# Risk Report 2022
# KBC Group

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# Introduction: Financial highlights in 2022, Risk Statement & Disclosure Policy

KBC is a leading European financial group with a focus on providing bank-insurance products and services and asset management activities to retail clients, small and medium-sized enterprises and mid-cap clients in our core countries: Belgium, the Czech Republic, Slovakia, Hungary and Bulgaria. Elsewhere around the world, the group has established a presence in selected countries and regions.

## Financial highlights in 2022

| Key figures | 31-12-2022 | 31-12-2021 |
|---|---|---|
| Net result (in millions of EUR) | 2 743 | 2 614 |
| CET1-ratio (fully loaded) | 15.3% | 15.5% |
| LCR | 152% | 167% |
| MREL/RWA | 27.5% | 27.7% |

*Table 1 - Key figures*

Net profit was up by 5% compared to full year 2021 (and by 3% excluding Raiffeisenbank Bulgaria), as:

- Revenues rose by 12% year-on-year (and by 11% year-on-year excluding Raiffeisenbank Bulgaria), mainly due to higher net interest income, the net result from FIFV, a higher result from insurance (both life and non-life), higher dividend income and slightly higher net fee and commission income, partly offset by lower net other income and a lower net realised result from debt instruments at fair value through OCI
- Operating expenses excluding bank taxes rose by 8% year-on-year (and by 6% year-on-year excluding Raiffeisenbank Bulgaria) to 4.17 billion euros, in line with the target amount of 4.15 billion euros
    - Total bank taxes (including the ESRF contribution) increased from 525 million euros in 2021 to 646 million euros in 2022
- Net impairment charges amounted to 284 million euros (compared to net impairment releases of 261 million euros in 2021). This was attributable to:
    - A 413-million-euro geopolitical and emerging risk buffer
    - A 255-million-euro reversal of collective coronavirus impairments in 2022
    - One-off loan loss impairments of 17 million euros as a result of the two pending sales transactions in Ireland
    - 21-million-euro loan loss provision reversals on a few individual files
    - Other impairments of 130 million euros

Capital and liquidity remained strong:

- Our solvency position remained strong with a fully loaded common equity tier-1 ratio of 15.3%.
  A total gross dividend of 4 euros per share will be proposed to the General Meeting of Shareholders for the accounting year 2022 (of which an interim dividend of 1 euro per share was already paid in November 2022)

- In line with our announced capital deployment plan for the full year 2022, we plan to distribute the surplus capital above the fully loaded common equity ratio of 15% in the form of a share buy-back (subject to ECB approval) and/or an extraordinary interim dividend.
  The closing of the sale of substantially all of KBC Bank Ireland's performing loan assets and liabilities to Bank of Ireland Group in February 2023 will lead to capital relief of approximately 1 billion euros. We plan to distribute this amount of 1 billion euros in the form of a share buyback (subject to ECB approval) and/or an extraordinary interim dividend.
- The fully loaded Basel III leverage ratio amounted to 5.3%
- The Solvency II ratio at insurance group level was consistently strong at 203%
- A continued robust liquidity position at year-end, with a Net Stable Funding Ratio (NSFR) at 136% and Liquidity Coverage Ratio (LCR) at 152% (i.e. 12-month average LCR). Both ratios are well above the minimum regulatory requirements.

# Risk statement

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

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

Strong and future-proof risk management that deals effectively with the changing risk landscape is part of KBC's core strengths. As the risk function is functioning independently, adequately and effectively and in line with the corporate strategy 'Differently: The Next Level', it contributes to KBC's resilience, agility and sustainability and, more broadly, to the achievement of KBC's strategic objectives.

For this purpose, clear corporate and risk governance is in place, as well as a sound risk and control environment with regularly updated risk frameworks and policies – taking into account changes in the internal and external context and new regulatory requirements – including a clearly defined risk appetite for each risk type, a mature product approval process and a deeply embedded risk culture throughout the three lines of defence.

# 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 2022 Annual Report of KBC Group NV and – more extensively – in this publication.

The most important regulations governing risk and capital management are the CRD/CRR capital requirements applying to banking entities, and the Solvency II capital framework applying to insurance entities. KBC follows the Basel III capital requirements in accordance with the current Capital Requirements Regulation, CRR2. The Basel III post-crisis reforms (commonly referred to as Basel IV) will apply when these are transposed into CRR3.

Regulations constantly changed over the last few years, partly due to the additional focus on DORA, reflecting the increased attention for (digital) operational resilience and for Environmental, Social and Governance (ESG) regulation.

ESG disclosure obligations are in place (e.g., EU Taxonomy disclosure regulations, EBA Pillar 3 requirements, the Sustainable Finance Disclosure Regulation) and will be significantly extended in the coming years. At the same time, the upcoming disclosures according to other directives (e.g., the Corporate Sustainability Reporting Directive) are being prepared by KBC.

The 2022 Risk Report is based on Basel III's third pillar and in accordance with the resulting disclosure requirements of the Capital Requirements Regulation and Capital Requirements Directive (CRR/CRD) of the European Union. The CRR2-related disclosure templates have been integrated according to regulatory requirements. With the introduction of these disclosure templates, the regulatory authorities aim to reinforce market discipline by increasing the consistency and comparability of institutions' public disclosures on the one hand and to achieve data transparency and reconciliation between external reporting, such as the Pillar 3 disclosures, and supervisory reporting based on FINREP and COREP data on the other hand.

Requirements relating to activities that are not applicable/do not exist for KBC are, therefore, not included. Although the disclosures mostly refer to the Basel III first-pillar risk metrics and focus on banking entities, KBC – as a bank-insurance company – has decided to extend the scope to include the insurance activities as well in order to provide an overall view of the KBC group's risk exposure and risk management activities. To ensure that a comprehensive view is provided, the market risk (non-trading-related, i.e. Asset and Liability Management) inherent in KBC Insurance's activities has also been included. Furthermore, as they are managed in an overarching group-wide fashion, the disclosures on non-financial risks have been drawn up to include detailed information at KBC group level (banking and insurance combined). Furthermore, liquidity risk is described from a group perspective. Detailed information on the technical insurance risk borne by KBC Insurance has also been included.

Information is disclosed at the highest consolidated level, i.e. KBC Group. Hence, unless explicitly otherwise mentioned, all references to KBC in this report refer to KBC Group Consolidated. Additional information, specifically on the material entities, is confined to the capital information in the 'Capital adequacy' section. For more detailed information, please refer to the local capital disclosures of the entity concerned (for instance, those provided on their websites). KBC ensures that a representative picture is given in its disclosures at all times. The scope of the reported information – which can differ according to the matter being dealt with – is clearly indicated.

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 2022 Risk Report was distributed to the Group Executive Committee, the Risk & Compliance Committee and the Board of Directors to ensure the appropriate approval of the management body as requested under Basel III.

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

This risk report is available in English on the KBC website and is updated on a yearly basis. KBC's next update is scheduled for the beginning of April 2024. However, according to regulatory requirements, a defined number of tables will be made public on a quarterly or semi-annual basis during 2023.

# Cross-references

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

| Topics | Reports |
|---|---|
| Information regarding governance arrangements | See the 'Corporate governance statement' section of the 2022 Annual Report of KBC Group NV |
| Information on the remuneration policy of financial institutions and corporate governance arrangements | KBC Group Compensation Report<br><br>See the 'Corporate governance statement' section of the 2022 Annual Report of KBC Group NV |
| Country-by-country information | See the 'Our business units' section and the 'Our business model' strategy section of the 2022 Annual Report of KBC Group NV |
| New products | See 'In what environment do we operate?' in the 'Our business model' section and the 'Our business units' section of the 2022 Annual Report of KBC Group NV |
| Credit risk related to KBC Insurance | See the 'How do we manage our risks' section of the 2022 Annual Report of KBC Group NV |
| Information regarding corporate sustainability, climate change and the information security strategy | See 'Sustainability Report' on the kbc.com website, the 'Our role in society' and 'Focus on climate' sections of the 2022 Annual Report of KBC Group NV and the 'Information security strategy of KBC Group', which can also be found on the kbc.com website |

# Risk Management & Governance

KBC operates in a fast-changing environment characterised by volatility, uncertainty, complexity and ambiguity. The financial industry is in the midst of its biggest transition yet. On the one hand, there is the digital transformation, leading to new digital opportunities, whereas the downside for those who fall behind is growing disproportionately. Furthermore, the financial sector has an important role to play in the transition towards a green and sustainable economy. At the same time, KBC needs to deal with global and geopolitical challenges and mounting regulatory pressure and uncertainty.

In the aftermath of the worldwide coronavirus pandemic, the Russian invasion of Ukraine and the sanctions imposed by the West sent a shockwave through the world economy, resulting in elevated inflation, driven in part by surging energy prices. This caused a slowdown in economic growth and put additional pressure on the financial industry.

The invasion of Ukraine occurred at a time when other emerging risks had already started to weigh on the EU economy. International supply chains were constrained on the rebound from the coronavirus pandemic. The war aggravated these inflationary tendencies through peaking commodity (most notably food and metals) and energy (gas) prices. These emerging risks impact not only retail clients through increasing cost of living and higher repayment schemes due to increasing interest rates; Corporate and SME clients are also affected by supply chain issues, wage inflation and increasing commodity and energy prices. We are therefore keeping a very close eye on these risks and the impact on the group and its clients, both financially and operationally.

In addition, we face the same strategic challenges as the entire financial sector:

- Potential consequences of climate change and other environmental, social and governance (ESG) challenges are becoming increasingly tangible. Financial institutions not only need to reflect upon their own activities, taking into account all new regulations, but also need to help clients make the transition towards a more sustainable world and optimise their own energy consumption or carbon footprint.
- Changing client behaviour and expectations. Based on experience with innovative companies such as big techs, clients are in search of convenience, instant delivery of products and services and personal advice anywhere and at any time. Given today's client needs, processes have to be instant, data-driven and friction-free. This means that interactions with clients (digital as well as human) need to be exceptional in terms of client experience and operational efficiency.
- The future is data-driven. Artificial intelligence, big data analysis and automation technologies are making digital interactions smarter, for simple tasks as well as in support of more complex operations. This affects how banks interact with their clients. Distribution models need to be reassessed to find the right mix between human (physical or remote) and digital channels, the concrete role of humans, and how to support them using digital technologies. While digital leads are used to drive business, a positive customer journey is to be ensured at all times. At the same time, these new technologies also provide opportunities to make our risk management more effective and efficient.
- New business models are emerging, including industrialisation of banking and insurance (B2B2C alongside B2C), platformification and decentralised finance. This drives us to increase our ambition from 'merely' digitalising our traditional banking and insurance business towards 'broadening our distribution' (i.e. all-in-one, creating ecosystems that combine financial and non-financial services.

With its data-driven digital strategy and ambition to contribute to a more sustainable world, KBC is responding to these key challenges which, in turn, also involve certain risks for KBC. Therefore, the risk function has the clear ambition to support KBC in achieving its strategic objectives, to contribute to its resilience and agility, to provide management and the

Supervisory Board with insights supporting risk-conscious decision making and inform them about the risks KBC is facing. The risk function therefore regularly assesses and updates its strategy. We have therefore defined three key pillars: the first is to support, advise and challenge business in its transformation journey, aiming to keep KBC's control environment up to standards and our risk profile within the appetite, the second is to transform in sync with the business environment and the corporate strategy, and our third pillar is to invest in our people.

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

In addition, we continue to enhance our risk management toolkit through innovation, i.e. becoming more data-driven and looking into opportunities offered by new technologies, and becoming more straight-through via optimisation of our processes and tools. As the goal is to obtain a complete view of the risks for the entire group and individual entities quickly, efficiently and without compromising on quality, we have been focusing in recent years on group-wide tool implementation, process simplification and automation in all risk domains. Moreover, the risk function is also accelerating its efforts to leverage the data available in the risk tools and the business processes to further improve risk management and increase efficiency.

Lastly, effective risk management is not possible without strong human capital management: we continue to invest in our people and take initiatives to attract, engage, motivate and train them to build the workforce of the future. We focus on building a diverse, inclusive and positive working environment. We also structurally raise awareness about innovation and develop expertise in new trends and technologies. We continue to invest in knowledge sharing of innovation, technology and trends to further reinforce our risk management practices. These efforts are all to ensure that our risk professionals acquire the relevant digital skills to continue providing expert risk advice.

# Risk Management

## Risk governance

Main elements in our risk governance model:

- The Board of Directors, assisted by the Risk & Compliance Committee (RCC), which decides on the risk appetite – also defining the risk strategy – each year and supervises the risk exposure in relation to the risk appetite. It is also responsible for the promotion of a sound and consistent group-wide risk culture, based on a full understanding of the risks the group faces and how they are managed, as well as the group risk appetite.

  The number of external mandates held by the members of the BoD can be found on our kbc.com website under the topic 'Leadership' as part of the Corporate Governance section. How the members are recruited, also taking into account the diversity in the composition of the Board, can be found in the 'Corporate governance statement' of the KBC Group NV 2022 Annual Report and under the topic 'Our corporate governance charter' as part of the Corporate Governance section on our kbc.com website.

- The Executive Committee (ExCo) – supported by activity-based risk committees – which is the senior management level committee responsible for integrating risk management with risk appetite, strategy, and performance goal setting.
- The CRO Services Management Committee (CRO Services MC) and activity-based risk committees mandated by the Executive Committee.

- Risk-aware business people who act as the first line of defence for conducting sound risk management. This involves allocating sufficient priority and capacity to risk topics, making sure that the quality of self-assessments is adequate, and performing the right controls in the right manner.
- An independent risk function that comprises the Group Chief Risk Officer (Group CRO), local CROs, local risk functions and the group risk functions. The risk function acts as (part of) the second line of defence. The risk function develops, imposes and monitors consistent implementation of the Risk Management Framework, describing the processes, methods and tools to identify, measure and report on risks. The third line of defence (internal audit) gives reasonable assurance to the Board of Directors that the overall internal control environment is effective, and that effective policies and processes are in place and applied consistently throughout the group.

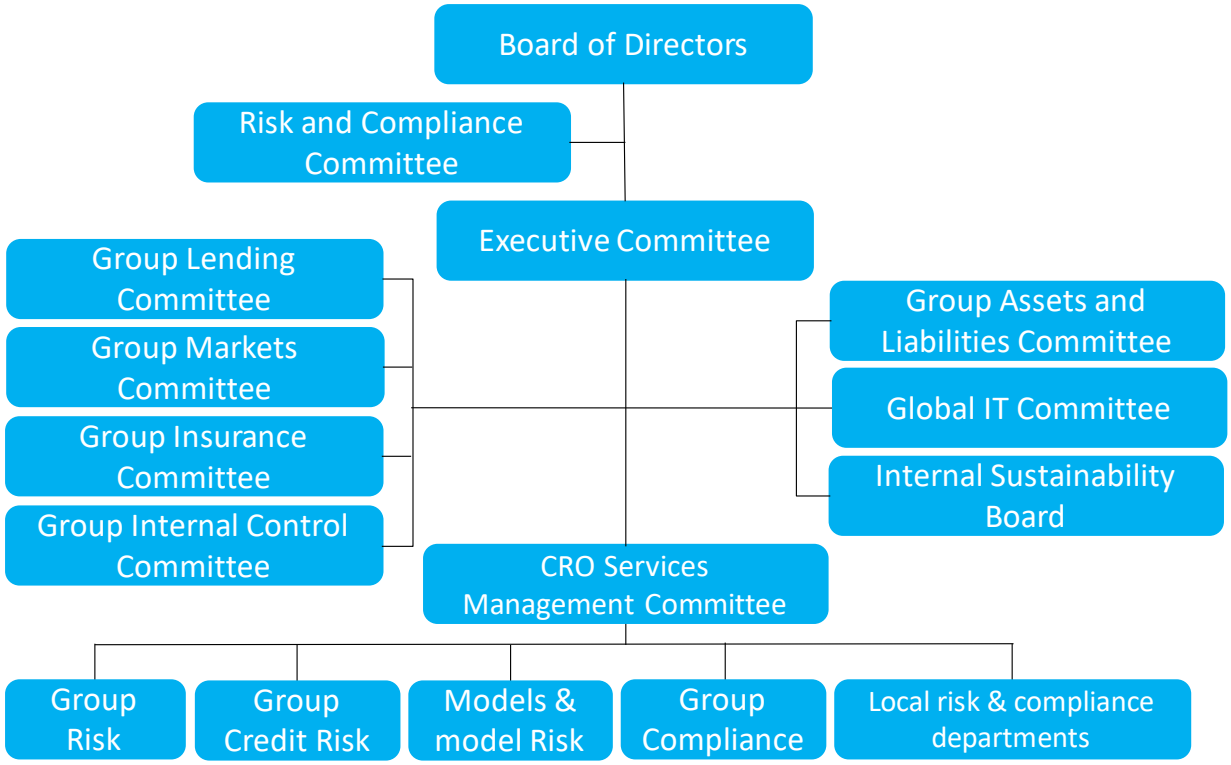



*Figure 1 - Schematic overview of the risk governance model*

Relevant risk management bodies:

- Risk & Compliance Committee
  - Advises the Board of Directors on the group risk appetite, the monitoring of risk exposure compared to the group risk appetite and the supervision of the implementation, efficiency and effectiveness of the KBC Risk Management Framework;
  - Reviews whether the prices of liabilities and assets and of categories of off-balance -sheet products offered to clients take fully into account the institution's business model and risk appetite;
  - Examines, without prejudice to the tasks of the Remuneration Committee, whether incentives provided by the remuneration system take into consideration risk, capital, liquidity and the likelihood and timing of earnings;
  - Issues periodic opinions on the quality, capacity and skills of the risk function.
- Executive Committee:
  - Makes proposals to the Board of Directors about risk appetite – including the risk strategy – and the KBC Risk Management Framework;

    - Makes proposals to the Risk & Compliance Committee about the assessment of the quality, capacity and skills of the risk function;
    - Decides on further cascading of the group's risk appetite through the organisation by allocating capital and defining local targets and limits and by approving limit changes and overruns within their delegation.
    - Monitors the group's major risk exposure to ensure conformity with the risk appetite;
    - Decides on the risk-type-specific risk management frameworks and monitors their implementation throughout the group;
    - Acts as the leading risk committee, covering material issues that are channelled via its supporting committees;
    - Forms, extended with relevant parties, the Group Crisis Committee in group-wide crisis situations.
- Risk committees:
    - The CRO Services Management Committee supports the Executive Committee in assessing the adequacy of, and compliance with, the KBC Risk Management Framework and defines and implements the vision, mission and strategy for the CRO Services of the KBC group. The CRO Services Management Committee convened on eight occasions during 2022;
    - The activity-based Group Risk Committees (for lending (GLC – convened on twelve occasions), markets (GMC – convened on thirteen occasions) and insurance (GIC – convened on five occasions), respectively) support the Executive Committee in integrated risk monitoring for these activities at group level;
    - The Group Internal Control Committee (GICC) supports the Executive Committee in monitoring and strengthening the quality and effectiveness of KBC's internal control system. The GICC convened on five occasions during 2022.
- Business committees:
    - The Group ALCO handles matters related to ALM and liquidity risk.
    - The Global IT Committee handles matters related to information technology and information security risk.
    - The Internal Sustainability Board handles matters related to environmental, social and governance (ESG) risks.

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

- A yearly report on the Internal Capital Adequacy Assessment Process (ICAAP), the Internal Liquidity Assessment Process (ILAAP) and the Own Risk & Solvency Assessment (ORSA) presenting a view on the capital adequacy of KBC for the group as a whole and for its entities;
- A yearly Internal Control Statement (ICS) evaluating how well KBC is in control of the risks inherent to its operations;
- The Integrated Risk Report, which is provided eight times per year and which includes the main risk signals, being risk developments that have or could have a negative influence on the company. The report also includes the follow-up on the risk measures in comparison to the risk appetite as approved by the Board of Directors;
- Separate memos which bring relevant topics to the attention of the Executive Committee and Board of Directors (e.g., recovery and resolution-related reports, risk-type-specific information like the information security risk report and the overview of the New and Active Products Process).

To strengthen the voice of the risk function and to ensure that the decision-making bodies of the business entities are appropriately challenged on matters of risk management and receive expert advice, KBC has deployed independent Chief Risk Officers (CROs) throughout the group. Close collaboration with the business is assured since they take part in the

local decision-making process and, if necessary, can exercise a right of veto. Independence of the CROs is achieved through a direct reporting line to the Group CRO. For each main risk type, a Risk Competence Centre is assigned at group level. Most of these competence centres are extended virtual teams made up of group and local experts working together.

Banks are required to maintain an internal governance and control framework that ensures a well-functioning internal risk management. Each year, the Risk & Compliance Committee formally assesses whether the risk function is functioning independently, effectively and efficiently and has sufficient capacity to do so. For this purpose, KBC conducts a yearly group-wide risk-based capacity assessment exercise for second line of defence risk resources covering both the quality and capacity of the risk function and its progress in the different strategic focus areas. Results are presented and discussed at the Risk & Compliance Committee. The 2022 iteration of the exercise concluded that, overall, the risk function has sufficient capacity and the right skills to perform sound risk management. Increasing regulatory requirements and expectations, the race for talent and scarcity on the labour market for specific profiles, partially mitigated by a multi-location strategy, require ongoing attention if we are to keep our resources aligned with these challenges.

The risk-based capacity assessment also indicates that a sufficient mix of experience and maturity is present in the risk function. The dynamic and rapidly changing environment in which KBC operates (growing importance of ESG risks, increasingly data-driven and cloud-based operations, cyber security threats, etc.) requires a continuous assessment and update of skills present in our workforce. A comprehensive employee skill management programme is in place and a significant focus on training and skills development ensures continuous development of expertise.

## Risk culture

*Christine Van Rijsseghem, KBC Group CRO*

For many years now, KBC has promoted a strong corporate culture called 'PEARL'[1] which is underpinned by the fundamental pillars of responsible behaviour and a positive risk culture.

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

Setting the right tone at the top is a necessary condition for a good risk culture throughout the organisation. The Risk Appetite Statement is discussed thoroughly within KBC and decided at Board level, assuring that the right risk appetite is set. It is the basis for all entities to define their local risk appetite and local business strategies. KBC strengthens its risk culture by communicating the risk appetite throughout the organisation in a way that is understandable for all stakeholders, to ensure the risk mindset is part of our staff's day-to-day activities.

The world is evolving constantly. Therefore, risks are regularly screened and new risks are actively scanned and analysed. ESG-related risks (for instance, climate risks) are considered important new game changers not only for financial

[1] *PEARL: performance, empowerment, accountability, responsiveness, local embeddedness*

institutions but also for our clients. It goes without saying that KBC wants to take its responsibility by facing these challenges. KBC already has strict policies in place to limit the environmental impact of its loans, investments and insurance activities and is actively engaged in the transition to a low-carbon economy.

Financial institutions not only need to reflect on their own behaviour, taking into account all new regulations, but also need to assist their clients with advice and financing as they pivot towards a more sustainable world and optimise their energy consumption or carbon footprint themselves. As such, it remains extremely important that KBC upholds its standards and values when interacting with its clients. In terms of other social aspects, such as diversity of staff, responsible remuneration and human rights, KBC also has the necessary policies in place to act in line with imposed regulatory requirements as well as with its strong corporate strategy, corporate values and approved risk appetite.

KBC has also taken significant steps in the digital transformation of its business, both in the company itself and in the way it serves its clients. To safeguard the fair treatment of our clients while keeping risks under control, a dedicated process is in place to assess the risks related to new (increasingly digital) and existing products.

The changing digital landscape also presents security challenges, including for KBC, its partners and its clients. KBC regularly undertakes initiatives aimed at raising awareness of innovation and information security and develops expertise in these domains, which is shared with its employees and clients. KBC proactively addresses the potentially negative impact of security incidents, avoiding unnecessary costs and losses and, ultimately, supporting risk-conscious and responsible behaviour by its employees and clients.

All these initiatives testify to KBC's commitment to creating an environment that fosters a strong risk culture. Taking into account the increasingly digitalised and innovative environment, the 'DARE to speak up' culture within KBC Group is an important factor in encouraging employees to speak up about and discuss any risks and dilemmas they encounter.

Each year, the Risk & Compliance Committee also examines whether KBC's remuneration policies and practices are consistent with sound and effective risk management and provide an incentive for prudent and sustainable risk-taking. Poor performance in non-financial variables (e.g., failure to act in line with the risk appetite) overrides good performance in terms of profit generation, meaning that unethical or non-compliant behaviour cannot be compensated by good financial performance, which is a strong indication that responsible behaviour and a positive risk culture are fostered throughout the KBC Group. Furthermore, sustainability is part of the Key Performance Indicators (KPIs) of management, with a direct link to remuneration.

# Three Lines of Defence Model (3 LOD model)

The three lines of defence concept is used to further improve the Internal Control Environment 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 business operations side is fully responsible for all the risks in its area of activity and for ensuring that effective controls are in place. In so doing, it ensures that the right controls are performed in the right way, that self-assessment of the business side is of a sufficiently high standard, that there is adequate awareness of risk and that sufficient priority/capacity is allocated to risk themes.

### Second line of defence

Independent of the business side, the second-line risk and control functions formulate their own opinion regarding the risks KBC faces. This allows them to oversee the control environment and the risks taken without taking over primary responsibility from the first line. In this regard, the second-line functions are tasked with identifying, measuring and reporting risks. To ensure that the risk function is respected, the Chief Risk Officers have a veto right, which can be exercised in the various committees where important decisions are made. The second-line risk and control functions also support the consistent implementation of the risk policy, the risk framework, etc. throughout the group, and supervise their application.

Compliance is an independent function within the group, characterised by its specific status (as provided for by law and regulations and described in the Compliance Charter), its place in the organisation chart (hierarchically under the CRO with a functional reporting line to the President of the EC) and the associated reporting lines (reporting to the RRC and even to the Board in certain cases). Its prime objective is to prevent KBC from running a compliance risk or from incurring loss or damage – regardless of its nature – due to non-compliance with applicable laws, regulations or internal rules that fall either within the scope of the compliance function or within the areas assigned to it by the EC. Hence, the compliance function devotes particular attention to adherence to the integrity policy.

The actuarial function is an independent function that ensures additional quality control by providing expert technical actuarial advice to the Board, the RCC and the EC of KBC Group NV, and to the KBC Insurance group and all reinsurance and insurance entities within the group. Such advice covers the calculation of the technical provisions for insurance liabilities, the reinsurance policy and underwriting risk. The independence of this function is supported by its modified status, as described in the 'Actuarial Function Charter'.

### Third line of defence: internal audit

The third line of defence (internal audit) gives reasonable assurance to the Boards of Directors that the overall internal control environment is effective, and that policies and processes are in place, effective and consistently applied throughout the group.

## Components of a sound risk management

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

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

### Risk identification

Risk identification is the process of systematically and proactively discovering, recognising, assessing and describing risks, both within and outside KBC, that could negatively impact the group's strategic objectives today and in the future. In addition to possible sources of risk, it also identifies their potential consequences and materiality for KBC. Risk identification

ensures that KBC's risk management covers all material risks the company is exposed to. For this purpose, robust processes have been set up that cover risk identification from different perspectives, including the Risk Scan, the Climate Risk Impact Map, the New and Active Products Process (NAPP) and risk signals.

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

The Climate Risk Impact Map is a yearly risk identification process aiming to identify, for different time horizons and different climate scenarios, the most material climate risk drivers, both physical and transition risks, impacting KBC's businesses and portfolios.

The NAPP is a group-wide, highly formalised process to identify and mitigate all risks related to new and existing products and services which may negatively impact the client and/or KBC. Within the group, no products, processes and/or services can be created, purchased, changed or sold without approval in line with NAPP governance. The risk department also conducts periodic assessments of the impact of the expanded and/or updated product and service offering on the group's risk profile. In 2022 the process was improved to reflect new ESG-related requirements for products subject to MiFID. Additional monitoring and reporting was also put in place to allow for a closer follow-up of risk-mitigating action plans.

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

## Risk measurement

Risk measurement is an important step in the risk management process as it aims to quantify the various risks that KBC is exposed to.

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

### Standards

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

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

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

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

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

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

### KBC Model Risk Management Standards

KBC's data-driven strategy is underpinned by an expanding set of advanced mathematical, statistical and numerical models to support decision making, measure and manage risk, manage businesses and streamline processes. AI-based models are also becoming an increasingly common feature across the different business domains (banking, insurance, asset management). As the use of models increases, so does the importance of recognising, understanding and mitigating risks related to the design, implementation or use of models, in order to protect both KBC and its clients.

KBC's model risk management standards establish a framework for identifying, understanding and efficiently managing model risk, similarly to any other risk type.

## Setting and cascading risk appetite

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

KBC's tolerance for risk is captured via the notion of 'risk appetite'. The risk appetite expresses – both qualitatively and quantitatively – how much and what kind of risk we want to take and within which boundaries it should be managed.

The ability to accept risk (risk-taking capacity) is limited by financial constraints (available capital, liquidity, borrowing capacity, earnings-generating capacity, etc.), non-financial constraints (strategic ability, skills, legal constraints, etc.) and regulatory restrictions (e.g., regulatory floors on capital and liquidity ratios). The willingness to accept risk depends on the interests of the various stakeholders. A key component in defining risk appetite is therefore an understanding of the

expectations of the organisation's key stakeholders.

Risk appetite is made explicit via the 'risk appetite statement' (RAS), which is decided at both group and local level. The RAS reflects the view of the Board of Directors and top management on risk-taking in general and on the acceptable level and composition of risks, ensuring coherence with the desired return. The statement is built on risk appetite objectives that are directly linked to the corporate strategy and provides a qualitative description of KBC's playing field. The high-level risk appetite objectives are further detailed in a set of qualitative and quantitative statements for each of the different risk types. The long-term risk appetite is expressed as being High, Medium or Low and is monitored based on a set of risk measures for which risk thresholds are defined. Lastly, risk appetite is translated into risk-type-specific group limits/targets, which are further cascaded down to the entities.

Although risk appetite is expressed on a three-year horizon, specific risks such as climate risk will impact KBC mostly in the medium to longer term. As of this year, the risk appetite statement therefore also signals potential climate change challenges beyond three years, to trigger and steer the strategic debate on whether, for example, more mitigating actions are needed.

In the graph below, the actual and expected risk-taking in line with the Alignment of Planning Cycles (APC) forecast ('risk profile') is compared to the approved risk appetite. The overarching risk profile improves slightly and remains firmly in 'medium risk', driven by an improvement of the operational and compliance risk profiles, which compensates the expected increase in the credit and liquidity risk profiles. Note that the wind-down of KBC Bank Ireland will not materially impact the credit risk profile over the coming years as the riskiest portfolios were sold in 2022.

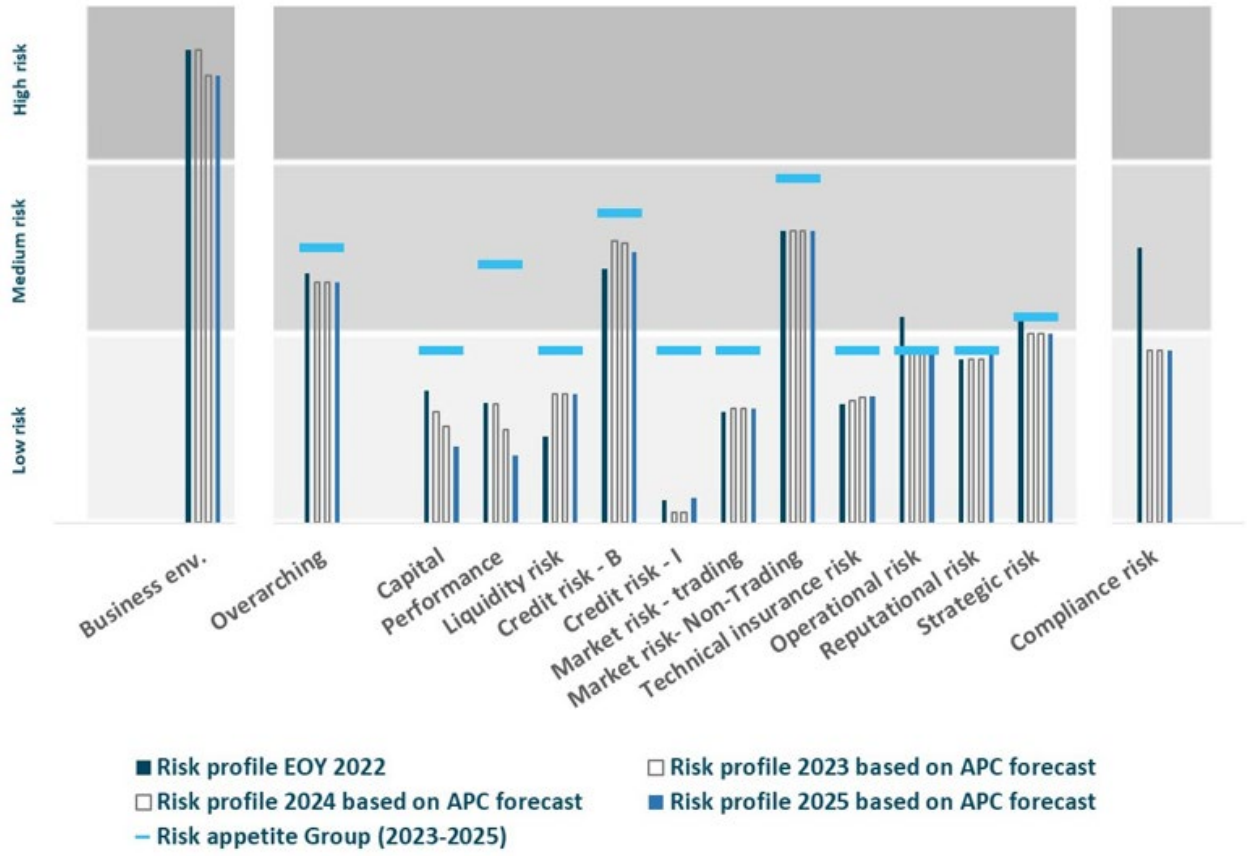



*Figure 2 - Schematic overview of risk appetite statement*

## Risk analysis, reporting and follow-up

Risk analysis and reporting aim to give transparency on risk-taking by providing management with a comprehensive, forward-looking and ex-post view on how the risk profile evolved and in which context the group operates.

Internal and external reports are prepared for the various stakeholders. As management is expected to take relevant action based on the risk analysis and risk reporting, it is essential that the proposed actions are tailored to the relevant stakeholders.

## Stress testing

Stress testing is an important process that supports the decision-making process by simulating the potential negative impact of specific events and/or movements in risk factors on KBC's (financial) condition. Stress tests range from plausible to exceptional and even extreme events or scenarios. In addition to all regulatory imposed stress tests, KBC actively uses internal stress testing as a key risk management tool.

# Capital Adequacy

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

## Solvency at KBC group level

### Solvency reporting

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

CRR/CRD implements the Basel rules in Europe and is updated from time to time. When new requirements are implemented, a transitional period may be allowed during which these rules are gradually phased in. KBC currently makes use of transitional measures for Tier-2 instruments issued under third-country law that do not apply a contractual bail-in recognition clause, and of the IFRS 9 transitional measures (applied from the second quarter of 2020). The latter make it possible to add back a portion of the increased impairment charges to common equity capital (CET1) when provisions unexpectedly rise due to a worsening macroeconomic outlook during the transition period until 31 December 2024.

Based on the banking regulation package (CRR/CRD), profit can be included in CET1 capital only after the profit appropriation decision has been made by the final decision-making body (for KBC Group this is the General Meeting). The ECB can allow the inclusion of interim or annual profit in CET1 capital before the decision by the General Meeting. In that case, the foreseeable dividend must be deducted from the profit that is included in CET1. Considering that our dividend policy of 'at least 50% of the consolidated profit of the accounting year' does not include a maximum, the ECB requires the use of a 100% pay-out to determine the foreseeable dividend as long as there is no final dividend decision. Consequently, KBC Group no longer requests ECB approval to include interim or annual profit in CET1 capital before the decision by the General Meeting. As such, the annual profit for 2022 and the final dividend for 2022 will be recognised in the transitional CET1 of the first quarter of 2023, which will be reported after the General Meeting. As of 31 December 2021, the fully loaded figures immediately reflect the interim or annual profit, taking into account our dividend policy and/or any dividend proposal and/or decision by the Board of Directors.

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

The minimum solvency ratios required under CRR/CRD are 4.5% for the common equity tier-1 (CET1) ratio, 6% for the tier-1 capital ratio and 8% for the total capital ratio (i.e. pillar 1 minimum ratios). In addition, CRR/CRD requires a capital conservation buffer of 2.5%.

As a result of its supervisory review and evaluation process (SREP), the competent supervisory authority (in KBC's case, the ECB) can require that higher minimum ratios be maintained (= pillar 2 requirements) because, for instance, not all risks are properly reflected in the regulatory pillar 1 calculations. Following the SREP cycle of 2022, the ECB formally notified KBC that the pillar 2 requirement (P2R) would remain unchanged at 1.86%. The pillar 2 guidance (P2G) remained unchanged at 1% CET1.

The overall capital requirement for KBC is not only determined by the ECB, but also by the decisions of the local competent authorities in its core markets. The most recently announced countercyclical buffer rates by the countries where KBC's relevant credit exposures are located correspond to a countercyclical buffer at KBC group level of 0.75%, up from 0.45% in 2021. Authorities in the Czech Republic, Slovakia, Bulgaria and Hungary have decided to increase the countercyclical capital buffers.

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.

On 1 May 2022, the National Bank of Belgium (NBB) introduced a sectoral systemic risk buffer. It replaces the former risk-weighted assets (RWA) add-on for exposures secured by residential real estate in Belgium and is to be held by all banks that apply the Internal Ratings-Based approach (IRB). The amount of the CET1 capital buffer corresponds to 9% of the RWA for exposures secured by residential real estate in Belgium, which corresponds to 0.19% of total RWA for KBC Group Consolidated.

Altogether, this brings the fully loaded CET1 requirement (under the Danish compromise) to 11.30%, with an additional pillar 2 guidance (P2G) of 1%. Note that the overall fully loaded CET1 requirement (under the Danish Compromise) would be 10.49% instead of 11.30% if the P2R split according to Article 104a of Capital Requirement Directive V were applied.

The data above reflect the situation as known on 31 December 2022, without taking into account changes – if any – communicated after that date.

KBC aims to be one of the better capitalised financial institutions in Europe. As a consequence, the dividend policy of KBC Group is tailored to that aim. Each year, the Board of Directors will decide at its discretion on the total dividend based on an assessment of risks, forward-looking profitability and strategic opportunities.

The dividend policy prescribes

- a pay-out ratio (i.e. dividend + AT1 coupon) of at least 50% of the consolidated profit for the accounting year;
- an interim dividend of 1 euro per share in November of each accounting year as an advance on the total dividend.

On top of the pay-out ratio of at least 50% of consolidated profit, each year (when announcing the full-year results) the Board of Directors will make a decision at its discretion on the distribution of the capital above a 15.0% fully loaded CET1 ratio, the so-called 'surplus capital'. This surplus capital can be distributed in the form of a cash dividend, a share buy-back or a combination of both.

Financial year 2022:

- A total gross dividend of 4 euros per share will be proposed to the General Meeting of Shareholders for the accounting year 2022 (of which an interim dividend of 1 euro per share was already paid in November 2022 and the remaining 3 euros per share are to be paid in May 2023).
- In line with our announced capital deployment plan for the financial year 2022, we plan to distribute the surplus capital above the fully loaded CET1 ratio of 15% in the form of a share buyback (subject to ECB approval) and/or an extraordinary interim dividend. The final decision by the Board of Directors will be made in the first half of 2023.

In the first quarter of 2023: capital relief from the closing of the sale of substantially all of KBC Bank Ireland's performing loan assets and liabilities:

- The closing of the sale of substantially all of KBC Bank Ireland's performing loan assets and liabilities to Bank of Ireland Group will lead to capital relief of approximately 1 billion euros.
- We plan to distribute this amount of 1 billion euros in the form of a share buyback (subject to ECB approval) and/or an extraordinary interim dividend. The final decision by the Board of Directors will be made in the first half of 2023.

## Solvency figures under CRR/CRD

A summary calculation of the KBC group's solvency ratios under the Danish compromise method is given in the table below, including a breakdown of the deductions and filters applicable to KBC. The intention to distribute surplus capital (see 'We aim to achieve our ambitions within a stringent risk management framework' in the 2022 Annual Report) either through a share buyback or through an additional extraordinary dividend is not yet reflected in the solvency figures.

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

**Solvency at group level (consolidated; under CRR/CRD, Danish compromise method)**

| *In millions of EUR* | 31-12-2022 Fully loaded | 31-12-2022 Transitional | 31-12-2021 Fully loaded | 31-12-2021 Transitional |
|---|---|---|---|---|
| **Total regulatory capital, after profit appropriation[1]** | **20 100** | **18 742** | **19 445** | **20 732** |
| **Tier-1 capital** | **18 318** | **16 974** | **17 724** | **18 997** |
| **Common equity[2]** | **16 818** | **15 474** | **16 224** | **17 497** |
| Parent shareholders' equity (after deconsolidating KBC Insurance) | 19 623 | 16 982 | 20 049 | 17 708 |
| Intangible fixed assets, incl. deferred tax impact (-) | -609 | -609 | -539 | -539 |
| Goodwill on consolidation, incl. deferred tax impact (-) | -1 178 | -1 178 | -746 | -746 |
| Minority interests | 0 | 0 | 0 | 0 |
| Hedging reserve, cashflow hedges (-) | 936 | 936 | 1 108 | 1 108 |
| Valuation differences in financial liabilities at fair value – own credit risk (-) | -40 | -40 | -16 | -16 |
| Value adjustment due to requirements for prudent valuation (-)[3] | -31 | -31 | -28 | -28 |
| Dividend payout (-) | -1 252 | 0 | -3 168 | 0 |
| Coupon on AT1 instruments (-) | -12 | -12 | -12 | -12 |
| Deduction with regard to financing provided to shareholders (-) | -57 | -57 | -57 | -57 |
| Deduction with regard to irrevocable payment commitments (-) | -90 | -90 | -72 | -72 |
| Deduction with regard to NPL backstops (-)[4] | -158 | -158 | -68 | -68 |
| Other direct, indirect and synthetic holdings by an institution of own CET1 instruments (negative amount) | 0 | 0 | 0 | 0 |
| Deduction re pension plan assets (-) | -143 | -143 | 0 | 0 |
| IRB provision shortfall (-) | 0 | 0 | 0 | -31 |
| Deferred tax assets on losses carried forward (-) | -172 | -172 | -227 | -227 |
| Transitional adjustments to CET1 | 0 | 46 | 0 | 477 |
| Limit on deferred tax assets from timing differences relying on future profitability and significant participations in financial entities (-) | 0 | 0 | 0 | 0 |
| **Additional going concern capital** | **1 500** | **1 500** | **1 500** | **1 500** |
| Grandfathered innovative hybrid tier-1 instruments | 0 | 0 | 0 | 0 |
| Grandfathered non-innovative hybrid tier-1 instruments | 0 | 0 | 0 | 0 |
| CRR-compliant AT1 instruments | 1 500 | 1 500 | 1 500 | 1 500 |
| Minority interests to be included in additional going concern capital | 0 | 0 | 0 | 0 |
| **Tier-2 capital** | **1 782** | **1 767** | **1 721** | **1 735** |
| IRB provision excess (+) | 284 | 136 | 224 | 493 |
| Transitional adjustments to Tier-2 capital | 0 | -46 | 0 | -493 |
| Subordinated liabilities issued by KBC Group | 1 498 | 1 677 | 1 439 | 1 678 |

| | | | | |
|---|---|---|---|---|
| Subordinated liabilities issued by subsidiaries of KBC Group | 0 | 0 | 57 | 57 |
| Subordinated loans to non-consolidated financial sector entities (-) | 0 | 0 | 0 | 0 |
| Minority interests to be included in tier-2 capital | 0 | 0 | 0 | 0 |
| **Total weighted risk volume** | **109 981** | **109 966** | **104 646** | **104 362** |
| Banking | 100 300 | 100 285 | 95 120 | 94 836 |
| Credit risk | 85 003 | 84 988 | 80 971 | 80 687 |
| IRB Advanced approach | 65 411 | 65 411 | 67 321 | 67 321 |
| IRB Foundation approach | 2 913 | 2 913 | 2 561 | 2 561 |
| Standardised approach | 11 124 | 11 134 | 7 378 | 7 408 |
| Counterparty credit risk | 2 720 | 2 720 | 3 065 | 3 065 |
| Other assets | 2 834 | 2 809 | 646 | 333 |
| Market risk[5] | 3 132 | 3 132 | 2 665 | 2 665 |
| Operational risk | 12 166 | 12 166 | 11 484 | 11 484 |
| Insurance | 9 133 | 9 133 | 9 133 | 9 133 |
| Holding-company activities | 562 | 562 | 396 | 396 |
| Elimination of intercompany transactions | -14 | -14 | -4 | -4 |
| **Solvency ratios** | | | | |
| Common equity ratio (or CET1 ratio) | 15.3% | 14.1% | 15.5% | 16.8% |
| Tier-1 ratio | 16.7% | 15.4% | 16.9% | 18.2% |
| Total capital ratio | 18.3% | 17.0% | 18.6% | 19.9% |

*1. The difference between the fully loaded and the transitional figure as at 31-12-2022 is explained by the net result for 2022 (2 641 million euros under the Danish Compromise method), the proposed final dividend (-1 252 million euros), the impact of the IFRS 9 transitional measures and IRB excess/shortfall (+148 million euros) and the grandfathered tier-2 subordinated debt instruments (-179 million euros).*

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

*3. CRR ensures that prudent valuation is reflected in the calculation of available capital. This means that the fair value of all assets measured at fair value and impacting the available capital (by means of fair value changes in P&L or equity) need to be brought back to their prudent value. The difference between the fair value and the prudent value (also called the 'additional value adjustment' or AVA) must be deducted from the CET1 ratio.*

*4. NPL backstops refer to the ECB minimum coverage expectations on non-performing loans, applicable as of 31-12-2020. For exposures defaulted after 01-04-2018 but originated before 26-04-2019, KBC voluntary deducts from CET1 any shortfalls versus supervisory expectations.*

*5. The multiplier of HVAR and SVAR used for the calculation of market risk is equal to 3.5.*

*Table 2 - Solvency at group level (Danish compromise)*

**Solvency at group level (consolidated; CRR/CRD, deduction method)**

| *In millions of EUR* | 31-12-2022 Fully loaded | 31-12-2022 Transitional | 31-12-2021 Fully loaded | 31-12-2021 Transitional |
|---|---|---|---|---|
| Common equity | 16 056 | 14 574 | 15 392 | 16 744 |
| Total weighted risk volume | 105 114 | 104 752 | 99 603 | 99 518 |
| Common equity ratio | 15.3% | 13.9% | 15.5% | 16.8% |

*Table 3 - Solvency at group level (deduction method)*

## Maximum Distributable Amount

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

In line with the revised CRR/CRD, the ECB allows banks to satisfy the P2R with additional tier-1 instruments (up to 1.5/8) and tier-2 instruments (up to 2/8) based on the same relative weights as allowed for meeting the 8% Pillar 1 Requirement.

| Buffer vs Overall Capital Requirement (consolidated; under CRR/CRD, Danish compromise method) | 31-12-2022 Fully loaded | 31-12-2022 Actual | 31-12-2021 Fully loaded | 31-12-2021 Actual |
|---|---|---|---|---|
| CET1 Pillar 1 minimum | 4.50% | 4.50% | 4.50% | 4.50% |
| Pillar 2 requirement to be satisfied with CET1 | 1.05% | 1.05% | 1.05% | 0.98% |
| Capital conservation buffer | 2.50% | 2.50% | 2.50% | 2.50% |
| Buffer for systemically important institutions (O-SII) | 1.50% | 1.50% | 1.50% | 1.50% |
| Systemic risk buffer | 0.19% | 0.19% | 0.00% | 0.00% |
| Entity-specific countercyclical buffer | 0.75% | 0.40% | 0.45% | 0.17% |
| **Overall Capital Requirement (OCR) - with P2R split CRD Art. 104a(4)** | **10.49%** | **10.14%** | **10.00%** | **9.66%** |
| Pillar 2 requirement that can be satisfied with AT1 & T2 | 0.81% | 0.81% | 0.81% | 0.77% |
| **Overall Capital Requirement (OCR)[1] (A), no P2R split** | **11.30%** | **10.95%** | **10.81%** | **10.42%** |
| CET1 used to satisfy shortfall in AT1 bucket (B) | 0.14% | 0.14% | 0.07% | 0.06% |
| CET1 used to satisfy shortfall in T2 bucket (C) [2] | 0.38% | 0.39% | 0.36% | 0.34% |
| **CET1 requirement for MDA (A+B+C)** | **11.82%** | **11.48%** | **11.23%** | **10.82%** |
| CET1 capital (in millions of EUR) | 16 818 | 15 474 | 16 224 | 17 497 |
| CET1 buffer (= buffer compared to MDA) (in millions of EUR) | 3 820 | 2 846 | 4 470 | 6 203 |

*1. A negative figure relates to a surplus above the pillar 1 bucket for these instruments, which is available to partly satisfy the pillar 2 requirement*

*2. The fully loaded T2 capital excludes the T2 instruments grandfathered under CRR2; these T2 instruments are included in the actual (transitional) T2 capital for the period of grandfathering, in line with CRR2 and the COREP 3.0 reporting framework (introduced as from 2Q 2021 reporting).*

*Table 4 - Buffer compared to the Overall Capital Requirement*

## CRR quick fix

In the context of the coronavirus pandemic, the EU amended the CRR, applicable as from 27 June 2020 (so-called 'CRR quick fix').The table below provides an overview of the main temporary measures, whether KBC applies the measure and their impact as at 31 December 2022.

| CRR quick fix (Regulation EU 2020/873 of 24 June 2020) *In millions of EUR* | Reference to CRR | Applied by KBC (Y/N) | Impact on CET1 capital | Impact on RWA | Impact on CET1 ratio |
|---|---|---|---|---|---|
| Filter for FVOCI gains/losses on government exposures | Art. 468 | No | - | - | - |
| IFRS 9 transitional measure (details in annex X) | Art. 473a | Yes | 46 | -15 | 0.04% |
| Sovereigns under Standardised Approach | Art. 500a | Yes | 0 | -545 | 0.08% |
| Outliers in Market risk VaR models | Art. 500c | No | - | - | - |

*Table 5 - Overview of CRR quick fix*

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

## Solvency figures under the FICOD

As a financial conglomerate, KBC also has to disclose its solvency position as calculated in accordance with the Financial Conglomerate Directive (FICOD; 2002/87/EC). In line with this directive, available capital is calculated on the basis of the consolidated position of the group and the eligible items recognised as such under the prevailing sectoral rules, which are CRD for the banking business and Solvency II for the insurance business. The resulting available capital is to be compared with a capital requirement expressed as a risk-weighted asset amount. For this latter figure, the capital requirements for the insurance business (based on Solvency II) are multiplied by 12.5 to obtain a risk-weighted asset equivalent (instead of the 370% risk weighting applied to the equity value in the insurance company under the Danish compromise). KBC is required to satisfy the pillar 1 requirements. No pillar 2 requirements and no management target have been defined at the level of the FICOD ratio.

| Solvency at group level (consolidated; FICOD method) | | | | |
|---|---|---|---|---|
| | 31-12-2022 | 31-12-2022 | 31-12-2021 | 31-12-2021 |
| *In millions of EUR* | Fully loaded | Transitional | Fully loaded | Transitional |
| Common equity | 17 873 | 17 405 | 17 861 | 19 369 |
| Total weighted risk volume | 123 755 | 123 740 | 120 873 | 120 589 |
| Common equity ratio | 14.4% | 14.1% | 14.8% | 16.1% |

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

## Leverage ratio

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

The leverage ratio is determined and monitored within the quarterly closing process and included in the periodic management reports of the Finance and Credit Risk departments. This monitoring covers both the position of KBC itself (taking our risk appetite into account) as well as benchmarking in terms of relevant peers. All of the above processes are part of KBC's ICAAP (described later in this section).

