

# 2017 Risk Report



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Introduction:  
Highlights in 2017  
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 positions 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 established a presence in selected countries and regions.

## Highlights in 2017

- Common equity tier-1 ratio (Basel III fully loaded based on Danish compromise) of 16.3% at year-end.
- Fully loaded Basel III leverage ratio – based on current CRR legislation – of 6.1% at year-end.
- MREL of 24% at year-end.
- The portfolio of outstanding loans amounted to 154 billion euros, 97% of which granted in Europe. Overall impaired loan ratio of 6%, with impairment charges accounting for -0.06% of the portfolio of outstanding loans.
- Continued strong liquidity position at year-end, with NSFR at 134% and LCR at 139% (i.e. 12-month average LCR). Both ratios well above the minimum regulatory requirements.
- Solvency II ratio of 212% 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.

## 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 2017 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 Solvency I has been replaced by the fundamentally reformed Solvency II framework, which officially entered into force in January 2016.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 2017 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 credit risk and 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 structured credit products and 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 2017 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 2019. 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	'Corporate governance statement' section of the annual report
Information on the remuneration policy of financial institutions and corporate governance arrangements	KBC Group Compensation Report 'Corporate governance statement' section of the annual report
Country-by-country information	'Our business units' section of the annual report 'Our business model' strategy section of the annual report
Information regarding securitisation exposure where KBC is the originator	Prospectus for this transaction at <a href="https://www.kbc.com/en/home-loan-invest-2016?agree=1">https://www.kbc.com/en/home-loan-invest-2016?agree=1</a>



# 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.
- An integrated approach centred on the Executive Committee that links 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:

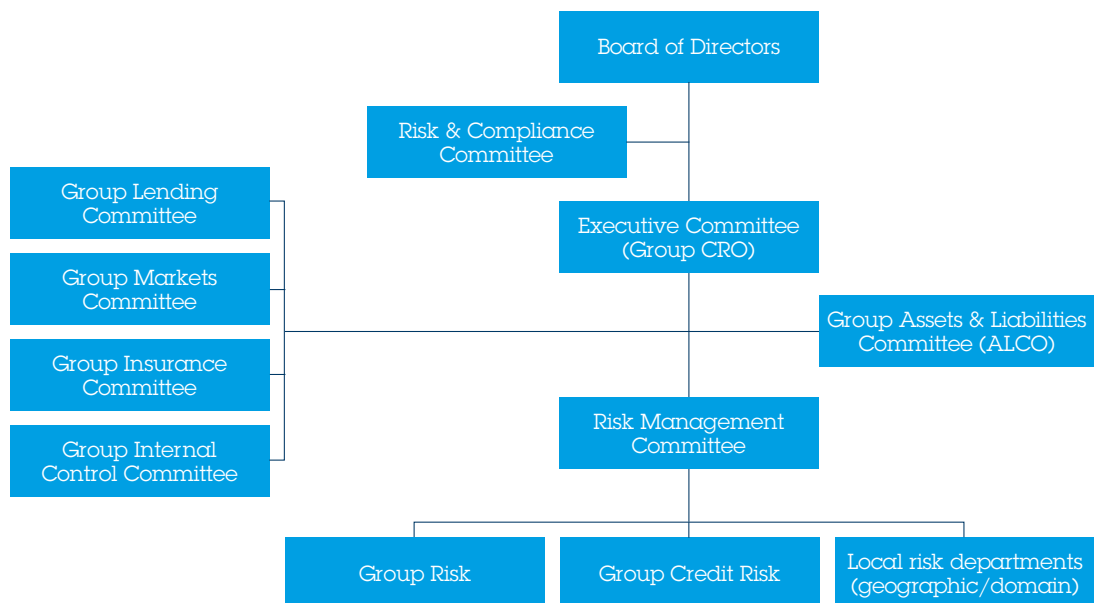
- Executive Committee:
  - makes proposals to the Board of Directors about risk and capital strategy, risk appetite, and the general concept of the risk management framework;
  - decides on the integrated and risk-type-specific risk management frameworks and monitors their implementation throughout the 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 and advising/reporting on issues handled by the Executive Committee and the risk committees. 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

Group Risk has taken several initiatives to further promote a strong risk culture and to realise the Risk Function's vision of putting risk in the hearts and minds of everyone. Having a good risk culture means that risk awareness is part of our DNA and is embedded in our corporate culture. Setting the right tone at the top is a necessary condition for a good risk culture throughout the organisation. Within KBC, the Risk Appetite Statement is discussed thoroughly at Board level, assuring that the right risk appetite is set in a way that is understandable for all stakeholders. It is the basis for all entities to define their local risk appetite and local business strategies. These types of engagement also define the 'playing field' to be respected by local entities when approving new products, services and processes or when changing existing products.



*Christine Van Rijseghem,  
KBC Group CRO*

It is important for KBC that risks are taken not only in the right way, but also at the right price. Therefore, the first element responsible for taking and managing risks is the business side. Senior business managers also chair the meetings where new products and related risks/rewards are discussed. It is not about how decisions turn out, but rather how decisions are made. For instance, 'Are all risks discussed in a transparent way?', 'Are risk-mitigating actions being taken?' or 'Is it clear which risks are being accepted?'

Risk officers work together with the business side on a daily basis, inspiring, equipping and challenging them to excel in managing the risk/return balance of their activities. Within projects, risk managers are also becoming more and more involved from the very start. This approach helps to create a good risk culture and to make risk part of the DNA of each KBC staff member, while also assuring the independence of the risk and shifting the focus back from cure to prevention.

Because the world is constantly changing, risks are regularly screened and new ones actively scanned and analysed. Climate-related risks are considered significant new game changers not only for banks, but also for their clients. It goes without saying that KBC will shoulder its responsibility to meet these challenges. We already have strict policies in place to limit the environmental impact of our lending, investment and insurance activities and we are actively engaged in the transition to a low-carbon economy. Next year, we will continue to pay close attention to climate-related risks, embedding this awareness within the organisation.

## 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, including compliance, the actuarial 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.



## Risk measurement standards

Risk measurement is an important step in the risk management process as it aims to quantify 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 not only allow risks to be quantified, they also help to monitor developments over time and to assess the impact of risk management actions. Risk measures are quantitative by nature, can be 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 measures. All requirements that relate to these processes are documented in the KBC Risk Measurement Standards (RMS). These were thoroughly reviewed in 2016.

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 r e m e d I e d.

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).

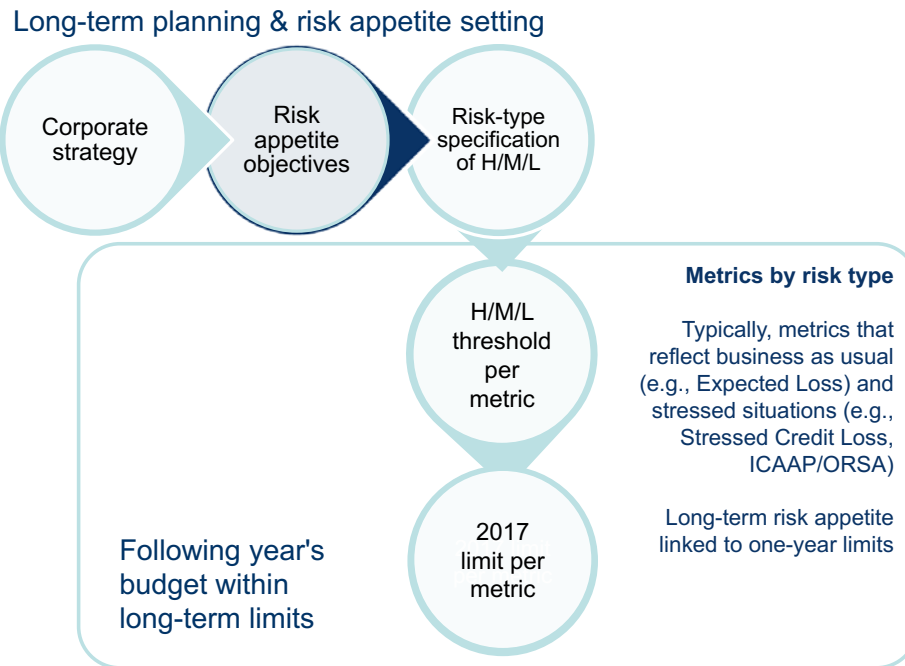
How much risk KBC is prepared to assume and its tolerance for risk is captured in the notion of 'risk appetite'. It is a key instrument in the overall (risk) management function of the KBC group, as it helps us to better understand and manage risks by explicitly expressing – both qualitatively and quantitatively – 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.

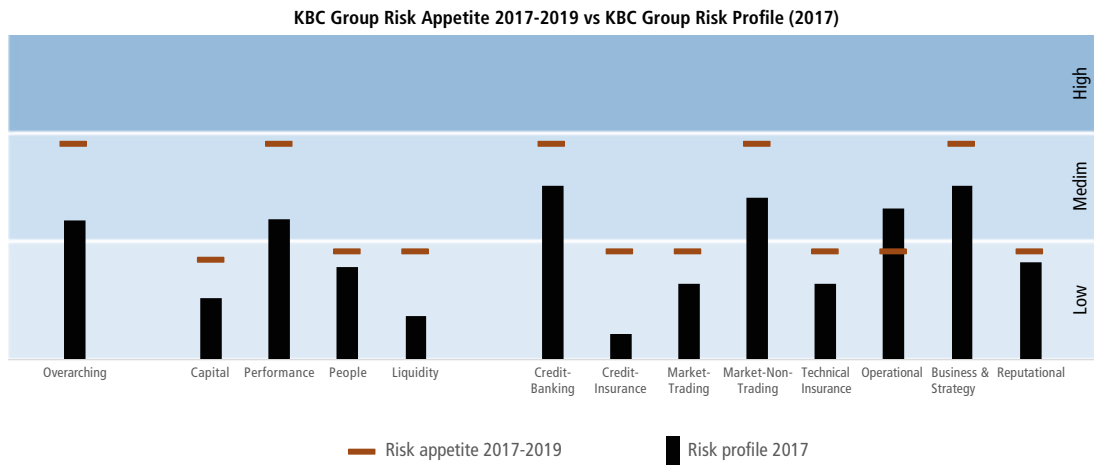
Risk appetite within KBC is set out in a 'risk appetite statement', which is produced at both group and local level. The Risk Appetite Statement (RAS) reflects the view of the Board of Directors and top management on risk taking in general, and on the acceptable level and composition of risks that ensure coherence with the desired return. The statement starts from 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 2018 limits per risk type are consistent with the long-term upper boundary, but can be set lower. The limits are further cascaded down via (primary) limits imposed on the entities.

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





# Capital Adequacy

Capital adequacy (or solvency) risk is the risk that the capital base of the group, the bank or the insurer might fall below an acceptable level. In practice, this 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. This regulation entered gradually into force on 1 January 2014, and will be fully implemented by 1 January 2022.

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

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 2017, the ECB formally notified KBC of its decision (applicable from 1 January 2018) 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 gradually increase the countercyclical buffer requirement to 1.25% corresponds with an additional CET1 requirement of 0.2% at KBC group level (bringing the countercyclical buffer at KBC group level to around 0.35% (see Annex V & VI for more details))

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 for 2018. Lastly, the conservation buffer currently stands at 1.875% for 2018, and is to increase to 2.5% in 2019.

Altogether, this brings the fully loaded CET1 requirement (under the Danish compromise) to 10.6% (4.5% (pillar 1) + 1.75% (P2R) + 2.5% (conservation buffer) + 1.5% (systemic buffer) + 0.35% (countercyclical buffer)), with an additional P2G of 1%. KBC clearly exceeds this requirement: at year-end 2017, the fully loaded CET1 ratio came to 16.3%, which represented a capital buffer of 5 309 million euros relative to the minimum requirement of 10.6%. Furthermore, since part of the capital requirements 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 VII for more details).

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.

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 will be 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 2017, the phased common equity ratio (under FICOD) was 15.2%.

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.

<b>Solvency at group level (consolidated; under CRR/CRD IV, Danish compromise method)</b> (in millions of EUR)	<b>31-12-2017</b> Phased-in	<b>31-12-2017</b> Fully loaded	<b>31-12-2016</b> Phased-in	<b>31-12-2016</b> Fully loaded
<b>Total regulatory capital, after profit appropriation</b>	<b>18 725</b>	<b>18 706</b>	<b>17 887</b>	<b>17 571</b>
<b>Tier-1 capital</b>	<b>16 549</b>	<b>16 504</b>	<b>15 473</b>	<b>15 286</b>
<b>Common equity<sup>1</sup></b>	<b>15 131</b>	<b>15 104</b>	<b>14 033</b>	<b>13 886</b>
Parent shareholders' equity (after deconsolidating KBC Insurance)	16 841	16 841	15 500	15 500
Intangible fixed assets, incl. deferred tax impact (-)	-475	-475	-400	-400
Goodwill on consolidation, incl. deferred tax impact (-)	-604	-604	-483	-483
Minority interests	0	0	0	0
Available-for-sale revaluation reserves (-) <sup>3</sup>	-117	-	-206	-
Hedging reserve, cashflow hedges (-)	1 339	1 339	1 356	1 356
Valuation differences in financial liabilities at fair value – own credit risk (-)	-1	-1	-18	-18
Value adjustment due to requirements for prudent valuation (-) <sup>2</sup>	-111	-124	-109	-140
Dividend payout (-)	-837	-837	-753	-753
Coupon on AT1 instruments (-)	-2	-2	-2	-2
Deduction with regard to financing provided to shareholders (-)	-91	-91	-91	-91
IRB provision shortfall (-)	-268	-268	-203	-203
Deferred tax assets on losses carried forward (-)	-542	-672	-557	-879
<b>Additional going concern capital</b>	<b>1 418</b>	<b>1 400</b>	<b>1 440</b>	<b>1 400</b>
Grandfathered innovative hybrid tier-1 instruments	18	0	40	0
Grandfathered non-innovative hybrid tier-1 instruments	0	0	0	0
CRR-compliant AT1 instruments	1 400	1 400	1 400	1 400
Minority interests to be included in additional going concern capital	0	0	0	0
<b>Tier-2 capital</b>	<b>2 176</b>	<b>2 202</b>	<b>2 414</b>	<b>2 285</b>
IRB provision excess (+)	316	316	362	367
Subordinated liabilities	1 860	1 886	2 053	1 918
Subordinated loans non-consolidated financial sector entities (-)	0	0	0	0
Minority interests to be included in tier-2 capital	0	0	0	0
<b>Total weighted risk volume</b>	<b>91 972</b>	<b>92 410</b>	<b>86 878</b>	<b>87 782</b>
Banking	82 679	83 117	77 579	78 482
Insurance	9 133	9 133	9 133	9 133
Holding-company activities	202	202	198	198
Elimination of intercompany transactions	-43	-43	-32	-32
<b>Solvency ratios</b>				
Common equity ratio	16.5%	16.3%	16.2%	15.8%
Tier-1 ratio	18.0%	17.9%	17.8%	17.4%
Total capital ratio	20.4%	20.2%	20.6%	20.0%

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-III

<b>Solvency at group level (consolidated; FICOD method)</b> (in millions of EUR or %)*	<b>31-12-2017</b> Phased-in	<b>31-12-2017</b> Fully loaded	<b>31-12-2016</b> Phased-in	<b>31-12-2016</b> Fully loaded
Common equity	16 015	15 988	14 794	14 647
Total weighted risk volume	105 625	106 062	100 136	101 039
Common equity ratio	15.2%	15.1%	14.8%	14.5%

\* For more details, please refer to KBC's quarterly reports (available at [www.kbc.com](http://www.kbc.com)).

<b>Solvency at group level (consolidated; CRR/CRD IV, deduction method)</b> (in millions of EUR or %)*	<b>31-12-2017</b> Fully loaded	<b>31-12-2016</b> Fully loaded
Common equity	14 146	12 806
Total weighted risk volume	87 052	82 120
Common equity ratio	16.3%	15.6%

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.
- Impact of the first time application of IFRS 9: see Note 1.1 in the 'Consolidated Financial statements' section.
- CRR-compliant additional tier-1 instruments: includes a CRR-compliant additional tier-1 instrument issued in 2014 for 1.4 billion euros.
- The 1-billion-US-dollar contingent capital note (CoCo) was called in January 2018 and, consequently, the capital value of the CoCo has already been excluded from tier-2 capital. The impact of calling the CoCo was largely offset by the successful issue of a 500-million-euro tier-2 benchmark in September 2017.
- 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. Based on a full application of all the CRR/CRD IV rules, it is used for approximately 92% of the weighted credit risks, approximately 86% of which are calculated according to the Advanced approach and roughly 6% according to the Foundation approach. The remaining weighted credit risks (about 8%) are calculated according to the Standardised approach. The increase in weighted risks in 2017 was largely driven by the first time consolidation of United Bulgarian Bank and Interlease in Bulgaria and by volume increases in other 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 risk of excessive leverage is one of the risks inherent in the banking business and as such is also covered by our overall risk management governance structure. What's more, the leverage ratio is one of the targets defined in KBC's risk appetite statement. The leverage ratio is also part of our second backbone process in risk and capital management, namely multi-dimensional three-year planning, in which strategy, finance, treasury and risk perspectives are taken into account simultaneously.

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 into account the above-mentioned risk appetite and planning) as well as benchmarking in terms of relevant peers. If such monitoring triggers the need for certain actions (an increase in tier-1 capital and/or a reduction in exposure amounts), these decisions – including the time line – are prepared by a dedicated cross-functional team consisting of representatives from Finance, Risk, Treasury and Legal (this is the same process that is in place for all other capital requirements).

All of the above processes are part of KBC's ICAAP (described at the end of this section).

At year-end 2017, our fully loaded leverage ratio at group level stood at 6.1% (see table below), unchanged year-on-year, as the higher total exposure was fully offset by a higher level of tier-1 capital.

<b>Leverage ratio at group level (consolidated; under CRR/CRD IV, Danish compromise method)</b> (in millions of EUR)	<b>31-12-2017</b> <b>Fully loaded</b>	<b>31-12-2016</b> <b>Fully loaded</b>
Tier-1 capital	16 504	15 286
Total exposure	272 373	251 891
Total assets	292 342	275 200
Deconsolidation of KBC Insurance	-32 802	-32 678
Adjustment for derivatives	-3 908	-5 784
Adjustment for regulatory corrections in determining Basel III tier-1 capital	-2 235	-2 197
Adjustment for securities financing transaction exposures	816	1 094
Off-balance sheet exposures	18 160	16 256
Leverage ratio	6.1%	6.1%

More details are included in Annex VIII.

## 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 plan is deciding at which level the competent resolution authorities will intervene. A choice has to be made between a single resolution authority that resolves the group as a whole (Single Point of Entry or 'SPE') or different authorities that separately resolve those parts of the group that fall within their jurisdiction (Multiple Point of Entry or 'MPE').

KBC indicated its preference for a SPE approach at 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. We prefer a SPE approach at group level because our business model 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 will be 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 2017, the MREL ratio based on instruments issued by KBC Group NV stood at 24% of risk weighted assets ('point of entry' view).

This approach (see below) is more restrictive than the MREL definition currently applied by the SRB, which also includes certain instruments issued by in-scope entities within the group ('consolidated view').

MREL: based on instruments issued by KBC Group NV (in millions of EUR)	31-12-2017 Fully loaded	31-12-2016 Fully loaded
Own funds and eligible liabilities	22 207	18 467
CET1 capital (consolidated, CRR/CRD IV, Danish compromise method)	15 104	13 886
AT1 instruments	1 400	1 400
T2 instruments (nominal amount, remaining maturity > 1 year)	2 182	1 681
Senior debt (nominal amount, remaining maturity > 1 year)	3 521	1 500
Risk weighted assets (consolidated, CRR/CRD IV, Danish compromise method)	92 410	87 782
MREL ratio	24.0%	21.0%

## 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.

<b>Solvency, KBC Bank</b> (CRR/CRDIV, fully loaded, in millions of EUR)	<b>31-12-2017</b>	<b>31-12-2016</b>
Total regulatory capital, after profit appropriation	15 756	16 229
Tier-1 capital	13 484	12 625
Of which common equity	12 077	11 219
Tier-2 capital	2 273	3 604
Total weighted risks	83 117	78 482
Common equity ratio	14.5%	14.3%
Tier-1 ratio	16.2%	16.1%
Total capital ratio	19.0%	20.7%

<b>Solvency, KBC Insurance (incl. volatility adjustment)</b> (Solvency II, in millions of EUR)	<b>31-12-2017</b>	<b>31-12-2016</b>
Own funds	3 865	3 637
Tier-1	3 365	3 137
IFRS parent shareholders' equity	3 051	2 936
Dividend payout	-8	-103
Deduction of intangible assets and goodwill (after tax)	-128	-123
Valuation differences (after tax)	403	349
Volatility adjustment	43	120
Other	3	-42
Tier-2	500	500
Subordinated liabilities	500	500
Solvency capital requirement (SCR)	1 823	1 791
Solvency II ratio	212%	203%
Solvency surplus above SCR	2 042	1 846

## 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	2017	2016
Credit and counterparty risk	50%	51%
Interest rate and spread risk banking book	18%	17%
Market risk trading book	2%	2%
Operational risk	8%	8%
Risk related to the insurance entity	17%	16%
Pension risk	5%	6%
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 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 have conducted 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;
- 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 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.

## Managing credit risk at transactional level

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

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

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

In order to determine the risk class, we have developed various rating models for measuring how creditworthy borrowers are and for estimating the expected loss of various types of transactions. A number of uniform models throughout the group (models for governments, banks, large companies, 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 a court order is passed instructing



repossession of the collateral. 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 will be 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 will be 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 2017, the main group entities (apart from United Bulgarian Bank in Bulgaria and ČSOB in Slovakia) and some smaller entities had

adopted the IRB Advanced approach. 'Non-material' entities will continue to adopt the Standardised approach.

## Forbearance measures

In order to avoid a situation where an obligor facing financial difficulties ends up defaulting, we can decide to renegotiate its loans and grant forbearance measures in accordance with internal policy guidelines.

Forbearance measures consist of concessions towards a borrower facing, or about to face, financial difficulties. They 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 and with effect from 1 January 2018, 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.

At the end of 2017, forborne loans accounted for some 4% of our total loan portfolio. Compared to the end of 2016, the forborne loan exposure decreased by 17.5%, mainly resulting from cures, and to a lesser extent from repayments and write-offs. In Ireland, this type of exposure fell by 24.8%.

On-balance-sheet exposures with forbearance measures (in millions of EUR) – Movements between opening and closing balances							
Gross carrying amount	Movements						Closing balance
	Opening balance	Loans which have become forborne	Loans which are no longer considered to be forborne	Repay-ments	Write-offs	Other <sup>1</sup>	
<b>2017</b>							
Total	7 083	954	-1 677	-375	-478	335	5 841
Of which: KBC Bank Ireland	5 083	167	-787	-220	-419	-	3 824
<b>2016</b>							
Total	7 794	1 379	-1 054	-861	-192	17	7 083
Of which: KBC Bank Ireland	5 383	320	-201	-296	-123	0	5 083
Impairment	Movements						Closing balance
	Opening balance	Existing impairment on loans which have become forborne	Decrease in impairment because loans are no longer forborne	Increase in impairment on forborne loans	Decrease in impairment on forborne loans	Other <sup>2</sup>	
<b>2017</b>							
Total	1 967	75	-586	222	-284	28	1 422
Of which: KBC Bank Ireland	1 511	0	-537	92	-227	0	838
<b>2016</b>							
Total	2 203	213	-427	292	-276	-38	1 967
Of which KBC Bank Ireland	1 607	0	-134	228	-190	0	1 511

1 Includes foreign-exchange effects for loans granted in currencies other than the local currency, changes in the drawn/undrawn portion of facilities, increases in the gross carrying value of existing forborne loans and additions or disposals through business combination.

2 Includes the use of impairment in respect of write-offs and additions or disposals through business combination).

Forborne loans	As a % of the outstanding portfolio	Breakdown by PD class (as a % of the entity's portfolio of forborne loans)			
		PD 1-8	PD 9	PD 10 (impaired, less than 90 days past due)	PD 11-12 (impaired, 90 days and more past due)
<b>31-12-2017</b>					
Total	4%	9%	13%	49%	28%
Of which: KBC Bank Ireland	32%	0%	18%	55%	27%
By client segment					
Private individuals <sup>1</sup>	6%	8%	18%	53%	21%
SMEs	1%	25%	11%	32%	32%
Corporations <sup>2</sup>	3%	8%	4%	47%	42%
<b>31-12-2016</b>					
Total	5%	9%	13%	52%	26%
Of which: KBC Bank Ireland	39%	1%	16%	56%	27%
By client segment					
Private individuals <sup>1</sup>	8%	9%	18%	54%	19%
SMEs	1%	32%	10%	36%	21%
Corporations <sup>2</sup>	4%	4%	5%	50%	41%

1 99% of the forborne loans total relates to mortgage loans in 2017 (99% in 2016).

2 47% of the forborne loans relates to commercial real estate loans in 2017 (47% in 2016).

## Scope of credit risk disclosures

The scope of the disclosures for credit risk is based on the implementation of Basel III at the KBC group ('KBC'), and can be inferred from the roll-out plan below.

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 CIBANK/United Bulgarian Bank (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 mentioned above, most of the group entities received regulatory approval to switch to the IRB Advanced approach during 2012.

All material entities apart from CIBANK/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).

Unless otherwise stated, the scope of this report is limited to the material entities appearing in the roll-out table below, including the Bulgarian entities CIBANK and UBB. These entities accounted for 99% of the total credit risk-weighted assets of the KBC group in 2017.

Because of this limitation in scope, and also because another definition of exposure<sup>1</sup> is used for the accounting figures, a one-to-one comparison cannot always be made with similar disclosures in the 2017 Annual Report for KBC Group NV.

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<sup>1</sup> In this report, credit exposure – where possible – is expressed as EAD (Exposure At Default), while it is expressed as an amount granted or an amount outstanding in the KBC Group Annual Report. EAD is a typical measure for exposure within the context of Basel III, pillar I.

Roll-out of Basel III pillar 1 approach at end of year shown	2015	2016	2017 - 2018
IRB Advanced Approach	KBC Bank CBC Banque ČSOB Czech Republic <sup>2</sup> KBC Credit Investments KBC Finance Ireland KBC Lease Belgium KBC Commercial Finance KBC Immolease K&H Bank	KBC Bank CBC Banque ČSOB Czech Republic <sup>2</sup> KBC Credit Investments KBC Finance Ireland KBC Lease Belgium KBC Commercial Finance KBC Immolease K&H Bank	KBC Bank CBC Banque ČSOB Czech Republic <sup>2</sup> 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 <sup>1</sup> ČSOB Slovak Republic	KBC Bank Ireland KBC Financial Products ČSOB Slovak Republic	KBC Bank Ireland ČSOB Slovak Republic
Standardised approach	CIBANK Non-material entities	CIBANK Non-material entities	CIBANK/UBB Non-material entities

1 Antwerp Diamond Bank was merged with KBC Bank in 2015, but the former Antwerp Diamond Bank exposure remains under the IRB Foundation approach.

2 Including Hypoteční banka.

## Exposure to credit risk

The tables in this section provide an overview of the overall credit risk expressed in terms of Exposure At Default (EAD) and are based on the figures for the end of December 2017. Exposure to securities in the trading book and to structured credit products is excluded. Information on securities in the trading book is reported in the credit risk section of KBC's annual report and the related risks are taken up in the trading market risk VaR. For structured credit exposure, reference is made to the detailed information in the 'Structured credit products' section in this document.

Detailed information is given separately in the following sections: (i) a general aggregate overview of the total exposure to credit risk in scope, (ii) a general (IRB Advanced, IRB Foundation and Standardised) overview of the credit risk in the lending portfolio, (iii) breakdown of credit risk in the lending portfolio (including a quality analysis), (iv) overviews of impaired credit in the lending portfolio, (v) breakdowns of the counterparty credit risk, (vi) credit risk mitigation and (vii) information on internal modelling.

In the lending portfolio, EAD is the amount that KBC expects to be outstanding should an obligor default. For lending exposure treated under the IRB approach, EAD is composed of the amount outstanding at the time of the calculation (without taking provisions into account), plus a weighted part of the off-balance-sheet portion of the exposure. For non-retail exposures, this weight can be determined either on a regulatory basis according to the IRB Foundation approach or via internal models according to the IRB Advanced approach. For retail exposures, the weight is always determined via internal models, in line with the IRB Advanced approach for this asset class. For

lending exposures treated under the Standardised approach, EAD can be regarded as the amount outstanding at the time of the calculation minus the provisions set aside plus a weighted part of the off-balance-sheet portion of the exposure. EAD can be stated with or without application of eligible collateral, i.e. net or gross.

