RISK REPORT 2018

KBC

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Introduction: Highlights in 2018, Risk Statement and 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 z on our home markets of Belgium, Central and Eastern Europe and Ireland, where we specialise in retail bank-insurance and asset management activities. Elsewhere around the world, the group has establish ed a presence in selected countries and regions.

Highlights in 2018

- Common equity tier-1 ratio (Basel III fully loaded based on Danish compromise) of 16.0% at year-end, well above the regulatory minimum requirement of 11.7% (incl. P2G).
- Fully loaded Basel III leverage ratio – based on current CRR legislation – of 6.1% at year-end 2018.
- MREL ratio of 26.0% of risk weighted assets (RWA) based on the consolidated SRB view or 25.0% of RWA based on a point-of-entry view. MREL ratio of 10.1% of total liabilities and own funds (TLOF) based on the consolidated SRB view (compared to a binding target of 9.76% of TLOF).
- The portfolio of outstanding loans amounted to 147.05 billion euros, 97% of which granted in Europe. Overall impaired loan ratio of 4.3%, with impairment charges accounting for -0.06% of the portfolio of outstanding loans.
- Continued strong liquidity position at year-end, with NSFR at 136% and LCR at 139% (i.e. 12-month average LCR). Both ratios well above the minimum regulatory requirements.
- Solvency II ratio of 217% at group level (including volatility adjustment), ranking KBC Insurance among the better-capitalised companies in the insurance industry.
- Underpinning of risk appetite in place for the different risk types.

Risk statement

As we are mainly active in banking, insurance and asset management, we are exposed to a number of typical risks for these financial sectors such as – but not limited to – credit default risk, counterparty credit risk, concentration risk, movements in interest rates, currency risk, market risk, liquidity and funding risk, insurance underwriting risk, changes in regulations, operational risk, customer litigation, competition from other and new players, as well as the economy in general. KBC closely monitors and manages each of these risks within a strict risk framework, but they may all have a negative impact on asset values or could generate additional charges beyond anticipated levels. At present, a number of factors are considered to constitute the main challenges for the financial sector. These relate to recent macroeconomic and political developments, such as Brexit, trade conflicts and the Italian budget. Regulatory risk remains a dominant theme for the sector, as does enhanced consumer protection. Digitalisation (with technology as a catalyst) presents both opportunities and threats to the business model of traditional financial institutions. Finally, cyber risk has become one of the main threats during the past few years, not just for the financial sector, but for the economy as a whole.

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 2018 Annual Report of KBC Group NV and – more extensively – in this publication.

The most important regulations governing risk and capital management are the Basel III capital requirements applying to banking entities, and the Solvency II capital framework applying to insurance entities. In 2014, the Basel II capital requirements were replaced by the Basel III framework, which is gradually entering into effect. Solvency I has been replaced by the fundamentally reformed Solvency II framework, which officially entered into force in January 2016.

The 2018 Risk Report is based on Basel III's third pillar and the resulting disclosure requirements of the Capital Requirements Regulation. 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 the insurance activities in order to provide an overall view of the KBC group's risk exposure and risk management activities.

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

Information is disclosed at the highest consolidated level. Additional information, specifically on the material entities, is confined to the capital information in the section on 'Capital adequacy'. 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 at all times in its disclosures. The scope of the reported information – which can differ according to the matter being dealt with – is clearly indicated. A comparison with the previous year is provided unless this is not possible due to differences in scope and/or methodology.

The information provided in this document has not been subject to an external audit. However, the disclosures have been checked for consistency with other existing risk reports and underwent a final screening by authorised risk management representatives to ensure quality.

In addition, the 2018 Risk Report was distributed to the Group Executive Committee, the Board of Directors, as well as to the Risk & Compliance Committee to ensure the appropriate approval of the management body as requested under Basel III.

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

This risk report is available in English on the KBC website and is updated on a yearly basis. KBC's next update is scheduled for the beginning of April 2020. Depending on market requirements, KBC may however decide to provide more frequent updates.

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 containing the topics where reference is made to other reports is shown below.

Topics	Reports
Information regarding governance arrangements	See the 'Corporate governance statement' section of the 2018 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 2018 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 2018 Annual Report of KBC Group NV
New products	See 'In what environment do we operate?' in the 'Our business model' section of the 2018 Annual Report of KBC Group NV
Credit risk related to KBC Insurance	See 'How do we manage our risks' section of the 2018 Annual Report of KBC Group NV

Risk Management Governance

Risk Management Governance

Main elements in our risk governance model:

- The Board of Directors, assisted by the Risk & Compliance Committee (RCC), which decides on and supervises the risk appetite – including the risk strategy – each year. It is also responsible for the development of a sound and consistent group-wide risk culture, based on a full understanding of the risks the group faces and how they are managed, taking into account the group risk appetite.
- The Executive Committee – supported by activity-based risk committees – which is the senior management level committee for integrating risk management with risk appetite, strategy and performance goal setting.
- The Risk Management Committee and activity-based risk committees mandated by the Executive Committee.
- Risk-aware business people who act as the first line of defence for conducting sound risk management in the group.
- A single, independent risk function that comprises the Group Chief Risk Officer (Group CRO), local CROs, local risk functions and the group risk function. The risk function acts as (part of) the second line of defence, while Internal Audit is the third line.

Relevant risk management bodies and control functions:

- Executive Committee:
  - makes proposals to the Board of Directors about risk and capital strategy, risk appetite, and the general concept of the risk management framework;
  - decides on the integrated and risk-type-specific risk management frameworks and monitors their implementation throughout the group;
  - allocates capital to activities in order to maximise the risk-adjusted return;
  - acts as the leading risk committee, covering material issues that are channelled via the specific risk committees or the Group Assets & Liabilities Committee (Group ALCO);
  - monitors the group's major risk exposure to ensure conformity with the risk appetite.
- Group ALCO:
  - is a business committee that assists the Executive Committee in the domain of (integrated) balance sheet management at group level. It handles matters related to ALM and liquidity risk.
- Risk committees:
  - The Risk Management Committee supports the Executive Committee in assessing the adequacy of, and compliance with, the KBC Risk Management Framework and defines and implements the vision, mission and strategy for the CRO Services of the KBC group.
  - The activity-based Group Risk Committees (for lending, markets and insurance, respectively) support the Executive Committee in setting and monitoring limits for these activities at group level. Liquidity and ALM issues related to these activities are addressed by the Group ALCO.
  - The Group Internal Control Committee (GICC) supports the Executive Committee in monitoring and strengthening the quality and effectiveness of KBC's internal control system.

- In order to strengthen the voice of the risk function and to ensure that the decision-making bodies of the business entities are appropriately challenged on matters of risk management and receive expert advice, KBC has deployed independent Chief Risk Officers (CROs) throughout the group according to a logical segmentation based on entity and/or business unit. Close collaboration with the business is assured since they take part in the local decision-making process and, if necessary, can exercise a veto. Independence of the CROs is achieved through a direct reporting line to the Group CRO.
- Group Risk and Group Credit Risk (known collectively as 'the Group risk function') have a number of responsibilities, including monitoring risks at an overarching group-wide level, developing risk and capital models (while business models are typically developed by business), performing independent validations of all risk and capital models, developing risk frameworks, advising/reporting on issues handled by the Executive Committee and the risk committees and challenging/supporting the business in managing the risks related to the full lifecycle of their activities and projects.
- When appropriate, dedicated working groups comprising risk and business-side representatives are set up to deal with emerging risks or unexpected developments in an integrated way (covering all risk types).

Performance is assessed on a yearly basis as part of the Internal Control Statement.

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

Risk culture

Christine Van Rijsseghem, KBC Group CRO

Having a good risk culture means that risk awareness is part of our DNA and embedded in our corporate culture. It is also the vision of the Risk function to put risk in the hearts and minds of everyone, to help our Group create sustainable growth and help it earn its clients' trust. Good risk management is paramount at the level of the business. It has first-line responsibility for managing risks in an efficient and effective way.

Dedicated risk departments support, challenge and inspire the business side, with risk management frameworks and policies providing important guidance. It is essential that these frameworks and policies are interpreted and applied with the right risk mind-set in order to make risk management effective and real. This business/risk approach helps us find the right balance between risk and return.

Having the right tone at the top is another important enabler for creating a good risk culture throughout the organisation. During 2018, all the senior managers in the KBC group met up to reflect on responsible behaviour and to share testimonials.

A good risk culture also involves awareness of new risks and an alertness when it comes to responding adequately to them. In our highly digitalised and innovative world, not only new opportunities but also new risks are scanned, screened and managed by business and risk departments before any new products and services are launched. This approval process for new products, services and processes (NAPP) has been extended to include a process that enables the business side to experiment in a responsible and effective manner.
At the same time, new guidance on model risk has been developed in light of the increased use of advanced modelling solutions in various business functions.

Climate-related challenges and risks are also game changers for KBC and its clients. We already have strict policies in place to limit the environmental impact of our lending, investment and insurance activities and we actively monitor our ecological impact, while fostering a smooth transition to a low-carbon economy.
During 2018, a new project was launched to align us with the recommendations of, inter alia, the Task Force on Climate-related Financial Disclosures (TCFD), enabling KBC to appropriately assess and price climate-related risks and opportunities.

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) takes full responsibility for its risks, having to deal with them and putting the necessary controls in place. 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.

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

The risk function, as part of the second line of defence, formulates independent opinions on the risks KBC faces and on the way they are mitigated. It provides reasonable assurance that risks are under control.

To do this consistently while adhering to high standards, the risk function develops, imposes and monitors consistent implementation of methods or frameworks and tools to identify, measure and report on risks.
To make sure that its voice is heard, the risk function also has 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 assurances 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.

1st LOD: Business Owns the risk	2nd LOD: Risk Provides assurance that risks are under control	3rd LOD : Audit Checks quality and effectiveness of the process
• Performs the right controls in the right manner • Provides qualitative business self assessments • Allocates priority/capacity to risks topics	• Formulates own, independent opinions on the risks KBC faces and on the way they are mitigated • Identifies, measures and reports on risks • Safeguards that the voice of risks is heard (veto right) • Supports the consistent implementation of the risk policy, the risk framework, etc., throughout the group, and supervises how they are applied	• Conducts risk-based and general audits to provide assurance to the board that the overall internal control system, including risk governance, is effective and that policies and processes are in place and consistentely applied within the Group.

Risk measurement standards

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 taking in a lot 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 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 how the calculation has to be done). 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 and (cost-)efficient.

In order to arrive at sound measurements that facilitate decision processes, the following principles play a key role in the RMS:

- Transparency: provide stakeholders with a clear view of all aspects relevant to measuring risk, including 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. For certain measures, such as those for measuring required capital, a validation (= more stringent form of verification) is performed by a member of an independent validation unit.
- 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.

Risk appetite

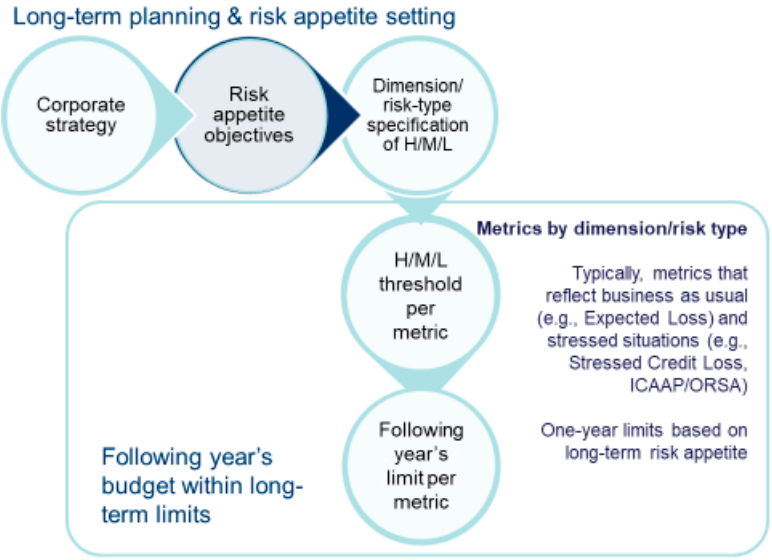
The overall management responsibility of a financial institution can be defined as managing capital, liquidity, return (income versus costs) and risks, which in particular arise from the special situation of banks and insurers as risk transformers. Taking risks and transforming risks is an integral part – and hence an inevitable consequence of – the business of a financial institution. Therefore, KBC does not aim to eliminate all the risks involved (risk avoidance) but instead looks to identify, control and manage them in order to make optimal use of its available capital (i.e. risk-taking as a means of creating value).

How much risk KBC is prepared to assume and its tolerance for risk is captured in the notion of 'risk appetite'. It is a key instrument in the overall (risk) management function of the KBC group, as it helps us to better understand and manage risks by explicitly expressing – both qualitatively and quantitatively – how much and what kind of risk we want to take. KBC defines risk appetite as the amount and type of risk that it is able and willing to accept in pursuit of its strategic objectives.

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

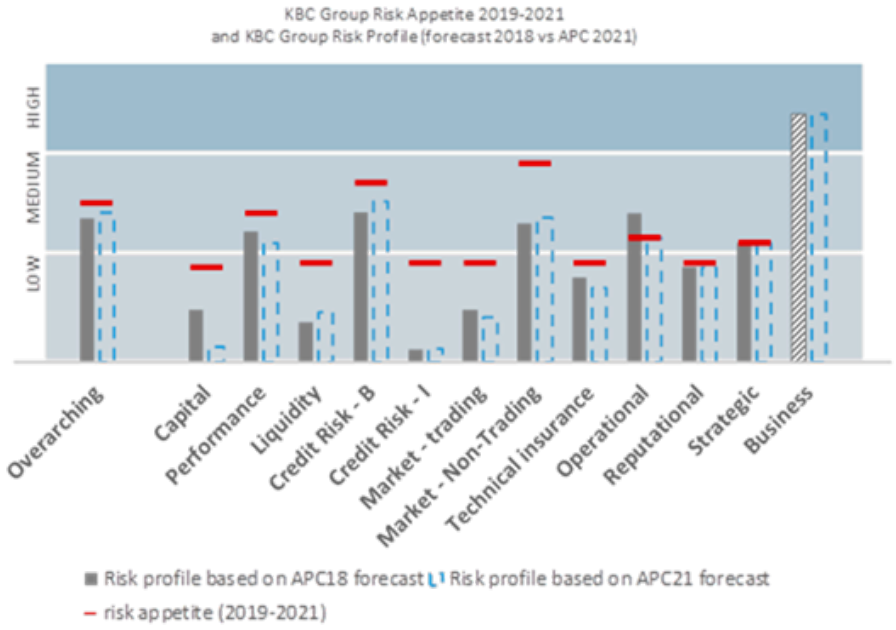
Risk appetite within KBC is set out in a 'risk appetite statement', which is produced at both group and local level. The Risk Appetite Statement (RAS) reflects the view of the Board of Directors and top management on risk taking in general, and on the acceptable level and composition of risks that ensure coherence with the desired return. The statement is built on risk appetite objectives that are directly linked to corporate strategy and provides a qualitative description of the KBC group's playing field. These high-level risk appetite objectives are further specified in qualitative and quantitative statements for each of the different risk types.

The layered nature of the risk appetite statement is illustrated as follows.



The long-term risk appetite is determined as High (H), Medium (M) or Low (L) based on the metrics and thresholds stipulated in the 'risk appetite underpinning exercise' performed for the main risk types. The risk appetite specification and related thresholds per metric define the long-term upper boundary for KBC. The specific 2019 limits per risk type are consistent with the long-term upper boundary, but can be set lower. The limits are further cascaded down to the entities.

For KBC Group NV, this translates into the following boundaries per risk type:



The actual and forecast overarching risk profile remains comfortably within the risk appetite for the next three years. As regards the operational risk profile, the aim is to gradually achieve the low risk profile by 2023.

Capital Adequacy

In practice, assessing capital adequacy entails checking solvency against the minimum regulatory requirements and defined solvency targets. Capital adequacy is approached from both a regulatory and internal perspective.

Solvency at KBC group level

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 CRR/CRD IV, which has gradually been implemented since 2014 (phasing-in). As from 1 January 2018, there is no longer any difference between the fully loaded and phased-in reported figures at KBC group level.

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

As a result of its supervisory review and evaluation process (SREP), the competent supervisory authority (in KBC's case, the ECB) can require that higher minimum ratios be maintained (= pillar 2 requirements) because, for instance, not all risks are properly reflected in the regulatory pillar 1 calculations. Following the SREP for 2018, the ECB formally notified KBC of its decision (applicable from 1 January 2019) to maintain the pillar 2 requirement (P2R) at 1.75% CET1 and the pillar 2 guidance (P2G) at 1% CET1.

The overall capital requirement for KBC is determined not only by the ECB, but also by the decisions of the local competent authorities in its core markets. The decision taken by the relevant Czech and Slovak authorities to further increase the countercyclical buffer requirement to 1.50% in the third quarter of 2019 and the introduction of a 1% countercyclical buffer requirement in Ireland correspond with an additional CET1 requirement of 0.10% at KBC group level (bringing the countercyclical buffer at KBC group level to around 0.45%).

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 from 2018 onwards. Lastly, the capital conservation buffer increased from 1 875% in 2018 to 2.5% in 2019.

Altogether, this brings the fully loaded CET1 requirement (under the Danish compromise) to 10.7% (4.5% (pillar 1) + 1.75% (P2R) + 2.5% (conservation buffer) + 1.5% (systemic buffer) + 0.45% (countercyclical buffer)), with an additional pillar 2 guidance (P2G) of 1%. KBC clearly exceeds this requirement: at year-end 2018, the fully loaded CET1 ratio was 16.0%, which represented a capital buffer of 4 998 million euros relative to the minimum requirement of 10.7%. Furthermore, since part of the capital requirement is to be gradually built up by 2019, the relevant requirement (under the Danish compromise) for 2018 on a phased-in basis amounts to 9 875% of CET1 (4.5% (pillar 1) + 1.75% (P2R) + 1 875% (conservation buffer) + 1.5% (systemic buffer) + 0.25% (countercyclical buffer)). The regulatory minimum solvency targets were also amply exceeded throughout the entire financial year (see Annex IV for more details).

The general rule under CRR/CRD IV for insurance participations is that they are deducted from common equity at group level, unless the competent authority grants permission to apply a risk weighting instead (Danish compromise). KBC received such permission and hence reports its solvency on the basis of a 370% risk weighting being applied to the holdings of own fund instruments of the insurance company (= 2 469 million euros), after having deconsolidated KBC Insurance from the group figures.

In addition to the solvency ratios under CRD IV, 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). This implies that 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 IV 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 participation in the insurance company under the Danish compromise). At year-end 2018, the common equity ratio (under FICOD) was 14.9%.

KBC aims to be one of the better capitalised financial institutions in Europe. Each year, therefore, we assess the common equity ratios of a peer group of European banks that are active in the retail, SME, and corporate client segments, and then position ourselves relative to the median fully loaded CET1 ratio of that peer group. We reflect this capital policy in an 'own capital target', which amounts to 14% of common equity. On top of this, KBC wants to maintain a flexible additional buffer of up to 2% common equity for potential add-on mergers and acquisitions in our core markets. Any M&A opportunity will be assessed subject to very strict financial and strategic criteria. This buffer is additional to the 'own capital target' of the KBC group. Together they form the reference capital position, which stands at 16%.

A detailed calculation of the KBC group's solvency ratios under the Danish compromise method is given below, with summary calculations provided for the FICOD and deduction methods.

Solvency at group level (consolidated; under CRR/CRD IV, Danish compromise method) (in millions of EUR)	31-12-2018 Fully loaded = Phased-in	31-12-2017 Phased-in	31-12-2017 Fully loaded
Total regulatory capital, after profit appropriation	**18 725**	**17 887**	**17 571**
Tier-1 capital	**16 549**	**15 473**	**15 286**
Common equity[1]	15 131	14 033	13 886
Parent shareholders' equity (after deconsolidating KBC Insurance)	16 992	16 841	16 841
Intangible fixed assets, incl. deferred tax impact (-)	-584	-475	-475
Goodwill on consolidation, incl. deferred tax impact (-)	-602	-604	-604
Minority interests	0	0	0
Available-for-sale revaluation reserves (-)[3]	-	-117	-
Hedging reserve, cashflow hedges (-)	1 263	1 339	1 339
Valuation differences in financial liabilities at fair value – own credit risk (-)	-14	-1	-1
Value adjustment due to requirements for prudent valuation (-)[2]	-63	-111	-124
Dividend payout (-)	-1 040	-837	-837
Coupon on AT1 instruments (-)	-7	-2	-2
Deduction with regard to financing provided to shareholders (-)	-91	-91	-91
Deduction with regard to irrevocable payment commitments (-)	-32	-	-
IRB provision shortfall (-)	-100	-268	-268
Deferred tax assets on losses carried forward (-)	-571	-542	-672
Additional going concern capital	1 000	1 418	1 400
Grandfathered innovative hybrid tier-1 instruments	0	18	0
Grandfathered non-innovative hybrid tier-1 instruments	0	0	0
CRR-compliant AT1 instruments	1 000	1 400	1 400
Minority interests to be included in additional going concern capital	0	0	0
Tier-2 capital	2 067	2 176	2 202
IRB provision excess (+)	204	316	316
Subordinated liabilities	1 864	1 860	1 886
Subordinated loans to non-consolidated financial sector entities (-)	0	0	0
Minority interests to be included in tier-2 capital	0	0	0
Total weighted risk volume	94 875	91 972	92 410
Banking	85 474	82 679	83 117
Insurance	9 133	9 133	9 133
Holding-company activities	302	202	202
Elimination of intercompany transactions	-34	-43	-43
Solvency ratios			
Common equity ratio	16.0%	16.5%	16.3%
Tier-1 ratio	17.0%	18.0%	17.9%
Total capital ratio	19.2%	20.4%	20.2%

1 Audited figures (excluding 'IRB provision shortfall' and 'Value adjustment due to requirements for prudent valuation').
2 CRR ensures that prudent valuation is reflected in the calculation of available capital. This means that the fair value of all assets measured at fair value and impacting the available capital (by means of fair value changes in P&L or equity) need to be brought back to their prudent value. The difference between the fair value and the prudent value (also called the 'additional value adjustment' or AVA) must be deducted from the CET1 ratio.
3 Relates to the prudential filter for positive revaluation reserves from equity.

More details on own funds are included in Annexes I, II and III.

Solvency at group level (consolidated; FICOD method) (in millions of EUR)	31-12-2018 Fully loaded	31-12-2017 Phased-in	31-12-2017 Fully loaded
Common equity	15 885	16 015	15 988
Total weighted risk volume	106 380	105 625	106 062
Common equity ratio	14.9%	15.2%	15.1%

* For more details, please refer to KBC's quarterly reports (available at www.kbc.com).

Solvency at group level (consolidated; CRR/CRD IV, deduction method) (in millions of EUR)	31-12-2018 Fully loaded	31-12-2017 Fully loaded
Common equity	14 199	14 146
Total weighted risk volume	89 537	87 052
Common equity ratio	15.9%	16.3%

Additional information concerning the calculation of solvency according to CRR/CRD IV (Danish compromise method, fully loaded):

- Parent shareholders' equity: see 'Consolidated statement of changes in equity' in the 'Consolidated financial statements' section of the 2018 Annual Report of KBC Group NV.
- Share buyback: see 'Our employees, capital, network and relationships' under 'Our business model' in the 'Report of the Board of Directors' section of the 2018 Annual Report of KBC Group NV.
- Impact of the first time application of IFRS 9: the first-time application of IFRS 9 had a negative impact of 0.4 percentage points on the common equity ratio (see also Notes 1.1 and 1.4 in the 'Consolidated financial statements' section of the 2018 Annual Report of KBC Group NV).
- Additional tier-1 instruments: on 17 April 2018, KBC Group NV issued 1 billion euros' worth of AT1 securities with a coupon of 4.25%. KBC received approval from the ECB to call the 1.4-billion-euro AT1 instrument issued in 2014 on 19 March 2019 (call date). As a consequence, the 1.4 billion euros involved has been excluded from the solvency figures at year-end 2018.
- Total weighted risk volume: since its implementation in 2008, the Internal Rating Based (IRB) approach has primarily been used by KBC to calculate its risk weighted assets. It is used for approximately 92% of the weighted credit risks, approximately 87% of which are calculated according to the Advanced approach and roughly 5% according to the Foundation approach. The remaining weighted credit risks are calculated according to the Standardised approach. The increase in weighted risks in 2018 was largely driven by new regulatory requirements and limitations imposed by supervising authorities and by volume increases in various core countries, among other things.

Managing the risk of excessive leverage

CRR/CRD IV 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 (not risk weighted).

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 2018, our fully loaded leverage ratio at group level stood at 6.1% (see table below), unchanged year-on-year, as the lower level of tier-1 capital was fully offset by a lower exposure amount.

Leverage ratio at group level (consolidated; under CRR/CRD IV, Danish compromise method) (in millions of EUR)	31-12-2018 Fully loaded	31-12-2017 Fully loaded
Tier-1 capital	16 150	16 504
Total exposure	266 594	272 373
Total assets	283 808	292 342
Deconsolidation of KBC Insurance	-31 375	-32 802
Adjustment for derivatives	-3 105	-3 908
Adjustment for regulatory corrections in determining tier-1 capital	-2 043	- 2 235
Adjustment for securities financing transaction exposures	408	816
Off-balance sheet exposures	18 900	18 160
Leverage ratio	6.1%	6.1%

MREL ratio (minimum requirement for own funds and eligible liabilities)

Besides the ECB and NBB, which supervise KBC on a going concern basis, KBC is also subject to requirements set by the Single Resolution Board (SRB). The SRB is developing resolution plans for the major banks in the euro area. Such a plan describes how the resolution authorities will approach the resolution of a bank that is failing (or likely to fail) in a way that protects its critical functions, government funds and financial stability. It takes account of the specific features of the bank and is tailor-made. A key feature of the resolution process 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 and issuing new shares to former creditors as compensation. The SPE approach at group level reflects KBC's business model, which relies heavily on integration, both commercially (e.g., banking and insurance) and organisationally (e.g., risk, finance, treasury, 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). At year-end 2018, the MREL ratio based on instruments issued by KBC Group NV stood at 25% of risk weighted assets ('point of entry' view).

MREL: point-of-entry view (in millions of EUR)	31-12-2018 Fully loaded	31-12-2017 Fully loaded
Own funds and eligible liabilities	23 752	22 207
CET1 capital (consolidated, CRR/CRD IV, Danish compromise method)	15 150	15 104
AT1 instruments (nominal amount)	2 400	1 400
T2 instruments (nominal amount, remaining maturity > 1 year)	2 182	2 182
Senior debt (nominal amount, remaining maturity > 1 year)	4 020	3 521
Risk weighted assets (consolidated, CRR/CRD IV, Danish compromise method)	94 875	92 410
MREL ratio	25.0%	24.0%

Based on the broader SRB definition, which also includes certain senior/subordinated instruments issued at lower levels within the group ('consolidated view'), the MREL ratio amounted to 26.0% of risk weighted assets. The SRB/NBB require KBC Group NV to achieve an MREL ratio of 9.76% as a percentage of Total Liabilities and Own Funds (TLOF) – which is equivalent to 25.9% as a percentage of risk weighted assets – by 1 May 2019.

MREL: consolidated view (in millions of EUR)	31-12-2018	31-12-2017
Own funds and eligible liabilities	24 711	24 330
CET1 capital (consolidated, CRR/CRD IV, Danish compromise method)	15 150	15 134
AT1 capital (consolidated, CRR/CRD IV)	1 000	1 418
T2 c apital(consolidated, CRR/CRD IV)	2 068	2 176
Subordinated liabilities (not included in AT1 & T2)	2 022	1 513
Senior debt (nominal amount, remaining maturity > 1 year)	4 473	4 089
Risk weighted assets (consolidated, CRR/CRD IV, Danish compromise method)	94 875	92 410
MREL ratio as a % of RWA	26.0%	26.3%
Total Liabilities and Own Funds (TLOF)	245 225	251 364
MREL as a % of TLOF	10.1%	9.7%

Solvency of KBC Bank and KBC Insurance separately

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

Solvency, KBC Bank (CRR/CRDIV, fully loaded, in millions of EUR)	31-12-2018	31-12-2017
Total regulatory capital, after profit appropriation	15 749	15 756
Tier-1 capital	13 625	13 484
Of which common equity	12 618	12 077
Tier-2 capital	2 124	2 273
Total weighted risks	85 474	83 117
Common equity ratio	14.8%	14.5%
Tier-1 ratio	15.9%	16.2%
Total capital ratio	18.4%	19.0%

Solvency, KBC Insurance (incl. volatility adjustment) (Solvency II, in millions of EUR)	31-12-2018	31-12-2017
Own funds	3 590	3 865
Tier-1	3 090	3 365
IFRS parent shareholders' equity	2 728	3 051
Dividend payout	-132	-8
Deduction of intangible assets and goodwill (after tax)	-124	-128
Valuation differences (after tax)	341	403
Volatility adjustment	313	43
Other	-35	3
Tier-2	500	500
Subordinated liabilities	500	500
Solvency capital requirement (SCR)	1 651	1 823
Solvency II ratio	217%	212%
Solvency surplus above SCR	1 939	2 042

ICAAP and ORSA

KBC's ICAAP (Internal Capital Adequacy Assessment Process) consists of numerous business and risk processes that together contribute to the objective of assessing and ensuring at all times that we are adequately capitalised in view of our risk profile and the quality 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	2018	2017
Credit risk and counterparty risk	54%	50%
Interest rate risk and spread risk (banking book)	13%	18%
Market risk (trading book)	2%	2%
Operational risk	8%	8%
Risk related to the insurance entity	16%	17%
Pension risk	5%	5%
Total	100%	100%

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.
The APC is not only about planning, it is also about closely monitoring the execution of the plan in all its aspects (P&L, risk weighted assets, liquidity). Such monitoring is reflected in dedicated reports drawn up by the various Group functions.

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 a regular basis, in accordance with Solvency II requirements. Similar to ICAAP, 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 quality 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. Where necessary, these processes are enhanced to take account of the specific nature of the (re)insurance activities and to comply with Solvency II requirements.

Stress testing

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

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

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

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

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

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

Numerous other stress tests are run within KBC that provide valuable information for assessing the capital adequacy of the group. They include 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.

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 due to events or measures taken by the political or monetary authorities of a particular country (country risk). Credit risk thus encompasses default risk and country risk, but also includes migration risk, which is the risk for adverse changes in credit ratings.

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

The tables in this section provide an overview – as described in EBA guidelines – of the overall credit risk based on the figures for the end of December 2018. Unless otherwise stated (e.g., RWA tables), net (i.e. after provisions) exposure at default (EAD) before application of credit conversion factors (CCF) is given in the credit risk tables instead of Gross Carrying Value (GCV), which is an accounting concept.

Managing credit risk at transactional level

We have sound acceptance policies and procedures in place for all kinds of credit risk exposure. We are focusing 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.

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 credit 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 statistical basis for smaller credit facilities. In addition, for non-defaulted credit in PD classes 1 to 9, we record impairment losses on a 'portfolio basis', using a formula based on the Internal Ratings Based (IRB) Advanced models used internally, or an alternative method if a suitable IRB Advanced model is not yet available.

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

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.

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 2018, the main group entities (apart from United Bulgarian Bank (UBB) in Bulgaria and ČSOB in Slovakia) and some smaller entities had adopted the IRB Advanced approach.

Scope of credit risk disclosures

The scope of this report at the level of the KBC entities concerned differs depending on the section or table. The RWA tables in the next section are the only ones at KBC group level (i.e. including KBC Insurance). In the other sections, we either adopt a 'KBC Bank Consolidated' view (basically this is the group view but without KBC Insurance) or limit the scope to the material entities appearing in the roll-out table below. These entities accounted for 98.5% of the total credit risk exposure of the KBC group in 2018. For each table, the applicable scope (either KBC Bank Consolidated or material entities) will be indicated.

With regard to the timing of and approach to implementing Basel III, KBC has opted for a phased roll-out of the IRB approach at all its material entities except for UBB. A material entity in this respect is 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 yearly. The first set of material entities started adopting the IRB Foundation approach at the beginning of 2007, as already indicated above.

