2021

Risk Report
KBC Group

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Introduction: Financial highlights in 2021, 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, Bulgaria and Slovakia) 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 2021

Key figures	31-12-21	31-12-20
Net result (in millions of EUR)	2 614	1 440
CET1-ratio (fully loaded)	15.5%	17.6%
LCR	167%	147%
MREL/RWA	27.7%	27.9%

Table 1 - Key figures

Net profit was up by 81% compared to full year 2020, mostly driven by:

- Revenues rising by 5% year-on-year, mainly thanks to higher net fee and commission income (+226 million euros), higher trading and fair value income (+112 million euros) and higher net other income (+47 million euros). Net interest income and the technical insurance result (incl. non-life, life and ceded reinsurance result) remained fairly stable;
- The reference period 2020 included high collective loan loss impairment charges related to the coronavirus crisis (783 million euros) compared to a net release (494 million euros) in full year 2021;
- Partly offset by increasing operating expenses (an increase of 1.5% year-on-year excluding bank taxes, changes in the scope of consolidation and one-offs)

Capital and liquidity remained strong:

- With a common equity tier-1 ratio (Basel III fully loaded based on Danish compromise) of 15.5% at year-end (after the proposed capital distribution), well above the current theoretical minimum capital requirement of 8.31% (as a result of the announced European Central Bank (ECB) and National Bank measures which provided significant temporary relief on the minimum capital requirements). The overall capital requirement was 11.81% (which includes the 2.50% capital conservation buffer as well as the Pillar 2 Guidance of 1%);
- A fully loaded Basel III leverage ratio of 5.4%
- The minimum requirement for own funds and eligible liabilities (MREL) ratio (under the Bank Recovery and Resolution Directive (BRRD2)) amounted to 27.7% expressed as a percentage of Risk-Weighted Assets (RWA) and to 9.9% expressed as a percentage of Leverage Ratio Exposure Amount (LRE). The Single Resolution Board

(SRB) requires KBC Group NV to achieve an MREL ratio of 26.58% of RWA as from 1 January 2024 (with an intermediate target of 25.98% as from 1 January 2022) and of 7.34% of LRE as from 1 January 2022;

- A consistently strong Solvency II ratio of 201% at group level, after the pay-out of the retained full-year 2020 profit as a dividend to KBC Group;
- Continued robust liquidity position at year-end, with Net Stable Funding Ratio (NSFR) at 148% and Liquidity Coverage Ratio (LCR) at 167% (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.

Therefore, strong and future-proof risk management is part of KBC's core strengths. To continue contributing to KBC's resilience, agility and sustainability and, more broadly, to the achievement of KBC's strategic objectives, the risk function is transforming in sync with the rapidly changing business environment and the corporate strategy 'Differently: the Next Level'), is upholding a strong business as usual (BAU) attitude and is putting more focus on risks compromising this strategy, as is described in more detail below.

Risk strategy

The risk function has a clear ambition to support KBC in achieving its strategic objectives, to contribute to its resilience and agility, to provide management and the Supervisory Board with insights supporting risk-conscious decision making and to inform them about the risks KBC is facing. The risk function therefore regularly assesses and updates its strategy and approach.

Since 2017, Risk has worked on becoming more connected (both internally with the business and externally), simplified (in what we do and bring to the business), digital and data-driven (by leveraging automation and new digital opportunities), smart (more forward-looking and taking an integrated point of view) and agile (both in our internal organisation and in our approach to the business).

In line with KBC's corporate strategy, CRO Services stepped up its ambition to become a data-driven, highly digitised function, acting as 'One Team' with Business, with the risk function actively supporting and challenging the business in its transformation. In this respect, the PEARL+ mindset – which stands for Performance, Empowerment, Accountability, Responsiveness and Local Embeddedness – of cooperation, joint development and smart copying is fully embraced.

Transformation is not possible without strong human capital management. In close collaboration with our HR department, the risk function therefore continues to invest in people and take initiatives to attract, engage, motivate and train them to build the workforce of the future.

Upholding a strong BAU attitude and clear governance structure over 2021

In addition to the steps taken to further implement our strategy, the risk function managed to uphold a strong BAU attitude.

This was reflected in high-quality and timely reports to management (at the level of the risk committees, GExCo, RCC and BoD) and to supervisors/regulators. Examples include our internal risk reporting (the Integrated Risk Report and the core reports covering specific risk types), the comprehensive ICAAP/ILAAP/ORSA reports, Pillar III reporting, etc.

The risk function maintained a clear governance structure, which we keep up to date and adapt to the new business environment by means of the yearly update of the Enterprise Risk Management Framework (ERMF) and related standards, the risk-type-specific frameworks and the Risk Governance Charter.

We worked on the implementation of the regulatory changes and supervisory requests concerning the financial sector as a whole. Examples include the continuation of the group-wide programme for dealing with the implementation of Basel IV, the implementation of the new Standardised Approach for Counterparty Credit risk rules, which became applicable in the second quarter of 2021, the progress made towards becoming resolvable by the end of 2023 in line with the SRB expectations, and so on.

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 2021 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 in force since 2016 and applying to insurance entities. KBC follows the Basel III capital requirements in accordance with the current Capital Requirements Regulation, CRR2. The finalisation of the Basel III post-crisis reforms (commonly referred to as Basel IV) will be applied when these have been transposed into CRR3.

Besides this, several new Environmental, Social and Governance (ESG) disclosure obligations have been initiated in the past year (e.g., EU Taxonomy disclosure regulations, EBA Pillar 3 requirements, the Corporate Sustainability Reporting Directive, the Sustainable Finance Disclosure Regulation), which gradually started to take effect in 2021 and will be significantly extended in the coming years.

The 2021 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. For the first time in the full-year Risk Report, the CRR2-related disclosure templates have been integrated according to regulatory requirements. With the introduction of these disclosure templates as from the second quarter of 2021, the regulatory authorities aim to reinforce market discipline by increasing the consistency and comparability of institutions' public disclosures on the one hand and achieving the ultimate data transparency and reconciliation between external reporting, such as the Pillar 3 disclosures, and supervisory reporting based on FINREP and COREP data on the other hand.

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 has 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 or due to the new CRR2 regulatory disclosure requirements for which no comparative figures are available.

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 2021 Risk Report was distributed to the Group Executive Committee, the Risk & Compliance Committee and the Board of Directors 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 2023. However, according to regulatory requirements, a defined number of tables will be made public on a quarterly or semi-annual basis during 2022.

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 2021 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 2021 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 2021 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 2021 Annual Report of KBC Group NV
Credit risk related to KBC Insurance	See the 'How do we manage our risks' section of the 2021 Annual Report of KBC Group NV
Information regarding corporate sustainability, climate change and the information security strategy	See 'Sustainability Report' on the kbc.com website, the 'Our role in society' and 'Focus on climate' sections of the 2021 Annual Report of KBC Group NV and the 'Information security strategy of KBC Group', which can also be found on the kbc.com website

Risk Management & Governance

Important events or trends that – in terms of risk management – marked 2021 were the ongoing uncertainty surrounding the coronavirus crisis (see below and in each section), the increasing importance of climate-related and Environmental, Social and Governance (ESG) risks (see the 'Climate-related and other ESG risks' section), the constant efforts to handle the stream of cyber security threats (see the 'Information risk in non-financial risks' section) and the increased efforts to reach the KBC strategic goals of data transformation (see below). These events have accelerated certain trends and are also reflected in the way we conduct risk management.

At the time this report was being prepared, the invasion of Russia in Ukraine required additional attention at group level and in our home markets in Central and Eastern Europe. KBC has very limited direct exposure to Ukraine and Belarus (less than 10 million euros combined) and only limited direct exposure to Russia of less than 50 million euros, mainly stemming from trade financing. KBC is keeping a very close eye on the related macroeconomic impact (e.g., impact of high gas and oil prices on inflation and economic growth) and on spillover effects to KBC and its clients, both financially and operationally, among other things with high focus on information security threats. Economic and financial sanctions by the West might further impact the European economy. Continuous monitoring and reporting of the situation is in place.

Coronavirus crisis

Although the vaccination campaigns are accelerating throughout the world, the coronavirus crisis continues to cast its shadow over us all. The number of coronavirus infections remains high and keeps putting pressure on the intensive care capacity and the medical sector as a whole.

These uncertainties will continue to have an impact on the worldwide economy and on the challenges we face as a financial institution. At present, the impact on KBC seen from operational and credit risk points of view remains limited:

- From an operational risk perspective, the different waves had no impact on the provision of services to our clients and in ensuring customer service continuity. This is proof of KBC's robust operational resilience.
- The coronavirus pandemic resulted in challenges in the area of ICT and in increasing cyber security threats globally as cyber criminals tried to take advantage of the pandemic. The massive shift to teleworking underlined the importance of a solid ICT infrastructure and layered protection against cyberattacks. Their continued effectiveness was demonstrated in 2021, as there was no significant IT or business continuity impact on KBC.
- With respect to credit risk management, the pandemic situation already allowed for some easing of the initially implemented group-wide restrictive measures and policies (e.g., fewer credit underwriting restrictions on sectors vulnerable to the coronavirus). However, intensified monitoring is still ongoing in all countries, with a focus on different aspects depending on the portfolio and the local regulatory measures taken. If the coronavirus crisis worsens with again more restrictions for specific sectors, measures similar to those in previous waves will be discussed and reinstated if needed, such as payment deferrals to clients in specific sectors and government support measures.

Consequently, although our net result recovered strongly in 2021, and while our capital position and liquidity position remained very solid throughout the crisis, the coronavirus crisis and the related risks may continue to have an impact on the profitability and performance of our group.

Risk innovation, transformation and straight-through processing

With its 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 continuously 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. The goal is to obtain a complete view of the risks for the entire group and individual entities quickly, efficiently and without compromising on quality. Therefore, 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 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 and the business processes to further improve risk management and increase efficiency. A group-wide initiative was launched to explore opportunities with data analytics, machine learning and AI to modernise risk management across the different risk types and to facilitate a shift towards more proactive, continuous and dynamic risk management. This is a multi-year programme for which we are closely collaborating across functions and countries, and with our applied data analytics and IT departments. The project incrementally delivers a transformation into a predominantly data-driven risk function. It allows us to be even more adept at managing emerging risks and accurately anticipating the risks associated with a fast-changing environment.

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. Employees with an active interest are able to train with analytical tools to experiment and find new insights or predictive risk signals in our data. We continue to invest in knowledge sharing of innovation, technology and trends to further reinforce our risk management practices. These efforts are all to ensure that our risk professionals acquire the relevant digital skills to continue providing expert risk advice. All employees are actively encouraged to participate in the KBC entrepreneurial /intrapreneurial track and cross-silo innovation programmes that are organised group-wide. Several successful group-wide innovation projects were originated by risk employees, showing the results of our focus on innovation and transformation culture and related training.

Risk Management

Risk governance

Main elements in our risk governance model:

- The Board of Directors (BoD), assisted by the Risk & Compliance Committee (RCC), which decides on the risk appetite – also defining the risk strategy – each year and supervises the risk exposure in relation to the risk

appetite. It is also responsible for the promotion of a sound and consistent group-wide risk culture, based on a full understanding of the risks the group faces and how they are managed, as well as the group risk appetite.

The number of external mandates held by the members of the BoD can be found on our kbc.com website under the topic 'Leadership' as part of the Corporate Governance section. How the members are recruited, also taking into account the diversity in the composition of the Board, can be found in the 'Corporate governance statement' of the KBC Group NV 2021 Annual Report and under the topic 'Our corporate governance charter' as part of the Corporate Governance section on our kbc.com website.

- The Executive Committee (ExCo) – 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

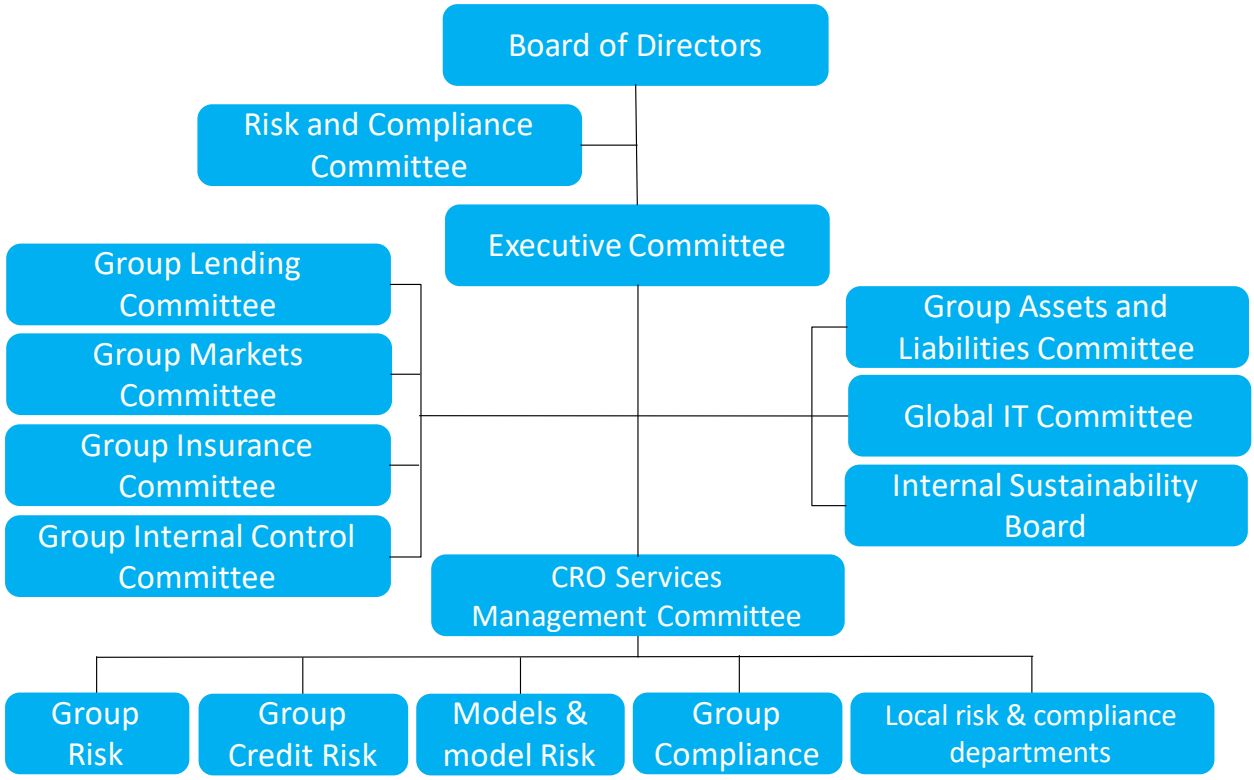

Figure 1 - Schematic overview of the risk governance model

Relevant risk management bodies:

- Risk and Compliance Committee
    - Advises the Board of Directors on the group risk appetite, the supervision of risk exposure compared to the group risk appetite and the supervision of the implementation, efficiency and effectiveness of the KBC Risk Management Framework;
    - Reviews whether the prices of liabilities and assets and of categories of off-balance sheet products offered to clients take fully into account the institution's business model and risk appetite;
    - Examines, without prejudice to the tasks of the Remuneration Committee, whether incentives provided by the remuneration system take into consideration risk, capital, liquidity and the likelihood and timing of earnings;
    - Issues periodic opinions on the quality, capacity and skills of the risk function.
- Executive Committee:
    - Makes proposals to the Board of Directors about risk appetite – including the risk strategy – and the KBC Risk Management Framework;
    - Decides on further cascading of the group's risk appetite through the organisation by allocating capital and defining local targets and limits and by approving limit changes and overruns within their delegation.
    - Monitors the group's major risk exposure to ensure conformity with the risk appetite;
    - 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;
    - Forms, extended with relevant parties, the Group Crisis Committee in group-wide crisis situations.
- 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 eight occasions during 2021;
    - 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 2021;
    - 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 2021.
- Business committees:
    - The Group ALCO handles matters related to ALM and liquidity risk;
    - The Global IT Committee handles matters related to information technology and information security risk;
    - The Internal Sustainability Board handles matters related to Environmental, Social and Governance (ESG) risks.

To inform the Executive Committee and the Board of Directors sufficiently with regard to risk topics, the risk function distributes among other things:

- A yearly report on the Internal Capital Adequacy Assessment Process (ICAAP), the Internal Liquidity Assessment Process (ILAAP) and the Own Risk & Solvency Assessment (ORSA) including information on the quality and capacity of the risk function and its progress in the different strategic focus areas. In combination with the assessment of the internal control system, these documents provide the Executive Committee and the Board of Directors with the necessary information to express an opinion on the effectiveness and efficiency of the risk management processes and the risk function itself throughout the group.
- The Integrated Risk Report, which is provided eight times per year and which includes the main risk signals, being risk developments that have or could have a negative influence on the company. The report also includes the follow-up on the risk measures in comparison to the risk appetite as approved by the Board of Directors.
- Separate memos which bring relevant topics to the attention of the Executive Committee and Board of Directors (e.g., recovery and resolution-related reports, risk-type-specific information like the information security risk report and the half-yearly overview of the New and Active Products Process).

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 assigned 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. Results are presented and discussed at the Risk and Compliance Committee. The 2021 iteration of the exercise concluded that, overall, the risk function has sufficient capacity and the right skills to perform sound risk management. Increasing regulatory requirements and expectations, the race for talent and scarcity on the labour market for specific profiles, partially mitigated by a multi-location strategy, require ongoing attention.

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 (increasingly 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.

Risk culture

Christine Van Rijsseghem, KBC Group CRO

For many years now, KBC has promoted a strong corporate culture underpinned by the fundamental pillars of responsible behaviour and a positive risk culture.

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.

In order to ensure that KBC's values become and remain part of the DNA of all KBC employees, CROs organised awareness campaigns and dilemma workshops throughout the KBC group. Special attention was paid to new staff and staff of companies that were recently integrated into the KBC group. To KBC it is important that employees recognise dilemmas and dare to speak up, so that these dilemmas can be discussed and properly managed, with the ultimate aim of promoting our clients' interests.

KBC has taken significant steps in the digital transformation of its business, both in the company itself and in the way it serves its clients. In order to ensure that the risks associated with this development remain well under control, a dedicated Chief Risk Officer (CRO) of 'Innovation and digital transformation' was appointed. In addition, a dedicated process is in place to assess the risks related to new (increasingly digital) and existing products, with one of the main objectives being to safeguard the fair treatment of our clients. In that respect, new governance and monitoring is set up to approve these new products and services in a faster and more agile way while keeping risks under control.

This innovative landscape also presents security challenges, including for KBC and its clients. By requiring all KBC entities to develop a security strategy with clear targets and metrics, KBC is proactively addressing the potentially negative impact of security incidents, avoiding unnecessary costs and losses and, ultimately, supporting a risk-conscious approach.

The coronavirus pandemic remained a challenge in 2021, but so far KBC's strong risk management has led to the right control actions being taken – in the first place – by Business. As a result, the continuity of our operations and servicing of our clients was always safeguarded, with very limited incidents and losses.

At the same time, the global financial community is increasingly focusing on the fact that Environmental, Social and Governance (ESG) issues associated with clients' business activities can create financial, legal and reputational risks for financial institutions. As such, it is even more important that KBC upholds its standards and values when interacting with its clients. In that respect, KBC further finetuned its 'Credit Risk Standard on Sustainable and Responsible Lending', which aims to limit the adverse impact of KBC's and its clients' activities on the environment and society at large while encouraging sustainable and responsible lending activities. In terms of other social aspects, such as diversity of staff, responsible remuneration and human rights, KBC also has the necessary policies in place to act in line with imposed regulatory requirements as well as with its strong corporate strategy, corporate values and approved risk appetite.

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

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. In addition to possible sources of risk, it also identifies their potential consequences and materiality for KBC. Risk identification ensures that KBC's risk management covers all material risks the company is exposed to. For this purpose, robust processes have been set up that cover risk identification from different perspectives, including the risk scan, the 'New and Active Products Process' (NAPP) and risk signals.

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

The NAPP is a group-wide, highly formalised process to identify and mitigate all risks related to new and existing products and services which may negatively impact the client and/or KBC. Within the group, no products, processes and/or services can be created, purchased, changed or sold without approval in line with NAPP governance. The risk department also conducts periodic assessments of the impact of the expanded and/or updated product and service offering on the group's risk profile. In 2021 the process was improved, which resulted in a more complete risk assessment and a stronger focus on the strategic fit of new products and services. A group-wide workflow tool, which supports the entire process up to and including the monitoring and reporting stage, has been rolled out in all material entities of the group. The additional risk data which are now captured in the tool will enable more data-driven and more frequent monitoring and analysis of the development of the risk profile.

The internal and external environment are scanned on a continuous basis and using all possible sources of information in order to detect events or changes that might or will impact the KBC group, either directly or indirectly. Risk signals are collected at all levels of the organisation (group and local) and provide a summary of the risks identified and the potential impact for KBC and, where possible, propose remedial action. The Group Executive Committee and the Risk & Compliance Committee/Board of Directors receive periodic updates through clear and comprehensive internal risk reporting (including the 'Integrated Risk Report' or IRR) on risk signals considered material, allowing them to take timely action if and as needed.

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, both regulatory and internally defined, used within the group.

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.

KBC's model risk management standards establish 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).

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

Risk appetite is made explicit via the 'risk appetite statement' (RAS), which is decided at both group and local level. The RAS reflects the view of the Board of Directors and top management on risk-taking in general, 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 the corporate strategy and provides a qualitative description of KBC's playing field. In 2021, the objective to embed climate and environmental impacts into KBC's decision-making was explicitly added to that playing field. The high-level risk appetite objectives are further detailed in a set of qualitative and quantitative statements for each of the different risk types. The long-term risk appetite is specified as High, Medium or Low based on the measures and thresholds described 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.

In the graph below, the actual and expected risk-taking in line with the APC forecast ('risk profile') is compared to the approved risk appetite. The overarching risk profile further improved thanks to continued efforts towards decreasing the operational and compliance risk profile, which more than compensated the limited, mostly volume-driven, increase in the credit risk profile. The improvement was also partly driven by the sale of the non-performing loan book of KBC Ireland (completed in 2022), which supported a better capital and credit quality profile. Note that the risk profile for capital has remained comfortably in the 'low' area despite the dividend that was announced in February 2022, to be paid in May subject to approval by the General Assembly..

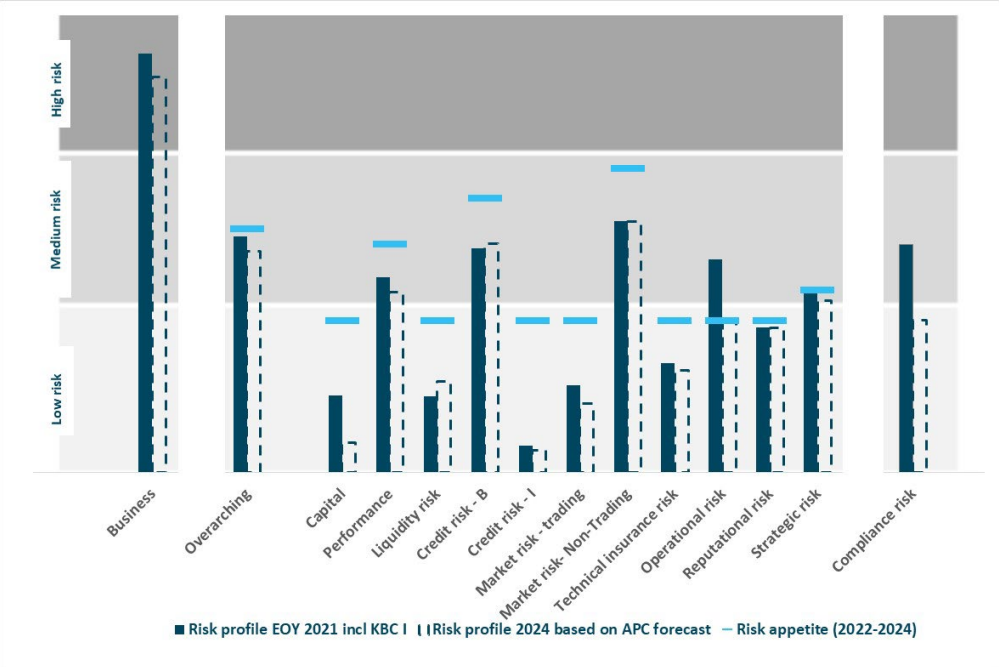

Figure 2 - Schematic overview of risk appetite statement

Risk analysis, reporting and follow-up

Risk analysis and reporting aim to give management transparency on the risk it is taking 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 process that supports the decision-making process and that 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).

CRR/CRD implements the Basel rules in Europe and is updated from time to time. When new requirements are implemented, a transitional period may be allowed during which these rules are gradually phased in. KBC currently makes use of the 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.

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

The general rule under CRR/CRD for insurance participations is that an insurance participation is deducted from common equity at group level, unless the competent authority grants permission to apply a risk weighting instead (Danish compromise). 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 the ECB's approval to continue using 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%.

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 of 2021, the ECB formally notified KBC that the pillar 2 requirement (P2R) would be set at 1.86% (previously 1.75%). The increase of 11 percentage points related to the ECB expectation regarding minimum levels of provision coverage at year-end 2020 for non-performing loans defaulted prior to 1 April 2018 (the so-called 'NPL backstop' or 'calendar provisioning') and took into account the agreement between KBC Ireland and CarVal Investors regarding the disposal of non-performing loans. The pillar 2 guidance (P2G) remained unchanged at 1% CET1 for 2021.

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 0.45%, up from 0.20% in 2020.

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 10.81%, with an additional pillar 2 guidance (P2G) of 1%.

The data above reflect the situation as known on 31 December 2021, without taking into account changes communicated after that date.

KBC aims to be one of the better capitalised financial institutions in Europe. On top of the pay-out ratio of at least 50% of consolidated profit, all capital in excess of a 15% common equity ratio 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.

For the full year 2021, our Board of Directors has decided to propose to the General Meeting of Shareholders of May 2022 a final gross dividend of 7.60 euros per share, bringing the total gross dividend to 10.60 euros per share. This includes a dividend of 2 euros per share related to accounting year 2020 (already paid in November 2021), an ordinary dividend of 4 euros per share related to accounting year 2021 (of which an interim dividend of 1 euro per share was already paid in November 2021 and the remaining 3 euros per share is to be paid in May 2022) and an extraordinary dividend of 4.60 euros per share (to be paid in May 2022). If approved, it will lead to a fully loaded common equity ratio (after capital distribution) of 15.5%, in line with our announced capital deployment plan for the full year 2021. The pay-out ratio (including AT1 coupon) amounts to approximately 66% based on the proposed ordinary dividend of 4 euros per share related to accounting year 2021 and 139% based on the proposed total dividend of 8.60 euros per share (ordinary plus extraordinary dividend).

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	31-12-21 Fully loaded	31-12-21 Transitional	31-12-20 Fully loaded	31-12-20 Transitional
Total regulatory capital, after profit appropriation[1]	**19 445**	**20 732**	**21 627**	**21 856**
Tier-1 capital	**17 724**	**18 997**	**19 448**	**19 941**
Common equity[2,6]	**16 224**	**17 497**	**17 948**	**18 441**
Parent shareholders' equity (after deconsolidating KBC Insurance)	20 049	17 708	18 688	18 688
Intangible fixed assets, incl. deferred tax impact (-)	-539	-539	-568	-568
Goodwill on consolidation, incl. deferred tax impact (-)	-746	-746	-734	-734
Minority interests	0	0	0	0
Hedging reserve, cashflow hedges (-)	1 108	1 108	1 294	1 294
Valuation differences in financial liabilities at fair value – own credit risk (-)	-16	-16	-13	-13
Value adjustment due to requirements for prudent valuation (-)[3]	-28	-28	-25	-25
Dividend pay-out (-)	-3 168	0	-183	-183
Coupon on AT1 instruments (-)	-12	-12	-12	-12
Deduction with regard to financing provided to shareholders (-)	-57	-57	-57	-57
Deduction with regard to irrevocable payment commitments (-)	-72	-72	-58	-58
Deduction with regard to NPL backstops (-)[4]	-68	-68	-11	-11
Other direct, indirect and synthetic holdings by an institution of own CET1 instruments (negative amount)	0	0	0	0
IRB provision shortfall (-)	0	-31	0	0
Deferred tax assets on losses carried forward (-)	-227	-227	-373	-373
Transitional adjustments to CET1	0	477	0	493
Limit on deferred tax assets from timing differences relying on future profitability and significant participations in financial entities (-)	0	0	0	0
Additional going concern capital	**1 500**	**1 500**	**1 500**	**1 500**
Grandfathered innovative hybrid tier-1 instruments	0	0	0	0
Grandfathered non-innovative hybrid tier-1 instruments	0	0	0	0
CRR-compliant AT1 instruments	1 500	1 500	1 500	1 500
Minority interests to be included in additional going concern capital	0	0	0	0
Tier-2 capital	**1 721**	**1 735**	**2 178**	**1 914**
IRB provision excess (+)	224	493	427	427
Transitional adjustments to Tier-2 capital	0	-493	0	-264
Subordinated liabilities issued by KBC Group	1 439	1 678	1 678	1 678
Subordinated liabilities issued by subsidiaries of KBC Group	57	57	73	73
Subordinated loans to non-consolidated financial sector entities (-)	0	0	0	0
Minority interests to be included in tier-2 capital	0	0	0	0
Total weighted risk volume	**104 646**	**104 362**	**102 111**	**101 843**
Banking	95 120	94 836	92 903	92 635
Credit risk	80 971	80 687	78 785	78 518
IRB Advanced approach	67 321	67 321	63 339	63 339
IRB Foundation approach	2 561	2 561	2 681	2 681
Standardised approach	7 378	7 408	7 270	7 313
Counterparty credit risk	3 065	3 065	2 884	2 884
Other assets	646	333	2 612	2 302
Market risk[5]	2 665	2 665	2 716	2 716
Operational risk	11 484	11 484	11 401	11 401
Insurance	9 133	9 133	9 133	9 133
Holding-company activities	396	396	66	66
Elimination of intercompany transactions	-4	-4	9	9
Solvency ratios				
Common equity ratio (or CET1 ratio)	15.5%	16.8%	17.6%	18.1%
Tier-1 ratio	16.9%	18.2%	19.0%	19.6%
Total capital ratio	18.6%	19.9%	21.2%	21.5%

1. The difference between the fully loaded total own funds (19 445 million euros; profit and dividend for 2021 are included) and the transitional own funds (20 732 million euros; profit and dividend for 2021 are not included) as at 31-12-2021 is explained by the net result for 2021 (2 341 million euros under the Danish Compromise method), the proposed final dividend (-3 168 million euros), the impact of the IFRS 9 transitional measures and IRB excess/shortfall (-223 million euros) and the grandfathered tier-2 subordinated debt instruments (-239 million euros).

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

3. CRR ensures that prudent valuation is reflected in the calculation of available capital. This means that the fair value of all assets measured at fair value and impacting the available capital (by means of fair value changes in P&L or equity) need to be brought back to their prudent value. The difference between the fair value and the prudent value (also called the 'additional value adjustment' or AVA) must be deducted from the CET1 ratio.
4. NPL backstops refer to the 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.
5. The multiplier of HVAR and SVAR used for the calculation of market risk is equal to 3.
6. In 2020, KBC made a change in accounting policy for intangible assets. Following the requirements of IAS 8, 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*	31-12-21 Fully loaded	31-12-21 Transitional	31-12-20 Fully loaded	31-12-20 Transitional
Common equity	15 392	16 744	17 282	17 775
Total weighted risk volume	99 603	99 518	97 481	97 214
Common equity ratio	15.5%	16.8%	17.7%	18.3%

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).

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) based on the same relative weights as allowed for meeting the 8% Pillar 1 Requirement. KBC currently does not intend to issue additional tier-1 or tier-2 instruments to meet the P2R; KBC may consider this to avoid or mitigate an MDA breach.

Buffer compared to Overall Capital Requirement (consolidated; under CRR/CRD, Danish compromise method)	31-12-21 Fully loaded	31-12-21 Actual	31-12-20 Fully loaded	31-12-20 Actual
CET1 Pillar 1 minimum	4.50%	4.50%	4.50%	4.50%
Pillar 2 requirement to be satisfied with CET1	1.05%	0.98%	0.98%	0.98%
Capital conservation buffer	2.50%	2.50%	2.50%	2.50%
Buffer for systemically important institutions (O-SII)	1.50%	1.50%	1.50%	1.50%
Entity-specific countercyclical buffer	0.45%	0.17%	0.20%	0.17%
Overall Capital Requirement (OCR) - with P2R split under CRD Art. 104a(4)	**10.00%**	**9.66%**	**9.68%**	**9.65%**
Pillar 2 requirement that can be satisfied with AT1 & T2	0.81%	0.77%	0.77%	0.77%
Overall Capital Requirement (OCR)[1] (A), no P2R split	**10.81%**	**10.42%**	**10.45%**	**10.42%**
CET1 used to satisfy shortfall in AT1 bucket (B)	0.07%	0.06%	0.03%	0.03%
CET1 used to satisfy shortfall in T2 bucket (C)[2]	0.36%	0.34%	-0.13%	0.12%
CET1 requirement for MDA (A+B+C)	**11.23%**	**10.82%**	**10.35%**	**10.57%**
CET1 capital (in millions of EUR)	16 224	17 497	17 948	18 441
CET1 buffer (= buffer compared to MDA) (in millions of EUR)	4 470	6 203	7 382	7 681

1. *A negative figure relates to a surplus above the pillar 1 bucket for these instruments, which is available to partly satisfy the pillar 2 requirement*
2. *The fully loaded T2 capital excludes the T2 instruments grandfathered under CRR2; these T2 instruments are included in the actual (transitional) T2 capital for the period of grandfathering, in line with CRR2 and the COREP 3.0 reporting framework (introduced as from 2Q 2021 reporting).*

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 temporary measures, whether KBC applies the measure and their impact as at 31 December 2021.

CRR quick fix (Regulation EU 2020/873 of 24 June 2020) *In millions of EUR*	Reference to CRR	Applied by KBC (Y/N)	Impact on CET1 capital	Impact on RWA	Impact on CET1 ratio
Filter for FVOCI gains/losses on government exposures	Art. 468	No	-	-	-
IFRS 9 transitional measure (details in Annex IX)	Art. 473a	Yes	477	-284	0.50%
Sovereigns under Standardised Approach	Art. 500a	Yes	0	-474	0.07%
Outliers in Market risk VaR models	Art. 500c	No	-	-	-

CRR quick fix (Regulation EU 2020/873 of 24 June 2020) *In millions of EUR*	Reference to CRR	Applied by KBC (Y/N)	Impact on Tier-1 capital	Impact on LRE	Impact on LRE ratio
Exclusion of central bank exposure in the Leverage ratio (applied as from 3Q 2021)	Art. 500b	Yes	-	-35 014	+0.69%

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 IX.

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*	31-12-21 Fully loaded	31-12-21 Transitional	31-12-20 Fully loaded	31-12-20 Transitional
Common equity	17 861	19 369	18 843	19 336
Total weighted risk volume	120 873	120 589	114 783	114 515
Common equity ratio	14.8%	16.1%	16.4%	16.9%

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 2021, our fully loaded leverage ratio at group level stood at 5.4% (see table below). The year-on-year decrease is mainly due to lower tier-1 capital following the deduction of the 3 euros interim dividend per share in the third quarter of 2021 and 7.60 euros closing dividend per share in the fourth quarter of 2021. Additionally, total assets increased driven by short-term money market and repo opportunities. The higher transitional ratio (in comparison with the fully loaded ratio) reflects the exclusion of Central Bank exposures (CRR Art. 500b; applied as from the end of September 2021 onwards).

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*	31-12-21 Fully loaded	31-12-21 Transitional	31-12-20 Fully loaded	31-12-20 Transitional
Tier-1 capital	17 724	18 997	19 448	19 941
Total exposure	326 792	292 363	303 069	303 696
Total assets	340 346	340 346	320 743	320 743
Deconsolidation of KBC Insurance	-34 026	-34 026	-32 972	-32 972
Transitional adjustment	-	617	-	628
Adjustment for derivatives	-1 656	-1 656	-4 158	-4 158
Adjustment for regulatory corrections in determining tier-1 capital	-1 665	-1 696	-1 825	-1 825
Adjustment for securities financing transaction exposures	1 016	1 016	830	830
Central Bank exposures	-	-35 014	-	-
Off-balance-sheet exposures	22 776	22 776	20 451	20 451
Leverage ratio	5.4%	6.5%	6.4%	6.6%

Table 7 - Leverage ratio at group level

More detailed information with regard to the leverage ratio can be found in Annex XII.

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, based on information received from the banks concerned. 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.

The SRB communicated to KBC MREL targets expressed as a percentage of Risk-Weighted Assets (RWA) and Leverage Ratio Exposure Amount (LRE):

- 22.13% of RWA as from 1 January 2024 with an intermediate target of 21.63% as from 1 January 2022. The Combined Buffer Requirement (CBR) needs to be held on top of this and amounts to 4.35% as from 2022 and 4.45% as from 2023 (Conservation Buffer (2.5%) + O-SII Buffer (1.5%) + Countercyclical Buffer (0.35% for 2022 and 0.45% as from 2023). This brings the MREL+CBR to 25.98% for 2022 and 26.58% for 2024.
- 7.34% of LRE as from 1 January 2022.

At the end of December 2021, the MREL ratio stood at 27.7% as a percentage of RWA (as opposed to 27.9% as at 31 December 2020) and at 9.9% as a percentage of LRE (as opposed to 9.3% as at 31 December 2020). The MREL ratio as a percentage of LRE increased, compared to 31 December 2020, due to the decrease in the Leverage Ratio Exposure (mainly driven by the implementation of the ECB relief measure from September 2021, allowing the exposure to central banks to be temporarily excluded from the Leverage Ratio Exposure).

Besides a total MREL amount, BRRD2 also requires KBC to maintain a certain part of MREL in subordinated format (i.e. instruments subordinated to liabilities, excluded from bail-in). The KBC group's balance sheet contains a limited amount of liabilities, excluded from bail-in, which rank pari passu with MREL eligible liabilities. These excluded liabilities are mainly related to critical shared services (e.g., IT). This jeopardise the eligibility of the HoldCo senior debt to be acknowledged by the SRB as subordinated. To ensure that KBC's HoldCo senior debt is eligible for the subordinated MREL target (i.e. to make sure that no excluded liabilities ranking pari passu with or junior to HoldCo senior debt are present in KBC Group NV), KBC Group NV will be converted to a Clean HoldCo for the purpose of resolution. After implementation of the Clean HoldCo (expected in 2022), KBC's entire MREL stack will be considered subordinated.

The new binding subordinated MREL targets are:

- 15.95% of RWA as from 1 January 2024 with an intermediate target of 13.50% as from 1 January 2022. The Combined Buffer Requirement needs to be held on top of this and amounts to 4.35% as from 2022 and 4.45% as from 2023 (Conservation Buffer (2.5%) + O-SII Buffer (1.5%) + Countercyclical Buffer (0.35% for 2022 and 0.45% as from 2023).
- 7.34% of LRE as from 1 January 2024 with an intermediate target of 6.19% as from 1 January 2022.

At the end of December 2021, the subordinated MREL ratio stood at 20.6% as a percentage of RWA (as opposed to 21.5% as at 31 December 2020) and at 7.35% as a percentage of LRE (as opposed to 7.20% as at 31 December 2020).

MREL *In millions of EUR*	**31-12-21**	**31-12-20**
Own funds and eligible liabilities (transitional)	28 923	28 376
CET1 capital (consolidated, CRR/CRD, Danish compromise method)	17 497	18 441
AT1 instruments (consolidated, CRR/CRD)	1 500	1 500
T2 instruments (consolidated, CRR/CRD)	1 735	1 914
Subordinated liabilities (issued by KBC Group NV but not included in AT1 & T2)	753	2
Senior debt (issued by KBC Group, nominal amount, remaining maturity > 1 year)	7 437	6 519
Risk-Weighted Assets (RWA)	104 362	101 843
MREL as a % of RWA	27.7%	27.9%
Leverage Ratio Exposure Amount (LRE)	292 363	303 696
MREL as a % of LRE	9.9%	9.3%

Table 8 - MREL hybrid view

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*	31-12-21 Fully loaded	31-12-21 Transitional	31-12-20 Fully loaded	31-12-20 Transitional
Total regulatory capital, after profit appropriation	**18 318**	**17 963**	**17 792**	**18 021**
Tier-1 capital	16 415	16 209	15 585	16 078
Of which common equity	14 915	14 709	14 085	14 578
Tier-2 capital	1 903	1 754	2 206	1 942
Total weighted risks	95 120	94 836	92 903	92 635
Common equity ratio	15.7%	15.5%	15.2%	15.7%
Tier-1 ratio	17.3%	17.1%	16.8%	17.4%
Total capital ratio	**19.3%**	**18.9%**	**19.2%**	**19.5%**

Table 9 - Solvency KBC Bank

Solvency, KBC Insurance (incl. volatility adjustment) (Solvency II) *In millions of EUR*	31-12-21	31-12-20
Own funds	4 075	3 868
Tier-1	3 574	3 368
IFRS parent shareholders' equity	3 991	3 815
Dividend pay-out	-525	0
Deduction of intangible assets and goodwill (after tax)	-194	-136
Valuation differences (after tax)	267	-383
Volatility adjustment	43	89
Other	-8	-16
Tier-2	500	500
Subordinated liabilities	500	500
Solvency capital requirement (SCR)	2 029	1 744
Solvency II ratio	201%	222%
Solvency surplus above SCR	2 046	2 124

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, and based on continuous identification of the risks we are exposed to, 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	2021	2020
Credit risk and counterparty risk	54%	56%
Interest rate risk and spread risk (banking book)	13%	13%
Market risk (trading book)	2%	2%
Operational risk	8%	8%
Risk related to the insurance entity	17%	15%
Pension risk	7%	6%
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 before being submitted to the ECB and NBB. In the last two years these reports included an assessment of the impact of the coronavirus crisis on KBC's capital adequacy, both under likely and more adverse assumptions, which confirmed our solid capital position.

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 assists 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.

Additionally, the ECB launched a first climate risk stress test that will take place in 2022. With this supervisory exercise, the ECB aims to compel banks to proactively manage climate risks and to fill the gap of climate-related data. The experience gained from this and future regulatory stress tests (EBA/EIOPA) will also provide significant added value for the further development of our internal integrated climate risk stress testing.

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 Three Lines of Defence 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 major impact losses for the KBC group.

How our business model translates into the credit risk profile is explained in the strategy section of the 2021 Annual Report of KBC Group NV.