For the portfolio of derivatives, EAD (actually, pre-settlement counterparty credit risk) is calculated as the sum of the (positive) current replacement value (marked-to-market) of a transaction and the potential risk as captured by the applicable add-on (= current exposure method).

For the portfolio of repo-like instruments, EAD 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.

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 regards the group-wide framework for dealing with model uncertainty – as referred to in the section on 'Internal modelling' later on in this report – KBC has taken (and reported under pillar 1) additional RWA for known deficiencies and avoidable uncertainties 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 2017, this additional RWA amounted to 885 million euros for PD models, to 345 million euros for LGD models and to 681 million euros for EAD models. Moreover, in 2013, KBC started to capitalise unavoidable uncertainties in the EAD, PD and LGD models, which had an impact on RWA. At year-end 2016, all the unavoidable uncertainties had been included in the percentages calculated for PD, LGD or EAD. Therefore, there is no longer a remaining portion of unavoidable uncertainties that would lead to an additional RWA add-on.

The table below provides an overview of how Basel III credit risk EADs and RWA, on a fully loaded basis<sup>2</sup>, for the KBC group changed over 2017. This table shows the overall EAD and RWA figures, including non-material entities, the structured credit portfolio, CVA capital charges, additional RWA for model deficiencies and uncertainties, and regulatory capital add-ons. Please note that, in all other tables in this report, the scope will be limited to the material entities (see table above, including CIBANK/UBB) and exclude the structured credit portfolio.

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<sup>2</sup> Implies full IRB treatment for home country sovereign risk.

Entity	B III approach (at 31-12-2017) <sup>1</sup>	Credit RWA (in millions of EUR)			Exposure [EAD] (in millions of EUR)		
		31-12-2017	31-12-2016	Δ 2017 vs 2016	31-12-2017	31-12-2016	Δ 2017 vs 2016
KBC Bank	IRB Advanced	31 822	30 386	1 436	180 881	170 154	10 727
CBC Banque	IRB Advanced	2 224	2 189	35	12 265	12 517	-252
ČSOB Czech Republic	IRB Advanced	12 004	11 230	774	54 623	52 742	1.881
KBC Credit Investments	IRB Advanced	2 896	3 032	-136	16 585	18 216	-1.631
KBC Commercial Finance	IRB Advanced	621	770	-149	2 796	2 321	475
KBC Lease Belgium	IRB Advanced	800	1 463	-663	1 139	2 415	-1.276
KBC Immolease	IRB Advanced	560	336	224	917	857	60
K&H Bank	IRB Advanced	4 893	4 945	-52	8 694	8 471	223
KBC Bank Ireland	IRB Foundation	5 770	6 072	-302	14 529	15 409	-880
Antwerp Diamond Bank	IRB Foundation	n/a	0	n/a	n/a	62	n/a
KBC Financial Products	IRB Foundation	n/a	52	n/a	n/a	176	n/a
KBC Investments Ltd	IRB Foundation	2	n/a	n/a	4	n/a	n/a
ČSOB Slovak Republic	IRB Foundation	4 388	4 211	177	10 220	9532	688
CIBANK	Standardised	778	733	45	1 504	1 397	125
UBB AD	Standardised	1 453	n/a	n/a	2 872	n/a	n/a
KBC Insurance		9 133	9 133	0	2 469	2 469	0
Other entities	Mixed	756	657	99	1 245	1316	-71
<b>Total<sup>2</sup></b>		<b>78 100</b>	<b>75 209</b>	<b>2 891</b>	<b>310 743</b>	<b>298 054</b>	<b>12 689</b>

<sup>1</sup> Some entities report under IRB, but still have sub-portfolios or subsidiaries that are reported under the Standardised approach.

<sup>2</sup> The figures shown are for the overall scope of credit RWA, including structured credit products, counterparty risk, CVA capital charges and other non-credit obligation assets, but excluding bonds in trading books and KBC intra-group exposures.

Overall, there was a substantial increase in EAD and a relatively smaller increase in RWA. At KBC group level, EAD increased by 4.3% year-on-year and credit RWA by 3.8% year-on-year.

The change in EAD was due mainly to:

- The acquisition of United Bulgarian Bank (2.9 billion euros), which resulted in an increase of 1.5 billion euros in RWA.
- An increase of about 8.4 billion euros in excess cash placed at central banks mainly by KBC Bank: this increase in EAD did not have any impact on RWA because of its 0% weighting.

RWA broken down by entity clearly shows that the increase in consolidated credit RWA was strongly driven by the acquisition of the Bulgarian entities (United Bulgarian Bank: +1 453 million euros and Interlease: +200 million euros) and an increase at KBC Bank NV (+1 436 million euros), due in part to it taking over some of the portfolio belonging to KBC Lease (-443 million euros). RWA also rose at ČSOB in the Czech Republic (+773 million euros) and ČSOB in the Slovak Republic (+177 million euros), whereas it fell at KBC Bank Ireland (-302 million euros) and KBC Credit Investments (-136 million euros). RWA for the participation in KBC Insurance remained stable in 2017.



The overall increase in RWA in 2017 was the result of a number of compensating factors, the main ones of which were internal model-related changes and developments in the underlying portfolio.

The most important events were:

- The changes in the transactional models that generated an increase in RWA of +0.9 billion euros. Implementation of a new LGD pooling model for the Belgian 'home loan' segment caused RWA to increase by 405 million euros (impact for KBC and CBC), as it gave a more severe downturn scenario. Reclassification of part of the retail portfolio to align it with COREP asset classes (shift from 'other retail' to 'SME retail secured by mortgages' and 'Qualitative revolving retail') pushed up RWA by 271 million euros (impact for KBC, CBC and ČSOB (Slovak Republic)), due to the use of other regulatory risk weights. Implementation of new LGD models for the Hungarian retail segment caused RWA to go up by 204 million euros at K&H. These model adjustments account for EAD and RWA moving in the opposite direction at some entities (see above table).
- Given the fact that the Irish portfolio is the most distressed portfolio in the KBC group, it is also deemed important to highlight how its capital requirements have changed. The credit RWA associated with KBC Bank Ireland fell by -302 million euros on an annual basis.
  - The RWA for the non-defaulted mortgage portfolio decreased by -302 million euros as the impact of portfolio growth (up by 0.5 billion euros) was more than offset by the impact of, on average, lower LGDs, following the improvement in house prices.
  - The RWA for the defaulted mortgage portfolio increased by 174 million euros, although the size of the defaulted portfolio fell from 4.7 billion euros to 3.8 billion euros of EAD. Under IRB Advanced rules, the RWA for this portfolio is calculated as the 1250% weighted difference between the model-based expected loss in the event of a downturn and the provision-based best-estimate loss. Both loss estimates decreased during 2017, but the provision-based expected loss fell more than the model-based expected loss, therefore leading to an increase in RWA.
  - Lower transactional RWA associated with the non-retail portfolio of KBC Bank Ireland (-84 million euros), in particular on lower non-defaulted term loan exposures. It should be noted that under IRB Foundation rules, no RWA are associated with the defaulted portfolio.
  - Lower RWA for the regulatory RWA floor in respect of the CRE portfolio (-85 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.
- The increase in loan volumes at 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 1.9 billion euros in RWA. There were higher volumes and RWA in all the major markets, in particular Belgium (KBC's retail and corporate segments: +1.4 billion euros), the Czech Republic (ČSOB: + 0.1 billion euros), Slovakia (ČSOB: + 0.2 billion euros), Hungary (K&H Bank: + 0.1 billion euros) and Bulgaria (CIBANK: + 0.1 billion euros);

- Credit RWA, which was influenced by several other factors, including the change in RWA for PD migration effects, FX effects and deferred tax assets. These factors had an overall impact on RWA of -1.3 billion euros, the most material of which were as follows:
  - The impact of PD migrations, which include movements between rating buckets, new defaults and cures, on credit RWA was estimated at **-700 million euros**.
  - The overall impact of FX movements on credit RWA was estimated at +285 million euros, i.e. the net result of the appreciation of the CZK (+ 663 million euros) and the depreciation of other relevant currencies (-378 million euros, mainly the USD and GBP).
  - A substantial decrease in credit RWA for deferred tax assets (-534 million euros), in particular for Belgian entities (-430 million euros, due to tax reforms) and for deferred tax assets resulting from the liquidation of KBC Financial Holding Inc. (-84 million euros).
  - The EU-agreed divestment and restructuring programme resulted in an additional decrease in credit RWA following the further run-down of legacy portfolios and reduction in funding to divested entities (-468 million euros).

## Total exposure to credit risk

In the table below, exposures are broken down according to types of credit exposure. These types are equal for exposures subject to the Standardised or the IRB Foundation approach.

- On-balance-sheet assets (On-balance): this category contains assets, including equities in the banking book, whose contract is booked on the balance sheet of the entities in scope excluding securities in the trading book, repo-like instruments and – in the case of this publication – securitisation-related assets. On-balance-sheet assets are dealt with in the 'lending portfolio' sections.
- Off-balance-sheet assets (Off-balance): this category contains assets whose contract is not booked on the balance sheet of the entities in scope. The category excludes most derivative instruments, repo-like instruments and – in the case of this publication – securitisation-related assets. Derivative instruments related to selling credit protection, i.e. CDS that have been sold are included as off-balance-sheet assets when they do not relate to trading activity. Off-balance-sheet assets are dealt with in the 'lending portfolio' sections.
- Derivatives: this category contains all credit exposure arising from derivative transactions, such as Interest Rate Swaps (IRS), Forex deals, etc. (excluding CDS in the banking book, which are treated as an off-balance-sheet assets). Derivatives are dealt with in the section on 'Counterparty credit risk' and not in the 'lending portfolio' sections.
- Repo-like transactions (Repo-like): this category contains all credit exposure arising from repo, reverse repo and tri-party repo transactions in scope. More information on these transactions can be found in the section on 'Credit risk mitigation'.

EAD is the Exposure At Default after application of the credit conversion factor. For IRB exposures, the EAD is before the application of eligible collateral (as this is included

Exposure 31-12-2017* (in billions of EUR)	Lending (on-balance-sheet)	Lending (off-balance-sheet)	Derivatives	Repo-like transactions	Total
Total EAD	230	17	26	6	278
Total RWA	70	6	0	2	78
Exposure 31-12-2016* (in billions of EUR)	Lending (on-balance-sheet)	Lending (off-balance-sheet)	Derivatives	Repo-like transactions	Total
Total EAD	217	18	17	7	260
Total RWA	66	6	0	2	74

\* The securitisation on banking books, the exposure and RWA of the non-material entities, additional RWA for model deficiencies and uncertainties, and regulatory capital add-ons are included only in this table. Last year's values have been updated to include the securitisation on banking books, the exposure and RWA of the non-material entities, additional RWA for model deficiencies and uncertainties, and regulatory capital add-ons.

## Credit risk in the lending portfolio

The lending portfolio excludes all derivatives and any repo-like exposure, as these are dealt with in the 'Counterparty credit risk' and 'Credit risk mitigation' sections. As mentioned above, exposure to securities in the trading book is also excluded. In light of the capital calculations, the corresponding issuer risk is included in trading market risk.

In the table below, 'EAD of main categories' provides aggregate figures for all the IRB and Standardised asset classes (breakdown provided elsewhere in this section). 'Other' includes the asset classes 'Equity' and 'Other assets' under both the Standardised and IRB approach.

Lending portfolio [EAD] 31-12-2017 (in millions of EUR)	EAD of main categories	'Other'*	Total EAD**
Subject to IRB approach	204 788	5 621	210 409
Subject to Standardised approach	6 042	28 027	34 069
Total	210 830	33 648	244 478
Lending portfolio [EAD] 31-12-2016 (in millions of EUR)	EAD of main categories	'Other'*	Total EAD
Subject to IRB approach	203 278	7 294	210 572
Subject to Standardised approach	6 121	18 850	24 971
Total	209 400	26 145	235 545

\* This category contains mostly 'other assets' (e.g., non-assignable accruals, deferred tax asset, cash balances with central banks and participations). Exposure to 'Other' is given separately and is not included in the disclosures on concentrations and impaired exposure, since the data required to create the breakdowns is often missing.

\*\* In the next two tables, which provide details on IRB and Standardised exposure, the total EAD in this table is used. In the other tables on exposure, 'Other assets', which are subject to the Standardised approach and a risk weight of 0% (cash balances with central banks and regular tax assets), are categorised as 'Sovereign'.

Overall information on the lending portfolio is divided into two tables below. One for a total overview of the exposure subject to the IRB approach and one for the overview of the exposure treated via the Standardised approach. This is because each approach has its own (regulatory) breakdown by type of exposure/asset class.

In the tables relating to concentrations, both are aggregated to provide a total overview of concentrations in the lending portfolio. This is done at the expense of best-efforts mapping into the mainstream asset classes. As regards the quality analysis, however, both the IRB and Standardised approaches are presented separately again, since the manner for indicating quality is not equal.

### Credit exposure subject to the IRB approach

The table below shows the total exposure calculated via the IRB approach broken down per asset class. This corresponds to the breakdown of EAD into the 'main categories', complemented by the 'other' exposure category in the lending portfolio. The asset classes are those defined for the purpose of regulatory reporting according to the IRB approach:

- **Sovereign:** 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:** besides ordinary corporate exposure, this category also includes specialised lending exposure (such as project finance and commercial real estate) and non-bank financials.
- **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 includes all types of retail exposure, excluding residential mortgages, such as personal loans and commercial credit to retail SMEs, for which the total exposure of the counterparty (or related group of the counterparty) does not exceed a threshold of 1 million euros. 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 asset class.
- **Residential mortgages:** this category includes home loans to individuals, secured or partly secured by residential mortgages.
- **Other:** besides 'other assets', this category includes the residual value of leasing transactions and the deferred tax assets (DTA).
- **Equity:** this category includes shares and mutual funds, and is part of the 'other' category in the previous table.

IRB exposure [EAD] 31-12-2017 (in millions of EUR)	Sovereign	Institutions	Corporates	SME Corporates	Retail	Residential Mortgages	(sub)Total*	Other	Equity	Total
Exposure	47 905	9 262	41 845	21 277	19 329	65 171	204 788	2 912	2 709	210 409
RWA	5 570	2 495	19 485	8 479	3 917	12 814	52 759	1 098	9 637	63 495
IRB exposure [EAD] 31-12-2016 (in millions of EUR)	Sovereign	Institutions	Corporates	SME Corporates	Retail	Residential Mortgages	(sub)Total*	Other	Equity	Total
Exposure	50 424	9 377	40 155	21 694	20 705	60 901	203 256	3 764	2 647	209 667
RWA	5 565	2 289	19 066	8 097	3 797	10 362	49 177	3 660	9 543	62 379

\* The (sub)total is accounted for in the section on concentrations in the lending portfolio.

\* The above figures do not include non-transactional RWAs.

The increase in the IRB **exposure** resulted from higher exposure in the 'Corporates', 'Residential Mortgages', and 'Retail' segments caused by new production in most of KBC's home markets (Belgium and the Central European countries) This increase was partially offset by lower exposure in the 'Sovereign' and 'SME Corporates' segments.

The change in **RWA** in the IRB asset classes was caused mainly by the increase in RWA for 'Corporates', 'Residential Mortgages', and 'Retail'. There was an increase in all the home markets, but most significantly in Belgium, where the main driver was the implementation of a new LGD model for the Belgium home loans segment, a new LGD model for the Hungarian retail segment, the reviewed LGD and EAD models for the non-regulated retail segment, and a reclassification retail exposures, together with new production in the 'Corporates' and 'Residential Mortgages' segments (as mentioned above).

## Credit exposure subject to the Standardised approach

The table below shows the exposure calculated via the Standardised approach broken down per exposure type. The exposure types are those defined for the purpose of regulatory reporting according to the Standardised approach, viz.:

- **Sovereign:** claims on central authorities and governments and other assets weighted at 0% (such as Cash and Cash at central banks).
- **RGLA:** 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 real estate:** 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).
- **Past due:** 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.
- **CIU:** claims on Collective Investment Undertakings.
- **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.
- **Short term:** 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'.
- **Equity:** Shares and Mutual Funds. Previously the equities were reported under the asset class of the issuing entity of the equity instrument. Now all equity exposure is grouped on this single asset class.
- **Other:** all other claims (e.g., other assets).

Exposures are reported gross, after application of (i) guarantees by substitution, (ii) the Credit Conversion Factor, and before collateral application.

<b>Standardised exposure [EAD] 31-12-2017</b> (in millions of EUR)	<b>Exposure</b>	<b>RWA</b>
Sovereign	28 084	2
RGLA	188	40
PSE	0	0
MDB	50	0
International organisations	0	0
Institutions	155	50
Corporates	1 332	996
Retail	1 876	1 366
Secured by real estate	893	374
Past due	309	347
CIU	4	4
(sub)Total <sup>1</sup>	32 891	3 178
High risk	0	0
Covered bonds	0	0
Short term	0	0
Equity <sup>2</sup>	216	502
Other	963	381
<b>Total</b>	<b>34 069</b>	<b>4 061</b>
<b>Standardised exposure [EAD] 31-12-2016</b> (in millions of EUR)	<b>Exposure</b>	<b>RWA</b>
Sovereign	19 562	2
RGLA	192	42
PSE	0	0
MDB	7	0
International organisations	0	0
Institutions	147	56
Corporates	815	788
Retail	1 243	900
Secured by real estate	300	153
Past due	124	141
CIU	0	0
(sub)Total <sup>1</sup>	22 391	2 082
High risk	0	0
Covered bonds	0	0
Short term	0	0
Equity	190	455
Other	663	275
<b>Total</b>	<b>23 244</b>	<b>2 812</b>

<sup>1</sup> Accounted for in the section on concentrations in the lending portfolio.

There was a significant increase in exposure for the Standardised 'Sovereign' asset class at KBC Bank, related to increased cash balances at central banks. This increase had no impact on RWA due to the 0% RWA weighting. The other main factor was the acquisition of two Bulgarian entities (United Bulgarian Bank and Interlease).

## Breakdown of credit risk in the lending portfolio

In order to portray an overall picture of the breakdown of the lending portfolio, the exposure (EAD) calculated according to the Standardised approach and the IRB approach is aggregated based on the most material asset classes from the IRB approach. KBC believes this leads to a more transparent and uniform presentation of the concentrations to credit risk in the lending portfolio.

The exposure types under the Standardised approach are therefore mapped to the most applicable types/asset classes under the IRB Foundation approach, viz.:

- **Secured by real estate:** this type of exposure is mapped according to the asset class of the underlying client from which the exposure originated, mostly 'Residential mortgages', 'Retail', 'Corporate' or 'SME Corporates'.
- **Corporates:** this type of exposure is mapped to 'Corporates' or 'SME Corporates' depending on the internally used segmentation.
- **Past due:** this type of exposure is mapped according to the asset class of the underlying client from which the exposure originated.
- **RGLA, PSE, International organisations and MDB:** these exposure types are mapped mostly to the 'Institutions' asset class, or when distinguishable as eligible sovereign exposure to the 'Sovereigns' asset class.
- **CIU:** this exposure is mapped to the 'Institutions' asset class.

For reasons of relevancy/materiality/data availability, the 'Other' category is not included in the following tables.

Unless otherwise stated, all exposure under the Standardised and IRB Foundation approach is attributed to the asset class after PD substitution. This implies that if PD 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 PD substitution is applied, this exposure will be incorporated under 'Institutions' in the breakdowns provided. This PD 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.



## Total credit exposure in the lending portfolio per geographic region

Exposure [EAD] 31-12-2017 (in millions of EUR)	Sovereign	Institutions	Corporates	SME Corporates	Retail	Residential Mortgages	Total
Africa	273	194	211	22	2	0	703
Asia	281	1 470	1 143	27	4	2	2 926
Central and Eastern Europe & Russia	15 649	1 370	10 763	6 798	5 390	17 515	57 484
Of which							
Bulgaria	1 168	53	567	782	835	605	4 012
Czech Republic	7 356	411	6 219	3 768	2 520	11 877	32 152
Hungary	3 051	40	1 619	1 690	248	1 708	8 357
Poland	1 357	37	77	0	11	1	1 484
Russia	0	233	0	8	1	0	243
Slovak Republic	2 501	456	1 995	538	1 764	3 318	10 571
Latin America	50	56	45	0	3	0	154
Middle East	4	1 022	208	6	5	4	1 249
North America	1 992	680	1 523	18	28	3	4 245
Oceania	23	616	149	0	5	1	793
Western Europe	57 716	4 366	28 851	15 330	15 692	48 352	170 307
Of which							
Belgium	43 609	336	20 959	14 220	15 423	37 013	131 559
Ireland	1 408	17	872	499	2	11 291	14 089
<b>Total</b>	<b>75 987</b>	<b>9 773</b>	<b>42 893</b>	<b>22 201</b>	<b>21 130</b>	<b>65 877</b>	<b>237 862</b>
Exposure [EAD] 31-12-2016 (in millions of EUR)	Sovereign	Institutions	Corporates	SME Corporates	Retail	Residential Mortgages	Total
Africa	214	187	227	26	3	0	658
Asia	286	1 696	1 171	70	2	0	3 225
Central and Eastern Europe & Russia	15 622	1 413	10 788	5 863	4 331	14 959	52 978
Of which							
Bulgaria	484	7	286	87	344	171	1 377
Czech Republic	8 162	594	6 617	3 723	2 161	10 168	31 425
Hungary	3 136	41	1 477	1 532	206	1 648	8 039
Poland	1 149	34	105	0	10	0	1 298
Russia	1	161	1	13	1	0	177
Slovak Republic	2 541	425	2 004	502	1 606	2 968	10 046
Latin America	51	43	52	0	3	0	149
Middle East	4	1 167	241	17	4	0	1 433
North America	1 266	502	1 638	7	32	0	3 445
Oceania	0	642	111	0	2	0	755
Western Europe	52 556	4 060	26 592	15 962	17 619	46 215	163 004
Of which							
Belgium	38 701	349	18 804	14 626	17 381	34 505	124 365
Ireland	1 087	119	1 157	805	1	11 686	14 856
<b>Total</b>	<b>69 998</b>	<b>9 710</b>	<b>40 820</b>	<b>21 946</b>	<b>21 998</b>	<b>61 175</b>	<b>225 646</b>

The geographic regions in the above table are those where each borrower (or guarantor) is situated. The table shows that the KBC home markets comprise mainly Belgium (55%) and the four CEE countries (Bulgaria, the Czech Republic, Hungary, Slovak Republic) (23%), which combined represented 78% of exposures in 2017. They even represented almost 83% of EAD for the 'Residential Mortgages' exposure class, more than 98% for 'Retail' and almost 95% for 'SME Corporates'.

As regards 'Institutions', exposures outside the home markets were predominantly in Western Europe (mainly the UK, France, Spain and Finland) and in Asia (mainly China). The material increase observed for Western European sovereign exposures related to the increase in cash balances at central banks (i.e. KBC Bank deposits at the ECB). The rise in the 'Residential Mortgage' exposure class was caused by new production in the home markets and the acquisition of United Bulgarian Bank. This acquisition also accounts for the increase in the 'Corporates' exposure class.

### Total credit exposure in the lending portfolio per sector

Exposure [EAD] 31-12-2017 (in millions of EUR)	Sovereign	Institutions	Corporates	SME Corporates	Retail	Residential Mortgages	Total
Agriculture, Farming & Fishing	0	0	566	1 828	2 336	0	4 730
Authorities	73 643	198	91	1	0	0	73 934
Automotive	0	0	1 840	1 121	673	0	3 634
Building & Construction	0	0	2 774	1 429	1 549	0	5 751
Chemicals	0	0	1 491	485	69	0	2 045
Commercial Real Estate	0	0	7 339	2 737	1 023	0	11 099
Distribution	0	0	5 447	4 464	2 487	0	12 399
Electricity	23	0	2 531	176	19	0	2 750
Finance & Insurance	887	9 441	1 736	489	282	0	12 835
Food Producers	0	0	1 676	455	199	0	2 331
Metals	0	0	1 332	666	300	0	2 298
Oil, Gas & Other Fuels	0	0	1 058	80	3	0	1 142
Private Persons	0	0	225	77	7 123	65 877	73 302
Services	67	72	7 380	5 137	3 487	0	16 144
Other*	1 366	62	7 405	3 056	1 580	0	13 470
<b>Total</b>	<b>75 987</b>	<b>9 773</b>	<b>42 893</b>	<b>22 201</b>	<b>21 130</b>	<b>65 877</b>	<b>237 862</b>
Exposure [EAD] 31-12-2016 (in millions of EUR)	Sovereign	Institutions	Corporates	SME Corporates	Retail	Residential Mortgages	Total
Agriculture, Farming & Fishing	0	0	483	1 599	2 400	0	4 483
Authorities	67 975	1	271	1	1	0	68 249
Automotive	0	0	1 740	1 052	1 562	0	4 354
Building & Construction	0	0	2 945	1 500	1 642	0	6 088
Chemicals	0	0	1 311	403	65	0	1 779
Commercial Real Estate	0	0	7 208	3 167	1 143	0	11 518
Distribution	0	0	5 019	4 339	2 661	0	12 020
Electricity	0	0	2 225	160	19	0	2 404
Finance & Insurance	520	9 694	1 279	1 044	322	0	12 860
Food Producers	0	0	1 476	366	189	0	2 031
Metals	0	0	1 316	575	284	0	2 175
Oil, Gas & Other Fuels	0	0	1 086	24	3	0	1 113
Private Persons	0	0	196	92	5 605	61 184	67 077
Services	25	14	7 009	4 768	4 508	0	16 324
Other*	1 478	0	7 072	3 040	1 582	0	13 173
<b>Total</b>	<b>69 998</b>	<b>9 710</b>	<b>40 637</b>	<b>22 128</b>	<b>21 988</b>	<b>61 184</b>	<b>225 646</b>

\* All sectors with a concentration of less than 0.75% of the total EAD are aggregated into this category.

In view of KBC's substantial retail activities in most markets, 'Private persons' represents a large share of this sector distribution. The exposure to 'Private persons' rose significantly due to new production in residential mortgages. The other main changes in exposure were: (i) an increase in 'Authorities' due to the rise in cash balances at central banks (ii) and increased lending in the (diversified) 'Services' sector.

### Maturity analysis of the total credit exposure in the lending portfolio

Residual maturity 31-12-2017 (in millions of EUR)	Sovereign	Institutions	Corporates	SME Corporates	Retail	Residential Mortgages	Total
<1 year	33 486	3 743	15 808	6 355	2 626	1 382	63 401
=>1 to <5 years	17 363	2 989	9 974	5 137	7 399	2 731	45 594
=>5 to <10 years	17 320	1 674	6 300	4 115	4 515	8 896	42 820
=>10 years	6 490	127	5 766	4 870	3 874	52 449	73 575
Until Further Notice*	1 328	1 240	5 044	1 724	2 715	420	12 471
<b>Total</b>	<b>75 987</b>	<b>9 773</b>	<b>42 893</b>	<b>22 201</b>	<b>21 130</b>	<b>65 877</b>	<b>237 862</b>
Residual maturity 31-12-2016 (in millions of EUR)	Sovereign	Institutions	Corporates	SME Corporates	Retail	Residential Mortgages	Total
<1 year	27 434	4 273	20 076	6 799	3 083	962	62 626
=>1 to <5 years	13 608	2 244	8 106	4 380	6 812	2 447	37 597
=>5 to <10 years	21 721	1 850	5 189	3 858	4 451	8 052	45 120
=>10 years	6 560	74	4 727	4 914	4 754	49 444	70 473
Until Further Notice*	675	1 270	2 539	2 178	2 888	278	9 829
<b>Total</b>	<b>69 998</b>	<b>9 710</b>	<b>40 637</b>	<b>22 129</b>	<b>21 988</b>	<b>61 184</b>	<b>225 646</b>

\* Exposure without a concrete end-date is assigned to the 'Until Further Notice' category.

About 46% of the lending portfolio will mature within five years. Within the 'Institutions' and 'Sovereign' exposure classes, this percentage is as high as 66%. The longest maturity bucket is mainly concentrated in the 'Residential Mortgages' class.

The rise in credit exposure with a residual maturity of 10 years and longer was caused primarily by new production in the 'Residential mortgages' and 'Corporate' categories. The higher level of cash balances at central banks was the main driver for increasing the 'Sovereign' (<1 year) exposure.