At the end of December 2022, the fully loaded leverage ratio slightly decreased compared to December 2021, mainly due to higher total assets driven by short-term money market and repo opportunities, but partly offset by higher Tier 1 capital mainly driven by the inclusion of 2022 profits. As from 1 April 2022, Central Bank exposures are no longer excluded from the leverage ratio exposure amount in the transitional calculation, causing a decrease in the transitional leverage ratio exposure amount.

The leverage ratio is a supplementary non-risk-based measure to create a 'backstop' in addition to the risk-based ratios. The latter form a constraint for KBC, i.e. a breach of own funds requirements would occur well before the 3% regulatory leverage ratio requirement is reached (no pillar 2 requirement has been defined by the competent authority at the level of the leverage ratio). Therefore, management focus is primarily on the risk-based ratios. Nevertheless, management has also defined a management target for the leverage ratio of at least 4.5%, which is well above the regulatory requirement of 3%. Furthermore, the absolute size of the balance sheet is also monitored from other perspectives (e.g., in the context of MREL requirements).

| Leverage ratio at group level (consolidated; under CRR/CRD, Danish compromise method) | 31-12-2022 | 31-12-2022 | 31-12-2021 | 31-12-2021 |
|---|---|---|---|---|
| *In millions of EUR* | Fully loaded | Transitional | Fully loaded | Transitional |
| Tier-1 capital | 18 318 | 16 974 | 17 724 | 18 997 |
| Total exposure | 346 481 | 346 538 | 326 792 | 292 363 |
| Total assets | 355 872 | 355 872 | 340 346 | 340 346 |
| Deconsolidation of KBC Insurance | -30 267 | -30 267 | -34 026 | -34 026 |
| Transitional adjustment | - | 57 | - | 617 |
| Adjustment for derivatives | -3 032 | -3 032 | -1 656 | -1 656 |
| Adjustment for regulatory corrections in determining tier-1 capital | -2 347 | -2 347 | -1 665 | -1 696 |
| Adjustment for securities financing transaction exposures | 813 | 813 | 1 016 | 1 016 |
| Central Bank exposures | - | - | - | -35 014 |
| Off-balance-sheet exposures | 25 442 | 25 442 | 22 776 | 22 776 |
| Leverage ratio | 5.3% | 4.9% | 5.4% | 6.5% |

*Table 7 - Leverage ratio at group level*

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

## Minimum requirement for own funds and eligible liabilities (MREL)

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

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

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

In the fourth quarter of 2022, the SRB informally communicated to KBC updated MREL targets for 1 January 2024, expressed as a percentage of Risk-Weighted Assets (RWA) and Leverage Ratio Exposure Amount (LRE):

- 22.92% of RWA as from 1 January 2024 with an intermediate target of 21.63% as from 1 January 2022. The Combined Buffer Requirement (CBR) needs to be held on top of this and amounts to 4.59% as at 31 December 2022 and 4.94% as from the fourth quarter of 2023 (Conservation Buffer (2.5%) + O-SII Buffer (1.5%) + systemic risk buffer (0.19%) + Countercyclical Buffer (0.40% for December 2022 and 0.75% as from the fourth quarter of 2023). This brings the MREL+CBR to 26.22% for December 2022 and 27.86% for 2024.
- 7.38% of LRE as from 1 January 2022.

At the end of December 2022, the MREL ratio stood at 27.5% as a percentage of RWA (as opposed to 27.7% as at 31 December 2021) and at 8.7% as a percentage of LRE (as opposed to 9.9% as at 31 December 2021).

The decrease in the MREL ratio as a percentage of RWA is due to the increase in RWA, mainly driven by the acquisition of Raiffeisenbank Bulgaria and organic volume growth. The negative impact of the RWA increase is largely offset by the issuance of new Holdco Senior Instruments.

The MREL ratio as a percentage of LRE decreased, compared to 31 December 2021, due to the increase in the Leverage Ratio Exposure (mainly driven by the implementation of the ECB relief measure from September 2021, allowing the exposure to central banks to be temporarily excluded from the Leverage Ratio Exposure until 31 March 2022).

The binding subordinated MREL targets are:

- 18.97% of RWA as from 1 January 2024 with an intermediate target of 13.50% as from 1 January 2022. The Combined Buffer Requirement needs to be held on top of this and amounts to 4.59% as at 31 December 2022 and 4.94% as from the fourth quarter of 2023 (Conservation Buffer (2.5%) + O-SII Buffer (1.5%) + systemic risk buffer (0.19%) + Countercyclical Buffer (0.40% for December 2022 and 0.75% as from the fourth quarter of 2023).
- 7.38% of LRE as from 1 January 2024 with an intermediate target of 6.19% as from 1 January 2022.

To ensure that KBC's HoldCo senior debt is eligible for the subordinated MREL target (i.e. to make sure that no excluded liabilities ranking pari passu with or junior to HoldCo senior debt are present in KBC Group NV), KBC Group NV was

converted into a Clean HoldCo for the purpose of resolution in June 2022. Consequently, KBC's entire MREL stack is considered subordinated.

**MREL**

| *In millions of EUR* | 31-12-2022 | 31-12-2021 |
|---|---|---|
| Own funds and eligible liabilities (transitional) | 30 269 | 28 923 |
| CET1 capital (consolidated, CRR/CRD, Danish compromise method) | 15 474 | 17 497 |
| AT1 instruments (consolidated, CRR/CRD) | 1 500 | 1 500 |
| T2 instruments (consolidated, CRR/CRD) | 1 767 | 1 735 |
| Subordinated liabilities (issued by KBC Group NV but not included in AT1 & T2) | 6 | 753 |
| Senior debt (issued by KBC Group, nominal amount, remaining maturity > 1 year) | 11 522 | 7 437 |
| Risk-Weighted Assets (RWA) | 109 966 | 104 362 |
| MREL as % of RWA | 27.5% | 27.7% |
| Leverage Ratio Exposure Amount (LRE) | 346 538 | 292 363 |
| MREL as % of LRE | 8.7% | 9.9% |

*Table 8 - MREL hybrid view*

# Solvency of KBC Bank and KBC Insurance separately

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

| **Solvency, KBC Bank (CRR/CRD)** | **31-12-2022** | **31-12-2022** | **31-12-2021** | **31-12-2021** |
|---|---|---|---|---|
| *In millions of EUR* | **Fully loaded** | **Transitional** | **Fully loaded** | **Transitional** |
| **Total regulatory capital, after profit appropriation** | **17 164** | **17 516** | **18 318** | **17 963** |
| Tier-1 capital | 15 202 | 15 749 | 16 415 | 16 209 |
| *Of which common equity* | *13 702* | *14 249* | *14 915* | *14 709* |
| Tier-2 capital | 1 962 | 1 768 | 1 903 | 1 754 |
| Total weighted risks | 100 300 | 100 285 | 95 120 | 94 836 |
| Common equity ratio | 13.7% | 14.2% | 15.7% | 15.5% |
| Tier-1 ratio | 15.2% | 15.7% | 17.3% | 17.1% |
| **Total capital ratio** | **17.1%** | **17.5%** | **19.3%** | **18.9%** |

*Table 9 - Solvency KBC Bank*

**Solvency, KBC Insurance (incl. volatility adjustment) (Solvency II)**

| *In millions of EUR* | 31-12-2022 | 31-12-2021 |
|---|---|---|
| Own funds | 3 721 | 4 075 |
| Tier-1 | 3 220 | 3 574 |
| IFRS parent shareholders' equity | 2 157 | 3 991 |
| Dividend payout | -309 | -525 |
| Deduction of intangible assets and goodwill (after tax) | -194 | -194 |
| Valuation differences (after tax) | 1 410 | 267 |
| Volatility adjustment | 150 | 43 |
| Other | 6 | -8 |
| Tier-2 | 501 | 500 |
| Subordinated liabilities | 501 | 500 |
| Solvency capital requirement (SCR) | 1 833 | 2 029 |
| Solvency II ratio | 2 | 201% |
| Solvency surplus above SCR | 1 888 | 2 046 |

*Table 10 - Solvency KBC Insurance*

# ICAAP and ORSA

The ultimate accountability for proper and sound capital management and planning at KBC lies with the BoD and Group Executive Committee. KBC's ICAAP (Internal Capital Adequacy Assessment Process) is governed by the ICAAP policy, owned by the BoD, which describes the management and assessment of KBC's capital adequacy. It is set up in line with the ECB's ICAAP guidelines and documents and KBC's ICAAP architecture (e.g., ICAAP objectives, underlying processes and responsibilities). Points of reference are KBC's corporate strategy and risk appetite, which are the anchors of an iterative, continuous ICAAP based on, for instance, risk appetite setting, forward-looking assessments and monitoring. The starting point is the continuous identification of all the material risks (e.g., ESG risks) KBC is or may be exposed to, such that they can be managed appropriately and taken into account in ICAAP and capital planning.

For this purpose, we also have an internal economic capital model in place to complement the existing regulatory capital models. This model is subject to an extensive use test. It is, for example, used 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 | 2022 | 2021 |
|---|---|---|
| Credit risk and counterparty risk | 58% | 54% |
| Market risk (banking book) | 8% | 13% |
| Market risk (trading book) | 2% | 2% |
| Operational risk | 8% | 8% |
| Risk related to the insurance entity | 16% | 17% |
| Pension risk | 7% | 7% |
| **Total** | 100% | 100% |

*Table 11 - Internal capital distribution KBC Group*

A key process in which our ICAAP is deeply embedded 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 the APC, the capital adequacy of KBC Group and its entities, according to both the regulatory and the internal view (internal economic capital model), is projected in forward-looking base case and adverse scenarios. The risk appetite of the group is also set and cascaded in the APC by setting risk limits at group and entity level.

In addition to the integrated approach at group level, KBC Insurance and its insurance and reinsurance subsidiaries conduct an Own Risk and Solvency Assessment (ORSA) on an annual basis, in accordance with Solvency II requirements. The ORSA process, described in the ORSA policy, draws to a large extent on the same 'core processes' as the ICAAP and includes APC, risk appetite setting and ongoing business, risk and capital management processes.

Once a year, the ICAAP and ORSA processes generate comprehensive reports, which are presented to both top management and the supervisory bodies before being submitted to the ECB and NBB. These reports allow the Board to make a statement on the ability of the group and its entities to maintain adequate capitalisation going forward in view of the corporate strategy and business model and of the current and expected development of KBC's risk profile under various scenarios, in addition to the effectiveness of KBC's risk and control environment and governance. In the last three years these reports included an assessment of the impact of the coronavirus crisis and the Russian invasion of Ukraine on KBC's capital adequacy, both under likely and more adverse assumptions, which confirmed our solid capital position.

# Stress testing

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

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

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

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

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

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

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

# Credit Risk Management

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

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

The Three Lines of Defence Model ensures the resilience of KBC's risk and control environment and safeguards the sustainability of our business model going forward. In this model, Business acts as the first line of defence, Risk as one of the second lines and Internal Audit as the third line. They all work together in order to prevent major impact losses for the KBC group.

How our business model translates into the credit risk profile is explained in the strategy section of the 2022 Annual Report of KBC Group NV.

## Shift from the coronavirus pandemic to Russia-Ukraine conflict and energy crisis impact on credit risk

Since the start of the coronavirus pandemic at the beginning of 2020, several initiatives have been taken to monitor and manage the ensuing credit risks. In early 2022, the impact of the pandemic subsided and hence the Covid restrictions were phased out. However, the start of the Russia-Ukraine conflict in February and the associated disruption of worldwide energy markets presented new challenges for credit risk management.

The Russia-Ukraine conflict has an impact on KBC's credit portfolio through different drivers. Besides the relatively limited direct impact through exposure to counterparties based in Russia, Ukraine and Belarus, there is also an indirect impact. There may be indirect exposure to clients with material activity in or dependence towards the countries involved in the conflict. As the likelihood of major Russian gas supply cut-offs increased (or materialised for certain countries), indirect exposure can also be to clients' vulnerability to disruptions in the Russian oil or gas supply or to the additional pressure on previously already soaring energy/commodity prices and inflation in general.

For private individuals, soaring energy bills and inflationary pressures on prices for other goods and services affect their credit repayment capacity. If not alleviated, this would result in payment problems with home loans and consumer finance facilities. For businesses, the strong increase in energy costs has – in energy-intensive sectors – negatively impacted profit

margins and cash buffers, unless the cost increases could be built into sales prices. The evolution in energy markets has resulted in some industrial companies shutting down production facilities (e.g., in fertilisers and aluminium production) as production had become loss-making.

These impacts, in turn, lead to disruptions in other industries, while the resulting (temporary) unemployment put further financial strain on individuals already affected by soaring energy bills. In addition, private individuals may adjust their consumption patterns away from discretionary spending, which has the potential to imperil some sectors due to reduced demand.

The European Commission and national governments have put in place initiatives to mitigate the impact of soaring energy prices on the economy and on the financial standing of businesses and private individuals. While these measures are having an effect and may involve the participation of lenders in financial concessions or forbearance measures, a response resulting in full mitigation is not believed to be forthcoming. Also, the budgetary room for governments to intervene to any significant extent has been reduced, as the management of the coronavirus crisis has already eaten into their financial buffers and reserves.

Based on traditional credit risk metrics (such as forbearances, arrears, and PD deterioration) a deterioration in credit quality was not (yet) visible in the KBC portfolios at the end of 2022. However, an uptick in downgrades and defaults is expected in 2023 (note: we estimate the credit cost ratio for 2023 at 20-25 basis points, still below the through-the-cycle credit cost ratio of 25-30 basis points).

Credit risk management actions have been taken to anticipate, measure, mitigate and manage the above emerging risks. Accordingly, portfolios are being monitored more closely, sensitivity analysis on energy costs has been pursued, origination processes have been adjusted (e.g., to reflect increased living expenses for home loans) and watchlists have been established.

Finally, since the Russian invasion of Ukraine, impairment management overlays have been booked for the geopolitical and emerging risks and vulnerable portfolios and sub-portfolios have been earmarked for increased risk. For related figures, including the phasing out of the overlay for the coronavirus crisis, we refer to Note 1.4 of the ‘Consolidated financial statements’.

## Managing credit risk at transactional level

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

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

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

In order to determine the risk class, we have developed various rating models for measuring how creditworthy borrowers are and for estimating the expected loss of various types of transactions. A number of uniform models throughout the group (models for governments, banks, specialised lending, etc.) are in place, while others have been designed for specific geographic markets (SMEs, private individuals, etc.) or types of transaction. We use the same internal rating scale

throughout the group. In the 'Internal modelling' section of this report, more details are provided on the method used to determine the PD and LGD in order to obtain a good understanding of the creditworthiness of a counterparty or transaction. In this way, creditworthiness, as established in the PD and LGD risk parameters, forms an essential part of the credit acceptance process.

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

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

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

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

## Managing credit risk at portfolio level

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

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

Whereas some limits are in notional terms, we also use measures such as 'expected loss' and 'loss given default'. Together with 'probability of default' and 'exposure at default', these concepts form the building blocks for calculating the regulatory capital requirements for credit risk, as KBC has opted to use the Internal Ratings-Based (IRB) approach. By the end of 2022, the main group entities and some smaller entities had adopted the IRB Advanced approach, apart from United Bulgarian Bank (UBB) and KBC Bank Bulgaria (Standardised approach) and ČSOB in Slovakia (IRB Foundation approach). 'Non-material' entities will continue to adopt the Standardised approach.

# Basel III implementation at KBC Group

With regard to the timing of and approach to implementing Basel III, KBC opted for a phased roll-out of the IRB approach over the past few years. In this respect, the IRB roll-out was considered for all important entities (defined as any subsidiary that accounts for more than 1% of the risk-weighted assets for credit risk at KBC Group NV). Compliance with this criterion is checked at least annually, with KBC's aim for simplification of the IRB model landscape also being taken into account.

Currently, all material entities, apart from UBB and KBC Bank Bulgaria, have adopted the IRB Foundation or Advanced approach. The Basel III Standardised approach is being adhered to until further notice by the other (non-material) entities of the KBC group, in accordance with permanent partial use as per Article 150 (d) of Regulation (EU) No 575/2013 (CRR).

| Roll-out of Basel III pillar 1 approach at end of year shown | 2021-2022 | 2019-2020 | 2017 - 2018 |
|---|---|---|---|
| IRB Advanced Approach* | KBC Bank<br>CBC Banque<br>ČSOB Czech Republic<br>KBC Lease Belgium<br>KBC Commercial Finance<br>KBC Immolease<br>K&H Bank<br>KBC Bank Ireland | KBC Bank<br>CBC Banque<br>ČSOB Czech Republic<br>KBC Credit Investments<br>KBC Lease Belgium<br>KBC Commercial Finance<br>KBC Immolease<br>K&H Bank<br>KBC Bank Ireland | KBC Bank<br>CBC Banque<br>ČSOB Czech Republic<br>KBC Credit Investments<br>KBC Finance Ireland<br>KBC Lease Belgium<br>KBC Commercial Finance<br>KBC Immolease<br>K&H Bank |
| IRB Foundation approach* | ČSOB Slovak Republic | ČSOB Slovak Republic | KBC Bank Ireland<br>ČSOB Slovak Republic |
| Standardised approach | UBB<br>KBC Bank Bulgaria (as of 2022)<br>KBC Autolease<br>Non-material entities | UBB<br>OTP Banka Slovensko<br>KBC Autolease<br>Non-material entities | CIBank/UBB<br>Non-material entities |

** Note that entities that apply the IRB approach can also report a specific part of their portfolio using the Standardised approach*

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

# Overview of RWAs

The table below provides an overview of how Basel III RWA for the KBC group changed over 2022. This table shows the overall RWA figures, including non-material entities, non-transactional RWA (like operational risk and market risk) and the RWA for KBC Insurance according to the Danish compromise approach. It is the only table in this section of the report that contains information other than on credit risk. The minimum capital corresponds with 8% of RWA.

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

The Internal Ratings-Based (IRB) approach is primarily used by KBC to calculate its risk-weighted assets. Based on a full application of all the CRR/CRD IV rules, it is used for approximately 90% of the weighted credit risks, approximately 86.5% of which are calculated according to the Advanced approach and roughly 3.5% according to the Foundation approach. The remaining weighted credit risks (about 10%) are calculated according to the Standardised approach.

The MOC (Margin of Conservatism) approach is used to express all types of uncertainty in PD, LGD and EAD estimates. Through the MOC approach, these uncertainties are incorporated into the model itself. Only in specific cases we charge additional RWA in the form of an additional add-on under MOC (e.g., late model review).

**EU OV1 - Overview of total risk exposure amounts**

| | | a | b | c |
|---|---|---|---|---|
| | | Total risk exposure amounts (TREA) | | Total own funds requirements |
| *In millions of EUR* | | 31/12/2022 | 31/12/2021 | 31/12/2022 |
| 1 | Credit risk (excluding CCR) | 91 890 | 87 069 | 7 351 |
| *2* | *Of which the standardised approach* | *11 134* | *7 408* | *891* |
| *3* | *Of which the Foundation IRB (F-IRB) approach* | *2 913* | *2 561* | *233* |
| *4* | *Of which slotting approach* | | | |
| *EU 4a* | *Of which equities under the simple riskweighted approach* | *796* | *646* | *64* |
| *5* | *Of which the Advanced IRB (A-IRB) approach* | *65 483* | *64 061* | *5 239* |
| 6 | Counterparty credit risk - CCR | 2 720 | 3 065 | 218 |
| *7* | *Of which the standardised approach* | *821* | *965* | *66* |
| *8* | *Of which internal model method (IMM)* | *849* | *1 056* | *68* |
| *EU 8a* | *Of which exposures to a CCP* | *37* | *44* | *3* |
| *EU 8b* | *Of which credit valuation adjustment - CVA* | *757* | *797* | *61* |
| *9* | *Of which other CCR* | *256* | *203* | *20* |
| 15 | Settlement risk | 0 | 1 | 0 |
| 16 | Securitisation exposures in the non-trading book (after the cap) | 26 | 31 | 2 |
| *17* | *Of which SEC-IRBA approach* | | | |
| *18* | *Of which SEC-ERBA (including IAA)* | | | |
| *19* | *Of which SEC-SA approach* | *26* | *31* | *2* |
| *EU 19a* | *Of which 1250%* | | | |
| 20 | Position, foreign exchange and commodities risks (Market risk) | 3 146 | 2 694 | 252 |
| *21* | *Of which the standardised approach* | *365* | *361* | *29* |
| *22* | *Of which IMA* | *2 781* | *2 333* | *223* |
| EU 22a | Large exposures | | | |
| 23 | Operational risk | 12 184 | 11 502 | 975 |
| *EU 23a* | *Of which basic indicator approach* | | | |
| *EU 23b* | *Of which standardised approach* | *12 184* | *11 502* | *975* |
| *EU 23c* | *Of which advanced measurement approach* | | | |
| **24** | **Amounts below the thresholds for deduction (subject to 250% risk weight)** | **1 410** | **1 635** | **113** |
| *25* | *Other non-credit-obligation assets excl. DTA (For information, included in row 5)* | *6 450* | *7 502* | *516* |
| *26* | *Participation in KBC Insurance weighed at 370%, according to the Danish compromise (For information, included in row 1 only)* | *9 133* | *9 133* | *731* |
| *27* | *Modified risk weights for targeting asset bubbles in the residential and commercial property (For information, included in row 1 only)* | | *3 260* | |
| **29** | **Total** | **109 966** | **104 362** | **8 797** |

*Table 13 - EU OV1_Overview of RWAs*

In 2022, RWA at KBC group level increased by +5.6 billion euros (or +5.4%). The largest change can be attributed to credit risk (other than counterparty credit risk) with an increase of +4 821 million euros. Counterparty credit risk showed a decrease of -345 million euros in RWA. Market risk shows an increase of +452 million euros. Lastly, we have a +682-million-euro RWA increase for operational risk.

The breakdown by the most material entities shows that the consolidated credit risk RWA increase is primarily driven by the acquisition and growth of Raiffeisenbank Bulgaria[2] in the fourth quarter (+3 481 million euros) and the increase at ČSOB Czech Republic (+1 208 million euros), as well as more limited RWA increases at K&H (+283 million euros), ČSOB Slovak Republic (+568 million euros) and UBB Bulgaria (+418 million euros). The Belgian entities keep each other in balance, resulting in roughly a status quo: KBC (+556 million euros) and CBC (-564 million euros). Finally, the RWA increase is partly offset by an RWA decrease at KBC Ireland (-752 million euros).

[2] *Renamed KBC Bank Bulgaria after the acquisition.*

The change in RWA in 2022 can be explained mainly by underlying portfolio changes, internal model changes, regulatory changes, and the acquisition of Raiffeisenbank Bulgaria. Note that the change in RWA is broken down by these different drivers on a best-effort basis, because in a dynamic portfolio it is often hard to pin-point the exact effect of a single driver, as simultaneous changes tend to amplify or compensate each other's effect on RWA. The most material drivers are set out below.

(1) The volume impact on the credit portfolio RWA amounted to roughly +4.7 billion euros, excluding the foreign-exchange impact and the Bulgarian acquisition. The increase was material in most segments and entities of the group, despite the aftermath of the coronavirus crisis and the Russian-Ukrainian war, except for KBC Ireland where we see a volume decline (around -750 million euros). The largest RWA increase as a result of volume comes from the corporate and retail mortgage segment.

(2) Credit risk RWA is also largely driven by changes in transactional models. As models are reviewed on an annual basis, each year we can witness significant impacts on RWA, either upwards or downwards. On top of this, in 2022 some model changes approved by the ECB were implemented, leading to the removal of PD and LGD multipliers, which resulted in a significant RWA decrease. The overall impact was -1.3 billion euros, mainly resulting from:

- a -1.7-billion-euro decrease due to the implementation of a new Belgian PD pooling model for private persons. The lowering impact on RWA of this implementation can mainly be attributed to the removal of the ECB-imposed multipliers;
- in addition, there are multiple RWA adjustments resulting from the normal model review and redesign processes. On balance, these changes have an impact of +200 million euros, but no major RWA impact;
- finally, over 2022 model add-ons had an impact of +160 million euros.

(3) New regulatory requirements or changes in methodology had a major impact on credit risk RWA in 2022. The overall impact is a decrease of -3.2 billion euros. The most important items are set out below:

- An RWA decrease of -3.3 billion euros resulting from the abolishment of the NBB add-ons on the Belgian mortgage portfolio.
- The new definition of default add-ons for ČSOB Czech Republic and ČSOB Slovak Republic are reported transactionally instead of via an add-on. Apart from some other smaller items, this mainly explains the +368-million-euro RWA increase for methodology in the CR8 table.
- The implementation of a new calculation of the RWA for defaulted exposure created a difference between the preliminary add-on and the effective calculated add-on based on the final instructions, which resulted in an RWA decrease of -287 million euros.

(4) The impact of changes in the drivers for asset quality (PD and LGD) was limited over the past year with a decline of -141 million euros in RWA. The main changes were the following:

- Lower average LGDs, for corporate as well as retail portfolios, resulted in an RWA decrease of around -300 million euros.
- Lower average retail PDs were more than offset by higher PDs for a number of corporate counterparties. The net result was a +160-million-euro RWA increase.

(5) Foreign exchange movements resulted in a status quo at KBC Group level, the most material underlying changes being the appreciation of CZK (+356 million euros) and depreciation of HUF (-439 million euros). In addition, there was a total RWA increase for other currencies of around +85 million euros.

(6) Other events with impact on credit risk RWA had a total impact of +4.4 billion euros. The main event explaining this RWA increase was the acquisition of KBC Bank Bulgaria, which had an impact of +3 392 million euros.

(7) A change in market risk RWA of +452 million euros.

(8) An RWA change in operational risk of +682 million euros.

## Exposure to credit risk

The tables in the credit risk section provide an overview – as described in the EBA guidelines – of the overall credit risk based on the figures for the end of December 2022. The scope is aligned with that of the KBC Group COREP reporting, meaning that all KBC group entities are included. It should be noted, however, that KBC Insurance is reported in the COREP on the basis of the Danish Compromise method and as a result no transactional data of this entity is included in the tables. The product scope is limited to the lending portfolio excluding all derivatives (such as interest rate swaps) and repos; these are dealt with in the 'Counterparty credit risk' section.

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

## Disclosure of credit risk quality

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

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

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

# Performing and non-performing exposures and related provisions

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

| | | a | b | c | d | e | f | g | h | i | j | k | l | m | n | o |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Gross carrying amount/nominal amount | | | | | | Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions | | | | | | | Collateral and financial guarantees received | |
| | | Performing exposures | | | Non-performing exposures | | | Performing exposures – accumulated impairment and provisions | | | Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions | | | Accumulated partial write-off | On performing exposures | On non-performing exposures |
| *At 31 December 2022 (in millions of EUR)* | | | Of which stage 1 | Of which stage 2 | | Of which stage 2 | Of which stage 3 | | Of which stage 1 | Of which stage 2 | | Of which stage 2 | Of which stage 3 | | | |
| **005** | **Cash balances at central banks and other demand deposits** | **50 061** | **49 997** | **63** | | | | | | | | | | | | |
| **010** | **Loans and advances** | **201 458** | **164 111** | **36 714** | **3 866** | | **3 866** | **-748** | **-110** | **-638** | **-1 872** | | **-1 872** | **-36** | **118 586** | **1 484** |
| *020* | *Central banks* | *20 516* | *20 516* | | | | | *-0* | *-0* | | | | | | *19 401* | |
| *030* | *General governments* | *7 455* | *6 965* | *490* | *42* | | *42* | *-3* | *-1* | *-2* | *-3* | | *-3* | | *3 310* | *5* |
| *040* | *Credit institutions* | *3 711* | *3 686* | *12* | *32* | | *32* | *-2* | *-2* | *-0* | *-17* | | *-17* | | *760* | *14* |
| *050* | *Other financial corporations* | *6 151* | *5 375* | *776* | *75* | | *75* | *-13* | *-6* | *-7* | *-37* | | *-37* | | *1 773* | *28* |
| *060* | *Non-financial corporations* | *77 130* | *53 444* | *23 686* | *2 932* | | *2 932* | *-473* | *-70* | *-403* | *-1 516* | | *-1 516* | *-31* | *33 341* | *1 059* |
| *070* | *Of which SMEs* | *36 362* | *25 515* | *10 847* | *1 354* | | *1 354* | *-235* | *-46* | *-190* | *-601* | | *-601* | *-31* | *17 341* | *593* |
| *080* | *Households* | *86 495* | *74 126* | *11 751* | *784* | | *784* | *-256* | *-30* | *-226* | *-299* | | *-299* | *-5* | *60 001* | *378* |
| **090** | **Debt securities** | **47 910** | **47 747** | **147** | **8** | | **8** | **-11** | **-6** | **-5** | **-7** | | **-7** | | **98** | |
| *100* | *Central banks* | *526* | *526* | | | | | *-0* | *-0* | | | | | | | |
| *110* | *General governments* | *41 748* | *41 748* | | | | | *-4* | *-4* | | | | | | | |
| *120* | *Credit institutions* | *4 184* | *4 184* | | *7* | | *7* | *-1* | *-1* | | *-7* | | *-7* | | *10* | |
| *130* | *Other financial corporations* | *915* | *895* | *7* | | | | *-0* | *-0* | *-0* | | | | | | |
| *140* | *Non-financial corporations* | *538* | *395* | *141* | *1* | | *1* | *-6* | *-1* | *-5* | | | | | *88* | |
| **150** | **Off-balance-sheet exposures** | **59 254** | **47 887** | **11 367** | **178** | | **178** | **-54** | **-19** | **-35** | **-60** | | **-60** | | **13 027** | **72** |
| *160* | *Central banks* | | | | | | | | | | | | | | | |
| *170* | *General governments* | *1 759* | *1 635* | *124* | | | | *-4* | *-1* | *-2* | | | | | *536* | |
| *180* | *Credit institutions* | *2 691* | *2 497* | *194* | *4* | | *4* | *-0* | *-0* | *-0* | *-4* | | *-4* | | *18* | |
| *190* | *Other financial corporations* | *4 999* | *4 722* | *277* | | | | *-2* | *-1* | *-0* | | | | | *443* | |
| *200* | *Non-financial corporations* | *42 210* | *32 138* | *10 072* | *167* | | *167* | *-42* | *-14* | *-28* | *-55* | | *-55* | | *10 373* | *71* |
| *210* | *Households* | *7 595* | *6 895* | *700* | *7* | | *7* | *-6* | *-2* | *-3* | *-1* | | *-1* | | *1 657* | *1* |
| **220** | **Total** | **358 683** | **309 743** | **48 292** | **4 051** | | **4 051** | **-812** | **-135** | **-677** | **-1 939** | | **-1 939** | | **131 711** | **1 557** |

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

The performing exposure increased by 29.5 billion euros in 2022 as a result of the volume increase in the portfolio and the acquisition of Raiffeisenbank Bulgaria. By the end of 2022, a collective shift to stage 2 was applied to the stage 1 portfolios that are indirectly exposed to Russia, Ukraine and Belarus or are vulnerable to the emerging risks, which largely explains the stage 2 increase of 18.5 billion euros.

For all data on impairment, provisions and value adjustments, reference is made to the 'Consolidated financial statements' section of the 2022 Annual Report of KBC Group NV.

## Maturity of exposures

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

**EU CR1-A - Maturity of exposures**

| | | a | b | c | d | e | f |
|---|---|---|---|---|---|---|---|
| | | Net exposure value | | | | | |
| *At 31 December 2022 (in millions of EUR)* | | On demand | <=1 year | >1 year <= 5 years | >5 years | No stated maturity | Total |
| 1 | Loans and advances | 4 903 | 33 535 | 38 484 | 122 750 | 5 651 | 205 323 |
| 2 | Debt securities | 1 144 | 7 826 | 8 981 | 28 647 | 1 319 | 47 918 |
| **3** | **Total** | **6 047** | **41 361** | **47 466** | **151 398** | **6 970** | **253 242** |

*Table 15 - EU CR1-A_Maturity of exposures*

## Changes in the stock of defaulted loans and debt securities

**EU CR2 - Changes in the stock of non-performing loans and advances**

| | | a |
|---|---|---|
| *At 31 December 2022 (in millions of EUR)* | | Gross carrying amount |
| **010** | **Initial stock of non-performing loans and advances** | **3 927** |
| 020 | Inflows to non-performing portfolios | 1 239 |
| 030 | Outflows from non-performing portfolios | -1 300 |
| *040* | *Outflows due to write-offs* | *-263* |
| *050* | *Outflow due to other situations* | *-1 038* |
| **060** | **Final stock of non-performing loans and advances** | **3 866** |

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

Non-performing inflows and outflows balance each other out.

### Forborne exposure

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

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

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

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

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

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

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

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

## Credit quality of forborne exposures

| EU CQ1 - Credit quality of forborne exposures | | a | b | c | d | e | f | g | h |
|---|---|---|---|---|---|---|---|---|---|
| | | Gross carrying amount/nominal amount of exposures with forbearance measures | | | | Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions | | Collateral received and financial guarantees received on forborne exposures | |
| | | Performing forborne | Non-performing forborne | | | On performing forborne exposures | On non-performing forborne exposures | | |
| *At 31 December 2022 (in millions of EUR)* | | | | Of which defaulted | Of which impaired | | | | Of which collateral and financial guarantees received on non-performing exposures with forbearance measures |
| 005 | Cash balances at central banks and other demand deposits | | | | | | | | |
| 010 | Loans and advances | 1 634 | 1 316 | 1 316 | 1 309 | -48 | -381 | 1 760 | 733 |
| *020* | *Central banks* | | | | | | | | |
| *030* | *General governments* | *10* | *1* | *1* | *1* | *-0* | *-1* | *10* | *0* |
| *040* | *Credit institutions* | | | | | | | | |
| *050* | *Other financial corporations* | *24* | *3* | *3* | *3* | *-1* | *-1* | *19* | *2* |
| *060* | *Non-financial corporations* | *1 050* | *1 041* | *1 041* | *1 041* | *-42* | *-299* | *1 224* | *577* |
| *070* | *Households* | *550* | *270* | *270* | *264* | *-5* | *-81* | *507* | *154* |
| 080 | Debt Securities | | | | | | | | |
| 090 | Loan commitments given | 64 | 3 | 3 | 3 | -0 | -0 | 50 | 2 |
| **100** | **Total** | **1 698** | **1 318** | **1 318** | **1 312** | **-48** | **-381** | **1 810** | **734** |

*Table 17 - EU CQ1_Credit quality of forborne exposures*

In the second quarter of 2022, performing loans in the amount of roughly 0.5 billion euros lost their forborne status as their probation period of two years came to an end. The majority of these loans received their forborne status during the second quarter of 2020 due to coronavirus relief measures linked to non-legislative moratoria.

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

A financial contract is past due when a counterparty fails to make a payment when it is contractually due. In case of factoring, a purchased receivable is past due when the invoice debtor fails to make payment on the due date of an undisputed invoice. Bear in mind that there are defaulted (or NPL) exposures that are NOT past due, but also exposures (less than 90 days) past due that are non-defaulted (in other words, performing).

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

| | | a | b | c | d | e | f | g | h | i | j | k | l |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Gross carrying amount/nominal amount | | | | | | | | | | | |
| | | Performing exposures | | | Non-performing exposures | | | | | | | | |
| *At 31 December 2022 (in millions of EUR)* | | | Not past due or past due ≤ 30 days | Past due > 30 days ≤ 90 days | | Unlikely to pay that are not past due or are past due ≤ 90 days | Past due > 90 days ≤ 180 days | Past due > 180 days ≤ 1 year | Past due > 1 year ≤ 2 years | Past due > 2 years ≤ 5 years | Past due > 5 years ≤ 7 years | Past due > 7 years | Of which defaulted |
| **005** | **Cash balances at central banks and other demand deposits** | **50 061** | **50 061** | | | | | | | | | | |
| **010** | **Loans and advances** | **201 458** | **200 895** | **562** | **3 866** | **1 988** | **185** | **212** | **194** | **489** | **142** | **656** | **3 866** |
| *020* | *Central banks* | 20 516 | 20 516 | | | | | | | | | | |
| *030* | *General governments* | 7 455 | 7 371 | 84 | 42 | 8 | 31 | 1 | | 1 | 1 | 1 | 42 |
| *040* | *Credit institutions* | 3 711 | 3 711 | | 32 | 18 | 3 | 10 | | | | | 32 |
| *050* | *Other financial corporations* | 6 151 | 6 151 | 0 | 75 | 4 | 1 | 6 | 0 | 52 | 1 | 11 | 75 |
| *060* | *Non-financial corporations* | 77 130 | 76 755 | 375 | 2 932 | 1 542 | 95 | 131 | 115 | 357 | 118 | 575 | 2 932 |
| *070* | *Of which SMEs* | 36 362 | 36 314 | 48 | 1 354 | 662 | 48 | 82 | 75 | 234 | 73 | 180 | 1 354 |
| *080* | *Households* | 86 495 | 86 392 | 104 | 784 | 416 | 54 | 64 | 79 | 79 | 22 | 69 | 784 |
| **090** | **Debt securities** | **47 910** | **47 910** | | **8** | **8** | | | | | | | **8** |
| *100* | *Central banks* | 526 | 526 | | | | | | | | | | |
| *110* | *General governments* | 41 748 | 41 748 | | | | | | | | | | |
| *120* | *Credit institutions* | 4 184 | 4 184 | | 7 | 7 | | | | | | | 7 |
| *130* | *Other financial corporations* | 915 | 915 | | | | | | | | | | |
| *140* | *Non-financial corporations* | 538 | 538 | | 1 | 1 | | | | | | | 1 |
| **150** | **Off-balance-sheet exposures** | **59 254** | | | **178** | | | | | | | | **178** |
| *160* | *Central banks* | | | | | | | | | | | | |
| *170* | *General governments* | 1 759 | | | | | | | | | | | |
| *180* | *Credit institutions* | 2 691 | | | 4 | | | | | | | | 4 |
| *190* | *Other financial corporations* | 4 999 | | | | | | | | | | | |
| *200* | *Non-financial corporations* | 42 210 | | | 167 | | | | | | | | 167 |
| *210* | *Households* | 7 595 | | | 7 | | | | | | | | 7 |
| **220** | **Total** | **358 683** | **298 866** | **562** | **4 051** | **1 996** | **185** | **212** | **194** | **489** | **142** | **656** | **4 051** |

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

## Credit quality of exposures by industry or counterparty types

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

| EU CQ5 - Credit quality of loans and advances to non-financial corporations by industry | | a | b | c | d | e | f |
|---|---|---|---|---|---|---|---|
| | | Gross carrying amount | | | | | |
| | | | Of which non-performing | | | | |
| | | | | Of which defaulted | Of which loans and advances subject to impairment | Accumulated impairment | Accumulated negative changes in fair value due to credit risk on non-performing exposures |
| *At 31 December 2022 (in millions of EUR)* | | | | | | | |
| 010 | Agriculture, forestry and fishing | 2 860 | 69 | 69 | 2 860 | -36 | |
| 020 | Mining and quarrying | 151 | 1 | 1 | 151 | -1 | |
| 030 | Manufacturing | 15 153 | 566 | 566 | 15 153 | -411 | |
| 040 | Electricity, gas, steam and air conditioning supply | 2 901 | 45 | 45 | 2 901 | -33 | |
| 050 | Water supply | 1 146 | 3 | 3 | 1 146 | -3 | |
| 060 | Construction | 5 740 | 281 | 281 | 5 740 | -168 | |
| 070 | Wholesale and retail trade | 13 999 | 824 | 824 | 13 999 | -707 | |
| 080 | Transport and storage | 5 008 | 83 | 83 | 5 008 | -69 | |
| 090 | Accommodation and food service activities | 1 127 | 103 | 103 | 1 127 | -37 | |
| 100 | Information and communication | 1 411 | 35 | 35 | 1 411 | -28 | |
| 110 | Financial and insurance activities | 3 439 | 93 | 93 | 3 439 | -37 | |
| 120 | Real estate activities | 11 376 | 442 | 442 | 11 376 | -223 | |
| 130 | Professional, scientific and technical activities | 6 340 | 180 | 180 | 6 340 | -132 | |
| 140 | Administrative and support service activities | 2 668 | 86 | 86 | 2 668 | -30 | |
| 150 | Public administration and defense, compulsory social security | 37 | 8 | 8 | 37 | -8 | |
| 160 | Education | 107 | 0 | 0 | 107 | -1 | |
| 170 | Human health services and social work activities | 4 832 | 69 | 69 | 4 832 | -39 | |
| 180 | Arts, entertainment and recreation | 518 | 24 | 24 | 518 | -8 | |
| 190 | Other services | 1 252 | 21 | 21 | 1 252 | -18 | |
| **200** | **Total** | **80 062** | **2 932** | **2 932** | **80 062** | **-1 990** | |

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

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

## Credit quality of exposures by geography

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

**EU CQ4 - Quality of non-performing exposures by geography**[1]

| | | a | b | c | d | e | f | g |
|---|---|---|---|---|---|---|---|---|
| | | Gross carrying/nominal amount | | | | | | |
| | | | Of which non-performing | | Of which subject to impairment | Accumulated impairment | Provisions on off-balance-sheet commitments and financial guarantees given | Accumulated negative changes in fair value due to credit risk on non-performing exposures |
| *At 31 December 2022 (in millions of EUR)* | | | | Of which defaulted | | | | |
| **010** | **On-balance-sheet exposures** | **303 302** | **3 874** | **3 874** | **302 647** | **-2 636** | | **-1** |
| *020* | *Belgium* | *147 957* | *2 097* | *2 097* | *147 985* | *-1 234* | | |
| *030* | *Czech Republic* | *68 591* | *538* | *538* | *68 536* | *-461* | | |
| *040* | *Slovakia* | *15 914* | *133* | *133* | *15 914* | *-170* | | |
| *050* | *Ireland* | *3 443* | *30* | *30* | *3 443* | *-23* | | |
| *060* | *Hungary* | *12 922* | *144* | *144* | *12 308* | *-121* | | *-1* |
| *061* | *Bulgaria* | *12 873* | *251* | *251* | *12 873* | *-201* | | |
| *070* | *Other countries* | *41 602* | *680* | *680* | *41 587* | *-426* | | |
| **080** | **Off-balance-sheet exposures** | **59 432** | **178** | **178** | | | **114** | |
| *090* | *Belgium* | *28 483* | *96* | *96* | | | *51* | |
| *100* | *Czech Republic* | *10 640* | *35* | *35* | | | *29* | |
| *110* | *Slovakia* | *2 397* | *7* | *7* | | | *4* | |
| *120* | *Ireland* | *226* | | | | | *0* | |
| *130* | *Hungary* | *2 605* | *13* | *13* | | | *5* | |
| *131* | *Bulgaria* | *2 833* | *12* | *12* | | | *8* | |
| *140* | *Other countries* | *12 247* | *15* | *15* | | | *16* | |
| **150** | **Total** | **362 734** | **4 051** | **4 051** | **302 647** | **-2 636** | **114** | **-1** |

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

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

As expected, the non-performing exposure is mainly concentrated in five KBC core markets: Belgium, the Czech Republic, Hungary, Slovakia and Bulgaria.

# Collateral obtained by taking possession and execution processes

**EU CQ7 - Collateral obtained by taking possession and execution processes**

| *At 31 December 2022 (in millions of EUR)* | | Collateral obtained by taking possession: Value at initial recognition | Collateral obtained by taking possession: Accumulated negative changes |
|---|---|---|---|
| 010 | Property, plant and equipment (PP&E) | 2.3 | 0.0 |
| 020 | Other than PP&E | 2.3 | -0.1 |
| *030* | *Residential immovable property* | *0.5* | 0.0 |
| *040* | *Commercial Immovable property* | *0.7* | -0.1 |
| *050* | *Movable property (auto, shipping, etc.)* | *0.7* | 0.0 |
| *060* | *Equity and debt instruments* | | |
| *070* | *Other collateral* | *0.3* | |
| **080** | **Total** | **4.6** | **-0.1** |

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

# Credit Risk Mitigation (CRM)

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

## Netting

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

## Collateral in the lending portfolio

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

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

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

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

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

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

## Unfunded credit protection

Unfunded credit protection is provided entirely through guarantees.

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

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

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

## CRM techniques – Overview

This table gives an overview of the CRM techniques used for defaulted and non-defaulted exposure, irrespective of the regulatory approach used. KBC does not use credit derivatives to mitigate credit risk.

| | | a | b | c | d | e |
|---|---|---|---|---|---|---|
| **EU CR3 - CRM techniques overview: Disclosure of the use of credit risk mitigation techniques** | | Unsecured carrying amount | Secured carrying amount | | | |
| *At 31 December 2022 (in millions of EUR)* | | | | Of which secured by collateral | Of which secured by financial guarantees | Of which secured by credit derivatives |
| 1 | Loans and advances | 82 633 | 120 071 | 109 198 | 10 873 | |
| 2 | Debt securities | 47 803 | 98 | 52 | 46 | |
| **3** | **Total** | **130 436** | **120 168** | **109 249** | **10 919** | |
| *4* | *Of which non-performing exposures* | *510* | *1 484* | *1 330* | *154* | |
| *EU-5* | *Of which defaulted* | *510* | *1 484* | | | |

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

# Disclosure of the use of the Standardised approach

## Credit exposure and CRM – Standardised approach

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

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

The tables below show the exposure calculated using the Standardised approach for the end of 2022, broken down by exposure class, excluding the SFT. The exposure classes are those defined for the purpose of regulatory reporting according to the Standardised approach, viz.:

- Central governments or central banks: claims on central authorities and governments and other assets weighted at 0% (such as Cash and Cash at central banks);
- Regional government or local authorities: claims on Regional Governments and Local Authorities independently if these qualify as 'Sovereign' under the IRB approach;
- PSE: claims on Public Sector Entities;
- MDB: claims on Multilateral Development Banks independently if these qualify as 'Sovereign' under the IRB approach;
- International organisations: claims on a specific list of organisations (e.g., International Monetary Fund, European Central Bank);
- Institutions: claims on banks;

- Corporates: claims on all corporate exposure, including small and medium-sized enterprises that are treated as corporate clients;
- Retail: claims on retail clients (including SMEs not qualifying for treatment as corporate clients). Most of these claims are related to mortgages and categorised under 'secured by real estate';
- Secured by mortgages on immovable property: claims that are (fully) covered by real estate collateral via mortgages and including real estate leasing. These are extracted from the above categories (mostly retail or corporate);
- Exposures in default: all exposure which is past due, meaning that it is more than 90 days in arrears. All past due exposure is extracted from all the other categories;
- Exposures associated with particularly high risk: exposure that is not collateralised and/or not rated, attracting a risk weighting equal to or higher than 150% and therefore considered 'high risk'. Past due and equity exposure are excluded;
- Covered bonds: exposure for which the credit risk is mitigated by risk positions on very highly rated governments, authorities or institutions. Past due, equity and high-risk claims are excluded;
- Institutions and corporates with a short-term credit assessment: exposure (to institutions or to corporates) which is rated and has a maturity of less than three months. Past due, equity and high-risk claims are excluded. This exposure has been assigned to its respective exposure type, namely 'Institutions' or 'Corporates';
- CIU: claims on Collective Investment Undertakings;
- Equity: Shares and Mutual Funds. Previously the equities were reported under the exposure class of the issuing entity of the equity instrument. Now all equity exposure is grouped under this single exposure class;
- Other: all other claims (e.g., other assets).

## Credit risk exposure and CRM effects – Standardised approach

| | | a | b | c | d | e | f |
|---|---|---|---|---|---|---|---|
| **EU CR4 - Standardised approach – Credit risk exposure and CRM effects** | | | | | | | |
| | Exposure classes | Exposures before CCF and before CRM | | Exposures post CCF and post CRM | | RWAs and RWAs density | |
| *At 31 December 2022 (in millions of EUR)* | | On-balance-sheet exposures | Off-balance-sheet exposures | On-balance-sheet exposures | Off-balance-sheet exposures | RWAs | RWAs density (%) |
| 1 | Central governments or central banks | 4 647 | 10 | 5 094 | 3 | 27 | 0.52% |
| 2 | Regional government or local authorities | 287 | 112 | 281 | 54 | 67 | 20.00% |
| 3 | Public sector entities | 6 | 7 | 9 | 5 | 4 | 27.80% |
| 4 | Multilateral development banks | | | 388 | 1 | | 0.00% |
| 5 | International organisations | 0 | | 0 | | | 0.00% |
| 6 | Institutions | 347 | 107 | 369 | 11 | 113 | 29.90% |
| 7 | Corporates | 4 957 | 2 424 | 4 680 | 769 | 4 810 | 88.27% |
| 8 | Retail | 3 954 | 586 | 3 341 | 258 | 2 466 | 68.52% |
| 9 | Secured by mortgages on immovable property | 3 066 | 153 | 3 060 | 62 | 1 169 | 37.46% |
| 10 | Exposures in default | 164 | 17 | 152 | 7 | 185 | 116.30% |
| 11 | Exposures associated with particularly high risk | 29 | 29 | 29 | 14 | 65 | 150.00% |
| 12 | Covered bonds | 33 | | 33 | | 3 | 10.00% |
| 13 | Institutions and corporates with a short-term credit assessment | | | | | | |
| 14 | Collective investment undertakings | 120 | | 120 | | 22 | 18.64% |
| 15 | Equity | 37 | | 37 | | 49 | 132.88% |
| 16 | Other items | 2 947 | 174 | 2 947 | 87 | 2 153 | 70.99% |
| **17** | **Total** | **20 594** | **3 619** | **20 539** | **1 270** | **11 134** | **51.05%** |

*Table 23 - EU CR4_Standardised approach – Credit risk exposure and CRM effects*

The use of CRM for the Standardised exposure is very limited. A material substitution shift from 'Retail' to 'Central governments' is only seen in the K&H portfolio. The RWA density figures are very similar to those of previous years. Note the significant increase in exposures due to the inclusion of KBC Bank Bulgaria.