Impact of the coronavirus crisis on credit risk

Since the onset of the coronavirus pandemic in March 2020, specific actions to manage ensuing risks have been activated across the group, particularly in relation to credit risk management. As the crisis evolved, these initiatives were adjusted and continued in 2021.

Firstly, supplementary ad hoc credit risk reporting was presented to the Group Executive Committee on a regular basis in 2021. This reporting focused on payment deferrals granted (where applicable, under official moratoria) and their post-expiry repayment performance (e.g., loans going into arrears or receiving extensions or other forbearance treatment). In addition, the changes in credit risk measures such as arrears, non-performing loan formation and average PDs were closely monitored for the various portfolios of the home countries.

At year-end 2021, post-expiry performance data for the moratoria and portfolio development metrics did not reveal a material deterioration in credit risk metrics or other signs of distinct distress among portfolios or activities. This proves the resilience of the portfolio, the effectiveness of the supporting government measures in the different home countries and the adequacy of the payment accommodation granted by the bank. Obviously, such performance data will continue to be monitored as the coronavirus crisis evolves. More information on the moratoria is provided in Note 1.4 of the 'Consolidated financial statements' section.

Secondly, with the coronavirus crisis impacting economic activity unequally and non-traditionally across industrial sectors, further sectoral vulnerability assessments were performed during the year. Accordingly, a differentiated restrictive risk appetite was adopted for specific sectors and sub-sectors considered to be less or more at risk due to the consequences of the pandemic compared to an earlier assessment, with the corresponding impact on sectoral underwriting appetite. Note that the most vulnerable sectors and sub-sectors, including hospitality, entertainment and leisure, retail fashion and aviation, still represent, in total, less than 5% of the industrial portfolio. In general, and considering the aforementioned resilience of the portfolio and effectiveness of government measures, risk appetite guidance and restrictions on new production have become less stringent, with the focus shifting from a total sector or sub-sector approach to individual companies with persistent payment difficulties within such sectors.

Furthermore, a subset of the portfolio has been transferred in full to 'Stage 2' ('significant increase in credit risk') as a result of a possible future impact of the pandemic. It consists of exposures related to corporate and SME clients active in the most vulnerable sectors and clients with ongoing payment holidays in the retail and non-retail segments. Regular reassessment of this collective staging will be conducted going forward.

As a third set of initiatives, we have also evaluated the impact of the economic support and relief measures in place during the coronavirus crisis on the identification of distressed borrowers. As the regular risk signals used for this purpose did not provide relevant information in these specific circumstances, additional actions were taken. Distressed borrowers were identified through a combination of regular reviews and ad hoc portfolio screening, using both data-driven risk signals (e.g., turnover on current account data) and human assessment.

Lastly, also during 2021, we continued to provide estimates of expected credit losses in the existing loan portfolio that cannot be captured by the usual models given that the developments in the macroeconomic variables resulting from the coronavirus scenarios are not included in these models. These estimates (management overlay) are based on a validated stress testing methodology using a stratified sector vulnerability classification and were updated and downscaled over the year to account for portfolio and macroeconomic changes and to reflect progressive insight into the impact of the pandemic towards sector risk and additional default risk. This management overlay constitutes the main financial impact of the coronavirus crisis in the 2021 impairment figures. More information in this regard is provided in Note 1.4 of the 'Consolidated financial statements' section of the 2021 KBC Group Annual Report.

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'.

Since 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 2021, 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.

Basel III implementation at KBC Group

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.

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).

Roll-out of Basel III pillar 1 approach at end of year shown	2020-2021	2019-2020	2017-2018
IRB Advanced Approach*	KBC Bank CBC Banque ČSOB Czech Republic KBC Lease Belgium KBC Commercial Finance KBC Immolease K&H Bank KBC Bank Ireland	KBC Bank CBC Banque ČSOB Czech Republic KBC Credit Investments KBC Lease Belgium KBC Commercial Finance KBC Immolease K&H Bank KBC Bank Ireland	KBC Bank CBC Banque ČSOB Czech Republic KBC Credit Investments KBC Finance Ireland KBC Lease Belgium KBC Commercial Finance KBC Immolease K&H Bank
IRB Foundation approach*	ČSOB Slovak Republic	ČSOB Slovak Republic	KBC Bank Ireland ČSOB Slovak Republic
Standardised approach	UBB KBC Autolease Non-material entities	UBB OTP Banka Slovensko KBC Autolease Non-material entities	CIBank/UBB Non-material entities

** 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 2021. 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.

The Internal Rating Based (IRB) approach is primarily 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 86.5% of which are calculated according to the Advanced approach and roughly 3.5% according to the Foundation approach. The remaining weighted credit risks (about 10%) are calculated according to the Standardised approach.

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

EU OV1 - Overview of total risk exposure amounts

		Total risk exposure amounts (TREA)		Total own funds requirements
In millions of EUR		31-12-21	31-12-20	31-12-21
1	Credit risk (excluding CCR)	87 069	85 012	6 966
2	*Of which the standardised approach*	*7 408*	*7 313*	*593*
3	*Of which the Foundation IRB (F-IRB) approach*	*2 561*	*2 681*	*205*
4	*Of which slotting approach*			
EU 4a	*Of which equities under the simple risk-weighted approach*	*646*	*646*	*52*
5	*Of which the Advanced IRB (A-IRB) approach*	*64 061*	*60 317*	*5 125*
6	Counterparty credit risk - CCR	3 065	2 884	245
7	*Of which the standardised approach*	*965*		*77*
8	*Of which internal model method (IMM)*	*1 056*		*84*
EU 8a	*Of which exposures to a CCP*	*44*		*3*
EU 8b	*Of which credit valuation adjustment - CVA*	*797*	*596*	*64*
9	*Of which other CCR*	*203*		*16*
15	Settlement risk	1	3	0
16	Securitisation exposures in the non-trading book (after the cap)	31	45	2
17	*Of which SEC-IRBA approach*			
18	*Of which SEC-ERBA (including IAA)*		*4*	
19	*Of which SEC-SA approach*	*31*	*42*	*2*
EU 19a	*Of which 1250% / deduction*			
20	Position, foreign exchange and commodities risks (Market risk)	2 694	2 476	216
21	*Of which the standardised approach*	*361*	*355*	*29*
22	*Of which IMA*	*2 333*	*2 122*	*187*
EU 22a	Large exposures			
23	Operational risk	11 502	11 423	920
EU 23a	*Of which basic indicator approach*			
EU 23b	*Of which standardised approach*	*11 502*	*11 423*	*920*
EU 23c	*Of which advanced measurement approach*		*0*	*0*
24	**Amounts below the thresholds for deduction (subject to 250% risk weight)**	**1 635**	**1 670**	**131**
25	*Other non-credit-obligation assets excl. DTA (for information, included in row 5)*	*7 502*	*6 930*	*600*
26	*Participation in KBC Insurance weighted at 370%, according to the Danish compromise (for information, included in row 1 only)*	*9 133*	*9 133*	*731*
27	*Modified risk weights for targeting asset bubbles in residential and commercial property (for information, included in row 1 only)*	*3 260*	*3 022*	*261*
29	**Total**	**104 362**	**101 843**	**8 349**

Table 13 - EU OV1_Overview of RWAs

In 2021, RWA at KBC group level increased by +2.5 billion euros (or +2.5%). The largest change can be attributed to credit risk (other than counterparty credit risk) with an increase of +2 057 million euros. Counterparty credit risk showed an increase of +181 million euros in RWA. Market risk shows an increase of +218 million euros. Lastly, we have a +79 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 (+2 855 million euros) and CBC (+116 million euros), for ČSOB Czech Republic (+876 million euros), for K&H (+477 million euros), and for UBB Bulgaria (+245 million euros). On the other hand, RWAs decreased for KBC Ireland (-2 005 million euros) and ČSOB Slovak Republic (-104 million euros).

The change in RWA in 2021 can be explained mainly by underlying portfolio changes, asset quality changes, internal model changes and the pending sale of the KBC Ireland credit portfolios. Note that the change in 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 amplify 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 +3.2 billion euros, excluding the foreign-exchange impact on the credit portfolio. The increase was material in most segments and entities of the group, despite the coronavirus crisis, except for KBC Ireland where we see a volume decline. The largest RWA increase as a result of volume comes from the corporate and retail mortgage segment.

(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 billion euros, mainly resulting from:

- a +1.2-billion-euro increase due to coronavirus-related model add-ons for mainly retail but also corporate and SME PD models. At most KBC entities, the average PD percentages are better than the model reference, i.e. the long-term expected average PD. This is due to the 'artificial' coronavirus circumstances (moratoria and payment holidays, government support and replacement income, etc.). To compensate for this deviation, model add-ons were taken. It is expected that the trend will reverse and PD percentages will rise again, closing the gap with the model reference. In the meantime, RWA add-ons bring the overall RWAs back to the model expectation range;
- an increase of +400 million euros in RWA following a recalibration of the PD pooling model for Belgian retail;
- in addition, there are multiple RWA adjustments resulting from the normal model review and redesign processes that provided an overall higher RWA in 2021.

(3) The impact of changes in the drivers for asset quality (PD and LGD) was material over the past year with a decline of -2.2 billion euros in RWA.

- Asset quality improvement, pushed by the coronavirus measures (see comment on model changes), resulted in an RWA decrease of around -1.6 billion euros.
- By contrast, the shift of a few important corporate files with bad PDs to a default status caused RWA to decrease by about -400 million euros.
- Finally, in the first half of 2021, before the agreement on the sale of this portfolio (RWA impact described in point 6 below), a decline in the defaulted exposure of the Irish mortgage portfolio caused a decrease in RWA.

(4) The change in credit risk RWA is also attributable to new regulatory requirements or changes in methodology. The overall impact is an increase of +170 million euros. The most important items are set out below:

- An RWA increase of +257 million euros resulting from the implementation of the regulatory multiplier in the PD model for Belgian SMEs.

- The implementation of TRIM multipliers on PDs and LGDs calculated by models for financial institutions, resulting in an RWA increase of +120 million euros.
- An internal sale of the KBC Ireland bond portfolio resulted in a shift from the Foundation to the Advanced approach with a favourable impact on RWA of -127 million euros, due to lower LGDs.
- A decrease of -80 million euros in RWA following the implementation of the Standardised approach at Interlease (a Bulgarian lease company).

(5) Foreign exchange movements resulted in an increase of around +700 million euros, the most material impacts being from appreciation of CZK (+650 million euros) and USD/GBP (+180 million euros) and depreciation of HUF (-100 million euros);

(6) Other events with impact on credit risk RWA had a total impact of -1.5 billion euros. The main items:

- The pending sale of the KBC Ireland default mortgage portfolio resulted in a -1-billion-euro RWA decrease. RWA calculated for this non-performing portfolio dropped to zero as an increase in the provision closed the gap with expected loss.
- RWA for other assets, mainly residual accounting positions, decreased RWA by -460 million euros.
- A decrease of -193 million euros for deferred tax assets, in particular for KBC Bank NV.
- The RWA for counterparty credit risk increased by +181 million euros, mainly linked to the implementation of the new regulatory imposed SA-CCR methodology.

(7) A limited change in market risk RWA of +218 million euros.

(8) A minor RWA change in operational risk of +79 million euros.

Exposure to credit risk

The tables in the credit risk section provide an overview – as described in the EBA guidelines – of the overall credit risk based on the figures for the end of December 2021. The scope is aligned with that of the KBC Group COREP reporting, meaning that all KBC group entities are included. It should be noted, however, that KBC Insurance is reported in the COREP on the basis of the Danish Compromise method and as a result no transactional data of this entity is included in the tables. The product scope is limited to the lending portfolio excluding all derivatives (such as interest rate swaps) and repos; these are dealt with in the 'Counterparty credit risk' 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 of 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.

Disclosure of credit risk quality

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).

Performing and non-performing exposures and related provisions

EU CR1 - Performing and non-performing exposures and related provisions

		Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collateral 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				On performing exposures	On non-performing exposures
At 31 December 2021 (in millions of EUR)			*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 stage 2*	*Of which stage 3*			
005	**Cash balances at central banks and other demand deposits**	**39 457**	***39 425***	***32***												
010	**Loans and advances**	**190 530**	***166 745***	***23 228***	**3 927**		***3 927***	**-612**	***-104***	***-509***	**-1 961**		***-1 961***	**44**	**114 261**	**1 537**
020	Central banks	27 409	*27 409*					0	*0*						24 251	
030	General governments	5 932	*5 517*	*415*	3		*3*	-3	*-1*	*-2*	-2		*-2*		3 034	1
040	Credit institutions	5 544	*5 539*	*4*	14		*14*	-1	*-1*	*0*	-14		*-14*		823	
050	Other financial corporations	4 836	*4 456*	*380*	68		*68*	-11	*-5*	*-6*	-37		*-37*		1 508	21
060	Non-financial corporations	68 078	*52 312*	*15 766*	3 082		*3 082*	-450	*-72*	*-378*	-1 611		*-1 611*	36	29 356	1 146
070	*Of which SMEs*	*33 365*	*25 814*	*7 552*	*1 478*		*1 478*	*-212*	*-51*	*-161*	*-661*		*-661*	*32*	*15 688*	*646*
080	Households	78 731	*71 512*	*6 662*	760		*760*	-148	*-25*	*-123*	-297		*-297*	8	55 290	370
090	**Debt securities**	**44 956**	***44 932***	***8***	**1**		***1***	**-8**	***-5***	***-3***	**-1**		***-1***		**93**	
100	Central banks	131	*131*					0	*0*							
110	General governments	40 122	*40 122*					-4	*-4*							
120	Credit institutions	3 235	*3 235*					-1	*-1*						10	
130	Other financial corporations	925	*910*					0	*0*							
140	Non-financial corporations	543	*533*	*8*	1		*1*	-3	*0*	*-3*	-1		*-1*		83	
150	**Off-balance-sheet exposures**	**54 246**	***47 759***	***6 486***	**197**		***197***	**-40**	***-19***	***-21***	**-91**		***-91***		**11 351**	**50**
160	Central banks															
170	General governments	1 398	*1 332*	*66*				-5	*-3*	*-2*					209	
180	Credit institutions	2 912	*2 867*	*46*				0	*0*	*0*					37	
190	Other financial corporations	5 072	*4 834*	*238*	0		*0*	-1	*-1*	*0*	0		*0*		413	0
200	Non-financial corporations	35 960	*30 186*	*5 774*	190		*190*	-30	*-13*	*-17*	-90		*-90*		8 877	48
210	Households	8 903	*8 540*	*362*	7		*7*	-4	*-2*	*-2*	0		*0*		1 815	2
220	**Total**	**329 189**	***298 861***	***29 755***	**4 126**		***4 126***	**-660**	***-128***	***-532***	**-2 052**		***-2 052***		**125 705**	**1 587**

Table 14 - EU CR1_Performing and non-performing exposures and related provisions

Compared to last year's tables, defaulted exposure decreased substantially from 6.1 billion euros to 4.1 billion euros. The main reason for this is the agreement that was reached in the third quarter of 2021 for the sale of the remaining KBC Ireland non-performing mortgage loan portfolio (to be finalised in 2022). This agreement resulted in a shift of these loans to the 'held for sale portfolio', which is not visible in the tables on debt instruments.

In total, around 1.25% of the exposure is defaulted, which is substantially lower than the 2% at year-end 2020.

For all data on impairment, provisions and value adjustments, reference is made to the 'Consolidated financial statements' section of the 2021 Annual Report of KBC Group NV.

Maturity of exposures

This table contains the on-balance IRB and SA exposure (for both approaches 'EAD Pre CCF' corrected for value adjustments and provisions).

EU CR1-A - Maturity of exposures		Net exposure value					
At 31 December 2021 (in millions of EUR)		On demand	<= 1 year	> 1 year <= 5 years	> 5 years	No stated maturity	Total
1	Loans and advances	3 948	47 245	33 810	104 222	5 232	194 458
2	Debt securities	913	10 923	7 817	24 095	1 210	44 957
3	**Total**	**4 861**	**58 168**	**41 626**	**128 318**	**6 441**	**239 415**

Table 15 - EU CR1-A_Maturity of exposures

Changes in the stock of defaulted loans and debt securities

EU CR2 - Changes in the stock of non-performing loans and advances		Gross carrying amount
At 31 December 2021 (in millions of EUR)		
010	**Initial stock of non-performing loans and advances**	**5 350**
020	Inflows to non-performing portfolios	1 264
030	Outflows from non-performing portfolios	-2 687
040	*Outflows due to write-offs*	*-263*
050	*Outflow due to other situations*	*-2 423*
060	**Final stock of non-performing loans and advances**	**3 927**

Table 16 - EU CR2_Changes in the stock of non-performing loans and advances

The important decrease in 2021 is mainly the result of the agreement on the sale of the remaining KBC Ireland non-performing mortgage loan portfolio (to be finalised in 2022).

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.

Credit quality of forborne exposures

EU CQ1 - Credit quality of forborne exposures		Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral 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*				
At 31 December 2021 (in millions of EUR)									
005	**Cash balances at central banks and other demand deposits**								
010	**Loans and advances**	**2 240**	**1 454**	***1 454***	***1 454***	**-67**	**-379**	**2 086**	**870**
020	Central banks								
030	General governments	0	0	*0*	*0*	0	0	0	0
040	Credit institutions								
050	Other financial corporations	31	3	*3*	*3*	-1	0	22	2
060	Non-financial corporations	1 685	1 177	*1 177*	*1 177*	-55	-300	1 588	706
070	Households	523	274	*274*	*274*	-12	-78	476	161
080	**Debt Securities**								
090	**Loan commitments given**	**55**	**5**	***5***	***5***	**0**	**-1**	**49**	**2**
100	**Total**	**2 295**	**1 459**	***1 459***	***1 459***	**-67**	**-380**	**2 134**	**872**

Table 17 - EU CQ1_Credit quality of forborne exposures

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

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.

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 (in other words, performing).

EU CQ3 - Credit quality of performing and non-performing exposures by past due days

		Gross carrying amount/nominal amount											
		Performing exposures			Non-performing exposures								
At 31 December 2021 (in millions of EUR)			Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are 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 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
005	**Cash balances at central banks and other demand deposits**	**39 457**	**39 457**										
010	**Loans and advances**	**190 530**	**190 034**	**496**	**3 927**	**1 942**	**208**	**155**	**303**	**413**	**157**	**749**	**3 927**
020	Central banks	27 409	27 409										
030	General governments	5 932	5 845	87	3	1	0	0	1	1	0	1	3
040	Credit institutions	5 544	5 544	0	14	0	14						14
050	Other financial corporations	4 836	4 829	7	68	2	1	0	11	41	0	12	68
060	Non-financial corporations	68 078	67 769	309	3 082	1 566	147	96	221	289	120	644	3 082
070	*Of which SMEs*	*33 365*	*33 329*	*36*	*1 478*	*649*	*140*	*59*	*126*	*214*	*71*	*220*	*1 478*
080	Households	78 731	78 638	93	760	373	46	60	69	82	37	93	760
090	**Debt securities**	**44 956**	**44 956**		**1**					**1**			**1**
100	Central banks	131	131										
110	General governments	40 122	40 122										
120	Credit institutions	3 235	3 235										
130	Other financial corporations	925	925										
140	Non-financial corporations	543	543		1					1			1
150	**Off-balance-sheet exposures**	**54 246**			**197**								**197**
160	Central banks	0											
170	General governments	1 398											
180	Credit institutions	2 912											
190	Other financial corporations	5 072			0								0
200	Non-financial corporations	35 960			190								190
210	Households	8 903			7								7
220	**Total**	**329 189**	**274 447**	**496**	**4 126**	**1 942**	**208**	**155**	**303**	**415**	**157**	**749**	**4 126**

Table 18 - EU CQ3_Credit quality of performing and non-performing exposures by past due days

Credit quality of exposures by industry or counterparty types

This table contains the loans and advances to non-financial corporations, broken down by industry.

EU CQ5 - Credit quality of loans and advances to non-financial corporations by industry *At 31 December 2021 (in millions of EUR)*	Gross carrying amount				Accumulated impairment	Accumulated negative changes in fair value due to credit risk on non-performing exposures
		Of which non-performing		Of which loans and advances subject to impairment		
			Of which defaulted			
010 Agriculture, forestry and fishing	2 507	57	57	2 507	-31	
020 Mining and quarrying	123	1	1	123	-1	
030 Manufacturing	13 286	545	545	13 286	-388	
040 Electricity, gas, steam and air conditioning supply	2 561	61	61	2 561	-37	
050 Water supply	882	6	6	882	-4	
060 Construction	5 418	264	264	5 418	-200	
070 Wholesale and retail trade	12 345	874	874	12 345	-770	
080 Transport and storage	4 347	112	112	4 347	-65	
090 Accommodation and food service activities	1 063	140	140	1 063	-38	
100 Information and communication	1 301	30	30	1 301	-26	
110 Financial and insurance activities	2 650	98	98	2 650	-26	
120 Real estate activities	10 380	476	476	10 380	-254	
130 Professional, scientific and technical activities	5 320	188	188	5 320	-97	
140 Administrative and support service activities	2 578	98	98	2 578	-38	
150 Public administration and defence, compulsory social security	15	8	8	15	-7	
160 Education	98	0	0	98	-1	
170 Human health services and social work activities	4 540	51	51	4 540	-34	
180 Arts, entertainment and recreation	460	36	36	460	-18	
190 Other services	1 286	36	36	1 286	-28	
200 Total	**71 161**	**3 082**	**3 082**	**71 161**	**-2 061**	

Table 19 - EU CQ5_Credit quality of loans and advances by industry

The main industries were ‘Manufacturing’, ‘Wholesale and retail trade’ and ‘Real estate activities’. Not surprisingly, the most significant defaulted exposure is also found in these sectors.

Credit quality of exposures by geography

This table contains the net exposure of KBC Group Consolidated entities, broken down by geography.

EU CQ4 - Quality of non-performing exposures by geography[1]								
		Gross carrying/nominal amount				Accumulated impairment	Provisions on off-balance-sheet commitments and financial guarantees given	Accumulated negative changes in fair value due to credit risk on non-performing exposures
			Of which non-performing		Of which subject to impairment			
At 31 December 2021 (in millions of EUR)				Of which defaulted				
010	**On-balance-sheet exposures**	**278 872**	**3 929**	***3 929***	**278 295**	**-2 581**		**-1**
020	Belgium	139 388	2 147	*2 147*	139 430	-1 304		
030	Czech Republic	67 377	606	*606*	67 321	-451		
040	Slovakia	13 779	171	*171*	13 779	-180		
050	Ireland	3 283	40	*40*	3 283	-32		
060	Hungary	12 186	146	*146*	11 639	-105		-1
061	Bulgaria	6 506	224	*224*	6 506	-103		
070	Other countries	36 352	594	*594*	36 338	-406		
080	**Off-balance-sheet exposures**	**54 443**	**197**	***197***			**130**	
090	Belgium	26 597	113	*113*			95	
100	Czech Republic	10 642	34	*34*			15	
110	Slovakia	1 978	4	*4*			4	
120	Ireland	538	0	*0*			0	
130	Hungary	2 115	8	*8*			3	
131	Bulgaria	1 296	1	*1*			2	
140	Other countries	11 278	37	*37*			13	
150	**Total**	**333 315**	**4 126**	***4 126***	**278 295**	**-2 581**	**130**	**-1**

1. All of KBC Group's core markets are reported separately in order to align with other internal and external reports (although only Belgium and the Czech Republic meet the 10% threshold as stipulated in EU Regulation 2021/637).

Table 20 - EU CQ4_Quality of non-performing exposures by geography

As expected, the non-performing exposure is mainly concentrated in five KBC core markets: Belgium, the Czech Republic, Hungary, Slovakia and Bulgaria. Irish non-performing exposure has been almost completely eliminated (i.e. moved to assets held for sale) on account of the agreement reached for the sale of the corresponding KBC Ireland portfolio.

Collateral obtained by taking possession and execution processes

EU CQ7 - Collateral obtained by taking possession and execution processes			
At 31 December 2021 (in millions of EUR)		Collateral obtained by taking possession	
		Value at initial recognition	Accumulated negative changes
010	**Property, plant and equipment (PP&E)**	**0.6**	**0.0**
020	**Other than PP&E**	**3.6**	**0.0**
030	Residential immovable property	1.4	0.0
040	Commercial Immovable property	1.5	0.0
050	Movable property (auto, shipping, etc.)	0.7	
060	Equity and debt instruments		
070	Other collateral	0.1	
080	**Total**	**4.2**	**0.0**

Table 21 - EU CQ7_Collateral obtained by taking possession and execution processes

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 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 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.

EU CR3 - CRM techniques overview: Disclosure of the use of credit risk mitigation techniques

At 31 December 2021 (in millions of EUR)		Unsecured carrying amount	Secured carrying amount	*Of which secured by collateral*	*Of which secured by financial guarantees*	*Of which secured by credit derivatives*
1	Loans and advances	76 086	115 799	*105 586*	*10 213*	
2	Debt securities	44 856	93	*31*	*61*	
3	**Total**	**120 942**	**115 891**	***105 617***	***10 274***	
4	*Of which non-performing exposures*	*430*	*1 537*	*1 417*	*121*	
EU-5	*Of which defaulted*	*430*	*1 537*			

Table 22 - EU CR3_CRM techniques overview: Disclosure of the use of credit risk mitigation techniques

Disclosure of the use of Standardised approach

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.

The tables below show the exposure calculated using the Standardised approach for the end of 2021, 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 a 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).

Credit risk exposure and CRM effects – Standardised approach

EU CR4 - Standardised approach – Credit risk exposure and CRM effects							
	Exposure classes	Exposures before CCF and before CRM		Exposures post CCF and post CRM		RWAs and RWAs density	
	At 31 December 2021 (in millions of EUR)	On-balance-sheet exposures	Off-balance-sheet exposures	On-balance-sheet exposures	Off-balance-sheet exposures	RWAs	RWAs density (%)
1	Central governments or central banks	3 176	12	3 578	4	12	0.32%
2	Regional government or local authorities	241	56	241	28	54	20.00%
3	Public sector entities	14	5	23	4	4	16.98%
4	Multilateral development banks		0	269	0		0.00%
5	International organisations						
6	Institutions	239	11	249	7	110	42.93%
7	Corporates	2 755	1 085	2 557	472	2 707	89.38%
8	Retail	2 695	364	2 180	136	1 566	67.60%
9	Secured by mortgages on immovable property	1 870	109	1 870	51	750	39.06%
10	Exposures in default	201	4	194	2	230	117.72%
11	Exposures associated with particularly high risk						
12	Covered bonds						
13	Institutions and corporates with a short-term credit assessment						
14	Collective investment undertakings	116		116		22	18.72%
15	Equity	42		42		54	130.77%
16	Other items	2 543	93	2 570	65	1 898	72.02%
17	**Total**	**13 891**	**1 739**	**13 889**	**769**	**7 408**	**50.54%**

Table 23 - EU CR4_ Standardised approach – Credit risk exposure and CRM effects

The use of CRM for the Standardised exposure is very limited. A material substitution shift from 'Retail' to 'Central governments' is only seen in the K&H portfolio. The RWA density figures were basically the same as in 2020.

Risk weight by exposure class – Standardised approach

The table below shows the exposure (post CCF and CRM) at year-end 2021, calculated using the Standardised approach and broken down by exposure class and risk weight.

EU CR5 - Standardised approach													
	Exposure classes	Risk weight										Total	*Of which unrated*
	At 31 December 2021 (in millions of EUR)	0%	20%	35%	50%	75%	100%	150%	250%	370%	Others		
1	Central governments or central banks	3 544	26		13		0					3 583	*0*
2	Regional government or local authorities		269									269	*264*
3	Public sector entities	10	14		1		1					26	*1*
4	Multilateral development banks	269										269	
5	International organisations												
6	Institutions		102		129		25					256	*104*
7	Corporates		0		130		2 898	0				3 029	*2 990*
8	Retail exposures					2 316						2 316	*2 316*
9	Exposures secured by mortgages on immovable property			1 304	542	21	53					1 921	*1 921*
10	Exposures in default						126	69				196	*196*
11	Exposures associated with particularly high risk												
12	Covered bonds												
13	Exposures to institutions and corporates with a short-term credit assessment												
14	Units or shares in collective investment undertakings	1						0			116	116	*0*
15	Equity exposures						33		9			42	*42*
16	Other items	514	32				1 274		55	0	760	2 635	*1 348*
17	**Total**	**4 337**	**444**	**1 304**	**815**	**2 338**	**4 411**	**70**	**63**	**0**	**876**	**14 658**	***9 183***

Table 24 - EU CR5_Standardised approach

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.

Disclosure of the use of the IRB approach to credit risk

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;

[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.*

- 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 after CCF of the IRB loan portfolio as a reference. From this year on, the repo exposure is no longer included in the IRBF EAD. As a result, the IRBA share increased significantly compared to last year.

EAD covered by the IRB model 31-12-21		
	COREP exposure class	**EAD %**
AIRB	Central governments and central banks	19.35%
	Institutions	3.59%
	Corporates – SMEs	11.19%
	Corporates – Specialised lending	4.29%
	Corporates – Other	15.33%
	Retail – Secured by real estate SMEs	4.28%
	Retail – Secured by real estate non- SMEs	34.02%
	Retail – Qualifying revolving	0.46%
	Retail – Other SMEs	3.36%
	Retail – Other non-SMEs	3.86%
	Equity IRB	0.28%
AIRB	**Total**	**97.60%**

Table 25 - EAD covered by the IRB model (AIRB)

EAD covered by the IRB model 31-12-21		
	COREP exposure class	**EAD %**
FIRB	Central governments and central banks	42.49%
	Institutions	3.56%
	Corporates – SMEs	11.87%
	Corporates – Specialised lending	13.69%
	Corporates – Other	28.38%
FIRB	**Total**	**2.40%**

Table 26 - EAD covered by the IRB model (FIRB)

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

These tables contain the exposure by FIRB exposure class, broken down on a PD scale.

EU CR6 – IRB_F approach - Credit risk exposures by exposure class and PD range

At 31 December 2021 (in EUR)

Exposure class = Central governments and central banks	PD range	On-balance sheet exposures	Off-balance-sheet exposures pre-CCF	Exposure weighted average CCF	Exposure post CCF and post CRM	Exposure weighted average PD (%)	Number of obligors	Exposure weighted average LGD (%)	Exposure weighted average maturity (years)	Risk weighted exposure amount after supporting factors	Density of risk weighted exposure amount	Expected loss amount	Value adjust-ments and provisions
	0.00 to <0.15	**2 394**	**0**	**0.00%**	**2 400**	**0.02%**		**45.00%**	**2.8**	**253**	**10.56%**	**0**	**0**
	0.00 to <0.10	2 384	0	0.00%	2 390	0.02%		45.00%	2.8	250	10.45%	0	0
	0.10 to <0.15	10	0	0.00%	10	0.13%		45.00%	2.5	4	36.61%	0	0
	2.50 to <10.00	**0**	**0**	**0.00%**	**0**	**5.43%**		**45.00%**	**2.5**	**0**	**159.09%**	**0**	**0**
	5 to <10	0	0	0.00%	0	5.43%		45.00%	2.5	0	159.09%	0	0
Subtotal		**2 394**	**0**	**0.00%**	**2 400**	**0.01%**	**8**	**45.00%**	**0.3**	**253**	**10.56%**	**0**	**0**

Exposure class = Institutions	PD range	On-balance sheet exposures	Off-balance-sheet exposures pre-CCF	Exposure weighted average CCF	Exposure post CCF and post CRM	Exposure weighted average PD (%)	Number of obligors	Exposure weighted average LGD (%)	Exposure weighted average maturity (years)	Risk weighted exposure amount after supporting factors	Density of risk weighted exposure amount	Expected loss amount	Value adjust-ments and provisions
	0.00 to <0.15	**87**	**1**	**49.52%**	**88**	**0.11%**		**45.00%**	**2.5**	**39**	**44.13%**	**0**	**0**
	0.00 to <0.10	16	1	49.52%	16	0.08%		45.00%	2.3	6	35.87%	0	0
	0.10 to <0.15	71	0	0.00%	71	0.12%		45.00%	2.5	33	46.05%	0	0
	0.15 to <0.25	**109**	**0**	**0.00%**	**109**	**0.19%**		**45.00%**	**2.2**	**62**	**57.29%**	**0**	**0**
	0.25 to <0.50	**0**	**0**	**20.00%**	**0**	**0.32%**		**45.00%**	**2.5**	**0**	**79.06%**	**0**	**0**
	0.75 to <2.50	**0**	**3**	**100.00%**	**3**	**0.86%**		**45.00%**	**2.5**	**3**	**118.56%**	**0**	**0**
	0.75 to <1.75	0	3	100.00%	3	0.85%		45.00%	2.5	3	118.40%	0	0
	1.75 to <2.5	0	0	0.00%	0	2.24%		45.00%	2.5	0	155.47%	0	0
	2.50 to <10.00	**5**	**0**	**0.00%**	**2**	**6.55%**		**45.00%**	**2.5**	**4**	**206.68%**	**0**	**0**
	5 to <10	5	0	0.00%	2	6.55%		45.00%	2.5	4	206.68%	0	0
	100.00 (Default)	**0**	**0**	**0.00%**	**0**	**100.00%**		**45.00%**	**2.5**	**0**	**0.00%**	**0**	**0**
Subtotal		**201**	**4**	**0.00%**	**201**	**0.26%**	**110**	**45.00%**	**2.2**	**109**	**53.91%**	**0**	**0**

Exposure class = Corporates - SME	PD range	On-balance sheet exposures	Off-balance-sheet exposures pre-CCF	Exposure weighted average CCF	Exposure post CCF and post CRM	Exposure weighted average PD (%)	Number of obligors	Exposure weighted average LGD (%)	Exposure weighted average maturity (years)	Risk weighted exposure amount after supporting factors	Density of risk weighted exposure amount	Expected loss amount	Value adjust-ments and provisions
	0.00 to <0.15	**58**	**15**	**74.30%**	**70**	**0.14%**		**44.18%**	**2.5**	**20**	**28.61%**	**0**	**0**
	0.00 to <0.10	2	1	71.27%	3	0.07%		44.95%	2.5	1	18.53%	0	0
	0.10 to <0.15	56	14	74.63%	66	0.14%		44.14%	2.5	19	29.11%	0	0
	0.25 to <0.50	**38**	**49**	**57.66%**	**66**	**0.28%**		**41.61%**	**2.5**	**26**	**39.26%**	**0**	**0**
	0.50 to <0.75	**67**	**63**	**60.04%**	**105**	**0.57%**		**42.87%**	**2.5**	**59**	**55.98%**	**0**	**0**
	0.75 to <2.50	**161**	**102**	**55.42%**	**217**	**1.54%**		**42.08%**	**2.5**	**167**	**76.81%**	**1**	**0**
	0.75 to <1.75	107	52	60.45%	138	1.13%		42.52%	2.5	100	72.14%	1	0
	1.75 to <2.5	54	50	50.25%	79	2.26%		41.31%	2.5	67	84.96%	1	0
	2.50 to <10.00	**67**	**55**	**47.17%**	**93**	**6.03%**		**41.49%**	**2.5**	**106**	**113.85%**	**2**	**-6**
	2.5 to <5	42	46	43.62%	62	4.53%		41.37%	2.5	63	101.85%	1	0
	5 to <10	25	9	64.89%	31	9.05%		41.73%	2.5	43	137.92%	1	-5
	10.00 to <100.00	**13**	**4**	**76.61%**	**17**	**18.10%**		**39.03%**	**2.5**	**29**	**171.84%**	**1**	**-1**
	10 to <20	13	4	76.61%	17	18.10%		39.03%	2.5	29	171.84%	1	-1
	100.00 (Default)	**102**	**0**	**75.00%**	**102**	**100.00%**		**44.69%**	**1.2**	**0**	**0.00%**	**46**	**-92**
Subtotal		**507**	**289**	**56.58%**	**671**	**15.35%**	**1 411**	**42.90%**	**2.3**	**406**	**60.60%**	**51**	**-100**

Exposure class = Corporates - Specialised lending	PD range	On-balance sheet exposures	Off-balance-sheet exposures pre-CCF	Exposure weighted average CCF	Exposure post CCF and post CRM	Exposure weighted average PD (%)	Number of obligors	Exposure weighted average LGD (%)	Exposure weighted average maturity (years)	Risk weighted exposure amount after supporting factors	Density of risk weighted exposure amount	Expected loss amount	Value adjust-ments and provisions
	0.25 to <0.50	**104**	**2**	**75.00%**	**105**	**0.28%**		**44.29%**	**2.5**	**46**	**44.03%**	**0**	**0**
	0.50 to <0.75	**121**	**4**	**75.00%**	**123**	**0.57%**		**44.41%**	**2.5**	**99**	**79.94%**	**0**	**-2**
	0.75 to <2.50	**379**	**61**	**86.56%**	**432**	**1.65%**		**44.04%**	**2.5**	**449**	**103.96%**	**3**	**-6**
	0.75 to <1.75	202	35	92.06%	234	1.13%		43.54%	2.5	203	86.73%	1	0
	1.75 to <2.5	177	27	79.40%	198	2.26%		44.63%	2.5	247	124.25%	2	-6
	2.50 to <10.00	**51**	**47**	**74.59%**	**87**	**4.56%**		**42.12%**	**2.5**	**117**	**135.54%**	**2**	**-2**
	2.5 to <5	51	47	74.59%	86	4.53%		42.11%	2.5	117	135.43%	2	-2
	5 to <10	0	0	75.00%	0	9.05%		44.48%	2.5	1	154.64%	0	0
	10.00 to <100.00	**7**	**0**	**0.00%**	**7**	**18.10%**		**45.00%**	**2.5**	**15**	**203.72%**	**1**	**-2**
	10 to <20	7	0	0.00%	7	18.10%		45.00%	2.5	15	203.72%	1	-2
	100.00 (Default)	**18**	**1**	**61.44%**	**19**	**100.00%**		**45.00%**	**2.5**	**0**	**0.00%**	**8**	**-17**
Subtotal		**680**	**115**	**80.89%**	**773**	**3.87%**	**332**	**44.04%**	**2.6**	**727**	**93.96%**	**14**	**-29**

Exposure class = Corporates - Other	PD range	On-balance sheet exposures	Off-balance-sheet exposures pre-CCF	Exposure weighted average CCF	Exposure post CCF and post CRM	Exposure weighted average PD (%)	Number of obligors	Exposure weighted average LGD (%)	Exposure weighted average maturity (years)	Risk weighted exposure amount after supporting factors	Density of risk weighted exposure amount	Expected loss amount	Value adjust-ments and provisions
	0.00 to <0.15	**145**	**254**	**69.32%**	**321**	**0.14%**		**45.00%**	**2.5**	**130**	**40.52%**	**0**	**0**
	0.00 to <0.10	5	33	17.14%	11	0.07%		45.00%	2.5	3	27.27%	0	0
	0.10 to <0.15	140	221	77.05%	310	0.14%		45.00%	2.5	127	40.99%	0	0
	0.25 to <0.50	**265**	**185**	**59.66%**	**376**	**0.28%**		**44.31%**	**2.5**	**221**	**58.84%**	**0**	**0**
	0.50 to <0.75	**126**	**204**	**68.17%**	**265**	**0.57%**		**44.40%**	**2.5**	**220**	**82.92%**	**1**	**0**
	0.75 to <2.50	**184**	**177**	**61.61%**	**293**	**1.89%**		**43.77%**	**2.5**	**361**	**123.22%**	**2**	**-1**
	0.75 to <1.75	78	38	46.06%	96	1.13%		43.08%	2.5	100	105.01%	0	0
	1.75 to <2.5	107	138	65.90%	198	2.26%		44.11%	2.5	261	132.02%	2	-1
	2.50 to <10.00	**51**	**21**	**47.02%**	**61**	**5.50%**		**41.34%**	**2.5**	**98**	**160.20%**	**1**	**-1**
	2.5 to <5	43	14	34.65%	48	4.53%		41.01%	2.5	72	149.17%	1	0
	5 to <10	8	7	72.10%	13	9.05%		42.58%	2.5	26	200.44%	1	0
	10.00 to <100.00	**15**	**0**	**0.00%**	**14**	**18.10%**		**44.42%**	**2.5**	**36**	**261.94%**	**1**	**-1**
	10 to <20	15	0	0.00%	14	18.10%		44.42%	2.5	36	261.94%	1	-1
	100.00 (Default)	**273**	**0**	**13.56%**	**273**	**100.00%**		**44.87%**	**1.1**	**0**	**0.00%**	**122**	**-268**
Subtotal		**1 060**	**842**	**64.47%**	**1 603**	**15.83%**	**755**	**44.43%**	**2.3**	**1 066**	**66.50%**	**129**	**-272**
Total (all IRB_F exposure classes)		**4 843**	**1 250**	**64.40%**	**5 648**	**1.45%**	**2 616**	**44.89%**	**0.5**	**2 561**	**45.34%**	**194**	**-400**

Table 27 - EU CR6_IRB approach – Credit risk exposures by exposure class and PD range (FIRB)

There is an important difference between this table and last year's table, as it no longer includes the repo exposure. This mainly has an impact on the ‘Central governments and central banks’ and ‘Institutions’ asset classes. Other than this difference, the data in the table hardly changed..

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

These tables contain the exposure by AIRB exposure class, broken down on a PD scale.