## Total credit exposure in the lending portfolio per product type

Exposure [EAD] 31-12-2017 (in millions of EUR)	Sovereign	Institutions	Corporates	SME Corporates	Retail	Residential Mortgages	Total
Guarantee	216	600	1 597	438	288	47	3 186
Debt instrument	40 585	3 494	401	2	0	0	44 482
Leasing	24	18	1 407	1 386	1 588	0	4 422
Home loans <sup>1</sup>	0	0	0	0	0	66 468	66 468
Other lending	35 162	5 661	39 182	20 045	19 254	0	119 304
<b>Total</b>	<b>75 986</b>	<b>9 773</b>	<b>42 587</b>	<b>21 871</b>	<b>21 130</b>	<b>66 515</b>	<b>237 862</b>
Exposure [EAD] 31-12-2016 (in millions of EUR)	Sovereign	Institutions	Corporates	SME Corporates	Retail	Residential Mortgages	Total
Guarantee	307	487	2 189	1 193	732	0	4 908
Debt instrument	43 467	3 578	372	1 978	0	0	49 394
Leasing	25	11	1 358	1 273	1 773	0	4 441
Home loans <sup>1</sup>	0	0	0	0	0	61 184	61 184
Other lending	26 199	5 634	36 718	17 685	19 483	0	105 719
<b>Total</b>	<b>69 998</b>	<b>9 710</b>	<b>40 637</b>	<b>22 128</b>	<b>21 988</b>	<b>61 184</b>	<b>225 646</b>

<sup>1</sup> This table was adjusted to take account of KBC's new definition of 'Home loans', i.e. all real estate lending to private persons covered by a mortgage falls under 'Home loans'. A real estate loan to the retail segment without being secured by a mortgage falls under 'Other lending'.

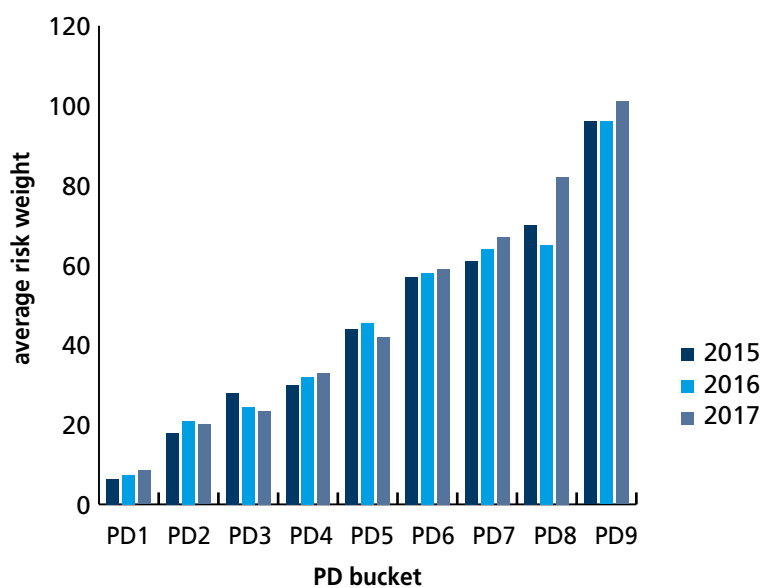
The proportional distribution over the different product types remained unchanged. The 'Other lending' and 'Home loans' categories continued to account for the majority of the lending portfolio.

## Quality analysis of the total credit exposure in the lending portfolio – IRB

The graph and table below show credit risk exposure per Probability of Default (PD) class in terms of average risk weight or EAD at year-end. Only the lending exposure subject to the IRB approach is captured in this table. A similar overview of the exposure subject to the Standardised approach appears in a subsequent table. The exposure (EAD) is presented together with the relevant RWA per PD rating.

Unlike the previous tables, the table below shows exposure before the application of guarantees. This means that there is no shift in asset class due to PD substitution (for the IRB foundation exposure). The RWA for the exposure, however, is presented after all collateral and guarantees have been applied. This allows an indication to be given of the mean RWA for a certain original exposure. The latter is also reflected in the ‘weighted average’ percentage.

### IRB exposure - credit quality analysis



Generally, the average weighting percentage increases as PD ratings worsen, which is in line with the principle that higher risks attract greater amounts of capital.

The PD scale presented is KBC's Master Scale for Probability of Default. For more information in this regard, please refer to the 'Internal modelling' section.

The total average risk weight increased slightly in 2017, going up from 25% to 26% on account of the implementation of new or reviewed LGD models.

In millions of EUR – 31-12-2017

PD Master scale	Exposure [EAD] RWA Average in %	Sovereign	Institutions	Corporates	SME Corporates	Retail	Residential Mortgages	Total
1 [0.00% - 0.10%]	Sum of EAD	43 810	4 340	4 811	924	3 970	28 542	86 397
	Sum of RWA	3 775	713	728	103	117	2 056	7 491
	weighted average	9%	16%	15%	11%	3%	7%	9%
2 [0.10% - 0.20%]	Sum of EAD	294	2 703	5 519	2 191	2 875	955	14 537
	Sum of RWA	88	793	1 466	367	155	67	2 936
	weighted average	30%	29%	27%	17%	5%	7%	20%
3 [0.20% - 0.40%]	Sum of EAD	3 370	481	7 520	3 568	2 487	11 379	28 804
	Sum of RWA	1 600	227	2 692	829	248	1 510	7 106
	weighted average	47%	47%	36%	23%	10%	13%	25%
4 [0.40% - 0.80%]	Sum of EAD	37	1 051	8 325	3 799	3 376	6 355	22 943
	Sum of RWA	18	263	4 092	1 371	692	1 106	7 542
	weighted average	48%	25%	49%	36%	21%	17%	33%
5 [0.80% - 1.60%]	Sum of EAD	58	163	6 439	3 829	1 980	6 121	18 589
	Sum of RWA	32	53	4 175	1 925	543	1 623	8 350
	weighted average	55%	32%	65%	50%	27%	27%	45%
6 [1.60% - 3.20%]	Sum of EAD	267	72	4 265	2 992	1 984	3 307	12 887
	Sum of RWA	34	31	3 574	1 766	792	1 391	7 588
	weighted average	13%	44%	84%	59%	40%	42%	59%
7* [3.20% - 6.40%]	Sum of EAD	20	345	1 785	1 655	1 123	1 546	6 474
	Sum of RWA	20	352	1 637	1 082	458	864	4 413
	weighted average	101%	102%	92%	65%	41%	56%	68%
8 [6.40% - 12.80%]	Sum of EAD	20	170	604	529	458	1 017	2 798
	Sum of RWA	2	68	716	423	226	878	2 312
	weighted average	11%	40%	119%	80%	49%	86%	83%
9 [12.80% - 100.00%]	Sum of EAD	16	7	266	359	526	1 514	2 688
	Sum of RWA	2	5	358	401	335	1 609	2 710
	weighted average	13%	70%	135%	112%	64%	106%	101%
Total exposure		47 892	9 332	39 534	19 846	18 777	60 736	196 118
Total risk-weighted assets		5 566	2 526	19 493	8 281	3 609	11 149	50 623
Total weighted average		12%	27%	49%	42%	19%	18%	26%

\* Unrated exposure has been assigned a PD of 4.53% and been allocated to PD bucket 7.

**In millions of EUR – 31-12-2016**

PD Master scale	Exposure [EAD] RWA Average in %	Sovereign	Institutions	Corporates	SME Corporates	Retail	Residential Mortgages	Total
1 [0.00% - 0.10%]	Sum of EAD	46 304	4 164	4 551	1 364	4 042	27 745	88 170
	Sum of RWA	3 680	660	678	172	151	1 880	7 221
	weighted average	8%	16%	15%	13%	4%	7%	8%
2 [0.10% - 0.20%]	Sum of EAD	210	2 745	4 606	1 974	3 248	409	13 193
	Sum of RWA	60	798	1 356	327	181	22	2 744
	weighted average	29%	29%	29%	17%	6%	5%	21%
3 [0.20% - 0.40%]	Sum of EAD	3 513	498	7 385	3 646	2 755	9 908	27 705
	Sum of RWA	1 660	143	2 741	938	259	1 220	6 961
	weighted average	47%	29%	37%	26%	9%	12%	25%
4 [0.40% - 0.80%]	Sum of EAD	62	1 191	7 444	3 655	3 645	7 005	23 002
	Sum of RWA	33	372	3 798	1 277	763	1 123	7 366
	weighted average	54%	31%	51%	35%	21%	16%	32%
5 [0.80% - 1.60%]	Sum of EAD	42	220	6 213	3 623	2 062	5 487	17 647
	Sum of RWA	21	59	4 464	1 727	532	1 599	8 402
	weighted average	49%	27%	72%	48%	26%	29%	48%
6 [1.60% - 3.20%]	Sum of EAD	171	102	4 050	2 890	2 003	1 817	11 032
	Sum of RWA	24	30	3 042	1 565	745	1 054	6 460
	weighted average	14%	29%	75%	54%	37%	58%	59%
7* [3.20% - 6.40%]	Sum of EAD	95	324	2 033	1 673	1 193	668	5 986
	Sum of RWA	60	124	1 885	1 079	430	377	3 954
	weighted average	63%	38%	93%	65%	36%	56%	66%
8 [6.40% - 12.80%]	Sum of EAD	12	89	774	545	492	757	2 669
	Sum of RWA	26	42	517	391	201	577	1 754
	weighted average	216%	47%	67%	72%	41%	76%	66%
9 [12.80% - 100.00%]	Sum of EAD	0	34	245	400	637	1 654	2 972
	Sum of RWA	1	35	353	392	333	1 723	2 837
	weighted average	155%	102%	144%	98%	52%	104%	95%
Total exposure		50 410	9 369	37 301	19 770	20 076	55 450	192 375
Total risk-weighted assets		5 565	2 263	18 833	7 869	3 594	9 574	47 699
Total weighted average		11%	24%	50%	40%	18%	17%	25%

\* Unrated exposure has been assigned a PD of 4.53% and been allocated to PD bucket 7.

With reference to EAD and LGD, key data are shown in the table below (i.e. EAD, the outstanding amount, the undrawn amount, the EAD-weighted mean Credit Conversion Factor (CCF %) applicable to the undrawn amount and the EAD-weighted mean LGD percentages). Only exposures where KBC uses own CCF and LGD estimates are shown (IRB Advanced approach).

Further detailed quality information on IRB Advanced exposure, 31-12-2017

(in millions of EUR)

Asset class	PD	1	2	3	4	5	6	7	8	9	Total
Sovereign	EAD	40 542	268	3 327	28	37	267	20	19	16	44 524
	Outstanding amount	39 244	262	3 214	24	32	219	7	11	0	43 013
	Undrawn amount	1 502	68	142	18	16	159	28	28	53	2 015
	Average CCF %	86%	10%	79%	20%	31%	30%	45%	31%	30%	74%
	LGD %	24%	24%	34%	18%	26%	4%	25%	2%	2%	25%
Institutions	EAD	4 333	2 491	481	1 050	163	70	344	158	7	9 097
	Outstanding amount	3 049	1 861	373	800	87	31	239	55	2	6 497
	Undrawn amount	1 664	1 115	108	326	78	38	106	102	5	3 542
	Average CCF %	76%	52%	97%	70%	94%	99%	99%	99%	100%	70%
	LGD %	24%	26%	30%	13%	11%	15%	27%	6%	14%	23%
Corporates	EAD	4 740	5 357	7 020	7 784	6 081	3 959	1 630	548	234	37 352
	Outstanding amount	3 814	4 619	5 717	6 193	5 142	3 211	1 150	421	158	30 426
	Undrawn amount	3 469	4 327	5 448	5 511	3 366	2 374	1 449	206	156	26 307
	Average CCF %	26%	15%	20%	27%	26%	31%	32%	48%	41%	24%
	LGD %	21%	27%	26%	26%	27%	28%	27%	26%	24%	26%
SMEs	EAD	878	2 167	3 495	3 706	3 707	2 879	1 555	487	324	19 197
	Outstanding amount	830	2 007	3 251	3 307	3 389	2 612	1 371	458	309	17 534
	Undrawn amount	208	544	827	1 268	980	671	412	69	59	5 039
	Average CCF %	22%	26%	25%	28%	29%	37%	42%	39%	25%	30%
	LGD %	18%	20%	20%	24%	26%	25%	24%	23%	26%	24%
Retail	EAD	3 970	2 875	2 487	3 376	1 980	1 984	1 123	458	526	18 777
	Outstanding amount	3 170	2 510	2 159	2 825	1 791	1 795	944	438	505	16 136
	Undrawn amount	1 399	788	847	1 602	625	625	1 225	64	94	7 270
	Average CCF %	57%	31%	30%	33%	23%	27%	14%	28%	19%	33%
	LGD %	27%	21%	23%	30%	27%	33%	26%	32%	29%	27%
Residential mortgages	EAD	28 542	955	11 379	6 355	6 121	3 307	1 546	1 017	1 514	60 736
	Outstanding amount	27 036	933	10 880	6 093	5 807	2 926	1 528	993	1 502	57 698
	Undrawn amount	1 520	48	374	72	111	29	33	28	6	2 222
	Average CCF %	99%	45%	92%	44%	74%	28%	57%	85%	61%	86%
	LGD %	18%	20%	20%	20%	17%	20%	17%	19%	19%	19%



Further detailed quality information on IRB Advanced exposure, 31-12-2016

(in millions of EUR)

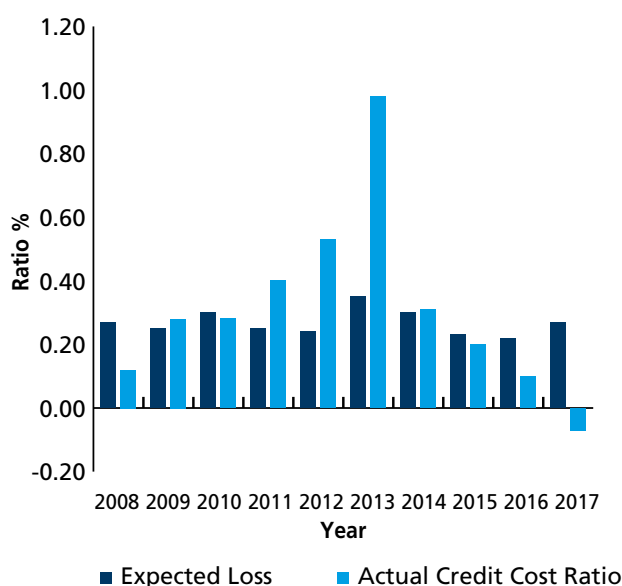
Asset class	PD	1	2	3	4	5	6	7	8	9	Total
Sovereign	EAD	43 348	208	3 445	53	42	171	94	12	0	47 373
	Outstanding amount	42 652	200	3 349	51	41	170	94	12	0	46 570
	Undrawn amount	905	81	101	2	2	40	9	1	8	1 151
	Average CCF %	77%	10%	95%	100%	23%	2%	5%	0%	0%	70%
	LGD %	24%	24%	35%	23%	21%	5%	16%	41%	27%	24%
Institutions	EAD	4 147	2 564	491	1 190	220	102	306	79	24	9 123
	Outstanding amount	3 035	1 965	339	802	117	58	195	32	5	6 548
	Undrawn amount	1 459	603	152	847	100	44	108	43	17	3 372
	Average CCF %	76%	89%	100%	45%	96%	90%	99%	100%	100%	74%
	LGD %	23%	25%	18%	20%	9%	9%	9%	5%	5%	22%
Corporates	EAD	4 472	4 448	6 885	7 004	5 808	3 694	1 662	720	205	34 899
	Outstanding amount	4 080	3 578	5 387	5 003	4 841	2 861	1 185	546	171	27 651
	Undrawn amount	2 124	3 620	5 922	4 931	3 144	2 069	1 019	320	64	23 213
	Average CCF %	17%	19%	20%	33%	28%	37%	44%	42%	22%	26%
	LGD %	20%	31%	27%	29%	29%	26%	25%	14%	26%	27%
SMEs	EAD	1 351	1 954	3 519	3 558	3 493	2 778	1 529	502	380	19 065
	Outstanding amount	842	1 760	3 146	3 050	3 028	2 400	1 329	457	354	16 366
	Undrawn amount	1 654	642	961	1 162	1 056	713	378	80	43	6 688
	Average CCF %	31%	26%	35%	37%	36%	46%	49%	50%	53%	36%
	LGD %	20%	20%	22%	23%	25%	23%	24%	21%	22%	23%
Retail	EAD	4 042	3 248	2 755	3 645	2 062	2 003	1 193	492	637	20 076
	Outstanding amount	2 989	2 801	2 447	3 064	1 811	1 797	1 011	460	596	16 976
	Undrawn amount	1 291	631	545	797	388	286	245	47	53	4 285
	Average CCF %	80%	57%	47%	69%	57%	67%	73%	66%	74%	67%
	LGD %	27%	21%	21%	30%	27%	32%	28%	30%	27%	27%
Residential mortgages	EAD	27 745	409	9 908	7 005	5 487	1 817	668	757	1 654	55 450
	Outstanding amount	26 384	409	9 567	6 788	5 196	1 437	659	732	1 640	52 813
	Undrawn amount	1 361	0	264	69	80	21	9	25	5	1 835
	Average CCF %	100%	100%	100%	100%	15%	100%	100%	100%	100%	100%
	LGD %	14%	19%	17%	18%	19%	27%	17%	16%	18%	16%

The table shows that LGDs for 'Residential mortgages' remain stable and are the lowest of the different asset classes, due to the fact that these exposures, by definition, have a partly or fully secured nature. On the other hand, LGDs for 'Corporates' and 'Retail', which historically are among the highest of the different asset classes, increased slightly on their 2016 levels.

The following paragraphs and graph compare 'expected losses' with 'actual losses' over a longer period in time. Unfortunately, historical loan loss information is not available at Basel III asset class level but only at own segmentation level. Therefore, KBC has chosen to disclose this comparison only for the total portfolio that is subject to the IRB Advanced approach.

The graph compares KBC's EL ratio (EL related to the EAD) with the actual average credit cost percentage. As EL expresses the modelled expectations with a one-year time horizon, there is a time lag compared to the credit cost ratio. The credit cost ratio shown for 2017 incorporates the actual losses over 2017, whereas the EL for 2017 is calculated on the basis of the portfolio at year-end 2016 and is thus a modelled expectation for 2017. This also explains why only the EL (modelled expectations) is given for 2018. Please note that only the normal (i.e. non-default) portfolio is taken into account for the EL calculation. Exposures to the low-default 'Sovereigns' and 'Institutions' classes have been excluded from this comparison, which means that the focus lies with the corporate, SME and retail credit portfolio.

### Comparison historic credit cost and expected loss ratio Exposure subject to IRB Advanced



Given the focus on the IRB Advanced portfolio, the scope of the graph changes over time. Up to 2009, it had been limited to the Belgian retail portfolio. KBC Homeloans (the retail portfolio of KBC Bank Ireland) only switched from the Standardised to the IRB approach in mid-2008 and was thus only incorporated into the graph below from 2009 on. As of 2013, the graph includes both the retail and corporate/SME portfolio of those entities that have adopted the IRB Advanced approach, as well as the retail portfolio of KBC Bank Ireland and K&H Bank (both IRB Foundation entities). For

2016, the corporate and SME portfolios of K&H were added to the scope, reflecting the adoption of the IRB Advanced approach at K&H.

Due to the regulatory methodology used (the PD is through the cycle combined with a downturn LGD), the EL remains rather stable over time. The credit cost ratio is a point-in-time calculation. In the benign phase of a credit cycle, actual losses are lower than modelled losses, whereas in a recession (from 2010 to 2013), actual losses are higher than modelled losses.

In 2013, actual losses went up substantially mainly on account of KBC Bank Ireland. They started falling again in 2014, coming more into line with the modelled losses, and were noticeably lower as from 2016. In 2017, the credit cost ratio became negative (-0.06%), due to much lower loan impairment charges (from net provisioning of 126 million euros in 2016 to a net 87 million euros in 2017), essentially because of significant impairment releases in Ireland.

### **Quality analysis of the total credit exposure in the lending portfolio – Standardised**

As mentioned above, only the lending exposure subject to the Standardised approach is dealt with in this section.

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 uses external ratings from S&P's and Moody's to define the risk bucket of exposures. If there are three external ratings with different risk weights attached to them, the risk weight corresponding with the second best external rating is applied.

The table below shows credit risk exposure broken down by type of exposure and risk bucket.

Much of the exposure is assigned to the unrated bucket. This includes the 'Secured by real estate' exposure, which does not require a rating. Obviously, the 'Retail' exposure is assigned to the unrated bucket. Due to the absence of external ratings, the RWA of the KBC Standardised portfolio is primarily volume-driven over time.

Standardised exposure [EAD] 31-12-2017 (in millions of EUR)	Quality steps						Unrated	Total
	1	2	3	4	5	6		
Sovereign	26 909	0	387	0	0	0	788	28 084
RGLA	0	0	0	0	0	0	188	188
PSE	0	0	0	0	0	0	0	0
MDB	0	0	0	0	0	0	50	50
International organisations	0	0	0	0	0	0	0	0
Institutions	58	83	53	0	0	0	4	198
Corporates	1	0	0	0	0	0	1 332	1 332
Retail	0	0	0	0	0	0	1 876	1 876
Secured by real estate	0	0	0	0	0	0	893	893
Past due	0	0	0	0	0	0	309	309
High risk	0	0	0	0	0	0	0	0
Covered bonds	0	0	0	0	0	0	0	0
CIU	0	0	0	0	0	0	4	4
Short term	0	0	0	0	0	0	0	0
Equity	0	0	0	0	0	0	218	218
Other	0	0	0	0	0	0	986	986
<b>Total</b>	<b>26 909</b>	<b>0</b>	<b>387</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>788</b>	<b>28 084</b>

Standardised exposure [EAD] 31-12-2016 (in millions of EUR)	Quality steps						Unrated	Total
	1	2	3	4	5	6		
Sovereign	19 143	0	375	0	0	0	0	19 518
RGLA	0	0	0	0	0	0	192	192
PSE	0	0	0	0	0	0	0	0
MDB	7	0	0	0	0	0	0	7
International organisations	0	0	0	0	0	0	0	0
Institutions	28	24	94	0	0	0	0	147
Corporates	1	0	0	0	0	0	814	815
Retail	0	0	0	0	0	0	1 243	1 243
Secured by real estate	0	0	0	0	0	0	300	300
Past due	0	0	0	0	0	0	124	124
High risk	0	0	0	0	0	0	0	0
Covered bonds	0	0	0	0	0	0	0	0
CIU	0	0	0	0	0	0	0	0
Short term	0	0	0	0	0	0	0	0
Equity	0	0	0	0	0	0	190	190
Other	0	0	0	0	0	0	708	708
<b>Total</b>	<b>19 179</b>	<b>24</b>	<b>469</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3 572</b>	<b>23 244</b>

The robust increase in total Standardised exposure can be fully attributed to the 'Sovereign' asset class and, as mentioned earlier in this report, related to increased cash balances at central banks (no impact on RWA). In addition, the acquisition of the Bulgarian entities accounts for the increase in the 'Corporate', 'SME', 'Retail' and 'Other' asset classes. For all the other asset classes, exposures did not significantly change, because the portfolio was stable and there were no additional shifts from the Standardised approach to the IRB approach in 2017.

## Impaired credit exposure in the lending portfolio

The tables show impaired credit risk exposure per geographic region and per sector.

They include all exposure in the lending portfolio, independently of the regulatory approach or the assigned exposure type or asset class. It is worth mentioning that the EAD 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.

<b>Impaired exposure per geographic region [EAD]</b> (in millions of EUR)	<b>31-12-2017</b>	<b>31-12-2016</b>
Africa	143	2
Asia	61	88
Central and Eastern Europe & Russia	1 390	1 478
Latin America	0	0
Middle East	40	15
North America	197	290
Oceania	57	12
Western Europe	7 220	9 116
Of which Belgium	2 070	2 373
Of which Ireland	4 643	6 110
<b>Total</b>	<b>9 108</b>	<b>11 002</b>
<b>Impaired exposure per sector [EAD]</b> (in millions of EUR)	<b>31-12-2017</b>	<b>31-12-2016</b>
Agriculture, Farming & Fishing	109	134
Automotive	54	74
Building & Construction	521	423
Chemicals	33	94
Commercial Real Estate	1 269	1 549
Distribution	924	1 073
Electrotechnology	15	21
Finance & Insurance	85	87
Hospitality	182	289
IT	14	119
Machinery & Heavy Equipment	90	107
Metals	134	165
Private Persons	4 618	5 594
Services	565	711
Shipping	39	43
Textile & Apparel	51	60
Other*	403	459
<b>Total</b>	<b>9 108</b>	<b>11 002</b>

\* All sectors with a concentration of less than 1% of the total EAD are aggregated into the 'Other' category.

Overall, there was a significant decrease in the impaired portfolio for KBC's home markets. The decrease can largely be attributed to KBC Bank Ireland, where certain counterparties were 'cured' and others 'settled'. The decrease was highest in the 'Commercial Real Estate' and 'Private Persons' sectors at KBC Bank Ireland.

Provisioning for impaired exposures:

Provision per geographic region [EAD] (in millions of EUR)	31-12-2017	31-12-2016
Africa	7	0
Asia	76	57
Central and Eastern Europe & Russia	1 194	815
Latin America	1	0
Middle East	0	13
North America	92	110
Oceania	21	11
Western Europe	3 222	4 415
Of which Belgium	1 132	1 201
Of which Ireland	1 938	2 966
Total	4 612	5 422

The increase in provisioning resulting from the acquisition of United Bulgarian Bank and Interlease (+350 million euros) is reflected in the 'Central and Eastern Europe & Russia' region. The other major change is the decrease in provisioning at KBC Bank Ireland (covered earlier in this report). For all data on impairment, provisions and value adjustments, reference is made to the 'Consolidated financial statements' section of the 2017 Annual Report for KBC Group NV.

## Counterparty credit risk

KBC defines counterparty credit risk as the credit risk resulting from over-the-counter transactions (i.e. where there is no formal exchange), which are in the main Credit Default Swaps (CDS), interest-related transactions (e.g., Interest Rate Swaps), currency-related transactions (e.g., FX swap), equity-related transactions or commodity transactions. However, repo-like transactions are not covered in this part of the report, but instead are dealt with in the section on 'Credit risk mitigation'.

No distinction is made between counterparty credit risk arising from exposures subject to the IRB approach or to the Standardised approach, nor from the banking or trading book.

The tables show the counterparty credit risk for the entities referred to in the scope description of credit risk disclosures.

Counterparty limits are set for each individual counterparty, taking into account the general rules and procedures set out in a group-wide policy. Sub-limits can be put in place for each product type. The risk is monitored by a real-time limit control system, allowing dealers to check limit availability at any time. A pre-deal check occurs before the conclusion of each transaction using 'heavy' add-ons which are higher than the regulatory add-ons.

Close-out netting and collateral techniques are used wherever possible (subject to legal certainty about applicability). These techniques are discussed in the next section. The netting benefits and risk mitigation through collateral for OTC-derivative transactions are however already shown in the bottom part of the table below.

Transaction type 31-12-2017 (in millions of EUR)	Marked-to-market	Add-on	Counterparty risk [EAD]	Notional value of contracts	RWA*
CDS bought - Trading	0	0	0	0	0
CDS sold - Trading	0	0	0	0	0
Other	0	0	0	0	0
Total credit derivatives	0	0	0	0	0
Interest Rate Swaps (IRS)	4 506	1 567	5 902	248 600	722
Caps/Floors	366	109	451	16 945	45
Other	3	0	3	6 004	0
Total interest-related transactions	4 873	1 676	6 352	271 360	768
FX forward	340	242	596	23 743	114
FX swap	598	973	1 534	158 423	133
Cross Currency IRS	410	468	858	42 918	133
Other	52	75	134	8 215	35
Total currency-related transactions	1 399	1 758	3 119	233 214	415
Equity swaps	1 534	1 086	2 622	31 280	382
Equity options	77	60	137	1 791	19
Total equity-related transactions	1 611	1 146	2 759	33 070	401
Total commodity transactions	13	29	42	562	4
Gross counterparty risk	7 898	4 608	12 277	411 552	
Netting benefit (-)			-6 320		
Total counterparty risk after netting			5 957		
Collateral benefit (-)			-1 717		
Total net Counterparty risk			4 240		1 566

\* Based on the net counterparty risk of the transaction type.