All material entities, apart from UBB, have adopted the IRB Foundation or Advanced approach. The Basel III Standardised approach is being adhered to until further notice by the other (non-material) entities of the KBC group, in accordance with permanent partial use as per Article 150 (d) of Regulation (EU) No. 575/2013 (CRR). Because of this difference in scope, and also because another definition of exposure1 is used for the accounting figures, a one-to-one comparison cannot always be made with similar disclosures in the 2018 Annual Report of KBC Group NV.

Roll-out of Basel III pillar 1 approach at end of year shown	2015	2016	2017 - 2019
IRB Advanced Approach	KBC Bank CBC Banque ČSOB Czech Republic[2] KBC Credit Investments KBC Finance Ireland KBC Lease Belgium KBC Commercial Finance KBC Immolease K&H Bank	KBC Bank CBC Banque ČSOB Czech Republic[2] KBC Credit Investments KBC Finance Ireland KBC Lease Belgium KBC Commercial Finance KBC Immolease K&H Bank	KBC Bank CBC Banque ČSOB Czech Republic[2] KBC Credit Investments KBC Finance Ireland KBC Lease Belgium KBC Commercial Finance KBC Immolease K&H Bank
IRB Foundation approach	KBC Bank Ireland KBC Financial Products Antwerp Diamond Bank[1] ČSOB Slovak Republic	KBC Bank Ireland KBC Financial Products ČSOB Slovak Republic	KBC Bank ČSOB Slovak Republic
Standardised approach	CIBank Non-material entities	CIBank Non-material entities	CIBank/UBB Non-material entities

4 Antwerp Diamond Bank was merged with KBC Bank in 2015, but the former Antwerp Diamond Bank exposure remains under the IRB Foundation approach.
5 Including Hypoteční banka.

Overview of RWAs

The table below provides an overview of how Basel III RWA for the KBC group changed over 2018. 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 to determine the Risk-Weighted Assets (RWA), which in turn are used to calculate the capital required for the exposure. RWA can be regarded as an exposure weighted according to its 'riskiness'. This 'riskiness' depends on such factors as the loss given default (LGD which in turn is driven by such factors as the amount of collateral or guarantees), the maturity of the exposure and the probability of default (PD) of the obligor.

As mentioned earlier, since its implementation in 2007, the Internal Rating Based (IRB) approach has primarily been used by KBC to calculate its risk weighted assets. Based on a full application of all the CRR/CRD IV rules, it is used for approximately 92% of the weighted credit risks, approximately 87% of which are calculated according to the Advanced approach and roughly 5% according to the Foundation approach. The remaining weighted credit risks (about 8%) are calculated according to the Standardised approach.

As regards the Margin of Conservatism (MoC) Framework, which accounts for all types of uncertainty in PD, LGD and EaD estimates by means of conservative corrections to parameter estimates – as referred to in the section on 'Internal modelling' later on in this report – KBC has taken (and reported under pillar 1) additional RWA into account for its PD models since mid-2010, for its LGD models since mid-2012 and for its EAD models since 2013. At year-end 2018, this additional RWA amounted to 1 674 million euros for PD models, to 1 786 million euros for LGD models and to 722 million euros for EAD models. Since the end of 2016, all unavoidable uncertainties have been included in the percentages calculated for PD, LGD or EAD. Therefore, there is no longer a remaining portion of such uncertainties that would lead to an additional RWA add-on.

Overview of RWAs

Overview of RWAs (in millions of EUR)			RWAs 2018	RWAs 2017	Minimum capital requirements 2018
	1	Credit risk (excluding Counterparty Credit Risk)	67 556	64 307	5 404
Article 438(c)(d)	2	Of which the standardised approach	6 215	5 797	497
Article 438(c)(d)	3	Of which the foundation IRB (FIRB) approach	3 121	3 609	250
Article 438(c)(d)	4	Of which the advanced IRB (AIRB) approach	57 930	54 587	4 634
Article 438(d)	5	Of which equity IRB under the simple risk-weighted approach or the IMA	290	314	23
Article 438(c)(d)	6	Counterparty credit Risk	2 630	2 851	210
Article 438(c)(d)	7	Of which mark to market	966	2 055	77
Article 438(c)(d)	8	Of which original exposure	0	0	0
	9	Of which the standardised approach	0	0	0
	10	Of which internal model method (IMM)	991	0	79
Article 438(c)(d)	11	Of which risk exposure amount for contributions to the default fund of a counterparty credit risk	126	199	10
Article 438(c)(d)	12	Of which CVA	547	597	44
Article 438(e)	13	Settlement risk	0	2	0
Article 449(o)(i)	14	Securitisation exposures in the banking book (after the cap)	111	329	9
	15	Of which IRB approach	79	297	6
	16	Of which IRB supervisory formula approach (SFA)	32	32	3
	17	Of which internal assessment approach (IAA)	0	0	0
	18	Of which standardised approach	0	0	0
Article 438 (e)	19	Market risk	3 198	3 361	256
	20	Of which the standardised approach	564	419	45
	21	Of which IMA	2 634	2 943	211
Article 438(e)	22	Large exposures	0	0	0
Article 438(f)	23	Operational risk	11 084	10 949	887
	24	Of which basic indicator approach	0	0	0
	25	Of which standardised approach	11 084	10 949	887
	26	Of which advanced measurement approach	0	0	0
Article 437(2), Article 48 and Article 60	27	Amounts below the thresholds for deduction (subject to 250% risk weight) (This includes the participation in KBC Insurance weighed at 370%, according to the Danish compromise, and the DTA weighted at 250%)	10 291	10 172	823
Article 500	28	Floor adjustment	0	7 625	0
	29	Total	94 870	91 971	7 590

In 2018, credit risk RWA at KBC group level increased by 3 368 million euros (or +5.2%), 437 million euros of which due to the termination of the sovereign carve-out as of the first quarter of 2018. The breakdown by entity clearly shows that the increase in consolidated credit risk RWA was mainly driven by robust increases at Belgian KBC entities (+2 253 million euros), and at K&H (+940 million euros), and at certain other entities, including KBC Lease (+119 million euros), ČSOB in the Slovak Republic (+54 million euros) and UBB (+99 million euros, a net increase on the aggregate UBB and CIBANK level in 2017). On the other hand, RWA fell at ČSOB in the Czech Republic (-250 million euros), at KBC Bank Ireland (-377 million euros) and at KBC Credit Investments (-626 million euros).

RWA flow statements of credit risk exposures

This table contains the KBC group's credit risk exposure (excluding counterparty credit risk, operational risk and market risk). It should be noted that the reduced impact of the sovereign carve-out has not been included for 2017. It gives an overview of the main RWA drivers responsible for the change in RWA over 2018.

	RWA flow statements of credit risk exposures 31-12-2018 (in millions of EUR)	RWA amounts	Capital Requirements
1	RWAs as at the end of the previous reporting period	74 917	5 993
2	Asset size	2 302	184
3	Asset quality	-275	-22
4	Model updates	1 060	85
5	Methodology and policy	1 682	135
6	Acquisitions and disposals	-1 199	-96
7	Foreign exchange movements	-103	-8
8	Other	-536	-43
9	RWAs as at the end of the reporting period	77 847	6 228

The change in credit risk RWA in 2018 can be explained mainly by new regulatory requirements, internal model-related changes and developments in the underlying portfolio. *The most important events are set out below*:

- A major part of the change in credit risk RWA came about because of new regulatory requirements and a number of methodological changes: TRIM limitations on the use of internal models for the Belgian retail segment (+852 million euros); the new regulatory add-on imposed by the NBB (33% of RWA) for the Belgian mortgage portfolio (+660 million euros); and other factors, such as the application of a 10% risk weighting for exposure to Bulgarian sovereign bonds, as imposed by the Bulgarian regulator;

- The changes in the transactional models resulted in credit risk RWA increasing by 1 billion euros. As models are reviewed on an annual basis, RWA can sometimes be significantly impacted each year (either upwards or downwards). The most significant model-related changes concerned the application of a model add-on for the Irish Homeloans portfolio in view of the anticipated impact of approval of the new LGD model for this portfolio and the expected release of provisions (+1 250 million euros), the application of a model add-on for the PD model for Belgian corporates and SMEs, related to a recalibration of the model in anticipation of ECB approval of a new segmentation logic for PD models (+700 million euros) and other factors like the implementation of model-related changes at K&H and at ČSOB in the Czech Republic and the abolishment of the EAD model for unused professional limits following ECB approval (-920 million euros).

- A major part of the change in credit risk RWA also related to the further reduction in legacy portfolios and to changes in the scope of consolidation, i.e. lower bond portfolio volumes at KBC Credit Investments (-406 million euros), a significant decrease in credit risk RWA following the continued reduction in the legacy portfolio of the former Antwerp Diamond Bank and lower level of deferred tax assets (-238 million euros), a significant decrease in RWA relating to securitisation following amortisation in the portfolio of KBC Credit Investments and the sale of the former Atomium portfolio (-218 million euros) and the consolidation of KBC Bail Immo France (+111 million euros).

- Given the fact that the Irish portfolio is the most distressed portfolio within the KBC group, it is also deemed important to highlight how its capital requirements have changed. The credit risk RWA associated with KBC Bank Ireland fell by 360 million euros on an annual basis. Excluding the model add-on for the Homeloans portfolio (already mentioned above as a model-related change), the decrease would be -1 610 million euros. the main events were:
  - The sale of part of the legacy corporate and buy-to-let mortgage loan portfolio: -383 million euros.
  - The 789-million-euro decrease in RWA for the remaining defaulted mortgage portfolio. Under IRB Advanced rules (under the IRB Foundation approach, retail exposure is subject to IRB Advanced rules), the RWA for this portfolio is calculated as the 1250% weighted difference between the provision-based best-estimate loss and the model-based expected loss in the event of a downturn. Both loss estimates increased during 2018, but the provision-based expected loss increased more than the model-based expected loss, therefore leading to a decrease in RWA.
  - The 180-million-euro decrease in RWA for the non-defaulted mortgage portfolio, as the impact of portfolio growth (up by 0.4 billion euros) was more than offset by the impact of, on average, lower LGDs, following the improvement in house prices.
  - Lower transactional RWA associated with the non-retail portfolio of KBC Bank Ireland (-168 million euros), following further deleveraging of the corporate portfolio and the favourable impact of PD migrations.
  - Lower RWA for the regulatory RWA floor in respect of the CRE portfolio (-57 million euros). This add-on follows a decision taken by both the Irish and Belgian regulators that IRB Foundation RWA for the real estate development and real estate investment credit portfolio cannot fall below the level of their RWA under the Standardised approach.

- Credit RWA was additionally influenced by several other factors, including volume changes, changes in asset quality (PD and LGD changes) and foreign exchange effects. The most significant changes for credit risk RWA in the core countries are described below. It should be noted that KBC Bank Ireland has been excluded from this analysis as its portfolio has already been dealt with in the previous paragraph.
  - Volumes increased in most group entities. The exact impact on RWA, however, was very hard to quantify given simultaneous model-related changes, changes in the product mix, the maturity profiles, collateralisation and rating distribution. Hence, only a very rough indicative impact on RWA volumes can be provided, which is estimated to be in the order of 2.5 billion euros in RWA. There were higher volumes and RWA in all the major markets, in particular Belgium (KBC's retail and corporate segments: +1.2 billion euros; CBC: +0.15 billion euros), Slovakia, and Hungary.
  - The impact of changes in the drivers (PD and LGD) on asset quality reduced credit risk RWA by an estimated 100 million euros. For PD, most material changes were the result of rating changes for sovereign bonds: downgrade of Italy (+164 million euros), upgrade of Slovakia (-68 million euros) and Portugal (-35 million euros).
  - The overall impact of foreign exchange movements on credit RWA was estimated at -103 million euros, with the most significant being the depreciation of the HUF (-130 million euros) and the CZK (- 61 million euros), and the appreciation of the USD (+102 million euros).
  - The increase in credit risk RWA for deferred tax assets (+193 million euros), in particular for KBC Belgium.

Exposure to credit risk

The tables in this and subsequent sections, i.e. (i) Defaulted and non-defaulted credit risk exposure, (ii) More information about impaired credit risk exposure, and (iii) Credit Risk Mitigation (CRM), provide an overview of the overall credit risk and are based on the figures for the end of December 2018. Unless otherwise stated, these tables include information on lending, securities in the banking book, leasing, commercial finance, repos and reverse repos.

Exposure to securities in the trading book and to structured credit products is excluded in this heading, just as it is in the KBC Insurance investment portfolio. Information on securities in the trading book is reported under 'Credit risk' in the 2018 Annual Report of KBC Group NV and the related risks are taken up in the trading market risk VaR.

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

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

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

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

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

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

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

Total and average net amount of exposures

This table contains the net exposure (after the deduction of provisions and reserved interest of 3 770 million euros) at KBC group level, including equity of KBC Insurance in the 'Equity' exposure class, which gives an overview of exposure by exposure class of at year-ends 2017 and 2018. The average is calculated using quarter-end exposure in 2018.

Total and average net amount of exposures			
31-12-2108 (in millions of EUR)		Net value of exposures at the end of the period	Average net exposures over the period
1	Central governments or central banks	65 768	71 393
2	Institutions	14 989	18 655
3	Corporates	100 102	105 216
4	Of which: Specialised lending	10 179	10 087
5	Of which: SMEs	26 341	26 445
6	Retail	89 540	88 692
7	Secured by real estate property	71 125	71 191
8	SMEs	10 372	10 576
9	Non-SMEs	60 753	60 616
10	Qualifying revolving	1 100	1 100
11	Other retail	17 315	16 400
12	SMEs	11 084	10 312
13	Non-SMEs	6 231	6 088
14	Equity	2 596	2 611
15	Total IRB approach	272 996	286 567
16	Central governments or central banks	1 935	1 901
17	Regional governments or local authorities	201	200
18	Public sector entities	11	11
19	Multilateral development banks	0	0
20	International organisations	0	0
21	Institutions	21 139	17 390
22	Corporates	3 243	3 095
23	Of which: SMEs	956	989
24	Retail	2 325	2 301
25	Of which: SMEs	1 052	1 025
26	Secured by mortgages on immovable property	959	944
27	Of which: SMEs	294	286
28	Exposures in default	277	284
29	Items associated with particularly high risk	0	0
30	Covered bonds	0	0
31	Claims on institutions and corporates with a short-term credit assessment	0	0
32	Collective investments undertakings	27	30
33	Equity exposures	201	200
34	Other exposures	1 642	1 604
35	Total standardised approach	31 959	27 958
36	Total	304 956	314 525

Total and average net amount of exposures			
31-12-2107 (in millions of EUR)		Net value of exposures at the end of the period	Average net exposures over the period
1	Central governments or central banks	67 132	70 665
2	Institutions	15 946	20 275
3	Corporates	91 249	89 357
4	Of which: Specialised lending	9 403	9 093
5	Of which: SMEs	25 495	25 006
6	Retail	88 161	86 950
7	Secured by real estate property	71 960	71 487
8	SMEs	10 911	11 462
9	Non-SMEs	61 049	60 024
10	Qualifying revolving	1 106	1 107
11	Other retail	15 096	14 356
12	SMEs	10 285	9 720
13	Non-SMEs	4 811	4 636
14	Equity	2 609	2 048
15	Total IRB approach	265 097	269 295
16	Central governments or central banks	1 236	1 230
17	Regional governments or local authorities	204	200
18	Public sector entities	12	10
19	Multilateral development banks	23	17
20	International organisations	-	-
21	Institutions	30 678	16 743
22	Corporates	2 952	2 678
23	Of which: SMEs	939	851
24	Retail	2 224	1 990
25	Of which: SMEs	944	900
26	Secured by mortgages on immovable property	917	753
27	Of which: SMEs	278	212
28	Exposures in default	370	328
29	Items associated with particularly high risk	-	-
30	Covered bonds	-	-
31	Claims on institutions and corporates with a short-term credit assessment	-	-
32	Collective investments undertakings	37	38
33	Equity exposures	218	217
34	Other exposures	1 540	1 430
35	Total standardised approach	40 411	25 635
36	Total	305 508	294 930

General comments on 2017 – 2018 developments.

Overall, there was a slight 522-million-euro decrease in 'EAD pre CCF' exposure. However, there were some significant movements that offset each other, the strongest being:

- an increase of 8 853 million euros in 'Corporate' lending and of 2 220 million euros in 'Other retail'.
- a 9 540-million-euro decrease in exposure to the 'Institution' asset class, due to the exposure to Securities Financing Transactions (SFT) falling sharply from 23 458 million euros to 12 632 million euros (caused by a change in exposure to repos).

Geographical breakdown of exposures

This table contains the net exposure of material KBC Bank Consolidated entities in KBC's 'home' countries (meaning of 'material', as explained in section 'Scope of credit risk disclosures'). Exposure in all the other countries is given in the 'other countries' columns. A list of 'other countries' has been provided.

Georgraphical Breakdown of exposures 31-12-2107 (in millions of EUR)		Europe	Belgium	Ireland	Bulgaria	Czech Republic	Hungary	Slovakia	Other countries Europe	America	Asia	Other geo-graphical areas	Total
1	Central governments and central banks	62 894	15 443	1 210		27 292	3 695	2 496	12 758	1 292	358	1 200	65 743
2	Institutions	10 834	1 442	15	1	658	25	198	8 495	867	1 564	1 726	14 990
3	Corporates	94 008	57 766	478	40	14 238	4 269	2 843	14 375	3 196	2 415	485	100 104
4	Retail	89 115	56 935	9 389	4	15 465	1 858	4 406	1 057	160	19	41	89 335
5	Equity	101	74	1				1	26	26		1	128
6	Total IRB approach	256 952	131 660	11 093	45	57 653	9 848	9 943	36 711	5 540	4 355	3 452	270 300
7	Central governments and central banks	1 911			1 734	1		45	132				1 911
8	Regional governments or local authorities	194			19			175	0				194
9	Institutions	21 089	32	1	9	42	9	53	20 943	16	27		21 132
10	Corporates	2 851	1 254		1 000	239	91	249	19				2 851
11	Retail	2 162			1 078	13	0	1 070	1				2 162
12	Secured by mortgages on immovable property	950			843	12		92	3				950
13	Exposures in default	463			444	1	1	11	6				463
14	Equity	181			0	169	7	1	4	16			197
15	Other exposures	178				103		76	0				179
16	Total standardised approach	29 981	1 286	1	5 127	580	107	1 772	21 108	32	27	0	30 040
17	Total	286 933	132 946	11 094	5 172	58 233	9 955	11 715	57 818	5 572	4 382	3 452	300 340

Overall, there was a limited net increase in exposure, with increases in our six core markets, apart from Ireland where there was a decrease due to the sale of part of a portfolio of mainly default mortgages. The strongest relative increase was in the Slovak Republic and the strongest absolute increase in Belgium.

We have limited the list of 'other countries' to those with an 'EAD pre CCF' that is higher than 10 million euros. The list contains a total of 161 countries.

France	Australia	Egypt	Chile	South Africa
Netherlands	Finland	Nigeria	Cyprus	Sri Lanka
United Kingdom	Turkey	Benin	Algeria	Lithuania
United States	Portugal	Senegal	Greece	Lebanon
Spain	Russian Federation	Viet Nam	Oman	Armenia
Luxembourg	United Arab Emirates	Korea (South)	Bangladesh	Philippines
Germany	Sweden	New Zealand	Saudi Arabia	Mexico
China	Kenya	Denmark	Zambia	Morocco
Italy	Croatia	Côte d'Ivoire	Cayman Islands	Malaysia
Poland	Slovenia	Thailand	Guatemala	Malta
Switzerland	Qatar	Indonesia	Bahrain	Liechtenstein
Singapore	Norway	Belarus	Jersey	Taiwan
Hong Kong SAR	India	Japan	Colombia	Kazakhstan
Austria	Ghana	Panama	Jordan	
Canada	Romania	Azerbaijan	Latvia	

Concentration of exposures by industry and counterparty types

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

	Exposures by industry and counterparty types 31-12-2018 (in millions of EUR, under IRB)	Central governments and central banks	Institutions	Corporates	Retail	Equity	IRB approach Total
1	Agriculture, forestry and fishing						
2	Mining and quarrying			582	15		596
3	Manufacturing			22 329	1 824	2	24 156
4	Electricity, gas, steam and air conditioning supply	68	1	4 511	31		4 611
5	Water supply			1 401	82		1 483
6	Construction			10 500	3 874	1	14 376
7	Wholesale and retail trade			15 083	4 374	1	19 458
8	Transportation and storage			5 779	800		6 579
9	Accomodation and food service activities			730	892		1 622
10	Information and communication			2 283	567	16	2 866
11	Real estate activities			9 809	1 657	13	11 479
12	Professional, scientific and technical activities			3 519	3 328	11	6 858
13	Administrative and support service activities		7	3 169	931	4	4 110
14	Public administration and defence, compulsory social security	40 301	1 270	88	5		41 664
15	Education		14	747	228		989
16	Human health and social work activities	72	59	4 538	2 732		7 401
17	Arts, entertainment and recreation		4	456	261		721
18	Financial and insurance activities	24 176	13 480	10 666	482	69	48 874
19	Activities of extra territorial organisations and bodies	1 062		70			1 133
20	Private persons			151	62 516		62 667
21	Other, service activities			359	483	7	848
22	Other	63	155	1 016	1 571	4	2 808
23	Total	65 743	14 990	100 104	89 335	128	270 300

	Exposures by industry and counterparty types 31-12-2018 (in millions of EUR, under IRB)	Central governments and central banks	Regional governments or local authorities	Institutions	Corporates	Retail	Secured by mortgages on immovable property	Exposures in default	Equity	Other exposures	Standardised approach Total
1	Agriculture, forestry and fishing										
2	Mining and quarrying				0	2	1	3			6
3	Manufacturing				499	67	120	33			719
4	Electricity, gas, steam and air conditioning supply				68	2	1	7			78
5	Water supply				20	1	1	2			23
6	Construction				83	24	31	28			166
7	Wholesale and retail trade				369	93	103	44			609
8	Transportation and storage				26	23	12	3			64
9	Accomodation and food service activities				7	3	8	17			35
10	Information and communication				18	3	2	5			27
11	Real estate activities				11	2	12	40			66
12	Professional, scientific and technical activities				6	23	3	1			33
13	Administrative and support service activities				18	7	3	1			30
14	Public administration and defence, compulsory social security	1 101	194				1				1 296
15	Education				5		1				6
16	Human health and social work activities				3	2	3				8
17	Arts, entertainment and recreation				1	1	1	4			7
18	Financial and insurance activities	808		21 080	48	1	1				21 938
19	Activities of extra territorial organisations and bodies										
20	Private persons				2	1 826	614	58			2 500
21	Other, service activities				10	1	1		13	243	268
22	Other			32	1 587		10	11	192	178	2 010
23	Total	1 909	194	21 112	2 836	2 149	949	264	205	421	30 040

The limited overall increase in exposure comprised an 8-billion-euro increase under the IRB approach and a 5-billio-euro decrease under the Standardised approach. The increase under the IRB approach related to the 'classic' lending business, with the main sectors affected being 'Manufacturing' (mainly for 'Corporates') and 'Public administration and defence, compulsory social security'. The decrease under the Standardised approach was due to the reduced exposure to SFT. The exposure to 'Financial activities' was also related to SFT exposure and not linked to the 'classic' lending business.

Maturity of exposures

This table contains the net exposure of material KBC Bank Consolidated entities broken down by residual maturity and exposure class. Please be aware that this only concerns on-balance-sheet exposures.
There was a year-on-year increase in on-balance sheet exposure of about 10 billion euros for the 'Corporates' segment. Other asset classes remained fairly stable, both in terms of exposure and maturity.

	Maturity of Exposures 31-12-2018 (in millions of EUR)	On demand	< = 1 year	> 1 year < = 5 years	> 5 years	No stated maturity	Total
1	Central governments or central banks	40	28 278	15 421	20 497	1	64 238
2	Institutions	65	5 868	3 866	1 269	-3	11 064
3	Corporates	4 070	23 006	12 206	20 918	1 360	61 560
4	Retail	1 031	3 453	7 832	63 605	2 004	77 925
5	Equity		9	117		2	128
6	IRB approach	5 206	60 614	39 443	106 290	3 363	214 916
7	Central governments and central banks	808	35	333	688	45	1 909
8	Regional governments or local authorities		4	3	12	175	194
9	Institutions	30	12 793	16	32	116	12 988
10	Corporates		517	378	1 411	495	2 802
11	Retail	17	268	431	351	1 083	2 149
12	Secured by mortgages on immovable property		135	150	572	92	949
13	Exposures in default	90	53	28	80	13	264
14	Collective investments undertakings					3	3
15	Equity					205	205
16	Other exposures					421	421
17	Standardised approach	945	13 805	1 339	3 146	2 650	21 885
18	Total	6 151	74 419	40 781	109 436	6 013	236 801

Defaulted and non-defaulted credit risk exposure

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

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

KBC's definition of default builds on the definition set out in the Basel II Capital Requirements Regulation (CRR). Based on the EBA paper on Forbearance and **Non-performing exposures**, KBC's definition of default is also

fully aligned with the EBA's definition of non-performing (PD 10-11-12), i.e. they should be regarded as synonymous. The same holds true for the definition of 'impaired financial instrument' according to International Financial Reporting Standards (IFRS).

Credit quality of exposures by exposure class and instrument

This table contains the net exposure of material KBC Bank Consolidated entities, broken down by defaulted and non-defaulted exposure for IRB and Standardised exposure classes. KBC does not have any general credit risk adjustments.

Credit quality of exposures by exposure class and instrument		a	b	c	
31/12/2018 (in millions of EUR)		Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	Net values (a+b-c)
1	Central governments and central banks	8	65 744	10	65 743
2	Institutions	0	14 995	5	14 990
3	Corporates - Specialised Lending	686	9 755	277	10 164
4	Corporates - SME	1 252	25 733	627	26 358
5	Corporates - Other	1 484	62 968	869	63 583
6	Retail - Secured by real estate SME	85	10 310	23	10 372
7	Retail - Secured by real estate non-SME	2 937	58 856	1 253	60 540
8	Retail - Qualifying revolving	1	1 101	2	1 100
9	Retail - Other SME	375	10 970	261	11 084
10	Retail - Other non-SME	80	6 245	85	6 240
11	Equity	2	126	0	128
12	IRB approach	6 909	266 803	3 412	270 300
13	Central governments and central banks		1 908		1 908
14	Regional governments or local authorities		194		194
15	Institutions		21 093		21 093
16	Corporates		2 855	9	2 846
17	Of which SME		556		556
18	Retail		2 166	8	2 158
19	Of which SME		314		314
20	Secured by mortgages on immovable property		950	1	948
21	Of which SME		248		248
22	Exposures in default	487		223	264
23	Collective investments undertakings		3		3
24	Equity		205		205
25	Other items		422		421
26	Standardised approach	487	29 795	241	30 040
27	Total	7 396	296 598	3 653	300 340
28	Of which: Loans	7 366	200 176	3 645	203 897
29	Of which: Debt securities	7	42 029	8	42 028
30	Of which: Off-balance-sheet exposures	470	63 704	42	64 132

Most defaulted exposure is linked to corporate asset classes and retail mortgages. Overall, there was a significant reduction in defaulted exposure, due to a decrease in the portfolio of default retail mortgages in Ireland.

Credit quality of exposures by industry or counterparty types

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

Credit quality of exposures by industry or counterparty types		a	b	c	
31/12/2018 (in millions of EUR)		Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	Net values (a+b-c)
1	Agriculture, forestry and fishing	111	5 090	49	5 152
2	Mining and quarrying	11	595	4	602
3	Manufacturing	847	24 391	359	24 878
4	Electricity, gas, steam and air conditioning supply	175	4 554	39	4 689
5	Water supply	13	1 503	9	1 506
6	Construction	700	14 141	300	14 541
7	Wholesale and retail trade	1 147	19 544	620	20 070
8	Transportation and storage	109	6 577	43	6 643
9	Accomodation and food service activities	73	1 612	28	1 657
10	Information and communication	34	2 877	17	2 894
11	Real estate activities	531	11 160	147	11 545
12	Professional, scientific and technical activities	228	6 737	74	6 891
13	Administrative and support service activities	36	4 126	22	4 141
14	Public administration and defence, compulsory social security	8	42 959	10	42 957
15	Education	25	972	2	994
16	Human health and social work activities	101	7 363	55	7 409
17	Arts, entertainment and recreation	24	719	14	728
18	Financial and insurance activities	59	70 784	37	70 806
19	Activities of extra territorial organisations and bodies	1	1 132	1	1 132
20	Private persons	3 109	63 184	1 125	65 168
21	Other, service activities	9	1 118	8	1 120
22	Other	46	5 459	688	4 818
23	Total	7 396	296 598	3 653	300 340

The main 'industries' were retail banking ('Private persons'), corporate banking (mainly 'Manufacturing', 'Wholesale and retail trade' and 'Construction') and banking for the public sector ('Public administration and defence, compulsory social security'), as was the case in 2017. Please note that a large part of the exposure relating to the public sector is SFT exposure.

The exposure attributed to 'Financial and insurance activities' came to more than 52 billion euros (related to SFT exposures). At KBC, SFT exposures (mostly repos and reverse repos) are covered by the credit risk framework (instead of the counterparty risk framework).

Credit quality of exposures by geography

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

Credit quality of exposures by geography		a	b	c	
31/12/2018 (in millions of EUR)		Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	Net values (a+b-c)
1	Africa	102	899	4	996
2	Asia	74	4 368	57	4 382
3	Central and Eastern Europe & Russia	1 625	86 913	955	87 697
4	Bulgaria	444	4 978	195	5 172
5	Czech Republic	642	57 954	369	58 233
6	Hungary	271	9 876	194	9 955
7	Slovakia	164	11 715	167	11 715
8	Other countries	109	2 548	34	2 622
9	Latin America	5	251	0	256
10	Middle East	13	1 115	14	1 114
11	North America	160	5 270	100	5 331
12	Oceania	3	759	2	760
13	Western Europe	5 409	196 283	2 517	199 189
14	Belgium	2 269	131 893	1 230	132 946
15	Ireland	2 424	9 632	963	11 094
16	Other countries	715	54 758	324	55 149
17	Other geographical areas	0	583	0	616
18	Total	7 396	296 597	3 653	300 340

As expected, the main exposure was in KBC's six core markets (Belgium, the Czech Republic, Hungary, Slovak Republic, Bulgaria and Ireland). Although the defaulted exposure within the Irish portfolio is still significant, there was a considerable decrease in 2018 (see later in this document for more information). In total, around 2.4% of the exposure is defaulted.

Ageing of past-due exposures

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

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

Ageing of past-due exposures (in millions of EUR)	≤ 30 days	> 30 days ≤ 60 days	> 60 days ≤ 90 days	> 90 days ≤ 180 days	> 180 days ≤ 1year	> 1 year
Loans	1 342	165	80	422	346	4 163
Debt securities	0	0	0	0	0	0
Total	1 342	165	80	422	346	4 163

Non-performing and forborne exposure

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

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

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

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

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

If a client/facility has been assigned 'defaulted' status (before or at the time forbearance measures are granted), the client/forborne facility (depending on whether defaulted status is assigned at client or facility level) must remain defaulted for at least one year. Only upon strict conditions can the client/facility be reclassified as 'non-defaulted'. A forborne facility with a 'non-defaulted' status will be tagged as 'forborne' for at least two years after the forbearance measure has been granted, or after the client/facility becomes non-defaulted, and can only be removed when strict extra criteria have been met (non-defaulted, regular payments, etc.).

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

The following table contains the exposure of KBC Bank Consolidated entities in terms of Gross Carrying Value (GCV). It provides details on the non-performing and forborne part of the loan portfolio. It should be noted that the difference in total exposure between GCV and 'EAD pre CCF' was due primarily to the different treatment of repo transactions under the IRB approach. When calculating the GCV, repo netting is applied, which reduces the exposure by around 19 billion euros.

Non-performing and forborne exposures 31-12-2018 (in millions of EUR)	Performing and non-performing exposures			Of which non-performing			Accumulated impairment and provisions and negative fair value adjustments due to credit risk				Collaterals and financial guarantees received	
							On performing exposures		On non-performing exposures			
		Of which performing but past due > 30 days and <= 90 days	Of which performing forborne		Of which defaulted	Of which Impaired	Of which forborne			Of which forborne	On non-performing exposures	Of which forborne exposures
010 Debt securities	42 736	0	0	7	7	7	0	-6	0	-6	0	0	0
020 Loans and advances	195 210	413	1 205	6 561	6 558	6 556	2 681	-415	-30	-3 108	-624	2 432	2 335
030 Off-balance-sheet exposures	47 095	0	10	380	380	380	1	-29	0	-99	0	45	1

This table is based on figures for KBC Bank Consolidated and is in line with FINREP Table 18.

