest consolidated level, i.e. KBC Group. Hence, unless explicitly otherwise mentioned, all references to KBC in this report refer to KBC Group Consolidated. Additional information, specifically on the material entities, is confined to the capital information in the 'Capital adequacy' section. For more detailed information, please refer to the local capital disclosures of the entity concerned (for instance, those provided on their websites).

KBC ensures that a representative picture is given in its disclosures at all times. The scope of the reported information – which can differ according to the matter being dealt with – is clearly indicated. A comparison with the previous year is provided unless this is not possible due to differences in scope and/or methodology.

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 underwent a final screening by authorised risk management representatives to ensure quality.

In addition, the 2020 Risk Report was distributed to the Group Executive Committee, the Board of Directors, as well as to the Risk & Compliance Committee to ensure the appropriate approval of the management body as requested under Basel III.

Information disclosed under IFRS 7, which has been audited, is presented in KBC's annual report. Broadly speaking, the information in the annual report corresponds with the information in this risk report, but a one-on-one comparison cannot always be made due to the different risk concepts used under IFRS and Basel III. In order not to compromise on the readability of this document, relevant parts of the annual report have been reproduced here.

This risk report is available in English on the KBC website and is updated on a yearly basis. KBC's next update is scheduled for the beginning of April 2022. However, as regulatory required, a defined number of tables will be made public on a quarterly or semi-annual basis during 2021.

Cross-references

For a number of topics, we refer to other reports in order to avoid too much overlap or duplication of information. This allows us to improve the readability of and to add value to the report. The table below shows the topics where reference is made to other reports.

Topics	Reports
Information regarding governance arrangements	See the 'Corporate governance statement' section of the 2020 Annual Report of KBC Group NV
Information on the remuneration policy of financial institutions and corporate governance arrangements	KBC Group Compensation Report See the 'Corporate governance statement' section of the 2020 Annual Report of KBC Group NV
Country-by-country information	See the 'Our business units' section and the 'Our business model' strategy section of the 2020 Annual Report of KBC Group NV
New products	See 'In what environment do we operate?' in the 'Our business model' section and the 'Our business units' section of the 2020 Annual Report of KBC Group NV
Credit risk related to KBC Insurance	See the 'How do we manage our risks' section of the 2020 Annual Report of KBC Group NV
Information regarding corporate sustainability and climate change	See 'Sustainability Report' on the kbc.com website and the 'Our role in society' and 'Focus on climate' sections of the 2020 Annual Report of KBC Group NV

Risk Management & Governance

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

Risk innovation, transformation and straight-through processing

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

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

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

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

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

Coronavirus crisis

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

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

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

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

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

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

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

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

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

Risk Management

Main elements in our risk governance model:

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

Relevant risk management bodies:

- Executive Committee:
    - makes proposals to the Board of Directors about risk appetite – including the risk strategy – and the Enterprise Risk Management Framework;
    - decides on the risk-type-specific risk management frameworks and monitors their implementation throughout the group;
    - acts as the leading risk committee, covering material issues that are channelled via its supporting committees;
    - monitors the group's major risk exposure to ensure conformity with the risk appetite.
- Business Committees:
    - The Group ALCO handles matters related to ALM and liquidity risk.
    - The Global IT Committee handles matters related to information technology and information security risk.
    - The Internal Sustainability Board handles matters related to environmental, social and governance (ESG) risks.

- Risk committees:
    - The CRO Services Management Committee supports the Executive Committee in assessing the adequacy of, and compliance with, the KBC Risk Management Framework and defines and implements the vision, mission and strategy for the CRO Services of the KBC group. The CRO Services Management Committee convened on seven occasions during 2020;
    - The activity-based Group Risk Committees (for lending (GLC), markets (GMC) and insurance (GIC), respectively) support the Executive Committee in setting and monitoring limits for these activities at group level. Liquidity and ALM issues related to these activities are addressed by the Group ALCO. The ALCO convened on eight occasions during 2020;
    - The Group Internal Control Committee (GICC) supports the Executive Committee in monitoring and strengthening the quality and effectiveness of KBC's internal control system. The GICC convened on five occasions during 2020.

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

In addition, banks are required to maintain an internal governance and control framework that ensures a well-functioning internal risk management. In this light, KBC conducts a yearly group-wide risk-based capacity assessment exercise. The 2020 iteration of the exercise concluded that, overall, the risk function has sufficient capacity to perform sound risk management. Results are presented and discussed at KBC's Risk and Compliance Committee. Increasing regulatory requirements and expectations comprise the main source of potential strain on capacity.

KBC's risk-based capacity assessment also indicates that a sufficient mix of experience and maturity is present in the risk function. The dynamic and rapidly changing environment KBC operates in (increasing data-driven operations, rapid digitalisation, etc.) requires a skilled workforce. A comprehensive employee skill management programme is in place and a significant focus on training and skills development ensures continuous development of expertise.

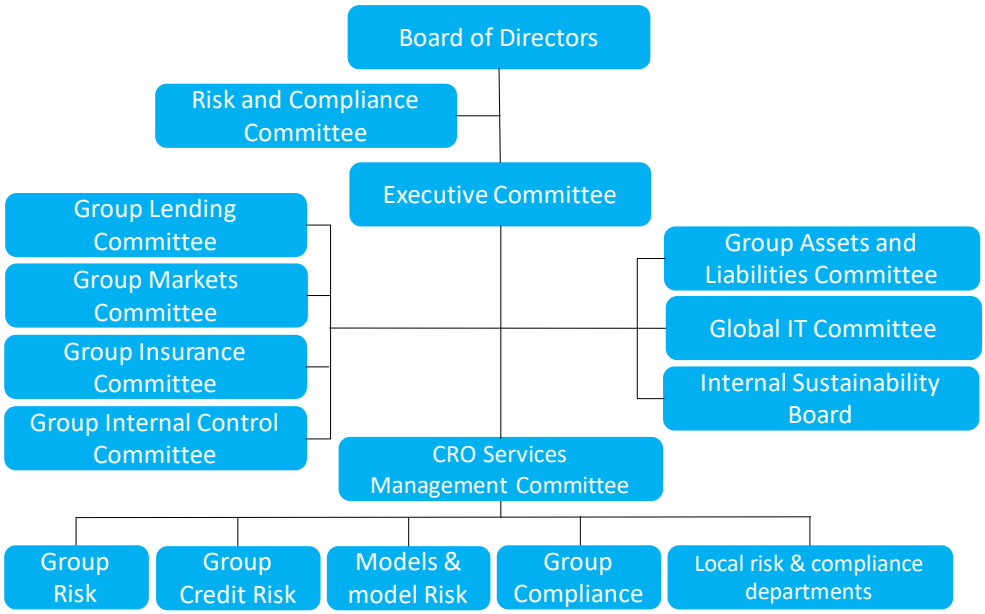

Figure 1 - Schematic overview of the risk governance model

Risk culture

Christine Van Rijsseghem, KBC Group CRO

The Risk function's vision is to put risk in the hearts and minds of all staff, to help KBC create sustainable growth and earn its clients' trust. In order to maintain and grow trust, it is important that we behave responsibly in everything we do, across all layers of the organisation. This means that the mindset of all KBC staff should extend beyond regulations and compliance.

Fostering responsible behaviour is key to creating a positive risk culture. It starts with extensive, hands-on and active involvement of senior management in risk matters, from regular governance bodies to major projects. Within KBC, openness, transparency and focus on risk are paramount.

Risk Management Frameworks and policies provide essential guidance for Business, but need to be interpreted and applied with the right risk mindset to ensure effective and efficient risk management.

Signs of a good risk culture include actively identifying potential risks in the form of 'risk signals', which are regularly discussed at senior management level, and the yearly 'risk assessment exercise' conducted by Business to actively identify anticipated risks, which are included in the yearly business planning and target setting. KBC also has a strong risk governance system in place thanks to the 'New and Active Products Process' (NAPP). This process ensures that new and existing products and services are scanned and screened for risks by Business and challenged by the different control functions.

As part of our initiatives to ensure that risk awareness is embedded in all layers of the organisation, extra attention is given to staff from newly merged or acquired entities. Therefore, extra awareness campaigns are being set up to communicate KBC's standards and values in addition to the risk training and information sessions that are organised on a regular basis.

Increased digitalisation and rapidly changing innovations were a first test for our risk culture to which we responded, among other things, with adapted governance to introduce new products in a faster and more agile way while keeping risks under control.

But the ultimate test turned out to be the coronavirus pandemic, to which KBC responded in a very resilient and effective way, allowing us to continue performing well without major incidents. Our Business Continuity Plan allowed us to move the entire organisation to homeworking in an orderly and efficient way, while our Risk Frameworks and procedures ensured the relevant control actions were taken – in the first place – by Business. As such, KBC Group passed this test very well.

Three Lines of Defence Model (3 LOD model)

The three lines of defence concept is used to further improve the Internal Control System within the KBC group. The roles and responsibilities of the different parties within this concept are highlighted below.

First line of defence: business entities

The first line of defence (the business side) 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 of the risks are of a sufficient quality, and performing the right controls in the right manner.

Second line of defence: the risk function (and other parties, such as the compliance function)

The risk function, as part of the second line of defence, formulates independent opinions on the risks KBC faces and on the way they are mitigated. It provides an overview of the group's control environment and risk exposure.

To do this consistently 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.

To make sure that its voice is heard, the CROs also have a veto right that can be exercised in the different committees where major decisions are taken.

Third line of defence: internal audit

The third line of defence (internal audit) gives reasonable assurance to the Boards 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.

Components of a sound risk management

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

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

In the risk management process, the process steps are not strictly sequential and interact with one another. The generic risk management process steps are dealt with in more detail under each risk type separately in the sections below.

Risk identification

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

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

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

Risk measurement

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

Risk measurement is an important step in the risk management process, as it aims to measure the various risks that KBC is exposed to. However, 'measuring risk' can be challenging, given that it typically requires analysing a large amount of data, developing (complex) mathematical models and bringing it all together in time-critical calculation and reporting processes. Unsurprisingly, this in itself can lead to new risks.

Definition

KBC defines risk measurement as 'the action to come to a quantitative expression of a risk, or a combination of risks, on a portfolio of instruments/exposures via a model'. Once risks have been identified, certain attributes of the risk type in

question can be assessed, e.g., impact, probability of occurrence, size of exposure, etc. This is done with the help of risk measures. These measures allow risks to be monitored over time and help to assess the impact of risk management actions. Risk measures are designed to measure a specific risk or multiple risks at the same time and can be either internally developed or imposed by the regulator (including the calculation method used). An overview of the risk measures in use in the KBC group (both regulatory and internally defined) is provided in the integrated and risk-type-specific frameworks.

Standards

Due to the crucial importance of risk measurement, strict guidelines apply for the design, development and use of risk measurement standards. All requirements that relate to these processes are documented in the KBC Risk Measurement Standards (RMS).

They aim to install a robust challenger process, creating awareness regarding measurement risk and mitigating this risk where possible, without putting undue burden on the company. Hence, implementing the risk measurement standards ensures that:

- the output of the risk measurement process is of good quality and fit for use;
- the measurement process itself is stable/robust, efficient and cost-efficient.

In order to arrive at sound measurements that facilitate decision processes, the following principles are important:

- Transparency: provide stakeholders with a clear view of all aspects relevant to measuring risk, including any shortcomings and errors;
- Four-eyes principle: have a second pair of eyes to ensure stakeholders have sufficient confidence in the adequacy of the measurement (i.e. does it adequately reflect the underlying risk) so that the measurement outcome can be used with full confidence for reporting/steering;
- Materiality: measures can exclude information or contain imperfections if this does not affect the decision-making process, meaning that management would not come to a different conclusion if the information was included or the imperfection was remedied.

The standards with regard to the organisation, processes and policies necessary for achieving and maintaining data quality in a structured and efficient way are described in a separate KBC Data Management Framework owned by KBC's Data Quality Management department.

KBC Model Risk Management Standards

Like many other financial institutions, KBC Group, relies increasingly on advanced mathematical, statistical and numerical models to support decision making, measure and manage risk, manage businesses and streamline processes. As the use of the 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.

The CRO Services Management Committee of January 2020 approved KBC's model risk management standards, establishing a framework that allows to identify, understand and efficiently manage model risk, similarly to any other risk type.

Setting and cascading risk appetite

Taking risks and transforming risks is an integral part – and hence an inevitable consequence of – the business of a financial institution. Therefore, KBC does not aim to eliminate all the risks involved (risk avoidance) but instead looks to identify, control and manage them in order to make optimal use of its available capital (i.e. risk-taking as a means of creating value).

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

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

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

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

The risk appetite debate is reflected in the graph below, comparing our actual and expected risk taking ('risk profile') with the approved risk appetite. It shows that the actual and forecast overarching risk profile remains within the risk appetite for the next three years and that KBC aims to further reduce the overall operational and compliance risk profile.

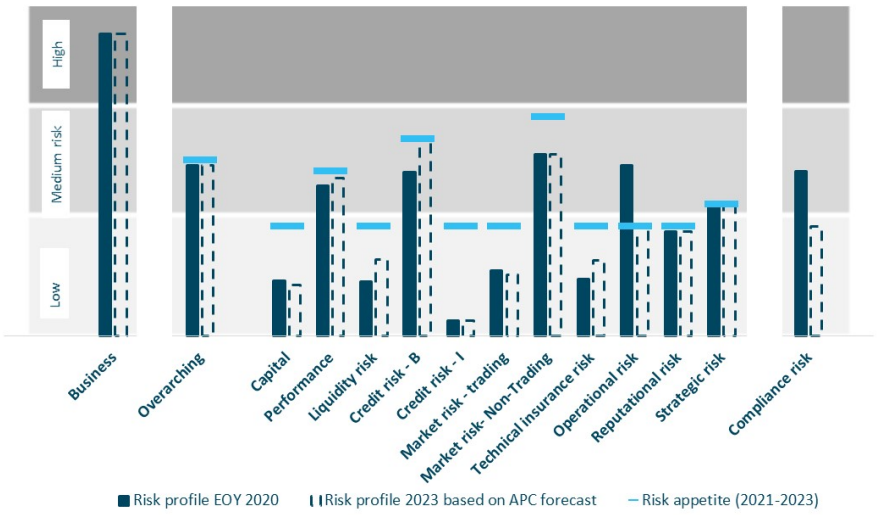

Figure 2 - Schematic overview of risk appetite statement

Risk analysis, reporting and follow-up

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

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

Stress testing

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

Capital Adequacy

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

Solvency at KBC group level

Solvency reporting

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

In the context of the coronavirus pandemic, the EU amended the CRR with effect on 27 June 2020 (the so-called 'CRR quick fix'). It included various relief measures to ensure that institutions are able to provide sufficient support to households and corporate borrowers and thus mitigate the economic shock caused by the pandemic. For KBC, the main measures relate to the SME (small and medium enterprises) supporting factor (favourable risk weighting of exposures to SMEs, applied from the second quarter of 2020), the prudential treatment of software (prudently valued software is risk weighted at 100% instead of being deducted from own funds, applied from the fourth quarter of 2020) and IFRS 9 transitional measures (applied from the second quarter of 2020). These transitional measures make it possible to add back a portion of the increased impairment charges to common equity capital (CET1), during a transitional period of five years when provisions unexpectedly rise due to a worsening macroeconomic outlook. Initially, the five-year transition period was from 1 January 2018 to 31 December 2022. In the context of the coronavirus pandemic and following a BCBS statement to offer regulatory relief, the transition period has been extended by two years until 31 December 2024.

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

The minimum solvency ratios required under CRR/CRD are 4.5% for the common equity tier-1 (CET1) ratio, 6% for the tier-1 capital ratio and 8% for the total capital ratio (i.e. pillar 1 minimum ratios). In addition, CRR/CRD requires a capital conservation buffer of 2.5%. Due to the coronavirus pandemic, the ECB will not attach any negative judgment to those banks breaching the 2.5% capital conservation buffer. In addition, the ECB will take a flexible approach to approve capital conservation plans that banks are legally required to submit if they breach the combined buffer requirement. This offers significant room to withstand potential stress, in line with the initial intentions of the international standard setter on the usability of the buffers.

As a result of its supervisory review and evaluation process (SREP), the competent supervisory authority (in KBC's case, the ECB) can require that higher minimum ratios be maintained (= pillar 2 requirements) because, for instance, not all risks are properly reflected in the regulatory pillar 1 calculations. Following the SREP cycle for 2020, the ECB formally

notified KBC that its 2019 SREP decision (applicable from 1 January 2020) to maintain the pillar 2 requirement (P2R) at 1.75% CET1 and the pillar 2 guidance (P2G) at 1% CET1 would remain in place for 2021. In line with the revised CRR/CRD, the ECB allows banks to satisfy the P2R with additional tier-1 instruments (up to 1.5/8) and tier-2 instruments (up to 2/8) as from 12 March 2020 – based on the same relative weights as allowed for meeting the 8% Pillar 1 Requirement. KBC currently does not use additional tier-1 or tier-2 instruments to meet the P2R, but may consider doing so going forward, in particular to support CET1 under stressed conditions.

The overall capital requirement for KBC is determined not only by the ECB, but also by the decisions of the local competent authorities in its core markets. The most recently announced countercyclical buffer rates by the countries where KBC's relevant credit exposures are located correspond to a countercyclical buffer at KBC group level of 0.20%, down from 0.30% in 2019.

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

Altogether, this brings the fully loaded CET1 requirement (under the Danish compromise) to 10.45%, with an additional pillar 2 guidance (P2G) of 1%. The ECB temporarily allows banks to operate below the P2G and capital conservation buffer and hence to use these buffers to withstand potential stress. This temporarily brings the regulatory minimum to 7.95% (i.e. 10.45% – 2.5%). The ECB does not have any discretion to waive the application of automatic restrictions to distributions (MDA – maximum distributable amount) as they are set out in the CRR/CRD package. Therefore, the capital conservation buffer remains included in the threshold for MDA.

The data above reflect the situation as known on 31 December 2020, without taking into account changes communicated after that date.

KBC aims to be one of the better capitalised financial institutions in Europe. Therefore, the aim is to achieve a (pre-Basel IV) fully loaded CET1 ratio of 14.5% (= reference capital position). A management buffer of 1% is taken on top of the reference capital position. When this buffer is used, the Board of Directors will decide, on an annual basis and at its discretion, on replenishing the buffer. On top of the pay-out ratio of at least 50% of consolidated profit, all capital which exceeds the reference capital position plus the 1% management buffer, will be considered for distribution to the shareholders. Each year, the Board of Directors will take this decision at its discretion when announcing the full year results.

In line with the ECB recommendation of 15 December 2020 which limits dividend payments, we will propose to the General Meeting of Shareholders in May of this year a (gross) dividend of 0.44 euros per share for the accounting year 2020, payable in May 2021. Additionally, it is the intention of the Board of Directors to distribute an extra gross dividend of 2 euros per share over the accounting year 2020 in the fourth quarter of 2021. For the latter, the final decision of the Board of Directors is subject to restrictions on dividends being lifted by the ECB.

Solvency figures under CRR/CRD

A summary calculation of the KBC group's solvency ratios under the Danish compromise method is given in the table below, including a breakdown of the deductions and filters applicable to KBC.

In order to meet the requirements for disclosure of the specific items on own funds described in points (d) and (e) of Article 437 (1) of Regulation (EU) No 575/2013, institutions shall complete and publish the general own funds disclosure template as defined in Article 4 of Commission Implementing Regulation (EU) No 1423/2013. This template is included in Annex III of this Risk Report and includes a higher level of detail than the table below.

Solvency at group level (consolidated; under CRR/CRD, Danish compromise method) (in millions of EUR)	31-12-2020 Fully loaded	31-12-2020 Transitional	31-12-2019 Fully loaded
Total regulatory capital, after profit appropriation	21 627	21 856	**20 414**
Tier-1 capital	19 448	19 941	**18 489**
Common equity[1,5]	17 948	18 441	**16 989**
Parent shareholders' equity (after deconsolidating KBC Insurance)	18 688	18 688	17 790
Intangible fixed assets, incl. deferred tax impact (-)	-568	-568	-583
Goodwill on consolidation, incl. deferred tax impact (-)	-734	-734	-766
Minority interests	0	0	0
Hedging reserve, cashflow hedges (-)	1 294	1 294	1 331
Valuation differences in financial liabilities at fair value – own credit risk (-)	-13	-13	-9
Value adjustment due to requirements for prudent valuation (-)[2]	-25	-25	-54
Dividend payout (-)	-183	-183	0
Coupon on AT1 instruments (-)	-12	-12	-11
Deduction with regard to financing provided to shareholders (-)	-57	-57	-57
Deduction with regard to irrevocable payment commitments (-)	-58	-58	-45
Deduction with regard to NPL backstops (-)[3]	-11	-11	
Other direct, indirect and synthetic holdings by an institution of own CET1 instruments (negative amount)	0	0	0
IRB provision shortfall (-)	0	0	-140
Deferred tax assets on losses carried forward (-)	-373	-373	-467
Transitional adjustments to CET1	0	493	-
Limit on deferred tax assets from timing differences relying on future profitability and significant participations in financial entities (-)	0	0	0
Additional going concern capital	**1 500**	**1 500**	**1 500**
Grandfathered innovative hybrid tier-1 instruments	0	0	0
Grandfathered non-innovative hybrid tier-1 instruments	0	0	0
CRR-compliant AT1 instruments	1 500	1 500	1 500
Minority interests to be included in additional going concern capital	0	0	0
Tier-2 capital	2 178	1 914	1 925
IRB provision excess (+)	427	427	130
Transitional adjustments to Tier-2 capital	0	-264	-
Subordinated liabilities issued by KBC Group	1 678	1 678	1 678
Subordinated liabilities issued by subsidiaries of KBC Group	73	73	117
Subordinated loans to non-consolidated financial sector entities (-)	0	0	0
Minority interests to be included in tier-2 capital	0	0	0
Total weighted risk volume	102 111	101 843	99 071
Banking	92 903	92 635	89 838
Credit risk	78 785	78 518	75 786
IRB Advanced approach	63 438	63 438	62 055
IRB Foundation approach	2 907	2 907	2 772
Standardised approach	7 131	7 174	6 485
Counterparty credit risk	2 927	2 927	3 049
Other assets	2 382	2 072	1 425
Market risk[4]	2 716	2 716	2 713
Operational risk	11 401	11 401	11 340
Insurance	9 133	9 133	9 133
Holding-company activities	66	66	124
Elimination of intercompany transactions	9	9	-25
Solvency ratios			

Common equity ratio (or CET1 ratio)	17.6%	18.1%	17.1%
Tier-1 ratio	19.0%	19.6%	18.7%
Total capital ratio	21.2%	21.5%	20.6%

1. Audited figures (excluding 'IRB provision shortfall', 'Value adjustment due to requirements for prudent valuation' and Deduction with regard to NPL backstops).
2. CRR ensures that prudent valuation is reflected in the calculation of available capital. This means that the fair value of all assets measured at fair value and impacting the available capital (by means of fair value changes in P&L or equity) need to be brought back to their prudent value. The difference between the fair value and the prudent value (also called the 'additional value adjustment' or AVA) must be deducted from the CET1 ratio.
3. NPL backstops refer to the ECB minimum coverage expectations on non-performing loans, applicable as of 31-12-2020. For exposures defaulted after 01-04-2018 but originated before 26-04-2019, KBC voluntary deducts from CET1 any shortfalls versus supervisory expectations.
4. The multiplier of HVAR and SVAR used for the calculation of market risk is equal to 3.
5. In 2020, KBC made a change in accounting policy for intangible assets. Following the requirements of IAS8, the changes in accounting policy have been applied retrospectively (as if the new accounting policy had always been applied). Consequently, parent shareholders' equity has been retrospectively restated (decrease of 143 million euros), as well as intangible fixed assets, including deferred tax impact (143 million euros less deducted). There was no impact on the CET1-ratio.

Table 2 - Solvency at group level (Danish compromise)

Solvency at group level (consolidated; CRR/CRD, deduction method) (in millions of EUR)	31-12-2020 Fully loaded	31-12-2020 Transitional	31-12-2019 Fully loaded
Common equity	17 282	17 775	16 224
Total weighted risk volume	97 481	97 214	94 196
Common equity ratio	17.7%	18.3%	17.2%

Table 3 - Solvency at group level (deduction method)

Maximum Distributable Amount

Amounts for distribution (dividend payments, payments related to additional tier-1 instruments or variable remuneration) are limited when the combined buffer requirements described above are breached. This limitation is referred to as Maximum Distributable Amount (MDA) thresholds. The table below provides an overview of KBC's buffers compared to these thresholds, both on a transitional basis (i.e. transitional figures relative to the regulatory targets that apply on the reporting date) and on a fully loaded basis (i.e. fully loaded figures relative to the regulatory targets that will apply going forward).

Buffer compared to the Overall Capital Requirement	31-12-2020		31-12-2019	
(consolidated; under CRR/CRD, Danish compromise method)	Fully loaded	Transitional	Fully loaded	Transitional
CET1 Pillar 1 minimum	4.50%	4.50%	4.50%	4.50%
Pillar 2 requirement	1.75%	1.75%	1.75%	1.75%
Capital conservation buffer	2.50%	2.50%	2.50%	2.50%
Buffer for systemically important institutions (O-SII)	1.50%	1.50%	1.50%	1.50%
Entity-specific countercyclical buffer	0.20%	0.17%	0.30%	0.43%
Overall Capital Requirement (OCR)[1] (A)	10.45%	10.42%	10.55%	10.68%
CET1 used to satisfy shortfall in AT1 bucket (B)	0.03%	0.03%	0.00%	0.00%
CET1 used to satisfy shortfall in T2 bucket (C)	-0.13%[2]	0.12%	0.05%	0.05%
CET1 requirement (A+B+C)	10.35%	10.57%	10.60%	10.74%
CET1 capital (in millions of EUR)	17 948	18 441	16 989	16 989
CET1 buffer (= buffer compared to MDA) (in millions of EUR)	7 382	7 681	6 486	6 353

1 Situation as known on 31-12-2020. Not taking into account changes (if any) that were communicated afterwards .
2 Available T2 capital exceeds the 2% Pillar 1 minimum requirement. The remainder is used to satisfy part of the ¨Pillar 2 Requirement in line with revised CRR/CRD

Table 4 - Buffer compared to the Overall Capital Requirement

CRR quick fix

In the context of the coronavirus pandemic, the EU has amended the CRR, applicable as from 27 June 2020 (so-called 'CRR quick fix').The table below provides an overview of the main measures, whether KBC applies the measure and their impact as at 31 December 2020.

CRR quick fix (Regulation EU 2020/873 of 24 June 2020) In millions of EUR	Reference to CRR	Applied by KBC (YES / NO)	Impact on CET1 capital	Impact on RWA	Impact on CET1 ratio
CRR2 measures that apply sooner					
Retail under the Standardised Approach	Art. 123	No	-	-	-
Extension of the SME supporting factor	Art. 501	Yes	0	-1 898	0.33%
Infrastructure supporting factor	Art. 501a	Yes	0	-290	0.05%
Prudential treatment of software	Art. 36(1)	Yes	132	132	0.11%
Temporary capital relief measures					
Filter for FVOCI gains/losses on government exposures	Art. 468	No	-	-	-
IFRS 9 transitional measure	Art. 473a	Yes	493	-268	0.53%
Sovereigns under Standardised Approach	Art. 500a	Yes	0	-200	0.03%
Exclusion of central bank exposure in the Leverage ratio	Art. 500b	No	-	-	-
Outliers in Market risk VaR models	Art. 500c	Yes	0	-460	0.08%

Table 5 - Overview of CRR quick fix

The detailed disclosure re. the impact of Article 473a in line with EBA guidelines (EBA/GL/2020/12 of 11 August 2020) is included in Annex X.

Solvency figures under the FICOD

KBC – as a financial conglomerate – also has to disclose its solvency position as calculated in accordance with the Financial Conglomerate Directive (FICOD; 2002/87/EC). In line with this directive, available capital is calculated on the basis of the consolidated position of the group and the eligible items recognised as such under the prevailing sectoral rules, which are CRD for the banking business and Solvency II for the insurance business. The resulting available capital is to be compared with a capital requirement expressed as a risk-weighted asset amount. For this latter figure, the capital requirements for the insurance business (based on Solvency II) are multiplied by 12.5 to obtain a risk-weighted asset equivalent (instead of the 370% risk weighting applied to the equity value in the insurance company under the Danish compromise).

Solvency at group level (consolidated; FICOD method) (in millions of EUR)	31-12-2020 Fully loaded	31-12-2020 Transitional	31-12-2019 Fully loaded
Common equity	18 843	19 336	17 651
Total weighted risk volume	114 783	114 515	111 526
Common equity ratio	16.4%	16.9%	15.8%

Table 6 - Solvency at group level (consolidated; FICOD method)

Leverage ratio

CRR/CRD requires credit institutions to calculate, report and monitor their leverage ratios. The leverage ratio is a supplementary non-risk-based measure to contain the build-up of leverage (i.e. create a backstop on the degree to which a banking firm can leverage its capital base). It is calculated as a percentage of tier-1 capital relative to the total on- and off-balance-sheet exposure (non-risk-weighted). Existing and expected changes in regulation relating to the leverage ratio will be monitored and potential impacts will be assessed.

The leverage ratio is determined and monitored within the quarterly closing process and included in the periodic management reports of the Finance and Credit Risk departments. This monitoring covers both the position of KBC itself

(taking our risk appetite into account) as well as benchmarking in terms of relevant peers. All of the above processes are part of KBC's ICAAP (described later in this section).

At year-end 2020, our fully loaded leverage ratio at group level stood at 6.4% (see table below). The year-on-year decrease is explained by the funding-driven balance sheet growth (19.5 billion euros in TLTRO funds and >10 billion euros in customer deposits), partly offset by higher Tier-1 capital (mainly retained earnings).

The leverage ratio is a supplementary non-risk-based measure to create a 'backstop' in addition to the risk-based ratios. The latter form a constraint for KBC, i.e. a breach of own funds requirements would occur well before the 3% regulatory leverage ratio target is reached. Therefore, management focus is primarily on the risk-based ratios. Nevertheless, management has also defined a management target for the leverage ratio of at least 4.5%, which is well above the regulatory requirement (3% as from 28 June 2021). Furthermore, the absolute size of the balance sheet is also monitored from other perspectives (e.g., in the context of MREL requirements).

Leverage ratio at group level (consolidated; under CRR/CRD, Danish compromise method) (in millions of EUR)	31-12-2020 Fully loaded	31-12-2020 Transitional	31-12-2019 Fully loaded
Tier-1 capital	19 448	19 941	18 489
Total exposure	303 069	303 696	272 855
Total assets	320 743	320 743	290 591
Deconsolidation of KBC Insurance	-32 972	-32 972	-33 243
Transitional adjustment	0	628	-
Adjustment for derivatives	-4 158	-4 158	-2 882
Adjustment for regulatory corrections in determining tier-1 capital	-1 825	-1 825	-2 254
Adjustment for securities financing transaction exposures	830	830	638
Off-balance-sheet exposures	20 451	20 451	20 035
Leverage ratio	6.4%	6.6%	6.8%

Table 7 - Leverage ratio at group level

Minimum requirement for own funds and eligible liabilities (MREL)

Besides the ECB and NBB, which supervise KBC on a going concern basis, KBC is also subject to requirements set by the Single Resolution Board (SRB). The SRB is developing resolution plans for the major banks in the euro area. Such a plan describes how the resolution authorities will approach the resolution of a bank that is failing (or likely to fail) in a way that protects its critical functions, government funds and financial stability. It takes account of the specific features of the bank and is tailor-made. A key feature of the resolution plan is deciding at which level the competent resolution authorities will intervene. A choice has to be made between a single resolution authority that resolves the group as a whole (Single Point of Entry or 'SPE') or different authorities that separately resolve those parts of the group that fall within their jurisdiction (Multiple Point of Entry or 'MPE').

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

It is crucial that there are adequate liabilities eligible for bail-in. This is measured by the minimum requirement for own funds and eligible liabilities (MREL). The SRB defines the minimum MREL level for KBC.

At present, the applicable MREL target to be achieved by KBC Group by 31 December 2021 is 9.67% (as a percentage of TLOF under the so-called 'hybrid approach'). This approach excludes MREL eligible liabilities that have not been issued by KBC Group NV (insofar as they do not constitute own funds) and requires tier-2 capital downstreamed by KBC Group NV to KBC Insurance to be deducted from MREL (in line with the treatment under CRR/CRD).

MREL: hybrid view (in millions of EUR)	31-12-2020	31-12-2019
Own funds and eligible liabilities (transitional)	28 376	25 939
CET1 capital (consolidated, CRR/CRD, Danish compromise method)	18 441	16 989
AT1 instruments (consolidated, CRR/CRD)	1 500	1 500
T2 instruments (consolidated, CRR/CRD)	1 914	1 925
Subordinated liabilities (issued by KBC Group NV but not included in AT1 & T2)	2	0
Senior debt (issued by KBC Group, nominal amount, remaining maturity > 1 year)	6 519	5 525
Total Liabilities and Own Funds (TLOF)	281 268	249 850
MREL as a % of TLOF	10.1%	10.4%
Risk-Weighted Assets (RWA)	101 843	99 071
MREL as % of RWA	27.9%	26.2%
Leverage Ratio Exposure Amount (LRE)	303 696	272 885
MREL as % of LRE	9.3%	9.5%

Table 8 - MREL hybrid view

The SRB will communicate new targets, expressed as a percentage of risk-weighted assets (RWA) and leverage ratio exposure amount (LRE). They will replace the above targets and must be achieved by 1 January 2024 (a binding interim target to be achieved as from 1 January 2022 will also be defined).

Solvency of KBC Bank and KBC Insurance separately

In the table below, we have provided solvency information for KBC Bank and KBC Insurance, separately. As is the case for KBC Group, the solvency of KBC Bank is calculated based on CRR/CRD. The solvency of KBC Insurance is calculated on the basis of Solvency II.

Solvency, KBC Bank (CRR/CRD, in millions of EUR)	31-12-2020 Fully loaded	31-12-2020 Transitional	31-12-2019 Fully loaded
Total regulatory capital, after profit appropriation	17 792	18 021	16 660
Tier-1 capital	15 585	16 078	14 704
Of which common equity	14 085	14 578	13 204
Tier-2 capital	2 206	1 942	1 957
Total weighted risks	92 903	92 635	89 838
Common equity ratio	15.2%	15.7%	14.7%
Tier-1 ratio	16.8%	17.4%	16.4%
Total capital ratio	19.2%	19.5%	18.5%

Table 9 - Solvency KBC Bank

Solvency, KBC Insurance (incl. volatility adjustment) (Solvency II, in millions of EUR)	31-12-2020	31-12-2019
Own funds	3 868	3 496
Tier-1	3 368	2 996
IFRS parent shareholders' equity	3 815	3 422
Dividend payout	0	-156
Deduction of intangible assets and goodwill (after tax)	-136	-128
Valuation differences (after tax)	-383	-196
Volatility adjustment	89	104
Other	-16	-49
Tier-2	500	500
Subordinated liabilities	500	500
Solvency capital requirement (SCR)	1 744	1 727
Solvency II ratio	222%	202%
Solvency surplus above SCR	2 124	1 769

Table 10 - Solvency KBC Insurance

ICAAP and ORSA

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

The breakdown of KBC's internal capital per risk type is provided in the following table:

Internal capital distribution, KBC Group	2020	2019
Credit risk and counterparty risk	56%	53%
Interest rate risk and spread risk (banking book)	13%	17%
Market risk (trading book)	2%	2%
Operational risk	8%	8%
Risk related to the insurance entity	15%	15%
Pension risk	6%	5%
Total	100%	100%

Table 11 - Internal capital distribution KBC Group

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

In addition to the integrated approach at group level, KBC Insurance and its insurance and reinsurance subsidiaries conduct an Own Risk and Solvency Assessment (ORSA) on an annual basis, in accordance with Solvency II requirements. The aim of the ORSA is to monitor and ensure that business is managed in a sound and prudent way and that the KBC Insurance group is adequately capitalised in view of its risk profile and the maturity of its risk management and control environment. The ORSA process draws to a large extent on the same 'core processes' as the ICAAP and includes APC, risk appetite setting and ongoing business, risk and capital management processes.

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

Stress testing

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

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

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

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

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

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

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

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

Credit Risk Management

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. Credit risk thus encompasses default risk and country risk, but also includes migration risk, which is the risk resulting from adverse changes in credit ratings.

In line with the Credit Risk Management Framework, credit risk is managed 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.

The tables in this section provide an overview – as described in EBA guidelines – of the overall credit risk based on the figures for the end of December 2020. Unless otherwise stated (e.g., RWA tables), net (i.e. after provisions) exposure at default (EAD) before application of credit conversion factors (CCF) is given in the credit risk tables instead of Gross Carrying Value (GCV), which is an accounting concept.

Impact of the coronavirus crisis on credit risk

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

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

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

As the coronavirus crisis is impacting economic activity unequally and non-traditionally across industrial sectors, we have increased our scrutiny of sectoral vulnerability and have adjusted the risk appetite for new production, incorporating specific sector views. We adopted a more restrictive risk appetite for sectors and sub-sectors considered at risk ('critically

vulnerable'), curtailing new production. These critically vulnerable sectors and sub-sectors represent less than 5% of the industrial portfolio and include hospitality, entertainment and leisure, retail fashion and aviation. For a substantial additional part of the industrial portfolio, a guidance for credit underwriting has been one of 'caution' and a drive has been undertaken to select the 'best in class' counterparties within a sector, recognising the range in credit quality in any sector.

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

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

Managing credit risk at transactional level

We have sound acceptance policies and procedures in place for all kinds of credit risk exposure. We are limiting our description below to exposures related to traditional loans to businesses and to lending to individuals, as these account for the largest part of the group's credit risk exposure.

Lending to individuals (e.g., mortgages) is subject to a standardised process, during which the output of scoring models plays an important role in the acceptance procedure. Lending to businesses is subject to an acceptance process in which relationship management, credit acceptance committees and model-generated output are taken into account.

For most types of credit risk exposure, monitoring is determined primarily by the risk class, with a distinction being made based on the Probability of Default (PD) and the Loss Given Default (LGD). The latter reflects the estimated loss that would be incurred if an obligor defaults.

In order to determine the risk class, we have developed various rating models for measuring how creditworthy borrowers are and for estimating the expected loss of various types of transactions. A number of uniform models throughout the group (models for governments, banks, specialised lending, etc.) are in place, while others have been designed for specific geographic markets (SMEs, private individuals, etc.) or types of transaction. We use the same internal rating scale throughout the group. In the 'Internal Modelling' section of this report, more details are provided on the method used to determine the PD and LGD in order to obtain a good understanding of the creditworthiness of a counterparty or transaction. In this way, creditworthiness, as established in the PD and LGD risk parameters, forms an essential part of the credit acceptance process.

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

classification as PD 11 or PD 12. 'Defaulted' status is fully aligned with the 'non-performing' and 'impaired' statuses. Obligors in PD classes 10, 11 and 12 are therefore referred to as 'defaulted' and 'impaired'. Likewise, 'performing' status is fully aligned with the 'non-defaulted' and 'non-impaired' statuses.

For credits linked to defaulted borrowers in PD classes 10, 11 and 12, we record impairment losses based on an estimate of the net present value of the recoverable amount. This is done on a case-by-case basis, and on a portfolio basis for smaller credit facilities. In addition, for non-defaulted credit in PD classes 1 to 9, we also record impairment losses on a 'portfolio basis'.

As of 2018, the portfolio-based impairment losses are recorded according to IFRS 9 requirements and specific IFRS 9 models are used for this purpose. For defaulted borrowers on smaller credit facilities, they are calculated on a lifetime expected credit loss (ECL) basis. For non-defaulted borrowers, the calculation is done on a 12-month or lifetime ECL basis (depending on whether there has been a credit risk deterioration and a corresponding shift from 'Stage 1' to 'Stage 2').

We review loans to large corporations at least once a year, with the internal rating being updated as a minimum. If ratings are not updated in time, a capital add-on is imposed. Loans to small and medium-sized enterprises and to private individuals are reviewed periodically, with account being taken of any new information that is available (such as arrears, financial data, or a significant change in the risk class). This monthly exercise can trigger a more in-depth review or may result in measures being taken for the client.

Managing credit risk at portfolio level

We also monitor credit risk on a portfolio basis, inter alia by means of monthly and/or quarterly reports on the consolidated credit portfolio in order to ensure that lending policy and limits are being respected. In addition, we monitor the largest risk concentrations via periodic and ad hoc reports. Limits are in place at borrower/guarantor, issuer or counterparty level, at sector level and for specific activities or geographic areas. Moreover, we perform stress tests on certain types of credit, as well as on the full scope of credit risk.

As a result of the coronavirus crisis, an additional credit risk monitoring has been set up for the most vulnerable sectors, based on our risk appetite.

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

Scope of credit risk disclosures

The scope of this report at the level of the KBC entities concerned differs depending on the section or table. The RWA tables in the next section are the only ones at KBC group level (i.e. including KBC Insurance).

In the other sections, we either adopt a 'KBC Bank Consolidated' view (basically, this is the group view but without KBC Insurance) or limit the scope to the material entities appearing in the roll-out table below. These entities accounted for

99.2% of the total credit risk exposure of KBC Bank Consolidated in 2020. For each table, the applicable scope (either KBC Bank Consolidated or material entities) will be indicated.

With regard to the timing of and approach to implementing Basel III, KBC has opted for a phased roll-out of the IRB approach at all its most important entities except for UBB. The most important entities in this respect are defined as any subsidiary that accounts for more than 1% of the risk-weighted assets for credit risk at KBC Group NV. Compliance with this criterion is checked at least annually. The first set of material entities started adopting the IRB Foundation approach at the beginning of 2007, as indicated above.

All material entities, apart from UBB, have adopted the IRB Foundation or Advanced approach. The Basel III Standardised approach is being adhered to until further notice by the other (non-material) entities of the KBC group, in accordance with permanent partial use as per Article 150 (d) of Regulation (EU) No. 575/2013 (CRR). Because of this difference in scope, and also because another definition of exposure is used for the accounting figures, a one-to-one comparison cannot always be made with similar disclosures in the 2020 Annual Report of KBC Group NV.