Transaction type 31-12-2016 (in millions of EUR)	Marked-to-market	Add-on	Counterparty risk [EAD]	Notional value of contracts	RWA *
CDS bought - Trading	0	0	0	1	0
CDS sold - Trading	0	0	0	1	0
Other	0	0	0	0	0
Total credit derivatives	0	0	0	2	0
Interest Rate Swaps (IRS)	5 307	1 423	6 832	224 695	1 139
Caps/Floors	454	109	564	18 610	59
Other	456	117	589	27 720	72
Total interest-related transactions	6 218	1 649	7 985	271 024	1 270
FX forward	315	242	585	30 053	110
FX swap	1 335	1 043	2 425	123 536	131
Cross Currency IRS	764	888	1 654	81 307	240
Other	96	125	230	9 734	51
Total currency-related transactions	2 510	2 298	4 894	244 630	532
Equity swaps	1 703	1 316	3 100	36 120	415
Equity options	126	117	250	1 976	22
Total equity-related transactions	1 830	1 433	3 349	38 096	437
Total commodity transactions	27	34	63	374	5
Gross counterparty risk	10 585	5 414	16 291	554 126	
Netting benefit (-)			-8 352		
Total counterparty risk after netting			7 939		
Collateral benefit (-)			-2 386		
Total net Counterparty risk			5 553		2 239

\* Based on the net counterparty risk of the transaction type.

In 2017, the exposure to counterparty risk decreased. More specifically, gross counterparty risk fell by 25% and the net counterparty risk (after netting and collateral) by 24% on a year-to-year basis. Interest-related, currency-related and equity-related transactions all decreased considerably.

A breakdown of the net counterparty risk is provided below, both by geographic region (i.e. where the counterparty is located) and by rating band (based on external ratings). This shows that the total counterparty credit risk in the form of exposure to investment-grade counterparties fell from 73% to 50% in 2017. The exposure to counterparties without a rating in 2017 was more than twice its year-earlier level.



<b>Net derivative exposure per geographic region [EAD]<sup>1</sup></b> (in millions of EUR)	<b>31-12-2017</b>	<b>31-12-2016</b>
Africa	1	1
Asia	38	57
Central and Eastern Europe & Russia	493	896
Latin America	0	5
Middle East	26	25
North America	65	116
Oceania	23	39
Western Europe	3 595	4 413
<b>Total</b>	<b>4 240</b>	<b>5 553</b>

<b>Net derivative exposure per rating band<sup>2</sup> [EAD]<sup>1</sup></b> (in millions of EUR)	<b>31-12-2017</b>	<b>31-12-2016</b>
AAA	3	404
AA	408	751
A	1 393	2 052
BBB	317	860
BB	54	388
B and below	21	202
No rating	2 044	896
<b>Total</b>	<b>4 240</b>	<b>5 553</b>

1 After collateral and netting benefits have been taken into consideration.

2 For instance, rating band AA incorporates ratings AA+, AA and AA-. If multiple ratings are available, the second best is used. If no external rating is available, the internal rating is mapped to the corresponding external rating.

As mentioned earlier, the EAD is calculated as the sum of the (positive) current replacement value (marked-to-market) of a transaction and the applicable add-on (= current exposure method).

## Credit value adjustment

The 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.

<b>Credit value adjustment</b> (in millions of EUR)	<b>31/12/2017</b>	<b>31/12/2016</b>
Exposure value	2 149	2 286
of which OTC derivatives	2 011	2 253
SFT*	139	34
Risk weighted assets	597	759
Number of counterparties	771	777

\* Securities financing transaction.

The exposure value remained stable, while RWA decreased as a result of a shift from OTC derivatives to the SFT portfolio, which has a lower impact on RWA.

## Credit risk mitigation

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). Close-out netting, on the other hand, is applied in order to manage the counterparty risk arising from derivative transactions. 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.

Based on figures for the end of December 2017, the netting impact on derivative exposure amounted to 6.3 billion euros. Intra-group netting is not included in this figure.

### 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.

31-12-2017 (in millions of EUR)	Exposure [EAD]	Covered exposure [EAD]	Covered exposure [%]
Reverse repos/'buy and sell-back' <sup>1</sup>	33 436	32 208	96%
Repos/'sell and buy-back' <sup>2</sup>	17 886	17 678	99%
Total	51 323	49 885	97%
31-12-2016 (in millions of EUR)	Exposure [EAD]	Covered exposure [EAD]	Covered exposure [%]
Reverse repos/'buy and sell-back' <sup>1</sup>	20 299	19 895	98%
Repos/'sell and buy-back' <sup>2</sup>	16 789	16 195	96%
Total	37 088	36 089	97%

1 The covered exposure is lower than the exposure, as the security amount is corrected for regulatory haircuts and mismatches.

2 The exposure of repo transactions, which is based on the market value of the securities in the transaction, is higher than the cash received (covered exposure). These haircuts are added to the securities leg of the transaction.

## 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)**

With regard to collateral for counterparty risk arising from derivative transactions (other than repos which are covered above), a collateral management policy is in place. 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.

Of the total counterparty risk exposure, after netting and before collateral, 29% (1.7 billion euros of 6 billion euros) was classified as collateralised at the end of 2017, virtually unchanged on its year-earlier level. A breakdown of covered exposure values by exposure classes and type of collateral is provided in the table below. Both debt securities and cash collateral were taken into account for credit risk mitigation of counterparty risk exposure. In this respect, it should be noted that, according to the applicable policy, equity collateral is not eligible.

Covered exposure <sup>1,2</sup> [EAD] 31-12-2017 (in millions of EUR)	Sovereigns	Institutions	Corporates	SME Corporates	Total
Cash	0	1 263	38	0	1 301
Debt securities	0	72	344	0	416
Total	0	1 335	381	0	1 717
Covered exposure <sup>1,2</sup> [EAD] 31-12-2016 (in millions of EUR)	Sovereigns	Institutions	Corporates	SME Corporates	Total
Cash	3	1 880	18	0	1 900
Debt securities	0	93	354	39	486
Total	3	1 973	371	39	2 386

1 Covered EAD is the EAD amount (after netting) on which a reduced LGD percentage is applied due to collateralisation.

2 The exposure only relates to the covered counterparty risk arising from derivative transactions.

### **Lending portfolio**

Exposures and collateral subject to the **Standardised approach** are excluded from the table below. 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. Since LGD is irrelevant for these exposures, the collateral is not included in the table.

Of the lending EAD, subject to the **IRB Foundation approach**, 201 million euros was classified as collateralised at the end of 2017, implying that a lower LGD percentage is applied to this portion of exposure in the capital calculations. The impacted exposure is to be interpreted as the total collateralised EAD to which an LGD percentage of 0%, 35% or 40% has been applied in the capital

requirement calculations (compared to an LGD of 45% as used for un-collateralised amounts). The exact percentages depend on the type of collateral concerned as indicated in the table below. Additional information on the extent to which collateral was taken into account in the internal LGD estimation under this approach is provided in the 'Internal modelling' section.

It is clear that 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. Hence, bearing in mind that the figures refer to collateralised EAD as described in the previous paragraph, the effective amount of collateral obtained in KBC 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.

The table below<sup>3</sup> gives the total EAD covered by eligible financial and physical collateral for each exposure class (limited to exposures treated under the IRB Foundation approach).

Covered IRB Foundation lending exposure [EAD] <sup>1</sup> 31-12-2017 (in millions of EUR)	Sovereign	Institutions	Corporates	SME Corporates	Total
Cash	0	0	7	3	10
Debt securities	0	0	0	0	0
Equity collateral	0	0	0	0	0
Total financial collateral	0	0	7	3	10
Real estate <sup>3</sup>	8	0	4	179	191
Receivables	0	0	0	0	0
Lease collateral	0	0	0	0	0
Other physical collateral	0	0	0	0	0
Total physical collateral	8	0	4	179	191
General total	8	0	11	182	201

Covered IRB Foundation lending exposure [EAD] <sup>1</sup> 31-12-2016 (in millions of EUR)	Sovereign	Institutions	Corporates	SME Corporates	Total
Cash	0	0	9	14	23
Debt securities	0	0	0	0	0
Equity collateral	0	0	0	0	0
Total financial collateral	0	0	9	14	23
Real estate <sup>2</sup>	9	0	12	268	289
Receivables	0	0	0	0	0
Lease collateral	0	0	0	0	0
Other physical collateral	0	0	0	0	0
Total physical collateral	9	0	12	282	289
General total	9	0	21	282	312

1 Covered EAD is the EAD amount subject to a reduced LGD percentage due to collateralisation.

2 Including real estate leasing.

3 After the application of haircuts, mismatch corrections and collateralisation floors.

3 The content of this table was adjusted to reflect changes in COREP reporting. As a result, reported collateral is capped at the exposure amount instead of the actual collateral value.

The significant decrease in collateral was accounted for by less real estate collateral.

The table shows that the bulk of the collateralised amount relates to physical collateral (191 million euros), while financial collateral, which has a bigger impact on capital as it attracts a LGD of 0%, was limited to 10 million euros.

Where physical collateral is concerned, the table is in line with expectations, as practically all collateral is held for the 'Corporates' and 'SME Corporates' asset classes. Real estate collateral remains the preferred type of asset when collateral is called for.

For the lending EAD 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. For guarantees, the impacted exposure (i.e. amounts receiving a better rating through PD substitution, resulting in lower capital requirements) decreased by 16% to 43 million euros at the end of 2017. This relates solely to exposures treated under the Standardised and IRB Foundation approaches <sup>4</sup>.

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.

Covered exposure [EAD] <sup>1, 2, 3</sup> 31-12-2017 (in millions of EUR)	Sovereign	Institutions	Corporates	SME Corporates	Total
Credit derivatives	000	000	000	000	000
Guarantees	10	0	26	7	43
Total	10	0	26	7	43
Covered exposure [EAD] <sup>1, 2, 3</sup> 31-12-2016 (in millions of EUR)	Sovereign	Institutions	Corporates	SME Corporates	Total
Credit derivatives	0	0	0	0	0
Guarantees	10	0	1	26	37
Total	10	0	1	26	37

<sup>1</sup> Covered exposure is the EAD amount after netting covered by guarantees or credit derivatives and thus subject to substitution.

<sup>2</sup> The breakdown refers to the exposure classes before substitution is applied.

<sup>3</sup> The scope of the table includes the Standardised and IRB Foundation approaches.

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

<sup>4</sup> The content of this table was adjusted to reflect changes in COREP reporting. As a result, reported collateral is capped at the exposure amount instead of the actual collateral value.

## 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<sup>5</sup> 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 cyclicity 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.

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<sup>5</sup> The cure rate is the percentage of defaulted clients returning to non-defaulted status.



- 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 particular, it recognises that no value or risk model provides a perfect prediction of future outcomes. Explicit measures for dealing with model risk are therefore imposed. The potential shortcomings of credit risk models are grouped into three categories, each of which is evaluated using a fixed group-wide assessment.

- Known deficiencies are shortcomings for which the size of the error is known in some way. An example is a model implementation where the average model PD differs from the calibration target. For known deficiencies, a correction is applied to the outcome of the model in order to arrive at a best estimate.
- Avoidable uncertainties concern measurements that are known to be uncertain and rectifiable, but for which the size and even the sign of the error is not known. Examples are an uncertainty triggered by a late model review or not timely reassessed PDs. For avoidable uncertainties, capital penalties are imposed as incentive for corrective actions.
- Unavoidable uncertainties are similar to avoidable uncertainties, except that in this case the uncertainty is inherent and hence not rectifiable. An example is a new credit portfolio for which no relevant historical data can be found. To raise awareness, estimates of potential errors are made for unavoidable uncertainties. For PD, EAD and LGD models, a penalisation for these uncertainties is included in transactional model ratings, and hence also results in a capital add-on.

The estimated overall level of uncertainty (avoidable and unavoidable) is clearly communicated to any stakeholder that uses the model outputs.

## Overview of credit risk models

The table below shows information on some of the most relevant PD models used for capital calculations under the IRB approach. The scope of the tables excludes all pooled exposure.

PD models used under the IRB approach, 31-12-2017 <sup>1</sup> (in billions of EUR)	Exposure granted [EAD]	Central tendency <sup>2</sup>	Historical default rate <sup>3</sup>	Observation period <sup>4</sup>	Average model PD (excl. over-rulings) <sup>5</sup>
PD models for government and public sector segments					
PD model for worldwide central governments	41,94	0,50%	0,36%	2009-06/2016	0,31%
FRT for worldwide sub-national governments	3,26				
<i>Belgium, US and UK</i>	2,52	0,06%	0,02%	1975-2016	0,05%
<i>Czech Republic<sup>6</sup></i>	0,03	0,28%	0,20%	2005-2016	0,37%
<i>Slovakia<sup>6</sup></i>	0,00	0,50%	0,45%	2006-2016	0,19%
<i>Hungary &amp; Bulgaria<sup>6</sup></i>	0,00	1,17%	0,89%	2004-2016	1,23%
PD models for corporate and institutional segments					
PD model for worldwide banks	<b>14,48</b>				
<i>of which Developed countries</i>	11,23	0,35%	0,15%	2007-2016	0,46%
<i>of which Others</i>	3,24	1,35%	0,45%	2007-2016	1,81%
PD model for corporates	<b>17,71</b>				
<i>of which non-Irish, mid-size</i>	3,75	2,00%	1,93%	2009-2016	2,03%
<i>of which non-Irish, large</i>	13,45	1,51%	1,56%	2009-2016	1,58%
PD model for Czech corporates	6,29	1,15%	1,12%	07/2008-06/2016	1,34%
PD model for worldwide asset based real estate lending	<b>5,18</b>				
<i>of which Investment to let, KBC Group excl. KBC Ireland</i>		2,36%	2,36%	2003-2016	1,64%
<i>of which Development to let, KBC Group excl. KBC Ireland and CSOB CR SME</i>		3,51%	3,51%	2003-2016	3,59%
<i>of which Development for sale, KBC Group excl. KBC Ireland and CSOB CR SME</i>		3,51%	3,51%	2003-2016	1,94%
PD model for worldwide project finance	3,19	1,43%	1,43%	1997-2015	1,47%
PD rating model for corporates in CSOB SR <sup>7</sup>	1,42	2,21%	2,21%	2006-2016	2,40%
PD model for worldwide MBO-LBO	1,47	1,80%	1,80%	2007-2016	2,64%
PD model for Hungarian corporates	1,64	1,44%	1,46%	2008-2016	1,35%
PD models for SME segments					
PD model for Belgian SMEs <sup>8</sup>	<b>17,45</b>				
<i>of which small businesses<sup>9</sup></i>		1,97%	1,97%	2009-2014	1,81%
<i>of which micro businesses<sup>9</sup></i>		2,68%	2,68%	2009-2014	2,43%
PD model for Belgian legal entities without financial statements and SPOS	<b>5,52</b>				
<i>of which legal entities<sup>9</sup></i>		2,30%	2,27%	2009-2015	2,04%
<i>of which hospitals</i>		0,19%	0,17%	1986-2015	0,35%
<i>of which schools</i>		0,25%	0,15%	2008-2015	0,45%
<i>of which homes for elderly</i>		0,68%	0,68%	2008-2015	0,86%
PD model for Belgian professionals and self-employed farmers	<b>3,43</b>				
<i>of which liberal professions<sup>9</sup></i>		0,49%	0,49%	2009-2015	0,40%
<i>of which self-employed professionals<sup>9</sup></i>		1,87%	1,87%	2009-2015	1,47%
<i>of which private persons<sup>9</sup></i>		1,56%	1,54%	2009-2015	1,40%
<i>of which self-employed farmers<sup>9</sup></i>		0,65%	0,65%	2009-2015	0,59%

PD model for Czech large and mid SMEs		3,30%	3,30%	06/2005-06/2014	3,33%
PD model for Belgian farmers (legal entities) <sup>9</sup>	1,35	1,58%	1,53%	2009-2015	1,38%
PD model for Belgian starters <sup>9</sup>	0,78	3,29%	3,29%	2009-2015	3,56%
PD model for Hungarian upper SMEs	0,34	2,45%	2,51%	2008-2016	2,74%
PD models for retail segments (pooling models)	0,00				
PD pooling model for Belgian private persons	37,65				
<i>of which home loans<sup>9</sup></i>	31,49	0,42%	0,40%	2010 - 2015	0,39%
<i>of which installment loans<sup>9</sup></i>	1,11	1,21%	1,17%	2010 - 2015	1,23%
PD pooling model and behavioural scorecard for Czech mortgages <sup>8</sup>	11,78	1,93%	1,93%	2006-2015	1,56%
PD model and behavioural scorecard for Irish mortgage loans	<b>11,28</b>				
<i>Euro residential portfolio</i>		5,29%	5,89%	2004-2016	5,51%
<i>Euro residential investment property portfolio</i>		7,82%	9,71%	2004-2016	7,83%
<i>UK residential investment property portfolio</i>		10,48%	11,39%	2004-2016	10,60%
PD pooling model and behavioural scorecard for ČMSS bridge loans		1,87%	1,87%	2002-2016	1,84%
PD pooling model and behavioural scorecard for Slovak mortgage loans	3,18	2,44%	2,44%	2006-2016	1,98%
PD pooling model for Hungarian retail	<b>1,95</b>				
<i>of which housing</i>		1,80%	1,80%	2007-2015	1,82%
<i>of which home equity</i>		6,68%	6,68%	2007-2015	6,75%
PD pooling model and behavioural scorecard for Czech Consumer finance products	<b>0,89</b>				
<i>of which Consumer loans</i>		4,25%	4,28%	2009-2014	3,93%

1 Non-exhaustive list of models used under the IRB approach.

2 The central tendency (CT) is the long term (through-the-cycle) expected average default probability of a portfolio. The historical average observed default rate is a good starting point for determining the CT, but does not necessarily equal it, as forward looking information and expert judgement also need to be taken into account.

3 The default rate is the observed number of defaulted events during a certain time period as a percentage of total non-defaulted obligors/facilities at the beginning of the period. The historical default rate is the average of the observed one-year default rates during the observation period.

4 The observation period for which the historical default rate was calculated.

5 The average model PD is the mean PD of all obligors/facilities according to the model. The value at the time of the latest review is shown.

6 The FRT for worldwide sub-national governments is not yet being used for regulatory reporting in Slovakia (currently in Standardised for municipalities) and Bulgaria (currently in Standardised). In January 2017, ... Hence these Czech counterparties have been gradually rered using the FRT in the course of 2017.

7 The average model PD....

8 The reported CTs are those proposed in the latest model review. These reviews have already been internally approved, but they contain material changes. Hence, in line with the new Commission Delegated Regulation (EU) No. 529/2014 on this topic, these changes were submitted to the regulators for their approval. Until regulatory approval is received, these new models will not be implemented.

9 Central tendency, default rate and average model PD values can differ from entity to entity. The values shown here are those for KBC Bank NV.

The table below shows information on some of the most relevant LGD models used for capital calculations under the IRB Advanced approach. The scope of the tables is limited to the lending portfolio and does not include derivatives or repo-like transactions.

LGD models used under the IRB-Advanced approach 31-12-2017 (In billions of EUR)	Exposure granted [EAD]	Average LGD non- defaulted exposures (PD 1-9)	Average LGD defaulted exposures (uncertain, PD 10-11)	Average LGD defaulted exposures (irrecoverable, PD 12)
LGD models for government and public sector segments				
(Worldwide) model for central governments	39.6	25%		86%
LGD model for Belgian Local Authorities	1.1	25%		
LGD models for corporate and financial segments <sup>1</sup>				
(Worldwide) financial institutions	10.0	20%	10%	98%
(Worldwide) corporates	23.8	28%	20%	66%
LGD model for Czech corporates	6.3	26%	17%	88%
LGD model for Hungarian corporates	2.3	45%	34%	87%
(Worldwide) commercial real estate (CRE)	5.0	21%	18%	66%
(Worldwide) project finance	2.7			
(Worldwide) model for management buy outs	1.4	37%	36%	
LGD models for SME segments				
LGD model for Belgian SMEs	29.0	17%	17%	33%
LGD model for Czech SMEs	2.0	29%	32%	65%
LGD pooling models for retail <sup>4</sup>				
LGD pooling model for Belgian regulated retail (includes mortgage loans)	37.8	18,8%	39%	55%
LGD pooling model for Hungarian retail (includes mortgage loans)	1.9	33%	49%	64%
LGD pooling model for Irish mortgage loans	11.3	14%	28%	79%
LGD pooling model for Slovak mortgage loans	3.2	11%	14%	72%
LGD pooling models for Slovak retail	0.8	18%	20%	75%
LGD pooling model for Czech mortgage loans	12.0	25%		24%
LGD pooling models for Czech retail	1.7	53%		79%

1 No specific LGD model exists for irrecoverable (PD 12) exposure to financials, commercial real estate or project finance. Instead, the generic irrecoverable LGD model for worldwide corporates is used.

2 The LGD model for financial institutions is also used for non-bank financials that are treated as corporates under Basel II. Hence, the scope should not be confused with 'Institutions' in this report.

3 No collateral or guarantee information available for the worldwide project finance model.

4 No collateral or guarantee information provided for retail pooling models, as LGDs are determined based on the allocation of transactions to predefined pools and not on the level of risk mitigation at a transactional level.

## Credit risk related to KBC Insurance

KBC Insurance is not subject to Basel III capital requirements. KBC Group's participation in KBC Insurance is included as an equity exposure and accorded a 370% risk weighting (Danish compromise approach) in the tables above.

Nevertheless, KBC Insurance holds financial instruments that attract a credit risk. This risk stems primarily from the investment portfolio (i.e. issuers of debt instruments). Credit risk also arises due to insurance or reinsurance contracts. Furthermore, KBC Insurance has some exposure to OTC derivatives, with KBC Bank being the sole counterparty. As previously stated, these credit risk exposures are not presented in the tables above (cf. Danish compromise approach) and, therefore, a separate breakdown is shown below.

## Credit risk in the investment portfolio of KBC Insurance

For the insurance activities, credit exposure exists primarily in the investment portfolio (towards issuers of debt instruments) and towards reinsurance companies. We have guidelines in place for the purpose of controlling credit risk within the investment portfolio with regard to, for instance, portfolio composition and ratings.

Investment portfolio of KBC group insurance entities (in millions of EUR, market value) <sup>1</sup>	31-12-2017	31-12-2016
<b>Per balance sheet item</b>		
Securities	20 697	22 211
Bonds and other fixed-income securities	19 259	20 890
Held to maturity	6 140	6 550
Available for sale	13 064	14 286
At fair value through profit or loss and held for trading	2	5
As loans and receivables	53	48
Shares and other variable-yield securities	1 437	1 321
Available for sale	1 434	1 317
At fair value through profit or loss and held for trading	4	3
Other	0	0
Property and equipment and investment property	352	332
Investment contracts, unit-linked <sup>2</sup>	14 421	13 693
Other	2 246	1 831
<b>Total</b>	<b>37 715</b>	<b>38 066</b>
<b>Details for bonds and other fixed-income securities</b>		
By external rating <sup>3</sup>		
Investment grade	98%	96%
Non-investment grade	2%	4%
Unrated	0%	0%
By sector <sup>3</sup>		
Governments	63%	61%
Financial <sup>4</sup>	23%	25%
Other	14%	14%
By remaining term to maturity <sup>3</sup>		
Not more than 1 year	11%	12%
Between 1 and 3 years	19%	19%
Between 3 and 5 years	14%	15%
Between 5 and 10 years	31%	31%
More than 10 years	25%	23%

<sup>1</sup> The total carrying value amounted to 36 540 million euros at year-end 2017 and to 36 619 million euros at year-end 2016.

<sup>2</sup> Representing the assets side of unit-linked (class 23) products and completely balanced on the liabilities side. No credit risk involved for KBC Insurance.

<sup>3</sup> Excluding investments for unit-linked life insurance. In certain cases, based on extrapolations and estimates.

<sup>4</sup> Including covered bonds and non-bank financial companies.

In 2017, KBC Insurance continued to invest in new mortgages originated by KBC Bank. At year-end 2017, they totalled 759 million euros (recorded under 'Other' in the preceding table), enabling the insurer to further diversify its investments. We are also exposed to a credit risk in respect of (re) insurance companies, since they could default on their commitments under (re)insurance contracts concluded with us. We measure this particular type of credit risk by means of a nominal approach (the maximum loss) and expected loss, among other techniques. Name concentration limits apply. PD – and by extension – expected loss is calculated using internal or external ratings. We determine the exposure at default by adding up the net loss reserves and the premiums, and the loss given default percentage is fixed at 50%.

Credit exposure to (re)insurance companies by risk class <sup>1</sup> : Exposure at Default (EAD) and Expected Loss (EL) <sup>2</sup> (in millions of EUR)	EAD 2017	EL 2017	EAD 2016	EL 2016
AAA up to and including A-	191	0.08	186	0.08
BBB+ up to and including BB-	14	0.02	12	0.02
Below BB-	0	0	0	0
Unrated	2	0.04	2	0.04
<b>Total</b>	<b>206</b>	<b>0.13</b>	<b>200</b>	<b>0.13</b>

1 Based on internal ratings.

2 EAD figures are audited, whereas EL figures are unaudited.



# Structured Credit Products

This section deals with KBC's structured credit activities at year-end 2017. These activities relate to Asset-Backed Securities (ABS) and Collateralised Debt Obligations (CDOs), which are defined as follows:

- **ABS** are bonds or notes backed by loans or accounts receivables originated by providers of credit, such as banks and credit card companies. Typically, the originator of the loans or accounts receivables transfers the credit risk to a trust, which pools these assets and repackages them as securities. These securities are then underwritten by brokerage firms, which offer them to the public.
- **CDOs** are a type of asset-backed security in which a distinct legal entity, called a Special Purpose Vehicle (SPV), issues bonds or notes against an investment in an underlying asset pool. Pools may differ with regard to the nature of their underlying assets and can be collateralised either by a portfolio of bonds, loans and other debt obligations, or be backed by synthetic credit exposures through use of credit derivatives and credit-linked notes.

The claims issued against the collateral pool of assets are prioritised in order of seniority by creating different tranches of debt securities, including one or more investment grade classes and an equity/first loss tranche. Senior claims are insulated from default risk to the extent that the more junior tranches absorb credit losses first. As a result, each tranche has a different priority of payment of interest and/or principal and may thus have a different rating.

KBC is active in the field of structured credits both as an originator and an investor. Since mid-2007, KBC has tightened its strategy in this regard (see 'Strategy and processes' below). As an originator, KBC also takes on other roles such as sponsor, when it provides liquidity support to the related SPVs. KBC also invests in structured credit products. These investments appear on KBC's balance sheet.

Apart from briefly describing the processes and defining the scope, this disclosure provides more insight into:

- structured credit programmes where KBC acts as the originator;
- KBC's investments in structured credit products at year-end 2017, together with information on the credit quality of the securities and a view on the quality of the underlying collateral;
- the capital charges corresponding to the structured credit exposures.

## Strategy and processes

In 2013, KBC decided to lift the strict moratorium on investments in ABS and to allow treasury investments in relatively liquid senior European cash ABS ('treasury ABS exposure' in the tables), part of which are accepted as eligible collateral by the ECB. This allows for further diversification in the investment portfolios. It should be noted that the moratorium on CDOs is still in place.



The treasury ABS portfolio is held by KBC Credit Investments which monitors transactions on an annual basis, except for transactions that are triggered by one of the following events (which are subject to quarterly monitoring): (i) external rating trigger (i.e. loss of 'BBB' rating), (ii) market price dropping below 94% and (iii) weak performance of the underlying collateral (measured at the 90 days arrears rate exceeding 5% of the total underlying portfolio). The corporate banking ABS is an investment in a client-related lease receivables transaction. The legacy ABS assets, which comprise the retained assets of the former KBC conduit Atomium and two assets held by KBC Insurance, are reviewed on a quarterly basis.

The annual or quarterly monitoring process consists of individual transactions being reviewed by examining (i) their main performance and quality drivers (available through quarterly / monthly investor reports), (ii) market price (movements) and (iii) external ratings (developments). In addition, an evaluation is made of how the current performance of underlying assets affects the cashflow of the ABS structure and whether final repayment of the ABS tranche in the portfolio is threatened. Based on this review exercise of the booking entities, Group Credit Risk assesses whether any ABS investment qualifies for impairment.

KBC Financial Products' legacy positions in CDOs, which had already been de-risked in 2014, were completely closed out in 2017.