In 2018, there was a significant decrease in non-performing and forborne exposures owing mainly to the sale of KBC Bank Ireland's legacy corporate and buy-to-let mortgage loan portfolio (non-performing gross carrying amount of 1.6 billion euros (1.3 billion euros of which was forborne) and 784 million euros of non-performing accumulated impairment (547 million euros of which was forborne) and write-offs on non-performing portfolios across different entities.

At the end of 2018, forborne loans accounted for some 2% of our total loan portfolio. Compared to the end of 2017, the forborne loan exposure decreased by 2 percentage points, mainly resulting from the sale of a predominantly non-performing portfolio in Ireland, and to a lesser extent from cures, repayments and write-offs. In Ireland, this type of exposure fell by 11 percentage points.

More information about impaired credit risk exposure

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

For all data on impairment, provisions and value adjustments, reference is made to the 'Consolidated financial statements' section of the 2018 Annual Report of KBC Group NV.

Changes in stock of specific credit risk adjustments

This table shows specific credit risk adjustments for the on-balance-sheet defaulted credit portfolio at the KBC Bank Consolidated level over the past year. It should be remembered that KBC does not have any general credit risk adjustments.

	Changes in stock of specific credit risk adjustments 31-12-2018 (in millions of EUR)	Accumulated specific credit risk adjustment
1	Opening balance	5 022
2	Increases due to amounts set aside for estimated loan losses during the period	-796
3	Decreases due to amounts reversed for estimated loan losses during the period	
4	Decreases due to amounts taken against accumulated credit risk adjustments	-685
5	Transfers between credit risk adjustments	
6	Impact of exchange rate differences	-12
7	Business combinations, including acquisitions and disposals of subsidiaries	0
8	Other adjustments	4
9	Closing balance	3 534
10	Recoveries on credit risk adjustments recorded directly to the statement of profit and loss	-58
11	Specific credit risk adjustments directly recorded to the statement of profit and loss	

The scope of this table is 'KBC Bank Consolidated'. It contains impairment on debt securities and Loans & advances for portfolios subject to impairment ('At amortised cost' and 'Fair value through OCI'). Changes in fair value due to credit risk are not included in this table.

As regards the figures for 2018, the decrease was related mainly to the partial sale of KBC Bank Ireland's legacy portfolio (-784 million euros) and write-offs on non-performing loan portfolios across different entities (-192 million euros at UBB, -184 million euros at KBC Bank Ireland and -169 million euros at KBC Bank).

Changes in the stock of defaulted loans and debt securities

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

	Changes in the stock of defaulted loans and debt securities 31-12-2018 (in millions of EUR)	Value defaulted exposures
1	Opening Balance	10 111
2	Loans and debt securities that have defaulted or impaired since the last reporting period	1 421
3	Returned to non-defaulted status	-613
4	Amounts written off	-650
5	Other changes	-2 874
6	Closing Balance	7 396

As already stated, non-performing and forborne exposures in 2018 decreased mainly on account of the partial sale of KBC Bank Ireland's legacy corporate and buy-to-let mortgage loan portfolio (non-performing gross carrying amount of -1.6 billion euros and non-performing accumulated impairment of -784 million euros).

Credit Risk Mitigation (CRM)

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

Netting

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

Collateral in repo transactions

KBC engages in the following types of repo transaction:

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

Collateral in the lending portfolio

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

Credit risk mitigation is only applied when the necessary policies and procedures are in place.
Under the **IRB Foundation approach**, only the collateral meeting the eligibility criteria and minimum requirements (as imposed by the CRD) to qualify for credit risk mitigation has been included in the figures. As a result, the effective amount of collateral obtained in KBC to cover exposure falling under the Foundation approach, is much higher than the figure taken into account for risk mitigation purposes. Real estate collateral obtained for KBC's commercial real estate financing activities is not taken into account for credit risk mitigation purposes, for instance. Collateral risk mitigation in the Foundation context has a direct impact on the LGD percentage.

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

Unfunded credit protection

Unfunded credit protection is provided entirely through guarantees.

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

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

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

CRM techniques – Overview

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

Please note that defaulted exposures are what remains after specific credit risk adjustments are deducted.

CRM techniques					
31-12-2018 (in millions of EUR)		Exposures unsecured - Carrying amounts	Exposures secured - Carrying amount	Exposures secured by collateral	Exposures secured by financial guarantees
1	Loans	167 011	37 691	29 390	8 302
2	Debt securities	42 033	6	0	6
3	Other	32 207	21 392	21 392	0
4	Total exposures	241 250	59 090	50 782	8 307
5	Of which defaulted	3 562	800	624	176

The overall exposure has changed little. However, year on year, there was an increase in unsecured exposures and a decrease in secured exposures. This decrease is related to loans secured by collateral (which in turn concerned a portfolio of Irish mortgage loans that had been sold).

Credit exposure and CRM – Standardised approach

KBC uses the regulatory defined risk buckets to assess the quality, and linked risk weight, for all exposure calculated according to the Standardised approach. It also uses external ratings from S&P's, Fitch and Moody's to define the risk bucket of exposures. The EBA standard table is used for mapping these external ratings. If two external ratings are available, the lower of the two is used. If there are three external ratings with different risk weights attached to them, the risk weight corresponding with the second best rating is applied. If no rating is available, the risk weight provided by the Standardised approach is used.

Credit risk exposure and CRM effects – Standardised approach

The tables below show the net KBC Bank Consolidated exposure calculated using the Standardised approach for the end of 2017 and 2018, broken down by exposure class, excluding the SFT. The exposure classes are those defined for the purpose of regulatory reporting according to the Standardised approach, viz.:

- **Central Governments or central banks**: claims on central authorities and governments and other assets weighted at 0% (such as Cash and Cash at central banks).
- **Regional government or local authorities**: claims on Regional Governments and Local Authorities independently if these qualify as 'Sovereign' under the IRB approach.
- **PSE**: claims on Public Sector Entities.
- **MDB**: claims on Multilateral Development Banks independently if these qualify as 'Sovereign' under the IRB approach.
- **International organisations**: claims on a specific list of organisations (e.g., International Monetary Fund, European Central Bank).
- **Institutions**: claims on banks.
- **Corporates**: claims on all corporate exposure, including small and medium-sized enterprises that are treated as corporate clients.
- **Retail**: claims on retail clients (including SMEs not qualifying for treatment as corporate clients). Most of these claims are related to mortgages and categorised under 'secured by real estate'.
- **Secured by mortgages on immovable property**: claims that are (fully) covered by real estate collateral via mortgages and including real estate leasing. These are extracted from the above categories (mostly retail or corporate).
- **Exposures in default**: all exposure which is past due, meaning that it is more than 90 days in arrears. All past due exposure is extracted from all the other categories.
- **Exposures associated with particularly high risk**: exposure that is not collateralised and/or not rated, attracting a risk-weighting equal to or higher than 150% and therefore considered 'high risk'. Past due and equity exposure are excluded.
- **Covered bonds**: exposure for which the credit risk is mitigated by risk positions on very highly rated governments, authorities or institutions. Past due, equity and high-risk claims are excluded.
- **Institutions and corporates with short term credit assessment**: exposure (to institutions or to corporates) which is rated and has a maturity of less than three months. Past due, equity and high-risk claims are excluded. This exposure has been assigned to its respective exposure type, namely 'Institutions' or 'Corporates'.
- **CIU**: claims on Collective Investment Undertakings.
- **Equity**: Shares and Mutual Funds. Previously the equities were reported under the exposure class of the issuing entity of the equity instrument. Now all equity exposure is grouped under this single exposure class.
- **Other**: all other claims (e.g., other assets).

Credit risk exposure and CRM effects-standardized 31-12-2018 (in millions of EUR)		Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
	Exposure classes	On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWAs	RWA density
1	Central governments or central banks	1 934	1	1 934	0	141	7%
2	Regional government or local authorities	187	13	187	4	40	21%
3	Public sector entities	10	1	14	2	2	14%
4	Multilateral development banks	-	-	65	0	-	0%
5	International organisations	-	-	-	-	-	-
6	Institutions	378	8 128	378	3	121	32%
7	Corporates	2 865	400	2 332	186	2 453	97%
8	Retail	2 023	323	1 974	119	1 570	75%
9	Secured by mortgages on immovable property	901	60	899	19	398	43%
10	Exposures in default	502	2	273	1	313	114%
11	Higher-risk categories	-	-	-	-	-	-
12	Covered bonds	-	-	-	-	-	-
13	Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-
14	Collective investment undertakings	27	-	27	-	24	88%
15	Equity	204	-	201	-	450	225%
16	Other items	1 663	55	1 599	55	903	55%
17	Total	10 693	8 983	9 883	389	6 414	62%

Credit risk exposure and CRM effects-standardized 31-12-2017 (in millions of EUR)		Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
	Exposure classes	On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWAs	RWA density
1	Central governments or central banks	1 236	0	1 239	5	5	0,4%
2	Regional government or local authorities	187	17	187	6	41	21,3%
3	Public sector entities	10	2	10	1	2	19,8%
4	Multilateral development banks	23	-	50	-	-	0,0%
5	International organisations	-	-	-	-	-	-
6	Institutions	325	6 896	325	2	99	30,3%
7	Corporates	2 575	390	2 070	157	2 220	99,7%
8	Retail	1 901	333	1 871	134	1 504	75,0%
9	Secured by mortgages on immovable property	876	42	876	17	390	43,7%
10	Exposures in default	770	3	329	1	375	113,5%
11	Higher-risk categories	-	-	-	-	-	-
12	Covered bonds	-	-	-	-	-	-
13	Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-
14	Collective investment undertakings	37	-	37	-	30	81,2%
15	Equity	221	-	218	-	504	231,0%
16	Other items	1 587	42	1 530	36	768	49,1%
17	Total	9 746	7 725	8 742	360	5 937	65,2%

The effect of all CRM techniques was most prominent for 'Institutions' (off-balance-sheet), 'Corporates' (both on- and off-balance-sheet), and 'Exposures in default' (on-balance-sheet), as was the case in 2017. The RWA density figures were also basically the same as in 2017. The increase for 'Public sector entities' in 2018 (from 10 million euros to 14 million euros after CCF and CRM) was due to the substitution effect.

Risk weight by exposure class – Standardised approach

The tables below show the net KBC Bank Consolidated exposure (post CCF and CRM) at year-ends 2017 and 2018, calculated using the Standardised approach and broken down by exposure class and risk weight.

Exposure classes 31-12-2018 (in millions of EUR)	Risk weight															Total	Of which unrated
	0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Others		
1 Central governments or central banks	597		40	1 248	35		15									1 934	1 267
2 Regional government or local authorities					190					2						192	187
3 Public sector entities	5				11											16	
4 Multilateral development banks	65															65	
5 International organisations																	
6 Institutions					275		80			26						381	216
7 Corporates					4		123			2 390	0					2 518	2 480
8 Retail									2 093							2 093	2 093
9 Secured by mortgages on immovable property						583	284			52						918	918
10 Exposures in default										195	79					274	274
11 Higher-risk categories																	
12 Covered bonds																	
13 Institutions and corporates with a short-term credit assessment																	
14 Collective investment undertakings					4					23						27	27
15 Equity										34		167				201	194
16 Other items	571				10					396		41	0		636	1 654	447
17 Total	1 238		40	1 248	529	583	502		2 093	3 118	79	208	0		636	10 272	8 103

Exposure classes 31-12-2017 (in millions of EUR)	Risk weight															Total	Of which unrated
	0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Others		
1 Central governments or central banks	1 236				3		4			2						1 245	2
2 Regional government or local authorities					190					3						193	188
3 Public sector entities	0				11											11	
4 Multilateral development banks	50															50	
5 International organisations																	
6 Institutions					220		103			3	0					327	159
7 Corporates					5		16			2 195	11					2 227	2 185
8 Retail									2 005							2 005	2 005
9 Secured by mortgages on immovable property						558	281			55						893	893
10 Exposures in default										241	89					330	330
11 Higher-risk categories																	
12 Covered bonds																	
13 Institutions and corporates with a short-term credit assessment																	
14 Collective investment undertakings					9					28						37	28
15 Equity										28		191				218	218
16 Other items	587				8					378		18	0		574	1 566	404
17 Total	1 873				446	558	404		2 005	2 933	100	208	0		574	9 102	6 413

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. In addition, most of the unrated sovereign exposure was in the 10% risk-weight bucket, i.e. 1 179 million euros 'unrated' out of an exposure amount of 1 248 million euros. Due to the absence of external ratings, the RWA of KBC's Standardised portfolio has primarily been volume-driven over time.

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[1]:

- **Central governments and central banks**: this category includes claims on public sector entities, regional governments and local authorities as long as they are categorised as 'Sovereign' by the local regulator. Multilateral development banks attracting a 0% risk weighting are included.
- **Institutions**: this category relates mainly to bank exposure. Claims on public sector entities, regional governments and local authorities that do not qualify as 'Sovereign' are also included in this category.
- **Corporates**: this exposure class includes all exposure not belonging to one of the other exposure classes, i.e. mainly exposure to corporate, SME or non-bank financial counterparties.
- **Specialised lending**: exposure to entities created specifically to finance projects or commercial real estate.
- **SMEs (treated as) Corporates**: these are exposures fulfilling the necessary conditions (total annual sales of under 50 million euros) for determining the minimum capital requirements according to the capital weighting formula for corporate SMEs.
- **Retail**: this exposure class includes exposure to private persons 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), anddepending on whether the exposure is to private persons 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.

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

EAD covered by the IRB methods by exposure class

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

EAD covered by the IRB model 31-12-2018	Corep Exposure Class	EAD %
AIRB	Central governments and central banks	26,7 %
	Institutions	12,78 %
	Corporates	0,02 %
	Corporates - SME	9,21 %
	Corporates - Specialised Lending	3,86 %
	Corporates - Other	16,77 %
	Retail - Secured by real estate SME	4,16 %
	Retail - Secured by real estate non-SME	20,58 %
	Retail - Qualifying revolving	0,43 %
	Retail - Other SME	2,77 %
	Retail - Other non-SME	2,43 %
	Equity	0,05 %
	Exposures in default	0 %
	Not Applicable	0,05 %
	Secured by mortgages on immovable property	0,01 %
	Missing (but was expected)	0,2 %
AIRB	Total:	91,73 %

EAD covered by the IRB model 31-12-2018	Corep Exposure Class	EAD %
FIRB	Central governments and central banks	15,14 %
	Institutions	1,13 %
	Corporates - SME	3,02 %
	Corporates - Specialised Lending	4,87 %
	Corporates - Other	5,95 %
	Retail - Secured by real estate SME	0,55 %
	Retail - Secured by real estate non-SME	65,67 %
	Retail - Other SME	1,64 %
	Retail - Other non-SME	1,99 %
	Equity	0,04 %
FIRB	Total:	8,27 %

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

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

Credit risk exposure by exposure class and PD range – FIRB approach 31-12-2018 (in millions of EUR)	PD scale	Original on-balancesheet gross exposures	Off-balancesheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjustments and provisions
Central governments and central banks	0.00 to <0.15	23 414	0	100%	23 414	0%	11	45%	0	466	2%	1	
	0.15 to <0,25	73	0	100%	73	0%	3	45%	3	38	52%	0	
	0.25 to <0,50	8	0	100%	8	0%	1	38%	5	7	83%	0	
Central governments and central banks		23 495	0	100%	23 495	0%	15	45%	0	511	2%	1	0

Credit risk exposure by exposure class and PD range – FIRB approach 31-12-2018 (in millions of EUR)	PD scale	Original on-balancesheet gross exposures	Off-balancesheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjustments and provisions
Institutions	0.00 to <0.15	157	1	100%	157	0%	19	45%	2	77	49%	0	
	0.15 to <0,25	1	0	96%	1	0%	4	45%	1	0	41%	0	
	0.25 to <0,50	0	0	95%	0	0%	1	45%	3	0	94%	0	
	0.75 to <2.50	0	4	100%	4	1%	4	45%	3	5	115%	0	
	2.50 to <10.00	14	6	91%	17	5%	22	45%	3	32	191%	0	
	100.00 (Default)	0	0	100%	0	100%	5	45%	3	0	0%	0	
Institutions		172	12	99%	180	1%	50	45%	2	115	64%	1	0

Credit risk exposure by exposure class and PD range – FIRB approach 31-12-2018 (in millions of EUR)	PD scale	Original on-balancesheet gross exposures	Off-balancesheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjustments and provisions
Corporates - Specialised Lending	0.00 to <0.15	2	0	100%	2	0%	1	45%	4	1	48%	0	
	0.15 to <0,25	14	0	100%	14	0%	3	45%	5	9	65%	0	
	0.25 to <0,50	90	1	100%	90	0%	7	45%	4	55	61%	0	
	0.50 to <0.75	98	101	89%	174	1%	24	45%	3	126	73%	0	
	0.75 to <2.50	459	94	97%	531	2%	90	44%	3	518	98%	4	
	2.50 to <10.00	80	44	94%	107	5%	42	45%	3	143	133%	2	
	10.00 to <100.00	18	2	98%	19	19%	21	45%	3	39	202%	2	
	100.00 (Default)	80	0	100%	80	100%	19	45%	2	0	0%	36	
Corporates - Specialised Lending		841	242	96%	1 018	10%	205	44%	3	891	88%	44	45

Credit risk exposure by exposure class and PD range – FIRB approach 31-12-2018 (in millions of EUR)	PD scale	Original on-balancesheet gross exposures	Off-balancesheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjustments and provisions
Corporates - SME	0.00 to <0.15	51	27	93%	67	0%	28	44%	3	22	32%	0	
	0.25 to <0,50	42	29	91%	62	0%	80	43%	3	27	44%	0	
	0.50 to <0.75	76	44	92%	100	1%	119	43%	2	61	61%	0	
	0.75 to <2.50	143	74	93%	186	2%	232	42%	3	159	85%	1	
	2.50 to <10.00	116	83	94%	163	5%	221	41%	3	181	111%	3	
	10.00 to <100.00	44	11	96%	48	25%	58	39%	3	82	169%	5	
	100.00 (Default)	96	1	100%	96	100%	75	45%	1	0	0%	43	
Corporates - SME		567	268	94%	722	17%	806	42%	2	531	74%	53	97

Credit risk exposure by exposure class and PD range – FIRB approach 31-12-2018 (in millions of EUR)	PD scale	Original on-balancesheet gross exposures	Off-balancesheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjustments and provisions
Corporates - Other	0.00 to <0.15	152	124	92%	237	0%	18	45%	3	82	34%	0	
	0.25 to <0,50	255	277	93%	439	0%	37	45%	3	242	55%	1	
	0.50 to <0.75	203	98	96%	241	1%	32	44%	2	185	76%	1	
	0.75 to <2.50	214	127	97%	262	2%	62	44%	2	300	114%	2	
	2.50 to <10.00	66	94	98%	115	5%	118	43%	2	162	140%	2	
	10.00 to <100.00	2	0	100%	2	18%	1	45%	1	5	230%	0	
	100.00 (Default)	309	1	100%	309	100%	68	45%	1	0	0%	139	
Corporates - Other		1 201	721	96%	1 607	20%	331	45%	2	975	61%	145	299

Credit risk exposure by exposure class and PD range – FIRB approach 31-12-2018 (in millions of EUR)	PD scale	Original on-balancesheet gross exposures	Off-balancesheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjustments and provisions
Retail - Secured by real estate non-SME	0.00 to <0.15	0	2	19%	0	0%	8	23%		0	7%	0	
	0.15 to <0,25	0	10	19%	2	0%	37	18%		0	8%	0	
	0.25 to <0,50	0	29	19%	5	0%	111	17%		1	11%	0	
	0.50 to <0.75	0	17	19%	3	1%	71	16%		0	15%	0	
	0.75 to <2.50	0	24	19%	5	1%	116	15%		1	23%	0	
	2.50 to <10.00	0	0	19%	0	3%	2	3%		0	9%	0	
Retail - Secured by real estate non-SME		0	83	19%	16	1%	345	17%		2	15%	0	0

Credit risk exposure by exposure class and PD range – FIRB approach 31-12-2018 (in millions of EUR)	PD scale	Original on-balancesheet gross exposures	Off-balancesheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjustments and provisions
Retail - Other non-SME	0.75 to <2.50	0	0	50%	0	1%	1	24%		0	27%	0	
Retail - Other non-SME		0	0	50%	0	1%	1	24%		0	27%	0	0

Credit risk exposure by exposure class and PD range – FIRB approach 31-12-2018 (in millions of EUR)	PD scale	Original on-balancesheet gross exposures	Off-balancesheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjustments and provisions
Equity	2.50 to <10.00	9	0	100%	9	5%	7	100%	5	34	370%	0	
	100.00 (Default)	0	0	100%	0	100%	1	100%	5	0	370%	0	
Equity		9	0	100%	9	6%	8	100%	5	34	370%	0	0

Credit risk exposure by exposure class and PD range – FIRB approach 31-12-2018 (in millions of EUR)	PD scale	Original on-balancesheet gross exposures	Off-balancesheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjustments and provisions
Total (all portfolios)		26 285	1 327	99%	27 047	2%	1 750	45%	1	3 060	11%	244	442

Little has changed as regards FIRB exposures. The size of the portfolio has remained fairly stable. As was the case in 2017, the bulk of exposure treated under FIRB related to 'Central goverments and central banks' and comprised exposure to sovereign bonds and to SFT transactions performed with central banks.

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

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

Credit risk exposure by exposure class and PD range – AIRB approach 31-12-2018 (in millions of EUR)	PD scale	Original on-balancesheet gross exposures	Off-balancesheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjustments and provisions
Central governments and central banks	0.00 to <0.15	36 400	965	100%	36 888	0%	290	23%	4	2 949	8%	2	
	0.15 to <0,25	3 766	73	100%	3 844	0%	27	35%	3	1 651	43%	3	
	0.25 to <0,50	85	0	100%	86	0%	18	7%	4	7	8%	0	
	0.50 to <0.75	43	27	94%	49	1%	124	18%	3	16	33%	0	
	0.75 to <2.50	132	228	77%	202	2%	39	8%	4	40	20%	0	
	0.75 to <2.51	316	211	90%	382	4%	217	2%	5	29	8%	0	
	0.75 to <2.52	1	0	99%	1	18%	6	3%	1	0	16%	0	
	0.75 to <2.53	8	0	100%	8	100%	3	47%	5	0	1%	4	
Central governments and central banks		40 752	1 504	100%	41 459	0%	697	24%	4	4 692	11%	9	9

Credit risk exposure by exposure class and PD range – AIRB approach 31-12-2018 (in millions of EUR)	PD scale	Original on-balancesheet gross exposures	Off-balancesheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjustments and provisions
Institutions	0.00 to <0.15	8 856	2 726	99%	9 951	0%	968	13%	2	760	8%	1	
	0.15 to <0,25	424	183	100%	589	0%	126	23%	2	131	22%	0	
	0.25 to <0,50	544	394	96%	800	0%	397	17%	2	220	28%	0	
	0.50 to <0.75	48	42	94%	53	1%	360	31%	4	35	67%	0	
	0.75 to <2.50	718	294	99%	902	1%	281	8%	1	144	16%	1	
	2.50 to <10.00	280	220	99%	474	5%	443	18%	1	309	65%	4	
	10.00 to <100.00	27	55	100%	81	13%	45	8%	1	27	34%	1	
	100.00 (Default)	0	0	100%	0	100%	6	77%	2	1	458%	0	
Institutions		10 897	3 915	99%	12 849	0%	2 493	14%	2	1 627	13%	7	5

Credit risk exposure by exposure class and PD range – AIRB approach 31-12-2018 (in millions of EUR)	PD scale	Original on-balancesheet gross exposures	Off-balancesheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjustments and provisions
Corporates - Specialised Lending	0.00 to <0.15	383	7	101%	393	0%	20	24%	5	93	24%	0	
	0.15 to <0,25	425	77	97%	473	0%	28	17%	5	114	24%	0	
	0.25 to <0,50	1 058	400	95%	1 325	0%	118	17%	4	359	27%	1	
	0.50 to <0.75	1 211	419	98%	1 472	1%	182	16%	4	444	30%	1	
	0.75 to <2.50	3 001	939	97%	3 596	1%	664	20%	4	1 806	50%	10	
	2.50 to <10.00	500	162	99%	579	4%	162	25%	3	472	82%	7	
	10.00 to <100.00	157	14	100%	167	17%	20	20%	4	187	112%	5	
	100.00 (Default)	570	36	101%	586	100%	49	37%	2	3	0%	257	
Corporates - Specialised Lending		7 304	2 054	97%	8 590	8%	1 225	20%	4	3 478	40%	282	232

Credit risk exposure by exposure class and PD range – AIRB approach 31-12-2018 (in millions of EUR)	PD scale	Original on-balancesheet gross exposures	Off-balancesheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjustments and provisions
Corporates - SME	0.00 to <0.15	2 725	767	98%	2 900	0%	6 765	20%	4	402	14%	1	
	0.15 to <0,25	1 584	462	99%	1 691	0%	2 696	20%	3	316	19%	1	
	0.25 to <0,50	3 290	1 113	97%	3 551	0%	8 407	22%	3	907	26%	3	
	0.50 to <0.75	2 404	1 117	97%	2 656	1%	5 816	26%	3	1 020	38%	4	
	0.75 to <2.50	5 753	1 952	98%	6 249	1%	11 158	25%	3	3 145	50%	23	
	2.50 to <10.00	2 666	757	98%	2 843	5%	15 072	25%	3	1 872	66%	33	
	10.00 to <100.00	327	78	99%	346	20%	1 841	22%	3	304	88%	16	
	100.00 (Default)	982	174	99%	991	100%	1 712	36%	3	430	43%	487	
Corporates - SME		19 731	6 419	98%	21 226	6%	51 239	24%	3	8 395	40%	567	530

Credit risk exposure by exposure class and PD range – AIRB approach 31-12-2018 (in millions of EUR)	PD scale	Original on-balancesheet gross exposures	Off-balancesheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjustments and provisions
Corporates - Other	0.00 to <0.15	11 301	9 538	96%	12 432	0%	1 389	17%	2	1 596	13%	2	
	0.15 to <0,25	1 798	1 686	99%	1 996	0%	419	29%	3	617	31%	1	
	0.25 to <0,50	5 510	7 030	96%	6 407	0%	1 233	29%	2	2 446	38%	6	
	0.50 to <0.75	4 677	4 190	97%	5 171	1%	1 826	29%	2	2 548	49%	9	
	0.75 to <2.50	6 791	4 296	99%	7 512	1%	2 094	31%	3	5 803	77%	34	
	2.50 to <10.00	2 404	1 686	98%	2 726	5%	4 104	27%	2	2 410	88%	34	
	10.00 to <100.00	231	218	93%	289	21%	5 358	30%	2	438	151%	16	
	100.00 (Default)	945	228	98%	962	100%	384	38%	2	125	13%	403	
		0	0	100%	0		1	1%	1	0		0	
Corporates - Other		33 657	28 872	97%	37 496	4%	15 568	25%	2	15 982	43%	505	570

Credit risk exposure by exposure class and PD range – AIRB approach 31-12-2018 (in millions of EUR)	PD scale	Original on-balancesheet gross exposures	Off-balancesheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjustments and provisions
Retail - Secured by real estate SME	0.00 to <0.15	2 085	266	98%	2 211	0%	14 822	11%		46	2%	0	
	0.15 to <0,25	1 745	143	99%	1 807	0%	8 114	11%		61	3%	0	
	0.25 to <0,50	1 721	163	98%	1 771	0%	7 240	13%		113	6%	1	
	0.50 to <0.75	973	107	98%	1 014	1%	4 865	14%		105	10%	1	
	0.75 to <2.50	1 671	181	98%	1 728	1%	7 047	14%		301	17%	3	
	2.50 to <10.00	850	89	98%	877	5%	4 028	14%		318	36%	6	
	10.00 to <100.00	298	18	99%	307	25%	1 525	10%		137	45%	8	
	100.00 (Default)	82	3	100%	85	100%	285	11%		52	61%	38	
Retail - Secured by real estate SME		9 424	970	99%	9 800	2%	47 925	12%		1 132	12%	58	23

Credit risk exposure by exposure class and PD range – AIRB approach 31-12-2018 (in millions of EUR)	PD scale	Original on-balancesheet gross exposures	Off-balancesheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjustments and provisions
Retail - Secured by real estate non-SME	0.00 to <0.15	27 297	799	100%	28 097	0%	433 423	18%		969	3%	2	
	0.15 to <0,25	1 600	85	100%	1 685	0%	37 103	10%		71	4%	0	
	0.25 to <0,50	12 897	367	100%	13 263	0%	228 741	21%		1 799	14%	10	
	0.50 to <0.75	1 524	13	100%	1 537	1%	38 405	13%		183	12%	1	
	0.75 to <2.50	9 197	821	100%	10 019	1%	133 968	19%		2 940	29%	25	
	2.50 to <10.00	2 785	53	100%	2 838	5%	36 389	18%		1 670	59%	25	
	10.00 to <100.00	1 327	8	100%	1 335	34%	35 551	19%		1 359	102%	84	
	100.00 (Default)	2 936	0	100%	2 937	100%	32 332	41%		974	33%	1 158	
Retail - Secured by real estate non-SME		59 563	2 147	100%	61 710	6%	975 912	20%		9 967	16%	1 305	1 253

Credit risk exposure by exposure class and PD range – AIRB approach 31-12-2018 (in millions of EUR)	PD scale	Original on-balancesheet gross exposures	Off-balancesheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjustments and provisions
Retail - Qualifying revolving	0.00 to <0.15	83	818	113%	814	0%	463 250	51%		12	2%	0	
	0.15 to <0,25	10	24	74%	23	0%	10 738	65%		2	9%	0	
	0.25 to <0,50	20	37	105%	52	0%	27 293	52%		5	9%	0	
	0.50 to <0.75	19	21	83%	31	1%	13 287	57%		5	16%	0	
	0.75 to <2.50	23	21	112%	45	2%	24 930	53%		14	31%	0	
	2.50 to <10.00	11	7	112%	19	5%	12 026	52%		13	68%	1	
	10.00 to <100.00	3	4	92%	6	24%	3 535	54%		9	144%	1	
	100.00 (Default)	1	0	100%	1	100%	452	55%		1	70%	1	
Retail - Qualifying revolving		170	932	111%	991	1%	555 511	51%		61	6%	3	2

Credit risk exposure by exposure class and PD range – AIRB approach 31-12-2018 (in millions of EUR)	PD scale	Original on-balancesheet gross exposures	Off-balancesheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjustments and provisions
Retail - Other SME	0.00 to <0.15	1 052	646	96%	1 134	0%	40 781	28%		60	5%	0	
	0.15 to <0,25	538	364	96%	584	0%	18 872	30%		54	9%	0	
	0.25 to <0,50	717	475	95%	786	0%	18 394	31%		117	15%	1	
	0.50 to <0.75	774	1 082	92%	978	1%	55 406	31%		203	21%	2	
	0.75 to <2.50	1 133	1 095	91%	1 341	1%	59 245	30%		373	28%	6	
	2.50 to <10.00	1 181	1 569	90%	1 349	4%	85 346	25%		415	31%	16	
	10.00 to <100.00	249	97	97%	261	26%	12 570	32%		146	56%	23	
	100.00 (Default)	349	25	99%	350	100%	8 762	40%		163	47%	176	
Retail - Other SME		5 992	5 353	94%	6 782	7%	282 476	29%		1 532	23%	224	261

Credit risk exposure by exposure class and PD range – AIRB approach 31-12-2018 (in millions of EUR)	PD scale	Original on-balancesheet gross exposures	Off-balancesheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjustments and provisions
Retail - Other non-SME	0.00 to <0.15	2 014	1 248	100%	3 193	0%	237 437	28%		124	4%	0	
	0.15 to <0,25	114	244	77%	258	0%	223 254	54%		59	23%	0	
	0.25 to <0,50	498	213	95%	691	0%	204 563	38%		181	26%	1	
	0.50 to <0.75	414	31	94%	444	1%	120 313	40%		166	37%	1	
	0.75 to <2.50	576	161	94%	694	1%	295 647	44%		377	54%	5	
	2.50 to <10.00	590	31	98%	615	4%	166 151	43%		406	66%	11	
	10.00 to <100.00	105	4	99%	108	34%	101 613	46%		113	105%	17	
	100.00 (Default)	79	0	100%	79	100%	252 587	67%		49	62%	51	
Retail - Other non-SME		4 391	1 933	97%	6 083	3%	1 601 565	35%		1 475	24%	86	85

Credit risk exposure by exposure class and PD range – AIRB approach 31-12-2018 (in millions of EUR)	PD scale	Original on-balancesheet gross exposures	Off-balancesheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjustments and provisions
Equity	0.00 to <0.15	8	0	100%	8	0%	8	89%	5	22	287%	0	
	0.15 to <0,25	0	0	100%	0	0%	5	90%	5	1	290%	0	
	0.25 to <0,50	0	0	100%	0	0%	2	90%	5	0	290%	0	
	0.75 to <2.50	26	0	100%	26	1%	44	67%	5	51	198%	0	
	2.50 to <10.00	83	0	100%	83	4%	47	71%	5	177	213%	1	
	10.00 to <100.00	0	0	100%	0	13%	1	90%	5	0	290%	0	
	100.00 (Default)	1	0	100%	1	100%	4	90%	5	4	290%	0	
Equity		119	0	100%	119	5%	110	71%	5	256	216%	1	0

Credit risk exposure by exposure class and PD range – AIRB approach 31-12-2018 (in millions of EUR)	PD scale	Original on-balancesheet gross exposures	Off-balancesheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjustments and provisions
Total (all portfolios)		192 000	54 100	99%	207 105	4%	3 483 895	22%	3	48 597	23%	3 046	2 970

Overall, there was a limited increase in exposure. The biggest movements were a 1.2-billion-euro decrease in exposure to 'Central governments and central banks' and a 6-billion-euro increase in exposure to 'Corporates – Other'. The remaining increase was divided over the various other asset classes.