EU CR6 – IRB_A approach - Credit risk exposures by exposure class and PD range

At 31 December 2021 (in EUR)

Exposure class = Central governments and central banks	PD range	On-balance sheet exposures	Off-balance-sheet exposures pre-CCF	Exposure weighted average CCF	Exposure post CCF and post CRM	Exposure weighted average PD (%)	Number of obligors	Exposure weighted average LGD (%)	Exposure weighted average maturity (years)	Risk weighted exposure amount after supporting factors	Density of risk weighted exposure amount	Expected loss amount	Value adjust-ments and provisions
	0.00 to <0.15	**43 284**	**408**	**85.96%**	**43 634**	**0.03%**		**26.18%**	**3.4**	**5 121**	**11.74%**	**5**	**-4**
	0.00 to <0.10	35 904	398	84.13%	36 239	0.02%		24.03%	3.5	2 712	7.48%	1	-1
	0.10 to <0.15	7 380	10	100.00%	7 395	0.13%		36.73%	2.8	2 409	32.57%	4	-2
	0.15 to <0.25	**157**	**1**	**16.34%**	**157**	**0.21%**		**38.94%**	**2.7**	**67**	**42.47%**	**0**	**0**
	0.25 to <0.50	**68**	**12**	**26.14%**	**71**	**0.38%**		**11.61%**	**4.6**	**16**	**22.42%**	**0**	**0**
	0.50 to <0.75	**50**	**23**	**20.01%**	**55**	**0.60%**		**23.91%**	**2.5**	**26**	**47.52%**	**0**	**0**
	0.75 to <2.50	**252**	**157**	**8.74%**	**265**	**1.80%**		**2.98%**	**4.6**	**26**	**9.69%**	**0**	**0**
	0.75 to <1.75	25	29	15.78%	30	1.20%		5.23%	2.9	4	14.99%	0	0
	1.75 to <2.5	226	128	7.16%	236	1.87%		2.69%	4.8	21	9.02%	0	0
	2.50 to <10.00	**183**	**104**	**8.23%**	**192**	**4.44%**		**3.24%**	**4.4**	**24**	**12.43%**	**0**	**0**
	2.5 to <5	90	1	90.16%	91	3.35%		4.86%	4.8	17	18.16%	0	0
	5 to <10	93	103	7.22%	100	5.44%		1.77%	4.1	7	7.20%	0	0
	10.00 to <100.00	**5**	**3**	**8.32%**	**5**	**18.12%**		**2.49%**	**3.0**	**1**	**13.22%**	**0**	**0**
	10 to <20	5	0	0.00%	5	15.77%		2.49%	3.0	1	13.46%	0	0
	30.00 to <100.00	0	3	6.31%	0	78.04%		2.59%	5.0	0	7.16%	0	0
	100.00 (Default)	**8**	**0**	**0.00%**	**8**	**100.00%**		**52.24%**	**2.7**	**0**	**0.87%**	**7**	**-7**
Subtotal		**44 005**	**707**	**53.85%**	**44 386**	**0.09%**	**786**	**25.56%**	**3.5**	**5 280**	**11.90%**	**13**	**-11**

Exposure class = Institutions	PD range	On-balance sheet exposures	Off-balance-sheet exposures pre-CCF	Exposure weighted average CCF	Exposure post CCF and post CRM	Exposure weighted average PD (%)	Number of obligors	Exposure weighted average LGD (%)	Exposure weighted average maturity (years)	Risk weighted exposure amount after supporting factors	Density of risk weighted exposure amount	Expected loss amount	Value adjust-ments and provisions
	0.00 to <0.15	**4 456**	**3 254**	**47.71%**	**6 009**	**0.07%**		**21.73%**	**2.4**	**859**	**14.30%**	**1**	**0**
	0.00 to <0.10	3 680	2 679	52.00%	5 073	0.06%		21.30%	2.2	621	12.23%	1	0
	0.10 to <0.15	776	575	27.74%	936	0.12%		24.06%	3.5	239	25.49%	0	0
	0.15 to <0.25	**799**	**261**	**79.67%**	**1 007**	**0.18%**		**22.19%**	**2.2**	**238**	**23.66%**	**0**	**0**
	0.25 to <0.50	**187**	**129**	**75.25%**	**284**	**0.32%**		**13.25%**	**1.8**	**56**	**19.55%**	**0**	**0**

	0.50 to <0.75	**126**	**115**	**78.24%**	**216**	**0.52%**		**5.89%**	**0.4**	**18**	**8.28%**	**0**	**0**
	0.75 to <2.50	**188**	**187**	**87.43%**	**352**	**1.77%**		**6.42%**	**0.6**	**51**	**14.61%**	**0**	**0**
	0.75 to <1.75	59	100	83.08%	142	1.06%		5.66%	0.5	14	9.95%	0	0
	1.75 to <2.5	129	87	92.46%	210	2.24%		6.93%	0.6	37	17.78%	0	0
	2.50 to <10.00	**176**	**156**	**94.87%**	**324**	**4.80%**		**7.16%**	**0.7**	**72**	**22.18%**	**1**	**0**
	2.5 to <5	129	84	97.15%	210	3.73%		8.39%	0.7	53	25.17%	1	0
	5 to <10	47	72	92.23%	114	6.76%		4.90%	0.7	19	16.67%	0	0
	10.00 to <100.00	**2**	**39**	**48.05%**	**21**	**83.45%**		**6.98%**	**0.7**	**3**	**16.91%**	**1**	**0**
	10 to <20	2	21	9.83%	4	17.41%		15.70%	2.2	3	87.61%	0	0
	30.00 to <100.00	0	18	92.72%	17	98.23%		5.02%	0.3	0	1.06%	1	0
	100.00 (Default)	**14**	**0**	**0.00%**	**14**	**100.00%**		**45.00%**	**0.0**	**0**	**0.00%**	**14**	**-14**
Subtotal		**5 948**	**4 141**	**55.01%**	**8 226**	**0.64%**	**2 894**	**25.33%**	**2.2**	**1 298**	**15.78%**	**18**	**-15**

Exposure class = Corporates - SME	PD range	On-balance sheet exposures	Off-balance-sheet exposures pre-CCF	Exposure weighted average CCF	Exposure post CCF and post CRM	Exposure weighted average PD (%)	Number of obligors	Exposure weighted average LGD (%)	Exposure weighted average maturity (years)	Risk weighted exposure amount after supporting factors	Density of risk weighted exposure amount	Expected loss amount	Value adjust-ments and provisions
	0.00 to <0.15	**3 334**	**911**	**24.66%**	**3 559**	**0.10%**		**19.46%**	**3.7**	**436**	**12.26%**	**1**	**-38**
	0.00 to <0.10	1 350	295	25.84%	1 426	0.07%		18.33%	3.7	129	9.08%	0	-24
	0.10 to <0.15	1 984	616	24.10%	2 132	0.13%		20.21%	3.7	307	14.38%	1	-15
	0.15 to <0.25	**2 768**	**619**	**23.86%**	**2 916**	**0.19%**		**20.69%**	**3.6**	**497**	**17.06%**	**1**	**-1**
	0.25 to <0.50	**4 057**	**1 462**	**23.39%**	**4 399**	**0.35%**		**23.82%**	**3.4**	**1 141**	**25.93%**	**4**	**-53**
	0.50 to <0.75	**2 893**	**1 606**	**22.78%**	**3 259**	**0.60%**		**23.89%**	**2.9**	**999**	**30.64%**	**5**	**-5**
	0.75 to <2.50	**6 349**	**2 488**	**25.83%**	**6 992**	**1.48%**		**25.74%**	**3.0**	**3 144**	**44.96%**	**26**	**-61**
	0.75 to <1.75	4 460	1 687	26.71%	4 911	1.16%		26.38%	3.0	2 161	44.00%	15	-45
	1.75 to <2.5	1 889	801	23.99%	2 082	2.21%		24.22%	2.9	983	47.23%	11	-16
	2.50 to <10.00	**2 810**	**761**	**22.06%**	**2 978**	**5.18%**		**23.72%**	**2.8**	**1 670**	**56.09%**	**35**	**-97**
	2.5 to <5	1 876	569	22.87%	2 006	3.88%		24.70%	2.8	1 083	53.98%	19	-31
	5 to <10	934	192	19.68%	972	7.86%		21.71%	2.9	588	60.47%	16	-66
	10.00 to <100.00	**532**	**150**	**19.22%**	**561**	**18.43%**		**21.35%**	**2.5**	**426**	**76.01%**	**23**	**-93**
	10 to <20	413	126	19.00%	437	15.21%		20.90%	2.5	314	71.85%	14	-50
	20 to <30	80	18	19.05%	83	24.83%		21.79%	2.3	74	89.39%	5	-3
	30.00 to <100.00	39	6	24.37%	41	39.85%		25.20%	2.4	38	93.36%	4	-40
	100.00 (Default)	**1 025**	**121**	**0.00%**	**1 020**	**100.00%**		**32.16%**	**2.9**	**530**	**51.99%**	**445**	**-444**
Subtotal		**23 769**	**8 118**	**23.58%**	**25 683**	**5.52%**	**55 230**	**23.72%**	**3.2**	**8 844**	**34.43%**	**539**	**-793**

Exposure class = Corporates - Specialised lending	PD range	On-balance sheet exposures	Off-balance-sheet exposures pre-CCF	Exposure weighted average CCF	Exposure post CCF and post CRM	Exposure weighted average PD (%)	Number of obligors	Exposure weighted average LGD (%)	Exposure weighted average maturity (years)	Risk weighted exposure amount after supporting factors	Density of risk weighted exposure amount	Expected loss amount	Value adjust-ments and provisions
	0.00 to <0.15	**394**	**8**	**100.00%**	**402**	**0.12%**		**23.60%**	**5.0**	**87**	**21.65%**	**0**	**0**
	0.00 to <0.10	108	4	100.00%	113	0.07%		38.64%	4.8	42	37.08%	0	0
	0.10 to <0.15	286	4	76.54%	289	0.14%		17.71%	5.0	45	15.60%	0	0
	0.15 to <0.25	**218**	**46**	**59.40%**	**245**	**0.21%**		**21.08%**	**4.1**	**56**	**22.68%**	**0**	**0**
	0.25 to <0.50	**1 526**	**620**	**59.66%**	**1 896**	**0.33%**		**17.56%**	**4.2**	**503**	**26.51%**	**1**	**0**
	0.50 to <0.75	**1 295**	**558**	**63.64%**	**1 650**	**0.58%**		**14.35%**	**3.9**	**396**	**23.99%**	**1**	**-4**
	0.75 to <2.50	**3 626**	**665**	**69.57%**	**4 089**	**1.56%**		**19.95%**	**3.6**	**1 906**	**46.63%**	**13**	**-54**
	0.75 to <1.75	2 240	393	75.84%	2 537	1.18%		18.97%	3.7	1 042	41.05%	6	-8
	1.75 to <2.5	1 387	272	60.49%	1 551	2.19%		21.54%	3.5	865	55.75%	7	-46
	2.50 to <10.00	**893**	**265**	**74.15%**	**1 090**	**4.34%**		**26.10%**	**2.6**	**825**	**75.67%**	**12**	**-18**
	2.5 to <5	711	223	78.60%	886	3.56%		26.91%	2.5	647	73.01%	9	-6
	5 to <10	182	42	50.65%	204	7.72%		22.59%	3.1	178	87.22%	4	-12
	10.00 to <100.00	**50**	**5**	**79.88%**	**54**	**16.82%**		**18.34%**	**2.6**	**39**	**72.60%**	**2**	**-3**
	10 to <20	48	4	70.85%	51	16.50%		18.08%	2.7	36	70.98%	1	-3
	20 to <30	2	2	100.00%	3	22.01%		22.61%	1.0	3	99.30%	0	0
	100.00 (Default)	**389**	**22**	**100.00%**	**412**	**100.00%**		**39.12%**	**2.0**	**2**	**0.39%**	**199**	**-133**
Subtotal		**8 391**	**2 189**	**66.08%**	**9 838**	**5.39%**	**1 755**	**20.54%**	**3.7**	**3 813**	**38.76%**	**228**	**-213**

Exposure class = Corporates - Other	PD range	On-balance sheet exposures	Off-balance-sheet exposures pre-CCF	Exposure weighted average CCF	Exposure post CCF and post CRM	Exposure weighted average PD (%)	Number of obligors	Exposure weighted average LGD (%)	Exposure weighted average maturity (years)	Risk weighted exposure amount after supporting factors	Density of risk weighted exposure amount	Expected loss amount	Value adjust-ments and provisions
	0.00 to <0.15	**5 577**	**4 968**	**18.04%**	**6 473**	**0.10%**		**27.49%**	**3.7**	**1 498**	**23.15%**	**2**	**-62**
	0.00 to <0.10	3 091	2 437	16.90%	3 503	0.06%		26.35%	4.1	661	18.87%	1	-33
	0.10 to <0.15	2 486	2 531	19.13%	2 970	0.13%		28.82%	3.4	837	28.19%	1	-30
	0.15 to <0.25	**2 209**	**2 501**	**19.18%**	**2 689**	**0.19%**		**24.72%**	**2.9**	**724**	**26.92%**	**1**	**-5**
	0.25 to <0.50	**6 297**	**7 738**	**18.97%**	**7 766**	**0.34%**		**29.13%**	**2.6**	**3 217**	**41.42%**	**8**	**-6**
	0.50 to <0.75	**4 509**	**5 022**	**15.65%**	**5 295**	**0.61%**		**26.88%**	**2.2**	**2 489**	**47.00%**	**9**	**-2**
	0.75 to <2.50	**6 723**	**5 922**	**19.53%**	**7 880**	**1.41%**		**29.64%**	**2.3**	**5 612**	**71.22%**	**33**	**-46**
	0.75 to <1.75	5 009	4 459	20.73%	5 934	1.19%		29.82%	2.4	4 068	68.56%	21	-18
	1.75 to <2.5	1 714	1 463	15.85%	1 946	2.14%		29.08%	2.1	1 543	79.31%	12	-29
	2.50 to <10.00	**2 948**	**2 351**	**17.88%**	**3 368**	**4.29%**		**27.64%**	**2.1**	**3 110**	**92.33%**	**39**	**-94**

	2.5 to <5	2 223	1 941	17.76%	2 568	3.50%		29.54%	2.3	2 435	94.80%	27	-38
	5 to <10	724	411	18.45%	800	7.10%		21.50%	1.9	675	84.42%	12	-56
	10.00 to <100.00	**581**	**384**	**24.49%**	**675**	**25.78%**		**24.72%**	**2.4**	**864**	**127.89%**	**29**	**-78**
	10 to <20	375	244	21.24%	427	14.03%		26.60%	2.3	568	132.92%	16	-63
	20 to <30	204	104	19.58%	224	21.87%		22.57%	2.8	290	129.49%	11	-2
	30.00 to <100.00	2	36	60.99%	24	71.41%		11.55%	1.1	6	24.15%	2	-13
	100.00 (Default)	**969**	**166**	**28.85%**	**1 017**	**100.00%**		**44.54%**	**2.1**	**178**	**17.55%**	**502**	**-547**
Subtotal		**29 813**	**29 052**	**18.41%**	**35 162**	**4.04%**	**18 931**	**28.37%**	**2.6**	**17 691**	**50.31%**	**622**	**-841**

Exposure class = Retail - Retail Secured by Immovable Property SME	PD range	On-balance sheet exposures	Off-balance-sheet exposures pre-CCF	Exposure weighted average CCF	Exposure post CCF and post CRM	Exposure weighted average PD (%)	Number of obligors	Exposure weighted average LGD (%)	Exposure weighted average maturity (years)	Risk weighted exposure amount after supporting factors	Density of risk weighted exposure amount	Expected loss amount	Value adjust-ments and provisions
	0.00 to <0.15	**2 252**	**247**	**46.95%**	**2 368**	**0.10%**		**12.39%**		**56**	**2.37%**	**0**	**-12**
	0.00 to <0.10	1 198	121	42.70%	1 250	0.08%		12.11%		24	1.90%	0	-11
	0.10 to <0.15	1 054	126	51.04%	1 118	0.13%		12.71%		32	2.90%	0	-1
	0.15 to <0.25	**1 861**	**144**	**42.16%**	**1 922**	**0.19%**		**14.31%**		**85**	**4.43%**	**1**	**0**
	0.25 to <0.50	**1 731**	**200**	**29.75%**	**1 791**	**0.37%**		**15.28%**		**139**	**7.78%**	**1**	**0**
	0.50 to <0.75	**971**	**94**	**41.51%**	**1 010**	**0.61%**		**17.44%**		**127**	**12.59%**	**1**	**-1**
	0.75 to <2.50	**1 532**	**209**	**27.88%**	**1 590**	**1.36%**		**16.80%**		**332**	**20.89%**	**4**	**-3**
	0.75 to <1.75	1 195	158	27.06%	1 237	1.15%		16.31%		223	18.06%	2	-1
	1.75 to <2.5	337	51	30.41%	353	2.13%		18.56%		109	30.80%	1	-3
	2.50 to <10.00	**769**	**77**	**28.29%**	**791**	**5.55%**		**15.64%**		**335**	**42.37%**	**7**	**-4**
	2.5 to <5	412	54	26.55%	427	3.58%		15.25%		144	33.84%	2	-1
	5 to <10	357	23	32.44%	364	7.86%		16.10%		191	52.37%	5	-3
	10.00 to <100.00	**242**	**14**	**41.54%**	**248**	**24.58%**		**13.43%**		**139**	**56.22%**	**8**	**-10**
	10 to <20	134	9	42.95%	138	15.14%		13.54%		77	56.04%	3	-1
	20 to <30	56	3	47.16%	58	23.90%		14.09%		38	65.45%	2	-2
	30.00 to <100.00	52	2	24.46%	52	50.23%		12.42%		24	46.57%	3	-7
	100.00 (Default)	**99**	**6**	**67.52%**	**103**	**100.00%**		**13.04%**		**63**	**60.79%**	**39**	**-6**
Subtotal		**9 457**	**992**	**36.86%**	**9 823**	**2.53%**	**45 838**	**14.83%**		**1 277**	**13.00%**	**60**	**-36**

Exposure class = Retail - Retail Secured by Immovable Property non-SME	PD range	On-balance sheet exposures	Off-balance-sheet exposures pre-CCF	Exposure weighted average CCF	Exposure post CCF and post CRM	Exposure weighted average PD (%)	Number of obligors	Exposure weighted average LGD (%)	Exposure weighted average maturity (years)	Risk weighted exposure amount after supporting factors	Density of risk weighted exposure amount	Expected loss amount	Value adjust-ments and provisions

0.00 to <0.15	**27.872**	**851**	**99,92%**	**28.722**	**0,06%**		**18,60%**		**1.087**	**3,78%**	**3**	**-1**
0.00 to <0.10	27.801	845	99,97%	28.646	0,06%		18,57%		1.080	3,77%	3	-1
0.10 to <0.15	71	5	92,33%	76	0,14%		28,35%		7	9,10%	0	0
0.15 to <0.25	**8.177**	**416**	**99,08%**	**8.589**	**0,17%**		**18,72%**		**729**	**8,48%**	**3**	**-2**
0.25 to <0.50	**15.454**	**1.415**	**99,51%**	**16.862**	**0,37%**		**17,74%**		**2.064**	**12,24%**	**11**	**-8**
0.50 to <0.75	**4.318**	**175**	**96,33%**	**4.486**	**0,60%**		**17,65%**		**846**	**18,86%**	**5**	**-9**
0.75 to <2.50	**12.448**	**782**	**98,94%**	**13.222**	**1,34%**		**21,07%**		**4.555**	**34,45%**	**39**	**-17**
0.75 to <1.75	10.353	414	97,97%	10.758	1,16%		19,64%		3.116	28,96%	25	-10
1.75 to <2.5	2.095	368	100,00%	2.463	2,11%		27,35%		1.438	58,40%	14	-6
2.50 to <10.00	**3.087**	**47**	**100,00%**	**3.135**	**4,26%**		**20,62%**		**2.120**	**67,62%**	**28**	**-29**
2.5 to <5	2.328	36	100,00%	2.364	3,30%		20,57%		1.410	59,62%	16	-10
5 to <10	759	11	100,00%	771	7,20%		20,75%		710	92,14%	12	-19
10.00 to <100.00	**1.368**	**18**	**100,00%**	**1.386**	**27,60%**		**19,57%**		**1.511**	**108,99%**	**75**	**-133**
10 to <20	769	10	100,00%	779	14,27%		19,39%		881	113,10%	21	-44
20 to <30	264	6	100,00%	270	24,25%		19,44%		340	125,60%	13	-7
30.00 to <100.00	335	1	100,00%	337	61,06%		20,09%		290	86,19%	41	-81
100.00 (Default)	**1.654**	**3**	**0,00%**	**1.648**	**100,00%**		**33,76%**		**217**	**13,18%**	**666**	**-449**
Subtotal	**74.378**	**3.705**	**99,10%**	**78.050**	**3,15%**	**762.029**	**19,21%**	**4,9**	**13.128**	**16,82%**	**830**	**-647**

Exposure class = Retail - Qualifying revolving / PD range	On-balance sheet exposures	Off-balance-sheet exposures pre-CCF	Exposure weighted average CCF	Exposure post CCF and post CRM	Exposure weighted average PD (%)	Number of obligors	Exposure weighted average LGD (%)	Exposure weighted average maturity (years)	Risk weighted exposure amount after supporting factors	Density of risk weighted exposure amount	Expected loss amount	Value adjust-ments and provisions
0.00 to <0.15	**58**	**873**	**87.06%**	**818**	**0.05%**		**50.74%**		**16**	**1.92%**	**0**	**0**
0.00 to <0.10	44	740	89.81%	709	0.03%		51.26%		12	1.64%	0	0
0.10 to <0.15	14	133	71.73%	109	0.12%		47.40%		4	3.76%	0	0
0.15 to <0.25	**29**	**77**	**55.00%**	**72**	**0.18%**		**57.69%**		**5**	**7.22%**	**0**	**0**
0.25 to <0.50	**16**	**37**	**87.45%**	**48**	**0.41%**		**52.54%**		**6**	**12.73%**	**0**	**0**
0.50 to <0.75	**9**	**25**	**54.49%**	**23**	**0.57%**		**46.44%**		**3**	**12.44%**	**0**	**0**
0.75 to <2.50	**27**	**34**	**78.95%**	**53**	**1.25%**		**52.11%**		**15**	**28.21%**	**0**	**0**
0.75 to <1.75	21	26	84.89%	43	1.08%		53.88%		12	27.79%	0	0
1.75 to <2.5	6	8	58.88%	11	1.93%		45.02%		3	29.89%	0	0
2.50 to <10.00	**23**	**14**	**81.10%**	**35**	**4.49%**		**51.85%**		**24**	**70.83%**	**1**	**-1**
2.5 to <5	18	12	80.00%	28	3.81%		52.84%		19	66.87%	1	0
5 to <10	4	2	86.45%	7	7.40%		47.62%		6	87.88%	0	0
10.00 to <100.00	**10**	**3**	**65.77%**	**12**	**29.58%**		**49.20%**		**17**	**134.62%**	**2**	**-2**
10 to <20	5	1	74.23%	5	13.49%		51.55%		7	138.57%	0	0

	20 to <30	3	1	67.76%	4	21.15%		49.58%	5	154.88%	0	0
	30.00 to <100.00	3	1	49.86%	3	64.01%		45.07%	4	107.10%	1	-1
	100.00 (Default)	**2**	**0**	**100.00%**	**2**	**100.00%**		**63.95%**	**1**	**43.13%**	**1**	**-1**
Subtotal		**174**	**1 064**	**83.59%**	**1 063**	**0.85%**	**531 222**	**51.32%**	**87**	**8.19%**	**5**	**-4**

Exposure class = Retail - Other SME	PD range	On-balance sheet exposures	Off-balance-sheet exposures pre-CCF	Exposure weighted average CCF	Exposure post CCF and post CRM	Exposure weighted average PD (%)	Number of obligors	Exposure weighted average LGD (%)	Exposure weighted average maturity (years)	Risk weighted exposure amount after supporting factors	Density of risk weighted exposure amount	Expected loss amount	Value adjust-ments and provisions
	0.00 to <0.15	**1 173**	**682**	**14.15%**	**1 269**	**0.10%**		**28.02%**		**70**	**5.50%**	**0**	**0**
	0.00 to <0.10	665	346	13.73%	712	0.07%		26.55%		31	4.31%	0	0
	0.10 to <0.15	508	336	14.59%	557	0.12%		29.90%		39	7.03%	0	0
	0.15 to <0.25	**741**	**500**	**13.19%**	**807**	**0.19%**		**28.14%**		**72**	**8.90%**	**0**	**0**
	0.25 to <0.50	**819**	**480**	**15.20%**	**892**	**0.37%**		**29.78%**		**128**	**14.38%**	**1**	**-1**
	0.50 to <0.75	**978**	**1 600**	**16.89%**	**1 249**	**0.62%**		**30.24%**		**256**	**20.50%**	**2**	**-5**
	0.75 to <2.50	**1 208**	**1 417**	**17.32%**	**1 453**	**1.42%**		**29.00%**		**394**	**27.10%**	**6**	**-10**
	0.75 to <1.75	928	1 013	18.27%	1 113	1.19%		26.84%		262	23.56%	4	-4
	1.75 to <2.5	280	404	14.92%	340	2.18%		36.08%		132	38.71%	3	-6
	2.50 to <10.00	**1 245**	**2 421**	**9.65%**	**1 479**	**4.38%**		**23.55%**		**434**	**29.32%**	**16**	**-20**
	2.5 to <5	794	2 076	9.24%	985	3.31%		22.66%		276	28.06%	8	-8
	5 to <10	452	346	12.12%	494	6.51%		25.33%		157	31.82%	9	-13
	10.00 to <100.00	**250**	**152**	**11.66%**	**268**	**24.91%**		**29.55%**		**137**	**51.18%**	**21**	**-46**
	10 to <20	127	121	10.89%	140	15.41%		26.55%		60	42.61%	6	-19
	20 to <30	74	19	18.41%	77	23.91%		33.96%		50	65.38%	6	-11
	30.00 to <100.00	50	13	9.07%	51	52.36%		31.15%		27	53.25%	9	-15
	100.00 (Default)	**288**	**31**	**2.25%**	**289**	**100.00%**		**38.04%**		**138**	**47.91%**	**125**	**-165**
Subtotal		**6 703**	**7 284**	**13.77%**	**7 707**	**5.90%**	**349 969**	**28.39%**		**1 629**	**21.14%**	**172**	**-248**

Exposure class = Retail - Other non-SME	PD range	On-balance sheet exposures	Off-balance-sheet exposures pre-CCF	Exposure weighted average CCF	Exposure post CCF and post CRM	Exposure weighted average PD (%)	Number of obligors	Exposure weighted average LGD (%)	Exposure weighted average maturity (years)	Risk weighted exposure amount after supporting factors	Density of risk weighted exposure amount	Expected loss amount	Value adjust-ments and provisions
	0.00 to <0.15	**2 157**	**1 950**	**98.40%**	**4 075**	**0.06%**		**26.70%**		**227**	**5.58%**	**1**	**0**
	0.00 to <0.10	2 075	1 922	98.59%	3 969	0.05%		26.35%		214	5.38%	1	0
	0.10 to <0.15	82	28	85.80%	106	0.12%		39.92%		14	12.98%	0	0

0.15 to <0.25	**567**	**354**	**62.29%**	**787**	**0.18%**		**30.56%**		**102**	**12.92%**	**0**	**0**
0.25 to <0.50	**463**	**338**	**99.37%**	**798**	**0.40%**		**27.59%**		**162**	**20.25%**	**1**	**-1**
0.50 to <0.75	**900**	**40**	**97.71%**	**939**	**0.69%**		**39.34%**		**362**	**38.52%**	**3**	**-2**
0.75 to <2.50	**749**	**401**	**92.56%**	**1 120**	**1.36%**		**27.89%**		**376**	**33.58%**	**4**	**-3**
0.75 to <1.75	617	250	90.44%	844	1.11%		28.94%		282	33.44%	3	-3
1.75 to <2.5	132	151	96.06%	277	2.11%		24.66%		94	34.02%	1	-1
2.50 to <10.00	**740**	**124**	**96.75%**	**860**	**3.92%**		**35.77%**		**480**	**55.88%**	**12**	**-14**
2.5 to <5	631	114	97.27%	742	3.43%		36.10%		414	55.86%	9	-7
5 to <10	110	9	90.39%	118	7.03%		33.76%		66	55.99%	3	-6
10.00 to <100.00	**132**	**10**	**92.59%**	**142**	**31.03%**		**38.04%**		**127**	**89.42%**	**17**	**-42**
10 to <20	53	5	98.55%	58	13.33%		33.36%		42	71.91%	2	-3
20 to <30	28	3	82.10%	30	23.86%		43.95%		36	116.96%	3	-6
30.00 to <100.00	51	2	94.05%	53	54.49%		39.77%		49	92.83%	11	-33
100.00 (Default)	**135**	**3**	**25.39%**	**136**	**100.00%**		**57.26%**		**41**	**29.98%**	**82**	**-82**
Subtotal	**5 843**	**3 220**	**93.64%**	**8 858**	**2.69%**	**2 414 875**	**30.14%**	**3.7**	**1 877**	**21.19%**	**120**	**-145**
Total (all IRB_A exposure classes)	**208 482**	**60 472**	**33.59%**	**228 795**	**2.99%**	**4 183 529**	**23.26%**	**3.1**	**54 924**	**24.01%**	**2 607**	**-2 954**

Table 28 - EU CR6_IRB approach – Credit risk exposures by exposure class and PD range (AIRB)

The only risk parameter that differs materially from last year's results is the average PD percentage, which dropped from 3.32% to 2.99%. We have pointed out this effect in the section on RWA movements above (analysis of the OV1 table). The average risk weight, however, did not change due to the increasing effect on the RWA of the implementation of a number of model and regulatory changes (e.g., the TRIM impact).

EU CR6-A - Scope of the use of IRB and SA approaches *At 31 December 2021 (in millions of EUR)*		Exposure value as defined in Article 166 CRR for exposures subject to IRB approach	Total exposure value for exposures subject to the Standardised approach and to the IRB approach	Percentage of total exposure value subject to the permanent partial use of the SA (%)	Percentage of total exposure value subject to IRB approach (%)	Percentage of total exposure value subject to a roll-out plan (%)
1	**Central governments or central banks**	**46 780**	**50 927**	**1.78%**	**6.36%**	**91.86%**
1,1	*of which Regional governments or local authorities*		*2 872*	*0.31%*	*9.06%*	*90.63%*
1,2	*of which Public sector entities*		*2 384*	*0.60%*	*0.50%*	*98.90%*
2	**Institutions**	**7 356**	**8 095**	**8.32%**	**0.81%**	**90.86%**
3	**Corporates**	**75 442**	**79 184**	**1.48%**	**3.24%**	**95.27%**
3,1	*of which Corporates - Specialised lending, excluding slotting approach*		*9 966*			*100.00%*
3,2	*of which Corporates - Specialised lending under slotting approach*					
3,3	*of which Corporates - SMEs*		*27 795*	*0.88%*	*4.45%*	*94.67%*
4	**Retail**	**101 263**	**105 102**	**0.37%**	**3.28%**	**96.35%**
4,1	*of which Retail – Secured by real estate SMEs*		*9 713*	*0.19%*	*1.03%*	*98.77%*
4,2	*of which Retail – Secured by real estate non-SMEs*		*77 000*	*0.03%*	*1.66%*	*98.31%*
4,3	*of which Retail – Qualifying revolving*		*270*			*100.00%*
4,4	*of which Retail – Other SMEs*		*9 580*	*1.88%*	*9.65%*	*88.48%*
4,5	*of which Retail – Other non-SMEs*		*8 540*	*1.92%*	*13.45%*	*84.63%*
5	**Equity**	**178**	**220**	**14.14%**	**4.78%**	**81.08%**
6	**Other non-credit obligation assets**	**41 435**	**44 070**	**5.28%**	**0.70%**	**94.02%**
7	**Total**	**272 455**	**287 599**	**1.91%**	**3.35%**	**94.73%**

Table 29 - EU CR6-A_Scope of the use of IRB and SA approaches

Credit derivatives used as CRM technique

EU CR7 – IRB approach - Effect on the RWEAs of credit derivatives used as CRM techniques *At 31 December 2021 (in millions of EUR)*		Pre-credit derivatives risk weighted exposure amount	Actual risk weighted exposure amount
1	**Exposures under F-IRB**	**2 561**	**2 561**
2	Central governments and central banks	253	253
3	Institutions	109	109
4	Corporates	2 199	2 199
4,1	*of which Corporates - SMEs*	*406*	*406*
4,2	*of which Corporates - Specialised lending*	*727*	*727*
5	**Exposures under A-IRB**	**54 924**	**54 924**
6	Central governments and central banks	5 280	5 280
7	Institutions	1 298	1 298
8	Corporates	30 348	30 348
8,1	*of which Corporates - SMEs*	*8 844*	*8 844*
8,2	*of which Corporates - Specialised lending*	*3 813*	*3 813*
9	Retail	17 998	17 998
9,1	*of which Retail – SMEs - Secured by immovable property collateral*	*1 277*	*1 277*
9,2	*of which Retail – non-SMEs - Secured by immovable property collateral*	*13 128*	*13 128*
9,3	*of which Retail – Qualifying revolving*	*87*	*87*
9,4	*of which Retail – SMEs - Other*	*1 629*	*1 629*
9,5	*of which Retail – Non-SMEs- Other*	*1 877*	*1 877*
10	**Total (including F-IRB exposures and A-IRB exposures)**	**57 485**	**57 485**

Table 30 - EU CR7_IRB approach – Effect on the RWEAs of credit derivatives used as CRM techniques

As the table shows, KBC Group does not use derivatives as a CRM technique.

AIRB and FIRB use of CRM techniques

EU CR7-A - IRB approach – Disclosure of the extent of the use of CRM techniques

A-IRB *At 31 December 2021 (in millions of EUR)*		Total exposures	Credit risk Mitigation techniques										Credit risk Mitigation methods in the calculation of RWEAs	
			Funded credit Protection (FCP)								Unfunded credit Protection (UFCP)			
			Part of exposures covered by Financial Collaterals (%)	Part of exposures covered by Other eligible collaterals (%)				Part of exposures covered by Other funded credit protection (%)			Part of exposures covered by Guarantees (%)	Part of exposures covered by Credit Derivatives (%)	RWEA without substitution effects (reduction effects only)	RWEA with substitution effects (both reduction and sustitution effects)
					Part of exposures covered by Immovable property Collaterals (%)	Part of exposures covered by Receivables (%)	Part of exposures covered by Other physical collateral (%)		Part of exposures covered by Cash on deposit (%)	Part of exposures covered by Life insurance policies (%)	Part of exposures covered by Instruments held by a third party (%)			
1	**Central governments and central banks**	**44 386**	**0.00%**	**0.03%**	**0.03%**	**0.00%**	**0.00%**					**5,19%**		**5 280**	**5 280**
2	**Institutions**	**8 226**	**0.37%**	**0.10%**	**0.08%**		**0.02%**					**1,35%**		**1 298**	**1 298**
3	**Corporates**	**70 683**	**1.21%**	**25.75%**	**20.56%**	**0.52%**	**4.67%**	**0.00%**		**0.00%**	**0.00%**	**6.28%**		**30 348**	**30 348**
3,1	*Of which Corporates – SMEs*	*25 683*	*1.77%*	*36.23%*	*29.96%*	*0.21%*	*6.05%*	*0.01%*		*0.00%*	*0.00%*	*4.04%*		*8 844*	*8 844*
3,2	*Of which Corporates – Specialised lending*	*9 838*	*0.50%*	*40.84%*	*40.48%*	*0.24%*	*0.12%*					*5.15%*		*3 813*	*3 813*
3,3	*Of which Corporates – Other*	*35 162*	*0.99%*	*13.87%*	*8.12%*	*0.83%*	*4.92%*					*8.22%*		*17 691*	*17 691*
4	**Retail**	**105 500**	**0.20%**	**64.34%**	**58.01%**	**0.01%**	**6.32%**	**0.00%**		**0.00%**		**0.57%**		**17 998**	**17 998**
4,1	*Of which Retail – Immovable property SMEs*	*9 823*	*0.57%*	*69.62%*	*68.65%*	*0.03%*	*0.94%*	*0.00%*		*0.00%*		*1.46%*		*1 277*	*1 277*
4,2	*Of which Retail – Immovable property non-SMEs*	*78 050*		*74.85%*	*69.78%*		*5.07%*							*13 128*	*13 128*
4,3	*Of which Retail – Qualifying revolving*	*1 063*												*87*	*87*
4,4	*Of which Retail – Other SMEs*	*7 707*	*2.07%*	*15.01%*	*0.02%*	*0.08%*	*14.91%*	*0.01%*		*0.01%*		*5.90%*		*1 629*	*1 629*
4,5	*Of which Retail – Other non-SMEs*	*8 858*	*0.00%*	*16.55%*			*16.55%*					*0.00%*		*1 877*	*1 877*
5	**Total**	**228 795**	**0.48%**	**37.63%**	**33.11%**	**0.17%**	**4.36%**	**0.00%**		**0.00%**	**0.00%**	**3.26%**		**54 924**	**54 924**

Table 31 - EU CR7-A_IRB approach – Disclosure of the extent of the use of CRM techniques (AIRB)

F-IRB		Credit risk Mitigation techniques									Credit risk Mitigation methods in the calculation of RWEAs	
		Funded credit Protection (FCP)							Unfunded credit Protection (UFCP)			
			Part of exposures covered by Other eligible collaterals (%)			Part of exposures covered by Other funded credit protection (%)						
At 31 December 2021 (in millions of EUR)	Total exposures	Part of exposures covered by Financial Collaterals (%)		Part of exposures covered by Immovable property Collaterals (%)	Part of exposures covered by Receivables (%)	Part of exposures covered by Other physical collateral (%)	Part of exposures covered by Cash on deposit (%)	Part of exposures covered by Life insurance policies (%)	Part of exposures covered by Instruments held by a third party (%)	Part of exposures covered by Guarantees (%)	Part of exposures covered by Credit Derivatives (%)	RWEA without substitution effects (reduction effects only)	RWEA with substitution effects (both reduction and sustitution effects)
1 Central governments and central banks	**2 400**											**253**	**253**
2 Institutions	**201**									**1.66%**		**110**	**109**
3 Corporates	**3 047**	**0.57%**	**8.76%**	**8.76%**						**0.07%**		**2 200**	**2 199**
3,1 Of which Corporates – SMEs	*671*	*0.54%*	*21.41%*	*21.41%*								*406*	*406*
3,2 Of which Corporates – Specialised lending	*773*	*1.45%*	*3.97%*	*3.97%*								*727*	*727*
3,3 Of which Corporates – Other	*1 603*	*0.17%*	*5.78%*	*5.78%*						*0.14%*		*1 068*	*1 066*
4 Total	**5 648**	**0.31%**	**4.72%**	**4.72%**						**0.10%**		**2 564**	**2 561**

Table 32 - EU CR7-A_IRB approach – Disclosure of the extent of the use of CRM techniques (FIRB)

Mortgages are by far the most important collateral covering the KBC Group credit risk. In addition, guarantees and other physical collateral are also important in managing the credit risk of our portfolio.