## Scope of structured credit activities

All KBC group banking and insurance entities that engage in structured credit activities (both legacy and treasury activities) are covered in this disclosure.

## Structured credit programmes for which KBC acts as originator

The structured credit transactions in which KBC entities have an originating role are summarised under this heading. Since the termination of the remaining KBC FP legacy CDOs in April 2017, these operations are limited to structured credit with underlying assets arising directly from KBC's credit-granting activities.

The main objective of such structured credit is to contribute to the liquidity buffer and to provide additional sources of bank funding. The following structured credit transactions fall under this heading:

**Structured credit transactions whose underlying assets arise directly from KBC's credit-granting activities,  
31-12-2017**  
(in millions of EUR)

Programme	Role	Type of underlying exposure	Notional amount of the underlying	Notes outstanding
Home Loan Invest 2007	Originator	Mortgage loans	823	448
Home Loan Invest 2016	Originator	Mortgage loans	2 605	2 274
Loan Invest SME 2017	Originator	SME loans	4 819	3 373
Phoenix Funding 2 (2008)	Originator	Mortgage loans	4 523	4 516
Phoenix Funding 3 (2008)	Originator	Mortgage loans	1 831	1 846
Phoenix Funding 4 (2009)	Originator	Mortgage loans	480	489
Phoenix Funding 5 (2012)	Originator	Mortgage loans	597	583
Phoenix Funding 6 (2016)	Originator	Mortgage loans	1 002	1 002

All Home Loan Invest and Loan Invest notes are being retained by KBC entities. All Phoenix Funding notes are being retained by KBC Bank Ireland plc. Phoenix note balances were last reduced in December 2017 by virtue of capital repayments based on the closing balances in November 2017.

### Home Loan Invest 2007

Home Loan Invest 2007 is a 'Residential Mortgage-Backed Securities' (RMBS) issue where KBC Bank acts as the originator. An SPV acquired a pool of Belgian residential mortgages granted by KBC and raised funds through the issuance of notes (Class A and Class B Notes, rated 'AAA' and 'Aaa' by Fitch and Moody's, respectively) and KBC's subscription to a subordinated loan of 376 million euros. The notes are eligible as collateral for the European Central Bank (ECB), and thus provide KBC Bank with a liquidity buffer. The portfolio of mortgages was a revolving facility where the number of loans and total amount can vary. Since KBC holds the first loss piece in the form of the subordinated loan and all notes, the Basel III securitisation framework does not apply to this structured credit programme, as an insufficient amount of the risk incurred has been transferred. Assets are held as regular assets on the balance sheet of KBC Bank and treated accordingly for capital adequacy calculation purposes.

### Home Loan Invest 2016

Home Loan Invest 2016, set up by KBC Bank in May 2016, securitised a portfolio comprising 3 667 million euro's worth of Belgian mortgage loans and set aside a reserve account of 36 million euros. The SPV issued 3 270 million euros' worth of notes, rated 'Aaa' and 'AAA' by Moody's and Fitch, respectively. The whole issue was retained by KBC Bank. It was set up as an amortising transaction and comprised loans totalling 2 605 million euros, with 2 274 million euros in notes outstanding at year-end 2017.

### Loan Invest SME 2017

Loan Invest SME 2017 was set up in April 2017. It is the first KBC Bank Loan Invest transaction using SME loans as collateral. Loan Invest SME 2017 securitised a portfolio comprising 5 600 million euro's worth of loans to Belgian SMEs and set aside a reserve account of 56 million euros. The SPV issued 3 920 million euros' worth of notes, rated 'AAA' and 'AAA' by Fitch and DBRS, respectively. The whole issue was retained by KBC Bank. It was set up as an amortising transaction and comprised loans totalling 4 819 million euros, with 3 373 million euros in notes outstanding at year-end 2017.

### **Phoenix Funding 2**

On 16 June 2008, a residential mortgage backed securitisation (RMBS) transaction called Phoenix Funding 2 was set up as a source of contingent funding. The SPV has a remaining underlying pool of residential mortgages originated by KBC Bank Ireland plc (a fully owned subsidiary of KBC Bank NV), with corresponding note balances amounting to 4 516 million euros. KBC Bank Ireland plc has retained all of the notes, which implies that the Basel III securitisation framework does not apply, as an insufficient amount of the risk incurred has been transferred. The outstanding notes are divided into two classes, i.e. 52% in class A (Moody's 'Aaa' / Fitch 'A+' ratings / DBRS 'AA' ratings) and 48% in class B (these notes are not rated), maturing in 2050. The Class A notes are eligible for placement with the ECB.

### **Phoenix Funding 3**

Phoenix Funding 3, which is similar to Phoenix Funding 2, was set up in November 2008. The SPV has a remaining underlying pool of residential mortgages originated by KBC Bank Ireland plc, with corresponding note balances amounting to 1 846 million euros. KBC Bank Ireland plc has retained all of the notes, which implies that the Basel III securitisation framework does not apply, as an insufficient amount of the risk incurred has been transferred. The outstanding notes are split into two classes, i.e. 63% in class A (Moody's 'Aaa' / Fitch 'A+' ratings) and 39% in class B (the class B notes are not rated), maturing in 2050. The class A notes are eligible for placement with the ECB.

### **Phoenix Funding 4**

Phoenix Funding 4 was set up in August 2009. The SPV has a remaining underlying pool of residential mortgages originated by KBC Bank Ireland plc with corresponding note balances amounting to 489 million euros. KBC Bank Ireland plc has retained all of the notes. The outstanding notes are split into two classes, i.e. 58.9% in class A (Moody's 'Aaa' / Fitch 'A+' ratings) and 41.1% in class B (these notes are not rated), maturing in 2046. The class A notes of Phoenix Funding 4 are eligible for placement with the ECB.

### **Phoenix Funding 5**

Phoenix Funding 5 was set up in June 2012. The SPV has a remaining underlying pool of residential mortgages originated by KBC Bank Ireland plc with corresponding note balances amounting to 583 million euros. KBC Bank Ireland plc has retained all of the notes. 57.3% of the outstanding assets have been split into three classes of A note (Fitch 'A+' and DBRS 'AAA' ratings) and 42.7% into a class Z loan (unrated). The notes mature in 2050. The class A notes of Phoenix Funding 5 are eligible for placement with the ECB.

### **Phoenix Funding 6**

Phoenix Funding 6 was set up in December 2016. The SPV has an underlying pool of residential mortgages originated by KBC Bank Ireland plc with corresponding note balances amounting to 1 002 million euros. KBC Bank Ireland plc has retained all of the notes. 81.1% of the outstanding assets have been split into two classes of A note Fitch 'AA+' and DBRS 'AA(H)') and 18.9% into a class Z loan (unrated). The notes mature in 2055. The class A notes of Phoenix Funding 6 are eligible for placement with the ECB.

## KBC's structured credit position (where KBC acts as investor)

(Figures exclude all expired, unwound or terminated CDO positions)

Under this heading, information is provided on KBC group structured credit investments booked in both the banking and trading portfolios and covering investments in CDOs and other ABS (both legacy and treasury).

In the following paragraphs, an overview is given of the overall exposure and of the credit quality of the securities.

### Overall exposure

KBC investments in structured credit products (CDOs and ABS) (notional amounts in millions of EUR)		31-12-2017
Total net exposure		1 037
of which other legacy CDO exposure		54
of which legacy ABS exposure		10
of which treasury ABS exposure		933
of which corporate banking ABS exposure		40
Cumulative value markdowns (mid-2007 to date)*		-54
Value markdowns		
for other legacy CDO exposure		-12
for other legacy ABS exposure		-1
for treasury ABS exposure		-41
for corporate banking ABS exposure		0

\* Mainly includes AFS reserves and specific/collective impairment on ABS or CDOs which have been reclassified to L&R.

During 2017, KBC's CDO and ABS exposure decreased as a result of:

- redemptions to the tune of 384 million euros;
- the USD depreciation of the legacy CDO and ABS USD assets (impact of -8 million euros).

Investments in asset-backed securities are valued:

- at amortised cost (intention to hold positions until maturity), with account being taken of impairment recorded for unrecoverable amounts. Positions can only be sold under specific conditions, with realised gains/losses being recognised in profit or loss (under 'Net other income').
- at market value, with revaluation gains/losses going through equity (AFS reserve, when the intention is not to hold positions until maturity). Gains or losses from sales are recognised in profit or loss (under 'Net gains on available-for-sale assets').

Periodic coupons consist of the repayment of capital and interest.

## Detailed overview of the securities held (31-12-2017)

The next table provides more detailed information on KBC's structured credit exposure.

### Structured credit exposure

ABS exposure broken down by type and quality, based on Moody's rating class, 31-12-2017, amounts at notional value (in millions of EUR)										
Moody's rating class*		Aaa	Aa	A	Baa	Ba	B	Caa	<Caa3	Total
<b>Legacy CDO exposure</b>		-	54	-	-	-	-	-	-	54
<b>Legacy ABS exposure</b>										
<b>RMBS</b>		2	1	2	-	-	-	-	-	5
Region	United States	2	1	2	-	-	-	-	-	5
	of which Prime (<2005 vintage)	-	-	2	-	-	-	-	-	2
	of which Subprime (<2005 vintage)	2	1	-	-	-	-	-	-	3
	Spain	-	-	6	-	-	-	-	-	6
<b>Other ABS</b>		-	-	-	3	-	-	-	-	3
Type	Student loans	-	-	-	3	-	-	-	-	3
<b>Total legacy ABS</b>		2	7	2	3	-	-	-	-	14
<b>Treasury ABS exposure</b>										
<b>RMBS</b>		301	420	172	17	8	-	-	-	918
Region	Spain	-	291	45	-	8	-	-	-	344
	Netherlands	277	-	-	-	-	-	-	-	277
	Portugal	-	-	122	17	-	-	-	-	139
	Italy	-	129	5	-	-	-	-	-	134
	France	21	-	-	-	-	-	-	-	21
	United Kingdom	3	-	-	-	-	-	-	-	3
<b>Other ABS</b>		10	-	1	-	-	-	-	-	11
Type	CLO (multiple countries for all assets)	10	-	-	-	-	-	-	-	10
	SME loans	-	-	-	-	-	-	-	-	-
	Lease	-	-	1	-	-	-	-	-	1
<b>Total treasury ABS</b>		311	420	173	17	8	-	-	-	929
<b>Corporate Banking</b>	<b>European lease receivables ABS</b>	-	-	-	40	-	-	-	-	40
<b>Grand total</b>		313	481	175	60	8	-	-	-	1 037

\* Moody's rating class: if a security is not rated by Moody's, the Bloomberg composite rating (average of all ratings) is used to determine the equivalent Moody's rating class.

## Structured credit exposure – capital charges under the CRR (re)securitisation framework

Regulatory capital for structured credit positions is held against credit and market risks related to such products and positions. Under Basel III, there are different approaches available to determine the required capital for credit risk. The investment positions are dealt with under the Rating-Based Approach (RBA).

As regards the investments in structured credit products (i.e. this section of the report), the risk weightings applied for regulatory capital calculations are linked directly to the rating of the structured credit products invested in. A further distinction is made depending on their classification as securitisation or re-securitisation (according to CRR) and whether they are senior or non-senior positions. Since these risk weightings rise sharply when ratings fall, downgrades of the structured credit invested in have a serious impact on the capital charge. The exposure amount to which the risk weights are applied, depends on the IFRS classification.

The following table refers to the regulatory capital charges for the ABS and retained CDO exposure held by KBC Bank under the CRR (re)securitisation framework. The capital charges for the ABS held by KBC Insurance are negligible.

**Structured credit products – details of capital charges under the CRD III (re)securitisation framework,  
31-12-2017**  
(in millions of EUR)

	Notional amount for securitisation	Not. amount for re-securitisation	Total not. amount for CRD III	Of which 6 – 18%	Of which 20 – 35%	Of which 50 – 100%	Of which 250 – 850%	Of which 1250%	RWA 31-12- 2017
<b>Banking entities</b>									
Trading book	-	-	-	-	-	-	-	-	-
Banking book	1 028	-	988	849	90	16	34	-	289
CDO exposure	54	-	54	46	-	8	-	-	11
<i>of which senior positions</i>	54	-	54	46	-	8	-	-	11
<i>of which non-senior positions</i>	-	-	-	-	-	-	-	-	-
Other legacy ABS exposure	4	-	4	4	-	-	-	-	0.4
<i>of which senior positions</i>	4	-	4	4	-	-	-	-	0.4
Other treasury ABS positions	930	-	930	798	90	8	34	-	277
<i>of which senior positions</i>	905	-	905	773	90	8	34	-	272
<i>of which non-senior positions</i>	25	-	25	25	-	-	-	-	5
Single tranche corporate ABS	40	-	-	-	-	-	-	-	-
<b>Total for banking entities</b>	<b>1 028</b>	<b>-</b>	<b>988</b>	<b>849</b>	<b>90</b>	<b>16</b>	<b>34</b>	<b>-</b>	<b>289</b>
<b>Insurance entities</b>									
CDO exposure	-	-	-	-	-	-	-	-	-
Other ABS exposure	9	-	-	-	-	-	-	-	-
<b>Total for insurance entities</b>	<b>9</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total net exposure for KBC Group</b>	<b>1 037</b>	<b>-</b>	<b>988</b>						
<b>Total RWA</b>									<b>289</b>



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 bond/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 6 million euros at the end of 2017). The dealing rooms, with Belgium accounting for the lion's share 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.

As regards the legacy CDO business, the remaining small positions were completely closed out in April 2017, which resulted in the definitive and complete closure of this business line. The reverse mortgages and insurance derivatives legacy business lines have been transferred from KBC Investments Limited to KBC Bank NV, as only a small quantity of contracts remain (accounting for about 1% of the total regulatory capital charges for market risk set out in the table in the 'Regulatory capital' section). The fund derivatives legacy business line has been almost completely wound down, which means that KBC Investments Limited will be dissolved in the near future.

## 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. There are also scenario analysis limits, and, where deemed appropriate, stress scenario limits, involving multiple shifts of underlying risk factors. In addition, secondary limits are in place to monitor the risks inherent in options (the so-called 'greeks'). 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).

## Governance

The centralisation of trading risk management implies close co-operation between all value and 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 top management. 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.

As mentioned in the previous section, 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 2016 and 2017). 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.). The overruns outside level 1 delegation are presented to the following GMC with a request for ratification. If the GMC refuses to ratify the overrun then the overrun must be reduced as fast as market conditions allow.

## 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 and inflation rates. Specific (issuer) risk is calculated using the Standardised approach. To compute shifts in the risk factors, the historical 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 current HVaR methodology 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.

The HVaR for management reporting and the HVaR calculated for regulatory capital requirements use the same methodology, holding period and confidence level (i.e. 10-day holding period and 99% confidence level). 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: at the time of publication, its positions were still being calculated locally, but they are in the process of being integrated into our systems).

As with any model, there are a certain number of uncertainties/deficiencies. However, the model is subject to regular review and improvements. During 2017, several minor improvements were implemented to increase the accuracy of the HVaR model calculations, but the total impact on the HVaR result was limited. The modelling department also focused its efforts on preparing for the future regulatory demands and quality standards that will be necessary once the requirements stipulated in the Fundamental Review of the Trading Book come into effect.

The table below shows KBC's Historical Value-at-Risk model (HVaR, 99% confidence interval, 10-day holding period, historical simulation) used for the linear and non-linear exposure of all the dealing rooms of the KBC group.

<b>Market risk (VaR) (in millions of EUR)</b> <b>Holding period: 10 days</b>	<b>2017</b>	<b>2016</b>
Average for 1Q	19	16
Average for 2Q	26	15
Average for 3Q	27	15
Average for 4Q	22	14
As at 31 December	18	20
Maximum in year	31	20
Minimum in year	15	11

A breakdown of the risk factors (averaged) in KBC's HVaR model is shown in the table below. Please note that the equity risk stems from the European equity derivatives business, and also from KBC Securities.

<b>Breakdown by risk factor of trading HVaR for the KBC group</b> <b>(in millions of EUR)</b>	<b>Average for 2017</b>	<b>Average for 2016</b>
Interest rate risk	23.8	15.2
FX risk	2.2	2.0
FX option risk	0.9	1.1
Equity risk	1.0	1.9
Diversification effect	-4.2	-4.8
<b>Total HVaR</b>	<b>23.6</b>	<b>15.3</b>

We have provided an overview of the derivative products under Note 4.10 in the 'Consolidated financial statements' section of the 2017 Annual Report of KBC Group NV.

## Regulatory capital

Although the group's trading activity is managed centrally from both a business and risk management perspective, the residual trading positions are not centralised, but are held instead at the separate trading entities, each of which is subject to a local regulator and its own regulatory capital requirements. For 2017, approximately 90% of the regulatory capital requirements were calculated using Approved Internal Models (for materiality reasons, we only sought approval of the

HVaR model for the larger trading entities), with the remainder being calculated via the Standardised approach.

### Approved Internal Models (AIMs)

In previous years, the AIM regulatory capital requirements used to be the sum of the regulatory capital requirements calculated using the AIMs of KBC Bank NV, KBC Investments Limited – both models were authorised by the Belgian regulator – and ČSOB in the Czech Republic, whose model was authorised by the Czech Republic regulator. In June 2017, the ECB approved the integration of the European equity derivatives trading activities (the only trading activity in the KBC Investments Limited’s AIM) into KBC Bank NV’s AIM, thus resulting in two AIMs instead of three (cutting costs and reducing complexity).

The two 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 on a yearly basis. As at the date of preparation of this report, the period relevant to the measurement of SVaR during 2017 and the period that will be used from 2018 onwards are shown in the table below:

Approved Internal Model	2018	2017
KBC Bank NV AIM	Jun 2008 – Jun 2009	Jul 2008 – Jun 2009
ČSOB (Czech Republic) AIM	Aug 2016 – Jul 2017	Oct 2012 – Sep 2013

In line with EBA guidelines, the following three tables show the HVaR and SVaR components of the two internal models at the end of 2017, the RWA flow between 2016 and 2017 and the range of HVaR and SVaR for the two internal models during 2017.

<b>EU MR2-A – Market risk under the IMA (Internal Model Approach)</b>					
		<b>KBC Bank NV AIM (mEUR)</b>		<b>ČSOB AIM (mEUR)</b>	
		<b>RWAs</b>	<b>Capital requirements</b>	<b>RWAs</b>	<b>Capital requirements</b>
<b>1</b>	<b>VaR</b> (higher of values a and b)	465.4	37.2	595.7	47.7
(a)	Previous day's VaR (Article 365(1) of the CRR (VaRt-1))		12.6		15.6
(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		37.2		47.7
<b>2</b>	<b>SVaR</b> (higher of values a and b)	1 235.8	99.0	645.1	51.6
(a)	Latest SVaR (Article 365(2) of the CRR (SVaRt-1))		33.6		15.9
(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)		99.0		51.6
<b>3</b>	<b>Other</b>	-	-	-	-
<b>4</b>	<b>Total</b>	1 701.2	136.2	1 240.8	99.3

<b>EU MR2-B – RWA flow statements of market risk exposures under the IMA (in millions of EUR)</b>							
	<b>a</b>	<b>b</b>	<b>c</b>	<b>d</b>	<b>e</b>	<b>f</b>	<b>g</b>
	<b>VaR</b>	<b>SVaR</b>	<b>IRC</b>	<b>CRM</b>	<b>Other</b>	<b>Total RWAs</b>	<b>Total capital requirements</b>
<b>RWAs end of 2016</b>	815.7	1 137.9	-	-	-	1 953.6	156.3
<i>Regulatory adjustment</i>	-	-	-	-	-		
<i>RWAs at the previous quarter-end (end of the day)</i>			-	-	-		
Movement in risk levels			-	-	-	988.4	79.1
Model updates/changes			-	-	-		
Methodology and policy			-	-	-		
Acquisitions and disposals			-	-	-		
Foreign exchange movements			-	-	-		
Other			-	-	-		
<i>RWAs at the end of the reporting period (end of the day)</i>	1 061.2	1 880.8	-	-	-	2 942.0	235.4
<i>Regulatory adjustment</i>	-	-	-	-	-	-	-
<b>RWAs at the end of 2017</b>	<b>1 061.2</b>	<b>1 880.8</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2 942.0</b>	<b>235.4</b>

As mentioned in the HVaR section, although there were a number of minor improvements in the HVaR model, the impact due to model updates/changes was limited and thus the increase in RWA requirements was due to movements in risk calculated by the model (i.e. a combination of more volatile scenarios and slightly larger residual positions). Over 80% of the increase in RWA between 2016 and 2017 was generated by the ČSOB Approved Internal Model. Rather than position increases, most of the increase was due to more volatile scenarios in the HVaR and SVaR windows used for calculating RWA requirements. Please note that the violent shifts when the Czech Central Bank ended the pegging of the Czech koruna to the euro in April 2017 were used in both the HVaR

and SVaR calculations (a calibration exercise performed in 2Q2017 confirmed that the days around the de-peg were the most stressed for the positions). The other driver of the higher HVaR was a number of historical scenarios involving very large shifts in short-term tenors due to year-end effects. This trend is also reflected in the next table, which shows that the ČSOB AIM-generated HVaR at the end of 2017 was significantly above the average HVaR for the year.

<b>EU MR3 – IMA values for trading portfolios for 2017</b>			
		<b>KBC Bank NV AIM (mEUR)</b>	<b>ČSOB AIM (mEUR)</b>
<b>VaR (10 day 99%)</b>			
1	Maximum value	18.7	19.6
2	Average value	14.6	10.1
3	Minimum value	10.8	4.6
4	End of 2017	12.6	15.6
<b>SVaR (10 day 99%)</b>			
5	Maximum value	38.1	19.6
6	Average value	30.8	11.1
7	Minimum value	22.6	5.1
8	End of 2017	33.5	15.9

### 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 2017 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). Please note that, in accordance with COREP requirements, FX in the banking book is reported as market risk and thus over 80% 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. Most of the equity risk RWA shown in the table was attributable to the capital requirements of residual positions held at KBC Securities.



<b>MR1 – Market risk under the Standardised approach (in millions of EUR)</b>			<b>a</b>	<b>b</b>
			<b>RWAs (mEUR)</b>	<b>Capital requirements (mEUR)</b>
	Outright products		418.5	33.5
1	Interest rate risk (general and specific)		228.7	18.3
2	Equity risk (general and specific)		71.7	5.7
3	Foreign exchange risk		116.8	9.3
4	Commodity risk		1.3	0.1
	Options		-	-
5	Simplified approach		-	-
6	Delta-plus method		-	-
7	Scenario approach		-	-
8	Securitisation (specific risk)		-	-
<b>9</b>	<b>Total</b>		<b>418.5</b>	<b>33.5</b>

In summary, the table below shows the total regulatory requirements for 2016 and 2017 using the Standardised approach and Approved Internal Model.

<b>Trading regulatory capital requirements, by risk type (in millions of EUR)</b>		<b>Interest rate risk</b>	<b>Equity risk</b>	<b>FX risk</b>	<b>Commodity risk</b>	<b>Re-securitisation</b>	<b>Total</b>
<b>31-12-2017</b>							
Market risks assessed by internal model	HVaR	77	3	5	-	-	235
	SVaR	129	7	14	-	-	
Market risks assessed by the Standardised approach		18	6	9	0	-	33
<b>Total</b>		<b>225</b>	<b>16</b>	<b>28</b>	<b>0</b>	<b>-</b>	<b>269</b>
<b>31-12-2016</b>							
Market risks assessed by internal model	HVaR	57	2	7	-	-	156
	SVaR	74	2	14	-	-	
Market risks assessed by the Standardised approach		18	4	13	0	1	37
<b>Total</b>		<b>150</b>	<b>8</b>	<b>34</b>	<b>0</b>	<b>1</b>	<b>193</b>

As can be seen from the table above, the total capital requirement at year-end 2017 was 76 million euros higher than a year earlier (i.e. an increase in RWA of 951 million euros). Almost all of the increase was due to higher, internal model-based capital requirements (mainly for ČSOB in the Czech Republic, as discussed in earlier sections). The capital requirements assessed by the Standardised approach were more stable, with the FX risk decreasing as a result of the HVaR model being refined in 2017, which enabled all trading book FX and FX option risks to be captured by the HVaR model.

## 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 tolerance).

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.

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

Events	Period (start to end)
Financial crisis after collapse of Lehman Brothers	01-07-2007 to 01-07-2009
2 <sup>nd</sup> Gulf War	01-09-2002 to 30-04-2003
11 September 2001	10-09-2001 to 12-12-2001
Increase in long-term interest rates	18-01-1999 to 14-10-1999
Brazilian crisis	18-01-1999 to 14-10-1999
LTCM fund collapse	25-09-1998 to 17-11-1998
Large swing in exchange rates	17-08-1998 to 17-11-1998
Russia crisis	15-06-1998 to 17-11-1998
Southeast-Asian crisis	01-01-1997 to 01-08-1998
Kobe earthquake (Japan)	16-01-1995 to 16-04-1995
Mexico crisis	15-12-1994 to 30-04-1995
Increase in long-term interest rates	31-12-1993 to 05-10-1994
ERM crisis	28-12-1992 to 31-08-1993
1 <sup>st</sup> Gulf War	02-08-1990 to 31-03-1991
Stock market decline	25-08-1987 to 31-03-1988

The validity of the calibrated shifts are checked by comparing them with the most relevant regulatory stress tests. However, unlike the case with regulatory stress tests – which typically only use market shifts in one direction – KBC also calculates the result for a given shift in the opposite direction, which better reflects the dynamic nature of trading book positions. During 2017, the Group Markets Committee (GMC) approved the addition of an interest rate volatility factor to the existing hypothetical interest rate stress tests, as well as new hypothetical FX stress tests to give a better insight into currency de-pegging scenarios. The worst case scenarios, together with the respective losses, are then reported at the GMC meetings. These results are accompanied by an analysis of these worst case scenarios, giving 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, it turned out that both regulatory and internal capital would provide a sufficient buffer were such scenarios to materialise.

## 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. We would therefore expect to see an average of two or three losses (and two or three profits) in excess of the HVaR (at the 99% confidence level over a one-year period). A loss in excess of the HVaR is referred to in the Capital Requirements Regulation (CRR) as an overshooting. If, within the scope of a given Approved Internal Model (AIM) for the required back-tests, there are more than four overshootings in the previous 250 trading days, then the regulator imposes an additional plus factor to the multiplier of average HVaR and SVaR for calculating regulatory capital.

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', is a statistical check to see whether the HVaR calculation based on the historical scenario dates used is representative of current market conditions. This type of 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'). This type of back-test checks whether the capital requirements calculated using the approved internal models (i.e. the 'cushion' for absorbing losses that may arise due to market risk) is sufficiently in-line with daily economic P&L movements for the activities in scope of these AIMs. 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 the *Targeted Review of Internal Model (TRIM) preliminary expectations for market risk in 2016*, 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 2016 and 2017 (please note that the KBC Investments Limited AIM is no longer

shown because, as mentioned previously, it was integrated into the KBC Bank AIM in June 2017 up until when there had been no overshootings).

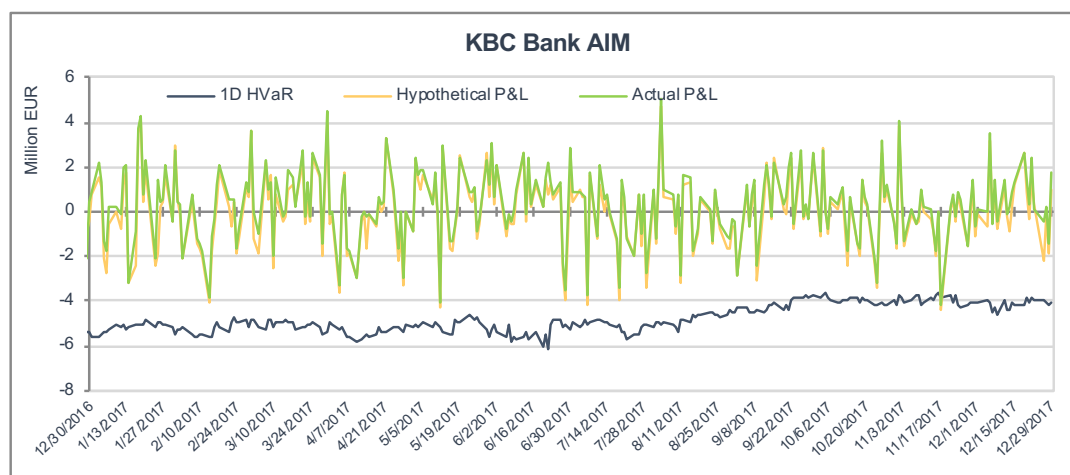
Overshootings are reported to the relevant risk committees and the applicable regulator i.e. the National Bank of Belgium/Czech National Bank/European Central Bank, on both an ad hoc and quarterly basis. Please note that KBC continues to perform ‘theoretical back-tests’ for its own internal analysis (and because it is also needed for FRTB requirements in the future), but risk theoretical outliers no longer affect capital requirements and are no longer reported to the regulator.