Equities under the simple risk-weight-approach – IRB Approach

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

Equities under the simple risk-weighted approach 31/12/2018 (in millions of EUR)							
	Categories	On-balancesheet amount	Off-balancesheet amount	Risk weight	Exposure amount	RWAs	Capital requirements
1	Private equity exposures	88		190%	88	168	13
2	Exchange-traded equity exposures	30		290%	30	88	7
3	Other equity exposures	9		370%	9	34	3
4	Total	128			128	290	23

Internal modelling

The credit risk models developed by KBC over the years to support decisions in the credit process include Probability of Default models (PD), Loss Given Default models (LGD) and Exposure At Default models (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).

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 that a good balance be struck 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 subjective input, using regression techniques. At KBC, this method is only 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 objective models, but also use subjective input entered by a credit adviser (for instance, management quality). At KBC, this method is used to rank large corporate customers, 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, the so-called 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.).

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).

In general, there are many ways of modelling the LGD, such as:

- Market LGD: this is observed from market prices of defaulted bonds or marketable loans soon after the actual default event.
- Workout LGD: this is determined by the sum of cashflows resulting from the workout and/or collections process, discounted to the time of default and expressed as a percentage of the estimated exposure at default.

The LGD models currently used at KBC are all workout LGDs. The models developed are (methodologically) based on historical recovery rates and cure rates per collateral type or per pool (segmentation-based approach).

A major challenge posed by the Basel regulations is the 'downturn requirement'. The underlying principle is that the LGD is correlated to the PD, and loss rates will be higher in a year with many defaults. This effect has been demonstrated in a number of studies. However, as these studies almost exclusively used market LGD, they are not necessarily relevant for workout LGD.

One explanation for the difference in cyclicality between market LGD and workout LGD is the fact that workout LGD is based on a recovery process that can take several years. In most cases, the workout period will thus include periods of both upturn and downturn economic conditions.
Market LGD is based entirely on information one month after default. In downturn economic conditions, the market will be hit by a large supply of defaulted bonds, depressing prices. The classic market mechanism based on supply and demand may prove to be a stronger driver for 'downturn' recovery rates than the macroeconomic conditions that led to the higher number of defaults.

Data collected from the credit crisis helps KBC to model downturn LGD based on its own portfolios and workout processes.

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.

When (re)designing, recalibrating or backtesting models, this MoC framework is applied. When the modeller (or any other stakeholders involved) encounters deficiencies that lead to errors in the PD, EaD and LGD estimates, these deficiencies should be corrected via an appropriate or, in some cases, a conservative adjustment. In some cases, a deficiency can be rectified, entirely removing any contribution to model uncertainty and/or bias it may have originally caused. When this is the case, it need no longer be reported in the list of identified deficiencies and the MoC does not need to be quantified. If no rectification is possible, however, estimation errors need to be translated into a MoC that will ultimately be incorporated into the final conservative PD, LGD and EaD parameter estimates. The estimated overall level of uncertainty expressed via the MoC is clearly communicated to any stakeholder using the model output.

In exceptional cases, the appropriate degree of conservatism may not be achieved by including a 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 their sub-measurements are subject to formal model validation.

Checks on rating models

Every model is backtested on a yearly basis In accordance withthe following principles:

- An annual backtest cannot include model changes
- Fixed tests are defined with fixed thresholds
- The scope of a backtest is always the implemented model (even if a new model has already been approved internally and/or externally)
- The resulting outcome of a backtest is either 'redesign needed' or 'no redesign needed', the latter possibly supplemented with a decision to recalibrate the model

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

Key models used for the most important portfolios

Asset Classes 31/12/2018 (in millions of EUR)	Key IRB models					
	Corporates	Financial Institutions	Central governments	Asset-backed real estate	Private persons	Non-regulated retail
Central governements & central Banks			•			
Institutions		•				
Corporates	•			•		
Corporates-SME	•			•		
Retail-SME						•
Retail-non-SME					•	

KBC Bank Consolidated NPL disclosure

In the context of the ECB's intensified supervisory work on non-performing loans (NPL), specific guidance to banks on non-performing loans was published in March 2017. This guidance includes expectations with regard to NPL-related disclosures, additional to the information required under Part Eight of the CRR (Article 431). The purpose of the disclosure is to provide market participants with meaningful information on the credit institution's asset quality and to allow better insight into the distribution and level of collateralisation of the credit institution's NPL.

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

Template 1: Credit quality of forborne exposures

Credit quality of forborne exposures 31-12-2018 (in millions of EUR)		Forborne exposures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collaterals received and financial guarantees received on forborne exposures
		Performing forborne	Non-performing forborne			On performing forborne exposures	On non-performing forborne exposures	
				Of which defaulted	Of which impaired			
1	Loans and advances	1 205	2 681	2 679	2 679	-30	-624	2 335
2	Central banks	0	0	0	0	0	0	0
3	General governments	1	1	1	1	0	-1	0
4	Credit institutions	0	0	0	0	0	0	0
5	Other financial corporations	1	5	5	5	0	-1	0
6	Non-financial corporations	311	955	955	955	-7	-254	324
7	Households	893	1 720	1 718	1 718	-23	-368	2 011
8	Debt Securities	0	0	0	0	0	0	0
9	Loan commitments given	10	1	1	1	0	0	1
10	Total	1 215	2 683	2 681	2 681	-30	-624	2 336

Template 2: Credit quality of performing and non-performing exposures by past due days

Credit quality of performing and non-performing exposures by past due days 31-12-2018 (in millions of EUR)		Performing exposures			Non-performing exposures							
			Not past due or Past due <= 30 days	Past due > 30 days <= 90 days		Unlikely to pay that are not past- due or past-due <= 90 days	Past due > 90 days <= 180 days	Past due > 180 days <= 1 year	Past due > 1 year < = 5 years	Past due > 5 years < = 7 years	Of which defaulted	Of which impaired
1	Loans and advances	188 649	188 236	413	6 561	2 767	296	317	1 455	1 725	6 558	6 556
2	Central banks	37 580	37 580	0	0	0	0	0	0	0	0	0
3	General governments	6 136	6 133	3	5	2	0	0	2	1	5	5
4	Credit institutions	6 808	6 808	0	30	30	0	0	0	0	30	30
5	Other financial corporations	5 970	5 970	0	33	9	5	4	2	13	33	33
6	Non-financial corporations	62 339	62 092	247	3 305	1 464	96	152	600	992	3 305	3 305
7	Of which: SMEs	26 711	26 660	51	1 160	345	50	62	324	379	1 160	1 160
8	Households	69 816	69 654	162	3 188	1 263	195	161	851	719	3 186	3 184
9	Debt Securities	42 729	42 729	0	7	0	0	0	7	0	7	7
10	Central banks	256	256	0	0	0	0	0	0	0	0	0
11	General governments	36 979	36 979	0	0	0	0	0	0	0	0	0
12	Credit institutions	3 004	3 004	0	0	0	0	0	0	0	0	0
13	Other financial corporations	1 880	1 880	0	0	0	0	0	0	0	0	0
14	Non-financial corporations	610	610	0	7	0	0	0	7	0	7	7
15	Off-balance sheet exposures	46 715			380						380	380
16	Central banks	0			0						0	0
17	General governments	1 426			90						90	90
18	Credit institutions	2 666			3						3	3
19	Other financial corporations	4 227			0						0	0
20	Non-financial corporations	32 262			276						276	276
21	Households	6 133			10						10	10
22	Total	278 093	230 965	413	6 948	2 767	296	317	1 462	1 725	6 946	6 943

Template 3: Performing and non-performing exposures and related provisions

Performing and non-performing exposures and related provisions		Nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write- off	Collaterals and financial guarantees received	
		Performing exposures			Non-performing exposures			Performing exposures - Accumulated impairment and provisions			Non-performing exposures - Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On non-performing exposures	
31-12-2018 (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 defaulted	of which: stage 2	of which: stage 3			
1	Loans and advances	188 649	153 873	16 983	6 561	0	6 556	-415	-112	-303	-3 108	0	-3 106	-50	2 432	
2	Central banks	37 580	20 641	0	0	0	0	0	0	0	0	0	0	0	0	
3	General governments	6 136	5 877	248	5	0	5	-3	-2	-1	-3	0	-3	0	1	
4	Credit institutions	6 808	5 808	242	30	0	30	-1	-1	0	-28	0	-28	0	0	
5	Other financial corporations	5 970	5 634	336	33	0	33	-13	-4	-9	-15	0	-15	0	2	
6	Non-financial corporations	62 339	51 814	10 509	3 305	0	3 305	-264	-81	-183	-1 816	0	-1 816	-34	598	
7	Of which: SMEs	26 711			1 160	0		-122			-558	0			294	
8	Households	69 816	64 100	5 648	3 188	0	3 184	-135	-25	-110	-1 245	0	-1 243	-15	1 831	
9	Debt Securities	42 729	42 545	157	7	0	7	-6	-5	-1	-6	0	-6	0	0	
10	Central banks	256	256	0	0	0	0	0	0	0	0	0	0	0	0	
11	General governments	36 979	36 979	0	0	0	0	-4	-4	0	0	0	0	0	0	
12	Credit institutions	3 004	2 994	10	0	0	0	0	0	0	0	0	0	0	0	
13	Other financial corporations	1 880	1 740	118	0	0	0	-1	0	-1	0	0	0	0	0	
14	Non-financial corporations	610	576	29	7	0	7	-1	-1	0	-6	0	-6	0	0	
15	Off-balance sheet exposures	46 715	43 875	2 840	380	0	380	-29	-12	-17	-99	0	-99	0	45	
16	Central banks	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
17	General governments	1 426	1 380	46	90	0	90	0	0	0	0	0	0	0	0	
18	Credit institutions	2 666	2 425	242	3	0	3	0	0	0	-1	0	-1	0	0	
19	Other financial corporations	4 227	4 056	172	0	0	0	0	0	0	0	0	0	0	0	
20	Non-financial corporations	32 262	30 094	2 168	276	0	276	-23	-8	-15	-98	0	-98	0	45	
21	Households	6 133	5 920	213	10	0	10	-5	-3	-2	0	0	0	0	0	
22	Total	278 093	240 293	19 980	6 948	0	6 943	-451	-130	-321	-3 213	0	-3 211	-50	2 477	

In 2018, there was a significant decrease in non-performing and forborne exposures due mainly to KBC Bank Ireland's partial sale of the legacy corporate and buy-to-let mortgage loan portfolio (non-performing gross carrying amount of 1.6 billion euros (1.3 billion euros of which was forborne) and 784 million euros of non-performing accumulated impairment (547 million euros of which was forborne)) and write-offs on non-performing portfolios across different entities.

In template 2, the time buckets have been slightly modified in order to ensure they match the current FINREP time buckets. As soon as the new FINREP requirements are in place (first quarter of 2020), the requested time buckets will be provided.

Counterparty Credit Risk

Definition and objectives

KBC defines counterparty credit risk (CCR) as the default risk related to the non-payment or non-performance by 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 operations, swaps, future rate agreements, (reverse) repos, options.
The credit risk management framework for professional transactions has been implemented to ensure an effective risk management process is in place throughout the KBC group. It covers counterparty credit risk (pre-settlement risk, settlement risk), country risk and wrong way risk, and also lays down standards relating to a number of areas, including, inter alia, collateral management, limit setting, measurements and wrong way risk.

The objective of counterparty credit risk management is to:

- develop a framework and standards related to CCR in the KBC group;
- enhance the CCR process, models and methodology;
- ensure that appropriate CCR management processes are in place throughout the organisation;
- monitor counterparty credit risk and required capital;
- report on CCR issues;
- challenge business-side decisions that have an impact on counterparty credit risk positions;
- provide risk advice.

Scope

The 'Counterparty credit risk' section of this report covers the entire portfolio of derivatives. No distinction is made between counterparty credit risk arising from the banking book or from the trading book. The tables show the counterparty credit risk for the entities referred to in the scope description of credit risk disclosures.
UBB's derivatives portfolio is immaterial and, therefore, is not included in the CCR tables of this report.
UBB reported a 0 156-million-euro exposure to over-the-counter (OTC) derivatives in 2018.

Securities financing transactions (SFT) are not covered in this part of the report, but instead are dealt with under 'Credit risk mitigation' in the 'Credit risk management' section.

KBC Group NV received approval to use the internal model method (IMM) for itself at the consolidated group level and for KBC Bank and CBC Banque at company level. The approved internal model covers only the portfolio of foreign exchange (FX) derivatives and interest rate (IR) derivatives. All other portfolios use the Current Exposure Method or CEM (Standardised approach) for CCR capital calculations.

Analysis of CCR by approach 31/12/2018 (in millions of EUR)	Replacement cost / current market value	Potential future credit exposure	EEPE	Multiplier	EAD post CRM	RWAs
Mark to market	1 613	1 408			1 629	941
IMM (for derivatives and SFT)			1 714	1.4	2 400	965
Of which derivatives			1 714	1.4	2 400	965
Total						1 906

Total RWA increased by approximately 22% year-on-year, going up from 1 566 million euros to 1 906 million euros, with the increase being partly accounted for by the introduction of the IMM approach.
Counterparty limits are set for each individual counterparty, with account being taken of the general rules and procedures set out in a group-wide policy. Sub-limits can be put in place for each product type.
Risk is monitored by means of a real-time limit control system, allowing dealers to check limit availability at any time.
In line with EBA requirements, an insight into the derivatives portfolio broken down by asset class and by probability of default (PD) can be found in table CCR4 in Annex IX.

KBC has an OTC derivative exposure to qualifying central counterparties (QCCPs) but no exposure to non-QCCPs. Therefore, table CCR8 includes exposure solely to QCCPs. Initial margin applies only to cleared transactions, as KBC will be subject to further initial margin requirements as from 1 September 2020.

Exposures to central counterparties 31/12/2018 (in millions of EUR)	EAD post CRM	RWAs
Exposures to QCCPs (total)		126
Exposures to trades at QCCPs (excluding initial margin and default fund contributions)	1	0
Of which OTC derivatives	1	0
Initial margin	1 546	
Prefunded default fund contributions	72	126

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.

Credit valuation adjustment capital charge 31/12/2018 (in millions of EUR)	Exposure value	RWAs
All portfolios subject to the Standardised method	1 980	547
Total subject to the CVA capital charge	1 980	547

Both the exposure value and corresponding CVA RWA decreased by approximately 9% year-on-year.

Other collateral

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

Counterparty risk arising from derivative transactions (excluding repo-like transactions)

Netting

Close-out netting is applied in order to manage the counterparty risk arising from derivative transactions. It is applicable if the counterparty defaults. Its aim is to allow a timely termination and settlement of the net value of all trades with the defaulted counterparty. Close-out netting is stipulated in a legal agreement. For netting to apply, such transactions need to be documented under ISDA-92 or ISDA-2002 Master Agreements. In addition, 'suitable for netting' rules have been established for all relevant jurisdictions and all relevant products, based on legal opinions published by the ISDA. Accordingly, close-out netting is only applied if legal effectiveness and enforceability is assured.

Collateral

Besides netting, collateral is used as a credit risk mitigation technique to cover the counterparty risk arising from derivative transactions. Collateral policy is regularly updated to reflect changes in market practice and in regulations. Financial collateral is only taken into account if the assets concerned are considered eligible risk-mitigants for regulatory capital calculations. This implies, among other things, that legal comfort must have been obtained regarding the ownership of the collateral for all relevant jurisdictions. The risks related to the processing of collateral due to OTC and repurchase exposure are closely followed up. Based on figures for the end of December 2018, the netting benefits on derivative exposure amounted to 4 billion euros. The impact of netting benefits and risk mitigation through collateral for OTC-derivative transactions are shown in table CCR5-A.

Impact of netting and collateral held on exposure values 31/12/2018 (in millions of EUR)	Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposures	Collateral held	Net credit exposure
Derivatives	6 985	4 084	2 901	631	2 270
Total	6 985	4 084	2 901	631	2 270

The reported collateral held covers only collateral for exposures calculated using the Current Exposure Method. The collateral covering the IMM portfolio has not been reported in table CCR5-A as collateral held, because it is already part of EEPE (Effective Expected Positive Exposure) figures. The entire exposure covered by collateral is provided below in table CCR5-B. This table shows not only the collateral received by KBC, but also the collateral that it posts to its counterparties.

Composition of collateral for CCR exposure	Collateral used in derivative transactions	
31/12/2018 (in millions of EUR)	Fair value of collateral received	Fair value of posted collateral
Cash	958	1 858
Bonds	437	418
Total	1 395	2 276

Despite having a wide range of eligibility criteria for collateral, the exchange is limited to either bonds (government bonds or corporate bonds) or cash. In order for the collateral to be effective in times of need, KBC monitors both the concentration in a certain bond and the liquidity of the bonds received.
A rating downgrade for one of the contractual parties (KBC or the counterparty) would impact the collateral that KBC is required to post to the counterparty. A persisting downgrade for KBC to below investment grade could lead to a loss of direct access to the CCP. Therefore, the impact of a downgrade of KBC Bank's long term credit rating is regularly assessed.

Market Risk Management (trading)

We define market risk as 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. The interest rate, foreign exchange and equity risks of the non-trading positions in the banking book and of the insurer's positions are all included in ALM exposure.

Strategy and processes

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

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

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

Scope of market risk management

We are exposed to market risk via the trading books of our dealing rooms in Belgium, the Czech Republic, Slovakia and Hungary, as well as via a minor presence in the UK and Asia. Limited trading activities are also carried out at the recently acquired United Bulgarian Bank (UBB) in Bulgaria (regulatory capital charges for market risk amounted to 3 million euros at the end of 2018).
For the sake of completeness, it should be mentioned that, although the remaining three legacy business lines (i.e. reverse mortgages, insurance derivatives and fund derivatives) have effectively been wound down, they still attract some market risk capital charges by virtue of the current regulatory framework (accounting for about 1% of the total regulatory capital charges for market risk set out in the table under 'Regulatory capital' at the end of this section).
The dealing rooms, with Belgium accounting for the largest part of the limits and risks, focus on trading in interest rate instruments, while activity on the foreign exchange markets has traditionally been limited. All dealing rooms focus on providing customer service in money and capital market products and on funding the bank activities.

Governance

Although the group's trading activity is managed centrally both from a business and a risk management perspective, the residual trading positions are not at a central location, but are held at the separate trading entities, each of which is subject to a local regulator and its own regulatory capital requirements. To redress this discrepancy, we started up the Global Trading Project, which – when completed (expected towards the end of 2019) and where suitable – will centralise all the residual trading positions at KBC Bank NV, thus aligning regulatory scope with the existing business and risk management scope. Not only is this understood to be in line with the preference of the European regulator, but this centralisation exercise will also reduce costs and simplify compliance with any future regulations.

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, which receives relevant reports on an ad hoc and biweekly basis, meets formally every four weeks in order to enable the KBC group to take decisions regarding trading risk on the basis of accurate and up-to-date information.

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

The risk limit framework consists of primary limits and a series of secondary limits. Any breaches of the two primary Group limits (i.e. the KBC Group HVaR limit and the Group RWA limit) have to be approved by the Board of Directors (there were no breaches in 2017 and 2018). Primary entity limit overruns (i.e. KBC Bank NV (Brussels and branches), CBC, KBC Securities, the Czech Republic, Slovakia, Hungary and Bulgaria) must be approved by the Group Executive Committee. All secondary limit overruns must be approved by the GMC. However, depending on the type of limit and its purpose, the GMC can delegate smaller limit breaches and/or breaches (referred to as 'level 1 overrun delegation') for a limited period of time to a lower level. It should be noted that in addition to, say, the Financial Markets CEO or the Chief Dealer, the CRO of the entity concerned 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.

Market risk objectives and processes

The objective of our market risk management is to measure, report and advise on the market risk of the aggregate trading position at group level, with due account being taken of the main risk factors and specific risk, to ensure that activities are consistent with the group's risk appetite. This function includes pro-active and re-active aspects. In its pro-active 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 re-active 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 levels.
- a comprehensive stress test framework.
- day-to-day and month-to-day stop loss limits at both desk and trader level.
- internal assessments.
- a large variety of controls (including parameter reviews, daily reconciliation processes and analysis of the material effect of proxies).

This risk framework consists of a hierarchy of limits. Whereas HVaR calculations serve as a primary risk measurement tool, risk concentrations are monitored via a series of secondary limits including equity concentration limits, FX concentration limits and basis-point-value limits for interest rate risk and basis risk. The specific risk associated with a particular issuer or country is also subject to concentration limits. For the non-linear positions, the GMC decided during 2018 to change the 'greek' limits of the option positions to soft limits, preferring the use of scenario and stress scenario limits involving multiple shifts of underlying risk factors instead. The resulting scenario grids, which are reported to the GMC, 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 actualimpact on P&L 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.

The concept behind these secondary limits is that they are set at a level so that they operate as 'early warning signals' to facilitate discussion at (senior) management level. This is preferred to having higher, hard limits that never get broken. Therefore, the secondary limits are more flexible than the primary ones, especially with regard to delegation authorities (see the 'Governance' section).

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 due to counterparty default or operational losses 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, 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 on 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.

In recent years, the HVaR methodology (including the holding period and confidence level) has matched the regulatory methodology. However, in October 2018, the GMC decided to change the holding period for management measures of market risk (Management HVaR) to one day, 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 at consolidated group level and at trading entity level, as well as at desk level for all trading entities worldwide on a daily basis (except for United Bulgarian Bank which is expected to be fully integrated into our systems in the first half of 2019).

As with any model, there are a certain number of uncertainties/deficiencies. However, the model is subject to regular review and improvements. The most important development for the HVaR model in 2018 was t he improvement in FX options pricing to more accurately calculate the change in the value of these options for the different scenarios between the business days used for the HVaR calculations. The overall impact ofthese new risk drivers on the HVaR result, however, was limited.

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)	2018	2017
Average for 1Q	6	6
Average for 2Q	5	8
Average for 3Q	5	8
Average for 4Q	5	7
As at 31 December	6	6
Maximum in year	7	11
Minimum in year	4	5

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 equities desk, and also from KBC Securities.

Breakdown by risk factor of trading HVaR for the KBC group (Management HVaR; in millions of EUR)	Average for 2018	Average for 2017
Interest rate risk	5.2	7.5
FX risk	0.4	0.6
FX options risk	0.2	0.3
Equity risk	0.6	0.4
Diversification effect	-1.3	-1.3
Total HVaR	5.1	7.5

We have provided an overview of the derivative products under Note 4.8 in the 'Consolidated financial statements' section of the 2018 Annual Report of KBC Group NV.

Regulatory capital

As shown in the table below,approximately 80% of the regulatory capital requirements for 2018 were calculated using Approved Internal Models (AIMs). However, this percentage increases to about 90% if the capital requirements for FX risk in the banking book are removed (i.e. calculated via the Standardised approach and not related to our dealing room activities). The remainder is calculated via the Standardised approach.

Trading regulatory capital requirements by risk type (in millions of EUR)		Interest rate risk	Equity risk	FX risk	Commodity risk	Total
31-12-2018						
Market risks assessed by internal model	HVaR	46	7	4	–	58
	SVaR	99	46	8	–	153
Market risks assessed by the Standardised approach		22	5	18	0	45
Total		167	58	30	0	256
31-12-2017						
Market risks assessed by internal model	HVaR	77	3	5	–	85
	SVaR	129	7	14	–	151
Market risks assessed by the Standardised approach		18	6	9	0	33
Total		225	16	28	0	269

As can be seen in the above table, the total capital requirement at year-end 2018 was 13 million euros (163 million euros in RWA) lower than in 2017, owing mainly to a decrease in the HVaR component, partially offset by an increase in Standardised capital requirements (although, as mentioned previously, this increase was almost entirely due to an increase in FX risk in the banking book and, therefore, not related to dealing room activities). The SVaR component was quite stable, as the decrease in the interest-rate risk driver was virtually matched by an increase in the equity risk driver. The very large shifts in dividend yields for some scenario dates during the SVaR period (around the time of the Lehman Brothers crisis) mean that even relatively small positions in dividend yielding stocks at the equities desk can lead to high SVaR figures.

Approved Internal Models (AIMs)

During 2018, the AIM-based regulatory capital requirements constituted the sum of the regulatory capital requirements calculated using the AIMs of KBC Bank NV in Belgium and ČSOB in the Czech Republic (authorised by their respective regulators). For materiality reasons, we only sought approval of the HVaR model for these two trading entities. Please note that completion of the Global Trading Project will consolidate the trading book positions of the KBC group. Consequently, the regulatory capital for all positions modelled by HVaR will be calculated using the KBC Bank AIM.

The two current AIMs are also used for the calculation of Stressed VaR (SVaR), which is one of the CRD III Regulatory Capital charges that entered into effect at year-end 2011. The SVaR, like the HVaR, measures the maximum loss from an adverse market movement within a given confidence level (99%) and for a given holding period (10 days). The methodology is identical to that used for HVaR calculations, though the 500 scenarios used for calculating the SVaR are not based on the most recent past, but consist of 250 'regular' historical scenarios from the period which resulted in the most negative VaR figure for that entity (the 'stressed' period), and 250 antithetic ('mirror') scenarios, obtained by reversing these 250 regular scenarios. The stressed period which is used for calculating the SVaR has to be calibrated at least once a year (checked monthly to ensure the period is still valid). As at the date of preparation of this report, the period relevant to the

measurement of SVaR during 2018 and the period that will be used from 2019 onwards are shown in the table below:

Approved Internal Model	2019	2018
KBC Bank NV AIM	Jun 2008 – Jun 2009	Jun 2008 – Jun 2009
ČSOB (Czech Republic) AIM	Aug 2016 – Jul 2017	Aug 2016 – Jul 2017

In line with EBA guidelines, the following three tables show the HVaR and SVaR components of the two internal models at the end of 2018, the RWA flow between 2017 and 2018 and the range of HVaR and SVaR for the two internal models during 2018.

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

		KBC Bank NV AIM		ČSOB AIM	
		RWAs	Capital requirements	RWAs	Capital requirements
1	**VaR (higher of values a and b)**	529	42	193	15
(a)	Previous day's VaR (Article 365(1) of the CRR (VaRt-1))			19	5
(b)	Average of the daily VaR (Article 365(1)) of the CRR on each of the preceding 60 business days (VaRavg) x multiplication factor (mc) in accordance with Article 366 of the CRR		42		15
2	**SVaR (higher of values a and b)**	1 696	136	215	17
(a)	Latest SVaR (Article 365(2) of the CRR (SVaRt-1))		42		6
(b)	Average of the SVaR (Article 365(2) of the CRR) during the preceding 60 business days (SVaRavg) x multiplication factor (ms) (Article 366 of the CRR)		136		17
5	**Other**	-	-	-	-
6	**Total**	2 225	178	409	33

EU MR2-B – RWA flow statements of market risk exposures under the IMA (in millions of EUR)							
	a	b	c	d	e	f	g
	VaR	SVaR	IRC	CRM	Other	Total RWAs	Total capital requirements
RWAs end of 2017	1 061	1 882	-	-	-	2 943	235
Regulatory adjustment	-	-	-	-	-		
RWAs at the previous quarter-end (end of the day)			-	-	-		
Movement in risk levels			-	-	-	-309	-25
Model updates/changes			-	-	-		
Methodology and policy			-	-	-		
Acquisitions and disposals			-	-	-		
Foreign exchange movements			-	-	-		
Other			-	-	-		
RWAs at the end of the reporting period (end of the day)	722	1 912	-	-	-	2 634	211
Regulatory adjustment	-	-	-	-	-	-	-
RWAs at the end of 2018	722	1 912	-	-	-	2 634	211

EU MR3 – IMA values for trading portfolios for 2018 (in millions of EUR)			
		KBC Bank NV AIM	ČSOB AIM
VaR (10-day 99%)			
1	Maximum value	19	17
2	Average value	12	11
3	Minimum value	9	2
4	End of 2018	19	4
SVaR (10-day 99%)			
5	Maximum value	50	17
6	Average value	38	12
7	Minimum value	29	3
8	End of 2018	42	6

The decrease in AIM-generated capital between 2017 and 2018 (as shown in table MR2-B) was due mainly to the HVaR component, as explained in the previous section. The additional information that can be seen in the other two tables illustrates the effect of the first stage of the Global Trading Project (referred to under 'Governance'), which started in the fourth quarter of 2018. This involved centralising much of the market risk held at ČSOB (Czech Republic) in the KBC Bank NV AIM, as reflected in table MR3 by the drop in HVaR and SVaR for the ČSOB AIM by year-end 2018 (furthermore, the minimum values of both the ČSOB AIM HVaR a nd SVaR, which were much lower than their annual averages, were registered in the fourth quarter of 2018). This can also be seen in table MR2-A: in the KBC Risk Report for 2017, the MR2-A table indicated that the ČSOB AIM comprised over 40% of KBC Group AIM capital compared to about 15% in this report.

Standardised Regulatory Capital Requirements

The regulatory capital requirements for the trading risk of local KBC entities (where, for materiality reasons, approval was not sought from their respective regulator to use an internal model for capital calculations) and business lines not included in the HVaR calculations are measured according to the Standardised approach.

This approach sets out general and specific risk weightings per type of market risk (interest risk, equity risk, foreign exchange risk and commodity risk). The resulting regulatory capital calculated using the Standardised approach for 2018 is shown in the table below (please note that there is no option-related charge, since any options market risk in the KBC dealing rooms is transferred to Brussels and thus calculated using the Approved Internal Model of KBC Bank NV). In accordance with COREP requirements and as mentioned in the previous report, FX in the banking book is reported as market risk and thus over 90% of the FX RWA shown in the table does not stem from trading activities. As most of the FX risk is not from trading activities, it can be concluded that interest rate risk accounts for most of the RWA requirements arising from the Standardised approach.

EU MR1 - Market risk under the Standardised approach (in millions of EUR)

		a	b
		RWAs	Capital requirements
Outright products		564	45
1	Interest rate risk (general and specific)	273	22
2	Equity risk (general and specific)	66	5
3	Foreign exchange risk	225	18
4	Commodity risk	0.2	0
Options		-	-
9	**Total**	564	45

Stress testing

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

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

In addition to a new stress testing framework for the equities desk, the GMC approved a new historical stress testing framework in 2018. This new framework uses full revaluation for interest rate risk, foreign exchange risk and equity risk factors, as well as an integrated historical stress test result, and includes scenarios from the more recent past. A full list of the scenarios used for our new historical stress tests is shown in the table below.

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 September 2001	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

The validity of the calibrated shifts for the hypothetical stress tests 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 benefit from, as well as be vulnerable to, a stressed market environment due to being either long or short a risk factor – 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 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 quarterly basis. In all the stress tests conducted during the year, the worst case scenario results were comfortably covered by the market-risk capital buffer.