Roll-out of Basel III pillar 1 approach at end of year shown	2019-2020	2017 - 2018	2016
IRB Advanced Approach[2]	KBC Bank CBC Banque ČSOB Czech Republic[1] KBC Credit Investments KBC Lease Belgium KBC Commercial Finance KBC Immolease K&H Bank KBC Bank Ireland	KBC Bank CBC Banque ČSOB Czech Republic[1] KBC Credit Investments KBC Finance Ireland KBC Lease Belgium KBC Commercial Finance KBC Immolease K&H Bank	KBC Bank CBC Banque ČSOB Czech Republic[1] KBC Credit Investments KBC Finance Ireland KBC Lease Belgium KBC Commercial Finance KBC Immolease K&H Bank
IRB Foundation approach[2]	ČSOB Slovak Republic	KBC Bank Ireland ČSOB Slovak Republic	KBC Bank Ireland KBC Financial Products ČSOB Slovak Republic
Standardised approach	UBB OTP Banka Slovensko KBC Autolease Non-material entities	CIBank/UBB Non-material entities	CIBank Non-material entities

1. Including Hypoteční banka.
2. Note that entities that apply the IRB approach can also report a specific part of their portfolio using the Standardised approach

Table 12 - Roll-out of Basel III pillar 1 approach

Overview of RWAs

The table below provides an overview of how Basel III RWA[1] for the KBC group changed over 2020. This table shows the overall RWA figures, including non-material entities, non-transactional RWA (like operational risk and market risk) and the RWA for KBC Insurance according to the Danish compromise approach. It is the only table in this section of the report that contains information other than on credit risk. The minimum capital corresponds with 8% of RWA.

Exposure at Default (EAD) is used as a basis for determining the Risk-Weighted Assets (RWA), which in turn are used to calculate the capital required for the exposure. RWA can be regarded as an exposure weighted according to its 'riskiness'. This 'riskiness' depends on such factors as the loss given default (LGD which in turn is driven by such factors as the amount of collateral or guarantees), the maturity of the exposure and the probability of default (PD) of the obligor.

As mentioned earlier, since its implementation in 2007, the Internal Rating Based (IRB) approach has primarily been used by KBC to calculate its risk-weighted assets. Based on a full application of all the CRR/CRD IV rules, it is used for approximately 90% of the weighted credit risks, approximately 86% of which are calculated according to the Advanced approach and roughly 4% according to the Foundation approach. The remaining weighted credit risks (about 10%) are calculated according to the Standardised approach.

Since mid-2018 there has been a gradual change in the way in which all types of uncertainty in PD, LGD and EAD estimates are expressed. This is because we shifted from an MRA (Measurement Risk Assessment) approach to an MOC (Margin of Conservatism) approach. This shift was completed in the course of 2020. The difference is that, whereas we previously expressed the RWA effects of these uncertainties in the form of add-ons linked to the model in

[1] *The RWAs are based on the regulatory COREP reporting and as a consequence this is the 'transactional' approach.*

question, these uncertainties are now incorporated into the model itself. Only in specific cases we charge additional RWA in the form of an additional add-on under MOC (e.g., late model review).

Overview of RWAs

EU OV1_Overview of RWAs (in millions of EUR)			RWAs 2020	RWAs 2019	Minimum capital requirements 2020
	1	Credit risk (excluding counterparty credit risk)	74 165	71 819	5 933
Article 438(c)(d)	2	Of which the standardised approach	7 174	6 485	574
Article 438(c)(d)	3	Of which the foundation IRB (FIRB) approach	2 907	2 772	233
Article 438(c)(d)	4	Of which the advanced IRB (AIRB) approach	63 438	62 055	5 075
Article 438(d)	5	Of which equity IRB under the simple risk-weighted approach or the IMA	646	508	52
Article 438(c)(d)	6	Counterparty credit risk	2 927	3 049	234
Article 438(c)(d)	7	Of which mark-to-market	944	1 003	75
Article 438(c)(d)	8	Of which original exposure	0	0	0
	9	Of which the standardised approach	0	0	0
	10	Of which internal model method (IMM)	1 335	1 244	107
Article 438(c)(d)	11	Of which risk exposure amount for contributions to the default fund of a counterparty credit risk	52	62	4
Article 438(c)(d)	12	Of which CVA	596	740	48
Article 438(e)	13	Settlement risk	3	2	0
Article 449(o)(i)	14	Securitisation exposures in the banking book (after the cap)	45	79	4
	15	Of which IRB approach	45	79	4
	16	Of which IRB supervisory formula approach (SFA)	0	0	0
	17	Of which internal assessment approach (IAA)	0	0	0
	18	Of which standardised approach	0	0	0
Article 438 (e)	19	Market risk	2 476	2 587	198
	20	Of which the standardised approach	355	425	28
	21	Of which IMA	2 122	2 162	170
Article 438(e)	22	Large exposures	0	0	0
Article 438(f)	23	Operational risk	11 423	11 370	914
	24	Of which basic indicator approach	0	0	0
	25	Of which standardised approach	11 423	11 370	914
	26	Of which advanced measurement approach	0	0	0
Article 437(2), Article 48 and Article 60	27	Amounts below the thresholds for deduction (subject to 250% risk weight) (This includes the participation in KBC Insurance weighted at 370%, according to the Danish compromise, and the DTA weighted at 250%)	10 804	10 165	864
Article 500	28	Floor adjustment	0	0	0
	29	Total	101 843	99 071	8 147

Table 13 - EU OV1_Overview of RWAs

In 2020, RWA at KBC group level increased by +2.8 billion euros (or +2.8%). The largest change can be attributed to credit risk with an increase of +2 952 million euros (incl. securitisation and DTAs). This is discussed in detail in the next

section. Counterparty credit risk showed a decrease of -122 million euros in RWA. Market risk shows a decrease of -111 million euros. Lastly, we have a +53-million-euro RWA increase for operational risk.

The breakdown by the most material entities shows that the consolidated credit risk RWA increase is driven by increases for Belgian entities KBC (+4.28 billion euros) and CBC (+0.17 billion euros), for KBC Bank Ireland (+0.97 billion euros), for K&H (+0.52 billion euros), for ČSOB Czech Republic (+0.42 billion euros) and for ČSOB Slovak Republic (+0.11 billion euros). On the other hand, RWAs decreased for KBC Credit Investments (-1.7 billion euros) and UBB Bulgaria (-0.14 billion euros). In addition, the Credit Risk RWA increased by +0.75 billion euros as a result of the acquisition of OTP Banka Slovensko.

Note that the portfolio of KBC Credit Investments is fully phased out during 2020, as new bond purchases are entered into the KBC Bank accounts. The reserve for regulatory uncertainties and changes of +2.5 billion euros, taken at the level of KBC Group at the end of 2019, was used to cover the new Definition of Default RWA impact.

RWA flow statements of credit risk exposures

This table contains the KBC group's credit risk exposure (excluding KBC Insurance RWA in accordance with the Danish Compromise, counterparty credit risk, operational risk and market risk). It gives an overview of the main RWA drivers responsible for the change in credit risk RWA over 2020.

EU CR8_RWA flow statements of credit risk exposures 31-12-2020 (in millions of EUR)		RWA Amounts	Capital Requirements
1	RWAs as at the end of the previous reporting period	72 929	5 834
2	Asset size	2 849	228
3	Asset quality	16	1
4	Model updates	2 352	188
5	Methodology and policy	-1 248	-100
6	Acquisitions and disposals	674	54
7	Foreign exchange movements	-1 094	-88
8	Other	-597	-48
9	RWAs as at the end of the reporting period	75 881	6 070

Table 14 - EU CR8_RWA flow statements of credit risk exposures

The change in credit risk RWA in 2020 can be explained mainly by underlying portfolio changes, new regulatory requirements, the acquisition of OTP Banka Slovensko and internal model changes. Note that the change in credit risk RWA is broken down by these different drivers on a best-effort basis, because in a dynamic portfolio it is often hard to pin-point the exact effect of a single driver, as simultaneous changes tend to extrapolate or compensate each other's effect on RWA. The most material drivers are set out below.

(1) The **volume** impact on RWA amounted to roughly **+2.85 billion euros**. The increase was material in most segments and entities of the group, despite the coronavirus crisis. The largest RWA increase as a result of volume comes from the SME segment, the mortgage portfolio and the bond portfolio. Note, however, that as a result of the foreign-exchange impact on the credit portfolio, this volume evolution remains partly 'hidden' in the exposure figures.

(2) Credit risk RWA is also largely driven by changes in **transactional models**. As models are reviewed on an annual basis, each year we can witness significant impacts on RWA, either upwards or downwards. Overall impact of **+2.4 billion euros,** mainly resulting from:

- 1 219-million-euro increase due to an additional add-on for the LGD model for Irish home loans following a decision of the ECB;
- 861-million-euro increase due to a recalibration of the PD pooling model for Belgian private persons.

(3) A part of the change in credit risk RWA is also related to changes in the consolidation scope **(+750 million euros)** and a further reduction of legacy portfolios **(-80 million euros).** These are the main changes:

- 753-million-euro increase for consolidation of OTP Banka Slovensko (new acquisition);
- 66-million-euro decrease for legacy portfolios of former Antwerp Diamond Bank and KBC Financial Institutions following further reduction of these portfolios.

(4) The impact of changes in the drivers for **asset quality** (PD and LGD) had hardly any effect on credit risk RWA. This is due to underlying offsetting effects during the year. The coronavirus-related measures, mainly moratoria, have had no material impact yet on the asset quality of the loan portfolio in 2020.

(5) The change in credit risk RWA is also attributable to **new regulatory requirements**. The overall impact of **-650 million euros** results from new requirements with an upwards effect on RWA which were more than offset by new regulation with a favourable impact on RWA and removal of model add-ons. The most important items are set out below:

- 1 700-million-euros increase: impact of multipliers on RWA for a number of internal PD models following the implementation of the new definition of default: major impact for KBC Bank Belgium (+1 026 million euros), ČSOB CZ (+295 million euros), CBC (+158 million euros) and ČSOB SK (+136 million euros); limited impact for other entities;
- 132-million-euro increase due to the implementation of prudential amortisation for software (deduction from available capital replaced by additional RWA);
- 2 387-million-euro decrease following the implementation of 'quick fix measures'. To soften the impact of the coronavirus crisis, the European Parliament launched a number of measures with a favourable impact on credit risk RWA:
    - Extension of the SME reduction factor in the risk-weight formula (scheduled for 2021 but already approved in June 2020): impact of -1 898 million euros;
    - Implementation of an infrastructure supporting factor (25% RWA reduction for loans granted to project finance loans fulfilling certain conditions, e.g., ecological standards): impact of -290 million euros;
    - Application of a 0% risk weight for Standardised sovereign exposure in euros of own sovereign bonds: impact of -200 million euros for UBB.

(6) **Foreign exchange movements** resulted in a **1.1-billion-euro** decrease, the most material impacts being from depreciation of HUF (-500 million euros), CZK (-383 million euros), USD (-180 million euros) and GBP (-31 million euros);

(7) **Other events** with impact on credit risk RWA **(-597 million euros)**. The main items:

- 650-million-euro decrease for the Irish defaulted mortgage portfolio;
- 458-million-euro decrease for residual accounting positions;
- 340-million-euro increase for deferred tax assets, in particular for KBC Bank NV;
- 175-million-euro increase for equity positions.

The impact of the coronavirus crisis on the various RWA drivers in 2020 is clear. The main impact is a substantial decrease in RWA due to the supportive measures taken by the regulators. The volume increase of the loan portfolio was still material. We also note that the coronavirus crisis has had no significant impact yet on asset quality.

Exposure to credit risk

The tables in this and subsequent sections, i.e. (i) Defaulted and non-defaulted credit risk exposure, (ii) More information about impaired credit risk exposure, and (iii) Credit Risk Mitigation (CRM), provide an overview of the overall credit risk and are based on the figures for the end of December 2020. Unless otherwise stated, these tables include information on lending, securities in the banking book, leasing, commercial finance, repos and reverse repos.

Exposure to securities in the trading book and to structured credit products is excluded in this heading, just as it is in the KBC Insurance investment portfolio. Information on securities in the trading book is reported under 'Credit risk' in the 2020 Annual Report of KBC Group NV and the related risks are taken up in the trading market risk VaR.

The lending portfolio excludes all derivatives (such as interest rate swaps, as these are dealt with in the 'Counterparty credit risk' section).

In the lending portfolio, 'EAD pre CCF' is the maximum amount that KBC expects to be outstanding should an obligor default before application of the credit conversion factor to the undrawn part. For lending exposure treated under the IRB approach, 'EAD pre CCF' is composed of the amount outstanding at the time of the calculation (without taking provisions into account), plus the off-balance-sheet portion of the exposure.

For lending exposures treated under the Standardised approach, 'EAD pre CCF' can be regarded as the amount outstanding at the time of the calculation, less the provisions set aside, plus the off-balance-sheet portion of the exposure.

For the portfolio of repo-like instruments, 'EAD pre CCF' is determined based on the lending leg in the transaction, which means that for reverse repos, including tri-party repos, it is based on the nominal amount of the cash that was provided by KBC, and that for repos it is based on the market value of the securities sold. This 'nominal' approach is different from how repos and reverse repos are treated in the 'Gross Carrying Value' approach, as explained further in the 'Non-performing and forborne exposure' section.

Unless otherwise stated, all exposure under the Standardised and IRB Foundation approaches is attributed to the region, sector and exposure class of the guarantor. This implies that if substitution is applied to a certain exposure to a borrower guaranteed by another party, the exposure will shift to the region, sector and exposure class of the guaranteeing party in the breakdowns below. For example, when a corporate entity is guaranteed by a bank and substitution is applied, this exposure will be incorporated under 'Institutions' in the breakdowns provided. This substitution logic does not apply to the IRB Advanced approach, since under that approach the effect of a guarantee received is included in the LGD measurement.

Tables containing information on IRB and Standardised exposure classes are divided into two sections, one for a total overview of exposure subject to the IRB approach and one for the overview of the exposure treated via the Standardised approach. They have been split up because each approach has its own (regulatory) breakdown by type of exposure class.

In the notes to the tables, we use the term 'SFT' when referring to exposures related to 'Securities Financing Transactions'. In practice, we refer to repo and reverse repo transactions and to securities borrowing/lending.

Total and average net amount of exposures

This table contains the net exposure (after the deduction of provisions and reserved interest of 3 912 million euros) at KBC group level, including equity of KBC Insurance in the 'Equity' exposure class, which gives an overview of exposure by exposure class at year-ends 2019 and 2020.

EU CRB-B_Total and average net amount of exposures 31-12-2020 (in millions of EUR)		Net value of exposures at the end of the period	Average net exposures over the period
1	Central governments or central banks	73 179	70 464
2	Institutions	11 267	14 190
3	Corporates	96 690	104 346
4	Of which: Specialised lending	10 218	10 244
5	Of which: SMEs	30 163	28 621
6	Retail	103 145	101 030
7	Secured by real estate property	81 345	79 671
8	SMEs	10 361	10 366
9	Non-SMEs	70 984	69 304
10	Qualifying revolving	1 247	1 263
11	Other retail	20 553	20 096
12	SMEs	12 641	12 491
13	Non-SMEs	7 912	7 605
14	Equity	2 647	2 629
15	Total IRB approach	286 927	292 660
16	Central governments or central banks	2 671	2 182
17	Regional governments or local authorities	278	250
18	Public sector entities	17	15
19	Multilateral development banks	0	0
20	International organisations	0	0
21	Institutions	15 870	23 120
22	Corporates	3 498	3 210
23	Of which: SMEs	1 273	1 202
24	Retail	2 850	2 519
25	Of which: SMEs	1 255	1 177
26	Secured by mortgages on immovable property	1 889	1 485
27	Of which: SMEs	375	331
28	Exposures in default	257	248
29	Items associated with particularly high risk	2	1
30	Covered bonds	0	0
31	Claims on institutions and corporates with a short-term credit assessment	0	0
32	Collective investments undertakings	128	76
33	Equity exposures	73	61
34	Other exposures	2 538	2 538
35	Total standardised approach	30 071	35 705
36	Total	316 999	328 364

Table 15 - EU CRB-B_Total and average net amount of exposures 31-12-2020

EU CRB-B_Total and average net amount of exposures 31-12-2019 (in millions of EUR)		Net value of exposures at the end of the period	Average net exposures over the period
1	Central governments or central banks	67 750	69 159
2	Institutions	17 114	16 841
3	Corporates	112 003	106 677
4	Of which: Specialised lending	10 270	10 274
5	Of which: SMEs	27 079	26 859
6	Retail	98 914	94 450
7	Secured by real estate property	77 996	74 659
8	SMEs	10 372	10 381
9	Non-SMEs	67 625	64 279
10	Qualifying revolving	1 278	1 207
11	Other retail	19 640	18 584
12	SMEs	12 341	11 546
13	Non-SMEs	7 299	7 038
14	Equity	2 611	2 604
15	Total IRB approach	298 393	289 731
16	Central governments or central banks	1 693	1 974
17	Regional governments or local authorities	222	207
18	Public sector entities	13	11
19	Multilateral development banks	0	0
20	International organisations	0	0
21	Institutions	30 371	30 524
22	Corporates	2 922	3 003
23	Of which: SMEs	1 132	1 010
24	Retail	2 188	2 191
25	Of which: SMEs	1 100	1 070
26	Secured by mortgages on immovable property	1 080	1 007
27	Of which: SMEs	286	261
28	Exposures in default	239	259
29	Items associated with particularly high risk	0	0
30	Covered bonds	0	0
31	Claims on institutions and corporates with a short-term credit assessment	0	0
32	Collective investments undertakings	25	47
33	Equity exposures	48	107
34	Other exposures	2 538	2 178
35	Total standardised approach	41 338	41 509
36	Total	339 730	331 239

Table 16 - EU CRB-B_Total and average net amount of exposures 31-12-2019

General comments on 2019-2020 developments:

- Overall, there was a significant 22.7-billion-euro decrease in 'EAD pre CCF' exposure almost equally divided over IRB and Standardised approach. The main reason for this decrease, with impact on both IRB and Standardised exposure, is a change in reporting of the 'EAD pre CCF' for repos. As from 2020, the repo exposure is reported after allocation of the collateral; previously, the collateral was still included in the 'EAD pre CCF'. This explains the decrease of around 12 billion euros for the Standardised exposure and around 14 billion euros for the IRB approach. However, this change has no impact on the calculated RWA.

- Under the IRB approach, the reporting change mainly impacts Institutions and Corporate exposure. With regard to the latter, the decrease is not only due to this change, but also to an important volume decrease. The RWA impact on the Corporate loan portfolio is explained in the 'Overview of RWAs' section. This is similar to the RWA increase for Retail and SME as a result of volume changes, supported by the 'EAD pre CCF' increase noted here.
- The Standardised 'EAD pre CCF' decrease is fully explained by the reporting change impacting the Institutions asset class, which is partially offset by the impact of the acquisition of OTP Banka Slovensko and a volume increase at UBB. The impact of this increase is reflected in the Central governments and central banks, Corporate, Retail and SME asset classes.

Geographical breakdown of exposures

This table contains the net exposure of material KBC Bank Consolidated entities in KBC's 'home' countries (the term 'material' is defined in the 'Scope of credit risk disclosures' section). Exposure outside the 'home' countries is given in the other columns. A list of 'other countries' can be found further down.

EU CRB-C_Geographical breakdown of exposures 31-12-2020													
(in millions of EUR)		Europe	Belgium	Ireland	Bulgaria	Czech Republic	Hungary	Slovakia	Other countries Europe	America	Asia	Other geographical areas	Total
1	Central governments and central banks	68 894	13 662	1 179	0	32 839	5 024	3 221	12 968	1 439	862	1 287	72 482
2	Institutions	7 023	1 333	36	1	1 152	58	229	4 215	1 073	1 616	1 446	11 158
3	Corporates	92 159	55 051	245	55	14 602	4 366	2 729	15 110	2 498	1 808	401	96 866
4	Retail	103 275	62 923	10 340	5	21 189	2 256	5 290	1 272	203	21	46	103 545
5	Equity	141	91	2	0	0	0	5	43	30	0	7	179
6	Total IRB approach	271 492	133 060	11 802	61	69 783	11 704	11 474	33 608	5 242	4 308	3 188	284 229
7	Central governments and central banks	2 680	47	0	1 970	75	0	322	265	8	0	0	2 688
8	Regional governments or local authorities	296	22	0	46	0	0	229	0	0	0	0	296
9	Institutions	15 845	17	8	10	47	11	67	15 686	7	0	5	15 857
10	Corporates	2 982	316	0	1 682	213	3	683	84	1	0	0	2 983
11	Retail	2 410	81	0	1 160	18	1	1 149	1	0	0	0	2 410
12	Secured by mortgages on immovable property	1 864	0	0	1 148	6	0	707	3	0	0	0	1 864
13	Exposures in default	254	6	0	176	2	0	68	2	0	0	0	254
14	Collective investment undertaking	22	0	0	1	6	0	0	14	0	0	0	22
15	Equity	41	0	0	7	6	24	1	4	30	0	0	71
16	Other exposures	1 352	700	0	276	220	9	148	0	0	0	0	1 352
17	Total standardised approach	27 746	1 190	9	6 476	593	47	3 374	16 058	45	0	5	27 797
18	Total	299 239	134 250	11 810	6 537	70 376	11 751	14 848	49 666	5 287	4 308	3 193	312 027

Table 17 - EU CRB-C_Geographical breakdown of exposures 31-12-2020

Overall, there was a substantial net decrease in exposure of 22 billion euros. The Corporate exposure decrease in Belgium and Institutions exposure decrease in Other countries in Europe largely explain this movement. The other home countries show an exposure increase. There was a relatively modest increase in the Czech Republic. For Slovakia, the increase is mainly due to the acquisition of OTP Banka Slovensko. Hungary shows an important increase in the Central government and central banks asset class. Bulgaria shows an increase across all asset classes. Ireland remains status quo.

We have limited the list of 'other countries' to those with an 'EAD pre CCF' that is higher than 10 million euros. The complete list contains a total of 151 countries.

FRANCE	AUSTRALIA	ISRAEL	THAILAND	GREECE
NETHERLANDS	JAPAN	CYPRUS	PANAMA	UKRAINE
UNITED STATES OF AMERICA	FINLAND	SOUTH KOREA	BAHRAIN	PERU
LUXEMBOURG	PORTUGAL	KENYA	MOROCCO	KUWAIT
UNITED KINGDOM	TURKEY	QATAR	REPUBLIC AZERBAIJAN	JERSEY
SPAIN	NORWAY	EGYPT	ALGERIA	SOUTH AFRICA
GERMANY	BANGLADESH	TAIWAN	OMAN	REPUBLIC OF ESTONIA
CHINA	IVORY COAST	BENIN	NIGERIA	
ITALY	UNITED ARAB EMIRATES	CHILE	TANZANIA, UNITED REPUBLIC OF	
CANADA	GHANA	INDIA	SRI LANKA	
POLAND	SWEDEN	REPUBLIC OF LATVIA	JORDAN	
SWITZERLAND	REPUBLIC OF LITHUANIA	REPUBLIC OF BELARUS	TUNISIA	
AUSTRIA	NEW ZEALAND	RUSSIAN FEDERATION	CAYMAN ISLANDS	
SINGAPORE	SAUDI ARABIA	ROMANIA	MALAYSIA	
HONG KONG	DENMARK	VIETNAM	INDONESIA	

Table 18 - EU CRB-C_List 'other countries'

Average PD%	Africa	Asia	Central and Eastern Europe & Russia	Czech Republic	Hungary	Slovakia	Other countries	Middle East	North America	Western Europe	Belgium	Ireland	Other countries	Total
Central governments and central banks	0.00%	0.00%	0.01%	0.01%	0.00%	0.02%	0.00%	0.00%	0.00%	0.03%	0.01%	0.03%	0.08%	0.01%
Institutions	3.18%	0.54%	0.12%	0.11%	0.00%	0.16%	0.77%	0.00%	0.03%	1.73%	0.00%	1.82%	0.16%	0.20%
Corporates	0.00%	97.99%	3.69%	1.08%	1.72%	3.81%	4.53%	88.23%	99.93%	57.13%	100.00%	100.00%	1.19%	15.66%
Corporates - Specialised Lending	0.00%	0.00%	4.41%	1.74%	2.26%	4.61%	0.00%	0.00%	0.00%	1.21%	0.00%	100.00%	0.63%	4.05%
Corporates - SME	0.00%	0.00%	5.01%	2.26%	0.00%	5.01%	0.00%	0.00%	0.00%	78.88%	100.00%	0.00%	4.53%	17.85%
Corporates - Other	0.00%	97.99%	2.51%	0.63%	0.97%	2.61%	4.53%	88.23%	99.93%	67.79%	100.00%	0.00%	0.68%	21.21%
Equity	0.00%	0.00%	18.82%	0.00%	0.00%	14.47%	0.00%	0.00%	4.53%	4.53%	4.53%	0.00%	0.00%	5.13%
FIRB approach	**3.18%**	**92.13%**	**0.30%**	**0.01%**	**1.72%**	**2.08%**	**1.10%**	**88.23%**	**83.12%**	**14.43%**	**72.25%**	**0.12%**	**0.90%**	**1.45%**

Table 19 - Geographical breakdown of average PD – FIRB approach

Average PD%	Africa	Asia	Central and Eastern Europe & Russia	Bulgaria	Czech Republic	Hungary	Slovakia	Other countries	Latin America	Middle East	North America	Oceania	Western Europe	Belgium	Ireland	Other countries	Total
Central governments and central banks	2.86%	0.08%	0.05%	0.00%	0.01%	0.12%	0.02%	0.04%	0.17%	0.04%	0.48%	0.08%	0.04%	0.05%	0.03%	0.04%	0.08%
Institutions	2.92%	0.32%	0.59%	3.95%	0.25%	0.24%	0.17%	1.44%	0.57%	5.17%	0.06%	0.03%	0.16%	0.08%	4.53%	0.18%	0.65%
Corporates	44.19%	8.79%	4.50%	0.81%	4.88%	3.14%	2.86%	22.55%	3.01%	3.37%	4.09%	2.79%	5.46%	5.13%	11.48%	6.92%	5.29%
Corporates - Specialised Lending	92.89%	1.13%	4.12%	0.00%	4.16%	2.53%	6.97%	100.00%	0.00%	2.31%	0.43%	0.74%	7.04%	5.67%	15.33%	11.39%	6.19%
Corporates - SME	7.51%	2.24%	5.57%	4.53%	6.57%	3.43%	3.45%	13.30%	36.37%	81.13%	2.29%	4.53%	5.37%	5.45%	0.19%	3.74%	5.41%
Corporates - Other	7.43%	9.22%	3.63%	0.81%	3.71%	3.10%	1.97%	13.03%	3.00%	4.12%	4.22%	3.52%	5.18%	4.68%	0.77%	6.55%	4.96%
Retail	6.72%	2.56%	3.28%	7.68%	3.13%	5.73%	2.80%	5.56%	2.46%	9.29%	1.84%	1.93%	3.89%	1.59%	16.86%	4.54%	3.71%
Retail - Secured by real estate SME	0.10%	0.00%	7.03%	0.00%	0.00%	0.00%	7.03%	0.00%	0.31%	8.96%	100.00%	0.00%	2.44%	2.43%	0.00%	9.17%	2.51%
Retail - Secured by real estate non-SME	1.18%	3.94%	2.55%	7.13%	2.34%	6.71%	1.77%	5.13%	0.32%	1.65%	1.05%	3.03%	4.32%	0.88%	16.86%	8.71%	3.74%
Retail - Qualifying revolving	0.12%	4.06%	4.54%	0.00%	5.50%	36.92%	4.54%	5.08%	2.67%	3.28%	0.00%	0.12%	0.42%	0.42%	0.00%	7.64%	0.90%
Retail - Other SME	9.87%	1.85%	9.12%	3.10%	9.08%	1.78%	9.49%	3.75%	2.79%	21.76%	1.66%	1.56%	5.81%	5.92%	1.56%	3.51%	6.52%
Retail - Other non-SME	5.71%	4.04%	5.22%	18.76%	5.62%	3.08%	6.12%	10.76%	1.25%	3.87%	7.56%	51.95%	0.78%	0.77%	64.49%	6.70%	2.73%
Equity	4.53%	0.00%	4.53%	0.00%	0.00%	0.00%	0.00%	4.53%	0.00%	0.00%	3.69%	0.00%	3.64%	3.09%	9.05%	4.53%	3.66%
AIRB approach	**7.49%**	**2.15%**	**2.62%**	**1.31%**	**2.87%**	**2.31%**	**2.17%**	**1.23%**	**1.30%**	**4.35%**	**1.67%**	**0.53%**	**3.67%**	**2.66%**	**16.62%**	**2.75%**	**3.32%**

Average LGD%	Africa	Asia	Central and Eastern Europe & Russia	Bulgaria	Czech Republic	Hungary	Slovakia	Other countries	Latin America	Middle East	North America	Oceania	Western Europe	Belgium	Ireland	Other countries	Total
Central governments and central banks	2.18%	35.65%	23.26%	0.00%	20.03%	31.11%	20.00%	19.99%	19.95%	35.00%	31.59%	24.00%	23.68%	21.97%	20.00%	25.81%	24.28%
Institutions	4.78%	10.12%	23.17%	4.50%	22.84%	3.45%	13.55%	33.85%	14.72%	18.53%	17.93%	13.90%	23.62%	25.56%	12.73%	22.94%	19.41%
Corporates	4.12%	39.09%	27.31%	19.41%	20.04%	48.34%	15.53%	19.06%	16.47%	10.71%	20.79%	17.35%	25.45%	23.94%	28.51%	32.34%	25.82%
Corporates - Specialised Lending	7.96%	20.00%	17.62%	0.00%	11.53%	35.46%	40.78%	43.54%	0.00%	12.90%	0.63%	20.00%	21.60%	21.31%	22.38%	22.60%	19.98%
Corporates - SME	0.84%	16.23%	27.81%	48.27%	17.69%	49.31%	39.18%	21.33%	39.66%	89.13%	12.51%	45.00%	22.76%	22.49%	8.58%	28.08%	23.85%
Corporates - Other	3.24%	40.39%	32.54%	19.41%	27.52%	55.11%	8.91%	15.90%	16.46%	7.00%	21.50%	16.40%	28.35%	25.99%	47.09%	34.65%	28.93%
Retail	22.22%	17.23%	21.27%	17.95%	20.73%	35.09%	17.34%	20.13%	12.60%	16.19%	16.43%	14.57%	19.85%	20.52%	16.15%	18.25%	20.27%
Retail - Secured by real estate SME	35.79%	0.00%	45.11%	0.00%	0.00%	0.00%	45.11%	0.00%	0.08%	8.24%	0.23%	0.00%	14.49%	14.49%	0.00%	11.99%	14.94%
Retail - Secured by real estate non-SME	16.50%	18.97%	18.09%	18.94%	18.78%	30.12%	10.58%	19.86%	12.13%	16.63%	22.63%	9.19%	18.48%	19.12%	16.15%	16.16%	18.35%
Retail - Qualifying revolving	51.95%	37.92%	45.89%	0.00%	44.34%	42.79%	45.90%	46.60%	38.30%	37.85%	0.00%	38.30%	51.64%	51.64%	0.00%	42.83%	50.98%
Retail - Other SME	16.92%	16.03%	30.07%	12.57%	21.69%	13.15%	55.66%	14.36%	13.23%	15.85%	15.58%	15.13%	28.82%	29.29%	15.12%	19.04%	28.99%
Retail - Other non-SME	45.29%	39.04%	36.25%	27.05%	32.95%	48.71%	39.42%	34.51%	52.66%	47.48%	45.53%	62.05%	28.17%	28.17%	40.62%	26.45%	31.71%
Equity	90.00%	0.00%	90.00%	0.00%	0.00%	0.00%	0.00%	90.00%	0.00%	0.00%	90.00%	0.00%	90.00%	90.00%	90.00%	90.00%	90.00%
AIRB approach	**4.03%**	**23.56%**	**23.27%**	**18.89%**	**20.42%**	**37.54%**	**17.80%**	**21.21%**	**17.45%**	**19.43%**	**24.46%**	**14.87%**	**22.55%**	**22.02%**	**16.34%**	**27.93%**	**22.81%**

Table 20 - Geographical breakdown of average PD & LGD – AIRB approach

Concentration of exposures by industry and counterparty types

These tables contain the net exposure of material KBC Bank Consolidated entities, broken down by industry (rows) and exposure class (columns). The first table gives a description of the exposure under the Standardised approach, while the second table gives a description under the Internal Ratings Based approach.

The exposure classes listed represent a less detailed view of the COREP asset classes.

EU CRB-D_Exposures by industry and counterparty types 31-12-2020 (in millions of EUR, under STA)		Central governments and central banks	Regional governments or local authorities	Institutions	Corporates	Retail	Secured by mortgages on immovable property	Exposures in default	Collective investments undertakings	Equity	Other exposures	Standardised approach Total
1	Agriculture, forestry and fishing	0	0	0	118	85	36	9	0	0	0	247
2	Mining and quarrying	0	0	0	5	1	1	2	0	0	0	9
3	Manufacturing	1	0	0	846	77	198	39	0	0	0	1 161
4	Electricity, gas, steam and air conditioning supply	0	0	0	100	8	2	6	0	0	0	117
5	Water supply	0	0	0	50	3	2	3	0	0	0	58
6	Construction	1	0	0	160	33	44	12	0	0	0	250
7	Wholesale and retail trade	2	0	0	504	120	162	24	0	0	0	813
8	Transportation and storage	0	0	0	52	31	28	3	0	0	0	115
9	Accommodation and food service activities	0	0	0	9	5	6	13	0	0	5	38
10	Information and communication	0	0	0	51	5	7	0	0	5	0	69
11	Real estate activities	0	0	0	91	41	8	32	0	0	0	172
12	Professional, scientific and technical activities	4	22	0	341	112	17	8	0	0	0	504
13	Administrative and support service activities	0	0	0	25	12	8	1	0	0	0	46
14	Public administration and defence, compulsory social security	1 851	270	0	0	0	1	0	0	0	3	2 124
15	Education	0	1	0	10	0	1	0	0	0	0	13
16	Human health and social work activities	0	0	0	10	3	6	0	0	0	0	19
17	Arts, entertainment and recreation	0	0	0	9	2	2	0	0	0	0	13
18	Financial and insurance activities	829	0	15 857	71	0	1	0	22	8	268	17 055
19	Activities of extra territorial organisations and bodies	0	0	0	0	0	0	0	0	0	0	0
20	Private persons	0	0	0	0	1 865	1 328	50	0	0	0	3 244
21	Other, service activities	0	2	0	78	5	2	0	0	0	0	87
22	Other	0	0	0	454	0	5	52	0	58	1 077	1 645
23	Total	2 688	296	15 857	2 983	2 410	1 864	254	22	71	1 352	27 797

Table 21 - EU CRB-D_Exposures by industry and counterparty types 31-12-2020

EU CRB-D_Exposures by industry and counterparty types 31-12-2019 (in millions of EUR, under STA)		Central governments and central banks	Regional governments or local authorities	Institutions	Corporates	Retail	Secured by mortgages on immovable property	Exposures in default	Equity	Other exposures	Standardised approach Total
1	Agriculture, forestry and fishing	0	0	0	89	63	25	8	0	0	184
2	Mining and quarrying	0	0	0	0	2	1	3	0	0	5
3	Manufacturing	0	0	0	596	66	133	34	0	0	828
4	Electricity, gas, steam and air conditioning supply	0	0	0	61	4	3	6	0	0	74
5	Water supply	0	0	0	11	1	1	1	0	0	14
6	Construction	0	0	0	155	24	36	14	0	0	230
7	Wholesale and retail trade	0	0	0	430	94	132	31	0	0	687
8	Transportation and storage	0	0	0	42	22	21	2	0	0	88
9	Accommodation and food service activities	0	0	0	7	5	7	13	0	0	31
10	Information and communication	0	0	0	38	5	3	0	5	0	50
11	Real estate activities	0	0	0	36	1	11	17	0	0	65
12	Professional, scientific and technical activities	0	0	0	21	19	4	1	0	1	45
13	Administrative and support service activities	0	0	0	18	6	9	1	1	0	34
14	Public administration and defence, compulsory social security	1 435	214	0	0	0	1	0	0	2	1 653
15	Education	0	0	0	11	0	1	0	0	0	11
16	Human health and social work activities	0	0	0	7	1	4	0	0	0	13
17	Arts, entertainment and recreation	0	0	0	0	1	2	3	0	0	6
18	Financial and insurance activities	222	0	30 513	570	0	1	17	7	270	31 601
19	Activities of extra territorial organisations and bodies	0	0	0	0	0	0	0	0	0	0
20	Private persons	0	0	0	0	1 659	672	56	0	0	2 387
21	Other, service activities	0	0	0	81	3	2	0	0	0	86
22	Other	0	0	0	482	0	8	16	42	235	783
23	Total	1 658	214	30 513	2 655	1 975	1 074	224	55	507	38 876

Table 22 - EU CRB-D_Exposures by industry and counterparty types 31-12-2019

EU CRB-D_Exposures by industry and counterparty types 31-12-2020 (in millions of EUR, under IRB)		Central governments and central banks	Institutions	Corporates	Retail	Equity	IRB approach Total
1	Agriculture, forestry and fishing	0	0	2 926	2 677	0	5 602
2	Mining and quarrying	0	0	543	17	0	560
3	Manufacturing	11	1	22 466	1 859	1	24 338
4	Electricity, gas, steam and air conditioning supply	0	0	5 218	28	0	5 245
5	Water supply	0	0	1 661	87	0	1 748
6	Construction	0	0	11 115	4 116	6	15 237
7	Wholesale and retail trade	0	0	14 541	4 380	1	18 922
8	Transportation and storage	0	0	5 843	847	0	6 690
9	Accommodation and food service activities	0	0	865	970	0	1 835
10	Information and communication	0	0	2 367	600	14	2 982
11	Real estate activities	0	0	10 039	1 792	11	11 842
12	Professional, scientific and technical activities	0	0	3 672	3 486	27	7 185
13	Administrative and support service activities	0	1	3 330	1 035	7	4 373
14	Public administration and defence, compulsory social security	44 873	1 373	76	7	0	46 329
15	Education	0	15	823	233	0	1 070
16	Human health and social work activities	93	72	4 773	3 346	0	8 283
17	Arts, entertainment and recreation	0	2	472	274	0	749
18	Financial and insurance activities	26 743	9 684	4 480	489	103	41 500
19	Activities of extra territorial organisations and bodies	762	0	158	0	0	920
20	Private persons	0	0	204	73 183	0	73 388
21	Other, service activities	0	0	383	507	7	897
22	Other	0	9	911	3 613	0	4 534
23	Total	72 482	11 158	96 866	103 545	179	284 229

Table 23 - EU CRB-D_Exposures by industry and counterparty types 31-12-2020

EU CRB-D_Exposures by industry and counterparty types 31-12-2019 (in millions of EUR, under IRB)		Central governments and central banks	Institutions	Corporates	Retail	Equity	IRB approach Total
1	Agriculture, forestry and fishing	0	0	2 759	2 672	0	5 431
2	Mining and quarrying	0	0	539	18	0	558
3	Manufacturing	0	2	23 430	1 838	1	25 271
4	Electricity, gas, steam and air conditioning supply	0	1	5 040	32	0	5 073
5	Water supply	0	0	1 596	91	0	1 687
6	Construction	0	4	10 709	4 166	6	14 885
7	Wholesale and retail trade	0	0	14 963	4 404	1	19 368
8	Transportation and storage	0	0	6 145	856	0	7 001
9	Accommodation and food service activities	0	0	865	949	0	1 814
10	Information and communication	0	0	2 627	585	12	3 224
11	Real estate activities	0	0	10 041	1 782	13	11 836
12	Professional, scientific and technical activities	0	0	3 694	3 409	11	7 114
13	Administrative and support service activities	0	1	3 293	1 006	14	4 313
14	Public administration and defence, compulsory social security	39 915	1 311	76	5	0	41 306
15	Education	0	18	784	222	0	1 024
16	Human health and social work activities	83	63	4 592	3 081	0	7 820
17	Arts, entertainment and recreation	0	3	508	271	0	782
18	Financial and insurance activities	26 539	15 685	18 865	490	79	61 659
19	Activities of extra territorial organisations and bodies	904	0	56	0	0	961
20	Private persons	0	0	182	69 114	0	69 296
21	Other, service activities	0	0	355	503	7	864
22	Other	0	10	749	3 421	0	4 179
23	Total	67 441	17 098	111 867	98 916	143	295 466

Table 24 - EU CRB-D_Exposures by industry and counterparty types 31-12-2019

The overall decrease in exposure comprised an 11.5-billion-euro decrease under the IRB approach and an 11-billion-euro decrease under the Standardised approach. The change in reporting of the 'EAD pre CCF' for repos for both approaches is the main driver of the exposure change and is situated in the 'Financial and insurance activities' sector. As mentioned earlier, since 2020 the repo exposure is reported after allocation of the collateral; previously the collateral was included in the 'EAD pre CCF'. Developments under the IRB approach for all other sectors have remained stable. Exposures under the Standardised approach in most sectors show a limited increase resulting from the acquisition of OTP Banka Slovensko. The Standardised increase under the Central governments and central banks asset class is mainly attributable to UBB.

Maturity of exposures

This table contains the net exposure of material KBC Bank Consolidated entities broken down by residual maturity and exposure class. Please be aware that this only concerns on-balance-sheet exposures. The same main changes are shown in the table below. We see a significant decrease for both the Standardised approach and the IRB approach for Institutions in the <=1 year where the repo exposure is situated, and a similar substantial change for Corporates in the IRB exposure.