AIRB and FIRB back-testing of PD

CR9 - IRBA approach – Back-testing of PD per exposure class (fixed PD scale)

At 31 December 2021 (in millions of EUR)

Exposure class	PD range	Number of obligors at the end of previous year		Observed average default rate (%)	Exposures weighted average PD (%)	Average PD (%)	Average historical annual default rate (%)
			Of which number of obligors which defaulted in the year		Average PD		
Central governments and banks							
	0.00 to <0.15	**261**	**0**	**0.00%**	**0.03%**	**0.08%**	**0.00%**
	0.00 to <0.10	212	0	0.00%	0.02%	0.04%	0.00%
	0.10 to <0.15	49	0	0.00%	0.13%	0.13%	0.00%
	0.15 to <0.25	**13**	**0**	**0.00%**	**0.21%**	**0.20%**	**0.00%**
	0.25 to <0.50	**24**	**0**	**0.00%**	**0.38%**	**0.37%**	**0.00%**
	0.50 to <0.75	**183**	**1**	**0.55%**	**0.60%**	**0.54%**	**0.12%**
	0.75 to <2.50	**27**	**0**	**0.00%**	**1.80%**	**1.48%**	**0.00%**
	0.75 to <1.75	17	0	0.00%	1.20%	1.03%	0.00%
	1.75 to <2.5	10	0	0.00%	1.87%	1.93%	0.00%
	2.50 to <10.00	**212**	**1**	**1.47%**	**4.44%**	**4.94%**	**0.38%**
	2.5 to <5	178	0	0.00%	3.35%	4.39%	0.00%
	5 to <10	34	1	2.94%	5.44%	5.49%	0.76%
	10.00 to <100.00	**6**	**0**	**0.00%**	**18.12%**	**27.75%**	**0.00%**
	10 to <20	4	0	0.00%	15.77%	14.85%	0.00%
	30.00 to <100.00	2	0	0.00%	78.04%	40.65%	0.00%
	100.00 (Default)	**4**	**0**	**0.00%**	**100.00%**	**100.00%**	**0.00%**
Institutions							
	0.00 to <0.15	**975**	**0**	**0.00%**	**0.07%**	**0.09%**	**0.00%**
	0.00 to <0.10	627	0	0.00%	0.06%	0.06%	0.00%
	0.10 to <0.15	348	0	0.00%	0.12%	0.13%	0.00%
	0.15 to <0.25	**125**	**0**	**0.00%**	**0.18%**	**0.18%**	**0.00%**
	0.25 to <0.50	**354**	**0**	**0.00%**	**0.32%**	**0.34%**	**0.00%**
	0.50 to <0.75	**378**	**2**	**0.53%**	**0.52%**	**0.53%**	**0.26%**
	0.75 to <2.50	**245**	**0**	**0.00%**	**1.77%**	**1.55%**	**0.00%**

	0.75 to <1.75	125	0	0.00%	1.06%	1.03%	0.00%
	1.75 to <2.5	120	0	0.00%	2.24%	2.08%	0.00%
	2.50 to <10.00	**374**	**0**	**0.00%**	**4.80%**	**5.07%**	**0.04%**
	2.5 to <5	224	0	0.00%	3.73%	4.16%	0.08%
	5 to <10	150	0	0.00%	6.76%	5.98%	0.00%
	10.00 to <100.00	**78**	**0**	**0.00%**	**83.45%**	**29.54%**	**0.00%**
	10 to <20	72	0	0.00%	17.41%	15.93%	0.00%
	20 to <30	4	0	0.00%	0.00%	23.14%	0.00%
	30.00 to <100.00	2	0	0.00%	98.23%	49.55%	0.00%
	100.00 (Default)	**3**	**0**	**0.00%**	**100.00%**	**100.00%**	**0.00%**
Corporates - SME							
	0.00 to <0.15	**18 910**	**5**	**0.03%**	**0.10%**	**0.11%**	**0.02%**
	0.00 to <0.10	4 433	1	0.02%	0.07%	0.07%	0.02%
	0.10 to <0.15	14 477	4	0.03%	0.13%	0.14%	0.02%
	0.15 to <0.25	**2 551**	**8**	**0.31%**	**0.19%**	**0.19%**	**0.14%**
	0.25 to <0.50	**9 447**	**17**	**0.18%**	**0.35%**	**0.32%**	**0.07%**
	0.50 to <0.75	**6 221**	**17**	**0.27%**	**0.60%**	**0.57%**	**0.20%**
	0.75 to <2.50	**11 456**	**73**	**0.70%**	**1.48%**	**1.68%**	**0.78%**
	0.75 to <1.75	7 216	33	0.46%	1.16%	1.18%	0.44%
	1.75 to <2.5	4 240	40	0.94%	2.21%	2.19%	1.12%
	2.50 to <10.00	**22 001**	**134**	**2.00%**	**5.18%**	**5.82%**	**2.15%**
	2.5 to <5	19 833	53	0.27%	3.88%	4.39%	0.49%
	5 to <10	2 168	81	3.74%	7.86%	7.24%	3.81%
	10.00 to <100.00	**1 887**	**140**	**8.67%**	**18.43%**	**29.85%**	**8.59%**
	10 to <20	1 287	74	5.75%	15.21%	15.46%	6.02%
	20 to <30	238	14	5.88%	24.83%	24.45%	5.39%
	30.00 to <100.00	362	52	14.36%	39.85%	49.64%	14.36%
	100.00 (Default)	**1 715**	**0**	**0.00%**	**100.00%**	**100.00%**	**0.00%**
Corporates - SL							
	0.00 to <0.15	**20**	**0**	**0.00%**	**0.12%**	**0.10%**	**0.00%**
	0.00 to <0.10	4	0	0.00%	0.07%	0.07%	0.00%
	0.10 to <0.15	16	0	0.00%	0.14%	0.14%	0.00%
	0.15 to <0.25	**17**	**0**	**0.00%**	**0.21%**	**0.20%**	**0.00%**
	0.25 to <0.50	**119**	**0**	**0.00%**	**0.33%**	**0.34%**	**0.00%**
	0.50 to <0.75	**177**	**0**	**0.00%**	**0.58%**	**0.58%**	**0.14%**
	0.75 to <2.50	**760**	**0**	**0.00%**	**1.56%**	**1.70%**	**0.22%**

	0.75 to <1.75	398	0	0.00%	1.18%	1.18%	0.27%
	1.75 to <2.5	362	0	0.00%	2.19%	2.21%	0.16%
	2.50 to <10.00	**257**	**3**	**1.45%**	**4.34%**	**5.44%**	**2.12%**
	2.5 to <5	205	2	0.98%	3.56%	4.06%	1.81%
	5 to <10	52	1	1.92%	7.72%	6.82%	2.44%
	10.00 to <100.00	**20**	**1**	**50.00%**	**16.82%**	**26.21%**	**52.68%**
	10 to <20	19	0	0.00%	16.50%	16.23%	5.36%
	30.00 to <100.00	1	1	100.00%	0.00%	36.20%	100.00%
	100.00 (Default)	**36**	**0**	**0.00%**	**100.00%**	**100.00%**	**0.00%**
Corporates - Other							
	0.00 to <0.15	**1 391**	**0**	**0.00%**	**0.10%**	**0.11%**	**0.06%**
	0.00 to <0.10	956	0	0.00%	0.06%	0.08%	0.02%
	0.10 to <0.15	435	0	0.00%	0.13%	0.14%	0.10%
	0.15 to <0.25	**194**	**0**	**0.00%**	**0.19%**	**0.19%**	**0.48%**
	0.25 to <0.50	**869**	**0**	**0.00%**	**0.34%**	**0.33%**	**0.38%**
	0.50 to <0.75	**1 519**	**6**	**0.39%**	**0.61%**	**0.57%**	**0.54%**
	0.75 to <2.50	**1 959**	**12**	**0.65%**	**1.41%**	**1.71%**	**1.12%**
	0.75 to <1.75	1 212	6	0.50%	1.19%	1.22%	0.66%
	1.75 to <2.5	747	6	0.80%	2.14%	2.21%	1.57%
	2.50 to <10.00	**4 011**	**17**	**1.75%**	**4.29%**	**5.43%**	**1.82%**
	2.5 to <5	3 681	6	0.16%	3.50%	4.34%	0.30%
	5 to <10	330	11	3.33%	7.10%	6.53%	3.35%
	10.00 to <100.00	**263**	**21**	**10.27%**	**25.78%**	**27.07%**	**8.26%**
	10 to <20	207	14	6.76%	14.03%	15.75%	0.51%
	20 to <30	37	5	13.51%	21.87%	22.96%	12.50%
	30.00 to <100.00	19	2	10.53%	71.41%	42.50%	11.76%
	100.00 (Default)	**368**	**0**	**0.00%**	**100.00%**	**100.00%**	**0.00%**
Retail - RE SME							
	0.00 to <0.15	**15 373**	**4**	**0.03%**	**0.10%**	**0.10%**	**0.04%**
	0.00 to <0.10	9 688	1	0.01%	0.08%	0.08%	0.04%
	0.10 to <0.15	5 685	3	0.05%	0.13%	0.12%	0.04%
	0.15 to <0.25	**7 853**	**10**	**0.13%**	**0.19%**	**0.18%**	**0.07%**
	0.25 to <0.50	**6 946**	**6**	**0.09%**	**0.37%**	**0.36%**	**0.11%**
	0.50 to <0.75	**5 401**	**15**	**0.28%**	**0.61%**	**0.59%**	**0.26%**
	0.75 to <2.50	**6 961**	**26**	**0.39%**	**1.36%**	**1.65%**	**0.41%**
	0.75 to <1.75	4 828	17	0.35%	1.15%	1.15%	0.35%

	1.75 to <2.5	2 133	9	0.42%	2.13%	2.16%	0.47%
	2.50 to <10.00	**3 812**	**93**	**2.53%**	**5.55%**	**5.59%**	**2.21%**
	2.5 to <5	2 036	24	1.18%	3.58%	3.55%	1.14%
	5 to <10	1 776	69	3.89%	7.86%	7.64%	3.29%
	10.00 to <100.00	**1 310**	**139**	**12.78%**	**24.58%**	**30.01%**	**12.00%**
	10 to <20	607	37	6.10%	15.14%	15.74%	5.85%
	20 to <30	420	33	7.86%	23.90%	23.73%	7.89%
	30.00 to <100.00	283	69	24.38%	50.23%	50.55%	22.24%
	100.00 (Default)	**380**	**0**	**0.00%**	**100.00%**	**100.00%**	**0.00%**
Retail - RE non-SME							
	0.00 to <0.15	**479 486**	**299**	**0.11%**	**0.06%**	**0.09%**	**0.10%**
	0.00 to <0.10	386 191	135	0.03%	0.06%	0.05%	0.04%
	0.10 to <0.15	93 295	164	0.18%	0.14%	0.14%	0.15%
	0.15 to <0.25	**5 040**	**21**	**0.42%**	**0.17%**	**0.18%**	**0.09%**
	0.25 to <0.50	**254 693**	**718**	**0.28%**	**0.37%**	**0.35%**	**0.16%**
	0.50 to <0.75	**78 130**	**581**	**0.74%**	**0.60%**	**0.55%**	**0.50%**
	0.75 to <2.50	**171 398**	**1 093**	**0.92%**	**1.34%**	**1.65%**	**0.53%**
	0.75 to <1.75	138 497	639	0.46%	1.16%	1.16%	0.36%
	1.75 to <2.5	32 901	454	1.38%	2.11%	2.13%	0.70%
	2.50 to <10.00	**35 130**	**1 034**	**3.36%**	**4.26%**	**5.51%**	**2.62%**
	2.5 to <5	23 558	506	2.15%	3.30%	3.66%	1.73%
	5 to <10	11 572	528	4.56%	7.20%	7.36%	3.50%
	10.00 to <100.00	**22 453**	**2 741**	**12.06%**	**27.60%**	**30.36%**	**10.62%**
	10 to <20	11 787	744	6.31%	14.27%	14.21%	6.36%
	20 to <30	2 929	191	6.52%	24.25%	24.52%	7.57%
	30.00 to <100.00	7 737	1 806	23.34%	61.06%	52.34%	17.94%
	100.00 (Default)	**23 315**	**0**	**0.00%**	**100.00%**	**100.00%**	**0.00%**
Retail - QR							
	0.00 to <0.15	**525 649**	**69**	**0.02%**	**0.05%**	**0.07%**	**0.04%**
	0.00 to <0.10	405 788	14	0.00%	0.03%	0.03%	0.01%
	0.10 to <0.15	119 861	55	0.05%	0.12%	0.12%	0.08%
	0.15 to <0.25	**8 494**	**9**	**0.11%**	**0.18%**	**0.24%**	**0.17%**
	0.25 to <0.50	**29 646**	**45**	**0.15%**	**0.41%**	**0.37%**	**0.22%**
	0.50 to <0.75	**28 929**	**51**	**0.18%**	**0.57%**	**0.59%**	**0.45%**
	0.75 to <2.50	**29 382**	**139**	**0.47%**	**1.25%**	**1.66%**	**0.91%**
	0.75 to <1.75	15 529	74	0.48%	1.08%	1.21%	0.49%

	1.75 to <2.5	13 853	65	0.47%	1.93%	2.11%	1.33%
	2.50 to <10.00	**20 258**	**307**	**1.69%**	**4.49%**	**5.80%**	**2.54%**
	2.5 to <5	13 782	166	1.20%	3.81%	4.06%	1.61%
	5 to <10	6 476	141	2.18%	7.40%	7.54%	3.47%
	10.00 to <100.00	**9 276**	**765**	**8.51%**	**29.58%**	**32.19%**	**9.83%**
	10 to <20	3 416	201	5.88%	13.49%	12.23%	8.09%
	20 to <30	3 096	193	6.23%	21.15%	21.30%	8.35%
	30.00 to <100.00	2 764	371	13.42%	64.01%	63.03%	13.04%
	100.00 (Default)	**1 466**	**0**	**0.00%**	**100.00%**	**100.00%**	**0.00%**
Retail - Other SME							
	0.00 to <0.15	**39 630**	**31**	**0.08%**	**0.10%**	**0.10%**	**0.06%**
	0.00 to <0.10	26 336	17	0.06%	0.07%	0.07%	0.06%
	0.10 to <0.15	13 294	14	0.11%	0.12%	0.12%	0.07%
	0.15 to <0.25	**18 961**	**53**	**0.28%**	**0.19%**	**0.18%**	**0.13%**
	0.25 to <0.50	**15 978**	**28**	**0.18%**	**0.37%**	**0.36%**	**0.17%**
	0.50 to <0.75	**73 429**	**305**	**0.42%**	**0.62%**	**0.56%**	**0.31%**
	0.75 to <2.50	**87 157**	**755**	**1.05%**	**1.42%**	**1.68%**	**0.78%**
	0.75 to <1.75	62 851	396	0.63%	1.19%	1.20%	0.55%
	1.75 to <2.5	24 306	359	1.48%	2.18%	2.17%	1.01%
	2.50 to <10.00	**120 314**	**2 060**	**2.22%**	**4.38%**	**4.86%**	**1.90%**
	2.5 to <5	89 510	1 051	1.17%	3.31%	3.37%	1.01%
	5 to <10	30 804	1 009	3.28%	6.51%	6.34%	2.79%
	10.00 to <100.00	**17 327**	**2 747**	**19.33%**	**24.91%**	**31.24%**	**21.91%**
	10 to <20	8 645	816	9.44%	15.41%	15.79%	8.66%
	20 to <30	5 821	1 065	18.30%	23.91%	23.74%	20.39%
	30.00 to <100.00	2 861	866	30.27%	52.36%	54.20%	36.67%
	100.00 (Default)	**13 628**	**0**	**0.00%**	**100.00%**	**100.00%**	**0.00%**
Retail - Other non-SME							
	0.00 to <0.15	**229 482**	**107**	**0.07%**	**0.06%**	**0.09%**	**0.05%**
	0.00 to <0.10	173 895	46	0.03%	0.05%	0.04%	0.03%
	0.10 to <0.15	55 587	61	0.11%	0.12%	0.13%	0.06%
	0.15 to <0.25	**257 476**	**960**	**0.37%**	**0.18%**	**0.19%**	**0.25%**
	0.25 to <0.50	**227 048**	**2 132**	**0.94%**	**0.40%**	**0.41%**	**0.55%**
	0.50 to <0.75	**193 821**	**1 211**	**0.62%**	**0.69%**	**0.64%**	**0.60%**
	0.75 to <2.50	**247 756**	**3 454**	**1.41%**	**1.36%**	**1.67%**	**1.57%**
	0.75 to <1.75	177 698	2 445	1.38%	1.11%	1.21%	1.04%

	1.75 to <2.5	70 058	1 009	1.44%	2.11%	2.13%	2.11%
	2.50 to <10.00	**135 507**	**3 994**	**3.61%**	**3.92%**	**5.42%**	**2.78%**
	2.5 to <5	103 313	2 426	2.35%	3.43%	3.53%	1.67%
	5 to <10	32 194	1 568	4.87%	7.03%	7.31%	3.90%
	10.00 to <100.00	**45 190**	**7 170**	**15.06%**	**31.03%**	**29.93%**	**12.15%**
	10 to <20	10 890	726	6.67%	13.33%	13.16%	4.98%
	20 to <30	18 634	2 592	13.91%	23.86%	24.65%	7.90%
	30.00 to <100.00	15 666	3 852	24.59%	54.49%	51.97%	23.58%
	100.00 (Default)	**702 339**	**0**	**0.00%**	**100.00%**	**100.00%**	**0.00%**

Table 33 - EU CR9_IRB approach – Back-testing of PD per exposure class (fixed PD scale) (AIRB)

CR9 - IRBF approach – Back-testing of PD per exposure class (fixed PD scale)

At 31 December 2021 (in millions of EUR)

Exposure class	PD range	Number of obligors at the end of previous year		Observed average default rate (%)	Exposures weighted average PD (%)	Average PD (%)	Average historical annual default rate (%)
			Of which number of obligors which defaulted in the year		Average PD		
Central governments and banks							
	0.00 to <0.15	**13**	**0**	**0.00%**	**0.02%**	**0.07%**	**0.00%**
	0.00 to <0.10	12	0	0.00%	0.02%	0.01%	0.00%
	0.10 to <0.15	1	0	0.00%	0.13%	0.13%	0.00%
Institutions							
	0.00 to <0.15	**41**	**0**	**0.00%**	**0.11%**	**0.10%**	**0.00%**
	0.00 to <0.10	32	0	0.00%	0.08%	0.06%	0.00%
	0.10 to <0.15	9	0	0.00%	0.12%	0.14%	0.00%
	0.15 to <0.25	**8**	**0**	**0.00%**	**0.19%**	**0.18%**	**0.00%**
	0.25 to <0.50	**4**	**0**	**0.00%**	**0.32%**	**0.28%**	**0.00%**
	0.75 to <2.50	**6**	**0**	**0.00%**	**0.86%**	**0.85%**	**0.00%**
	0.75 to <1.75	6	0	0.00%	0.85%	0.85%	0.00%
	2.50 to <10.00	**39**	**0**	**0.00%**	**6.55%**	**4.65%**	**0.85%**
	2.5 to <5	4	0	0.00%	0.00%	3.92%	0.00%
	5 to <10	35	0	0.00%	6.55%	5.38%	1.69%

	100.00 (Default)	**4**	**0**	**0.00%**	**100.00%**	**100.00%**	**0.00%**
Corporates - SME							
	0.00 to <0.15	**169**	**0**	**0.00%**	**0.14%**	**0.11%**	**0.00%**
	0.00 to <0.10	8	0	0.00%	0.07%	0.07%	0.00%
	0.10 to <0.15	161	0	0.00%	0.14%	0.14%	0.00%
	0.25 to <0.50	**157**	**0**	**0.00%**	**0.28%**	**0.28%**	**0.00%**
	0.50 to <0.75	**241**	**0**	**0.00%**	**0.57%**	**0.57%**	**0.08%**
	0.75 to <2.50	**553**	**0**	**0.00%**	**1.54%**	**1.70%**	**0.27%**
	0.75 to <1.75	265	0	0.00%	1.13%	1.13%	0.07%
	1.75 to <2.5	288	0	0.00%	2.26%	2.26%	0.46%
	2.50 to <10.00	**240**	**10**	**5.65%**	**6.03%**	**6.79%**	**3.00%**
	2.5 to <5	191	6	3.14%	4.53%	4.53%	1.59%
	5 to <10	49	4	8.16%	9.05%	9.05%	4.41%
	10.00 to <100.00	**32**	**5**	**15.63%**	**18.10%**	**18.10%**	**8.55%**
	10 to <20	32	5	15.63%	18.10%	18.10%	8.55%
	100.00 (Default)	**72**	**0**	**0.00%**	**100.00%**	**100.00%**	**0.00%**
Corporates - SL							
	0.00 to <0.15	**3**	**0**	**0.00%**	**0.00%**	**0.14%**	**0.00%**
	0.10 to <0.15	3	0	0.00%	0.00%	0.14%	0.00%
	0.25 to <0.50	**7**	**0**	**0.00%**	**0.28%**	**0.28%**	**0.00%**
	0.50 to <0.75	**37**	**0**	**0.00%**	**0.57%**	**0.57%**	**0.46%**
	0.75 to <2.50	**227**	**0**	**0.00%**	**1.65%**	**1.70%**	**0.41%**
	0.75 to <1.75	106	0	0.00%	1.13%	1.13%	0.21%
	1.75 to <2.5	121	0	0.00%	2.26%	2.26%	0.60%
	2.50 to <10.00	**18**	**1**	**3.57%**	**4.56%**	**6.79%**	**4.18%**
	2.5 to <5	14	1	7.14%	4.53%	4.53%	2.11%
	5 to <10	4	0	0.00%	9.05%	9.05%	6.25%
	10.00 to <100.00	**6**	**0**	**0.00%**	**18.10%**	**18.10%**	**13.33%**
	10 to <20	6	0	0.00%	18.10%	18.10%	13.33%
	100.00 (Default)	**14**	**0**	**0.00%**	**100.00%**	**100.00%**	**0.00%**
Corporates - Other							
	0.00 to <0.15	**69**	**0**	**0.00%**	**0.14%**	**0.11%**	**0.00%**
	0.00 to <0.10	18	0	0.00%	0.07%	0.07%	0.00%
	0.10 to <0.15	51	0	0.00%	0.14%	0.14%	0.00%
	0.25 to <0.50	**81**	**0**	**0.00%**	**0.28%**	**0.28%**	**0.00%**
	0.50 to <0.75	**71**	**0**	**0.00%**	**0.57%**	**0.57%**	**0.00%**

0.75 to <2.50	**122**	**0**	**0.00%**	**1.89%**	**1.70%**	**0.70%**
0.75 to <1.75	69	0	0.00%	1.13%	1.13%	1.00%
1.75 to <2.5	53	0	0.00%	2.26%	2.26%	0.39%
2.50 to <10.00	**353**	**9**	**1.34%**	**5.50%**	**6.68%**	**1.30%**
2.5 to <5	336	9	2.68%	4.53%	4.53%	0.90%
5 to <10	17	0	0.00%	9.05%	8.84%	1.69%
10.00 to <100.00	**11**	**0**	**0.00%**	**18.10%**	**18.10%**	**1.15%**
10 to <20	11	0	0.00%	18.10%	18.10%	1.15%
100.00 (Default)	**53**	**0**	**0.00%**	**100.00%**	**100.00%**	**0.00%**

Table 34 - EU CR9_IRB approach – Back-testing of PD per exposure class (fixed PD scale) (FIRB)

Generally speaking, notwithstanding the coronavirus crisis environment, default rates in 2021 were in line with or below the historical average default rates. Unsurprisingly, taking into account the conservative nature of the Basel PDs, the average PDs (as estimated by the Basel models) exceed the observed default rates.

RWA flow statements of credit risk exposures

This table contains the KBC group's IRB credit risk exposure (excluding add-ons, deferred tax assets and other assets). It gives an overview of the main RWA drivers responsible for the change in IRB credit risk RWA over 2021. More details on the RWA development in 2021 can be found in the discussion of the OV1 table at the beginning of this credit risk section.

EU CR8 - RWEA flow statements of credit risk exposures under the IRB approach *At 31 December 2021 (in millions of EUR)*		Risk weighted exposure amount
1	**Risk weighted exposure amount as at 31 December 2020**	**54 398**
2	Asset size (+/-)	3 487
3	Asset quality (+/-)	-2 279
4	Model updates (+/-)	2 069
5	Methodology and policy (+/-)	108
6	Acquisitions and disposals (+/-)	
7	Foreign exchange movements (+/-)	656
8	Other (+/-)	-954
9	**Risk weighted exposure amount as at 31 December 2021**	**57 485**

Table 35 - EU CR8_RWEA flow statements of credit risk exposures

Equities under the simple risk-weight approach – IRB approach

This table 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 - Specialised lending and equity exposures under the simple risk-weighted approach[1] *At 31 December 2021 (in millions of EUR)* Template EU CR10.5_Equity exposures under the simple risk-weighted approach						
Categories	**On-balance-sheet exposure**	**Off-balance-sheet exposure**	**Risk weight**	**Exposure value**	**Risk-weighted exposure amount**	**Expected loss amount**
Private equity exposures			190%			
Exchange-traded equity exposures	17		290%	17	51	0
Other equity exposures	161		370%	161	596	4
Total	**178**			**178**	**646**	**4**

1. Templates EU CR10.1 - EU CR10.4 are for specialised lending calculated based on the slotting approach, which is not applied by KBC. Therefore, these templates are not applicable for KBC.

Table 36 - EU CR10.5_Specialised lending and equity exposures under the simple risk-weighted approach

Disclosure of exposures to securitisation positions

KBC has a very limited investment portfolio of securitisation positions of 0.2 billion euros, consisting primarily of European residential mortgage-backed securities (RMBS). In recent years no new investments were made, resulting in a gradual decrease of the portfolio due to redemptions.

The investment portfolio of securitisation positions consists entirely of senior positions. Since no new investments were made in recent years, the portfolio is primarily composed of non-STS positions.

KBC applies the SEC-SA approach for calculating the risk-weighted exposures on its investment portfolio of securitisation positions. If conditions for the SEC-SA are not met, the SEC-ERBA approach is used in accordance with the hierarchy of approaches as foreseen in the regulation and applying external ratings from Moody's and S&P.

The RMBS portfolio is measured at amortised cost as these investments are held within a business model whose objective is to hold assets in order to collect the contractual cashflows on specified dates that are solely payments of principal and interest. In line with KBC's accounting policies, an Expected Credit Loss (ECL) model is used to measure impairments on financial assets at amortised cost. The RMBS portfolio carries 12-month expected credit losses.

EU-SEC1 - Securitisation exposures in the non-trading book

		Institution acts as originator					Institution acts as sponsor				Institution acts as investor			
		Traditional			Synthetic	Subtotal	Traditional		Synthetic	Subtotal	Traditional		Synthetic	Subtotal
		STS		Non-STS										
At 31 December 2021 (in millions of EUR)		of which SRT		of which SRT	of which SRT		STS	Non-STS			STS	Non-STS		
1	**Total exposures**										**19**	**192**		**211**
2	**Retail (total)**										**19**	**192**		**211**
3	*residential mortgage*										*19*	*192*		*211*
4	*credit card*													
5	*other retail exposures*													
6	*re-securitisation*													
7	**Wholesale (total)**													
8	*loans to corporates*													
9	*commercial mortgage*													
10	*lease and receivables*													
11	*other wholesale*													
12	*re-securitisation*													

Table 37 - EU-SEC1_Securitisation exposures in the non-trading book

EU-SEC4 - Securitisation exposures in the non-trading book and associated regulatory capital requirements - institution acting as investor																	
	Exposure values (by RW bands/deductions)					Exposure values (by regulatory approach)				RWEA (by regulatory approach)				Capital charge after cap			
At 31 December 2021 (in millions of EUR)	≤20% RW	>20% to 50% RW	>50% to 100% RW	>100% to <1250% RW	1250% RW/ deductions	SEC-IRBA	SEC-ERBA (including IAA)	SEC-SA	1250% RW/ deductions	SEC-IRBA	SEC-ERBA (including IAA)	SEC-SA	1250% RW/ deductions	SEC-IRBA	SEC-ERBA (including IAA)	SEC-SA	1250% RW/ deductions
1 Total exposures	**211**							**211**				**31**				**2**	
2 Traditional securitisation	**211**							**211**				**31**				**2**	
3 Securitisation	*211*							*211*				*31*				*2*	
4 Retail underlying	*211*							*211*				*31*				*2*	
5 Of which STS	*19*							*19*				*2*				*0*	
6 Wholesale																	
7 Of which STS																	
8 Re-securitisation																	
9 Synthetic securitisation																	
10 Securitisation																	
11 Retail underlying																	
12 Wholesale																	
13 Re-securitisation																	

Table 38 - EU-SEC4_Securitisation exposures in the non-trading book and associated regulatory capital requirements - institution acting as investor

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 39 - Internal Rating Process

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

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).

Annual validation

Every IRB model is validated on a yearly basis in accordance with the following principles:

- The annual validation is performed by the independent validation unit;
- An annual validation cannot include model changes;
- Fixed tests are defined with fixed thresholds;
- The scope of the annual validation is the implemented model;
- The resulting outcome of the annual validation is either 'redesign needed' or 'no redesign needed', the latter possibly supplemented with a decision to recalibrate the model.

The annual validation of IRB models is performed by the independent validation unit, and results in an advice to the CRO on the appropriate actions to be taken.

Redesign/recalibration

A model is redesigned/recalibrated by a modelling team; the proposed redesign / recalibration is validated by the independent validation unit.

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 31-12-21 (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 40 - Asset classes key IRB models

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 that originates from our business activities involving derivatives and Security Financing Transactions. Lying at the intersection of market and credit risk, it draws from relevant credit risk (e.g., used for limit setting) and 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.

Counterparty credit risk objectives, processes and organisation

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, advises on the New and Active Products Process (NAPP), 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.

Counterparty credit risk management 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.

Scope

The counterparty credit risk section of the reports covers all derivatives and Security Financing Transactions. The tables below show the counterparty credit risks for all entities referred to in the scope description of the credit risk disclosures.

Methodologies used to measure and monitor CCR

At KBC Group we calculate the exposures to counterparty credit risk, using the following methodologies:

- For derivatives we use:
  - Internal Model Method (IMM)
  - Standardised CCR (SA-CCR)
  - Current Exposure Method (CEM)
- For Security Financing Transactions, we use the Financial Collateral Comprehensive method.

All these methodologies start from the same premise: the exposure of the trades is measured over the lifetime of the trade, taking into account the replacement cost (which can change on a day-to-day basis due to changes in market rates), portfolio effects and credit risk mitigation. Below we briefly zoom in on each of the methodologies, their link to capital calculations and limit monitoring.

The Internal Model Method

KBC Group uses the Internal Model Method (IMM) to measure the exposure of the interest rate and foreign exchange derivatives of KBC Bank NV and CBC Banque NV. The IMM uses a Monte Carlo-based approach to simulate the expected market values over the lifetime of the trades. These expected market value profiles serve as input for the Credit Risk Mitigation model, where netting and collateral may be applied. The resulting exposure profiles are then used in the appropriate risk process:

- Effective Expected Positive Exposure (EEPE) feeds into the capital calculation. EEPE is the weighted average over time of the effective expected exposures where the weights are the proportion that an individual expected exposure represents of an entire time interval. The average is taken over one year or, if all trades within the netting set mature within one year, it is taken over the period of the longest maturity in the netting set.
- Potential Future Exposure (PFE) results from a time profile of simulated positive exposures. For limit monitoring we use the 97.5th percentile of the resulting distribution of exposures. Unlike the EEPE value, which is limited to a maturity of one year, the PFE is calculated for the entire lifetime of the trade.

The Standardised Counterparty Credit Risk (SA-CCR)

The SA-CCR calculation is used for the remaining part of the derivative portfolio. The SA-CCR methodology uses concepts similar to the Internal Model Method. The SA-CCR approach can be broken down into three building blocks:

- The regulatory imposed alpha factor (1.4).
- The replacement cost, which is based on the net market value of the counterparty's derivative portfolio (or the trade market value for single trades), exchanged collateral (posted or received variation margin) and an estimate

of the maximum open risk for collateralised netting sets (provided by the Net Independent Collateral Amount (NICA), Minimum Transfer Amount (MTA) and Threshold Amount).

- In the SA-CCR methodology, the Potential Future Exposure is driven by two elements:
    - An add-on, which is a measure for the riskiness of a derivative transaction in a netting set.
    - A PFE multiplier, a number between 5% and 100% that recognises the risk-reducing impact of a current negative exposure on the add-on.

The SA-CCR calculation provides an exposure at default which is used in the capital calculation process.

The Current Exposure Method (CEM)

CEM is only used at KBC Group for the calculation of the exposure of trades that are not part of the Internal Model Method calculation, specifically for limit monitoring purposes. The CEM exposure calculation is based on two building blocks:

- The replacement cost, which is based on the net market value of the counterparty's derivative portfolio (or the trade market value for single trades) and exchanged collateral (posted or received variation margin).
- An internally calibrated add-on, which is a measure for the riskiness of the derivative transaction in a netting set.

The Financial Collateral Comprehensive Method (FCCM)

The FCCM method is used to compute the exposure amount of Security Financing Transactions (SFTs) for both regulatory reporting (i.e. regulatory capital calculations) and limit monitoring purposes. SFT trades can be split into two sub-groups, i.e. reverse repo and repo trades.

- **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;
- **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.

In order to conclude such transactions, a standard 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.

A Security Financing Transaction can be broken down into a cash leg and a security leg. The exposure for these trades can be calculated as the difference between the cash leg and the volatility-adjusted market value of the security leg.

Limit Monitoring

Counterparties willing to trade OTC derivatives or enter into Security Financing Transactions (SFTs) with the bank require a professional limit, which is subject to approval by the appropriate credit committee. This limit allows traders at the bank to monitor – in real time – the outstanding exposure per counterparty calculated using the models described above (IMM, CEM, FCCM). Possible breaches of the professional limit are handled in the credit process.

Regulatory treatment

Default risk RWA

As mentioned above, 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 Standardised Counterparty Credit Risk (or SA-CCR) for CCR capital calculations. Table EU CCR1 provides a breakdown of the exposure calculations per approach.

EU CCR1 - Analysis of CCR exposure by approach

At 31 December 2021 (in millions of EUR)		Replacement cost (RC)	Potential future exposure (PFE)	EEPE	Alpha used for computing regulatory exposure value	Exposure value pre-CRM	Exposure value post-CRM	Exposure value	RWEA
EU-1	**EU - Original Exposure Method (for derivatives)**								
EU-2	**EU - Simplified SA-CCR (for derivatives)**								
1	**SA-CCR (for derivatives)**	**410**	**702**		**1.4**	**3 668**	**1 557**	**1 557**	**965**
2	**IMM (for derivatives and SFTs)**			**1 917**	**1.4**	**3 306**	**2 683**	**2 683**	**1 056**
2a	*Of which securities financing transactions netting sets*								
2b	*Of which derivatives and long settlement transactions netting sets*			*1 917*		***3 306***	*2 683*	*2 683*	*1 056*
2c	*Of which from contractual cross-product netting sets*								
3	**Financial collateral simple method (for SFTs)**								
4	**Financial collateral comprehensive method (for SFTs)**					**26 649**	**24 903**	**24 903**	**203**
5	**VaR for SFTs**								
6	**Total**					**33 623**	**29 143**	**29 143**	**2 224**

Table 41 - EU CCR1_Analysis of CCR exposure by approach 31-12-21

Over 2021, the total default risk RWA increased by 122 million euros. This increase was mainly due to the introduction of SA-CCR in the second quarter of 2021.

EU CCR7 - RWEA flow statements of CCR exposures under the IMM

	In millions of EUR	RWEA
1	**RWEA as at 30 September 2021**	**1 053**
2	Asset size	28
3	Credit quality of counterparties	-23
4	Model updates (IMM only)	0
5	Methodology and policy (IMM only)	0
6	Acquisitions and disposals	0
7	Foreign exchange movements	0
8	Other	0
9	**RWEA as at 31 December 2021**	**1 058**

Table 42 - EU CCR7_RWEA flow statements for CCR exposures under IMM 31-12-21

Over the last quarter there was a small increase in the IMM RWA (total impact of 5 million euros), mainly driven by organic growth of the portfolio (+28 million euros RWA), which was partly compensated by a reduction in the RWA due to an increase in the credit quality of our counterparties (-23 million euros RWA).

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 - Transactions subject to own funds requirements for CVA risk *At 31 December 2021 (in millions of EUR)*		Exposure value	RWEA
1	**Total transactions subject to the Advanced method**		
2	*(i) VaR component (including the 3× multiplier)*		
3	*(ii) stressed VaR component (including the 3× multiplier)*		
4	**Transactions subject to the Standardised method**	**2 719**	**797**
EU-4	**Transactions subject to the Alternative approach (Based on the Original Exposure Method)**		
5	**Total transactions subject to own funds requirements for CVA risk**	**2 719**	**797**

Table 43 - EU CCR2_Transactions subject to own funds requirements for CVA risk

Over 2021, the CVA RWA increased by 34% due to two main developments: (i) the introduction of SA-CCR and (ii) an increase in the number of trades subject to the CVA risk charge.

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.

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. For derivatives, 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.

EU CCR5 - Composition of collateral for CCR exposures

	Collateral type	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	
	At 31 December 2021 (in millions of EUR)	Segregated	Unsegregated	Segregated	Unsegregated	Segregated	Unsegregated	Segregated	Unsegregated
1	Cash – domestic currency	0	1 972	0	3 802	0	33	0	63
2	Cash – other currencies	0	46	0	151	0	18	0	10
3	Domestic sovereign debt	0	22	787	144	0	2 603	1 105	4 694
4	Other sovereign debt	0	63	0	512	0	32 247	0	9 116
5	Government agency debt	0	0	0	0	0	0	0	0
6	Corporate bonds	0	84	0	49	0	947	0	587
7	Equity securities	0	0	0	0	0	3	0	20
8	Other collateral	0	0	0	0	0	827	0	2 387
9	**Total**	**0**	**2 187**	**787**	**4 658**	**0**	**36 677**	**1 105**	**16 878**

Table 44 - EU CCR5_Composition of collateral for CCR exposures 31-12-21

In table CCR5 we provide an overview of the composition of the collateral for CCR exposures. We distinguish between collateral used in derivative transactions and collateral used in SFTs:

- Collateral used in derivative transactions:
  - In this section we report both the initial margin (IM) and the variation margin (VM) .
- Collateral used in SFTs:
  - In this section we report both the security leg of the SFT and the collateral exchanged in the General Master Repurchase Agreement (GMRA).

- The security leg of reverse repos is added to the SFT collateral received column. Almost all of the securities underlying these transactions are government securities, with the underlying issuers of the remaining securities being mainly banks and corporate entities.
- The security leg of repo trades is added to the SFT collateral posted column.

Impact of a rating downgrade on collateral

The impact of a rating downgrade of KBC Bank NV on the collateral posted to counterparties is assessed on a regular basis as part of the ongoing CCR stress test framework. The table below provides an overview of the impact of a downgrade by 1 notch, 2 notches and 3 notches, respectively.

Impact of a rating downgrade of KBC Bank NV on required collateral
At 31 December 2021 (in millions of EUR)

Rating downgrade	Downgrade	Impact on collateral
A-	1-notch downgrade	21.1
BBB+	2-notch downgrade	153.2
BBB	3-notch downgrade	290.5

Table 45 - Impact of a rating downgrade of KBC Bank NV on required collateral 31-12-21

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 below. KBC only clears exposures with Qualified Central Clearing Parties (QCCP).

EU CCR8 - Exposures to CCPs
At 31 December 2021 (in millions of EUR)

		Exposure value	RWEA
1	**Exposures to QCCPs (total)**		**44**
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	484	10
3	*(i) OTC derivatives*	*112*	*2*
4	*(ii) Exchange-traded derivatives*		
5	*(iii) SFTs*	*372*	*7*
6	*(iv) Netting sets where cross-product netting has been approved*		
7	Segregated initial margin	1 891	
8	Non-segregated initial margin		
9	Prefunded default fund contributions	183	34
10	Unfunded default fund contributions		
11	**Exposures to non-QCCPs (total)**		
12	Exposures for trades at non-QCCPs (excluding initial margin and default fund contributions); of which		
13	*(i) OTC derivatives*		
14	*(ii) Exchange-traded derivatives*		
15	*(iii) SFTs*		
16	*(iv) Netting sets where cross-product netting has been approved*		
17	Segregated initial margin		
18	Non-segregated initial margin		
19	Prefunded default fund contributions		
20	Unfunded default fund contributions		

Table 46 - EU CCR8_Exposures to CCPs 31-12-21

Credit derivative exposure

he table below provides an overview of KBC Group's credit derivative exposure, which is very limited

EU CCR6 - Credit derivatives exposures *At 31 December 2021 (in millions of EUR)*		Credit derivative hedges	
		Protection bought	Protection sold
	Notionals		
1	Single-name credit default swaps	3.5	0.0
2	Index credit default swaps		
3	Total return swaps		
4	Credit options		
5	Other credit derivatives		
6	**Total notionals**	3.5	0.0
	Fair values		
7	Positive fair value (asset)	0.03	0.0
8	Negative fair value (liability)	0.0	0.0

Table 47 - EU CCR6_Credit derivatives exposures

Counterparty risk by regulatory risk-weighting approach

KBC uses three regulatory risk-weighting approaches: the Standardised approach, the 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 by the respective risk weight in the header of the table.

EU CCR3 - Standardised approach - CCR exposures by regulatory exposure class and risk weights													
	Exposure classes *At 31 December 2021 (in millions of EUR)*	Risk weight										Total exposure value	*Of which unrated*
		0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Others	
1	Central governments or central banks	0	0	0	0	0	0	0	0	0	0	0	0	*0*
2	Regional government or local authorities	0	0	0	0	0	0	0	0	0	0	0	0	*0*
3	Public sector entities	0	0	0	0	0	0	0	0	0	0	0	0	*0*
4	Multilateral development banks	0	0	0	0	0	0	0	0	0	0	0	0	*0*
5	International organisations	0	0	0	0	0	0	0	0	0	0	0	0	*0*
6	Institutions	0	484	0	0	0	0	0	0	0	0	0	484	*484*
7	Corporates	0	0	0	0	0	0	0	0	3	0	0	3	*3*
8	Retail	0	0	0	0	0	0	0	0	0	0	0	0	*0*
9	Institutions and corporates with a short-term credit assessment	0	0	0	0	0	0	0	0	0	0	0	0	*0*
10	Other items	0	0	0	0	0	0	0	0	0	0	0	0	*0*
11	**Total exposure value**	**0**	**484**	**0**	**0**	**0**	**0**	**0**	**0**	**3**	**0**	**0**	**488**	***488***

Table 48 - EU CCR3_Standardised Approach - CCR exposures by regulatory exposure class and risk weights

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).