Back-testing

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

The one-day profit used in back-tests can in theory be defined in a number of ways, depending on the HVaR model property being tested, but can broadly be split into two types. The first type of back-test, often called a 'risk theoretical back-test' compares the one-day HVaR to the risk theoretical P&L obtained by applying the next day's market movements to the end-of-day trading positions using the risk systems. The second type of back-test compares the one-day HVaR to the trading outcome obtained by the Middle Office (often referred to as 'real back-testing'). The CRR further sub-divides real back-testing into 'hypothetical back-testing' (comparing 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') and 'actual back-testing' (the same as 'hypothetical back-testing', but allowing for trades applicable on a given position date). The CRR stipulates that all banks with approved internal models (AIMs) must apply two back-tests to their positions. In September 2016, following discussions with the ECB as part of their *Targeted Review of Internal Model (TRIM)*, the two required back-tests were designated as the 'hypothetical back-test' and the 'actual-back-test'. However, the Czech National Bank stipulates that the two required back-tests for the ČSOB AIM should be the 'risk theoretical back-test' and the 'actual back-test'.

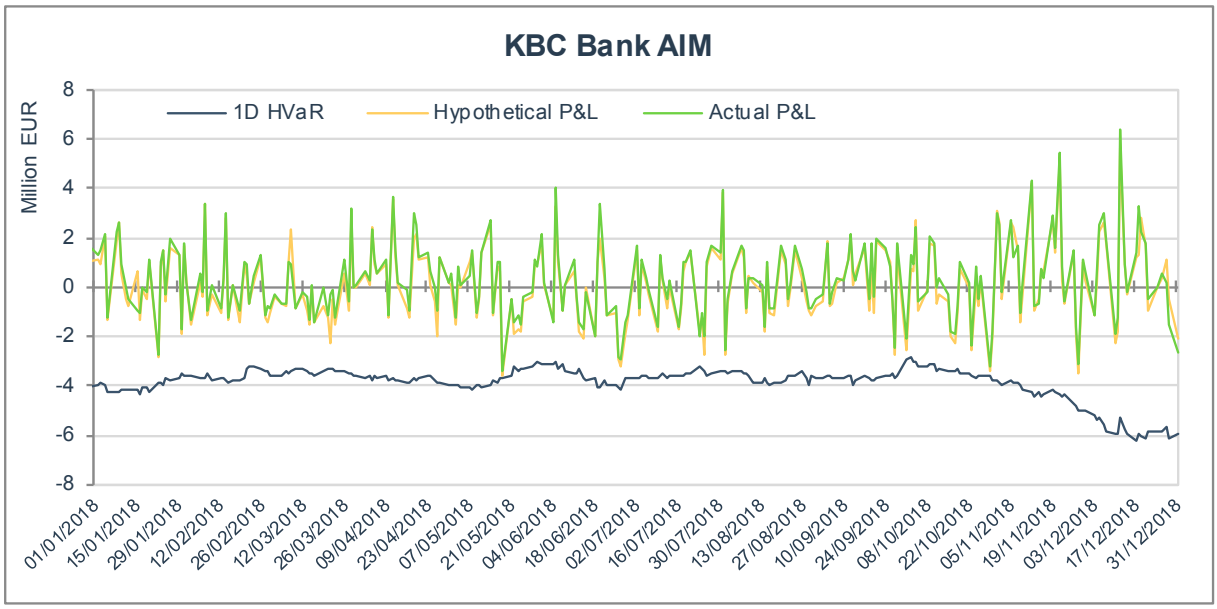
The table below shows the number of overshootings for the applicable back-tests for the KBC Bank and ČSOB AIMs in 2017 and 2018. Overshootings are reported to the relevant risk committees and the applicable regulator i.e. the National Bank of Belgium/Czech National Bank/European Central Bank, on both an ad hoc and quarterly basis. Please note that KBC continues to perform 'theoretical back-tests' on the KBC AIM scope for its own internal analysis (and because it will also be needed for FRTB requirements in the future), but risk theoretical overshootings no longer affect capital requirements and are no longer reported to the regulator.

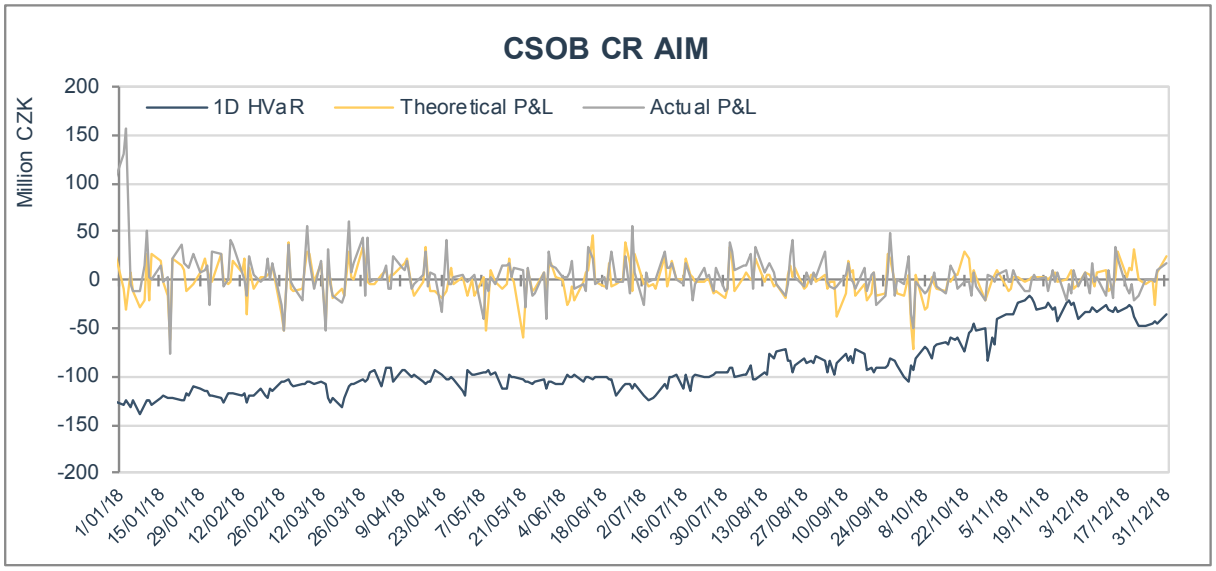
Table showing the number of overshootings for the two Approved Internal Models (AIM) in 2018 and 2017.

	KBC Bank AIM		ČSOB AIM	
	Hypothetical	Actual	Risk Theoretical	Actual
2018	0	0		0
2017	1	1	7	9

As can be seen from the table above and the graphs below, neither AIMs had any overshootings during 2018. Although this was similar to last year's results for the KBC Bank AIM, this represented a significant change for the ČSOB AIM, which had a number of overshootings in 2017 due to speculation that the Czech National Bank would end pegging the Czech koruna to the euro and due to year-end effects (which were insignificant for year-end 2018). Please note that the speculation around de-pegging the Czech koruna, as well as the event itself, are two additional scenarios in the new historical stress tests.

MR4: Graphs comparing the one-day HVaR with the daily P&L results during 2018 at AIM level.





Validation and reconciliation

VaR implementation is validated by an independent validation entity. In order to guarantee the quality of transaction data used in the risk calculation engine, a daily reconciliation process has been set up. The transaction data generated by the source system are reconciled with the data used in the risk calculation engine. Furthermore, the VaR method is reviewed and subjected to a validation exercise by the KBC Risk Validation Unit at least once a year. In addition, the VaR model is audited on a regular basis.

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, we perform a monthly parameter review. 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 2018 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.

Non-Financial Risks

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes and systems, human error or sudden external events, whether man-made or natural. Operational risks include non-financial risks such as information and compliance risks, but exclude business, strategic and reputational risks.

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 2018 Annual Report of KBC Group NV.

KBC's operational risk management framework covers all entities in which it, directly or indirectly, holds at least 50% of the shares or in respect of which it has the power de jure or de facto to exercise a decisive influence on the appointment of the majority of its directors or managers.

Information is presented below on operational risk governance, the tools used to manage operational and other non-financial risks and the capital charges for them.

Operational risk governance

We have a single, global framework for managing operational risk across the entire group.

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

The main tasks of the Competence Centre for Operational Risk are to:

- define the operational risk management framework and the minimum standards for operational risk management processes for the group;
- inform senior management and oversight committees of the operational risk profile;
- plan and perform independent risk investigations and challenges of the internal control environment;
- provide oversight and advice on the effectiveness of controls executed to reduce operational risk;
- create an environment where risk specialists (in various areas, including information risk management, business continuity and disaster recovery, compliance, anti-fraud, legal, tax and accounting matters) can work together (setting priorities, using the same language and tools, uniform reporting, etc.). The Competence Centre for Operational Risk consists of independent risk experts at both group and local level.

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. It ensures alignment with and co-operation between the 3 LOD as regards the internal control system and operational risk management, i.e. KBC's core markets represented by the Chief Operations Officers (COOs), the Group Operational Risk

Competence Centre, the Group Information Risk Competence Centre, Group Compliance, Group Legal and Corporate Audit. The Operational Risk Core Report and Information Security Dashboard, which provide a group-wide overview of the related risk profiles and main risk signals, are standard items on the agenda.

The building blocks for managing operational risks

Since 2011, specific attention has been given to the structured set-up of process-based, group-wide mandatory Group Key Controls. These top-down basic control objectives are used to mitigate key and killer risks inherent in the processes of KBC entities and trigger actions, where needed. As such, they are an essential building block of both the operational risk management framework and the internal control system. The current set of Group Key Controls covers the complete process universe of the group. Reviews are executed to manage the process universe, close critical gaps and optimise group-wide risks and basic controls. Besides this minimum level of controls, entities have additional key controls in place to manage local-specific risks or strengthen their control environment.

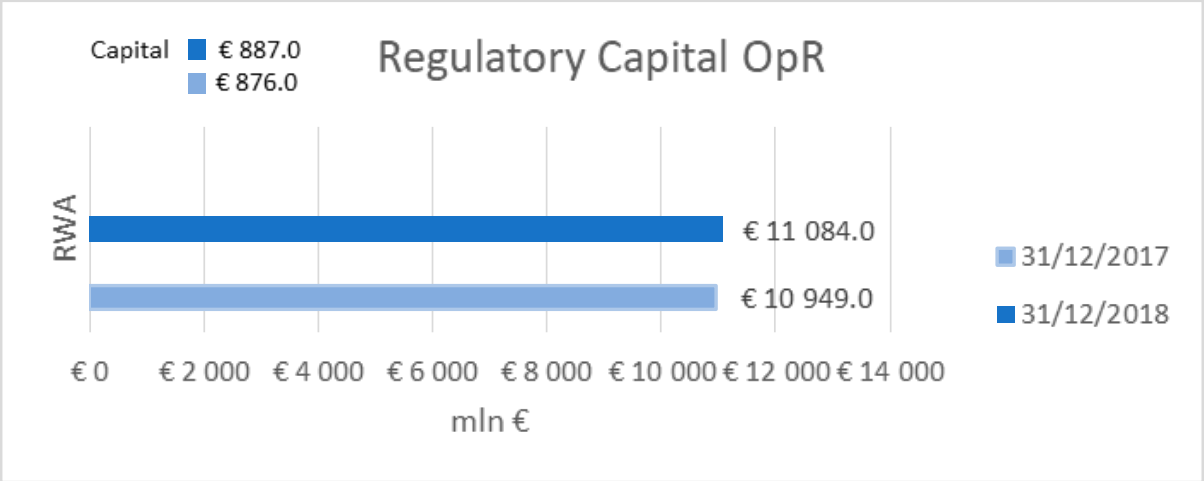
Risk and control self-assessments by the business are reported to and challenged by the risk function. A group-wide tool is in place to document, assess and report on the internal control environment and to enable benchmarking across entities. It includes the results of challenges and investigations – and related actions – in all material entities and processes. As such, it includes all operational risk and control assessment information across the business, risk, compliance and audit functions.

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

- Setting and cascading risk appetite: the risk appetite for operational risk is set in line with the overall requirements as defined in our overarching risk management framework.
- Risk identification: identifying operational risks involves following-up on legislation, as well as using the New and Active Product Process, analysing key risk indicators, risk challenges, deep dives, root cause analysis of losses and other risk observations.
- Risk and control metrics: as operational risk is embedded in all aspects of the organisation, group metrics standards are in place to define and support the underpinning of the risk profile of an entity, as well as of a process and individual operational risks and individual controls within the process. In addition to this, a group-wide uniform scale is used to express the overall internal control state of each process in each material entity.
- Risk response and follow-up: a uniform approach – strongly based on first-line of defence accountability and challenges by the second line of defence and assurance by the third line of defence – is in place with risk-based follow up at both local and group level.
- A standardised loss data collection process is in place, including root cause analysis and appropriate response.
- Reporting: minimum standards for the operational risk management reporting process are defined. Besides regulatory required reporting, structural reporting to the group risk committees is performed every quarter. The quality of the internal control environment and related risk exposure is reported to KBC's senior management via a management dashboard and to the ECB, the NBB and the FSMA via the annual Internal Control Statement.
- Stress testing: an annual stress test is performed to assess the adequacy of pillar 1 operational risk capital.

Operational risk and regulatory capital requirements

KBC uses the Standardised approach for operational risk capital calculation under Basel III. Operational risk capital at KBC group level totalled 887 million euros at year-end 2018, up on its 2017 level mainly because of increased business and related risk weighted assets in the Czech Republic and asset management.



Additional focus on Information Risk Management

The Group Competence Centre for Information Risk Management (IRM) focuses on information security and IT-related risks, especially risks caused by cybercrime.

Information Risk Management, including the Group Information Risk Officer function, has been fully embedded in the Group Operational Risk Competence Centre (the second line of defence), thus assuring independent challenges and opinion. It focuses on information risks, such as information security, cybercrime, operational risks for IT, vendors and third parties, the cloud, etc. It shapes the information risk framework, provides oversight, enables risk governance and helps the group's entities to strengthen their risk capabilities by:

- developing and measuring group-wide information security and IT policies;
- driving risk governance via group-wide risk reporting and oversight;
- conducting independent investigations via group-wide challenges, detailed investigations and observations;
- turning the community of information security officers into an active, strong alliance by offering on-site coaching and support;
- owning the cyber maturity tool and methodology.

Reputational risk

Reputational risk is the risk arising from the negative perception on the part of clients, counterparties, shareholders, investors, debt-holders, market analysts, other relevant parties or regulators that can adversely affect a financial institution's ability to maintain existing, or establish new business relationships and to have continued access to sources of funding (for instance, through the interbank or securitisation markets).

Reputational risk is mostly a secondary or derivative risk since it is usually connected to and will materialise together with another risk.

The Reputational Risk Management Framework is in line with the overarching KBC Risk Management Framework. The pro-active and re-active management of reputational risk is the responsibility of the business, supported by many specialist units (including Group Communication and Group Compliance). The Reputational Risk Management Framework will be updated in order to reflect the new KBC methodology on how to deal with 'step-in' risk, which is in line with the new Basel Committee on Banking Supervision guidelines for this subject area.

Under the pillar 2 approach to capital, the impact of reputational risk on the current business is covered in the first place by the capital charge for primary risks (including credit or operational risk).

Business and strategic risks

Business 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.

The world is constantly changing. As KBC pursues market opportunities, it must also prepare for potential risks arising from changing client behaviour, the quickly evolving competitive landscape, as well as from climate change and broader natural capital depletion. The latter are considered significant new game changers not only for banks, but also their clients. Consequently, emerging business risks are regularly screened and new ones actively scanned and analysed.

Business and strategic risks are assessed as part of the strategic planning process, starting with a structured risk scan that identifies the top financial and non-financial risks. Exposure to the identified business and strategic risks is monitored on an ongoing basis. Besides the risk scan, business and strategic risks are continually monitored by means of risk signals being reported to top management. In addition, these risks are discussed during the aligned planning process and are quantified under different stress test scenarios and long-term earnings assessments. Under the pillar 2 approach to capital, business risk is incorporated by performing a one-year stress test on profit or loss.

Market Risk Management (non-trading)

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

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

- 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).

Strategy and processes

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

Managing the ALM risk on a daily basis starts with risk awareness at Group Treasury and the local treasury functions. The treasury departments measure and manage interest rate risk on a playing field defined by the risk appetite. They take into account measurement of prepayment and other option risks in KBC's banking book, and manage a balanced investment portfolio. KBC's ALM limits are approved at two levels. Major limits for interest rate risk, equity risk, real estate risk and foreign exchange risk for the consolidated entities are approved by the Board of Directors. Local limits for interest rate risk, equity risk, real estate risk and foreign exchange risk are approved for each entity by the Executive Committee. Together this forms the playing field for KBC's solid first line of defence for ALM risk.

KBC's second line of defence is the responsibility of Group Risk and the local risk departments. Their main task is to measure ALM risks and flag current and future risk positions. A common rulebook and shared group measurement infrastructure ensure that these risks are measured consistently throughout the group. The ALM Risk Rulebook has been drawn up by Group Risk.

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

- a broad range of risk measurement methods such as Basis-Point-Value (BPV), gap analysis and economic sensitivities;
- net interest income simulations performed under a variety of market scenarios. Simulations over a multi-year period are used in budgeting and risk processes;
- capital sensitivities arising from banking book positions that impact available regulatory capital (e.g., fair value through other comprehensive income);
- stress testing and sensitivity analysis.

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.

Interest rate risk

Interest rate risk for the banking activities

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

Impact of a parallel 10-basis-point increase in the swap[2] curve for the KBC group Impact on value[1] (in millions of EUR)	Impact on value[1]	
	2018	2019
Banking	-65	-76
Insurance	16	12
Total	-49	-64

1 Full market value, regardless of accounting classification or impairment rules.
2 In accordance with changing market standards, sensitivity figures are based on a risk-free curve (swap curve).

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

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

Swap BPV (10 basis points) of the ALM book, banking activities* (in millions of EUR)	2018	2017
Average for 1Q	-76	-79
Average for 2Q	-64	-74
Average for 3Q	-61	-73
Average for 4Q	-65	-76
As at 31 December	-65	-76
Maximum in year	-76	-79
Minimum in year	-61	-73

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

In line with the Basel guidelines, we conduct a 200-basis-point stress test at regular intervals. It sets off the total interest rate risk in the banking book (given a 2% parallel shift in interest rates) against total capital and reserves. For the banking book at KBC group level, this risk came to 2.9% of total capital and reserves at year-end 2017. This is well below the 20% threshold, which is monitored by the National Bank of Belgium.

The following table shows the interest sensitivity gap of the ALM banking book. In order 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
31-12-2018	7 337	-5 922	763	3 558	5 561	1 512	-12 810	0
31-12-2017	-624	-7 114	4 165	5 656	4 540	2 120	-8 743	0

The interest sensitivity gap shows our overall position in interest rate risk. Generally, assets reprice over a longer term than liabilities, which means that KBC's net interest income benefits from a normal yield curve. The economic value of the KBC group is sensitive primarily to movements at the long-term end of the yield curve.

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

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 payout 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 customers a competitive profit-sharing rate. The risk of low interest rates is managed via a cashflow-matching policy, which is applied to that portion of the life insurance portfolios covered by fixed-income securities. Unit-linked life insurance investments (class 23) are not dealt with here, since this activity does not entail any market risk for KBC.

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

Expected cashflows (not discounted), life insurance activities (in millions of EUR)

	0–5 years	5–10 years	10–15 years	15–20 years	> 20 years	Total
31-12-2018						
Fixed-income assets backing liabilities, guaranteed component	6 978	4 388	1 679	1 597	799	15 442
Liabilities, guaranteed component	5 513	3 923	2 338	2 008	2 606	16 389
Difference in expected cashflows	1 465	465	-659	-411	-1 807	-947
Mean duration of assets						6.55 years
Mean duration of liabilities						9.20 years
31-12-2017						
Fixed-income assets backing liabilities, guaranteed component	8 118	4 943	2 548	1 766	1 079	18 453
Liabilities, guaranteed component	7 675	3 800	2 385	1 799	2 841	18 500
Difference in expected cashflows	443	1 143	163	-33	-1 763	-47
Mean duration of assets						6.57 years
Mean duration of liabilities						7.92 years

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	31-12-2018	31-12-2017
5.00% and higher[1]	3%	3%
More than 4.25% up to and including 4.99%	9%	9%
More than 3.50% up to and including 4.25%	5%	5%
More than 3.00% up to and including 3.50%	10%	10%
More than 2.50% up to and including 3.00%	6%	10%
2.50% and lower[2]	65%	60%
0.00%	2%	2%
Total	100%	100%

1 Contracts in Central and Eastern Europe.
2 Starting from 2016, future returns on specific insurance contracts under Belgian law have been indexed to the market (with a threshold at 1.75%).

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 – 31-12-2018	Overall	EUR	CHF	USD	GBP	CZK	HUF	PLN	Other
Banking activities	-65 418	-52 867	4	-1 583	-340	-7 352	-6 617	-1	3 339
Insurance activities	16 073	16 489	-7	3	0	222	-533	0	-101
Total*	-49 351	-36 393	-2	-1 580	-340	-7 121	-7 150	-1	3 237

Interest Rate Risk – swap BPV in thousands of EUR – 31-12-2017	Overall	EUR	CHF	USD	GBP	CZK	HUF	PLN	Other
Banking activities	-76 346	-69 300	-1	-1 185	-245	-5 802	-3 442	-2	3 630
Insurance activities	12 221	12 858	-4	0	0	132	-525	0	-240
Total*	-64 131	-56 456	-5	-1 185	-245	-5 661	-3 967	-2	3 389

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

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, together with a breakdown per country.

Exposure to sovereign bonds at year-end 2018, carrying value[1] (in millions of EUR)

Total (by portfolio)						Economic impact of +100 basis points[3]
	At amortised cost	At fair value through other comprehensive income (FVOCI)	Held for trading	Total	*For comparison purposes: total at year-end 2017*	
KBC core countries						
Belgium	11 488	3 768	79	15 336	17 474	-796
Czech Republic	5 137	1 055	342	6 534	6 737	-325
Hungary	2 004	393	82	2 479	2 406	-108
Slovakia	2 498	376	35	2 909	2 881	-166
Bulgaria	469	654	14	1 137	1 159	-63
Ireland	1 103	144	0	1 247	1 286	-55
Other countries						
France	4 231	1 836	0	6 068	6 280	-420
Spain	2 014	632	0	2 646	2 957	-129
Italy	854	1 120	0	1 974	2 178	-91
Poland	1 238	432	0	1 670	1 707	-68
US	1 008	10	0	1 018	976	-39
Germany	685	103	0	788	936	-42
Austria	458	242	0	699	803	-44
Rest[2]	2 525	1 257	4	3 786	4 630	-139
Total carrying value	35 710	12 025	557	48 292	52 410	–
Total nominal value	34 092	10 882	542	45 516	48 223	–

1 The carrying amount refers to the amount at which an asset or a liability is recognised in the company's books, i.e. the fair value amount for instruments categorised as 'At fair value through other comprehensive income' and 'Held for trading', and the amortised cost for instruments categorised as such. 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 0.5 billion euros at year-end 2018.
3 Theoretical economic impact in fair value terms of a parallel 100-basis-point upward shift in the spread over the entire maturity structure (in millions of euros). 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 very limited and amounted to -1.5 million euros at year-end 2018).

Main changes in 2018:

The carrying value of the total sovereign bond exposure decreased by 4.1 billion euros. There was a limited increase in exposure to sovereign bonds in some of our Central European markets (Hungary (+73 million euros) and Slovakia (+28 million euros)) and in the United States (+42 million euros), and a general decrease in exposure to other countries, (including Belgium (-2.1 billion euros)).

Revaluation reserve for fair value through other comprehensive income (FVOCI) assets at year-end 2018:
The carrying value of the total government bond portfolio measured at FVOCI incorporated a revaluation reserve of 0.7 billion euros, before tax (279 million euros for Belgium, 109 million euros for France, 41 million euros for Bulgaria, 38 million for Spain and 208 million euros for the other countries combined).

Portfolio of Belgian government bonds:

Despite declining, Belgian sovereign bonds accounted for 32% of our total government bond portfolio at the

end of 2018, reflecting the importance to KBC of Belgium, the group's primary core market.
At year-end 2018, the credit ratings assigned to Belgium by the three main international agencies were 'Aa3' from Moody's, 'AA' from Standard & Poor's and 'AA-' from Fitch. More information on Belgium's macroeconomic performance is provided in the separate section dealing with Belgium. For more information, please refer to the rating agencies' websites. Apart from interest rate risk, the main risk to our holdings of Belgian sovereign bonds is a widening of the credit spread. To assess the potential impact of a 100-basis-point upward shift in the spread (by year-end 2018) 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 796 million euros (see previous table).
- The IFRS approach, whose impact on IFRS profit or loss is marginal since the lion's share of the portfolio of Belgian sovereign bonds is classified as 'At amortised cost' implying that sales prior to maturity are unlikely (74.9%; impact only upon realisation). The remaining part is classified as 'FVOCI' (24.6%; no impact on profit or loss); the impact of a 100-basis-point increase on IFRS unrealised gains is -155 million euros (after tax) for FVOCI assets.

In addition, the KBC group holds a non-sovereign bond portfolio (banks, corporations and supranational bodies). The sensitivity of the value of this 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)	31-12-2018	31-12-2017
Bonds rated AAA	-146	-158
Bonds rated AA+, AA, AA-	-141	-161
Bonds rated A+, A, A-	-110	-140
Bonds rated BBB+, BBB, BBB-	-52	-80
Non-investment grade and non-rated bonds	-25	-82
Total carrying value	12 145	13 168
Total nominal value	12 082	12 921

Equity risk

The main exposure to equity is within our insurance business, where the ALM strategies are based on a risk-return evaluation, account taken of the market risk attached to open equity positions.
Please note that a large part of the equity portfolio is held for the discretionary participation feature (DPF) of insurance liabilities (especially profit-sharing in the Belgian market). Apart from the insurance entities, smaller equity portfolios are also held by other group entities, e.g., KBC Bank and KBC Asset Management. We have provided more information on total non-trading equity exposures at KBC in the tables below.

Equity portfolio of the KBC group (breakdown by sector, in %)	Banking activities		Insurance activities		Group	
	31-12-2018	31-12-2017	31-12-2018	31-12-2017	31-12-2018	31-12-2017
Financials	46%	47%	24%	24%	27%	27%
Consumer non-cyclical	1%	0%	10%	8%	9%	7%
Communication	0%	0%	3%	2%	2%	2%
Energy	0%	0%	6%	6%	5%	5%
Industrials	36%	37%	38%	39%	38%	38%
Utilities	0%	0%	2%	1%	2%	1%
Consumer cyclical	7%	8%	12%	15%	11%	14%
Materials	0%	0%	5%	6%	4%	5%
Other and not specified	10%	8%	0%	0%	2%	1%
Total	100%	100%	100%	100%	100%	100%
In billions of EUR	0.26	0.25	1.33	1.47	1.59*	1.72
of which unlisted	0.21	0.2	0.01	0.0	0.22	0.2

* The main differences between the 1.59 billion euros in this table and the 2.27 billion euros for 'Equity instruments' in the table appearing in Note 4.1 of the 'Consolidated financial statements' section of the 2018 Annual Report of KBC Group NV – besides a number of minor differences in the scope of consolidation – are that:
(a) Shares in the trading book (0.5 billion euros) are excluded above, but are included in the table in Note 4.1.
(b) Real estate participations that are not consolidated are classified as 'investments in building' in this table, but classified as 'shares' in the table in Note 4.1 (as they are not consolidated).
(c) Most 'investments in funds' are treated on a 'look-through' basis (according to the underlying asset mix of the fund and therefore also partially classified as 'fixed-income instruments'), whereas they are classified as 'shares' in the table in Note 4.1.

Impact of a 25% drop in equity prices (in millions of EUR)	2018	Impact on value 2017
Banking activities	-65	-69
Insurance activities	-332	-366
Total	-396	-436

Non-trading equity exposure (in millions of EUR)	31-12-2018	Net realised gains (in income statement) 31-12-2017	31-12-2018	Net unrealised gains on year-end exposure (in equity) 31-12-2017
Banking activities	0	89	16	60
Insurance activities	110	81	173	401
Total*	110	170	189	468

* The total figure includes gains from some equity positions directly attributable to the KBC group.

Real estate risk

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

Impact of a 25% drop in real estate prices (in millions of EUR)	Impact on value 2018	Impact on value 2017
Bank portfolios	-94	-100
Insurance portfolios	-81	-67
Total	-175	-167

Inflation risk

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

In 2018, the undiscounted value of the inflation-sensitive cashflows was estimated at 608 million euros, against which a 387-million-euro portfolio of indexed bonds was held. In the years ahead, investments in inflation-linked bonds will be increased further. The banking activities are not exposed to a significant inflation risk.

Foreign exchange risk

We pursue a prudent policy as regards our structural currency exposure, essentially seeking to avoid currency risk. Foreign exchange exposures in the ALM books of banking entities with a trading book are transferred to the trading book where they are managed within the allocated trading limits. The foreign exchange exposure of banking entities without a trading book, of the insurance entities and of other entities has to be hedged, if material. Equity holdings in non-euro currencies that are part of the investment portfolio do not need to be hedged. Participating interests in foreign currency are in principle funded by borrowing an amount in the relevant currency equal to the value of the net assets excluding goodwill.

Impact of a 10% decrease in currency value* (in millions of EUR)	Impact on value Banking 31-12-2018	Impact on value Banking 31-12-2017	Impact on value Insurance 31-12-2018	Impact on value Insurance 31-12-2017
USD	-0.64	-0.63	-29.66	-30.35
GBP	0.03	0.14	-16.16	-14.52
CHF	0.00	0.02	-7.72	-6.46
SEK	0.00	-0.00	-2.46	-2.23
RON	-2.33	-5.13	0.00	-0.00
DKK	0.00	-0.01	-1.18	-1.17
CZK	-0.67	-0.96	-0.10	0.21

* Exposure for currencies where the impact for one sector activity exceeds 0.5 million euros.

Capital sensitivity to market movements

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

Common equity tier-1 (CET1) capital is most sensitive to a parallel increase in bond spreads. This sensitivity is caused by investments in sovereign and corporate bonds whose spread component has not been hedged.

The loss in available capital in the event of a fall in equity prices is caused primarily by positions in pension funds that would be hit by such a shock.

CET1 sensitivity to main market drivers (under Danish compromise), KBC group (as % of CET1) IFRS impact caused by	31-12-2018	31-12-2017
+100-basis-point parallel shift in interest rates	-0.0%	-0.2%
+100-basis-point parallel shift in spread	-0.2%	-0.7%
-25% in equity prices	-0.2%	-0.2%
Joint scenario	-0.4%	-1.2%

Hedge accounting

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

KBC decided not to apply the hedge accounting for credit and equity risks. Hedge accounting is implemented at group and local level. When the necessary criteria are met, hedge accounting is applied to remove the accounting mismatch between the hedging instrument and the hedged item. For more information about hedge accounting, please see 'Notes to the accounting policies' in the 'Consolidated financial statements' section of the 2018 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 inter alia for mortgages, loans to SMEs and 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 in non-euro denominated currencies. The net asset value of significant participations is funded in the local currency by deposits and foreign exchange derivatives. 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, and 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 to qualify the strategy for hedge accounting.
Prospective tests are mostly based either on a sensitivity analysis (verifying if the basis point value of the hedged portfolio versus 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 cashflow macro hedges, extensive forward-looking analysis 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 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 nominal amount of the net asset value 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 discrepancy 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, which has an impact on profit and loss. 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.

Liquidity Risk Management

Liquidity risk is the risk that an organisation will be unable to meet its liabilities/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.
Since the financial crisis, there has been a greater focus on liquidity risk management throughout the industry, and this has been intensified by the minimum liquidity standards defined by the Basel Committee, which have been transposed into European law through CRR/CRD IV.

Strategy, policies and processes

Liquidity management is organised within the Group Treasury function, which acts as a first line of defence and is responsible for the overall liquidity and funding management of the KBC group. 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 and is responsible for drafting the liquidity contingency plan that sets out the strategies for addressing liquidity shortfalls in emergency situations.