## Risk weight by exposure class – Standardised approach

The table below shows the exposure (post CCF and CRM) at year-end 2022, calculated using the Standardised approach and broken down by exposure class and risk weight.

| | | a | e | f | g | h | i | j | k | l | m | p | q |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **EU CR5 - Standardised approach** | | | | | | | | | | | | | |
| | Exposure classes | Risk weight | | | | | | | | | | **Total** | Of which unrated |
| *At 31 December 2022 (in millions of EUR)* | | 0% | 20% | 35% | 50% | 70% | 75% | 100% | 150% | 250% | 370% | | |
| 1 | Central governments or central banks | 5 037 | 38 | | 5 | | | 16 | | | | **5 097** | 13 |
| 2 | Regional government or local authorities | | 335 | | | | | | | | | **335** | 249 |
| 3 | Public sector entities | 4 | 4 | | 4 | | | 1 | | | | **13** | |
| 4 | Multilateral development banks | 389 | | | | | | | | | | **389** | |
| 5 | International organisations | 0 | | | | | | | | | | **0** | |
| 6 | Institutions | | 260 | | 100 | | | 12 | | | | **379** | 294 |
| 7 | Corporates | | 1 | | 236 | | | 5 212 | 1 | | | **5 449** | 5 438 |
| 8 | Retail exposures | | | | | | 3 599 | | | | | **3 599** | 3 599 |
| 9 | Exposures secured by mortgages on immovable property | | | 2 322 | 755 | | 14 | 25 | 6 | | | **3 122** | 3 122 |
| 10 | Exposures in default | | | | | | | 107 | 52 | | | **159** | 159 |
| 11 | Exposures associated with particularly high risk | | | | | | | | 43 | | | **43** | 43 |
| 12 | Covered bonds | | | | | | | | | | | **33** | 33 |
| 13 | Exposures to institutions and corporates with a short-term credit assessment | | | | | | | | | | | | |
| 14 | Units or shares in collective investment undertakings | 0 | | | | | | | 0 | | | **120** | 0 |
| 15 | Equity exposures | | | | | | | 29 | | 7 | 0 | **37** | 37 |
| 16 | Other items | 641 | 52 | | | | | 1 504 | | 69 | | **3 033** | 1 625 |
| **17** | **Total** | **6 072** | **691** | **2 322** | **1 100** | | **3 613** | **6 906** | **102** | **76** | **0** | **21 809** | **14 611** |

*Table 24 - EU CR5_Standardised approach*

Much of the exposure was assigned to the unrated bucket. It includes 'Secured by real estate' exposure, which does not require a rating, and obviously 'Retail' exposure. The 'Corporate' exposure is also mainly unrated. The acquisition of Raiffeisenbank Bulgaria did not affect the composition of the portfolio in this area.

# Disclosure of the use of the IRB approach to credit risk

## Credit exposure and CRM – IRB approach

The tables below show total exposure calculated using the IRB approach, broken down by exposure class. The exposure classes are those defined for the purpose of regulatory reporting according to the IRB approach[3]:

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

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

## EAD covered by the IRB methods by exposure class

This table shows the importance of each IRB method by asset class, taking the EAD after CCF of the IRB loan portfolio as a reference.

**EAD covered by the IRB model 31-12-22**

| | COREP exposure class | EAD % |
|---|---|---|
| AIRB | Central governments and central banks | 17.92% |
| | Institutions | 5.41% |
| | Corporates – SMEs | 10.16% |
| | Corporates – Specialised lending | 4.36% |
| | Corporates – Other | 16.60% |
| | Retail – Secured by real estate SMEs | 4.62% |
| | Retail – Secured by real estate non- SMEs | 34.60% |
| | Retail – Qualifying revolving | 0.45% |
| | Retail – Other SMEs | 3.44% |
| | Retail – Other non-SMEs | 2.35% |
| | Equity IRB | 0.09% |
| **AIRB** | **Total** | **97.10%** |

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

**EAD covered by the FIRB model 31-12-22**

| | COREP exposure class | EAD % |
|---|---|---|
| FIRB | Central governments and central banks | 49.36% |
| | Institutions | 2.55% |
| | Corporates – SMEs | 10.56% |
| | Corporates – Specialised lending | 10.99% |
| | Corporates – Other | 26.53% |
| **FIRB** | **Total** | **2.90%** |

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

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

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

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

*At 31 December 2022 (in EUR)*

| a | b | c | d | e | f | g | h | i | j | k | l | m |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Exposure class = Central governments and central banks | PD range | On-balance sheet exposures | Off-balance-sheet exposures pre-CCF | Exposure weighted average CCF | Exposure post CCF and post CRM | Exposure weighted average PD (%) | Number of obligors | Exposure weighted average LGD (%) | Exposure weighted average maturity (years) | Risk weighted exposure amount after supporting factors | Density of risk weighted exposure amount | Expected loss amount | Value adjust-ments and provisions |
| | 0.00 to <0.15 | 3 544 | 0 | 0 | 3 544 | 0.01% | 7 | 45.00% | 2.6 | 292 | 8.23% | 0 | -0 |
| | *0.00 to <0.10* | *3 534* | *0* | *0* | *3 534* | *0.01%* | *6* | *45.00%* | *2.6* | *288* | *8.15%* | *0* | *-0* |
| | *0.10 to <0.15* | *10* | *0* | *0* | *10* | *0.13%* | *1* | *45.00%* | *2.5* | *4* | *36.61%* | *0* | *-0* |
| **Subtotal** | | **3 544** | **0** | **0** | **3 544** | **0.01%** | **7** | **45.00%** | **2.6** | **292** | **8.23%** | **0** | **-0** |

| Exposure class = Institutions | PD range | On-balance sheet exposures | Off-balance-sheet exposures pre-CCF | Exposure weighted average CCF | Exposure post CCF and post CRM | Exposure weighted average PD (%) | Number of obligors | Exposure weighted average LGD (%) | Exposure weighted average maturity (years) | Risk weighted exposure amount after supporting factors | Density of risk weighted exposure amount | Expected loss amount | Value adjust-ments and provisions |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 0.00 to <0.15 | 78 | 19 | 0 | 84 | 0.10% | 16 | 45.00% | 2.5 | 28 | 33.04% | 0 | -0 |
| | *0.00 to <0.10* | *26* | *17* | *0* | *30* | *0.07%* | *9* | *45.00%* | *2.5* | *8* | *27.25%* | *0* | *-0* |
| | *0.10 to <0.15* | *52* | *2* | *0* | *54* | *0.12%* | *7* | *45.00%* | *2.5* | *19* | *36.31%* | *0* | *-0* |
| | 0.15 to <0.25 | 90 | 3 | 0 | 90 | 0.20% | 4 | 45.00% | 2.5 | 42 | 46.29% | 0 | -0 |
| | 0.25 to <0.50 | 7 | 0 | 0 | 7 | 0.32% | 2 | 44.84% | 2.5 | 4 | 59.39% | 0 | -0 |
| | 0.50 to <0.75 | 0 | 1 | 0 | 1 | 0.52% | 2 | 45.00% | 2.5 | 1 | 76.06% | 0 | -0 |
| | 2.50 to <10.00 | 1 | 0 | 0 | 1 | 4.52% | 87 | 45.00% | 2.5 | 2 | 153.64% | 0 | -0 |
| | *5 to <10* | *0* | *0* | *0* | *0* | *0.03%* | | *45.00%* | *0.0* | *0* | | *0* | *0* |
| **Subtotal** | | **177** | **23** | **0** | **183** | **0.19%** | **111** | **44.99%** | **2.5** | **76** | **41.66%** | **0** | **-0** |

| Exposure class = Corporates - SME | PD range | On-balance sheet exposures | Off-balance-sheet exposures pre-CCF | Exposure weighted average CCF | Exposure post CCF and post CRM | Exposure weighted average PD (%) | Number of obligors | Exposure weighted average LGD (%) | Exposure weighted average maturity (years) | Risk weighted exposure amount after supporting factors | Density of risk weighted exposure amount | Expected loss amount | Value adjust-ments and provisions |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 0.00 to <0.15 | 45 | 30 | 0 | 67 | 0.14% | 36 | 44.49% | 2.5 | 19 | 27.97% | 0 | -0 |
| | *0.00 to <0.10* | *1* | *1* | *0* | *2* | *0.07%* | *4* | *44.91%* | *2.5* | *0* | *16.79%* | *0* | *-0* |
| | *0.10 to <0.15* | *44* | *29* | *0* | *65* | *0.14%* | *32* | *44.48%* | *2.5* | *19* | *28.32%* | *0* | *-0* |
| | 0.25 to <0.50 | 59 | 36 | 0 | 81 | 0.28% | 86 | 43.13% | 2.5 | 31 | 38.55% | 0 | -0 |

| | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 0.50 to <0.75 | 70 | 72 | 0 | 113 | 0.57% | 132 | 43.01% | 2.5 | 59 | 52.08% | 0 | -0 |
| | 0.75 to <2.50 | 196 | 164 | 0 | 296 | 1.60% | 249 | 42.94% | 2.5 | 222 | 74.79% | 2 | -1 |
| | *0.75 to <1.75* | *123* | *72* | *0* | *170* | *1.12%* | *149* | *42.91%* | *2.5* | *119* | *69.72%* | *1* | *-0* |
| | *1.75 to <2.5* | *73* | *92* | *0* | *126* | *2.25%* | *100* | *42.98%* | *2.5* | *103* | *81.66%* | *1* | *-0* |
| | 2.50 to <10.00 | 70 | 45 | 0 | 89 | 5.92% | 285 | 42.06% | 2.5 | 92 | 103.37% | 2 | -4 |
| | *2.5 to <5* | *44* | *41* | *0* | *61* | *4.53%* | *264* | *42.21%* | *2.5* | *57* | *92.40%* | *1* | *-2* |
| | *5 to <10* | *26* | *4* | *0* | *28* | *8.93%* | *21* | *41.75%* | *2.5* | *36* | *127.17%* | *1* | *-2* |
| | 10.00 to <100.00 | 4 | 3 | 0 | 6 | 18.10% | 13 | 39.51% | 2.5 | 10 | 157.04% | 0 | -0 |
| | *10 to <20* | *4* | *3* | *0* | *6* | *18.10%* | *13* | *39.51%* | *2.5* | *10* | *157.04%* | *0* | *-0* |
| | 100.00 (Default) | 104 | 4 | 0 | 105 | 100.00% | 39 | 44.47% | 4.7 | 0 | 0.00% | 47 | -96 |
| **Subtotal** | | **549** | **353** | **0** | **758** | **15.40%** | **840** | **43.19%** | **2.8** | **433** | **57.10%** | **52** | **-101** |

| Exposure class = Corporates - Specialized Lending | PD range | On-balance sheet exposures | Off-balance-sheet exposures pre-CCF | Exposure weighted average CCF | Exposure post CCF and post CRM | Exposure weighted average PD (%) | Number of obligors | Exposure weighted average LGD (%) | Exposure weighted average maturity (years) | Risk weighted exposure amount after supporting factors | Density of risk weighted exposure amount | Expected loss amount | Value adjust-ments and provisions |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 0.25 to <0.50 | 98 | 2 | 0 | 100 | 0.28% | 5 | 44.55% | 2.5 | 42 | 42.37% | 0 | -0 |
| | 0.50 to <0.75 | 70 | 0 | 0 | 70 | 0.57% | 9 | 44.90% | 2.5 | 51 | 73.22% | 0 | -0 |
| | 0.75 to <2.50 | 370 | 82 | 0 | 435 | 1.59% | 81 | 43.31% | 2.5 | 433 | 99.72% | 3 | -1 |
| | *0.75 to <1.75* | *208* | *62* | *0* | *258* | *1.13%* | *54* | *43.21%* | *2.5* | *233* | *90.27%* | *1* | *-0* |
| | *1.75 to <2.5* | *161* | *20* | *0* | *176* | *2.26%* | *27* | *43.46%* | *2.5* | *200* | *113.55%* | *2* | *-1* |
| | 2.50 to <10.00 | 137 | 45 | 0 | 172 | 5.31% | 30 | 43.77% | 2.5 | 219 | 127.33% | 4 | -10 |
| | *2.5 to <5* | *107* | *45* | *0* | *142* | *4.53%* | *21* | *43.59%* | *2.5* | *177* | *124.34%* | *3* | *-8* |
| | *5 to <10* | *30* | *0* | *0* | *30* | *9.05%* | *9* | *44.66%* | *2.5* | *42* | *141.62%* | *1* | *-2* |
| | 10.00 to <100.00 | 8 | 0 | 0 | 8 | 18.10% | 1 | 45.00% | 0.0 | 13 | 171.21% | 1 | -1 |
| | *10 to <20* | *8* | *0* | *0* | *8* | *18.10%* | *1* | *45.00%* | *0.0* | *13* | *171.21%* | *1* | *-1* |
| | 100.00 (Default) | 5 | 0 | 0 | 5 | 100.00% | 4 | 45.00% | 2.5 | 0 | 0.00% | 2 | -5 |
| **Subtotal** | | **687** | **130** | **0** | **789** | **2.96%** | **130** | **43.74%** | **2.5** | **759** | **96.19%** | **10** | **-18** |

| Exposure class = Corporates - Other | PD range | On-balance sheet exposures | Off-balance-sheet exposures pre-CCF | Exposure weighted average CCF | Exposure post CCF and post CRM | Exposure weighted average PD (%) | Number of obligors | Exposure weighted average LGD (%) | Exposure weighted average maturity (years) | Risk weighted exposure amount after supporting factors | Density of risk weighted exposure amount | Expected loss amount | Value adjust-ments and provisions |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 0.00 to <0.15 | 302 | 207 | 0 | 442 | 0.13% | 20 | 44.87% | 2.5 | 175 | 39.52% | 0 | -0 |
| | *0.00 to <0.10* | *6* | *89* | *0* | *58* | *0.07%* | *8* | *45.00%* | *2.5* | *18* | *30.61%* | *0* | *-0* |
| | *0.10 to <0.15* | *297* | *118* | *0* | *384* | *0.14%* | *12* | *44.85%* | *2.5* | *157* | *40.85%* | *0* | *-0* |
| | 0.25 to <0.50 | 114 | 354 | 0 | 253 | 0.28% | 32 | 43.93% | 2.5 | 147 | 58.09% | 0 | -0 |
| | 0.50 to <0.75 | 335 | 252 | 0 | 497 | 0.57% | 37 | 44.97% | 2.5 | 436 | 87.59% | 1 | -1 |
| | 0.75 to <2.50 | 210 | 192 | 0 | 336 | 1.49% | 55 | 44.26% | 2.5 | 388 | 115.35% | 2 | -2 |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *0.75 to <1.75* | *116* | *168* | *0* | *227* | *1.13%* | *27* | *44.26%* | *2.5* | *244* | *107.56%* | *1* | *-1* |
| *1.75 to <2.5* | *94* | *24* | *0* | *109* | *2.23%* | *28* | *44.26%* | *2.5* | *144* | *131.53%* | *1* | *-2* |
| 2.50 to <10.00 | 74 | 18 | 0 | 80 | 5.90% | 166 | 43.77% | 2.5 | 139 | 173.19% | 2 | -2 |
| *2.5 to <5* | *47* | *16* | *0* | *54* | *4.48%* | *159* | *44.54%* | *2.5* | *86* | *160.87%* | *1* | *-0* |
| *5 to <10* | *27* | *3* | *0* | *27* | *8.75%* | *7* | *42.24%* | *2.5* | *53* | *197.74%* | *1* | *-1* |
| 10.00 to <100.00 | 24 | 5 | 0 | 27 | 18.07% | 9 | 43.14% | 2.5 | 69 | 253.96% | 2 | -1 |
| *10 to <20* | *24* | *5* | *0* | *27* | *18.07%* | *9* | *43.14%* | *2.5* | *69* | *253.96%* | *2* | *-1* |
| 100.00 (Default) | 269 | 2 | 0 | 269 | 100.00% | 25 | 45.00% | 4.9 | 0 | 0.00% | 121 | -265 |
| **Subtotal** | **1 329** | **1 030** | **0** | **1 905** | **15.09%** | **344** | **44.61%** | **2.8** | **1 353** | **71.05%** | **129** | **-272** |
| **Total (all IRB_F exposure classes)** | **6 286** | **1 535** | **0** | **7 179** | **5.96%** | **1 432** | **44.57%** | **2.7** | **2 913** | **40.58%** | **191** | **-391** |

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

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

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

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

*At 31 December 2022 (in EUR)*

| a | b | c | d | e | f | g | h | i | j | k | l | m |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Exposure class = Central governments and central banks | PD range | On-balance sheet exposures | Off-balance-sheet exposures pre-CCF | Exposure weighted average CCF | Exposure post CCF and post CRM | Exposure weighted average PD (%) | Number of obligors | Exposure weighted average LGD (%) | Exposure weighted average maturity (years) | Risk weighted exposure amount after supporting factors | Density of risk weighted exposure amount | Expected loss amount | Value adjust-ments and provisions |
| | 0.00 to <0.15 | 40 952 | 256 | 0 | 41 181 | 0.03% | 157 | 24.90% | 3.7 | 4 299 | 10.44% | 4 | -3 |
| | *0.00 to <0.10* | *36 413* | *255* | *0* | *36 639* | *0.02%* | *132* | *23.32%* | *3.8* | *2 703* | *7.38%* | *1* | *-1* |
| | *0.10 to <0.15* | *4 540* | *1* | *0* | *4 542* | *0.13%* | *25* | *37.54%* | *3.0* | *1 596* | *35.14%* | *2* | *-2* |
| | 0.15 to <0.25 | 1 305 | 31 | 0 | 1 342 | 0.19% | 22 | 18.02% | 4.1 | 318 | 23.68% | 0 | -1 |
| | 0.25 to <0.50 | 112 | 13 | 0 | 121 | 0.38% | 14 | 20.60% | 3.3 | 29 | 24.16% | 0 | -0 |
| | 0.50 to <0.75 | 23 | 21 | 0 | 25 | 0.58% | 189 | 32.19% | 2.3 | 14 | 57.01% | 0 | -0 |
| | 0.75 to <2.50 | 228 | 184 | 0 | 241 | 1.38% | 25 | 2.40% | 4.1 | 17 | 6.98% | 0 | -1 |
| | *0.75 to <1.75* | *152* | *22* | *0* | *154* | *1.10%* | *12* | *2.26%* | *4.0* | *9* | *6.01%* | *0* | *-0* |
| | *1.75 to <2.5* | *76* | *162* | *0* | *87* | *1.89%* | *13* | *2.65%* | *4.2* | *8* | *8.70%* | *0* | *-1* |
| | 2.50 to <10.00 | 67 | 60 | 0 | 71 | 3.51% | 113 | 5.56% | 3.5 | 14 | 19.40% | 0 | -1 |
| | *2.5 to <5* | *63* | *54* | *0* | *67* | *3.37%* | *74* | *5.16%* | *3.5* | *12* | *17.95%* | *0* | *-1* |
| | *5 to <10* | *4* | *6* | *0* | *4* | *5.67%* | *39* | *11.59%* | *2.5* | *2* | *41.08%* | *0* | *-0* |
| | 10.00 to <100.00 | 0 | 3 | 0 | 0 | 78.04% | 4 | 2.59% | 5.0 | 0 | 7.16% | 0 | -2 |
| | *10 to <20* | *0* | *0* | *0* | *0* | *0.00%* | *2* | *0.00%* | *0.0* | *0* | | *0* | *0* |

| | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *30.00 to <100.00* | *0* | *3* | *0* | *0* | *78.04%* | *2* | *2.59%* | *5.0* | *0* | *7.16%* | *0* | *-2* |
| | 100.00 (Default) | 60 | 0 | 0 | 60 | 100.00% | 7 | 5.41% | 3.8 | 23 | 39.14% | 2 | -8 |
| **Subtotal** | | **42 746** | **568** | **0** | **43 040** | **0.19%** | **531** | **24.48%** | **3.7** | **4 714** | **10.95%** | **6** | **-15** |

| Exposure class = Institutions | PD range | On-balance sheet exposures | Off-balance-sheet exposures pre-CCF | Exposure weighted average CCF | Exposure post CCF and post CRM | Exposure weighted average PD (%) | Number of obligors | Exposure weighted average LGD (%) | Exposure weighted average maturity (years) | Risk weighted exposure amount after supporting factors | Density of risk weighted exposure amount | Expected loss amount | Value adjust-ments and provisions |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 0.00 to <0.15 | 8 656 | 3 077 | 0 | 10 344 | 0.07% | 1 668 | 23.62% | 3.4 | 1 781 | 17.22% | 2 | -1 |
| | *0.00 to <0.10* | *6 803* | *2 448* | *0* | *8 226* | *0.05%* | *1 206* | *24.39%* | *3.3* | *1 312* | *15.94%* | *1* | *-1* |
| | *0.10 to <0.15* | *1 853* | *629* | *0* | *2 118* | *0.12%* | *462* | *20.63%* | *3.8* | *470* | *22.18%* | *1* | *-0* |
| | 0.15 to <0.25 | 979 | 311 | 0 | 1 163 | 0.18% | 282 | 13.07% | 3.6 | 200 | 17.18% | 0 | -0 |
| | 0.25 to <0.50 | 338 | 116 | 0 | 392 | 0.32% | 359 | 13.29% | 3.0 | 87 | 22.29% | 0 | -0 |
| | 0.50 to <0.75 | 320 | 109 | 0 | 379 | 0.53% | 457 | 12.95% | 3.5 | 99 | 26.21% | 0 | -0 |
| | 0.75 to <2.50 | 136 | 48 | 0 | 156 | 1.56% | 226 | 11.15% | 2.9 | 49 | 31.43% | 0 | -0 |
| | *0.75 to <1.75* | *100* | *32* | *0* | *114* | *1.30%* | *132* | *13.12%* | *2.6* | *42* | *36.55%* | *0* | *-0* |
| | *1.75 to <2.5* | *37* | *17* | *0* | *42* | *2.28%* | *94* | *5.79%* | *3.7* | *7* | *17.48%* | *0* | *-0* |
| | 2.50 to <10.00 | 324 | 326 | 0 | 548 | 4.60% | 794 | 11.42% | 2.8 | 244 | 44.46% | 3 | -0 |
| | *2.5 to <5* | *272* | *320* | *0* | *492* | *4.14%* | *706* | *12.35%* | *2.8* | *236* | *48.02%* | *3* | *-0* |
| | *5 to <10* | *53* | *7* | *0* | *56* | *8.67%* | *88* | *3.30%* | *2.5* | *7* | *13.33%* | *0* | *-0* |
| | 10.00 to <100.00 | 4 | 0 | 0 | 4 | 19.88% | 22 | 12.63% | 4.3 | 3 | 74.48% | 0 | -0 |
| | *10 to <20* | *3* | *0* | *0* | *3* | *16.34%* | *17* | *14.21%* | *4.4* | *2* | *83.43%* | *0* | *-0* |
| | *20 to <30* | *0* | *0* | *0* | *0* | *24.97%* | *2* | *71.55%* | *1.0* | *0* | *391.96%* | *0* | *-0* |
| | *30.00 to <100.00* | *1* | *0* | *0* | *1* | *32.98%* | *3* | *6.45%* | *4.1* | *0* | *39.74%* | *0* | *-0* |
| | 100.00 (Default) | 9 | 0 | 0 | 9 | 100.00% | 10 | 52.19% | 1.4 | 0 | 2.59% | 9 | -2 |
| **Subtotal** | | **10 766** | **3 988** | **0** | **12 994** | **0.38%** | **3 818** | **21.40%** | **3.4** | **2 463** | **18.96%** | **15** | **-4** |

| Exposure class = Corporates - SME | PD range | On-balance sheet exposures | Off-balance-sheet exposures pre-CCF | Exposure weighted average CCF | Exposure post CCF and post CRM | Exposure weighted average PD (%) | Number of obligors | Exposure weighted average LGD (%) | Exposure weighted average maturity (years) | Risk weighted exposure amount after supporting factors | Density of risk weighted exposure amount | Expected loss amount | Value adjust-ments and provisions |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 0.00 to <0.15 | 2 925 | 810 | 0 | 3 227 | 0.10% | 10 729 | 18.53% | 3.7 | 336 | 10.41% | 1 | -1 |
| | *0.00 to <0.10* | *1 381* | *213* | *0* | *1 493* | *0.07%* | *4 473* | *17.48%* | *3.8* | *125* | *8.35%* | *0* | *-0* |
| | *0.10 to <0.15* | *1 544* | *597* | *0* | *1 734* | *0.13%* | *6 256* | *19.44%* | *3.5* | *211* | *12.17%* | *0* | *-0* |
| | 0.15 to <0.25 | 1 861 | 535 | 0 | 2 126 | 0.20% | 3 347 | 20.66% | 3.4 | 327 | 15.37% | 1 | -1 |
| | 0.25 to <0.50 | 3 812 | 1 312 | 0 | 4 301 | 0.35% | 7 065 | 21.80% | 3.3 | 932 | 21.67% | 3 | -3 |
| | 0.50 to <0.75 | 2 901 | 1 476 | 0 | 3 340 | 0.61% | 7 131 | 25.00% | 3.0 | 1 028 | 30.79% | 5 | -5 |
| | 0.75 to <2.50 | 6 304 | 2 373 | 0 | 7 126 | 1.53% | 12 391 | 24.41% | 2.9 | 2 895 | 40.63% | 26 | -43 |
| | *0.75 to <1.75* | *4 045* | *1 481* | *0* | *4 545* | *1.15%* | *7 849* | *25.12%* | *3.0* | *1 779* | *39.15%* | *13* | *-18* |

| | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *1.75 to <2.5* | *2 259* | *892* | *0* | *2 581* | *2.20%* | *4 542* | *23.17%* | *2.8* | *1 116* | *43.23%* | *13* | *-25* |
| | 2.50 to <10.00 | 2 660 | 851 | 0 | 2 844 | 4.98% | 22 015 | 24.09% | 2.8 | 1 521 | 53.48% | 33 | -54 |
| | *2.5 to <5* | *1 844* | *546* | *0* | *1 977* | *3.92%* | *19 864* | *25.25%* | *2.9* | *1 037* | *52.46%* | *19* | *-34* |
| | *5 to <10* | *816* | *304* | *0* | *868* | *7.43%* | *2 151* | *21.31%* | *2.7* | *484* | *55.79%* | *14* | *-20* |
| | 10.00 to <100.00 | 508 | 97 | 0 | 534 | 18.13% | 1 593 | 19.14% | 2.9 | 360 | 67.42% | 18 | -20 |
| | *10 to <20* | *395* | *86* | *0* | *415* | *14.86%* | *1 119* | *19.04%* | *2.8* | *265* | *63.93%* | *11* | *-16* |
| | *20 to <30* | *42* | *7* | *0* | *47* | *24.40%* | *200* | *22.15%* | *2.9* | *43* | *91.31%* | *3* | *-1* |
| | *30.00 to <100.00* | *70* | *5* | *0* | *72* | *33.63%* | *274* | *17.87%* | *3.4* | *52* | *72.00%* | *4* | *-2* |
| | 100.00 (Default) | 877 | 50 | 0 | 890 | 100.00% | 1 429 | 40.78% | 2.5 | 621 | 69.70% | 352 | -380 |
| **Subtotal** | | **21 848** | **7 503** | **0** | **24 389** | **5.26%** | **65 700** | **23.37%** | **3.1** | **8 020** | **32.88%** | **439** | **-506** |

| Exposure class = Corporates - Specialized Lending | PD range | On-balance sheet exposures | Off-balance-sheet exposures pre-CCF | Exposure weighted average CCF | Exposure post CCF and post CRM | Exposure weighted average PD (%) | Number of obligors | Exposure weighted average LGD (%) | Exposure weighted average maturity (years) | Risk weighted exposure amount after supporting factors | Density of risk weighted exposure amount | Expected loss amount | Value adjust-ments and provisions |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 0.00 to <0.15 | 255 | 6 | 0 | 262 | 0.11% | 15 | 28.27% | 5.0 | 75 | 28.50% | 0 | -0 |
| | *0.00 to <0.10* | *91* | *3* | *0* | *94* | *0.07%* | *3* | *48.72%* | *4.9* | *45* | *47.76%* | *0* | *-0* |
| | *0.10 to <0.15* | *164* | *4* | *0* | *167* | *0.14%* | *12* | *16.71%* | *5.0* | *29* | *17.61%* | *0* | *-0* |
| | 0.15 to <0.25 | 230 | 53 | 0 | 269 | 0.21% | 15 | 21.37% | 3.8 | 64 | 23.97% | 0 | -0 |
| | 0.25 to <0.50 | 1 331 | 928 | 0 | 1 888 | 0.30% | 131 | 18.34% | 4.6 | 542 | 28.69% | 1 | -1 |
| | 0.50 to <0.75 | 1 253 | 563 | 0 | 1 599 | 0.60% | 192 | 16.40% | 4.3 | 520 | 32.50% | 2 | -1 |
| | 0.75 to <2.50 | 4 192 | 835 | 0 | 4 795 | 1.59% | 895 | 18.36% | 3.5 | 2 194 | 45.76% | 14 | -26 |
| | *0.75 to <1.75* | *2 555* | *425* | *0* | *2 876* | *1.18%* | *547* | *17.84%* | *3.8* | *1 220* | *42.43%* | *6* | *-10* |
| | *1.75 to <2.5* | *1 637* | *410* | *0* | *1 919* | *2.20%* | *348* | *19.13%* | *3.1* | *974* | *50.74%* | *8* | *-17* |
| | 2.50 to <10.00 | 916 | 475 | 0 | 1 274 | 5.05% | 571 | 28.26% | 3.2 | 1 193 | 93.68% | 18 | -25 |
| | *2.5 to <5* | *671* | *331* | *0* | *929* | *4.03%* | *475* | *29.39%* | *3.2* | *826* | *88.86%* | *11* | *-12* |
| | *5 to <10* | *245* | *144* | *0* | *344* | *7.80%* | *96* | *25.22%* | *3.2* | *367* | *106.68%* | *7* | *-13* |
| | 10.00 to <100.00 | 48 | 2 | 0 | 50 | 17.83% | 73 | 10.91% | 2.3 | 21 | 41.30% | 1 | -2 |
| | *10 to <20* | *45* | *1* | *0* | *46* | *17.24%* | *35* | *9.36%* | *4.2* | *15* | *32.81%* | *1* | *-2* |
| | *20 to <30* | *2* | *1* | *0* | *3* | *23.27%* | *6* | *33.62%* | *1.1* | *4* | *154.64%* | *0* | *-0* |
| | *30.00 to <100.00* | *1* | *0* | *0* | *1* | *30.00%* | *32* | *22.72%* | *1.0* | *1* | *132.66%* | *0* | *0* |
| | 100.00 (Default) | 335 | 2 | 0 | 339 | 100.00% | 50 | 35.69% | 1.8 | 1 | 0.42% | 117 | -67 |
| **Subtotal** | | **8 560** | **2 864** | **0** | **10 475** | **4.82%** | **1 942** | **20.11%** | **3.8** | **4 609** | **44.01%** | **153** | **-123** |

| Exposure class = Corporates - Other | PD range | On-balance sheet exposures | Off-balance-sheet exposures pre-CCF | Exposure weighted average CCF | Exposure post CCF and post CRM | Exposure weighted average PD (%) | Number of obligors | Exposure weighted average LGD (%) | Exposure weighted average maturity (years) | Risk weighted exposure amount after supporting factors | Density of risk weighted exposure amount | Expected loss amount | Value adjust-ments and provisions |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 0.00 to <0.15 | 4 764 | 5 987 | 0 | 5 850 | 0.09% | 1 282 | 30.97% | 3.3 | 1 425 | 24.36% | 2 | -2 |

| | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *0.00 to <0.10* | *2 941* | *2 866* | *0* | *3 468* | *0.05%* | *614* | *28.31%* | *3.5* | *588* | *16.95%* | *1* | *-0* |
| | *0.10 to <0.15* | *1 823* | *3 121* | *0* | *2 382* | *0.13%* | *668* | *34.85%* | *3.1* | *837* | *35.15%* | *1* | *-1* |
| | 0.15 to <0.25 | 2 321 | 2 931 | 0 | 3 003 | 0.19% | 753 | 28.09% | 2.7 | 886 | 29.50% | 2 | -1 |
| | 0.25 to <0.50 | 6 799 | 8 062 | 0 | 8 243 | 0.33% | 1 615 | 30.27% | 2.4 | 3 363 | 40.79% | 8 | -4 |
| | 0.50 to <0.75 | 5 443 | 6 304 | 0 | 6 599 | 0.62% | 2 475 | 27.85% | 2.4 | 3 199 | 48.48% | 11 | -8 |
| | 0.75 to <2.50 | 8 725 | 6 380 | 0 | 10 339 | 1.41% | 4 143 | 30.92% | 2.5 | 7 770 | 75.16% | 44 | -46 |
| | *0.75 to <1.75* | *6 752* | *4 900* | *0* | *7 901* | *1.19%* | *2 472* | *31.35%* | *2.6* | *5 826* | *73.74%* | *29* | *-34* |
| | *1.75 to <2.5* | *1 973* | *1 480* | *0* | *2 438* | *2.12%* | *1 671* | *29.53%* | *2.2* | *1 945* | *79.77%* | *15* | *-11* |
| | 2.50 to <10.00 | 3 571 | 2 246 | 0 | 4 048 | 4.09% | 18 768 | 27.83% | 2.4 | 3 583 | 88.53% | 44 | -25 |
| | *2.5 to <5* | *2 845* | *1 952* | *0* | *3 233* | *3.57%* | *18 129* | *29.30%* | *2.4* | *2 945* | *91.09%* | *33* | *-18* |
| | *5 to <10* | *725* | *294* | *0* | *814* | *6.36%* | *639* | *21.92%* | *2.5* | *638* | *78.36%* | *11* | *-7* |
| | 10.00 to <100.00 | 637 | 237 | 0 | 714 | 25.41% | 558 | 21.79% | 2.2 | 823 | 115.33% | 36 | -50 |
| | *10 to <20* | *279* | *141* | *0* | *315* | *14.62%* | *458* | *21.16%* | *2.0* | *328* | *104.10%* | *9* | *-9* |
| | *20 to <30* | *276* | *31* | *0* | *283* | *21.77%* | *44* | *22.71%* | *2.4* | *372* | *131.28%* | *14* | *-6* |
| | *30.00 to <100.00* | *82* | *64* | *0* | *115* | *64.01%* | *56* | *21.09%* | *2.4* | *123* | *106.81%* | *13* | *-35* |
| | 100.00 (Default) | 1 041 | 72 | 0 | 1 059 | 100.00% | 476 | 44.73% | 2.1 | 206 | 19.45% | 565 | -564 |
| **Subtotal** | | **33 300** | **32 219** | **0** | **39 854** | **4.10%** | **30 070** | **29.96%** | **2.6** | **21 255** | **53.33%** | **712** | **-700** |

| Exposure class = Retail - Retail Secured by Immovable Property SME | PD range | On-balance sheet exposures | Off-balance-sheet exposures pre-CCF | Exposure weighted average CCF | Exposure post CCF and post CRM | Exposure weighted average PD (%) | Number of obligors | Exposure weighted average LGD (%) | Exposure weighted average maturity (years) | Risk weighted exposure amount after supporting factors | Density of risk weighted exposure amount | Expected loss amount | Value adjust-ments and provisions |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 0.00 to <0.15 | 2 309 | 437 | 0 | 2 617 | 0.09% | 13 402 | 13.67% | 0.0 | 61 | 2.33% | 0 | -0 |
| | *0.00 to <0.10* | *1 440* | *278* | *0* | *1 653* | *0.06%* | *7 896* | *13.86%* | *0.0* | *31* | *1.90%* | *0* | *-0* |
| | *0.10 to <0.15* | *870* | *159* | *0* | *964* | *0.12%* | *5 506* | *13.33%* | *0.0* | *30* | *3.08%* | *0* | *-0* |
| | 0.15 to <0.25 | 1 401 | 248 | 0 | 1 552 | 0.20% | 7 632 | 12.95% | 0.0 | 64 | 4.13% | 0 | -0 |
| | 0.25 to <0.50 | 2 013 | 344 | 0 | 2 212 | 0.36% | 9 423 | 14.23% | 0.0 | 155 | 7.00% | 1 | -1 |
| | 0.50 to <0.75 | 1 044 | 156 | 0 | 1 136 | 0.61% | 5 371 | 16.76% | 0.0 | 136 | 11.97% | 1 | -1 |
| | 0.75 to <2.50 | 1 894 | 392 | 0 | 2 080 | 1.37% | 8 628 | 15.87% | 0.0 | 410 | 19.72% | 5 | -5 |
| | *0.75 to <1.75* | *1 454* | *305* | *0* | *1 601* | *1.15%* | *6 371* | *15.19%* | *0.0* | *268* | *16.73%* | *3* | *-1* |
| | *1.75 to <2.5* | *440* | *88* | *0* | *478* | *2.10%* | *2 257* | *18.12%* | *0.0* | *142* | *29.71%* | *2* | *-3* |
| | 2.50 to <10.00 | 939 | 186 | 0 | 1 025 | 4.87% | 4 191 | 15.07% | 0.0 | 393 | 38.33% | 8 | -8 |
| | *2.5 to <5* | *573* | *123* | *0* | *635* | *3.49%* | *2 482* | *15.25%* | *0.0* | *210* | *33.10%* | *3* | *-3* |
| | *5 to <10* | *366* | *63* | *0* | *390* | *7.13%* | *1 709* | *14.76%* | *0.0* | *183* | *46.85%* | *4* | *-6* |
| | 10.00 to <100.00 | 361 | 26 | 0 | 375 | 20.31% | 1 670 | 11.63% | 0.0 | 187 | 49.98% | 9 | -8 |
| | *10 to <20* | *208* | *20* | *0* | *219* | *14.01%* | *900* | *11.76%* | *0.0* | *105* | *48.11%* | *4* | *-3* |
| | *20 to <30* | *74* | *5* | *0* | *76* | *24.55%* | *397* | *11.93%* | *0.0* | *42* | *55.64%* | *2* | *-3* |
| | *30.00 to <100.00* | *79* | *1* | *0* | *80* | *33.62%* | *373* | *10.98%* | *0.0* | *40* | *49.67%* | *3* | *-2* |
| | 100.00 (Default) | 89 | 3 | 0 | 92 | 100.00% | 277 | 10.49% | 0.0 | 56 | 60.82% | 7 | -4 |
| **Subtotal** | | **10 051** | **1 793** | **0** | **11 088** | **2.40%** | **50 594** | **14.44%** | **0.0** | **1 462** | **13.19%** | **31** | **-27** |

| Exposure class = Retail - Retail Secured by Immovable Property non-SME | PD range | On-balance sheet exposures | Off-balance-sheet exposures pre-CCF | Exposure weighted average CCF | Exposure post CCF and post CRM | Exposure weighted average PD (%) | Number of obligors | Exposure weighted average LGD (%) | Exposure weighted average maturity (years) | Risk weighted exposure amount after supporting factors | Density of risk weighted exposure amount | Expected loss amount | Value adjust-ments and provisions |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 0.00 to <0.15 | 34 660 | 1 398 | 0 | 36 057 | 0.05% | 270 468 | 14.34% | 0.0 | 748 | 2.07% | 3 | -2 |
| | *0.00 to <0.10* | *30 755* | *1 181* | *0* | *31 935* | *0.04%* | *241 053* | *14.17%* | *0.0* | *560* | *1.75%* | *2* | *-1* |
| | *0.10 to <0.15* | *3 905* | *217* | *0* | *4 122* | *0.12%* | *29 415* | *15.64%* | *0.0* | *187* | *4.55%* | *1* | *-1* |
| | 0.15 to <0.25 | 6 043 | 403 | 0 | 6 446 | 0.18% | 67 121 | 13.89% | 0.0 | 369 | 5.73% | 2 | -2 |
| | 0.25 to <0.50 | 17 402 | 1 318 | 0 | 18 728 | 0.43% | 231 128 | 16.12% | 0.0 | 2 262 | 12.08% | 13 | -17 |
| | 0.50 to <0.75 | 2 802 | 303 | 0 | 3 108 | 0.58% | 41 118 | 14.84% | 0.0 | 424 | 13.64% | 3 | -6 |
| | 0.75 to <2.50 | 13 034 | 788 | 0 | 13 825 | 1.35% | 138 263 | 19.11% | 0.0 | 4 292 | 31.05% | 36 | -15 |
| | *0.75 to <1.75* | *11 720* | *775* | *0* | *12 498* | *1.27%* | *127 097* | *18.69%* | *0.0* | *3 632* | *29.06%* | *30* | *-13* |
| | *1.75 to <2.5* | *1 314* | *12* | *0* | *1 327* | *2.13%* | *11 166* | *23.09%* | *0.0* | *660* | *49.75%* | *7* | *-2* |
| | 2.50 to <10.00 | 2 918 | 194 | 0 | 3 111 | 4.15% | 28 819 | 20.06% | 0.0 | 1 924 | 61.84% | 25 | -20 |
| | *2.5 to <5* | *2 297* | *186* | *0* | *2 483* | *3.48%* | *22 568* | *20.31%* | *0.0* | *1 429* | *57.56%* | *17* | *-11* |
| | *5 to <10* | *620* | *8* | *0* | *628* | *6.79%* | *6 251* | *19.11%* | *0.0* | *495* | *78.77%* | *8* | *-9* |
| | 10.00 to <100.00 | 1 197 | 20 | 0 | 1 217 | 31.10% | 12 740 | 17.71% | 0.0 | 1 136 | 93.31% | 66 | -55 |
| | *10 to <20* | *531* | *12* | *0* | *542* | *13.99%* | *4 786* | *17.48%* | *0.0* | *512* | *94.42%* | *13* | *-14* |
| | *20 to <30* | *175* | *3* | *0* | *178* | *22.26%* | *1 367* | *17.69%* | *0.0* | *197* | *110.70%* | *7* | *-10* |
| | *30.00 to <100.00* | *491* | *5* | *0* | *497* | *53.00%* | *6 587* | *17.97%* | *0.0* | *427* | *85.88%* | *46* | *-31* |
| | 100.00 (Default) | 588 | 2 | 0 | 588 | 100.00% | 8 385 | 28.32% | 0.0 | 293 | 49.86% | 212 | -171 |
| **Subtotal** | | **78 644** | **4 426** | **0** | **83 080** | **1.70%** | **798 042** | **15.88%** | **0.0** | **11 448** | **13.78%** | **360** | **-287** |

| Exposure class = Retail - Qualifying revolving | PD range | On-balance sheet exposures | Off-balance-sheet exposures pre-CCF | Exposure weighted average CCF | Exposure post CCF and post CRM | Exposure weighted average PD (%) | Number of obligors | Exposure weighted average LGD (%) | Exposure weighted average maturity (years) | Risk weighted exposure amount after supporting factors | Density of risk weighted exposure amount | Expected loss amount | Value adjust-ments and provisions |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 0.00 to <0.15 | 58 | 874 | 0 | 798 | 0.04% | 411 826 | 52.50% | 0.0 | 13 | 1.58% | 0 | -0 |
| | *0.00 to <0.10* | *42* | *755* | *0* | *717* | *0.03%* | *353 707* | *53.00%* | *0.0* | *10* | *1.35%* | *0* | *-0* |
| | *0.10 to <0.15* | *16* | *120* | *0* | *80* | *0.12%* | *58 119* | *48.02%* | *0.0* | *3* | *3.60%* | *0* | *-0* |
| | 0.15 to <0.25 | 17 | 41 | 0 | 29 | 0.23% | 18 311 | 83.70% | 0.0 | 3 | 10.61% | 0 | -0 |
| | 0.25 to <0.50 | 8 | 55 | 0 | 89 | 0.30% | 51 222 | 43.71% | 0.0 | 6 | 6.82% | 0 | -0 |
| | 0.50 to <0.75 | 24 | 40 | 0 | 43 | 0.55% | 23 185 | 60.87% | 0.0 | 7 | 15.48% | 0 | -0 |
| | 0.75 to <2.50 | 33 | 37 | 0 | 74 | 1.40% | 40 367 | 55.38% | 0.0 | 22 | 29.22% | 1 | -0 |
| | *0.75 to <1.75* | *17* | *23* | *0* | *48* | *1.00%* | *25 800* | *53.24%* | *0.0* | *10* | *21.63%* | *0* | *-0* |
| | *1.75 to <2.5* | *17* | *14* | *0* | *26* | *2.13%* | *14 567* | *59.32%* | *0.0* | *11* | *43.16%* | *0* | *-0* |
| | 2.50 to <10.00 | 30 | 17 | 0 | 41 | 5.26% | 22 839 | 59.67% | 0.0 | 32 | 78.62% | 1 | -1 |
| | *2.5 to <5* | *19* | *14* | *0* | *28* | *4.15%* | *15 467* | *58.32%* | *0.0* | *18* | *66.09%* | *1* | *-1* |

| | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *5 to <10* | *10* | *4* | *0* | *13* | *7.59%* | *7 372* | *62.50%* | *0.0* | *14* | *104.89%* | *1* | *-1* |
| | 10.00 to <100.00 | 10 | 2 | 0 | 11 | 32.59% | 6 687 | 50.57% | 0.0 | 15 | 131.97% | 2 | -2 |
| | *10 to <20* | *3* | *1* | *0* | *4* | *13.83%* | *2 589* | *53.10%* | *0.0* | *5* | *125.90%* | *0* | *-0* |
| | *20 to <30* | *2* | *0* | *0* | *2* | *21.12%* | *1 402* | *46.55%* | *0.0* | *3* | *132.15%* | *0* | *-0* |
| | *30.00 to <100.00* | *5* | *1* | *0* | *5* | *53.92%* | *2 696* | *50.24%* | *0.0* | *7* | *137.09%* | *1* | *-1* |
| | 100.00 (Default) | 4 | 0 | 0 | 4 | 100.00% | 1 920 | 66.01% | 0.0 | 1 | 16.54% | 2 | -1 |
| **Subtotal** | | **184** | **1 065** | **0** | **1 088** | **1.06%** | **576 357** | **53.42%** | **0.0** | **98** | **8.98%** | **7** | **-5** |

| Exposure class = Retail - Other SME | PD range | On-balance sheet exposures | Off-balance-sheet exposures pre-CCF | Exposure weighted average CCF | Exposure post CCF and post CRM | Exposure weighted average PD (%) | Number of obligors | Exposure weighted average LGD (%) | Exposure weighted average maturity (years) | Risk weighted exposure amount after supporting factors | Density of risk weighted exposure amount | Expected loss amount | Value adjust-ments and provisions |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 0.00 to <0.15 | 929 | 510 | 0 | 1 139 | 0.09% | 88 204 | 30.71% | 0.0 | 61 | 5.37% | 0 | -0 |
| | *0.00 to <0.10* | *529* | *286* | *0* | *653* | *0.06%* | *65 827* | *31.47%* | *0.0* | *27* | *4.16%* | *0* | *-0* |
| | *0.10 to <0.15* | *400* | *224* | *0* | *487* | *0.12%* | *22 377* | *29.69%* | *0.0* | *34* | *6.99%* | *0* | *-0* |
| | 0.15 to <0.25 | 652 | 404 | 0 | 808 | 0.20% | 37 507 | 29.81% | 0.0 | 77 | 9.56% | 0 | -1 |
| | 0.25 to <0.50 | 946 | 451 | 0 | 1 142 | 0.36% | 38 364 | 29.78% | 0.0 | 161 | 14.07% | 1 | -1 |
| | 0.50 to <0.75 | 982 | 1 386 | 0 | 1 289 | 0.61% | 68 032 | 30.62% | 0.0 | 274 | 21.26% | 2 | -2 |
| | 0.75 to <2.50 | 1 288 | 1 396 | 0 | 1 646 | 1.42% | 91 329 | 30.29% | 0.0 | 463 | 28.15% | 7 | -12 |
| | *0.75 to <1.75* | *978* | *875* | *0* | *1 238* | *1.18%* | *62 195* | *28.40%* | *0.0* | *306* | *24.74%* | *4* | *-6* |
| | *1.75 to <2.5* | *310* | *521* | *0* | *408* | *2.16%* | *29 134* | *36.06%* | *0.0* | *157* | *38.50%* | *3* | *-6* |
| | 2.50 to <10.00 | 1 330 | 2 963 | 0 | 1 661 | 4.31% | 220 251 | 24.49% | 0.0 | 533 | 32.09% | 18 | -30 |
| | *2.5 to <5* | *851* | *2 583* | *0* | *1 122* | *3.28%* | *193 229* | *23.95%* | *0.0* | *350* | *31.21%* | *9* | *-12* |
| | *5 to <10* | *479* | *380* | *0* | *538* | *6.43%* | *27 022* | *25.60%* | *0.0* | *183* | *33.92%* | *9* | *-17* |
| | 10.00 to <100.00 | 270 | 133 | 0 | 291 | 22.59% | 19 133 | 29.84% | 0.0 | 153 | 52.53% | 21 | -29 |
| | *10 to <20* | *146* | *119* | *0* | *163* | *14.72%* | *11 130* | *27.54%* | *0.0* | *72* | *44.39%* | *7* | *-10* |
| | *20 to <30* | *69* | *6* | *0* | *71* | *24.21%* | *5 178* | *33.07%* | *0.0* | *46* | *64.71%* | *6* | *-10* |
| | *30.00 to <100.00* | *54* | *7* | *0* | *56* | *43.36%* | *2 825* | *32.41%* | *0.0* | *34* | *60.74%* | *8* | *-9* |
| | 100.00 (Default) | 285 | 9 | 0 | 288 | 100.00% | 9 261 | 53.83% | 0.0 | 148 | 51.35% | 180 | -144 |
| **Subtotal** | | **6 683** | **7 251** | **0** | **8 265** | **5.61%** | **572 081** | **29.92%** | **0.0** | **1 870** | **22.63%** | **230** | **-220** |

| Exposure class = Retail - Other non-SME | PD range | On-balance sheet exposures | Off-balance-sheet exposures pre-CCF | Exposure weighted average CCF | Exposure post CCF and post CRM | Exposure weighted average PD (%) | Number of obligors | Exposure weighted average LGD (%) | Exposure weighted average maturity (years) | Risk weighted exposure amount after supporting factors | Density of risk weighted exposure amount | Expected loss amount | Value adjust-ments and provisions |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 0.00 to <0.15 | 1 128 | 141 | 0 | 1 230 | 0.05% | 85 063 | 36.00% | 0.0 | 70 | 5.67% | 0 | -0 |
| | *0.00 to <0.10* | *924* | *126* | *0* | *1 017* | *0.04%* | *62 305* | *35.16%* | *0.0* | *43* | *4.22%* | *0* | *-0* |
| | *0.10 to <0.15* | *204* | *14* | *0* | *213* | *0.13%* | *22 758* | *40.01%* | *0.0* | *27* | *12.59%* | *0* | *-0* |
| | 0.15 to <0.25 | 682 | 344 | 0 | 889 | 0.19% | 266 630 | 29.96% | 0.0 | 113 | 12.67% | 1 | -0 |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 0.25 to <0.50 | 635 | 102 | 0 | 717 | 0.41% | 228 840 | 40.48% | 0.0 | 200 | 27.93% | 1 | -3 |
| 0.50 to <0.75 | 837 | 27 | 0 | 864 | 0.71% | 139 684 | 40.67% | 0.0 | 323 | 37.43% | 2 | -2 |
| 0.75 to <2.50 | 654 | 235 | 0 | 853 | 1.40% | 194 698 | 33.55% | 0.0 | 352 | 41.26% | 4 | -4 |
| *0.75 to <1.75* | *563* | *179* | *0* | *713* | *1.30%* | *143 560* | *33.26%* | *0.0* | *284* | *39.82%* | *3* | *-3* |
| *1.75 to <2.5* | *91* | *57* | *0* | *141* | *1.91%* | *51 138* | *34.99%* | *0.0* | *68* | *48.53%* | *1* | *-1* |
| 2.50 to <10.00 | 683 | 94 | 0 | 770 | 4.02% | 545 300 | 38.41% | 0.0 | 453 | 58.89% | 12 | -18 |
| *2.5 to <5* | *559* | *86* | *0* | *640* | *3.41%* | *521 537* | *38.86%* | *0.0* | *375* | *58.57%* | *8* | *-11* |
| *5 to <10* | *123* | *7* | *0* | *130* | *7.05%* | *23 763* | *36.20%* | *0.0* | *79* | *60.49%* | *3* | *-7* |
| 10.00 to <100.00 | 137 | 4 | 0 | 141 | 31.76% | 68 066 | 38.09% | 0.0 | 122 | 86.98% | 17 | -22 |
| *10 to <20* | *35* | *1* | *0* | *35* | *13.03%* | *35 408* | *38.21%* | *0.0* | *26* | *74.16%* | *2* | *-2* |
| *20 to <30* | *50* | *2* | *0* | *51* | *22.85%* | *21 792* | *35.87%* | *0.0* | *47* | *91.55%* | *4* | *-7* |
| *30.00 to <100.00* | *53* | *1* | *0* | *54* | *52.36%* | *10 866* | *40.12%* | *0.0* | *49* | *90.94%* | *11* | *-14* |
| 100.00 (Default) | 170 | 3 | 0 | 170 | 100.00% | 28 546 | 55.40% | 0.0 | 49 | 28.88% | 105 | -101 |
| **Subtotal** | **4 926** | **948** | **0** | **5 634** | **4.78%** | **1556 827** | **36.93%** | **0.0** | **1 683** | **29.87%** | **142** | **-150** |
| **Total (all IRB_A exposure classes)** | **217 707** | **62 627** | **0** | **239 906** | **2.49%** | **3 366 124** | **22.09%** | **3.2** | **57 623** | **24.02%** | **2 095** | **-2 038** |

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

The CR6 FIRB and AIRB tables confirm the analysis of OV1 and CR8:

- The RWA increase is mainly driven by volume, slightly offset by portfolio quality (both for AIRB and FIRB an improvement in the average LGD and PD);
- In AIRB, the RWA change is more or less in line with the EAD increase (both +4.9%);
- In FIRB, the volume increase is stronger (+27%), with less RWA impact (+14%), as it is mainly found in central governments and central banks;
- Furthermore, especially in AIRB, there is a very strong decrease in expected loss (-20%) and value adjustments and provisions (-31%);
- Finally, both in AIRB and FIRB, there is a (slight) increase in the average CCF percentage.