EU CCR4 - IRB_F approach – CCR exposures by exposure class and PD scale

At 31 December 2021 (in millions of EUR)

	PD scale	Exposure value	Exposure weighted average PD (%)	Number of obligors	Exposure weighted average LGD (%)	Exposure weighted average maturity (years)	RWEA	Density of risk weighted exposure amount
Central governments and central banks								
	0.00 to <0.15	24 347	0.01%	2	45.00%	0.00	56	0.23%
	0.15 to <0.25	0	0	0	0	0	0	0
	0.25 to <0.50	0	0	0	0	0	0	0
	0.50 to <0.75	0	0	0	0	0	0	0
	0.75 to <2.50	0	0	0	0	0	0	0
	2.50 to <10.00	0	4.53%	1	45.00%	1.00	0	134.66%
	10.00 to <100.00	0	0	0	0	0	0	0
	100.00 (Default)	0	0	0	0	0	0	0
	Subtotal	**24 347**	**0.01%**	**3**	**45.00%**	**0.00**	**56**	**0.23%**
Corporates - Other	**PD scale**	**Exposure value**	**Exposure weighted average PD (%)**	**Number of obligors**	**Exposure weighted average LGD (%)**	**Exposure weighted average maturity (years)**	**RWEA**	**Density of risk weighted exposure amount**
	0.00 to <0.15	90	0.12%	52	45.00%	3.00	37	41.43%
	0.15 to <0.25	3	0.18%	2	45.00%	2.00	2	59.91%
	0.25 to <0.50	47	0.28%	48	45.00%	2.00	27	58.07%
	0.50 to <0.75	46	0.57%	64	45.00%	2.00	36	78.65%
	0.75 to <2.50	27	1.51%	53	45.00%	1.00	27	100.32%
	2.50 to <10.00	9	5.09%	178	45.00%	1.00	13	151.98%
	10.00 to <100.00	2	18.10%	3	45.00%	1.00	4	242.70%
	100.00 (Default)	0	100.00%	1	45.00%	1.00	0	0.00%
	Subtotal	**223**	**0.76%**	**401**	**45.00%**	**2.00**	**147**	**65.89%**
Corporates - SME	**PD scale**	**Exposure value**	**Exposure weighted average PD (%)**	**Number of obligors**	**Exposure weighted average LGD (%)**	**Exposure weighted average maturity (years)**	**RWEA**	**Density of risk weighted exposure amount**
	0.00 to <0.15	12	0.10%	36	45.00%	3.00	3	23.18%
	0.15 to <0.25	5	0.18%	1	45.00%	3.00	2	40.56%
	0.25 to <0.50	16	0.28%	77	45.00%	2.00	6	36.20%
	0.50 to <0.75	16	0.57%	134	45.00%	2.00	8	52.19%
	0.75 to <2.50	35	1.56%	350	45.00%	2.00	25	72.60%
	2.50 to <10.00	6	5.38%	134	45.00%	2.00	7	108.60%
	10.00 to <100.00	2	18.10%	14	45.00%	4.00	3	178.12%
	100.00 (Default)	1	100.00%	14	45.00%	3.00	0	0.00%
	Subtotal	**92**	**2.25%**	**760**	**45.00%**	**2.00**	**54**	**58.57%**
Corporates - Specialised lending	**PD scale**	**Exposure value**	**Exposure weighted average PD (%)**	**Number of obligors**	**Exposure weighted average LGD (%)**	**Exposure weighted average maturity (years)**	**RWEA**	**Density of risk weighted exposure amount**
	0.00 to <0.15	2	0.14%	3	45.00%	5.00	1	37.54%
	0.15 to <0.25	0	0	0	0	0	0	0
	0.25 to <0.50	37	0.28%	9	45.00%	4.00	20	54.81%
	0.50 to <0.75	17	0.57%	27	45.00%	5.00	15	87.20%
	0.75 to <2.50	21	1.47%	145	45.00%	4.00	24	117.89%
	2.50 to <10.00	0	5.53%	3	45.00%	0.00	1	126.38%
	10.00 to <100.00	0	18.10%	3	45.00%	0.00	0	185.98%
	100.00 (Default)	0	100.00%	2	45.00%	0.00	0	0.00%
	Subtotal	**78**	**0.87%**	**192**	**45.00%**	**4.00**	**61**	**78.92%**

Institutions	PD scale	Exposure value	Exposure weighted average PD (%)	Number of obligors	Exposure weighted average LGD (%)	Exposure weighted average maturity (years)	RWEA	Density of risk weighted exposure amount
	0.00 to <0.15	154	0.09%	45	45.00%	2.00	51	32.84%
	0.15 to <0.25	35	0.20%	6	45.00%	3.00	22	63.25%
	0.25 to <0.50	1	0.44%	2	45.00%	2.00	1	61.75%
	0.50 to <0.75	1	0.57%	1	45.00%	1.00	1	81.12%
	0.75 to <2.50	41	0.83%	6	45.00%	2.00	34	82.87%
	2.50 to <10.00	1	3.74%	7	45.00%	2.00	1	134.03%
	10.00 to <100.00	0	0	0	0	0	0	0
	100.00 (Default)	0	0	0	0	0	0	0
	Subtotal	**234**	**0.25%**	**67**	**45.00%**	**2.00**	**110**	**46.98%**
Total (all IRB_F exposure classes)		**24 973**	**0.03%**	**1 423**	**45.00%**	**0.00**	**428**	**1.71%**

Table 49 - EU CCR4A_IRB_F approach - CCR exposures by exposure class and PD scale

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

EU CCR4 - IRB_A approach – CCR exposures by exposure class and PD scale
At 31 December 2021 (in millions of EUR)

Central governments and central banks	PD scale	Exposure value	Exposure weighted average PD (%)	Number of obligors	Exposure weighted average LGD (%)	Exposure weighted average maturity (years)	RWEA	Density of risk weighted exposure amount
	0.00 to <0.15	469.58	0.04%	17	26.00%	4	78.57	17%
	0.15 to <0.25	79.39	0.18%	3	36.00%	4	34.88	44%
	0.25 to <0.50	1.03	0.38%	2	64.00%	0	0.54	52%
	0.50 to <0.75	0.05	0.64%	1	70.00%	1	0.05	98%
	0.75 to <2.50	0	0	0	0	0	0	0
	2.50 to <10.00	0	0	0	0	0	0	0
	10.00 to <100.00	0	0	0	0	0	0	0
	100.00 (Default)	0	0	0	0	0	0	0
	Subtotal	**550.05**	**0.06%**	**23**	**28.00%**	**4**	**114.03**	**21%**

Corporates - Other	PD scale	Exposure value	Exposure weighted average PD (%)	Number of obligors	Exposure weighted average LGD (%)	Exposure weighted average maturity (years)	RWEA	Density of risk weighted exposure amount
	0.00 to <0.15	1 249.04	0.09%	379	51.00%	2	460.67	37%
	0.15 to <0.25	30.85	0.22%	101	47.00%	2	14.06	46%
	0.25 to <0.50	125.01	0.37%	275	41.00%	2	66.46	53%
	0.50 to <0.75	40.18	0.65%	121	42.00%	2	28.32	70%
	0.75 to <2.50	94.32	1.57%	279	49.00%	2	112.28	119%
	2.50 to <10.00	25.52	4.00%	131	58.00%	3	50.97	200%
	10.00 to <100.00	4.90	18.43%	15	51.00%	1	12.99	265%
	100.00 (Default)	1.23	100.00%	18	37.00%	2	5.69	461%
	Subtotal	**1 571.05**	**0.42%**	**1319**	**50.00%**	**2**	**751.45**	**48%**

Corporates - SME	PD scale	Exposure value	Exposure weighted average PD (%)	Number of obligors	Exposure weighted average LGD (%)	Exposure weighted average maturity (years)	RWEA	Density of risk weighted exposure amount
	0.00 to <0.15	6.30	0.13%	63	56.00%	1	1.42	23%
	0.15 to <0.25	2.44	0.20%	44	47.00%	1	0.68	28%
	0.25 to <0.50	19.38	0.37%	95	54.00%	1	9.25	48%
	0.50 to <0.75	9.57	0.61%	63	53.00%	2	5.74	60%

0.75 to <2.50	25.82	1.35%	166	64.00%	1	25.77	100%
2.50 to <10.00	3.67	4.74%	65	62.00%	1	5.04	137%
10.00 to <100.00	0.77	12.51%	11	55.00%	1	1.30	170%
100.00 (Default)	0.59	100.00%	11	58.00%	1	4.24	720%
Subtotal	**68.53**	**1.97%**	**518**	**58.00%**	**1**	**53.45**	**78%**

Corporates - Specialised lending	PD scale	Exposure value	Exposure weighted average PD (%)	Number of obligors	Exposure weighted average LGD (%)	Exposure weighted average maturity (years)	RWEA	Density of risk weighted exposure amount
	0.00 to <0.15	96.82	0.14%	6	23.00%	5	22.54	23%
	0.15 to <0.25	22.76	0.20%	7	23.00%	4	4.99	22%
	0.25 to <0.50	135.23	0.30%	43	21.00%	3	32.24	24%
	0.50 to <0.75	64.20	0.62%	29	21.00%	3	23.00	36%
	0.75 to <2.50	40.06	1.73%	135	47.00%	3	53.32	133%
	2.50 to <10.00	34.56	2.97%	31	35.00%	4	43.86	127%
	10.00 to <100.00	0.35	13.99%	4	35.00%	0	0.40	116%
	100.00 (Default)	0.62	100.00%	1	59.00%	1	4.81	772%
	Subtotal	**394.59**	**0.86%**	**256**	**26.00%**	**4**	**185.16**	**47%**

Institutions	PD scale	Exposure value	Exposure weighted average PD (%)	Number of obligors	Exposure weighted average LGD (%)	Exposure weighted average maturity (years)	RWEA	Density of risk weighted exposure amount
	0.00 to <0.15	1 368.33	0.08%	191	52.00%	1	539.16	39%
	0.15 to <0.25	139.24	0.19%	36	48.00%	3	80.66	58%
	0.25 to <0.50	37.20	0.38%	40	39.00%	2	19.63	53%
	0.50 to <0.75	2.08	0.63%	4	16.00%	3	0.61	29%
	0.75 to <2.50	26.67	1.60%	46	56.00%	1	34.21	128%
	2.50 to <10.00	9.25	4.14%	17	56.00%	1	15.04	162%
	10.00 to <100.00	0	0	0	0	0	0	0
	100.00 (Default)	0	0	0	0	0	0	0
	Subtotal	**1 582.77**	**0.00%**	**334**	**52.00%**	**2.00**	**689.30**	**44%**

Retail - Other non-SME	PD scale	Exposure value	Exposure weighted average PD (%)	Number of obligors	Exposure weighted average LGD (%)	Exposure weighted average maturity (years)	RWEA	Density of risk weighted exposure amount
	0.00 to <0.15	0	0	0	0	0	0	0
	0.15 to <0.25	0	0	0	0	0	0	0
	0.25 to <0.50	0	0	0	0	0	0	0
	0.50 to <0.75	0	0	0	0	0	0	0
	0.75 to <2.50	0.06	1.13%	1	44.00%	0	0.06	90%
	2.50 to <10.00	0.01	4.53%	3	71.00%	0	0.02	204%
	10.00 to <100.00	0	0	0	0	0	0	0
	100.00 (Default)	0	0	0	0	0	0	0
	Subtotal	**0.07**	**1.58%**	**4**	**48.00%**	**0**	**0.08**	**105%**

Retail - Other SME	PD scale	Exposure value	Exposure weighted average PD (%)	Number of obligors	Exposure weighted average LGD (%)	Exposure weighted average maturity (years)	RWEA	Density of risk weighted exposure amount
	0.00 to <0.15	0	0	0	0	0	0	0
	0.15 to <0.25	0	0	0	0	0	0	0
	0.25 to <0.50	0	0	0	0	0	0	0
	0.50 to <0.75	0	0	0	0	0	0	0

0.75 to <2.50	0	0	0	0	0	0	0
2.50 to <10.00	0.05	4.53%	20	92.00%	0	0.06	121%
10.00 to <100.00	0	0	0	0	0	0	0
100.00 (Default)	0	0	0	0	0	0	0
Sub-total	**0.05**	**4.53%**	**20**	**92.00%**	**0**	**0.06**	**121%**
Total (all IRB_A exposure classes)	**4 167.11**	**0.34%**	**2 474**	**46.00%**	**1**	**1 793.54**	**43%**

Table 50 - EU CCR4B_ IRB_A approach - CCR exposures by exposure class and PD scale

Wrong way risk

Wrong way risk (WWR) occurs when the exposure to a counterparty is adversely correlated with the credit quality of that counterparty. In other words, WWR arises when default risk and exposure increase simultaneously. Two types of wrong way risk can be identified:

- specific wrong way risk (SWWR)
- general wrong way risk.

Specific wrong way risk

SWWR arises when a transaction is structured in such a way that the exposure to the counterparty is positively correlated with the probability of default of that counterparty. Two typical examples of SWWR are:

- The counterparty and the issuer of the reference asset of a transaction are the same entity or are affiliates.
- The collateral supporting a transaction is issued by the counterparty or its affiliates.

KBC strives to avoid SWWR at the origination of the transactions:

- New products are analysed to detect any occurrence of SWWR. If identified, this may result in mitigating actions.
- We avoid accepting collateral where the issuer of the collateral has a legal and/or economic connection to the counterparty of the trade.

The derivative portfolio is monitored for the presence of SWWR. Detected SWWR trades are presented to the Group Markets Committee (GMC) for information purposes.

General wrong way risk

General wrong way risk occurs when the probability of default of the counterparty is positively correlated with the exposure due to developments in general market risk factors (e.g., interest rates, inflation or exchange rates). GWWR is monitored by using a set of stress test scenarios aimed at trades where a positive relationship exists between the counterparty's creditworthiness and the exposure. The GWWR report is presented to the Group Markets Committee for information purposes.

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. This means that, wherever possible and practical, the residual trading positions (and hence the market risk) of almost all of our trading entities are systematically transferred to KBC Bank NV. 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 has a meeting every four weeks for which they receive an extensive Core Report as well as regular and ad hoc memos and reports. A more concise "GMC Dashboard" is circulated to the GMC members in the midpoint between meetings so that GMC members have up-to-date information available on the trading activities of KBC Group. The frequency of this dashboard can be increased depending on the trading environment (e.g. stress in the markets). 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, early warning levels 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) could imply a breach of the Group Risk Appetite and hence can only be approved by the Board of Directors. Primary limit overruns at entity level must be approved by the Group Executive Committee. However, it is important to point out that, other than KBC Bank NV, all entity limits are small. This is because KBC Bank NV holds about 98% of the trading-book-related regulatory capital of KBC Group NV 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 for a limited period of time (referred to as 'level 1 overrun delegation') to a lower management 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

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. As well as the small (long or short) positions that occur during our certified market making activities, our focus on client-driven, client-facilitation-related business leaves us with some residual market risks, which are necessary to enable us to fulfil our intermediary role towards clients. The reason is that we have to rely on standard market products for our portfolio hedging , with the result that a certain amount of residual risk remains on the books since standard market products have standard sizes and expiry dates and an exact hedge of bespoke client trades is not always possible.

Market risk scope, objectives and processes

Our focus is on trading in interest rate instruments, while our activity on the foreign exchange (FX) and equity markets has traditionally been limited. The NAPP makes the final decisions to approve new products or processes before they can be bought from third parties, offered to internal or external clients or kept on the books in KBC Group. The NAPP also has to approve changes to existing products or processes (including the discontinuation of existing products or processes), as well as the review of existing products or processes according the product review calendar. The NAPP also decides on distribution aspects (e.g. target market) that determine the sale of dealing room related products group wide. As part of the NAPP process, the risk function screens whether the risk aspects are correctly and sufficiently covered and provides risk advice that includes powers of veto.

Trading 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. As mentioned in the Governance section, wherever possible and practical, the residual trading positions of almost all of our trading entities are systematically transferred to KBC Bank NV.

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.

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.

Impact of the coronavirus crisis on market trading risk

In the context of the dealing room business of KBC, it is important to point out that the drivers of the P&L of the dealing room business are due to sales revenues and the efficient (macro) hedging of the resulting positions – market risk arising from developments regarding the corona crisis are taken into account along with all the other market risks on the financial landscape. In fact, our calibration of Stressed VaR (see infra) during 2021 indicated that there were other periods that were more stressful for our positions than the market environment during the coronavirus crisis.

Whilst the mismatch caused by the inexact (macro) hedging of the positions resulting from facilitating clients does inevitably result in some market risk, which can result in losses in certain market environments, KBC's risk appetite for such residual positions is low. Please note that these residual positions can swiftly change (i.e. become "long" or "short" an instrument or group of instruments) during the dynamic activity associated with our dealing rooms i.e. no structural, directional positions are held as can be the case for other business lines.

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 does not justify the systematic transfer of positions to KBC Bank NV which was described in the Governance section).

As with any model, there are a certain number of uncertainties/deficiencies. However, the model is subject to regular review and improvements. During 2021, 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*	**2021**	**2020**
Average for 1Q	8	6
Average for 2Q	8	9
Average for 3Q	7	9
Average for 4Q	7	9
As at 31 December	7	8
Maximum in year	11	11
Minimum in year	4	4

Table 51 - 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 2021**	**Average for 2020**
Interest rate risk	7.6	7.9
FX risk	1.1	1.1
FX options risk	0.2	0.7
Equity risk	0.9	1.0
Diversification effect	-2.3	-2.5
Total HVaR	**7.5**	**8.2**

Table 52 - 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 2021 Annual Report of KBC Group NV.

Regulatory capital

The capital requirements for trading risk at year-ends 2020 and 2021 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
31-12-21						
Market risks assessed by Approved Internal Model	HVaR	48	8	8		**64**
	SVaR	87	15	20		**122**
Market risks assessed by the Standardised Approach		7	3	19*	0	**29**
Total		**143**	**26**	**47**	**0**	**216**
31-12-20						
Market risks assessed by Approved Internal Model	HVaR	61	10	7		**78**
	SVaR	70	11	10		**91**
Market risks assessed by the Standardised Approach		10	2	17*	0	**28**
Total		**141**	**24**	**34**	**0**	**198**

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

Table 53 - Trading regulatory capital requirements by risk type

Approved Internal Model (AIM)

As can be seen in the above table, about 87% of KBC Group's capital requirements related to market risk are determined using KBC Bank NV's Approved Internal Model (AIM). This figure increases to 95% if capital requirements for foreign exchange risk 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 the positions in scope of the KBC Bank NV AIM (the 'stressed' period), and 250 antithetic ('mirror') scenarios, obtained by reversing these 250 regular scenarios. In line with regulation, which requires at least once a year a calibration of the stressed period used for SVaR, we check on a monthly basis that the period selected is indeed the most severe for the positions held. For the majority of the year, the most stressful period for our positions was from July 2008 to July 2009 (i.e. the period of the financial crisis triggered by the default of Lehman Brothers).

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 2021, the RWA flow between 2020 and 2021 and the range of HVaR and SVaR during 2021.

EU MR2-A - Market risk under the internal Model Approach (IMA) *At 31 December 2021 (in millions of EUR)*		RWEAs	Own funds requirements
1	**VaR (higher of values a and b)**	**803**	**64**
(a)	*Previous day's VaR (VaRt-1)*		*25*
(b)	*Multiplication factor (mc) x average of previous 60 working days (VaRavg)*		*64*
2	**SVaR (higher of values a and b)**	**1 529**	**122**
(a)	*Latest available SVaR (SVaRt-1))*		*34*
(b)	*Multiplication factor (ms) x average of previous 60 working days (sVaRavg)*		*122*
3	**IRC (higher of values a and b)**		
(a)	*Most recent IRC measure*		
(b)	*12 weeks average IRC measure*		
4	**Comprehensive risk measure (higher of values a, b and c)**		
(a)	*Most recent risk measure of comprehensive risk measure*		
(b)	*12 weeks average of comprehensive risk measure*		
(c)	*Comprehensive risk measure - Floor*		
5	Other		
6	**Total**	**2 333**	**187**

Table 54 - EU MR2-A_Market risk under the internal Model Approach (IMA) for 2021

EU MR2-B - RWEA flow statements of market risk exposures under the IMA *In millions of EUR*		VaR	SVaR	IRC	CRM	Other	Total RWEAs	Total own funds requirements
1	**RWEAs as at 31 December 2020**	**980**	**1 141**				**2 122**	**170**
1a	Regulatory adjustment	-654	-761				-1 414	-113
1b	RWEAs at the previous quarter-end (end of the day)	327	380				707	57
2	Movement in risk levels	-20	39				19	2
3	Model updates/changes	0	0				0	0
4	Methodology and policy	0	0				0	0
5	Acquisitions and disposals	0	0				0	0
6	Foreign exchange movements	0	0				0	0
7	Other	0	0				0	0
8a	RWEAs at the end of the disclosure period (end of the day)	307	420				726	58
8b	Regulatory adjustment	497	1 110				1 606	129
8	**RWEAs as at 31 December 2021**	**803**	**1 529**				**2 333**	**187**

Table 55 - EU MR2-B_RWEA flow statements of market risk exposures under the IMA

EU MR3 - IMA values for trading portfolios *At 31 December 2021 (in millions of EUR)*		
	VaR (10 day 99%)	
1	Maximum value	35
2	Average value	23
3	Minimum value	15
4	Period end	25
	SVaR (10 day 99%)	
5	Maximum value	54
6	Average value	38
7	Minimum value	28
8	Period end	34
	IRC (99.9%)	
9	Maximum value	
10	Average value	

11	Minimum value	
12	Period end	
	Comprehensive risk measure (99.9%)	
13	Maximum value	
14	Average value	
15	Minimum value	
16	Period end	

Table 56 - EU MR3_IMA values for trading portfolios for 2021

As can be seen in the EU MR2-B table, the total capital requirements at year-end 2021 (i.e. based on average HVaR and SVaR usage over the last 60 trading days of 2021) increased by 17 million euros (10%) compared to year-end 2020. The increase in the SVaR component was only partially offset by a lower HVaR. Please note that, despite the Corona crisis-induced de-risking of the positions as mentioned in the 2020 report, the HVaR component decreased, even though the volatile scenarios observed during March 2020 remain in the rolling 500 days of scenarios used in our HVaR calculations. However, the SVaR component for our year-end 2021 reporting was nearly double the HVaR component. The driver of the relatively high SVaR in the EU MR2-B table was that, in addition to the large interest rate movements during the Lehman Crisis, as banks were unwilling to lend to each other, some of the market movements regarding tenor risk were also very large such that even small position changes can cause a significant increase or decrease in SVaR. As the SVaR is a weekly measure, a few high SVaR figures during 4Q2021 had a significant effect on the average.

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 FX risk in the banking book, although it should be noted that these positions are not part of the dealing room business.

The Standardized Approach sets out general and specific risk weightings per type of market risk (interest risk, equity risk, FX risk and commodity risk). The resulting regulatory capital calculated using the Standardised Approach for 2021 is shown in the table below. The 29 million euros in capital requirements shown in the table would drop to 11 million euros when the capital requirements for the foreign exchange risk in the 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 *At 31 December 2021 (in millions of EUR)*		**RWEAs**	**Capital requirements**
	Outright products		
1	Interest rate risk (general and specific)	93	7
2	Equity risk (general and specific)	35	3
3	Foreign exchange risk	234	19
4	Commodity risk	0	0
	Options		
5	Simplified approach	0	0
6	Delta-plus approach		
7	Scenario approach		
8	Securitisation (specific risk)		
9	**Total**	**361**	**29**

Table 57 - 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 thus 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, FX and equity 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 interest rate volatility, as well as shifts in FX and equity prices and their volatilities.

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 58 - 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). Our 2021 review of the stress tests resulted in the introduction of reverse stress tests and the redesign and recalibration of the stress test on sovereign exposures, with no need for any extra historical stress test scenarios. 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. In other words, one would expect a loss in excess of the HVaR for one in every one hundred trading days. 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 2020 and 2021. Overshootings are reported to the relevant risk committees and the applicable regulators 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)
2021	2	04-11-2021	-6.5	-10.9	2	04-11-2021	-6.5	-10.9
		26-11-2021	-7.1	-13.5		26-11-2021	-7.1	-12.6
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

Table 59 - Overshootings Approved Internal Models

As can be seen from the table above and the graph below, the KBC Bank AIM had two overshootings in 2021. Both of these were driven by extreme moves in the interest rates of Central European currencies together with technicalities of the respective markets and not due to deficiencies in the internal model.

As described in the 2020 Risk Report, the overshootings in March 2020 occurred during the start of the global coronavirus pandemic that hit the Europe and US markets hard. As we were able to show that all the overshootings were not due to deficiencies in the internal model, KBC received permission from the ECB to exclude all these overshootings in our regulatory reporting (as mentioned previously, more than four overshootings in a 250 day period causes an increase in the multiplier of SVaR and HVaR used for market risk RWA calculations).

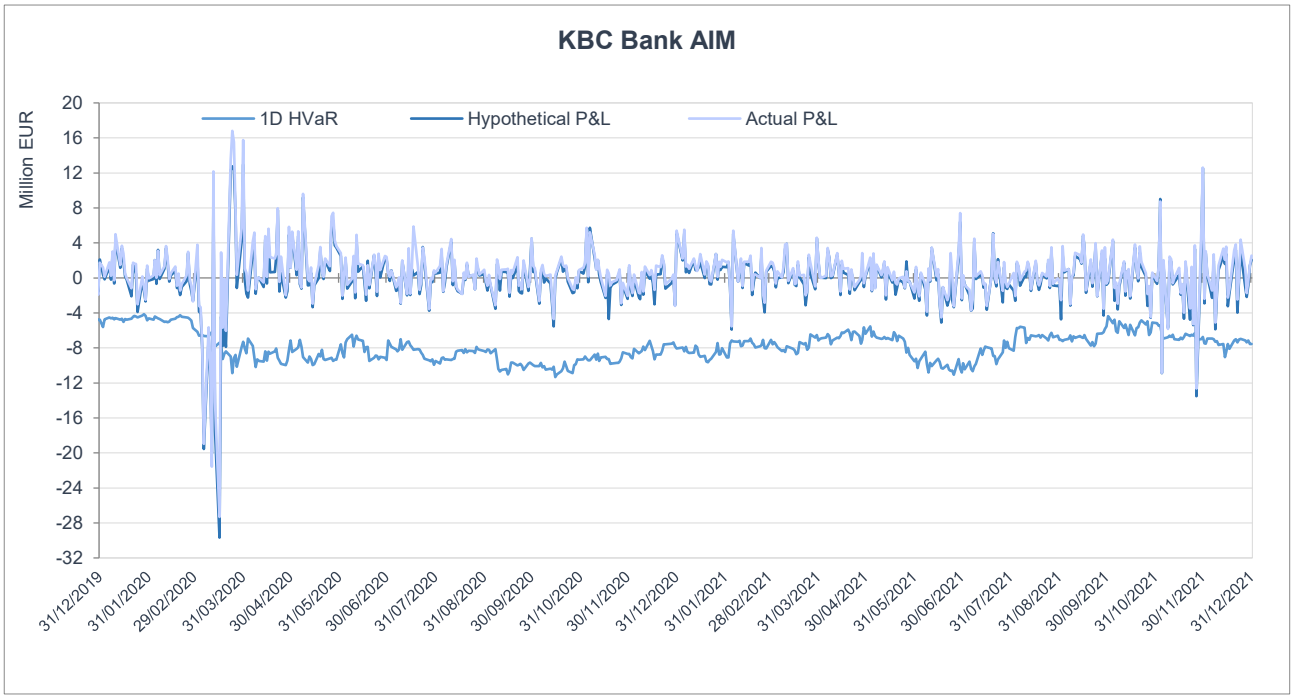

Figure 3 - EU MR4_One-day HVaR with the daily P&L results during 2020 and 2021 at KBC Bank NV AIM

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 systems 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.

During 2021, the European Central Bank Joint Supervisory Team (JST) concluded its 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 SSM banks and to assess regulatory compliance). The horizontal exercise done by the JST resulted in an add-on to our multiplier of HVaR and SVaR for market risk RWA calculations slightly less severe than the industry average.

However, following the JST agreed compliance of KBC with all the recommendations resulting from the TRIM inspection, the ECB decreased our multiplier back to 3 before year-end 2021, the absolute minimum allowed by regulation, thus underlying the strength of our market risk models.

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 2021 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 the non-trading activities includes interest rate risk, gap risk, basis risk, option risk (such as prepayment risk), currency risk, equity price risk, real estate price risk, credit spread risk and inflation risk. 'Structural exposure' encompasses all exposure inherent in our commercial activity or in our long-term positions (banking and insurance). Trading activities are therefore not included. This process is also known as Asset/Liability Management (ALM).

Governance, strategy and processes

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

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

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, acting as the second line of defence, 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 and gap risk;

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

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

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

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 prolongation of the coronavirus crisis preserved the 'low-for-longer' sentiment, meaning that interest rates were expected to remain low for some more time. The higher observed inflation sparked increased market uncertainty and paved the way for higher interest rates. As a whole, it formed a very challenging environment for the non-trading activities. However, the balanced structure of the banking books, action taken by the treasury departments and ECB measures limited the impact on non-trading market risk.

Sub-risk types

Interest rate risk

Interest rate risk and gap risk for the banking activities

We define interest rate risk in the banking books as the risk arising from adverse movements or volatility in interest rates. 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). It is managed on a daily basis by the treasury function and assessed on a monthly basis by the second line of defence, with the possibility to perform an ad hoc analysis between two reporting dates. We also use other techniques such as gap analysis, the duration approach or stress testing. Scenario analysis is performed for net interest income. We apply a parametric Value at Risk approach to assess the resilience of the capital position to interest rate movements. Those measures are performed at least on a quarterly basis.

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	**2021**	**2020**
Banking	-69	-64
Insurance	24	29
Total	**-45**	**-35**

1. Full market value, regardless of accounting classification or impairment rules.

2.Based on a risk-free curve (swap curve).

Table 60 - 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. Current and savings accounts are segmented based on several characteristics and a maturity profile is assigned to the different segments, ranging from Overnight to 15 years' maturity for the long end of the most stable profiles. On average, the duration of the portfolio ranges between 2.5 years and 3.5 years.

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	**2021**	**2020**
Average for 1Q	-65	-77
Average for 2Q	-64	-72
Average for 3Q	-60	-76
Average for 4Q	-69	-64
As at 31 December	-69	-64
Maximum in year	-69	-77
Minimum in year	-60	-64

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

Table 61 - Swap BPV (10 basis points) of the ALM book, banking activities

In line with European Banking Authority guidelines, we conduct an outlier stress test on a quarterly basis by applying six different scenarios to the banking books (material currencies). The worst-case scenario is set off against tier-1 capital. For the banking book at KBC group level, this risk came to 7.77% of tier-1 capital at year-end 2021. This is well below the 15% threshold, which is monitored by the European Central Bank.

The table shows the changes in economic value of equity under the six different interest rate scenarios. To test these six scenarios, we combine the shift in the yield curves with changes in maturities depending on clients' behaviour (e.g., interest-rate-driven prepayment behaviour) and use a run-off balance sheet where maturing items are not replaced.

EU IRRBB1 - Interest rate risks of non-trading book activities			
	Supervisory shock scenarios	Changes of the economic value of equity	
In millions of EUR, material currencies		4Q 2021	2Q 2021
1	Parallel up	-1 203	-1 092
2	Parallel down	277	255
3	Steepener	-125	-137
4	Flattener	-111	-55
5	Short rates up	-402	-290
6	Short rates down	177	149

Table 62 - EU IRRBB1_ Interest rate risks of non-trading book activities - changes of the economic value of equity, banking activities

The bank also analyses the impact of different interest rate scenarios on its net interest income. As the ECB scenarios are still in the consultation phase, KBC opted to report internal scenarios, a 100-basis-point up scenario and a 50-basis-point down scenario, assuming a constant balance sheet over a one-year horizon and an instant shock.

Changes of the Net Interest Income	
In millions of EUR, material currencies	4Q 2021
100 bps up	186
50 bps down	-56

Table 63 - Changes of the Net Interest Income

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
31-12-21	1 745	-12 310	-8 919	5 529	5 687	1 104	7 164	**0**
31-12-20	17 408	-26 418	-668	3 781	4 692	1 003	201	**0**

Table 64 - 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 limited decrease in the global BPV in the banking books (a more negative BPV) is mostly explained by the increased gaps in the longer time buckets and is

partly due to the relative lack of investment opportunities caused by the low interest rate environment. (see Table 60 - Impact of a parallel 10-basis-point increase in the swap curve for the KBC group Impact on value above).

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	**0–1 year**	**1–2 years**	**2-3 years**	**3-4 years**	**4-5 years**	**>5 years**	**Total**
31-12-21							
Fixed-income assets backing liabilities, guaranteed component	1 371	1 281	1 385	847	1 044	8 856	**14 784**
Equity							***987***
Property							***171***
Other (no maturity)							***152***
Liabilities, guaranteed component	1 758	748	1 223	840	895	9 859	**15 323**
Difference in time-sensitive expected cashflows	-387	534	162	7	148	-1 003	**-539**
Mean duration of assets							**6.97 yrs**
Mean duration of liabilities							**9.93 yrs**
31-12-20							
Fixed-income assets backing liabilities, guaranteed component	1 384	1 010	1 488	1 370	820	8 674	**14 746**
Equity							***915***
Property							***177***
Other (no maturity)							***52***
Liabilities, guaranteed component	1 732	905	759	1 242	853	10 067	**15 559**
Difference in time-sensitive expected cashflows	-349	105	728	128	-33	-1 392	**-813**
Mean duration of assets							**7.71 yrs**
Mean duration of liabilities							**10.33 yrs**

Table 65 - 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	31-12-21	31-12-20
5.00% and higher	3%	3%
More than 4.25% up to and including 4.99%	7%	8%
More than 3.50% up to and including 4.25%	4%	4%
More than 3.00% up to and including 3.50%	9%	10%
More than 2.50% up to and including 3.00%	3%	3%
2.50% and lower	71%	70%
0.00%	2%	2%
Total	**100%**	**100%**

Table 66 - 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									
31-12-21	Overall	EUR	CZK	HUF	BGN	USD	GBP	CHF	Other
Banking activities	**-69 524**	-56 766	-12 131	-3 586	4 169	-841	-304	-54	-11
Insurance activities	**24 105**	23 460	1 676	-319	-718	4	0	2	0
Total*	**-45 422**	**-33 293**	**-10 470**	**-3 905**	**3 451**	**-836**	**-304**	**-52**	**-11**

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

Table 67 - Interest Rate Risk – swap BPV in thousands of EUR 31-12-21

Interest Rate Risk – swap BPV in thousands of EUR									
31-12-20	Overall	EUR	CZK	HUF	BGN	USD	GBP	CHF	Other
Banking activities	**-64 111**	-51 556	-8 953	-6 293	3 964	-1 073	-275	-60	135
Insurance activities	**29 367**	26 906	3 792	-708	-632	7	0	3	0
Total*	**-34 749**	**-24 654**	**-5 163**	**-7 001**	**3 332**	**-1 066**	**-275**	**-57**	**135**

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

Table 68 - Interest Rate Risk – swap BPV in thousands of EUR 31-12-20

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 2021: the carrying value of the total government bond portfolio measured at FVOCI incorporated a revaluation reserve of 0.7 billion euros, before tax (281 million euros for Belgium, 165 million euros for France, 87 million euros for Italy and 213 million euros for the other countries combined).

Exposure to sovereign bonds at year-end 2021, carrying value[1]						
Total (by portfolio) *In millions of EUR*	At amortised cost	At fair value through other comprehensive income (FVOCI)	Held for trading	Total	*For comparison purposes: total at year-end 2020*	Economic impact of +100 basis points[3]
KBC core countries						
Belgium	9 921	2 693	406	**13 020**	*15 599*	-643
Czech Republic	9 411	1 199	1 872	**12 481**	*11 041*	-683
Hungary	2 779	261	45	**3 085**	*3 399*	-136
Slovakia	3 260	387	42	**3 689**	*3 736*	-209
Bulgaria	1 149	549	24	**1 722**	*1 524*	-93
Ireland	1 141	215	0	**1 356**	*1 379*	-70
Other countries						
France	4 678	1 854	14	**6 546**	*6 630*	-364
Spain	2 050	667	0	**2 717**	*2 661*	-119
Poland	1 084	237	14	**1 335**	*1 604*	-37
Italy	268	1 018	0	**1 286**	*1 779*	-52
US	1 319	0	0	**1 319**	*1 038*	-57
Rest[2]	4 416	1 435	99	**5 951**	*6 821*	-270
Total carrying value	**41 475**	**10 514**	**2 517**	**54 507**	***57 212***	**–**
Total nominal value	**40 758**	**9 517**	**2 521**	**52 796**	***53 721***	**–**

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 2021.
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 -5.9 million euros, including supranational bonds at year-end 2020).

Table 69 - Exposure to sovereign bonds at year-end 2021, carrying value

At year-end 2021, Belgian and Czech sovereign bonds accounted for 45% of our total government bond portfolio, reflecting the importance to KBC of Belgium and Czech Republic, the group's primary core markets.

Apart from interest rate risk, the main risk to our holdings of Belgian and Czech 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 2021), 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 -1 327 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 and Czech sovereign bonds is classified as 'At amortised cost' implying that sales prior to maturity are unlikely (83%: impact only upon realisation). The remaining part is classified as 'FVOCI' (17%: no impact on profit or loss); the impact of a 100-basis-point increase on IFRS unrealised gains is -276 million euros (before tax) for FVOCI assets.

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

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	31-12-21	31-12-20
Bonds rated AAA	-125	-204
Bonds rated AA+, AA, AA-	-133	-155
Bonds rated A+, A, A-	-126	-112
Bonds rated BBB+, BBB, BBB-	-46	-61
Non-investment grade and non-rated bonds	-31	-40
Total carrying value (excluding trading portfolio)	**10 703**	**12 440**

Table 70 - 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 (0.15 billion 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.

Equity portfolio of the KBC group (breakdown by sector, in %)	Banking activities		Insurance activities		Group	
	31-12-21	31-12-20	31-12-21	31-12-20	31-12-21	31-12-20
Financials	68%	56%	17%	16%	25%	23%
Consumer non-cyclical	0%	1%	11%	12%	10%	10%
Communication	0%	0%	2%	4%	1%	3%
Energy	0%	0%	0%	1%	0%	1%
Industrials	10%	5%	41%	37%	36%	32%
Utilities	0%	0%	0%	2%	0%	2%
Consumer cyclical	4%	4%	25%	19%	22%	16%
Materials	0%	0%	2%	4%	2%	3%
Other and not specified	17%	34%	1%	6%	3%	11%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

In billions of EUR	**0.26**	**0.27**	**1.46**	**1.32**	**1.72 ***	**1.58**
of which unlisted	**0.26**	**0.22**	**0.15**	**0.05**	**0.41**	**0.27**

** 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 (0.45 billion euros) are excluded above, but included in the table in Note 4.1.*

Table 71 - Equity portfolio of the KBC group (breakdown by sector, in %)

Impact of a 25% drop in equity prices *In millions of EUR*	**2021**	**2020**
Banking activities	-64	-66
Insurance activities	-366	-329
Total	**-429**	**-395**

Table 72 - Impact of a 25% drop in equity prices

Non-trading equity exposure	**Net realised gains (in income statement)**		**Net unrealised gains on year-end exposure (in equity)**	
In millions of EUR	**31-12-21**	**31-12-20**	**31-12-21**	**31-12-20**
Banking activities	–	–	29	12
Insurance activities	123	116	555	337
Total	**123**	**116**	**584**	**349**

Table 73 - 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*	**2021**	**2020**
Bank portfolios	-97	-98
Insurance portfolios	-94	-93
Total	**-191**	**-191**

Table 74 - Impact of a 25% drop in real estate prices

Inflation risk

Inflation can indirectly impact a financial company in many ways, for instance via changes in interest rates or operational costs. Therefore, inflation in general is not easily quantifiable as a market risk concept. However, certain financial products or instruments have a direct link with inflation and their value is directly impacted by a change in market expectations. KBC Bank uses indexed bonds as an opportunity to diversify its asset portfolio. At KBC Insurance, it relates specifically to workmen's compensation insurance, where particularly in the case of permanent or long-term disabilities an annuity benefit is paid to the insured person (with the annuity being linked to inflation by law). KBC Insurance partly mitigates the risks by investing in inflation-linked bonds 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 business holds a 255-million-euro portfolio of indexed bonds. Aside from this, we are not exposed to inflation risk in a measurable way. For the insurance activities, the undiscounted value of the inflation-sensitive cashflows was estimated at -563 million euros, against which a 361-million-euro portfolio of indexed bonds and 26.3 million euros in direct and indirect real estate were held.

Foreign exchange risk

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

KBC focuses on stabilising the common equity ratio against foreign exchange fluctuations, which has improved KBC's capacity to cushion external shocks and is beneficial to all stakeholders. This implies a reduction in the hedging of 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 of KBC Group under the Danish compromise.

Impact of a 10% decrease in currency value*	Impact on value Banking		Impact on value Insurance	
In millions of EUR	31-12-21	31-12-20	31-12-21	31-12-20
CZK	-243	-232	-30	-18
HUF	-107	-95	-5	-5
BGN	-42	-41	-19	-10
USD	3	-2	-56	-36

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

Table 75 - 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 2021 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

On 1 January 2022, the benchmark transition was implemented within the entire KBC group. KBC Bank and its banking entities are fully capable of pricing based on the risk-free rates, both on a forward-looking and backward-looking basis. Since the second quarter of 2021, KBC has been pricing all new GBP business based on the Sterling Overnight Index Average (SONIA) rate and has been pricing new USD business based on the Secured Overnight Financing Rate (SOFR). Exposures to risk-free rates in other currencies are not material but require some operational and legal work that is currently ongoing.

Pricing and discounting for Markets business is fully compliant with the risk-free rates and operations continue to adapt credit support annexes to the risk-free rate environment. Legacy contracts linked to LIBOR are being moved to a risk-free rate in a timely and orderly manner and fallback clauses are being utilised. Discussions with clients continue via Relationship Managers in a smooth and orderly manner as trades come to maturity. Most of the exposure is due to syndicated loans in which KBC participates. These exposures will be transitioned before the end of the IBOR publication.

Much of the uncertainty around the development of the IBOR transitions at the end of 2020 was clarified in the course of 2021. The bulk of KBC's exposure to IBOR is due to EURIBOR. EURIBOR remains EU Benchmark Regulation compliant.

The remaining volumes linked to benchmarks affected by the reform at year-end 2021 are presented in the table:

Referenced to IBOR (volumes where the prices are still related to IBOR, all tenors) *In millions of EUR*	Non-derivative financial assets	Non-derivative financial liabilities	Derivatives
of which: USD (LIBOR)	2 143	18	13 766
of which: GBP (LIBOR)	217	0	1 032
of which: EUR (LIBOR)	9	1	-
of which: YEN (TIBOR), CHF (LIBOR)	1	0	2 826
Total	**2 371**	**19**	**17 624**

Table 76 - Referenced to IBOR (volumes where the prices are still related to IBOR, all tenors)

Capital sensitivity to market movements

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

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

CET1 ratio sensitivity to main market drivers (under Danish compromise), KBC group (as % of CET1) IFRS impact caused by	31-12-21	31-12-20
+100-basis-point parallel shift in interest rates	0.3%	0.3%
+100-basis-point parallel shift in spread	-0.2%	-0.2%
-25% in equity prices	-0.3%	-0.3%

Table 77 - 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 18 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 functions act as the first line of defence and are responsible for KBC's overall liquidity and funding management. The Group Treasury function monitors and steers the liquidity profile on a daily basis and sets the policies and steering mechanisms for funding management (intra-group funding, funds transfer pricing). These policies ensure that local management has an incentive to work towards a sound funding profile. The Group Treasury function also actively monitors its collateral on a group-wide basis.

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

The 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: the NAPP process, the risk scan, stress testing and materiality assessments are important tools used for risk identification. An annual assessment of key risk drivers impacting liquidity is performed as well. Where relevant, risk signals are presented in Treasury Risk Reports and Integrated Risk Reports.
- Risk measurement: identified liquidity risks are measured by means of both regulatory metrics such as the Liquidity Coverage Ratio (LCR) 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 Board of Directors sets the overall risk appetite objective for liquidity in close cooperation with the Executive Committee. The Group Asset and Liability Committee (GALCO) then translates this risk appetite for liquidity into liquidity risk measures and sets the limits for these measures.
- Risk analysis, reporting and follow-up: to mitigate day-to-day liquidity risk, group-wide trends in funding liquidity and funding needs are monitored continuously by the Group Treasury function. A Liquidity Contingency Plan drafted by the Group Treasury function is in place to address possible liquidity crisis situations and is tested at least annually.
- Stress testing: liquidity stress tests assess KBC's liquidity contingency risk by measuring how the liquidity buffer of the group's bank and insurance entities changes under extreme stressed scenarios. This buffer is based on assumptions regarding liquidity outflows and liquidity inflows resulting from actions to increase liquidity. The liquidity buffer has to be sufficient to cover liquidity needs over (i) a period that is required to restore market confidence in the group following a KBC-specific event, (ii) a period that is required for markets to stabilise after a general market event and (iii) a combined scenario, which takes a KBC-specific event and a general market event into account. This information is fed into the Liquidity Contingency Plan.

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

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 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. 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.

KBC participated in the targeted longer-term refinancing operation (TLTRO) in 2020 and 2021 for a total amount of 24.5 billion euros, further supporting its LCR and NSFR figures.

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)[1,2]								
In billions of EUR	<= 1 month	1-3 months	3-12 months	1-5 years	>5 years	On demand	Not defined	Total
31/12/2021								
Total inflows	**7**	**10**	**23**	**75**	**101**	**43**	**44**	**303**
Total outflows	**20**	**19**	**10**	**41**	**4**	**178**	**31**	**303**
Professional funding	*7*	*1*	*3*	*24*	*0*	*6*	*0*	***41***
Customer funding	*5*	*11*	*3*	*10*	*2*	*172*	*0*	***203***
Debt certificates	*4*	*7*	*4*	*6*	*2*	*0*	*0*	***24***
Other	*4*	*0*	*0*	*0*	*0*	*0*	*31*	***35***
Liquidity gap (excl. undrawn commitments)	-13	-9	13	34	96	-135	13	**0**
Undrawn commitments	-	-	-	-	-	-	43	**43**
Financial guarantees	-	-	-	-	-	-	10	**10**
Net funding gap (incl. undrawn commitments)	-13	-9	13	34	96	-135	-41	**-54**
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**

1 Cashflows exclude interest rate flows consistent with internal and regulatory liquidity reporting. Inflows/outflows that arise from margin calls posted/received for MtM positions in derivatives are reported in the 'Not defined' bucket. 'Professional funding' includes all deposits from credit institutions and investment firms, as well as all repos. Instruments are classified on the basis of their first callable date. Some instruments are reported at fair value (on a discounted basis), whereas others are reported on an undiscounted basis (in order to reconcile them with Note 4.1 of the 'Consolidated financial statements' section of the 2021 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.