The second line of defence (which includes the Risk function) covers all independent Support & Oversight Functions. The Risk function:

- is responsible for identifying, measuring, monitoring, reporting and stress testing liquidity risk on a group-wide basis, independently from the first line of defence;
- sets the standards via the KBC Liquidity Risk Management Framework and supports the business with its implementation;
- challenges the business on their risk identification, measurement and response.

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.

A group-wide 'liquidity risk management framework' is in place to define the risk playing field.

Our liquidity risk management framework is based on the following pillars:

- **Contingency liquidity risk**. This is the risk that KBC may not be able to attract additional funds or replace maturing liabilities under stressed market conditions. This risk is assessed on the basis of liquidity stress tests, which measure 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 (retail customer behaviour, professional client behaviour, drawing of committed credit lines, etc.) and liquidity inflows resulting from actions to increase liquidity ('repo-ing' the bond portfolio, reducing unsecured interbank lending, etc.). The liquidity buffer has to be sufficient to cover liquidity needs (net cash and collateral outflows) 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. The overall aim of the liquidity framework is to remain sufficiently liquid in stress situations, without resorting to liquidity-enhancing actions which would entail significant costs or which would interfere with the core banking and insurance business of the group.

- **Structural liquidity risk**. This is 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. We manage our funding structure so as to maintain substantial diversification, to minimise funding concentrations in time buckets, and to limit the level of reliance on short-term wholesale funding. We manage the structural funding position as part of the integrated strategic planning process, where funding – in addition to capital, profits and risks is one of the key elements. At present, our strategic aim is to maintain sufficiently high buffers in terms of LCR and NSFR via a funding management framework, which sets clear funding targets for the subsidiaries (own funding, reliance on intra-group funding) and provides further incentives via a system of intra-group pricing to the extent subsidiaries run a funding mismatch.
- **Operational liquidity risk**. Operational liquidity management is conducted in the treasury departments, based on estimated funding requirements. Group-wide trends in funding liquidity and funding needs are monitored on a daily basis by the Group Treasury function, ensuring that a sufficient buffer is available at all times to deal with extreme liquidity events in which no wholesale funding can be rolled over.

Besides a liquidity risk management framework and funding management framework, frameworks for stress testing, collateral management and intraday liquidity are also in place to steer the overall liquidity risk management process.

Scope of liquidity risk management

The liquidity risk report covers most material entities of the KBC group that carry out banking activities, i.e. KBC Bank NV, CBC Banque SA, KBC Lease, KBC Investments Limited (formerly KBC Financial Products), ČSOB Bank Group Czech Republic, ČSOB Bank Group Slovak Republic, KBC Bank Ireland, UBB, KBC Credit Investments, KBC Finance Ireland, KBC Commercial Finance, IFIMA and K&H Bank.

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'. At year-end 2018, KBC had attracted 24 billion euros' worth of funding on a gross basis from the professional interbank and repo markets.

Liquidity risk (excluding intercompany deals)* (in billions of EUR)	<= 1 month	1-3 months	3-12 months	1-5 years	5-10 years	> 10 years	On demand	not defined	Total
31-12-2018									
Total inflows	33	9	21	64	49	33	17	23	249
Total outflows	38	13	9	35	5	1	122	25	249
Professional funding	14	3	2	5	0	0	0	0	24
Customer funding	19	8	4	6	2	0	122	0	161
Debt certificates	1	2	3	24	3	1	0	0	34
Other	5	-	-	-	-	-	-	25	30
Liquidity gap (excl. undrawn commitments)	-5	-4	-12	29	43	32	-105	-2	0
Undrawn commitments	-	-	-	-	-	-	-	-37	-
Financial guarantees	-	-	-	-	-	-	-	-10	-
Net funding gap (incl. undrawn commitments)	-5	-4	12	29	43	32	-105	-49	-47
31-12-2017									
Total inflows	34	13	17	65	46	32	28	22	256
Total outflows	45	18	8	41	7	1	112	25	256
Professional funding	18	8	1	5	0	0	1	0	34
Customer funding	21	9	4	8	1	0	111	0	153
Debt certificates	3	1	3	28	6	1	0	0	41
Other	3	–	–	–	–	–	–	25	28
Liquidity gap (excl. undrawn commitments)	-12	-5	10	24	39	31	-84	-3	0
Undrawn commitments	–	–	–	–	–	–	–	-36	–
Financial guarantees	–	–	–	–	–	–	–	-10	–
Net funding gap (incl. undrawn commitments)	-12	-4	5	26	37	32	-84	-38	-46

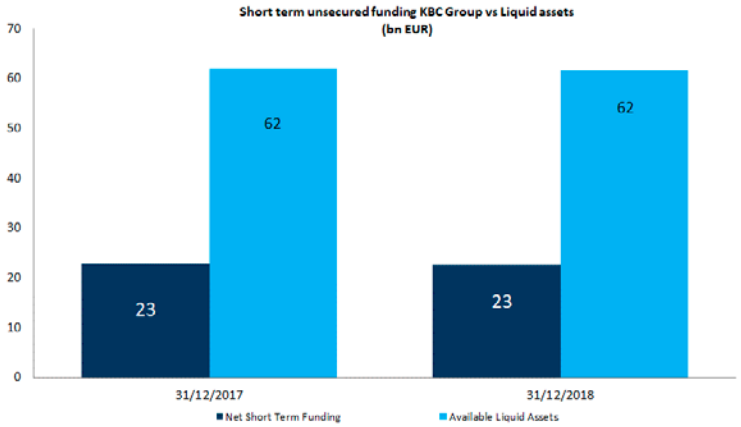
* Cashflows exclude interest rate flows consistent with internal and regulatory liquidity reporting. Inflows/outflows that arise from margin calls posted/received for MtM positions in derivatives are reported in the 'Not defined' bucket. 'Professional funding' includes all deposits from credit institutions 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 2018 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.

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

Liquid asset buffer

We have a solid liquidity position. At year-end 2018, the KBC group had 62 billion euros' worth of unencumbered central bank eligible assets*, 52 billion euros of which in the form of liquid government bonds (85%). The remaining available liquid assets were mainly other ECB/FED eligible bonds (13%). Most of the liquid assets are expressed in euros, Czech koruna and Hungarian forint (all home market currencies). Unencumbered liquid assets were almost three times the amount of net short-term wholesale funding, while funding from non-wholesale markets was accounted for by stable funding from core customer segments in our core markets.

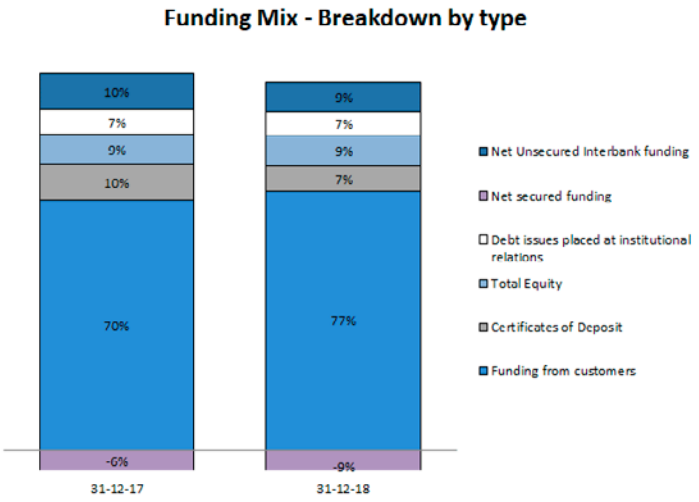
**The figures for these assets take legal lending limits into account, unlike in the 2017 Annual Report of KBC Group NV.*



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 (at 31 December 2018) can be broken down as follows:



Funding from customers (circa 163.8 billion euros, 77% of the total figure), consisting of demand deposits, time deposits, savings deposits, other deposits, savings certificates and debt issues placed in the network. Some 62% of the funding from customers relates to private individuals and SMEs.

- Debt issues placed with institutional investors (14.9 billion euros, 7% of the total figure), mainly comprising IFIMA debt issues (0.9 billion euros), covered bonds (7.9 billion euros), tier-2 issues (2 billion euros) and KBC Group NV senior debt (4.0 billion euros).
- Net unsecured interbank funding (18.6 billion euros, 9% of the total figure).
- Net secured funding (-20.1 billion euros in repo funding, -9% of the total figure) and certificates of deposit (15.6 billion euros, 7% of the total figure). Net secured funding was negative at year-end 2018 due to the fact that KBC carried out more reverse repo transactions than repo transactions.
- Total equity (19.6 billion euros, 9% of the total figure, including additional tier-1 issues of 1.4 billion euros and 1.0 billion euros).

Please note that:

- In November 2012, we announced our 10-billion-euro Belgian residential mortgage covered bonds programme. 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. Since then, we have issued covered bonds each year (including 1.0 billion euros' worth in 2018).
- In 2016 and 2017, we borrowed 4.2 billion euros and 2.3 billion euros, respectively, from the ECB under the targeted longer-term refinancing operations (TLTRO II).
- The 1.4-billion-euro additional tier-1 instrument issued in 2014 is still included in the year-end figures, but will be called on 19 March 2019.

LCR and NSFR

Both the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) are defined in the 'Glossary of ratios and terms'. At year-end 2018, our NSFR stood at 136% while our twelve-month average LCR for 2018 came to 139%. 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. The NSFR is calculated based on the latest proposal for a regulation amending the CRR (Regulation (EU) No 575/2013.

LCR quantitative information (Template EU LIQ1)

"KBC Bank Consolidated (in million EUR)"		Total unweighted value (average)				Total weighted value (average)			
Quarter ending on		31 March '18	30 June '18	30 September '18	31 December '18	31 March '18	30 June '18	30 September '18	31 December '18
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)					**81 098**	**81 016**	**79 747**	**79 310**
CASH-OUTFLOWS									
2	"Retail deposits and deposits from small business customers of which:"	90 808	92 721	94 084	95 315	7 686	7 819	7 948	8 110
3	Stable deposits	42 683	43 937	44 164	43 405	2 134	2 197	2 208	2 170
4	Less stable deposits	48 018	48 696	49 866	51 893	5 446	5 534	5 686	5 922
5	Unsecured wholesale funding	74 106	75 297	75 167	74 761	52 236	52 700	51 741	50 614
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	763	594	460	284	191	149	115	71
7	Non-operational deposits (all counterparties)	73 257	74 612	74 012	71 912	51 959	52 461	50 931	47 979
8	Unsecured debt	86	91	695	2 564	86	91	695	2 564
9	Secured wholesale funding					543	959	1 365	1 480
10	Additional requirements	30 449	34 970	35 216	35 142	13 259	17 875	18 137	18 089
11	Outflows related to derivative exposures and other collateral requirements	10 019	14 601	14 825	14 691	10 019	14 600	14 788	14 652
12	Outflows related to loss of funding on debt products	0	0	0	3	0	0	0	3
13	Credit and liquidity facilities	20 430	20 369	20 391	20 448	3 239	3 274	3 349	3 434
14	Other contractual funding obligations	1 418	2 199	3 594	3 880	1 352	2 064	3 274	3 477
15	Other contingent funding	4 380	4 342	3 526	2 406	0	0	0	0
16	TOTAL CASH OUTFLOWS					**75 075**	**81 417**	**82 465**	**81 770**
CASH-INFLOWS									
17	Secured lending (e.g. reverse repos)	26 084	28 005	29 953	30 485	347	405	430	507
18	Inflows from fully performing exposures	8 902	9 906	10 663	9 894	7 026	8 081	8 905	8 243
19	Other cash inflows	13 594	19 011	20 161	20 780	9 362	14 593	15 499	15 779
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	**48 580**	**56 922**	**60 776**	**61 159**	**16 735**	**23 078**	**24 834**	**24 529**
EU-20a	Fully exempt inflows	0	0	0	0	0	0	0	0
EU-20b	Inflows Subject to 90% Cap	0	0	0	0	0	0	0	0
EU-20c	Inflows Subject to 75% Cap	48 466	56 681	60 414	60 874	16 735	23 078	24 834	24 529
21	LIQUIDITY BUFFER					**81 098**	**81 016**	**79 747**	**79 310**
22	TOTAL NET CASH OUTFLOWS					**58 340**	**58 339**	**57 631**	**57 241**
23	LIQUIDITY COVERAGE RATIO (%)					**139%**	**139%**	**138%**	**139%**

Derivatives exposures and potential collateral calls

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

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

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

Currency mismatch in LCR

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

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

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

Asset encumbrance

KBC is a retail-oriented bank that finances 77% 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 purposes. 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. The regulator imposed a limit on the programme corresponding to 8% of the balance sheet of KBC Bank NV (stand-alone), or 10 billion euros. When the programme reaches full capacity, it will account for about 50% of all long-term institutional wholesale funding raised by KBC. Covered bonds are not intended to increase the overall size of the balance sheet, as other sources of funding will merely be replaced by covered bonds. As a consequence, covered bonds do not negatively affect the solvency ratios or leveraging of KBC Bank.

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

A relatively small part of the loan book is pledged directly as collateral for intraday liquidity and for Targeted Longer-Term Refinancing Operations (TLTROs) or other ECB funding. KBC prefers to record non-LCR collateral for these operations, thereby safeguarding the LCR-eligible liquidity buffer. Using this illiquid collateral increases encumbrance in relative terms due to the high haircut used.

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 Fa 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. Given the regulatory imposed limit of 8% on cover assets, there should be more than sufficient mortgage assets available for the additional buffer.

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 45.6 billion euros, 45% of which are debt securities (18.7 billion euros issued by general governments) and 25% mortgage loans (11.3 billion euros).

Template A - Encumbered and unencumbered assets		Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
31/12/2018			of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA		of which EHQLA and HQLA*
(in millions of EUR)		010	030	040	050	060	080	090	100
010	**Assets of the reporting institution**	45 950				222 569			
030	Equity instruments	0				852			
040	Debt securities	20 820		21 300		24 307		25 000	
050	of which: covered bonds	0		0		3 193		3 193	
060	of which: asset-backed securities	0		109		684		684	
070	of which: issued by general governments	18 731		18 745		19 503		19 429	
080	of which: issued by financial corporations	1 666		2 088		3 434		4 316	
090	of which: issued by non-financial corporations	0		21		713		490	
120	Other assets	26 389				197 633			
121	of which: mortgage loans	11 330				67 266			

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

Of the encumbered collateral received, 1.4 billion euros was accounted for by debt securities issued by general governments and financial corporations (primarily central banks).

Template B - Collateral received 31/12/2018		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	
			of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA
(in millions of EUR)		010	030	040	060
130	Collateral received by the reporting institution	4 679		32 187	
140	Loans on demand	0		0	
150	Equity instruments	0		0	
160	Debt securities	1 408		32 186	
170	of which: covered bonds	0		200	
180	of which: asset-backed securities	0		0	
190	of which: issued by general governments	631		10 652	
200	of which: issued by financial corporations	551		669	
210	of which: issued by non-financial corporations	0		2	
220	Loans and advances other than loans on demand	0		0	
230	Other collateral received	3 480		0	
240	**Own debt securities issued other than own covered bonds or asset-backed securities**	0		0	
241	**Own covered bonds and asset-backed securities issued and not yet pledged**			0	
250	**TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED**	50 838			

The sources of asset encumbrance (i.e. the matching financial liabilities in the table below) total 35.9 billion euros.

Template C - Sources of encumbrance 31/12/2018		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received tand own debt securities issued other than covered bonds and ABSsencumbered
(in millions of EUR)		010	030
010	Carrying amount of selected financial liabilities	35 926	50 490

At year-end 2018 (point-in-time), these consisted mainly of:

- Own covered bonds issued (8.2 billion euros, 38% of the total figure)
- TLTROs (6.5 billion euros, 30% of the total figure)
- OTC derivatives (5.8 billion euros, 27% of the total figure)
- Repurchase agreements (1.2 billion euros, 5% 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 2018 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 not only the processes that are in place to support the ILAAP, but also 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.

Insurance Risk Management

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

Strategy, scope and processes

The Group risk function 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 following insurance subsidiaries: KBC Insurance (Belgium), Maatschappij voor randherverzekering, KBC Group Re, K&H Insurance, ČSOB Pojišťovna (Czech Republic), ČSOB Poist'ovňa (Slovak Republic) and DZI Insurance.

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

- Adequate identification and analysis of material insurance risks by, inter alia, analysing new emerging risks, concentration or accumulation risks, and developing early warning signals.
- Appropriate risk measurements and use of these measurements to develop applications aimed at guiding the company towards creating maximum shareholder value. Examples include best estimate valuations of insurance liabilities, ex post economic profitability analyses, natural catastrophe and other life, non-life and health exposure modelling, stress testing and required internal capital calculations.
- Determination of insurance risk limits and conducting compliance checks, as well as providing advice on reinsurance programmes.

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 subtypes included under 'Life' and 'Non-life' also appear in the 'Health' category.

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

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

Insurance risk measurement

We develop models from the bottom up for all material group-wide insurance liabilities, i.e. (i) future claims that will occur over a predefined time horizon, as well as the claims settlement pattern, (ii) 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, and (iii) the impact of the reinsurance programme on these claims. We use these models to steer the group's insurance entities towards creating more shareholder value, by means of applications to calculate the internal capital, support decisions on reinsurance, calculate the ex post profitability of specific sub-portfolios and set off internal capital requirements against the relevant return in pricing insurance policies.

Insurance risk management has developed an internal model for the group-wide exposure to all non-life insurance risks, including natural hazards. This model measures the most material non-life insurance risks (catastrophe and premium & reserve risk) for all group insurance and reinsurance companies, with account being taken of 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 (due, for instance, to a concentration of insured risks) by means of reinsurance. We divide these reinsurance programmes into three main groups, i.e. property insurance, liability insurance and personal insurance, and we re-evaluate and renegotiate them every year.

Most of our reinsurance contracts are concluded on a non-proportional basis, which provides cover against the impact of large claims or loss events. The independent insurance risk management function is also responsible for advising on the restructuring of the reinsurance programmes. This approach has resulted in optimising the retention of the KBC group particularly in respect of its exposure to natural catastrophe risk, but also in respect of other lines of business.

Best estimate valuations of insurance liabilities

As part of its mission to independently monitor insurance risks, the Group risk function regularly carries out in-depth studies. These confirm that there is a high degree of probability that the non-life technical provisions at subsidiary level are adequate. Various group companies conduct Liability Adequacy Tests (LAT) that meet local and IFRS requirements for life technical provisions. We make calculations using a discount rate that is set for each insurance entity based on local macroeconomic conditions and regulations.

Technical provisions and loss triangles, non-life business

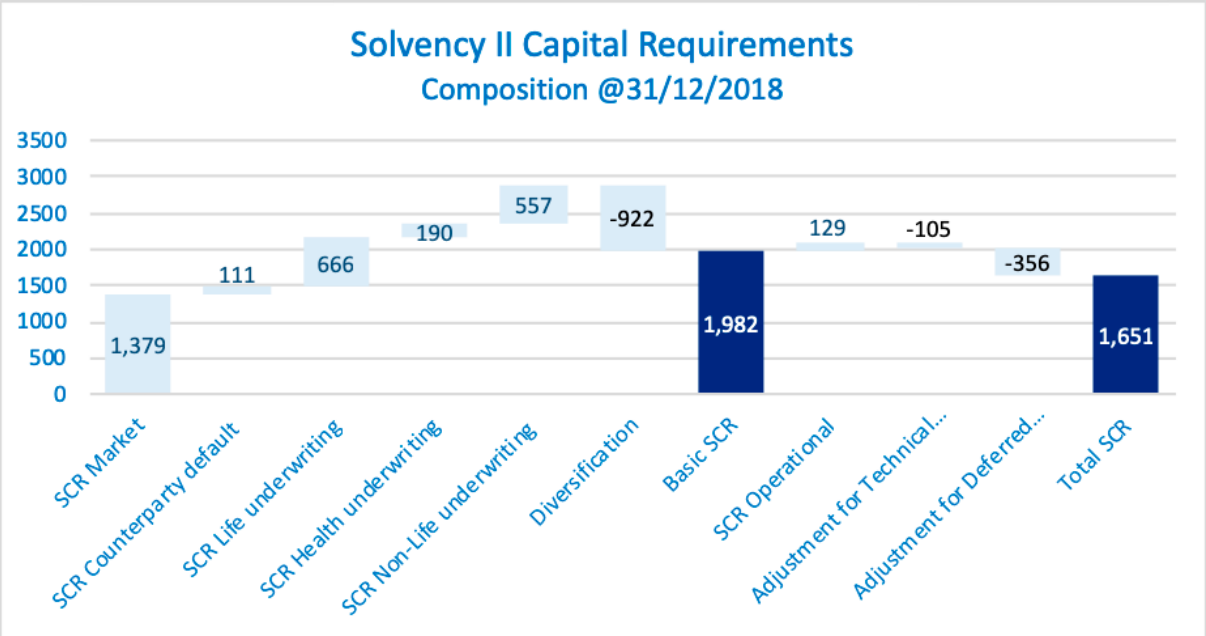
The table below shows claims settlement figures in the non-life business over the past few years and covers KBC Insurance NV, ČSOB Pojišťovna (Czech Republic), ČSOB Poist'ovňa (Slovakia), DZI Insurance, K&H Insurance and KBC Group Re. All provisions for claims to be paid at the close of 2018 have been included. 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. The provision figures included are before reinsurance. As from 2018, these figures have been adjusted to eliminate intercompany amounts related to KBC Group RE. 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 2018.

Loss triangles, KBC Insurance	Year of occurrence									
(in millions of EUR)	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Estimate at the end of the year of occurrence	756	867	810	851	916	992	943	1 027	1 004	1 076
1 year later	656	769	712	745	772	884	802	893	886	
2 years later	619	686	657	710	703	832	760	831		
3 years later	600	682	639	685	680	811	729			
4 years later	583	676	627	671	677	795				
5 years later	575	667	620	665	668					
6 years later	568	661	617	659						
7 years later	566	661	611							
8 years later	558	656								
9 years later	559									
Current estimate	559	656	611	659	668	795	729	831	886	1 076
Cumulative payments	495	584	540	557	575	668	567	601	570	436
Current provisions	65	72	71	102	92	127	162	230	315	640

Solvency II results and risk profile

Solvency II results and more detailed information on how all the ratios developed in 2018 are provided under 'Solvency of KBC Bank and KBC Insurance separately' in the 'How do we manage our capital?' section of the 2018 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 49% of undiversified basic Solvency II Pillar 1 capital.



Actuarial function

The Actuarial function is one of the key control functions that is defined in the Solvency II regulatory framework. Solvency II requires an Actuarial function to be installed in each insurance entity and at insurance group level. 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 Actuarial function:

a coordinates the calculation of technical provisions;
b ensures the appropriateness of the methodologies and underlying models used as well as the assumptions made in the calculation of technical provisions;
c assesses the sufficiency and quality of the data used in the calculation of technical provisions;
d compare best estimates against experience;
e informs the administrative, management or supervisory body of the reliability and adequacy of the calculation of technical provisions;
f oversees the calculation of technical provisions when there is insufficient data of appropriate quality to apply a reliable actuarial method;
g expresses an opinion on the overall underwriting policy;
h expresses an opinion on the adequacy of reinsurance arrangements; and
i contributes 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 2018 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.

New developments

Brexit

At the time this report was approved by the Board of Directors in mid-March 2019, the outcome of the Brexit negotiations was still uncertain. Despite the political labyrinth involved, we are working on the assumption that there will be a Brexit deal before or after the 29 March deadline, i.e. a 'softish' but not a 'smooth' Brexit scenario. This means that a transition deal would be agreed that will last until the end of 2020. Negotiations on a final deal during that period are most likely to move towards a deal entailing free trade in goods, broad regulatory alignment and the absence of a hard border on the island of Ireland. It is also assumed that the details of that deal and the broader outline of the proposed future relationship between the UK and the EU would ensure that Brexit will not materially derail the expected growth scenario for either the euro area or the UK. Aside from this assumption, KBC is keeping track of all the possible consequences of any harder scenarios, with strategic contingency plans being developed in 2018.

KBC Bank London branch

The Prudential Regulatory Authority of the Bank of England has confirmed that KBC does not have to apply separately to be part of the Temporary Permissions Regime because we had already submitted our application for direct authorisation as a third-country branch in April 2018. Provided the ECB also agrees with KBC's application to act as a third-country branch in the UK, KBC's UK activities will be safeguarded for a period of three years.

Clearing of derivatives by UK players

At the end of December 2018, the EU also decided on emergency measures for issues that could cause financial disruption or systemic risks, such as the derivative clearing business in a hard Brexit scenario. This resulted in transitional arrangements for EU banks and companies, which would be allowed to continue using UK-based clearing houses to process derivatives trades if Brexit negotiations fail, but strictly for the short term (one year for derivatives and two years for central securities depositaries). In order to deal with the limited transition period, KBC is already active on an alternative platform for derivatives clearing on the EU continent.

Domains affected most in the event of Brexit:

KBC Bank Ireland: The open nature of the Irish economy and its close links to the UK underpin the consensus view that, on balance, the impact of a hard Brexit on Ireland is likely to be negative. Available impact studies suggest a hard Brexit could lower annual Irish real growth by 3-7%. This effect would be felt predominantly over a three to five-year period. However, these negative effects may be offset by several positive ones.
For instance, an ESRI (Economic & Social Research Institute) study suggests significant offsetting gains because of the relocation of UK-based institutions to Ireland. Even on reasonably conservative assumptions, such inflows could boost GDP by up to 3%. Moreover, significant disinflationary impulses can be expected that would assist competitiveness and support household consumer power.
Exposure to corporations and SMEs: the most affected export sectors are likely to be agriculture and the agri-food and textiles industries, as they will suffer from a further depreciation of Sterling and higher tariff rates.
Net interest income: a hard Brexit could slow down economic growth and inflation in the euro area and as such contribute to lower interest rates for a longer period.
Asset management activities: we expect the fee business to be impacted shoud there be a significant fall on the UK and European stock markets.

Interest Rate Benchmarks

Interest rate benchmarks play a key role in the smooth functioning of the financial markets and are widely used by banks and other market participants. These benchmarks are currently undergoing in-depth reforms. After the scandals surrounding the setting of LIBOR the UK's Financial Conduct Authority announced that it would no longer oblige banks to contribute to the LIBOR-setting panel from the end of 2020. In the European Union, the Benchmark Regulation (EU 2016/1011 (BMR), which isdue to come into effect on 1 January 2020) sets revised guidelines and regulations on the eligibility of a benchmark calculation methodology to move the focus away from 'professional judgement' to a more transaction based methodology. The European Security and Markets Association (ESMA) was given the role of overseeing this transition. The ECB has launched two initiatives in this field: the development of a daily euro unsecured overnight interest rate (ESTER) and the set-up of an industry working group, together with other European institutions, tasked with identifying alternative risk-free rates for widespread adoption. In this context, KBC has set up a working group to quantify the risks associated with these changes and to prepare a transition plan. It is monitoring all market developments and is contributing to the public consultations run by the ECB Risk Free Rate Working Group. KBC will also launch pre-studies and implementation plans for ESTER.

Model Risk

Given the increased use of advanced modelling solutions in various business functions, the Risk Management Committee decided in October 2018 to implement an action plan to improve model risk management for all models throughout the KBC group. It will be applied across business domains (banking, insurance, asset management) and across the different types of modelling techniques (regression, machine learning, expert-based, etc.). KBC will create a model inventory, providing a complete overview of all models used, including an insight into the related risk. For the purpose of labelling model risk, KBC will consider intrinsic model uncertainty, materiality, the use and the maturity of governance applying to a model. This will provide the basis for defining priorities and establishing domain and country-specific action plans.

Digital Transformation in Risk Management

Digitisation is a crucial factor that is impacting and transforming the world around KBC. This trend brings not only new challenges for risk management, it also creates opportunities. During 2018, the Risk function invested even more energy in achieving alignment with KBC's front-office functions by exploring the internal use of robotic process automation, big data and artificial intelligence, and FinTech/RegTech solutions. These trends can typically improve the internal efficiency of processes, and allow risk management to gain new insights into specific risk types. By partnering with innovation facilitators, the Risk function is not only developing new skills and knowledge to better understand the risks related to the digital trends impacting our business, it is also learning how to leverage usage of trends to improve our risk management (toolset)."

Climate change

Climate-related risks and opportunities remain high on the agenda of the business and control functions such as Risk, Compliance and Legal. These risks are covered by the KBC Corporate Sustainability Strategy, are continuously monitored and, if necessary, reported in the form of risk signals to senior management.
To deal with the growing expectations of different stakeholders such as institutional investors, governments and clients, a sustainable finance project was launched in 2018 to further support the gradual implementation of climate-related risks into the overall KBC Risk Management Framework in a more structured way.

In recent years, KBC has taken several steps towards managing climate-related risks and implementing sustainability within its core strategy and business:

- KBC became a supporting company of the Task Force on Climate-Related Financial Disclosures (TCFD) in December 2017.
- KBC is already actively engaged in the transition to a low-carbon economy, and manages these risks by having strict policies in place to limit the environmental impact of our core lending, investment and insurance activities.
- The KBC Group Sustainability Framework was added to the New and Active Product Process (NAPP) charter. When deciding on any new products, sustainability and climate-related policies have to be taken into account.
- KBC issued its inaugural KBC Green Bond in June 2018 and continues to focus on SRI product development.
- The impact of more extreme weather conditions is incorporated into the Insurance Risk Management Framework. KBC uses a number of internal and external measures to analyse the impact of acute natural catastrophe risks. These risks are also analysed in multiple internal and external stress tests and in ad hoc deep dives following risk signals or management requests.
- During the latest risk scan exercise, climate change was acknowledged as a top risk for KBC (it is also included in the strategic Alignment of Planning Cycles (APC) process).

We continue to disclose climate-related issues under the Carbon Disclosure Project (for which we have achieved an 'A-' Leadership score, whereas the average sector score is 'B-', both in Europe and worldwide). This is the highest score awarded by the international organisation, reflecting KBC's awareness of climate issues, management methods and its progress in acting on climate change.