EU CRB-E_Maturity of exposures 31-12-2020 (in millions of EUR)		On demand	< = 1 year	> 1 year < = 5 years	> 5 years	No stated maturity	Total
1	Central governments or central banks	61	31 607	18 676	21 420	2	71 767
2	Institutions	93	3 366	2 184	2 003	10	7 656
3	Corporates	3 278	17 637	13 622	23 221	1 317	59 075
4	Retail	821	3 239	8 587	75 217	1 698	89 562
5	Equity	0	11	167	0	1	179
6	IRB approach	4 254	55 859	43 236	121 861	3 028	228 238
7	Central governments and central banks	711	49	620	847	460	2 688
8	Regional governments or local authorities	0	3	6	37	250	296
9	Institutions	0	419	2	0	187	607
10	Corporates	0	602	771	339	1 271	2 983
11	Retail	0	258	449	454	1 249	2 410
12	Secured by mortgages on immovable property	0	113	237	805	709	1 864
13	Exposures in default	0	58	23	97	76	254
14	Collective investments undertakings	0	1	0	0	20	22
15	Equity	0	11	0	0	61	71
16	Other exposures	125	0	0	0	1 227	1 352
17	Standardised approach	836	1 514	2 109	2 578	5 511	12 548
18	Total	5 090	57 373	45 344	124 439	8 539	240 786

Table 25 - EU CRB-E_Maturity of exposures 31-12-2020

EU CRB-E_Maturity of exposures 31-12-2019 (in millions of EUR)		On demand	< = 1 year	> 1 year < = 5 years	> 5 years	No stated maturity	Total
1	Central governments or central banks	59	29 505	18 295	18 378	1	66 239
2	Institutions	100	7 546	3 741	1 697	28	13 112
3	Corporates	3 805	29 549	12 723	22 876	1 295	70 247
4	Retail	1 037	3 375	8 258	71 506	1 774	85 950
5	Equity	0	13	129	0	1	143
6	IRB approach	5 000	69 989	43 145	114 458	3 098	235 690
7	Central governments and central banks	222	82	522	761	71	1 658
8	Regional governments or local authorities	0	4	5	21	174	204
9	Institutions	25	17 570	16	0	111	17 723
10	Corporates	0	276	436	741	763	2 216
11	Retail	0	116	349	360	914	1 739
12	Secured by mortgages on immovable property	0	83	170	684	81	1 018
13	Exposures in default	0	65	35	101	19	221
14	Collective investments undertakings	0	0	0	0	2	2
15	Equity	0	0	0	0	55	55
16	Other exposures	110	0	0	0	396	505
17	Standardised approach	357	18 196	1 534	2 669	2 586	25 342
18	Total	5 357	88 184	44 679	117 127	5 684	261 031

Table 26 - EU CRB-E_Maturity of exposures 31-12-2019

Defaulted and non-defaulted credit risk exposure

A client/facility is considered to be **in default if** – and only if – one or more of the following conditions are fulfilled:

1. The client/facility is 'unlikely to pay';
2. The client/facility is '>90 DPD default';
3. The client/facility is 'irrecoverable'.

KBC's definition of default builds on the definition set out in the Basel II Capital Requirements Regulation (CRR), which has been further elaborated in the EBA guidelines on the application of the definition of default. Based on the EBA paper on Forbearance and Non-performing exposures, KBC's definition of default is also fully aligned with the EBA's definition of non-performing (PD 10-11-12), i.e. they should be regarded as synonymous. The same holds true for the definition of 'impaired financial instrument' according to International Financial Reporting Standards (IFRS).

Credit quality of exposures by exposure class and instrument

As defined in the Commission Delegated Regulation (EU) No 183/2014, referring to Article 1, KBC's interpretation is that stage 1 and stage 2 credit risk impairments are always general and stage 3 impairments correspond to specific credit risk adjustments.

This table contains the net exposure of material KBC Bank Consolidated entities, broken down by defaulted and non-defaulted exposure for IRB and Standardised exposure classes.

EU CR1-A_Credit quality of exposures by exposure class and instrument 31-12-2020 (in millions of EUR)		a) Defaulted exposures	b) Non-defaulted exposures	c) Specific credit risk adjustment	d) General credit risk adjustment	Net values (a+b-c-d)
1	Central governments and central banks	8	72 636	111	51	72 482
2	Institutions	28	11 149	13	6	11 158
3	Corporates - Specialised Lending	464	10 045	147	67	10 294
4	Corporates - SME	1 178	29 737	557	255	30 104
5	Corporates - Other	1 597	55 930	726	332	56 469
6	Retail - Secured by real estate SME	107	10 322	27	12	10 389
7	Retail - Secured by real estate non-SME	1 856	69 843	398	182	71 119
8	Retail - Qualifying revolving	3	1 251	4	2	1 248
9	Retail - Other SME	350	12 572	215	98	12 609
10	Retail - Other non-SME	123	8 182	86	39	8 180
11	Equity	1	178	0	0	179
12	IRB approach	5 714	281 844	2 284	1 045	284 229
13	Central governments and central banks	0	2 688	0	0	2 688
14	Regional governments or local authorities	0	297	0	0	296
15	Institutions	0	15 857	0	0	15 857
16	Corporates	0	3 013	20	9	2 983
17	Of which SME	0	1 288	10	5	1 273
18	Retail	0	2 450	27	12	2 410
19	Of which SME	0	1 272	12	5	1 255
20	Secured by mortgages on immovable property	0	1 868	3	1	1 864
21	Of which SME	0	377	1	0	375
22	Exposures in default	433	1	123	56	254

23	Collective investments undertakings	0	22	0	0	22
24	Equity	0	71	0	0	71
25	Other items	0	1 389	25	12	1 352
26	Standardised approach	433	27 655	199	91	27 797
27	Total	6 147	309 499	2 483	1 136	312 027
28	Of which: Loans	6 142	219 028	2 479	1 134	221 557
29	Of which: Debt securities	3	48 424	4	2	48 422
30	Of which: Off-balance-sheet exposures	458	72 197	283	129	72 243

Table 27 - EU CR1-A_Credit quality of exposures by exposure class and instrument 31-12-2020

Most defaulted exposure is linked to corporate exposure classes and retail mortgages. Overall, there was a limited reduction in defaulted exposure of -278 million euros.

Credit quality of exposures by industry or counterparty types

This table contains the net exposure of material KBC Bank Consolidated entities, broken down by industry and defaulted and non-defaulted exposure.

EU CR1-B_Credit quality of exposures by industry or counterparty types 31-12-2020						
(in millions of EUR)		a) Defaulted exposures	b) Non-defaulted exposures	c) Specific credit risk adjustment	d) General credit risk adjustment	Net values (a+b-c-d)
1	Agriculture, forestry and fishing	139	5 774	44	20	5 849
2	Mining and quarrying	8	568	5	2	569
3	Manufacturing	777	25 211	335	153	25 499
4	Electricity, gas, steam and air conditioning supply	87	5 312	25	12	5 362
5	Water supply	12	1 805	8	4	1 806
6	Construction	421	15 420	243	111	15 487
7	Wholesale and retail trade	1 203	19 483	653	299	19 734
8	Transportation and storage	195	6 691	56	26	6 805
9	Accommodation and food service activities	116	1 815	39	18	1 873
10	Information and communication	37	3 039	17	8	3 051
11	Real estate activities	437	11 783	141	65	12 014
12	Professional, scientific and technical activities	209	7 614	92	42	7 689
13	Administrative and support service activities	150	4 308	27	12	4 419
14	Public administration and defence, compulsory social security	8	48 608	112	51	48 453
15	Education	3	1 083	2	1	1 083
16	Human health and social work activities	65	8 272	24	11	8 302
17	Arts, entertainment and recreation	29	752	13	6	762
18	Financial and insurance activities	78	58 538	42	19	58 555
19	Activities of extra territorial organisations and bodies	1	920	1	0	920
20	Private persons	2 026	75 374	527	241	76 631
21	Other, service activities	12	986	10	4	984
22	Other	134	6 143	67	31	6 179
23	Total	6 147	309 499	2 483	1 136	312 027

Table 28 - EU CR1-B_Credit quality of exposures by industry or counterparty types 31-12-2020

The main 'industries' were retail banking ('Private individuals'), corporate banking (mainly 'Manufacturing', 'Wholesale and retail trade', 'Financial and insurance activities' and 'Construction'), institutions ('Financial and insurance activities') and banking for the public sector ('Public administration and defence, compulsory social security'), as was the case in 2019. The defaulted exposure is mainly concentrated in retail and corporate banking.

The exposure attributed to 'Financial and insurance activities' largely consists of SFT-related exposures and the change in reporting of this exposure resulted in a substantial decrease in the exposure compared to 2019. At KBC, SFT exposures (mostly repos and reverse repos) are covered by the credit risk framework (instead of the counterparty risk framework).

Credit quality of exposures by geography

This table contains the net exposure of material KBC Bank Consolidated entities broken down by geographic area for defaulted and non-defaulted exposure. The logic used for the geographic breakdown is consistent with the previous table on the geographic breakdown of exposures.

EU CR1-C_Credit quality of exposures by geography 31-12-2020					
(in millions of EUR)	a) Defaulted exposures	b) Non-defaulted exposures	c) Specific credit risk adjustment	d) General credit risk adjustment	Net values (a+b-c-d)
1 Africa	41	889	63	29	838
2 Asia	88	4 303	57	26	4 308
3 Central and Eastern Europe & Russia	1 388	105 826	811	371	106 032
4 Bulgaria	291	6 392	101	46	6 537
5 Czech Republic	708	70 266	410	188	70 376
6 Hungary	141	11 776	114	52	11 751
7 Slovakia	228	14 879	178	81	14 848
8 Other countries	20	2 513	9	4	2 520
9 Latin America	0	199	35	16	148
10 Middle East	43	1 023	22	10	1 033
11 North America	102	5 118	55	25	5 140
12 Oceania	3	724	1	1	725
13 Western Europe	4 482	190 819	1 437	657	193 206
14 Belgium	2 535	133 227	1 038	475	134 250
15 Ireland	1 436	10 695	220	101	11 810
16 Other countries	510	46 897	179	82	47 146
17 Other geographical areas	0	598	0	0	597
18 Total	6 147	309 499	2 483	1 136	312 027

Table 29 - EU CR1-C_Credit quality of exposures by geography 31-12-2020

As expected, the defaulted exposure is mainly concentrated in KBC's six core markets (Belgium, the Czech Republic, Hungary, Slovak Republic, Bulgaria and Ireland). In total, around 2% of the exposure is defaulted, which is higher than the 1.9% at year-end 2019. This is because the decrease in total exposure outweighs the decrease in defaulted exposure.

Ageing of past-due exposures

A financial contract is past due when a counterparty fails to make a payment when it is contractually due. In case of factoring, a purchased receivable is past due when the invoice debtor fails to make payment on the due date of an undisputed invoice.

This table contains the on-balance-sheet past-due exposure of material KBC Bank Consolidated entities. Bear in mind that there are defaulted (or NPL) exposures that are NOT past due, but also exposures (less than 90 days) past due that are non-defaulted (or performing).

EU CR1-D_Ageing of past-due exposures (in millions of EUR)	≤ 30 days	> 30 days ≤ 60 days	> 60 days ≤ 90 days	> 90 days ≤ 180 days	> 180 days ≤ 1year	> 1 year
Loans	949	136	99	199	364	2 373
Debt securities	0	0	0	0	0	3
Total	949	136	99	199	364	2 376

Table 30 - EU CR1-D_Ageing of past-due exposures

Non-performing and forborne exposure

In order to avoid a situation where an obligor facing financial difficulties ends up defaulting, loans can be renegotiated and forbearance measures granted in accordance with internal policy guidelines.

Forbearance measures consist of concessions towards a borrower that may involve:

- lowering or postponing interest or fee payments;
- extending the term of the loan to ease the repayment schedule;
- capitalising arrears;
- declaring a moratorium (temporary principal and/or interest payment holidays);
- providing debt forgiveness.

After a forbearance measure has been decided upon, a forbearance tag is attached to the file in the credit systems for identification, monitoring and reporting purposes.

A client with a forborne loan will in principle be assigned a PD class that is higher than the one it had before the forbearance measure was granted, given the higher risk of the client. In accordance with IFRS 9 requirements, a facility tagged as 'forborne' will always be allocated to 'Stage 2' (please note that this only applies to non-defaulted clients, since defaulted clients are always classified in 'Stage 3').

If a client/facility has been assigned 'defaulted' status (before or at the time forbearance measures are granted), the client/forborne facility (depending on whether defaulted status is assigned at client or facility level) must remain defaulted for at least one year. Only upon strict conditions can the client/facility be reclassified as 'non-defaulted'.

A forborne facility with a 'non-defaulted' status will be tagged as 'forborne' for at least two years after the forbearance measure has been granted, or after the client/facility becomes non-defaulted, and can only be removed when strict extra criteria have been met (non-defaulted, regular payments, etc.).

As forbearance measures constitute an objective indicator (i.e. impairment trigger) that requires assessing whether impairment is needed, all forbearance measures are subject to an impairment test.

The following table contains the exposure of KBC Bank Consolidated entities in terms of Gross Carrying Value (GCV). It provides details on the non-performing and forborne part of the loan portfolio.

EU CR1-E_Non-performing and forborne exposures 31-12-2020		Performing and non-performing exposures							Accumulated impairment and provisions and negative fair value adjustments due to credit risk				Collaterals and financial guarantees received	
					Of which non-performing				On performing exposures		On non-performing exposures			
(in millions of EUR)			Of which performing but past due > 30 days and <= 90 days	Of which performing forborne		Of which defaulted	Of which Impaired	Of which forborne		Of which forborne		Of which forborne	On non-performing exposures	Of which forborne exposures
10	Debt securities	49 348	0	0	3	3	3	0	-6	0	-2	0	0	0
20	Loans and advances	220 190	383	1 914	5 350	5 349	5 349	2 243	-1 156	-89	-2 539	-556	2 458	2 691
30	Off-balance-sheet exposures	50 126	0	48	209	209	209	8	-43	0	-99	-5	80	27

Table 31 - EU CR1-E_Non-performing and forborne exposures 31-12-2020

This table is based on the figures of KBC Bank Consolidated and also include the cash balances with central banks and the other demand deposits in the gross carrying amounts in order to be in line with the total of FINREP table 18.

In 2020, there was a major increase in the forborne exposures (+1 000 million euros in the performing exposures, of which 700 million euros in Belgium and 200 million euros in the Czech Republic). This increase is mainly attributable to loan restructurings driven by the coronavirus crisis which are outside the scope of the general payment moratoria.

Accumulated impairments and provisions on performing exposures increased by 800 million euros. This is due to the impact of the coronavirus crisis on IFRS 9 Expected Credit Losses. More information is provided in note 1.4 of KBC's Quarterly Report for the fourth quarter of 2020.

More information about impaired credit risk exposure

The information provided in the tables in this section is independent of the regulatory approach or the assigned exposure class. It is worth mentioning that the exposure reported here and originated via the Standardised approach is net of provisions. This is not the case for exposure calculated according to the IRB approach.

For all data on impairment, provisions and value adjustments, reference is made to the 'Consolidated financial statements' section of the 2020 Annual Report of KBC Group NV.

Changes in stock of specific and general credit risk adjustments

This table shows specific and general credit risk adjustments for the on-balance-sheet defaulted credit portfolio at the KBC Bank Consolidated level over the past year. As defined in the Commission Delegated Regulation (EU) No. 183/2014, referring to Article 1, KBC's interpretation is that stage 1 and stage 2 credit risk impairments are always general and stage 3 impairments correspond to the specific credit risk impairments.

	EU CR2-A_Changes in stock of specific credit risk adjustments 31-12-2020 (in millions of EUR)	Accumulated specific credit risk adjustment	Accumulated general credit risk adjustment
1	Opening balance	2 479	387
2	Increases due to amounts set aside for estimated loan losses during the period	123	704
3	Decreases due to amounts reversed for estimated loan losses during the period	-110	-21
4	Decreases due to amounts taken against accumulated credit risk adjustments	-316	0
5	Transfers between credit risk adjustments	327	82
6	Impact of exchange rate differences	-16	-3
7	Business combinations, including acquisitions and disposals of subsidiaries	67	29
8	Other adjustments	-13	-16
9	Closing balance	2 541	1 162
10	Recoveries on credit risk adjustments recorded directly to the statement of profit and loss[1]	-40	0
11	Specific credit risk adjustments directly recorded to the statement of profit and loss		

1. The row should include recoveries on fully written-off loans that have been directly recorded to the statement of profit and loss.

Table 32 - EU CR2-A_Changes in stock of specific and general credit risk adjustments 31-12-2020

The scope of this table is 'KBC Bank Consolidated'. It contains the impairments on Debt securities and Loans and advances for the portfolios subject to impairment ('At amortised cost' and 'Fair Value through OCI'). The total closing balance of 3 703 million euros can be attributed to stage 1 for 173 million euros, to stage 2 for 989 million euros and to stage 3 for 2 541 million euros.

The increase in general credit risk adjustment in 2020 is mainly due to the impairments on performing exposures with an increase of 800 million euros. This can be explained by the impact of the coronavirus crisis on IFRS 9 Expected Credit Losses. More information is provided in note 1.4 of KBC's Quarterly Report for the fourth quarter of 2020.

Changes in the stock of defaulted loans and debt securities

This table shows the change in the past year of the stock of defaulted loans and debt securities for material KBC Bank Consolidated entities.

EU CR2-B_Changes in the stock of defaulted loans and debt securities 31-12-2020 (in millions of EUR)		Value defaulted exposures
1	Opening Balance	6 425
2	Loans and debt securities that have defaulted or impaired since the last reporting period	1 437
3	Returned to non-defaulted status	557
4	Amounts written off	395
5	Other changes	764
6	Closing Balance	6 147

Table 33 - EU CR2-B_Changes in the stock of defaulted loans and debt securities 31-12-2020

As previously stated, non-performing and forborne exposures in 2020 decreased by 278 million euros.

Credit Risk Mitigation (CRM)

Credit risk mitigation entails the use of techniques to lower credit risk and hence capital needs, e.g., regulatory capital.

Netting

To date, KBC has not engaged in on-balance-sheet netting (i.e. the offsetting of balance-sheet products such as loans and deposits).

Collateral in repo transactions

KBC engages in the following types of repo transaction:

- ***Reverse repos and 'buy and sell-back' transactions***: These transactions are considered deposits made by KBC, with KBC lending cash against securities until the cash is repaid. The difference between reverse repos and buy and sell-backs is technical and relates to the way coupon payments are handled during the transaction;
- The securities underlying the reverse repo transactions are almost entirely government securities, with the underlying issuers of the remaining securities being mainly banks and corporate entities. In order to conclude such transactions, a standard General Master Repurchase Agreement (GMRA) needs to be concluded with the counterparty, and legal certainty must exist for all relevant jurisdictions. Transactions also need to be compliant with KBC's repo policies for all relevant entities;
- ***Repos and 'sell and buy-back' transactions***: These transactions are considered funding, as KBC receives cash in exchange for securities provided as collateral until the cash is repaid. Here too, the difference between repos and sell and buy-backs is a technical one.

Collateral in the lending portfolio

Collateral is held to mitigate the risks (both identified and inherent) in individual loans. The KBC Credit Risk Standards on Collateral Management describe the standards and controls on how collateral should be treated in the credit process from the initial credit application to the decision to take collateral, establishing collateral, monitoring, etc. until the release of collateral. They contain the whole scope of requirements for quality assessment and valuation of collateral as well as minimum requirements for collateral monitoring. The standards and controls are based on the requirements stipulated by CRD IV1 and the ECB Guidance to banks on non-performing loans,

Collateral applying to lending exposure subject to the **Standardised approach** has a direct effect by lowering the EAD, which in turn has a direct effect on RWA and on capital. The CRD eligibility criteria for the Standardised approach are always the reference for collateral application.

Credit risk mitigation is only applied when the necessary policies and procedures are in place.

Under the **IRB Foundation approach**, only the collateral meeting the eligibility criteria and minimum requirements (as imposed by the CRD) to qualify for credit risk mitigation has been included in the figures.

As a result, the effective amount of collateral obtained in KBC to cover exposure falling under the Foundation approach is much higher than the figure taken into account for risk mitigation purposes. Real estate collateral obtained for KBC's commercial real estate financing activities is not taken into account for credit risk mitigation purposes, for instance. Collateral risk mitigation in the Foundation context has a direct impact on the LGD percentage.

For the lending exposure subject to the **IRB Advanced approach**, the collateral applying to these exposures affects RWA because collateral is included in LGD modelling.

Unfunded credit protection

Unfunded credit protection is provided entirely through guarantees.

The impact of guarantees under the Standardised and IRB Foundation approaches is at the level of exposure receiving a better rating through a lower risk weight (STA) or PD substitution (FIRB), resulting in lower capital requirements.

Unfunded credit protection applying to lending exposure under the IRB Advanced approach affects RWA only indirectly as guarantees are included in LGD modelling. Additional information on how unfunded credit protection was taken into account in the internal LGD estimation under this approach can be found in the 'Internal modelling' section.

The main types of guarantors are government entities and large financial institutions, such as banks, investment banks and insurance companies.

CRM techniques – Overview

This table contains the net exposure of material KBC Bank Consolidated entities. It gives an overview of the CRM techniques used for defaulted and non-defaulted exposure, irrespective of the regulatory approach used. KBC does not use credit derivatives to mitigate credit risk and, therefore, the table no longer has a column entitled 'Exposure secured by credit derivatives'.

EU CR3_CRM techniques 31-12-2020 (in millions of EUR)		Exposures unsecured - Carrying amounts	Exposures secured - Carrying amount	Exposures secured by collateral	Exposures secured by financial guarantees
1	Loans	178 810	42 747	33 785	8 967
2	Debt securities	48 421	1	0	1
3	Other	41 055	992	992	0
4	Total exposures	268 287	43 740	34 777	8 968
5	Of which defaulted	5 315	832	784	48

Table 34 - EU CR3_CRM techniques 31-12-2020

Credit exposure and CRM – Standardised approach

KBC uses the regulatory defined risk buckets to assess the quality, and linked risk weight, for all exposure calculated according to the Standardised approach. It also uses external ratings from S&P's, Fitch and Moody's to define the risk bucket of exposures. The EBA standard table is used for mapping these external ratings.

If two external ratings are available, the lower of the two is used. If there are three external ratings with different risk weights attached to them, the risk weight corresponding with the second-best rating is applied. If no rating is available, the risk weight provided by the Standardised approach is used.

Credit risk exposure and CRM effects – Standardised approach

The tables below show the net KBC Bank Consolidated exposure calculated using the Standardised approach for the end of 2019 and 2020, broken down by exposure class, excluding the SFT. The exposure classes are those defined for the purpose of regulatory reporting according to the Standardised approach, viz.:

- **Central Governments or central banks**: claims on central authorities and governments and other assets weighted at 0% (such as Cash and Cash at central banks);
- **Regional government or local authorities**: claims on Regional Governments and Local Authorities independently if these qualify as 'Sovereign' under the IRB approach;
- **PSE**: claims on Public Sector Entities;
- **MDB**: claims on Multilateral Development Banks independently if these qualify as 'Sovereign' under the IRB approach;
- **International organisations**: claims on a specific list of organisations (e.g., International Monetary Fund, European Central Bank);
- **Institutions**: claims on banks;
- **Corporates**: claims on all corporate exposure, including small and medium-sized enterprises that are treated as corporate clients;
- **Retail**: claims on retail clients (including SMEs not qualifying for treatment as corporate clients). Most of these claims are related to mortgages and categorised under 'secured by real estate';
- **Secured by mortgages on immovable property**: claims that are (fully) covered by real estate collateral via mortgages and including real estate leasing. These are extracted from the above categories (mostly retail or corporate);
- **Exposures in default**: all exposure which is past due, meaning that it is more than 90 days in arrears. All past due exposure is extracted from all the other categories;

- **Exposures associated with particularly high risk**: exposure that is not collateralised and/or not rated, attracting a risk-weighting equal to or higher than 150% and therefore considered 'high risk'. Past due and equity exposure are excluded;
- **Covered bonds**: exposure for which the credit risk is mitigated by risk positions on very highly rated governments, authorities or institutions. Past due, equity and high-risk claims are excluded;
- **Institutions and corporates with short term credit assessment**: exposure (to institutions or to corporates) which is rated and has a maturity of less than three months. Past due, equity and high-risk claims are excluded. This exposure has been assigned to its respective exposure type, namely 'Institutions' or 'Corporates';
- **CIU**: claims on Collective Investment Undertakings;
- **Equity**: Shares and Mutual Funds. Previously the equities were reported under the exposure class of the issuing entity of the equity instrument. Now all equity exposure is grouped under this single exposure class;
- **Other**: all other claims (e.g., other assets).

EU CR4_Credit risk exposure and CRM effects - standardised 31-12-2020 (in millions of EUR)		Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
	Exposure classes	On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWAs	RWA density
1	Central governments or central banks	2 661	11	2 938	3	18	0.6%
2	Regional government or local authorities	237	42	237	11	50	20.2%
3	Public sector entities	13	4	23	4	4	16.1%
4	Multilateral development banks	0	0	194	0	0	0.0%
5	International organisations	0	0	0	0	0	-
6	Institutions	268	15 261	278	7	107	37.6%
7	Corporates	2 684	843	2 532	349	2 622	91.0%
8	Retail	2 528	366	2 112	134	1 522	67.7%
9	Secured by mortgages on immovable property	1 804	89	1 800	40	735	40.0%
10	Exposures in default	436	3	249	2	281	112.4%
11	Higher-risk categories	6	0	2	0	4	150.0%
12	Covered bonds	0	0	0	0	0	-
13	Institutions and corporates with a short-term credit assessment	0	0	0	0	0	-
14	Collective investment undertakings	128	0	128	0	41	32.0%
15	Equity	73	0	73	0	104	141.2%
16	Other items	2 614	48	2 501	34	1 811	71.4%
17	Total	13 452	16 666	13 067	583	7 297	53.5%

Table 35 - EU CR4_Credit risk exposure and CRM effects - standardised 31-12-2020

EU CR4_Credit risk exposure and CRM effects – standardised 31-12-2019 (in millions of EUR)		Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
	Exposure classes	On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWAs	RWA density
1	Central governments or central banks	1 693	0	1 693	1	231	13.6%
2	Regional government or local authorities	202	20	202	7	43	20.6%
3	Public sector entities	11	2	14	2	3	19.6%
4	Multilateral development banks	0	0	86	0	0	0.0%
5	International organisations	0	0	0	0	0	0.0%
6	Institutions	231	12 792	231	2	101	43.3%
7	Corporates	2 395	548	2 321	212	2 421	95.6%
8	Retail	1 910	296	1 849	116	1 323	67.3%
9	Secured by mortgages on immovable property	1 022	58	1 022	31	440	41.8%
10	Exposures in default	430	3	232	2	256	109.9%
11	Higher-risk categories	0	0	0	0	0	0%
12	Covered bonds	0	0	0	0	0	0%
13	Institutions and corporates with a short-term credit assessment	0	0	0	0	0	0%
14	Collective investment undertakings	25	0	25	0	21	86%
15	Equity	51	0	48	0	56	117.6%
16	Other items	2 585	37	2 511	32	1 673	65.8%
17	Total	10 554	13 757	10 233	405	6 570	61.8%

Table 36 - EU CR4_Credit risk exposure and CRM effects - standardised 31-12-2019

Essentially, no CRM is used for the Standardised exposure. The changes between the exposures 'before' and 'post' are due to the CCF applied and provisions taken into account.

The RWA density figures were also basically the same as in 2019. The decrease for 'Central governments or central banks' in 2020 was due to lower weighting (from 25% to 0%) for sovereign exposure in euros at UBB as part of the ECB's 'quick fix' coronavirus-related RWA relief measures.

Risk weight by exposure class – Standardised approach

The tables below show the net KBC Bank Consolidated exposure (post CCF and CRM) at year-ends 2019 and 2020, calculated using the Standardised approach and broken down by exposure class and risk weight.

EU CR5_ Exposure classes 31-12-2020 (in millions of EUR)		Risk weight															Total	Of which unrated
		0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Others		
1	Central governments or central banks	2 886	0	0	0	32	0	22	0	0	0	0	0	0	0	0	2 940	10
2	Regional government or local authorities	0	0	0	0	247	0	0	0	0	1	0	0	0	0	0	248	242
3	Public sector entities	12	0	0	0	12	0	2	0	0	1	0	0	0	0	0	27	3
4	Multilateral development banks	194	0	0	0	0	0	0	0	0	0	0	0	0	0	0	194	0
5	International organisations	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
6	Institutions	0	0	0	0	161	0	97	0	0	26	0	0	0	0	0	284	98
7	Corporates	0	0	0	0	1	0	113	0	0	2 767	1	0	0	0	0	2 881	2 845
8	Retail	0	0	0	0	0	0	0	0	2 246	0	0	0	0	0	0	2 246	2 246
9	Secured by mortgages on immovable property	0	0	0	0	0	1 278	452	0	28	82	0	0	0	0	0	1 840	1 840
10	Exposures in default	0	0	0	0	0	0	0	0	0	188	62	0	0	0	0	250	250
11	Higher-risk categories	0	0	0	0	0	0	0	0	0	0	2	0	0	0	0	2	2
12	Covered bonds	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
13	Institutions and corporates with a short-term credit assessment	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
14	Collective investment undertakings	0	0	0	0	1	0	0	0	0	20	0	0	0	0	106	128	20
15	Equity	0	0	0	0	0	0	0	0	0	53	0	20	0	0	0	73	73
16	Other items	563	0	0	0	19	0	0	0	0	1 221	0	66	0	0	665	2 535	1 307
17	Total	3 655	0	0	0	473	1 278	687	0	2 275	4 359	65	87	0	0	771	13 650	8 939

Table 37 - EU CR5_Exposure classes 31-12-2020

EU CR5_Exposure classes 31-12-2019 (in millions of EUR)		Risk weight															Total	Of which unrated
		0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Others		
1	Central governments or central banks	721	0	0	97	24	0	13	0	0	0	0	0	0	0	838	1 693	131
2	Regional government or local authorities	0	0	0	0	208	0	0	0	0	2	0	0	0	0	0	210	205
3	Public sector entities	1	0	0	0	12	0	0	0	0	0	0	0	0	0	3	15	0
4	Multilateral development banks	86	0	0	0	0	0	0	0	0	0	0	0	0	0	0	86	0
5	International organisations	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
6	Institutions	0	0	0	0	102	0	102	0	0	30	0	0	0	0	0	233	696
7	Corporates	0	0	0	0	2	0	114	0	0	2 417	0	0	0	0	0	2 533	2 490
8	Retail	0	0	0	0	0	0	0	0	1 965	0	0	0	0	0	0	1 965	1 965
9	Secured by mortgages on immovable property	0	0	0	0	0	641	359	0	0	53	0	0	0	0	0	1 053	1 053
10	Exposures in default	0	0	0	0	0	0	0	0	0	187	46	0	0	0	0	233	233
11	Higher-risk categories	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
12	Covered bonds	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
13	Institutions and corporates with a short-term credit assessment	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
14	Collective investment undertakings	0	0	0	0	4	0	0	0	0	20	0	0	0	0	0	25	20
15	Equity	0	0	0	0	0	0	0	0	0	42	0	6	0	0	0	48	48
16	Other items	658	0	0	0	11	0	0	0	0	1 172	0	34	0	0	668	2 543	1 217
17	Total	1 466	0	0	97	363	641	588	0	1 965	3 923	46	40	0	0	1 509	10 639	8 059

Table 38 - EU CR5_Exposure classes 31-12-2019

Much of the exposure was assigned to the unrated bucket. It includes 'Secured by real estate' exposure, which does not require a rating, and obviously 'Retail' exposure. The Corporate exposure is also mainly unrated. The RWA of KBC's Standardised portfolio has primarily been volume-driven over time, the acquisition of OTP Banka Slovensko can also be seen in this context.

Credit exposure and CRM – IRB approach

The tables below show total exposure calculated using the IRB approach, broken down by exposure class.

The exposure classes are those defined for the purpose of regulatory reporting according to the IRB approach[2]:

- **Central governments and central banks**: this category includes claims on public sector entities, regional governments and local authorities as long as they are categorised as 'Sovereign' by the local regulator. Multilateral development banks attracting a 0% risk weighting are included;
- **Institutions**: this category relates mainly to bank exposure. Claims on public sector entities, regional governments and local authorities that do not qualify as 'Sovereign' are also included in this category;
- **Corporates**: this exposure class includes all exposure not belonging to one of the other exposure classes, i.e. mainly exposure to corporate, SME or non-bank financial counterparties;
- **Specialised lending**: exposure to entities created specifically to finance projects or commercial real estate;
- **SMEs (treated as) Corporates**: these are exposures fulfilling the necessary conditions (total annual sales of under 50 million euros) for determining the minimum capital requirements according to the capital weighting formula for corporate SMEs;
- **Retail**: this exposure class includes exposure to private individuals or SMEs, managed in the retail network, for which the total exposure to the counterparty does not exceed 1 million euros. This exposure class is further broken down, depending on whether or not the exposure is secured by (residential or commercial) real estate (including mortgages), and depending on whether the exposure is to private individuals or SMEs;
- **Qualifying revolving retail**: this includes revolving retail exposure, such as exposure to credit cards and overdrafts;
- **Other non-credit obligation assets**: besides 'other assets', this category includes the residual value of leasing transactions and deferred tax assets (DTA);
- **Equity**: this category includes shares and mutual funds.

EAD covered by the IRB methods by exposure class

This table shows the importance of each IRB method by asset class, taking the EAD of the IRB loan portfolio as a reference. Exceptionally, the EAD used in this table is the EAD after application of the CCF.

[2] *It should be noted that the IRB Foundation approach for retail exposure does not exist and that IRB Advanced is the only approach for this exposure class.*

EAD covered by the IRB model 31-12-2020	COREP exposure class	EAD %
AIRB	Central governments and central banks	20.29%
	Institutions	4.06%
	Corporates – SMEs	11.24%
	Corporates – Specialised lending	4.11%
	Corporates – Other	14.91%
	Retail – Secured by real estate SMEs	4.48%
	Retail – Secured by real estate non- SMEs	32.37%
	Retail – Qualifying revolving	0%
	Retail – Other SMEs	3.30%
	Retail – Other non-SMEs	3.56%
	Equity IRB	1.20%
AIRB	Total	87.43%

Table 39 - EAD covered by the IRB model 31-12-2020 (AIRB)

EAD covered by the IRB model 31-12-2020	COREP exposure class	EAD %
FIRB	Central governments and central banks	88.35%
	Institutions	2.81%
	Corporates – SMEs	2.08%
	Corporates – Specialised lending	2.45%
	Corporates – Other	4.31%
FIRB	Total	12.57%

Table 40 - EAD covered by the IRB model 31-12-2020 (FIRB)

Credit risk exposure by exposure class and PD range – FIRB approach

These tables contain the net exposure of the material KBC group entities by FIRB exposure class, broken down on a PD scale.

EU CR6_Credit risk exposure by exposure class and PD range – FIRB approach (31-12-2020) (in millions of EUR)	PD scale	Original on-balance sheet gross exposures	Off-balance sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjustments and provisions
Central governments and central banks	0.00 to <0.15	26 962	3	75%	26 964	0.01%	13	44%	0.4	461	2%	1	0
Central governments and central banks		26 962	3	75%	26 964	0.01%	13	44%	0.4	461	2%	1	0

Table 41 - EU CR6_Credit risk exposure by exposure class and PD range – FIRB approach (31-12-2020)

EU CR6_Credit risk exposure by exposure class and PD range – FIRB approach (31-12-2020) (in millions of EUR)	PD scale	Original on-balance sheet gross exposures	Off-balance sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjustments and provisions
Institutions	0.00 to <0.15	503	1	45%	504	0.08%	16	8%	0.3	25	5%	0	0
	0.15 to <0.25	304	0	20%	304	0.18%	5	21%	0.9	71	23%	0	0
	0.75 to <2.50	1	5	96%	5	0.77%	5	45%	2.5	6	114%	0	0
	2.50 to <10.00	15	0	0%	15	4.23%	43	45%	1.4	25	165%	0	0
	100.00 (Default)	0	0	0%	0	100.00%	5	45%	2.5	0	0%	0	0
Institutions		823	6	89%	828	0.20%	68	14%	0.5	126	15%	0	0

Table 42 - EU CR6_Credit risk exposure by exposure class and PD range – FIRB approach (31-12-2020)

EU CR6_Credit risk exposure by exposure class and PD range – FIRB approach (31-12-2020)													
(in millions of EUR)	PD scale	Original on-balance sheet gross exposures	Off-balance sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjustments and provisions
Corporates - Specialised Lending	0.25 to <0.50	41	0	0%	41	0.28%	3	44%	2.5	18	44%	0	0
	0.50 to <0.75	154	27	82%	176	0.57%	14	45%	2.5	116	66%	0	0
	0.75 to <2.50	431	102	78%	511	1.52%	96	44%	2.5	523	102%	3	0
	2.50 to <10.00	19	4	72%	22	4.67%	14	43%	2.5	25	116%	0	0
	10.00 to <100.00	8	0	0%	8	18.10%	1	45%	2.5	16	204%	1	0
	100.00 (Default)	20	0	75%	20	100.00%	13	45%	2.5	0	0%	9	0
Corporates - Specialised Lending		674	133	78%	778	4.05%	140	44%	2.5	699	90%	14	30

Table 43 - EU CR6_Credit risk exposure by exposure class and PD range – FIRB approach (31-12-2020)

EU CR6_Credit risk exposure by exposure class and PD range – FIRB approach (31-12-2020)													
(in millions of EUR)	PD scale	Original on-balance sheet gross exposures	Off-balance sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjustments and provisions
Corporates - SME	0.00 to <0.15	64	24	70%	81	0.13%	31	44%	2.5	23	28%	0	0
	0.25 to <0.50	21	26	59%	36	0.28%	83	41%	2.5	13	37%	0	0
	0.50 to <0.75	68	59	61%	104	0.57%	115	43%	2.5	59	57%	0	0
	0.75 to <2.50	145	100	54%	199	1.82%	212	42%	2.5	160	81%	2	0
	2.50 to <10.00	99	45	52%	122	5.89%	122	41%	2.5	142	116%	3	0
	10.00 to <100.00	11	3	62%	13	18.10%	16	39%	2.5	21	168%	1	0
	100.00 (Default)	103	0	75%	104	100.00%	57	45%	1.2	0	0%	47	0
Corporates - SME		511	257	57%	658	17.85%	631	43%	2.3	419	64%	52	99

Table 44 - EU CR6_Credit risk exposure by exposure class and PD range – FIRB approach (31-12-2020)

EU CR6_Credit risk exposure by exposure class and PD range – FIRB approach (31-12-2020)													
(in millions of EUR)	PD scale	Original on-balance sheet gross exposures	Off-balance sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjustments and provisions
Corporates - Other	0.00 to <0.15	116	127	76%	213	0.14%	16	45%	2.5	86	41%	0	0
	0.25 to <0.50	230	143	62%	320	0.28%	26	45%	2.5	191	60%	0	0
	0.50 to <0.75	130	143	65%	223	0.57%	31	43%	2.5	180	81%	1	0
	0.75 to <2.50	184	155	43%	251	1.63%	44	44%	2.5	293	117%	2	0
	2.50 to <10.00	60	30	42%	72	5.66%	173	44%	2.5	124	171%	2	0
	10.00 to <100.00	4	4	70%	7	18.10%	5	37%	2.5	15	220%	0	0
	100.00 (Default)	277	0	20%	277	100.00%	49	45%	1.1	0	0%	125	0
Corporates - Other		1 002	603	60%	1 362	21.21%	338	44%	2.2	889	65%	130	277

Table 45 - EU CR6_Credit risk exposure by exposure class and PD range – FIRB approach (31-12-2020)

EU CR6_Credit risk exposure by exposure class and PD range – FIRB approach 31-12-2020)													
(in millions of EUR)	PD scale	Original on-balance sheet gross exposures	Off-balance sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjustments and provisions
Equity	2.50 to <10.00	16	0	0%	16	4.53%	8	100%	5.0	58	370%	0	0
	100.00 (Default)	0	0	0%	0	100.00%	1	100%	5.0	0	370%	0	0
Equity		16	0	0%	16	5.13%	9	100%	5.0	59	370%	0	0

Table 46 - EU CR6_Credit risk exposure by exposure class and PD range – FIRB approach (31-12-2020)

EU CR6_Credit risk exposure by exposure class and PD range – FIRB approach (31-12-2020)													
(in millions of EUR)	PD scale	Original on-balance sheet gross exposures	Off-balance sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjustments and provisions
Total (all portfolios)		29 986	1 001	62%	30 606	1.45%	1 178	43%	0.5	2 654	9%	198	406

Table 47 - EU CR6_Credit risk exposure by exposure class and PD range – FIRB approach (31-12-2020)

There is hardly any change in the FIRB exposures and the same can be said of the risk parameters shown.

Credit risk exposure by exposure class and PD range – AIRB approach

These tables contain the net exposure of the material KBC group entities by AIRB exposure class, broken down on a PD scale.