2 The figures in the consolidated balance sheet differ from the ones shown here. The reason is that the planned sale of the activities of KBC Bank Ireland resulted in a shift to the balance sheet items 'Non-current assets held for sale and disposal groups' and 'Liabilities associated with disposal groups' because we consider all IFRS 5 conditions to be met while the funding mix shows the economic positions, including KBC Ireland at year-end.

Table 78 - 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

At year-end 2021, the KBC group had 55 billion euros' worth of unencumbered central bank eligible assets, 50 billion euros of which in the form of liquid government bonds (92%). The remaining available liquid assets were mainly other ECB/FED-eligible bonds (5%). Most of the liquid assets are expressed in our home market currencies. Available liquid assets were roughly eleven times the amount of net short-term wholesale funding (which considerably improved due to higher KBC positions at central bank accounts). The funding from non-wholesale markets was accounted for by stable funding from core customer segments in our core markets.

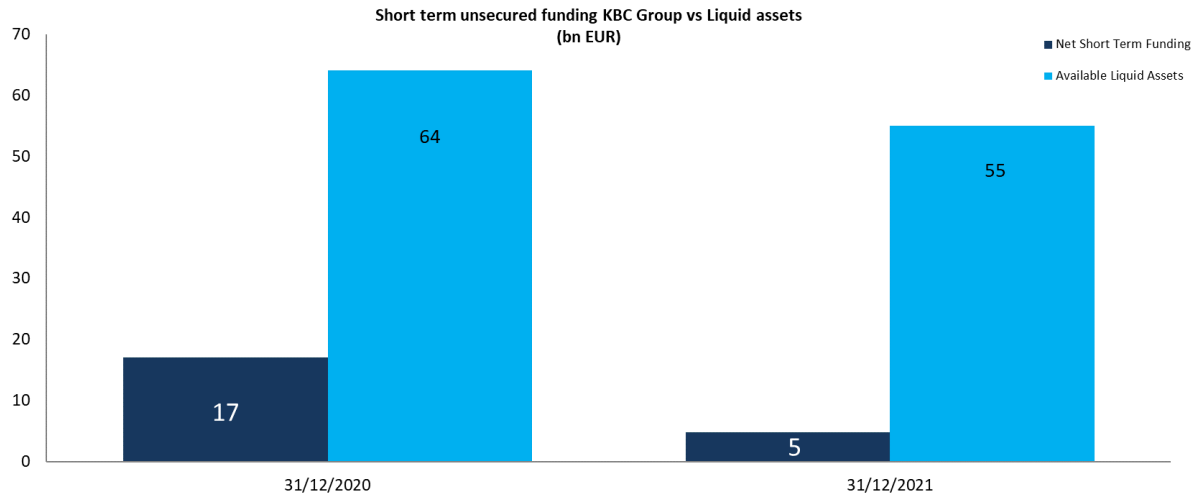

Figure 4 - Short-term unsecured funding KBC Group versus liquid assets

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] can be broken down as follows:

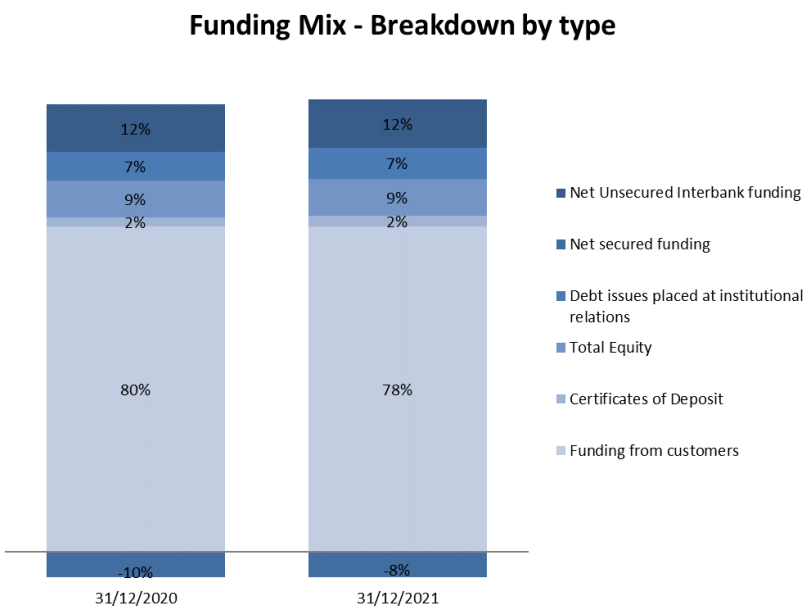

Figure 5 - Funding mix (breakdown by type)

- Funding from customers (circa 205 billion euros, 78% 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 (19 billion euros, 7% of the total figure), mainly comprising covered bonds issues (6.1 billion euros), tier-2 issues (2.8 billion euros) and KBC Group NV senior debt (8.5 billion euros).
- Net unsecured interbank funding (30.1 billion euros, 12% of the total figure), including TLTRO funding.
- Net secured funding (-21.7 billion euros in repo funding, -8% of the total figure) and certificates of deposit (6.3 billion euros, 2% of the total figure). Net secured funding was negative at year-end 2021 due to the fact that KBC carried out more reverse repo transactions than repo transactions.
- Total equity (23.1 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

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

2020 we participated in TLTRO III for just under 19.5 billion euros. During 2021 we participated in TLTRO III once more for 2.5 billion euros to further strengthen 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 2021, our NSFR stood at 148% while our twelve-month average LCR for 2021 came to 167%. The two main drivers of the increase in the LCR ratio were inflows from client deposits and additional participation in TLTRO III.

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 has applied since 28 June 2021. Here too, the regulatory required minimum is 100%. KBC's LCR and NSFR are thus well above these minima.

LCR quantitative information

EU LIQ1 - Quantitative information of LCR *In millions of EUR*		Total unweighted value (average)				Total weighted value (average)			
EU 1a	Quarter ending on (DD Month YYY)	31-12-21	30-09-21	30-06-21	31-03-21	31-12-21	30-09-21	30-06-21	31-03-21
EU 1b	Number of data points used in the calculation of averages	12	12	12	12	12	12	12	12
	HIGH-QUALITY LIQUID ASSETS								
1	Total high-quality liquid assets (HQLA)					108 642	102 771	94 308	87 270
	CASH - OUTFLOWS								
2	Retail deposits and deposits from small business customers, of which:	134 433	131 471	128 225	124 590	9 354	9 123	8 890	8 643
3	Stable deposits	86 653	84 722	82 424	79 758	4 333	4 236	4 121	3 988
4	Less stable deposits	39 754	38 692	37 653	36 666	5 021	4 887	4 769	4 656
5	Unsecured wholesale funding	92 251	88 822	83 764	81 318	58 773	56 115	51 883	50 356
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	9 968	9 716	9 582	8 523	2 290	2 230	2 202	1 962
7	Non-operational deposits (all counterparties)	74 769	71 474	67 668	66 596	48 970	46 252	43 167	42 195
8	Unsecured debt	7 514	7 632	6 514	6 199	7 514	7 632	6 514	6 199
9	Secured wholesale funding					425	424	488	511
10	Additional requirements	44 614	43 858	42 988	42 217	10 090	10 203	10 185	10 650
11	Outflows related to derivative exposures and other collateral requirements	5 323	5 534	5 632	6 292	5 323	5 534	5 632	6 292
12	Outflows related to loss of funding on debt products	0	0	0	0	0	0	0	0
13	Credit and liquidity facilities	39 291	38 324	37 355	35 925	4 766	4 668	4 552	4 359
14	Other contractual funding obligations	1 542	1 653	1 757	1 678	930	1 003	1 100	1 161
15	Other contingent funding obligations	21 090	20 857	20 906	21 148	1 898	1 848	1 832	1 837
16	**Total cash outflows**					**81 469**	**78 716**	**74 377**	**73 158**
	CASH - INFLOWS								
17	Secured lending (e.g. reverse repos)	38 517	36 672	35 114	33 969	90	87	95	102
18	Inflows from fully performing exposures	11 424	11 812	12 501	11 824	10 557	10 967	11 669	10 965
19	Other cash inflows	10 032	10 389	10 437	11 364	5 423	5 816	5 805	6 499
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**	**59 974**	**58 873**	**58 052**	**57 157**	**16 070**	**16 870**	**17 569**	**17 565**
EU-20a	Fully exempt inflows								
EU-20b	Inflows subject to 90% cap								

EU-20c	Inflows subject to 75% cap	59 640	58 578	57 782	56 925	16 070	16 870	17 569	17 565
	TOTAL ADJUSTED VALUE								
EU-21	**Liquidity buffer**					**108 642**	**102 771**	**94 308**	**87 270**
22	**Total net cash outflows**					**65 399**	**61 846**	**56 808**	**55 593**
23	**Liquidity coverage ratio**					**167.36%**	**166.83%**	**166.04%**	**157.14%**

Table 79 - EU LIQ1_Quantitative information of LCR

NSFR quantitative information

EU LIQ2 - Net Stable Funding Ratio		**Unweighted value by residual maturity**				**Weighted value**
At 31 December 2021 (in millions of EUR)		**No maturity**	**< 6 months**	**6 months to < 1yr**	**≥ 1yr**	
	Available stable funding (ASF) Items					
1	Capital items and instruments	18 997	0	0	1 735	20 732
2	Own funds	18 997	0	0	1 735	20 732
3	Other capital instruments		0	0	0	0
4	Retail deposits		137 925	1 037	342	130 235
5	Stable deposits		95 876	669	194	91 911
6	Less stable deposits		42 049	368	149	38 324
7	Wholesale funding:		98 675	5 888	38 106	67 095
8	Operational deposits		10 918	0	0	1 013
9	Other wholesale funding		87 758	5 888	38 106	66 082
10	Interdependent liabilities		0	0	0	0
11	Other liabilities:	4 401	432	0	61	61
12	NSFR derivative liabilities	4 401				
13	All other liabilities and capital instruments not included in the above categories		432	0	61	61
14	**Total available stable funding (ASF)**					**218 123**
	Required stable funding (RSF) Items					
15	Total high-quality liquid assets (HQLA)					8 038
EU-15a	Assets encumbered for a residual maturity of one year or more in a cover pool		295	297	11 026	9 875
16	Deposits held at other financial institutions for operational purposes		0	0	0	0
17	Performing loans and securities:		37 666	10 662	125 608	117 435
18	Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut		10 666	457	317	1 005

19	Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions		5 016	502	2 965	4 455
20	Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:		15 331	5 097	40 841	110 084
21	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk		0	0	556	39 875
22	Performing residential mortgages, of which:		4 157	4 184	80 057	0
23	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk		1 748	1 786	56 371	0
24	Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products		2 496	422	1 428	1 892
25	Interdependent assets		0	0	0	0
26	Other assets:	0	39 606	281	7 533	9 839
27	Physical traded commodities				0	0
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs		1 239	0	0	1 053
29	NSFR derivative assets		0	0	0	0
30	NSFR derivative liabilities before deduction of variation margin posted		7 603	0	0	380
31	All other assets not included in the above categories		30 765	281	7 533	8 405
32	Off-balance sheet items		48 698	976	85	2 544
33	**Total RSF**					**147 731**
34	**Net Stable Funding Ratio (%)**					**147.65%**

Table 80 - EU LIQ2_Net Stable Funding Ratio

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.

Asset encumbrance

KBC is a retail-oriented bank that finances 78% 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 part of the increased limit to issue retained covered bonds and to pledge these as collateral with the ECB.

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 2021, KBC mobilised as much collateral as possible to assist in these programmes and at the end of 2021, KBC had an outstanding balance of just under 24.5 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 53.7 billion euros, 26% of which are debt securities (of which 13.1 billion euros issued by general governments) and other assets which mainly consist of mortgage loans.

EU AE1 - Encumbered and unencumbered assets

	At 31 December 2021 (in millions of EUR)	Carrying amount of encumbered assets	*of which notionally eligible EHQLA and HQLA*	Fair value of encumbered assets	*of which notionally eligible EHQLA and HQLA*	Carrying amount of unencumbered assets	*of which EHQLA and HQLA*	Fair value of unencumbered assets	*of which EHQLA and HQLA**
010	**Assets of the reporting institution**	53 701	*15 525*			266 168	*52 576*		
030	Equity instruments	0	*0*	0	*0*	658	*0*	619	*0*
040	Debt securities	14 068	*13 472*	14 808	*14 170*	34 213	*30 768*	34 451	*31 303*
050	*of which: covered bonds*	*668*	*660*	*675*	*667*	*2 288*	*1 822*	*2 306*	*1 838*
060	*of which: securitisations*	*148*	*117*	*149*	*117*	*81*	*8*	*86*	*8*
070	*of which: issued by general governments*	*13 144*	*13 124*	*13 842*	*13 820*	*29 757*	*28 211*	*30 191*	*28 747*
080	*of which: issued by financial corporations*	*923*	*816*	*973*	*823*	*3 360*	*2 523*	*3 469*	*2 509*
090	*of which: issued by non-financial corporations*	*80*	*56*	*88*	*60*	*460*	*109*	*473*	*111*
120	Other assets	39 216	*9 746*			25 993	*553*		

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

Table 81 - EU AE1_Encumbered and unencumbered assets

Of the encumbered collateral received, 5.9 billion euros was accounted for by debt securities issued by general governments and financial corporations (primarily central banks), as reflected in the table below.

EU AE2 - Collateral received and own debt securities issued

		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	
	At 31 December 2021 (in millions of EUR)		*of which notionally eligible EHQLA and HQLA*		*of which EHQLA and HQLA*
130	**Collateral received by the reporting institution**	9 763	*9 494*	33 607	*31 455*
140	Loans on demand	0	*0*	0	*0*
150	Equity instruments	0	*0*	0	*0*
160	Debt securities	9 763	*9 494*	31 648	*31 455*
170	*of which: covered bonds*	*503*	*503*	*78*	*75*
180	*of which: securitisations*	*830*	*622*	*1*	*0*
190	*of which: issued by general governments*	*5 954*	*5 843*	*7 651*	*7 651*
200	*of which: issued by financial corporations*	*1 334*	*710*	*431*	*241*
210	*of which: issued by non-financial corporations*	*0*	*0*	*0*	*0*
220	Loans and advances other than loans on demand	0	*0*	1 958	*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 securitisations issued and not yet pledged**			**1 583**	***0***
250	**TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED**	**63 243**	***25 715***		

Table 82 - EU AE2_Collateral received and own debt securities issued

The sources of asset encumbrance (i.e. the matching financial liabilities in the table below) total 47 billion euros.

EU AE3 - Sources of encumbrance

		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and securitisations encumbered
	At 31 December 2021 (in millions of EUR)		
010	Carrying amount of selected financial liabilities	46 781	62 560

Table 83 - EU AE3_Sources of encumbrance

At year-end 2021 (point-in-time), these consisted mainly of:

- Own covered bonds issued (5.9 billion euros, 15% of the total figure);
- TLTROs (24.5 billion euros, 63% of the total figure);
- OTC derivatives (4.7 billion euros, 12% of the total figure);
- Repurchase agreements (3.2 billion euros, 8% 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 2021 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 from sudden man-made or natural external events.

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 2021 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, group-wide 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 the nine operational risk sub-types in all entities of the group.

The Extended Competence Centre for Operational Risk, which consists of risk experts at both group and local level, cooperates with other expert functions covering the nine operational risk sub-types: information technology risk, information security risk, business continuity risk, process risk, outsourcing and third-party risk, model risk, legal risk, fraud risk, and personal and physical security risk. 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), performing risk scans to identify and analyse risks, analysing key risk indicators, performing independent control monitoring activities, root cause analysis of near misses and losses and other risk events. A structured, process-based repository of Group Key Risks and related mitigating Group Key Control Objectives (GKCs) is in place to set top-down minimum standards for the risk and control environment. Self-assessments are performed by the first line of defence. 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. An annual stress test is performed to assess the adequacy of pillar 1 operational risk capital. An automated data-driven approach has been worked out for the Internal Control Statement. This approach builds on commonly used operational risk measures. As such, it allows uniform application across the KBC group, leading to increased objectivity, transparency and comparability.
- Setting and cascading risk appetite: the risk appetites for operational risk overall and for the nine operational risk sub-types individually are set in line with the overall requirements as defined in the Enterprise Risk Management Framework.
- Risk analysis, reporting and follow-up: a uniform approach – strongly based on first line of defence accountability (business side) and challenges by the second line of defence (risk, fraud, legal and other experts) and assurance by the third line of defence (internal audit) – is in place with risk-based follow-up at both local and group level. Minimum standards for the operational risk management reporting process are defined. Besides regulatory required reporting, structural reporting to the Group Internal Control Committee (GICC) is performed on a quarterly basis. Regular reporting and follow-up is presented in the Integrated Risk Report (IRR) and in other specific risk reports submitted to the Executive Committee, the Risk & Compliance Committee and the Board of Directors. If and when needed (e.g., triggered by specific developments or concerns, at the request of (senior) management, etc.), reporting to these committees can also take place on an ad hoc basis. The quality of the internal control environment and related risk profile is reported to KBC's senior management and to the NBB, the FSMA and the ECB via the annual Internal Control Statement.
- Stress testing: operational risk scenarios or potential events are considered in the context of risk-type-specific or integrated stress tests.

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 2021, 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).

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

The building blocks for managing IT/Information Security risks are described in the 'Information security strategy of KBC Group' which can be found on www.kbc.com.

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

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

In addition, several metrics have been defined at the level of a Group Key Control to underpin the effectiveness of controls with facts and figures. Some examples are: employee phishing click rate, the percentage of completeness of the asset inventory, the number of KBC websites with (critical) vulnerabilities, the speed of patching these vulnerabilities, etc.

- Setting and cascading risk appetite: the risk appetite is stipulated in the KBC group Risk Appetite Statement, which provides specified high, medium and low risk levels, metrics and thresholds for each risk type (part of the Operational Risk risk appetite, see 'The building blocks for managing operational risks'). The risk appetite target, the level of risk KBC is willing to take, is set to 'low risk' in relation to Information Technology and to the 'lower end of medium risk' for Information Security by the end of 2023 considering the high uncertainty in this area and the high pace at which the threat landscape is evolving.
- Risk analysis, reporting and follow-up: Information Security and IT-related risks are assessed and monitored via a group-wide detailed risk assessment tool. The status of Information Risk management is regularly reported to internal as well as external stakeholders. Some key reports are, for example:
    - the Information Security, Information Technology and Business Continuity Management processes are reported as part of the Internal Control Statement;
    - the yearly ECB IT risk questionnaire;
    - the Information Risk Management Dashboard, which provides a KBC group overview on Information Risk to the Group Internal Control Committee (GICC) on a quarterly basis. The Executive Committee and the Risk and Compliance Committee are informed twice a year;
    - the cyber risk report, a tactical report which aims to close emerging gaps in our cyber defences and is submitted to the Global IT Committee (GITCO) on a monthly basis. The report includes an overview of cyber incidents, threats and actions taken to mitigate the risks they entail;
- Stress testing enables KBC entities to deal with local cyber crises and handle major incidents. To ensure that Information Security and IT risks are effectively controlled, a number of challenges are performed throughout the group on a regular basis, such as ethical hacking exercises, technical Cyber Resilience & Readiness Testing, detailed investigations, employee phishing tests, crisis simulations and other incident drills.

Outsourcing risk management

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 policy 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 risk 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. Complex (AI) models have been 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 risks. 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 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.

The BCM process can be considered a mature process within the group, with a focus on both prevention and response. Crisis prevention focuses on reducing the probability of a crisis, while crisis response focuses on the effective and efficient handling of a crisis should one occur. To enable this, tested and rehearsed crisis capabilities in the form of practical scenarios mitigating the crisis impact and enabling adequate recovery have been implemented or are being implemented. These scenarios are the following:

- The 'ransomware' scenario, which is a roadmap for what to do, who to notify, etc., in case one of our entities is targeted by a ransomware cyberattack.
- The 'Stop Payments' scenario, which is an emergency procedure to stop outgoing payments. It can be regarded as an emergency button, i.e. when activated all outgoing payment traffic of the bank which activated the button will be stopped.
- The 'IT bypass' scenario which contains information on what needs to be done to survive the unavailability of data centre pairs (primary and back-up) in one country. It is an extension to the IT disaster recovery plans and can be used, for example, when the data centres of one country become (temporarily) unavailable due to a successful large-scale cyberattack.

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

As the coronavirus pandemic continued in 2021, all measures launched in 2020 remained in place. This entailed 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, business continuity measures were continued, e.g., a switch to (partial) teleworking and to remote banking and the provision of insurance services to our clients. Changes related to processes and procedures (including government relief measures) were implemented in a risk-conscious way. 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 of 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/SMS 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.

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 cyberattacks.

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 of events identified over the past three years, are associated with issues with execution, delivery and process management, followed by clients, products and business practices and external fraud (see graph below). Other categories remain limited in gross loss P&L impact, but not necessarily in terms of the number of events.

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'.

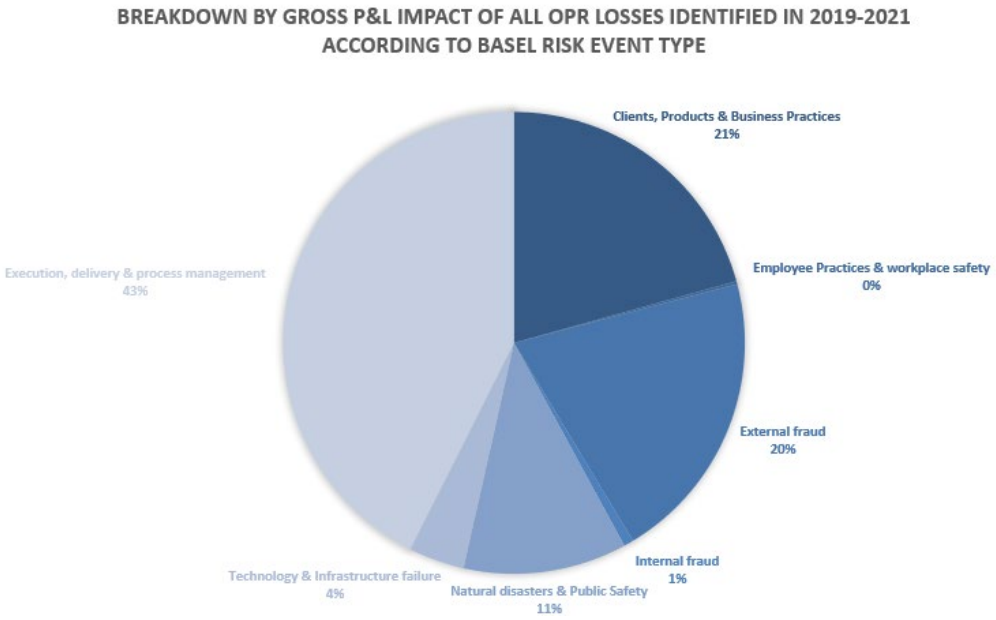

Figure 6 - Breakdown of gross P&L impact of losses according to Basel risk event types over 2019-2021

Compliance risk

Compliance risk is the risk of non-conformity or sanctions due to failure to comply with laws and regulations presenting an integrity dimension, and with internal policies and codes of conduct reflecting the institution's own values, as defined in the Group Compliance Framework (Charter, Integrity Policy, Group Compliance Rules, Compliance Monitoring Program). It includes conduct risk, i.e. the current or prospective risk of losses arising from inappropriate supply of products and 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.

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

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

The prevention of money laundering and terrorism financing, including embargoes, has been a top priority for the Compliance function during the last three years and will continue to be prioritised in 2022. It is an area where knowledge of the client (Know Your Customer (KYC)), updating their profiles and monitoring transactions (Know Your Transaction (KYT)) are essential. Efforts are continuously made to adapt the organisation to a constantly changing regulatory environment, particularly with regard to clients who present an increased risk and for whom additional information is required. A group-wide project was conducted in 2021 to enhance the centralisation and the robustness of the first line of defence in terms of KYC, KYT, procedures and controls. The delineation of tasks and responsibilities between the first and the second lines has also been finetuned. Full implementation is expected to be rolled out in 2022. Recent developments regarding KYC utilities (KUBE – KYC Utilities for Banks and Enterprises), a sector initiative that should

enable large banks to share harmonised KYC data on companies, are promising and could have facilitated client onboarding by the end of 2021, but the deliverables are taking longer than planned. Similar reflections are ongoing with regard to individuals who use the digital identification app 'itsme' in Belgium.

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

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

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 (relevant indicator) 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 84 - Beta factors for Basel business lines, used for the Standardised approach for operational risk regulatory capital

EU OR1 - Operational risk own funds requirements and risk-weighted exposure amounts						
		Relevant indicator			Own funds requirements	Risk exposure amount
In millions of EUR		2019	2020	2021		
1	Banking activities subject to basic indicator approach (BIA)					
2	Banking activities subject to standardised (TSA) / alternative standardised (ASA) approaches	6 821	6 595	6 810	920	11 502
3	*Subject to TSA:*	*6 821*	*6 595*	*6 810*		
4	*Subject to ASA:*					
5	Banking activities subject to advanced measurement approaches AMA					

Table 85 - EU OR1_Operational risk own funds requirements and risk-weighted exposure amounts

When calculating operational risk (including compliance risk) capital, we use the Standardised approach under Basel III. Operational risk capital at KBC group level totalled 920 million euros at the end of 2021, compared to 914 million euros at the end of 2020. This small increase was caused by slightly lower average income, which was more than offset by some changes in income from business lines with a low beta (as defined under Basel III) to business lines with a higher beta.

As of 1 January 2023, KBC will apply the applicable revised Basel III single standardised approach for the calculation of the operational risk regulatory capital. The implementation of the revised Basel III was deferred by one year by the Governors and Heads of Supervision to increase the capacity of banks and supervisors to respond to the coronavirus pandemic.

Operational risk regulatory capital		
In millions of EUR	2021	2020
Risk-Weighted Assets	11 502	11 422
Capital	920	914

Table 86 - Operational risk regulatory capital

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 and promote a strong corporate culture that encourages responsible behaviour, including social and environmental responsibilities. We uphold client centricity and foster trust by treating the client fairly and honestly.

The Reputational Risk Management Framework describes the processes in place to manage reputational risk. Proactive and reactive management of reputational risk is the responsibility of Business, supported by specialist units (including Group Communication, Investor Relations 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.

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

The corporate strategy 'Differently: the Next Level' is KBC's strategic answer to leverage strengths and opportunities and to deal with changes in the business environment such as changing client behaviour, financial disintermediation, increasing digitalisation, and climate change. The updated strategy is intended to bring KBC to the next level in terms of digitalisation and client experience. The coronavirus crisis has demonstrated KBC's agility to deal with the financial and operational consequence of the crisis, e.g. by switching to full digital servicing of our clients during the lockdowns.

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. These risks are quantified both in likely scenarios and in several

stress scenarios. Exposure to the identified business environment risks is also monitored on an ongoing basis by means of risk signals which are reported to top management.

The general business environment risks (relating to the macroeconomic situation, competition, regulations, etc.) are also described in the ‘Our business model’ section of the 2021 Annual Report of KBC Group NV.

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 Poist'ovňa (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, NAPP analysis 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, is overseen by the Group Insurance Committee (GIC) and is approved by the Executive Committee and the Board of Directors. At the GIC, the defined limits are reviewed and reported. The insurance risk limits are determined and set at group level and further cascaded to the local entities. The necessary compliance checks are conducted.
- Risk analysis, monitoring, reporting and follow-up: if the risk profile is not in line with the risk appetite, the reason has to be identified and analysed (e.g., which lines of business are contributing to the deviating risk profile) and the outcome and corrective action must be discussed at the GIC. Breaches at group level are subject to the approval of the Executive Committee/Board of Directors. 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 are reported to the Risk & Compliance Committee and Board of Directors on a regular basis as part of the regular Group Integrated Risk Report.
- Stress testing: internal and external stress tests and sensitivity analyses are performed and the outcome of these tests is reported in the annual Own Risk and Solvency Assessment (ORSA) report. In 2021, the Solvency II ratio remained far above the regulatory threshold of 100% in both the EIOPA and NBB stress tests. Both assessed the impact of an extended coronavirus scenario in a low interest rate environment.

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 that 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.

These models are used 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 and 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

The number of claims in the Life segment (e.g., Death, Medical Expenses, Guaranteed Income) remained contained. We do not observe any material impact on our profitability due to the coronavirus crisis.

Impact of natural catastrophes on technical insurance risk

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

- In June, the most severe tornado in the Czech Republic on record destroyed several villages, leading to an estimated impact on KBC of 24 million euros before tax and before reinsurance at the end of the second quarter.
- In July, Western Europe was hit hard by exceptional rainfall resulting in floods with a severe impact in Belgium and other countries. At year-end 2021 the gross loss for KBC Insurance NV was 110 million euros before tax and before reinsurance.

We refer to Note 3.7 'Insurance results' in the 2021 Annual Report of KBC Group NV for the net impact of these events on the technical result for the non-life business and to the 'Climate-related and other ESG risks' section in the Pillar 3 Risk Report.

The occurrence of multiple natural catastrophe events in such a short period of time raises questions about their exceptionality and whether their likelihood is expected to increase driven by climate change.

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 2021 have been included and are before reinsurance, adjusted to eliminate intercompany amounts related to KBC Group Re, the KBC group's own reinsurance company. This makes it possible to first pool the reinsurance risks internally and then, in a subsequent stage, go to the reinsurance market.

The loss triangles are provided in the table below. The first row in the table shows the total claims burden (claims paid plus provisions) for the claims that occurred during a particular year, as estimated at the end of the year of occurrence. The following rows indicate the situation at the end of the subsequent calendar years. We restated the amounts to reflect exchange rates at year-end 2021.

Loss triangles, KBC Insurance	Year of occurrence									
In millions of EUR	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Estimate at the end of the year of occurrence	791	914	990	940	1 024	1 000	1 072	1 149	1 018	1 260
1 year later	692	769	879	796	888	882	939	1 019	896	-
2 years later	670	699	825	750	825	849	894	989	-	-
3 years later	645	677	804	719	810	833	877	-	-	-
4 years later	631	673	788	708	806	816	-	-	-	-
5 years later	625	664	780	697	787	-	-	-	-	-
6 years later	619	662	779	689	-	-	-	-	-	-
7 years later	606	659	769	-	-	-	-	-	-	-
8 years later	601	658	-	-	-	-	-	-	-	-
9 years later	612	-	-	-	-	-	-	-	-	-
Current estimate	612	658	769	689	787	816	877	989	896	1 260
Cumulative payments	527	588	685	581	636	645	680	726	599	539
Current provisions	85	69	85	109	151	171	196	262	297	721

Table 87 - Loss triangles, KBC Insurance

Solvency II results and risk profile

Solvency II sets out the regulatory capital requirements for the insurance companies. The Solvency capital requirement stood at 1 744 million euros at year-end 2020 and increased to 2 029 million euros at year-end 2021. The main drivers of the increase were higher equity markets and portfolio growth in the non-life business.

More detailed information on the Solvency II results and the ratios is provided in our Solvency & Financial Condition Report, which is available at www.kbc.com and under 'Solvency of KBC Bank and KBC Insurance separately' in the 'How do we manage our capital?' section of the 2021 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.

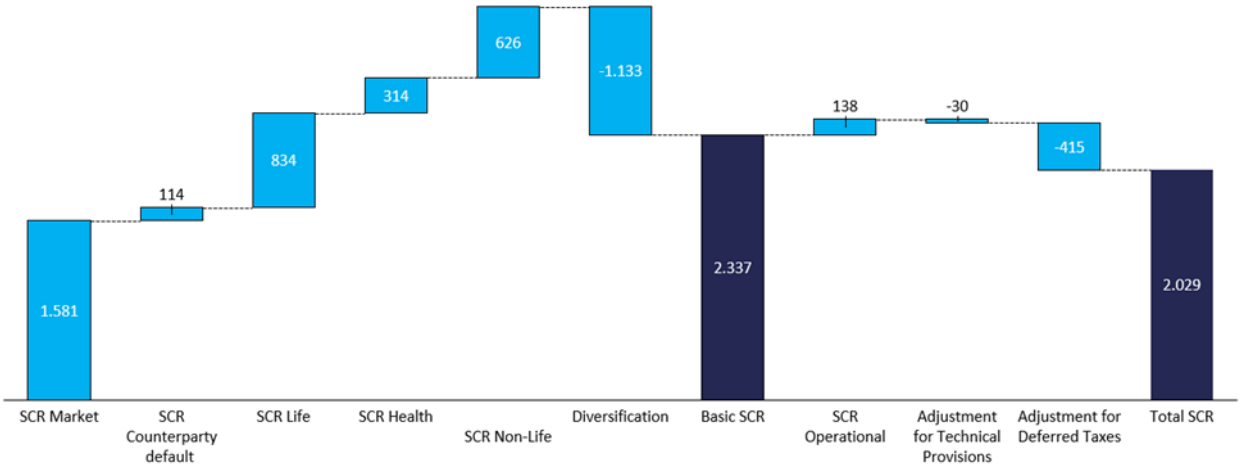

Figure 7 - Solvency II capital requirements 31-12-21

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 2021 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 (such as biodiversity loss, water stress, pollution and waste).
- 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.).

KBC aims to support the transition to a more sustainable and climate-resilient society now and into the future, together with its clients and other stakeholders. For this reason, sustainability is an integral part of our overall corporate strategy and embedded in our day-to-day business activities and the products and services we offer.

We aim to avoid or limit the negative impact of our products and services and maximise our positive impact on society. In order to guarantee KBC's long-term sustainability and financial resilience, we pursue strict ESG risk management.

More specifically, in our commitment to climate action – through our dedicated Sustainable Finance Programme – we limit our adverse impact and increase our positive impact by:

- increasing the opportunities of and exposure to low-carbon clients and activities;
- reducing the risks of and exposure to high-carbon clients and activities; and
- engaging, working with and supporting our clients in their transition towards climate resilience.

See also the 'Setting and cascading risk appetite' section.

In society, too, sustainability and climate change are getting more and more attention as the consequences of climate change are becoming increasingly visible (as evidenced by the floods in Wallonia and tornados in the Czech Republic in the summer of 2021 and as described in 'Impact of natural catastrophes on technical insurance risk' in the 'Insurance Risk Management' section) and are changing the expectations, mindset, consumption and investment patterns of our stakeholders. At the UN Climate Change Conference in Glasgow (COP26), countries reaffirmed the Paris Agreement goal of limiting the increase in the global average temperature to well below 2°C above pre-industrial levels and stressed the urgency of action "in this critical decade," when carbon dioxide emissions must be drastically reduced to reach net zero around mid-century. Given the increased urgency, climate risk has been confirmed as a top risk since 2018.

- 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 the EU Green Deal). These can impact the stability and value of our loan and investment portfolios.

For climate risk, following the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), we differentiate between transition and physical risks:

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).

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 or value chains or damage property.

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

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

Governance

The management of ESG risks is fully embedded in our existing Risk Management Governance (see also the 'Risk Management & Governance' section). The three lines of defence concept forms the cornerstone of KBC's risk governance and specifies the roles and responsibilities with regard to risk management for all risks to which KBC is exposed, including Environmental, Social and Governance (ESG) risks.

A hybrid organisational structure and governance, with strong central management and clear local accountability in each of our core countries, are in place to ensure that sustainability topics receive the necessary attention and resources in our business operations and strategies going forward. The risk function is actively represented on KBC's sustainability committees:

- The Group CRO is a member of the Executive Committee, the committee having the highest level of direct responsibility for sustainability and climate change.
- The senior general manager of Group Credit Risk is a member of the Internal Sustainability Board (ISB). The ISB, chaired by the CEO, is the primary forum for the discussion of all sustainability-related topics (including our approach to climate change) and the main platform for driving sustainability at group level (with representation of senior managers from all business units and core countries, the Group CFO and the Group

Corporate Sustainability General Manager). It debates and takes strategic and commercial decisions on all sustainability-related matters.

- The senior general managers of Group Risk and Group Credit Risk are members of the Sustainable Finance Programme Steering Committee, which is chaired by the Group CFO and supports the ISB by overseeing and supporting our business departments in developing their climate resilience in line with the TCFD recommendations and the EU Action Plan on Sustainable Finance. The SteerCo also follows up on the implementation plans as submitted to the ECB in 2021, as part of the ECB Questionnaires on climate and environmental risks.
- The senior general managers of Group Risk and Group Credit Risk are also members of the Data & Metrics Steering Committee, which was established in 2021 to structurally address the growing climate-related data needs.
- The risk function is represented in the core team of the Sustainable Finance Programme with dedicated resources. The Programme focuses on integrating climate-related matters throughout the group and reports to the Sustainable Finance Programme Steering Committee.

Within our Audit Framework, transversal risks - including ESG risks - are covered in multiple audits (e.g., sustainable lending policy in Credit audits, sustainable investment policy in Asset Management audits). Additionally, thematic audits specifically focusing on ESG risks are also part of the multi-year audit plan.

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

- The variable remuneration of Executive Committee members is linked to factors including the achievement of a number of collective targets. One such target specifically relates to progress in the area of sustainability, which is evaluated every six months using the KBC Sustainability Dashboard (see 'Risk reporting and disclosure').
- All KBC senior managers have a sustainability objective to increase sustainability awareness and to encourage all KBC senior managers to take concrete action in the domain of sustainability (including climate policy). At least 10% of the variable remuneration received by senior management depends on the achievement of the targets related to this sustainability objective.
- The non-recurrent results-based bonus KBC pays its employees in Belgium has been partially linked to sustainability targets since 2012. In 2021, the targets were linked partly to our direct footprint – reducing paper consumption – but also to employee development (training days, digitality and progress management) and to cybersecurity (phishing tests).

Integration into risk management frameworks and processes

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.

ESG risks, including climate risk, are identified in our risk taxonomy but not defined as a separate risk type. They are considered key risk drivers of the external environment and manifest themselves through (all) other traditional risk areas, such as credit risk, market risk and technical insurance risk.

Within the industry, risk assessment methodologies are most advanced for climate risk (compared to other ESG risk areas). While KBC's first focus also lies on the integration of climate risk within all risk management frameworks and processes (such risk identification, measurement and stress testing, and risk appetite), we are extending our climate risk

approach to the other ESG areas as well (e.g., implementation of our biodiversity policy, the increasing attention towards the management of cyber threats – see also 'Information risk management' in the 'Non-Financial Risks' section).

When developing our climate risk management approach, we are taking steps to deal with the specific challenges that are inherent to the assessment of climate risk:

- There is currently still a lack of data and standardised methods to properly assess and measure climate-related risks. In order to enable a more data-driven approach towards managing climate risk, we are increasing our efforts to identify climate-related data needs, define climate-related metrics, adjust data architecture and ensure the implementation in our reporting processes. To this end, a dedicated Data & Metrics project (with a separate Steering Committee, involving all core countries and group functions) was recently established within the Sustainable Finance Programme.

  Furthermore, we continuously investigate external developments and potential new methodological tools and services, in order to further build up relevant knowledge and expertise and gradually gain more insight that enables us to take additional steps to advance our risk management processes and practices going forward (e.g., adapting credit/insurance policies, adjustment of credit assessment processes, etc.).

- Given that the materialisation of climate (and other ESG) risks builds up over an extended period (with transition risks dominating in the short and medium terms and potential severe physical hazards occurring more frequently in the longer term), we are adjusting our current risk processes to make sure that, in addition to the more traditional short-term impacts, medium and long-term considerations are also integrated into risk identification, risk appetite, stress testing and risk reporting.
- Depending on the measures adopted to contain the ongoing deterioration of environmental conditions and its impacts (e.g., economic policies and related regulatory interventions set by governments, technological progress or changing consumer behaviour), different economic and social implications are conceivable. In order to deal with this uncertainty in our climate risk assessments, we consider a range of climate scenarios (making specific assumptions on technological and policy changes and translating these into impacts on, for example, energy production, CO_2 emissions, oil consumption, etc.). For more details, we refer to the 'Risk identification' section and the 'Risk measurement, scenario analysis and stress testing' section.

In the sections below, KBC's approach towards the gradual integration of climate (and other ESG) risks into its risk management frameworks and processes is further elaborated. We are taking a step-by-step approach where follow-up actions are defined based on the insights gained from our previous actions/analyses and depending on the availability of data and methodologies, for example.

Risk identification

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

Pro-active risk identification related to climate risk

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

- In 2020 and 2021, strategic sectoral projects (so-called White Papers) were set up, with a focus on our credit business, advisory services and insurance activities, for eight carbon-intensive industrial sectors (energy, commercial real estate, agriculture, food production, building and construction, chemicals, transportation and metals) and three product lines (mortgages, car loans and car leasing). The selected sectors are material for KBC's loan portfolio both from a Green House Gas (GHG) perspective and from an exposure perspective.

Most climate-sensitive corporate industrial sectors[1]			
In millions of EUR	**2021**	**2020**	**2019**
Total outstanding loans KBC Group	**188 400**	**180 891**	**175 431**
Total outstanding loans most climate-sensitive corporate industrial sectors	**42 319**	**40 416**	**39 636**
Real Estate	11 450	11 350	11 231
Building & Construction	7 845	6 965	6 819
Agriculture, farming & fishing	5 166	4 957	4 717
Automotive	4 553	4 451	4 625
Food producers and beverages	4 108	3 887	3 698
Energy	4 087	3 792	3 869
Metal	2 626	2 503	2 466
Chemicals	2 482	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).

Table 88 - Most climate-sensitive corporate industrial sectors, outstanding loans, KBC Group

The White Papers make a clear analysis of the challenges and technological developments in each of these sectors and business lines, including the relevant European and local regulations and action plans, their impact on KBC's portfolios in terms of climate-related risks and opportunities, which reporting metrics can be used to steer these portfolios, etc. They also provide an initial outline of possible risk-mitigating measures, commercial policy adjustments and how we can steer the portfolio in line with the Paris Agreement. The specific context of our local businesses in all our home countries is considered in these assessments. The White Papers will be updated regularly (annually/biannually) when monitoring the changing business environment, evaluating long-term resilience towards climate and environmental risks and seeking opportunities. More details can be found in the Sustainability Report, the 'Our commitment to the environment and climate action' section and the 'White Papers' appendix.

- Sustainability and climate-related policies are taken into account when deciding on new products or services through KBC's New and Active Products Process (NAPP). Particular attention is paid to the adequate 'green' labelling of newly developed products, aligned with regulatory frameworks such as the EU Taxonomy and the ICMA Green Bond framework.
- A sector-based environmental and social (E&S) sectoral heat map has been developed and implemented in the loan origination and review processes as a screening tool to identify hot spots in terms of E&S risks in the corporate and SME loan books. Based on this heat map, a sectoral E&S risk portfolio monitoring report has been drawn up, providing insight to management into the overall E&S riskiness of KBC's industrial loan portfolio. Additionally, as a tool supporting the business, credit advisers and decision makers in assessing environmental and social risks during loan origination, KBC has implemented the ESG Assessment Guide in the loan origination/review process. An ESG assessment is mandatory for high-risk sectors above certain materiality thresholds, as also specified in KBC's Credit Risk Standards on Loan Origination for Corporate, SME and Micro SME. Both the heat map and the Assessment Guide adopt a broader E&S scope by not only focusing on climate

(transition and physical) risk but also on the other environmental risks (water, pollution, waste and ecosystems/biodiversity) and social risks.