**EU CR6-A - Scope of the use of IRB and SA approaches**

| *At 31 December 2022 (in millions of EUR)* | a<br>Exposure value as defined in Article 166 CRR for exposures subject to IRB approach | b<br>Total exposure value for exposures subject to the Standardised approach and to the IRB approach | c<br>Percentage of total exposure value subject to the permanent partial use of the SA (%) | e<br>Percentage of total exposure value subject to a roll-out plan (%) | e<br>Percentage of total exposure value subject to IRB Approach (%) |
|---|---|---|---|---|---|
| 1 Central governments or central banks | 46 584 | 51 328 | 9.24% | | 90.76% |

| | | | | | |
|---|---|---|---|---|---|
| *1.1* | *of which Regional governments or local authorities* | | *858* | *0.00%* | *100.00%* |
| *1.2* | *of which Public sector entities* | | *3 266* | *0.00%* | *100.00%* |
| 2 | Institutions | 13 138 | 13 844 | 5.10% | 94.90% |
| 3 | Corporates | 78 226 | 84 933 | 7.90% | 92.10% |
| *3.1* | *of which Corporates - Specialised lending, excluding slotting approach* | | *11 296* | *0.27%* | *99.73%* |
| *3.2* | *of which Corporates - Specialised lending under slotting approach* | | | | |
| *3.3* | *Of which Corporates - SMEs* | | *27 941* | *10.08%* | *89.92%* |
| 4 | Retail | 109 156 | 115 965 | 5.87% | 94.13% |
| *4.1* | *of which Retail – Secured by real estate SMEs* | | *11 447* | *3.14%* | *96.86%* |
| *4.2* | *of which Retail – Secured by real estate non-SMEs* | | *85 347* | *2.65%* | *97.35%* |
| *4.3* | *of which Retail – Qualifying revolving* | | *1 090* | *0.16%* | *99.84%* |
| *4.4* | *of which Retail – Other SMEs* | | *9 695* | *14.75%* | *85.25%* |
| *4.5* | *of which Retail – Other non-SMEs* | | *8 386* | *32.82%* | *67.18%* |
| 5 | Equity | 222 | 271 | 18.16% | 81.84% |
| 6 | Other non-credit obligation assets | 45 040 | 48 048 | 6.26% | 93.74% |
| **7** | **Total** | **292 365** | **314 389** | **7.01%** | **92.99%** |

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

## Credit derivatives used as CRM technique

| **EU CR7 – IRB approach - Effect on the RWEAs of credit derivatives used as CRM techniques** | | a | b |
|---|---|---|---|
| *At 31 December 2022 (in millions of EUR)* | | Pre-credit derivatives risk weighted exposure amount | Actual risk weighted exposure amount |
| **1** | **Exposures under F-IRB** | **2 913** | **2 913** |
| 2 | Central governments and central banks | 292 | 292 |
| 3 | Institutions | 76 | 76 |
| 4 | Corporates | 2 545 | 2 545 |

| | | | |
|---|---|---|---|
| *4.1* | *of which Corporates - SMEs* | *433* | *433* |
| *4.2* | *of which Corporates - Specialised lending* | *759* | *759* |
| **5** | **Exposures under A-IRB** | **57 623** | **57 623** |
| 6 | Central governments and central banks | 4 714 | 4 714 |
| 7 | Institutions | 2 463 | 2 463 |
| 8 | Corporates | 33 885 | 33 885 |
| *8.1* | *of which Corporates - SMEs* | *8 020* | *8 020* |
| *8.2* | *of which Corporates - Specialised lending* | *4 609* | *4 609* |
| 9 | Retail | 16 561 | 16 561 |
| *9.1* | *of which Retail – SMEs - Secured by immovable property collateral* | *1 462* | *1 462* |
| *9.2* | *of which Retail – non-SMEs - Secured by immovable property collateral* | *11 448* | *11 448* |
| *9.3* | *of which Retail – Qualifying revolving* | *98* | *98* |
| *9.4* | *of which Retail – SMEs - Other* | *1 870* | *1 870* |
| *9.5* | *of which Retail – Non-SMEs- Other* | *1 683* | *1 683* |
| **10** | **Total (including F-IRB exposures and A-IRB exposures)** | **60 537** | **60 537** |

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

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

## AIRB and FIRB use of CRM techniques

| | a | b | c | d | e | f | g | h | i | j | k | l | m | n |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **EU CR7-A - IRB approach – Disclosure of the extent of the use of CRM techniques** | | | | | | | | | | | | | | |
| A-IRB | | | Credit risk Mitigation techniques | | | | | | | | | | Credit risk Mitigation methods in the calculation of RWEAs | |
| | | | Funded credit Protection (FCP) | | | | | | | | Unfunded credit Protection (UFCP) | | | |
| | | | Part of exposures covered by Other eligible collaterals (%) | | | | Part of exposures covered by Other funded credit protection (%) | | | | | | | |
| *At 31 December 2022 (in millions of EUR)* | Total exposures | Part of exposures covered by Financial Collaterals (%) | Part of exposures covered by Immovable property Collaterals (%) | Part of exposures covered by Receivables (%) | Part of exposures covered by Other physical collateral (%) | | Part of exposures covered by Cash on deposit (%) | Part of exposures covered by Life insurance policies (%) | Part of exposures covered by Instruments held by a third party (%) | | Part of exposures covered by Guarantees (%) | Part of exposures covered by Credit Derivatives (%) | RWEA without substitution effects (reduction effects only) | RWEA with substitution effects (both reduction and substitution effects) |

| | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Central governments and central banks | 43 040 | 0.00% | 0.03% | 0.03% | 0.00% | 0.00% | | | | 5.01% | 4 714 | 4 714 |
| 2 | Institutions | 12 994 | 0.15% | 2.73% | 2.67% | 0.01% | 0.05% | 0.00% | | | 10.23% | 2 463 | 2 463 |
| 3 | Corporates | 74 717 | 0.56% | 23.46% | 18.70% | 0.82% | 3.94% | 0.00% | 0.00% | 0.00% | 4.50% | 33 885 | 33 885 |
| *3.1* | *Of which Corporates – SMEs* | *24 389* | *0.84%* | *34.23%* | *28.38%* | *1.65%* | *4.21%* | | *0.00%* | *0.00%* | *4.50%* | *8 020* | *8 020* |
| *3.2* | *Of which Corporates – Specialised lending* | *10 475* | *0.39%* | *41.55%* | *41.39%* | *0.06%* | *0.10%* | | | | *3.35%* | *4 609* | *4 609* |
| *3.3* | *Of which Corporates – Other* | *39 854* | *0.44%* | *12.11%* | *6.80%* | *0.52%* | *4.79%* | | | | *4.80%* | *21 255* | *21 255* |
| 4 | Retail | 109 155 | 0.11% | 75.87% | 75.30% | 0.00% | 0.58% | 0.00% | 0.00% | | 0.62% | 16 561 | 16 561 |
| *4.1* | *Of which Retail – Immovable property SMEs* | *11 088* | *0.29%* | *69.49%* | *67.36%* | *0.00%* | *2.12%* | *0.00%* | *0.00%* | | *2.06%* | *1 462* | *1 462* |
| *4.2* | *Of which Retail – Immovable property non-SMEs* | *83 080* | | *89.94%* | *89.94%* | *0.00%* | *0.00%* | | | | | *11 448* | *11 448* |
| *4.3* | *Of which Retail – Qualifying revolving* | *1 088* | | | | | | | | | | *98* | *98* |
| *4.4* | *Of which Retail – Other SMEs* | *8 265* | *1.10%* | *4.74%* | *0.00%* | *0.00%* | *4.74%* | *0.00%* | *0.00%* | | *5.45%* | *1 870* | *1 870* |
| *4.5* | *Of which Retail – Other non-SMEs* | *5 634* | *0.03%* | *0.01%* | | | *0.01%* | | | | *0.00%* | *1 683* | *1 683* |
| **5** | **Total** | **239 906** | **0.24%** | **41.98%** | **40.23%** | **0.26%** | **1.49%** | **0.00%** | **0.00%** | **0.00%** | **3.14%** | **57 623** | **57 623** |

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

| F-IRB | | Credit risk Mitigation techniques | | | | | | | | | | | Credit risk Mitigation methods in the calculation of RWEAs | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Funded credit Protection (FCP) | | | | | | | Unfunded credit Protection (UFCP) | | | |
| | | | | Part of exposures covered by Other eligible collaterals (%) | | | Part of exposures covered by Other funded credit protection (%) | | | | | | | |
| *At 31 December 2022 (in millions of EUR)* | Total exposures | Part of exposures covered by Financial | Part of exposures covered by Immovable property | Part of exposures covered by Receivables (%) | Part of exposures covered by Other physical collateral (%) | Part of exposures covered by Cash on deposit (%) | Part of exposures covered by Life insurance policies (%) | Part of exposures covered by Instruments held by a third party (%) | Part of exposures covered by Guarantees (%) | Part of exposures covered by Credit Derivatives (%) | RWEA without substitution effects (reduction effects only) | RWEA with substitution effects (both reduction and substitution effects) |

| | | | Collaterals (%) | | Collaterals (%) | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 1 | Central governments and central banks | 3 544 | | | | | | 292 | 292 |
| 2 | Institutions | 183 | | 0.06% | 0.06% | | | 78 | 76 |
| 3 | Corporates | 3 452 | 0.65% | 6.10% | 6.10% | | 0.31% | 2 561 | 2 545 |
| *3.1* | *Of which Corporates – SMEs* | *758* | *0.48%* | *15.98%* | *15.98%* | | *0.34%* | *441* | *433* |
| *3.2* | *Of which Corporates – Specialised lending* | *789* | *2.11%* | *3.14%* | *3.14%* | | *0.20%* | *760* | *759* |
| *3.3* | *Of which Corporates – Other* | *1 905* | *0.11%* | *3.40%* | *3.40%* | | *0.34%* | *1 360* | *1 353* |
| **4** | **Total** | **7 179** | **0.31%** | **2.94%** | **2.94%** | | **0.15%** | **2 931** | **2 913** |

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

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

## AIRB and FIRB back-testing of PD

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

*At 31 December 2022 (in millions of EUR)*

| a | b | c | d | e | f | g | h |
|---|---|---|---|---|---|---|---|
| Exposure class | PD range | Number of obligors at the end of the previous year | Of which number of obligors which defaulted in the year | Observed average default rate (%) | Exposures weighted average PD (%) | Average PD (%) | Average historical annual default rate (%) |
| **Central gov and banks** | | | | | | | |
| | 0.00 to <0.15 | 274 | | 0.00% | 0.03% | 0.08% | 0.00% |
| | *0.00 to <0.10* | *201* | | *0.00%* | *0.02%* | *0.04%* | *0.00%* |
| | *0.10 to <0.15* | *73* | | *0.00%* | *0.13%* | *0.13%* | *0.00%* |
| | 0.15 to <0.25 | 19 | | 0.00% | 0.19% | 0.21% | 0.00% |
| | 0.25 to <0.50 | 26 | | 0.00% | 0.38% | 0.40% | 0.00% |
| | 0.50 to <0.75 | 206 | | 0.00% | 0.58% | 0.55% | 0.11% |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | 0.75 to <2.50 | 26 | | 0.00% | 1.38% | 1.57% | 0.00% |
| | *0.75 to <1.75* | *12* | | *0.00%* | *1.10%* | *1.16%* | *0.00%* |
| | *1.75 to <2.5* | *14* | | *0.00%* | *1.89%* | *1.99%* | *0.00%* |
| | 2.50 to <10.00 | 201 | 1 | 0.50% | 3.51% | 4.96% | 0.20% |
| | *2.5 to <5* | *170* | | *0.00%* | *3.37%* | *4.41%* | *0.00%* |
| | *5 to <10* | *31* | 1 | *3.23%* | *5.67%* | *5.52%* | *1.32%* |
| | 10.00 to <100.00 | 3 | 2 | 66.67% | 78.04% | 46.90% | 40.00% |
| | *10 to <20* | *2* | 1 | *50.00%* | *0.00%* | *15.77%* | *33.33%* |
| | *30.00 to <100.00* | *1* | 1 | *100.00%* | *78.04%* | *78.04%* | *50.00%* |
| | 100.00 (Default) | 5 | | 0.00% | 100.00% | 100.00% | 0.00% |
| **Institutions** | | | | | | | |
| | 0.00 to <0.15 | 925 | | 0.00% | 0.07% | 0.10% | 0.00% |
| | *0.00 to <0.10* | *583* | | *0.00%* | *0.05%* | *0.06%* | *0.00%* |
| | *0.10 to <0.15* | *342* | | *0.00%* | *0.12%* | *0.13%* | *0.00%* |
| | 0.15 to <0.25 | 191 | 1 | 0.52% | 0.18% | 0.18% | 0.14% |
| | 0.25 to <0.50 | 223 | 5 | 2.24% | 0.32% | 0.30% | 0.31% |
| | 0.50 to <0.75 | 450 | 5 | 1.11% | 0.53% | 0.53% | 0.51% |
| | 0.75 to <2.50 | 214 | 3 | 1.40% | 1.56% | 1.68% | 0.26% |
| | *0.75 to <1.75* | *117* | 3 | *2.56%* | *1.30%* | *1.14%* | *0.40%* |
| | *1.75 to <2.5* | *97* | | *0.00%* | *2.28%* | *2.23%* | *0.00%* |
| | 2.50 to <10.00 | 345 | 8 | 2.32% | 4.60% | 5.28% | 0.53% |
| | *2.5 to <5* | *209* | | *0.00%* | *4.14%* | *4.16%* | *0.08%* |
| | *5 to <10* | *136* | 8 | *5.88%* | *8.67%* | *6.39%* | *1.93%* |
| | 10.00 to <100.00 | 37 | | 0.00% | 19.88% | 32.15% | 0.00% |
| | *10 to <20* | *34* | | *0.00%* | *16.34%* | *17.44%* | *0.00%* |
| | *20 to <30* | | | *0.00%* | *24.97%* | *0.00%* | *0.00%* |
| | *30.00 to <100.00* | *3* | | *0.00%* | *32.98%* | *46.85%* | *0.00%* |
| | 100.00 (Default) | 2 | | 0.00% | 100.00% | 100.00% | 0.00% |
| **Corporates - SME** | | | | | | | |
| | 0.00 to <0.15 | 18 624 | 6 | 0.03% | 0.10% | 0.11% | 0.02% |
| | *0.00 to <0.10* | *5 610* | 3 | *0.05%* | *0.07%* | *0.07%* | *0.03%* |
| | *0.10 to <0.15* | *13 014* | 3 | *0.02%* | *0.13%* | *0.14%* | *0.02%* |
| | 0.15 to <0.25 | 2 834 | 3 | 0.11% | 0.20% | 0.19% | 0.10% |
| | 0.25 to <0.50 | 8 340 | 7 | 0.08% | 0.35% | 0.33% | 0.06% |
| | 0.50 to <0.75 | 6 576 | 11 | 0.17% | 0.61% | 0.57% | 0.18% |
| | 0.75 to <2.50 | 11 165 | 58 | 0.52% | 1.53% | 1.69% | 0.63% |
| | *0.75 to <1.75* | *7 113* | 30 | *0.42%* | *1.15%* | *1.18%* | *0.40%* |
| | *1.75 to <2.5* | *4 052* | 28 | *0.69%* | *2.20%* | *2.20%* | *1.01%* |
| | 2.50 to <10.00 | 19 159 | 98 | 0.51% | 4.98% | 5.81% | 0.62% |
| | *2.5 to <5* | *17 317* | 44 | *0.25%* | *3.92%* | *4.39%* | *0.38%* |
| | *5 to <10* | *1 842* | 54 | *2.93%* | *7.43%* | *7.23%* | *3.73%* |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | 10.00 to <100.00 | 1 788 | 177 | 9.90% | 18.13% | 27.82% | 8.76% |
| | *10 to <20* | *1 172* | 90 | *7.68%* | *14.86%* | *15.52%* | *7.83%* |
| | *20 to <30* | *259* | 26 | *10.04%* | *24.40%* | *24.18%* | *7.96%* |
| | *30.00 to <100.00* | *357* | 61 | *17.09%* | *33.63%* | *43.77%* | *15.36%* |
| | 100.00 (Default) | 1 668 | | 0.00% | 100.00% | 100.00% | 0.00% |
| **Corporates - SL** | | | | | | | |
| | 0.00 to <0.15 | 20 | | 0.00% | 0.11% | 0.10% | 0.00% |
| | *0.00 to <0.10* | *4* | | *0.00%* | *0.07%* | *0.07%* | *0.00%* |
| | *0.10 to <0.15* | *16* | | *0.00%* | *0.14%* | *0.13%* | *0.00%* |
| | 0.15 to <0.25 | 15 | | 0.00% | 0.21% | 0.21% | 0.00% |
| | 0.25 to <0.50 | 136 | | 0.00% | 0.30% | 0.33% | 0.00% |
| | 0.50 to <0.75 | 230 | | 0.00% | 0.60% | 0.59% | 0.13% |
| | 0.75 to <2.50 | 815 | 1 | 0.12% | 1.59% | 1.69% | 0.25% |
| | *0.75 to <1.75* | *481* | 1 | *0.21%* | *1.18%* | *1.17%* | *0.34%* |
| | *1.75 to <2.5* | *334* | | *0.00%* | *2.20%* | *2.22%* | *0.15%* |
| | 2.50 to <10.00 | 232 | 1 | 0.43% | 5.05% | 5.48% | 1.51% |
| | *2.5 to <5* | *173* | | *0.00%* | *4.03%* | *3.96%* | *1.35%* |
| | *5 to <10* | *59* | 1 | *1.69%* | *7.80%* | *7.01%* | *2.08%* |
| | 10.00 to <100.00 | 29 | 2 | 6.90% | 17.83% | 18.97% | 6.94% |
| | *10 to <20* | *27* | 2 | *7.41%* | *17.24%* | *15.92%* | *7.14%* |
| | *20 to <30* | *2* | | *0.00%* | *23.27%* | *22.01%* | *0.00%* |
| | *30.00 to <100.00* | | | *0.00%* | *30.00%* | *0.00%* | *0.00%* |
| | 100.00 (Default) | 30 | | 0.00% | 100.00% | 100.00% | 0.00% |
| **Corporates - Other** | | | | | | | |
| | 0.00 to <0.15 | 1 477 | | 0.00% | 0.09% | 0.10% | 0.05% |
| | *0.00 to <0.10* | *702* | | *0.00%* | *0.05%* | *0.07%* | *0.02%* |
| | *0.10 to <0.15* | *775* | | *0.00%* | *0.13%* | *0.14%* | *0.09%* |
| | 0.15 to <0.25 | 327 | 2 | 0.61% | 0.0019 | 0.19% | 0.68% |
| | 0.25 to <0.50 | 1 026 | 1 | 0.10% | 0.33% | 0.33% | 0.44% |
| | 0.50 to <0.75 | 1 764 | 20 | 1.13% | 0.62% | 0.58% | 0.77% |
| | 0.75 to <2.50 | 2 140 | 29 | 1.36% | 1.41% | 1.70% | 1.35% |
| | *0.75 to <1.75* | *1 303* | 15 | *1.15%* | *1.19%* | *1.21%* | *0.92%* |
| | *1.75 to <2.5* | *837* | 14 | *1.67%* | *2.12%* | *2.20%* | *1.92%* |
| | 2.50 to <10.00 | 4 088 | 37 | 0.91% | 4.09% | 5.47% | 0.52% |
| | *2.5 to <5* | *3 772* | 26 | *0.69%* | *3.57%* | *4.34%* | *0.36%* |
| | *5 to <10* | *316* | 11 | *3.48%* | *6.36%* | *6.61%* | *3.15%* |
| | 10.00 to <100.00 | 225 | 23 | 10.22% | 25.41% | 30.38% | 1.29% |
| | *10 to <20* | *191* | 20 | *10.47%* | *14.62%* | *15.54%* | *1.15%* |
| | *20 to <30* | *26* | 2 | *7.69%* | *21.77%* | *23.23%* | *12.50%* |
| | *30.00 to <100.00* | *8* | 1 | *12.50%* | *64.01%* | *52.38%* | *11.76%* |
| | 100.00 (Default) | 319 | | 0.00% | 100.00% | 100.00% | 0.06% |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Retail - RE SME** | | | | | | | |
| | 0.00 to <0.15 | 15 056 | 6 | 0.04% | 0.09% | 0.10% | 0.04% |
| | *0.00 to <0.10* | *8 299* | 3 | *0.04%* | *0.06%* | *0.08%* | *0.04%* |
| | *0.10 to <0.15* | *6 757* | 3 | *0.04%* | *0.12%* | *0.12%* | *0.04%* |
| | 0.15 to <0.25 | 8 081 | 6 | 0.07% | 0.20% | 0.19% | 0.07% |
| | 0.25 to <0.50 | 6 765 | 2 | 0.03% | 0.36% | 0.37% | 0.09% |
| | 0.50 to <0.75 | 5 664 | 13 | 0.23% | 0.61% | 0.60% | 0.27% |
| | 0.75 to <2.50 | 6 640 | 22 | 0.33% | 1.37% | 1.66% | 0.30% |
| | *0.75 to <1.75* | *4 686* | 11 | *0.23%* | *1.15%* | *1.16%* | *0.24%* |
| | *1.75 to <2.5* | *1 954* | 11 | *0.56%* | *2.10%* | *2.16%* | *0.47%* |
| | 2.50 to <10.00 | 3 452 | 47 | 1.36% | 4.87% | 5.65% | 1.51% |
| | *2.5 to <5* | *1 810* | 13 | *0.72%* | *3.49%* | *3.59%* | *0.93%* |
| | *5 to <10* | *1 642* | 34 | *2.07%* | *7.13%* | *7.72%* | *2.18%* |
| | 10.00 to <100.00 | 1 247 | 120 | 9.62% | 20.31% | 30.28% | 12.04% |
| | *10 to <20* | *568* | 25 | *4.40%* | *14.01%* | *15.25%* | *4.33%* |
| | *20 to <30* | *364* | 29 | *7.97%* | *24.55%* | *23.75%* | *6.01%* |
| | *30.00 to <100.00* | *315* | 66 | *20.95%* | *33.62%* | *51.83%* | *28.21%* |
| | 100.00 (Default) | 394 | | 0.00% | 100.00% | 100.00% | 0.00% |
| **Retail - RE non-SME** | | | | | | | |
| | 0.00 to <0.15 | 381 978 | 20 | 0.01% | 0.05% | 0.10% | 0.03% |
| | *0.00 to <0.10* | *378 629* | 20 | *0.01%* | *0.04%* | *0.06%* | *0.02%* |
| | *0.10 to <0.15* | *3 349* | | *0.00%* | *0.12%* | *0.14%* | *0.19%* |
| | 0.15 to <0.25 | 110 157 | 54 | 0.05% | 0.18% | 0.17% | 0.08% |
| | 0.25 to <0.50 | 272 245 | 79 | 0.03% | 0.43% | 0.36% | 0.13% |
| | 0.50 to <0.75 | 65 946 | 71 | 0.11% | 0.58% | 0.59% | 0.40% |
| | 0.75 to <2.50 | 168 332 | 245 | 0.15% | 1.35% | 1.64% | 0.36% |
| | *0.75 to <1.75* | *142 506* | 201 | *0.14%* | *1.27%* | *1.15%* | *0.31%* |
| | *1.75 to <2.5* | *25 826* | 44 | *0.17%* | *2.13%* | *2.12%* | *0.62%* |
| | 2.50 to <10.00 | 37 266 | 335 | 0.90% | 4.15% | 5.42% | 1.64% |
| | *2.5 to <5* | *28 059* | 168 | *0.60%* | *3.48%* | *3.41%* | *1.27%* |
| | *5 to <10* | *9 207* | 167 | *1.81%* | *6.79%* | *7.43%* | *2.89%* |
| | 10.00 to <100.00 | 18 090 | 1 222 | 6.76% | 31.10% | 32.16% | 10.05% |
| | *10 to <20* | *9 154* | 325 | *3.55%* | *13.99%* | *14.14%* | *4.75%* |
| | *20 to <30* | *3 390* | 107 | *3.16%* | *22.26%* | *24.31%* | *5.74%* |
| | *30.00 to <100.00* | *5 546* | 790 | *14.24%* | *53.00%* | *58.03%* | *16.79%* |
| | 100.00 (Default) | 21 015 | | 0.00% | 100.00% | 100.00% | 0.00% |
| **Retail - QR** | | | | | | | |
| | 0.00 to <0.15 | 494 726 | 16 | 0.00% | 0.04% | 0.08% | 0.01% |
| | *0.00 to <0.10* | *401 452* | 4 | *0.00%* | *0.03%* | *0.03%* | *0.01%* |
| | *0.10 to <0.15* | *93 274* | 12 | *0.01%* | *0.12%* | *0.12%* | *0.06%* |
| | 0.15 to <0.25 | 33 570 | 9 | 0.03% | 0.23% | 0.18% | 0.11% |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | 0.25 to <0.50 | 29 460 | 19 | 0.06% | 0.30% | 0.41% | 0.16% |
| | 0.50 to <0.75 | 17 526 | 11 | 0.06% | 0.55% | 0.57% | 0.19% |
| | 0.75 to <2.50 | 32 120 | 44 | 0.14% | 1.40% | 1.52% | 0.37% |
| | *0.75 to <1.75* | *24 279* | 39 | *0.16%* | *1.00%* | *1.10%* | *0.41%* |
| | *1.75 to <2.5* | *7 841* | 5 | *0.06%* | *2.13%* | *1.93%* | *0.18%* |
| | 2.50 to <10.00 | 24 097 | 151 | 0.63% | 5.26% | 5.67% | 1.53% |
| | *2.5 to <5* | *18 424* | 111 | *0.60%* | *4.15%* | *3.90%* | *1.29%* |
| | *5 to <10* | *5 673* | 40 | *0.71%* | *7.59%* | *7.44%* | *2.24%* |
| | 10.00 to <100.00 | 8 506 | 441 | 5.18% | 32.59% | 33.18% | 8.08% |
| | *10 to <20* | *3 505* | 116 | *3.31%* | *13.83%* | *13.01%* | *4.91%* |
| | *20 to <30* | *2 692* | 96 | *3.57%* | *21.12%* | *21.42%* | *7.00%* |
| | *30.00 to <100.00* | *2 309* | 229 | *9.92%* | *53.92%* | *65.11%* | *15.66%* |
| | 100.00 (Default) | 1 187 | | 0.00% | 100.00% | 100.00% | 0.00% |
| **Retail - Other SME** | | | | | | | |
| | 0.00 to <0.15 | 39 566 | 35 | 0.09% | 0.09% | 0.10% | 0.07% |
| | *0.00 to <0.10* | *22 966* | 15 | *0.07%* | *0.06%* | *0.08%* | *0.06%* |
| | *0.10 to <0.15* | *16 600* | 20 | *0.12%* | *0.12%* | *0.12%* | *0.10%* |
| | 0.15 to <0.25 | 21 167 | 60 | 0.28% | 0.20% | 0.19% | 0.18% |
| | 0.25 to <0.50 | 15 937 | 29 | 0.18% | 0.36% | 0.37% | 0.20% |
| | 0.50 to <0.75 | 78 965 | 332 | 0.42% | 0.61% | 0.57% | 0.35% |
| | 0.75 to <2.50 | 86 667 | 753 | 0.87% | 1.42% | 1.69% | 0.75% |
| | *0.75 to <1.75* | *63 122* | 370 | *0.59%* | *1.18%* | *1.21%* | *0.58%* |
| | *1.75 to <2.5* | *23 545* | 383 | *1.63%* | *2.16%* | *2.17%* | *1.25%* |
| | 2.50 to <10.00 | 123 045 | 1 799 | 1.46% | 4.31% | 4.83% | 1.41% |
| | *2.5 to <5* | *94 459* | 890 | *0.94%* | *3.28%* | *3.35%* | *0.96%* |
| | *5 to <10* | *28 586* | 909 | *3.18%* | *6.43%* | *6.30%* | *2.91%* |
| | 10.00 to <100.00 | 16 853 | 2 046 | 12.14% | 22.59% | 31.47% | 16.75% |
| | *10 to <20* | *7 553* | 561 | *7.43%* | *14.72%* | *15.51%* | *9.09%* |
| | *20 to <30* | *6 418* | 659 | *10.27%* | *24.21%* | *23.69%* | *18.42%* |
| | *30.00 to <100.00* | *2 882* | 826 | *28.66%* | *43.36%* | *55.22%* | *37.56%* |
| | 100.00 (Default) | 12 449 | | 0.00% | 100.00% | 100.00% | 0.00% |
| **Retail - Other non-SME** | | | | | | | |
| | 0.00 to <0.15 | 201 536 | 31 | 0.02% | 0.05% | 0.09% | 0.03% |
| | *0.00 to <0.10* | *180 771* | 22 | *0.01%* | *0.04%* | *0.05%* | *0.02%* |
| | *0.10 to <0.15* | *20 765* | 9 | *0.04%* | *0.13%* | *0.12%* | *0.07%* |
| | 0.15 to <0.25 | 307 295 | 319 | 0.10% | 0.19% | 0.18% | 0.21% |
| | 0.25 to <0.50 | 227 379 | 734 | 0.32% | 0.41% | 0.42% | 0.56% |
| | 0.50 to <0.75 | 169 009 | 310 | 0.18% | 0.71% | 0.67% | 0.57% |
| | 0.75 to <2.50 | 224 354 | 2 249 | 1.00% | 1.40% | 1.65% | 1.24% |
| | *0.75 to <1.75* | *169 802* | 1 587 | *0.93%* | *1.30%* | *1.16%* | *1.03%* |
| | *1.75 to <2.5* | *54 552* | 662 | *1.21%* | *1.91%* | *2.14%* | *2.04%* |

| | | | | | | |
|---|---|---|---|---|---|---|
| 2.50 to <10.00 | 147 407 | 1 523 | 1.03% | 4.02% | 5.24% | 1.87% |
| *2.5 to <5* | *119 272* | 974 | *0.82%* | *3.41%* | *3.47%* | *1.49%* |
| *5 to <10* | *28 135* | 549 | *1.95%* | *7.05%* | *7.02%* | *3.48%* |
| 10.00 to <100.00 | 48 441 | 4 402 | 9.09% | 31.76% | 29.86% | 12.34% |
| *10 to <20* | *11 228* | 406 | *3.62%* | *13.03%* | *12.08%* | *4.43%* |
| *20 to <30* | *21 182* | 859 | *4.06%* | *22.85%* | *24.10%* | *9.75%* |
| *30.00 to <100.00* | *16 031* | 3 137 | *19.57%* | *52.36%* | *53.42%* | *22.45%* |
| 100.00 (Default) | 720 224 | | 0.00% | 100.00% | 100.00% | 0.00% |

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

| a | b | c | d | e | f | g | h |
|---|---|---|---|---|---|---|---|
| **CR9 - IRBF approach – Back-testing of PD per exposure class (fixed PD scale)** | | | | | | | |
| *At 31 December 2022 (in millions of EUR)* | | | | | | | |
| Exposure class | PD range | Number of obligors at the end of the previous year | Of which number of obligors which defaulted in the year | Observed average default rate (%) | Exposures weighted average PD (%) average PD | Average PD (%) | Average historical annual default rate (%) |
| **Central gov And banks** | | | | | | | |
| | 0.00 to <0.15 | 11 | | 0.00% | 0.01% | 0.07% | 0.00% |
| | *0.00 to <0.10* | *10* | | *0.00%* | *0.01%* | *0.01%* | *0.00%* |
| | *0.10 to <0.15* | *1* | | *0.00%* | *0.13%* | *0.13%* | *0.00%* |
| | 2.50 to <10.00 | 2 | | 0.00% | 0.00% | 4.98% | 0.00% |
| | *2.5 to <5* | *1* | | *0.00%* | *0.00%* | *4.53%* | *0.00%* |
| | *5 to <10* | *1* | | *0.00%* | *0.00%* | *5.43%* | *0.00%* |
| **Institutions** | | | | | | | |
| | 0.00 to <0.15 | 50 | | 0.00% | 0.10% | 0.09% | 0.00% |
| | *0.00 to <0.10* | *38* | | *0.00%* | *0.07%* | *0.07%* | *0.00%* |
| | *0.10 to <0.15* | *12* | | *0.00%* | *0.12%* | *0.12%* | *0.00%* |
| | 0.15 to <0.25 | 11 | | 0.00% | 0.20% | 0.18% | 0.00% |
| | 0.25 to <0.50 | 3 | | 0.00% | 0.32% | 0.36% | 0.00% |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | 0.50 to <0.75 | 1 | | 0.00% | 0.52% | 0.57% | 0.00% |
| | 0.75 to <2.50 | 7 | | 0.00% | 0.00% | 1.62% | 0.00% |
| | *0.75 to <1.75* | *6* | | *0.00%* | *0.00%* | *0.97%* | *0.00%* |
| | *1.75 to <2.5* | *1* | | *0.00%* | *0.00%* | *2.26%* | *0.00%* |
| | 2.50 to <10.00 | 22 | 1 | 4.55% | 4.52% | 5.21% | 2.68% |
| | *2.5 to <5* | *6* | | *0.00%* | *4.52%* | *4.38%* | *0.00%* |
| | *5 to <10* | *16* | 1 | *6.25%* | *0.03%* | *6.05%* | *2.91%* |
| **Corporates - SME** | | | | | | | |
| | 0.00 to <0.15 | 140 | | 0.00% | 0.14% | 0.11% | 0.00% |
| | *0.00 to <0.10* | *82* | | *0.00%* | *0.07%* | *0.07%* | *0.00%* |
| | *0.10 to <0.15* | *58* | | *0.00%* | *0.14%* | *0.14%* | *0.00%* |
| | 0.15 to <0.25 | 1 | | 0.00% | 0.00% | 0.18% | 0.00% |
| | 0.25 to <0.50 | 161 | | 0.00% | 0.28% | 0.28% | 0.00% |
| | 0.50 to <0.75 | 266 | | 0.00% | 0.57% | 0.57% | 0.08% |
| | 0.75 to <2.50 | 564 | 1 | 0.18% | 1.60% | 1.70% | 0.22% |
| | *0.75 to <1.75* | *301* | 1 | *0.33%* | *1.12%* | *1.13%* | *0.14%* |
| | *1.75 to <2.5* | *263* | | *0.00%* | *2.25%* | *2.26%* | *0.32%* |
| | 2.50 to <10.00 | 275 | 5 | 1.82% | 5.92% | 6.79% | 2.26% |
| | *2.5 to <5* | *224* | 5 | *2.23%* | *4.53%* | *4.53%* | *2.07%* |
| | *5 to <10* | *51* | | *0.00%* | *8.93%* | *9.05%* | *3.15%* |
| | 10.00 to <100.00 | 26 | 2 | 7.69% | 18.10% | 18.10% | 10.94% |
| | *10 to <20* | *26* | 2 | *7.69%* | *18.10%* | *18.10%* | *10.94%* |
| | 100.00 (Default) | 70 | 5 | 7.14% | 100.00% | 100.00% | 3.17% |
| **Corporates - SL** | | | | | | | |
| | 0.00 to <0.15 | 3 | | 0.00% | 0.00% | 0.14% | 0.00% |
| | *0.10 to <0.15* | *3* | | *0.00%* | *0.00%* | *0.14%* | *0.00%* |
| | 0.25 to <0.50 | 12 | | 0.00% | 0.28% | 0.28% | 0.00% |
| | 0.50 to <0.75 | 38 | | 0.00% | 0.57% | 0.57% | 0.50% |
| | 0.75 to <2.50 | 239 | | 0.00% | 1.59% | 1.70% | 0.32% |
| | *0.75 to <1.75* | *156* | | *0.00%* | *1.13%* | *1.13%* | *0.18%* |
| | *1.75 to <2.5* | *83* | | *0.00%* | *2.26%* | *2.26%* | *0.52%* |
| | 2.50 to <10.00 | 19 | | 0.00% | 5.31% | 6.79% | 2.80% |
| | *2.5 to <5* | *17* | | *0.00%* | *4.53%* | *4.53%* | *2.22%* |
| | *5 to <10* | *2* | | *0.00%* | *9.05%* | *9.05%* | *5.88%* |
| | 10.00 to <100.00 | 4 | | 0.00% | 18.10% | 18.10% | 12.50% |
| | *10 to <20* | *4* | | *0.00%* | *18.10%* | *18.10%* | *12.50%* |
| | 100.00 (Default) | 12 | | 0.00% | 100.00% | 100.00% | 0.00% |
| **Corporates - Other** | | | | | | | |
| | 0.00 to <0.15 | 102 | | 0.00% | 0.13% | 0.10% | 0.00% |
| | *0.00 to <0.10* | *30* | | *0.00%* | *0.07%* | *0.07%* | *0.00%* |
| | *0.10 to <0.15* | *72* | | *0.00%* | *0.14%* | *0.14%* | *0.00%* |

| | | | | | | |
|---|---|---|---|---|---|---|
| 0.15 to <0.25 | 2 | | 0.00% | 0.00% | 0.19% | 0.00% |
| 0.25 to <0.50 | 75 | | 0.00% | 0.28% | 0.28% | 0.00% |
| 0.50 to <0.75 | 95 | | 0.00% | 0.57% | 0.57% | 0.00% |
| 0.75 to <2.50 | 108 | 1 | 0.93% | 1.49% | 1.70% | 0.73% |
| *0.75 to <1.75* | *58* | | *0.00%* | *1.13%* | *1.13%* | *0.67%* |
| *1.75 to <2.5* | *50* | 1 | *2.00%* | *2.23%* | *2.26%* | *0.81%* |
| 2.50 to <10.00 | 351 | 4 | 1.14% | 5.90% | 6.70% | 1.20% |
| *2.5 to <5* | *334* | 4 | *1.20%* | *4.48%* | *4.53%* | *1.19%* |
| *5 to <10* | *17* | | *0.00%* | *8.75%* | *8.87%* | *1.49%* |
| 10.00 to <100.00 | 8 | | 0.00% | 18.07% | 18.10% | 1.82% |
| *10 to <20* | *8* | | *0.00%* | *18.07%* | *18.10%* | *1.82%* |
| 100.00 (Default) | 55 | 2 | 3.64% | 100.00% | 100.00% | 1.48% |

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

Notwithstanding the difficult economic situation, historical default rates are well below Basel model rates for all asset classes and PD ranges.

## RWA flow statements of credit risk exposures

This table contains the KBC group's IRB credit risk exposure (excluding add-ons, deferred tax assets and other assets). It gives an overview of the main RWA drivers responsible for the change in IRB credit risk RWA over 2022. More details on the RWA development in 2022 can be found in the discussion of the OV1 table at the beginning of this credit risk section. Please keep in mind, however, that the scope of the OV1 table is much broader.

| | | a |
|---|---|---|
| **EU CR8 - RWEA flow statements of credit risk exposures under the IRB approach** | | |
| *At 31 December 2022 (in millions of EUR)* | | Risk weighted exposure amount |
| **1** | **Risk weighted exposure amount as at 31 December 2021** | **57 485** |
| *2* | *Asset size (+/-)* | *4 139* |
| *3* | *Asset quality (+/-)* | *-141* |
| *4* | *Model updates (+/-)* | *-1 314* |
| *5* | *Methodology and policy (+/-)* | *368* |
| *6* | *Acquisitions and disposals (+/-)* | |
| *7* | *Foreign exchange movements (+/-)* | *0* |
| *8* | *Other (+/-)* | |
| **9** | **Risk weighted exposure amount as at 31 December 2022** | **60 537** |

*Table 35 - EU CR8_RWEA flow statements of credit risk exposures*

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

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

| | a | b | c | d | e | f |
|---|---|---|---|---|---|---|
| **EU CR10 - Specialised lending and equity exposures under the simple riskweighted approach[1]** | | | | | | |
| *At 31 December 2022 (in millions of EUR)* | | | | | | |
| Template EU CR10.5_Equity exposures under the simple risk-weighted approach | | | | | | |
| Categories | On-balancesheet exposure | Off-balancesheet exposure | Risk weight | Exposure value | Risk weighted exposure amount | Expected loss amount |
| Private equity exposures | | | 190% | | | |
| Exchange-traded equity exposures | 33 | | 290% | 33 | 96 | 0 |
| Other equity exposures | 189 | | 370% | 189 | 700 | 5 |
| **Total** | **222** | | | **222** | **796** | **5** |

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

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

# Disclosure of exposures to securitisation positions

KBC has a very limited investment portfolio of securitisation positions of 176 million euros, consisting primarily of European residential mortgage-backed securities (RMBS). In recent years no new investments were made, resulting in a gradual decrease of the portfolio due to redemptions.

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

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

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

| | a | b | c | d | e | f | g | h | i | j | k | l | m | n | o |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **EU-SEC1 - Securitisation exposures in the non-trading book** | | | | | | | | | | | | | | | |
| | Institution acts as originator | | | | | | | Institution acts as sponsor | | | | Institution acts as investor | | | |
| | Traditional | | | | Synthetic | | Sub-total | Traditional | | Synthetic | Sub-total | Traditional | | Synthetic | Sub-total |
| | STS | | Non-STS | | | | | STS | Non-STS | | | STS | Non-STS | | |
| *At 31 December 2022 (in millions of EUR)* | | of which SRT | | of which SRT | | of which SRT | | | | | | | | | |
| **1 Total exposures** | | | | | | | | | | | | **17** | **159** | | **176** |
| 2 Retail (total) | | | | | | | | | | | | 17 | 159 | | 176 |
| *3 residential mortgage* | | | | | | | | | | | | *17* | *159* | | *176* |
| *4 credit card* | | | | | | | | | | | | | | | |
| *5 other retail exposures* | | | | | | | | | | | | | | | |
| *6 re-securitisation* | | | | | | | | | | | | | | | |
| *7* Wholesale (total) | | | | | | | | | | | | | | | |
| *8 loans to corporates* | | | | | | | | | | | | | | | |
| *9 commercial mortgage* | | | | | | | | | | | | | | | |
| *10 lease and receivables* | | | | | | | | | | | | | | | |
| *11 other wholesale* | | | | | | | | | | | | | | | |
| *12 re-securitisation* | | | | | | | | | | | | | | | |

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

| | a | b | c | d | e | f | g | h | i | j | k | l | m | n | o | EU-p | EU-q |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|

**EU-SEC4 - Securitisation exposures in the non-trading book and associated regulatory capital requirements - institution acting as investor**

| | | Exposure values (by RW bands/deductions) | | | | | Exposure values (by regulatory approach) | | | RWEA (by regulatory approach) | | | | Capital charge after cap | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *At 31 December 2022 (in millions of EUR)* | | ≤20% RW | >20% to 50% RW | >50% to 100% RW | >100% to <1250% RW | 1250% RW/ deduc-tions | SEC-IRBA | SEC-ERBA (inclu-ding IAA) | SEC-SA | 1250% RW/ deduc-tions | SEC-IRBA | SEC-ERBA (inclu-ding IAA) | SEC-SA | 1250% RW | SEC-IRBA | SEC-ERBA (inclu-ding IAA) | SEC-SA | 1250% RW |
| **1** | **Total exposures** | **176** | | | | | | | **176** | | | | **26** | | | | **2** | |
| 2 | Traditional securitisation | 176 | | | | | | | 176 | | | | 26 | | | | 2 | |
| *3* | *Securitisation* | *176* | | | | | | | *176* | | | | *26* | | | | *2* | |
| *4* | *Retail underlying* | *176* | | | | | | | *176* | | | | *26* | | | | *2* | |
| *5* | *Of which STS* | *17* | | | | | | | *17* | | | | *2* | | | | *0* | |
| *6* | *Wholesale* | | | | | | | | | | | | | | | | | |
| *7* | *Of which STS* | | | | | | | | | | | | | | | | | |
| *8* | *Re-securitisation* | | | | | | | | | | | | | | | | | |
| 9 | Synthetic securitisation | | | | | | | | | | | | | | | | | |
| *10* | *Securitisation* | | | | | | | | | | | | | | | | | |
| *11* | *Retail underlying* | | | | | | | | | | | | | | | | | |
| *12* | *Wholesale* | | | | | | | | | | | | | | | | | |
| *13* | *Re-securitisation* | | | | | | | | | | | | | | | | | |

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

# Internal modelling

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

These models are used in the credit process for:

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

The internal rating process depends on the exposure class:

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

*Table 39 - Internal Rating Process*

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

## Probability of Default models

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

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

Step 1: The segment for which a model will be built is defined (segmentation of the portfolio). It is important to strike a good balance between the homogeneity of the segment, the exposure, the number of clients and the number of default events.

Having too many models will lead to additional operational risks in the credit process, smaller and less reliable data samples and high maintenance costs. On the other hand, the predictability of the models will go down if the segments are less homogeneous. Once the segment has been defined, the data sample on which the model development will be based can be created. This usually requires some 'cleansing' of the available data (for instance, handling missing values and outliers). KBC has built its rating models mainly on internal data.

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

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

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

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

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

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

For IRB portfolios, internal ratings are used for RWA calculations and to support the internal (credit) processes. For these portfolios, in principle, external ratings are only used as benchmark/challenge in model reviews. There are two exceptions to this; in very specific cases external ratings can be used to rate sovereigns and insurance companies. For sovereigns, the lowest external rating of Fitch, Moody's or S&P is used if the direct exposure is below 1 million euros and the total country exposure is lower than 50 million euros. For insurers, the external financial strength rating of S&P can be used if there is only reinsurance risk on the counterparty. If this rating for insurers is not available, the financial strength rating of Moody's, Fitch or A.M. Best is assigned.

## Loss Given Default models

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

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

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

## Exposure At Default (EAD) models

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

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

## Pooling models

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

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

## Group-wide framework for dealing with model uncertainty

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

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

- Methodology - The method used to derive a model may be unable to capture the true relationships between predictors and the estimated parameter.

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

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

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

## Role of validation

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

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

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

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

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

## Checks and decisions on rating models

Decisions on the appropriateness of models and changes to the models are made by the CRO of the entity where the model is used or the Group CRO (for models that are used group-wide).

**Annual validation**

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

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

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

**Redesign/recalibration**

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

The CRO decides based on a proposal by the model owner, supplemented by independent advice from the independent validation unit.

## Key models used for the most important portfolios

| Asset classes 31-12-22 | Key IRB models | | | | | |
|---|---|---|---|---|---|---|
| (in millions of EUR) | Corporates | Financial Institutions | Central governments | Asset-backed real estate | Private persons | Non-regulated retail |
| Central governments and central banks | | | • | | | |
| Institutions | | • | | | | |
| Corporates | • | | | • | | |
| Corporates-SME | • | | | • | | |
| Retail-SME | | | | | | • |
| Retail-non-SME | | | | | • | |

*Table 40 - Asset classes key IRB models*

# Counterparty Credit Risk

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

Professional transactions are transactions concluded with the intermediation of professional dealers or traders, and include OTC derivatives (e.g., foreign exchange swaps, interest rate/equity swaps, future rate agreements, etc.), Security Financing Transactions ((reverse) repos) and exchange-traded derivatives.