EU CR6_Credit risk exposure by exposure class and PD range – AIRB approach (31-12-2020) (in millions of EUR)	PD scale	Original on-balance sheet gross exposures	Off-balance sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjustments and provisions
Central governments and central banks	0.00 to <0.15	44 215	503	76%	44 599	0.03%	294	25%	3.5	4 787	11%	4	0
	0.15 to <0.25	57	0	15%	57	0.20%	14	44%	3.2	27	47%	0	0
	0.25 to <0.50	68	9	27%	71	0.36%	31	17%	4.1	18	26%	0	0
	0.50 to <0.75	10	14	13%	12	0.59%	186	32%	2.0	7	54%	0	0
	0.75 to <2.50	230	143	7%	240	1.77%	28	4%	4.7	29	12%	0	0
	2.50 to <10.00	227	177	8%	242	4.23%	212	7%	4.1	67	28%	1	0
	10.00 to <100.00	0	18	6%	1	20.82%	8	9%	4.8	1	54%	0	0
	100.00 (Default)	8	0	0%	8	100.00%	4	50%	3.3	2	22%	7	0
Central governments and central banks		44 816	864	48%	45 229	0.08%	732	24%	3.5	4 936	11%	12	162

Table 48 - EU CR6_Credit risk exposure by exposure class and PD range – AIRB approach (31-12-2020)

EU CR6_Credit risk exposure by exposure class and PD range – AIRB approach (31-12-2020) (in millions of EUR)	PD scale	Original on-balance sheet gross exposures	Off-balance sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjustments and provisions
Institutions	0.00 to <0.15	5 507	2 819	57%	7 110	0.07%	1 039	21%	2.3	943	13%	1	0
	0.15 to <0.25	478	142	50%	550	0.18%	127	18%	2.3	99	18%	0	0
	0.25 to <0.50	372	193	67%	501	0.34%	360	19%	2.0	160	32%	0	0
	0.50 to <0.75	10	35	16%	16	0.56%	380	26%	2.5	8	48%	0	0
	0.75 to <2.50	287	136	87%	406	1.59%	244	9%	0.5	82	20%	1	0
	2.50 to <10.00	165	165	95%	322	4.65%	372	7%	0.9	77	24%	1	0
	10.00 to <100.00	4	6	73%	9	14.25%	94	5%	0.6	2	25%	0	0
	100.00 (Default)	28	0	0%	28	100.00%	3	42%	0.0	0	0%	14	0
Institutions		6 852	3 497	60%	8 940	0.65%	2 471	19%	2.1	1 372	15%	17	19

Table 49 - EU CR6_Credit risk exposure by exposure class and PD range – AIRB approach (31-12-2020)

EU CR6_Credit risk exposure by exposure class and PD range – AIRB approach (31-12-2020)													
(in millions of EUR)	PD scale	Original on-balance sheet gross exposures	Off-balance sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjustments and provisions
Corporates - Specialised Lending	0.00 to <0.15	242	24	100%	268	0.11%	21	26%	4.2	62	23%	0	0
	0.15 to <0.25	398	198	63%	522	0.20%	18	19%	4.7	120	23%	0	0
	0.25 to <0.50	1 216	233	52%	1 338	0.35%	126	17%	4.2	324	24%	1	0
	0.50 to <0.75	1 378	342	67%	1 607	0.60%	184	16%	3.9	426	26%	1	0
	0.75 to <2.50	3 347	751	69%	3 866	1.53%	765	20%	3.7	1 882	49%	12	0
	2.50 to <10.00	874	209	56%	990	4.52%	262	24%	2.3	686	69%	10	0
	10.00 to <100.00	44	3	19%	44	16.41%	31	17%	3.6	29	65%	1	0
	100.00 (Default)	425	18	49%	434	100.00%	36	38%	2.5	2	0%	215	0
Corporates - Specialised Lending		7 923	1 779	64%	9 070	6.19%	1 418	20%	3.7	3 531	39%	241	185

Table 50 - EU CR6_Credit risk exposure by exposure class and PD range – AIRB approach (31-12-2020)

EU CR6_Credit risk exposure by exposure class and PD range – AIRB approach (31-12-2020)													
(in millions of EUR)	PD scale	Original on-balance sheet gross exposures	Off-balance sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjustments and provisions
Corporates - SME	0.00 to <0.15	3 618	842	29%	3 866	0.11%	9 482	21%	3.8	505	13%	1	0
	0.15 to <0.25	2 152	537	25%	2 285	0.19%	3 029	21%	3.6	385	17%	1	0
	0.25 to <0.50	3 827	1 252	24%	4 131	0.35%	7 566	24%	3.3	1 062	26%	3	0
	0.50 to <0.75	2 735	1 211	26%	3 044	0.60%	6 332	25%	2.9	1 000	33%	5	0
	0.75 to <2.50	6 504	2 321	27%	7 134	1.45%	11 752	25%	2.9	3 016	42%	25	0
	2.50 to <10.00	2 690	765	23%	2 867	5.16%	22 092	25%	2.7	1 631	57%	35	0
	10.00 to <100.00	497	121	23%	524	21.71%	1 897	23%	2.8	430	82%	27	0
	100.00 (Default)	938	136	-2%	935	100.00%	1 721	34%	2.9	394	42%	447	0
Corporates - SME		22 961	7 186	25%	24 787	5.41%	60 860	24%	3.1	8 423	34%	543	712

Table 51 - EU CR6_Credit risk exposure by exposure class and PD range – AIRB approach (31-12-2020)

EU CR6_Credit risk exposure by exposure class and PD range – AIRB approach (31-12-2020)													
(in millions of EUR)	PD scale	Original on-balance sheet gross exposures	Off-balance sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjustments and provisions
Corporates - Other	0.00 to <0.15	6 666	5 071	17%	7 532	0.09%	954	27%	3.5	1 640	22%	2	0
	0.15 to <0.25	1 093	2 182	13%	1 387	0.20%	353	26%	2.7	384	28%	1	0
	0.25 to <0.50	4 377	6 711	18%	5 600	0.33%	1 155	30%	2.6	2 312	41%	6	0
	0.50 to <0.75	3 997	4 628	16%	4 746	0.61%	1 717	28%	2.3	2 341	49%	8	0
	0.75 to <2.50	6 460	6 429	19%	7 687	1.40%	2 047	31%	2.4	5 586	73%	32	0
	2.50 to <10.00	3 568	2 414	18%	4 006	4.64%	3 998	26%	2.1	3 559	89%	47	0
	10.00 to <100.00	646	360	29%	750	20.05%	5 708	30%	2.4	1 193	159%	42	0
	100.00 (Default)	1 062	258	25%	1 126	100.00%	395	44%	2.0	170	15%	566	0
Corporates – Other		27 870	28 053	18%	32 835	4.96%	15 147	29%	2.6	17 184	52%	704	782

Table 52 - EU CR6_Credit risk exposure by exposure class and PD range – AIRB approach (31-12-2020)

EU CR6_Credit risk exposure by exposure class and PD range – AIRB approach (31-12-2020)													
(in millions of EUR)	PD scale	Original on-balance sheet gross exposures	Off-balance sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjustments and provisions
Retail - Secured by real estate SME	0.00 to <0.15	2 327	280	53%	2 476	0.10%	15 373	13%	0.0	62	3%	0	0
	0.15 to <0.25	1 767	149	46%	1 836	0.18%	7 853	14%	0.0	76	4%	0	0
	0.25 to <0.50	1 678	184	40%	1 751	0.36%	6 946	15%	0.0	134	8%	1	0
	0.50 to <0.75	960	91	45%	1 001	0.60%	4 703	17%	0.0	124	12%	1	0
	0.75 to <2.50	1 550	198	34%	1 617	1.37%	6 493	17%	0.0	336	21%	4	0
	2.50 to <10.00	816	63	36%	838	5.39%	3 577	16%	0.0	350	42%	7	0
	10.00 to <100.00	242	17	45%	250	23.57%	1 191	14%	0.0	154	61%	8	0
	100.00 (Default)	100	7	49%	104	100.00%	337	14%	0.0	64	61%	45	0
Retail - Secured by real estate SME		9 440	989	44%	9 872	2.51%	46 473	15%	0.0	1 298	13%	67	40

Table 53 - EU CR6_Credit risk exposure by exposure class and PD range – AIRB approach (31-12-2020)

EU CR6_Credit risk exposure by exposure class and PD range – AIRB approach (31-12-2020)													
(in millions of EUR)	PD scale	Original on-balance sheet gross exposures	Off-balance sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjustments and provisions
Retail - Secured by real estate non-SME	0.00 to <0.15	32 495	1 051	99%	33 536	0.07%	479 486	19%	0.0	1 378	4%	4	0
	0.15 to <0.25	294	123	72%	382	0.18%	5 040	14%	0.0	21	5%	0	0
	0.25 to <0.50	13 345	856	87%	14 091	0.36%	249 578	18%	0.0	1 655	12%	9	0
	0.50 to <0.75	4 705	179	67%	4 826	0.53%	78 131	17%	0.0	774	16%	4	0
	0.75 to <2.50	11 909	549	80%	12 348	1.38%	167 115	17%	0.0	3 590	29%	30	0
	2.50 to <10.00	2 677	39	85%	2 710	4.61%	34 942	16%	0.0	1 526	56%	21	0
	10.00 to <100.00	1 600	20	99%	1 620	26.01%	22 464	18%	0.0	1 692	104%	79	0
	100.00 (Default)	1 854	2	100%	1 856	100.00%	23 398	32%	0.0	950	51%	539	0
Retail - Secured by real estate non-SME		68 879	2 819	88%	71 369	3.74%	1 060 154	18%	0.0	11 585	16%	687	579

Table 54 - EU CR6_Credit risk exposure by exposure class and PD range – AIRB approach (31-12-2020)

EU CR6_Credit risk exposure by exposure class and PD range – AIRB approach (31-12-2020)													
(in millions of EUR)	PD scale	Original on-balance sheet gross exposures	Off-balance sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjustments and provisions
Retail - Qualifying revolving	0.00 to <0.15	70	945	85%	875	0.05%	525 649	51%	0.0	17	2%	0	0
	0.15 to <0.25	7	20	55%	18	0.24%	8 494	65%	0.0	2	10%	0	0
	0.25 to <0.50	15	38	88%	49	0.36%	29 646	52%	0.0	6	11%	0	0
	0.50 to <0.75	22	44	55%	47	0.61%	28 929	51%	0.0	7	16%	0	0
	0.75 to <2.50	22	26	89%	46	1.72%	29 382	51%	0.0	16	36%	0	0
	2.50 to <10.00	15	11	93%	25	5.24%	20 258	50%	0.0	19	74%	1	0
	10.00 to <100.00	10	3	67%	13	31.00%	9 276	48%	0.0	17	131%	2	0
	100.00 (Default)	2	0	100%	3	100.00%	1 466	63%	0.0	1	21%	2	0
Retail - Qualifying revolving		166	1 087	84%	1 074	0.90%	653 100	51%	0.0	84	8%	5	5

Table 55 - EU CR6_Credit risk exposure by exposure class and PD range – AIRB approach 31-12-2020)

EU CR6_Credit risk exposure by exposure class and PD range – AIRB approach (31-12-2020) (in millions of EUR)	PD scale	Original on-balance sheet gross exposures	Off-balance sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjustments and provisions
Retail - Other SME	0.00 to <0.15	1 208	684	15%	1 313	0.09%	43 790	28%	0.0	71	5%	0	0
	0.15 to <0.25	589	429	15%	652	0.19%	21 083	29%	0.0	60	9%	0	0
	0.25 to <0.50	799	448	18%	880	0.36%	18 916	31%	0.0	128	15%	1	0
	0.50 to <0.75	813	1 478	18%	1 075	0.60%	66 442	31%	0.0	221	21%	2	0
	0.75 to <2.50	1 171	1 366	18%	1 414	1.42%	66 140	30%	0.0	390	28%	6	0
	2.50 to <10.00	1 133	2 071	10%	1 342	4.46%	99 540	24%	0.0	397	30%	15	0
	10.00 to <100.00	257	126	14%	275	23.21%	11 350	30%	0.0	144	52%	20	0
	100.00 (Default)	318	32	1%	318	100.00%	8 718	39%	0.0	157	49%	150	0
Retail - Other SME		6 288	6 634	15%	7 270	6.52%	317 396	29%	0.0	1 567	22%	195	313

Table 56 - EU CR6_Credit risk exposure by exposure class and PD range – AIRB approach (31-12-2020)

EU CR6_Credit risk exposure by exposure class and PD range – AIRB approach (31-12-2020) (in millions of EUR)	PD scale	Original on-balance sheet gross exposures	Off-balance sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjustments and provisions
Retail - Other non-SME	0.00 to <0.15	2 447	1 522	98%	3 945	0.05%	229 482	26%	0.0	193	5%	1	0
	0.15 to <0.25	123	284	59%	292	0.20%	257 533	50%	0.0	62	21%	0	0
	0.25 to <0.50	619	320	94%	920	0.36%	227 008	30%	0.0	190	21%	1	0
	0.50 to <0.75	953	39	93%	989	0.64%	193 881	38%	0.0	347	35%	2	0
	0.75 to <2.50	713	262	89%	946	1.57%	247 731	33%	0.0	407	43%	5	0
	2.50 to <10.00	714	55	93%	766	4.38%	135 629	40%	0.0	469	61%	13	0
	10.00 to <100.00	126	5	88%	131	30.90%	69 689	37%	0.0	117	89%	16	0
	100.00 (Default)	120	3	8%	120	100.00%	706 881	62%	0.0	56	47%	73	0
Retail - Other non-SME		5 815	2 490	92%	8 108	2.73%	2 067 833	32%	0.0	1 841	23%	111	125

Table 57 - EU CR6_Credit risk exposure by exposure class and PD range – AIRB approach (31-12-2020)

EU CR6_Credit risk exposure by exposure class and PD range – AIRB approach (31-12-2020) (in millions of EUR)	PD scale	Original on-balance sheet gross exposures	Off-balance sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjustments and provisions
Equity	0.00 to <0.15	8	0	0%	8	0.12%	8	90%	5.0	22	290%	0	0
	0.15 to <0.25	1	0	0%	1	0.17%	4	90%	5.0	2	290%	0	0
	0.25 to <0.50	0	0	0%	0	0.41%	4	90%	5.0	1	329%	0	0
	0.50 to <0.75	0	0	0%	0	0.55%	1	90%	5.0	0	290%	0	0
	0.75 to <2.50	61	0	0%	61	1.30%	45	90%	5.0	223	367%	1	0
	2.50 to <10.00	92	0	0%	92	4.70%	35	90%	5.0	337	364%	2	0
	100.00 (Default)	1	0	0%	1	100.00%	2	90%	5.0	2	290%	0	0
Equity		163	0	0%	163	3.66%	98	90%	5.0	588	361%	4	0

Table 58 - EU CR6_Credit risk exposure by exposure class and PD range – AIRB approach (31-12-2020)

EU CR6_Credit risk exposure by exposure class and PD range – AIRB approach (31-12-2020) (in millions of EUR)	PD scale	Original on-balance sheet gross exposures	Off-balance sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjustments and provisions
Total (all portfolios)		201 172	55 398	32%	218 717	3.32%	4 176 573	23%	3.1	52 410	24%	2 586	2 922

Table 59 - EU CR6_Credit risk exposure by exposure class and PD range – AIRB approach (31-12-2020)

Except for the previously stated changes in exposure in the Corporate and Institutions exposure classes, as a result of a change in reporting repo exposure, there are hardly any changes in the risk parameters. This also confirms our conclusion that at the end of 2020 there was no material impact yet on the credit quality of the credit portfolio as a result of the coronavirus crisis.

Equities under the simple risk-weight approach – IRB Approach

This table contains the KBC Bank Consolidated exposure. It is limited solely to equities since the simple risk-weight approach is not used for specialised lending. For the latter credit type, own PD and LGD estimates are used.

EU CR10_Equities under the simple risk-weighted approach 31-12-2020							
(in millions of EUR)	Categories	On-balance-sheet amount	Off-balance-sheet amount	Risk weight	Exposure amount	RWAs	Capital requirements
1	Private equity exposures	0		190%	0	0	0
2	Exchange-traded equity exposures	18		290%	18	51	4
3	Other equity exposures	161		370%	161	595	48
4	Total	179			179	646	52

Table 60 - EU CR10_Equities under the simple risk-weighted approach 31-12-2020

Internal modelling

The credit risk models developed by KBC over the years to support decisions in the credit process include Probability of Default (PD), Loss Given Default (LGD) and Exposure At Default (EAD) models, plus application and behavioural scorecards for specific portfolios (retail and SME).

These models are used in the credit process for:

- defining the delegation level for credit approval (e.g., PD models, LGD models, EAD models);
- accepting credit transactions (e.g., application scorecards);
- setting limits (e.g., EL limits);
- pricing credit transactions (predominantly through the use of the RAROC concept);
- monitoring the risk of a (client) portfolio (Risk Signals Databases);
- calculating the internal economic capital;
- calculating the regulatory capital;
- generating input for other credit risk models (e.g., behavioural scores as pooling criteria for the retail portfolio).

The internal rating process depends on the exposure class:

	Type of model	Batch or manual process	Frequency	Overruling possible
(i) central governments and central banks	Statistical expert-based models	Manual process	Annual, or when specific information affecting the credit rating becomes available	Yes
(ii) institutions	Statistical default/non-default models based on objective and subjective input	Manual process	Annual, or when specific information affecting the credit rating becomes available	Yes
(iii) corporate, including SMEs, specialised lending and purchased corporate receivables	Statistical default/non-default models based on objective and subjective input Statistical expert-based models Generic flexible rating tool	Batch (for corporates and SMEs) and manual process (for corporates, specialised lending and purchased corporate receivables)	Batch: monthly Manual: annual, or when specific information affecting the credit rating becomes available	Yes
(iv) retail	Statistical default/non-default models based on objective inputs	Batch process	Monthly	No

Table 61 - Internal Rating Process 31-12-2020

The ‘equities’ exposure class is not included in this table since to calculate the RWA we do not use a PD for this. We use the 'simple risk-weighted approach', which means that, depending on the type of equity, a percentage is simply applied to the exposure (190%, 290% or 370%).

Probability of Default models

Probability of Default (PD) is the likelihood that an obligor will default on its obligations within a one-year time horizon, with default being defined in accordance with European regulations. The PD is calculated for each client or for a portfolio of transactions with similar attributes (pools in retail portfolios).

There are several approaches to estimating PDs (from purely objective to more subjective methods); however, all have four steps in common:

Step 1: The segment for which a model will be built is defined (segmentation of the portfolio). It is important to strike a good balance between the homogeneity of the segment, the exposure, the number of clients and the number of default events. Having too many models will lead to additional operational risks in the credit process, smaller and less reliable data samples and high maintenance costs. On the other hand, the predictability of the models will go down if the segments are less homogeneous. Once the segment has been defined, the data sample on which the model development will be based can be created. This usually requires some 'cleansing' of the available data (for instance, handling missing values and outliers). KBC has built its rating models mainly on internal data.

Step 2: This entails ranking the clients in the targeted segment according to their creditworthiness. Depending on the amount of data available and its characteristics (subjective or objective), specific techniques are used in order to create a ranking model.

- Statistical default/non-default models based on objective inputs: Rankings are derived purely mechanically with no qualitative input, using machine learning techniques. At KBC, this method is used in the retail segment where objective data is plentiful (e.g., behavioural information);
- Statistical default/non-default models based on objective and subjective input: These are very similar to the purely quantitative models, but also use qualitative input entered by a credit adviser (for instance, management quality). At KBC, this method is used to rank large corporate clients, for example;
- Statistical expert-based models: Rankings are based on quantitative and qualitative input, but due to the small number of observed default events, regression is applied to predict expert assessments of the creditworthiness of the clients, rather than their default/non-default behaviour. At KBC, this method is used to rank borrowers in the 'Asset-based real estate lending' segment, for example;
- Generic flexible rating tool: This is a template that is used by 'graders' to justify and document the given rating class. In this template, the most relevant risk indicators are given a score and ranked in order of importance as a basis for a final rating.

Step 3: The ranking score is calibrated to a probability of default.

Step 4: The probability of default is mapped to a rating class. There is a unique rating scale at KBC for all segments, known as the KBC Master Scale.

Once all the steps have been taken and the model has been built and implemented, the quality of the PD models developed is measured by:

- statistical analysis: variable distributions (means, standard deviations), rating distributions, statistical powers of variables and (sub)models;
- the number of overrulings: if users frequently overrule the output of a model, this indicates that the model could be improved;
- the soundness of model implementation and policies, more specifically as regards system access, system security, integrity of data input, etc.;
- the available documentation (user manual, technical reports, expert opinion, etc.).

For IRB portfolios, internal ratings are used for RWA calculations and to support the internal (credit) processes. For these portfolios, in principle, external ratings are only used as benchmark/challenge in model reviews. There are two exceptions to this; in very specific cases external ratings can be used to rate sovereigns and insurance companies. For sovereigns, this is only possible if the direct exposure is below 1 million euros and the total country exposure is lower than 50 million euros. For insurers, this method can be used if there is only reinsurance risk on the counterparty. In both cases, the lowest rating is taken from the S&P's, Fitch and Moody's rating.

Loss Given Default models

Loss Given Default (LGD) is a measure of the loss that a bank would suffer if an obligor defaults. It can be expressed as an amount or as a percentage of the expected amount outstanding at the time of default (EAD).

For IRB portfolios, a downturn LGD is used; the loss that is expected to occur in an economic downturn.

KBC uses historical information that is available on losses of defaulted counterparties to model LGD, including cure rates (the likelihood that a defaulted obligor returns to performing state) and recovery rates (the recoveries from collateral or other sources).

Exposure At Default (EAD) models

KBC uses historical information that is available on exposures of defaulted counterparties to model EAD. The EAD model is used to estimate the amount that is expected to be outstanding when a counterparty defaults in the course of the next year.

Measuring EAD tends to be less complicated and generally boils down to clearly defining certain components (discount rate, moment of default and moment of reference) and gathering the appropriate data. In most cases, EAD equals the nominal amount of the facility, but for certain facilities (e.g., those with undrawn commitments) it includes an estimate of future drawings prior to default.

Pooling models

A pool is a set of exposures that share the same attributes (characteristics). Pooling can be based on continuous estimates of PD, LGD and EAD or on other relevant characteristics.

- If pooling is based on continuous estimates of PD, LGD and EAD the pooling merely consists of aggregating the continuous estimates into PD, LGD and EAD bands. The added value of pooling is that exposure can be processed on an aggregate basis, which enhances calculation performance;
- If pooling is based on other criteria, loans are aggregated into pools based on these criteria. Since criteria need not be continuous (for example, whether or not there is a current account, which only has two categories) the resulting PD, LGD and EAD estimates are not necessarily on a continuous scale.

Group-wide framework for dealing with model uncertainty

While KBC makes extensive use of modelling to steer its business processes, it aims to do so in a cautious manner. In the majority of cases, parameters predicted by models do not perfectly match those that are ultimately observed. This has a number of reasons, the most significant of which are:

- **Intrinsic randomness** - For practical purposes, some aspects of the future are intrinsically unpredictable. Conceptually, a model can only ever predict non-random aspects of future developments;
- **Unstable context** - Models operate on the presumption that the future will be structurally identical, or at least very similar to the past and present. In practice this may not always be the case;
- **Data quantity** - Our knowledge of the past is limited, so models are based on incomplete information;
- **Data quality** - Model data may be incomplete, unreliable, biased or otherwise deficient;
- **Methodology** - The method used to derive a model may be unable to capture the true relationships between predictors and the estimated parameter.

Once identified, one can classify the adverse effects of such model deficiencies into two categories, i.e. model predictions can be inaccurate (or biased) and imprecise. Bias refers to a structural deviation of model-predicted parameters from their actual values such as systematic over- or underestimations. Imprecision results in a spread of model parameter predictions around the actual values.

To ensure that risk parameters are not underestimated in the majority of cases, a Margin of Conservatism (or MoC) Framework accounts for uncertainty in PD, LGD and EaD estimates by means of conservative corrections to parameter estimates.

In exceptional cases, the appropriate degree of conservatism may not be achieved by including an MoC in the transactional ratings. In that case, an RWA correction can be imposed.

Role of validation

The term 'four-eyes principle' refers to a precautionary measure that requires at least two people to review a particular activity. Application of this principle is essential in risk measurement, as it allows us to reduce measurement risk. It takes two forms, namely 'verification' and 'validation'.

Verification is a process during which a second pair of eyes assesses whether a measurement-related activity has been performed in accordance with prescribed policies/guidelines/procedures and/or best practices.

Consequently, as a rule, a person cannot verify their own work. Verification can be linked to data gathering, data processing, as well as the implementation of a model, but not to modelling itself.

Validation is a specific – more stringent – form of verification, aimed at challenging an internally designed model, and can only be performed by members of an independent validation unit. Validation is key to the challenging process, as it provides an independent view of the internal model.

The internal models measuring required capital (Pillar 1 and 2) and models which serve as input for these models (e.g., behavioural score models) are subject to formal model validation.

Checks and decisions on rating models

Every model is back-tested on a yearly basis in accordance with the following principles:

- An annual back-test cannot include model changes;
- Fixed tests are defined with fixed thresholds;
- The scope of a back-test is always the implemented model;

- The resulting outcome of a back-test is either 'redesign needed' or 'no redesign needed', the latter possibly supplemented with a decision to recalibrate the model.

Back-tests are subject to the four-eyes principle described above, which means that the outcome of the test is challenged by the independent validation unit.

Decisions on the appropriateness of models and changes to the models are taken by the CRO of the entity where the model is used or the Group CRO (for models that are used group-wide). The CRO decides based on a proposal by the model owner, supplemented by an independent advice from the independent validation unit.

Key models used for the most important portfolios

Asset classes 31-12-2020 (in millions of EUR)	Key IRB models					
	Corporates	Financial Institutions	Central governments	Asset-backed real estate	Private persons	Non-regulated retail
Central governments and central banks			•			
Institutions		•				
Corporates	•			•		
Corporates-SME	•			•		
Retail-SME						•
Retail-non-SME					•	

Table 62 - Asset classes key IRB models 31-12-2020

KBC Bank Consolidated NPL disclosure

In the context of the ECB's intensified supervisory work on non-performing loans (NPL), specific guidance to banks on non-performing loans was published in March 2017. This guidance includes expectations with regard to NPL-related disclosures, additional to the information required under Part Eight of the CRR (Article 431).

The purpose of the disclosure is to provide market participants with meaningful information on the credit institution's asset quality and to allow better insight into the distribution and level of collateralisation of the credit institution's NPL.

These four templates are based on figures at KBC Bank Consolidated level and also include cash balances with central banks and other demand deposits in the gross carrying amounts in order to be in line with FINREP table 18.

Template 1: Credit quality of forborne exposures

	Credit quality of forborne exposures 31-12-2020 (in millions of EUR)	Forborne exposures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collaterals received and financial guarantees received on forborne exposures	
		Performing forborne	Non-performing forborne			On performing forborne exposures	On non-performing forborne exposures		Of which: Collateral and financial guarantees received on non-performing exposures with forbearance measures
				Of which defaulted	Of which impaired				
1	Loans and advances	1 914	2 243	2 243	2 243	-89	-556	2 691	1 501
2	Central banks	0	0	0	0	0	0	0	0
3	General governments	0	1	1	1	0	-1	0	0

4	Credit institutions	0	0	0	0	0	0	0	0
5	Other financial corporations	17	3	3	3	-1	-1	8	2
6	Non-financial corporations	1 239	992	992	992	-43	-294	1 238	531
7	Households	657	1 248	1 248	1 247	-45	-260	1 445	968
8	Debt Securities	0	0	0	0	0	0	0	0
9	Loan commitments given	48	8	8	8	0	-5	27	2
10	Total	1 962	2 252	2 252	2 252	-89	-561	2 718	1 503

Table 63 - Credit quality of forborne exposures 31-12-2020

Template 3: Credit quality of performing and non-performing exposures by past due days

Credit quality of performing and non-performing exposures by past due days 31-12-2020 (in millions of EUR)		Performing exposures			Non-performing exposures								
			Not past due or Past due <= 30 days	Past due > 30 days <= 90 days		Unlikely to pay that are not past-due or past-due <= 90 days	Past due > 90 days <= 180 days	Past due > 180 days <= 1 year	Past due > 1 year <= 2 years	Past due > 2 year <= 5 years	Past due > 5 year <= 7 years	Past due > 7 years	Of which defaulted
1	Loans and advances	214 840	214 457	383	5 350	2 419	196	335	409	564	227	1 200	5 350
2	Central banks	47 983	47 983	0	0	0	0	0	0	0	0	0	0
3	General governments	5 996	5 995	1	4	1	1	0	0	1	0	1	4
4	Credit institutions	9 374	9 374	0	28	0	27	0	0	0	0	0	28
5	Other financial corporations	5 308	5 308	1	76	10	4	11	35	4	0	13	76
6	Non-financial corporations	64 167	63 938	229	3 040	1 448	77	200	201	318	110	687	3 040
7	Of which: SMEs	32 843	32 800	43	1 402	568	60	104	127	223	68	252	1 402
8	Households	82 011	81 858	153	2 202	960	88	124	173	242	116	500	2 202
9	Debt Securities	49 344	49 344	0	3	0	0	0	0	1	0	2	3
10	Central banks	314	314	0	0	0	0	0	0	0	0	0	0
11	General governments	43 287	43 287	0	0	0	0	0	0	0	0	0	0
12	Credit institutions	3 941	3 941	0	0	0	0	0	0	0	0	0	0
13	Other financial corporations	1 315	1 315	0	0	0	0	0	0	0	0	0	0
14	Non-financial corporations	486	486	0	3	0	0	0	0	1	0	2	3
15	Off-balance-sheet exposures	49 916			209								209
16	Central banks	0			0								0
17	General governments	1 426			0								0
18	Credit institutions	2 449			0								0
19	Other financial corporations	4 822			0								0
20	Non-financial corporations	33 868			203								203
21	Households	7 352			6								6
22	Total	314 101	263 801	383	5 563	2 419	196	335	409	566	227	1 202	5 563

Table 64 - Credit quality of performing and non-performing exposures by past due days 31-12-2020

Template 4: Performing and non-performing exposures and related provisions

Performing and non-performing exposures and related provisions 31-12-2020 (in millions of EUR)		Nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collaterals and financial guarantees received	
		Performing exposures			Non-performing exposures			Performing exposures - Accumulated impairment and provisions			Non-performing exposures - Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions					
			of which: stage 1	of which: stage 2		of which: stage 2	of which: stage 3		of which: stage 1	of which: stage 2	Of which defaulted	of which: stage 2	of which: stage 3		On performing exposures	On non-performing exposures
1	Loans and advances	214 840	194 826	19 627	5 350		5 349	-1 156	-168	-988	-2 539		-2 538	88	119 244	2 458
2	Central banks	47 983	47 983	0	0		0	0	0	0	0		0	0	24 323	0
3	General governments	5 996	5 839	157	4		4	-4	-1	-3	-3		-3	0	3 124	1
4	Credit institutions	9 374	9 160	214	28		28	-1	0	0	-26		-26	0	3 362	0
5	Other financial corporations	5 308	4 805	503	76		76	-15	-8	-7	-55		-55	0	1 414	21
6	Non-financial corporations	64 167	51 469	12 693	3 040		3 040	-837	-122	-715	-1 739		-1 739	77	27 041	1 042
7	Of which: SMEs	32 843	26 528	6 314	1 402		1 402	-355	-47	-308	-716		-716	71	13 967	528
8	Households	82 011	75 569	6 060	2 202		2 201	-300	-36	-263	-716		-716	11	59 979	1 395
9	Debt Securities	49 344	49 292	33	3		3	-6	-5	-1	-2		-2	0	88	0
10	Central banks	314	314	0	0		0	0	0	0	0		0	0	0	0
11	General governments	43 287	43 287	0	0		0	-4	-4	0	0		0	0	0	0
12	Credit institutions	3 941	3 941	0	0		0	-1	-1	0	0		0	0	0	0
13	Other financial corporations	1 315	1 300	0	0		0	0	0	0	0		0	0	0	0
14	Non-financial corporations	486	449	33	3		3	-1	0	-1	-2		-2	0	88	0
15	Off-balance-sheet exposures	49 916	44 161	5 755	209		209	-43	-26	-17	-99		-99		10 436	80
16	Central banks	0	0	0	0		0	0	0	0	0		0		0	0
17	General governments	1 426	1 402	24	0		0	-5	-3	-2	0		0		456	0
18	Credit institutions	2 449	2 345	104	0		0	-2	-1	-1	0		0		33	0
19	Other financial corporations	4 822	4 632	190	0		0	-1	-1	0	0		0		474	0
20	Non-financial corporations	33 868	28 755	5 113	203		203	-31	-18	-13	-99		-99		7 991	78
21	Households	7 352	7 027	325	6		6	-4	-2	-2	-1		-1		1 482	1
22	Total	314 101	288 279	25 415	5 563		5 562	-1 205	-199	-1 006	-2 640		-2 640		129 767	2 538

Table 65 - Performing and non-performing exposures and related provisions 31-12-2020

In 2020, there was a significant increase in the forborne exposures (+1 000 million euros in the performing exposures, of which 700 million euros in Belgium and 200 million euros in the Czech Republic). This increase is mainly explained by loan restructurings driven by the coronavirus pandemic which are outside the scope of the general payment moratoria.

Accumulated impairments and provisions on performing exposures increased by 800 million euros. This can be explained by the impact of the coronavirus crisis on IFRS 9 Expected Credit Losses. More information is provided in note 1.4 of KBC's Quarterly Report for the fourth quarter of 2020.

Template 9: Collateral obtained by taking possession and execution processes

Collateral obtained by taking possession accumulated 31-12-2020 (in millions of EUR)		Value at initial recognition	Accumulated impairment, accumulated negative changes
1	Property Plant and Equipment (PP&E)	1	0
2	Other than Property Plant and Equipment	6	0
3	*Residential immovable property*	1	0
4	*Commercial Immovable property*	4	0
5	*Movable property (auto, shipping, etc.)*	0	0
6	*Equity and debt instruments*	0	0
7	*Other*	0	0
8	Total	7	0

Table 66 - Collateral obtained by taking possession and execution processes 31-12-2020

Previously, the figures in this template represented the accumulated collateral obtained by taking possession and execution processes. As the goal of the template is to show the drivers of any significant changes in the amounts from the previous disclosure period, the template has been restated accordingly and currently shows the movements of the period concerned.

Counterparty Credit Risk

Counterparty credit risk (CCR) is the default risk related to the non-payment or non-performance of a counterparty in a professional transaction, due to that party's insolvency or lack of willingness to pay or perform. Professional transactions are transactions concluded with the intermediation of professional dealers or traders, and include foreign exchange swaps, interest rate/equity swaps, future rate agreements, (reverse) repos, and interest rate options.

Governance

Counterparty credit risk (CCR) is a risk type that combines elements of both credit risk and market risk. This means that counterparty credit risk governance draws from relevant credit risk topics as well as relevant market risk topics. The management of counterparty credit risk is laid down in the credit risk management framework for professional transactions (CRMF_PT), a sub-framework to the credit risk management framework. The implementation of this framework ensures that an effective CCR management process is in place throughout the KBC group. It covers counterparty credit risk (pre-settlement risk, settlement risk) and country risk, and also lays down standards relating to a number of areas, including, inter alia, collateral management, limit setting, measurements and wrong-way risk.

One of the main characteristics of CCR management is the 'Three Lines of Defence' concept:

- The first line of defence comprises the business entities responsible for implementing the group-wide CCR frameworks and risk standards. They are also in charge of managing their own CCR. Counterparties willing to trade OTC derivatives or SFTs in the bank require a professional limit which is subject to approval by the appropriate credit committee. These professional limits allow traders in the bank to monitor – in real time – exposures relating to the approved limit for individual counterparties.
- The second line of defence is provided by the risk function. The risk function is organised in a decentral way, although close cooperation exists between the central centre of competence and the local risk teams involved in the follow-up of CCR.
    - The Competence Centre for Counterparty Credit Risk is responsible for developing the CCR frameworks and risk standards. The team also monitors the relevant risk movements at portfolio level. The relevant risk reports are submitted to the Group Markets Committee (GMC), which meets every four weeks and is chaired by the Group CRO.
    - The local risk teams follow up – and report to local committees – on counterparty credit risk.
- The third line of defence is provided by internal audit, assuring an independent review and challenge of the Group's first- and second-line CCR management processes.

Counterparty credit risk objectives and processes

The objective of counterparty credit risk management is to measure, report, and advise on counterparty credit risk. This function includes proactive and reactive aspects:

- In its proactive role, the risk function analyses the results of risk calculations, enhances CCR processes, models and methodology, performs quarterly stress testing, and analyses market developments and their potential impact on CCR.
- In our reactive role, we monitor and report on CCR, inform senior management on evolutions in CCR, challenge business decisions which might impact CCR positions, and provide risk advice on business proposals.

Scope

The counterparty credit risk section of the reports covers all derivatives. The Security Financing Transactions are only included in counterparty credit risk tables CCR2 and CCR8, and in the Credit Risk section of this report. The tables below show the counterparty credit risks for all entities referred to in the scope description of the credit risk disclosures. The UBB derivative portfolio is not material and is therefore omitted from the CCR tables of this Risk Report.

Impact of the coronavirus crisis on counterparty credit risk

The coronavirus pandemic and the subsequent market stress did not have a significant impact on counterparty credit risk. During the onset of the crisis, there was an increase in valuation adjustments (mainly driven by the increase in credit spread and funding spreads); these losses quickly recovered once the market normalised over the subsequent months.

Regulatory treatment

KBC Group NV uses an approved internal model method (IMM) for exposures originating in KBC Bank NV and CBC Banque NV, both at consolidated and solo level. The internal model method covers the portfolio of foreign exchange (FX) derivatives and interest rate (IR) derivatives. All other portfolios are calculated using the Current Exposure Method (or CEM) for CCR capital calculations.

EU CCR1_Analysis of CCR by approach 31-12-2020 (in millions of EUR)	Replacement cost/current market value	Potential future credit exposure	EEPE	Multiplier	EAD post CRM	RWAs
Mark-to-market	1 821	1 133			1 485	903
IMM (for derivatives and SFT)			2 475	1.4	3 466	1 199
Of which derivatives			2 475	1.4	3 466	1 199
Total	1 821	1 133			4 951	2 102

Table 67 - EU CCR1_Analysis of CCR by approach 31-12-2020

Over 2020, the total RWA remained relatively stable and ended the year at 2 102 million euros RWA.

EU CCR7_RWA Flow statements for CCR under IMM 31-12-2020 (in millions of EUR)	RWA Amounts	Capital Requirements
RWA at the end of the previous reporting period (end 2019)	**1 160.0**	**92.8**
Asset Size	40.4	1.8
Credit Quality of Counterparties	-1.8	-0.1
RWA at the end of the current reporting period (end 2020)	**1 198.7**	**94.4**

Table 68 - EU CCR7_RWA flow statements for CCR under IMM 31-12-2020

Over 2020, there was a small increase in the IMM exposure, resulting in an increase of 38.7 million euros RWA. The increase was mainly driven by new trades in the internal model method scope.

Credit risk mitigation techniques

This section covers credit risk mitigation by means of collateral provided to cover the counterparty risk arising from derivative transactions and the lending portfolio. The tables show the EAD covered, broken down into different portfolios and different types of credit risk mitigation.

Close-out netting

Close-out netting is one of the main risk mitigation techniques. The aim of close-out netting is to allow, in the event of default, a timely termination and settlement of the net value of all trades with the defaulted counterparty. Close-out netting consists of two components:

- Close-out, which is the right to terminate transactions with the defaulted counterparty and therefore to cease any contractual payment;
- Netting, which is the right to offset amounts due to a termination of individual contracts to determine a net position;
- Close-out netting will reduce counterparty risk as it will reduce pre-settlement risk. This is governed by a legal agreement, the most common of which is the ISDA Master Agreement. Netting will only be applied if its legal effectiveness and enforceability is assured.

Collateral

Besides close-out netting, collateral is used as a separate credit risk mitigation technique. The exchange of collateral is governed by the Credit Support Annex (CSA), an addendum to the ISDA Master Agreement. The CSA stipulates the mechanics of the collateralisation process, i.e. it will determine the risk characteristics of the exposure. It will not only determine whether a CSA is unilateral or bilateral, it will also determine the eligible collateral, the mechanics and timing of the collateral transfers, etc.

Before collateral is taken into account as a valid risk-mitigant, it has to fulfil a number of requirements. Most importantly, collateral must be eligible for risk mitigation in the regulatory capital calculations and legal comfort must have been

obtained regarding the ownership of the collateral in all relevant jurisdictions. Despite having a range of eligibility criteria for collateral, the exchanged collateral is limited to either bonds (government bonds or corporate bonds) or cash. In order for collateral to be effective in times of need, KBC monitors:

- concentration of the received collateral;
- liquidity of the received bonds, and
- the impact (on collateralisation) of a possible rating downgrade of one of the contractual parties (KBC or the counterparty).

The general principles described above are an integral part of the collateral standards.

The impact of close-out netting and collateral on counterparty credit risk is shown in table CCR5A. The reported collateral held (in table CCR5A) covers only collateral held against OTC derivatives. The entire exposure covered by collateral is provided in table CCR5B.

EU CCR5-A_Impact of netting and collateral held on exposure values 31-12-2020 (in millions of EUR)	Gross positive fair value or net carrying amount (1)	Netting benefits (2)	Netted current credit exposures (3)	Collateral held (4)	Net credit exposure (5)
Derivatives	12 195	8 326	3 869	1 250	2 619
Total	12 195	8 326	3 689	1 250	2 619

(1) Gross positive fair value or net carrying amount is the exposure value before Credit Risk Mitigation (CRM).
(2) Netting benefits: Reduction in the gross positive fair value or net carrying amount due to the use of legally enforceable netting agreements in the application of Part Two, Title III, Chapter 4 and Chapter 6 of the CRR.
(3) Netted current credit exposure: The larger of zero and the market value of a transaction or portfolio of transactions within a netting set with a counterparty that would be lost upon the default of the counterparty, assuming no recovery on the value of these transactions in insolvency or liquidation.
(4) Collateral held: Impact of collateral on the netted current exposure, including volatility adjustments in the application of Part Two, Title III, Chapter 4 and Chapter 6 of the CRR.
(5) Net credit exposure: This is the credit exposure after considering the benefits from both legally enforceable netting agreements and collateral agreements. This value differs from the EAD value disclosed in table EU CCR1, due to the other parameters for the calculation of the regulatory exposure values not being disclosed in table CCR5A.

Table 69 - EU CCR5-A_Impact of netting and collateral held on exposure values 31-12-2020

EU CCR5-B_Composition of collateral for CCR exposure 31-12-2020	Collateral used in derivative transactions				Collateral used in SFTs	
	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received	Fair value of posted collateral
(in millions of EUR)	Segregated	Unsegregated	Segregated	Unsegregated		
Cash	0	1 377	0	5 283	70	421
Bonds	0	400	1 026	627	1 879	872
Total	**0**	1 777	1 026	5 911	1 949	1 294

Table 70 - EU CCR5-B_Composition of collateral for CCR exposure 31-12-2020

Central clearing

Central clearing is used to reduce counterparty credit exposures; an overview of the exposure cleared at a central clearing counterparty is provided in table CCR8. KBC only clears exposures with Qualified Central Clearing Parties (QCCP).

EU CCR8_Exposures to central counterparties 31-12-2020 (in millions of EUR)	EAD post CRM	RWAs
Exposures to QCCPs (total)		**65**
Exposures to trades at QCCPs (excluding initial margin and default fund contributions)	634	13
Of which OTC derivatives	292	6
Of which SFTs	342	7
Segregated initial margin	1 785	
Prefunded default fund contributions	19	52

Table 71 - EU CCR8_Exposures to central counterparties 31-12-2020

Credit derivative exposure

The table below provides an overview of KBC Group's Credit Derivative Exposure.

Credit derivative exposure (in millions of EUR)	2020			2019		
	Credit derivative hedges		Other Credit derivatives	Credit derivative hedges		Other Credit derivatives
	Protection bought	Protection sold		Protection bought	Protection sold	
Notionals						
Index CDS	4	-	-	4	-	-
Total Notionals	4			4		
Fair Values						
Positive Fair Value				0	-	-
Negative Fair Value	0	-	-	-	-	-

Table 72 - EU CCR6_Credit derivative exposure

Counterparty risk by regulatory risk-weighting approach

KBC uses three regulatory risk-weighting approaches: the Standardised approach, IRB Foundation approach and the IRB Advanced approach. A breakdown of the CCR exposure by each of the credit risk approaches and asset classes is provided below.

The table below provides a breakdown of the CCR exposure by exposure class and risk weight (according to the Standardised approach). The RWA related to the position can be calculated by multiplying the exposure amount with the respective Risk Weight in the header of the table.

EU CCR3_Standardised Approach - CCR exposure by regulatory portfolio and risk 31-12-2020 Exposure classes (in millions of EUR)	Risk weight												Of which unrated
	0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Other	Total	
Institutions		292										292	292
Total		**292**										**292**	**292**

Table 73 - EU CCR3_Standardised Approach - CCR exposure by regulatory portfolio and risk

In line with the EBA requirements, insight into the derivatives portfolio broken down by asset class and by probability of default (PD) is provided in table CCR4 (IRB Foundation portfolio).