- Client dialogue is an essential part of KBC's approach to better understanding how business clients already deal or plan to deal with sustainability challenges and to supporting them in this transition. We will also use this dialogue to collect our clients' sustainability data and steer business clients towards additional disclosures that might become necessary.
- In 2021, we took the first steps in the development of an internal carbon price. Internal carbon pricing (ICP) is an internally developed estimated cost of carbon emissions and has emerged as a forward-looking metric that can help organisations to manage climate-related transition risks and opportunities. The TCFD recommendations explicitly refer to the internal carbon price as a key metric to consider and assess climate-related risks and opportunities. As a next step, we are further identifying the activities in which the application of ICP would be relevant. A first ICP use case pilot for lending (a pilot project with a carbon cost impact analysis in the ESG assessment) has recently been launched (see the Sustainability report, the 'Our commitment to the environment and climate action' section).
- We assess more extreme weather conditions (such as changes in storm and precipitation patterns and changes in the frequency of floods) through a number of internal and external measures and stress tests to analyse their potential impact on our non-life property insurance portfolio. External broker and vendor models are used at KBC Insurance to model extreme events of this kind. KBC insists on an active dialogue regarding the inclusion of climate change in the scenario analysis performed by these providers. Physical risks in other regions around the world are also closely monitored, as they can affect the global reinsurance market on which KBC relies. Moreover, the insights into KBC's portfolios gained from KBC's reinsurance undertakings are shared with KBC.
- As further elaborated in the 'Risk measurement' section, KBC has so far worked together with external parties on a series of tools and methodologies to increase its ability to identify and measure climate-related risks.

Climate risk impact map

In 2021, KBC initiated the development of a climate risk impact map. This new risk identification tool aims to identify the most material climate risk drivers for KBC's businesses and portfolios. For the traditional risk types, it reflects the impact of transition and physical risk drivers.

Separate assessments are made for different drivers of transition risk (policy and regulation, technology and consumer preference) and physical risk (split according to different climate perils).

TRANSITION RISK DRIVERS	
Policy and regulation	Introduction of policy changes/regulations to enable the transition towards a greener economy, e.g., an increase in carbon and energy prices, carbon taxes, reduction of emission rights, energy efficiency regulation for commercial and residential property
Technological change	Substitution of existing products and services with green alternatives based on new technologies, failure of/uncertainty surrounding new technologies
Consumer preference	Changes in customer behaviour and preferences, investor expectations, uncertainty in market signals, community perceptions of an organisation's contribution to climate change, green competition
PHYSICAL RISK DRIVERS	
Temperature-related	- Chronic temperature change, e.g., an increase/decrease in average and min and max temperatures in different geographical locations - Acute temperature events, e.g., an increase in frequency and severity of heat/cold waves, wildfires
Wind-related	- Chronic wind-related changes, e.g., changing wind patterns - Acute wind-related events, e.g., cyclones/windstorms and tornados
Water-related	- Chronic water-related changes, e.g. sea level rise, a structural increase/decrease in average rainfall, changing precipitation patterns - Acute water-related events, e.g., an increase in frequency and severity of acute floods (coastal, river, pluvial), droughts and hailstorms
Solid mass-related	- Chronic solid mass-related events, e.g., soil degradation - Acute solid mass-related events, e.g., landslides, subsidence, erosion

Table 89 - Climate risk drivers as considered in KBC's climate risk impact map

Impacts are estimated for three distinct climate scenarios, which are made available by the Network for Greening of the Financial System (NGFS). These scenarios encompass a global, harmonised set of transition pathways, physical climate change impacts and economic indicators. Importantly, macroeconomic insights provided by these scenarios facilitate an assessment of the impact of these scenarios on the financial sector as a whole and KBC in particular. Aligning with NGFS scenarios ensures assumptions are aligned with the industry standards. The selected NGFS scenarios correspond to the three scenarios as also selected by the ECB for its upcoming 2022 climate stress test.

Net Zero 2050 (Orderly scenario)	In this scenario, there is early and decisive action to reduce global emissions in a gradual way, with clearly signposted government policies implemented relatively smoothly. These actions are sufficient to limit global average temperature increases to below 2ºC. Both physical and transition risks are relatively subdued.
Delayed Transition (Disorderly scenario)	In this scenario, action to address climate change is delayed to 2030. To compensate for the delayed start a stronger adjustment is required, primarily in the form of stringent policy and regulations. Companies and consumers change their behaviour in response to these dramatic shifts, and asset prices see a sharp repricing as a result. Transition risks are more severe and although global average temperature increases are limited to below 2ºC, physical risks are more pronounced than in the Net Zero 2050 scenario.
Current Policies (Hot house world)	A scenario with failed future improvements in climate policy. This scenario assumes no limit on the global temperature by 2100, assuming no economic transition and a continuation of current policy trends. The scenarios result in severe physical risk including irreversible impacts like sea level rise.

Table 90 - Climate scenarios as considered in KBC's climate risk impact map

As the impacts of climate risk will materialise over different time horizons, impacts are assessed for three different time frames: short (1-3 years), medium (4-10 years) and long term (>10 years).

In the first version of our climate risk impact map, impacts were primarily assessed in a qualitative way, supported by already available quantitative insights. Moving forward, as more climate-related data and insights will become available, our exposure to climate risk will be evaluated in a progressively data-driven way.
The main drivers considered in the climate impact map are summarised in the table below, which contains a qualitative overview of the most material climate-risk-related vulnerabilities and their potential impacts on the traditional risk types.

Risk type	Transition risk	Physical risk
Credit risk	Depending on the speed and strictness of upcoming low-carbon policies/regulations and companies' reliance on technologies that will become obsolete, a significant impact on several clients/sectors within KBC's credit portfolio could be expected. Due to increased costs from making the necessary adaptations and innovations to clients' business models, or even the inability to make the transition, credit quality can be impacted. In particular, companies within the following sectors could be affected by transition risk: commercial real estate, building and construction, agriculture and food production, chemicals, energy, metal manufacturing, automotive and transportation (see White Papers scope). Additionally, certain companies in the above sectors could feel additional stress stemming from a loss of clients (e.g., meat consumption in the agricultural sector), further impacting credit risk.	The most relevant physical risk driver for KBC's credit risk portfolios is water-related physical risk. A possible impact is an increase in clients' probability of default, due to damage to their physical assets or disruption of their businesses. In addition, the value of affected collateral could significantly decline. The agricultural and residential real estate portfolios are amongst the most vulnerable. Seaport activities and river transportation could also be strongly affected. Both coastal and river flooding and an increase in the frequency/severity of droughts are considered. Credit portfolios are still assumed to be exposed to temperature and wind-related physical risks, albeit to a lesser extent. External models forecast that more frequent heat waves can be expected in our Central European home markets. All portfolios could be vulnerable to an increase in the frequency and intensity of windstorms impacting real estate assets (collateral). On a longer time horizon, in case extreme physical risks materialise (e.g., the 'Current Policies' scenario), important impacts for the exposures to the health sector, sovereigns and financial institutions can be expected for heavily affected countries.
Market risk – Banking book	Potential impacts of transition risk on the bond and equity positions (investment book) and direct/indirect real estate positions include: - Repricing of corporate bonds: changes in bond risk premiums accounting for the carbon intensity of the bond issuer or increased credit risk. - An abrupt drop in the value of certain assets owned by companies/governments that are economically dependent on fossil fuels. This could result in an equity value drop and higher corporate/government bond spreads. - Energy efficiency regulation of commercial and residential property could reduce the value of direct property and real estate funds. - Late government intervention to combat climate change could disrupt economic stability, depressing interest rates and lowering net interest income.	In line with the credit risk impacts described above: - In case countries become significantly impacted by physical risk, government expenditure could increase causing a decrease in the sovereign rating, which, in turn, will lower sovereign bond valuations. This could be amplified by general economic stress for economies heavily dependent on sectors vulnerable to more extreme climate events. Bonds issued by emerging market countries and local governments could be more susceptible to repricing than sovereign bonds of advanced economies. - A decrease in the creditworthiness of companies impacted by physical risk can impact the corporate bond and equity valuations as well. - The value of real estate portfolios (direct and indirect) might decline due to properties being located in high-risk areas.
Market risk – Trading book	For trading activities, too, transition risks can negatively impact equity valuations and bond spreads. However, the velocity at which trading portfolios revolve is fast compared to the horizon on which climate risks are expected to materialise, which limits the risk.	In line with transition risk, physical risk is expected to have a limited impact on trading activities. Relevant impact stems from potential changes in credit and bond spreads in countries where extreme weather events occur.
Technical insurance risk	Transition risk drivers could have a potential impact on technical insurance risk via: - A potential increase in legal limits to be borne by insurance undertakings, as already observed in Belgium following the 2021 floods in Wallonia. - In case clients are confronted with increased climate litigation, insurers could face additional costs in case these companies have taken out general third-party liability insurance. This risk could be mitigated by, for example, contractual limits and clauses related to environmental damage. - As cars become increasingly electric, claims related to car insurance could potentially increase.	Flood risk and windstorms pose major threats to property insurance activities, and to a lesser extent also to life insurance. Temperature-related climate risk drivers mainly materialise in the form of increased mortality rates and hence life insurance claims. This risk will manifest itself in case of increased heat waves and a higher number of diseases and possible epidemics. An increase in droughts could impact insurance products for the agricultural sector.

Liquidity risk	Liquidity buffers could be impacted by: - Increasing credit spreads (see credit and market risk) which could lower the market value of high-quality liquid assets (HQLA) such as bonds. - Withdrawal (or non-renewal) of funding triggered by clients needing cash to adjust business plans in the light of the green transition or in case expectations regarding a bank's commitment towards climate action are deemed insufficient. - Increasing credit defaults (see credit risk), lowering expected cash inflows.	Impacts on liquidity positions could stem from - Increasing bond/credit spreads due to physical risk (see credit and market risk) lowering HQLA and expected inflows. - Clients withdrawing cash to finance damage repairs resulting from physical events.
Operational and reputational risk	Changing investor, client or community expectations regarding climate change actions are considered the most important potential cause of reputational damage. In case of diverging approaches between financial institutions or a rapid change in client/investor behaviour and preference, or in case a commitment is perceived by external stakeholders as inappropriate or insufficient, reputational damage can occur. Reputational risk resulting from a failure to adapt to policies and regulations grows in relevance as more drastic changes in policies and regulations materialise. The probability of errors can increase following the abrupt changes needed to comply with regulations, increasing the probability of reputational damage and related climate litigation.	Severe weather events have the potential to disrupt critical infrastructure and services. Damage to assets and infrastructure owned by third parties and service providers pose relevant operational risks and impact business continuity. A higher frequency in losses stemming from physical risk events could lead to increased complaints in insurance claims handling, which gives rise to reputational risk. In the longer term, reputational risk could also increase, for example in case insurers start to significantly restrict their underwriting or drastically increase insurance premiums in an attempt to keep the risks insurable, whilst keeping their loss ratio under control.

Table 91 - Main drivers considered in the Climate Impact Map per risk type

For these vulnerabilities, the climate risk impact map further differentiates between the three climate scenarios and three time horizons as described above. In general:

- transition risks are mainly expected to materialise in the Net Zero 2050 scenario on a short and medium time horizon (however, relatively subdued because of the Orderly transition) and in a more extreme way in the Delayed transition scenario on a longer time horizon (as the scenario assumes an abrupt transition to take place around 2030);
- physical risks are gradually building up over time in all three scenarios, but to different degrees: whereas they remain relatively under control in the Net Zero 2050 scenario and are more pronounced in the Delayed transition scenario, physical risks are assumed to lead to extreme weather conditions with devastating impacts in a 'Current Policies' scenario.

As of 2022, the conclusions ensuing from the climate risk impact map will feed into our risk management processes. In particular, the impact map's insights will enable us to incorporate the most material climate risk drivers and the time horizons over which these are expected to materialise in the different scenarios into our stress testing (see also 'Risk measurement, scenario analysis and stress testing')

Raising awareness on climate risk

In 2021, we continued our efforts towards creating risk awareness by:

- following up on new and changing regulations through a Sustainable Finance Legal Working Group;
- regularly reporting on climate risk signals to senior management, including via the Integrated Risk Report;
- organising internal communication and training for (risk) staff and management, including
- providing general awareness training for all staff,
- further rolling out our climate game (illustrating how climate-related aspects can change traditional banking) to the KBC top 300 and specific departments,
- offering training courses aimed at specific functions (e.g., relationship managers, product managers, risk managers, etc.),
- developing a specific training programme for KBC's management (top 300), to prepare management for steering the organisation towards more sustainable solutions and adequate risk management.

Extending our approach to other environmental risks

Climate risk is also heavily interlinked with other environmental risk types, such as biodiversity loss, water stress, pollution (air, soil and water) and waste management. Global warming is indeed expected to negatively impact biodiversity and ecosystems on land and in seas. On the other hand, oceans, forests and soils are important sources of carbon absorption; therefore, the deterioration of these natural resources is expected to further contribute to a changing climate. In addition to this self-reinforcing effect on climate change, these other environmental risks can significantly affect financial institutions' balance sheets through their clients and investments in several ways. For example, zooming in on biodiversity loss and water stress:

- Through land degradation and reduced animal and plant species, deterioration of biodiversity can affect multiple businesses within, for example, the agriculture, food production, building and construction, public health and pharmaceuticals sectors. Moreover, these sectors could also suffer from reduced water availability (water stress), an environmental risk which is also gaining importance as the demand for water is projected to grow in the future (due to an increase in prosperity, world population and prolonged droughts).
- In case governments introduce measures to control, for instance, the causes of biodiversity loss (e.g., by imposing restrictions on deforestation, the use of fertilisers, excessive land use, etc.) or to limit the impact of water stress (e.g., by redistributing water use from less to more critical sectors), this can also significantly impact companies' operations.

Therefore, KBC has taken steps towards the integration of the other environmental risks into its risk management processes, for example by strictly adhering to KBC's Biodiversity Policy (see 'Setting and cascading risk appetite'), by considering environmental risks in our loan/review origination process and by reporting on environmental risks to the Board of Directors as part of our regular risk reporting.

Risk measurement, scenario analysis and stress testing

We are working with external parties on a series of tools and methodologies to strengthen our ability to identify, measure and analyse transition risks for our lending and investment activities. These tools provide further insights into the impact of climate change on our business model, as well as that of our activities on the environment (double materiality). Integrating these tools and methodologies will enable us to gradually improve credit underwriting and investment policies, and will support us in engaging with our clients.

- The Paris Agreement Capital Transition Assessment (PACTA) methodology measures the alignment of our corporate industrial loan portfolio with decarbonisation pathways and helps to determine whether the companies in the loan portfolio are following a transition path in line with targets set by various climate transition scenarios. The scope of the PACTA tool covers carbon-intensive activities within the steel, automotive, shipping, aviation, power, oil and gas, coal and cement sectors. The results of this year's exercise confirm that, within its industrial loan portfolio, KBC only has limited exposure to companies that contribute the most to global CO_2 emissions in line with the existing activity scope of PACTA: KBC's granted exposure in scope of PACTA amounts to 3.8% (4 595 million euros) of the total industrial loan book (excluding loans to SMEs, private persons, finance, insurance, authorities). This finding confirms the general risk appetite of KBC, as our loan books do not include large, single-name exposures to activities which contribute the most to global CO2 emissions. More details on the PACTA analysis can be found in 'Appendix: PACTA' of the 2021 Sustainability Report.
- KBC Asset Management assesses the carbon footprint of aggregated investment products it offers by using the data and methodology of TRUCOST. This methodology is also used to analyse KBC Insurance's investment book and KBC's Pension Funds (see 'Appendix: TRUCOST Data and Methodology' in the 2021 Sustainability Report for more details);
- In 2021, following last year's pilot in the Metal sector, we rolled out the UNEP FI transition risk assessment methodology to other highly climate-relevant sectors, covering a similar scope as the White Paper exercises (see 'Risk identification'): the Metal, Energy, Automotive & Transportation, Chemicals, Commercial Real Estate (CRE), Building & Construction (B&C), Agriculture and Food producers & Beverages sectors from our corporate loan book. Within these sectors, we identified a number of segments (which display similar characteristics in terms of carbon-emission intensity and are consequently impacted in a similar way by a transition to a low-carbon economy) and carried out all analyses on this more granular segment level. We selected six different climate scenarios for the impact assessment, in order to estimate how the portfolios' Expected Loss (EL) could potentially change if these transition scenarios were to materialise. The scenarios differ from each other in terms of target temperature, the timing of collective action and the extent to which CO2-removal technologies are assumed to be used. These assessments led to the insight that the Chemicals sector as a whole, as well as the animal farming segment of the Agriculture sector and the production of animal-based food segment of the Food producers & Beverages sector, are exposed to high not-yet-addressed transition risks. Compared to the Energy sector, the relatively higher projected EL changes in the Chemicals, Agriculture and Food producers & Beverages sectors do not necessarily mean that the inherent risks are higher, but rather that the transition risks have not yet been internalised to the same extent as in the Energy sector. The analyses' results highlight the need for client interaction on the (sub-)sectors deemed most vulnerable to the low-carbon transition, in order to understand how these (sub-)sectors are mitigating the transition risks they are exposed to. More details on the applied methodology and results of this exercise can be found in 'Appendix: UNEP FI Climate-related transition risk assessment' of the 2021 Sustainability Report.
- In 2021, for the third consecutive year, we calculated the financed emissions of a selection of our portfolios using the methodology put forward by the Partnership for Carbon Accounting Financials (PCAF). This year's scope included operational car lease, motor vehicle loans (including road freight transport), mortgages, mining

and oil and gas. See ‘Appendix: PCAF – Financed scope 3 GHG emissions’ of the 2021 Sustainability Report for more insights.

Historical emissions will inevitably lead to a society that faces more severe adverse physical effects of a changing climate and as such it is worthwhile to assess the vulnerability of the economies of KBC’s home countries to the potential physical damage resulting from adverse climate change. This vulnerability analysis has been performed using Climada, an open-source natural catastrophe model developed and maintained by ETH Zurich. According to this specific analysis, the most vulnerable home countries relative to the size of their economy are Hungary, Ireland and Slovakia. More details can be found in ‘Appendix: Climada river flood assessment’ of the 2021 Sustainability Report.

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

Stress testing and sensitivity analysis are essential tools in the risk management toolkit, for instance to identify weaknesses or blind spots, assess capital and liquidity adequacy, etc. 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. Climate risk is playing a more and more prominent role in the scenarios of KBC’s stress tests and sensitivity analyses. Other ESG drivers are also considered, such as failure of data protection or operational risk losses from possible cyber hacks.

Climate drivers (covering both transition and physical risk) have already been integrated into several internal stress-test exercises, most notably:

- In reverse stress testing, as part of our capital adequacy assessment, a specific climate risk scenario has been added to KBC’s stress-testing mix and split into two sub-scenarios.
    - The first one incorporates elevated transition risk (fitting a ‘Disorderly transition’ scenario with disruptive policy actions – (see Table 90 - Climate scenarios as considered in KBC’s climate risk impact map above). Impacts have been included in the stress-test calculations by considering (severe) corporate PD downgrades in climate-vulnerable sectors, write-offs on SME exposures, spillovers to equity markets and lower property values.
    - The second sub-scenario focuses on severe physical climate risk impacts (fitting a ‘Current Policies’ scenario – see Table 90 - Climate scenarios as considered in KBC’s climate risk impact map above). Impacts have been included in the stress-test calculations by considering (severe) corporate PD downgrades in climate-vulnerable sectors, write-offs on SME exposures, spillovers to equity markets, lower property values and increasing life and non-life insurance claims.

  From the reverse stress tests, it can be concluded that although climate risk is a relevant and increasingly prominent risk driver for KBC and the economy as a whole, there is no immediate threat to KBC’s capital adequacy.
- For the insurance business, an additional reverse stress test was performed for a natural catastrophe loss. It was assessed how severe a natural catastrophe would need to be in order to bring the SII ratio of KBC Insurance Group below the regulatory minimum. The required net loss is dozens of times higher than the worst annual loss ever observed for natural catastrophe events within KBC Insurance Group. The associated probability of an event of this severity happening (looking at the statistical return period) was extremely low, confirming the insurer’s solid capital position.

- In order to asses KBC's liquidity adequacy, climate risk featured in a liquidity reverse stress test examining the outflows needed before the internal limit is reached. As such, the impact of greenwashing on our liquidity and funding risk was assessed. The analysis confirmed KBC's solid liquidity position.
- In the ICAAP/ORSA/ILAAP stress test, climate risk was added to the main scenario (which was coronavirus-based) as an additional sensitivity. This climate impact took the form of a severe weather event causing an increase in insurance claims and a devaluation of affected collateral in the mortgage portfolio.
- In the assessment of the financial stability of our business model as well, mild, medium and severe climate risk stresses were considered. The scenario follows the narrative that the transition towards a green economy is driving up company costs, is weakening creditworthiness of clients in certain sectors and is increasing insurance claims due to changing weather patterns. Moreover, green competition is putting pressure on volumes. Stress was applied on OPEX, net interest income, expected credit losses stemming from climate stress on corporate sectors, and the increase in the retention of reinsurance contracts and reinsurance premiums. It was concluded that although profitability can be impacted under the more severe climate-related stresses, these would not bring KBC's profitability below adequate levels.

These stress tests and their scenarios will be gradually enhanced following new insights from, for instance, our internal climate risk map (see 'Risk identification') or the above-mentioned methodological tracks, which will help us to better translate the impact of climate pathways to financial parameters such as expected credit losses or insurance claims.

A significant next step towards holistically including the impacts of climate risk in stress testing in a quantitative way will be KBC's participation in the 2022 ECB Climate Risk Stress Test. In 2021, KBC already put in substantial efforts to prepare for this regulatory stress test (e.g., collecting the required data and developing calculation methodologies). The experience gained from this stress test and from future regulatory stress tests (EBA/EIOPA) will also provide significant added value for the further development of our internal integrated climate risk stress testing.

Setting and cascading risk appetite

Risk Appetite Statement

KBC has a well-developed Risk Appetite Statement and process, which supports KBC in the successful implementation of its strategy. It is therefore not fixed but evolves in sync with changes in the internal and external context and the strategic ambitions. KBC's risk appetite covers all material risks that KBC is exposed to with particular attention for risks which dominate the external environment not only today but also in the future. Given the increased importance KBC assigns to climate risk, a specific risk appetite objective has been added to KBC's Risk Appetite Statement, covering both angles of the 'double materiality':

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

Other objectives also address other ESG themes. These include:

- promoting a strong corporate culture which encourages responsible behaviour and is supported by a promotion and remuneration policy with a sustainable and long-term view;
- ensuring stable earnings and sound financial figures (capital and liquidity);

- promoting strong corporate governance and risk and compliance management, taking into account the internal and external context as key drivers for enhancing the organisation's resilience and for creating value.

These high-level risk appetite objectives are further translated for different risk types:

- 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.
- From a credit risk perspective, KBC aims to limit the adverse impact of its activities on the environment and society and to encourage a positive impact, based on a responsible lending culture, the principles of which are laid out in the Credit Risk Standard on Sustainable and Responsible Lending. In line with its climate-related ambitions, KBC aims to limit or curtail its exposure to non-sustainable activities, while facilitating the transition towards a sustainable economy by providing financing to its clients for this purpose. The credit risk playing field is made tangible through Credit Risk Standards and group-wide policies that impose restrictions and recommendations with regard to credit risk (see also 'Policies, restrictions and targets').
- All treasury investment decisions are taken in line with the single binding framework, which defines the screening criteria for socially responsible investments. The framework and screening criteria apply to all investments in fixed-income products and equities in banking and insurance entities (see also 'Policies, restrictions and targets').
- KBC has the ambition to keep all its operational, compliance and conduct risks low and to be well-prepared for a variety of crises, including the ones with a climate-change-related driver, in order to avoid disruption of services and to be maximally protected against cybercrime within an ever-changing threat landscape (see KBC's Information Security Strategy (link)). Integrity, availability and confidentiality of our company data and the data of our clients is of utmost importance.
- To manage reputational risks, KBC promotes a strong corporate culture that encourages responsible behaviour throughout the organisation, including in terms of social and environmental responsibility. In this respect KBC commits to the Paris Agreement climate goals through the Collective Commitment for Climate Action, strives to limit the negative impact of its products and services on society and provides its clients with financial solutions and business opportunities with a positive impact.
- To support stability in earnings and capital for our insurance business, appropriate risk mitigation is implemented through reinsurance programmes protecting against the impact of large claims or accumulation of losses and through diversified exposure across all core markets. Retention limits represent the maximum retention of the risk we want to keep and hence the minimum requirements for the reinsurance cover to be bought. These are complied with by limiting the technical insurance losses in terms of profit or premium income, an acceptance level with respect to the volatility of these losses and working towards the expert-based inclusion of climate risk.

Policies, restrictions and targets

In our policies for sustainable and responsible lending, insurance, advisory services and investments (link) we identify controversial activities with respect to the environment (including climate and biodiversity), human rights, business ethics and sensitive/controversial societal issues. These specify the economic activities we are not willing to finance (such as activities related to thermal coal) or only under strict conditions (such as biomass technologies, production of palm oil, etc.). They clearly define the risk playing field for credit, insurance, advisory services and investments (asset management and proprietary investments).

More specifically, in our policies we have a number of zero tolerances for, or bans on, lending, insurance and advisory services for certain activities:

- Our energy policy (link) includes a ban on lending, insurance and advisory services
- to new clients with any activity related to thermal coal (note that the remaining direct coal credit exposure was reduced to zero in mid-2021);
- to existing clients who have more than 25% of coal-based energy production capacity (other clients with any coal-based energy production capacity are required to provide a plan for phasing out their remaining coal activities by 2030 and to commit not to add any new coal capacity);
- regarding the exploration and development of unconventional oil and gas (Arctic and Antarctic on- and off-shore, deep water drilling, tar sands, shale) and the exploration of any new oil and gas fields.
- KBC has also tightened its Group Investment Policy (link). Companies that are in any way involved in the extraction of thermal coal and/or that are power-generation companies with a coal-based electricity production capacity of more than 25% are now excluded from all investment funds (both SRI and conventional funds; with the exception, however, of index-linked and structured funds) as well as from KBC's proprietary investments. Most of the additional exclusions already applicable to KBC's Socially Responsible Investment (SRI) funds have also been extended to the group's proprietary investments.
- Our comprehensive policy on biodiversity (link) excludes or restricts activities impacting forests, protected areas and endangered species, fisheries, mining and certain high-impact commodities such as palm oil, soy, sugarcane, coffee and cocoa.
- Companies involved in controversial weapon systems (e.g., nuclear weapons, cluster bombs and biological or chemical weapons) and UN Global Compact Worst Offenders enter the 'KBC Blacklist' and are 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 (link).
- We have developed a specific due-diligence process for lending, insurance activities and advisory services. This incorporates procedures to deal with any infringements that are detected. Our investment activities (asset management and proprietary investments) are also subject to internal screening. SRI funds, moreover, have to meet additional criteria. The criteria are monitored by the SRI Advisory Board, which is fully independent of KBC. More information can be found in the 'Sustainability policies' section of the 2021 Sustainability Report.

Additional to the bans and zero tolerances within our policies (see above), we also have set targets

- to increase the volume of SRI funds (according to Articles 8 and 9 of the SFDR[1]) to 30 billion euros by 2025;
- to increase the share of renewable energy loans in the total energy credit portfolio to 65% by 2030;
- to increase the share of green electricity of our own electricity consumption to 100% by 2030;
- to reduce our own GHG emissions (including commuter travel) by 80% compared to 2015 by 2030.

Going forward, based on new data and insights (see 'Risk measurement'), we aim to further translate our ESG risk appetite objectives into additional key risk indicators and targets.

Risk analysis, monitoring, reporting and follow-up

Indicators for climate-related risks and opportunities are integrated into the KBC Sustainability Dashboard (presented to the Board of Directors twice a year), which allow us to monitor progress in the implementation of our sustainability strategy and to make adjustments when necessary.

The Board of Directors, the Risk & Compliance Committee and the Executive Committee are the prime recipients of the various outputs of the main risk management processes (e.g., ICAAP/ILAAP/ORSA, Integrated Risk Reporting, Risk Appetite, etc.). Given that climate risk is being integrated in all risk processes and, moreover, has been identified as a top risk, increased attention is given to the topic in all of these existing risk management processes and their reports.

The growing attention for the management of Environmental, Social and Governance (ESG) risk is also reflected in several legislative initiatives. For banks under ECB remit (such as KBC), for instance, supervisory requirements are formulated in the ECB guide on climate-related and environmental risks. In 2021, KBC completed two ECB questionnaires on how we are approaching the expectations outlined in the guide and what our implementation plans are to reach full compliance. The ECB will follow up on these questionnaires by means of a Thematic Review this year and will therefore make use of deep dives in our climate-related and environmental risk strategies, as well as in our governance and risk management frameworks and processes. Additionally, the ECB launched a first climate risk stress test that will take place in 2022. With this supervisory exercise, the ECB aims to compel banks to proactively manage climate risks and to fill the gap of climate-related data.

Several new ESG disclosure obligations have also been initiated in the past year (e.g., EU Taxonomy disclosure regulations, EBA Pillar 3 requirements, the Corporate Sustainability Reporting Directive, the Sustainable Finance Disclosure Regulation), which gradually started to take effect in 2021 and will be significantly extended in the coming years. Since we need data to further monitor and steer our portfolios, to set targets and to be able to meet these various regulatory requirements, the Data & Metrics project within the Sustainable Finance Programme has started coordinating the data collection in all our core countries for the purpose of creating aggregated reports.

Annexes

Annex I

Balance sheet reconciliation

Disclosure according to Article 2 in Commission Implementing Regulation (EU) No 1423/2013

Capital Base *(EUR)*	Financial statements 31-12-21 (*)	Deconsolidation insurance	Prudential treatment	Own funds 31-12-21 (*)
Total regulatory capital, KBC Group (after profit appropriation)				**20 731 810 982**
Tier-1 capital				**18 996 502 781**
Common equity				**17 496 502 856**
Parent shareholders' equity	18 727 880 881	-1 020 187 532		17 707 693 349
Intangible fixed assets (incl. deferred tax impact) (-)	-829 330 341	44 866 754	245 162 089	-539 301 498
Goodwill on consolidation (incl. deferred tax impact) (-)	-913 819 781	167 729 996		-746 089 785
Minority interests				
Hedging reserve (cashflow hedges) (-)	1 108 022 885	-309 593		1 107 713 292
Valuation diff. in fin. liabilities at fair value - own credit risk (-)	-15 916 775			-15 916 775
Value adjustment due to the requirements for prudent valuation (-)				-28 188 716
Dividend pay-out (-)				0
Remuneration of AT1 instruments (-)			-11 784 247	-11 784 247
Deduction re. financing provided to shareholders (-)				-56 869 235
Deduction re. irrevocable payment commitments (-)				-71 516 796
Deduction re. NPL backstops (-)				-67 820 584
IRB provision shortfall (-)				-30 963 361
Deferred tax assets on losses carried forward (-)	-227 229 151	0		-227 229 151
Transitional adjustments to CET1			476 776 362	476 776 362
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				**1 735 308 201**
IRB provision excess (+)				493 133 191
Transitional adjustments to CET1			-493 133 191	-493 133 191
Subordinated liabilities	2 253 599 597	-500 000 000	-18 291 396	1 735 308 201

(*) 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 92 - 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	KBC Group NV	KBC IFIMA NV
2	Unique identifier (e.g., CUSIP, ISIN or Bloomberg identifier for private placement	BE0003565737	BE0002592708	BE0002638196	BE0002664457	BE0002475508	BE0002290592	BE0002485606	BE0002223890	BE0002819002	XS0210976329
2a	Public or private placement	public	public	public	public	private	public	public	public	public	public
3	Governing law(s) of the instrument	Belgian	Belgian/English	Belgian/English	Belgian/English	Belgian/English	Belgian/English	Belgian/English	Belgian/English	Belgian	Belgian/English
3a	Contractual recognition of write down and conversion powers of resolution authorities	n/a	yes	yes	yes	yes	yes	no	no	yes	no
	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 987m	EUR 1 000m	EUR 500m	EUR 747m	EUR 175m	EUR 499m	EUR 0m	EUR 8m	EUR 750 m	EUR 76 m
9	Nominal amount of instrument	n/a	EUR 1 000m	EUR 500m	EUR 750m	EUR 175m	EUR 500m	EUR 750m	EUR 10m	EUR 750 m	USD 150m
9a	Issue price	Various	100%	100%	99.403%	98.8%	99.738%	99.494%	100%	99.975%	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	100% of their nominal amount	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	07 September 2021	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	07 December 2031	7 February 2025
14	Issuer call subject to prior supervisory approval	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	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	between 7 September 2026 and 7 December 2026 Tax Gross-up events and Tax Deductibility events Following a Capital Disqualification event EUR 100 000 per Calculation Amount	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	fixed and from (and including) 7 December 2026 and thereafter, at a fixed rate per annum based on the prevailing Mid-Swap Rate plus 0.95%	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	0.625% to be reset on 7 December 2026	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)	Fully discretionary	Fully discretionary	Fully discretionary	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully 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	Non-cumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Cumulative	Cumulative	Cumulative	Cumulative	Cumulative	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
34a	Type of subordination (only for eligible liabilities)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
34b	Ranking of the instrument in normal insolvency proceedings	1	2	2	3	3	3	3	3	3	3
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
37a	Link to the full term and conditions of the instrument (signposting)	n/a	link	link	link	n/a	link	link	link	link	link

(1) 'n/a' inserted if the question is not applicable

Table 93 - EU CCA_Main features of regulatory own funds instruments and eligible liabilities instruments

Annex III

Transitional own funds disclosure template

Disclosure according to Article 5 in Commission Implementing regulation (EU) No 1423/2013

EU CC1 - Composition of regulatory own funds *At 31 December 2021 (in millions of EUR)*			Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation	Legal reference to the CRR Article in Regulation (EU) No 575/2013	Additional comment in footnote
	Common Equity Tier-1 (CET1) capital: instruments and reserves				
1	Capital instruments and the related share premium accounts	6 987 342 177	Shareholders' equity, row 1	26 (1), 27, 28, 29	
	of which: Instrument type 1	*0*			
	of which: Instrument type 2	*0*			
	of which: Instrument type 3	*0*			
2	Retained earnings	11 553 021 465	Shareholders' equity, row 1	26 (1) (c)	
3	Accumulated other comprehensive income (and other reserves)	-832 670 293	Shareholders' equity, row 1	26 (1)	
EU-3a	Funds for general banking risk	0		26 (1) (f)	
4	Amount of qualifying items referred to in Article 484 (3) CRR and the related share premium accounts subject to phase out from CET1	0		486 (2)	
5	Minority interests (amount allowed in consolidated CET1)	0		84	
EU-5a	Independently reviewed interim profits net of any foreseeable charge or dividend	-11 784 247	Shareholders' equity, row 1	26 (2)	Footnote 1
6	**Common Equity Tier-1 (CET1) capital before regulatory adjustments**	**17 695 909 102**		**Sum of rows 1, 2, 3, 3a, 4, 5 and 5a**	
	Common Equity Tier-1 (CET1) capital: regulatory adjustments				
7	Additional value adjustments (negative amount)	-28 188 716		34, 105	
8	Intangible assets (net of related tax liability) (negative amount)	-1 285 391 283	Assets, row 16	36 (1) (b), 37	Footnote 2
9	Not applicable				
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) CRR are met) (negative amount)	-227 229 151	Assets, row 12	36 (1) (c), 38	
11	Fair value reserves related to gains or losses on cashflow hedges of financial instruments that are not valued at fair value	1 107 713 292	Shareholders' equity, row 1	33 (1) (a)	
12	Negative amounts resulting from the calculation of expected loss amounts	-30 963 361	Assets, row 2	36 (1) (d), 40, 159	
13	Any increase in equity that results from securitised assets (negative amount)	0		32 (1)	
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	648 977	Shareholders' equity, row 1	33 (1) (b)	

15	Defined-benefit pension fund assets (negative amount)	0		36 (1) (e), 41	
16	Direct, indirect and synthetic holdings by an institution of own CET1 instruments (negative amount)	-56 869 235	Assets, row 2; Shareholders' equity, row 1	36 (1) (f), 42	Footnote 3
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)	0		36 (1) (g), 44	
18	Direct, indirect and synthetic holdings by the institution 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)	0		36 (1) (h), 43, 45, 46, 49 (2) (3), 79	
19	Direct, indirect and synthetic holdings by the institution 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)	0		36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79	
20	Not applicable				
EU-20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	0		36 (1) (k)	
EU-20b	*of which: qualifying holdings outside the financial sector (negative amount)*	*0*		*36 (1) (k) (i), 89 to 91*	
EU-20c	*of which: securitisation positions (negative amount)*	*0*		*36 (1) (k) (ii), 243 (1) (b), 244 (1) (b), 258*	
EU-20d	*of which: free deliveries (negative amount)*	*0*		*36 (1) (k) (iii), 379 (3)*	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met) (negative amount)	0		36 (1) (c), 38, 48 (1) (a)	
22	Amount exceeding the 17.65% threshold (negative amount)	0		48 (1)	
23	*of which: direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities*	*0*		*36 (1) (i), 48 (1) (b)*	
24	Not applicable				
25	*of which: deferred tax assets arising from temporary differences*	*0*		*36 (1) (c), 38, 48 (1) (a)*	
EU-25a	Losses for the current financial year (negative amount)	0		36 (1) (a)	
EU-25b	Foreseeable tax charges relating to CET1 items except where the institution suitably adjusts the amount of CET1 items insofar as such tax charges reduce the amount up to which those items may be used to cover risks or losses (negative amount)	0		36 (1) (l)	
26	Not applicable			36 (1) (j)	
27	Qualifying AT1 deductions that exceed the AT1 items of the institution (negative amount)	0			
27a	Other regulatory adjustments	320 873 230			Footnote 4
28	**Total regulatory adjustments to Common Equity Tier-1 (CET1)**	**-199 406 246**		**Sum of rows 7 to 20a, 21, 22, 25a, 25b, 27 and 27a**	
29	**Common Equity Tier-1 (CET1) capital**	**17 496 502 856**			
	Additional Tier-1 (AT1) capital: instruments				
30	Capital instruments and the related share premium accounts	1 499 999 925	Shareholders' equity, row 2		

31	*of which: classified as equity under applicable accounting standards*	*1 499 999 925*	*Shareholders' equity, row 2*	*51, 52*	*Footnote 5*
32	*of which: classified as liabilities under applicable accounting standards*	*0*			
33	Amount of qualifying items referred to in Article 484 (4) CRR and the related share premium accounts subject to phase out from AT1	0		484 (4)	
EU-33a	Amount of qualifying items referred to in Article 494a(1) CRR subject to phase out from AT1	0		494a (1)	
EU-33b	Amount of qualifying items referred to in Article 494b(1) CRR subject to phase out from AT1	0		494b (1)	
34	Qualifying Tier-1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	0		85, 86	
35	*of which: instruments issued by subsidiaries subject to phase out*	*0*		*486 (3)*	
36	Additional Tier-1 (AT1) capital before regulatory adjustments	1 499 999 925		Sum of rows 30,33, 33a, 33b and 34	
	Additional Tier-1 (AT1) capital: regulatory adjustments				
37	Direct, indirect and synthetic holdings by an institution of own AT1 instruments (negative amount)	0		52 (1) (b), 56 (a), 57	
38	Direct, indirect and synthetic 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)	0		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)	0		56 (c), 59, 60, 79	
40	Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	0		56 (d), 59, 79	
41	Not applicable				
42	Qualifying T2 deductions that exceed the T2 items of the institution (negative amount)	0		56 (e)	
42a	Other regulatory adjustments to AT1 capital	0			
43	**Total regulatory adjustments to Additional Tier-1 (AT1) capital**	**0**		**Sum of rows 37 to 42a**	
44	**Additional Tier-1 (AT1) capital**	**1 499 999 925**		**Row 36 minus row 43**	
45	**Tier-1 capital (T1 = CET1 + AT1)**	**18 996 502 781**		**Sum of row 29 and row 44**	
	Tier-2 (T2) capital: instruments				
46	Capital instruments and the related share premium accounts	1 996 771 586	Liabilities, row 2	62, 63	
47	Amount of qualifying items referred to in Article 484 (5) CRR and the related share premium accounts subject to phase out from T2 as described in Article 486 (4) CRR	0		486 (4)	
EU-47a	Amount of qualifying items referred to in Article 494a (2) CRR subject to phase out from T2	57 406 562	Liabilities, row 2	494a (1)	Footnote 6
EU-47b	Amount of qualifying items referred to in Article 494b (2) CRR subject to phase out from T2	181 130 053	Liabilities, row 2	494b (1)	Footnote 7
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	0	Liabilities, row 2	87, 88	

49	*of which: instruments issued by subsidiaries subject to phase out*	*0*		*486 (4)*	
50	Credit risk adjustments	493 133 191	Assets, row 2	62 (c) & (d)	Footnote 8
51	**Tier-2 (T2) capital before regulatory adjustments**	**2 728 441 392**		**Sum of rows 46, 47, 47a, 47b, 48 and 50**	
	Tier-2 (T2) capital: regulatory adjustments				
52	Direct, indirect and synthetic holdings by an institution of own T2 instruments and subordinated loans (negative amount)	0		63 (b) (i), 66 (a), 67	
53	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans 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)	0		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)	0		66 (c), 69, 70, 79	
54a	Not applicable				
55	Direct, indirect and synthetic holdings by the institution 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 amount)	-500 000 000		66 (d), 69, 79	
56	Not applicable				
EU-56a	Qualifying eligible liabilities deductions that exceed the eligible liabilities items of the institution (negative amount)	0		66	
EU-56b	Other regulatory adjustments to T2 capital	-493 133 191	Assets, row 2		Footnote 9
57	**Total regulatory adjustments to Tier-2 (T2) capital**	**-993 133 191**		**Sum of rows 52 to 56b**	
58	**Tier-2 (T2) capital**	**1 735 308 201**		**Row 51 minus row 57**	
59	**Total capital (TC = T1 + T2)**	**20 731 810 982**		**Sum of row 45 and row 58**	
60	**Total Risk exposure amount**	**104 361 703 004**			
	Capital ratios and requirements including buffers				
61	Common Equity Tier-1 capital	16.77%		92 (2) (a)	
62	Tier-1 capital	18.20%		92 (2) (b)	
63	Total capital	19.87%		92 (2) (c)	
64	Institution CET1 overall capital requirements	10.82%			Footnote 10
65	*of which: capital conservation buffer requirement*	*2.50%*			
66	*of which: countercyclical capital buffer requirement*	*0.17%*			
67	*of which: systemic risk buffer requirement*	*0.00%*			
EU-67a	*of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer requirement*	*1.50%*			
EU-67b	*of which: additional own funds requirements to address the risks other than the risk of excessive leverage*	*0.98%*		*Article 104 (1) of Directive 2013/36/EU*	*Footnote 11*
68	**Common Equity Tier-1 capital (as a percentage of risk exposure amount) available after meeting the minimum capital requirements**	10.12%			**Footnote 12**

	National minima (if different from Basel III)			
69	Not applicable			
70	Not applicable			
71	Not applicable			
	Amounts below the thresholds for deduction (before risk weighting)			
72	Direct and indirect holdings of own funds and eligible liabilities 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)	43 082 246	Assets, row 2	36 (1) (h), 45, 46, 56 (c), 59, 60, 66 (c), 69, 70
73	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 (amount below 17.65% thresholds and net of eligible short positions)	124 160	Assets, row 2	36 (1) (i), 45, 48
74	Not applicable			
75	Deferred tax assets arising from temporary differences (amount below 17.65% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met)	653 995 462	Assets, row 12	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)	0		62
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	0		62
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	543 450 345	Assets, row 2	62
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	493 133 191		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	0		484 (3), 486 (2) & (5)
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	0		484 (3), 486 (2) & (5)
82	Current cap on AT1 instruments subject to phase out arrangements	0		484 (4), 486 (3) & (5)
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	0		484 (4), 486 (3) & (5)
84	Current cap on T2 instruments subject to phase out arrangements	0		484 (5), 486 (4) & (5)
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	0		484 (5), 486 (4) & (5)

1. No interim profit is included; the amount reported relates to the accrual for the coupon on AT1 instruments (foreseeable charge).