## Governance

Counterparty credit risk (CCR) originates from our business activities involving derivatives and Security Financing Transactions. Lying at the intersection of credit risk and market risk, CCR draws from the relevant topics of both risk types. The management of counterparty credit risk is laid down in the credit risk management framework for professional transactions (CRMF_PT), a sub-framework to the credit risk management framework. The CRMF_PT covers pre-settlement risk, settlement risk, country risk and wrong way risk, and additionally lays down standards related to collateral management, counterparty limit setting, stress testing and CCR risk measurements. The implementation of this framework ensures that an effective CCR management process is in place throughout the KBC group. The counterparty credit risks are reported to group senior management through the Group Markets Committee (GMC).

## Counterparty credit risk objectives, scope, processes and organisation

Counterparty credit risk management is organised in a decentral way although close cooperation exists between the central centre of competence and the local risk teams involved in the follow-up of CCR.

- The Competence Centre for Counterparty Credit Risk is responsible for developing the CCR frameworks and risk standards, enhancing the CCR process, models and methodology. The team also monitors the relevant risk movements at portfolio level. The relevant risk reports are submitted to the Group Markets Committee (GMC), which meets every four weeks and is chaired by the Group CRO.
- The local risk teams follow up on counterparty credit risk and report to local committees.

The scope covers all derivatives and Security Financing Transactions for all entities referred to in the scope description of the credit risk disclosures.

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

- In its proactive role, the risk function analyses the results of risk calculations, monitors market developments, industry trends, changes in regulations and new modelling insights. The risk function draws up advice for the Group Markets Committee (GMC) with respect to changing and/or improving methodologies and CCR risk processes.
- In its reactive role, it monitors and reports on CCR, informs senior management of developments in CCR, challenges business decisions which might impact CCR positions, and provides risk advice on business proposals (e.g., advice for the New and Active Products Process (NAPP) committee).

We identify and manage the risks by means of:

- a counterparty risk limit framework;
- real-time risk follow-up at counterparty level;
- a large variety of controls (including risk factor coverage, wrong way risk analysis, etc.);
- a comprehensive stress test framework.

# Methodologies used to measure and monitor CCR

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

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

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

Below we briefly zoom in on each of the methodologies, their link to capital calculations and limit monitoring.

## The Internal Model Method

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

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

## The Standardised Counterparty Credit Risk (SA-CCR)

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

- The regulatory imposed alpha factor (1.4).
- The replacement cost, which is based on the net market value of the counterparty's derivative portfolio (or the trade market value for single trades), exchanged collateral (posted or received variation margin) and an estimate of the maximum open risk for collateralised netting sets (provided by the Net Independent Collateral Amount (NICA), Minimum Transfer Amount (MTA) and Threshold Amount).
- In the SA-CCR methodology, the Potential Future Exposure is driven by two elements:
    - An add-on, which is a measure for the riskiness of a derivative transaction in a netting set.
    - A PFE multiplier, a value between 5% (risk-reducing) and 100% (no impact) that recognises the risk-reducing impact of a current negative exposure or of collateralisation on the add-on.

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

## The Financial Collateral Comprehensive Method (FCCM)

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

- **Reverse repos and 'buy and sell-back' transactions**: these transactions are considered deposits made by KBC, with KBC lending cash against securities until the cash is repaid. The difference between reverse repos and buy and sell-backs is technical and relates to the way coupon payments are handled during the transaction;
- **Repos and 'sell and buyback' 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 buybacks is a technical one.

In order to conclude such transactions, a GMRA needs to be concluded with the counterparty, and legal certainty must exist for all relevant jurisdictions. Transactions also need to be compliant with KBC's repo policies for all relevant entities.

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

## Limit Monitoring

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

# Regulatory treatment

## Default risk RWA

As mentioned above, KBC Group NV uses an approved internal model method (IMM) for exposures originating in KBC Bank NV and CBC Banque NV, both at consolidated and solo level. The internal model method covers the portfolio of foreign exchange (FX) derivatives and interest rate (IR) derivatives. All other portfolios are calculated using the Standardised Counterparty Credit Risk (or SA-CCR) for CCR capital calculations. Table EU CCR1 provides a breakdown of the exposure calculations per approach.

**EU CCR1 - Analysis of CCR exposure by approach**

| | | a | b | c | d | e | f | g | h |
|---|---|---|---|---|---|---|---|---|---|
| *At 31 December 2022 (in millions of EUR)* | | Replacement cost (RC) | Potential future exposure (PFE) | EEPE | Alpha used for computing regulatory exposure value | Exposure value pre-CRM | Exposure value post-CRM | Exposure value | RWEA |
| EU-1 | EU - Original Exposure Method (for derivatives) | | | | | | | | |
| EU-2 | EU - Simplified SA-CCR (for derivatives) | | 0 | | 1.4 | 0 | 0 | 0 | 0 |
| 1 | SA-CCR (for derivatives) | 509 | 560 | | 1.4 | 2 703 | 1 497 | 1 497 | 821 |
| 2 | IMM (for derivatives and SFTs) | | | 1 474 | 1.4 | 2 983 | 2 064 | 2 064 | 849 |
| 2a | *Of which securities financing transactions netting sets* | | | | | | | | |
| 2b | *Of which derivatives and long settlement transactions netting sets* | | | *1 474* | | *2 983* | *2 064* | *2 064* | *849* |
| 2c | *Of which from contractual cross-product netting sets* | | | | | | | | |
| 3 | Financial collateral simple method (for SFTs) | | | | | | | | |
| 4 | Financial collateral comprehensive method (for SFTs) | | | | | 33 475 | 19 923 | 19 923 | 256 |
| 5 | VaR for SFTs | | | | | | | | |
| **6** | **Total** | | | | | **39 161** | **23 484** | **23 484** | **1 926** |

*Table 41 - EU CCR1_Analysis of CCR exposure by approach 31-12-22*

The CCR7 table below provides an overview of the IMM RWA flows over the last quarter. There was a significant decrease in the IMM RWA (total impact of -204.5 million euros), mainly driven by a reduction in the exposure (-308 million euros RWA), which was partly compensated by an increase in the RWA due to a decrease in the credit quality of our counterparties (+104 million euros RWA).

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

| | | a |
|---|---|---|
| *In millions of EUR* | | RWEA |
| **1** | **RWEA as at 30 September 2022** | **1 056** |
| 2 | Asset size | -308 |
| 3 | Credit quality of counterparties | 103 |
| 4 | Model updates (IMM only) | 0 |
| 5 | Methodology and policy (IMM only) | 0 |
| 6 | Acquisitions and disposals | 0 |
| 7 | Foreign exchange movements | 0 |
| 8 | Other | 0 |
| **9** | **RWEA as at 31 December 2022** | **851** |

*Table 42 - EU CCR7_RWEA flow statements for CCR exposures under IMM 31-12-22*

## Credit value adjustment

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

| | | a | b |
|---|---|---|---|
| **EU CCR2 - Transactions subject to own funds requirements for CVA risk** | | | |
| *At 31 December 2022 (in millions of EUR)* | | Exposure value | RWEA |
| 1 | Total transactions subject to the Advanced method | | |
| 2 | *(i) VaR component (including the 3× multiplier)* | | |
| 3 | *(ii) stressed VaR component (including the 3× multiplier)* | | |
| 4 | Transactions subject to the Standardised method | 3 215 | 757 |
| EU-4 | Transactions subject to the Alternative approach (Based on the Original Exposure Method) | | |
| **5** | **Total transactions subject to own funds requirements for CVA risk** | **3 215** | **757** |

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

Over 2022, the CVA RWA decreased by 4% mainly due to a reduction in the number of trades subject to the CVA risk charge.

# Credit risk mitigation techniques

This section covers credit risk mitigation by means of collateral provided to cover the counterparty risk arising from derivative transactions and the lending portfolio.

## Close-out netting

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

- Close-out, which is the right to terminate transactions with the defaulted counterparty and therefore to cease any contractual payment;
- Netting, which is the right to offset amounts due to a termination of individual contracts to determine a net position.

Close-out netting will reduce counterparty risk as it will reduce pre-settlement risk. This is governed by a legal agreement, the most common of which is the ISDA Master Agreement. Netting will only be applied if its legal effectiveness and enforceability is assured.

## Collateral

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

Before collateral is taken into account as a valid risk mitigant, it has to fulfil a number of requirements. Most importantly, collateral must be eligible for risk mitigation in the regulatory capital calculations and legal comfort must have been obtained regarding the ownership of the collateral in all relevant jurisdictions. Despite having a range of eligibility criteria for collateral, the exchanged collateral is limited to either bonds (government bonds or corporate bonds) or cash. In order for collateral to be effective in times of need, KBC monitors:

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

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

**EU CCR5 - Composition of collateral for CCR exposures**

| | | a | b | c | d | e | f | g | h |
|---|---|---|---|---|---|---|---|---|---|
| | Collateral type | Collateral used in derivative transactions | | | | Collateral used in SFTs | | | |
| | | Fair value of collateral received | | Fair value of posted collateral | | Fair value of collateral received | | Fair value of posted collateral | |
| *At 31 December 2022 (in millions of EUR)* | | Segrega-ted | Unsegrega-ted | Segrega-ted | Unsegrega-ted | Segrega-ted | Unsegrega-ted | Segrega-ted | Unsegrega-ted |
| 1 | Cash – domestic currency | | 3 831 | | 1 114 | | 33 | | 167 |
| 2 | Cash – other currencies | | 488 | | 247 | | | | 6 |
| 3 | Domestic sovereign debt | | | 1 542 | 520 | | 2 390 | 282 | 3 779 |
| 4 | Other sovereign debt | | | | 714 | | 20 828 | | 9 140 |
| 5 | Government agency debt | | | | | | | | |
| 6 | Corporate bonds | | 156 | | | | 4 473 | | 4 612 |
| 7 | Equity securities | | | | | | 3 | | |
| 8 | Other collateral | | | | | | 246 | | 2 284 |
| **9** | **Total** | | **4 476** | **1 542** | **2 596** | | **27 972** | **282** | **19 987** |

*Table 44 - EU CCR5_Composition of collateral for CCR exposures 31-12-22*

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

- Collateral used in derivative transactions:
  - In this section we report both the initial margin (IM) and the variation margin (VM).
- Collateral used in SFTs:
  - In this section we report both the security leg of the SFT and the collateral exchanged in the General Master Repurchase Agreement (GMRA).
    - The security leg of reverse repos is added to the SFT collateral received column. Almost all of the securities underlying these transactions are government securities, with the underlying issuers of the remaining securities being mainly banks and corporate entities.
    - The security leg of repo trades is added to the SFT collateral posted column.

## Impact of a rating downgrade on collateral

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

**Impact of own Rating Downgrade on required collateral**

*At 31 December 2022 (in millions of EUR)*

| Rating Downgrade | Downgrade | Impact on collateral |
|---|---|---|
| A- | 1-notch downgrade | 12 |
| BBB+ | downgrade of 2 notches | 150 |
| BBB | downgrade of 3 notches | 293 |

*Table 45 - Impact of a rating downgrade of KBC Bank NV on required collateral 31-12-22*

## Central clearing

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

**EU CCR8 - Exposures to CCPs**

| | *At 31 December 2022 (in millions of EUR)* | a<br>Exposure value | b<br>RWEA |
|---|---|---|---|
| **1** | **Exposures to QCCPs (total)** | | **37** |
| 2 | Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which | 341 | 7 |
| 3 | (i) OTC derivatives | 340 | 7 |
| 4 | (ii) Exchange-traded derivatives | 0 | 0 |
| 5 | (iii) SFTs | 1 | 0 |
| 6 | (iv) Netting sets where cross-product netting has been approved | | |
| 7 | Segregated initial margin | 1 827 | |
| 8 | Non-segregated initial margin | | |
| 9 | Prefunded default fund contributions | 173 | 30 |
| 10 | Unfunded default fund contributions | | |
| **11** | **Exposures to non-QCCPs (total)** | | |
| 12 | Exposures for trades at non-QCCPs (excluding initial margin and default fund contributions); of which | | |
| 13 | (i) OTC derivatives | | |
| 14 | (ii) Exchange-traded derivatives | | |
| 15 | (iii) SFTs | | |
| 16 | (iv) Netting sets where cross-product netting has been approved | | |
| 17 | Segregated initial margin | | |
| 18 | Non-segregated initial margin | | |
| 19 | Prefunded default fund contributions | | |
| 20 | Unfunded default fund contributions | | |

*Table 46 - EU CCR8_Exposures to CCPs 31-12-22*

# Counterparty risk by regulatory risk-weighting approach

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

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

**EU CCR3 - Standardised approach - CCR exposures by regulatory exposure class and risk weights**

| | | a | b | c | d | e | f | g | h | i | j | k | l | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Exposure classes | Risk weight | | | | | | | | | | | Total exposure value | Of which unrated |
| *At 31 December 2022 (in millions of EUR)* | | 0% | 2% | 4% | 10% | 20% | 50% | 70% | 75% | 100% | 150% | Others | | |
| 1 | Central governments or central banks | | | | | | | | | | | | | |
| 2 | Regional government or local authorities | | | | | | | | | | | | | |
| 3 | Public sector entities | | | | | | | | | | | | | |
| 4 | Multilateral development banks | | | | | | | | | | | | | |
| 5 | International organisations | | | | | | | | | | | | | |
| 6 | Institutions | | 341 | | | 2 | 2 | | | 3 | | | 348 | 348 |
| 7 | Corporates | | | | | | | | | 19 | | | 19 | 19 |
| 8 | Retail | | | | | | | | 0 | | | | 0 | 0 |
| 9 | Institutions and corporates with a short-term credit assessment | | | | | | | | | | | | 0 | 0 |
| 10 | Other items | | | | | | | | | | | | 0 | 0 |
| **11** | **Total exposure value** | | **341** | | | **2** | **2** | | **0** | **22** | | | **368** | **368** |

*Table 47 - EU CCR3_Standardised Approach - CCR exposures by regulatory exposure class and risk weights*

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

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

*At 31 December 2022 (in millions of EUR)*

| | | a | b | c | d | e | f | g |
|---|---|---|---|---|---|---|---|---|
| Central governments and central banks | PD scale | Exposure value | Exposure weighted average PD (%) | Number of obligors | Exposure weighted average LGD (%) | Exposure weighted average maturity (years) | RWEA | Density of risk weighted exposure amount |
| | 0.00 to <0.15 | 19 110.76 | 0.01% | 1 | 45.00% | | 27.14 | 0% |
| | 2.50 to <10.00 | 0.00 | 4.53% | 1 | 45.00% | 1 | 0.00 | 135% |
| | **Subtotal** | **19 110.76** | **0.01%** | **2** | **45.00%** | | **27.14** | **0%** |
| Corporates - Other | PD scale | Exposure value | Exposure weighted average PD (%) | Number of obligors | Exposure weighted average LGD (%) | Exposure weighted average maturity (years) | RWEA | Density of risk weighted exposure amount |
| | 0.00 to <0.15 | 113.34 | 0.13% | 53 | 45.00% | 3 | 51.28 | 45% |
| | 0.15 to <0.25 | 3.10 | 0.20% | 1 | 45.00% | 1 | 0.98 | 32% |
| | 0.25 to <0.50 | 23.75 | 0.28% | 53 | 45.00% | 1 | 10.66 | 45% |
| | 0.50 to <0.75 | 52.58 | 0.57% | 48 | 45.00% | 3 | 47.33 | 90% |
| | 0.75 to <2.50 | 17.50 | 1.34% | 60 | 45.00% | 1 | 16.66 | 95% |
| | 2.50 to <10.00 | 2.51 | 4.79% | 114 | 45.00% | 2 | 3.81 | 152% |
| | 10.00 to <100.00 | 0.39 | 18.10% | 8 | 45.00% | 1 | 0.91 | 233% |
| | 100.00 (Default) | 0.01 | 100.00% | 1 | 45.00% | 1 | 0.00 | 0% |
| | **Subtotal** | **213.18** | **0.44%** | **338** | **45.00%** | **3** | **131.63** | **62%** |
| Corporates - SME | PD scale | Exposure value | Exposure weighted average PD (%) | Number of obligors | Exposure weighted average LGD (%) | Exposure weighted average maturity (years) | RWEA | Density of risk weighted exposure amount |
| | 0.00 to <0.15 | 4.78 | 0.11% | 47 | 45.00% | 2 | 1.03 | 22% |
| | 0.15 to <0.25 | 1.60 | 0.18% | 1 | 45.00% | 5 | 0.70 | 44% |
| | 0.25 to <0.50 | 6.13 | 0.28% | 93 | 45.00% | 2 | 1.91 | 31% |
| | 0.50 to <0.75 | 5.59 | 0.57% | 161 | 45.00% | 1 | 2.41 | 43% |
| | 0.75 to <2.50 | 15.21 | 1.63% | 383 | 45.00% | 1 | 9.83 | 65% |
| | 2.50 to <10.00 | 2.86 | 5.50% | 126 | 45.00% | 2 | 2.69 | 94% |
| | 10.00 to <100.00 | 0.26 | 18.10% | 10 | 45.00% | 3 | 0.45 | 169% |
| | 100.00 (Default) | 0.13 | 100.00% | 12 | 45.00% | 3 | 0.00 | 0% |
| | **Subtotal** | **36.56** | **1.76%** | **833** | **45.00%** | **2** | **19.02** | **52%** |

| Corporates - Specialised lending | PD scale | Exposure value | Exposure weighted average PD (%) | Number of obligors | Exposure weighted average LGD (%) | Exposure weighted average maturity (years) | RWEA | Density of risk weighted exposure amount |
|---|---|---|---|---|---|---|---|---|
| | 0.00 to <0.15 | 0.80 | 0.14% | 3 | 45.00% | 5 | 0.36 | 45% |
| | 0.25 to <0.50 | 2.92 | 0.28% | 6 | 45.00% | 4 | 1.56 | 53% |
| | 0.50 to <0.75 | 2.67 | 0.57% | 21 | 45.00% | 5 | 2.24 | 84% |
| | 0.75 to <2.50 | 10.48 | 1.55% | 141 | 45.00% | 4 | 11.76 | 112% |
| | 2.50 to <10.00 | 4.09 | 4.53% | 11 | 45.00% | 2 | 6.07 | 148% |
| | 10.00 to <100.00 | 0.07 | 18.10% | 3 | 45.00% | | 0.13 | 178% |
| | 100.00 (Default) | 0.02 | 100.00% | 2 | 45.00% | 2 | 0.00 | 0% |
| | **Subtotal** | **21.06** | **1.94%** | **187** | **45.00%** | **3** | **22.12** | **105%** |

| Institutions | PD scale | Exposure value | Exposure weighted average PD (%) | Number of obligors | Exposure weighted average LGD (%) | Exposure weighted average maturity (years) | RWEA | Density of risk weighted exposure amount |
|---|---|---|---|---|---|---|---|---|
| | 0.00 to <0.15 | 126.58 | 0.10% | 40 | 45.00% | 2 | 47.19 | 37% |
| | 0.15 to <0.25 | 14.30 | 0.20% | 10 | 45.00% | 1 | 6.84 | 48% |
| | 0.25 to <0.50 | 5.21 | 0.51% | 6 | 45.00% | 1 | 3.07 | 59% |
| | 0.50 to <0.75 | 23.08 | 0.57% | 4 | 45.00% | 1 | 14.40 | 62% |
| | 0.75 to <2.50 | 11.02 | 0.94% | 5 | 45.00% | 2 | 9.35 | 85% |
| | 2.50 to <10.00 | 0.55 | 3.66% | 3 | 45.00% | 2 | 0.73 | 133% |
| | **Subtotal** | **180.75** | **0.24%** | **68** | **45.00%** | **2** | **81.58** | **45%** |
| | **Total (all IRB_F exposure classes)** | **19 562.31** | **0.02%** | **1428** | **45.00%** | | **281.49** | **1%** |

*Table 48 - EU CCR4A_IRB_F approach - CCR exposures by exposure class and PD scale*

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

| | a | b | c | d | e | f | g |
|---|---|---|---|---|---|---|---|

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

*At 31 December 2022 (in millions of EUR)*

| Central governments and central banks | PD scale | Exposure value | Exposure weighted average PD (%) | Number of obligors | Exposure weighted average LGD (%) | Exposure weighted average maturity (years) | RWEA | Density of risk weighted exposure amount |
|---|---|---|---|---|---|---|---|---|
| | 0.00 to <0.15 | 335.88 | 0.10% | 23 | 29.96% | 4 | 95.75 | 29% |
| | 0.15 to <0.25 | 25.56 | 0.22% | 2 | 60.70% | | 9.58 | 37% |
| | 0.25 to <0.50 | 0.00 | 0.28% | 1 | 43.15% | 1 | 0.00 | 53% |
| | **Subtotal** | **361.44** | **0.11%** | **26** | **32.13%** | **4** | **105.32** | **29%** |

| Corporates - Other | PD scale | Exposure value | Exposure weighted average PD (%) | Number of obligors | Exposure weighted average LGD (%) | Exposure weighted average maturity (years) | RWEA | Density of risk weighted exposure amount |
|---|---|---|---|---|---|---|---|---|
| | 0.00 to <0.15 | 1 534.24 | 0.09% | 216 | 54.35% | 2 | 561.15 | 37% |
| | 0.15 to <0.25 | 70.61 | 0.23% | 88 | 51.26% | 2 | 39.03 | 55% |
| | 0.25 to <0.50 | 81.64 | 0.37% | 195 | 49.30% | 1 | 45.96 | 56% |
| | 0.50 to <0.75 | 33.96 | 0.62% | 115 | 53.66% | 1 | 25.84 | 76% |
| | 0.75 to <2.50 | 56.76 | 1.55% | 233 | 52.81% | 1 | 62.44 | 110% |
| | 2.50 to <10.00 | 25.16 | 5.33% | 137 | 62.33% | 1 | 50.51 | 201% |
| | 10.00 to <100.00 | 2.78 | 16.49% | 21 | 50.57% | 1 | 7.15 | 258% |
| | 100.00 (Default) | 0.11 | 100.00% | 11 | 37.84% | 3 | 0.56 | 484% |
| | **Subtotal** | **1 805.27** | **0.27%** | **1016** | **54.05%** | **2** | **792.65** | **44%** |

| Corporates - SME | PD scale | Exposure value | Exposure weighted average PD (%) | Number of obligors | Exposure weighted average LGD (%) | Exposure weighted average maturity (years) | RWEA | Density of risk weighted exposure amount |
|---|---|---|---|---|---|---|---|---|
| | 0.00 to <0.15 | 3.52 | 0.12% | 97 | 53.55% | 2 | 0.86 | 24% |
| | 0.15 to <0.25 | 11.57 | 0.27% | 68 | 35.08% | 1 | 2.73 | 24% |
| | 0.25 to <0.50 | 6.14 | 0.39% | 108 | 52.50% | 1 | 2.50 | 41% |
| | 0.50 to <0.75 | 16.18 | 0.61% | 74 | 63.87% | 1 | 11.14 | 69% |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 0.75 to <2.50 | 27.68 | 1.40% | 217 | 60.58% | 2 | 23.51 | 85% |
| | 2.50 to <10.00 | 7.38 | 4.83% | 91 | 62.17% | 1 | 9.22 | 125% |
| | 10.00 to <100.00 | 0.27 | 11.37% | 12 | 36.84% | 1 | 0.36 | 134% |
| | 100.00 (Default) | 0.48 | 100.00% | 18 | 67.63% | 2 | 4.05 | 845% |
| | **Sub-total** | **73.22** | **1.93%** | **685** | **56.38%** | **1** | **54.37** | **74%** |

| Corporates - Specialised lending | PD scale | Exposure value | Exposure weighted average PD (%) | Number of obligors | Exposure weighted average LGD (%) | Exposure weighted average maturity (years) | RWEA | Density of risk weighted exposure amount |
|---|---|---|---|---|---|---|---|---|
| | 0.00 to <0.15 | 4.33 | 0.14% | 2 | 23.00% | 5 | 1.06 | 24% |
| | 0.15 to <0.25 | 2.38 | 0.24% | 7 | 23.41% | 5 | 0.72 | 30% |
| | 0.25 to <0.50 | 17.11 | 0.30% | 38 | 22.20% | 3 | 4.62 | 27% |
| | 0.50 to <0.75 | 22.42 | 0.63% | 27 | 7.29% | 4 | 3.46 | 15% |
| | 0.75 to <2.50 | 5.09 | 1.51% | 134 | 63.28% | 4 | 9.26 | 182% |
| | 2.50 to <10.00 | 7.59 | 2.98% | 20 | 23.98% | 5 | 6.94 | 91% |
| | 100.00 (Default) | 0.01 | 100.00% | 2 | 58.84% | 4 | 0.09 | 772% |
| | **Subtotal** | **58.93** | **0.88%** | **230** | **20.42%** | **4** | **26.14** | **44%** |

| Institutions | PD scale | Exposure value | Exposure weighted average PD (%) | Number of obligors | Exposure weighted average LGD (%) | Exposure weighted average maturity (years) | RWEA | Density of risk weighted exposure amount |
|---|---|---|---|---|---|---|---|---|
| | 0.00 to <0.15 | 1 419.90 | 0.08% | 180 | 55.33% | 2 | 511.75 | 36% |
| | 0.15 to <0.25 | 113.78 | 0.20% | 26 | 55.57% | 2 | 72.30 | 64% |
| | 0.25 to <0.50 | 40.77 | 0.36% | 25 | 54.90% | 1 | 29.85 | 73% |
| | 0.50 to <0.75 | 0.00 | 0.00% | 3 | 0.00% | | 0.00 | 0% |
| | 0.75 to <2.50 | 11.85 | 1.35% | 21 | 55.98% | 3 | 15.92 | 134% |
| | 2.50 to <10.00 | 7.16 | 3.75% | 11 | 56.30% | 1 | 11.41 | 159% |
| | **Subtotal** | **1 593.46** | **0.13%** | **266** | **55.35%** | **2** | **641.22** | **40%** |

| Retail - Other non-SME | PD scale | Exposure value | Exposure weighted average PD (%) | Number of obligors | Exposure weighted average LGD (%) | Exposure weighted average maturity (years) | RWEA | Density of risk weighted exposure amount |
|---|---|---|---|---|---|---|---|---|
| | 2.50 to <10.00 | 0.09 | 4.53% | 3 | 91.93% | | 0.13 | 142% |
| | **Sub-total** | **0.09** | **0.00%** | | **0.00%** | | **0.13** | **0%** |

| Retail - Other SME | PD scale | Exposure value | Exposure weighted average PD (%) | Number of obligors | Exposure weighted average LGD (%) | Exposure weighted average maturity (years) | RWEA | Density of risk weighted exposure amount |
|---|---|---|---|---|---|---|---|---|
| | 0.00 to <0.15 | 0.32 | 0.11% | 127 | 40.13% | | 0.04 | 11% |
| | 0.15 to <0.25 | 0.64 | 0.22% | 75 | 42.52% | | 0.15 | 24% |
| | 0.25 to <0.50 | 0.88 | 0.42% | 76 | 46.32% | | 0.33 | 38% |
| | 0.50 to <0.75 | 0.18 | 0.61% | 34 | 54.61% | | 0.09 | 54% |
| | 0.75 to <2.50 | 0.41 | 1.17% | 64 | 44.89% | | 0.25 | 61% |
| | 2.50 to <10.00 | 0.17 | 4.93% | 72 | 65.25% | | 0.17 | 100% |
| | 10.00 to <100.00 | 0.01 | 22.49% | 6 | 50.57% | | 0.02 | 204% |
| | 100.00 (Default) | 0.02 | 100.00% | 2 | 29.87% | | 0.08 | 373% |
| | **Sub-total** | **2.64** | **1.69%** | **456** | **46.10%** | | **1.14** | **43%** |
| | **Total (all IRB_A exposure classes)** | **3 895.05** | **0.24%** | **2682** | **52.08%** | **2** | **1 620.97** | **42%** |

*Table 49 - EU CCR4B_ IRB_A approach - CCR exposures by exposure class and PD scale*

# Wrong way risk

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

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

## Specific wrong way risk

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

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

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

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

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

## General wrong way risk

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

# Market Risk Management (trading)

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

## Governance

The group's trading activity is managed centrally both from a business and a risk management perspective. This means that, wherever possible and practical, the residual trading positions (and hence the market risk) of almost all of our trading entities are systematically transferred to KBC Bank NV. The centralisation of trading risk management implies close co-operation among all the risk management units at both group and local level. This close co-operation allows consistent reporting to group senior management through the Group Markets Committee (GMC), which is chaired by the Group CRO, with the Group CFO as Deputy Chair, and includes senior representatives from Risk and Business. The GMC thus has an integrated overview of the risk and capital consumption of the trading activity, including, apart from market risk, non-financial 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 holds a meeting every four weeks for which it receives an extensive Core Report as well as regular and ad hoc memos and reports. A more concise 'GMC Dashboard' is circulated to the GMC members between meetings so that the GMC members have up-to-date information available on the trading activities of KBC Group. The frequency of this dashboard can be increased depending on the trading environment (e.g., stress in the markets). The Group Executive Committee ratifies the minutes of the GMC meetings and also receives market-risk-related information and risk signals in its monthly Integrated Risk Report.

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

The risk limit framework consists of primary limits and a series of secondary limits. Any breaches of the two primary Group limits (i.e. the KBC Group HVaR limit and the Group RWA limit) could imply a breach of the group risk appetite and hence can only be approved by the Board of Directors. Primary limit overruns at entity level must be approved by the Group Executive Committee. However, it is important to point out that, other than KBC Bank NV, all entity limits are small. This is because KBC Bank NV holds about 98% of the trading-book-related regulatory capital of KBC Group NV due to the previously mentioned systematic transferring of residual positions of entities, and therefore risk, to KBC Bank NV.

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

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

## Strategy

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

## Market risk scope, objectives and processes

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

Trading activities are carried out by our dealing rooms in Belgium, the Czech Republic, Hungary, Bulgaria and Slovakia, as well as via a minor presence in the UK and Asia. As mentioned in the ‘Governance’ section, wherever possible and practical, the residual trading positions of almost all of our trading entities are systematically transferred to KBC Bank NV.

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

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

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

- a comprehensive stress test framework.

Whereas HVaR calculations serve as a primary risk measurement tool, risk concentrations are monitored via a series of secondary limits including equity concentration limits, FX concentration limits and basis-point-value limits for interest rate risk and basis risk. The specific risks associated with a particular issuer or country are also subject to concentration limits. For the non-linear positions, although we monitor the 'greeks' via 'soft' limits, our formal limit framework is based on scenario and stress scenario grids involving multiple shifts of underlying risk factors. The reason why our formal limits are based on the worst case scenario of such grids because it is more intuitive for senior management as it reflects the actual P&L impact, using full revaluation, of such shifts. Some composite and/or illiquid instruments, which cannot be modelled in an HVaR context, are subject to nominal and/or scenario limits.

## Impact of geopolitical and emerging risks on trading market risk

In the context of the dealing room business of KBC, it is important to point out that the drivers of the P&L of the dealing room business ensue from sales revenues and the efficient (macro) hedging of the resulting positions. Whilst the mismatch caused by the inexact (macro) hedging of the positions resulting from facilitating clients inevitably results in some market risk, which can result in losses in certain market environments, KBC's risk appetite for such residual positions is low. Please note that these residual positions can swiftly change (i.e. become 'long' or 'short' an instrument or group of instruments) during the dynamic activity associated with our dealing rooms, i.e. no structural, directional positions are held as may be the case for other business lines.

Regarding the market environment during 2022, the recurring theme was (AR) the high volatility and nervousness in the markets, amidst geopolitical tensions, high inflation figures, recession fears and the uncertainties surrounding the timing and extent of central banks' monetary tightening. Although this increased market activity and volatility has been conducive to the dealing room P&L, even the small mismatches and residual positions arising from the above-mentioned inexact (macro) hedging of the positions resulting from facilitating clients led to increased P&L volatility. Notwithstanding the actions taken by the dealing room to lower P&L volatility, market risk RWAs for trading activities at year-end 2022 were approximately 16% higher than at year-end 2021 due to the market turmoil increasing the market risk RWA derived from our Approved Internal Model (please see below). KBC's low risk appetite for market risk in trading activities is illustrated by the fact that, despite this increase, the 2022 market risk RWA for trading activities remained at about 3% of KBC Group's total RWA.

## The VaR model

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

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

The risk factors used in the VaR calculations cover all the main market risk drivers for the trading books, namely interest rates, interest rate volatility, basis risk, sovereign credit spreads, exchange rates, exchange rate volatility, equity, equity volatility, equity dividends and inflation rates. Specific (issuer) risk is calculated using the Standardised Approach. To compute shifts in the risk factors, the Historical Value-at-Risk method is used (HVaR). This means that the actual market

performance is used in order to simulate how the market could develop going forward, i.e. this method does not rely on assumptions regarding the distribution of price fluctuations or correlations, but is based on patterns of experience in the past.

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

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

As with any model, there are a certain number of uncertainties/deficiencies. However, the model is subject to regular review and improvements. During 2022, there were some minor changes to the HVaR model but the total impact on the HVaR result was not significant.

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

**Market risk (management HVaR)**

| *In millions of EUR* | 2022 | 2021 |
|---|---|---|
| Average for 1Q | 8 | 8 |
| Average for 2Q | 9 | 8 |
| Average for 3Q | 10 | 7 |
| Average for 4Q | 9 | 7 |
| As at 31 December | 7 | 7 |
| Maximum in year | 12 | 11 |
| Minimum in year | 6 | 4 |

*Table 50 - Market risk (management HVaR)*

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

**Breakdown by risk factor of trading HVaR for the KBC group (Management HVaR)**

| *In millions of EUR* | Average for 2022 | Average for 2021 |
|---|---|---|
| Interest rate risk | 8.6 | 7.6 |
| FX risk | 1.3 | 1.1 |
| FX options risk | 0.3 | 0.2 |
| Equity risk | 0.8 | 0.9 |
| Diversification effect | -2.1 | -2.3 |
| **Total HVaR** | **8.9** | **7.5** |

*Table 51 - Breakdown by risk factor of trading HVaR for the KBC group (Management HVaR)*

We have provided an overview of the derivative products under Note 4.8 in the 'Consolidated financial statements' section of the 2022 Annual Report of KBC Group NV.

# Regulatory capital

The capital requirements for trading risk at year-ends 2021 and 2022 are shown in the table below. It shows the regulatory capital requirements by risk type, as assessed by the internal model. Business lines not included in the internal model calculations are measured according to the Standardised Approach and likewise shown by risk type. The following two sections give more detail regarding the drivers of the Regulatory capital for both the Approved Internal Model and the Standardised Approach.

**Trading regulatory capital requirements by risk type**

| *In millions of EUR* | | Interest rate risk | Equity risk | FX risk | Commodity risk | Total |
|---|---|---|---|---|---|---|
| 31/12/2022 | | | | | | |
| Market risks assessed by Approved Internal Model | HVaR | 67 | 14 | 12 | | 93 |
| | SVaR | 79 | 31 | 19 | | 129 |
| Market risks assessed by the Standardised Approach | | 4 | 2 | 23* | 0 | 29 |
| Total | | 150 | 47 | 54 | 0 | 252 |
| 31/12/2021 | | | | | | |
| Market risks assessed by Approved Internal Model | HVaR | 48 | 8 | 8 | | 64 |
| | SVaR | 87 | 15 | 20 | | 122 |
| Market risks assessed by the Standardised Approach | | 7 | 3 | 19* | 0 | 29 |
| Total | | 143 | 26 | 47 | 0 | 216 |

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

*Table 52 - Trading regulatory capital requirements by risk type*

## Approved Internal Model (AIM)

As can be seen in the above table, about 88% of KBC Group's capital requirements related to market risk are determined using KBC Bank NV's Approved Internal Model (AIM). This figure increases to 97% if capital requirements for foreign exchange risk in the banking book are removed (which is thus the percentage of capital requirements covered by the graph shown in the 'Back-testing' section).

The KBC Bank NV AIM is also used for the calculation of Stressed VaR (SVaR), which is one of the CRD III Regulatory Capital charges that entered into effect at year-end 2011. The SVaR, like the HVaR, measures the maximum loss from an adverse market movement within a given confidence level (99%) and for a given holding period (10 days). The methodology is identical to that used for HVaR calculations, though the 500 scenarios used for calculating the SVaR are not based on the most recent past, but consist of 250 'regular' historical scenarios from the period which resulted in the most negative VaR figure for the positions in scope of the KBC Bank NV AIM (the 'stressed' period), and 250 antithetic ('mirror') scenarios, obtained by reversing these 250 regular scenarios. In line with regulations, which require a calibration of the stressed period used for SVaR at least once a year, we check on a monthly basis that the period selected is indeed the most severe for the positions held. During 2022, all the monthly monitoring confirmed the Lehman Brothers crisis as the most stressful period. The SVaR period currently reflects the period from June 2008 to June 2009.

In line with EBA guidelines, the following three tables show the HVaR and SVaR components of the KBC Bank NV AIM at the end of 2022, the RWA flow between 2021 and 2022 and the range of HVaR and SVaR during 2022.

**EU MR2-A - Market risk under the internal Model Approach (IMA)**

| | | a | b |
|---|---|---|---|
| *At 31 December 2022 (in millions of EUR)* | | RWEAs | Own funds requirements |
| **1** | **VaR (higher of values a and b)** | **1 163** | **93** |
| *(a)* | *Previous day's VaR (VaRt-1)* | | *23* |
| *(b)* | *Multiplication factor (mc) x average of previous 60 working days (VaRavg)* | | *93* |
| **2** | **SVaR (higher of values a and b)** | **1 618** | **129** |
| *(a)* | *Latest available SVaR (SVaRt-1))* | | *40* |
| *(b)* | *Multiplication factor (ms) x average of previous 60 working days (sVaRavg)* | | *129* |
| **3** | **IRC (higher of values a and b)** | | |
| *(a)* | *Most recent IRC measure* | | |
| *(b)* | *12 weeks average IRC measure* | | |
| **4** | **Comprehensive risk measure (higher of values a, b and c)** | | |
| *(a)* | *Most recent risk measure of comprehensive risk measure* | | |
| *(b)* | *12 weeks average of comprehensive risk measure* | | |
| *(c)* | *Comprehensive risk measure - Floor* | | |
| 5 | Other | | |
| **6** | **Total** | **2 781** | **223** |

*Table 53 - EU MR2-A_Market risk under the internal Model Approach (IMA) for 2021*

**EU MR2-B - RWEA flow statements of market risk exposures under the IMA**

| | | a | b | c | d | e | f | g |
|---|---|---|---|---|---|---|---|---|
| *In millions of EUR* | | VaR | SVaR | IRC | CRM | Other | Total RWEAs | Total own funds requirements |
| **1** | **RWEAs as at 31 December 2021** | **803** | **1 529** | | | | **2 333** | **187** |
| *1a* | *Regulatory adjustment* | *-497* | *-1 110* | | | | *-1 606* | *-129* |
| *1b* | *RWEAs at the previous quarter-end (end of the day)* | *307* | *420* | | | | *726* | *58* |
| 2 | Movement in risk levels | -25 | 80 | | | | 55 | 4 |
| 3 | Model updates/changes | 0 | 0 | | | | 0 | 0 |
| 4 | Methodology and policy | 0 | 0 | | | | 0 | 0 |
| 5 | Acquisitions and disposals | 0 | 0 | | | | 0 | 0 |
| 6 | Foreign exchange movements | 0 | 0 | | | | 0 | 0 |
| 7 | Other | 0 | 0 | | | | 0 | 0 |
| *8a* | *RWEAs at the end of the disclosure period (end of the day)* | *282* | *499* | | | | *781* | *62* |
| *8b* | *Regulatory adjustment* | *882* | *1 119* | | | | *2 000* | *160* |
| **8** | **RWEAs as at 31 December 2022** | **1 163** | **1 618** | | | | **2 781** | **223** |

*Table 54 - EU MR2-B_RWEA flow statements of market risk exposures under the IMA*

**EU MR3 - IMA values for trading portfolios**

| | *At 31 December 2022 (in millions of EUR)* | |
|---|---|---|
| | **VaR (10 day 99%)** | |
| 1 | Maximum value | 38 |
| 2 | Average value | 27 |
| 3 | Minimum value | 19 |
| 4 | Period end | 23 |
| | **SVaR (10 day 99%)** | |
| 5 | Maximum value | 60 |
| 6 | Average value | 44 |
| 7 | Minimum value | 32 |
| 8 | Period end | 35 |
| | **IRC (99.9%)** | |
| 9 | Maximum value | |
| 10 | Average value | |
| 11 | Minimum value | |
| 12 | Period end | |
| | **Comprehensive risk measure (99.9%)** | |
| 13 | Maximum value | |

| | |
|---|---|
| 14 | Average value |
| 15 | Minimum value |
| 16 | Period end |

*Table 55 - EU MR3_IMA values for trading portfolios for 2021*

As can be seen in the EU MR2-B table, the market risk RWA at year-end 2022 increased by 449 million euros (19%) compared to year-end 2021 despite the previously mentioned measures taken by the dealing room to lower P&L volatility. The reasons for the increase were the violent market movements during 2022, which affected market risk RWA in two ways:

- an increase in the number of outliers during 2022 (please refer to the 'Back-testing' section for more details) leading to an increase in the regulatory multiplier of the average HVaR and SVaR used for Approved Internal Model market risk RWA calculations from 3 at year-end 2021 to 3.5 at year-end 2022 (this regulation-induced increase in the multiplier alone caused a ceteris paribus increase in capital requirements of 17%).
- the violent market movements entered the rolling 500-day historical data set used for our HVaR calculations, causing the HVaR to increase for a given position.

## Standardised Regulatory Capital Requirements

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

The Standardized Approach sets out general and specific risk weightings per type of market risk (interest rate risk, equity risk, FX risk and commodity risk). The resulting regulatory capital calculated using the Standardised Approach for 2022 is shown in the table below. The 29 million euros in capital requirements shown in the table would drop to 7 million euros when the capital requirements for the FX risk in the banking book are removed.

| | | a | |
|---|---|---|---|
| **EU MR1 - Market risk under the Standardised Approach** | | | |
| *At 31 December 2022 (in millions of EUR)* | | RWEAs | Capital requirements |
| | **Outright products** | **364** | **29** |
| 1 | Interest rate risk (general and specific) | 56 | 4 |
| 2 | Equity risk (general and specific) | 21 | 2 |
| 3 | Foreign exchange risk | 286 | 23 |
| 4 | Commodity risk | 0 | 0 |
| | **Options** | **1** | |
| 5 | Simplified approach | 0 | 0 |
| 6 | Delta-plus approach | 1 | 0 |
| 7 | Scenario approach | 0 | 0 |
| 8 | Securitisation (specific risk) | | |
| **9** | **Total** | **365** | **29** |

*Table 56 - EU MR1_Market risk under the Standardised Approach*

# Stress testing

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

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

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

| Events | Events Period (start to end) |
|---|---|
| 1987 market crash | 06-10-1987 – 02-11-1987 |
| 1st Gulf War | 27-07-1990 – 06-08-1990 |
| 1994 bond sell-off | 25-02-1994 – 18-04-1994 |
| Mexican crisis | 20-12-1994 – 06-01-1995 |
| Czech koruna turmoil | 01-05-1997 – 30-05-1997 |
| Asian crisis | 20-10-1997 – 18-11-1997 |
| Russian crisis | 27-08-1998 – 08-09-1998 |
| Brazilian crisis | 04-01-1999 – 01-02-1999 |
| 11-Sep-01 | 10-09-2001 – 17-09-2001 |
| 2nd Gulf War | 03-03-2003 – 24-03-2003 |
| Early credit crunch | 09-07-2007 – 20-08-2007 |
| Credit crisis peak | 14-01-2008 – 18-03-2008 |
| Lehman Brothers crisis | 05-09-2008 – 24-11-2008 |
| Early peripheral sovereign crisis | 31-03-2010 – 31-05-2010 |
| Greek crisis, further austerity package | 13-06-2011 – 22-07-2011 |
| August 2011 stock markets fall | 26-07-2011 – 06-09-2011 |
| Belgian sovereign crisis | 13-09-2011 – 05-12-2011 |
| Syriza sweeps to power | 29-12-2014 – 26-01-2015 |
| Switzerland abandons euro cap | 13-01-2015 – 21-01-2015 |
| Renewed Greek default fears | 29-05-2015 – 03-08-2015 |
| Brexit | 20-06-2016 – 30-06-2016 |
| De-pegging pressure on Czech koruna | 20-12-2016 – 31-01-2017 |
| De-pegging of Czech koruna | 15-03-2017 – 11-04-2017 |
| Early COVID-19 | 04-03-2020 – 24-03-2020 |

*Table 57 - Historical stress tests*

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

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

checking that they remain up to date and relevant). Our 2022 review of the stress tests resulted in a recalibration of the basis risk shifts (including sovereign spread risk) used in our hypothetical stress tests. In all the stress tests conducted during the year, the worst-case scenario results were comfortably covered by the market-risk regulatory capital requirements.

## Back-testing

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

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

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

- 'Hypothetical back-testing': this compares the HVaR to the daily economic P&L of the Middle Office, while keeping the portfolio unchanged and removing the effect of fees, commission and net interest – sometimes referred to as the 'hands-off P&L');
- 'Actual back-testing': the same as 'hypothetical back-testing', but allowing for trades applicable on a given position date (excluding commission and fees).

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

The table below shows the number of overshootings for the KBC Bank NV AIM in 2021 and 2022. Overshootings are reported to the relevant risk committees and the applicable regulators on both an ad hoc and quarterly basis.

| | | KBC Bank AIM | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Hypothetical back-test | Date | HVaR (mln EUR) | P&L (mln EUR) | Actual back-test | Date | HVaR (mln EUR) | P&L (mln EUR) |
| 2022 | 6 | 2/23/2022 | -7.2 | -8.9 | 6 | 2/23/2022 | -7.2 | -8.2 |
| | | 3/1/2022 | -6.6 | -10.9 | | 3/1/2022 | -6.6 | -9.4 |
| | | 5/6/2022 | -8.6 | -10.5 | | 5/6/2022 | -8.6 | -9.7 |
| | | 6/22/2022 | -9.2 | -9.4 | | 6/22/2022 | -9.2 | -10.0 |
| | | 9/27/2022 | -9.9 | -11.8 | | 9/27/2022 | -9.9 | -12.2 |
| | | 12/12/2022 | -7.7 | -11.6 | | 12/12/2022 | -7.7 | -10.8 |
| 2021 | 2 | 11/4/2021 | -6.5 | -10.9 | 2 | 11/4/2021 | -6.5 | -10.9 |
| | | 11/26/2021 | -7.1 | -13.5 | | 11/26/2021 | -7.1 | -12.6 |

*Table 58 - Overshootings Approved Internal Models*

As can be seen from the table above and the graph below, the KBC Bank AIM had six overshootings in 2022. This high number of overshootings compared to previous years was driven by increased volatility in the markets throughout the year as described earlier in this section. Three of the outliers occurred towards the start of the Russia-Ukraine conflict. The outlier in June came after the release of disappointing euro area figures. The violent movements in the markets after the announcement of the UK mini-budget in September led to the fifth outlier, with the sixth outlier being driven by events in Central Europe.

As described in the 2021 Risk Report, the overshootings in 2021 were driven by extreme movements in the interest rates of Central European currencies together with technicalities of the respective markets.

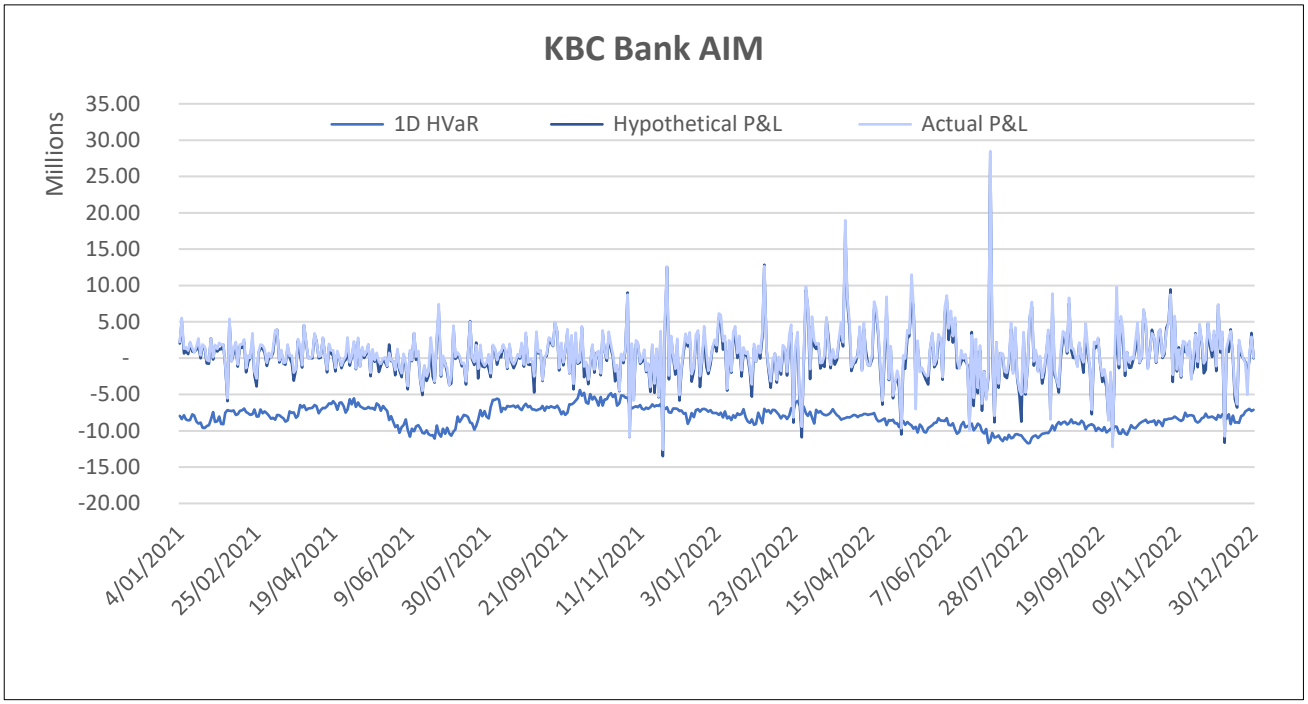



*Figure 3 - EU MR4_One-day HVaR with the daily P&L results during 2020 and 2021 at KBC Bank NV AIM*

## Validation and reconciliation

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

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

## Valuation

One of the building blocks of sound risk management is prudent valuation. A daily independent middle-office valuation of front-office positions is performed. Whenever the independent nature or the reliability of the valuation process is not guaranteed, a monthly parameter review is performed. Where applicable, adjustments to the fair value are made to reflect

close-out costs, adjustments for less liquid positions or markets, mark-to-model-related valuation adjustments, counterparty risk and liquidity risk.

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

Examples of observable inputs are the risk-free rate, exchange rates, stock prices and implied volatility. Valuation techniques based on observable inputs can include discounted cashflow analysis, reference to the current or recent fair value of a similar instrument, or third-party pricing, provided that the third-party price is in line with alternative observable market data. Unobservable inputs reflect KBC's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions regarding the risks involved). Unobservable inputs reflect a market that is not active. For example, proxies and correlation factors can be considered to be unobservable in the market.