31-12-2020 (in millions of EUR)	PD Bucket	EAD post CRM	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density
Corporates - Other	0.00 to <0.15	88.10	0.13%	55	45.00%	2.68	34.65	39.33%
	0.25 to <0.50	59.66	0.28%	62	45.00%	2.64	34.17	57.28%
	0.50 to <0.75	43.99	0.57%	42	45.00%	2.51	34.97	79.50%
	0.75 to <2.50	44.56	1.43%	80	45.00%	1.75	44.92	100.80%
	2.50 to <10.00	5.93	7.04%	183	45.00%	1.52	9.84	165.87%
	10.00 to <100.00	2.58	18.10%	15	45.00%	1.42	6.11	236.75%
	100.00 (Default)	0.62	100.00%	5	45.00%	1.17	-	0.00%
Corporates - Other		**245.43**	**1.09%**	**436**	**45.00%**	**2.43**	**164.65**	**67.09%**

31-12-2020 (in millions of EUR)	PD Bucket	EAD post CRM	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density
Corporates - SME	0.00 to <0.15	3.93	0.12%	26.00	45.00%	2.04	0.86	21.91%
	0.25 to <0.50	5.04	0.28%	76.00	45.00%	1.99	1.81	35.91%
	0.50 to <0.75	8.95	0.57%	128.00	45.00%	1.91	4.48	50.09%
	0.75 to <2.50	15.31	1.57%	346.00	45.00%	2.24	11.39	74.38%
	2.50 to <10.00	5.18	5.67%	101.00	45.00%	3.01	6.13	118.21%
	10.00 to <100.00	1.17	18.10%	17.00	45.00%	2.98	1.99	169.70%
	100.00 (Default)	0.72	100.00%	13.00	45.00%	3.38	-	0.00%
Corporates - SME		**40.30**	**3.80%**	**704.00**	**45.00%**	**2.26**	**26.65**	**66.14%**

31-12-2020 (in millions of EUR)	PD Bucket	EAD post CRM	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density
Corporates - Specialised Lending	0.00 to <0.15	4.33	0.14%	3	45.00%	5.00	1.95	45.10%
	0.25 to <0.50	0.64	0.28%	4	45.00%	4.39	0.37	57.79%
	0.50 to <0.75	50.54	0.57%	24	45.00%	4.10	38.89	76.95%
	0.75 to <2.50	33.27	1.46%	137	45.00%	4.39	42.69	128.34%
	2.50 to <10.00	0.83	8.88%	4	45.00%	4.96	1.68	202.98%
	10.00 to <100.00	1.59	18.10%	5	45.00%	4.69	3.39	213.15%
	100.00 (Default)	0.68	100.00%	2	45.00%	3.57	-	0.00%
Corporates - Specialised Lending		**91.88**	**1.98%**	**179**	**45.00%**	**4.26**	**88.98**	**96.85%**

31-12-2020 (in millions of EUR)	PD Bucket	EAD post CRM	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density
Institutions	0.00 to <0.15	132.36	0.08%	33	45.00%	1.87	39.38	29.75%
	0.15 to <0.25	37.41	0.18%	5	45.00%	3.11	24.92	66.60%
	0.25 to <0.50	2.81	0.29%	4	45.00%	3.54	2.23	79.57%
	0.75 to <2.50	27.24	0.81%	3	45.00%	3.06	34.13	125.30%
	2.50 to <10.00	0.00	3.31%	1	45.00%	0.78	0.01	143.22%
Institutions		**199.83**	**0.20%**	**43**	**45.00%**	**2.29**	**100.67**	**50.38%**

31-12-2020 (in millions of EUR)	PD Bucket	EAD post CRM	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density
Total (all portfolios)		**577.44**	**1.11%**	**1361**	**45.00%**	**2.66**	**380.96**	**65.97%**

Table 74 - EU CCR4A_IRB Foundation - CCR exposures by portfolio and PD scale

Besides the IRB Foundation portfolio, KBC also uses an IRB Advanced approach.

31-12-2020 (in millions of EUR)	PD Bucket	EAD post CRM	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density
Central governments and central banks	0.00 to <0.15	624.84	0.04%	36	25.58%	4.39	103.41	16.55%
	0.15 to <0.25	2.74	0.16%	1	46.48%	3.89	1.51	54.98%
	0.25 to <0.50	2.72	0.40%	1	50.85%	3.04	2.25	82.43%
	0.75 to <2.50	0.01	0.64%	1	70.00%	1.00	0.01	98.24%
Central governments and central banks		**630.32**	**0.04%**	**40**	**25.78%**	**4.38**	**107.17**	**17.00%**

31-12-2020 (in millions of EUR)	PD Bucket	EAD post CRM	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density
Corporates - Other	0.00 to <0.15	552.37	0.08%	770	38.02%	2.66	160.41	29.04%
	0.15 to <0.25	76.88	0.19%	62	22.60%	3.44	19.43	25.28%
	0.25 to <0.50	153.11	0.34%	134	35.82%	1.86	65.80	42.98%
	0.50 to <0.75	69.30	0.63%	85	37.05%	1.86	40.71	58.74%
	0.75 to <2.50	126.61	1.61%	203	49.27%	2.24	153.36	121.13%
	2.50 to <10.00	25.11	3.92%	142	47.98%	2.03	38.88	154.88%
	10.00 to <100.00	3.95	31.89%	16	44.69%	2.31	9.78	247.55%
	100.00 (Default)	2.76	100.00%	13	42.26%	1.06	-	0.00%
Corporates - Other		**1 010.09**	**0.85%**	**1 425**	**38.14%**	**2.47**	**488.38**	**48.35%**

31-12-2020 (in millions of EUR)	PD Bucket	EAD post CRM	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density
Corporates - SME	0.00 to <0.15	20.26	0.09%	98	28.07%	2.78	2.59	12.79%
	0.15 to <0.25	9.31	0.19%	85	39.44%	1.97	2.46	26.43%
	0.25 to <0.50	14.41	0.39%	130	47.95%	1.73	6.16	42.76%
	0.50 to <0.75	20.69	0.62%	90	52.69%	1.38	11.32	54.74%
	0.75 to <2.50	50.76	1.29%	252	41.77%	2.32	33.05	65.10%
	2.50 to <10.00	13.54	5.87%	124	58.79%	1.11	19.80	146.22%
	10.00 to <100.00	0.52	23.02%	17	46.30%	1.49	0.92	176.92%
	100.00 (Default)	1.66	100.00%	9	39.98%	2.46	-	0.00%
Corporates - SME		**131.15**	**2.63%**	**805**	**43.64%**	**2.03**	**76.31**	**58.18%**

31-12-2020 (in millions of EUR)	PD Bucket	EAD post CRM	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density
Corporates - Specialised Lending	0.00 to <0.15	55.81	0.15%	2	23.00%	4.90	10.45	55.81
	0.15 to <0.25	86.93	0.17%	10	22.90%	4.45	15.78	86.93
	0.25 to <0.50	188.29	0.33%	35	20.76%	3.00	43.74	188.29
	0.50 to <0.75	129.35	0.63%	34	24.69%	2.86	53.89	129.35
	0.75 to <2.50	31.72	1.46%	69	53.96%	3.40	40.59	31.72
	2.50 to <10.00	43.62	3.10%	47	28.57%	3.50	40.04	91.80%
	100.00 (Default)	1.20	100.00%	1	58.84%	1.23	-	0.00%
Corporates - Specialised Lending		**536.92**	**0.87%**	**198**	**24.97%**	**3.46**	**204.48**	**38.08%**

31-12-2020 (in millions of EUR)	PD Bucket	EAD post CRM	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density
Institutions	0.00 to <0.15	1 550.75	0.08%	216	54.69%	2.50	640.82	41.32%
	0.15 to <0.25	118.66	0.18%	36	55.98%	2.68	88.48	74.57%
	0.25 to <0.50	32.54	0.36%	50	55.98%	1.51	24.01	73.79%

	0.50 to <0.75	0.12	0.59%	1	55.98%	1.07	0.09	75.81%
	0.75 to <2.50	47.90	1.21%	54	55.98%	1.16	58.91	123.00%
	2.50 to <10.00	14.72	4.38%	30	54.02%	1.04	23.79	161.61%
	10.00 to <100.00	0.00	10.76%	1	55.98%	1.00	0.00	238.85%
Institutions		**1 764.68**	**0.15%**	**388**	**54.83%**	**2.45**	**836.11**	**47.38%**

31-12-2020 (in millions of EUR)	PD Bucket	EAD post CRM	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density
Retail - Other SME	0.00 to <0.15	1.58	0.11%	99	34.47%	2.22	0.12	7.85%
	0.15 to <0.25	1.12	0.20%	47	45.76%	3.27	0.19	17.23%
	0.25 to <0.50	1.13	0.38%	57	43.83%	2.40	0.26	23.28%
	0.50 to <0.75	0.60	0.65%	40	43.24%	5.27	0.17	29.10%
	0.75 to <2.50	2.07	1.48%	84	44.96%	3.32	1.00	48.33%
	2.50 to <10.00	1.60	4.23%	58	39.83%	4.43	0.91	56.84%
	10.00 to <100.00	0.19	17.99%	55	48.38%	0.36	0.16	83.94%
	100.00 (Default)	0.03	100.00%	2	37.68%	2.82	-	0.00%
Retail - Other SME		**8.31**	**2.12%**	**442**	**41.86%**	**3.26**	**2.82**	**33.92%**

31-12-2020 (in millions of EUR)	PD Bucket	EAD post CRM	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density
Total (all portfolios)		**4 081.47**	**0.57%**	**3 297**	**42.72%**	**2.98**	**1 715.27**	**42.03%**

Table 75 - EU CCR4B_IRB Advanced Approach - CCR Exposures by portfolio and scale

Credit value adjustment

Credit Valuation Adjustment (CVA) is a regulatory capital charge to cover the volatility of expected losses due to counterparty credit risk exposure related to over-the-counter (OTC) derivatives. The CVA capital charge is calculated according to the regulatory Standardised formula.

EU CCR2_Credit valuation adjustment capital charge 31-12-2020 (in millions of EUR)	Exposure value	RWAs
All portfolios subject to the Standardised method	2 072	596
Total subject to the CVA capital charge	**2 072**	**596**

Table 76 - EU CCR2_Credit valuation adjustment capital charge 31-12-2020

Over 2020, the CVA RWA decreased by 20%, mainly due to a slight decrease in the number of trades.

Market Risk Management (trading)

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

Governance

The group's trading activity is managed centrally both from a business and a risk management perspective. The centralisation of trading risk management implies close co-operation among all the risk management units at both group and local level. This close co-operation allows consistent reporting to group senior management through the Group Markets Committee (GMC), which is chaired by the Group CRO and includes senior representatives from line management, risk management and other departments. It manages market risk and addresses the operational and counterparty risks of the dealing rooms. It keeps track of structural trends, monitors risk limits and may decide to impose corrective actions.

The GMC meets every four weeks and receives an extensive Core Report as well as regular and ad hoc memo's and reports. The GMC also receives a bi-weekly dashboard whose frequency is increased depending on market circumstances (for example, the GMC received a daily dashboard during the height of the coronavirus crisis). The Group Executive Committee ratifies the minutes of the GMC meetings and also receives market-risk-related information and risk signals in its monthly Integrated Risk Report.

The Group Risk Appetite, including the strategic objectives with regard to (trading) market risk tolerance, is determined by the Board of Directors by means of an annual review. The GMC decides upon and periodically reviews a framework of limits and policies on trading activities that is consistent with this Group Risk Appetite. This framework is submitted to the Board of Directors for approval.

The risk limit framework consists of primary limits and a series of secondary limits. Any breaches of the two primary Group limits (i.e. the KBC Group HVaR limit and the Group RWA limit) have to be approved by the Board of Directors. Primary entity limit overruns must be approved by the Group Executive Committee. However, it is important to point out that, other than KBC Bank NV, all the entity limits are rather small due to the previously mentioned systematic transferring of residual positions of entities, and therefore risk, to KBC Bank NV.

All secondary limit overruns must be approved by the GMC. However, depending on the type of limit and its purpose, the GMC can delegate smaller limit breaches and/or breaches (referred to as 'level 1 overrun delegation') for a limited period of time to a lower level. It should be noted that in addition to, for example, the Global Head of Trading, the accountable CRO also has to approve these level 1 overruns.

Risk Markets keeps a log of all limit overruns, with full details regarding the overruns (type of limit, duration of the overrun, amount of the overrun, delegation level, explanation of the overrun, etc.). Overruns outside level 1 delegation are presented at the following GMC meeting with a request for ratification. If the GMC refuses to ratify the overrun, the overrun in question must be reduced as fast as market conditions allow.

Strategy and processes

Our strategic objectives in undertaking trading activities are to offer sound and appropriate financial products and solutions to our clients in order to help them manage their risks and access capital and to engage in certified market making activities. Our focus on client-driven or client-facilitation-related business leaves us with some residual market risks, which are necessary to enable us to fulfil our intermediary role towards clients, as well as with positions resulting from our certified market making activities. This is because we have to rely on portfolio hedging using standard market products, with the result that a certain amount of residual risk remains on the books (since standard market products have standard sizes and expiry dates, an exact hedge of bespoke client trades is not always possible).

Our focus is on trading in interest rate instruments, while our activity on the foreign exchange and equity markets has traditionally been limited. In order to ensure the tradability of these hedging positions, the following principles apply:

- Trading activity is limited to linear and non-linear interest rate, foreign exchange and equity products, as well as to bonds/bond futures and (government) debt;
- Commodity-related products are only allowed on a back-to-back basis;
- Credit-related products are only allowed on a back-to-back basis. All activity in CDOs is prohibited.

Market risk objectives and processes

The objective of our market risk management is to measure, report and advise on the market risk of the aggregate trading position at group level, to ensure that activities are consistent with the group's risk appetite. This function includes proactive and reactive aspects. In its proactive role, the risk function analyses the results of value and risk calculations, market developments, industry trends, new modelling insights, changes in regulations, etc. and draws up advice for the Group Markets Committee (GMC) with a view to changing or refining measurement methods, limits, hedging methods or positions. The reactive role involves compiling the necessary external and internal reports, issuing advice on business proposals and monitoring and advising on the risks attached to the positions.

We monitor and manage the risks of the positions by means of:

- a risk limit framework consisting of a hierarchy of limits and early warning indicators;
- day-to-day and month-to-day stop loss limits at both desk and trader level;
- a large variety of controls (including parameter reviews, daily reconciliation processes, and analyses of the material impact of proxies);
- internal assessments;
- a comprehensive stress test framework.

This risk framework consists of a hierarchy of limits. Whereas HVaR calculations serve as a primary risk measurement tool, risk concentrations are monitored via a series of secondary limits including equity concentration limits, FX concentration limits and basis-point-value limits for interest rate risk and basis risk. The specific risks associated with a particular issuer or country are also subject to concentration limits. For the non-linear positions, we monitor the 'greeks' via 'soft' limits in addition to formal scenario and stress scenario limits involving multiple shifts of underlying risk factors (preferred in our limit framework as these scenario grids give much more insight into the effect of shifts in the risk factors of the option positions than the separate values of the 'greeks', as it reflects the actual P&L impact, using full revaluation,

of such shifts). Some composite and/or illiquid instruments, which cannot be modelled in an HVaR context, are subject to nominal and/or scenario limits.

Scope of market risk management

We are exposed to market risk in our trading books, when servicing our clients in the money and capital markets. Whilst we service our clients across a broad range of products to facilitate their hedging needs, residual positions have predominantly interest rate risk as the interest rate risk of bespoke client deals are less readily exactly hedged with standard market products compared to other risk types. These activities are carried out by our dealing rooms in Belgium, the Czech Republic, Hungary, Bulgaria and Slovakia, as well as via a minor presence in the UK and Asia. Wherever possible and practical, the residual trading positions of almost all of our trading entities are systematically transferred to KBC Bank NV reflecting that the group's trading activity is managed centrally both from a business and a risk management perspective. Consequently, KBC Bank NV holds about 98% of the trading-book-related regulatory capital of KBC Group NV.

Impact of the coronavirus crisis on market trading risk

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

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

The VaR model

The VaR method is the principal tool for managing and monitoring market risk exposures in the trading book. Accordingly, VaR is the primary building block of KBC's market risk management framework and regulatory capital calculations.

VaR is defined as an estimate of the amount of economic value that might be lost on a given portfolio due to market risk over a defined holding period, with a given confidence level. The measurement only takes account of the market risk of the current portfolio and does not attempt to capture possible losses driven by counterparty or operational aspects, nor does it capture the effects of further trading or hedging.

The risk factors used in the VaR calculations cover all the main market risk drivers for the trading books, namely interest rates, interest rate volatility, basis risk, sovereign credit spreads, exchange rates, exchange rate volatility, equity, equity

volatility, equity dividends and inflation rates. Specific (issuer) risk is calculated using the Standardised approach. To compute shifts in the risk factors, the Historical Value-at-Risk method is used (HVaR). This means that the actual market performance is used in order to simulate how the market could develop going forward, i.e. this method does not rely on assumptions regarding the distribution of price fluctuations or correlations, but is based on patterns of experience in the past.

KBC's HVaR methodology for regulatory capital calculations is based on a 10-day holding period and a 99% confidence level, with historical data going back 500 working days, i.e. it equals the fifth worst outcome (1% of 500 scenarios, with an equal weighting for each scenario). The 500-day historical data set is a daily moving window (with a two-day lag which serves as a data-cleaning buffer), i.e. movements in the markets each day they are open are added to the data set and the oldest scenarios removed. The outcome for a 10-day holding period is calculated in three steps. The historical daily movements in the risk factors used in the VaR calculations are scaled so that they are relevant for the current day's levels, the movement generated for the given risk factor is then scaled up by the square root of 10 to obtain a movement for a 10-day holding period, these shifts in the risk factors are then applied to the position on a given date for the scope that the HVaR is being calculated for (using full revaluation) and the corresponding P&Ls computed to produce the outcome for that scenario.

The Management HVaR calculation matches the regulatory methodology except that a one-day holding period is used as it is more intuitive for senior management and is more in line with P&L reporting, day-to-day management, stop losses and back-testing. An HVaR is calculated on a daily basis, with limits in place, at consolidated group level and desk level as well as for KBC Securities and UBB, our Bulgarian entity. The materiality of these two entities did not justify the systematic transfer of positions to KBC Bank NV.

As with any model, there are a certain number of uncertainties/deficiencies. However, the model is subject to regular review and improvements. During 2020, there were some minor changes to the HVaR model but the total impact on the HVaR result was not significant.

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

Market risk (management HVaR) (in millions of EUR)	2020	2019
Average for 1Q	6	7
Average for 2Q	9	7
Average for 3Q	9	8
Average for 4Q	9	6
As at 31 December	8	5
Maximum in year	11	9
Minimum in year	4	4

Table 77 - Market risk (management HVaR)

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

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

Table 78 - Breakdown by risk factor of trading HVaR for the KBC group (Management HVaR)

We have provided an overview of the derivative products under Note 4.8 in the 'Consolidated financial statements' section of the 2020 Annual Report of KBC Group NV.

Regulatory capital

The capital requirements for trading risk at year-ends 2019 and 2020 are shown in the table below. It shows the regulatory capital requirements by risk type, as assessed by the internal model. Business lines not included in the internal model calculations are measured according to the Standardised approach and likewise shown by risk type. The following two sections give more detail regarding the drivers of the Regulatory capital for both the Approved Internal Model and the Standardised approach.

Trading regulatory capital requirements by risk type (in millions of EUR)		Interest rate risk	Equity risk	FX risk	Commodity risk	Total
31-12-2020						
Market risks assessed by internal model	HVaR	61	10	7	0	78
	SVaR	70	11	10	0	91
Market risks assessed by the Standardised approach		10	2	17*	0	28
Total		141	24	34	0	198
31-12-2019						
Market risks assessed by internal model	HVaR	38	6	7	0	51
	SVaR	79	24	20	0	122
Market risks assessed by the Standardised approach		8	7	19*	0	34
Total		125	36	46	0	207

* In accordance with COREP requirements, this figure includes capital requirements for FX in the banking book, which makes up the vast majority of this figure, although this does not stem from trading activities

Table 79 - Trading regulatory capital requirements by risk type

Approved Internal Model (AIM)

As can be seen in the above table, about 86% of KBC Group's capital requirements related to market risk are determined using KBC Bank NV's Approved Internal Model (AIM). This figure will increase to 92% if capital requirements for foreign exchange in the banking book are removed (which is thus the percentage of capital requirements covered by the graph shown in the 'Back-testing' section).

The KBC Bank NV AIM is also used for the calculation of Stressed VaR (SVaR), which is one of the CRD III Regulatory Capital charges that entered into effect at year-end 2011. The SVaR, like the HVaR, measures the maximum loss from

an adverse market movement within a given confidence level (99%) and for a given holding period (10 days). The methodology is identical to that used for HVaR calculations, though the 500 scenarios used for calculating the SVaR are not based on the most recent past, but consist of 250 'regular' historical scenarios from the period which resulted in the most negative VaR figure for that entity (the 'stressed' period), and 250 antithetic ('mirror') scenarios, obtained by reversing these 250 regular scenarios. The stressed period which is used for calculating the SVaR has to be calibrated at least once a year. We apply strict procedures and check on a monthly basis whether the period is still valid. In line with the EBA statement of last April (driven by the previously mentioned extreme movements in the financial markets in March 2020) and with the agreement of the ECB, we suspended the monthly calibration until December 2020. We subsequently determined that the new SVaR period to be used from 2021 onwards should be March 2016 to March 2017, i.e. the same as last year (this period includes the extreme movements observed in the markets around the time that the Czech National Bank announced that the Czech koruna exchange rate would no longer be pegged to the euro).

In line with EBA guidelines, the following three tables show the HVaR and SVaR components of the KBC Bank NV AIM at the end of 2020, the RWA flow between 2019 and 2020 and the range of HVaR and SVaR during 2020.

EU MR2-A_Market risk under the IMA (Internal Model Approach)
(in millions of EUR)

		KBC Bank NV AIM	
		RWAs	Capital requirements
1	**VaR (higher of values a and b)**	980	78
(a)	Previous day's VaR (Article 365(1) of the CRR (VaRt-1))		26
(b)	Average of the daily VaR (Article 365(1)) of the CRR on each of the preceding 60 business days (VaRavg) x multiplication factor (mc) in accordance with Article 366 of the CRR		78
2	**SVaR (higher of values a and b)**	1 141	91
(a)	Latest SVaR (Article 365(2) of the CRR (SVaRt-1))		30
(b)	Average of the SVaR (Article 365(2) of the CRR) during the preceding 60 business days (SVaRavg) x multiplication factor (ms) (Article 366 of the CRR)		91
5	**Other**		
6	**Total**	2 122	170

Table 80 - EU MR2-A_Market risk under the IMA (Internal Model Approach)

EU MR2-B_RWA flow statements of market risk exposures under the IMA
(in millions of EUR)

	a	b	c	d	e	f	g
	VaR	SVaR	IRC	CRM	Other	Total RWAs	Total capital requirements
RWAs end of 2019	635	1 527				2 162	173
Regulatory adjustment	442	996				1 439	115
RWAs at the previous quarter-end (end of the day)	193	531				724	58
Movement in risk levels							
Model updates/changes							
Methodology and policy							
Acquisitions and disposals							
Foreign exchange movements							
Other	345	-386				-41	-3
RWAs at the end of the reporting period (end of the day)	327	380				707	57
Regulatory adjustment	654	761				1 414	113
RWAs at the end of 2020	980	1 141				2 122	170

Table 81 - EU MR2-B_RWA flow statements of market risk exposures under the IMA

EU MR3_IMA values for trading portfolios for 2020 (in millions of EUR)		
		KBC Bank NV AIM
VaR (10-day 99%)		
1	Maximum values	36
2	Average values	24
3	Minimum values	12
4	End of 2020	20
SVaR (10-day 99%)		
5	Maximum values	52
6	Average values	34
7	Minimum values	26
8	End of 2020	30

Table 82 - EU MR3_IMA values for trading portfolios for 2020

As can be seen in the RWA flow statement, the total capital requirements at year-end 2020 remained almost unchanged compared to 2019. However, the HVaR and SVaR have converged somewhat, as reflected by the increase in the HVaR component which is offset by the SVaR component. This can be explained by the fact that, on the one hand, the de-risking of the positions mentioned in the 'Coronavirus crisis' section lowered the SVaR (fixed scenarios based on a period stressful for our positions). On the other hand, the violent market moves observed in March 2020 meant that even these de-risked positions resulted in a higher HVaR than had been observed last year when there were milder scenarios in the rolling 500-day historical data sets.

Standardised Regulatory Capital Requirements

The Standardised approach is used to calculate the regulatory capital requirements for the very small positions that remain at the local KBC entities (for practical, legal or regulatory reasons) and for the business lines not included in the HVaR calculations. It is also used to calculate the regulatory capital requirements for the foreign exchange banking book, although it should be noted that these positions are not part of the dealing room business.

This approach sets out general and specific risk weightings per type of market risk (interest risk, equity risk, foreign exchange risk and commodity risk). The resulting regulatory capital calculated using the Standardised approach for 2020 is shown in the table below. The 28.4 million euros in capital requirements shown in the table will drop to 12.2 million euros when the capital requirements for the foreign exchange banking book are removed. The remaining capital requirements mainly stem from specific (issuer) risk in the trading books.

EU MR1_Market risk under the Standardised approach (in millions of EUR)		
	a	b
	RWAs	Capital requirements
Outright products	355	28.4
1 Interest rate risk (general and specific)	120	9.6
2 Equity risk (general and specific)	24	1.9
3 Foreign exchange risk	211	16.9
4 Commodity risk	0	0
Options	0	0
5 Simplified approach	0	0
6 Delta-plus method	0	0
9 Total	355	28.4

Table 83 - EU MR1_Market risk under the Standardised approach

Stress testing

As the VaR model cannot encompass all potential extreme events, the VaR calculations are supplemented by stress tests which reflect the impact of exceptional circumstances and events with a low degree of probability. Stress tests help to verify the adequacy of established limits and assigned capital and are used as an additional input for informed decisions about how much risk senior management is willing to take (acting as a tool that helps to evaluate risk appetite).

For the Financial Markets activities, both historical and hypothetical stress tests are performed on a weekly basis, whereby risk factors relating to interest rates (IR), exchange rates (FX) and equity (EQ) prices and their volatilities are shifted. These scenarios model inter alia parallel interest rate shifts, steepening/flattening of interest rate curves, changes in basis swap spreads and changes in IR volatility, as well as shifts in FX and EQ prices and their volatilities.

Our 2020 review of the stress tests resulted in an additional historical stress test ('Early COVID-19' scenario) and an additional element in our hypothetical stress tests focusing on yield shifts in the longer tenors (particularly affected during the turbulent market environment in March/April 2020).

The historical stress tests that are carried out use a number of historical scenarios, going back as far as 1987, as shown in the following table.

Events	Events Period (start to end)
1987 market crash	06-10-1987 – 02-11-1987
1st Gulf War	27-07-1990 – 06-08-1990
1994 bond sell-off	25-02-1994 – 18-04-1994
Mexican crisis	20-12-1994 – 06-01-1995
Czech koruna turmoil	01-05-1997 – 30-05-1997
Asian crisis	20-10-1997 – 18-11-1997
Russian crisis	27-08-1998 – 08-09-1998
Brazilian crisis	04-01-1999 – 01-02-1999
11-Sep-01	10-09-2001 – 17-09-2001
2nd Gulf War	03-03-2003 – 24-03-2003
Early credit crunch	09-07-2007 – 20-08-2007
Credit crisis peak	14-01-2008 – 18-03-2008
Lehman Brothers crisis	05-09-2008 – 24-11-2008
Early peripheral sovereign crisis	31-03-2010 – 31-05-2010

Greek crisis, further austerity package	13-06-2011 – 22-07-2011
August 2011 stock markets fall	26-07-2011 – 06-09-2011
Belgian sovereign crisis	13-09-2011 – 05-12-2011
Syriza sweeps to power	29-12-2014 – 26-01-2015
Switzerland abandons euro cap	13-01-2015 – 21-01-2015
Renewed Greek default fears	29-05-2015 – 03-08-2015
Brexit	20-06-2016 – 30-06-2016
De-pegging pressure on Czech koruna	20-12-2016 – 31-01-2017
De-pegging of Czech koruna	15-03-2017 – 11-04-2017
Early COVID-19	04-03-2020 – 24-03-2020

Table 84 - Historical stress tests

Concerning the hypothetical stress tests, the validity of the calibrated shifts are checked by comparing them with the most relevant regulatory stress tests. However, unlike the case with regulatory stress tests – which typically only use market shifts in one direction – KBC also calculates the result for a given shift in the opposite direction and takes the worst-case result as this better reflects the dynamic nature of trading book positions (i.e. residual positions can be 'long' or 'short', and thus can benefit from, as well as be vulnerable to, a stressed market environment – typically more than half the scenarios shown in the above historical stress test table result in a positive P&L for KBC's dealing rooms).

The worst-case scenarios for both the hypothetical and historical stress tests, together with the respective losses, are then reported at the GMC meetings. These results are accompanied by an analysis of these worst-case scenarios, providing the GMC with an insight into potential vulnerabilities in the portfolio. In addition, a more in-depth report on stress test results is submitted to the GMC on a semi-annual basis. This report also includes a review of the stress tests (as regards mix and checking that they remain up to date and relevant).

In all the stress tests conducted during the year, the worst-case scenario results were comfortably covered by the market-risk regulatory capital requirements.

Back-testing

Back-testing plays a crucial role in assessing the quality and accuracy of the HVaR model, as it compares model-generated risk measures to daily profit or loss figures. The concept behind back-testing the HVaR model is the expectation that the calculated HVaR will be larger than all but a certain fraction of the trading outcomes, where this fraction is determined by the confidence level assumed by the HVaR measure. In line with regulations, back-testing at KBC uses the 99% confidence level and one-day HVaR holding period. A loss in excess of the HVaR is referred to in the Capital Requirements Regulation (CRR) as an overshooting.

Back-testing is performed on a wide variety of portfolios for which an HVaR limit is defined. This provides a good indication of the HVaR model performance for a specific (product) portfolio. In general, the number of overshootings on a more granular level increases as there is less diversification. However, allowing for this, the number of overshootings for all levels underpinned the quality of the HVaR model.

The CRR stipulates that all banks with approved internal models (AIMs) must apply two back-tests, designated by their regulators, to their consolidated positions. The two required CRR back-tests designated by the ECB are:

- 'Hypothetical back-testing': this compares the HVaR to the daily economic P&L of the Middle Office, while keeping the portfolio unchanged and removing the effect of fees, commission and net interest – sometimes referred to as the 'hands-off P&L');

- ‘Actual back-testing’: the same as ‘hypothetical back-testing’, but allowing for trades applicable on a given position date.

If there are more than four overshootings over a rolling window of 250 business days, this results in an increase in the regulatory multiplier of HVaR and SVaR used for AIM capital requirement calculations.

The table below shows the number of overshootings for the KBC Bank NV AIM in 2019 and 2020. Overshootings are reported to the relevant risk committees and the applicable regulators, i.e. the National Bank of Belgium and the European Central Bank, on both an ad hoc and quarterly basis.

KBC Bank AIM								
	Hypothetical back-test	Date	HVaR (mln EUR)	P&L (mln EUR)	Actual back-test	Date	HVaR (mln EUR)	P&L (mln EUR)
2020	7	05-03-2020	-6.5	-8.0	6	05-03-2020	-6.5	-7.5
		06-03-2020	-6.6	-19.6		06-03-2020	-6.6	-19.0
		09-03-2020	-6.7	-6.8				
		10-03-2020	-6.4	-10.7		10-03-2020	-6.4	-9.6
		11-03-2020	-6.2	-20.1		11-03-2020	-6.2	-21.5
		13-03-2020	-7.9	-17.5		13-03-2020	-7.9	-14.2
		16-03-2020	-7.4	-29.7		16-03-2020	-7.4	-27.3
2019	0	NA	NA	NA	0	NA	NA	NA

Table 85 - Overshootings Approved Internal Models

As can be seen from the table above and the graph below, the KBC Bank AIM had several overshootings in 2020. All overshootings occurred during the start of the global coronavirus pandemic that hit the Europe and US markets hard in early March. The reaction of the markets to the coronavirus pandemic caused seven hypothetical HVaR overshootings and six actual overshootings at the level of KBC Bank NV AIM in March 2020. The main drivers of these overshootings were the sharp decrease of the CZK swap rates, the widening of the EUR/CZK basis and the increased inversion of the EUR interest rate swaps (IRS) rates.

In response to the coronavirus pandemic, the European Parliament adopted regulations that amended Regulations (EU) No 575/2013 and (EU) No 2019/876 in June 2020 (the so-called ‘CRR quick fix’), inter alia giving temporary powers to supervisors to permit institutions to exclude the overshootings evidenced by the institution’s back-testing on hypothetical or actual changes from the calculation of the addend, provided that these overshootings do not result from deficiencies in the internal model. In July 2020, KBC received permission from the ECB to exclude all overshootings that occurred during March 2020 from the addend and as such from its own funds requirements calculation for market risk for KBC Group NV and KBC Bank NV as of the second quarter of 2020.

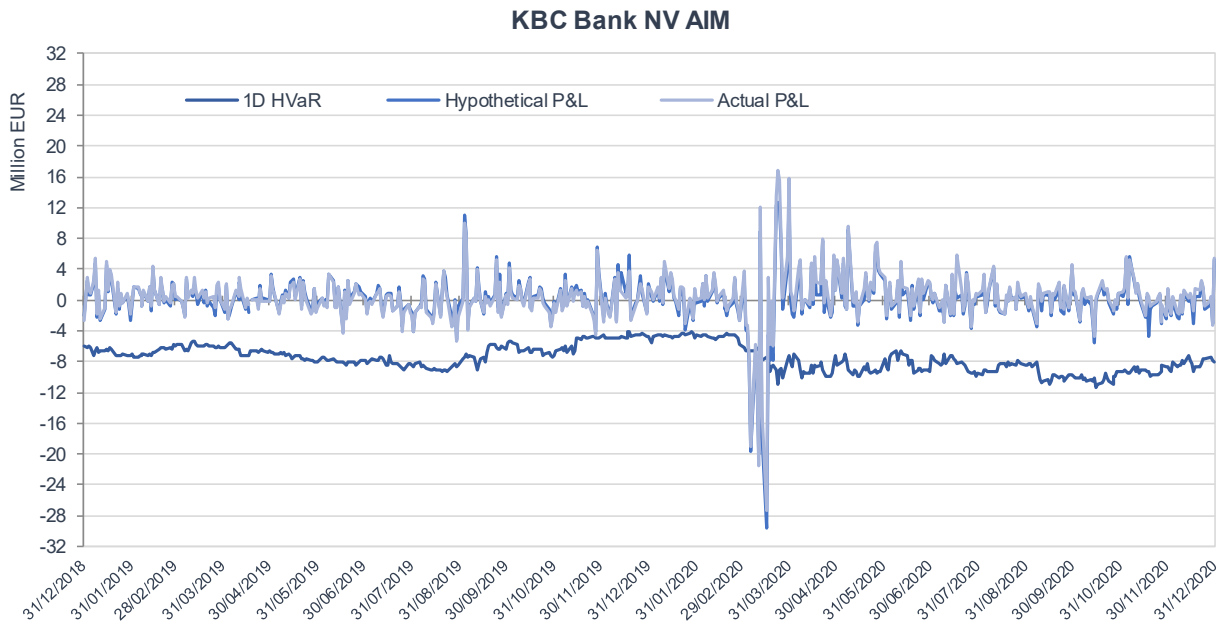

Figure 3 - EU MR4_One-day HVaR with the daily P&L results during 2019 and 2020 at KBC Bank NV AIM

Validation and reconciliation

VaR implementation is validated by an independent validation entity. In order to guarantee the quality of transaction data used in the risk calculation engine, a daily reconciliation process has been set up. The transaction data generated by the source system are reconciled with the data used in the risk calculation engine.

Furthermore, the VaR method is reviewed and subjected to a validation exercise by the independent validation unit at least once a year. In addition, the VaR model is audited on a regular basis.

The European Central Bank Joint Supervisory Team (JST) has been conducting a Targeted Review of Internal Models (TRIM) exercise for Market Risk at KBC, the purpose of the TRIM being to harmonise the use of internal models across all banks and to assess regulatory compliance. Their original TRIM decision concluded that 'the overall modelling framework captures most material risks in a proper manner and there are no very high severity findings', but included a number of improvements to be applied in line with an agreed regulatory implementation plan with various due dates up to 31 December 2021. KBC was granted permission to continue using its internal model to calculate own funds requirements for market risk and is working on addressing the last few observations raised that have not yet been closed.

Valuation

One of the building blocks of sound risk management is prudent valuation. A daily independent middle-office valuation of front-office positions is performed. Whenever the independent nature or the reliability of the valuation process is not guaranteed, a monthly parameter review is performed. Where applicable, adjustments to the fair value are made to reflect close-out costs, adjustments for less liquid positions or markets, mark-to-model-related valuation adjustments, counterparty risk and liquidity risk.

KBC applies the IFRS fair value hierarchy which gives priority to the use of quoted prices in an active market whenever they are available. If there are no price quotes available, KBC determines the fair value by using a model based on observable or unobservable inputs. In line with the IFRS principles, the use of observable inputs is maximised, whereas the use of unobservable inputs is minimised. It is important to point out that, from a practical point of view, the vast majority of the open positions held in the trading books of KBC Group are valued using either quoted prices or prices that can be directly derived from exclusively observable input parameters.

Examples of observable inputs are the risk-free rate, exchange rates, stock prices and implied volatility. Valuation techniques based on observable inputs can include discounted cashflow 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 reflect KBC'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 KBC valuation methodology of the most commonly used financial instruments is summarised in Note 1.0 of the 2020 Annual Report of KBC Group NV.

Within KBC, valuation models are validated by an independent Risk Validation Unit. In addition, the Group Executive Committee of KBC established a Group Valuation Committee (GVC) to ensure that KBC Group NV and its entities are compliant with all the relevant regulatory requirements concerning the valuation of financial instruments that are measured at fair value. For this purpose, the GVC monitors the consistent implementation of the KBC Valuation Framework, which consists of several policies including the Group Market Value Adjustments Policy and the Group Parameter Review Policy. Furthermore, the GVC meets twice per quarter to approve significant changes in valuation methodologies (including but not limited to models, market data and input parameters) or deviations from group policies for financial instruments measured at fair value. The GVC consists of members of Group Finance, Market Risk Management, and Middle Office units.

Market Risk Management (non-trading)

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

Governance, strategy and processes

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

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

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

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

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

- Risk measurements: Group Risk and the local risk departments measure ALM risks and flag current and future risk positions. A common rulebook, which supplements the framework for technical aspects, and a shared group measurement infrastructure ensure that these risks are measured consistently throughout the group. This includes a broad range of risk measurement methods such as:
    - Basis-Point-Value (BPV) for interest rate risk;
    - gap analysis for interest rate risk, gap risk and inflation risk;

    - economic sensitivities for currency risk, equity price risk and real estate price risk;
    - net interest income simulations over a multi-year period which are used in budgeting and risk processes.
- Setting risk appetite: major limits for interest rate risk, equity risk, real estate risk and foreign exchange risk for the consolidated entities are approved by the Board of Directors and limits for each local entity are approved by the Executive Committee.

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

- Risk analysis, response and follow-up: besides regulatory required reporting, structural reporting to the ALCO is performed. The reporting process includes a sign-off process to ensure data accuracy.
- Stress testing: a balanced stress testing programme is prepared on a yearly basis and reported on a quarterly basis. This includes:
    - the back-testing of prepayments;
    - net interest income simulations performed under a variety of market scenarios for interest rate risk. Net interest income impact and sensitivities are also used to measure basis risk;
    - capital sensitivities arising from banking book positions that impact available regulatory capital (e.g., fair value through other comprehensive income) are used for spread risk, interest rate risk and equity risk.

Scope of non-trading market risk disclosures

The ALM framework is applicable to all material KBC group entities that are subject to non-trading market risks. In practice, this means all entities of the KBC group with the exception of entities that only conduct trading activities. In banking entities with both trading and other activities, the balance sheet is split into a trading book and a banking book, with ALM only dealing with the risks incurred in the banking book.

Interest rate risk, credit spread risk and equity risk account for the lion's share of the total risk and will thus be discussed in more detail. However, real estate risk, inflation risk and foreign exchange risk are also briefly addressed below.

Impact of the coronavirus crisis on non-trading market risk

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

Sub-risk types

Interest rate risk

Interest rate risk and gap risk for the banking activities

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

Impact of a parallel 10-basis-point increase in the swap[2] curve for the KBC group Impact on value[1] (in millions of EUR)	Impact on value[1]	
	2020	2019
Banking	-64	-96
Insurance	29	23
Total	-35	-73

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

Table 86 - Impact of a parallel 10-basis-point increase in the swap curve for the KBC group Impact on value

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

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

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

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

Table 87 - Swap BPV (10 basis points) of the ALM book, banking activities

In line with European Banking Authority guidelines, we conduct an outlier stress test at regular intervals by applying six different scenarios to the banking books (material currencies). The worst-case scenario is set off against total common equity tier-1 (CET1) capital. For the banking book at KBC group level, this risk came to 3.89% of CET1 capital at year-end 2020. This is well below the 15% threshold, which is monitored by the European Central Bank.

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

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

Table 88 - Interest sensitivity gap of the ALM book (including derivatives), banking activities

The interest sensitivity gap shows our overall position in interest rate risk. Generally, assets reprice over a longer term than liabilities, which means that KBC's net interest income benefits from a normal yield curve. The economic value of the KBC group is sensitive primarily to movements at the long-term end of the yield curve. The reduction of the gaps in the '5-10 years' and '>10 years' buckets largely explains the global reduction of the BPV in the banking activity (Table 86 - Impact of a parallel 10-basis-point increase in the swap curve for the KBC group Impact on value).

An analysis of net interest income is performed by measuring the impact of a one percent upward shock to interest rates over a one-year period, assuming a constant balance sheet. For the banking activities, the analysis shows that net interest income would remain under pressure over the next year due to the low rate environment.

Interest rate risk for the insurance activities

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.

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

In the table below, we have summarised the exposure to interest rate risk in our life insurance activities. The life insurance assets and liabilities relating to business offering guaranteed rates are grouped according to the expected timing of cashflows.