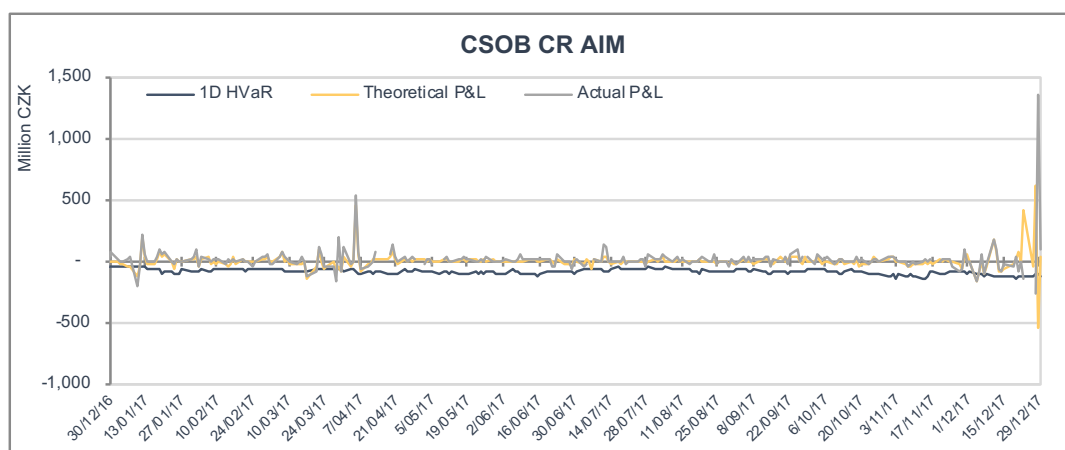
Table showing the number of overshootings for the two Approved Internal Models (AIM) in 2017 and 2016.

	KBC Bank AIM		ČSOB AIM	
	Hypothetical	Actual	Risk Theoretical	Actual
2017	1	1	7	9
2016	3	3	0	1

As can be seen from the table above and the graphs below, although there were fewer overshootings in 2017 than in 2016 with regard to the KBC Bank AIM, there were a significant number of overshootings for the ČSOB AIM in 2017. Four of the nine outliers for the ČSOB AIM were in the second half of March when there were violent market movements due to investors speculating on when the Czech National Bank would end pegging the Czech koruna to the euro (it occurred on 6 April 2017). The remaining outliers (which were in January and December) were due to a huge surplus of short-term koruna liquidity, which caused large shifts in FX swaps and was compounded by year-end effects. As can be seen in ČSOB’s (Czech Republic) back-testing graph, the year-end effect vanishes just before the end of the year when the spot value date shifts to 2018.

MR4: Graphs comparing the one-day HVaR with the daily P&L results during 2017 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 cash flow analysis, reference to the current or recent fair value of a similar instrument, or third-party pricing, provided that the third-party price is in line with alternative observable market data. Unobservable inputs 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 2017 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 2017 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:

- plan and perform independent challenges of internal controls on behalf of senior management;
- provide oversight and reasonable assurance on the effectiveness of controls executed to reduce operational risk;
- inform senior management and oversight committees on the operational risk profile;
- define the operational risk management framework and approach for the group;
- 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.). It is assisted by the local risk management units, which are likewise independent of the business.



## The building blocks for managing operational risks

Since 2011, specific attention has been given to the structured set-up of process-based Group Key Controls and Zero Tolerances (which are non-negotiable). These top-down basic control objectives are used to mitigate key and killer risks inherent in the processes of KBC entities. 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. Structural risk-based review cycles are installed to manage the process universe, close gaps, eliminate overlap and optimise group-wide risks and controls. Besides this minimum level of controls, additional key controls are operational in the entities for managing other local risks or strengthening the control environment.

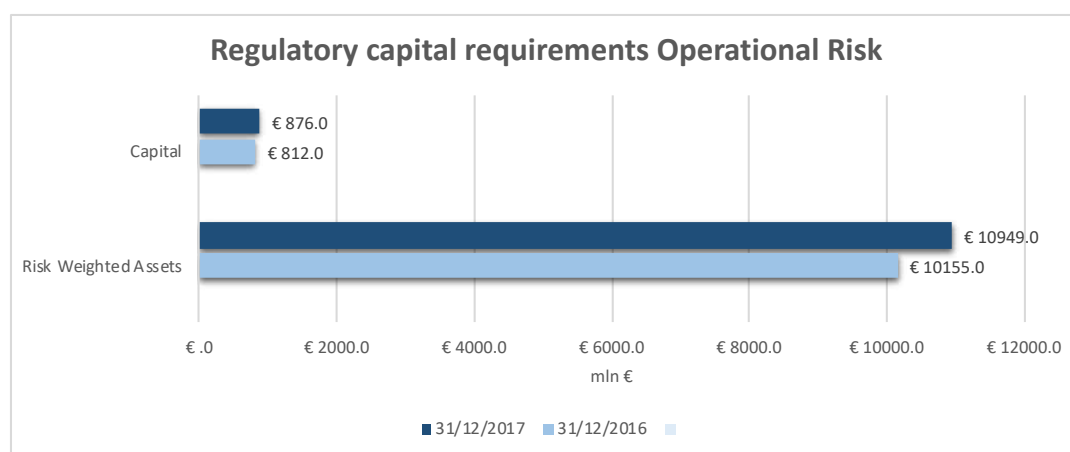
The business and (local) control functions assess the Group Key Controls. The risk self-assessments are consolidated at the Group Risk function and ensure that there is a consistent relationship between (i) processes, (ii) risks, (iii) control activities and (iv) assessment scores. A group-wide tool has been put in place to document, assess and report on the internal control environment in all material entities and processes, and to benchmark across entities. It includes all operational risk information across the business, risk, compliance and audit functions.

In line with the other risk types, a number of group-wide building blocks are defined to ensure proper management of operational risks:

- Risk identification: identifying operational risks involves following up legislation, as well as using the New and Active Product Process, risk scans, key risk indicators, deep dives and risk signals.
- Risk measurement: as operational risk is embedded in all aspects of the organisation, group measurement standards are in place to support quantification of the risk profile of an entity, process and individual operational risks within the process. A group-wide uniform scale is used for assessing the degree of implementation of individual operational controls. Single or aggregated loss events are captured and measured for any failing or non-existent control.
- 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.
  - Reporting: 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 National Bank of Belgium and the FSMA via the annual Internal Control Statement.
  - Risk response and follow-up: a uniform approach, strongly based on first-line of defence accountability and challenges by the second and third lines of defence, is in place with risk-based follow up at both local and group level.
- Stress testing: an annual stress test is performed to assess the adequacy of pillar 1 operational risk capital.

## Operational risk and regulatory capital requirements

We use the Standardised approach for operational risk under Basel III. Operational risk capital at KBC group level totalled 812 million euros at the end of 2016 and 876 million euros at the end of 2017. The increase was due mainly to the acquisition of United Bulgarian Bank.



Risk weighted assets and the pillar 1 operational risk capital remained rather stable compared to the previous year (apart from when United Bulgarian Bank is included). For divested entities, KBC keeps operational risk capital (under pillar 2) in line with the outstanding contractual liabilities.

## 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.

IRM, including the Group Information Security Officer function, has now been fully embedded in the Group Competence Centre, under the Senior General Manager of Group Risk (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).

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, 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.

As far as emerging climate-related risks are concerned, KBC is actively engaged in the transition to a low-carbon economy. Among the climate-related risks for a bank-insurer are the ability to respond to changing product preferences of our clients, reporting and stakeholder pressure, exposure to litigation, the impact of more extreme weather conditions on our insurance business and changing legislation.

We already disclose climate-related issues under the Carbon Disclosure Project and have a good oversight of the impact of our operations on climate. We have strict policies in place to limit the environmental impact of our lending, investment and insurance activities. An even better understanding of our exposure to climate-related risks and the indirect impact of our core activities on climate will be gained when a project on sustainable finance is launched in 2018.



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. Primary limits for interest rate risk, equity risk, and real estate risk for the consolidated entities are approved by the Board of Directors. Secondary 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 ensures 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., available-for-sale bonds);
- 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.

Equity risk and interest rate risk account for the lion's share of the total risk and will thus be discussed in more detail. However, credit spread risk, 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 <sup>2</sup> curve for the KBC group (in millions of EUR)	Impact on value <sup>1</sup>	
	2017	2016
Banking	-76	-83
Insurance	12	5
Total	-64	-79

<sup>1</sup> Full market value, regardless of accounting classification or impairment rules.

<sup>2</sup> 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.

<b>Swap BPV (10 basis points) of the ALM book, banking activities*</b> (in millions of EUR)	<b>2017</b>	<b>2016</b>
Average for 1Q	-79	-24
Average for 2Q	-74	-35
Average for 3Q	-73	-50
Average for 4Q	-76	-83
As at 31 December	-76	-83
Maximum in year	-79	-83
Minimum in year	-73	-24

\* 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 1.97% 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.

<b>Interest sensitivity gap of the ALM book (including derivatives), banking activities</b> (in millions of EUR)								
	≤ 1 month	1–3 months	3–12 months	1–5 years	5–10 years	> 10 years	Non-interest-bearing	Total
31-12-2017	-624	-7 114	4 165	5 656	4 540	2 120	-8 743	0
31-12-2016	-3 218	-2 698	7 941	6 631	7 421	2 780	-18 856	0

The interest sensitivity gap shows our overall long 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. If rates increased by 1%, we could expect net interest income to improve by between 1.5% and 2%.



## 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.

<b>Expected cashflows (not discounted), life insurance activities</b> (in millions of EUR)						
	0–5 years	5–10 years	10–15 years	15–20 years	> 20 years	Total
<b>31-12-2017</b>						
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						6.28 years
Mean duration of liabilities						7.39 years
<b>31-12-2016</b>						
Fixed-income assets backing liabilities, guaranteed component	9 248	5 097	2 340	1 560	1 147	19 391
Liabilities, guaranteed component	8 832	3 86	2 316	1 767	2 818	19 570
Difference in expected cashflows	416	1 260	24	-207	-1 672	-179
Mean duration of assets						6.50 years
Mean duration of liabilities						7.90 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	31-12-2017	31-12-2016
5.00% and higher <sup>1</sup>	3%	2%
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%	9%
More than 2.50% up to and including 3.00%	10%	19%
2.50% and lower <sup>2</sup>	60%	52%
0.00%	2%	2%
<b>Total</b>	<b>100%</b>	<b>100%</b>

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%).

### Aggregate 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 – 31-12-2017									
	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
<b>Total*</b>	<b>-64 131</b>	<b>-56 456</b>	<b>-5</b>	<b>-1 185</b>	<b>-245</b>	<b>-5 661</b>	<b>-3 967</b>	<b>-2</b>	<b>3 389</b>
Interest Rate Risk – swap BPV in thousands of EUR – 31-12-2016									
	Overall	EUR	CHF	USD	GBP	CZK	HUF	PLN	Other
Banking activities	-83 411	-77 301	1	1 407	-54	-3 303	-4 276	-1	115
Insurance activities	4 599	4 565	-18	4	0	561	-376	0	-138
<b>Total*</b>	<b>-78 823</b>	<b>-72 756</b>	<b>-17</b>	<b>1 411</b>	<b>-54</b>	<b>-2 734</b>	<b>-4 652</b>	<b>1</b>	<b>-23</b>

\* 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 2017, carrying value <sup>1</sup> (in millions of EUR)								
Total (by portfolio)	Available for sale	Held to maturity	Designated at fair value through profit or loss	Loans and receivables	Held for trading	Total	For comparison purposes: total at year-end 2016	Economic impact of +100 basis points <sup>3</sup>
<b>KBC core countries</b>								
Belgium	5 227	11 889	0	0	357	17 474	20 886	-935
Czech Rep.	1 992	4 697	0	6	42	6 737	7 543	-354
Hungary	752	1 415	0	46	193	2 406	2 358	-97
Slovakia	1 239	1 643	0	0	0	2 881	2 953	-178
Bulgaria	782	117	0	0	260	1 159	487	-72
Ireland	448	838	0	0	0	1 286	1 207	-62
<b>Southern Europe</b>								
Greece	0	0	0	0	0	0	0	0
Portugal	360	36	0	0	0	396	359	-22
Spain	2 708	249	0	0	0	2 957	3 017	-157
Italy	2 066	111	0	0	1	2 178	2 250	-116
<b>Other countries</b>								
France	2 500	3 779	0	0	0	6 280	6 924	-471
Poland	1 290	407	0	0	10	1 707	1 515	-82
Germany	352	584	0	0	1	936	850	-47
Austria	342	460	0	0	0	803	796	-51
Netherlands	116	371	0	0	1	488	502	-27
US	0	976	0	0	0	976	772	-40
Rest <sup>2</sup>	2 133	1 523	0	0	90	3 746	3 470	-94
<b>Total carrying value</b>	<b>22 307</b>	<b>29 096</b>	<b>0</b>	<b>52</b>	<b>955</b>	<b>52 410</b>	<b>55 889</b>	<b>-</b>
<b>Total nominal value</b>	<b>19 633</b>	<b>27 625</b>	<b>0</b>	<b>52</b>	<b>913</b>	<b>48 223</b>	<b>51 048</b>	<b>-</b>

<sup>1</sup> 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 available for sale, designated at fair value through profit or loss and held for trading and the amortised cost amount for instruments categorised as held to maturity. The table excludes exposure to supranational entities of selected countries. No material impairment on the government bonds in portfolio.

<sup>2</sup> Sum of countries whose individual exposure is less than 0.5 billion euros at year-end 2017.

<sup>3</sup> 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 -10 million euros at year-end 2017).

Main changes in 2017:

- The carrying value of the total sovereign bond exposure decreased by 3.5 billion euros. There was a significant increase in exposure to bonds issued by Bulgaria (+0.7 billion euros, due to the acquisition of United Bulgarian Bank), but a decrease in exposure to Belgium (-3.4 billion euros), the Czech Republic (-0.8 billion euros), and France (-0.6 billion euros).

Revaluation reserve for available-for-sale assets at year-end 2017:

- The carrying value of the total available-for-sale government bond portfolio incorporated a revaluation reserve of 1.5 billion euros, before tax (424 million euros for Belgium, 180 million euros for Italy, 167 million euros for Spain, 163 million euros for France, and 582 million euros for the other countries combined).

Portfolio of Belgian government bonds:

- Belgian sovereign bonds accounted for 33% of our total government bond portfolio at the end of 2017, reflecting the importance to KBC of Belgium, the group's primary core market. The importance of Belgium, in general, is also reflected in the 'Loan and investment portfolio' table at the start of the 'Credit risk' section, in the contribution that Belgium makes to group profit and in the various components of the result (see 'Notes on segment reporting' under 'Consolidated financial statements').
- At year-end 2017, 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. The potential impact of a 100-basis-point upward shift in the spread (by year-end 2017) can be broken down as follows:
  - Theoretical full economic impact (see previous table): the impact on IFRS profit or loss is very limited since the lion's share of the portfolio of Belgian sovereign bonds was classified as 'Available For Sale' (30%; impact only upon realisation) and 'Held To Maturity' (68%; no impact on profit or loss); the impact on IFRS unrealised gains on available-for-sale assets is -207 million euros (after tax) for an increase of 100 basis points.
  - Impact on liquidity: a widening credit spread affects the liquidity coverage ratio (LCR), but the group has a sufficiently large liquidity buffer.

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.

<b>Exposure to non-sovereign bonds at year-end, per rating: economic impact of +100 basis points (in millions of EUR)</b>	<b>31-12-2017</b>	<b>31-12-2016</b>
Bonds rated AAA	-158	-191
Bonds rated AA+, AA, AA-	-161	-196
Bonds rated A+, A, A-	-140	-156
Bonds rated BBB+, BBB, BBB-	-80	-100
Non-investment grade and non-rated bonds	-82	-53
Total carrying value	13 168	15 220
Total nominal value	12 921	14 582

## 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 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	
	31-12-2017	31-12-2016	31-12-2017	31-12-2016	31-12-2017	31-12-2016
Financials	47%	60%	24%	21%	27%	28%
Consumer non-cyclical	0%	0%	8%	13%	7%	11%
Communication	0%	0%	2%	2%	2%	1%
Energy	0%	0%	6%	7%	5%	6%
Industrials	37%	26%	39%	34%	38%	33%
Utilities	0%	0%	1%	2%	1%	2%
Consumer cyclical	8%	5%	15%	15%	14%	13%
Materials	0%	0%	6%	6%	5%	5%
Other and not specified	8%	9%	0%	1%	1%	2%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
In billions of EUR	0.25	0.26	1.47	1.35	1.72 *	1.6
of which unlisted	0.2	0.1	0.0	0.0	0.2	0.1

\* The main differences between the 1.72 billion euros in this table and the 2.2 billion euros for 'Equity instruments' in the table appearing in Note 4.1 of the 'Consolidated financial statements' section of the 2017 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)	Impact on value	
	2017	2016
Banking activities	-69	-64
Insurance activities	-366	-329
<b>Total</b>	<b>-436</b>	<b>-393</b>

Non-trading equity exposure (in millions of EUR)	Net realised gains (in income statement)		Net unrealised gains on year-end exposure (in equity)	
	31-12-2017	31-12-2016	31-12-2017	31-12-2016
Banking activities	89	113	60	123
Insurance activities	81	53	401	375
<b>Total*</b>	<b>170</b>	<b>165</b>	<b>468</b>	<b>503</b>

\* 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	
	2017	2016
Bank portfolios	-100	-92
Insurance portfolios	-67	-55
Total	-167	-146

## 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 asset are traditionally correlated with inflation and do not have a maturity date.

In 2017, the undiscounted value of the inflation-sensitive cashflows was estimated at 607 million euros, against which a 401-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		Impact on value Insurance	
	31-12-2017	31-12-2016	31-12-2017	31-12-2016
USD	-0.63	-1.37	-30.35	-33.39
GBP	0.14	-0.01	-14.52	-14.42
CZK	-0.96	-0.68	0.21	0.30
CHF	0.02	0.01	-6.46	-7.87
DKK	-0.01	-0.00	-1.17	-0.95
RON	-5.13	-2.08	0.00	-0.00
SEK	0.00	0.03	-2.23	-1.83

\* 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	31-12-2017	31-12-2016
+100-basis-point parallel shift in interest rates	-0.2%	-0.2%
+100-basis-point parallel shift in spread	-0.7%	-0.9%
-25% in equity prices	-0.2%	-0.3%
Joint scenario	-1.2%	-1.3%



# 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. It 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 and reporting 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 and external audit, assuring an independent review and challenge of the Group's 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 risk is assessed on the basis of liquidity stress tests, which measure how the liquidity buffer of the group's bank 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 ('repoing' 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 business of the group.

- **Structural liquidity risk.** 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 Czech Republic, ČSOB Slovak Republic, KBC Bank Ireland, CIBANK, KBC Credit Investments, KBC Finance Ireland, KBC Commercial Finance, IFIMA and K&H Bank.

## Structural liquidity risk

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

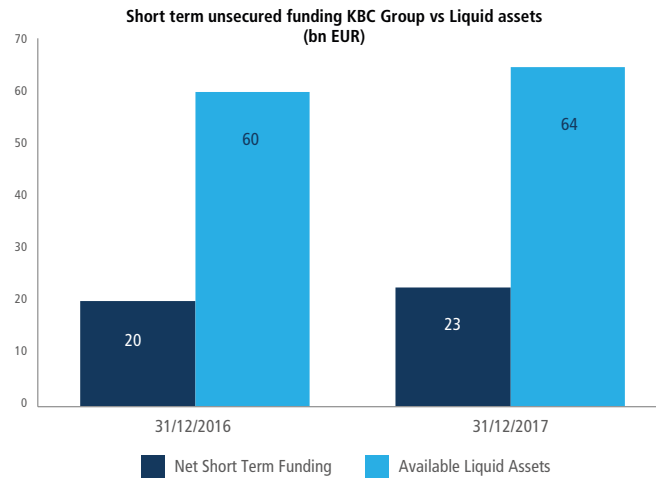
Liquidity risk (excluding intercompany deals)* (in billions of EUR)	<= 1 month	1-3 months	3-12 months	1-5 years	5-10 years	> 10 years	On demand	not defined	Total
<b>31-12-2017</b>									
Total inflows	34	13	17	65	46	32	28	22	256
Total outflows	45	18	8	41	7	1	112	25	256
Professional funding	18	8	1	5	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	-5	10	24	39	31	-84	-50	-46
<b>31-12-2016</b>									
Total inflows	22	8	19	56	50	33	19	32	239
Total outflows	39	12	14	31	14	1	103	26	239
Professional funding	17	7	1	6	1	0	0	0	32
Customer funding	19	5	6	9	1	0	102	0	143
Debt certificates	1	0	6	16	11	1	0	0	36
Other	3	–	–	–	–	–	–	26	29
Liquidity gap (excl. undrawn commitments)	-18	-4	5	26	37	32	-84	7	0
Undrawn commitments	–	–	–	–	–	–	–	-34	–
Financial guarantees	–	–	–	–	–	–	–	-10	–
Net funding gap (incl. undrawn commitments)	-18	-4	5	26	37	32	-84	-38	-44

\* 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 2017 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 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

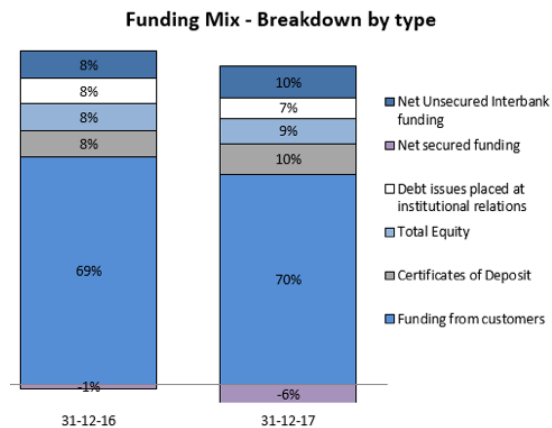
We have a solid liquidity position. At year-end 2017, the KBC group had 64 billion euros' worth of unencumbered central bank eligible assets, 54 billion euros of which in the form of liquid government bonds (84%). The remaining available liquid assets were mainly other ECB/FED eligible bonds (15%) and pledgeable credit claims (1%). Most of the liquid assets are expressed in euros, Czech koruna and Hungarian forint (all home market currencies). Available liquid assets were almost three times the amount of the 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.



## 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 2017) can be broken down as follows:



- Funding from customers (circa 156 billion euros, 70% of the total figure), consisting of demand deposits, time deposits, savings deposits, other deposits, savings certificates and debt issues placed in the network. Some 59% of the funding from customers relates to private individuals and SMEs.
- Debt issues placed with institutional investors (15 billion euros, 7% of the total figure), mainly comprising IFIMA debt issues (2.3 billion euros), covered bonds (6.6 billion euros), the contingent capital notes issued in January 2013 (1 billion US dollars), tier-2 issues (2 billion euros) and KBC Group NV senior debt (3.5 billion euros).
- Net unsecured interbank funding (22.8 billion euros, 10% of the total figure).
- Net secured funding (-14.3 billion euros in repo funding, -6% of the total figure) and certificates of deposit (22.6 billion euros, 10% of the total figure). Net secured funding was negative at year-end 2017 due to the fact that KBC carried out more reverse repo transactions than repo transactions.
- Total equity (18.8 billion euros, 9% of the total figure, including an additional tier-1 issue of 1.4 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 0.5 billion euros' worth in 2017).
- 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 contingent capital notes (issued in January 2013 and with an original maturity date of 25 January 2023) are still included in the end-of-year figures, but were called on 25 January 2018.

## 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 2017, our NSFR stood at 134% and our LCR at 139%. The LCR is based on the Delegated Act requirements. As from 31 December 2017, KBC will start disclosing 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 LIQ.1)

KBC Bank Consolidated (in millions of EUR)		Total unweighted value (average)	Total weighted value (average)
Quarter ending on		31 December 2017	31 December 2017
Number of data points used in the calculation of averages		12	12
<b>HIGH-QUALITY LIQUID ASSETS</b>			
1	Total high-quality liquid assets (HQLA)		79 833
<b>CASH OUTFLOWS</b>			
2	Retail deposits and deposits from small business customers, of which:	88 410	7 509
3	<i>Stable deposits</i>	41 019	2 051
4	<i>Less stable deposits</i>	47 287	5 354
5	Unsecured wholesale funding	72 121	50 427
6	<i>Operational deposits (all counterparties) and deposits in networks of cooperative banks</i>	890	223
7	<i>Non-operational deposits (all counterparties)</i>	71 078	50 052
8	<i>Unsecured debt</i>	153	153
9	Secured wholesale funding		372
10	Additional requirements	26 943	9 734
11	<i>Outflows related to derivative exposures and other collateral requirements</i>	6 867	6 867
12	<i>Outflows related to loss of funding on debt products</i>	0	0
13	<i>Credit and liquidity facilities</i>	20 076	2 867
14	Other contractual funding obligations	1 397	1 342
15	Other contingent funding	4 191	0
<b>16</b>	<b>TOTAL CASH OUTFLOWS</b>		<b>69 383</b>
<b>CASH INFLOWS</b>			
17	Secured lending (e.g., reverse repos)	24 673	349
18	Inflows from fully performing exposures	7 276	5 400
19	Other cash inflows	10 254	6 067
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
EU-19b	(Excess inflows from a related specialised credit institution)		0
<b>20</b>	<b>TOTAL CASH INFLOWS</b>	<b>42 203</b>	<b>11 816</b>
EU-20a	<i>Fully exempt inflows</i>	0	0
EU-20b	<i>Inflows Subject to 90% Cap</i>	0	0
EU-20c	<i>Inflows Subject to 75% Cap</i>	42 112	11 816
<b>TOTAL ADJUSTED VALUE</b>			
<b>21</b>	<b>LIQUIDITY BUFFER</b>		<b>79 833</b>
<b>22</b>	<b>TOTAL NET CASH OUTFLOWS</b>		<b>57 568</b>
<b>23</b>	<b>LIQUIDITY COVERAGE RATIO (%)</b>		<b>139%</b>

## 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 analysis performed in 2017 showed that the only material mismatch was between the US dollar and the euro (short-term wholesale driven), which was closely monitored at the bi-weekly meeting of the liquidity committee.

### Asset encumbrance

KBC is a retail-oriented bank that finances 70% 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 encumbered loans in the cover pool, KBC commits to maintain unencumbered cover assets (outside the cover pool) amounting to at least 5% of the total covered bond programme. This buffer can be used if there are breaches of cover asset tests, breaches of liquidity tests and breaches of committed over collateralisation levels. The buffer should preferably be composed of mortgage loans, but can also consist of liquid ECB eligible assets. 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<sup>6</sup>. 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, 44% of which debt securities (18.8 billion euros issued by general governments) and 24% mortgage loans (11.1 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	
		of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA		of which EHQLA and HQLA*	
		010	030	040	050	060	080	090	100
010	Assets of the reporting institution	45 601				212 434			
030	Equity instruments	0				846			
040	Debt securities	19 930		20 043		29 249		29 438	
050	of which: covered bonds	0		0		3 902		3 902	
060	of which: asset-backed securities	0		0		1 115		1 115	
070	of which: issued by general governments	18 785		18 648		23 067		22 587	
080	of which: issued by financial corporations	1 143		1 374		5 305		6 076	
090	of which: issued by non-financial corporations	0		0		717		574	
120	Other assets	25 671				183 109			
121	of which: mortgage loans	11 064				65 010			

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

All the collateral received that is encumbered are debt securities totalling 3 billion euros, arising mainly from issuances by general governments (1.5 billion euros).

<sup>6</sup> COMMISSION DELEGATED REGULATION (EU) 2017/2295 of 4 September 2017 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for disclosure of encumbered and unencumbered assets.