The KBC valuation methodology of the most commonly used financial instruments is summarised in Note 1.0 of the 2022 Annual Report of KBC Group NV.

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

# Market Risk Management (non-trading)

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

## Governance, strategy and processes

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

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

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

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

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

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

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

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

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

## Scope of non-trading market risk disclosures

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

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

## Impact of geopolitical and emerging risks on non-trading market risk

After the markets had learned to live with the aftermath of the coronavirus crisis, they were shocked by the Russian aggression against Ukraine. Although our Central Europe subsidiaries share some borders with Ukraine, KBC had limited investments in the belligerent countries and it did not materially impact the banking books.

However, the increase in inflation and interest rates, which were already observed prior to the invasion, accelerated beyond expectations, fundamentally changing the challenges faced by the treasury department. The quest for decent returns on investments has been replaced by renewed risks for outflows. Moreover, credits sold in times of high interest rates bear a larger prepayment risk. Tested scenarios showed the risk is material, but manageable. At the end, the solid and well-

balanced structure of our banking books, as well as a prudent approach in the management of non-maturity deposits, allowed KBC to contain the risks and keep the balance sheet healthy.

# Sub-risk types

## Interest rate risk

### Interest rate risk and gap risk for the banking activities

We define interest rate risk in the banking books as the risk arising from adverse movements or volatility in interest rates. The main technique used to measure interest rate risks is the 10 BPV method, which measures the extent to which the value of the portfolio would change if interest rates were to go up by ten basis points across the entire swap curve (negative figures indicate a decrease in the value of the portfolio). It is managed on a daily basis by the treasury function and assessed on a monthly basis by the second line of defence, with the possibility to perform an ad hoc analysis between two reporting dates. We also use other techniques such as gap analysis, the duration approach or stress testing. Scenario analysis is performed for net interest income. We apply a parametric Value at Risk approach to assess the resilience of the capital position to interest rate movements. These measures are performed at least on a quarterly basis.

**Impact of a parallel 10-basis-point increase in the swap[2] curve for the KBC group**

| | Impact on value[1] | |
|---|---|---|
| *In millions of EUR* | 2022 | 2021 |
| Banking | -36 | -69 |
| Insurance | 4 | 24 |
| Total | -32 | -45 |

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

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

*Table 59 - Impact of a parallel 10-basis-point increase in the swap curve for the KBC group Impact on value*

The ALM interest rate positions of the banking entities are managed via a system of market-oriented internal pricing for products with a fixed maturity date, and via a replicating portfolio technique for products without a fixed maturity date. Current and savings accounts are segmented based on several characteristics and a maturity profile is assigned to the different segments, ranging from Overnight to 15 years' maturity for the long end of the most stable profiles. On average, the duration of the portfolio ranges between 2.5 years and 3.5 years.

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

**Swap BPV (10 basis points) of the ALM book, banking activities***

| *In millions of EUR* | 2022 | 2021 |
|---|---|---|
| Average for 1Q | -75 | -65 |
| Average for 2Q | -66 | -64 |
| Average for 3Q | -70 | -60 |
| Average for 4Q | -36 | -69 |
| As at 31 December | -36 | -69 |
| Maximum in year | -75 | -69 |
| Minimum in year | -36 | -60 |

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

*Table 60 - Swap BPV (10 basis points) of the ALM book, banking activities*

In line with European Banking Authority guidelines, we conduct an outlier stress test on a quarterly basis by applying six different scenarios to the banking books (material currencies). The worst-case scenario is set off against tier-1 capital. For the banking book at KBC group level, this risk came to -3% of tier-1 capital at year-end 2022. This -3% is well below the 15% tier-1 threshold, which is monitored by the European Central Bank. Note that this -3% of tier-1 capital at year-end 2022 is equivalent to a -0.4% points impact on the end of year 2022 fully loaded CET1 ratio.

The table shows the changes in economic value of equity under the six different interest rate scenarios. To test these six scenarios, we combine the shift in the yield curves with changes in maturities depending on clients' behaviour (e.g., interest-rate-driven prepayment behaviour) and use a run-off balance sheet where maturing items are not replaced. The bank also analyses the impact of different interest rate scenarios on its net interest income. As the EBA regulatory technical standards regarding the implementation of a regulatory outlier stress test for net interest income have not yet been approved by the European Commission, KBC opted to report internal scenarios, a 100-basis-point up scenario and a 50-basis-point down scenario, assuming a constant balance sheet over a one-year horizon and an instant shock.

**EU IRRBB1 - Interest rate risks of non-trading book activities**

| | | a | b | c | d |
|---|---|---|---|---|---|
| | Supervisory shock scenarios | Changes of the economic value of equity | | Changes of the net interest income[1] | |
| *In millions of EUR, material currencies* | | 4Q 2022 | 2Q 2022 | 4Q 2022 | 2Q2022 |
| 1 | Parallel up | -491 | -1 163 | 126 | 186 |
| 2 | Parallel down | 370 | 600 | -63 | -56 |
| 3 | Steepener | -55 | -207 | | |
| 4 | Flattener | -26 | -3 | | |
| 5 | Short rates up | -179 | -343 | | |
| 6 | Short rates down | 102 | 176 | | |

*Footnote 1* *Awaiting the approval by the European Commission on the EBA draft technical standards that specify the supervisory shock scenarios, the common modelling and parametric assumptions and the definition of a large decline for the supervisory outlier stress test, the Implementation Technical Standards (ITS) on the Public Disclosure on IRRBB allows the use of own scenarios to report on changes in NII. KBC opted to report internal scenarios, a 100-basis-point up scenario and a 50-basis-point down scenario, assuming a constant balance sheet over a one year horizon and an instant shock.*

*Table 61 - EU IRRBB1_ Interest rate risks of non-trading book activities - changes of the economic value of equity, banking activities*

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

**Interest sensitivity gap of the ALM book (including derivatives), banking activities***

| *In millions of EUR* | ≤ 1 month | 1–3 months | 3–12 months | 1–5 years | 5–10 years | > 10 years | Non-interest bearing | Total |
|---|---|---|---|---|---|---|---|---|
| 31/12/2022 | -24 177 | 11 472 | -10 910 | 7 621 | 6 314 | 21 | 9 659 | 0 |
| 31/12/2021 | 1 745 | -12 310 | -8 919 | 5 529 | 5 687 | 1 104 | 7 164 | 0 |

* *Please note that the 'Non-interest bearing' bucket includes Cash at Central Banks and non-maturity deposits that are kept overnight. For 2022 this amounted in total to +27.8 billion euros and for 2021 this was +20.6 billion euros. In case allocated to the "<1 month bucket" we come to an overall positive gap in the first month.*

*Table 62 - Interest sensitivity gap of the ALM book (including derivatives), banking activities*

The interest sensitivity gap shows our overall position in interest rate risk. Generally, assets reprice over a longer term than liabilities, which means that KBC's net interest income benefits from a normal (upward-sloping) yield curve. The economic value of the KBC group is sensitive primarily to movements at the mid- to long-term end of the yield curve. The increase in the global BPV in the banking books (a less negative BPV) stems from a tactical repositioning and the aim to hedge against rising interest rates. (see Table 59 - Impact of a parallel 10-basis-point increase in the swap curve for the KBC group Impact on value above).

## Interest rate risk for the insurance activities

Where the group's insurance activities are concerned, the fixed-income investments for the non-life reserves are invested with the aim of matching the projected pay-out patterns for claims, based on extensive actuarial analysis.

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

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

**Expected cashflows (not discounted), life insurance activities**

| *In millions of EUR* | 0–1 year | 1–2 years | 2-3 years | 3-4 years | 4-5 years | >5 years | **Total** |
|---|---|---|---|---|---|---|---|
| **12/31/2022** | | | | | | | |
| Fixed-income assets backing liabilities, guaranteed component | 1 233 | 1 489 | 855 | 1 048 | 844 | 8 738 | **14 208** |
| Equity | | | | | | | **929** |
| Property | | | | | | | **112** |
| Other (no maturity) | | | | | | | **95** |
| Liabilities, guaranteed component | 1 367 | 1 201 | 807 | 882 | 834 | 9 474 | **14 566** |
| Difference in time-sensitive expected cashflows | -134 | 288 | 48 | 166 | 11 | -737 | **-358** |
| Mean duration of assets | | | | | | | **6.66 years** |
| Mean duration of liabilities | | | | | | | **8.76 years** |
| **12/31/2021** | | | | | | | |
| Fixed-income assets backing liabilities, guaranteed component | 1 371 | 1 281 | 1 385 | 847 | 1 044 | 8 856 | **14 784** |
| Equity | | | | | | | **987** |
| Property | | | | | | | **171** |
| Other (no maturity) | | | | | | | **152** |
| Liabilities, guaranteed component | 1 758 | 748 | 1 223 | 840 | 895 | 9 859 | **15 323** |
| Difference in time-sensitive expected cashflows | -387 | 534 | 162 | 7 | 148 | -1003 | **-539** |
| Mean duration of assets | | | | | | | **6.97 years** |
| Mean duration of liabilities | | | | | | | **9.93 years** |

*Table 63 - Expected cashflows (not discounted), life insurance activities*

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

| Breakdown of the reserves for non-unit-linked life insurance by guaranteed interest rate, insurance activities | 31/12/2022 | 31/12/2021 |
|---|---|---|
| 5.00% and higher | 3% | 3% |
| More than 4.25% up to and including 4.99% | 7% | 7% |
| More than 3.50% up to and including 4.25% | 4% | 4% |
| More than 3.00% up to and including 3.50% | 9% | 9% |
| More than 2.50% up to and including 3.00% | 3% | 3% |
| 2.50% and lower | 72% | 71% |
| 0.00% | 2% | 2% |
| **Total** | **100%** | **100%** |

*Table 64 - Breakdown of the reserves for non-unit-linked life insurance by guaranteed interest rate, insurance activities*

### Interest rate risk for the KBC group

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

| Interest Rate Risk – swap BPV in thousands of EUR<br>*31/12/2022* | Overall | EUR | CZK | HUF | BGN | USD | GBP | CHF | Other |
|---|---|---|---|---|---|---|---|---|---|
| Banking activities | -35 917 | -29 230 | -9 846 | - 750 | 5 832 | -986 | -987 | 10 | 40 |
| Insurance activities | 4 187 | 6 467 | -1 540 | -270 | -470 | 0 | 0 | 0 | 0 |
| **Total*** | **-31 730** | **-22 763** | **-11 386** | **-1 020** | **5 362** | **-986** | **-987** | **10** | **40** |

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

*Table 65 - Interest Rate Risk – swap BPV in thousands of EUR 31-12-22*

| Interest Rate Risk – swap BPV in thousands of EUR<br>*31/12/2021* | Overall | EUR | CZK | HUF | BGN | USD | GBP | CHF | Other |
|---|---|---|---|---|---|---|---|---|---|
| Banking activities | -69 524 | -56 766 | -12 131 | -3 586 | 4 169 | -841 | -304 | -54 | -11 |
| Insurance activities | 24 105 | 23 460 | 1 676 | -319 | -718 | 4 | 0 | 2 | 0 |
| **Total*** | **-45 422** | **-33 293** | **-10 470** | **-3 905** | **3 451** | **-836** | **-304** | **-52** | **-11** |

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

*Table 66 - Interest Rate Risk – swap BPV in thousands of EUR 31-12-21*

## 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.

**Exposure to sovereign bonds at year-end 2022, carrying value[1]**

| Total (by portfolio)<br>*In millions of EUR* | At amortised cost | At fair value through other comprehensive income (FVOCI) | Held for trading | Total | *For comparison purposes: total at year-end 2021* | Economic impact of +100 basis points[3] |
|---|---|---|---|---|---|---|
| **KBC core countries** | | | | | | |
| Belgium | 8 750 | 1 840 | 230 | 10 820 | *13 020* | -553 |
| Czech Republic | 11 316 | 1 126 | 1159 | 13 601 | *12 481* | -626 |
| Hungary | 2 362 | 161 | 99 | 2 621 | *3 085* | -77 |
| Slovakia | 3 334 | 265 | 17 | 3 615 | *3 689* | -173 |
| Bulgaria | 1 795 | 530 | 28 | 2 353 | *1 722* | -84 |
| **Other countries** | | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| France | 4 463 | 1 032 | 25 | 5 520 | *6 546* | -231 |
| Spain | 2 023 | 558 | 0 | 2 581 | *1 335* | -78 |
| Ireland | 1 016 | 204 | 0 | 1 220 | *1 356* | -53 |
| Poland | 875 | 180 | 9 | 1 065 | *1 286* | -27 |
| Italy | 268 | 908 | 0 | 1 176 | *2 717* | -36 |
| US | 1 558 | 15 | 0 | 1 573 | *1 319* | -55 |
| Rest[2] | 6 461 | 1 316 | 100 | 7 876 | *5 951* | -379 |
| Total carrying value | 44 219 | 8 135 | 1 667 | 54 021 | *54 507* | - |
| Total nominal value | 44 953 | 8 772 | 1 812 | 55 537 | *52 736* | - |

*1. The table excludes exposure to supranational entities of selected countries. No material impairment on the government bonds in portfolio.*

*2. Sum of countries whose individual exposure is less than 1 billion euros at year-end 2022*

*3. Theoretical economic impact in fair value terms of a parallel 100-basis-point upward shift in the spread over the entire maturity structure. Only a portion of this impact is reflected in profit or loss and/or equity. Figures relate to non-trading positions in sovereign bonds for the banking and insurance businesses (impact on trading book exposure was quite limited and amounted to 14 million euros, including supranational bonds at year-end 2022).*

*Table 67 - Exposure to sovereign bonds at year-end 2022, carrying value*

At year-end 2022, the carrying value of the total government bond portfolio measured at fair value through other comprehensive income (FVOCI) incorporated a revaluation reserve of -0.8 billion euros, before tax (-217 million euros for Belgium, -165 million euros for France, -59 million euros for the Czech Republic, -45 million euros for Hungary and -277 million euros for the other countries combined).

At year-end 2022, Belgian and Czech sovereign bonds accounted for 44% of our total government bond portfolio, reflecting the importance to KBC of Belgium and the Czech Republic, the group's primary core markets.

Apart from interest rate risk, the main risk to our holdings of Belgian and Czech sovereign bonds is a widening of the credit spread. To assess the potential impact of a 100-basis-point upward shift in the spread (by year-end 2022), we apply two approaches:

- The theoretical full economic impact approach, which assumes a potential sale of the entire portfolio at market prices. The impact of a 100-basis-point shift would then result in a change in value of -1 178 million euros (see previous table);
- The IFRS approach, the impact of which on IFRS profit or loss is marginal since the lion's share of the portfolio of Belgian and Czech sovereign bonds is classified as 'At amortised cost', implying that sales prior to maturity are unlikely (87%: impact only upon realisation). The remaining part is classified as 'FVOCI' (13%: no impact on profit or loss); the impact of a 100-basis-point increase on IFRS unrealised gains is -169 million euros (before tax) for FVOCI assets.

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

| **Exposure to non-sovereign bonds at year-end, by rating: economic impact of +100 basis points**<br>*In millions of EUR* | **31/12/2022** | **31/12/2021** |
|---|---|---|
| Bonds rated AAA | -108 | -125 |
| Bonds rated AA+, AA, AA- | -115 | -133 |
| Bonds rated A+, A, A- | -109 | -126 |
| Bonds rated BBB+, BBB, BBB- | -34 | -46 |
| Non-investment grade and non-rated bonds | -21 | -31 |
| Total carrying value (excluding trading portfolio) | 11 505 | 10 703 |

*Table 68 - Exposure to non-sovereign bonds at year-end, by rating: economic impact of +100 basis points*

## Equity risk

KBC holds equity portfolios, for several purposes. The largest part of the equity portfolio is held as an economic hedge for long-term insurance liabilities, in the Life and non-Life businesses, that can hardly be matched by bond investments. A limited tactical portfolio (85 million euros) aims to contribute to the financial objectives through dividend pay-outs and capital gains. Non-listed equities in the Insurance business (0.22 billion euros) as well as equity in the balance sheet of the Bank are of a strategic nature and participate in the KBC Group business model. There is no material private equity exposure.

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

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

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

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

| Equity portfolio of the KBC group (breakdown by sector, in %) | Banking activities | | Insurance activities | | Group | |
|---|---|---|---|---|---|---|
| | 31/12/2022 | 31/12/2021 | 31/12/2022 | 31/12/2021 | 31/12/2022 | 31/12/2021 |
| Financials | 69% | 68% | 20% | 17% | 27% | 25% |
| Consumer non-cyclical | 0% | 0% | 11% | 11% | 9% | 10% |
| Communication | 0% | 0% | 3% | 2% | 2% | 1% |
| Energy | 0% | 0% | 0% | 0% | 0% | 0% |
| Industrials | 12% | 10% | 42% | 41% | 38% | 36% |
| Utilities | 0% | 0% | 0% | 0% | 0% | 0% |
| Consumer cyclical | 4% | 4% | 21% | 25% | 19% | 22% |
| Materials | 0% | 0% | 2% | 2% | 2% | 2% |
| Other and not specified | 14% | 17% | 1% | 1% | 3% | 3% |
| **Total** | **100%** | **100%** | **100%** | **100%** | **100%** | **100%** |
| **In billions of EUR** | **0.22** | **0.26** | **1.33** | **1.46** | **1.55** | **1.72 *** |
| **of which unlisted** | **0.21** | **0.26** | **0.14** | **0.15** | **0.35** | **0.41** |

** The main reason for the difference between the 1.55 billion euros in this table and the 2 billion euros for 'Equity instruments' in Note 4.1 of the 'Consolidated financial statements' section in the 2020 KBC Group Annual Report is that shares in the trading book (0.43 billion euros) are excluded above, but included in the table in Note 4.1.*

*Table 69 - Equity portfolio of the KBC group (breakdown by sector, in %)*

| Impact of a 25% drop in equity prices<br>*In millions of EUR* | 2022 | 2021 |
|---|---|---|
| Banking activities | -55 | -64 |
| Insurance activities | -333 | -366 |
| **Total** | **-387** | **-429** |

*Table 70 - Impact of a 25% drop in equity prices*

| Non-trading equity exposure | Net realised gains (in income statement) | | Net unrealised gains on year-end exposure (in equity) | |
|---|---|---|---|---|
| *In millions of EUR* | 31/12/2022 | 31/12/2021 | 31/12/2022 | 31/12/2021 |
| Banking activities | - | - | 12 | 29 |
| Insurance activities | 176 | 123 | 199 | 555 |
| **Total** | **176** | **123** | **211** | **584** |

*Table 71 - Non-trading equity exposure*

## Real estate risk

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

**Impact of a 25% drop in real estate prices**

| *In millions of EUR* | 2022 | 2021 |
|---|---|---|
| Bank portfolios | -94 | -97 |
| Insurance portfolios | -78 | -94 |
| **Total** | **-172** | **-191** |

*Table 72 - Impact of a 25% drop in real estate prices*

## Inflation risk

Inflation can indirectly impact a financial company in many ways, for instance via changes in interest rates or operational costs. Therefore, inflation in general is not easily quantifiable as a market risk concept. However, certain financial products or instruments have a direct link with inflation and their value is directly impacted by a change in market expectations. KBC Bank uses indexed bonds as an opportunity to diversify its asset portfolio. At KBC Insurance, it relates specifically to workmen's compensation insurance, where particularly in the case of permanent or long-term disabilities an annuity benefit is paid to the insured person (with the annuity being linked to inflation by law). KBC Insurance partly mitigates the risks by investing in inflation-linked bonds so that any increase in liabilities arising from mounting inflation is offset by an increase in the value of the bonds. However, these liabilities are long-dated and significantly exceed the investment horizon of such index-linked bonds. Therefore, KBC Insurance complements its inflation hedging programme by investing in real estate and shares, as these assets are traditionally correlated with inflation and do not have a maturity date.

The banking business holds a 600-million-euro portfolio of indexed bonds. Aside from this, we are not exposed to inflation risk in a measurable way. For the insurance activities, the undiscounted value of the inflation-sensitive cashflows was estimated at -515 million euros, against which a 452-million-euro portfolio of indexed bonds at market value and 28.7 million euros in direct and indirect real estate were held.

## Foreign exchange risk

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

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

| Impact of a 10% decrease in currency value* | Impact on value Banking | | Impact on value Insurance | |
|---|---|---|---|---|
| *In millions of EUR* | 31/12/2022 | 31/12/2021 | 31/12/2022 | 31/12/2021 |
| CZK | -231 | -243 | -31 | -30 |
| HUF | -100 | -107 | -7 | -5 |
| BGN | -96 | -42 | -17 | -19 |
| USD | -1 | 3 | -47 | -56 |

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

*Table 73 - Impact of a 10% decrease in currency value*

# Hedge accounting

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

KBC decided not to apply hedge accounting to credit and equity risks. When the necessary criteria are met, it is applied to remove the accounting mismatch between the hedging instrument and the hedged item. For more information about hedge accounting, please see 'Notes on the accounting policies' in the 'Consolidated financial statements' section of the 2022 Annual Report of KBC Group NV.

## Risk categories applying to hedge accounting

### Interest rates

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

Interest rate derivatives can be designated as:

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

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

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

### Foreign exchange

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

KBC also has a limited portfolio of foreign-currency-denominated bonds that are funded through euro proceeds. These bonds are hedged by cross-currency interest rate swaps to create a synthetic EUR fixed-rate interest income. Cashflow hedge accounting (microhedge) is performed to mitigate foreign exchange volatility.

## Hedge effectiveness

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

### Effectiveness testing

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

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

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

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

For foreign exchange hedging, effectiveness is ensured by adjusting the sum of the nominal amount of the funding deals and foreign exchange derivatives to the targeted hedge amount of the strategic participations. For foreign-currency-denominated bonds swapped into euro, the start date, maturity date and coupon dates are also matched.

### Sources of hedge ineffectiveness

Ineffectiveness for interest rate swaps may occur due to:

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

Regarding the hedge of the net investment in foreign currency, the interest rate component from the hedging instruments can be a source of inefficiency. The counterparty risk on the hedging instrument, even if collateralised, can also be a source of inefficiency.

### Discontinuation of hedge accounting

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

## Capital sensitivity to market movements

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

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

| CET1 ratio sensitivity to main market drivers (under Danish compromise), KBC group (as % of CET1) IFRS impact caused by | 31/12/2022 | 31/12/2021 |
|---|---|---|
| +100-basis-point parallel shift in interest rates | -0.1% | 0.3% |
| +100-basis-point parallel shift in spread | -0.1% | -0.2% |
| -25% in equity prices | -0.1% | -0.3% |

*Table 74 - CET1 ratio sensitivity to main market drivers (under Danish compromise), KBC group (as % of CET1) IFRS impact caused by*

## Regulatory capital

Regulatory capital for non-trading market activities totalled 22 million euros. It is used to cover foreign exchange exposures only, as KBC does not have any commodity exposures. In line with regulations, other types of non-trading market risk are covered through pillar II assessments.

# Liquidity Risk Management

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

## Governance, strategy and processes

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

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

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

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

- Risk identification: the NAPP process, the Climate Risk Impact Map, the risk scan, stress testing and materiality assessments are important tools used for risk identification. An annual assessment of key risk drivers impacting liquidity is performed as well. When relevant, risk signals are presented in Treasury Risk Reports and Integrated Risk Reports.
- Risk measurement: identified liquidity risks are measured by means of both regulatory metrics such as the Liquidity Coverage Ratio (LCR, which stood at 152%) and the Net Stable Funding Ratio (NSFR, which stood at 136%), and internal metrics on, for example, the funding mix and concentration and the composition of the liquid asset buffer. In the maturity analysis table below, KBC's structural liquidity risk is illustrated by grouping the assets and liabilities according to the remaining term to maturity (using the contractual maturity date). The difference between the cash inflows and outflows is referred to as the 'net funding gap'.
- Setting and cascading risk appetite: the Board of Directors sets the overall risk appetite objective for liquidity in close cooperation with the Executive Committee. The Group Asset and Liability Committee (GALCO) then translates this risk appetite for liquidity into liquidity risk measures and sets the limits for these measures.
- Risk analysis, reporting and follow-up: to mitigate day-to-day liquidity risk, group-wide trends in funding liquidity and funding needs are monitored continuously by the Group Treasury function. A Liquidity Contingency Plan drafted by the Group Treasury function is in place to address possible liquidity crisis situations and is tested at least annually.
- Stress testing: liquidity stress tests assess KBC's liquidity contingency risk by measuring how the liquidity buffer of the group's bank and insurance entities changes under extreme stressed scenarios. This buffer is based on assumptions regarding liquidity outflows and liquidity inflows resulting from actions to increase liquidity. The

liquidity buffer has to be sufficient to cover liquidity needs over (i) a period that is required to restore market confidence in the group following a KBC-specific event, (ii) a period that is required for markets to stabilise after a general market event and (iii) a combined scenario, which takes a KBC-specific event and a general market event into account. This information is fed into the Liquidity Contingency Plan.

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

## Scope of liquidity risk management

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

## Impact of geopolitical and emerging risks on liquidity risk

Stressed or extreme market conditions can be triggered by crises such as the coronavirus pandemic or the Russian-Ukrainian conflict. KBC's liquidity position has been able to withstand these stresses and remains very strong.

KBC participated in the targeted longer-term refinancing operation (TLTRO) in 2020 and 2021 for 24.5 billion euros, further supporting its LCR and NSFR figures. In 2022, KBC made a first partial repayment.

## Structural liquidity risk

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

**Liquidity risk (excluding intercompany deals)[1] [2]**

| *In billion EUR* | <= 1 month | 1-3 months | 3-12 months | 1-5 years | >5 years | On demand | Not defined | Total |
|---|---|---|---|---|---|---|---|---|
| **12/31/2022** | | | | | | | | |
| Total inflows | 6 | 12 | 20 | 82 | 115 | 53 | 34 | **322** |
| Total outflows | 38 | 20 | 29 | 24 | 5 | 178 | 29 | **322** |
| Professional funding | 6 | 0 | 20 | 5 | 0 | 4 | 0 | **36** |
| Customer funding | 19 | 9 | 8 | 12 | 3 | 174 | 0 | **226** |
| Debt certificates | 8 | 11 | 1 | 7 | 1 | 0 | 0 | **28** |
| Other | 4 | 0 | 0 | 0 | 0 | 0 | 29 | **33** |
| Liquidity gap (excl. undrawn commitments) | -32 | -8 | -9 | 58 | 111 | -125 | 5 | **0** |
| Undrawn commitments | - | - | - | - | - | - | -47 | **-47** |
| Financial guarantees | - | - | - | - | - | - | -11 | **-11** |
| Net funding gap (incl. undrawn commitments) | -32 | -8 | -9 | 58 | 111 | -125 | -53 | **-58** |

| 12/31/2021 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Total inflows | 7 | 10 | 23 | 75 | 101 | 43 | 44 | **303** |
| Total outflows | 20 | 19 | 10 | 41 | 4 | 178 | 31 | **303** |
| Professional funding | 7 | 1 | 3 | 24 | | 6 | 0 | **41** |
| Customer funding | 5 | 11 | 3 | 10 | 2 | 172 | 0 | **203** |
| Debt certificates | 4 | 7 | 4 | 6 | 2 | 0 | 0 | **24** |
| Other | 4 | 0 | 0 | 0 | 0 | 0 | 31 | **35** |
| Liquidity gap (excl. undrawn commitments) | -13 | -9 | 13 | 34 | 96 | -135 | 13 | **0** |
| Undrawn commitments | - | - | - | - | - | - | -43 | **-43** |
| Financial guarantees | - | - | - | - | - | - | -10 | **-10** |
| Net funding gap (incl. undrawn commitments) | -13 | -9 | 13 | 34 | 96 | -135 | -41 | **-54** |

*[1] Cashflows exclude interest rate flows consistent with internal and regulatory liquidity reporting. Inflows/outflows that arise from margin calls posted/received for MtM positions in derivatives are reported in the 'Not defined' bucket. 'Professional funding' includes all deposits from credit institutions and investment firms, as well as all repos. Instruments are classified on the basis of their first callable date. Some instruments are reported at fair value (on a discounted basis), whereas others are reported on an undiscounted basis (in order to reconcile them with Note 4.1 of the 'Consolidated financial statements' section of the 2021 Annual Report of KBC Group NV). Due to the uncertain nature of the maturity profile of undrawn commitments and financial guarantees, these instruments are reported in the 'Not defined' bucket. The 'Other' category under 'Total outflows' contains own equity, short positions, provisions for risks and charges, tax liabilities and other liabilities.*
*[2] The figures in the consolidated balance sheet differ from the ones shown here. The reason is that the planned sale of the activities of KBC Bank Ireland resulted in a shift to the balance sheet items 'Non-current assets held for sale and disposal groups' and 'Liabilities associated with disposal groups' because we consider all IFRS 5 conditions to be met while the funding mix shows the economic positions, including KBC Ireland at year-end.*

*Table 75 - Liquidity risk (excluding intercompany deals)*

Note this structural liquidity gap does not include the concept of a Liquid Asset Buffer (i.e. the fact that KBC can monetise its liquid bonds at all times via repo or pledging). Rather, cash generating capacity from bonds is in this table only visible at final maturity of the bond. As a result, the net funding gaps shown in the first buckets in the table are a clear overestimation of the risk as in practice KBC would monetise its Liquid Asset Buffer (96 bln EUR at end of year 2022 of which 49 bln EUR unencumbered central bank eligible assets and the remainder cash & withdrawable Central Bank receivables) for addressing these net outflows.

## Liquid asset buffer

At year-end 2022, the KBC group had 49 billion euros' worth of unencumbered central bank eligible assets, 40 billion euros of which in the form of liquid government bonds (81%). The remaining available liquid assets were covered bonds (14%). Most of the liquid assets are expressed in our home market currencies. The 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[4] can be broken down as follows:

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

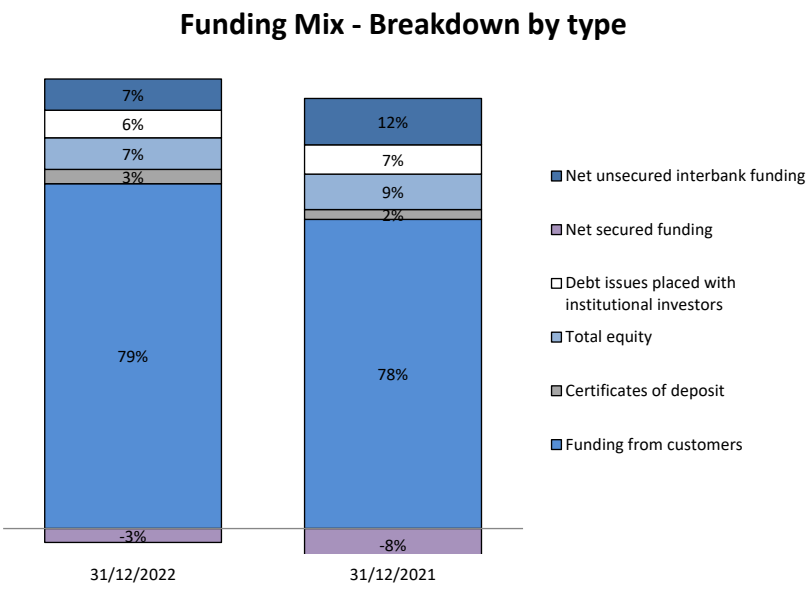



*Figure 4 - Funding mix (breakdown by type)*

- Funding from customers (circa 227 billion euros, 79% of the total figure), consisting of demand deposits, time deposits, savings deposits, other deposits, savings certificates and debt issues placed in the network. Some 83% of the funding from customers relates to private individuals and SMEs.
- Debt issues placed with institutional investors (18 billion euros, 6% of the total figure), mainly comprising covered bonds issues (4.2 billion euros), tier-2 issues (2.0 billion euros) and KBC Group NV senior debt (12.5 billion euros).
- Net unsecured interbank funding (20.6 billion euros, 7% of the total figure), including TLTRO funding.
- Net secured funding (-9.1 billion euros in repo funding, -3% of the total figure) and certificates of deposit (9.3 billion euros, 3% of the total figure). Net secured funding was negative at year-end 2022 due to the fact that KBC carried out more reverse repo transactions than repo transactions.
- Total equity (20.9 billion euros, 7% of the total figure, including additional tier-1 (AT1) issues for 1.5 billion euros).

Please note that:

- in November 2012, KBC announced its 10-billion-euro Belgian residential mortgage covered bonds programme; in 2020 this programme was extended to 17.5 billion euros. This programme gives KBC access to the covered bond market, allowing it to diversify its funding structure and reduce the cost of long-term funding;
- in 2019, we borrowed 2.5 billion euros from the ECB under the targeted longer-term refinancing operations (TLTRO III), after having repaid all TLTRO II funding. Following the outbreak of the coronavirus pandemic, in June 2020 we participated in TLTRO III for just under 19.5 billion euros. During 2021 we participated in TLTRO III once more for 2.5 billion euros to further strengthen our solid liquidity and funding position. In 2022 KBC made a first partial repayment.

# LCR quantitative information

**EU LIQ1 - Quantitative information of LCR**

*In millions of EUR*

| | | a | b | c | d | e | f | g | h |
|---|---|---|---|---|---|---|---|---|---|
| | | Total unweighted value (average) | | | | Total weighted value (average) | | | |
| EU 1a | Quarter ending on (DD Month YYY) | 12/31/2022 | 9/30/2022 | 6/30/2022 | 3/31/2022 | 12/31/2022 | 9/30/2022 | 6/30/2022 | 3/31/2022 |
| EU 1b | Number of data points used in the calculation of averages | 12 | 12 | 12 | 12 | 12 | 12 | 12 | 12 |
| | **HIGH-QUALITY LIQUID ASSETS** | | | | | | | | |
| 1 | Total high-quality liquid assets (HQLA) | | | | | 91 928 | 96 638 | 104 182 | 110 199 |
| | **CASH - OUTFLOWS** | | | | | | | | |
| 2 | Retail deposits and deposits from small business customers, of which: | 144 046 | 141 636 | 138 976 | 136 986 | 10 276 | 10 059 | 9 789 | 9 571 |
| 3 | Stable deposits | 90 552 | 89 660 | 88 660 | 88 021 | 4 528 | 4 483 | 4 433 | 4 401 |
| 4 | Less stable deposits | 44 538 | 43 477 | 42 071 | 40 840 | 5 748 | 5 576 | 5 356 | 5 170 |
| 5 | Unsecured wholesale funding | 84 174 | 86 185 | 88 976 | 93 300 | 48 974 | 51 400 | 54 780 | 59 232 |
| 6 | Operational deposits (all counterparties) and deposits in networks of cooperative banks | 10 090 | 10 194 | 9 970 | 10 065 | 2 324 | 2 350 | 2 293 | 2 315 |
| 7 | Non-operational deposits (all counterparties) | 70 602 | 72 200 | 73 656 | 76 540 | 43 167 | 45 259 | 47 136 | 50 221 |
| 8 | Unsecured debt | 3 483 | 3 791 | 5 351 | 6 696 | 3 483 | 3 791 | 5 351 | 6 696 |
| 9 | Secured wholesale funding | | | | | 440 | 366 | 374 | 335 |
| 10 | Additional requirements | 47 551 | 46 596 | 45 679 | 45 203 | 10 310 | 10 056 | 9 871 | 9 919 |
| 11 | Outflows related to derivative exposures and other collateral requirements | 5 454 | 5 275 | 5 103 | 5 133 | 5 454 | 5 275 | 5 103 | 5 133 |
| 12 | Outflows related to loss of funding on debt products | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 13 | Credit and liquidity facilities | 42 097 | 41 321 | 40 575 | 40 070 | 4 856 | 4 781 | 4 768 | 4 786 |
| 14 | Other contractual funding obligations | 836 | 962 | 1 076 | 1 427 | 524 | 634 | 678 | 805 |
| 15 | Other contingent funding obligations | 21 428 | 21 455 | 21 477 | 21 391 | 1 419 | 1 574 | 1 718 | 1 847 |
| **16** | **Total cash outflows** | | | | | **71 944** | **74 089** | **77 210** | **81 710** |
| | **CASH - INFLOWS** | | | | | | | | |
| 17 | Secured lending (e.g. reverse repos) | 34 379 | 36 534 | 39 204 | 38 493 | 119 | 125 | 118 | 28 |
| 18 | Inflows from fully performing exposures | 6 983 | 7 512 | 7 030 | 9 474 | 5 998 | 6 555 | 6 118 | 8 555 |
| 19 | Other cash inflows | 10 481 | 10 040 | 9 690 | 9 660 | 5 007 | 4 721 | 4 642 | 4 878 |
| EU-19a | (Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies) | | | | | 0 | 0 | 0 | 0 |
| EU-19b | (Excess inflows from a related specialised credit institution) | | | | | 0 | 0 | 0 | 0 |
| **20** | **Total cash inflows** | **51 844** | **54 087** | **55 925** | **57 628** | **11 124** | **11 401** | **10 878** | **13 461** |
| EU-20a | Fully exempt inflows | | | | | | | | |
| EU-20b | Inflows subject to 90% cap | | | | | | | | |
| EU-20c | Inflows subject to 75% cap | 51 653 | 53 859 | 55 664 | 57 368 | 11 124 | 11 401 | 10 878 | 13 461 |
| | **TOTAL ADJUSTED VALUE** | | | | | | | | |
| **EU-21** | **Liquidity buffer** | | | | | **91 928** | **96 638** | **104 182** | **110 199** |

| | | | | | | |
|---|---|---|---|---|---|---|
| **22** | **Total net cash outflows** | | **60 820** | **62 688** | **66 332** | **68 250** |
| **23** | **Liquidity coverage ratio** | | **151.62%** | **154.59%** | **157.49%** | **162.41%** |

*Table 76 - EU LIQ1_Quantitative information of LCR*

## NSFR quantitative information

**EU LIQ2 - Net Stable Funding Ratio**

| | | a | b | c | d | e |
|---|---|---|---|---|---|---|
| | *At 31 December 2022 (in millions of EUR)* | No maturity | Unweighted value by residual maturity < 6 months | 6 months to < 1yr | ≥ 1yr | Weighted value |
| | **Available stable funding (ASF) Items** | | | | | |
| 1 | Capital items and instruments | 16 974 | 0 | 0 | 1 767 | 18 742 |
| 2 | Own funds | 16 974 | 0 | 0 | 1 767 | 18 742 |
| 3 | Other capital instruments | | 0 | 0 | 0 | 0 |
| 4 | Retail deposits | | 145 805 | 2 603 | 258 | 138 846 |
| 5 | Stable deposits | | 98 410 | 2 004 | 148 | 95 541 |
| 6 | Less stable deposits | | 47 395 | 599 | 110 | 43 305 |
| 7 | Wholesale funding: | | 122 792 | 4 436 | 21 754 | 51 630 |
| 8 | Operational deposits | | 9 469 | 0 | 0 | 727 |
| 9 | Other wholesale funding | | 113 323 | 4 436 | 21 754 | 50 903 |
| 10 | Interdependent liabilities | | 0 | 0 | 0 | 0 |
| 11 | Other liabilities: | 9 914 | 977 | 0 | 54 | 54 |
| 12 | NSFR derivative liabilities | 9 914 | | | | |
| 13 | All other liabilities and capital instruments not included in the above categories | | 977 | 0 | 54 | 54 |
| **14** | **Total available stable funding (ASF)** | | | | | **209 271** |
| | **Required stable funding (RSF) Items** | | | | | |
| 15 | Total high-quality liquid assets (HQLA) | | | | | 2 444 |
| EU-15a | Assets encumbered for a residual maturity of one year or more in a cover pool | | 178 | 181 | 11 337 | 9 941 |
| 16 | Deposits held at other financial institutions for operational purposes | | 0 | 0 | 0 | 0 |
| 17 | Performing loans and securities: | | 31 641 | 13 044 | 141 692 | 128 558 |
| 18 | Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut | | 4 091 | 67 | 250 | 1 065 |
| 19 | Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions | | 2 878 | 1 997 | 5 143 | 6 430 |
| 20 | Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which: | | 19 213 | 5 780 | 46 619 | 118 818 |
| 21 | With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk | | 7 | 7 | 208 | 42 370 |
| 22 | Performing residential mortgages, of which: | | 4 126 | 4 613 | 84 592 | 0 |
| 23 | With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk | | 1 901 | 1 936 | 60 253 | 0 |

| | | | | | | |
|---|---|---|---|---|---|---|
| 24 | Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products | | 1 332 | 587 | 5 089 | 2 246 |
| 25 | Interdependent assets | | 0 | 0 | 0 | 0 |
| 26 | Other assets: | 0 | 36 098 | 147 | 7 680 | 9 715 |
| 27 | Physical traded commodities | | | | 0 | 0 |
| 28 | Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs | | 955 | 0 | 0 | 812 |
| 29 | NSFR derivative assets | | 0 | 0 | 0 | 0 |
| 30 | NSFR derivative liabilities before deduction of variation margin posted | | 9 294 | 0 | 0 | 465 |
| 31 | All other assets not included in the above categories | | 25 850 | 147 | 7 680 | 8 439 |
| 32 | Off-balance sheet items | | 36 560 | 2 980 | 13 670 | 3 024 |
| **33** | **Total RSF** | | | | | **153 767** |
| **34** | **Net Stable Funding Ratio (%)** | | | | | **136.10%** |

*Table 77 - EU LIQ2_Net Stable Funding Ratio*

### Derivatives exposures and potential collateral calls

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

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

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

### Currency mismatch in LCR

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

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

## Asset encumbrance

KBC is a retail-oriented bank that finances 79% of its assets by means of customer funding. A certain reliance on long-term wholesale funding is tolerated and even desired for bail-in purposes, funding diversification and cost optimisation reasons. By the end of 2012, KBC received approval to set up a covered bond programme, which has further diversified the investor base and offers the bank access to funding markets that remain open in times of market stress.

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 fully retained. Their prime purpose is therefore not to attract funding, but to enhance liquidity.

Given the ECB's continued drive to inject targeted funding into the economy during 2020 and 2021, KBC mobilised as much collateral as possible to assist in these programmes. In the fourth quarter of 2022 an amount of 9.1 billion euros was repaid early, leaving 15.4 billion euros outstanding. To maintain a large buffer of highly liquid assets, KBC utilised mainly non-high-quality liquid assets (non-HQLA) and increased the size of the pledged credit claims as facilitated by the ECB's Additional Credit Claims (ACC) framework. Utilising an increased amount of collateral (especially collateral that is non-HQLA and hence has a higher ECB haircut) increases asset encumbrance.

KBC has imposed an internal limit 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.

The tables below contain median values (i.e. rolling quarterly medians over the previous 12 months and determined by interpolation), as set out under disclosure requirements for encumbered and unencumbered assets. The tables show in more detail the asset encumbrance for KBC Bank (consolidated) expressed in millions of euros.

The total volume of encumbered assets amounts to 53.7 billion euros, 28% of which are debt securities (of which 14.4 billion euros issued by general governments) and other assets which mainly consist of mortgage loans.

**EU AE1 - Encumbered and unencumbered assets**

| | | 010 | 030 | 040 | 050 | 060 | 080 | 090 | 100 |
|---|---|---|---|---|---|---|---|---|---|
| | | Carrying amount of encumbered assets | | Fair value of encumbered assets | | Carrying amount of unencumbered assets | | Fair value of unencumbered assets | |
| | *At 31 December 2022 (in millions of EUR)* | | 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** | **Assets of the reporting institution** | 53 668 | 14 802 | | | 278 891 | 79 714 | | |
| 030 | Equity instruments | 0 | 0 | 0 | 0 | 572 | 504 | 575 | 0 |
| 040 | Debt securities | 14 985 | 14 802 | 14 710 | 14 525 | 33 989 | 30 073 | 30 753 | 27 741 |
| *050* | *of which: covered bonds* | *188* | *180* | *188* | *180* | *2 500* | *2 206* | *2 495* | *2 206* |
| *060* | *of which: securitizations* | *79* | *18* | *79* | *18* | *107* | *24* | *107* | *24* |
| *070* | *of which: issued by general governments* | *14 355* | *14 355* | *14 077* | *14 077* | *28 900* | *26 889* | *26 182* | *24 609* |
| *080* | *of which: issued by financial corporations* | *331* | *234* | *334* | *193* | *4 246* | *3 521* | *4 217* | *3 642* |
| *090* | *of which: issued by non-financial corporations* | *56* | *14* | *56* | *14* | *520* | *121* | *517* | *121* |
| 120 | Other assets | 40 155 | 0 | | | 244 783 | 63 124 | | |

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

*Table 78 - EU AE1_Encumbered and unencumbered assets*

Of the encumbered collateral received, 4.5 billion euros was accounted for by debt securities issued by general governments and financial corporations (primarily central banks), as reflected in the table below.

**EU AE2 - Collateral received and own debt securities issued**

| | | 010 | 030 | 040 | 060 |
|---|---|---|---|---|---|
| | | Fair value of encumbered collateral received or own debt securities issued | | Unencumbered Fair value of collateral received or own debt securities issued available for encumbrance | |
| | *At 31 December 2022 (in millions of EUR)* | | of which notionally eligible EHQLA and HQLA | | of which EHQLA and HQLA |
| 130 | Collateral received by the disclosing institution | 12 368 | 11 702 | 29 089 | 24 135 |
| 140 | Loans on demand | 0 | 0 | 0 | 0 |
| 150 | Equity instruments | 0 | 0 | 0 | 0 |
| 160 | Debt securities | 12 368 | 11 702 | 24 338 | 24 135 |
| *170* | *of which: covered bonds* | *488* | *488* | *340* | *338* |
| *180* | *of which: securitisations* | *324* | *0* | *2* | *0* |
| *190* | *of which: issued by general governments* | *4 471* | *4 471* | *3 376* | *3 376* |
| *200* | *of which: issued by financial corporations* | *960* | *523* | *506* | *356* |
| *210* | *of which: issued by non-financial corporations* | *0* | *0* | *0* | *0* |
| 220 | Loans and advances other than loans on demand | 0 | 0 | 3 186 | 0 |
| 230 | Other collateral received | 0 | 0 | 0 | 0 |
| **240** | **Own debt securities issued other than own covered bonds or asset-backed securities** | 0 | 0 | 0 | 0 |
| **241** | **Own covered bonds and securitisations issued and not yet pledged** | | | **1 134** | 0 |
| **250** | **TOTAL COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED** | **66 037** | **17 145** | | |

*Table 79 - EU AE2_Collateral received and own debt securities issued*

The sources of asset encumbrance (i.e. the matching financial liabilities in the table below) total 55 billion euros.

| EU AE3 - Sources of encumbrance | | 010 | 030 |
|---|---|---|---|
| *At 31 December 2022 (in millions of EUR)* | | Matching liabilities, contingent liabilities or securities lent | Assets, collateral received and own debt securities issued other than covered bonds and securitisations encumbered |
| **010** | **Carrying amount of selected financial liabilities** | **55 401** | **65 411** |

*Table 80 - EU AE3_Sources of encumbrance*

# Liquidity Adequacy Assessment Process

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

Based on the assessment of the Liquidity Risk Profile when the risk appetite exercise was conducted in December 2022 and on continuous reporting by Group Treasury and Group Risk, KBC Group can state that it has a solid liquidity and funding position, which has been confirmed by the Board of Directors.

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

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

# Non-Financial Risks

## Operational risk

Operational risk is the risk of inadequate or failed internal processes, people and systems or from sudden man-made or natural external events.

This definition is in line with the definition in the Basel II Capital Accord and the Capital Requirements Directive. Information on legal disputes is provided in Note 5.7 of the 'Consolidated financial statements' section of the 2022 Annual Report of KBC Group NV.

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

### Governance

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

The Extended Competence Centre for Operational Risk, which consists of risk experts at both group and local level, cooperates with other expert functions covering the nine operational risk sub-types: information technology risk, information security risk, business continuity risk, process risk, outsourcing and third-party risk, model risk, legal risk, fraud risk, and personal and physical security risk. The competence centre defines the operational risk management framework and the minimum standards for operational risk management processes for the group. It provides oversight and advice on the strength of the control environment for keeping the operational risk profile in line with the risk appetite and informs senior management and oversight committees of the operational risk profile.

The Group Internal Control Committee (GICC) supports the Group Executive Committee in monitoring and strengthening the quality and effectiveness of KBC's internal control system. This committee meets on a quarterly basis and is chaired by the Group CRO. In addition to the key stakeholders at group level (Group Risk, including Competence Centres for Operational Risk and Information Risk Management, Group Compliance including the Anti-Fraud Unit, Group Legal and Corporate Audit), KBC's core markets are structurally represented by the Chief Risk Officers (CROs). Depending on the topic, other second line of defence expert functions (e.g., Model Risk, Finance, etc.) complete the committee.

The Operational & Compliance Risk Core Report is discussed by the GICC on a quarterly basis and key messages are reported to the Group Executive Committee. It provides an overview of the overall operational risk profile of the consolidated KBC group (and entities) and the different sub-types of operational risk (e.g., fraud risk, model risk). It contains relevant risk signals, early warnings, trends in losses and near misses and individual material events including lessons learned from root cause analysis. Data quality in group tools is monitored via dashboards.

The yearly regulatory required Internal Control Statement (ICS) of the KBC group is based on data-driven calculated ICS scoring and is reported to the GICC, GExCo, RCC, AC and BoD. It reflects the Group Executive Committee's evaluation of how well the KBC group is in control of the risks inherent to its operations and of the actions needed to strengthen its internal control environment for each identified significant control weakness.

## The building blocks for managing operational risks

- Risk identification: includes following up on legislation, using the New and Active Products Process (NAPP), the Climate Risk Impact Map indicating the climate risks that might materialise and potentially impact operational risk, performing risk scans to identify and analyse risks, analysing key risk indicators, performing independent control monitoring activities, root cause analysis of near misses and losses and other risk events. A structured, process-based repository of Group Key Risks and related mitigating Group Key Control Objectives (GKCs) is in place to set top-down minimum standards for the risk and control environment. Self-assessments are performed by the first line of defence. GKCs are defined for all group-wide end-to-end processes and are designed to manage key operational risk types. A review process is in place to keep the repository in line with new or emerging operational risk types. Entities translate these GKCs into their operational process environment and supplement them with additional, local operational controls, if necessary. Dynamic trigger-based risk assessments are in place, based on the continuous screening of both internal and external risk events.
- Risk measurement: unified group metrics and scales are in place to define and support not only the underpinning of the risk profile of an entity, but also individual operational risk levels in the processes. Group-wide tools are used by the three lines of defence to support the core activities of operational risk management. In addition, a group-wide uniform scale is used to express the overall internal control state of each process in each material entity and the overall internal control state of the entity. The group-wide automated data-driven risk measurement of processes, resulting in Internal Control Statement (ICS) process scores, is determined based on the following indicators:
    - The control maturity reflecting the effectiveness of Group Key Controls and the Zero Tolerance 'Blacklisted Companies';
    - The number of outstanding action plans and audit recommendations (incl. risk acceptances);
    - Losses (and legal claims);
    - Process-specific indicators for Outsourcing and the New and Active Products Process (NAPP).
- Setting and cascading risk appetite: the risk appetites for operational risk overall and for the nine operational risk sub-types individually are set in line with the overall requirements as defined in the Enterprise Risk Management Framework.
- Risk analysis, reporting and follow-up: a uniform approach – strongly based on first line of defence accountability (business side) and challenges by the second line of defence (risk, fraud, legal and other experts) and assurance by the third line of defence (internal audit) – is in place with risk-based follow-up at both local and group level. Minimum standards for the operational risk management reporting process are defined. Structural reporting to the Group Internal Control Committee (GICC) is performed on a quarterly basis. Regular reporting and follow-up is presented in the Integrated Risk Report (IRR) which is brought to the Executive Committee, the Risk & Compliance Committee and the Board of Directors. The quality of the internal control environment and related risk profile is reported to KBC's senior management and to the NBB, the FSMA and the ECB via the annual Internal Control Statement.
- Stress testing: operational risk scenarios or potential events are considered in the context of risk-type-specific or integrated stress tests.