Expected cashflows (not discounted), life insurance activities (in millions of EUR)	0–5 years	5–10 years	10–15 years	15–20 years	> 20 years	Total
31-12-2020						
Fixed-income assets backing liabilities, guaranteed component	6 077	3 809	2 390	1 640	830	14 746
Liabilities, guaranteed component	5 492	3 263	2 213	1 412	3 179	15 559
Difference in expected cashflows	585	546	177	228	-2 349	-813
Mean duration of assets						7.71 years
Mean duration of liabilities						10.33 years

31-12-2019						
Fixed-income assets backing liabilities, guaranteed component	7 073	3 797	1 923	1 875	880	15 548
Liabilities, guaranteed component	5 599	3 602	2 358	1 789	2 978	16 326
Difference in expected cashflows	1 474	195	-435	86	-2 099	-778
Mean duration of assets						7.29 years
Mean duration of liabilities						10.03 years

Table 89 - Expected cashflows (not discounted), life insurance activities

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

Breakdown of the reserves for non-unit-linked life insurance by guaranteed interest rate, insurance activities	31-12-2020	31-12-2019
5.00% and higher	3%	3%
More than 4.25% up to and including 4.99%	8%	8%
More than 3.50% up to and including 4.25%	4%	5%
More than 3.00% up to and including 3.50%	10%	10%
More than 2.50% up to and including 3.00%	3%	4%
2.50% and lower	70%	69%
0.00%	2%	2%
Total	100%	100%

Table 90 - Breakdown of the reserves for non-unit-linked life insurance by guaranteed interest rate, insurance activities

Interest rate risk for the KBC group

The figures below show the impact on the KBC group of a 10-basis-point parallel upward shift of swap curves, broken down by currency.

Interest Rate Risk – swap BPV in thousands of EUR 31-12-2020	Overall	EUR	CHF	USD	GBP	CZK	HUF	PLN	Other
Banking activities	-64 111	-51 556	-60	-1 073	-275	- 8 953	-6 293	7	4 092
Insurance activities	29 367	26 906	3	7	0	3 792	-708	0	-632
Total*	-34 749	-24 654	-57	-1 066	-275	-5 163	-7 001	7	3 460

* KBC Asset Management is only included in the total exposure, not in the banking activities.

Table 91 - Interest Rate Risk – swap BPV in thousands of EUR 31-12-2020

Interest Rate Risk – swap BPV in thousands of EUR 31-12-2019	Overall	EUR	CHF	USD	GBP	CZK	HUF	PLN	Other
Banking activities	-96 352	-85 340	-52	-790	-584	-5 134	-8 399	15	3 931
Insurance activities	23 122	23 922	-10	6	0	400	-638	0	-557
Total*	-73 235	-61 422	-63	-785	-584	-4 735	-9 037	15	3 374

* KBC Asset Management is only included in the total exposure, not in the banking activities.

Table 92 - Interest Rate Risk – swap BPV in thousands of EUR 31-12-2019

Credit spread risk

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

Revaluation reserve at fair value through other comprehensive income (FVOCI) at year-end 2020: the carrying value of the total government bond portfolio measured at FVOCI incorporated a revaluation reserve of 1.4 billion euros, before tax (448 million euros for Belgium, 275 million euros for France, 122 million euros for Italy and 513 million euros for the other countries combined).

Exposure to sovereign bonds at year-end 2020, carrying value[1] (in millions of EUR)						
Total (by portfolio)						Economic impact of +100 basis points[3]
	At amortised cost	At fair value through other comprehensive income (FVOCI)	Held for trading	Total	*For comparison purposes: total at year-end 2019*	
KBC core countries						
Belgium	11 437	3 412	751	15 599	14 991	-825
Czech Republic	8 661	1 377	1 003	11 041	7 044	-679
Hungary	2 780	394	226	3 399	2 927	-179
Slovakia	3 286	424	27	3 736	2 854	-223
Bulgaria	932	559	33	1 524	1 282	-91
Ireland	1 147	232	0	1 379	1 536	-84
Other countries						
France	4 403	2 176	51	6 630	6 388	-440
Spain	1 960	701	0	2 661	2 510	-150
Italy	636	1 143	0	1 779	1 902	-75
Poland	1 275	299	31	1 604	1 701	-51
US	1 038	0	0	1 038	1 016	-45
Rest[2]	4 878	1 585	358	6 821	6 391	-249
Total carrying value	42 432	12 301	2 479	57 212	50 542	
Total nominal value	40 795	10 646	2 280	53 721	47 216	

1. The table excludes exposure to supranational entities of selected countries. No material impairment on the government bonds in portfolio.
2. Sum of countries whose individual exposure is less than 1 billion euros at year-end 2020.
3. Theoretical economic impact in fair value terms of a parallel 100-basis-point upward shift in the spread over the entire maturity structure. Only a portion of this impact is reflected in profit or loss and/or equity. Figures relate to non-trading positions in sovereign bonds for the banking and insurance businesses (impact on trading book exposure was quite limited and amounted to -9 million euros, including supranational bonds at year-end 2020).

Table 93 - Exposure to sovereign bonds at year-end 2020, carrying value

At year-end 2020, Belgian sovereign bonds accounted for 27% of our total government bond portfolio, reflecting the importance to KBC of Belgium, the group's primary core market.

Apart from interest rate risk, the main risk to our holdings of Belgian sovereign bonds is a widening of the credit spread. To assess the potential impact of a 100-basis-point upward shift in the spread (by year-end 2020), we apply two approaches:

- The theoretical full economic impact approach, which assumes a potential sale of the entire portfolio at market prices. The impact of a 100-basis-point shift would then result in a change in value of -825 million euros (see previous table);

- The IFRS approach, whose impact on IFRS profit or loss is marginal since the lion's share[3] of the portfolio of Belgian sovereign bonds is classified as 'At amortised cost' implying that sales prior to maturity are unlikely (70%; impact only upon realisation). The remaining part is classified as 'FVOCI' (30%; no impact on profit or loss); the impact of a 100-basis-point increase on IFRS unrealised gains is -246 million euros (after tax) for FVOCI assets.

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

Exposure to non-sovereign bonds at year-end, by rating: economic impact of +100 basis points (in millions of EUR)	31-12-2020	31-12-2019
Bonds rated AAA	-204	-198
Bonds rated AA+, AA, AA-	-155	-137
Bonds rated A+, A, A-	-112	-112
Bonds rated BBB+, BBB, BBB-	-61	-64
Non-investment grade and non-rated bonds	-40	-36
Total carrying value (excluding trading portfolio)	12 440	12 452

Table 94 - Exposure to non-sovereign bonds at year-end, by rating: economic impact of +100 basis points

Equity risk

KBC holds equity portfolios, for several purposes. The largest part of the equity portfolio is held as an economic hedge for long-term insurance liabilities, in the Life and non-Life businesses, that can hardly be matched by bond investments. A limited tactical portfolio (55 million euros) aims to contribute to the financial objectives through dividend pay-outs and capital gains. Non-listed equities in the Insurance business (84 million euros) as well as all Bank equities are of a strategic nature and participate in the KBC Group business model. There is no material private equity exposure.

While the valuation of listed equity is based on market observation, non-listed equities are valued through different techniques. For those non-listed participations, File managers will select the more suited methodology. Recent acquisitions are valued at cost. Loss-making participations, among which young companies in development phase, are valued based on their net equity. Otherwise, the following methods are considered:

- Discounted cashflow method, when future cashflows are available;
- The valuation used in a recent capital transaction related to the equity, if applicable;
- Peer analysis through Balance Sheet multiples provided by Asset Management, when equity prices of listed companies with a similar profile are available;
- third-party pricing.

At least once a year, valuations for non-listed equities are challenged by the Finance department.

More information on non-trading equity exposure is provided in the table below.

[3] *Excluding HFT bonds as these trading positions are treated under the Market Risk Trading section*

Equity portfolio of the KBC group (breakdown by sector, in %)	Banking activities		Insurance activities		Group	
	31-12-2020	31-12-2019	31-12-2020	31-12-2019	31-12-2020	31-12-2019
Financials	56%	58%	16%	23%	23%	28%
Consumer non-cyclical	1%	0%	12%	9%	10%	8%
Communication	0%	0%	4%	3%	3%	2%
Energy	0%	0%	1%	4%	1%	3%
Industrials	5%	26%	37%	43%	32%	41%
Utilities	0%	0%	2%	3%	2%	2%
Consumer cyclical	4%	4%	19	11%	16%	10%
Materials	0%	0%	4%	4%	3%	4%
Other and not specified	34%	11%	6%	0%	11%	2%
Total	100%	100%	100%	100%	100%	100%
In billions of EUR	0.27	0.26	1.32	1.45	1.58	1.70*
of which unlisted	0.22	0.22	0.05	0.08	0.27	0.31

* The main reason for the difference between the 1.58 billion euros in this table and the 2.07 billion euros for 'Equity instruments' in Note 4.1 of the 'Consolidated financial statements' section in the 2020 KBC Group Annual Report is that shares in the trading book (0.49 billion euros) are excluded above, but included in the table in Note 4.1.

Table 95 - Equity portfolio of the KBC group (breakdown by sector, in %)

Impact of a 25% drop in equity prices (in millions of EUR)	2020	2019
Banking activities	-66	-64
Insurance activities	-329	-362
Total	-395	-426

Table 96 - Impact of a 25% drop in equity prices

Non-trading equity exposure (in millions of EUR)	Net realised gains (in income statement)		Net unrealised gains on year-end exposure (in equity)	
	31-12-2020	31-12-2019	31-12-2020	31-12-2019
Banking activities	–	–	12	27
Insurance activities	116	117	337	370
Total	116	117	349	396

Table 97 - Non-trading equity exposure

Real estate risk

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

Impact of a 25% drop in real estate prices (in millions of EUR)	2020	2019
Bank portfolios	-98	-92
Insurance portfolios	-93	-98
Total	-191	-190

Table 98 - Impact of a 25% drop in real estate prices

Inflation risk

Inflation – as an econometric parameter – indirectly affects the life of companies in many respects, as do other parameters (for instance, economic growth or the rate of unemployment). It is not easily quantifiable as a market risk concept. However, certain financial products or instruments have a direct link with inflation and their value is directly impacted by a change in market expectations. At KBC Insurance, it relates specifically to workmen's compensation insurance, where particularly in the case of permanent or long-term disabilities, an annuity benefit is paid to the insured person (with the annuity being linked to inflation by law). KBC Insurance partly mitigates the risks by investing in inflation-linked bonds so that any increase in liabilities arising from mounting inflation is offset by an increase in the value of the bonds. However, these liabilities are long-dated and significantly exceed the investment horizon of such index-linked bonds. Therefore, KBC Insurance complements its inflation hedging programme by investing in real estate and shares, as these assets are traditionally correlated with inflation and do not have a maturity date.

The banking activities are not exposed to a significant inflation risk. For the insurance activities, the undiscounted value of the inflation-sensitive cashflows was estimated at 572 million euros, against which a 391-million-euro portfolio of indexed bonds and 30 million euros in direct and indirect real estate was held. In the years ahead, investments in inflation-linked bonds will be increased further.

Foreign exchange risk

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

Since 2019, KBC has focused on stabilising the common equity ratio against foreign exchange fluctuations, which has improved KBC's capacity to cushion external shocks and is beneficial to all stakeholders. This implied a reduction in hedging participations. To ensure consistency between banking and insurance entities, strategic insurance participations are no longer hedged either, as they do not affect the common equity ratio under the Danish compromise.

Impact of a 10% decrease in currency value*	Impact on value Banking		Impact on value Insurance	
(in millions of EUR)	31-12-2020	31-12-2019	31-12-2020	31-12-2019
CZK	-232	-200	-18	-17
HUF	-95	-78	-5	-5
BGN	-41	-35	-10	-9
USD	-2	-2	-36	-33

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

Table 99 - Impact of a 10% decrease in currency value

Hedge accounting

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

KBC decided not to apply hedge accounting to credit and equity risks. When the necessary criteria are met, it is applied to remove the accounting mismatch between the hedging instrument and the hedged item. For more information about hedge accounting, please see 'Notes on the accounting policies' in the 'Consolidated financial statements' section of the 2020 Annual Report of KBC Group NV.

Risk categories applying to hedge accounting

Interest rates

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

Interest rate derivatives can be designated as:

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

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

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

Foreign exchange

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

Hedge effectiveness

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

Effectiveness testing

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

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

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

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

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

Sources of hedge ineffectiveness

Ineffectiveness for interest rate swaps may occur due to:

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

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

Discontinuation of hedge accounting

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

Interest rate benchmarks

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

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

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

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

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

Capital sensitivity to market movements

The available capital is impacted when the market is stressed. Stress can be triggered by a number of market parameters, including by swap rates or bond spreads that increase or by equity prices that fall. At KBC, we use this capital sensitivity as a common denominator to measure the vulnerability of the banking book to different market risk shocks.

Common equity tier-1 (CET1) capital is sensitive to a parallel increase in bond spreads. This sensitivity is caused by investments in sovereign and corporate bonds whose spread component has not been hedged. The loss in available capital in the event of a fall in equity prices is caused primarily by positions in pension funds that would be hit by such a shock.

CET1 ratio sensitivity to main market drivers (under Danish compromise), KBC group (as % of CET1) IFRS impact caused by	31-12-2020	31-12-2019
+100-basis-point parallel shift in interest rates	0.3%	0.1%
+100-basis-point parallel shift in spread	-0.2%	-0.2%
-25% in equity prices	-0.3%	-0.3%
Joint scenario	-0.2%	-0.4%

Table 100 - CET1ratio sensitivity to main market drivers (under Danish compromise), KBC group (as % of CET1) IFRS impact caused by

Regulatory capital

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

Liquidity Risk Management

Liquidity risk is the risk that an organisation will be unable to meet its liabilities and obligations as they come due, without incurring higher-than-expected costs. The principal objective of our liquidity management is to be able to fund the group and to enable the core business activities of the group to continue to generate revenue, even under adverse circumstances.

Governance, strategy and processes

The Group and Local Treasury function acts as the first line of defence and is responsible for KBC's overall liquidity and funding management. The Group Treasury function monitors and steers the liquidity profile on a daily basis and sets the policies and steering mechanisms for funding management (intra-group funding, funds transfer pricing). These policies ensure that local management has an incentive to work towards a sound funding profile. The Group Treasury function also actively monitors its collateral on a group-wide basis.

The Risk function is the second line of defence. Given the specifics of the Treasury domain and in support of the Group CRO, a dedicated Treasury CRO was appointed who is accountable for the Treasury activities. The group-wide Extended Competence Centre for ALM and Liquidity Risk is in turn responsible for installing the principles for liquidity risk management, which are laid down in a group-wide Liquidity Risk Management Framework that defines the risk playing field.

The third line of defence is provided by internal audit, assuring an independent review and challenge of the Group's first- and second-line liquidity (risk) management processes.

Three main subtypes of liquidity risk are distinguished.

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

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

- Risk identification: when relevant, risk signals are presented in Treasury Risk Reports and Integrated Risk Reports. An annual assessment of key risk drivers impacting liquidity is performed.
- Risk measurement: identified liquidity risks are measured by means of both regulatory metrics such as the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR), and internal metrics on, for example, the funding mix and concentration, the composition of the liquid asset buffer and the liquidity gap term structure. In the maturity analysis table below, KBC's structural liquidity risk is illustrated by grouping the assets and liabilities according to the remaining term to maturity (using the contractual maturity date). The difference between the cash inflows and outflows is referred to as the 'net funding gap'.

- Setting and cascading risk appetite: the Group Asset and Liability Committee (GALCO) plays a prominent role in proposing and monitoring liquidity risk limits.
- Risk analysis, reporting and follow-up: to mitigate day-to-day liquidity risk, group-wide trends in funding liquidity and funding needs are monitored continuously by the Group Treasury function. A Liquidity Contingency Plan drafted by the Group Treasury function is in place to address possible liquidity crisis situations and is tested at least annually.
- Stress testing: liquidity stress tests assess KBC's liquidity contingency risk by measuring how the liquidity buffer of the group's bank and insurance entities changes under extreme stressed scenarios. This buffer is based on assumptions regarding liquidity outflows and liquidity inflows resulting from actions to increase liquidity. The liquidity buffer has to be sufficient to cover liquidity needs over (i) a period that is required to restore market confidence in the group following a KBC-specific event, (ii) a period that is required for markets to stabilise after a general market event and (iii) a combined scenario, which takes a KBC-specific event and a general market event into account. This information is fed into the Liquidity Contingency Plan.

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

Scope of liquidity risk management

The Liquidity Risk Management Framework is applicable to most material entities of the KBC group that carry out banking activities, i.e. KBC Bank NV, CBC Banque SA, KBC Autolease NV, KBC Lease (Luxembourg) SA, KBC Immolease NV, KBC Lease Belgium NV, KBC Investments Limited, ČSOB Bank Group Czech Republic, ČSOB Bank Group Slovak Republic, KBC Bank Ireland, UBB, KBC Credit Investments NV, KBC Commercial Finance NV, KBC IFIMA SA and K&H Bank.

Impact of the coronavirus crisis on liquidity risk

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

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

Structural liquidity risk

In the table below, we have illustrated the structural liquidity risk by grouping the assets and liabilities according to the remaining term to maturity (using the contractual maturity date). The difference between the cash inflows and outflows is referred to as the 'net funding gap'.

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

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

Table 101 - Liquidity risk (excluding intercompany deals)

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

Liquid asset buffer

We have a solid liquidity position. At year-end 2020, the KBC group had 64 billion euros' worth of unencumbered central bank eligible assets, 57 billion euros of which in the form of liquid government bonds (89%). The remaining available liquid assets were mainly other ECB/FED-eligible bonds (6%). Most of the liquid assets are expressed in our home

market currencies. Available liquid assets were roughly four times the amount of net short-term wholesale funding, while funding from non-wholesale markets was accounted for by stable funding from core customer segments in our core markets.

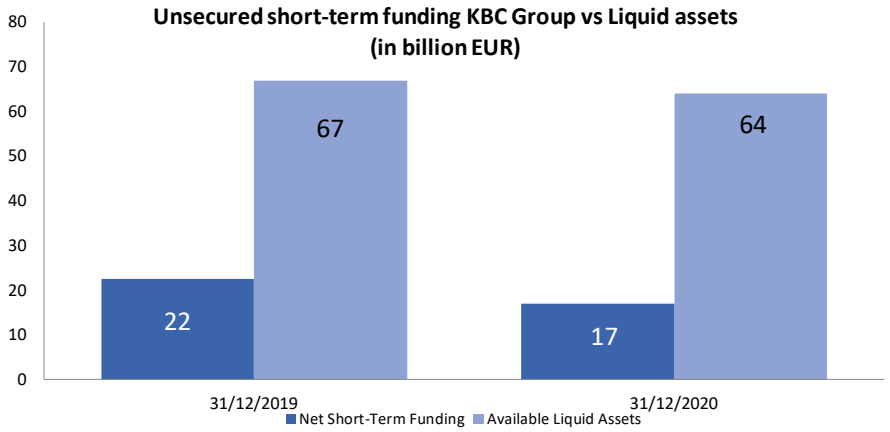

Figure 4 - Short-term unsecured funding KBC Group versus liquid assets

Funding information

We have a strong retail/mid-cap deposit base in our core markets, resulting in a stable funding mix. A significant portion of the funding is attracted from core customer segments and markets. The KBC group's funding mix[4] (at 31 December 2020) can be broken down as follows:

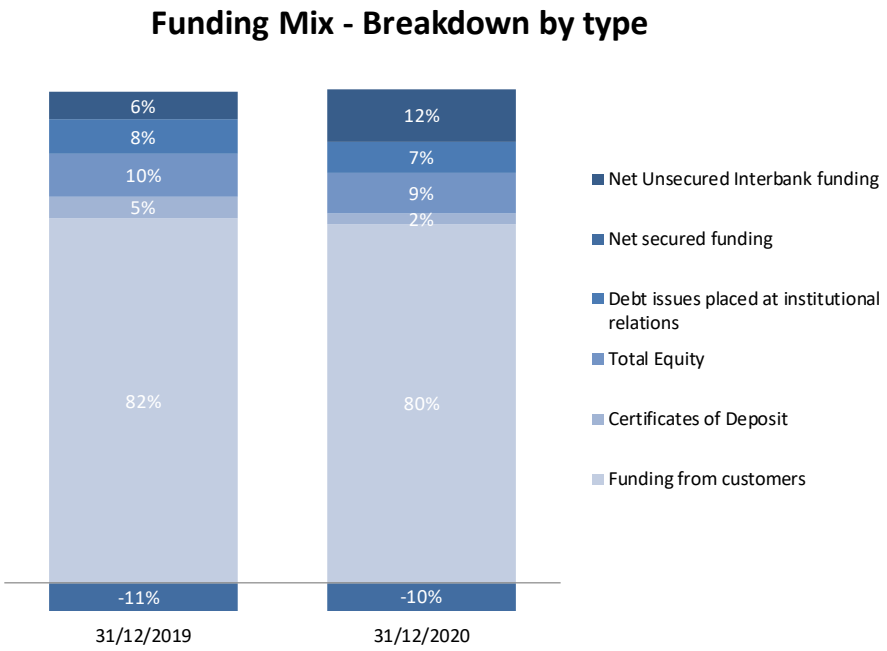

Figure 5 - Funding mix (breakdown by type)

[4] *Please note that the funding mix graph in the quarterly General Investor Presentation excludes reverse repo transactions and wholesale lending.*

- Funding from customers (circa 193 billion euros, 80% of the total figure), consisting of demand deposits, time deposits, savings deposits, other deposits, savings certificates and debt issues placed in the network. Some 83% of the funding from customers relates to private individuals and SMEs.
- Debt issues placed with institutional investors (17.0 billion euros, 7% of the total figure), mainly comprising covered bonds issues (7.3 billion euros), tier-2 issues (2.0 billion euros) and KBC Group NV senior debt (7.3 billion euros).
- Net unsecured interbank funding (28.3 billion euros, 12% of the total figure), including TLTRO funding.
- Net secured funding (-24.1 billion euros in repo funding, -10% of the total figure) and certificates of deposit (5.4 billion euros, 2% of the total figure). Net secured funding was negative at year-end 2020 due to the fact that KBC carried out more reverse repo transactions than repo transactions.
- Total equity (21.5 billion euros, 9% of the total figure, including additional tier-1 (AT1) issues for 1.5 billion euros).

Please note that:

- in November 2012, KBC announced its 10-billion-euro Belgian residential mortgage covered bonds programme; in 2020 this programme was extended to 17.5 billion euros. This programme gives KBC access to the covered bond market, allowing it to diversify its funding structure and reduce the cost of long-term funding;
- in 2019, we borrowed 2.5 billion euros from the ECB under the targeted longer-term refinancing operations (TLTRO III), after having repaid all TLTRO II funding. Following the outbreak of the coronavirus pandemic, in June 2020 we participated in TLTRO III once more, this time for just under 19.5 billion euros. It further strengthened our solid liquidity and funding position.

LCR and NSFR

Both the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) are defined in the Glossary. At year-end 2020, our NSFR stood at 146% while our twelve-month average LCR for 2020 came to 147%.

The LCR is based on the Delegated Act requirements. Since 31 December 2017, KBC has disclosed its 12-month average LCR in accordance with the European Banking Authority's guidelines on LCR disclosure and with a regulatory required minimum of 100%. The NSFR is calculated based on Regulation (EU) 2019/876 of 20 May 2019, which will apply as of 28 June 2021. Here too, the regulatory required minimum will be 100%. KBC's LCR and NSFR are thus well above these minima.

LCR quantitative information (Template EU LIQ1)

KBC Bank Consolidated (in millions of EUR)		Total unweighted value (average)				Total weighted value (average)			
Quarter ending on		31-03-20	30-06-20	30-09-20	31-12-20	31-03-20	30-06-20	30-09-20	31-12-20
Number of data points used in the calculation of averages		12	12	12	12	12	12	12	12
HIGH-QUALITY LIQUID									
1	**Total high-quality liquid assets (HQLA)**					**73 621**	**74 512**	**77 858**	**81 833**
CASH-OUTFLOWS									
2	'Retail deposits and deposits from small business customers of which:'	104 070	108 658	113 652	118 762	8 305	8 115	8 186	8 389
3	Stable deposits	60 172	69 761	74 558	76 882	3 009	3 488	3 728	3 844
4	Less stable deposits	43 844	36 805	34 929	35 692	5 242	4 565	4 402	4 497
5	Unsecured wholesale funding	72 344	74 544	76 048	78 141	46 192	47 687	47 904	48 621
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	0	3 017	8 087	12 939	0	1 237	3 226	5 010
7	Non-operational deposits (all counterparties)	66 489	65 644	61 933	59 282	40 336	40 566	38 651	37 690
8	Unsecured debt	5 855	5 884	6 027	5 920	5 855	5 884	6 027	5 920
9	Secured wholesale funding					1 299	1 199	609	567
10	Additional requirements	41 070	41 491	41 432	41 425	10 500	11 024	10 753	10 497
11	Outflows related to derivative exposures and other collateral requirements	5 981	6 619	6 425	6 220	5 981	6 619	6 425	6 220
12	Outflows related to loss of funding on debt products	0	0	0	0	0	0	0	0
13	Credit and liquidity facilities	35 090	34 872	35 007	35 204	4 519	4 405	4 327	4 276
14	Other contractual funding obligations	1 178	1 329	1 381	1 600	559	697	832	1 090
15	Other contingent funding	15 039	20 503	21 976	21 546	1 217	1 695	1 900	1 862
16	**TOTAL CASH OUTFLOWS**					**68 071**	**70 416**	**70 184**	**71 025**
CASH-INFLOWS									
17	Secured lending (e.g., reverse repos)	37 263	37 316	36 482	34 842	669	495	304	193
18	Inflows from fully performing exposures	6 498	8 529	9 100	9 616	5 550	7 558	8 162	8 728
19	Other cash inflows	13 429	13 546	12 265	11 654	7 311	7 659	6 661	6 389
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)					0	0	0	0
EU-19b	(Excess inflows from a related specialised credit institution)					0	0	0	0

20	**TOTAL CASH INFLOWS**	**57 190**	**59 391**	**57 847**	**56 112**	**13 530**	**15 711**	**15 127**	**15 311**
EU-20a	Fully exempt inflows	0	0	0	0	0	0	0	0
EU-20b	Inflows Subject to 90% Cap	0	0	0	0	0	0	0	0
EU-20c	Inflows Subject to 75% Cap	56 993	59 220	57 698	56 071	13 530	15 711	15 127	15 311
21	**LIQUIDITY BUFFER**					**73 621**	**74 512**	**77 858**	**81 833**
22	**TOTAL NET CASH OUTFLOWS**					**54 541**	**54 705**	**55 057**	**55 714**
23	**LIQUIDITY COVERAGE RATIO (%)**					**135%**	**136%**	**142%**	**147%**

Table 102 - LCR quantitative information

Derivatives exposures and potential collateral calls

In LCR calculations, the expected net cashflows resulting from derivative transactions are fully taken into account if the cashflow occurs within the LCR horizon (e.g., net interest payment in plain vanilla IRS, notional and interest payments in CCIRS, etc.).

Contingent flows linked to derivatives that are factored into the calculation of LCR are:

- Rating downgrades on margin calls;
- Additional collateral needs resulting from the impact of an adverse market scenario.

Currency mismatch in LCR

Although the FX position is closed by policy, there might still be a maturity mismatch in the balance sheet per currency (e.g., short-term US dollar funding with longer-term euro assets). Therefore, the volume of currency maturity mismatches in the balance sheet is also monitored.

The monitoring involves the use of liquidity ratios to address both short-term liquidity (via LCR) and structural liquidity (via NSFR), as well as the drivers behind their development (balance sheet). The main goal is to regularly monitor the underlying currency mismatch positions in order to gain an insight into the sensitivity of the cost of FX funding to market shocks.

The only material mismatch was between the US dollar and the euro in 'the less-than-6-months' maturity bucket, driven by wholesale market operations. This mismatch was closely monitored at the bi-weekly meeting of the liquidity committee.

Asset encumbrance

KBC is a retail-oriented bank that finances 80% of its assets by means of customer funding. A certain reliance on long-term wholesale funding is tolerated and even desired for bail-in purposes, funding diversification and cost optimisation reasons. By the end of 2012, KBC received approval to set up a covered bond programme, which has further diversified the investor base and offers the bank access to funding markets that remain open in times of market stress. Initially, the regulator imposed a limit on the programme corresponding to 8% of the balance sheet of KBC Bank NV (stand-alone). In response to the coronavirus pandemic, this limit was raised to 12.5%. KBC used the increased limit to issue retained covered bonds and to pledge these as collateral with the ECB. Covered bonds are not intended to increase the overall size of the balance sheet, as other sources of funding will merely be replaced by covered bonds. As a consequence, covered bonds do not negatively affect the solvency ratios or leveraging of KBC Bank.

Besides covered bonds, KBC has also rendered part of its mortgage book liquid via the creation of Residential Mortgage-Backed Securities (RMBS) notes that are almost fully retained on the balance sheet. Their prime purpose is therefore not to attract funding, but to enhance liquidity.

Given the ECB's continued drive to inject targeted funding into the economy during 2020 (and into 2021) KBC mobilised as much collateral as possible to assist in these programs and at the end of 2020, KBC had an outstanding balance of just under 22 billion euros in TLTRO III funding. To maintain a large buffer of highly liquid assets, KBC utilised mainly non-high quality liquid assets (non-HQLA) and increased the size of the pledged credit claims as facilitated by the ECB's Additional Credit Claims (ACC) framework. Utilising an increased amount of collateral (especially those which are non-HQLA and hence have a higher ECB haircut) increases asset encumbrance.

KBC has imposed an internal limit of 25% on the share of secured funding in the total funding mix of KBC Bank (consolidated). In this regard, secured funding includes net repo exposure (both long term and short term), covered bonds and securitised exposure amounts issued by KBC and effectively sold on the market.

In addition to encumbered loans in the cover pool, KBC commits to maintain unencumbered cover assets (outside the cover pool) amounting to at least 5% of the total covered bond programme. This buffer can be used if there are breaches of cover asset tests, breaches of liquidity tests and breaches of committed over-collateralisation levels. The buffer should preferably be composed of mortgage loans, but can also consist of liquid ECB eligible assets.

The tables below contain median values (i.e. rolling quarterly medians over the previous 12 months and determined by interpolation), as set out under disclosure requirements for encumbered and unencumbered assets. The tables show in more detail the asset encumbrance for KBC Bank (consolidated) expressed in millions of euros. The total volume of encumbered assets amounts to 44.5 billion euros, 26% of which are debt securities (of which 11.5 billion euros issued by general governments) and 46% mortgage loans (20.5 billion euros).

Template A - Encumbered and unencumbered assets 31-12-2020		Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
			of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA		of which EHQLA and HQLA*
(in millions of EUR)		010	030	040	050	060	080	090	100
10	**Assets of the reporting institution**	44 499	11 715			238 326	37 846		
30	Equity instruments	0	0			657	0		
40	Debt securities	11 750	11 715	12 468	12 431	39 305	37 846	40 159	39 035
50	of which: covered bonds	0	0	0	0	3 965	3 447	3 991	3 470
60	of which: asset-backed securities	0	0	0	0	27	4	27	4
70	of which: issued by general governments	11 536	11 516	12 196	12 174	34 138	34 078	35 540	35 478
80	of which: issued by financial corporations	114	95	114	95	5 345	4 417	5 018	4 141
90	of which: issued by non-financial corporations	0	0	0	0	492	82	468	79
120	Other assets	30 215	0			198 672	0		
121	of which: mortgage loans	20 513	0			72 349	0		

* EHQLA: extremely high-quality liquid assets & HQLA: high-quality liquid assets

Table 103 - Template A - Encumbered and unencumbered assets

Of the encumbered collateral received, 5.6 billion euros was accounted for by debt securities issued by general governments and financial corporations (primarily central banks), as reflected in the table below.

Template B - Collateral received 31-12-2020		Fair value of encumbered collateral received or own debt securities issued		Unencumbered Fair value of collateral received or own debt securities issued available for encumbrance	
(in millions of EUR)		010	of which notionally eligible EHQLA and HQLA 030	040	of which EHQLA and HQLA 060
130	Collateral received by the reporting institution	6 616	5 633	37 790	32 785
140	Loans on demand	0	0	0	0
150	Equity instruments	0	0	0	0
160	Debt securities	6 616	5 633	34 957	32 785
170	of which: covered bonds	0	0	648	648
180	of which: asset-backed securities	0	0	1 252	0
190	of which: issued by general governments	5 633	5 633	11 750	11 750
200	of which: issued by financial corporations	0	0	2 068	958
210	of which: issued by non-financial corporations	0	0	0	0
220	Loans and advances other than loans on demand	0	0	1 699	0
230	Other collateral received	0	0	0	0
240	**Own debt securities issued other than own covered bonds or asset-backed securities**	**0**	**0**	**0**	**0**
241	**Own covered bonds and asset-backed securities issued and not yet pledged**			**0**	**0**
250	**TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED**	**50 828**	**0**		

Table 104 - Template B - Collateral received

The sources of asset encumbrance (i.e. the matching financial liabilities in the table below) total 33 billion euros.

Template C - Sources of encumbrance 31-12-2020		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
(in millions of EUR)		010	030
10	Carrying amount of selected financial liabilities	32 954	49 788

Table 105 - Template C - Sources of encumbrance

At year-end 2020 (point-in-time), these consisted mainly of:

- Own covered bonds issued (7.3 billion euros, 19% of the total figure);
- TLTROs (22 billion euros, 58% of the total figure);
- OTC derivatives (4.9 billion euros, 13% of the total figure);
- Repurchase agreements (3.6 billion euros, 9% of the total figure).

Liquidity Adequacy Assessment Process

The Liquidity Adequacy Statement (LAS) is a core element in the assessment of the bank's Internal Liquidity Adequacy Assessment Process (ILAAP) under the SSM's Supervisory Review and Evaluation Process (SREP) as set out in the ECB Guide to the ILAAP.

Based on the assessment of the Liquidity Risk Profile when the risk appetite exercise was conducted in December 2020 and on continuous reporting by Group Treasury and Group Risk, KBC Group can state that it has a solid liquidity and funding position.

A KBC ILAAP Policy describes the ILAAP architecture, i.e. the processes that are in place to support the ILAAP, the roles and responsibilities of the different stakeholders involved and the approach to be taken as regards submitting ILAAP reports, both internally and externally (to the ECB).

Based on the results of integrating all the required information and documents for the liquidity adequacy assessment process, it is KBC's opinion that the main components of the ILAAP are covered by the relevant frameworks, policies and best practices.

Non-Financial Risks

Operational risk

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

This definition is in line with the definition in the Basel II Capital Accord and the Capital Requirements Directive. Information on legal disputes is provided in Note 5.7 of the 'Consolidated financial statements' section of the 2020 Annual Report of KBC Group NV.

Operational Risk lies at the core of any company's day-to-day business operations, meaning it is directly linked to the building blocks of a company (people, processes and systems). In addition, it covers risks emerging from actions that specifically target the operations of the organisation (for instance: intentional fire, external fraud or theft), as well as sudden damaging and/or destructive external events that affect the company in its day-to-day operations and that are non-financial in nature, such as war or a terrorist attack.

Governance

KBC has a single, global framework for managing operational risk across the entire group. The development and implementation of this framework is supported by an extensive operational risk governance model covering all sub-types of operational risk in all material entities of the group.

The Group risk function is primarily responsible for defining the operational risk management framework. The development and implementation of this framework is supported by an extensive operational risk governance model covering all sub-types of operational risk in all entities of the group.

The Competence Centre for Operational Risk, which consists of independent risk experts at both group and local level, cooperates with other expert functions in specific domains to cover the full spectrum of operational risk. A working environment is created where risk experts meet and cooperate with other experts in specific domains (such as information risk management, business continuity and disaster recovery, anti-fraud, legal, tax, accounting, and model and data quality risk management). The competence centre defines the operational risk management framework and the minimum standards for operational risk management processes for the group. It provides oversight and advice on the strength of the control environment for keeping the operational risk profile in line with the risk appetite and informs senior management and oversight committees of the operational risk profile.

The Group Internal Control Committee (GICC) supports the Executive Committee in monitoring and strengthening the quality and effectiveness of KBC's internal control system. This committee meets on a quarterly basis and is chaired by the Group CRO. The GICC coordinates the annual process of reporting on the annual Internal Control State (by creating the Internal Control Statement) of the KBC group.

In addition to the key stakeholders at group level (Group Risk, including Competence Centres for Operational Risk and Information Risk Management, Group Compliance including the Anti-Fraud Unit, Group Legal and Corporate Audit), KBC's core markets are structurally represented by the Chief Risk Officers (CROs). The Operational Risk Core Report

and Information Risk Management Dashboard, providing a group-wide overview of the operational risk profiles, (trends in) operational losses and main risk signals, are standard items on the GICC agenda. Depending on the topic, other second line of defence expert functions (e.g., Model Risk, Data Quality Management, Finance, etc.) complete the committee.

The building blocks for managing operational risks

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

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

Group-wide tools are used by the three lines of defence to support the core activities of operational risk management (risk and control self-assessments, control monitoring, risk responses and action plans, reporting on near misses and operational losses, etc.).

Focus on top risk areas

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

Information risk management

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

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

Outsourcing risk management

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

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

Model risk management

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

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

Business continuity management including crisis management

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

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

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

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

Operational risk management in the specific context of the coronavirus pandemic

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

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

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

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

Root causes of Operational Losses

The Loss Data Collection Process is one of the cornerstones of operational risk management and covers all operational risk event types in line with Basel classification.

The reporting process ensures that responsible parties are notified, perform proper root cause analysis and take actions to improve the control environment. Individual major loss events are reported to the group and local CRO. Structural loss reporting to senior accountable management and risk committees, including trends analysis and benchmarking with peers, is in place.

The main root causes of operational losses at KBC, according to gross loss impact over the past three years, are associated with external fraud and issues with execution, delivery and process management (see graph below). Other categories remain limited in gross loss P&L impact, but not necessarily in terms of the number of events.

As of the date of this report, the specific environment of the coronavirus pandemic did not have significant direct impact on operational losses. Loss events triggered by the coronavirus pandemic circumstances were reported according to EBA guidelines and market practices and mainly attributed to 'Natural disasters and Public Safety'.

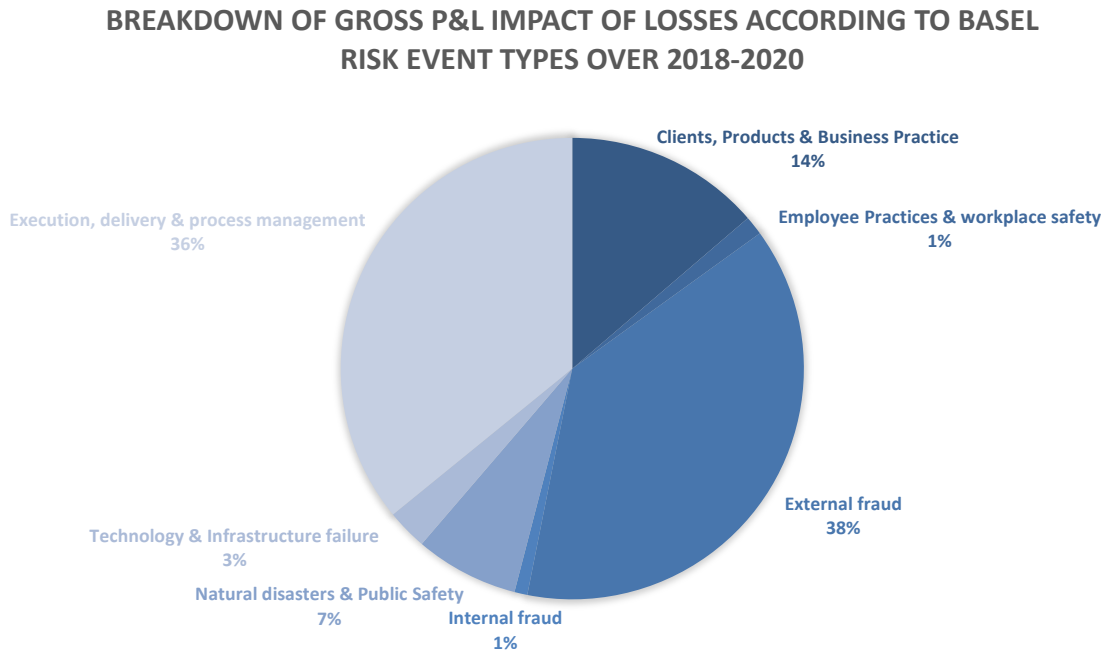

Figure 6 - Breakdown of gross P&L impact of losses according to Basel risk event types over 2018-2020

Compliance risk

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

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

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

Significant efforts were concentrated in 2020 on the scalable and future-proof features of the Compliance function. This was achieved by simplifying more processes, fostering group-wide cooperation among the teams and through automation and Artificial Intelligence. Hence, as a first step, a common integrated platform to enhance the management of money laundering – both on the 'Know Your Customer' and on the transactions sides – has been made available and rolled out in Belgium and at the Central European entities. Based on modelling and machine

learning it allows, among other things, improved detection of unusual behaviours. Resources were doubled in Belgium, enabling a strong reinforcement of the Compliance Monitoring Programme. Group Fraud Management Framework coordination has been developed and is expected to achieve full maturity by 2023, while benefiting at the same time from developments in Artificial Intelligence.

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

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

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

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

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

Operational risk and regulatory capital requirements

In line with the current Basel III adequacy rules for banking institutions, KBC uses a standardised approach for the calculation of the regulatory operational risk capital.

KBC's bank activities are classified in line with the Basel business lines: corporate finance, trading & sales, retail banking, commercial banking, payment & settlement, agency services, asset management, and retail brokerage. Within each business line, the gross income is used as a broad indicator for the scale of business operations as well as the operational risk exposure. The capital charge for each business line is calculated by multiplying the gross income by the 'beta' factor assigned to that business line. These beta factors serve as a proxy for the industry-wide relationship between the operational risk loss experience for a given business line and the aggregate level of gross income for that business line. The total capital charge is calculated as the three-year average of the simple summation of the regulatory capital charges across each of the business lines in each year.

Basel Business line	Beta factor
Corporate Finance	18%
Trading & Sales	18%
Retail Banking	12%
Commercial Banking	15%
Payments & Settlements	18%
Agency Services	15%
Asset Management	12%
Retail Brokerage	12%

Table 106 - Beta factors for Basel business lines, used for the standardised approach regulatory capital Operational risk

When calculating operational risk (including compliance risk) capital, we use the Standardised approach under Basel III. Operational risk capital at KBC group level totalled 914 million euros at the end of 2020, compared to 910 million euros at the end of 2019. This increase was the combined effect of the acquisition of OTP Banka Slovensko (resulting in an increase of 6 million euros in operational risk capital) and a slight decrease in average total income compared to its year-earlier level.

As of 1 January 2022, KBC will apply the applicable revised Basel III single standardised approach for the calculation of the regulatory operational risk capital.