2. An amount of 245 162 089 euros is considered 'prudently valued' and therefore risk-weighted (at 100%) instead of deducted from CET1 (Commission Delegated Regulation (EU) 2020/2176).

3. Loans to shareholders (Cera and KBC Ancora).

4. Other regulatory adjustments: IFRS 9 transitional measures under CRR Art. 473a (476 776 362 euros), a deduction for the NPL backstop under CRR Art. 3 (-67 820 584 euros), a deduction for Irrevocable Payment Commitments (-71 516 796 euros) and fair value gains and losses arising from the institution's own credit risk related to derivative liabilities (-16 565 752 euros).

5. The going concern write-down trigger excludes 0.01 euro cent per note; the corresponding 75 euros is excluded from AT1.

6. Subordinated securities issued by KBC IFIMA (SPV), maturing on 07-02-2025.

7. Subordinated securities issued by KBC Group (before 01-01-2016) under third country law (UK) without a contractual bail-in recognition clause.

8. IRB Excess of provisions over expected losses eligible.

9. Other regulatory adjustments: IFRS 9 transitional measures under CRR Art. 473a.

10. This row shows the MDA threshold: 4.50% pillar 1 CET1 + 0.06% shortfall vs 1.5% pillar 1 AT1 + 0.34% shortfall vs 2.0% pillar 1 T2 + 1.75% P2R + 2.5% capital conservation buffer + 1.5% O-SII buffer + 0.17% entity-specific countercyclical buffer.

11. This row shows the part of the P2R to be met with CET1, as referred to in point (a) of Article 104(1) of Directive 2013/36/EU.

12. This row shows the CET1 available after meeting the minimum capital requirements: 16.77% CET1 - 4.50% pillar 1 CET1 - 0.06% shortfall vs 1.5% pillar 1 AT1 - 0.34% shortfall vs 2.0% pillar 1 T2 - 1.75% P2R.

Table 94 - EU CC1_Composition of regulatory own funds

Reconciliation of regulatory own funds to balance sheet

EU CC2 - Reconciliation of regulatory own funds to balance sheet in the audited financial statements *At 31 December 2021 (in millions of EUR)*		Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference
	Assets - Breakdown by asset class according to the balance sheet in the published financial statements			
1	Cash, cash balances with central banks and other demand deposits with credit institutions	40 653	40 602	
2	Financial assets	281 658	246 668	12, 16, 27a, 50, EU-56b, 72, 73, 78
3	Amortised cost	240 128	232 215	
4	Fair value through OCI	15 824	4 742	
5	Fair value through profit or loss	25 422	9 428	
6	*of which held for trading*	*8 850*	*8 844*	
7	Hedging derivatives	283	283	
8	Reinsurers' share in technical provisions, insurance	191	0	
9	Profit/loss on positions in portfolios hedged for interest rate risk	-436	-436	
10	Tax assets	1 296	1 212	
11	*Current tax assets*	*179*	*134*	
12	*Deferred tax assets*	*1 117*	*1 079*	*10, 75*
13	Non-current assets held for sale and disposal groups	10 001	10 001	
14	Investments in associated companies and joint ventures	37	37	
15	Property, equipment and investment property	3 568	3 286	
16	Goodwill and other intangible assets	1 749	1 537	8
17	Other assets	1 630	945	
18	**Total assets**	**340 346**	**306 320**	
	Liabilities - Breakdown by liability class according to the balance sheet in the published financial statements			
1	Financial liabilities	291 667	279 261	27a
2	*of which subordinated liabilities*	*2 254*	*2 254*	*46, EU-47a, EU-47b, 48*
3	Amortised cost	268 387	269 561	
4	Fair value through profit or loss	22 187	8 606	
5	*of which held for trading*	*7 271*	*7 294*	
6	Hedging derivatives	1 094	1 094	
7	Technical provisions, before reinsurance	18 967	0	
8	Profit/loss on positions in portfolios hedged for interest rate risk	-863	-863	
9	Tax liabilities	435	85	
10	*Current tax liabilities*	*87*	*44*	
11	*Deferred tax liabilities*	*348*	*41*	
12	Provisions for risks and charges	282	278	
13	Other liabilities	2 520	1 748	
14	**Total liabilities**	**317 269**	**284 771**	
	Shareholders' Equity			
1	Parent shareholders' equity	21 577	20 049	1, 2, 3, EU-5a, 11, 14, 16
2	Additional tier-1 instruments included in equity	1 500	1 500	30, 31
3	Minority interests	0	0	
4	**Total shareholders' equity**	**23 077**	**21 549**	

Table 95 - EU CC2_Reconciliation of regulatory own funds to balance sheet in the audited financial statements

Annex IV

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). 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 (370%), 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 96 - EU LIA_Explanations of differences between accounting and regulatory exposures amounts

Annex V

EU INS1_Non-deducted participations in insurance undertakings

EU INS1 - Insurance participations *At 31 December 2021 (in millions of EUR)*		Exposure value	Risk exposure amount
1	Own fund instruments held in insurance or re-insurance undertakings or insurance holding company not deducted from own funds	2 469	9 133

Table 97 - EU INS1_Non-deducted participations in insurance undertakings

EU INS2_ Financial conglomerates information on own funds and capital adequacy ratio

EU INS2 - Financial conglomerates information on own funds and capital adequacy ratio *At 31 December 2021 (in millions of EUR)*		
1	Supplementary own fund requirements of the financial conglomerate (amount) [1]	120 589
2	Capital adequacy ratio of the financial conglomerate (%) [2]	19.16%

1. Risk-weighted asset amount: 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).
2. Total own funds as a percentage of Risk-Weighted Assets. In line with the FICOD 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.

Table 98 - EU INS2_ Financial conglomerates information on own funds and capital adequacy ratio

Annex VI

EU LI1_Differences between accounting and regulatory scopes of consolidation

EU LI1 - Differences between the accounting scope and the scope of prudential consolidation and mapping of financial statement categories with regulatory risk categories *At 31 December 2021 (in millions of EUR)*		Carrying values as reported in published financial statements	Carrying values under scope of prudential consolidation	Reference
1	Cash, cash balances at central banks and other demand deposits from credit institutions	40 653	40 602	
2	Financial assets	281 658	246 668	12, 16, 27a, 50, EU-56b, 72, 73, 78
3	Amortised cost	240 128	232 215	
4	Fair value through OCI	15 824	4 742	
5	Fair value through profit or loss	25 422	9 428	
6	*Of which held for trading*	*8 850*	*8 844*	
7	Hedging derivatives	283	283	
8	Reinsurers' share in technical provisions, insurance	191		
9	Profit/loss on positions in portfolios hedged for interest rate risk	-436	-436	
10	Tax assets	1 296	1 212	
11	*Current tax assets*	*179*	*134*	
12	*Deferred tax assets*	*1 117*	*1 079*	*10, 75*
13	Non-current assets held for sale and assets associated with disposal groups	10 001	10 001	
14	Investments in associated companies and joint ventures	37	2 506	
15	Property, equipment and investment property	3 568	3 286	
16	Goodwill and other intangible assets	1 749	1 537	8
17	Other assets	1 630	945	
18	**Total Assets**	**340 346**	**306 320**	
1	Financial liabilities	291 667	279 261	27a
2	*of which subordinated liabilities*			*46, EU-47a, EU-47b, 48*
3	Amortised cost	268 387	269 561	
4	Fair value through profit or loss	22 187	8 606	
5	*Of which held for trading*	*7 271*	*7 294*	
6	Hedging derivatives	1 094	1 094	
7	Technical provisions, before reinsurance	18 967		
8	Profit/loss on positions in portfolios hedged for interest rate risk	-863	-863	
9	Tax liabilities	435	85	
10	*Current tax liabilities*	*87*	*44*	
11	*Deferred tax liabilities*	*348*	*41*	
12	Provisions for risks and charges	282	278	
13	Other liabilities	2 520	1 748	
14	**Total Liabilities**	**317 269**	**284 771**	
1	Parent shareholders' equity	21 577	20 049	1, 2, 3, EU-5a, 11, 14, 16, 30, 31
2	Additional Tier-1 instruments included in equity	1 500	1 500	
3	Minority interests	0	0	
4	**Total Equity**	**23 077**	**21 549**	

Table 99 - EU LI1_Differences between accounting and regulatory scopes of consolidation

Annex VII

EU LI3_Outline of the differences in the scopes of consolidation (entity by entity)

EU LI3 - Outline of the differences in the scopes of consolidation (entity by entity)							
Name of the entity	Method of accounting consolidation	Method of prudential consolidation					Description of the entity
		Full consolidation	Proportional consolidation	Equity method	Neither consolidated nor deducted	Deducted	
KBC Groep NV	Full consolidation	x					bank-insurance holding company
DISCAI NV	Full consolidation	x					ICT
Experience@work CVBA	Not consolidated (Equity method)				x		immaterial - consultancy
KBC Bank NV	Full consolidation	x					credit institution
Almafin Real Estate NV	Full consolidation	x					real estate
Apicinq NV	Full consolidation	x					real estate
Immo Arenberg NV	Full consolidation	x					real estate
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
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
Almaloisir & Immobilier SAS	Not consolidated (Full consolidation)				x		immaterial - real estate
Bancontact Payconiq Company NV	Equity method			x			payment services
Banking Funding Company NV	Not consolidated (Equity method)				x		immaterial - payment transactions
Batopar	Not consolidated (Equity method)				x		immaterial - payment services
Batopin NV	Equity method			x			exploitation of ATMs
Bel Rom Sapte S.R.L.	Full consolidation	x					leasing
BRS Microfinance Coop CV	Not consolidated (Equity method)				x		immaterial - investment fund
C Plus SAS	Full consolidation	x					real estate
TBI SAS	Full consolidation	x					real estate
Francilia Immobilier SARL	Not consolidated (Full consolidation)				x		immaterial - real estate
SPINC SASU	Not consolidated (Full consolidation)				x		immaterial - real estate
CBC BANQUE SA	Full consolidation	x					credit institution

Československá Obchodná Banka a.s.	Full consolidation	x				credit institution
ČSOB Advisory, s.r.o.	Not consolidated (Full consolidation)			x		immaterial - strategic advice for companies
ČSOB Leasing Poist'ovaci Maklér, s.r.o.	Full consolidation	x				leasing support
ČSOB Leasing, a.s.	Full consolidation	x				leasing
ČSOB Nadácia	Not consolidated (Full consolidation)			x		immaterial - real estate
ČSOB Real, s.r.o.	Full consolidation	x				facilities management and support services
ČSOB Stavebná sporiteľňa, a.s.	Full consolidation	x				building society
Československá Obchodní Banka, a.s.	Full consolidation	x				credit institution
Bankovní Informační Technologie, s.r.o.	Full consolidation	x				automatic data processing
CBCB - Czech Banking Credit Bureau, a.s.	Not consolidated (Equity method)			x		immaterial - ICT
ČSOB Advisory, a.s.	Full consolidation	x				investment administration
Motokov, a.s.	Not consolidated (Full consolidation)				x	immaterial - (not active)
ČSOB Factoring, a.s.	Full consolidation	x				factoring
Eurincasso, s.r.o.	Not consolidated (Full consolidation)			x		immaterial - debt collection
ČSOB Leasing, a.s.	Full consolidation	x				leasing
ČSOB Pojišťovací Makléř, s.r.o.	Full consolidation	x				leasing support
ČSOB Penzijní společnost, a.s.	Full consolidation	x				pension insurance fund
ČSOB Stavební spořitelna, a.s.	Full consolidation	x				credit institution
ENGIE REN, s.r.o.	Not consolidated (Equity method)			x		immaterial - rental services
Hypoteční Banka, a.s.	Full consolidation	x				mortgage credit institution
IGLUU, s.r.o.	Not consolidated (Equity method)			x		immaterial - ICT
K&H Pénzforgalmi Szolgáltató Kft.	Full consolidation	x				payment services
MallPay, s.r.o.	Equity method		x			payment services
Patria Corporate Finance, a.s.	Full consolidation	x				agent and consulting services
Patria Finance, a.s.	Full consolidation	x				online securities trading
Patria investiční společnost, a.s.	Not consolidated (Full consolidation)			x		immaterial - asset management
První Certifikačni Autorita, a.s.	Not consolidated (Equity method)			x		immaterial - certification services
Radlice Rozvojová, a.s.	Full consolidation	x				real estate
Ušetřeno, s.r.o.	Not consolidated (Full consolidation)			x		immaterial - insurance arranging
Ušetřeno.cz, s.r.o.	Full consolidation	x				portal for price comparison

Gasco Group NV	Not consolidated (Equity method)				x	immaterial - wholesale of industrial chemical products
Gemma Frisius-Fonds K.U. Leuven NV	Not consolidated (Equity method)				x	immaterial - venture capital
Go Connect BV	Not consolidated (Equity method)				x	immaterial - payment services
Hello Shopping Park S.R.L.	Full consolidation		x			leasing
Immo Mechelen City Center NV	Not consolidated (Full consolidation)				x	immaterial - issuance of real estate certificates
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 Retail Libramont BV	Not consolidated (Full consolidation)				x	immaterial - issuance of real estate certificates
Vanhee Construction Invest BV	Not consolidated (Full consolidation)				x	immaterial - issuance of real estate certificates
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-Quinto NV	Not consolidated (Full consolidation)				x	immaterial - real estate
Immoscoop 2.0 BV	Equity method			x		real estate
Immo-Zénobe Gramme NV	Not consolidated (Full consolidation)				x	immaterial - issuance of real estate certificates
Isabel NV	Equity method			x		ICT
Joyn International NV	Equity method			x		digital loyalty card
Joyn 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
Julienne Holdings S.à.r.l.	Full consolidation		x			holding company
Julie LH BV	Full consolidation		x			real estate
Juliette FH BV	Not consolidated (Full consolidation)				x	immaterial - real estate
Justinvest NV	Not consolidated (Equity method)				x	immaterial - real estate
K&H Bank Zrt.	Full consolidation		x			credit institution
K&H Autópark Bérleti és Szolgáltató Kft.	Full consolidation		x			fleet management
K&H Csoportszolgáltató Kft.	Full consolidation		x			accounting and tax collection
K&H Equities Zrt.	Full consolidation		x			business and management advice
K&H Érték 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				lending
K&H Tanácsadó Zrt.	Full consolidation	x				securities broking and fund management
KBC Asset Management NV	Full consolidation	x				asset management

ČSOB Asset Management, a.s., Investiční Společnost	Full consolidation	x			asset management
EveryoneINVESTED BV	Not consolidated (Full consolidation)			x	immaterial - supporting asset management services
KBC Asset Management SA	Full consolidation	x			asset management
KBC Fund Management Limited	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			(not active)
IIB Finance DAC	Full consolidation	x			commercial and financial services
IIB Homeloans and Finance Limited	Full consolidation	x			holding company
Premier Homeloans Limited	Full consolidation	x			home loans
KBC ACS Limited	Full consolidation	x			(not active)
KBC Mortgage Finance	Full consolidation	x			mortgage financing
KBC Nominees Limited	Full consolidation	x			(not active)
Intercontinental Finance	Full consolidation	x			leasing
Linkway Developments Limited	Full consolidation	x			(not active)
Monastersky Limited	Full consolidation	x			holding company
Needwood Properties Limited	Full consolidation		x		real estate
Phoenix Funding 2 DAC	Full consolidation	x			securitisation
Phoenix Funding 3 DAC	Full consolidation	x			securitisation
Phoenix Funding 4 DAC	Full consolidation	x			securitisation
Phoenix Funding 5 DAC	Full consolidation	x			securitisation
Phoenix Funding 6 DAC	Full consolidation	x			securitisation
Phoenix Funding 7 DAC	Full consolidation	x			securitisation
Synch Payments DAC	Not consolidated (Equity method)			x	immaterial - ICT
KBC Commercial Finance NV	Full consolidation	x			factoring
KBC Focus Fund NV	Not consolidated (Full consolidation)			x	immaterial - investment fund
Aito B.V.	Not consolidated (Equity method)			x	immaterial - ICT
Sympl NV	Not consolidated (Equity method)			x	immaterial - recruiting
KBC IFIMA SA	Full consolidation	x			financing
KBC Immolease NV	Full consolidation	x			leasing
KBC Investments Limited	Full consolidation	x			stockbroker
KBC Financial Products (Cayman Islands) Limited "Cayman I"	Not consolidated (Full consolidation)			x	immaterial - stockbroker

KBC Lease Belgium NV	Full consolidation	x							leasing
KBC Net Lease Investments LLC	Full consolidation	x							leasing
KBC Real Estate Luxembourg SA	Full consolidation	x							real estate
KBC Securities NV	Full consolidation	x							stockbroker
KBC Securities USA LLC	Not consolidated (Full consolidation)					x			immaterial - stockbroker
KBC Vastgoedinvesteringen NV	Not consolidated (Full consolidation)					x			immaterial - real estate
Brussels North Distribution NV	Not consolidated (Full consolidation)					x			immaterial - real estate
Luxembourg North Distribution SA	Not consolidated (Full consolidation)					x			immaterial - issuance of real estate certificates
KBC Vastgoedportefeuille België NV	Full consolidation	x							real estate
Loan Invest NV	Full consolidation	x							securitisation
Midas Life Settlements LLC	Full consolidation	x							life settlement service provider
NBX-BE BV	Not consolidated (Equity method)						x		immaterial - ICT
Payconiq International S.A.	Equity method				x				payment services
Payconiq Services B.V.	Equity method				x				payment services
Poelaert Invest NV	Full consolidation		x						real estate
Rabot Invest NV	Not consolidated (Equity method)						x		immaterial - real estate
Reverse Mortgage Loan Trust 2008-1	Full consolidation	x							reverse mortgages
Soluz.io NV	Not consolidated (Full consolidation)						x		immaterial - support for e-invoicing
Start it X NV	Not consolidated (Full consolidation)						x		immaterial - support for startups
UBB Interlease EAD	Full consolidation	x							leasing
United Bulgarian Bank AD	Full consolidation	x							credit institution
Cash Service Company AD	Equity method			x					cash cycle servicing
East Golf Properties EAD	Full consolidation	x							real estate
UBB Center Management EOOD	Full consolidation	x							real estate
UBB Factoring EOOD	Full consolidation	x							factoring
UBB Insurance Broker AD	Full consolidation	x							insurance agents and brokers
World Alliance Financial LLC	Full consolidation	x							reverse mortgages
KBC Global Services NV	Full consolidation		x						cost-sharing structure
KBC Verzekeringen NV	Full consolidation							x	insurance company
ADD NV	Full consolidation							x	insurance broker
AIA-Pool cvba	Not consolidated (Equity method)					x			immaterial - insurance broker
AssurCard NV	Not consolidated (Equity method)					x			immaterial - automated third-party payment system
ČSOB Poisťovňa, a.s.	Full consolidation							x	insurance company
ČSOB Pojišťovna, a.s.	Full consolidation							x	insurance company
ČSOB Pojišťovací servis, s.r.o.	Not consolidated (Full consolidation)					x			immaterial - insurance broker

Pardubická Rozvojová, a.s.	Not consolidated (Full consolidation)	x			immaterial - real estate
Double U Building BV	Full consolidation			x	real estate
DZI Life Insurance Jsc	Full consolidation			x	life insurance
DZI - General Insurance EAD	Full consolidation			x	non-life insurance
Pension Insurance Company UBB EAD	Full consolidation			x	pension insurance
Groep VAB NV	Full consolidation			x	holding company
24+ NV	Not consolidated (Full consolidation)		x		immaterial - customer care centre
Macadam VAB Inspection NV	Not consolidated (Equity method)		x		immaterial - vehicles
Optimobil Belgium NV	Not consolidated (Equity method)		x		immaterial - vehicles
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 Koopman Automotive Solutions NV	Not consolidated (Full consolidation)		x		immaterial - vehicles
VAB NV	Full consolidation			x	roadside assistance
Depannage 2000 NV	Not consolidated (Full consolidation)		x		immaterial - vehicles
Olympus Mobility NV	Not consolidated (Full consolidation)		x		immaterial - computer programming
VAB Rijschool NV	Not consolidated (Full consolidation)		x		immaterial - driving school
VAB Training & Consult NV	Not consolidated (Full consolidation)		x		immaterial - driving school
K&H Biztosító Zrt.	Full consolidation			x	insurance company
KBC Group Re SA	Full consolidation			x	reinsurance
KBC Verzekeringen Vastgoed Nederland I BV	Full consolidation			x	real estate
Maatschappij voor Brandherverzekering CV	Not consolidated (Full consolidation)		x		immaterial - reinsurance
Omnia NV	Not consolidated (Full consolidation)		x		immaterial - travel agency
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

Table 100 - EU LI3_Outline of the differences in the scopes of consolidation (entity by entity)

EU LIB_ Subsidiaries not included in the consolidation scope

EU LIB_Subsidiaries not included in the consolidation scope (CRR Art 436(g))*	
31-12-21	
SPINC SASU	Batopar
Francilia Immobilier SARL	Synch Payments DAC
Patria investiční společnost, a.s.	IGLUU, s.r.o.
Motokov, a.s.	NBX-BE BV
Ušetřeno, s.r.o.	CBCB - Czech Banking Credit Bureau, a.s.
KBC Securities USA LLC	První Certifikačni Autorita, a.s.
ČSOB Nadácia	ENGIE REN, s.r.o.
ČSOB Advisory, s.r.o.	Justinvest NV
Eurincasso, s.r.o.	Gemma Frisius-Fonds K.U. Leuven NV
Luxembourg North Distribution SA	Rabot Invest NV
KBC Financial Products (Cayman Islands) Limited "Cayman I"	BRS Microfinance Coop CV
Almaloisir & Immobilier SAS	Sympl NV
Immolease-Trust NV	Go Connect BV
Immobilière Distri-Land NV	Banking Funding Company NV
Immo-Beaulieu NV	Gasco Group NV
Immo-Basilix NV	Aito B.V.
KBC Vastgoedinvesteringen NV	Pardubická Rozvojová, a.s.
Immo-Antares NV	ČSOB Pojišťovací servis, s.r.o.
Immo-Zénobe Gramme NV	Maatschappij voor Brandherverzekering CV
Immo Genk-Zuid NV	Depannage 2000 NV
Immo-Quinto NV	Omnia NV
Brussels North Distribution NV	Lubaco BV
RHVG QT NV	VAB Training & Consult NV
RHVG TB NV	VAB Rijschool NV
RHVG SB NV	Traject NV
RHVG RB NV	VAB Banden Peeters NV
RHVG DK NV	Sportcomplex Aalst NV
Immo Mechelen City Center NV	Olympus Mobility NV
KBC Focus Fund NV	Sportcomplex Heist-op-den-Berg NV
Soluz.io NV	VAB Koopman Automotive Solutions NV
Start it X NV	24+ NV
Immo Retail Libramont BV	Macadam VAB Inspection NV
EveryoneINVESTED BV	AIA-Pool cvba
Immo NamOtt NV	Optimobil Belgium NV
Immo NamOtt Tréfonds NV	AssurCard NV
Vanhee Construction Invest BV	Experience@work CVBA
Juliette FH BV	

** CRR articles 436(f), 436(h) and 436(g) part d) are not applicable*

Table 101 - EU LIB_ Subsidiaries not included in the consolidation scope

Annex VIII

Countercyclical buffers

EU CCyB1 - Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer

		General credit exposures		Relevant credit exposures – Market risk		Securitisation exposures Exposure value for non-trading book	**Total exposure value**	Own fund requirements				Risk-weighted exposure amounts	Own fund requirements weights (%)	Countercyclical buffer rate (%)
At 31 December 2021 (in millions of EUR)		Exposure value under the standardised approach	Exposure value under the IRB approach	Sum of long and short positions of trading book exposures for SA	Value of trading book exposures for internal models			Relevant credit risk exposures - Credit risk	Relevant credit exposures – Market risk	Relevant credit exposures – Securitisation positions in the non-trading book	**Total**			
010	**Breakdown by country**													
	Slovak Republic	2 657	8 515	0	0	0	**11 172**	363	0	0	**363**	4 539	6.59%	1.00%
	Hong Kong	0	222	0	0	0	**222**	8	0	0	**8**	103	0.15%	1.00%
	Norway	1	2	0	0	0	**2**	0	0	0	**0**	1	0.00%	1.00%
	Czech Republic	496	36 134	0	0	0	**36 630**	800	0	0	**800**	10 000	14.53%	0.50%
	Republic of Bulgaria	4 483	60	0	0	0	**4 543**	245	0	0	**245**	3 064	4.45%	0.50%
	Luxembourg	181	1 804	0	0	0	**1 985**	104	0	0	**104**	1 304	1.89%	0.50%
	Belgium	1 610	106 373	0	0	0	**107 984**	2 723	0	0	**2 723**	34 037	49.45%	0.00%
	Hungary	114	10 943	0	0	0	**11 057**	355	0	0	**355**	4 431	6.44%	0.00%
	Ireland	241	6 463	0	0	0	**6 704**	335	0	0	**335**	4 192	6.09%	0.00%
	Other	474	11 320	0	0	211	**12 005**	571	0	2	**573**	7 168	10.41%	0.00%
020	**Total**	**10 258**	**181 835**	**0**	**0**	**211**	**192 304**	**5 505**	**0**	**2**	**5 507**	**68 838**	**100.00%**	

Table 102 - EU CCyB1_Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer

EU CCyB2 - Amount of institution-specific countercyclical capital buffer

At 31 December 2021 (in millions of EUR)		RWA amounts
1	Total risk exposure amount	104 362
2	Institution specific countercyclical capital buffer rate	0.17%
3	Institution specific countercyclical capital buffer requirement	179

Table 103 - EU CCyB2_Amount of institution-specific countercyclical capital buffer

Annex IX

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						
In millions of EUR		31-12-21	30-09-21	30-06-21	31-03-21	31-12-20
Available capital (amounts)						
1	Common Equity Tier-1 (CET1) capital	17 497	17 435	18 728	18 589	18 441
2	Common Equity Tier-1 (CET1) capital as if IFRS 9 has not been applied	17 020	16 966	18 241	18 108	17 948
3	Tier-1 capital	18 997	18 935	20 228	20 089	19 941
4	Tier-1 capital as if IFRS 9 has not been applied	18 520	18 466	19 741	19 608	19 448
5	Total capital	20 732	21 420	22 153	22 039	21 856
6	Total capital as if IFRS 9 has not been applied	20 748	21 436	21 967	21 816	21 627
Risk exposure amount						
7	Total risk-weighted assets	104 362	103 350	104 052	102 528	101 843
8	Total risk-weighted assets as if IFRS 9 has not been applied	104 646	103 633	104 321	102 796	102 111
Capital ratios						
9	CET1 (as a % of risk exposure amount)	16.77%	16.87%	18.00%	18.13%	18.11%
10	CET1 (as a % of risk exposure amount) as if IFRS 9 has not been applied	16.26%	16.37%	17.49%	17.62%	17.58%
11	Tier-1 capital (as a % of risk exposure amount)	18.20%	18.32%	19.44%	19.59%	19.58%
12	Tier-1 capital (as a % of risk exposure amount) as if IFRS 9 has not been applied	17.70%	17.82%	18.92%	19.08%	19.05%
13	Total capital (as a % of risk exposure amount)	19.87%	20.73%	21.29%	21.50%	21.46%
14	Total capital (as a % of risk exposure amount) as if IFRS 9 has not been applied	19.83%	20.68%	21.06%	21.22%	21.18%
Leverage ratio						
15	Leverage ratio total exposure measure	292 363	298 536	361 117	337 157	303 696
	Leverage ratio total exposure measure as if IFRS 9 has not been applied	291 747	297 927	360 502	336 543	303 069
16	Leverage ratio	6.50%	6.34%	5.60%	5.96%	6.57%
17	Leverage ratio as if IFRS 9 has not been applied	6.35%	6.20%	5.48%	5.83%	6.42%

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.

Table 104 - Own funds and capital & leverage ratios with/without transitional arrangements for IFRS 9

Annex X

EU KM1_Key metrics template

EU KM1_Key metrics template						
In millions of EUR		31-12-21	30-09-21	30-06-21	31-03-21	31-12-20
Available own funds (amounts)						
1	Common Equity Tier-1 (CET1) capital	17 497	17 435	18 728	18 589	18 441
2	Tier-1 capital	18 997	18 935	20 228	20 089	19 941
3	Total capital	20 732	21 420	22 153	22 039	21 856
Risk-weighted exposure amounts						
4	Total risk exposure amount	104 362	103 350	103 991	102 528	101 843
Capital ratios (as a percentage of risk-weighted exposure amount)						
5	Common Equity Tier-1 ratio (%)	16.77%	16.87%	18.01%	18.13%	18.11%
6	Tier-1 ratio (%)	18.20%	18.32%	19.45%	19.59%	19.58%
7	Total capital ratio (%)	19.87%	20.73%	21.30%	21.50%	21.46%
Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount)						
EU 7a	Additional own funds requirements to address risks other than the risk of excessive leverage (%)	1.75%	1.75%	1.75%	1.75%	1.75%
EU 7b	*of which: to be made up of CET1 capital (percentage points)*	*0.98%*	*0.98%*	*0.98%*	*0.98%*	*0.98%*
EU 7c	*of which: to be made up of Tier-1 capital (percentage points)*	1.31%	1.31%	1.31%	1.31%	1.31%
EU 7d	Total SREP own funds requirements (%)	9.75%	9.75%	9.75%	9.75%	9.75%
Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount)						
8	Capital conservation buffer (%)	2.50%	2.50%	2.50%	2.50%	2.50%
EU 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	-	-	-	-	-
9	Institution-specific countercyclical capital buffer (%)	0.17%	0.17%	0.17%	0.17%	0.17%
EU 9a	Systemic risk buffer (%)	-	-	-	-	-
10	Global Systemically Important Institution buffer (%)	-	-	-	-	-
EU 10a	Other Systemically Important Institution buffer (%)	1.50%	1.50%	1.50%	1.50%	1.50%
11	Combined buffer requirement (%)	4.17%	4.17%	4.17%	4.17%	4.17%
EU 11a	Overall capital requirements (%)	13.92%	13.92%	13.92%	13.92%	13.92%
12	CET1 available after meeting the total SREP own funds requirements (%)	10.12%	10.98%	11.55%	11.75%	11.71%
Leverage ratio						
13	Total exposure measure	292 363	298 536	361 117	337 157	303 712
14	Leverage ratio (%)	6.50%	6.34%	5.60%	5.96%	6.57%
Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)						
EU 14a	Additional own funds requirements to address the risk of excessive leverage (%)	-	-	-	-	-
EU 14b	*of which: to be made up of CET1 capital (percentage points)*	-	-	-	-	-
EU 14c	Total SREP leverage ratio requirements (%)	3.36%	3.44%	3.00%	3.00%	3.00%
Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)						
EU 14d	Leverage ratio buffer requirement (%)	-	-	-	-	-
EU 14e	Overall leverage ratio requirement (%)	3.56%	3.44%	3.00%	3.00%	3.00%
Liquidity Coverage Ratio						
15	Total high-quality liquid assets (HQLA) (Weighted value - average)	108 642	102 771	94 308	87 270	81 833
EU 16a	Cash outflows - Total weighted value	81 469	78 716	74 377	73 158	71 025
EU 16b	Cash inflows - Total weighted value	16 070	16 870	17 569	17 565	15 311
16	Total net cash outflows (adjusted value)	65 399	61 846	56 808	55 593	55 714
17	Liquidity coverage ratio (%)	167.36%	166.83%	166.04%	157.00%	147.00%
Net Stable Funding Ratio						

18	Total available stable funding	218 123	222 205	222 014	
19	Total required stable funding	147 731	145 547	146 226	
20	NSFR ratio (%)	147.65%	152.67%	151.83%	

Table 105 - EU KM1_Key metrics template

Annex XI

EU PV1_Prudent valuation adjustments

EU PV1 - Prudent valuation adjustments (PVA)											
		Risk category					Category level AVA - Valuation uncertainty		Total category level post-diversification		
	Category level AVA	Equity	Interest Rates	Foreign exchange	Credit	Commodities	Unearned credit spreads AVA	Investment and funding costs AVA		*Of which: Total core approach in the trading book*	*Of which: Total core approach in the banking book*
At 31 December 2021 (in millions of EUR)											
1	Market price uncertainty	0.00	0.00	0.00	0.00	0.00	8.89	3.90	**6.39**	*6.39*	*0.00*
2	Not applicable										
3	Close-out cost	4.03	13.29	0.27	0.00	0.00	0.00	0.00	8.79	*7.44*	*1.36*
4	Concentrated positions	0.00	6.82	0.00	0.00	0.00	0.00	0.00	6.82	*0.00*	*6.82*
5	Early termination	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	*0.00*	*0.00*
6	Model risk	1.05	2.31	0.30	0.06	0.00	3.65	3.22	5.30	*5.30*	*0.00*
7	Operational risk	0.20	0.66	0.01	0.00	0.00			0.88	*0.74*	*0.14*
8	Not applicable										
9	Not applicable										
10	Future administrative costs	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	*0.00*	*0.00*
11	Not applicable										
12	**Total Additional Valuation Adjustments (AVAs)**	**5.28**	**23.09**	**0.58**	**0.06**	**0.00**	**12.54**	**7.12**	**28.19**	***19.87***	***8.32***

Table 106 - EU PV1_Prudent valuation adjustments

Annex XII

EU LR1 - LRSum - Summary reconciliation of accounting assets and leverage ratio exposures *At 31 December 2021 (in millions of EUR)*		Applicable amount
1	**Total assets as per published financial statements**	**340 346**
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of prudential consolidation	-34 026
3	(Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference)	
4	(Adjustment for temporary exemption of exposures to central banks (if applicable))	-35 014
5	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the total exposure measure in accordance with point (i) of Article 429a(1) CRR)	
6	Adjustment for regular-way purchases and sales of financial assets subject to trade date accounting	
7	Adjustment for eligible cash pooling transactions	
8	Adjustment for derivative financial instruments	1 304
9	Adjustment for securities financing transactions (SFTs)	1 016
10	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	22 776
11	(Adjustment for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital)	
EU-11a	(Adjustment for exposures excluded from the total exposure measure in accordance with point (c) of Article 429a(1) CRR)	
EU-11b	(Adjustment for exposures excluded from the total exposure measure in accordance with point (j) of Article 429a(1) CRR)	
12	Other adjustments	30 974
13	**Total exposure measure**	**327 377**

Table 107 - EU LR1_LRSum - Summary reconciliation of accounting assets and leverage ratio exposures

EU LR2 - LRCom - Leverage ratio common disclosure *(in millions of EUR)*		CRR leverage ratio exposures 31/12/2021
	On-balance-sheet exposures (excluding derivatives and SFTs)	
1	On-balance-sheet items (excluding derivatives, SFTs, but including collateral)	275 879
2	Gross-up for derivatives collateral provided, where deducted from the balance sheet assets pursuant to the applicable accounting framework	
3	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-2 344
4	(Adjustment for securities received under securities financing transactions that are recognised as an asset)	
5	(General credit risk adjustments to on-balance-sheet items)	
6	(Asset amounts deducted in determining Tier-1 capital)	-1 696
7	**Total on-balance-sheet exposures (excluding derivatives and SFTs)**	**271 839**
	Derivative exposures	
8	Replacement cost associated with SA-CCR derivatives transactions (i.e. net of eligible cash variation margin)	2 086

EU-8a	Derogation for derivatives: replacement costs contribution under the simplified standardised approach	
9	Add-on amounts for potential future exposure associated with SA-CCR derivatives transactions	4 348
EU-9a	Derogation for derivatives: Potential future exposure contribution under the simplified standardised approach	
EU-9b	Exposure determined under Original Exposure Method	
10	(Exempted CCP leg of client-cleared trade exposures) (SA-CCR)	
EU-10a	(Exempted CCP leg of client-cleared trade exposures) (simplified standardised approach)	
EU-10b	(Exempted CCP leg of client-cleared trade exposures) (Original Exposure Method)	
11	Adjusted effective notional amount of written credit derivatives	
12	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	
13	**Total derivatives exposures**	**6 435**
	Securities financing transaction (SFT) exposures	
14	Gross SFT assets (with no recognition of netting), after adjustment for sales accounting transactions	30 542
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-5 231
16	Counterparty credit risk exposure for SFT assets	1 016
EU-16a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429e(5) and 222 CRR	
17	Agent transaction exposures	
EU-17a	(Exempted CCP leg of client-cleared SFT exposure)	
18	**Total securities financing transaction exposures**	**26 327**
	Other off-balance-sheet exposures	
19	Off-balance-sheet exposures at gross notional amount	58 425
20	(Adjustments for conversion to credit equivalent amounts)	-35 649
21	(General provisions deducted in determining Tier-1 capital and specific provisions associated with off-balance-sheet exposures)	
22	**Off-balance-sheet exposures**	**22 776**
	Excluded exposures	
EU-22a	(Exposures excluded from the total exposure measure in accordance with point (c) of Article 429a(1) CRR)	
EU-22b	(Exposures exempted in accordance with point (j) of Article 429a(1) CRR (on- and off-balance-sheet))	
EU-22c	(Excluded exposures of public development banks (or units) - Public sector investments)	
EU-22d	(Excluded exposures of public development banks (or units) - Promotional loans)	
EU-22e	(Excluded passing-through promotional loan exposures by non-public development banks (or units))	
EU-22f	(Excluded guaranteed parts of exposures arising from export credits)	
EU-22g	(Excluded excess collateral deposited at triparty agents)	
EU-22h	(Excluded CSD-related services of CSD/institutions in accordance with point (o) of Article 429a(1) CRR)	
EU-22i	(Excluded CSD-related services of designated institutions in accordance with point (p) of Article 429a(1) CRR)	
EU-22j	(Reduction of the exposure value of pre-financing or intermediate loans)	
EU-22k	**(Total exempted exposures)**	
	Capital and total exposure measure	
23	**Tier-1 capital**	**18 997**

24	**Total exposure measure**	**292 363**
	Leverage ratio	
25	Leverage ratio (%)	6.50%
EU-25	Leverage ratio (excluding the impact of the exemption of public sector investments and promotional loans) (%)	6.50%
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) (%)	5.80%
26	Regulatory minimum leverage ratio requirement (%)	3.56%
EU-26a	Additional own funds requirements to address the risk of excessive leverage (%)	
EU-26b	*of which: to be made up of CET1 capital*	
27	Leverage ratio buffer requirement (%)	
EU-27a	Overall leverage ratio requirement (%)	3.56%
	Choice on transitional arrangements and relevant exposures	
EU-27b	Choice on transitional arrangements for the definition of the capital measure	n/a
	Disclosure of mean values	
28	Mean of daily values of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivable	43 867
29	Quarter-end value of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables	25 311
30	Total exposure measure (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	310 919
30a	Total exposure measure (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	345 933
31	Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	6.11%
31a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	5.49%

Table 108 - EU LR2_LRCom - Leverage ratio common disclosure

EU LR3 - LRSpl - Split-up of on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures) *At 31 December 2021 (in millions of EUR)*		CRR leverage ratio exposures
EU-1	**Total on-balance-sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**276 800**
EU-2	Trading book exposures	
EU-3	Banking book exposures, of which:	276 800
EU-4	Covered bonds	
EU-5	Exposures treated as sovereigns	50 574
EU-6	Exposures to regional governments, MDB, international organisations and PSE, not treated as sovereigns	921
EU-7	Institutions	6 398
EU-8	Secured by mortgages of immovable properties	85 713
EU-9	Retail exposures	15 002
EU-10	Corporates	67 297
EU-11	Exposures in default	194
EU-12	Other exposures (e.g., equity, securitisations, and other non-credit obligation assets)	50 701

Table 109 - EU LR3_LRSpl - Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

Annex XIII

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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).

CET1-ratio (Common equity ratio)

A risk-weighted measure of the group's solvency based on common equity tier-1 capital (the ratios given here are based on the Danish compromise). Changes to the capital rules are gradually being implemented to allow banks to build up the necessary capital buffers. The capital position of a bank, when account is taken of the transition period, is referred to as the transitional view. The capital position based on full application of all the rules – as would be the case after this transition period – is referred to as 'fully loaded'.

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.

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 (Downturn Loss Given Default)

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.

FV (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 (nternational Swaps and Derivatives Association 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).

MtM (Mark-to-Market)

The act of assigning a market value to an asset.

MREL (Minimum requirement for own funds and eligible liabilities)

Indicates the extent to which a bank has sufficient own funds and eligible liabilities available for bail-in. MREL and bail-in are based on the principle that shareholders and debt-holders should bear losses first if a bank fails. The ratio is expressed as a percentage of Total Liabilities and Own Funds (TLOF).

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 (Risk-adjusted return on capital)

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.