KBC's operational risk approach is in line with the Basel requirements regarding operational resilience and the EU Digital Operational Resilience Act (DORA).

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

## Focus on top risk areas

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

### Information risk management

Information risk management encompasses the risks of information security, information technology and business continuity management, the latter including crisis management. Information security risk is one of the most material risks that financial institutions face these days.

The mission of KBC's Competence Centre for Information Risk Management (IRM) is to help protect KBC against threats to data and information, such as loss of integrity, loss of confidentiality and unplanned availability. It supports local risk and teams acting as the first line of defence for information risk management. The competence centre includes an internationally recognised and certified Group Cyber Emergency & Response Team (CERT).

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

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

  Metrics have been defined at the Group Key Control level to underpin control effectiveness with facts and figures. Examples include, but are not limited to, asset management statistics, employee phishing campaign click rates, website vulnerability patching speeds and other metrics related to threats to KBC clients and companies.

- Setting and cascading risk appetite: the risk appetite for information technology, information security and BCM risk is set in line with the overall requirements as defined in our Enterprise Risk Management Framework and is overseen by the Group Internal Control Committee (GICC) and is approved by the Executive Committee and the Board of Directors.
- Risk analysis, reporting and follow-up: Information Security and Information Technology risks are assessed by the three lines of defence and continuously monitored via a group-wide detailed risk assessment tool. The status of Information Risk Management is frequently reported to internal as well as external stakeholders.
- Stress testing enables KBC entities to deal with local cyber crises and handle major incidents. To assure that Information Security and Information Technology risks are effectively controlled, a number of challenges are performed throughout the group on a regular basis, such as ethical hacking exercises, technical Cyber Resilience & Readiness Testing, detailed investigations, employee phishing tests, crisis simulations and other incident drills.

### Outsourcing risk management

Regulatory requirements regarding follow-up, measurement and reporting of outsourcing risk have increased over the years. As contracting external service providers is an essential part of operational processes and intra-group outsourcing is an important aspect of the KBC strategy, the need to focus on outsourcing risk remains a key element of the group-wide risk management at KBC.

To ensure robust management of its outsourcing processes and risks, KBC has put in place a group-wide outsourcing framework, which comprises a group-wide Outsourcing Policy and group-wide Outsourcing Risk Standards. Both policy and standards are supported by the first and second lines of defence guidance to ensure a standardised approach, in compliance with the EBA Guidelines on Outsourcing, throughout the whole of the KBC group.

Key control objectives are in place to adequately mitigate risks arising from either external or internal outsourcing during the full life cycle of a service provider, from selection and pre-contractual stages to renewal, termination and exit strategies. Qualitative risk governance of KBC outsourced activities is ensured by regular risk assessments, their frequency being defined by the criticality of the outsourced activity.

### Model risk management

KBC's data-driven strategy is powered by an expanding set of advanced models. AI-based models are becoming an increasingly common sight across business domains (banking, insurance, asset management).

In line with the internal model risk management standards, all such models are centrally inventoried on a dedicated platform, periodically assessed for their risks and labelled accordingly. This labelling takes into account model uncertainty, model impact and materiality as well as the strength and maturity of controls applied to the model. The resulting labels allow KBC to manage its model risk profile, define priorities and establish action plans.

### Business continuity management including crisis management

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

The BCM process is a mature process within the group, with a focus on both prevention and response. Crisis prevention focuses on reducing the probability of a crisis, while crisis response focuses on the effective and efficient handling of a

crisis should one occur. To enable this, practical scenarios called runbooks are available on how to handle an ongoing crisis.

## Impact of geopolitical and emerging risks on operational risk management

In 2022, the coronavirus pandemic caused minimal operational impact. In all entities of the group a new way of working, including teleworking, marked an end to the special coronavirus policies and a return to normal operations. The initial close monitoring of operational risks related to the coronavirus reverted back to business as usual. During monthly Business Continuity Management (BCM) status checks, the potential impact of the coronavirus continues to be monitored. In 2022, no major issues, losses or incidents related to the pandemic occurred.

Since the beginning of 2022, American and European institutions have warned us about an increased risk of disruptive cyber-attacks on critical infrastructure and institutions such as telecoms, energy, financial markets infrastructure, etc., following the outbreak of the war between Russia and Ukraine.

During the second half of 2022, we observed an increased number and variety of cyber-attacks (e.g., DDoS and password spraying) targeting KBC entities and other financial institutions. A minority of these attacks can be attributed to increased cyber activity in the context of the Ukraine-Russia conflict. However, these attacks had limited impact on the targeted KBC entities and our clients and no significant losses were incurred.

KBC Group's Information Security and IT department as well as the local entities remain vigilant, with constant monitoring procedures in place. Several actions were initiated to further mitigate the risk, such as:

- an assessment of possible risks related to IT vendors with exposure towards the countries involved in the war;
- limiting access to the KBC network from countries involved in the war.

Measures are continuously evaluated, prompting additional actions as needed (e.g., a revision of the preventative standards and the investments in new tools to enhance KBC's protection against this increasing threat).

## Root causes of Operational Losses

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

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

The main root causes of operational losses at KBC, according to gross loss impact of events identified over the past three years, are associated with issues with execution, delivery and process management, followed by external fraud, natural disasters and public safety (mainly coronavirus-related costs and losses) and clients, products and business practices (see graph below). Other categories remain limited in gross loss P&L impact as well as in terms of number of events.

Loss events triggered by the coronavirus pandemic circumstances were reported according to EBA guidelines and market practices and mainly attributed to 'Natural disasters and Public Safety'.

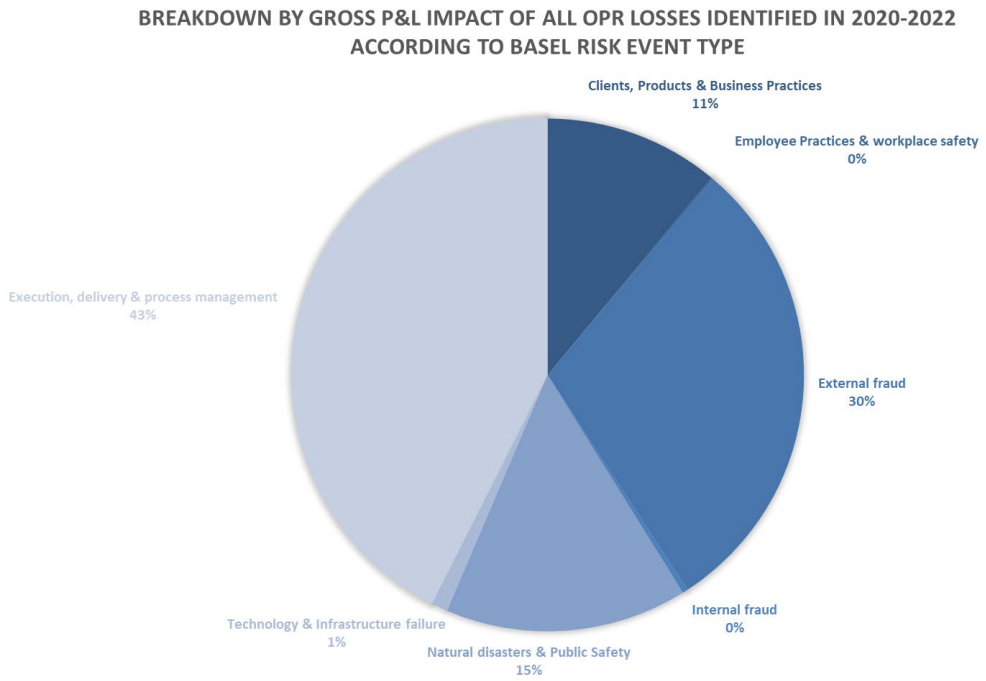



*Figure 5 - Breakdown of gross P&L impact of losses according to Basel risk event types over 2020-2022*

Please note that a material provision (loss event) has been recognised for a long-lasting legal claim against ČSOB Bank Czech Republic, as the legal successor of Investiční a poštovní banka (IPB), whose business activities were acquired by ČSOB in 2000. The case was identified at the time the legal dispute started, which means that the corresponding financial impact is not reflected in the chart above, as this chart indicates the breakdown of events identified between 2020 and 2022. Please refer to Note 3.6 of the 'Consolidated financial statements' section of the 2022 Annual Report of KBC Group NV for more information.

## Compliance risk

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

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

information on new regulatory developments to the governance bodies and support of group strategy, and the implementation of legal and regulatory requirements by the various businesses concerned.

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

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

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

The prevention of money laundering and terrorism financing, including embargoes, has been a top priority for the Compliance function during the last three years and will continue to be prioritised in 2023. It is an area where knowledge of the client (Know Your Customer (KYC)), updating their profiles and monitoring transactions (Know Your Transaction (KYT)) are essential. Efforts are continuously made to adapt the organisation to a constantly changing regulatory environment, particularly with regard to clients who present an increased risk and for whom additional information is required. A Financial Crime Unit was set up to enhance synergies between AML (Anti Money Laundering), embargoes and Fraud. The Compliance function is also closely following the EU developments at the level of the new AML Authority (AMLA) and regulatory provisions expected in 2024.

It goes without saying that the interests of the client come first. Given this position, the control functions ensure that, under the New and Active Products Process, the launch of any new products conforms with the many legal and regulatory provisions in place, such as MiFID II, the Insurance Distribution Directive (IDD) and other local and EU Regulations, as well as being in line with KBC's values. In 2022, particular attention was devoted to sustainable investments/ESG (Environmental, Social and Governance) characteristics in MiFID and IDD as well as to the sustainable finance strategy. These efforts will be pursued in 2023.

Data protection aspects remain central to maximising conformity with GDPR. Since 2020, Kate, the voice personal assistant, has gained maturity and can increasingly facilitate the everyday lives of our clients. Efforts in 2021 and 2022 were largely concentrated on Cloud developments, taking into account the consequences of Schrems II (transfer of data to third countries) while maintaining the right balance between the regulatory requirements in place and the technological developments inherent in a data-driven strategy now and going forward.

# Operational risk and regulatory capital requirements

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

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

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

*Table 81 - Beta factors for Basel business lines, used for the Standardised approach for operational risk regulatory capital*

| EU OR1 - Operational risk own funds requirements and risk-weighted exposure amounts | a | b | c | d | e |
|---|---|---|---|---|---|
| | *Relevant indicator* | | | Own funds require-ments | Risk exposure amount |
| *At 31 December 2022 (in millions of EUR)* | 2020 | 2021 | 2022 | | |
| 1 Banking activities subject to basic indicator approach (BIA) | | | | | |
| 2 Banking activities subject to standardised (TSA) / alternative standardised (ASA) approaches | 6 595 | 6 810 | 7 552 | 975 | 12 184 |
| *3 Subject to TSA* | *6 595* | *6 810* | *7 552* | | |
| *4 Subject to ASA* | | | | | |
| 5 Banking activities subject to advanced measurement approaches AMA | | | | | |

*Table 82 - EU OR1_Operational risk own funds requirements and risk-weighted exposure amounts*

When calculating operational risk (including compliance risk) capital, we use the Standardised approach under Basel III. Operational risk capital at KBC group level totalled 975 million euros at the end of 2022, compared to 920 million euros at the end of 2021. This increase of 5.9% originates from the acquisition of KBC Bank Bulgaria (capital: 24 million euros at the end of 2022) and higher gross income.

In December 2017, the Basel Committee on Banking Supervision published the Basel III post-crisis reforms. The date of 1 January 2022 initially set for the implementation of the revised Basel III was deferred by one year by the Governors and Heads of Supervision to increase the capacity of banks and supervisors to respond to the coronavirus pandemic. On 31 October 2022, the Council of the European Union published its proposal to amend applicable European legislation, which states that 'this Regulation shall apply from 1 January 2025'.

| Operational Risk Regulatory capital<br>*In millions of EUR* | 2022 | 2021 |
|---|---|---|
| Risk-Weighted Assets | 12 184 | 11 502 |
| Capital | 975 | 920 |

*Table 83 - Operational risk regulatory capital*

## Reputational risk

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

Reputation is a valuable asset in business and this certainly applies to the financial services industry, which thrives to a large extent on trust. Reputational risk is mostly a secondary risk since it is usually connected to – and materialises together with – another risk. To manage reputational risk, we remain focused on sustainable and profitable growth and promote a strong corporate culture that encourages responsible behaviour, including social and environmental responsibilities. We put the clients' interests at the heart of what we do and foster trust by treating the client fairly and honestly.

The Reputational Risk Management Framework describes how we manage reputational risk. Proactive and re-active management of reputational risk is the responsibility of business, supported by specialist units (including Group Communication, Investor Relations and Group Compliance).

## Business environment & strategic risk

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

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

The corporate strategy 'Differently: the Next Level' is KBC's strategic answer to deal with changes in the business environment such as changing client behaviour, financial disintermediation, increasing digitalisation, and climate change. The strategy further enhances KBC's competitive position by creating a digital-first, data-driven bank-insurer+ (see the 'Our strategy' section).

Business environment risks are assessed as part of the strategic planning process, which starts with a risk scan that identifies the top financial and non-financial risks. These risks are quantified both in likely scenarios and in several stress

scenarios. Exposure to the identified business environment risks is also monitored on an ongoing basis by means of risk signals which are reported to top management (e.g., risks emerging from the Russian-Ukrainian conflict and the ensuing energy and other supply-side disruptions were quickly picked up via risk signals and translated into action plans).

The general business environment risks (relating to the macroeconomic situation, competition, regulations, etc.) are also described in the ‘Our business model’ section of the 2022 Annual Report of KBC Group NV.

# Insurance Risk Management

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

## Governance, strategy and processes

The Insurance Risk Competence Centre develops and rolls out a group-wide framework for managing insurance risks. It is responsible for providing support for local implementation and for the functional direction of the insurance risk management process of the insurance subsidiaries: KBC Insurance NV (Belgium), KBC Group Re (Luxembourg), K&H Insurance Zrt. (Hungary), ČSOB Pojišťovna (Czech Republic), ČSOB Poisťovňa (Slovak Republic) and DZI Insurance (Bulgaria)[5].

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

- Risk identification: adequate identification and analysis of material insurance risks by, inter alia, analysing new emerging risks, concentration or accumulation risks, NAPP analysis, assessing the Climate Risk Impact Map and developing early warning signals. In addition, deep dives are performed to gain further insight into technical insurance risk and the impact of climate change. Special attention is paid to the adequacy of the technical provisions (see below).
- Risk measurement: technical insurance risk is measured by means of both regulatory measures, such as Solvency Capital Requirement (SCR) and Best Estimate valuation of insurance liabilities, and internal measures on, for example, economic profitability of insurance portfolios and non-life capital requirements based on internal stochastic models. These measures of insurance risk are used consistently throughout the group.
- Setting and cascading risk appetite: the risk appetite for technical insurance risk is set in line with the overall requirements as defined in our Enterprise Risk Management Framework, is overseen by the Group Insurance Committee (GIC) and is approved by the Executive Committee and the Board of Directors. At the GIC, the defined limits are reviewed and reported. The insurance risk limits are determined and set at group level and further cascaded to the local entities. The necessary compliance checks are conducted.
- Risk analysis, monitoring, reporting and follow-up: if the risk profile is not in line with the risk appetite, the reason has to be identified and analysed (e.g., which lines of business are contributing to the deviating risk profile) and the outcome and corrective action must be discussed at the GIC. Breaches at group level are subject to the approval of the Board of Directors. Regular reporting and follow-up of the risk measurements is presented in the Insurance Integrated Risk Report, which is submitted to the Group Insurance Committee on a quarterly basis. In

[5] *Maatschappij voor brandherverzekering (Belgium) has become a reinsurance agent from 1/01/2023 onwards.*

addition, relevant risk signals are reported on a regular basis to the Risk & Compliance Committee and Board of Directors as part of the regular Group Integrated Risk Report.

- Stress testing: internal and externally driven (regulatory) stress tests and sensitivity analyses are performed and the outcome of these tests is reported in the annual Own Risk and Solvency Assessment report.

## Insurance risk classification

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

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

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

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

- **Premium risk**: the risk that the premium that will be earned next year will not be enough to cover all liabilities resulting from claims in this portfolio, due for instance to the fact that the number of claims will be higher than expected (frequency problem) or the severity of the claims will be higher than expected (severity problem);
- **Reserve risk**: the risk that the liabilities stemming from claims, which have occurred in the past, but have still to be finally settled, will turn out to be more expensive than expected.

## Insurance risk measurement

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

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

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

Insurance risk management has developed an internal model for the group-wide exposure to all non-life insurance risks, including natural hazards. This model measures the most material non-life insurance risks (catastrophe and premium and reserve risk) for all group insurance and reinsurance companies, taking into account outward reinsurance (external and intra group). The internally developed models follow the Risk Measurement Standards and are validated within this scope by the independent validation unit.

## Insurance risk mitigation by reinsurance

The insurance portfolios are protected against the impact of large claims or the accumulation of losses by:

- limits per policy;
- diversification of the portfolio across product lines and geographical regions;
- reinsurance.

Reinsurance programmes can be divided into three main groups, i.e. property insurance, liability insurance and personal insurance. Most of the reinsurance contracts are concluded on a non-proportional basis, which provides specific cover against the impact of large loss events.

The independent insurance risk function is responsible for:

- advising on the restructuring of the reinsurance programme during the annual negotiations;
- informing management on a quarterly basis of the top natural catastrophe claims and how these were managed and mitigated;
- conducting ad hoc analyses/deep dives following risk signals or management requests to analyse possible trends in natural catastrophe events.

## Impact of geopolitical and emerging risks on technical insurance risk

KBC had no direct insurance exposure in property insurance to either Russia or Ukraine when the conflict started, hence there was no material impact on KBC's profitability. Indirectly, there was the jump in energy prices and the attendant high inflation rate, which increased the average claim cost in Non-Life insurance. Actions were taken and planned to mitigate the impact on profitability through premium adjustments, monitoring of claims and keeping the technical insurance risk profile within the risk appetite.

## Impact of natural catastrophes on technical insurance risk

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

We refer to Note 3.7 'Insurance results' for the net impact of these events on the technical result for the non-life business and to the 'Climate-related and other ESG risks' section.

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

As part of its mission to independently monitor insurance risks, the Group Risk function regularly carries out in-depth analyses and deep dives. These confirm that there is a high degree of probability that the life and non-life technical provisions at subsidiary level are adequate.

Firstly, Liability Adequacy Tests are conducted that meet local and IFRS requirements for technical provisions. Starting from the best estimate model, calculations are made using a discount rate that is set for each insurance entity based on local macroeconomic conditions and regulations.

Secondly, loss triangles are developed that show claims settlement figures in the non-life business over the past few years:

- the claims-settlement figures incorporate all amounts that can be allocated to individual claims, including the Incurred But Not Reported (IBNR) and Incurred But Not Enough Reserved (IBNER) provisions, and the external claims handling expenses, but do not include internal claims settlement expenses and provisions for amounts expected to be recovered;
- all provisions for claims to be paid at the close of 2022 have been included and are before reinsurance, adjusted to eliminate intercompany amounts related to KBC Group Re, the KBC group's own reinsurance company. This makes it possible to first pool the reinsurance risks internally and then, in a subsequent stage, go to the reinsurance market.

The loss triangles are provided in the table below. The first row in the table shows the total claims burden (claims paid plus provisions) for the claims that occurred during a particular year, as estimated at the end of the year of occurrence. The following rows indicate the situation at the end of the subsequent calendar years. We restated the amounts to reflect exchange rates at year-end 2022.

| Loss triangles, KBC Insurance | Year of occurrence | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| *In millions of EUR* | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
| Estimate at the end of the year of occurrence | 915 | 990 | 940 | 1 024 | 1 000 | 1 072 | 1 149 | 1 018 | 1 262 | 1 328 |
| 1 year later | 771 | 880 | 796 | 888 | 882 | 939 | 1 019 | 897 | 1 167 | - |
| 2 years later | 700 | 826 | 751 | 825 | 849 | 894 | 989 | 859 | - | - |
| 3 years later | 678 | 805 | 720 | 811 | 833 | 876 | 967 | - | - | - |
| 4 years later | 674 | 789 | 708 | 806 | 816 | 846 | - | - | - | - |
| 5 years later | 665 | 781 | 697 | 787 | 789 | - | - | - | - | - |
| 6 years later | 663 | 779 | 690 | 782 | - | - | - | - | - | - |
| 7 years later | 661 | 770 | 676 | - | - | - | - | - | - | - |
| 8 years later | 659 | 765 | - | - | - | - | - | - | - | - |
| 9 years later | 653 | - | - | - | - | - | - | - | - | - |
| Current estimate | 653 | 765 | 676 | 782 | 789 | 846 | 967 | 859 | 1 167 | 1 328 |
| Cumulative payments | 592 | 689 | 587 | 643 | 653 | 691 | 746 | 635 | 785 | 587 |
| Current provisions | 61 | 76 | 89 | 139 | 136 | 155 | 221 | 223 | 381 | 741 |

*Table 84 - Loss triangles, KBC Insurance*

# Solvency II results and risk profile

Solvency II sets out the regulatory capital requirements for the insurance companies. The Solvency capital ratio stood at 203% at year-end 2022, as opposed to 201% at year-end 2021.

More detailed information on the Solvency II results and the ratios is provided in our Solvency & Financial Condition Report, which is available at www.kbc.com, and under 'Solvency of KBC Bank and KBC Insurance separately' in the 'How do we manage our capital?' section of the 2022 Annual Report of KBC Group NV.

The presentation below shows the solvency capital requirement (SCR) broken down by risk module, illustrating the impact of the technical insurance risk modules (Life, Non-Life and Health underwriting). It should be noted that the total SCR for the underwriting risk accounts for more than 50% of undiversified basic Solvency II Pillar 1 capital.

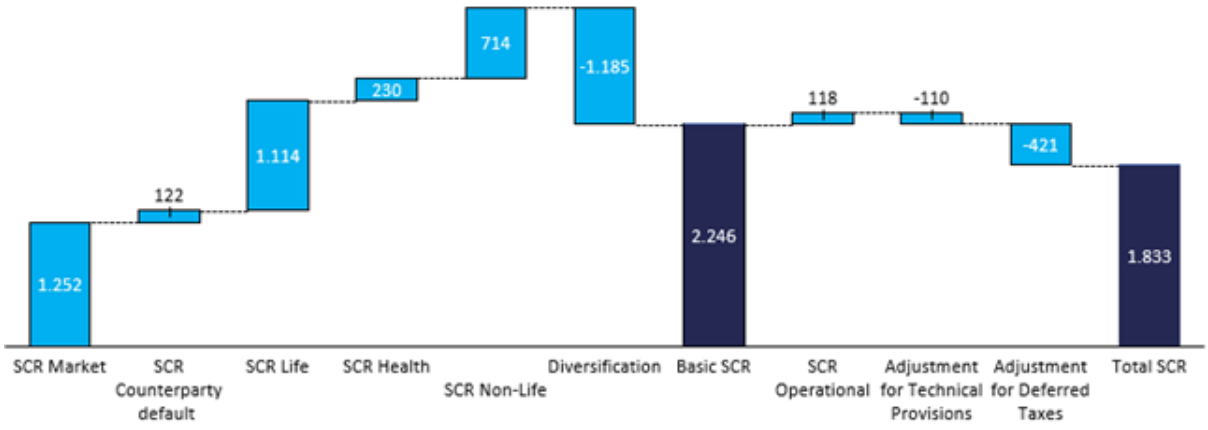



*Figure 6 - Solvency II capital requirements 31-12-22*

# Actuarial function

In addition to the risk function, Solvency II requires an actuarial function to be installed in each insurance entity and at insurance group level. An Actuarial Function Holder is appointed to take charge of the actuarial function's activities. Basically, the task of such a function is to ensure that the company's Board of Directors or Supervisory Board is fully informed in an independent manner.

The main tasks of the actuarial function are to:

- coordinate the calculation of technical provisions;
- ensure the appropriateness of the methodologies and underlying models used, as well as the assumptions made, in the calculation of technical provisions;
- assess the sufficiency and quality of the data used in the calculation of technical provisions;
- compare best estimates against experience;
- inform the administrative, management or supervisory body of the reliability and adequacy of the calculation of technical provisions;
- oversee the calculation of technical provisions when there is insufficient data of appropriate quality to apply a reliable actuarial method;
- express an opinion on the overall underwriting policy;
- express an opinion on the adequacy of reinsurance arrangements; and
- contribute to the effective implementation of the risk management system, in particular with respect to the risk modelling underlying the calculation of the capital requirements.

More information on the insurance activities of the group can be found under Notes 3.7 and 5.6 of the 'Consolidated financial statements' section of the 2022 Annual Report of KBC Group NV. A breakdown by business unit of earned premiums and technical charges is provided in the notes dealing with segment reporting.

# Climate-related and other ESG risks

ESG risks are the risks of (current or prospective) Environmental, Social or (corporate) Governance (ESG) factors impacting KBC, directly or via its counterparties/exposures. Environmental risk is the risk arising from climate change (climate risk) or from other environmental degradation (such as biodiversity loss, water stress, pollution and waste).

- Environmental risk is the risk arising from climate change (climate risk) or from other environmental degradation, such as biodiversity loss, scarcity of fresh water, (air, water and soil) pollution and waste.
- Social risk is the risk arising from changing expectations concerning relationships with employees, suppliers, clients and communities, such as labour and workforce considerations (labour standards, working conditions, diversity, health and safety), human rights and poverty, community impact, client relationships (client protection, including cyber risks, product responsibility, responsible marketing), etc.
- Governance risk is the risk arising from changing expectations concerning corporate governance (corporate policies and codes of conduct, such as responsibilities of senior staff members, remuneration, internal controls, shareholder rights), anti-corruption and anti-bribery and transparency (e.g., in tax planning, external disclosures, etc.).

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

We aim to maximise our positive impact on society and avoid or limit the negative impact of our products and services. In order to guarantee KBC's long-term sustainability and financial resilience, we pursue strict ESG risk management. Processes and initiatives have been implemented for all three pillars (Environmental, Social and Governance). This section mainly focuses on our ESG risk management processes. Our sustainability strategy and related opportunities are more thoroughly discussed in the 2022 Sustainability Report, which also includes an overview of the commitments we have made and the international frameworks we adhere to.

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

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

See also ‘Setting and cascading risk appetite’ in this section for more details on how our sustainability policies determine our risk playing field by formulating clear restrictions and zero tolerances for harmful activities.

In society, too, sustainability and climate change are getting more and more attention as the consequences of climate change are becoming increasingly visible (as evidenced by the 2021 floods in Wallonia and the extreme drought in Europe in the summer of 2022 and as described in ‘Impact of natural catastrophes on technical insurance risk’ in the ‘Insurance Risk Management’ section). These climate change impacts are changing the expectations, mindset, consumption and investment patterns of our stakeholders. At the UN Climate Change Conference in Egypt (COP27), countries reaffirmed the Paris Agreement goal of limiting the increase in the global average temperature to well below 2°C (while striving for a target of 1.5°C) above pre-industrial levels and stressed again the urgency of action ‘in this critical decade,’ when carbon dioxide emissions must be drastically reduced to reach net zero around mid-century. In the World Economic Forum’s 2023 Global Risk Report, failure of climate mitigation and climate adaptation is listed as the biggest global risk for the next ten years. Natural disasters, biodiversity loss and ecosystem collapse complete the top 4.

KBC has considered climate risk a top risk since 2018 (confirmed again in this year’s Risk Scan).

- If not addressed, climate change is expected to have devastating effects (extreme storms, floods, pandemics, mass migration, economic crisis, etc.) with extremely high costs for society, including for financial institutions and their customers;
- The path towards a greener economy on the other hand remains highly dependent on technological breakthroughs, upcoming (EU) policies, regulations and actions by governments (e.g., stricter energy efficiency rules, incentives from the EU Green Deal). These can impact the stability and value of our loan and investment portfolios.

For climate and other environmental risks, we differentiate between transition and physical risks:

- **Transition risks**: risks arising from disruptions and shifts associated with the transition to a low-carbon, climate-resilient or environmentally sustainable economy which include policy changes (e.g., imposition of carbon-pricing mechanisms, energy efficiency requirements or encouragement of sustainable use of environmental resources), technological changes/progress (e.g., old technology replaced by cleaner technology) or behavioural changes (e.g., where consumers or investors shift towards more sustainable products and services or difficulties to attract and retain customers, employees, investors or business partners for companies with a reputation of harming the environment).
- **Physical risks**: risks arising from physical phenomena associated with both climate and environmental trends such as (chronic) changing weather patterns, rising sea levels, increasing temperatures, biodiversity loss, resource scarcity, reduced water availability, changes in water and soil productivity, etc. and extreme weather events (acute), including storms, floods, fires, heat waves or droughts that may disrupt operations or value chains or damage property.

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

- **Financial materiality** (outside-in view), looking at the impact of climate change on our business. Transition risks, for example, can lead to sudden repricing of assets, market volatility, credit losses and climate-related litigation resulting from financing obsolete (brown) technology or infrastructure, impacting lending and investment portfolios, whereas physical risk can increase the level of claims under the insurance policies we provide as well as the value of our assets or collateral; and
- **Environmental and social materiality** (inside-out view), looking at our business’ impact on the environment. In that regard, by signing the Collective Commitment to Climate Action (CCCA) in 2019, KBC stated publicly that it

wants to play a leading role and be a significant lever in the process of transitioning to a more sustainable society and a low-carbon economy, including by committing to aligning its portfolios and business strategy with the Paris Agreement to keep global warming below 2°C while striving for a target of 1.5°C.

As a CCCA signatory, in September 2022 we published our 2022 Climate Report, including stringent decarbonisation targets for the most climate-relevant sectors that cover the majority of our lending portfolio (see Table 85 - Overview of our climate targets, the 2022 Sustainability report and the 2022 Climate Report).

A comprehensive overview of the actions we take as part of our commitment to the environment and the climate is available in the 'Sustainable Finance' section of the 2022 Sustainability Report, which also includes our TCFD (Task Force on Climate-related Financial Disclosures) report. In the next section, we focus on the 'Risk Management' pillar of the TCFD framework.

## Regulation and supervision

The growing attention for the management of ESG risks is also reflected in several legislative initiatives. For banks under ECB remit (such as KBC), for instance, supervisory requirements are formulated in the ECB guide on climate-related and environmental risks. In 2022, the ECB assessed our approach towards the expectations outlined in the guide and the progress made on our implementation plans to reach full compliance by means of the 2022 ECB thematic review of climate-related and environmental risk management practices. This review built on the 2021 Questionnaires and made use of deep dives in our climate-related and environmental risk strategies, as well as in our governance and risk management frameworks and processes. Additionally, the ECB launched its first climate risk stress test in 2022, in which KBC participated (see also 'Risk measurement, scenario analysis and stress testing' in this section.

In the coming years, KBC will prepare for the upcoming implementation of the Corporate Sustainability Due Diligence Directive (CSDDD), which requires companies to identify and act on adverse environmental and human rights impacts across their own operations and supply chain.

KBC is also implementing current, and preparing for upcoming, ESG-related disclosure requirements such as:

- the EBA binding standards on Pillar 3 disclosures on ESG risks. The first reporting of required quantitative templates is included in Annex XII;
- the EU Taxonomy Regulation. Further detail can be found in the 2022 Annual Report, in 'Focus on climate' in the 'Report of the Board of Directors' section;
- the Sustainable Finance Disclosure Regulation (SFDR), for which KBC Asset Management is implementing the various disclosure requirements (at entity, service and product level);
- the upcoming Corporate Sustainability Reporting Directive.

## Governance

The management of ESG risks is fully embedded in our existing Risk Management Governance. The Board of Directors, the Risk & Compliance Committee and the Group Executive Committee, supported by more specific risk committees, are the main decision-making bodies within KBC's risk governance model (see also the 'Risk Management & Governance' section in this Risk Report). The three lines of defence concept forms the cornerstone of KBC's risk governance and

specifies the roles and responsibilities with regard to risk management for all risks to which KBC is exposed, including ESG risks.

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

- The Group CRO is a member of the Executive Committee, the committee having the highest level of direct responsibility for sustainability and climate change.
- The senior general manager of Group Credit Risk represents the risk function on the Internal Sustainability Board (ISB). The ISB, chaired by the CEO, is the primary forum for the discussion of all sustainability-related topics (including our approach to climate change) and the main platform for driving sustainability at group level (with representation of senior managers from all business units and core countries, the Group Corporate Sustainability Senior General Manager, and the Group CFO as Deputy Chair). It debates and makes strategic and commercial decisions on all sustainability-related matters.
- The senior general managers of Group Risk and Group Credit Risk are members of the Sustainable Finance Programme Steering Committee, which is chaired by the Group CFO and supports the ISB by overseeing and supporting our business departments in developing their climate resilience in line with the TCFD recommendations and the EU Action Plan on Sustainable Finance. The Steering Committee also follows up on the implementation plans linked to ECB exercises (such as the 2021 ECB Questionnaires and the 2022 ECB Thematic Review on climate-related and environmental risks).
- The senior general managers of Group Risk and Group Credit Risk are also members of the Data & Metrics Steering Committee, which was established in 2021 to address the growing climate-related data needs. All core countries and group functions are represented on this committee.
- The risk function is represented in the core team of the Sustainable Finance Programme with dedicated resources. The Programme focuses on integrating climate-related matters throughout the group and reports to the Sustainable Finance Programme Steering Committee.
- As strong embeddedness in the local organisation is a key requirement, similar governance is in place in each of KBC's core countries, with local general sustainability managers having been appointed and local risk functions taking active part in locally established sustainability committees.
- More information can be found in the 'Sustainability strategy' section of the 2022 Sustainability Report.

Internal Audit, as the third line of defence, ensures that transversal risks – including ESG risks – are covered in multiple audits (e.g., sustainable lending policy in Credit audits, sustainable investment policy in Asset Management audits). Additionally, audits specifically focusing on ESG risks are also part of the multi-year audit plan.

Sustainability has been integrated into the remuneration of our senior management and employees.

- The variable remuneration of Executive Committee members is linked to factors including the achievement of a number of collective targets. One such target specifically relates to the implementation of the sustainability strategy, which is evaluated every six months using the KBC Sustainability Dashboard.
- All KBC senior managers have an explicit sustainability objective to increase sustainability awareness and to encourage management to take concrete action in the domain of sustainability (including climate policy). At least 10% of the variable remuneration received by senior management depends on the achievement of individual targets related to the implementation of the group's sustainability strategy.
- The non-recurrent results-based bonus KBC pays its employees in Belgium has been partially linked to sustainability targets since 2012. In 2022, the targets were linked partly to our direct footprint – Green Mobility

(coming to the office using an environmentally friendly means of transport) – but also to employee development (training days, digitality and progress management) and cybersecurity (phishing tests).

# Integration into risk management frameworks and processes

The KBC Enterprise Risk Management Framework defines KBC's overall approach to risk management and sets group-wide standards for risk management. It covers all risks to which KBC is exposed, including ESG risks, which are gradually being embedded in KBC's risk management processes.

ESG risks are identified in our risk taxonomy as key risks related to KBC's business environment. ESG risks are considered important risk drivers of the external environment and manifest themselves through all other traditional risk areas, such as credit risk, technical insurance risk, market risk, operational risk and reputational risk. As such, we do not regard ESG risks as stand-alone risk types.

When assessing the potential impacts of ESG risks, we consider three angles, ranging from direct to indirect impacts:

- direct impacts through our own operations, e.g., our own environmental footprint, workforce considerations, diversity, corporate governance and codes of conduct;
- impacts through our outsourced activities and suppliers (related to the ESG profile of these third parties); and
- indirect impacts through our core activities (lending, insurance and investment) and clients/exposures.

## Managing indirect ESG impacts

As a financial institution, we are vulnerable to ESG risks mostly indirectly, i.e. with impacts materialising through our core activities (lending, insurance and investment). Within the industry, risk assessment methodologies for managing these indirect impacts are most advanced for climate risk (compared to other ESG risk areas). Whereas previously KBC's primary focus was also on the integration of climate-related risks within all risk management frameworks and processes (such as risk identification, measurement and stress testing, and risk appetite), we are extending our approaches to other ESG risks for all of KBC's core activities. For more details, we refer to the 'Risk identification', 'Risk measurement, scenario analysis and stress testing' and 'Setting and cascading Risk Appetite' sections.

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

- There is currently still a lack of data and standardised methods to properly assess and measure ESG risks with the same level of accuracy and quality as is usual for the more traditional risk types. In order to enable a more data-driven approach towards managing ESG risk, we continue to increase our efforts to identify ESG-related data needs, define ESG metrics, adjust data architecture and ensure the implementation in our reporting processes. In 2022, substantial progress was made with climate-related data through KBC's dedicated Data & Metrics project (with a separate Steering Committee, involving all core countries and group functions). Core projects managed by the Data & Metrics project relate to the implementation of the EBA binding standards on Pillar 3 disclosures on ESG risks (see Annex XIII) and the EU Taxonomy Regulation, as well as to the collection of the necessary data required for setting emission reduction targets for the most climate-relevant sectors (see 'Policies, restrictions and targets' in this section). Significant efforts have already been made to structurally gather

key sustainability data such as clients' GHG emission and location data and energy performance data for collateral, and to develop proxies in case of unavailability. The availability and accuracy of those data points will remain an important challenge in the coming years, for instance due to the lack of up-to-date EPC labels which are harmonised across different countries and due to the shortage of reliable sustainability data for companies that are exempt from the upcoming ESG disclosure regulation.

- Furthermore, we continuously investigate external developments and potential new methodologies, tools and services, in order to continue to build up relevant knowledge and expertise and gradually gain more insight that enables us to take additional steps to advance our risk management processes and practices going forward (e.g., adapting credit/insurance/investment policies, adjustment of credit assessment processes, etc.).
- Given that the materialisation of environmental risks builds up over an extended period (with transition risks dominating in the short and medium terms and potential severe physical hazards occurring more frequently in the longer term), we are adjusting our risk processes to make sure that, in addition to the more traditional short-term impacts, medium and long-term considerations are also integrated into risk identification, risk appetite, stress testing and risk reporting.

  Depending on the measures adopted to contain the ongoing deterioration of environmental conditions and its impacts (e.g., economic policies and related regulatory interventions set by governments, technological progress or changing consumer behaviour), different economic and social implications are conceivable. In order to deal with this uncertainty in our climate risk assessments, we consider a range of climate scenarios (making specific assumptions on technological and policy changes and translating these into impacts on, for example, energy production, greenhouse gas (GHG) emissions, oil consumption, etc.).

## Managing direct ESG impacts

As responsible behaviour is one of the cornerstones of KBC's sustainability strategy (see KBC's Sustainability framework), many ESG aspects related to our own operations (e.g., our own direct footprint, compliance risks, cyber risks) are already properly managed, monitored and reported to the Group Executive Committee and the Board of Directors.

Social and governance aspects of our own operations are handled within several KBC departments, such as Group Corporate Sustainability, HR (e.g., employee growth and development, diversity and inclusion), Facilities (workplace safety), Compliance (compliance risks), Risk (cyber and other operational risks), Marketing & Communication (responsible marketing), Complaints Handling, etc. Specifically:

- As described in KBC's Compliance Charter, several compliance domains are closely linked to social and governance risks, such as corporate governance, conduct, embargoes, investor protection, data protection, ethics & fraud, consumer protection and anti-money laundering ( 'Compliance risk' in the 'Non-financial risks' section).
- Within our operational risk management processes, controls are in place for managing several social and governance areas, such as cyber risk, model risk (e.g., avoiding bias in models, ensuring ethical AI), business continuity management (e.g., ensuring continuity of services provided to clients), legal risk, and personal and physical security risk (with regard to personnel and clients) ( 'Operational risk' in the 'Non-financial risks' section).

In the 'Our people' and 'Our responsibility' sections of the 2022 Sustainability Report, more information can be found on KBC's initiatives regarding employee growth and development, a safe and healthy working environment, social dialogue, and diversity and inclusion. In this regard, KBC signed the Principles for Responsible Banking (PRB) and the UN Global Compact. The latter supports companies in doing business responsibly by aligning their strategies and operations with the Ten Principles on human rights, labour standards, the environment and anti-corruption.

In the sections below, KBC's approach towards the gradual integration of climate and other ESG risks into its risk management frameworks and processes is further elaborated. In separate sub-sections, we will zoom in on risk identification, risk measurement, risk appetite and risk reporting (see Figure 7 - Overview of main risk processes).

We are taking a step-by-step approach where follow-up actions are defined based on the insights gained from our previous actions/analyses and depending on, for example, the availability of data and methodologies and further regulatory developments (including the implementation of the EU Taxonomy and the Corporate Sustainability Due Diligence Directive).

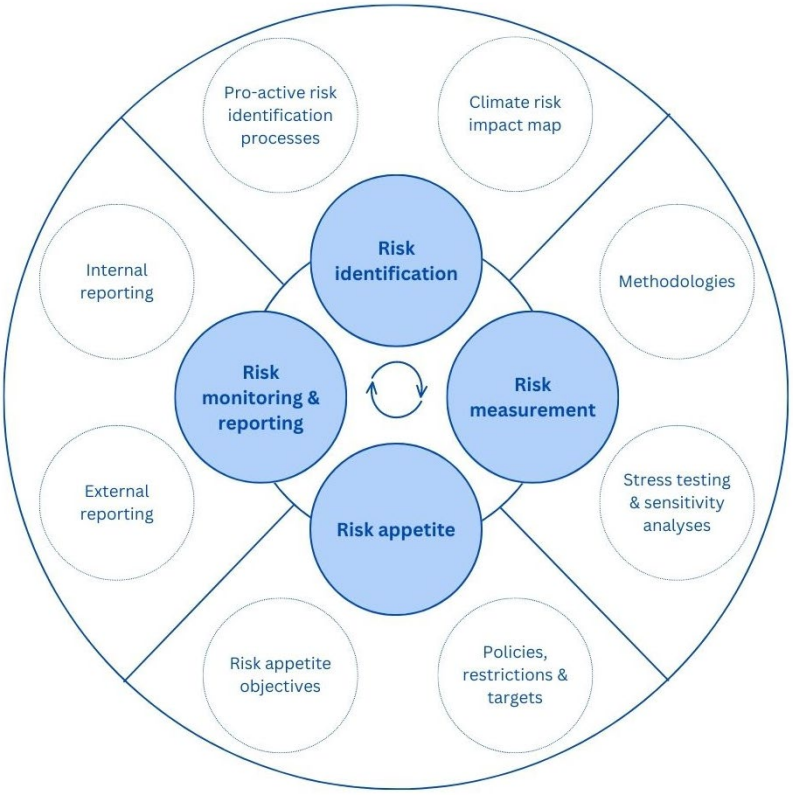



*Figure 7 - Overview of main risk processes*

# Risk identification

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

## Proactive risk identification related to ESG risks

To ensure proactive risk identification, we have taken the several initiatives related to Environmental (), Social () and Governance () risk management:

Climate risk, cyber risk, compliance risks (including anti-money laundering, GDPR and embargoes) and conduct risk have been identified as top risks by the Group Executive Committee and Board of Directors for several years and hence receive increased attention.

ESG risk signals are regularly reported to the Group Executive Committee, the Risk & Compliance Committee and the Board of Directors via the Integrated Risk Report.

Since 2020, strategic sectoral projects (so-called White Papers) have been set up, with a focus on our credit business, advisory services and insurance activities, for eight carbon-intensive industrial sectors (energy, commercial real estate, agriculture, food production, building and construction, chemicals, transportation and metals) and three product lines (mortgages, car loans and car leasing). The selected sectors and business lines are material for KBC's loan portfolio both from a greenhouse gas (GHG) perspective and from an exposure perspective (covering two thirds of KBC's loan book). The White Papers make a clear analysis of the challenges and technological developments in each of these sectors and business lines, including the relevant European and local regulations and action plans, their impact on KBC's portfolios in terms of climate-related risks and opportunities, which reporting metrics can be used to steer these portfolios, etc. They also provide an initial outline of possible risk-mitigating measures, commercial policy adjustments and how we can steer the portfolio in line with the Paris Agreement (e.g., through decarbonisation targets – see *Table 85 - Overview of our climate targets* ). The specific context of our local businesses in all our home countries is considered in these assessments. The White Papers are updated regularly (annually/biannually) to monitor the changing business environment, to evaluate long-term resilience towards climate and other environmental risks and to seek opportunities. More details can be found in the 2022 Sustainability Report (the 'Our commitment to the environment and climate action' section and the 'White Papers' appendix).

| White Paper sectors | (Sub-)sector within scope of target setting | | GHG Emission Scope | Metric | Baseline 2021 portfolio value | 2030 target | 2050 target |
|---|---|---|---|---|---|---|---|
| **Energy** | Energy (whole sector) | | 1 + 2 | t CO2e/m euro outstanding | 453 | -34% | -82% |
| | Electricity[1] | | 1 | kg CO2e/MWh | 210 | -39% | -77% |
| **Real Estate** | Commercial real estate and mortgages (whole sector excl. pure commercial development) | | 1 + 2 | t CO2e/m euro outstanding | 27 | -38% | -72% |
| | Mortgages and commercial residential real estate[1] | | 1 + 2 | kg CO2 e/m2/year | 50 | -43% | -85% |
| **Transport** | Vehicle loans and financial lease[2] | Passenger cars | 1 | g CO2/km | 139 | -42% | -100% |
| | | Light commercial vehicles | 1 | | 208 | -30% | -84% |
| | Vehicle operational lease[2] | Passenger cars | 1 | | 133 | -81% | -100% |
| | | Light commercial vehicles | 1 | | 196 | -33% | -90% |
| **Agriculture** | Agriculture (whole sector)[1] | | 1 + 2 | t CO2e/m euro outstanding | 1 405 | -21% | -34% |
| **Building and construction** | Cement producers[3] | | 1 + 2 | t CO2 / t cement | 0.69 | -16% | -68% |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Metals** | Steel producers[3] | 1 + 2 | t CO2 / t steel | 1.34 | -14% | -56% |
| | Aluminium producers[4] | 1 + 2 | t CO2e / t aluminium | 0.59 | Stay well below the global sectoral intensity climate benchmark | |

[1] Scenario/pathway: Below 2°C (NGFS Phase 2)
[2] Scenario/pathway: Net Zero 2050 (European Commission MIX)
[3] Scenario/pathway: Below 2°C (IEA ETP 2020 SDS)
[4] Scenario/pathway: Below 2°C (TPI)

*Table 85 - Overview of our climate targets*

The New and Active Products Process (NAPP) has been set up to identify and mitigate all risks related to new and existing products and services, which may negatively impact the client and/or KBC. To ensure responsible product development within KBC, no product, process, or service can be created, purchased, changed or sold without approval in line with NAPP governance (see also the 'Risk Management & Governance' section, 'Components of a sound risk management – Risk identification'). Sustainability and climate-related policies are explicitly taken into account when deciding on new products or services through the NAPP. Particular attention is paid to the adequate 'green' labelling of newly developed products, aligned with regulatory frameworks such as the EU Taxonomy and the ICMA Green Bond framework.

In the area of credit and reputational risk, a sector-based environmental and social (E&S) sectoral heat map has been developed and implemented in the loan origination and review processes as a screening tool to identify hot spots in terms of E&S risks in the corporate and SME loan books. The heat map provides a granular qualitative score for each activity for several environmental risks (climate risk, water risk, waste risk, pollution risk and ecosystems/biodiversity risk) and social risks. Based on this heat map, a sectoral E&S risk portfolio monitoring report has been drawn up, providing insight to management into the overall E&S riskiness of KBC's industrial loan portfolio. Additionally, as a tool supporting the business, credit advisers and decision makers in assessing environmental and social risks during loan origination, KBC has implemented the ESG Assessment Guide in the loan origination/review process (including several credit acceptance criteria). An ESG assessment is mandatory for high-risk sectors above certain materiality thresholds (which we are gradually lowering), as also specified in KBC's Credit Risk Standards on Loan Origination for Corporate, SME and Micro SME. In addition to the environmental risks specified above, several social risk factors (including engagement with communities and society, employee relationships and labour standards, client protection and human rights) and governance risk factors (including ethical considerations, strategy and risk management, inclusiveness and transparency) are considered in this ESG assessment. For the full corporate and SME segments, the client's governance aspects (e.g., organisational structure, ethical considerations, past controversies, etc.) are also part of this due diligence process.

In 2021 KBC established an internal carbon price (ICP) schedule. Internal carbon pricing (ICP) is an internally developed estimated cost of carbon emissions and has emerged as a forward-looking metric that can help organisations to manage climate-related transition risks and opportunities. The TCFD recommendations explicitly refer to the internal carbon price as a key metric to consider and assess climate-related risks and opportunities. We reported in the 2021 Sustainability Report ('Our commitment to the environment and climate action' section) how KBC sets its internal carbon prices. We review our ICP levels annually to ensure that they remain relevant. New scenarios from reliable and established providers are used to review price levels. So far, our ICP has been used predominantly in a lending context where we use the calculation tool for larger credit files to understand and assess the financial impact of greenhouse-gas-intensive companies. Estimated counterparty greenhouse gas emissions and KBC's ICP are used to test the sensitivity of a company's earnings. Further steps are taken to identify other activities in which the use of ICP could be relevant.

Client dialogue is an essential part of KBC's approach to better understanding how business clients already deal or plan to deal with sustainability challenges and to supporting them in this transition. We also use this dialogue to collect our clients' environmentally relevant data and steer business clients towards additional disclosures that might become necessary (e.g., related to the Corporate Sustainability Reporting Directive (CSRD) or the EU Taxonomy).