Regulatory capital Operational Risk (in millions of EUR)	2020	2019
Risk-Weighted Assets	11 422	11 370
Capital	914	910

Figure 7 - Regulatory capital Operational risk

Reputational risk

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

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

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

Business environment & strategic risk

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

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

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

The updated strategy 'Differently: The Next Level' is KBC's strategic answer to leverage strengths and opportunities and deal with weaknesses and threats in the fast-changing business environment. The coronavirus crisis has proven that the former strategy 'More of the same but differently' had prepared KBC well for dealing with the crisis – both

operationally and in providing services to our clients via digital channels. The updated strategy is intended to bring KBC to the next level.

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

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

Brexit

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

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

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

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

This entailed following up 13 areas within KBC, with the most important focus points being:

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

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

Insurance Risk Management

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

Governance, strategy and processes

The Insurance Risk Competence Centre develops and rolls out a group-wide framework for managing insurance risks. It is responsible for providing support for local implementation and for the functional direction of the insurance risk management process of the insurance subsidiaries: KBC Insurance NV (Belgium), Maatschappij voor brandherverzekering (Belgium) , KBC Group Re (Luxembourg), K&H Insurance Zrt. (Hungary), ČSOB Pojišťovna (Czech Republic), ČSOB Poisťovňa (Slovak Republic) and DZI Insurance (Bulgaria).

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

- Risk identification: adequate identification and analysis of material insurance risks by, inter alia, analysing new emerging risks, concentration or accumulation risks, and developing early warning signals. In addition, deep dives are performed to gain further insight into technical insurance and a whole range of subjects. Special attention is paid to the adequacy of the technical provisions (see below).
- Risk measurement: technical insurance risk is measured by means of both regulatory measures, such as Solvency Capital Requirement (SCR) and Best Estimate valuation of insurance liabilities, and internal measures on, for example, economic profitability of insurance portfolios and non-life capital requirements based on internal stochastic models. These measures of insurance risk are used consistently throughout the group (see below).
- Setting and cascading risk appetite: the risk appetite for technical insurance risk is set in line with the overall requirements as defined in our Enterprise Risk Management Framework and is overseen by the Group Insurance Committee (GIC). At the GIC, the defined limits are reviewed and reported. The insurance risk limits are determined and set at group level and further cascaded to the local entities. The necessary compliance checks are conducted.
- Risk analysis, monitoring, reporting and follow-up: if the risk profile is not in line with the risk appetite, the reason has to be identified and analysed (e.g., which lines of business are contributing to the deviating risk profile) and the outcome and corrective action must be discussed at the GIC. Regular reporting and follow-up of the risk measurements is presented in the Insurance Integrated Risk Report (IIRR), which is submitted to the Group Insurance Committee on a quarterly basis. In addition, relevant risk signals and the solvency position of the insurer are reported to the Risk & Compliance Committee and Board of Directors as part of the regular Group Integrated Risk Report.
- Stress testing: stress tests and sensitivity analyses are performed and the outcome of these tests are reported in the annual Own Risk and Solvency Assessment (ORSA) report. In 2020, the coronavirus crisis meant that, in addition to the usual stress tests (regulatory stress tests, spread increases, interest rate

changes, impact of natural catastrophes, etc.), KBC also performed mild and severe tests of a pandemic scenario, which confirmed KBC Insurance Group's solid capital position.

Insurance risk classification

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

- **Life insurance risks** are further split up into catastrophe risks and non-catastrophe risks. Life non-catastrophe risks cover the biometric risks (longevity, mortality and disability-morbidity risk), revision risk, expense risk and lapse risk related to life insurance contracts;
- **Non-life insurance risks** are further split up into catastrophe and non-catastrophe risks. Non-life non-catastrophe risks cover the premium risk, reserve risk and lapse risk related to non-life insurance contracts;
- **Health risks** are also split up into catastrophe risks and non-catastrophe risks. The latter are then further subdivided into Health Similar to Life Techniques (includes longevity, mortality, disability-morbidity, expense risk and lapse risk) and Health Non-Similar to Life Techniques (premium and reserve risk, lapse risk). In other words, all sub-types included under 'Life' and 'Non-life' also appear in the 'Health' category.

The various sub-types of insurance risk, linked to the different insurance categories (Life, Non-life and Health) are defined as follows:

- **Catastrophe risk**: the risk that a single damaging event, or series of correlated events, of major magnitude, usually over a well-defined, short time period leads to a significant deviation in actual claims from the total expected claims. A distinction is made between natural catastrophes (e.g., wind storms, floods, earthquakes) and man-made catastrophes (e.g., terrorist attacks like 9/11). Not only the non-life, but also the life insurance business can be exposed to catastrophes, such as the pandemic threat of bird flu or accidental events;
- **Lapse risk**: the risk that the actual rate of policy lapses (i.e. premature full or partial termination of the contract by the policyholder) differs from those used in pricing;
- **Expense risk**: the risk that the cost assumptions used in pricing or valuing insurance liabilities in terms of acquisition costs, administration costs or internal settlement costs, turn out to be too optimistic;
- **Revision risk**: the potential negative deviation from the expected value of an insurance contract or a portfolio thereof due to unexpected revisions of claims. Only to be applied to annuities where the amount of the annuity may be revised during the next year;
- **Biometric risk**: the potential negative deviation from the expected value of an insurance contract or a portfolio thereof due to unexpected changes related to human life conditions;
- **Longevity risk**: the risk that the mortality rates used in pricing annuity products (or other products with negative capital at risk) turn out to be too high, i.e. people live longer than expected;
- **Mortality risk**: the risk that the mortality rates used in pricing will turn out to be too low, i.e. people die earlier than expected;
- **Disability-morbidity risk**: the risk that the part of the premium charged to cover hospitalisation or disability claims is not sufficient, due to a higher number of claims or more expensive claims than expected.
- **Premium risk**: the risk that the premium that will be earned next year will not be enough to cover all liabilities resulting from claims in this portfolio, due for instance to the fact that the number of claims will be higher than expected (frequency problem) or the severity of the claims will be higher than expected (severity problem);

- **Reserve risk**: the risk that the liabilities stemming from claims, which have occurred in the past, but have still to be finally settled, will turn out to be more expensive than expected.

Insurance risk measurement

Within KBC, models are developed from the bottom up for all material group-wide insurance liabilities, i.e.:

- future claims that will occur over a predefined time horizon, as well as the claims settlement pattern;
- the future settlement of claims (whether already reported to the insurer or not) that have occurred in the past but have not yet been fully settled;
- the impact of the reinsurance programme on these claims.

The Group risk function uses these models to steer the group's insurance entities towards creating more shareholder value, support decisions on reinsurance, calculate the ex-post profitability of specific sub-portfolios and set off capital requirements against the relevant return in pricing insurance policies.

Insurance risk management has developed an internal model for 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, taking into account outward reinsurance (external and intra group). The internally developed models follow the Risk Measurement Standards and are validated within this scope by the independent validation unit.

Insurance risk mitigation by reinsurance

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

- limits per policy;
- diversification of the portfolio across product lines and geographical regions;
- reinsurance.

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

The independent insurance risk function is responsible for:

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

Impact of the coronavirus crisis on technical insurance risk

At the onset of the coronavirus crisis in March 2020, a group-wide reporting system was developed to track different key indicators in the insurance business, such as the capital position, business volumes, claims, surrendered policies, etc. The new reports were not only submitted to our own management but also to the NBB on a monthly basis.

Technical insurance risk in the non-life segment was positively impacted by the coronavirus crisis as the frequency of claims dropped significantly during the lockdown periods. This mainly concerned car insurance policies and to a lesser extent to property and travel insurance policies. In the life segment, we only observed a limited negative impact on technical insurance risk.

Technical provisions and loss triangles, non-life business

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

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

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

- the claims-settlement figures incorporate all amounts that can be allocated to individual claims, including the Incurred But Not Reported (IBNR) and Incurred But Not Enough Reserved (IBNER) provisions, and the external claims handling expenses, but do not include internal claims settlement expenses and provisions for amounts expected to be recovered;
- all provisions for claims to be paid at the close of 2020 have been included and are before reinsurance, adjusted to eliminate intercompany amounts related to KBC Group Re. KBC Group Re is the KBC group's own reinsurance company, which makes it possible to first pool the reinsurance risks internally and then, in a subsequent stage, go to the reinsurance market.

The loss triangles are provided in the table below. The first row in the table shows the total claims burden (claims paid plus provisions) for the claims that occurred during a particular year, as estimated at the end of the year of occurrence. The following rows indicate the situation at the end of the subsequent calendar years. We restated the amounts to reflect exchange rates at year-end 2020.

Loss triangles, KBC Insurance	Year of occurrence									
(in millions of EUR)	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Estimate at the end of the year of occurrence	749	844	908	984	934	1 018	994	1 065	1 141	1 010
1 year later	658	737	763	874	790	882	875	932	1 011	–
2 years later	616	702	693	819	745	819	842	887	–	–
3 years later	597	678	671	799	714	804	826	–	–	–
4 years later	585	664	667	783	702	800	–	–	–	–
5 years later	578	658	658	775	692	–	–	–	–	–
6 years later	575	651	657	774	–	–	–	–	–	–
7 years later	570	639	654	–	–	–	–	–	–	–
8 years later	561	634	–	–	–	–	–	–	–	–
9 years later	561	–	–	–	–	–	–	–	–	–
Current estimate	561	634	654	774	692	800	826	887	1 011	1 010
Cumulative payments	504	556	578	675	571	622	626	654	678	428
Current provisions	57	79	76	99	121	179	201	233	333	581

Table 107 - Loss triangles, KBC Insurance

Solvency II results and risk profile

Solvency II results and more detailed information on how all the ratios developed in 2020 are provided under 'Solvency of KBC Bank and KBC Insurance separately' in the 'How do we manage our capital?' section of the 2020 Annual Report of KBC Group NV.

The presentation below shows the solvency capital requirement (SCR) broken down by risk module, illustrating the impact of the technical insurance risk modules (Life, Non-Life and Health underwriting). It should be noted that the total SCR for the underwriting risk accounts for 50% of undiversified basic Solvency II Pillar 1 capital.

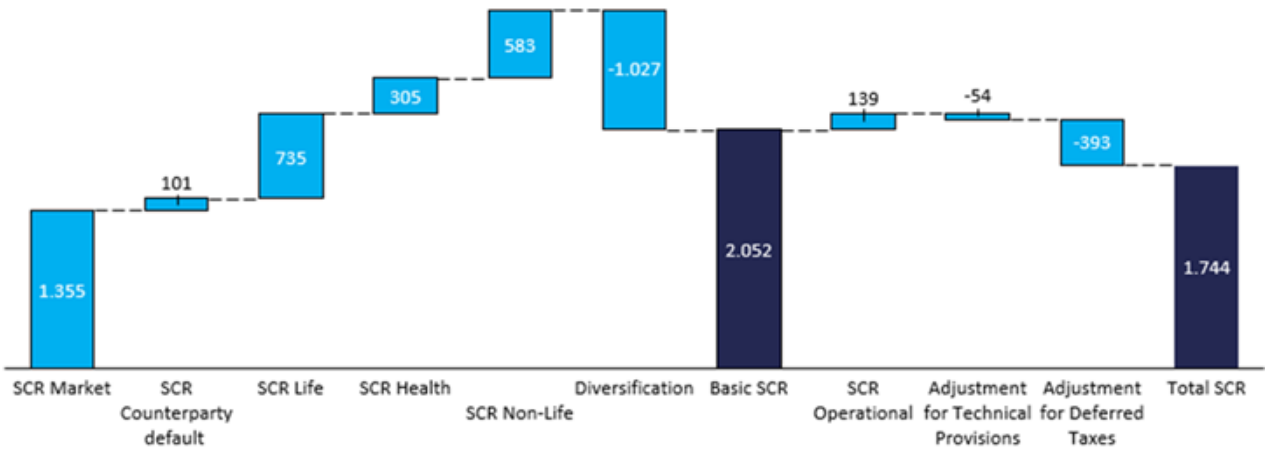

Figure 8 - Solvency II capital requirements 31-12-2020

Actuarial function

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

The main tasks of the actuarial function are to:

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

More information on the insurance activities of the group can be found under Notes 3.7 and 5.6 of the 'Consolidated financial statements' section of the 2020 Annual Report of KBC Group NV. A breakdown by business unit of earned premiums and technical charges is provided in the notes dealing with segment reporting.

Climate-related and other ESG risks

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

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

The KBC Enterprise Risk Management Framework defines KBC's overall approach to risk management and sets group-wide standards for risk management. It covers all risks to which KBC is exposed, including Environmental, Social and Governance (ESG) risks, which are gradually being embedded in KBC's risk management processes.

Over the past year, our main focus was on climate-related risks. Examples of climate-related risks include acutely or chronically changing weather patterns, such as severe storms and prolonged droughts. These can increase the level of claims under the insurance policies we provide and impact our loans or investments. The latter applies where counterparties or sectors are affected by climate change or the transition to a lower-carbon society, prompting direct losses through repayment problems. Other climate-related risks arise from the impact on KBC of potential changes to the relevant legislation and capital requirements, litigations, changes in client behaviour (including the risk of missed opportunities) and technological innovations.

Due to the current pandemic, society and regulators might even increase their focus on environmental, social and governance considerations, resulting in an acceleration of the path towards a more sustainable society.

Governance

The KBC Risk Management Framework is supported by solid risk governance:

- The management of climate-related risks is fully embedded in our existing Risk Management Governance. The Board of Directors, the Risk & Compliance Committee and the Executive Committee are the prime recipients of the various outputs of the main risk management processes (e.g., ICAAP/ORSA, Integrated Risk Reporting, Risk Appetite, etc.). Given that climate-related risk has been identified as a top risk, it is included in all of these risk management processes and reports;
- Risk is part of the core team of the Sustainable Finance Programme, which focuses on integrating climate-related matters throughout the group;
- The senior general managers of Group Risk and Group Credit Risk are members of the Sustainable Finance Programme Steering Committee and one of them also has a seat on the Internal Sustainability Board.

Risk identification

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

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

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

This continuous risk identification process is supplemented by a strategic 'risk scan' exercise aimed at highlighting 'top risks' that can undermine our strategy, financial stability and long-term sustainability, but that also carry a high degree of uncertainty. Climate risk has been identified as a top risk for several years now:

- If not addressed, climate change is expected to have devastating effects (extreme storms, floods, pandemics, mass migration, economic crisis, etc.) with extremely high costs for society, including for financial institutions and their customers;
- The path towards a greener economy on the other hand remains highly dependent on technological breakthroughs, upcoming (EU) policies, regulations and actions by governments (e.g., stricter energy efficiency rules, incentives from EU Green Deal);
- This uncertainty is emphasised by the lack of data and standardised methods to properly assess and measure climate-related risks, which exposes financial institutions to sudden re-pricing of assets, market volatility and credit losses resulting from financing obsolete (brown) technology or infrastructure.

The identified risks are used as input for several other risk management exercises and tools, such as risk appetite setting, stress testing, scenario analysis, the aligned planning cycle, etc.

Risk classification

ESG risks, including climate-related risks, are identified in our risk taxonomy but not defined as a separate risk type. They are a key driver of the external environment which will manifest itself through (all) other risk areas, such as credit risk, market risk and technical insurance risk. For climate-related risks, following the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), we differentiate between:

- transition risks: risks arising from disruptions and shifts associated with the transition to a low-carbon, climate-resilient or environmentally sustainable economy which include policy changes (e.g., imposition of carbon-pricing mechanisms, energy efficiency requirements), legal changes (e.g., climate-related litigation), technological changes/progress (e.g., old technology replaced by cleaner technology) or behavioural changes

(e.g., where consumers or investors shift towards more sustainable products and services or difficulties to attract and retain customers, employees, investors or business partners for companies with a reputation of harming the climate). These risks can affect the creditworthiness of our clients and the stability of our portfolios on a short to medium-term horizon;

- physical risks: risks related to potential financial implications from physical phenomena associated with both climate trends (chronic) such as changing weather patterns, rising sea levels, increasing temperatures, chronic heat waves, etc. and extreme weather events (acute) including storms, floods, fires, heatwaves or droughts that may disrupt operations, value chains or damage property. These risks can impact KBC's insured losses and may also impact the creditworthiness of our clients, as well as the value of our assets or collateral on the medium to long term.

Setting and cascading risk appetite

As a financial institution, our largest impact on climate and society in general is indirect: through financing and by investing in (and insuring) businesses that could have a direct positive or negative impact. The stakeholder materiality assessment (see 2020 Sustainability Report) also identifies sustainable and responsible lending, insurance and advisory service offering as one of the most important topics and a critical concern for the group.

KBC has a well-developed Risk Appetite Statement and process, starting from clear Risk Appetite Objectives. Our risk appetite objectives support the group in defining and realising its strategic sustainability goals. These include promoting a strong corporate culture that encourages responsible environmental and social behaviour, achieving long-term sustainable growth, ensuring stable earnings and sound financial figures (capital and liquidity), supported by an adequate promotion and remuneration policy. To be less vulnerable to changes in the external environment – including climate change – we pursue diversity and flexibility in our business mix, client segments, distribution channels and geographies, where we refrain from focusing on short-term gains at the expense of long-term stability. We manage volatility of net results by defining a solid risk management framework and risk appetite to ensure financial and operational resilience in the short, medium and long term. In line with our risk taxonomy, ESG risks, including climate risk, are embedded in relevant areas of our risk appetite. The high-level risk appetite objectives are further specified for a number of risk types in line with our climate-related policies and will be gradually improved based on new insights (see 'Risk measurement'):

- In addition to the strategic limits and targets for limiting the environmental impact of our core lending, insurance and investment activities we identify controversial activities in our standards for sustainable and responsible lending and insurance. These relate to economic activities we are not willing to finance (such as coal-related activities) or only under strict conditions (such as biomass technologies, palm oil production, etc.). These activities are managed through sound lending and insurance processes, acceptance policies and product characteristics, and are actively screened by the business side, with quality controls performed by the second and third lines of defence. They clearly define the playing field for credit and insurance risks;
- Where we suspect a breach of the policies, we take action to mitigate its impact. For example, an exit strategy might have to be defined after a loan has been provided and the borrower's business subsequently changes into activities we do not want to finance. The Corporate Sustainability Department also provides advice when identifying such activities. If the business side wants to overrule this advice, a final decision will be taken by the Extended Credit Committee or Group Insurance Committee, respectively. In exceptional cases, these committees might escalate the matter to the Executive Committee;
- KBC has the ambition to keep all its operational, compliance and conduct risks low and to be well prepared for a variety of crises (avoiding disruption in services), including ESG and climate-related risks;

- As regards reputational risks, we have a very strict acceptance policy in place, which addresses environmental, social, and governance-related matters. This includes the KBC-Blacklist of companies that do not comply with our ethical standards and are, therefore, excluded from all our activities, including the non-SRI funds of KBC Asset Management. A group-wide zero tolerance policy is in place for 'new business with a company on the KBC blacklist'. This policy is fully embedded in the organisation as part of the operational risk management framework.

Risk measurement

Climate change could have an impact on all industries and business lines, but the focus now lies on our corporate loan portfolio, in which we identified the most climate-sensitive industrial sectors (see table below).

Most climate-sensitive corporate industrial sectors[1], outstanding loans - KBC Group (in millions of EUR)	2020	2019
Total outstanding loans KBC Group	**180 891**	**175 431**
Total outstanding loans most climate-sensitive corporate industrial sectors	**40 416**	**39 636**
Real Estate	11 350	11 231
Building & Construction	6 965	6 819
Agriculture, farming & fishing	4 957	4 717
Automotive	4 451	4 625
Food producers[2]	3 887	3 698
Energy[2]	3 792	3 869
Metal	2 503	2 466
Chemicals	2 511	2 211

1 Only sectors representing more than 5% of the identified climate-sensitive corporate industrial loans by the end of 2020 are reported separately. Although climate change has a potential impact on all industries and sectors, the selection of climate-sensitive sectors was based on, among others, the TCFD recommendations (2017), in anticipation of more standardised frameworks and analysis (see the Sustainability Report).
2 Scope extended compared to 2019 Risk report; 2019 figures are also adjusted accordingly

Table 108 - Most climate-sensitive corporate industrial sectors, outstanding loans - KBC Group

Residential real estate, car loans and car leasing also fall within our scope as these too can have a substantial impact on climate change and on KBC.

We are working together with external parties on a series of tools and methodologies to strengthen our ability to measure and analyse climate-related risks. These tools will provide further insights into the impact of climate change on our business model, as well as that of our activities on the environment. Integrating these tools and methodologies will enable us to gradually improve underwriting policies, and will support us in engaging with our clients.

To better understand the potential financial impact of climate-related transition scenarios on our lending and investment activities, we continued to follow and apply three methodological tracks, covering a number of our key exposures:

- The Paris Agreement Capital Transition Assessment tool (PACTA), which allows the measurement of the alignment of our corporate industrial loan portfolio with the Paris Agreement climate goals, gives insight into potential transition risks of climate change by measuring credit exposures to transition technologies in some of the most carbon-intensive sectors, such as the steel, automotive, shipping, aviation, power, oil & gas, coal and cement sectors. We made a second publication of PACTA results in the 2020 Sustainability Report which confirms that we have only limited exposure to the carbon-intensive activities that are in scope of this methodology;

- In the second half of 2020, KBC Asset Management performed a first assessment of the climate impact of its funds, using data from and the methodology of TRUCOST (see Appendix 'TRUCOST' in the 2020 Sustainability Report for more details on this pilot);
- In cooperation with the United Nations Environmental Program Finance Initiative (UNEP FI), we piloted analytical tools and indicators to assess credit risks in our corporate loan portfolio that are associated with the transition to a low-carbon economy. During 2019 we learned more about the methodology, initially developed by UNEP FI and Oliver Wyman in 2018 and subsequently published in the 'Extending our horizons' report[5], which translates the impact of forward-looking climate scenarios into changes in traditional credit risk indicators, such as expected loss, loan-to-value or probability of default. As part of our active contribution in the second phase of the UNEP FI Banking Pilot, we tested this initial methodology on KBC's metal portfolio and further adapted it to improve applicability within our organisation. See Appendix 'UNEP FI' in the 2020 Sustainability Report for more insights on this work;
- We joined the Partnership for Carbon Accounting Financials (PCAF) initiative to identify the greenhouse gas emissions of our loan and investment portfolios, a useful tool to measure and track the environmental impact of our lending and investment activities. We have already tested the PCAF methodology intensively on our loan portfolio (home loans, car loans and car leasing). See Appendix 'PCAF' in the 2020 Sustainability Report for more insights.

Besides the transitional risks, we are also in the process of gradually assessing climate-related **physical** risks inspired by the second phase of UNEP FI. As part of this process we analysed our Flemish residential mortgage loan portfolio using the methodology developed by UNEP FI and Acclimatise in 2018 (resulting in the publication of the 'Navigating a new climate' report[6]), the results of which are described and discussed in the Appendix 'UNEP FI' of the 2020 Sustainability Report. This is the first step in better understanding the possible impact of climate-related, acute or chronic flood events on our mortgage loan-to-value ratios.

Stress testing

Stress testing and sensitivity analysis are essential tools in the risk management toolkit, for instance to identify weaknesses or blind spots, stress capital and liquidity adequacy, and so on. KBC's overall stress-testing approach is based on establishing a sound 'stress-testing mix' covering all material areas and risks with a variety of stress-testing methodologies, ranging from simple sensitivity to more sophisticated and elaborated multiple-scenario analysis and reverse stress tests. KBC is increasingly incorporating climate-related risks more actively in these stress tests and sensitivity analysis, but also considering other ESG drivers, such as failure of data protection or operational risk losses from possible cyber hacks.

In addition to a number of more risk-type-specific stresses, such as more extreme natural catastrophe events or the impact of green washing on our liquidity and funding risk, we performed a number of holistic scenarios at group level covering multiple risks and related drivers:

[5] *Available at https://www.unepfi.org/publications/banking-publications/extending-our-horizons/*

[6] *Available at https://www.unepfi.org/publications/banking-publications/navigating-a-new-climate-assessing-credit-risk-and-opportunity-in-a-changing-climate/*

- Two more severe (reverse) stress tests as part of our capital adequacy assessment, inspired by the scenarios used by the Bank of England and De Nederlandsche Bank in their regulatory stress tests:

A disruptive transition scenario following late policy action Stress test horizon: 3-5 years (medium term)	Disruptive policy actions, legal constraints or outright bans in a final attempt to reach the Paris Agreement climate goals and keep global temperature increase below 2°C by 2100, leaving little time for sectors to adapt, i.e. sudden disorderly transition. This will impact the creditworthiness of our clients in carbon-intensive sectors, create spillover to equity markets and lower property value.
A physical risk scenario where no further climate action is taken Stress test horizon: 2050 (long term)	If too little too late, we will break new records of extreme temperatures and weather-related events. This is an extreme scenario, assuming a temperature increase of 4°C by 2100, impacting the creditworthiness of clients in climate-sensitive sectors, creating spillover to equity markets, reducing property values and increasing life and non-life insurance claims.

- Three milder stresses that have a material long-lasting or structural impact on future profitability to assess the long-term financial stability of the business model, and important input of our aligned planning cycle:

Long-term orderly transition towards a green economy (mild, medium, severe) Stress test horizon: long term	Bringing global warming well below 2°C by 2100 is driving up internal company costs, weakening the creditworthiness of certain vulnerable clients/sectors and increasing insurance claims due to changing weather patterns. Moreover, green competition is putting pressure on volumes.

These scenarios will be gradually enhanced following new insights of ongoing methodological tracks, to better translate the impact of climate pathways to financial parameters such as expected credit losses or insurance claims. The stress testing results indicated that even the most severe climate-related stresses on KBC's portfolios would not bring KBC's capital position below required levels.

Risk analysis, monitoring and reporting

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

The impact of more extreme weather conditions has already been incorporated into the insurance activities, as we use a number of internal and external measures, along with stress tests, to analyse the potential impact of (acute) natural catastrophe events on our non-life (property) portfolio. For the modelling of natural catastrophe events, external broker and vendor models are used in all KBC insurance entities. KBC actively engages and enforces a dialogue on the consideration of climate change in the scenario analysis of these providers.

Forward-looking trends, such as changes in storm and precipitation patterns and changes in the frequency of floods are monitored as part of the Insurance Risk Management Framework and related processes. Physical risks in other regions around the world are also closely monitored as they can have an impact on the global reinsurance market on which KBC relies. Climate change does not represent a significant technical insurance risk for KBC in the short term, mainly thanks to the well-diversified nature of KBC Insurance's life and non-life activities, the focus on our core

markets in Belgium and Central Europe, and the annual renewal of policies and related reinsurance contracts. The medium- to long-term effects of changing weather patterns are analysed by means of stress tests and deep dives. The flood risk for our property portfolio in Flanders was analysed in line with the UNEP FI methodology for mortgage loans and property insurance policies.

As mentioned before, a number of initiatives were started to improve our understanding of how to measure ESG and climate-related risks of our loan portfolio. Initially, ESG and climate-related risks are qualitatively assessed, e.g., through the development of an environmental and social sectoral heat map, for the purpose of triggering business, risk and decision makers to take explicit consideration of environmental and social risks in their assessments (credit acceptance, NAPP, stress testing, etc.). Significant efforts were also made in the development of quantitative assessments and climate-related valuation methods. The insights gained are part of KBC's exploration to further integrate these risks into our credit assessment processes and modelling (including expected credit losses) and to adapt our policies, where necessary. Moreover, management has the ability to overrule the expected credit losses and to capture events that are not part of the financial assessment, such as the growing insights into ESG and climate-related risks. In the future, this approach will be more prominently applied in risk assessment.

Annexes

Annex I

Balance sheet reconciliation

Disclosure according to Article 2 in Commission implementing regulation (EU) No 1423/2013

Capital Base (EUR)	Financial statements 31-12-20 (*)	Deconsolidation insurance	Prudential treatment	Own funds 31-12-20 (*)
Total regulatory capital, KBC Group (after profit appropriation)				21 855 550 844
Tier-1 capital				19 941 372 047
Common equity				18 441 372 122
Parent shareholders' equity	20 029 811 319	-1 341 937 598		18 687 873 721
Intangible fixed assets (incl. deferred tax impact) (-)	-741 580 936	41 924 757	131 757 073	-567 899 106
Goodwill on consolidation (incl. deferred tax impact) (-)	-845 069 563	111 552 532		-733 517 031
Minority interests				
Hedging reserve (cashflow hedges) (-)	1 294 108 976	-153 562		1 293 955 414
Valuation diff. in fin. liabilities at fair value - own credit risk (-)	-13 095 620			-13 095 620
Value adjustment due to the requirements for prudent valuation (-)				-24 751 864
Dividend payout (-)				-183 345 606
Remuneration of AT1 instruments (-)			-11 784 247	-11 784 247
Deduction re. financing provided to shareholders (-)				-56 869 235
Deduction re. Irrevocable payment commitments (-)				-57 861 992
Deduction re NPL backstops (-)				-11 308 424
IRB provision shortfall (-)				0
Deferred tax assets on losses carried forward (-)	-373 014 715	0		-373 014 715
Transitional adjustments to CET1			492 990 827	492 990 827
Limit on deferred tax assets from timing differences relying on future profitability and significant participations in financial sector entities (-)				
Additional going concern capital				1 499 999 925
CRR compliant AT1 instruments	1 499 999 925			1 499 999 925
Tier-2 capital				1 914 178 797
IRB provision excess (+)				426 797 126
Transitional adjustments to CET1			-264 041 643	-264 041 643
Subordinated liabilities	2 278 589 029	-500 000 000	-27 165 716	1 751 423 313

(*) An overview of the entities included in the financial statements of KBC Group NV and their method of consolidation is provided at https://www.kbc.com/en/our-structure

Table 109 - Balance sheet reconciliation

Annex II

Capital instruments' main features template

Disclosure according to Article 3 in Commission implementing Regulation (EU) No 1423/2013

Capital instruments' main features template											
1	Issuer	KBC Group NV	KBC Group NV	KBC Group NV	KBC Group NV	KBC Group NV	KBC Group NV	KBC Group NV	KBC Group NV	CBC Banque SA	KBC IFIMA NV
2	Unique identifier (e.g., CUSIP, ISIN or Bloomberg identifier for private placement	BE0003565737	BE0002592708	BE0002638196	BE0002664457	BE0002475508	BE0002290592	BE0002485606	BE0002223890	Grouped certificates	XS0210976329
3	Governing law(s) of the instrument	Belgian	Belgian/English	Belgian/English	Belgian/English	Belgian/English	Belgian/English	Belgian/English	Belgian/English	Belgian/English	Belgian/English
	Regulatory treatment										
4	Transitional CRR rules	CET1	Additional Tier 1	Additional Tier 1	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
5	Post-transitional CRR rules	CET1	Additional Tier 1	Additional Tier 1	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
6	Eligible at solo/(sub-) consolidated/solo & (sub-) consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated
7	Instrument type (types to be specified by each jurisdiction)	Common Equity Tier-1 instruments as published in Regulation (EU) No 575/2013 article 28	Additional Tier 1 as published in Regulation (EU) No 575/2013 article 52	Additional Tier 1 as published in Regulation (EU) No 575/2013 article 53	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	EUR 6.973m	EUR 1.000m	EUR 500m	EUR 747m	EUR 175m	EUR 499m	EUR 749m	EUR 8m	EUR 0,003 m	EUR 100,337 m
9	Nominal amount of instrument	n/a	EUR 1.000m	EUR 500m	EUR 750m	EUR 175m	EUR 500m	EUR 750m	EUR 10m	EUR 0,072 m	USD 150m
9a	Issue price	Various	100%	100%	99.403%	98.8%	99.738%	99.494%	100%		EUR 115m
9b	Redemption price	n/a	At their prevailing principal amount	At their prevailing principal amount	100% of their nominal amount	100% of their nominal amount	100% of their nominal amount	100% of their nominal amount	100% of their nominal amount	At par	At par
10	Accounting classification	Equity	Equity	Equity	Liability	Liability	Liability	Liability	Liability	Liability	Liability

11	Original date of issuance	Various	24 April 2018	5 March 2019	3 September 2019	24 July 2014, 1 August 2014 and 2 February 2015	18 September 2017	11 March 2015	6 March 2015	2011 (various dates)	7 February 2005
12	Perpetual or dated	Perpetual	Perpetual	Perpetual	dated	dated	dated	dated	dated	dated	dated
13	Original maturity date	No maturity	No maturity	No maturity	3 December 2029	24 July 2029	18 September 2029	11 March 2027	6 March 2025	10 years after issuance	7 February 2025
14	Issuer call subject to prior supervisory approval	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	n/a	n/a
15	Optional call date, contingent call dates, and redemption amount	No	24 October 2025 Tax Gross-up call and Tax Deductibility Call At the Prevailing Principal Amount together with accrued interest	5 March 2024 Tax Gross-up call and Tax Deductibility Call At the Prevailing Principal Amount together with accrued interest	3 December 2024 Tax Gross-up events and Tax Deductibility events Following a Capital Disqualification event EUR 100 000 per Calculation Amount	24 July 2024 Tax Gross-up events and Tax Deductibility events Following a Capital Disqualification event EUR 100 000 per Calculation Amount	18 September 2024 Tax Gross-up events and Tax Deductibility events Following a Capital Disqualification event EUR 100 000 per Calculation Amount	11 March 2022 Tax Gross-up events and Tax Deductibility events Following a Capital Disqualification event EUR 100 000 per Calculation Amount	n/a	n/a	n/a
16	Subsequent call dates, if applicable	No	on every Interest Payment Date starting with 24 October 2018 (24 April, 24 October)	on every Interest Payment Date starting with 5 March 2019 (5 September, 5 March)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
	Coupons / dividends										
17	Fixed or floating dividend/ coupon	floating	fixed and from (and including) the First Call Date and thereafter, at a fixed rate per annum reset on each Reset Date based on the prevailing Euro 5-year Mid-Swap Rate plus 3.594%	fixed and from (and including) the First Call Date and thereafter, at a fixed rate per annum reset on each Reset Date based on the prevailing Euro 5-year Mid-Swap Rate plus 4.689%	fixed and from (and including) the First Call Date and thereafter, at a fixed rate per annum reset on each Reset Date based on the prevailing Euribor plus 1.10%	fixed and from (and including) the First Call Date and thereafter, at a fixed rate per annum reset on each Reset Date based on the prevailing Euribor plus 1.90%	fixed and from (and including) the First Call Date and thereafter, at a fixed rate per annum reset on each Reset Date based on the prevailing Euribor plus 1.25%	fixed and from (and including) the First Call Date and thereafter, at a fixed rate per annum reset on each Reset Date based on the prevailing Euribor plus 1.50%	fixed		Floating (CMS-linked)
18	Coupon rate and any related index	n/a	4.250% per annum To be reset on every Reset Date	4.750% per annum To be reset on every Reset Date	0.50% to be reset on 3 December 2024.	3.125% to be reset on 24 July 2024.	1.625% to be reset on 18 September 2024	1.875% to be reset on 11 March 2022.	EUR 20.00 per Calculation amount		0.04692

19	Existence of a dividend stopper	n/a	No	No	No	No	No	No	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Full discretionary	Fully discretionary	Fully discretionary	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Full discretionary	Fully discretionary	Fully discretionary	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	n/a	No	No	No	No	No	No	No	No	No
22	Noncumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Cumulative	Cumulative	Cumulative	Cumulative	Cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	n/a	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
25	If convertible, fully or partially	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
26	If convertible, conversion rate	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
27	If convertible, mandatory or optional conversion	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
28	If convertible, specify instrument type convertible into	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
29	If convertible, specify issuer of instrument it converts into	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
30	Write-down features	No	Yes	Yes	No	No	No	No	No	No	No
31	If write-down, write-down trigger(s)	n/a	CET1 ratio < 5.125%	CET1 ratio < 5.125%	n/a	n/a	n/a	n/a	n/a	n/a	n/a
32	If write-down, full or partial	n/a	partially or fully	partially or fully	n/a	n/a	n/a	n/a	n/a	n/a	n/a
33	If write-down, permanent or temporary	n/a	Temporary	Temporary	n/a	n/a	n/a	n/a	n/a	n/a	n/a

34	If temporary write-down, description of write-up mechanism	n/a	Upon a Return to Financial Health, the Issuer may, at its discretion and subject to regulatory restrictions, write up the Prevailing Principal Amount of the Securities up to a maximum of the Original Principal Amount.	Upon a Return to Financial Health, the Issuer may, at its discretion and subject to regulatory restrictions, write up the Prevailing Principal Amount of the Securities up to a maximum of the Original Principal Amount.	n/a	n/a	n/a	n/a	n/a	n/a	n/a
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Additional Tier 1	The Issuer's obligations under the Securities are unsecured and deeply subordinated, and will rank junior in priority of payment to unsubordinated creditors of the Issuer and to ordinarily subordinated indebtedness of the Issuer.	The Issuer's obligations under the Securities are unsecured and deeply subordinated, and will rank junior in priority of payment to unsubordinated creditors of the Issuer and to ordinarily subordinated indebtedness of the Issuer.	Senior debt	Senior debt	Senior debt	Senior debt	Senior debt	Senior debt	Senior debt
36	Non-compliant transitioned features	No	No	No	No	No	No	No	No	No	No
37	If yes, specify non-compliant features	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

(1) 'n/a' inserted if the question is not applicable

Table 110 - Capital instruments' main features template

Annex III

Transitional own funds disclosure template

Disclosure according to Article 5 in Commission implementing regulation (EU) No 1423/2013

Common Equity Tier-1 capital: instruments and reserves (1)		(A) amount at disclosure date	(B) regulation (eu) no 575/2013 article reference
1	Capital instruments and the related share premium accounts	6 973 183 531	26 (1), 27, 28, 29
	of which: Instrument type 1	n/a	EBA list 26 (3)
	of which: Instrument type 2	n/a	EBA list 26 (3)
	of which: Instrument type 3	n/a	EBA list 26 (3)
2	Retained earnings	11 910 045 086	26 (1) (c)
3	Accumulated other comprehensive income (and any other reserves)	-1 325 020 288	26 (1)
3a	Funds for general banking risk	n/a	26 (1) (f)
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	n/a	486 (2)
5	Minority interests (amount allowed in consolidated CET1)	0	84
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	935 739 039	26 (2)
6	**Common Equity Tier-1 (CET1) capital before regulatory adjustments**	**18 493 947 368**	**Sum of rows 1 to 5a**
Common Equity Tier-1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	-24 751 864	34, 105
8	Intangible assets (net of related tax liability) (negative amount)	-1 301 416 137	36 (1) (b), 37
9	Transitional adjustment related to IFRS9	492 990 827	473a
10	Deferred tax assets that rely on future profitability excluding those arising from temporary difference (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	-373 014 715	36 (1) (c), 38
11	Fair value reserves related to gains or losses on cashflow hedges	1 293 955 414	33 (1) (a)
12	Negative amounts resulting from the calculation of expected loss amounts	0	36 (1) (d), 40, 159
13	Any increase in equity that results from securitised assets (negative amount)	n/a	32 (1)
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-13 095 620	33 (1) (b)
15	Defined-benefit pension fund assets (negative amount)	n/a	36 (1) (e), 41
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	-58 072 734	36 (1) (f), 42
17	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	n/a	36 (1) (g), 44
18	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	n/a	36 (1) (h), 43, 45, 46, 49 (2) (3), 79
19	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	n/a	36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79
20	Deduction re. non-performing exposures (-)	-11 308 424	3

20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	n/a	36 (1) (k)
20b	of which: qualifying holdings outside the financial sector (negative amount)	n/a	36 (1) (k) (i), 89 to 91
20c	of which: securitisation positions (negative amount)	n/a	36 (1) (k) (ii) 243 (1) (b) 244 (1) (b) 258
20d	of which: free deliveries (negative amount)	n/a	36 (1) (k) (iii), 379 (3)
21	Deferred tax assets arising from temporary difference (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	n/a	36 (1) (c), 38, 48 (1) (a)
22	Amount exceeding the 15% threshold (negative amount)	n/a	48 (1)
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	n/a	36 (1) (i), 48 (1) (b)
24	Deduction re. Irrevocable payment commitments (-)	-57 861 992	
25	of which: deferred tax assets arising from temporary difference	n/a	36 (1) (c), 38, 48 (1) (a)
25a	Losses for the current financial year (negative amount)	n/a	36 (1) (a)
25b	Foreseeable tax charges relating to CET1 items (negative amount)	n/a	36 (1) (l)
27	Qualifying AT1 deductions that exceeds the AT1 capital of the institution (negative amount)	n/a	36 (1) (j)
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**-52 575 246**	**Sum of rows 7 to 20a, 21, 22 and 25a to 27**
29	**Common Equity Tier-1 (CET1) capital**	**18 441 372 122**	**Row 6 minus row 28**
Additional Tier-1 (AT1) capital: instruments			
30	Capital instruments and the related share premium accounts	1 499 999 925	51, 52
31	of which: classified as equity under applicable accounting standards	1 499 999 925	
32	of which: classified as liabilities under applicable accounting standards	n/a	
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1	n/a	486 (3)
34	Qualifying Tier-1 capital included in consolidated AT1 capital (including minority interest not included in row 5) issued by subsidiaries and held by third parties	n/a	85, 86
35	of which: instruments issued by subsidiaries subject to phase-out	n/a	486 (3)
36	**Additional Tier-1 (AT1) capital before regulatory adjustments**	**1 499 999 925**	
Additional Tier-1 (AT1) capital: regulatory adjustments			
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	n/a	52 (1) (b), 56 (a), 57
38	Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	n/a	56 (b), 58
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	n/a	56 (c), 59, 60, 79
40	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	n/a	56 (d), 59, 79

41	Empty set in EU	n/a	
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	n/a	56 (e)
43	**Total regulatory adjustments to Additional Tier-1 (AT1) capital**	**0**	**Sum of rows 37 to 42**
44	**Additional Tier-1 (AT1) capital**	**1 499 999 925**	**Row 36 minus row 43**
45	**Tier-1 capital (T1 = CET1 + AT1)**	**19 941 372 047**	**Sum of row 29 and row 44**
Tier-2 (T2) capital: instruments and provisions			
46	Capital instruments and the related share premium accounts	1 678 250 486	62, 63
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	n/a	486 (4)
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interest and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third party	73 172 827	87, 88
49	of which: instruments issued by subsidiaries subject to phase-out	n/a	486 (4)
50	Credit risk adjustments	426 797 126	62 (c) & (d)
51	**Tier-2 (T2) capital before regulatory adjustment**	**2 178 220 440**	
Tier-2 (T2) capital: regulatory adjustments			
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	n/a	63 (b) (i), 66 (a), 67
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institutions designed to inflate artificially the own funds of the institution (negative amount)	n/a	66 (b), 68
54	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10 % threshold and net of eligible short positions) (negative amount)	n/a	66 (c), 69, 70, 79
55	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amounts)	n/a	66 (d), 69, 79
56	Transitional adjustment related to IFRS9	-264 041 643	473a
57	**Total regulatory adjustments to Tier-2 (T2) capital**	**-264 041 643**	**Sum of rows 52 to 56**
58	**Tier-2 (T2) capital**	**1 914 178 797**	**Row 51 minus row 57**
59	**Total capital (TC = T1 + T2)**	**21 855 550 844**	**Sum of row 45 and row 58**
60	**Total risk-weighted assets**	**101 843 149 399**	
Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	18.11%	92 (2) (a)
62	Tier 1 (as a percentage of total risk exposure amount)	19.58%	92 (2) (b)
63	Total capital (as a percentage of total risk exposure amount)	21.46%	92 (2) (c)
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount)	8.67%	CRD 128, 129, 140
65	of which: capital conservation buffer requirement	2.50%	
66	of which: countercyclical buffer requirement	0.17%	
67	of which: systemic risk buffer requirement	0.00%	

67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	1.50%	CRD 131
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	11.71%	CRD 128
69	[non-relevant in EU regulation]		
70	[non-relevant in EU regulation]		
71	[non-relevant in EU regulation]		
Amounts below the thresholds for deduction (before risk weighting)			
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions	75 711 360	36 (1) (h), 45, 46, 56 (c), 59, 60, 66 (c), 69, 70
73	Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions	123 651	36 (1) (i), 45, 48, 470, 472 (11)
74	Empty set in the EU		
75	Deferred tax assets arising from temporary difference (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	668 127 515	36 (1) (c), 38, 48
Applicable caps on the inclusion of provisions in Tier 2			
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	n/a	62
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	n/a	62
78	Credit risk adjustments included in T2 in respect of exposures subject to internal rating-based approach (prior to the application of the cap)	737 499 130	62
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	426 797 126	62
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)			
80	- Current cap on CET1 instruments subject to phase-out arrangements	n/a	484 (3), 486 (2) & (5)
81	- Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	n/a	484 (3), 486 (2) & (5)
82	- Current cap on AT1 instruments subject to phase-out arrangements	n/a	484 (4), 486 (3) & (5)
83	- Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	n/a	484 (4), 486 (3) & (5)
84	- Current cap on T2 instruments subject to phase-out arrangements	n/a	484 (5), 486 (4) & (5)
85	- Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	n/a	484 (5), 486 (4) & (5)

(1) 'N/A' inserted if the question is not applicable

Table 111 - Transitional own funds disclosure template

Annex IV

CET 1 requirement

Capital targets KBC Group		27-03-2020 (*)	31-12-2020
Pillar 1 minimum requirement (P1 min)	CET1	4.50%	4.50%
	AT1	1.50%	1.50%
	T2	2.00%	2.00%
Pillar 2 requirement (P2R)	CET1	1.75%	1.75%
	AT1		
	T2		
Total SREP Capital Requirement (TSCR) = LOWER BOUNDARY	CET1	6.25%	6.25%
	Tier 1	7.75%	7.75%
	Total capital	9.75%	9.75%
Combined Buffer Requirement (CBR)			
Conservation buffer	CET1	2.50%	2.50%
Systemic risk buffer	CET1	0.00%	0.00%
O-SII buffer	CET1	1.50%	1.50%
Countercyclical buffer	CET1	0.30%	0.20%
Overall Capital Requirement (OCR) = MDA threshold	CET1	10.55%	10.45%
	Tier 1	12.05%	11.95%
	Total capital	14.05%	13.95%
Pillar 2 Guidance (P2G)	CET1	1.00%	1.00%
OCR+ P2G	CET1	11.55%	11.45%
	Tier 1	13.05%	12.95%
	Total capital	15.05%	14.95%
Entity-specific buffer	CET1	2.45% - 4.15%	3.05% - 4.05%
Management target = UPPER BOUNDARY	CET1	14.0% - 15.7%	14.5% - 15.5%
	Tier 1	15.5% - 17.2%	16.0% - 17.0%
	Total capital	17.5% - 19.2%	18.0% - 19.0%

(*) Situation as reported in previous Pillar 3 Risk Report, including changes in 1Q20 following the coronavirus pandemic.