Annexes

Annex I

Balance Sheet Reconciliation

Disclosure according to Article 2 in Commission implementing regulation (EU) No 1423/2013

Capital Base (EUR)	Financial statements 31-12-2018 (*)	Deconsolidation insurance	Prudential treatment	Own funds 31-12-2018 (*)
Total regulatory capital, KBC Group (after profit appropriation)				18 217 294 301
Tier-1 capital				16 149 762 175
Common equity				15 149 762 225
Parent shareholders' equity	17 233 049 307	-241 075 865		16 991 973 442
Intangible fixed assets (incl. deferred tax impact) (-)	-609 927 986	26 120 929		-583 807 057
Goodwill on consolidation (incl. deferred tax impact) (-)	-719 380 537	117 726 148		-601 654 389
Minority interests				
AFS revaluation reserve (sovereign bonds) (-)	1 263 129 381	-258 223		1 262 871 158
Hedging reserve (cashflow hedges) (-)	-14 413 151			-14 413 151
Valuation diff. in fin. liabilities at fair value - own credit risk (-)				-63 133 033
Value adjustment due to the requirements for prudent valuation (-)				-1 040 389 190
Dividend payout (-)			-7 328 986	-7 328 986
Renumeration of AT1 instruments (-)				-91 259 655
Deduction re. financing provided to shareholders (-)				-31 833 094
IRB provision shortfall (-)				-100 086 112
Deferred tax assets on losses carried forward (-)	-571 177 708	0		-571 177 708
Additional going concern capital				999 999 950
CRR compliant AT1 instruments	999 999 950			999 999 950
Tier 2 capital				2 067 532 126
IRB provision excess (+)				203 811 933
Subordinated liabilities	2 410 957 712	-500 000 000	-47 237 519	1 863 720 193

(*) 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

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)								
1	Issuer	KBC Group NV	KBC Group NV	KBC Group NV	KBC Group NV	KBC Group NV	KBC Group NV	KBC Group NV
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement	BE0002592708	BE0002475508	BE0002290592	BE0002479542	BE0002475508	BE0002485606	BE0002223890
3	Governing law(s) of the instrument	Belgian/ English	Belgian/ English	Belgian/ English	Belgian/ English	Belgian/ English	Belgian/ English	Belgian/ English
	Regulatory treatment							
4	Transitional CRR rules	Additional Tier 1	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
5	Post-transitional CRR rules	Additional Tier 1	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
7	Instrument type (types to be specified by each jurisdiction)	Additional Tier 1 as published in Regulation (EU) No 575/2013 article 52	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)	as published in Regulation	EUR 149m	EUR 500m	EUR 750m	EUR 25m	EUR 748m	EUR 10m
9	Nominal amount of instrument	EUR 1,000m	EUR 150m	EUR 500m	EUR 750m	EUR 25m	EUR 750m	EUR 10m
9a	Issue price	100%	98.8%	99 738%	99 874%	98.8%	99 494%	100.00%
9b	Redemption price	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
10	Accounting classification	Equity	Liability	Liability	Liability	Liability	Liability	Liability
11	Original date of issuance	24 April 2018	24 July 2014	18 September 2017	25 November 2014	2 February 2015	11 March 2015	6 March 2015
12	Perpeptual or dated	Perpetual	dated	dated	dated	dated	dated	dated
13	Original maturity date	No maturity	24 July 2029	18 September 2029	25 November 2024	24 July 2029	11 March 2027	6 March 2025

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

Capital instruments' main features template (1)								
14	Issuer call subject to prior supervisory approval	Yes	Yes	Yes	Yes	Yes	Yes	Yes
15	Optional call date, contingent call dates, and redemption amount	24 October 2025 Tax Gross-up call and Tax Deductibility Call At the Prevailing Principal Amount together with accrued interest	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	25 November 2019 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	11 March 2022 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	on every Interest Payment Date starting with 24 October 2018 (24 April, 24 October)	n/a	n/a	n/a	n/a	n/a	n/a
	Coupons / dividends							
17	Fixed or floating dividend/ coupon	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 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 1.98%	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 1.50%	fixed
18	Coupon rate and any related index	4,250% per annum To be reset on every Reset Date	3 125% to be reset on 24 July 2024.	1 625 per cent to be reset on 18 September 2024	2 375 per cent to be reset on 25 November 2019.	3 125 per cent to be reset on 24 July 2024.	1 875 per cent to be reset on 11 March 2022.	EUR 20.00 per Calculation amount
19	Existence of a dividend stopper	No	No	No	No	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No	No	No	No	No
22	Noncumulative or cumulative	Non-cumulative	Cumulative	Cumulative	Cumulative	Cumulative	Cumulative	Cumulative
23	Convertible or 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
25	If convertible, fully or partially	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

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

Capital instruments' main features template (1)								
27	If convertible, mandatory or optional conversion	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
29	If convertible, specify issuer of instrument it converts into	n/a	n/a	n/a	n/a	n/a	n/a	n/a
30	Write-down features	Yes	No	No	No	No	No	No
31	If write-down, write-down trigger (s)	CET1 ratio < 5 125%	n/a	n/a	n/a	n/a	n/a	n/a
32	If write-down, full or partial	partially or fully	n/a	n/a	n/a	n/a	n/a	n/a
33	If write-down, permanent or temporary	Temporary	n/a	n/a	n/a	n/a	n/a	n/a
34	If temporary write-down, description of write-up mechanism	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
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	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
36	Non-compliant transitioned features	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

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

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)								
1	Issuer	KBC Bank NV	KBC Bank NV	KBC Bank NV	KBC Bank NV	KBC Bank NV	KBC Bank NV	KBC Bank NV
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement	BE0119284710	Grouped certificates	Grouped certificates	Grouped certificates	Grouped certificates	Grouped certificates	Grouped sub. term accounts
3	Governing law(s) of the instrument	Belgian/British	Belgian	Belgian	Belgian	Belgian	Belgian	Belgian
	Regulatory treatment							
4	Transitional CRR rules	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
5	Post-transitional CRR rules	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 Consoli-dated	Solo and Consoli-dated	Solo and Consoli-dated	Solo and Consoli-dated	Solo and Consoli-dated	Solo and Consoli-dated
7	Instrument type (types to be specified by each jurisdiction)	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 49,3m	EUR 0m	EUR 0m	EUR 0m	EUR 0m	EUR 12m	EUR 0m
9	Nominal amount of instrument	GBP 43,5m	EUR 0m	EUR 0m	EUR 0m	EUR 2m	EUR 62m	EUR 0.2m
9a	Issue price	100%						
9b	Redemption price	At par	At par	At par	At par	At par	At par	At par
10	Accounting classification	Liability	Liability	Liability	Liability	Liability	Liability	Liability
11	Original date of issuance	19 December 2003						
12	Perpetual or dated	Perpetual	Dated	Dated	Dated	Dated	Dated	Dated
13	Original maturity date	No maturity	5 Years after issuance	6 Years after issuance	8 Years after issuance	9 Years after issuance	10 Years after issuance	9 Years after issuance
14	Issuer call subject to prior supervisory approval	Yes	n/a	n/a	n/a	n/a	n/a	n/a

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

Capital instruments' main features template (1)								
15	Optional call date, contingent call dates, and redemption amount	n/a	n/a	n/a	n/a	n/a	n/a	n/a
16	Subsequent call dates, if applicable	19 December 2019 on every Interest Payment Date thereafter	n/a	n/a	n/a	n/a	n/a	n/a
	Coupons / dividends							
17	Fixed or floating dividend/coupon	fixed to floating						
18	Coupon rate and any related index	6,202% per annum - rate after 19/12/2019 : 3m LIBOR + 193 bp						
19	Existence of a dividend stopper	No	No	No	No	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	Yes	No	No	No	No	No	No
22	Noncumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	Convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	In the event of a general *concusus creditorum*	n/a	n/a	n/a	n/a	n/a	n/a
25	If convertible, fully or partially	fully	n/a	n/a	n/a	n/a	n/a	n/a
26	If convertible, conversion rate	In profit sharing certificates (not common stock) having a total nominal value in euro equal to the aggregate of (i) the aggregate outstanding principal amount of the Securities, (ii) accrued but unpaid interest on the Adjusted Outstanding Principal Amount, if any, with respect to the current Interest Period accrued on a daily basis to (but excluding) the date of the Mandatory Conversion, (iii) unpaid Deferred Coupons, if any, and (iv) Additional Amounts, if any (the "Mandatory Conversion Amount").	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
28	If convertible, specify instrument type convertible into	profit sharing certificates	n/a	n/a	n/a	n/a	n/a	n/a
29	If convertible, specify issuer of instrument it converts into	KBC Bank NV	n/a	n/a	n/a	n/a	n/a	n/a
30	Write-down features	No	No	No	No	No	No	No
31	If write-down, write-down trigger (s)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
32	If write-down, full or partial	n/a	n/a	n/a	n/a	n/a	n/a	n/a

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

Capital instruments' main features template (1)								
33	If write-down, permanent or 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	n/a	n/a	n/a	n/a	n/a	n/a
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	In a liquidation of the Issuer, the Holders of Profit Sharing Certificates will be entitled to the repayment of the nominal value of the Profit-Sharing Certificates, subject to the above ranking provisions, but will not be entitled to share in further liquidation proceeds of the Issuer.	Senior debt	Senior debt	Senior debt	Senior debt	Senior debt	Senior debt
36	Non-compliant transitioned features	Yes	No	No	No	No	No	No
37	If yes, specify non-compliant features	Instrument issued according to earlier rules. Features include e.g. step-up and do not include fully discretionary coupons.	n/a	n/a	n/a	n/a	n/a	n/a

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

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)							
1	Issuer	KBC Bank NV	CBC Banque SA	KBC IFIMA NV	KBC IFIMA NV	KBC IFIMA NV	KBC IFIMA NV
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement	Grouped sub. term accounts	Grouped certificates	XS0210976329	XS0238162530	total Bond Program - EUR	total Bond Program - USD
3	Governing law(s) of the instrument	Belgian	Belgian/ English	Belgian/ English	Belgian/ English	Belgian/ English	Belgian/ English
	Regulatory treatment						
4	Transitional CRR rules	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
5	Post-transitional CRR rules	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
7	Instrument type (types to be specified by each jurisdiction)	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 4m	EUR 0m	EUR 131m	EUR 19m	EUR 13m	EUR 1m
9	Nominal amount of instrument	EUR 18m	EUR 1m	USD 150m	SKK 1 450m	EUR 64m	EUR 4m
9a	Issue price			EUR 115m	EUR 48m	100.23%	100.02%
9b	Redemption price	At par	At par	At par	At par	At par	At par
10	Accounting classification	Liability	Liability	Liability	Liability	Liability	Liability
11	Original date of issuance			07/Feb/05	21/Dec/05		
12	Perpeptual or dated	Dated	Dated	Dated	Dated	Dated	Dated
13	Original maturity date	10 Years after issuance	10 Years after issuance	07/Feb/25	21/Dec/20		
14	Issuer call subject to prior supervisory approval	n/a	n/a	n/a	n/a	n/a	n/a
15	Optional call date, contingent call dates, and redemption amount	n/a	n/a	n/a	n/a	n/a	n/a
16	Subsequent call dates, if applicable	n/a	n/a	n/a	n/a	n/a	n/a
	Coupons / dividends						
17	Fixed or floating dividend/coupon			Floating (CMS-linked)	Fixed	Fixed	Fixed
18	Coupon rate and any related index			4 692%	4.05%		

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

Capital instruments' main features template (1)							
19	Existence of a dividend stopper	No	No	No	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No	No	No	No
22	Noncumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative
23	Convertible or 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
25	If convertible, fully or partially	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
27	If convertible, mandatory or optional conversion	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
29	If convertible, specify issuer of instrument it converts into	n/a	n/a	n/a	n/a	n/a	n/a
30	Write-down features	No	No	No	No	No	No
31	If write-down, write-down trigger (s)	n/a	n/a	n/a	n/a	n/a	n/a
32	If write-down, full or partial	n/a	n/a	n/a	n/a	n/a	n/a
33	If write-down, permanent or temporary	n/a	n/a	n/a	n/a	n/a	n/a
34	If temporary write-down, description of write-up mechanism	n/a	n/a	n/a	n/a	n/a	n/a
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior debt	Senior debt	Senior debt	Senior debt	Senior debt	Senior debt
36	Non-compliant transitioned features	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

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

Annex III

Transitional own funds disclosure template

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

Common Equity Tier 1 capital: instruments and reserves (1)		(A) amount at disclosure date	(B) regulation (eu) no 575/2013 article reference	(C) amounts subject to pre- regulation (eu) no 575/2013 treatment or prescribed residual amount of regulation (eu) 575/2013
1	Capital instruments and the related share premium accounts	6 939 447 798	26 (1), 27, 28, 29, EBA list 26 (3)	
	of which: Instrument type 1	n/a	EBA list 26 (3)	
	of which: Instrument type 2	n/a	EBA list 26 (3)	
	of which: Instrument type 3	n/a	EBA list 26 (3)	
2	Retained earnings	9 281 414 799	26 (1) (c)	
3	Accumulated other comprehensive income (and any other reserves)	-1 164 000 416	26 (1)	
3a	Funds for general banking risk	n/a	26 (1) (f)	
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	n/a	486 (2)	
	Public sector capital injections grandfathered until 1 January 2018	0	483 (2)	
5	Minority interests (amount allowed in consolidated CET1)	0	84, 479, 480	n/a
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	890 237 035	26 (2)	
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	15 947 099 216		
Common Equity Tier 1 (CET1) capital: regulatory adjustments				
7	Additional value adjustments (negative amount)	-63 133 033	34, 105	-13 301 681
8	Intangible assets (net of related tax liability) (negative amount)	-1 185 461 446	36 (1) (b), 37, 472 (4)	n/a
9	Empty set in the EU			
10	Deferred tax assets that rely on future profitability excluding those arising from temporary difference (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	-571 177 708	36 (1) (c), 38, 472 (5)	-130 532 394
11	Fair value reserves related to gains or losses on cashflow hedges	1 262 871 158	33 (a)	n/a
12	Negative amounts resulting from the calculation of expected loss amounts	-100 086 112	36 (1) (d), 40, 159, 472 (6)	n/a
13	Any increase in equity that results from securitised assets (negative amount)	n/a	32 (1)	n/a
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-14 413 151	33 (1) (b) (c)	n/a
15	Defined-benefit pension fund assets (negative amount)	n/a	36 (1) (e), 41, 472 (7)	n/a
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	-94 103 605	36 (1) (f), 42, 472 (8)	n/a
17	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	n/a	36 (1) (g), 44, 472 (9)	n/a

18	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	n/a	36 (1) (h), 43, 45, 46, 49 (2) (3), 79, 472 (10)	n/a
19	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	n/a	36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79, 470, 472 (11)	n/a
20	Empty set in the EU			
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	n/a	36 (1) (k)	n/a
20b	of which: qualifying holdings outside the financial sector (negative amount)	n/a	36 (1) (k) (i), 89 to 91	n/a
20c	of which: securitisation positions (negative amount)	n/a	36 (1) (k) (ii) 243 (1) (b) 244 (1) (b) 258	n/a
20d	of which: free deliveries (negative amount)	n/a	36 (1) (k) (iii), 379 (3)	n/a
21	Deferred tax assets arising from temporary difference (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	n/a	36 (1) (c), 38, 48 (1) (a), 470, 472 (5)	n/a
22	Amount exceeding the 15% threshold (negative amount)	n/a	48 (1)	n/a
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	n/a	36 (1) (i), 48 (1) (b), 470, 472 (11)	n/a
24	Empty set in the EU			
25	of which: deferred tax assets arising from temporary difference	n/a	36 (1) (c), 38, 48 (1) (a), 470, 472 (5)	n/a
25a	Losses for the current financial year (negative amount)	n/a	36 (1) (a), 472 (3)	n/a
25b	Foreseeable tax charges relating to CET1 items (negative amount)	n/a	36 (1) (l)	n/a
26	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment	-31 833 094		
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	n/a		
26b	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR	-31 833 094	481	
27	Qualifying AT1 deductions that exceeds the AT1 capital of the institution (negative amount)	n/a	36 (1) (j)	
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	-797 336 991		
29	**Common Equity Tier 1 (CET1) capital**	15 149 762 225		

Additional Tier 1 (AT1) capital: instruments				
30	Capital instruments and the related share premium accounts	999 999 950	51, 52	
31	of which: classified as equity under applicable accounting standards	999 999 950		
32	of which: classified as liabilities under applicable accounting standards	n/a		
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1	n/a	486 (3)	
	Public sector capital injections grandfathered until 1 January 2018	n/a	483 (3)	
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interest not included in row 5) issued by subsidiaries and held by third parties	n/a	85, 86, 480	n/a
35	of which: instruments issued by subsidiaries subject to phase-out	n/a	486 (3)	
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	999 999 950		

Additional Tier 1 (AT1) capital: regulatory adjustments				
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	n/a	52 (1) (b), 56 (a), 57, 475 (2)	n/a
38	Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	n/a	56 (b), 58, 475 (3)	n/a
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	n/a	56 (c), 59, 60, 79, 475 (4)	n/a
40	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	n/a	56 (d), 59, 79, 475 (4)	n/a
41	Regulatory adjustments applied to Additional Tier 1 capital in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase-out as prescribed in Regulation (EU) No 585/2013 (i.e. CRR residual amounts)	n/a		
41a	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	n/a	472, 473(3)(a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a)	
41b	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Tier 2 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	n/a	477, 477 (3), 477 (4) (a)	
41c	Amounts to be deducted from added to Additional Tier 1 capital with regard to additional filters and deductions required pre- CRR	n/a	467, 468, 481	
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	n/a	56 (e)	
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	0		
44	**Additional Tier 1 (AT1) capital**	999 999 950		
45	**Tier 1 capital (T1 = CET1 + AT1)**	16 149 762 175		
Tier 2 (T2) capital: instruments and provisions				
46	Capital instruments and the related share premium accounts	1 682 412 373	62, 63	
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	n/a	486 (4)	
	Public sector capital injections grandfathered until 1 January 2018	n/a	483 (4)	
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interest and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third party	181 307 820	87, 88, 480	26 395 217
49	of which: instruments issued by subsidiaries subject to phase-out	n/a	486 (4)	
50	Credit risk adjustments	203 811 933	62 (c) & (d)	
51	**Tier 2 (T2) capital before regulatory adjustment**	2 067 532 126		
Tier 2 (T2) capital: regulatory adjustments				
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	n/a	63 (b) (i), 66 (a), 67, 477 (2)	n/a
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institutions designed to inflate artificially the own funds of the institution (negative amount)	n/a	66 (b), 68, 477 (3)	n/a
54	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10 % threshold and net of eligible short positions) (negative amount)	n/a	66 (c), 69, 70, 79, 477 (4)	n/a
54a	Of which new holdings not subject to transitional arrangements	n/a		n/a

54b	Of which holdings existing before 1 January 2013 and subject to transitional arrangements	n/a		n/a
55	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amounts)	n/a	66 (d), 69, 79, 477 (4)	n/a
56	Regulatory adjustments applied to tier 2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	n/a		
56a	Residual amounts deducted from Tier 2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	n/a	472, 472(3)(a), 472 (4), 472 (6), 472 (8), 472 (9), 472 (10) (a), 472 (11) (a)	
56b	Residual amounts deducted from Tier 2 capital with regard to deduction from Additional Tier 1 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	n/a	475, 475 (2) (a), 475 (3), 475 (4) (a)	
56c	Amounts to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre-CRR	n/a	467, 468, 481	
57	**Total regulatory adjustments to Tier 2 (T2) capital**	0		
58	**Tier 2 (T2) capital**	2 067 532 126		
59	**Total capital (TC = T1 + T2)**	18 217 294 301		
59a	Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amount)	94 875 286 581		
	Of which:… items not deducted from CET1 (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Deferred tax assets that rely on future profitability net of related tax liability, indirect holdings of own CET1, etc.)	1 157 170 605	472, 472 (5), 472 (8) (b), 472 (10) (b), 472 (11) (b)	
	Of which:…items not deducted from AT1 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Reciprocal cross holdings in T2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc.)	n/a	475, 475 (2) (b), 475 (2) (c), 475 (4) (b)	
	Items not deducted from T2 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Indirect holdings of own T2 instruments, indirect holdings of non-significant investments in the capital of other financial sector entities, indirect holdings of significant investments in the capital of other financial sector entities etc.)	n/a	477, 477 (2) (b), 477 (2) (c), 477 (4) (b)	
60	**Total risk-weighted assets**	94 875 286 581		

Capital ratios and buffers				
61	Common Equity Tier 1 (as a percentage of total risk exposure amount	16,0%	92 (2) (a), 465	
62	Tier 1 (as a percentage of total risk exposure amount	17.0%	92 (2) (b), 465	
63	Total capital (as a percentage of total risk exposure amount	19.20%	92 (2) (c)	
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount)	8.13%	CRD 128, 129, 140	
65	of which: capital conservation buffer requirement	1 875%		
66	of which: countercyclical buffer requirement	0,25%		
67	of which: systemic risk buffer requirement	1.50%		
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	n/a	CRD 131	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	9.7%	CRD 128	
69	[non-relevant in EU regulation]			
70	[non-relevant in EU regulation]			
71	[non-relevant in EU regulation]			

Amounts below the thresholds for deduction (before risk-weighting)				
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions	46 574 595	36 (1) (h), 45, 46, 472 (10), 56 (c), 59, 60, 475 (4), 66 (c), 69, 70, 477 (4)	
73	Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions	5 543 149	36 (1) (i), 45, 48, 470, 472 (11)	
74	Empty set in the EU			
75	Deferred tax assets arising from temporary difference (amount below 10 % threshold, net of related tax liability where the conditions in Article 38 (3) are met)	462 868 242	36 (1) (c), 38, 48, 470, 472 (5)	
Applicable caps on the inclusion of provisions in Tier 2				
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	n/a	62	
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	n/a	62	
78	Credit risk adjustments included in T2 in respect of exposures subject to internal rating-based approach (prior to the application of the cap)	203 811 933	62	
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	387 897 555	62	
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)				
80	- Current cap on CET1 instruments subject to phase-out arrangements	n/a	484 (3), 486 (2) & (5)	
81	- Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	n/a	484 (3), 486 (2) & (5)	
82	- Current cap on AT1 instruments subject to phase-out arrangements	n/a	484 (4), 486 (3) & (5)	
83	- Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	n/a	484 (4), 486 (3) & (5)	
84	- Current cap on T2 instruments subject to phase-out arrangements	n/a	484 (5), 486 (4) & (5)	
85	- Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	n/a	484 (5), 486 (4) & (5)	

(1) 'N/A' inserted if the question is not applicable

Annex IV

CET 1 requirement

Joint Capital Decision (JCD) 2018 Target applicable in		2018	2019	as of 2020 (= fully loaded)
Pillar 1 minimum requirement (P1 min)	CET1	4.50%	4.50%	4.50%
	AT1	1.50%	1.50%	1.50%
	T2	2.00%	2.00%	2.00%
Pillar 2 requirement (P2R)	CET1	1.75%	1.75%	1.75%
	AT1			
	T2			
Total SREP Capital Requirement (TSCR) = LOWER BOUNDARY	CET1	6.25%	6.25%	6.25%
	Tier 1	7.75%	7.75%	7.75%
	Total capital	9.75%	9.75%	9.75%
Combined Buffer Requirement (CBR)				
Conservation buffer	CET1	1 875%	2.50%	2.50%
Systemic risk buffer	CET1	0.00%	0.00%	0.00%
O-SII buffer	CET1	1.50%	1.50%	1.50%
Countercyclical buffer	CET1	0.25%	0.45%	0.45%
Overall Capital Requirement (OCR) = MDA threshold	CET1	9 875%	10.70%	10.70%
	Tier 1	11 375%	12.20%	12.20%
	Total capital	13 375%	14.20%	14.20%
Pillar 2 Guidance (P2G)	CET1	1.00%	1.00%	1.00%
OCR+ P2G	CET1	10 875%	11.70%	11.70%
Entity specific buffer	CET1			2.30% - 4.30%
Management target = UPPER BOUNDARY	CET1			14.0% - 16.0%
	Tier 1			15.5% - 17.5%
	Total capital			17.5% - 19.5%

Annex V

Explanations of differences between accounting and regulatory exposures amounts

EU LIA: Explanations of differences between accounting and regulatory exposures amounts
The general rule under CRR/CRD IV for insurance participations is that an insurance participation is deducted from common equity at group level, unless the competent authority grants permission to apply a risk weighting instead (Danish compromise). KBC received such permission from the supervisory authority and hence reports its solvency on the basis of a 370% risk weighting being applied to the holdings of own fund instruments of the insurance company (= 2 469 million euros), after having deconsolidated KBC Insurance from the group figures. For the KBC group, this implies that the carrying values, which are presented based on the scope of regulatory consolidation, are treated in the same way as under the CRR/CRV, whereby KBC Insurance is deconsolidated from the group figures.

Annex VI

INS1 – Non-deducted participations in insurance undertakings

INS1 – Non-deducted participations in insurance undertakings	Value (EUR)
Holdings of own funds instruments of a financial sector entity where the institution has a significant investment not deducted from own funds (before risk-weighting)	2 468 506 140
Total RWAs	9 133 472 718

Annex VII

EU LI1: Differences between accounting and regulatory scopes of consolidation

EU LI1: Differences between accounting and regulatory scopes of consolidation (in millions of EUR)	31/12/2018 a Carrying values as reported in published financial statements	31/12/2018 b Carrying values under scope of regulatory consolidation
Cash, cash balances at central banks and other demand deposits from credit institutions	18 691	18 804
Financial assets	256 916	224 058
Amortised cost	216 792	211 374
Fair value through OCI	18 279	5 910
Fair value through profit or loss	21 663	6 592
Of which held for trading	6 426	6 468
Hedging derivatives	183	183
Fair value adjustments of hedged items in portfolio hedge of interest rate risk	64	64
Tax assets	1 549	1 506
Non-current assets held for sale and assets associated with disposal groups	14	14
Investments in associated companies and joint ventures	215	185
Property, equipment and investment property	3 299	2 999
Goodwill and other intangible assets	1 330	1 187
Other assets	1 610	982
Total Assets	283 808	252 268
Financial liabilities	242 626	230 614
Amortised cost	220 671	221 604
Fair value through profit or loss	20 844	7 899
Of which held for trading	5 834	5 837
Hedging derivatives	1 111	1 111
Fair value adjustments of hedged items in portfolio hedge of interest rate risk	-79	-79
Tax liabilities	380	103
Liabilities associated with disposal groups	0	0
Provisions for risks and charges	235	211
Other liabilities	2 689	2 026
Total Liabilities	264 175	232 875
Parent shareholders' equity	17 233	16 993
Additional Tier-1 instruments included in equity	2 400	2 400
Minority interests	0	0
Total Equity	19 633	19 393
Total Liabilities and Equity	283 808	252 268

Annex VIII

LI3: Outline of the differences in the scope of consolidation (entity by entity)

LI3: Outline of the differences in the scope of consolidation (entity by entity) 31/12/2019 Name of the entity	a	b	c	d	e	f
	Method of accounting consolidation	Method of regulatory consolidation				Description of the entity
		Full consolidation	Equity method	Neither consolidated nor deducted	Deducted	
KBC Bank NV	Full consolidation	x				credit institution
Almafin Real Estate NV	Full consolidation	x				real estate
Almafin Real Estate Services NV	Full consolidation	x				real estate
Immo Arenberg NV	Full consolidation	x				real estate
Apitri NV	Full consolidation	x				real estate
Bel Rom Sapte-S.R.L.	Full consolidation	x				renting of own or leased retail property
CBC BANQUE SA	Full consolidation	x				credit institution
Československá Obchodná Banka a.s.	Full consolidation	x				credit institution
ČSOB Leasing a.s.	Full consolidation	x				leasing
ČSOB Leasing Poist'ovaci Maklér s.r.o.	Full consolidation	x				leasing support services
ČSOB Real, s.r.o.	Full consolidation	x				facilities support services
ČSOB Stavebná Sporitel'na a.s.	Full consolidation	x				building savings and loans
Československá Obchodní Banka a.s.	Full consolidation	x				credit institution
Bankovní Informační Technologie s.r.o.	Full consolidation	x				automatic data processing
ČSOB Advisory a.s.	Full consolidation	x				investment administration
ČSOB Factoring a.s.	Full consolidation	x				factoring
ČSOB Leasing a.s.	Full consolidation	x				leasing
ČSOB Leasing Pojist'ovaci Maklér s.r.o.	Full consolidation	x				leasing support services
ČSOB Penzijní společnost a.s.	Full consolidation	x				pension insurance fund
Hypoteční Banka a.s.	Full consolidation	x				credit institution -mortgage loans
Patria Finance a.s.	Full consolidation	x				online securities trading
Patria Finance CF a.s.	Full consolidation	x				agency and consulting services
Radlice Rozvojová a.s.	Full consolidation	x				real estate
Ušetřeno.cz s.r.o.	Full consolidation	x				portal for price comparison
Hello Shopping Park S.R.L.	Full consolidation	x				renting of own or leased retail property
KBC Asset Management NV	Full consolidation	x				asset management

LI3: Outline of the differences in the scope of consolidation (entity by entity) 31/12/2019 Name of the entity	a	b	c	d	e	f
	Method of accounting consolidation	Method of regulatory consolidation				Description of the entity
		Full consolidation	Equity method	Neither consolidated nor deducted	Deducted	
KBC Asset Management SA	Full consolidation	x				asset management
KBC Fund Management Limited	Full consolidation	x				asset management
KBC Asset Management Participations	Full consolidation	x				asset management
ČSOB Asset Management, a.s., Investiční Společnost	Full consolidation	x				asset management
KBC Autolease NV	Full consolidation	x				leasing
KBC Lease (Luxembourg) SA	Full consolidation	x				leasing
KBC Bail Immobilier France sas	Full consolidation	x				leasing
KBC Bank Ireland Plc.	Full consolidation	x				credit institution
Danube Holdings Limited	Full consolidation	x				real estate
Glare Nominee Limited	Full consolidation	x				non-active
IIB Finance DAC	Full consolidation	x				commercial and financial loans
IIB Homeloans and Finance Limited	Full consolidation	x				Holding company
KBC Homeloans and Finance Limited	Full consolidation	x				Holding company
Premier Homeloans Limited	Full consolidation	x				home loans
KBC ACS Limited	Full consolidation	x				non-active
KBC Mortgage Finance	Full consolidation	x				mortgage finance
KBC Nominees Limited	Full consolidation	x				non-active
Fermion Limited	Full consolidation	x				mortgage administration
Intercontinental Finance	Full consolidation	x				leasing
Linkway Developments Limited	Full consolidation	x				non-active
Merrion Commercial Leasing Limited	Full consolidation	x				leasing
Merrion Equipment Finance Limited	Full consolidation	x				non-active
Merrion Leasing Assets Limited	Full consolidation	x				non-active
Merrion Leasing Finance Limited	Full consolidation	x				non-active
Merrion Leasing Industrial Limited	Full consolidation	x				non-active
Merrion Leasing Limited	Full consolidation	x				non-active
Merrion Leasing Services Limited	Full consolidation	x				leasing
Monastersky Limited	Full consolidation	x				holding company
Needwood Properties Limited	Full consolidation	x				real estate
Phoenix Funding 2 DAC	Full consolidation	x				securitisation vehicle
Phoenix Funding 3 DAC	Full consolidation	x				securitisation vehicle

LI3: Outline of the differences in the scope of consolidation (entity by entity) 31/12/2019 Name of the entity	a	b	c	d	e	f
	Method of accounting consolidation	Method of regulatory consolidation				Description of the entity
		Full consolidation	Equity method	Neither consolidated nor deducted	Deducted	
Phoenix Funding 4 DAC	Full consolidation	x				securitisation vehicle
Phoenix Funding 5 DAC	Full consolidation	x				securitisation vehicle
Phoenix Funding 6 DAC	Full consolidation	x				securitisation vehicle
Rolata Limited	Full consolidation	x				investments
KBC Commercial Finance NV	Full consolidation	x				factoring
KBC Credit Investments NV	Full consolidation	x				bond portfolio investment
KBC IFIMA SA	Full consolidation	x				financing
KBC Immolease NV	Full consolidation	x				leasing
KBC Investments Limited	Full consolidation	x				stock broker
KBC Lease Belgium NV	Full consolidation	x				leasing
KBC Real Estate Luxembourg SA	Full consolidation	x				real estate
KBC Vastgoedinvesteringen NV	Full consolidation	x				real estate
KBC Vastgoedportefeuille België NV	Full consolidation	x				real estate
Apicinq NV	Full consolidation	x				real estate
KBC Securities NV	Full consolidation	x				stock broker
KBC Securities USA LLC	Full consolidation	x				stock broker
K&H Bank Zrt.	Full consolidation	x				credit institution
K&H Autópark Bérleti és Szolgáltató Kft	Full consolidation	x				fleet management
K&H Befektetési Alapkezelő Zrt.	Full consolidation	x				security broking and fund management
K&H Csoportszolgáltató Központ Kft.	Full consolidation	x				accounting and tax collector activity
K&H Equities Tanácsadó Zrt.	Full consolidation	x				business and management consultancy
K&H Faktor Pénzügyi Szolgáltató Zrt.	Full consolidation	x				factoring
K&H Ingatlanlizing Zrt	Full consolidation	x				leasing
K&H Jelzálogbank Zrt.	Full consolidation	x				other credit granting services
Loan Invest NV "Institutionele VBS naar Belgisch recht"	Full consolidation	x				securisation company
Poelaert Invest NV	Full consolidation	x				real estate
UBB Interlease EAD	Full consolidation	x				leasing
United Bulgarian Bank AD	Full consolidation	x				credit institution
East Golf Properties EAD	Full consolidation	x				real estate
UBB Center Management EOOD	Full consolidation	x				real estate
UBB Asset Management AD	Full consolidation	x				asset management