Template B - Collateral received		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	
		010	030	040	060
130	Collateral received by the reporting institution	3 035		25 312	
140	Loans on demand	0		0	
150	Equity instruments	0		0	
160	Debt securities	3 035		25 312	
170	of which: covered bonds	0		461	
180	of which: asset-backed securities	0		0	
190	of which: issued by general governments	1 524		7 561	
200	of which: issued by financial corporations	23		523	
210	of which: issued by non-financial corporations	0		1	
220	Loans and advances other than loans on demand	0		0	
230	Other collateral received	0		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	<b>TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED</b>	<b>48 192</b>			

The sources of asset encumbrance (i.e. the matching financial liabilities in the table below) total 34.8 billion euros

Template C - Sources of encumbrance		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own
		010	030
010	Carrying amount of selected financial liabilities	34 761	47 399

At year-end 2017 (point-in-time), these consisted mainly of:

- OTC derivatives (7.1 billion euros, 27% of the total figure)
- Repurchase agreements (5.8 billion euros, 22% of the total figure)
- TLTROs (6.5 billion euros, 25% of the total figure)
- Other secured financing, excl. retail (0.4 billion euros, 2% of the total figure)
- Own covered bonds issued (6.6 billion euros, 25% 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) described in the Guide to Banking Supervision.

Based on the assessment of the Liquidity Risk Profile when the risk appetite exercise was conducted in December 2017 and on continuous reporting by Group Treasury and Group Risk, KBC Group can state that it has a **solid liquidity and funding position**.

The ILAAP process consists of the following main components:

- Risk Appetite Statement (including limits setting);
- Aligned Planning Cycle (APC) including the Funding Plan;
- Liquidity position monitoring and Reporting;
- Liquidity Contingency Plan (LCP) and Recovery Plan (RP);
- ILAAP self-assessment.

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 regarding the frequency of insured losses and how extensive they will be. 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 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 insurance subsidiaries.

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

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

## Scope of insurance risk management

The following entities are in scope, viz. KBC Insurance (Belgium), Maatschappij voor Brandverzekering, KBC Group Re, K&H Insurance, ČSOB Pojišť'ovna (Czech Republic), ČSOB Poist'ovňa (Slovak Republic) and DZI Insurance.

## 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 (ICM model), 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. In addition, various group companies conduct Liability Adequacy Tests (LAT) that meet local and IFRS requirements for the life technical provisions. We make calculations using prospective methods (cashflow projections that take account of lapse rates and a discount rate that is set for each insurance entity based on local macroeconomic conditions and regulations), and build in extra market-value margins to deal with the factor of uncertainty in a number of parameters.

Since no deficiencies were identified by year-end 2017, there was no need for a deficiency reserve to be set aside within the KBC group.

In the table below, an overview is provided of the KBC group's best estimate provisions, broken down across Solvency II lines of business at 31 December 2017.

Life lines of business:

Line of business	Best Estimate gross of reinsurance recoverables [EUR]	%
<b>Total Best Estimate for Life excluding Health and Unit-Linked categories</b>	<b>15 579 407 626</b>	<b>51.5%</b>
30 Insurance with profit participation	15 399 395 859	50.9%
32 Other Life insurance	-17 154 696	-0.1%
34 Annuities stemming from Non-life not related to health	13 391 888	0.1%
36 Life reinsurance	183 774 575	0.6%
<b>Total Best Estimate for Health similar to Life</b>	<b>414 167 885</b>	<b>1.4%</b>
29 Health reinsurance	74 760 496	0.2%
33 Annuities stemming from Non-life related to health	339 407 389	1.1%
<b>Total Best Estimate for Unit-Linked and value as a whole</b>	<b>14 239 210 004</b>	<b>47.1%</b>
31 Index-linked and unit-linked insurance	14 239 210 004	47.1%
<b>Total Best Estimate for Life provisions (incl. Health similar to Life and Unit-Linked)</b>	<b>30 232 785 515</b>	<b>100.0%</b>

*Breakdown by Solvency II lines of business of best estimate for Life provisions gross of ceded reinsurance (situation at 31.12.2017)*

Non-Life lines of business:

Line of business		Best Estimate gross of reinsurance recoverables [EUR]	%
<b>Total Best Estimate for Non-Life excluding Health category</b>		<b>1 413 353 760</b>	<b>87.1%</b>
04	Motor vehicle liability insurance	716 513 494	44.2%
05	Other Motor Insurance	62 921 437	3.9%
06	Marine, aviation and transport insurance	3 091 234	0.2%
07	Fire and other damage to property insurance	152 760 452	9.4%
08	General liability insurance	342 584 097	21.1%
09	Credit and suretyship insurance	629 994	0.0%
10	Legal Expenses insurance	77 794 749	4.8%
11	Assistance	10 617 744	0.7%
12	Miscellaneous financial loss	3 476 197	0.2%
16	Proportional Motor Vehicle Liability reinsurance	5 199	0.0%
17	Proportional Other Motor insurance reinsurance	-	0.0%
18	Proportional Marine, aviation and transport reinsurance	227 138	0.0%
19	Proportional Fire and other damage to property reinsurance	1 666 660	0.1%
20	Proportional General liability reinsurance	8 185 286	0.5%
21	Proportional Credit and suretyship reinsurance	-186 632	0.0%
22	Proportional Legal Expenses reinsurance	42 812	0.0%
24	Proportional Miscellaneous financial loss reinsurance	669 881	0.0%
26	Non-Proportional Casualty reinsurance	18 202 407	1.1%
27	Non-Proportional Property reinsurance	87 683	0.0%
28	Non-Proportional Marine, aviation and transport reinsurance	14 063 927	0.9%
<b>Total Best Estimate for Health similar to Non-Life</b>		<b>208 721 237</b>	<b>12.9%</b>
01	Medical Expense insurance	11 966 345	0.7%
02	Income Protection insurance	1 053 761	0.1%
03	Workers' Compensation insurance	191 688 947	11.8%
13	Proportional Medical expense reinsurance	120	0.0%
14	Proportional Income Protection reinsurance	675 926	0.0%
15	Proportional Workers' compensation reinsurance	1 925 094	0.1%
25	Non-Proportional Health Reinsurance	1 411 044	0.1%
<b>Total Best Estimate for Non-life provisions</b>		<b>1 622 074 997</b>	<b>100%</b>

*Breakdown by Solvency II lines of business of the best estimate Non-Life provisions gross of ceded reinsurance (situation at 31.12.2017)*



## Technical provisions and loss triangles, non-life business

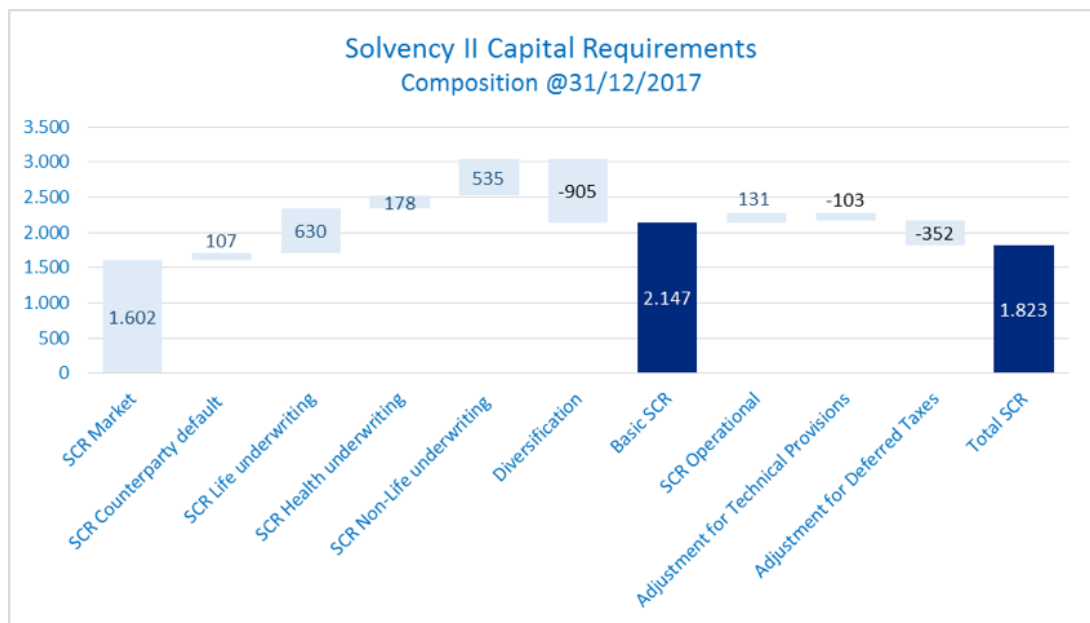
The table shows claims settlement figures in the non-life business over the past few years and includes KBC Insurance NV, ČSOB Pojišť'ovna (Czech Republic), ČSOB Poist'ovňa (Slovakia), DZI Insurance, K&H Insurance, and KBC Group Re. All provisions for claims to be paid at the close of 2017 have been 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 and have not been adjusted to eliminate intercompany amounts. 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 2017.

Loss triangles, KBC Insurance (in millions of EUR)	Year of occurrence									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Estimate at the end of the year of occurrence	800	830	879	816	856	923	1 001	957	1 056	1 010
1 year later	761	726	781	716	748	777	890	810	921	–
2 years later	731	674	729	660	712	706	835	763	–	–
3 years later	718	656	726	641	687	683	815	–	–	–
4 years later	713	639	720	629	673	679	–	–	–	–
5 years later	706	631	711	622	667	–	–	–	–	–
6 years later	680	624	705	619	–	–	–	–	–	–
7 years later	676	621	705	–	–	–	–	–	–	–
8 years later	669	613	–	–	–	–	–	–	–	–
9 years later	660	–	–	–	–	–	–	–	–	–
Current estimate	660	613	705	619	667	679	815	763	921	1 010
Cumulative payments	613	544	624	537	551	569	656	553	564	384
Current provisions	47	69	81	82	116	110	159	210	356	627

## Solvency II results and risk profile

Solvency II results and more detailed information on how all the ratios developed in 2017 are provided under 'Solvency of KBC Bank and KBC Insurance separately' in the 'Capital Adequacy' section.

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 44% 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. It does this, for example, by:

- advising on the calculation of the technical provisions (including appropriateness of methodologies, appropriateness and quality of data used, and experience analysis);
- expressing an opinion on the overall underwriting policy;
- expressing an opinion on the adequacy of reinsurance arrangements;
- contributing to the effective implementation of the risk management system (risk modelling underlying solvency capital requirement calculations, assisting with the internal model, contributing to the ORSA process);
- reporting and giving recommendations to the supervisory body of the entity.

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 2017 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.



# Annexes

## ANNEX I

### Balance Sheet Reconciliation

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

Capital Base (EUR)	Financial statements 31-12-2017 (*)	deconsolidation insurance	Prudential treatment	Own funds 31-12-2017 (*)
Total regulatory capital, KBC Group (after profit appropriation)				18.725.040.960
Tier-1 capital				16.549.345.804
Common equity				15.131.184.689
Parent shareholders' equity	17.403.126.283	-562.465.737		16.840.660.546
Intangible fixed assets (incl deferred tax impact) (-)	-490.169.182	14.746.488		-475.422.694
Goodwill on consolidation (incl deferred tax impact) (-)	-720.547.626	116.176.771		-604.370.855
Minority interests				
AFS revaluation reserve sovereign bonds (-)	-1.291.831.642	707.867.262	467.171.504	-116.792.876
Hedging reserve (cash flow hedges) (-)	1.338.821.283	-61.897		1.338.759.386
Valuation diff. in fin. liabilities at fair value - own credit risk (-)	-1.197.360			-1.197.360
Value adjustment due to the requirements for prudent valuation (-)				-110.709.861
Dividend payout (-)				-837.195.134
Remuneration of AT1 instruments (-)			-1.566.607	-1.566.607
Deduction re. financing provided to shareholders (-)				-91.292.849
IRB provision shortfall (-)				-267.753.557
Deferred tax assets on losses carried forward (-)	-677.416.812	0	135.483.362	-541.933.450
Additional going concern capital				1.418.161.115
Grandfathered innovative hybrid tier-1 instruments	49.389.301		-31.228.185	18.161.115
CRR compliant AT1 instruments	1.400.000.000			1.400.000.000
Tier 2 capital				2.175.695.156
IRB provision excess (+)				316.006.935
Subordinated liabilities	2.398.347.054	-500.000.000	-38.658.833	1.859.688.221

(\*) 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	KBC Group NV
2	Unique identifier (e.g., CUSIP, ISIN or Bloomberg identifier for private placement)	BE0002463389	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	Belgian/ English
Regulatory treatment									
4	Transitional CRR rules	Additional Tier 1	Tier 2	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	Tier 2
6	Eligible at solo/(sub-) consolidated/solo & (sub-)consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated
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	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 1,400m	EUR 149m	EUR 500m	EUR 750m	EUR 25m	EUR 748m	EUR 10m	
9	Nominal amount of instrument	EUR 1,400m	EUR 150m	EUR 500m	EUR 750m	EUR 25m	EUR 750m	EUR 10m	
9a	Issue price	100%	98.8 per cent	99.738 per cent	99.874 per cent	98.8 per cent	99.494 per cent	100.00 per cent	
9b	Redemption price	At their prevailing principal amount	100 per cent of their nominal amount	100 per cent of their nominal amount	100 per cent of their nominal amount	100 per cent of their nominal amount	100 per cent of their nominal amount	100 per cent of their nominal amount	
10	Accounting classification	Equity	Liability	Liability	Liability	Liability	Liability	Liability	
11	Original date of issuance	19 March 2014	24 July 2014 and 1 August 2014	18 September 2017	25 November 2014	2 February 2015	11 March 2015	6 March 2015	

12	Perpetual 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
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	19 March 2019 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 19 June 2019 (19 March, 19 June, 19 September and 19 December)	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 4.759 per cent	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 per cent	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 per cent	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 per cent	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 per cent	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 per cent	fixed
18	Coupon rate and any related index	5.625% per annum To be reset on every Reset Date	3.125 per cent 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	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No	No	No	No	No	No
22	Noncumulative or cumulative	Non-cumulative	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	Non-convertible
24	If convertible, conversion trigger (\$)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
25	If convertible, fully or partially	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
26	If convertible, conversion rate	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
27	If convertible, mandatory or optional conversion	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
28	If convertible, specify instrument type convertible into	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
29	If convertible, specify issuer of instrument it converts into	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
30	Write-down features	Yes	No	No	No	No	No	No	No
31	If write-down, write-down trigger (\$)	CET1 ratio < 5.125%	n/a	n/a	n/a	n/a	n/a	n/a	n/a
32	If write-down, full or partial	partially or fully	n/a	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	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	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 unsecured creditors of the issuer and to ordinarily subordinated indebtedness of the issuer.	Senior debt	Senior debt	Senior debt	Senior debt	Senior debt	Senior debt	Senior debt
36	Non-compliant transitioned features	No	No	No	No	No	No	No	No
37	If yes, specify non-compliant features	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

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

## 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	KBC Bank NV
2	Unique identifier (e.g., CUSIP, ISIN or Bloomberg identifier for private placement)	BE0119284710	BE6248510610	Grouped certificates	Grouped certificates	Grouped certificates	Grouped certificates	Grouped sub. term accounts	Grouped sub. term accounts
3	Governing law(s) of the instrument	Belgian/ English	Belgian/ English	Belgian	Belgian	Belgian	Belgian	Belgian	Belgian
4	Transitional CRR rules	Additional Tier 1	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
5	Post-transitional CRR rules	Ineligible	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
6	Eligible at solo (sub-)consolidated/ solo & (sub-)consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated
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	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 0,5m	EUR 1m	EUR 0m	EUR 25m	EUR 0m	EUR 0,1m	EUR 0,3m
9	Nominal amount of instrument	GBP 43,5m	USD 1 000m	EUR 13m	EUR 2m	EUR 78m	EUR 1m	EUR 0,3m	EUR 0,3m
9a	Issue price	100%	100%						

9b	Redemption price	At par	At their aggregate principal amount	At par	At par	At par	At par	At par	At par
10	Accounting classification	Liability	Liability	Liability	Liability	Liability	Liability	Liability	Liability
11	Original date of issuance	19 December 2003	25 January 2013						
12	Perpetual or dated	Perpetual	Dated	Dated	Dated	Dated	Dated	Dated	Dated
13	Original maturity date	No maturity	25 January 2023	8 Years after issuance	9 Years after issuance	10 Years after issuance	8 Years after issuance	9 Years after issuance	
14	Issuer call subject to prior supervisory approval	Yes	Yes	n/a	n/a	n/a	n/a	n/a	n/a
15	Optional call date, contingent call dates, and redemption amount	n/a	The Issuer may redeem the Securities on the Reset Date (25 January 2018) in whole and not in part at their principal amount, together with interest accrued to but excluding the date of redemption. At any time upon the occurrence of a Regulatory Event or Tax Gross-up event.	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	n/a
17	Fixed or floating dividend/coupon	fixed to floating	Fixed To be reset on the Reset Date.						

18	Coupon rate and any related index	6.202% per annum - rate after 19/12/2019 : LIBOR 3m + 193 bp	8% per annum until the Reset Date. If not called on or before the Reset Date the Securities will bear interest at a fixed rate per annum which will be based on the initial credit spread and the then prevailing USD 5-year Mid-Swap Rate.									
19	Existence of a dividend stopper	No	No	No	No	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	Mandatory	Mandatory	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	Yes	No	No	No	No	No	No	No	No	No	No
22	Noncumulative or cumulative	Non-cumulative	Cumulative	Non-cumulative	Non-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	Non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	In the event of a general consensus creditorum	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
25	If convertible, fully or partially	fully	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

26	If convertible, conversion rate	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	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	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	n/a
30	Write-down features	No	Yes	No	No	No	No	No	No
31	If write-down, write-down trigger (5)	n/a	CET1 ratio < 7.00%	n/a	n/a	n/a	n/a	n/a	n/a
32	If write-down, full or partial	n/a	Full	n/a	n/a	n/a	n/a	n/a	n/a

33	If write-down, permanent or temporary	n/a	Permanent	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	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.	Rank junior to the rights and claims of holders of all depositors and other unsecured and undordinated creditors.	Senior debt	Senior debt	Senior debt	Senior debt	Senior debt	Senior debt
36	Non-compliant transitioned features	Yes	No	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	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	CBC Banque SA	KBC IFIMA NV	KBC IFIMA NV	KBC IFIMA NV	KBC IFIMA NV
2	Unique identifier (e.g., CUSIP, ISIN or Bloomberg identifier for private placement)	Grouped sub. term accounts	Grouped certificates	Grouped certificates	XS0210 976329	XS0238 162530	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	Belgian/English
<i>Regulatory treatment</i>								
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 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	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 8m	EUR 0,1m	EUR 0m	EUR 125m	EUR 29m	EUR 26m	EUR 2m
9	Nominal amount of instrument	EUR 19m	EUR 0,8m	EUR 2m	USD 150m	SKK 1 450m	EUR 73m	EUR 7m
9a	Issue price				EUR 115m	EUR 48m	100,05%	99,90%
9b	Redemption price	At par	At par	At par	At par	At par	At par	At par
10	<i>Accounting classification</i>	Liability	Liability	Liability	Liability	Liability	Liability	Liability
11	Original date of issuance				07/Feb/05	21/Dec/05		
12	Perpetual or dated	Dated	Dated	Dated	dated	dated	dated	dated
13	Original maturity date	10 Years after issuance	8 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	n/a
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	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<i>Coupons / dividends</i>								
17	Fixed or floating dividend/coupon				Floating (CMS-linked)	Fixed	Fixed	Fixed

18	Coupon rate and any related index				4,692%	4,05%		
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	No	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	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
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	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
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)	Senior debt	Senior debt	Senior debt	Senior debt	Senior debt	Senior debt	Senior debt
36	Non-compliant transitioned features	No	No	No	No	No	No	No
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 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	6.923.435.518	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	8.560.081.843	26 (1) (c)	
3 Accumulated other comprehensive income (and any other reserves)	-696.013.543	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	1.219.006.115	26 (2)	
<b>6 Common Equity Tier 1 (CET1) capital before regulatory adjustments</b>	<b>16.006.509.933</b>		
<b>Common Equity Tier 1 (CET1) capital: regulatory adjustments</b>			
7 Additional value adjustments (negative amount)	-110.709.861	34, 105	-13.301.681
8 Intangible assets (net of related tax liability) (negative amount)	-1.079.793.549	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)	-541.933.450	36 (1) (c), 38, 472 (5)	-130.532.394
11 Fair value reserves related to gains or losses on cash flow hedges	1.338.759.386	33 (a)	n/a
12 Negative amounts resulting from the calculation of expected loss amounts	-267.753.557	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	-1.197.360	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)	-95.903.977	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	n/a		
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	-116.792.876		
26b	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR	n/a	481	
27	<b>Qualifying AT1 deductions that exceeds the AT1 capital of the institution (negative amount)</b>	n/a	36 (1) (j)	
28	<b>Total regulatory adjustments to Common Equity Tier 1 (CET1)</b>	-875.325.244		
29	<b>Common Equity Tier 1 (CET1) capital</b>	15.131.184.689		

Additional Tier 1 (AT1) capital: instruments				
30	Capital instruments and the related share premium accounts	1.400.000.000	51, 52	
31	of which: classified as equity under applicable accounting standards	1.400.000.000		
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	<b>Additional Tier 1 (AT1) capital before regulatory adjustments</b>	1.400.000.000		
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)	18.161.115		
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	<b>Total regulatory adjustments to Additional Tier 1 (AT1) capital</b>	18.161.115		
44	<b>Additional Tier 1 (AT1) capital</b>	1.418.161.115		
45	<b>Tier 1 capital (T1 = CET1 + AT1)</b>	16.549.345.804		
<b>Tier 2 (T2) capital: instruments and provisions</b>				
46	Capital instruments and the related share premium accounts	1.681.580.833	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	178.107.387	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	316.006.935	62 (c) & (d)	
51	<b>Tier 2 (T2) capital before regulatory adjustment</b>	2.175.695.156		
<b>Tier 2 (T2) capital: regulatory adjustments</b>				
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	<b>Total regulatory adjustments to Tier 2 (T2) capital</b>	0	
58	<b>Tier 2 (T2) capital</b>	2.175.695.156	
59	<b>Total capital (TC = T1 + T2)</b>	18.725.040.960	
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)	91.972.154.956	
	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.)	1.035.659.018	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) ©, 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	<b>Total risk-weighted assets</b>	91.972.154.956	
<b>Capital ratios and buffers</b>			
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	16,5%	92 (2) (a), 465
62	Tier 1 (as a percentage of total risk exposure amount)	18,0%	92 (2) (b), 465
63	Total capital (as a percentage of total risk exposure amount)	20,4%	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)	2,4%	CRD 128, 129, 140
65	of which: capital conservation buffer requirement	1,3%	
66	of which: countercyclical buffer requirement	0,2%	
67	of which: systemic risk buffer requirement	1,0%	
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)	10,2%	CRD 128

69	[non-relevant in EU regulation]			
70	[non-relevant in EU regulation]			
71	[non-relevant in EU regulation]			
<b>Amounts below the thresholds for deduction (before risk-weighting)</b>				
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)	37.009.380	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)	25.052.977	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)	414.263.607	36 (1) (c), 38, 48, 470, 472 (5)	
<b>Applicable caps on the inclusion of provisions in Tier 2</b>				
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)	316.006.935	62	
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	372.586.147	62	
<b>Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)</b>				
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) 'NA' inserted if the question is not applicable

**ANNEX IV**  
**INS1 – Non-deducted participations in insurance undertakings**

	<b>Value</b>
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 V

### Geographical distribution of credit exposure relevant for calculating the countercyclical capital buffer

#### KBC Group – Countercyclical Capital Buffer Rate Disclosure

Row	Breakdown by country	General credit exposure		Trading book exposure		Securitisation exposure	
		Exposure value for SA	Exposure value for IRB	Sum of long and short positions of trading book exposure for SA	Value of trading book exposure for Internal models	Exposure value for SA	Exposure value for IRB
		010	020	030	040	050	060
010	Belgium	1.170.902.730	90.078.569.776				0
011	Czech Republic	538.612.615	24.372.443.345				0
012	Ireland	49.734.494	13.174.138.507				0
013	Slovakia	1.658.141.470	6.305.975.815				0
014	France	312.922	1.976.156.481				252.533.395
015	Hungary	323.501.078	5.258.628.924				0
016	United Kingdom	8.113.097	1.122.121.503				3.076.502
017	Bulgaria	3.256.393.705	25.975.015				0
018	Spain	102.380	147.369.540				343.710.116
019	United States	12.915.713	1.584.631.353				108.227.380
020	Sweden	13.948	30.449.666				0
021	Norway	52.788	1.478.817				0
022	Iceland	0	809.607				0
023	Hong Kong SAR	8.406	294.320.187				0
024	Rest	257.052.308	6.925.388.671				615.863.033
020	Total	7.275.857.655	151.298.457.206	0	0	0	1.323.410.426

Row	Breakdown by country	Own funds requirements				Own funds requirements weights	Countercyclical capital buffer rate (%)
		of which: General credit exposures	of which: Trading book exposures	of which: Securitisation exposures	Total		
		070	080	090	100	110	120
010	Belgium	1.496.802.179		0	1.496.802.179	38,75%	0,00%
011	Czech Republic	715.305.254		0	715.305.254	18,52%	0,50%
012	Ireland	394.465.194		0	394.465.194	10,21%	0,00%
013	Slovakia	276.342.584		0	276.342.584	7,15%	0,50%
014	France	104.860.111		2.683.101	107.543.213	2,78%	0,00%
015	Hungary	259.264.108		0	259.264.108	6,71%	0,00%
016	United Kingdom	51.952.811		18.262	51.971.073	1,35%	0,00%
017	Bulgaria	151.621.831		0	151.621.831	3,93%	0,00%
018	Spain	770.378		16.613.284	17.383.662	0,45%	0,00%
019	United States	48.849.165		735.532	49.584.697	1,28%	0,00%
020	Sweden	1.472.992		0	1.472.992	0,04%	2,00%
021	Norway	24.583		0	24.583	0,00%	2,00%
022	Iceland	11.247		0	11.247	0,00%	1,25%
023	Hong Kong SAR	15.697.744		0	15.697.744	0,41%	1,25%
024	Rest	318.987.671		6.298.637	325.286.309	8,42%	
020	Total	3.836.427.853		26.348.817	3.862.776.670	100,0%	

Institution specific countercyclical capital buffer rate (see Table V, row 020): 0,134%



## ANNEX V

### Geographical distribution of credit exposure relevant for the calculation of the countercyclical capital buffer

#### KBC Bank Consolidated – Countercyclical Capital Buffer Rate Disclosure

Row	Breakdown by country	General credit exposure		Trading book exposure		Securitisation exposure	
		Exposure value for SA	Exposure value for IRB	Sum of long and short positions of trading book exposure for SA	Value of trading book exposure for Internal models	Exposure value for SA	Exposure value for IRB
		010	020	030	040	050	060
010	Belgium	1.023.006.697	90.078.569.776				0
011	Czech Republic	538.612.615	24.372.443.345				0
012	Ireland	49.734.494	13.174.138.507				0
013	Slovakia	1.658.141.470	6.305.975.815				0
014	France	312.922	1.976.156.481				252.533.395
015	Hungary	323.501.078	5.258.628.924				0
016	United Kingdom	8.113.097	1.122.121.503				3.076.502
017	Bulgaria	3.256.393.705	25.975.015				0
018	Spain	102.380	147.369.540				343.710.116
019	United States	12.915.713	1.584.631.353				108.227.380
020	Sweden	13.948	30.449.666				0
021	Norway	52.788	1.478.817				0
022	Iceland	0	809.607				0
023	Hong Kong SAR	8.406	294.320.187				0
024	Rest	257.052.308	6.925.388.671				615.863.033
020	Total	7.127.961.622	151.298.457.206				1.323.410.426