Table 112 - CET 1 requirement

Annex V

Explanations of differences between accounting and regulatory exposures amounts

EU LIA: Explanations of differences between accounting and regulatory exposures amounts
The general rule under CRR/CRD IV for insurance participations is that an insurance participation is deducted from common equity at group level, unless the competent authority grants permission to apply a risk weighting instead (Danish compromise). KBC received such permission from the supervisory authority and hence reports its solvency on the basis of a 370% risk weighting being applied to the holdings of own fund instruments of the insurance company. As of 28 December 2020, the revised CRR requires to risk weight the equity method value, unless the competent authority allows the institution to apply a different method. KBC Group has received ECB approval to continue to risk weight the historical carrying value (= 2 469 million euros), after having deconsolidated KBC Insurance from the group figures. For the KBC group, this implies that the carrying values, which are presented based on the scope of regulatory consolidation, are treated in the same way as under the CRR/CRV, whereby KBC Insurance is deconsolidated from the group figures.

Table 113 - EU LIA_Explanations of differences between accounting and regulatory exposures amounts

Annex VI

EU INS1_Non-deducted participations in insurance undertakings

EU INS1 – Non-deducted participations in insurance undertakings	Value (EUR)
Holdings of own funds instruments of a financial sector entity where the institution has a significant investment not deducted from own funds (before risk weighting)	2 468 507 504
Total RWAs	9 133 477 765

Table 114 - EU INS1_Non-deducted participations in insurance undertakings

Annex VII

EU LI1_Differences between accounting and regulatory scopes of consolidation

EU LI1: Differences between accounting and regulatory scopes of consolidation (in millions of EUR)	31-12-2020 a) Carrying values as reported in published financial statements	31-12-2020 b) Carrying values under scope of regulatory consolidation
Cash, cash balances at central banks and other demand deposits from credit institutions	24 583	24 538
Financial assets	286 386	252 181
Amortised cost	243 527	236 970
Fair value through OCI	18 451	5 903
Fair value through profit or loss	24 248	9 147
Of which held for trading	8 695	8 733
Hedging derivatives	160	160
Reinsurers' share in technical provisions, insurance	145	
Fair value adjustments of hedged items in portfolio hedge of interest rate risk	1 360	1 360
Tax assets	1 624	1 587
Non-current assets held for sale and assets associated with disposal groups	19	19
Investments in associated companies and joint ventures	24	2 493
Property, equipment and investment property	3 691	3 395
Goodwill and other intangible assets	1 551	1 398
Other assets	1 361	787
Total Assets	320 743	287 757
Financial liabilities	276 781	265 052
Amortised cost	254 053	255 042
Fair value through profit or loss	21 409	8 691
Of which held for trading	7 157	7 163
Hedging derivatives	1 319	1 319
Technical provisions, before reinsurance	18 718	
Fair value adjustments of hedged items in portfolio hedge of interest rate risk	99	99
Tax liabilities	498	92
Liabilities associated with disposal groups	0	0
Provisions for risks and charges	209	206
Other liabilities	2 908	2 120
Total Liabilities	299 214	267 569
Parent shareholders' equity	20 030	18 688
Additional Tier-1 instruments included in equity	1 500	1 500
Minority interests	0	0
Total Equity	21 530	20 188
Total Liabilities and Equity	320 743	287 757

Table 115 - EU LI1_Differences between accounting and regulatory scopes of consolidation

Annex VIII

EU LI3_Outline of the differences in the scope of consolidation (entity by entity)

EU LI3_Outline of the differences in the scope of consolidation (entity by entity) 31-12-2020	a	b	c	d	e	f
	Method of accounting consolidation	Method of regulatory consolidation				Description of the entity
Name of the entity		Full consolidation	Equity method	Neither consolidated nor deducted	Deducted	
KBC Bank NV	Full consolidation	x				credit institution
Almafin Real Estate NV	Full consolidation	x				real estate
Almafin Real Estate Services NV	Full consolidation	x				real estate
Apicinq NV	Full consolidation	x				real estate
Immo Arenberg NV	Full consolidation	x				real estate
Bel Rom Sapte-S.R.L.	Full consolidation	x				renting of own or leased retail property
CBC BANQUE SA	Full consolidation	x				credit institution
Československá Obchodná Banka a.s.	Full consolidation	x				credit institution
ČSOB Leasing a.s.	Full consolidation	x				leasing
ČSOB Leasing Poist'ovaci Maklér s.r.o.	Full consolidation	x				supporting leasing services
ČSOB Real, s.r.o.	Full consolidation	x				facilities support services
ČSOB Stavebná Sporitel'na a.s.	Full consolidation	x				building savings and loans
Československá Obchodní Banka a.s.	Full consolidation	x				credit institution
Bankovní Informační Technologie s.r.o.	Full consolidation	x				automatic data processing
Českomoravská Stavební Spořitelna (ČMSS)	Full consolidation	x				credit institution
ČSOB Advisory a.s.	Full consolidation	x				investment administration
ČSOB Factoring a.s.	Full consolidation	x				factoring
ČSOB Leasing a.s.	Full consolidation	x				leasing
ČSOB Pojišťovací Makléř, s.r.o.	Full consolidation	x				supporting leasing services
ČSOB Penzijní společnost a.s.	Full consolidation	x				pension insurance fund
Hypoteční Banka a.s.	Full consolidation	x				credit institution - mortgage loans

Patria Finance a.s.	Full consolidation	x				securities trading via internet
Patria Corporate Finance a.s.	Full consolidation	x				agency and consulting services
Radlice Rozvojová a.s.	Full consolidation	x				real estate
Ušetřeno.cz s.r.o.	Full consolidation	x				portal for price comparison
Ušetřeno.cz Finanční služby, a.s.	Full consolidation	x				portal for price comparison
C Plus SAS	Full consolidation	x				development residential building projects
TBI SAS	Full consolidation	x				building of residential property
Hello Shopping Park S.R.L.	Full consolidation	x				renting of own or leased retail property
Julienne Holdings S.à.r.l.	Full consolidation	x				holding
Julie LH BV	Full consolidation	x				real estate
KBC Asset Management NV	Full consolidation	x				asset management
ČSOB Asset Management, a.s., Investiční Společnost	Full consolidation	x				asset management
KBC Asset Management SA	Full consolidation	x				asset management
KBC Fund Management Limited	Full consolidation	x				asset management
KBC Asset Management Participations	Full consolidation	x				asset management
KBC Autolease NV	Full consolidation	x				leasing
KBC Lease (Luxembourg) SA	Full consolidation	x				leasing
KBC Bail Immobilier France sas	Full consolidation	x				leasing
KBC Bank Ireland Plc	Full consolidation	x				credit institution
Danube Holdings Limited	Full consolidation	x				real estate
Glare Nominee Limited	Full consolidation	x				non-active
IIB Finance DAC	Full consolidation	x				commercial and financial loans
IIB Homeloans and Finance Limited	Full consolidation	x				holding
Premier Homeloans Limited	Full consolidation	x				home loans
KBC ACS Limited	Full consolidation	x				non-active
KBC Mortgage Finance	Full consolidation	x				mortgage finance
KBC Nominees Limited	Full consolidation	x				non-active
Intercontinental Finance	Full consolidation	x				leasing
Linkway Developments Limited	Full consolidation	x				non-active
Monastersky Limited	Full consolidation	x				holding
Needwood Properties Limited	Full consolidation	x				real estate
Phoenix Funding 2 DAC	Full consolidation	x				securitisation vehicle

Phoenix Funding 3 DAC	Full consolidation	x				securitisation vehicle
Phoenix Funding 4 DAC	Full consolidation	x				securitisation vehicle
Phoenix Funding 5 DAC	Full consolidation	x				securitisation vehicle
Phoenix Funding 6 DAC	Full consolidation	x				securitisation vehicle
KBC Commercial Finance NV	Full consolidation	x				factoring
KBC Credit Investments NV	Full consolidation	x				investment portfolio bonds
KBC IFIMA SA	Full consolidation	x				financing
KBC Immolease NV	Full consolidation	x				leasing
KBC Investments Limited	Full consolidation	x				stock exchange brokers
KBC Lease Belgium NV	Full consolidation	x				leasing
KBC Real Estate Luxembourg SA	Full consolidation	x				real estate
KBC Vastgoedinvesteringen NV	Full consolidation	x				real estate
KBC Vastgoedportefeuille België NV	Full consolidation	x				real estate
KBC Securities NV	Full consolidation	x				stock exchange brokers
K&H Bank Zrt.	Full consolidation	x				credit institution
K&H Autópark Bérleti és Szolgáltató Kft	Full consolidation	x				fleet management
K&H Befektetési Alapkezelő Zrt.	Full consolidation	x				security broking and fund management
K&H Csoportszolgáltató Központ Kft.	Full consolidation	x				accounting and tax collector activity
K&H Equities Tanácsadó Zrt.	Full consolidation	x				business and management consultancy
K&H Értékpapír Zártkörűen Működő Részvénytársaság Zrt.	Full consolidation	x				stockbroker
K&H Faktor Pénzügyi Szolgáltató Zrt.	Full consolidation	x				factoring
K&H Ingatlanlizing Zrt	Full consolidation	x				leasing
K&H Jelzálogbank Zrt.	Full consolidation	x				other credit granting services
Loan Invest NV "Institutionele VBS naar Belgisch recht"	Full consolidation	x				securitisation company
Midas Life Settlements LLC	Full consolidation	x				life settlement provider
OTP Banka Slovensko, a.s.	Full consolidation	x				credit institution
Poelaert Invest NV	Full consolidation	x				real estate
Reverse Mortgage Loan Trust 2008-1	Full consolidation	x				reverse mortgages
UBB Interlease EAD	Full consolidation	x				leasing
United Bulgarian Bank AD	Full consolidation	x				credit institution
East Golf Properties EAD	Full consolidation	x				real estate
UBB Center Management EOOD	Full consolidation	x				real estate

UBB Insurance Broker AD	Full consolidation	x				insurance agents and brokers
UBB Factoring EOOD	Full consolidation	x				factoring
Almaloisir & Immobilier sas	Not consolidated (full consolidation)			x		immaterial - real estate
Brussels North Distribution NV	Not consolidated (full consolidation)			x		immaterial - real estate
ČSOB Advisory, s.r.o.	Not consolidated (full consolidation)			x		immaterial - strategic advice for companies
ČSOB Nadácia	Not consolidated (full consolidation)			x		immaterial - real estate
Eurincasso s.r.o.	Not consolidated (full consolidation)			x		immaterial - debt collection
EveryoneINVESTED BV	Not consolidated (full consolidation)			x		immaterial - supporting asset management services
Francilia Immobilier SARL	Not consolidated (full consolidation)			x		immaterial - real estate
Immo-Antares NV	Not consolidated (full consolidation)			x		immaterial - issuance of real estate certificates
Immo-Basilix NV	Not consolidated (full consolidation)			x		immaterial - issuance of real estate certificates
Immo-Beaulieu NV	Not consolidated (full consolidation)			x		immaterial - issuance of real estate certificates
Immobilière Distri-Land NV	Not consolidated (full consolidation)			x		immaterial - issuance of real estate certificates
Immo Genk-Zuid NV	Not consolidated (full consolidation)			x		immaterial - issuance of real estate certificates
Immolease-Trust NV	Not consolidated (full consolidation)			x		immaterial - real estate
Immo Mechelen City Center NV	Not consolidated (full consolidation)			x		immaterial - real estate investment-office
Immo NamOtt NV	Not consolidated (full consolidation)			x		immaterial - issuance of real estate certificates
Immo NamOtt Tréfonds NV	Not consolidated (full consolidation)			x		immaterial - issuance of real estate certificates
Immo-Quinto NV	Not consolidated (full consolidation)			x		immaterial - real estate
Immo Retail Libramont BV	Not consolidated (full consolidation)			x		immaterial - issuance of real estate certificates
Vanhee Construction Invest BVBA	Not consolidated (full consolidation)			x		immaterial - real estate
Immo-Zénobe Gramme NV	Not consolidated (full consolidation)			x		immaterial - issuance of real estate certificates
Juliette FH BV	Not consolidated (full consolidation)			x		immaterial - real estate
K&H Pénzforgalmi Szolgáltató Korlátolt Felelősségű Társaság	Not consolidated (full consolidation)			x		immaterial - payment services
KB-Consult NV	Not consolidated (full consolidation)			x		immaterial - non-active
KBC Financial Products (Cayman Islands) Limited "Cayman I"	Not consolidated (full consolidation)			x		immaterial - stockbroker
KBC Net Lease Investments LLC	Not consolidated (full consolidation)			x		immaterial - leasing
KBC Securities USA LLC	Not consolidated (full consolidation)			x		immaterial - stockbroker

KBC Focus Fund NV	Not consolidated (full consolidation)			x		immaterial - investment fund
Luxembourg North Distribution SA	Not consolidated (full consolidation)			x		immaterial - issuance of real estate certificates
Motokov a.s.	Not consolidated (full consolidation)			x		immaterial - non-active
Patria investiční společnost, a.s.	Not consolidated (full consolidation)			x		immaterial - asset management
RHVG DK NV	Not consolidated (full consolidation)			x		immaterial - issuance of real estate certificates
RHVG QT NV	Not consolidated (full consolidation)			x		immaterial - issuance of real estate certificates
RHVG RB NV	Not consolidated (full consolidation)			x		immaterial - issuance of real estate certificates
RHVG SB NV	Not consolidated (full consolidation)			x		immaterial - issuance of real estate certificates
RHVG TB NV	Not consolidated (full consolidation)			x		immaterial - issuance of real estate certificates
Soluz.io NV	Not consolidated (full consolidation)			x		immaterial - support for e-invoicing
SPINC SASU	Not consolidated (full consolidation)			x		immaterial - real estate
Start it X NV	Not consolidated (full consolidation)			x		immaterial - support for startups
Top-Pojištění.cz s.r.o.	Not consolidated (full consolidation)			x		immaterial - insurance arranging
Weyveld Vastgoedmaatschappij NV	Not consolidated (full consolidation)			x		immaterial - issuance of real estate certificates
World Alliance Financial LLC	Not consolidated (full consolidation)			x		immaterial - reverse mortgages
Bancontact Payconiq Company NV	Equity method		x			payment services
Bankovní identita, a.s.	Equity method		x			digital financial services
Cash Service Company AD	Equity method		x			cash cycle servicing
Joyn International NV	Equity method		x			digital loyalty card
Joyn Belgium NV	Equity method		x			digital loyalty card
Citie NV	Equity method		x			digital loyalty card
Joyn Urban Services BV	Equity method		x			digital loyalty card
MallPay, s.r.o.	Equity method		x			payment services
Payconiq International S.A.	Equity method		x			payment services
Payconiq Services B.V.	Equity method		x			payment services
Batopin NV	Not consolidated (Equity method)			x		immaterial - exploitation of ATM's
Synch Payments DAC	Not consolidated (Equity method)			x		immaterial - ICT
Isabel NV	Equity method		x			ICT
Aito B.V.	Not consolidated (Equity method)			x		immaterial - ICT
Banking Funding Company NV	Not consolidated (Equity method)			x		immaterial - payment transactions

BRS Microfinance Coop cvba	Not consolidated (Equity method)			x		immaterial - investment fund
Czech Banking Credit Bureau a.s.	Not consolidated (Equity method)			x		immaterial - ICT
ENGIE REN s.r.o.	Not consolidated (Equity method)			x		immaterial - rental services
Gasco Group NV	Not consolidated (Equity method)			x		immaterial - wholesale of industrial chemical products
Gemma Frisius-Fonds K.U. Leuven	Not consolidated (Equity method)			x		immaterial - venture capital
Go Connect BV	Not consolidated (Equity method)			x		immaterial - payment services
Justinvest NV	Not consolidated (Equity method)			x		immaterial - real estate
První Certifikačni Autorita a.s.	Not consolidated (Equity method)			x		immaterial - certification services
Rabot Invest NV	Not consolidated (Equity method)			x		immaterial - real estate
Sympl NV	Not consolidated (Equity method)			x		immaterial - recruiting
KBC Verzekeringen NV	Full consolidation				x	insurance company
ADD NV	Full consolidation				x	insurance broker
KBC Group Re SA	Full consolidation				x	reinsurance company
ČSOB Pojišt'ovna a.s.	Full consolidation				x	insurance company
ČSOB Poist'ovňa a.s.	Full consolidation				x	insurance company
Double U Building BV	Full consolidation				x	real estate
DZI Life Insurance Jsc	Full consolidation				x	life insurance
DZI - GENERAL INSURANCE JSC	Full consolidation				x	non-life insurance
Groep VAB NV	Full consolidation				x	holding company
VAB NV	Full consolidation				x	roadside assistance
K&H Biztosító Zrt	Full consolidation				x	insurance company
KBC Verzekeringen Vastgoed Nederland I BV	Full consolidation				x	real estate
ČSOB Pojišťovací servis, s. r. o.	Not consolidated (full consolidation)			x		immaterial - insurance broker
Depannage 2000 NV	Not consolidated (full consolidation)			x		immaterial - vehicles
Maatschappij voor Brandherverzekering CV	Not consolidated (full consolidation)			x		immaterial - reinsurance
Olympus Mobility NV	Not consolidated (full consolidation)			x		immaterial - computer programming
Omnia NV	Not consolidated (full consolidation)			x		immaterial - travel agency
Pardubická Rozvojová, a.s.	Not consolidated (full consolidation)			x		immaterial - real estate
Probemo Dubbele Bedieningen NV	Not consolidated (full consolidation)			x		immaterial - driving school
Sportcomplex Aalst NV	Not consolidated (full consolidation)			x		immaterial - real estate
Sportcomplex Heist-op-den-Berg NV	Not consolidated (full consolidation)			x		immaterial - real estate
Traject NV	Not consolidated (full consolidation)			x		immaterial - mobility

VAB Banden Peeters NV	Not consolidated (full consolidation)			x		immaterial - vehicles
Lubaco BV	Not consolidated (full consolidation)			x		immaterial - vehicles
VAB Fleet Services NV	Not consolidated (full consolidation)			x		immaterial - vehicles
VAB Rijschool NV	Not consolidated (full consolidation)			x		immaterial - driving school
24+ NV	Not consolidated (full consolidation)			x		immaterial - customer care centre
Macadam VAB Inspection NV	Not consolidated (Equity method)			x		immaterial - vehicles
AIA-Pool cvba	Not consolidated (Equity method)			x		immaterial - insurance broker
AssurCard NV	Not consolidated (Equity method)			x		immaterial - automated third-party payment system
Optimobil Belgium NV	Not consolidated (Equity method)			x		immaterial - vehicles
KBC Group NV	Full consolidation	x				bank-insurance holding
Experience@work CVBA	Not consolidated (Equity method)			x		immaterial - consultancy

Table 116 - EU LI3_Outline of the differences in the scope of consolidation (entity by entity)

Annex IX

Countercyclical buffers

Geographical distribution of relevant credit exposures												
	General credit exposure		Trading book exposure		Securitisation exposure		Own funds requirements				Own funds requirement weights	Countercyclical capital buffer rate
31-12-2020 (in millions of EUR)	Exposure value for SA	Exposure value for IRB	Sum of long and short position of trading book	Value of trading book exposure for internal models	Exposure value for SA	Exposure value for IRB	Of which: General credit exposures	Of which: Trading book exposures	Of which: Securitisation exposures	Total		
Belgium	1 417	100 716	-	-	-	-	2 631	-	-	2 631	50.17%	0.00%
Czech Republic	475	31 543	-	-	-	-	731	-	-	731	13.95%	0.50%
Ireland	117	10 668	-	-	-	-	292	-	-	292	5.57%	0.00%
Hungary	281	5 935	-	-	-	-	324	-	-	324	6.17%	0.00%
Slovak Republic	2 968	7 708	-	-	-	-	368	-	-	368	7.01%	1.00%
Republic of Bulgaria	4 024	49	-	-	-	-	228	-	-	228	4.34%	0.50%
Luxembourg	181	1 767	-	-	-	-	106	-	-	106	2.02%	0.25%
Hong Kong	0	195	-	-	-	-	5	-	-	5	0.10%	1.00%
Norway	0	1	-	-	-	-	0	-	-	0	0.00%	1.00%
Other countries	495	10 667	-	-	-	291	556	-	4	559	10.67%	0.00%
Total	**9 959**	**169 248**	**-**	**-**	**-**	**291**	**5 241**	**-**	**4**	**5 244**	**100.00%**	**0.17%**

Countercyclical capital buffer is calculated only for the relevant credit exposure classes as defined in Article 140(4) of the Capital Requirement Directive. Exposure classes not included in the calculation are exposures to a) central governments or central banks; b) regional governments or local authorities; c) public sector entities; d) multilateral development banks; e) international organisations; f) institutions.

Table 117 - Geographical distribution of relevant credit exposures

Amount of institution-specific countercyclical capital buffer 31-12-2020 (in millions of EUR)	
Total risk exposure amount	101 843
Institution-specific countercyclical buffer rate	0.17%
Institution-specific countercyclical buffer requirement	171

Table 118 - Amount of institution-specific countercyclical capital buffer

Annex X

Own funds and capital & leverage ratios with/without transitional arrangements for IFRS 9

Own funds and capital & leverage ratios with/without transitional arrangements for IFRS 9		a	b	c	d	e
		T	T-1	T-2	T-3	T-4
(in millions of EUR)		31-12-2020	30-09-2020	30-06-2020	31-03-2020	31-12-2020
Available capital (amounts)						
1	Common Equity Tier-1 (CET1) capital	18 441 372 122	16 606 310 919	16 663 764 349		
2	Common Equity Tier-1 (CET1) capital as if IFRS 9 has not been applied	17 948 381 296	16 578 986 270	16 636 439 700	-	-
3	Tier-1 capital	19 941 372 047	18 106 310 844	18 163 764 274		
4	Tier-1 capital as if IFRS 9 has not been applied	19 448 381 221	18 078 986 195	18 136 439 625	-	-
5	Total capital	21 855 550 844	19 876 127 046	19 944 998 246		
6	Total capital as if IFRS 9 has not been applied	21 626 601 660	19 848 802 397	19 917 673 597	-	-
Risk exposure amount						
7	Total risk-weighted assets	101 843 149 399	100 190 590 431	100 375 802 399		
8	Total risk-weighted assets as if IFRS 9 has not been applied	102 110 529 708	100 169 256 904	100 354 468 872	-	-
Capital ratios						
9	CET1 (as a % of risk exposure amount)	18.11%	16.57%	16.60%		
10	CET1 (as a % of risk exposure amount) as if IFRS 9 has not been applied	17.58%	16.55%	16.58%	-	-
11	Tier-1 capital (as a % of risk exposure amount)	19.58%	18.07%	18.10%		
12	Tier-1 capital (as a % of risk exposure amount) as if IFRS 9 has not been applied	19.05%	18.05%	18.07%	-	-
13	Total capital (as a % of risk exposure amount)	21.46%	19.84%	19.87%		
14	Total capital (as a % of risk exposure amount) as if IFRS 9 has not been applied	21.18%	19.82%	19.85%	-	-
Leverage ratio						
15	Leverage ratio total exposure measure	303 696 045 453	300 613 913 147	281 789 147 941		
	Leverage ratio total exposure measure as if IFRS 9 has not been applied	303 068 529 474	300 572 682 290	281 747 917 084		
16	Leverage ratio	6.57%	6.02%	6.45%		
17	Leverage ratio as if IFRS 9 has not been applied	6.42%	6.01%	6.44%	-	-

On 22 June 2020, KBC received ECB approval to apply CRR Art. 473a at the level of KBC Group and KBC Bank consolidated as of 30 June 2020.
KBC applies both the static component (CRR Art. 473a paragraph 2) and the dynamic component (CRR. Art. 473a paragraph 4).
When recalculating the risk exposure amount, we assign a risk weight of 100% to exposures under the Standardised approach (CRR Art. 473 paragraph 7a)
The impact of Art. 473a stems mainly from ECL accounted for in 2Q20 and recognised in CET1 under CRR Art. 26(2) in 4Q20.

Annex XI

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Glossary

3 LOD (Three Lines of Defence)

The 3 LOD model ensures the resilience of KBC's risk and control environment and safeguards the sustainability of our business model going forward. In this model, Business acts as the first line of defence, Risk as one of the second lines and Internal Audit as the third line. They all work together in order to prevent big impact losses for the KBC group.

Add-On

Basel-II-defined factor to reflect the potential future increase in exposure stemming from derivatives transactions.

ALM (Asset and Liability Management)

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.

Asset class

A classification of credit exposures according to the Capital Requirements Directive – IRB approach. The main classes are Sovereigns, Institutions, Corporates, SME Corporates and Retail. Classification depends on the type of obligor, the total annual sales of the obligor, the type of product and the exposure value.

Banking book

KBC's banking book is defined as all positions in the KBC Bank group that are not in the trading book.

A trading book consists of positions in financial instruments and commodities held either with trading intent or in order to hedge other elements of the trading book. To be eligible for trading book capital treatment, financial instruments must either be free of any covenants restricting their tradability or be able to be hedged completely. In addition, positions should be frequently and accurately valued, and the portfolio actively managed.

Basel III

Basel III is a global regulatory standard on bank capital adequacy, stress testing and market liquidity risk agreed upon by the members of the Basel Committee on Banking Supervision in 2010. Basel III was developed in response to the deficiencies in financial regulation revealed by the late-2000s financial crisis.

BPV (Basis Point Value)

The measure that reflects the change in the net present value of interest rate positions, due to an upward parallel shift of 10 basis points (i.e. 0.10%) in the zero coupon curve.

Business risk

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

CAD ratio

Total eligible capital / Risk-weighted assets (the result must be at least 8% according to the Basel regulations).

Counterparty risk

The risk related to the non-payment or non-performance by a counterparty in a professional transaction (excluding money market placements – which can be considered as borrower risk), due to that party's insolvency or lack of willingness to pay or perform.

CRD (Capital Requirements Directive)

European-Union-specific interpretation of the general Basel II regulations. The CRD is in turn transposed into the national legislation and regulations of the EU Member States.

Credit risk

The risk related to non-payment or non-performance by a contractual 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 or lack of willingness to pay or perform, or to events or measures taken by the political or monetary authorities of a particular country (the latter is also referred to as country risk).

Cure rate

Rate of clients who default and revert subsequently to 'non-defaulted' status.

Default

A client/facility is considered to be in default if – and only if – one or more of the following conditions are fulfilled: the client/facility is 'unlikely to pay' and/or the client/facility is '>90 dpd default', and/or the client/ facility is 'irrecoverable'.

KBC's definition of default builds on the definition set out in the Basel II Capital Requirements Regulation (CRR). Based on the EBA paper on Forbearance and Non-performing exposures, KBC's definition of default is also fully aligned with the EBA's definition of non-performing (PD 10-11-12), i.e. they should be regarded as synonymous. The same holds true for the definition of 'impaired financial instrument' according to International Financial Reporting Standards (IFRS).

Downturn LGD

LGD in an economic downturn. The underlying idea in the Basel regulation is that LGD is correlated to PD and loss rates will be higher in a year with many defaults.

DPF (Discretionary Participation Feature)

Part of the annual profit that is attributed to the policyholders of an insurance contract.

EAD (Exposure At Default)

The amount expected to be outstanding if an obligor defaults. At the time of default, it is equal to the actual amount outstanding, and therefore is no longer an expectation.

EBA (European Banking Authority)

The successor to the CEBS (Committee of European Banking Supervisors).

A committee comprised of high level representatives from the banking supervisory authorities and central banks of the European Union. It gives advice to the European Commission on banking policy issues and promotes co-operation and convergence of supervisory practice across the European Union. The committee also fosters and reviews common implementation and consistent application of Community legislation.

EIOPA (European Insurance and Occupational Pensions Authority)

The successor to the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS), EIOPA is part of the European System of Financial Supervision consisting of three European Supervisory Authorities and the European Systemic Risk Board. It is an independent advisory body to the European Parliament and the Council of the European Union. EIOPA's core responsibilities are to support the stability of the financial system, transparency of markets and financial products, as well as the protection of insurance policyholders, pension scheme members and beneficiaries.

EL (Expected Loss)

The expected value of losses due to default over a specified horizon. EL is typically calculated by multiplying the Probability of Default (a percentage) by the Exposure At Default (an amount) and Loss Given Default (a percentage). It is always considered 'an expectation' due to the 'Probability of Default' factor.

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.

Forbearance measures

Forbearance measures consist of concessions (the loan's terms/conditions are renegotiated) towards a borrower facing, or about to face, financial difficulties. Forbearance measures can be taken only if the borrower and the bank both agree to them. Forbearance measures are applied at facility level.

Forborne loans

Forborne loans are exposures to debt contracts for which forbearance measures have been taken and for which the exit criteria are not fulfilled. The forbearance definitions apply to:

- all KBC group entities exposed to credit risk;
- all types of borrowers (individuals, SMEs, corporates, banks, authorities, etc.), including the natural and legal entities in the debtor's group that are included in the accounting scope of consolidation;
- the following types of loans/facilities: all debt instruments (loans and advances and debt securities) and off-balance-sheet exposures, apart from held-for-trading exposures. Off-balance-sheet exposures comprise the following revocable and irrevocable items: loan commitments given, financial guarantees given and other commitments given.

They do not apply to:

- full service car lease and derivatives exposure (i.e. non-money market professional transactions).

FSMA (Financial Services and Markets Authority)

The FSMA is the successor to the former Banking, Financial and Insurance Commission (CBFA). It is responsible for supervising the financial markets and listed companies, authorising and supervising certain categories of financial institutions, overseeing compliance by financial intermediaries with codes of conduct and supervising the marketing of investment products to the general public, as well as for the 'social supervision' of supplementary pensions. The Belgian government has also tasked the FSMA with contributing to the financial education of savers and investors.

GMRA (General Master Repurchase Agreement)

Standardised contract used when entering into (reverse) repo-like transactions.

Haircuts

The difference between the market value of a security and its collateral value. Haircuts are taken in order to account for a possible decline in the market value of a collateralising security upon liquidation.

HVaR (Historical Value at Risk)

Historical Value at Risk estimates the maximum amount of money that can be lost on a given portfolio due to adverse market movements over a defined holding period, with a given confidence level and using real historical market performance data.

IBNR (Incurred but not Reported) impairments

IBNR impairments are impairment losses recognised on unimpaired loans and advances, as well as on unimpaired debt securities in a Loans & Receivables book, Available-for-Sale (AFS) book or Held-to-Maturity (HTM) book.

They are estimated on a portfolio basis using a model-based (statistical) method. Loans and advances, as well as debt securities in a Loans & Receivables book, Available-for-Sale (AFS) book or Held-to-Maturity (HTM) book, are grouped together based on a default expectation rating that takes several indicators of impairment into account. IBNR impairments are an estimate of the specific provisions to be booked for a credit event (also known as the 'impairment trigger') that has already occurred, but is still unknown, and will only emerge at a later date.

ICAAP (Internal Capital Adequacy Assessment Process)

The internal process a bank should have in place for assessing its overall capital adequacy in relation to its risk profile, as well as its strategy for maintaining adequate capital levels in the future.

Impairment on financial assets

A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cashflows of the financial asset or group of financial assets that can be reliably estimated. If any such evidence exists, the entity applies the appropriate impairment methodology to the financial asset concerned.

Losses expected as a result of future events, no matter how likely, are not recognised.

Impaired Loans Ratio

This portfolio risk ratio indicates the proportion of impaired loans in the loan portfolio. The numerator is the impaired part of the loan portfolio and the denominator of the loan portfolio. Both the numerator and denominator are measured by gross carrying amount, while the ratio is expressed as a percentage.

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.

IRB (Internal Ratings-Based)

An approach defined in the Capital Requirements Directive to calculate the credit-risk-related capital requirements, where a financial institution uses its own models to perform the calculation. There are two possibilities: the IRB Foundation or the IRB Advanced approach. When applying the IRB Foundation approach, internal estimates of the Probability of Default are used to calculate minimum requirements, while the IRB Advanced method also takes into account the internal estimates of Exposure At Default and Loss Given Default.

ISDA Master Agreements

Standardised contracts developed by the International Swaps and Derivatives Association and used to document bilateral professional transactions. The presence of such contracts also allows professional exposures between the contracting parties to be netted.

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.

LCR (Liquidity Coverage Ratio)

Stock of high-quality liquid assets divided by total net cash outflows over the next 30 calendar days. A result of 100% (or more) indicates that a bank maintains a sufficient stock of 'high-quality liquid assets' to cover net cash outflows for a 30-day period under a stress scenario. The parameters of the stress scenario are defined in the Commission Delegated Regulation (EU) 2015/61 of 10 October 2014. The LCR can also indicate whether a buffer or shortage exists by subtracting the total net cash outflows over the next 30 calendar days from the stock of high-quality liquid assets.

Leverage ratio

The leverage ratio is a new supplementary non-risk-based measure to contain the build-up of leverage (i.e. a backstop as regards the degree to which a bank can leverage its capital base). It is calculated as a percentage of tier-1 capital relative to the total on- and off -balance-sheet exposure (non-risk-weighted).

LGD (Loss Given Default)

The loss a bank expects to experience if an obligor defaults, taking into account the eligible collateral and guarantees provided for the exposure. It can be expressed as an amount or as a percentage of the EAD (Exposure At Default). At the time of default, the loss experienced is a loss of the actual amount outstanding, thus no longer an expectation.

Liquidity risk

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

Market risk

The risk related to changes in the level or in the 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).

Mark-to-Market

The act of assigning a market value to an asset.

MREL

The minimum requirement for own funds and eligible liabilities. It is set on a case-by-case basis by the SRB.

MVA (Market Value Adjustment)

IFRS-inspired adjustments or reserves recognised on positions at fair value. MVAs cover close-out costs, adjustments for less liquid positions or markets, counterparty exposure resulting from OTC derivatives, model-linked valuation adjustments, operation-related costs, as well as transaction-specific adjustments.

NBB (National Bank of Belgium)

One of the tasks of the NBB is financial supervision, which is the instrument for ensuring financial stability, and the second key function of a central bank, alongside monetary stability. Financial supervision covers the:

- prudential supervision of financial institutions from both the micro-prudential and macro-prudential angle, and the prompt detection of systemic risk;
- supervision of information, the functioning of the financial markets and respect for the appropriate code of conduct, together with consumer protection.

NPL exposure

For Non-Performing Loans (NPL) exposure, KBC uses the Impaired Loans Ratio (please refer to this definition).

Netting

An agreed offsetting of positions or obligations by trading partners or participants to an agreement. Netting reduces the number of individual positions or obligations subject to an agreement to a single obligation or position.

NSFR (Net Stable Funding Ratio)

Available stable funding divided by required stable funding, with available stable funding derived from the different parts of the liabilities side of the balance sheet (required funding = assets side). Regulatory defined weightings to describe stability are assigned to the different parts (both assets and liabilities). A ratio of 100% means that the funding situation is stable.

Operational risk

The risk of inadequate or failed internal processes, people and systems or of sudden external events, whether man-made or natural, having a direct impact on our own operations. 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.

OTC (Over The Counter)

An over-the-counter contract is a bilateral contract where two parties agree on how a particular trade or agreement is to be settled in the future. It is usually a direct contract between a bank (or an investment bank) and its clients. It contrasts with exchange trading.

Past due

A financial contract is past due when a counterparty fails to make payment when contractually due.

In factoring, a purchased receivable is past due when the debtor of the invoice fails to make payment on the due date of an undisputed invoice.

PD (Probability of Default)

The probability that an obligor will default within a one-year horizon.

PIT PD (Point-In-Time PD)

PD reflecting the expected default rate in the next year, based on current economic conditions (contrast with Through-the-Cycle PD).

RAPM (Risk-Adjusted Performance Measurement)

The risk-adjusted performance measurement policy defines a set of risk-adjusted performance metrics to be used for (i) allocating capital and (ii) setting variable remuneration.

RAROC

A measure, expressed as a percentage, used to reflect the profitability of transactions and/or financial instruments, account taken of the risk involved in these transactions and/or financial instruments. Generally speaking, it equals the 'expected profits minus the expected losses' divided by the capital invested.

RBA (Ratings-Based Approach)

Basel II approach for calculating the risk-weighted assets applied to securitisation exposures that are externally rated, or where a rating can be inferred.

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.

RMBS (Residential Mortgage-Backed Security)

A type of structured credit product whose underlying assets are residential debt such as mortgages, home-equity loans and subprime mortgages.

RWA (Risk-Weighted Asset)

An exposure weighted according to the 'riskiness' of the asset concerned. 'Riskiness' depends on factors such as the probability of default by the obligor, the amount of collateral or guarantees and the maturity of the exposure.

Solvency II

Solvency II is a project, initiated by the European Commission in 2001, which establishes capital requirements and risk management standards that will apply across the EU and will 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.

SRB (Single Resolution Board)

The Single Resolution Board (SRB), which became operational on 1 January 2015 (fully responsible for resolution on 1 January 2016), is the resolution authority for significant banking groups and for any cross-border banking group established within participating member states. Resolution is the restructuring of a bank by a resolution authority through the use of resolution tools in order to safeguard public interests, including the continuity of the bank's critical functions and financial stability, at minimal costs to taxpayers.

SVaR (Stressed Value At Risk)

Stressed Value At Risk is analogous to the Historical VaR, but it is calculated for the time series of a maximum stressed period in recent history.

(Core) Tier-1 ratio

[tier-1 capital] / [total weighted risks]. The calculation of the core tier-1 ratio does not include hybrid instruments (but does include the core-capital securities sold to the Belgian and Flemish governments).

Technical insurance risk

The risk of loss due to (re)insurance liabilities or of adverse developments in the value of (re)insurance liabilities related to non-life, life and health (re)insurance contracts.

TLTRO (Targeted Longer-Term Refinancing Operation)

The targeted longer-term refinancing operations (TLTROs) are Eurosystem operations that provide financing to credit institutions for periods of up to four years. They offer long-term funding at attractive conditions to banks in order to further ease private sector credit conditions and stimulate bank lending to the real economy. The TLTROs are targeted operations, as the amount that banks can borrow is linked to their loans to non-financial corporations and households. Moreover, in TLTRO II the interest rate to be applied is linked to the participating banks' lending patterns.

Trading book

The trading book consists of positions in financial instruments and commodities held either with trading intent or in order to hedge other elements of the trading book. Positions held for trading intent are those held intentionally for resale in the short term and/or with the intent of benefiting from actual or expected price movements in the short term or to lock in arbitrage profits.

TTC PD (Through-The-Cycle PD)

PD reflecting the one-year expected default rate averaged out over a longer period (contrast with Point-in-Time PD).

VaR (Value At Risk)

The unexpected loss in the fair value (= difference between the expected and worst-case fair value), at a certain confidence level and with a certain time horizon.