LI3: Outline of the differences in the scope of consolidation (entity by entity) 31/12/2019 Name of the entity	a	b	c	d	e	f
	Method of accounting consolidation	Method of regulatory consolidation				Description of the entity
		Full consolidation	Equity method	Neither consolidated nor deducted	Deducted	
UBB Insurance Broker AD	Full consolidation	x				insurance agents and brokers
UBB Factoring EOOD	Full consolidation	x				factoring
2 B Delighted NV	Not consolidated (full consolidation)			x		immaterial - lighting
Asia Pacific Trading & Investment Company Limited	Not consolidated (full consolidation)			x		immaterial - lighting
2 B Delighted Italia Srl	Not consolidated (full consolidation)			x		immaterial - lighting
Wever & Ducré NV	Not consolidated (full consolidation)			x		immaterial - lighting
Almaloisir & Immobilier sas	Not consolidated (full consolidation)			x		immaterial - real estate
Brussels North Distribution NV	Not consolidated (full consolidation)			x		Immaterial - real estate
C Plus SAS	Not consolidated (full consolidation)			x		immaterial - residential building development projects
ČSOB Advisory, s.r.o.	Not consolidated (full consolidation)			x		immaterial - strategic advice for companies
ČSOB Nadácia	Not consolidated (full consolidation)			x		immaterial - real estate
Eurincasso s.r.o.	Not consolidated (full consolidation)			x		immaterial - debt recovery
Francilia Immobilier SARL	Not consolidated (full consolidation)			x		immaterial - buying and sellingof own real estate
Immo-Antares NV	Not consolidated (full consolidation)			x		immaterial - issuance of real estate certificates
Immo-Basilix NV	Not consolidated (full consolidation)			x		immaterial - issuance of real estate certificates
Immo-Beaulieu NV	Not consolidated (full consolidation)			x		immaterial - issuance of real estate certificates
Immobilière Distri-Land NV	Not consolidated (full consolidation)			x		immaterial - issuance of real estate certificates
Immo Genk-Zuid NV	Not consolidated (full consolidation)			x		immaterial - issuance of real estate certificates
Immolease-Trust NV	Not consolidated (full consolidation)			x		immaterial - real estate
Immo Lux-Airport SA	Not consolidated (full consolidation)			x		immaterial - issuance of real estate certificates
Immo Mechelen City Center NV	Not consolidated (full consolidation)			x		immaterial - real estate investment-office
Immo NamOtt NV	Not consolidated (full consolidation)			x		Immaterial - issuance of real estate certificates
Immo NamOtt Tréfonds NV	Not consolidated (full consolidation)			x		Immaterial - issuance of real estate certificates
Immo-Quinto NV	Not consolidated (full consolidation)			x		immaterial - real estate
Immo-Zénobe Gramme NV	Not consolidated (full consolidation)			x		immaterial - issuance of real estate certificates
Julienne Holdings S.à.r.l.	Not consolidated (full consolidation)			x		immaterial - holding company
Julie LH BVBA	Not consolidated (full consolidation)			x		immaterial - real estate
Juliette FH BVBA	Not consolidated (full consolidation)			x		immaterial - real estate
KB-Consult NV	Not consolidated (full consolidation)			x		immaterial - non-active
KBC Finance Ireland	Not consolidated (full consolidation)			x		immaterial - lending
KBC Financial Products (Cayman Islands) Limited "Cayman I"	Not consolidated (full consolidation)			x		immaterial - stock broker

LI3: Outline of the differences in the scope of consolidation (entity by entity) 31/12/2019 Name of the entity	a	b	c	d	e	f
	Method of accounting consolidation	Method of regulatory consolidation				Description of the entity
		Full consolidation	Equity method	Neither consolidated nor deducted	Deducted	
KBC Financial Services (Ireland) Limited	Not consolidated (full consolidation)			x		immaterial - holding
KBC Net Lease Investments LLC	Not consolidated (full consolidation)			x		immaterial - leasing
KBC Start it Fund NV	Not consolidated (full consolidation)			x		immaterial - investment company
Luxembourg North Distribution SA	Not consolidated (full consolidation)			x		immaterial - issuance of real estate certificate
Midas Life Settlements LLC	Not consolidated (full consolidation)			x		immaterial - life settlement provider
Motokov a.s.	Not consolidated (full consolidation)			x		immaterial - vehicles
Patria investiční společnost, a.s.	Not consolidated (full consolidation)			x		immaterial - asset management
Posselton Limited	Not consolidated (full consolidation)			x		immaterial - energy
Reverse Mortgage Loan Trust 2008-1	Not consolidated (full consolidation)			x		immaterial - reverse mortgages
RHVG DK NV	Not consolidated (full consolidation)			x		immaterial - issuance of real estate certificates
RHVG QT NV	Not consolidated (full consolidation)			x		immaterial - issuance of real estate certificates
RHVG RB NV	Not consolidated (full consolidation)			x		immaterial - issuance of real estate certificates
RHVG SB NV	Not consolidated (full consolidation)			x		immaterial - issuance of real estate certificates
RHVG TB NV	Not consolidated (full consolidation)			x		immaterial - issuance of real estate certificates
Soluz.io NV	Not consolidated (full consolidation)			x		immaterial - software company
SPINC SASU	Not consolidated (full consolidation)			x		immaterial - buying and selling of own real estate
TBI SAS	Not consolidated (full consolidation)			x		immaterial - residential property construction
Top-Pojištění.cz s.r.o.	Not consolidated (full consolidation)			x		immaterial - insurance arranging
Ušetřeno.cz Finanční služby, a.s.	Not consolidated (full consolidation)			x		immaterial - portal for price comparison
Weyveld Vastgoedmaatschappij NV	Not consolidated (full consolidation)			x		immaterial - issuance of real estate certificates
World Alliance Financial LLC	Not consolidated (full consolidation)			x		immaterial - reverse mortgages
Bancontact Payconiq Company NV	Equity method		x			other support activ.relating to financial services
Cash Service Company AD	Equity method		x			agents and brokers in banking services
Českomoravská Stavební Spořitelna (CMSS)	Equity method		x			building society savings
Joyn International NV	Equity method		x			IT & Consultancy
Payconiq International S.A.	Equity method		x			other support activ.relating to financial services
Payconiq Services B.V.	Equity method		x			other support activ.relating to financial services
Real Estate Participation NV	Equity method		x			real estate
Covent Garden Development NV	Not consolidated (Equity method)			x		immaterial - real estate
Covent Garden Real Estate NV	Not consolidated (Equity method)			x		immaterial - real estate
Joyn Belgium NV	Not consolidated (Equity method)			x		immaterial - data processing, hosting and related activities

LI3: Outline of the differences in the scope of consolidation (entity by entity) 31/12/2019 Name of the entity	a	b	c	d	e	f
	Method of accounting consolidation	Method of regulatory consolidation				Description of the entity
		Full consolidation	Equity method	Neither consolidated nor deducted	Deducted	
Citie NV	Not consolidated (Equity method)			x		immaterial - data processing, hosting and related activities
Joyn Urban Services BVBA	Not consolidated (Equity method)			x		immaterial - data processing, hosting and related activities
Xiongwei Lighting (Guangzhou) Co., Ltd.	Not consolidated (Equity method)			x		immaterial - lighting
Isabel NV	Equity method		x			ICT
Banking Funding Company NV	Not consolidated (Equity method)			x		immaterial - payment services
Bedrijvencentrum Regio Roeselare NV	Not consolidated (Equity method)			x		immaterial - company centre
Big Bang Ventures Comm VA	Not consolidated (Equity method)			x		immaterial - wireless telecommunications activities
Brussels I3 Fund NV	Not consolidated (Equity method)			x		immaterial - venture funds
Czech Banking Credit Bureau a.s.	Not consolidated (Equity method)			x		immaterial - ICT
ENGIE REN s.r.o.	Not consolidated (Equity method)			x		immaterial - rental services
Gasco Group NV	Not consolidated (Equity method)			x		immaterial - wholesale of industrial chemical products
Gemma Frisius-Fonds K.U. Leuven	Not consolidated (Equity method)			x		immaterial - risk capital
Justinvest NV	Not consolidated (Equity method)			x		immaterial - real estate
První Certifikačni Autorita a.s.	Not consolidated (Equity method)			x		immaterial - certification services
Rabot Invest NV	Not consolidated (Equity method)			x		immaterial - real estate
Rendex NV	Not consolidated (Equity method)			x		immaterial - financial markets administration
Sympl NV	Not consolidated (Equity method)			x		immaterial - online talent recruiter
Thanksys NV	Not consolidated (Equity method)			x		immaterial - IT & consultancy
KBC Insurance NV	Full consolidation				x	insurance company
ADD NV	Full consolidation				x	insurance broker
KBC Group Re SA	Full consolidation				x	reinsurance company
ČSOB Pojišt'ovna a.s.	Full consolidation				x	insurance company
ČSOB Poist'ovňa a.s.	Full consolidation				x	insurance company
Double U Building BV	Full consolidation				x	real estate
DZI Life Insurance Jsc	Full consolidation				x	life insurance
DZI - GENERAL INSURANCE JSC	Full consolidation				x	non-life insurance
Groep VAB NV	Full consolidation				x	holding
VAB Rijschool NV	Full consolidation				x	driving school
VAB NV	Full consolidation				x	travel assistance
K&H Biztosító Zrt	Full consolidation				x	insurance company
KBC Verzekeringen Vastgoed Nederland I BV	Full consolidation				x	real estate

LI3: Outline of the differences in the scope of consolidation (entity by entity) 31/12/2019 Name of the entity	a	b	c	d	e	f
	Method of accounting consolidation	Method of regulatory consolidation				Description of the entity
		Full consolidation	Equity method	Neither consolidated nor deducted	Deducted	
Algemene Maatschappij voor Risicobeheer NV	Not consolidated (full consolidation)			x		immaterial - insurance broker
ČSOB Pojišťovací servis, s. r. o.	Not consolidated (full consolidation)			x		immaterial - insurance broker
Depannage 2000 NV	Not consolidated (full consolidation)			x		immaterial - vehicles
KBC Zakenkantoor NV	Not consolidated (full consolidation)			x		immaterial - insurance broker
Maatschappij voor Brandherverzekering cvba	Not consolidated (full consolidation)			x		immaterial - reinsurance
Omnia NV	Not consolidated (full consolidation)			x		immaterial - travel agency
Pardubická Rozvojová, a.s.	Not consolidated (full consolidation)			x		immaterial - real estate
Probemo Dubbele Bedieningen NV	Not consolidated (full consolidation)			x		immaterial - driving school
Rijscholen Sanderus NV	Not consolidated (full consolidation)			x		immaterial - driving school
Sportcomplex Aalst NV	Not consolidated (full consolidation)			x		immaterial - rental of leisure establishments
Sportcomplex Heist-op-den-Berg NV	Not consolidated (full consolidation)			x		immaterial - rental of leisure establishments
VAB Banden Peeters NV	Not consolidated (full consolidation)			x		immaterial - vehicles
Lubaco BVBA	Not consolidated (full consolidation)			x		immaterial - vehicles
VAB Fleet Services NV	Not consolidated (full consolidation)			x		immaterial - vehicles
24+ NV	Not consolidated (full consolidation)			x		immaterial - customer care center
NLB Vita d.d.	Equity method				x	life Insurance
Macadam VAB Inspection NV	Not consolidated (Equity method)			x		immaterial - other technical tests and inspections
AIA-Pool cvba	Not consolidated (Equity method)			x		immaterial - insurance broker
AssurCard NV	Not consolidated (Equity method)			x		immaterial - computerised third-party payment system
Olympus Mobility NV	Not consolidated (Equity method)			x		immaterial - computer programming activities
Optimobil Belgium NV	Not consolidated (Equity method)			x		immaterial - vehicles
Traject NV	Not consolidated (Equity method)			x		immaterial - mobility
KBC Group NV	Full consolidation	x				bank-insurance holding company
Experience@work CVBA	Not consolidated (Equity method)			x		immaterial - business & other management consulting activities

Annex IX

CCR Exposure by exposure class and PD range – IRB Advanced approach

31/12/2018 (in millions of EUR)	PD Bucket	EAD post CRM	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density
Central governments and central banks	0.00 to <0.15	385	0%	35	25%	4	55	14%
	0.15 to <0,25	30	0%	2	35%	4	14	47%
	0.25 to <0,50	6	0%	3	50%	4	5	94%
	0.75 to <2.50	3	1%	1	47%	3	2	96%
Central governments and central banks		423	0%	41	26%	4	77	18%

31/12/2018 (in millions of EUR)	PD Bucket	EAD post CRM	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density
Corporates - Other	0.00 to <0.15	540	0%	1 051	41%	3	199	37%
	0.15 to <0,25	61	0%	69	24%	4	16	26%
	0.25 to <0,50	75	0%	168	40%	2	42	56%
	0.50 to <0.75	44	1%	96	40%	2	30	68%
	0.75 to <2.50	80	1%	215	52%	2	92	115%
	2.50 to <10.00	45	4%	198	45%	4	75	167%
	10.00 to <100.00	1	18%	5	40%	2	2	215%
	100.00 (Default)	3	100%	10	39%	2	0	0%
Corporates - Other		848	1%	1 812	41%	3	455	54%

31/12/2018 (in millions of EUR)	PD Bucket	EAD post CRM	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density
Corporates - SME	0.00 to <0.15	12	0%	120	28%	4	2	18%
	0.15 to <0,25	5	0%	71	43%	2	2	32%
	0.25 to <0,50	7	0%	125	46%	2	4	47%
	0.50 to <0.75	18	1%	104	46%	2	11	60%
	0.75 to <2.50	19	1%	230	51%	2	16	86%
	2.50 to <10.00	13	5%	163	50%	2	17	134%
	10.00 to <100.00	1	18%	9	44%	3	2	196%
	100.00 (Default)	3	100%	10	37%	3	0	0%
Corporates - SME		78	5%	832	45%	2	53	68%

31/12/2018 (in millions of EUR)	PD Bucket	EAD post CRM	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density
Corporates - Specialised Lending	0.00 to <0.15	45	0%	3	23%	5	12	26%
	0.15 to <0,25	62	0%	14	23%	5	17	28%
	0.25 to <0,50	119	0%	30	19%	4	37	31%
	0.50 to <0.75	49	1%	35	34%	3	32	66%
	0.75 to <2.50	39	1%	40	29%	4	28	70%
	2.50 to <10.00	32	3%	9	27%	4	28	89%
	10.00 to <100.00	0	18%	1	23%	1	0	92%
	100.00 (Default)	11	100%	21	25%	3	0	0%
Corporates - Specialised Lending		358	4%	153	24%	4	155	43%

31/12/2018 (in millions of EUR)	PD Bucket	EAD post CRM	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density
Institutions	0.00 to <0.15	1 496	0%	200	55%	3	648	43%
	0.15 to <0,25	107	0%	35	56%	2	71	66%
	0.25 to <0,50	64	0%	50	56%	1	45	71%
	0.75 to <2.50	38	1%	55	56%	1	45	120%
	2.50 to <10.00	16	5%	43	54%	1	27	170%
	10.00 to <100.00	0	28%	2	56%	1	0	311%
Institutions		1 720	0%	385	55%	2	836	49%

31/12/2018 (in millions of EUR)	PD Bucket	EAD post CRM	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density
Retail - Other SME	0.00 to <0.15	2	0%	95	42%		0	9%
	0.15 to <0,25	1	0%	59	47%		0	17%
	0.25 to <0,50	1	0%	70	24%		0	13%
	0.50 to <0.75	1	1%	37	14%		0	9%
	0.75 to <2.50	3	1%	78	32%		1	32%
	2.50 to <10.00	1	5%	82	21%		0	28%
	10.00 to <100.00	0	18%	83	45%		0	78%
	100.00 (Default)	0	100%	1	45%		0	0%
Retail - Other SME		9	2%	505	32%		2	22%

31/12/2018 (in millions of EUR)	PD Bucket	EAD post CRM	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density
Total (all portfolios)		3 436	1%	3 728	45%	3	1 578	46%

CCR exposure by exposure class and PD range – IRB Foundation approach

31/12/2018 (in millions of EUR)	PD Bucket	EAD post CRM	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density
Central governments and central banks	0.00 to <0.15	2	0%	1	45%	2	0	7%
Central governments and central banks		2	0%	1	45%	2	0	7%

31/12/2018 (in millions of EUR)	PD Bucket	EAD post CRM	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density
Corporates - Other	0.00 to <0.15	78	0%	60	45%	2	24	31%
	0.25 to <0,50	59	0%	66	45%	2	33	56%
	0.50 to <0.75	38	1%	47	45%	2	27	73%
	0.75 to <2.50	39	1%	59	45%	2	40	101%
	2.50 to <10.00	10	5%	213	45%	2	15	151%
	10.00 to <100.00	2	18%	11	45%	4	5	269%
	100.00 (Default)	2	100%	2	45%	2	0	0%
Corporates - Other		229	2%	455	45%	2	146	64%

31/12/2018 (in millions of EUR)	PD Bucket	EAD post CRM	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density
Corporates - SME	0.00 to <0.15	8	0%	52	45%	2	2	26%
	0.25 to <0,50	11	0%	95	45%	2	4	41%
	0.50 to <0.75	10	1%	160	45%	2	6	57%
	0.75 to <2.50	18	1%	332	45%	2	15	82%
	2.50 to <10.00	4	6%	80	45%	2	5	122%
	10.00 to <100.00	0	18%	2	45%	1	0	188%
	100.00 (Default)	0	100%	11	45%	1	0	0%
Corporates - SME		51	2%	730	45%	2	32	63%

31/12/2018 (in millions of EUR)	PD Bucket	EAD post CRM	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density
Corporates - Specialised Lending	0.00 to <0.15	4	0%	2	45%	5	2	60%
	0.25 to <0,50	1	0%	4	45%	5	0	74%
	0.50 to <0.75	8	1%	20	45%	4	8	98%
	0.75 to <2.50	17	1%	83	45%	4	22	126%
	2.50 to <10.00	0	7%	5	45%	3	1	176%
	10.00 to <100.00	0	18%	1	45%	2	0	246%
	100.00 (Default)	1	100%	3	45%	5	0	0%
Corporates - Specialised Lending		32	5%	118	45%	4	34	106%

31/12/2018 (in millions of EUR)	PD Bucket	EAD post CRM	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density
Institutions	0.00 to <0.15	195	0%	39	45%	2	63	32%
	0.15 to <0,25	71	0%	4	45%	2	38	53%
	0.25 to <0,50	1	0%	3	45%	1	0	55%
	0.50 to <0.75	0	1%	1	45%	5	1	110%
	0.75 to <2.50	12	1%	2	45%	3	15	123%
	2.50 to <10.00	0	3%	1	45%	1	0	147%
	10.00 to <100.00	0	18%	1	45%	5	0	272%
Institutions		280	0%	49	45%	2	117	42%

31/12/2018 (in millions of EUR)	PD Bucket	EAD post CRM	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density
Total (all portfolios)		593	1%	1 350	45%	2	328	55%

Annex X

List of tables

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.

BIS (Bank for International Settlements)

The Bank for International Settlements (BIS) is an international organisation that fosters cooperation towards monetary and financial stability and serves as a bank for central banks. It is the world's oldest international financial institution and remains to this day the principal centre for international central bank cooperation. (BIS website: www.bis.org).

BPV (Basis Point Value)

The measure that reflects the change in the net present value of interest rate positions, due to an upward parallel shift of 10 basis points (i.e. 0.10%) in the zero coupon curve.

Business risk

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

CAD ratio

Total eligible capital / Risk-weighted assets (the result must be at least 8% according to the Basel regulations).

Counterparty risk

The risk related to the non-payment or non-performance by a counterparty in a professional transaction (excluding money market placements – which can be considered as borrower risk), due to that party's insolvency or lack of willingness to pay or perform.

CP (Commercial Paper)

Unsecured short-term promissory notes which generally have maturities of less than 270 days.

CRD (Capital Requirements Directive)

European-Union-specific interpretation of the general Basel II regulations. The CRD is in turn transposed into the national legislation and regulations of the EU Member States.

Credit risk

The risk related to non-payment or non-performance by a contractual party (for instance, a borrower, guarantor, insurer or re-insurer, counterparty in a professional transaction or issuer of a debt instrument), due to that party's insolvency or lack of willingness to pay or perform, or to events or measures taken by the political or monetary authorities of a particular country (the latter is also referred to as country risk).

Cure rate

Rate of clients who default and revert subsequently to 'non-defaulted' status.

Default

A client/facility is considered to be in default if – and only if – one or more of the following conditions are fulfilled: the client/facility is 'unlikely to pay' and/or the client/facility is '>90 dpd default', and/or the client/facility is 'irrecoverable'.

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

Downturn LGD

LGD in an economic downturn. The underlying idea in the Basel regulation is that LGD is correlated to PD and loss rates will be higher in a year with many defaults.

DPF (Discretionary Participation Feature)

Part of the annual profit that is attributed to the policyholders of an insurance contract.

EAD (Exposure At Default)

The amount expected to be outstanding if an obligor defaults. At the time of default, it is equal to the actual amount outstanding, and therefore is no longer an expectation.

EBA (European Banking Authority)

The successor to the CEBS (Committee of European Banking Supervisors).
A committee comprised of high level representatives from the banking supervisory authorities and central banks of the European Union. It gives advice to the European Commission on banking policy issues and promotes co-operation and convergence of supervisory practice across the European Union. The committee also fosters and reviews common implementation and consistent application of Community legislation.

EIOPA (European Insurance and Occupational Pensions Authority)

The successor to the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS), EIOPA is part of the European System of Financial Supervision consisting of three European Supervisory Authorities and the European Systemic Risk Board. It is an independent advisory body to the European Parliament and the Council of the European Union. EIOPA's core responsibilities are to support the stability of the financial system, transparency of markets and financial products, as well as the protection of insurance policyholders, pension scheme members and beneficiaries.

EL (Expected Loss)

The expected value of losses due to default over a specified horizon. EL is typically calculated by multiplying the Probability of Default (a percentage) by the Exposure At Default (an amount) and Loss Given Default (a percentage). It is always considered 'an expectation' due to the 'Probability of Default' factor.

Fair value

The amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. Market-consistent value or fair value is based on relative pricing or the 'no arbitrage' argument.

Forbearance measures

Forbearance measures consist of concessions (the loan's terms/conditions are renegotiated) towards a borrower facing, or about to face, financial difficulties. Forbearance measures can be taken only if the borrower and the bank both agree to them. Forbearance measures are applied at facility level.

Forborne loans

Forborne loans are exposures to debt contracts for which forbearance measures have been taken and for which the exit criteria are not fulfilled. The forbearance definitions apply to:

- all KBC group entities exposed to credit risk;
- all types of borrowers (individuals, SMEs, corporates, banks, authorities, etc.), including the natural and legal entities in the debtor's group that are included in the accounting scope of consolidation;
- the following types of loans/facilities: all debt instruments (loans and advances and debt securities) and off-balance sheet exposures, apart from held-for-trading exposures. Off-balance sheet exposures comprise the following revocable and irrevocable items: loan commitments given, financial guarantees given and other commitments given.

They do not apply to:

- full service car lease and derivatives exposure (i.e. non-money market professional transactions).

FSMA (Financial Services and Markets Authority)

The FSMA is the successor to the former Banking, Financial and Insurance Commission (CBFA). It is responsible for supervising the financial markets and listed companies, authorising and supervising certain categories of financial institutions, overseeing compliance by financial intermediaries with codes of conduct and supervising the marketing of investment products to the general public, as well as for the 'social supervision' of supplementary pensions. The Belgian government has also tasked the FSMA with contributing to the financial education of savers and investors.

GMRA (General Master Repurchase Agreement)

Standardised contract used when entering into (reverse) repo-like transactions.

Haircuts

The difference between the market value of a security and its collateral value. Haircuts are taken in order to account for a possible decline in the market value of a collateralising security upon liquidation.

HVaR (Historical Value at Risk)

Historical Value-at-Risk estimates the maximum amount of money that can be lost on a given portfolio due to adverse market movements over a defined holding period, with a given confidence level and using real historical market performance data.

IBNR (Incurred but not Reported) impairments

IBNR impairments are impairment losses recognised on unimpaired loans and advances, as well as on unimpaired debt securities in a Loans & Receivables book, Available-for-Sale (AFS) book or Held-to-Maturity (HTM) book. They are estimated on a portfolio basis using a model-based (statistical) method. Loans and advances, as well as debt securities in a Loans & Receivables book, Available-for-Sale (AFS) book or Held-to-Maturity (HTM) book, are grouped together based on a default expectation rating that takes several indicators of impairment into account. IBNR impairments are an estimate of the specific provisions to be booked for a credit event (also known as the 'impairment trigger') that has already occurred, but is still unknown, and will only emerge at a later date.

ICAAP (Internal Capital Adequacy Assessment Process)

The internal process a bank should have in place for assessing its overall capital adequacy in relation to its risk profile, as well as its strategy for maintaining adequate capital levels in the future.

Impairment on financial assets

A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cashflows of the financial asset or group of financial assets that can be reliably estimated. If any such evidence exists, the entity applies the appropriate impairment methodology to the financial asset concerned.
Losses expected as a result of future events, no matter how likely, are not recognised.

Impaired Loans Ratio

This portfolio risk ratio indicates the proportion of impaired loans in the loan portfolio. The numerator is the impaired part of the loan portfolio and the denominator the loan portfolio. Both the numerator and denominator are measured by gross carrying amount, while the ratio is expressed as a percentage.

Interest rate risk

The potential negative deviation from the expected value of a financial instrument or portfolio thereof due to changes in the level or in the volatility of interest rates.

IRB (Internal Ratings-Based)

An approach defined in the Capital Requirements Directive to calculate the credit-risk-related capital requirements, where a financial institution uses its own models to perform the calculation. There are two possibilities: the IRB Foundation or the IRB Advanced approach. When applying the IRB Foundation approach, internal estimates of the Probability of Default are used to calculate minimum requirements, while the IRB Advanced method also takes into account the internal estimates of Exposure At Default and Loss Given Default.

ISDA Master Agreements

Standardised contracts developed by the International Swaps and Derivatives Association and used to document bilateral professional transactions. The presence of such contracts also allows professional exposures between the contracting parties to be netted.

Lapse risk

The potential negative deviation from the expected value of an insurance contract or a portfolio thereof due to unexpected changes in policy lapses. Note that the term surrender risk refers specifically to contracts with surrender value.

LCR (Liquidity Coverage Ratio)

Stock of high-quality liquid assets divided by total net cash outflows over the next 30 calendar days. A result of 100% (or more) indicates that a bank maintains a sufficient stock of 'high-quality liquid assets' to cover net cash outflows for a 30-day period under a stress scenario. The parameters of the stress scenario are defined in the Commission Delegated Regulation (EU) 2015/61 of 10 October 2014. The LCR can also indicate whether a buffer or shortage exists by subtracting the total net cash outflows over the next 30 calendar days from the stock of high-quality liquid assets.

Leverage ratio

The leverage ratio is a new supplementary non-risk-based measure to contain the build-up of leverage (i.e. a backstop as regards the degree to which a bank can leverage its capital base). It is calculated as a percentage of tier-1 capital relative to the total on and off balance sheet exposure (non-risk weighted).

LGD (Loss Given Default)

The loss a bank expects to experience if an obligor defaults, taking into account the eligible collateral and guarantees provided for the exposure. It can be expressed as an amount or as a percentage of the EAD (Exposure At Default). At the time of default, the loss experienced is a loss of the actual amount outstanding, thus no longer an expectation.

Liquidity risk

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

Market risk

The risk related to changes in the level or in the volatility of market prices.

Market value

The cost that would be incurred or the gain that would be realised if an outstanding contract was replaced at current market prices (also called replacement value).

Mark-to-Market

The act of assigning a market value to an asset.

MREL

The minimum requirement for own funds and eligible liabilities. It is set on a case-by-case basis by the SRB.

MVA (Market Value Adjustment)

IFRS-inspired adjustments or reserves recognised on positions at fair value. MVAs cover close-out costs, adjustments for less liquid positions or markets, counterparty exposure resulting from OTC derivatives, model-linked valuation adjustments, operation-related costs, as well as transaction- specific adjustments.

NBB (National Bank of Belgium)

One of the tasks of the NBB is financial supervision, which is the instrument for ensuring financial stability, and the second key function of a central bank, alongside monetary stability. Financial supervision covers the:

1. prudential supervision of financial institutions from both the micro-prudential and macro- prudential angle, and the prompt detection of systemic risk;
2. 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) based on the proposal by the European Commission for amending the CRR (i.e. Regulation (EU) No 575/2013). A ratio of 100% means that the funding situation is stable.

Operational risk

The risk of inadequate or failed internal processes, people and systems or of sudden external events, whether man-made or natural, having a direct impact on our own operations. Operational risk excludes business, strategic and reputational risk.

ORSA (Own Risk and Solvency Assessment)

The Own Risk and Solvency Assessment covers the entirety of the processes and procedures employed for identifying, assessing, monitoring, managing, and reporting on the short- and
long-term risks a (re)insurance undertaking faces or may face, and for determining the own funds necessary to ensure that the undertaking's overall solvency needs are met at all times.

OTC (Over The Counter)

An over-the-counter contract is a bilateral contract where two parties agree on how a particular trade or agreement is to be settled in the future. It is usually a direct contract between a bank (or an investment bank) and its clients. It contrasts with exchange trading.

Past due

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

PD (Probability of Default)

The probability that an obligor will default within a one-year horizon.

PIT PD (Point-In-Time PD)

PD reflecting the expected default rate in the next year, based on current economic conditions (contrast with Through-the-Cycle PD).

RAPM (Risk-Adjusted Performance Measurement)

The risk-adjusted performance measurement policy defines a set of risk-adjusted performance metrics to be used for (i) allocating capital and (ii) setting variable remuneration.

RAROC

A measure, expressed as a percentage, used to reflect the profitability of transactions and/or financial instruments, account taken of the risk involved in these transactions and/or financial instruments. Generally speaking, it equals the 'expected profits minus the expected losses' divided by the capital invested.

RBA (Ratings-Based Approach)

Basel II approach for calculating the risk-weighted assets applied to securitisation exposures that are externally rated, or where a rating can be inferred.

Risk appetite

Risk appetite, as defined by the Board of Directors, is the amount and type of risk that KBC is able and willing to accept in pursuit of its strategic objectives. While the ability to accept risk is limited by financial (e.g., available capital) and non-financial regulatory and legal constraints, the willingness to accept risk depends on the interests of various stakeholders (shareholders, creditors, employees, management, regulators, clients, etc.). Risk appetite aims to find the right balance of satisfaction for all stakeholders.

RMBS (Residential Mortgage-Backed Security)

A type of structured credit product whose underlying assets are residential debt such as mortgages, home-equity loans and subprime mortgages.

RWA (Risk-Weighted Asset)

An exposure weighted according to the 'riskiness' of the asset concerned. 'Riskiness' depends on factors such as the probability of default by the obligor, the amount of collateral or guarantees and the maturity of the exposure.

Solvency II

Solvency II is a project, initiated by the European Commission in 2001, which establishes capital requirements and risk management standards that will apply across the EU and will affect all areas of an insurer's operations. Solvency II aims to move away from the idea that 'one approach fits all' and thus encourages companies to manage risk in a way which is appropriate to the size and nature of their business in order to provide protection to policyholders by reducing the risk of insolvency to insurers.

SRB (Single Resolution Board)

The Single Resolution Board (SRB), which became operational on 1 January 2015 (fully responsible for resolution on 1 January 2016), is the resolution authority for significant banking groups and for any cross-border banking group established within participating member states. Resolution is the restructuring of a bank by a resolution authority through the use of resolution tools in order to safeguard public interests, including the continuity of the bank's critical functions and financial stability, at minimal costs to taxpayers.

SVaR (Stressed Value At Risk)

Stressed Value-At-Risk is analogous to the Historical VaR, but it is calculated for the time series of a maximum stressed period in recent history.

(Core) Tier-1 ratio

[tier-1 capital] / [total weighted risks]. The calculation of the core tier-1 ratio does not include hybrid instruments (but does include the core-capital securities sold to the Belgian and Flemish governments).

Technical insurance risk

The risk of loss due to (re)insurance liabilities or of adverse developments in the value of (re)insurance liabilities related to non-life, life and health (re)insurance contracts.

TLTRO (Targeted Longer-Term Refinancing Operation)

The targeted longer-term refinancing operations (TLTROs) are Eurosystem operations that provide financing to credit institutions for periods of up to four years. They offer long-term funding at attractive conditions to banks in order to further ease private sector credit conditions and stimulate bank lending to the real economy. The TLTROs are targeted operations, as the amount that banks can borrow is linked to their loans to non-financial corporations and households. Moreover, in TLTRO II the interest rate to be applied is linked to the participating banks' lending patterns.

Trading book

The trading book consists of positions in financial instruments and commodities held either with trading intent or in order to hedge other elements of the trading book. Positions held for trading intent are those held intentionally for resale in the short term and/or with the intent of benefiting from actual or expected price movements in the short term or to lock in arbitrage profits.

TTC PD (Through-The-Cycle PD)

PD reflecting the one-year expected default rate averaged out over a longer period (contrast with Point-in-Time PD).

VaR (Value At Risk)

The unexpected loss in the fair value (= difference between the expected and worst case fair value), at a certain confidence level and with a certain time horizon.