Row	Breakdown by country	Own funds requirements				Own funds requirements weights	Countercyclical capital buffer rate (%)
		of which: General credit exposures	of which: Trading book exposures	of which: Securitisation exposures	Total		
		070	080	090	100	110	120
010	Belgium	1.484.885.317		0	1.484.885.317	38,56%	0,00%
011	Czech Republic	715.305.254		0	715.305.254	18,58%	0,50%
012	Ireland	394.465.194		0	394.465.194	10,24%	0,00%
013	Slovakia	276.342.584		0	276.342.584	7,18%	0,50%
014	France	104.860.111		2.683.101	107.543.213	2,79%	0,00%
015	Hungary	259.264.108		0	259.264.108	6,73%	0,00%
016	United Kingdom	51.952.811		18.262	51.971.073	1,35%	0,00%
017	Bulgaria	151.621.831		0	151.621.831	3,94%	0,00%
018	Spain	770.378		16.613.284	17.383.662	0,45%	0,00%
019	United States	48.849.165		735.532	49.584.697	1,29%	0,00%
020	Sweden	1.472.992		0	1.472.992	0,04%	2,00%
021	Norway	24.583		0	24.583	0,00%	2,00%
022	Iceland	11.247		0	11.247	0,00%	1,25%
023	Hong Kong SAR	15.697.744		0	15.697.744	0,41%	1,25%
024	Rest	318.987.671		6.298.637	325.286.309	8,45%	
020	Total	3.824.510.991		26.348.817	3.850.859.807	100,00%	

Institution specific countercyclical capital buffer rate (see Table V, row 020): 0,135%

**ANNEX VI****Amount of institution-specific countercyclical capital buffer****KBC Group – Countercyclical Capital Buffer Rate Disclosure**

Row		Column
		<b>010</b>
<b>010</b>	Total risk exposure amount	91.971.405.893
<b>020</b>	Institution specific countercyclical capital buffer rate	0,134%
<b>030</b>	Institution specific countercyclical capital buffer requirement	123.442.455

**KBC Bank Consolidated – Countercyclical Capital Buffer Rate Disclosure**

Row		Column
		<b>010</b>
<b>010</b>	Total risk exposure amount	82.678.372.907
<b>020</b>	Institution specific countercyclical capital buffer rate	0,135%
<b>030</b>	Institution specific countercyclical capital buffer requirement	111.312.910

## ANNEX VII

### Phased and Fully loaded CET1 requirement

Joint capital decision 2017 (JCD) Target applicable in		2017 phased	2018 phased	Fully loaded
<b>Pillar 1 minimum requirement (P1 min)</b>	CET1	4,5%	4,5%	4,5%
	AT1	1,5%	1,5%	1,5%
	T2	2,0%	2,0%	2,0%
<b>Pillar 2 requirement (P2R)</b>	CET1	1,75%	1,75%	1,75%
<b>Total SREP Capital Requirement (TSCR) = LOWER BOUND</b>	CET1	6,25%	6,25%	6,25%
	Tier 1	7,75%	7,75%	7,75%
	Total capital	<b>9,75%</b>	9,75%	9,75%
Combined Buffer Requirement (CBR)				
Conservation buffer	CET1	1,25%	1,875%	2,50%
Systemic risk buffer	CET1	0,00%	0,00%	0,00%
O-SII buffer	CET1	1,00%	1,50%	1,50%
Countercyclical buffer	CET1	0,15%	0,25%	0,35%
<b>Overall capital requirement (OCR) = MDA threshold</b>	CET1	8,65%	9,875%	<b>10,60%</b>
	Tier 1	10,15%	11,375%	12,10%
	Total capital	12,15%	13,375%	14,10%
Pillar 2 Guidance (P2G)	CET1	1,00%	1,00%	1,00%
<b>CET1 requirement +P2G</b>	CET1	9,65%	10,875%	<b>11,60%</b>

**ANNEX VIII**  
**CRR Leverage ratio**

**KBC Group – Leverage Ratio**

Table LRSum: Summary reconciliation of accounting assets and leverage ratio exposures		Applicable Amounts
<b>1</b>	Total assets as per published financial statements	259.540.702.650
<b>2</b>	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	0
<b>3</b>	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013 “CRR”)	0
<b>4</b>	Adjustments for derivative financial instruments	-1.987.687.012
<b>5</b>	Adjustments for securities financing transactions “SFTs”	816.085.471
<b>6</b>	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	18.159.520.570
<b>EU-6a</b>	(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation (EU) No 575/2013)	0
<b>EU-6b</b>	(Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (14) of Regulation (EU) No 575/2013)	0
<b>7</b>	Other adjustments	-4.155.656.373
<b>8</b>	<b>Total leverage ratio exposure</b>	<b>272.372.965.307</b>

**Table LRCom: Leverage ratio common disclosure**

		CRR leverage ratio exposures
<b>On-balance sheet exposures (excluding derivatives and SFTs)</b>		
<b>1</b>	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	231.936.508.513
<b>2</b>	(Asset amounts deducted in determining Tier 1 capital)	-2.232.493.277
<b>3</b>	<b>Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)</b>	<b>229.704.015.236</b>
<b>Derivative exposures</b>		
<b>4</b>	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	1.284.208.606
<b>5</b>	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	2.814.841.682
<b>EU-5a</b>	Exposure determined under Original Exposure Method	0
<b>6</b>	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	0
<b>7</b>	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-1.920.339.032
<b>8</b>	(Exempted CCP leg of client-cleared trade exposures)	0
<b>9</b>	Adjusted effective notional amount of written credit derivatives	0
<b>10</b>	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	0
<b>11</b>	Total derivative exposures	2.178.711.256
<b>Securities financing transaction exposures</b>		
<b>12</b>	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	21.517.456.837
<b>13</b>	(Netted amounts of cash payables and cash receivables of gross SFT assets)	0
<b>14</b>	Counterparty credit risk exposure for SFT assets	816.085.471
<b>EU-14a</b>	Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation (EU) No 575/2013	0
<b>15</b>	Agent transaction exposures	0
<b>EU-15a</b>	(Exempted CCP leg of client-cleared SFT exposure)	0
<b>16</b>	<b>Total securities financing transaction exposures</b>	<b>22.333.542.308</b>
<b>Other off-balance sheet exposures</b>		
<b>17</b>	Off-balance sheet exposures at gross notional amount	51.984.983.186
<b>18</b>	(Adjustments for conversion to credit equivalent amounts)	-33.825.462.616
<b>19</b>	<b>Other off-balance sheet exposures</b>	<b>18.159.520.570</b>
<b>Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)</b>		
<b>EU-19a</b>	(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	0
<b>EU-19b</b>	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	0
<b>Capital and total exposures</b>		
<b>20</b>	<b>Tier 1 capital</b>	<b>16.506.967.554</b>
<b>21</b>	<b>Total leverage ratio exposures</b>	<b>272.375.789.371</b>
<b>Leverage ratio</b>		
<b>22</b>	<b>Leverage ratio</b>	<b>6,06%</b>
<b>Choice on transitional arrangements and amount of derecognised fiduciary items</b>		
<b>EU-23</b>	Choice on transitional arrangements for the definition of the capital measure	Transitional
<b>EU-24</b>	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) NO 575/2013	0

<b>Table LRSpl: Breakdown of on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)</b>		<b>CRR leverage ratio exposures</b>
<b>EU-1</b>	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	239.367.899.262
<b>EU-2</b>	Trading book exposures	7.431.390.749
<b>EU-3</b>	Banking book exposures, of which:	231.936.508.513
<b>EU-4</b>	Covered bonds	0
<b>EU-5</b>	Exposures treated as sovereigns	47.869.084.165
<b>EU-6</b>	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	12.574.962
<b>EU-7</b>	Institutions	6.931.509.459
<b>EU-8</b>	Secured by mortgages of immovable properties	70.172.499.527
<b>EU-9</b>	Retail exposures	11.768.675.893
<b>EU-10</b>	Corporate	57.989.418.217
<b>EU-11</b>	Exposures in default	328.773.609
<b>EU-12</b>	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	36.863.972.681

**ANNEX VIII**  
**CRR Leverage ratio**

**KBC Bank consolidated – Leverage Ratio**

Table LRSum: Summary reconciliation of accounting assets and leverage ratio exposures		Applicable Amounts
<b>1</b>	Total assets as per published financial statements	256.322.175.187
<b>2</b>	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	0
<b>3</b>	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013 "CRR")	0
<b>4</b>	Adjustments for derivative financial instruments	-1.990.461.162
<b>5</b>	Adjustments for securities financing transactions "SFTs"	816.085.471
<b>6</b>	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	18.190.674.851
<b>EU-6a</b>	(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation (EU) No 575/2013)	0
<b>EU-6b</b>	(Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (14) of Regulation (EU) No 575/2013)	0
<b>7</b>	Other adjustments	-4.096.600.225
<b>8</b>	<b>Total leverage ratio exposure</b>	<b>269.241.874.123</b>

<b>Table LRCom: Leverage ratio common disclosure</b>		<b>CRR leverage ratio exposures</b>
<b>On-balance sheet exposures (excluding derivatives and SFTs)</b>		
<b>1</b>	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	228.715.206.900
<b>2</b>	(Asset amounts deducted in determining Tier 1 capital)	-2.173.437.129
<b>3</b>	<b>Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)</b>	<b>226.541.769.771</b>
<b>Derivative exposures</b>		
<b>4</b>	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	1.284.208.606
<b>5</b>	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	2.814.841.682
<b>EU-5a</b>	Exposure determined under Original Exposure Method	0
<b>6</b>	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	0
<b>7</b>	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-1.920.339.032
<b>8</b>	(Exempted CCP leg of client-cleared trade exposures)	0
<b>9</b>	Adjusted effective notional amount of written credit derivatives	0
<b>10</b>	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	0
<b>11</b>	<b>Total derivative exposures</b>	<b>2.178.711.256</b>
<b>Securities financing transaction exposures</b>		
<b>12</b>	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	21.517.456.837
<b>13</b>	(Netted amounts of cash payables and cash receivables of gross SFT assets)	0
<b>14</b>	Counterparty credit risk exposure for SFT assets	816.085.471
<b>EU-14a</b>	Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation (EU) No 575/2013	0
<b>15</b>	Agent transaction exposures	0
<b>EU-15a</b>	(Exempted CCP leg of client-cleared SFT exposure)	0
<b>16</b>	<b>Total securities financing transaction exposures</b>	<b>22.333.542.308</b>
<b>Other off-balance sheet exposures</b>		
<b>17</b>	Off-balance sheet exposures at gross notional amount	52.295.879.146
<b>18</b>	(Adjustments for conversion to credit equivalent amounts)	-34.105.204.295
<b>19</b>	<b>Other off-balance sheet exposures</b>	<b>18.190.674.851</b>
<b>Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)</b>		
<b>EU-19a</b>	(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	0
<b>EU-19b</b>	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	0
<b>Capital and total exposures</b>		
<b>20</b>	<b>Tier 1 capital</b>	<b>13.486.349.961</b>
<b>21</b>	<b>Total leverage ratio exposures</b>	<b>269.244.698.187</b>
<b>Leverage ratio</b>		
<b>22</b>	<b>Leverage ratio</b>	<b>5,01%</b>
<b>Choice on transitional arrangements and amount of derecognised fiduciary items</b>		
<b>EU-23</b>	Choice on transitional arrangements for the definition of the capital measure	Transitional
<b>EU-24</b>	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) NO 575/2013	0



**Table LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)**

		<b>CRR leverage ratio exposures</b>
<b>EU-1</b>	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	236.223.856.679
<b>EU-2</b>	Trading book exposures	7.508.649.779
<b>EU-3</b>	Banking book exposures, of which:	228.715.206.900
<b>EU-4</b>	Covered bonds	0
<b>EU-5</b>	Exposures treated as sovereigns	47.866.783.814
<b>EU-6</b>	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	12.574.962
<b>EU-7</b>	Institutions	6.921.164.588
<b>EU-8</b>	Secured by mortgages of immovable properties	70.172.499.527
<b>EU-9</b>	Retail exposures	11.685.615.527
<b>EU-10</b>	Corporate	57.845.486.454
<b>EU-11</b>	Exposures in default	328.773.609
<b>EU-12</b>	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	33.882.308.419

**ANNEX IX**  
**U3 – Outline of the differences in the scope of consolidation (entity by entity)**

Name of the entity	a	b	Method of regulatory consolidation		e	f
			Method of accounting consolidation	Full consolidation		
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
Apitr NV	Full consolidation	X				real estate
Bel Rom Cinci-S.R.L.	Full consolidation	X				renting of own or leased retail property
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 Makler s.r.o.	Full consolidation	X				leasing support services
ČSOB Real, s.r.o.	Full consolidation	X				facilities support services
ČSOB Stavebná Sporiteľ'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 Makler 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
CIBANK EAD	Full consolidation	X	credit institution
East Golf Properties EAD	Full consolidation	X	real estate
Management of Assets for Sale - 2 EOOD	Full consolidation	X	real estate
Interlease EAD	Full consolidation	X	leasing
Hotel Perun Banskó EOOD	Full consolidation	X	hotel rental
Interlease Auto EAD	Full consolidation	X	leasing
KBC Asset Management NV	Full consolidation	X	asset management
KBC Asset Management SA	Full consolidation	X	asset management
KBC Fund Management Limited	Full consolidation	X	asset management
KBC Asset Management Participations	Full consolidation	X	asset management
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 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
Irish HomeLoans and Finance Limited	Full consolidation	X	real estate
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
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 Finance Ireland	Full consolidation	X	lending
KBC Financial Services (Ireland) Limited	Full consolidation	X	holding
KBC IFIMA SA	Full consolidation	X	financing
KBC Immolease NV	Full consolidation	X	leasing
KBC Investments Limited	Full consolidation	X	stock broker
KBC AIM Feeder Fund	Full consolidation	X	fund
KBC AIM Master Fund	Full consolidation	X	fund
KBC Financial Products (Cayman Islands) Limited "Cayman I"	Full consolidation	X	stock broker
KBC Investments Cayman Islands V Limited	Full consolidation	X	fund
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
Apicing 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 Berleti 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 Eszközüzling Gép-és Teregépjármű Berleti Kft.	Full consolidation	X		leasing
K&H Faktor Pénzügyi Szolgáltató Zrt.	Full consolidation	X		factoring
K&H Ingatlanüzling Zrt.	Full consolidation	X		leasing
K&H Jelzálogbank Zrt.	Full consolidation	X		other credit granting services
Loan Invest NV (institutional company for investment in receivables under Belgian law)	Full consolidation	X		securitisation company
Poelaert Invest NV	Full consolidation	X		real estate
United Bulgarian Bank AD	Full consolidation	X		credit institution
UBB Asset Management AD	Full consolidation	X		asset management
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		immateral - lighting
Asia Pacific Trading & Investment Company Limited	Not consolidated (full consolidation)	X		immateral - lighting
2 B Delighted Italia Srl	Not consolidated (full consolidation)	X		immateral - lighting
Weaver & Ducre NV	Not consolidated (full consolidation)	X		immateral - lighting
ADB Asia Pacific Limited	Not consolidated (full consolidation)	X		immateral - credit institution
Almaloisir & Immobiliers sas	Not consolidated (full consolidation)	X		immateral - real estate
Banque Diamantaire (Suisse) SA	Not consolidated (full consolidation)	X		immateral - credit institution
Brussels North Distribution NV	Not consolidated (full consolidation)	X		immateral - real estate

C Plus SAS	Not consolidated (full consolidation)	X	immateral - residential building development projects
ČSOB Nadácia	Not consolidated (full consolidation)	X	immateral - real estate
Eurincasso s.r.o.	Not consolidated (full consolidation)	X	immateral - debt recovery
Francilia Immobilier SARL	Not consolidated (full consolidation)	X	immateral - buying and selling of own real estate
Immo-Antares NV	Not consolidated (full consolidation)	X	immateral - issuance of real estate certificates
Immo-Basilix NV	Not consolidated (full consolidation)	X	immateral - issuance of real estate certificates
Immo-Beaulieu NV	Not consolidated (full consolidation)	X	immateral - issuance of real estate certificates
Immobilierè Distri-Land NV	Not consolidated (full consolidation)	X	immateral - issuance of real estate certificates
Immo Genk-Zuid NV	Not consolidated (full consolidation)	X	immateral - issuance of real estate certificates
Immolease-Trust NV	Not consolidated (full consolidation)	X	immateral - real estate
Immo Lux-Airport SA	Not consolidated (full consolidation)	X	immateral - issuance of real estate certificates
Immo NamOtt NV	Not consolidated (full consolidation)	X	immateral - issuance of real estate certificates
Immo NamOtt Tréfonds NV	Not consolidated (full consolidation)	X	immateral - issuance of real estate certificates
Immo-Quinto NV	Not consolidated (full consolidation)	X	immateral - real estate
Immo-Zénobe Gramme NV	Not consolidated (full consolidation)	X	immateral - issuance of real estate certificates
IP Exit, a.s.	Not consolidated (full consolidation)	X	immateral - non-active
Julienne Holdings S.à.r.l.	Not consolidated (full consolidation)	X	immateral - holding company
Julie LH BVBA	Not consolidated (full consolidation)	X	immateral - real estate
Juliette FH BVBA	Not consolidated (full consolidation)	X	immateral - real estate
KB-Consult NV	Not consolidated (full consolidation)	X	immateral - non-active
KBC Bail France II sas	Not consolidated (full consolidation)	X	immateral - leasing
KBC Bail Immobilier France sas	Not consolidated (full consolidation)	X	immateral - leasing

KBC Financial Products UK Limited	Not consolidated (full consolidation)	X	immateral - (derivative) financial products
KBC Lease (UK) Limited	Not consolidated (full consolidation)	X	immateral - leasing
KBC Net Lease Investments LLC	Not consolidated (full consolidation)	X	immateral - leasing
KBC Start it Fund NV	Not consolidated (full consolidation)	X	immateral - investment company
Luxembourg North Distribution SA	Not consolidated (full consolidation)	X	immateral - issuance of real estate certificate
Immo Mechelen City Center NV	Not consolidated (full consolidation)	X	immateral - real estate investment-office
Midas Life Settlements LLC	Not consolidated (full consolidation)	X	immateral - life settlement provider
Motokov a.s.	Not consolidated (full consolidation)	X	immateral - vehicles
MUMAS SASU	Not consolidated (full consolidation)	X	immateral - other specialised construction works
NV ACTIEF NV	Not consolidated (full consolidation)	X	immateral - education
Patria investiční společnost, a.s.	Not consolidated (full consolidation)	X	immateral - asset management
Posselton Limited	Not consolidated (full consolidation)	X	immateral - energy
Reverse Mortgage Loan Trust 2008-1	Not consolidated (full consolidation)	X	immateral - reverse mortgages
RHVG DK NV	Not consolidated (full consolidation)	X	immateral - issuance of real estate certificates
RHVG QT NV	Not consolidated (full consolidation)	X	immateral - issuance of real estate certificates
RHVG RB NV	Not consolidated (full consolidation)	X	immateral - issuance of real estate certificates
RHVG SB NV	Not consolidated (full consolidation)	X	immateral - issuance of real estate certificates
RHVG TB NV	Not consolidated (full consolidation)	X	immateral - issuance of real estate certificates
Setanta Energy Investment Holding Corp.	Not consolidated (full consolidation)	X	immateral - holding company
Setanta Energy LLC	Not consolidated (full consolidation)	X	immateral - energy
SousedecZ, s.r.o.	Not consolidated (full consolidation)	X	immateral - real estate
SPINC SASU	Not consolidated (full consolidation)	X	immateral - buying and selling of own real estate
TBI SAS	Not consolidated (full consolidation)	X	immateral - residential property construction

Top-Pojištění, cz s.r.o.	Not consolidated (full consolidation)	X	X	immaterial - insurance arranging
Transformacion fund Stabilita	Not consolidated (full consolidation)	X	X	immaterial - pension insurance
UBRIK SASU	Not consolidated (full consolidation)	X	X	immaterial - engineers and related technical consultants
Weyveld Vastgoedmaatschappij NV	Not consolidated (full consolidation)	X	X	immaterial - issuance of real estate certificates
World Alliance Financial LLC	Not consolidated (full consolidation)	X	X	immaterial - reverse mortgages
Cash Service Company AD	Equity method	X	X	agents and brokers in banking services
Českomoravská Stavební Společna (CMSS)	Equity method	X	X	building society savings
Joyln International NV	Equity method	X	X	IT & Consultancy
Payconiq België NV	Equity method	X	X	other support activ.relating to financial services
Payconiq International S.A.	Equity method	X	X	other support activ.relating to financial services
Payconiq Holding B.V.	Equity method	X	X	other support activ.relating to financial services
UBB-MetLife Zhivotozastrahovatelno Drujestvo AD	Equity method	X	X	direct life insurance
Atrium Development SA	Not consolidated (Equity method)	X	X	immaterial - real estate
Covent Garden Development NV	Not consolidated (Equity method)	X	X	immaterial - real estate
Covent Garden Real Estate NV	Not consolidated (Equity method)	X	X	immaterial - real estate
Jesmond Amsterdam B.V.	Not consolidated (Equity method)	X	X	immaterial - holding company
Miedziana Sp z.o.o.	Not consolidated (Equity method)	X	X	immaterial - real estate
Joyln Belgium NV	Not consolidated (Equity method)	X	X	immaterial - data processing, hosting and related activities
Joyln Urban Services BVBA	Not consolidated (Equity method)	X	X	immaterial - data processing, hosting and related activities
Real Estate Participation NV	Not consolidated (Equity method)	X	X	immaterial - real estate
Xiongwei Lighting (Guangzhou) Co., Ltd.	Not consolidated (Equity method)	X	X	immaterial - lighting
HAGE Hajdúsági Agrárpari Zrt.	Equity method	X	X	agriculture
Bancontact Company NV	Not consolidated (Equity method)	X	X	immaterial - credit cards
Banking Funding Company NV	Not consolidated (Equity method)	X	X	immaterial - payment services
Bedrijvencentrum Regio Roeselare NV	Not consolidated (Equity method)	X	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
Etoiles d'Europe sas	Not consolidated (Equity method)	X		immaterial - hotels
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
Isabel NV	Not consolidated (Equity method)	X		immaterial - ICT
Justinvest NV	Not consolidated (Equity method)	X		immaterial - real estate
První Certifikační 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
Storesquare NV	Not consolidated (Equity method)	X		immaterial - web portals
Thanksys NV	Not consolidated (Equity method)	X		immaterial - IT & Consultancy
Xenarjo cvba	Not consolidated (Equity method)	X		immaterial - social sector
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 Pojišťovna a.s.	Full consolidation	X		insurance company
ČSOB Pojišťovna a.s.	Full consolidation	X		insurance company
Double U Building BV	Full consolidation	X		real estate
DZI Life Insurance Jsc	Full consolidation	X		life insurance
DZI - GENERAL INSURANCE JSC	Full consolidation	X		non-life insurance
Groep VAB NV	Full consolidation	X		holding company
VAB Rijsschool 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
Algemene Maatschappij voor Risicobeheer NV	Not consolidated (full consolidation)	X		immateral - insurance broker
ČSOB Pojišťovací servis, s. r. o.	Not consolidated (full consolidation)	X		immateral - insurance broker
Depannage 2000 NV	Not consolidated (full consolidation)	X		immateral - vehicles
KBC Zakenkantoor NV	Not consolidated (full consolidation)	X		immateral - insurance broker
Maatschappij voor Brandverzekering cvba	Not consolidated (full consolidation)	X		immateral - reinsurance
Omnia NV	Not consolidated (full consolidation)	X		immateral - travel agency
Pardubická Rozvojová, a.s.	Not consolidated (full consolidation)	X		immateral - real estate
Problemo Dubbele Bedieningen NV	Not consolidated (full consolidation)	X		immateral - driving school
Rijscholen Sanderus NV	Not consolidated (full consolidation)	X		immateral - driving school
Sportcomplex Aalst NV	Not consolidated (full consolidation)	X		immateral - rental of leisure establishments
Sportcomplex Heist-op-den-Berg NV	Not consolidated (full consolidation)	X		immateral - rental of leisure establishments
VAB Banden Peeters NV	Not consolidated (full consolidation)	X		immateral - vehicles
VAB Fleet Services NV	Not consolidated (full consolidation)	X		immateral - vehicles
24+ NV	Not consolidated (full consolidation)	X		immateral - customer care centre
NLB Vita d.d.	Equity method		X	life Insurance
Macadam VAB Inspection NV	Not consolidated (Equity method)	X		immateral - other technical tests and inspections
AAA-Pool cvba	Not consolidated (Equity method)	X		immateral - insurance broker
AssurCard NV	Not consolidated (Equity method)	X		immateral - computerised third-party payment system
Olympus Mobility NV	Not consolidated (Equity method)	X		immateral - computer programming
Optimobil Belgium NV	Not consolidated (Equity method)	X		immateral - vehicles
Traject NV	Not consolidated (Equity method)	X		immateral - mobility
KBC Group NV	Full consolidation	X		bank-insurance holding company
Kredietcorp SA	Full consolidation	X		investment company
Experience@work CVBA	Not consolidated (Equity method)	X		immateral - business & other management consulting activities



# 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.

### **ABS (Asset Backed Securities)**

ABS are bonds or notes backed by loans or accounts receivables originated by providers of credit such as banks and credit card companies. Typically, the originator of the loans or accounts receivables transfers the credit risk to a trust, which pools these assets and repackages them as securities. These securities are then underwritten by brokerage firms, which offer them to the public.

### **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](http://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).

### **CDO (Collateralised Debt Obligation)**

CDOs are a type of asset-backed security and a structured finance product in which a distinct legal entity, a special purpose vehicle (SPV), issues bonds or notes against an investment in an underlying asset pool. Pools may differ with regard to the nature of their underlying assets and can be collateralised either by a portfolio of bonds, loans and other debt obligations, or be backed by synthetic credit exposures through use of credit derivatives and credit-linked notes.

The claims issued against the collateral pool of assets are prioritised in order of seniority by creating different tranches of debt securities, including one or more investment grade classes and an equity/first loss tranche. Senior claims are insulated from default risk to the extent that the more junior tranches absorb credit losses first. As a result, each tranche has a different priority of payment of interest and/or principal and may thus have a different rating.

### **CDS (Credit Default Swap)**

A privately negotiated bilateral agreement where one party (the protection-buyer or risk-shedder) pays a premium to another party (the protection-seller or risk-taker) in order to secure protection against any losses that may be incurred through exposure to a reference entity or investment as a result of an unforeseen development (or 'credit event').

### **Central Tendency**

Average through-the-cycle default probability of a segment.

CLO (Collateralised Loan Obligation)

CDO holding only loans as underlying assets.

### **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**

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

### **Cure rate**

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

### **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 – formerly known as distressed restructured loans – are exposures on debt contracts for which forbearance measures have been taken and for which the exit criteria have not been fulfilled.

### **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.

### **Insurance risk**

The potential negative deviation from the expected value of an insurance contract or pension claim (or a portfolio thereof).

### **Interest rate risk**

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

### **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 minus Total net cash outflows over the next 30 calendar days'. A result of 100% (or more) indicates that a bank is maintaining 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 under Basel III.

### **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**

Liquidity risk is the risk that an organisation will be unable to meet its payment obligations as they come due because of the inability to liquidate assets or obtain adequate funding (liability liquidity risk) or the risk that it cannot easily unwind or offset specific exposures without significantly lowering market prices because of inadequate market depth or market disruptions (asset liquidity risk).

### **Market risk**

The potential negative deviation from the expected value of a financial instrument (or portfolio thereof) due to changes in the level or volatility of market prices.

### **Market value**

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

### **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.

### **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/Required Stable Funding', where available stable funding is derived from different components on the liabilities side of the balance sheet (required funding = assets side). Basel III defined weightings for determining stability are assigned to the different components (both assets and liabilities). An NSRF of 100% means that the funding situation is stable.

### **Operational risk**

The potential negative deviation from the expected value of the organisation resulting from inadequate or failed internal processes and systems, human error or sudden external events, whether man-made or natural. Operational risk excludes business, strategic and reputational risk.

### **ORSA (Own Risk and Solvency Assessment)**

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

### **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.

### **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.

### **SFA (Supervisory Formula Approach)**

Basel II approach used to calculate the risk-weighted assets of a structured credit product based on a formula defined in the Basel II securitisation framework.

## **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.

## **SPV (Special Purpose Vehicle)**

A Special Purpose Vehicle in the context of this document is any distinct entity created to achieve (a) narrow and well-defined objective(s). SPVs may be created by the KBC group, managed by the KBC group, created by third parties for the account of the KBC group or managed by third parties for the account of the KBC group.

## **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.

## **SSS (Super Senior Swap)**

In the so-called unfunded portion of a synthetic CDO, the risk embedded in a portfolio of assets (as opposed to the assets themselves) is transferred directly to a 'super-senior counterparty' via a super-senior CDS. In this instance, the CDO acts as the protection-buyer, by agreeing to pay a premium to the counterparty (the protection-seller) in return for a commitment from the counterparty to pay compensation to the CDO in the event of any defaults in the reference portfolio. It is the best part in terms of subordination.

## **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).

### **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.