Substantial progress was made in 2022 regarding physical risk assessments for our loan and insurance portfolios. As pluvial and fluvial flood risks are deemed to be the most prominent physical risks within KBC's portfolios, we performed a flood risk assessment in line with the UNEP FI methodology on various home loans and corporate/SME portfolios which, by their nature, are more sensitive to developments in flood risk. This assessment was extended to our property insurance portfolios which, by their nature, are impacted more by developments in flood risk. At the same time, we collected portfolio data and scientific support to identify our portfolios' sensitivity to the other chronic and acute physical risks listed in the Climate Risk Impact Map. Further explanations and outcomes of these assessments can be found in Annex XIII on physical risks.

For our property insurance portfolio, we assess more extreme weather conditions (such as changes in storm and precipitation patterns and changes in the frequency of floods) through a number of internal and external measures and stress tests to analyse their potential impact. External broker and vendor models are used at KBC Insurance to model extreme events of this kind. KBC insists on an active dialogue regarding the inclusion of climate change in the scenario analysis performed by these providers. Physical risks in other regions around the world are also closely monitored, as they can affect the global reinsurance market on which KBC relies. Moreover, the insights into KBC's portfolios gained from KBC's reinsurance undertakings are shared with KBC.

In the area of operational and reputational risk, KBC screens its outsourced entities and suppliers by using the Sustainability Code of Conduct. The Code is in line with the UN Global Compact Principles and applies to all entities of KBC Group. It sets out rules requiring suppliers to comply with defined labour standards, to respect human rights, to engage with the community and society, etc. Additionally, based on KBC Group's sustainability policies, unsustainable counterparties, with whom no transactions will be concluded, have been included in the KBC Blacklist, the KBC Human Rights Offenders List and the KBC Controversial Regimes List. As input to any outsourcing decision, a risk, compliance and legal assessment is always prepared according to due diligence guidance also covering ESG risks.

The prevention of money laundering and terrorism financing, including embargoes, is a top priority for the Compliance function. Knowledge of the client (Know Your Customer (KYC)) and monitoring transactions (Know Your Transaction (KYT)) are essential tools to mitigate these risks.

As further elaborated in 'Risk measurement' in this section, KBC has so far worked together with external parties on a series of tools and methodologies to increase its ability to identify and measure climate-related risks.

## Climate Risk Impact Map

In 2021, KBC initiated the development of a Climate Risk Impact Map. This annual risk identification process aims to identify the most material climate risk drivers for KBC's businesses and portfolios. It reflects the impact of transition risk (policy and regulation, technology and consumer preferences) and physical risk (split according to different climate perils) drivers on the traditional risk types by (1) distinguishing between different drivers of transition and physical risk, (2) considering three distinct climate scenarios, (3) for three different time horizons.

The transition and (chronic and acute) physical risk drivers considered in the Climate Risk Impact Map are listed in the tables below.

| | | |
|---|---|---|
| | **Transition risk** | Risks arising from disruptions and shifts associated with the transition to a low-carbon, climate-resilient or environmentally sustainable economy. |
| *Drivers* | **Policy and regulation** | An increase in carbon and energy prices, carbon taxes, reduction of emission rights, energy efficiency regulation for commercial and residential property. |
| | **Technological development** | Substitution of existing products and services with green alternatives based on new technologies, failure of/uncertainty surrounding new technologies. |
| | **Consumer preferences** | Changes in customer behaviour and investor expectations, uncertainty in market signals, customer/community perceptions of an organisation's contribution to climate change, green competition. |

| | | | |
|---|---|---|---|
| | **Physical risk** | Risks related to potential financial implications from physical phenomena associated with both (chronic) climate trends, and extreme (acute) weather events. | |
| | | *Chronic changes* | *Acute events* |
| *Drivers* | **Temperature** | Increase/decrease in average temperature, increase/decrease in max. and min. temperatures, etc. | Increase in frequency and severity of heat/cold waves, wildfires, etc. |
| | **Wind** | Changing wind patterns | Cyclones/windstorms, tornados, etc. |
| | **Water** | Sea level rise, structural increase/decrease in average rainfall, changing precipitation patterns, etc. | Increase in frequency and severity of floods (coastal, river, pluvial) and droughts, hailstorms, snow/ice, etc. |
| | **Solid mass** | Soil degradation | Landslides, subsidence, erosion, etc. |

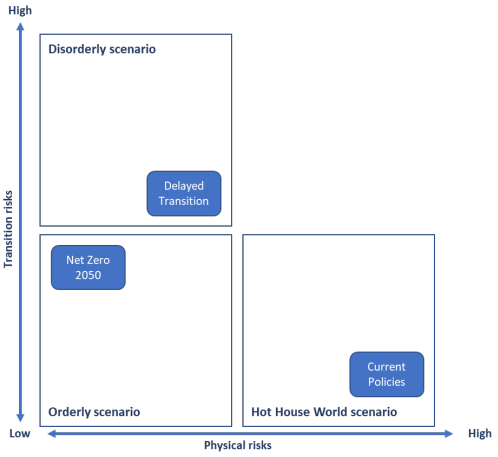
*Table 86 - Climate risk drivers as considered in KBC's Climate Risk Impact Map*

Both transition and physical risks can materialise via several transmission channels, potentially impacting KBC's balance sheet through several risk types (see below). A general overview of the transmission channels considered is included in Table 87 - Transmission channels of climate risk.

| | **Transition risk** | **Physical risk** |
|---|---|---|
| **Corporates** | Depending on each individual company's transition plans, impacts can differ across and within sectors:<br>• Companies can be directly affected (e.g., loss of clients, increased costs and lower profitability, increased litigation costs, etc.), but also indirectly as their supply chain might be impacted by transition risk.<br>• Failure to make a transition or making a transition at too slow a pace can lead to a loss of business. Additional investments might be necessary and costs may increase. | Corporates can be impacted by physical risk through direct damage caused by extreme weather events:<br>• Critical assets can be damaged/destroyed or infrastructure can become unavailable.<br>• Physical risks can cause supply-side shocks when impacting transportation or primary resources. |
| **Households** | • Households can face increased costs regarding utilities and/or food.<br>• As energy efficiency considerations are factored into house prices to a greater extent, energy-inefficient houses may decrease in value or increase more slowly. | • Extreme weather events can damage real estate or other assets (such as vehicles). Even though this damage is mostly covered by insurance, the insurance premiums can also be expected to go up.<br>• Costs can increase, e.g., due to increased costs for cooling/heating, increased food costs, etc. |
| **Sovereigns** | The impact on sovereigns follows the impact of the underlying economy. In extreme circumstances, sovereigns which are most vulnerable to transition and physical risks can, for example, run the risk of downgrades. | |
| **Financial institutions** | The extent to which financial institutions will be impacted by transition and physical risks depends on their business and portfolio characteristics. | |

*Table 87 - Transmission channels of climate risk*

The timing and severity of transition risks and physical risks (i.e. the 'climate pathway') depend mainly on government and policy action. Given the uncertainty on the climate pathway in respect of future events, climate risk impacts are estimated for three distinct climate scenarios. These are made available by the Network for Greening of the Financial System (NGFS) and encompass a global, harmonised set of transition pathways, physical climate change impacts and economic indicators. Importantly, macroeconomic insights provided by these scenarios facilitate an assessment of the impact of these scenarios on the financial sector as a whole and KBC in particular. Aligning with NGFS scenarios ensures assumptions are aligned with the industry standards and facilitate a comparison between the impact map and other internal and external climate-risk-related exercises. The relevance of these scenarios has already been demonstrated as these were also selected by the ECB for its 2022 climate stress test. Each scenario contains different assumptions regarding the timing and impact of various physical and transition risk drivers:




- **Net Zero 2050 (Orderly scenario)**: in this scenario, there is early and decisive action to reduce global emissions in a gradual way, with clearly signposted government policies implemented relatively smoothly. There is a structural reallocation but no other macroeconomic shock. Transition risk is present, but remains rather limited. The actions are sufficient to limit global average temperature increases to below 1.5°C. However, even this moderate increase in global temperatures leads to higher physical risks.
- **Delayed transition (Disorderly scenario)**: in this scenario, action to address climate change is delayed by ten years. To compensate for the delayed start, a more far-reaching adjustment is required. Companies and consumers change their behaviour in response to these dramatic shifts, and asset prices see a sharp repricing as a result, leading to a macroeconomic shock. The climate target is still met and global average temperature increases are limited to below 2°C. In this scenario, physical risks increase more than in the Net Zero 2050 scenario and transition risks are severe.
- **Current policies (Hot house world)**: this scenario assumes no limit on the global temperature by 2100, assuming no accelerated economic transition and a continuation of current policy trends. Physical climate change has severe consequences in this scenario, with climate impacts ensuing from emissions reflecting the riskier (high) end of current estimates.

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

In the Climate Risk Impact Map, impacts are assessed in an expert-based way, supported by already available quantitative insights. With every (yearly) review of the Impact Map, additional insights, data and quantification are added to the basis for the assessments to allow KBC to evaluate climate risk in a progressively data-driven way.

In general, considering the risk drivers and transmission channels listed above, the Climate Risk Impact Map results in the following conclusions:

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

Currently there are no indications that a material impact is to be expected within the short term for any of the risk types. Looking ahead to the medium and long terms, we expect upward pressure from climate change on technical insurance risk, credit risk, legal risk and reputational risk (under the conservative assumption that KBC's portfolio remains unchanged and no additional mitigating actions are taken). These impacts stem both from transition risk and physical risk drivers. More specific considerations per risk type are described below.

Since 2022, the conclusions from the Climate Risk Impact Map have been incorporated into our risk management processes. In particular, the Impact Map's insights are gradually enabling us to incorporate the most material climate risk drivers and the time horizons over which these are expected to materialise in the different scenarios into our stress testing (see also 'Risk measurement, scenario analysis and stress testing' in this section), to address the most material climate risks within the risk appetite, for example by adjusting policies and setting targets (see also 'Setting and cascading risk appetite' in this section) and to follow up on the associated metrics and targets within our reporting processes. As such, the Climate Risk Impact Map is crucial input to ICAAP/ILAAP/ORSA and the assessment of the impact of climate change on strategic and business model risk.

To end this section, a qualitative overview of the most material climate-risk-related vulnerabilities and their potential impacts on the traditional risk types is provided. A distinction is made between transition risk ( ) and physical risk ( ) impacts.
In the accompanying tables, the distinction between short-term (ST), medium-term (MT) and long-term (LT) expected impacts is reflected for the three scenarios being considered. The intensity of the blue shading reflects the severity of the potential impact under the conservative assumption that KBC's portfolio remains unchanged and no additional mitigating actions are taken (static balance sheet assumption).

### Credit risk

| Credit risk | ST | MT | LT |
|---|---|---|---|
| Net Zero | | | |
| Delayed transition | | | |
| Current policies | | | |

Depending on the speed and strictness of upcoming low-carbon policies/regulations and companies' reliance on technologies that will become obsolete, a significant impact on several clients/sectors within KBC's credit portfolio could be expected. Due to increased costs from making the necessary adaptations and innovations to, for instance, companies' business models or individual clients' houses, or even the inability to make the transition, credit quality can be impacted.

The sectors within KBC's portfolio most vulnerable to transition risk are: commercial real estate, building and construction, agriculture and food production, chemicals, energy, metal manufacturing, automotive and transportation (see White Papers scope). Additionally, certain companies in these sectors could feel additional

stress stemming from a loss of clients (e.g., meat consumption in the agricultural sector), further impacting credit risk.

The most relevant physical risk driver for KBC's credit risk portfolios is water-related physical risk. A possible impact is an increase in clients' probability of default, due to damage to their physical assets or disruption of their businesses. In addition, the value of affected collateral could significantly decline. The agricultural and residential real estate portfolios are amongst the most vulnerable. Seaport activities and river transportation could also be strongly affected. Both coastal and river flooding and an increase in the frequency/severity of droughts are considered.

Credit portfolios are still assumed to be exposed to temperature and wind-related physical risks, albeit to a lesser extent. External models forecast that more frequent heat waves can be expected in our Central European home markets. All portfolios could be vulnerable to an increase in the frequency and intensity of windstorms impacting real estate assets (collateral). On a longer time horizon, in case extreme physical risks materialise (e.g., the 'Current policies' scenario), important impacts for the exposures to the health sector, sovereigns and financial institutions can be expected for heavily affected countries.

### Technical insurance risk

| Technical insurance risk | ST | MT | LT |
|---|---|---|---|
| Net Zero | | | |
| Delayed transition | | | |
| Current policies | | | |

Transition risk drivers could have a potential impact on technical insurance risk via several transmission channels. It is possible that increases in legal limits are to be borne by insurance undertakings, as already observed in Belgium following the 2021 floods in Wallonia. Additionally, in case clients are confronted with increased climate litigation, insurers could face additional costs in case these companies have taken out general third-party liability insurance. This risk could be mitigated by, for example, contractual limits and clauses related to environmental damage. Lastly, higher claims on new insurance products covering green technologies can result in higher losses because of underpricing due to a lack of data. Electric vehicles are top of mind here. KBC is working on tools to measure the potential amount of claims and the level of risk.

Flood risk and windstorms pose major threats to property insurance activities, and to a lesser extent to life insurance and multi-peril climate insurance. Annual flood losses are expected to increase between 50% and 80% by 2050 if no mitigating actions are taken. Temperature-related climate risk drivers mainly materialise in the form of increased mortality rates and hence life insurance claims. This risk will manifest itself in case of increased heat waves and a higher number of diseases and possible epidemics. An increase in droughts could impact insurance products for the agricultural sector and the (waterway) transportation sector.

### Market risk - Trading

| Market risk - Trading | ST | MT | LT |
|---|---|---|---|
| Net Zero | | | |
| Delayed transition | | | |
| Current policies | | | |

For trading activities, too, transition risks can negatively impact equity valuations and bond spreads. However, the velocity at which trading portfolios revolve is fast compared to the horizon on which climate risks are expected to materialise, which limits the risk.

In line with transition risk, physical risk is expected to have a limited impact on trading activities. Relevant impact stems from potential changes in credit and bond spreads in countries where extreme weather events occur.

### Market risk - non-trading (Bank & Insurance)

| Market risk - Non-Trading | ST | MT | LT |
|---|---|---|---|
| Net Zero | | | |
| Delayed transition | | | |
| Current policies | | | |

There are several potential impacts of transition risk on the bond and equity positions (investment book) and direct/indirect real estate. One of them relates to the repricing of corporate bonds, driven by changes in bond risk premiums accounting for the carbon intensity of the bond issuer or increased credit risk. The value of certain assets owned by companies/governments that are economically dependent on fossil fuels can drop abruptly. This could result in an equity value drop and higher corporate/government bond spreads. Additionally, energy efficiency regulation of commercial and residential property could reduce the value of direct property and real estate funds. Lastly, late government intervention to combat climate change could disrupt economic stability, depressing interest rates and lowering net interest income.

The impacts of physical hazards due to climate change are similar to the credit risk impacts described above. In case countries become significantly impacted by physical risk, government expenditure could increase, causing a decrease in the sovereign rating, which, in turn, will lower sovereign bond valuations. This could be amplified by general economic stress for economies heavily dependent on sectors vulnerable to more extreme climate events. Bonds issued by emerging market countries and local governments could be more susceptible to repricing than sovereign bonds of advanced economies. A decrease in the creditworthiness of companies impacted by physical risk can impact the corporate bond and equity valuations as well. In addition, the value of real estate portfolios (direct and indirect) might decline due to properties being located in high-risk areas.

### Liquidity risk

| Liquidity risk | ST | MT | LT |
|---|---|---|---|
| Net Zero | | | |
| Delayed transition | | | |
| Current policies | | | |

KBC's liquidity buffers could be impacted by increasing credit spreads (see credit and market risk) which could lower the market value of high-quality liquid assets (HQLA) such as bonds. Withdrawals (or non-renewal) of funding triggered by clients needing cash to adjust business plans in the light of the green transition or expectations regarding a bank's commitment towards climate action that are deemed insufficient can also lower our liquidity buffers. The expected cash inflows can also decline when credit defaults increase (see credit risk).

Impacts on liquidity positions could stem from both increasing bond/credit spreads due to physical risk (see credit and market risk) lowering HQLA and expected inflows, and from clients withdrawing cash to finance damage repairs resulting from physical events.

### Reputational risk

| Reputational risk | ST | MT | LT |
|---|---|---|---|
| Net Zero | | | |
| Delayed transition | | | |
| Current policies | | | |

Changing investor, client or community expectations regarding climate change actions are considered the most important potential cause of reputational damage. In case of diverging approaches between financial institutions or a rapid change in client/investor behaviour and preference, or in case a commitment is perceived by external stakeholders as inappropriate or insufficient, reputational damage can occur. In order to fulfil our role in society, we aim to support our clients in the transition towards a low-carbon intensive economy throughout our core activities. Our policies, restrictions and targets define a clear risk playing field with regard to ESG risks (see 'Setting and cascading risk appetite' in this section). We also

keep reputational risks under control by close monitoring and peer benchmarking of our ESG ratings, by making adequate assessments and by responding to controversies.

A higher frequency in losses stemming from physical risk events could lead to increased complaints in insurance claims handling, which gives rise to reputational risk. In the longer term, reputational risk could also increase, for example in case insurers start to significantly restrict their underwriting or drastically increase insurance premiums in an attempt to keep the risks insurable, whilst keeping their loss ratio under control.

### Operational risk

| Operational risk | ST | MT | LT |
|---|---|---|---|
| Net Zero | | | |
| Delayed transition | | | |
| Current policies | | | |

Operational risk resulting from a failure to adapt to policies and regulations grows in relevance as more drastic changes in policies and regulations materialise. The probability of errors made in addressing new regulations can increase following the abrupt changes needed to comply with regulations, increasing the probability of climate-related litigation and reputational damage. Changing investor, client or community expectations regarding climate change actions can also result in climate litigation cases (see reputational risk).

Severe weather events have the potential to disrupt critical infrastructure and services. Damage to assets and infrastructure owned by third parties and service providers poses relevant operational risks and impacts business continuity. These are, however, considered in our business continuity plans which cover the impact of climate-related and environmental events with a focus depending on the local context. In 2020-2022, several of these business continuity plans (e.g., company-wide teleworking) were successfully implemented in order to cope with the coronavirus pandemic.

### Compliance risk

Sustainable finance triggers compliance risk for KBC in the sense that it entails a risk of regulatory non-compliance or a failure to live up to the legitimate expectations of clients, employees and society as a whole. Through regulatory follow-up, advice, monitoring and reporting, the Compliance function ensures that KBC's activities live up to regulatory and societal expectations. Specific rules regarding sustainable finance under MiFID or the Investor Disclosure Document (IDD) are covered by the investor and policy holder protection domains.

## Raising awareness on climate risk

In 2022, we continued our efforts towards creating risk awareness by:

- following up on new and changing regulations through a Sustainable Finance Legal Working Group;
- active involvement in regular working groups with peers and other financial institutions in order to keep up to date on best practices for integrating climate-related and environmental risks (e.g., collaboration with UNEP FI, CCCA, Equator Principles);
- organising internal communication and training for all staff and management, as well as developing more specialised training for risk managers. This includes:
- providing general awareness training for all staff:
    - transforming our internally developed climate game into a cloud game accessible to colleagues across the group, thus increasing the awareness of climate-related aspects which can change traditional banking and insurance;

- developing and offering training courses aimed at specific functions (e.g., relationship managers, product managers, risk managers, etc.);
- further rolling out a specific training programme for KBC's management (top 300), to support management in steering the organisation towards more sustainable solutions and adequate risk management.

## Extending our approach to other environmental risks

KBC has taken steps towards the integration of the other environmental risks into its risk management processes, for example by strictly adhering to KBC's Biodiversity Policy (see the 'Setting and cascading risk appetite' section), by considering environmental risks in our loan/review origination process and by reporting on environmental risks to the Board of Directors as part of our regular risk reporting. In 2023, additional risk identification exercises for the other environmental risks will be performed (including different environmental considerations in the 2023 update of the White Papers and efforts to extend the Climate Risk Impact Map to other environmental risks).

Other environmental risks can translate into financial risk through physical and transition risk drivers (similar to the ones for climate risk: policy and regulation, technological change, and consumer preference). In line with the environmental objectives described by the EU Taxonomy, we consider the following environmental risk types.

| | |
|---|---|
| **Biodiversity loss**<br>*The risk related to ecosystem and/or biodiversity hazards (including deforestation).* | Biodiversity is the variety of life on Earth in all its forms. It comprises the number of species, their genetic variation and the interaction between these life forms within complex ecosystems. Through land degradation and a reduced number of animal and plant species, deterioration of biodiversity can affect businesses and might increase pandemic risk. Policies introduced to contain biodiversity loss and deforestation (e.g., restrictions on deforestation, excessive land use, etc.) might also impact several businesses.<br>»» Examples of sectors that greatly impact and/or are highly dependent on ecosystem services are agriculture, food and beverage producers, and health and pharmaceuticals. |
| **Water stress**<br>*The risk occurring when the demand for water exceeds the available amount during a certain period (e.g., by falling levels of ground water) or when poor quality restricts its use.* | Sectors and households could suffer from reduced water availability. This environmental risk is gaining importance as the demand for water is projected to grow in the future (due to an increase in prosperity, world population and prolonged droughts). Policies introduced to limit the impact of water stress (e.g., redistributing water use from less to more critical sectors, etc.) might also impact several businesses.<br>»» Examples of sectors that greatly impact and/or are highly dependent on water are agriculture, food and beverage producers, and manufacturing. Dwindling water supply can also cause supply chain disruptions as well as water and food insecurity, potentially impacting the whole economy. In Europe, the Czech Republic and Belgium are among the countries with the lowest water availability, meaning that the economies of two KBC home countries are very likely to be affected to some extent. |
| **Pollution**<br>*The risk related to the direct and indirect discharge of pollutants into the air, water or land as a result of human activity.* | Economic activities using compounds proven to be hazardous and to be a cause of air, water and soil pollution will increasingly be regulated and monitored closely by environmental agencies. This means that any industrial activity which does not comply with emission legislation can be placed under scrutiny. Additionally, health issues might increase in case measures to contain pollution are not sufficient to protect human health.<br>»» For example, the agricultural sector is more vulnerable to the impact of pollution-reducing measures due to its use of fertilisers. The chemical industry is also under pressure to adapt production processes to reduce pollution (as the European Environment Agency estimated in 2016 that 62% of chemicals (by volume) consumed in Europe were hazardous to the environment and human health). The human health impact might affect insurance companies. |
| **Waste risk**<br>*The risk related to disruptions of or inefficiencies in waste management, recycling and reuse.* | Sectors that use most resources and produce most waste will be required to develop circular approaches in product development and production processes to reduce their vulnerability to governmental measures taken to transition to a circular economy.<br>»» Examples of sectors vulnerable to waste risk are building and construction, metals, chemicals, etc. |

*Table 88 - Other environmental (E-) risks and their impacts*

All environmental risks (including climate risk) are heavily interlinked with other environmental risk types. Global warming is indeed expected to negatively impact biodiversity and ecosystems on land and in seas. On the other hand, oceans, forests and soils are important sources of carbon absorption; therefore, the deterioration of these natural resources is expected to further contribute to a changing climate. Pollution has a negative impact on biodiversity and water resources while biodiversity conservation and restoration has a positive impact on water availability and pollution levels, as well as on climate mitigation and adaptation.

# Risk measurement, scenario analysis and stress testing

## Methodological exercises

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

- The Paris Agreement Capital Transition Assessment (PACTA) methodology measures the alignment of our corporate industrial loan portfolio with decarbonisation pathways and helps to determine whether the companies in the loan portfolio are following a transition path in line with targets set by various climate transition scenarios. In 2022, the scope of the PACTA tool covered carbon-intensive activities within the steel, automotive, aviation, power, oil and gas, coal and cement sectors. The results of this year's exercise confirm that, within its industrial loan portfolio, KBC only has limited exposure to companies that contribute the most to global CO2 emissions in line with the existing activity scope of PACTA: KBC's granted exposure in scope of PACTA amounts to only 3.2% of the total industrial loan book (excluding loans to SMEs, private persons, finance, insurance, authorities). This finding confirms the general risk appetite of KBC, as our loan books do not include large, single-name exposures to activities which contribute the most to global CO2 emissions. More details on the PACTA analysis can be found in 'Appendix: PACTA' of the 2022 Sustainability Report.
- KBC Asset Management assesses the carbon footprint of aggregated investment products it offers by using the data and methodology of TRUCOST. This methodology is also used to analyse KBC Insurance's investment book and KBC's Pension Funds (see 'Appendix: TRUCOST Data and Methodology' in the 2022 Sustainability Report for more details).
- In 2021 and 2022 we rolled out the UNEP FI transition risk assessment methodology to highly climate-relevant sectors and their relevant sub-segments, covering a similar scope as the White Paper exercises. After selecting six different climate scenarios, we assessed the impact of a transition to a low-carbon economy by estimating how the portfolios' Expected Loss (EL) could potentially change if these scenarios were to materialise. The analyses' results highlighted the need for client interaction in the (sub-)sectors deemed most vulnerable to the low-carbon transition, so as to gain a better understanding of how these (sub-)sectors are mitigating the transition risks they are exposed to (see 'Appendix: White Papers' of the 2021 Sustainability Report). The exercise results still serve as important input for several climate-related processes, such as the Climate Risk Impact Map and the White Paper exercises.
- In 2022, for the fourth consecutive year, we calculated the financed emissions of a selection of our portfolios using the methodology put forward by the Partnership for Carbon Accounting Financials (PCAF). In addition to the portfolios initially in scope of the PCAF pilot (vehicle lease, vehicle loans, mortgages, mining and oil and gas),

we have calculated the emissions of our total loan portfolio – based on amount outstanding and the high-level emission factor proxies – since 2021. See 'Appendix: PCAF – Financed scope 3 GHG emissions' of the 2022 Sustainability Report for more insights.

- Substantial progress was made in 2022 regarding physical risk assessments for our loan and insurance portfolios. See 'Risk identification' in this section and Annex XIII.

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

## Stress testing and sensitivity analyses

Stress testing and sensitivity analysis are essential tools in the risk management toolkit, for instance to identify weaknesses or blind spots, assess capital and liquidity adequacy in ICAAP/ILAAP/ORSA, etc. KBC's overall stress-testing approach is based on establishing a sound 'stress-testing mix' covering all material areas and risks with a variety of stress-testing methodologies, ranging from simple sensitivity to more sophisticated and elaborated multiple-scenario analysis and reverse stress tests. Climate risk and other ESG risks are playing an increasingly prominent role in the scenarios of KBC's stress tests and sensitivity analyses. Other ESG drivers, such as failure of data protection or operational risk losses from possible cyber hacks, are also included in several stress-testing exercises such as reverse stress testing and the ICAAP/ORSA stress test.

Climate risk drivers, covering both transition and physical risk, and other ESG risk drivers have already been integrated into several internal stress-testing exercises. The conclusions from the Climate Risk Impact Map (see 'Risk identification' in this section) serve as input when selecting relevant climate risk drivers, considering the materiality of the corresponding risks.

- In reverse stress testing, as part of our capital adequacy assessment, two (severe) climate risk scenarios have been added to KBC's stress-testing mix and split into two sub-scenarios.
    - One scenario relates to highly elevated transition risk (fitting a very severe 'Disorderly transition' scenario with disruptive policy actions. Credit risk and market risk (trading and non-trading activities) have been included in the stress-test calculations by considering corporate PD downgrades across entire climate-vulnerable sectors, write-offs on SME exposures, spillovers to equity markets and lower property values. The scenario also assumes a transition-risk-related reputational loss event which causes a loss of interest income and fee and commission income.
    - The second scenario focuses on severe physical climate risk impacts. Credit risk, market risk and technical insurance risk impacts have been included in the stress-test calculations by considering corporate PD downgrades in entire climate-vulnerable sectors, write-offs on SME exposures, spillovers to equity markets, lower property values and increasing life and non-life insurance claims. The scenario also assumes an operational loss caused by a major flood event.
    - The reverse stress test scenarios also included a simulation of a cyberattack leading to a data breach (social risk) and an ensuing fine and reputational loss for KBC.

It can be concluded from the reverse stress tests that even very adverse assumptions regarding the severity of transition and physical risks do not jeopardise KBC's solid capital position. KBC's reverse stress-testing approach assumes instantaneous impacts, even if scenario impacts are in reality expected to take place in the near or distant future.

- For the insurance business, additional sensitivity analyses were performed to assess the financial impact of extreme natural catastrophe events (like floods, windstorms, hail, etc.) on the SII ratio of KBC Insurance Group with and without mitigating measures in place. In all scenarios, the solid capital position of KBC Insurance Group was confirmed.
- In order to asses KBC's liquidity adequacy (ILAAP), climate risk and social risk featured in a liquidity reverse stress test examining the outflows needed before the internal limit is reached. As such, the impact of greenwashing and social risk impacts on our liquidity and funding risk were assessed. The analysis confirmed KBC's solid liquidity position.
- In the ICAAP/ORSA/ILAAP stress test (3-year scenario), climate risk was added to the main scenario (which was based on an escalation of the Russia-Ukraine conflict) as an additional sensitivity. This additional component of the scenario assumes that the impact of climate change is felt earlier and more intensely than expected, leading to an increase in the frequency and severity of windstorms and floods in Western and Central Europe, impacting KBC's property insurance and mortgage exposures. Several European governments are deciding on additional actions to be taken, such as accelerated and more strict regulation of EPC requirements and renovations, leading to a sharp downward correction in housing markets. The ICAAP/ORSA/ILAAP stress test also included a cyber risk loss event in the form of a large-scale ransomware attack impacting several KBC entities by exploiting a (hypothetical) undetected process vulnerability at a third-party service provider, compromising data and systems availability for several days towards the central IT infrastructure.
- In the assessment of the financial stability of our business model, mild, medium and severe climate risk stresses were considered on short-, medium- and longer-term time horizons. The scenario follows the narrative that the transition towards a green economy is driving up company costs, is weakening creditworthiness of clients in certain sectors and is increasing insurance claims due to changing weather patterns. Moreover, green competition is putting pressure on volumes. Stress was applied on OPEX, net interest income, expected credit losses stemming from climate stress on corporate sectors, insurance claims stemming from natural catastrophe events and reinsurance premiums. It was concluded that although profitability can be impacted under the more severe climate-related stresses, these would not bring KBC's profitability below the long-term cost of equity.
- Recurring market risk sensitivity calculations are performed for climate risk scenarios, with a focus on short-term market shocks caused by transition risk impacts. For the current positions in the KBC group trading and non-trading portfolios, the projections for equity prices, equity volatilities and (corporate and government) credit spreads were selected as most relevant because they have the strongest and most direct link to the climate risk drivers. Whereas the overall impact on the trading portfolio was deemed immaterial, some positions in the non-trading book could undergo a noticeable devaluation in case a transition risk shock should occur.
- KBC participated in the 2022 ECB Climate Stress Test. None of the scenarios applied in this regulatory exercise indicated capital inadequacy. The experience gained from this and future regulatory stress tests (EBA/EIOPA) will also provide significant added value for the further development of our internal integrated climate risk stress testing.

Depending on the assumptions applied regarding the severity and nature of climate scenarios, the range of climate-related impacts can vary between different risk quantification exercises. For example, in case of gradual and non-disruptive transition risk stress, profitability can be marginally impacted (an impact of several basis points on return on capital). When

making very adverse assumptions, such as entire portfolio segments and economic sectors receiving multiple instantaneous rating downgrades in reverse stress testing, impacts can reach magnitudes of several hundreds of millions of euros of P&L impact.
The results of the scenario analyses and stress tests performed support the conclusion from the Climate Risk Impact Map that no material impact is expected within the short term (i.e. the time horizon of our internal capital model). Under Solvency II a significant amount of capital is held to cover for insurance claims (physical risks) due to natural catastrophe events. In our internal capital, we therefore do not hold additional capital to cover the short-term climate change effects. Nevertheless, we are already acting and reacting today by gradually adjusting our current processes, policies, and portfolios in order to be prepared for possible (disrupting) medium- or long-term climate change impacts on capital and as such avoid severe future impacts stemming from climate change.

Climate stress-testing exercises and the use of climate scenarios will continue to be gradually enhanced following new insights from, for instance, our internal climate risk map (see 'Risk identification') or other methodological tracks which will help us to better translate the impact of climate pathways to financial parameters. In tandem, KBC is making significant efforts to enhance data availability which will further enable accurate quantification of the climate and other ESG risks we are exposed to.

# Setting and cascading risk appetite

## Risk Appetite Statement

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

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

Other objectives also address other ESG themes. These include:

- promoting a strong corporate culture which encourages responsible behaviour and is supported by a promotion and remuneration policy with a sustainable and long-term view;
- aiming to attract, develop and retain high-quality and committed staff;
- promoting strong corporate governance and risk and compliance management, taking into account the internal and external context as key drivers for enhancing the organisation's resilience and for creating value.

To be less vulnerable to changes in the external environment – including climate change – we pursue diversity and flexibility in our business mix, client segments, distribution channels and geographies, where we refrain from focusing on short-term gains at the expense of long-term stability. We manage volatility of net results by defining a solid risk management framework and risk appetite to ensure financial and operational resilience in the short, medium and long term.

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

- From a credit risk perspective, KBC aims to limit the adverse impact of its activities on the environment and society and to encourage a positive impact, based on a responsible lending culture, the principles of which are laid out in the Credit Risk Standard on Sustainable and Responsible Lending. In line with its updated climate-related ambitions, KBC Group has defined targets to reduce future exposures to non-sustainable activities, while facilitating the transition towards a sustainable economy by providing financing to its clients for this purpose. The credit risk playing field is made tangible through Credit Risk Standards and group-wide policies that impose restrictions and recommendations with regard to credit risk (see also 'Policies, restrictions and targets' in this section).
- All treasury investment decisions are made in line with the single binding framework, which defines the screening criteria for responsible investments. The framework and screening criteria apply to all investments in fixed-income products and equities in banking and insurance entities (see also 'Policies, restrictions and targets' in this section).
- KBC has the ambition to keep its operational risk under control and to be well-prepared for a variety of crises, including those with a climate risk driver, in order to avoid disruption of services and to be maximally protected against cybercrime within an ever-changing threat landscape (see KBC's Information Security Strategy). Integrity, availability and confidentiality of our company data and the data of our clients is of utmost importance.
- From a liquidity and funding perspective, to contribute to KBC's ambition with regard to sustainable finance, KBC Group attracts part of its long-term funding through its established green and/or social bond programmes. In addition, the potential effect of climate change on markets and client behaviour is monitored.
- To manage reputational risks, KBC promotes a strong corporate culture that encourages responsible behaviour throughout the organisation, including in terms of social and environmental responsibility. In this respect KBC commits to the Paris Agreement climate goals through the Collective Commitment for Climate Action, strives to limit the negative impact of its products and services on society and provides its clients with financial solutions and business opportunities with a positive impact.
- To manage our compliance risks, we aim to comply with laws and regulations in the compliance domains as determined by KBC's Compliance Charter, taking particular account of conduct risk and the integrity dimension (see 'Compliance risk' in the 'Non-financial risks' section).
- From an insurance perspective, KBC Group aims to limit the adverse impact of its activities on the environment and society and to encourage a positive impact, based on a responsible insurance culture and according to the principles described in the KBC Group Sustainability Framework. In line with its updated climate-related ambitions, KBC Insurance will further elaborate its policies and client engagement in the area of sustainability. To support stability in earnings and capital for our insurance business, appropriate risk mitigation is implemented through reinsurance programmes protecting against the impact of large claims or accumulation of losses and through diversified exposure across all core markets.

When integrating climate risk reflections into our Risk Appetite process, we not only focus on short-term impacts, but also take extended time horizons into consideration. Potential short-term impacts, as identified in the Climate Risk Impact Map (see 'Risk identification, Climate Risk Impact Map' in this section), are included in the different risk types' risk profiles. Medium- and long-term impacts inform our Risk Appetite discussions such that (early) warning signals can be given in case of expected material impacts (for all time horizons) with the aim of steering the strategic debate and initiating risk-mitigating actions in good time (e.g., making policy adjustments or setting additional targets and limits)

## Policies, restrictions and targets

In our policies for sustainable and responsible lending, insurance, advisory services and investments (link) we identify controversial activities with respect to the environment (including climate and biodiversity), human rights, business ethics and sensitive/controversial societal issues (e.g., intoxicating crops, gambling, fur, mining operations, land acquisition and the involuntary resettlement of indigenous people, and prostitution). These specify the economic activities we are not willing to finance (such as activities related to thermal coal) or only under strict conditions (such as biomass technologies, production of palm oil, etc.). More information can be found in the 'Sustainability policies' section of the 2022 Sustainability Report.

Our KBC Group Sustainability Framework and policies reflect international best practices, entailing that, for example:

- KBC will not provide financing or advisory services to projects where the client is unwilling or unable to comply with the Equator Principles;
- KBC is a signatory of the UN Global Compact Principles, which it implements in its policies to make sure they are applied in all its operations. The UN Global Compact asks companies to embrace, support and, within their sphere of influence, enact a set of core values in the areas of human rights, labour standards, the environment and combating corruption.

Our sustainability policies clearly define the ESG risk playing field for credit, insurance, advisory services and investments (asset management and proprietary investments) and are regularly updated to reflect KBC's evolving ambition level.

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

- In our energy policy,
  - direct financing of coal-related activities is excluded (note that the remaining direct coal credit exposure was reduced to zero in mid-2021);
  - the exploration and development of unconventional oil and gas (Arctic and Antarctic on- and off-shore, deep water drilling, tar sands, shale) and the exploration of any new oil and gas fields is excluded;
  - the financing of specific techniques such as coal-to-gas, coal-to-oil and coalbed methane was explicitly excluded in 2022;
  - exclusions and restrictions are in place for clients with coal-based energy generation capacity. Following its update in 2021, our energy policy included a complete ban on financing new clients with coal-based electricity or heat generating activities. In 2022, we adjusted the policy to make sure we support as widely as possible the energy transition of existing as well as new clients (irrespective of their existing activities). The exceptional, well-defined purpose-driven financing of renewable energy projects is subject to strict conditions, such as the strict ring-fencing of this type of financing from the company's other activities, to ensure we do not support coal-fired electricity or heat generation activities in any form or shape, whether directly or indirectly.
- Our comprehensive policy on biodiversity excludes or restricts activities impacting forests, protected areas and endangered species, fisheries, mining, intensive cattle farming, and certain high-impact commodities such as palm oil, soy, sugarcane, coffee and cocoa.
- Companies involved in controversial weapon systems (e.g., nuclear weapons, cluster bombs and biological or chemical weapons) and UN Global Compact Worst Offenders enter the 'KBC Blacklist' and are excluded from all our activities, including the actively managed non-RI funds of KBC Asset Management. A group-wide zero-tolerance policy is in place for 'new business with a company on the KBC Blacklist'. This policy is fully embedded in the organisation as part of the operational risk management framework.

- We have developed a specific due-diligence process for lending, insurance activities and advisory services. This incorporates procedures to deal with any infringements that are detected. Our investment activities (asset management and proprietary investments) are also subject to internal screening. RI funds, moreover, have to meet additional criteria. The criteria are monitored by the RI Advisory Board, which is fully independent of KBC.
- The Credit Risk Standards define restricted activities regarding biodiversity/ecosystem services and other environmental domains, and social domains, such as gambling, weapons, etc. Counterparties that are excluded from lending are disclosed in the KBC Group Blacklist, the KBC Human Rights Offenders List and the KBC Controversial Regimes List (as highlighted above).
- KBC has its Group Investment Policy in place to manage the ESG risks in its investment portfolios. Companies that are in any way involved in the extraction of thermal coal and/or that are power-generation companies with a coal-based electricity production capacity are excluded from all investment funds (both Responsible Investment (RI) and conventional funds; with the exception, however, of index-linked and structured funds) as well as from KBC's proprietary investments. Additionally, government bonds of countries that are considered to have the most controversial regimes are excluded from the Group Investment Policy.

Additionally, several corporate governance policies and policies on responsible behaviour and business ethics are in place to manage ESG-related compliance risks (see our Sustainability Policies).

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

- to reduce our financed emissions by establishing emission reduction targets for the most material carbon-intensive industrial sectors and product lines in our lending business, in line with the Paris agreement (see Table 85 - Overview of our climate targets and the 2022 Climate Report)
- to increase the RI funds' share in annual fund production to 65% by 2030;
- to increase the RI funds' share in total assets under distribution to 55% by 2030;
- to increase the share of renewable energy loans in the total energy credit portfolio to 75% by 2030;
- to increase the share of green electricity of our own electricity consumption to 100% by 2030 *(however, KBC already reached this target by the end of 2021)*;
- to reduce our own GHG emissions (including commuter travel) by 80% compared to 2015 by 2030.

Over the last year, significant progress was already made regarding the development of additional key risk indicators and targets related to KBC's ESG risk appetite objectives. We aim to further enhance these going forward as new/more data and insights are gathered.

## Cascading down risk appetite to underwriting and pricing

As explained in 'Risk identification' and 'Policies, restrictions and targets' in this section, our clients' ESG profile is assessed and taken into consideration in loan origination and review processes. On the commercial side, several initiatives are ongoing or have already been implemented with regard to developing 'green' products and considering potential price differentiations when exploring opportunities in the ESG domain, such as 'green' car loans, interest rate differentiation for mortgage loans depending on the energy efficiency (EPC label) of the real estate properties concerned, or the granting of sustainability-linked loans.

In our insurance business, too, 'green' products are being developed and flood risk considerations are incorporated into insurance underwriting and pricing for KBC Insurance's property portfolio.

# Risk analysis, monitoring, reporting and follow-up

As described throughout this section, KBC has made significant progress in the integration of ESG risks into its risk management processes, such as risk identification, risk measurement and stress testing, and risk appetite. This translates into extensive coverage of ESG risks in both internal and external reporting.

## Internal monitoring and reporting

The Board of Directors, the Risk & Compliance Committee and the Executive Committee are the prime recipients of the various outputs of the main risk management processes. As ESG risks are being integrated into all processes, they are addressed in several internal reports:

- As ESG risks are already well-integrated into the Internal Capital & Liquidity Adequacy Assessment Processes (and the Own Risk & Solvency Assessment), these risks are extensively addressed in the corresponding ICAAP/ILAAP (or the ORSA, respectively) reporting and also in management reporting on the related processes (e.g., the Risk Scan, the Risk Appetite Statement, reverse stress testing, financial planning);
- ESG-related risk signals are integrated into Integrated Risk Reporting;
- Indicators for climate-related risks and opportunities are integrated into the KBC Sustainability Dashboard (presented to the Board of Directors twice a year), which allows us to monitor progress in the implementation of our sustainability strategy and to make adjustments when necessary.

In tandem with the integration of ESG risks into the risk appetite process, monitoring is being set up related to the implementation of policy restrictions, target setting and other risk indicators. As the availability of data and measurement methodologies will improve going forward (see the 'Integration into risk management frameworks and processes' section), monitoring of ESG-related risk will gradually be extended.

## External reporting

Several externally published reports describe KBC's approach to sustainability, all with different focus points.

The Sustainability Report, published on an annual basis, is a comprehensive report on KBC's sustainability performance. The report details how we address corporate sustainability and how we implement our sustainability strategy and Sustainable Finance Programme. It also describes the policies and guidelines we observe, the targets we have set and our main achievements. In 2022, a Climate Report was published with dedicated focus on the establishment of decarbonisation targets for the most climate-relevant sectors.

Although KBC's approach towards sustainability is also summarised in KBC's Annual Report, this report also includes additional reporting on EU Taxonomy eligibility.

The Pillar 3 Risk Report (the document at hand) specifically focuses on how we integrate ESG risks into our risk management processes and frameworks. As of this year, the EBA templates on Pillar 3 disclosures on ESG risk are included in the Risk Report. In the first iteration of this regulatory reporting exercise, required data inputs are based on

information that is collected on a best-effort basis and hence is also reliant on proxy estimations. Consequently, the quantitative templates must be interpreted with care and regarded as work in progress. In addition to the templates themselves, more details on the methodologies and type of estimates used are available in Annex XIII.

Additionally, KBC's responses to the Carbon Disclosure Project (CDP) Questionnaire are available on the CDP website. CDP is a not-for-profit charity that is considered the 'gold standard' for environmental reporting. In 2022, CDP confirmed KBC's position as a sustainability leader in terms of its climate performance (with an A rating and inclusion in CDP's A List).

# Annexes

## Annex I

### Balance sheet reconciliation

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

| Capital Base | Financial statements | Deconsolidation insurance | Prudential treatment | Own funds |
|---|---|---|---|---|
| *In millions of EUR* | | | | 31-12-22 (*) |
| **Total regulatory capital, KBC Group (after profit appropriation)** | | | | **18 742** |
| **Tier-1 capital** | | | | **16 974** |
| **Common equity** | | | | **15 474** |
| Parent shareholders' equity | 16 106 | 876 | | 16 982 |
| Intangible fixed assets (incl. deferred tax impact) (-) | -978 | 43 | 326 | -609 |
| Goodwill on consolidation (incl. deferred tax impact) (-) | -1 346 | 168 | | -1 178 |
| Minority interests | | | | |
| Hedging reserve (cashflow hedges) (-) | 937 | -2 | | 936 |
| Valuation diff. in fin. liabilities at fair value - own credit risk (-) | -40 | | | -40 |
| Value adjustment due to the requirements for prudent valuation (-) | | | | -31 |
| Dividend payout (-) | | | | 0 |
| Remuneration of AT1 instruments (-) | | | -12 | -12 |
| Deduction re. financing provided to shareholders (-) | | | | -57 |
| Deduction re. Irrevocable payment commitments (-) | | | | -90 |
| Deduction re NPL backstops (-) | | | | -158 |
| Deduction re pension plan assets (-) | | | | -143 |
| IRB provision shortfall (-) | | | | 0 |
| Deferred tax assets on losses carried forward (-) | -172 | 0 | | -172 |
| Transitional adjustments to CET1 | | | 46 | 46 |
| Limit on deferred tax assets from timing differences relying on future profitability and significant participations in financial sector entities (-) | | | | |
| **Additional going concern capital** | | | | **1 500** |
| CRR compliant AT1 instruments | 1 500 | | | 1 500 |
| **Tier-2 capital** | | | | **1 767** |
| IRB provision excess (+) | | | | 136 |
| Transitional adjustments to CET1 | | | -46 | -46 |
| Subordinated liabilities | 2 177 | -500 | | 1 677 |

*(*) An overview of the entities included in the financial statements of KBC Group NV and their method of consolidation is provided at https://www.kbc.com/en/our-structure*

*Table 89 - Balance sheet reconciliation*

# Annex II

## Capital instruments' main features template

Disclosure according to Article 3 in Commission Implementing Regulation (EU) No 1423/2013

| | | a | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **EU CCA - Main features of regulatory own funds instruments and eligible liabilities instruments** | | | | | | | | | | |
| *At 31 December 2022 (in millions of EUR)* | | | | | | | | | | |
| 1 | Issuer | KBC Group NV | KBC Group NV | KBC Group NV | KBC Group NV | KBC Group NV | KBC Group NV | KBC Group NV | KBC Group NV | KBC Group NV |
| 2 | Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement) | BE0003565737 | BE0002592708 | BE0002638196 | BE0002664457 | BE0002475508 | BE0002290592 | BE0002485606 | BE0002223890 | BE0002819002 |
| 2a | Public or private placement | public | public | public | public | private | public | public | public | public |
| 3 | Governing law(s) of the instrument | Belgian | Belgian/ English | Belgian/English | Belgian/English | Belgian/ English | Belgian/ English | Belgian/ English | Belgian/ English | Belgian |
| 3a | Contractual recognition of write down and conversion powers of resolution authorities | n/a | yes | yes | yes | yes | yes | no | no | yes |
| | **Regulatory treatment** | | | | | | | | | |
| 4 | Current treatment taking into account, where applicable, transitional CRR rules | CET1 | Additional Tier 1 | Additional Tier 1 | Tier 2 | Tier 2 | Tier 2 | Tier 2 | Tier 2 | Tier 2 |
| 5 | Post-transitional CRR rules | CET1 | Additional Tier 1 | Additional Tier 1 | Tier 2 | Tier 2 | Tier 2 | Tier 2 | Tier 2 | Tier 2 |
| 6 | Eligible at solo/(sub-)consolidated/ solo&(sub-)consolidated | Solo and Consolidated | Solo and Consolidated | Solo and Consolidated | Solo and Consolidated | Solo and Consolidated | Solo and Consolidated | Solo and Consolidated | Solo and Consolidated | Solo and Consolidated |
| 7 | Instrument type (types to be specified by each jurisdiction) | Common Equity Tier 1 instruments as published in Regulation (EU) No 575/2013 article 28 | Additional Tier 1 as published in Regulation (EU) No 575/2013 article 52 | Additional Tier 1 as published in Regulation (EU) No 575/2013 article 53 | Tier 2 as published in Regulation (EU) No 575/2013 article 63 | Tier 2 as published in Regulation (EU) No 575/2013 article 63 | Tier 2 as published in Regulation (EU) No 575/2013 article 63 | Tier 2 as published in Regulation (EU) No 575/2013 article 63 | Tier 2 as published in Regulation (EU) No 575/2013 article 63 | Tier 2 as published in Regulation (EU) No 575/2013 article 63 |
| 8 | Amount recognised in regulatory capital or eligible liabilities (Currency in million, as of most recent reporting date) | EUR 7 002m | EUR 1 000m | EUR 500m | EUR 748m | EUR 175m | EUR 500m | EUR 0m | EUR 4m | EUR 749,8m |
| 9 | Nominal amount of instrument | n/a | EUR 1 000m | EUR 500m | EUR 750m | EUR 175m | EUR 500m | EUR 750m | EUR 10m | EUR 750m |
| EU-9a | Issue price | Various | 100 per cent | 100 per cent | 99.403 per cent | 98.8 per cent | 99.738 per cent | 99.494 per cent | 100.00 per cent | 99,975 per cent |
| EU-9b | Redemption price | n/a | At their prevailing principal amount | 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 | Equity | Equity | Liability | Liability | Liability | Liability | Liability | Liability |
| 11 | Original date of issuance | Various | 24 April 2018 | 5 March 2019 | 03 September 2019 | 24 July 2014, 1 August 2014 and 2 February 2015 | 18 September 2017 | 11 March 2015 | 6 March 2015 | 07 September 2021 |
| 12 | Perpetual or dated | Perpetual | Perpetual | Perpetual | dated | dated | dated | dated | dated | dated |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| 13 | Original maturity date | No maturity | No maturity | No maturity | 03 December 2029 | 24 July 2029 | 18 September 2029 | 11 March 2027 | 6 March 2025 | 07 December 2031 |
| 14 | Issuer call subject to prior supervisory approval | No | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| 15 | Optional call date, contingent call dates and redemption amount | No | 24 October 2025<br>Tax Gross-up call and Tax Deductibility Call<br>At the Prevailing Principal Amount together with accrued interest | 5 March 2024<br>Tax Gross-up call and Tax Deductibility Call<br>At the Prevailing Principal Amount together with accrued interest | 3 December 2024<br>Tax Gross-up events and Tax Deductibility events<br>Following a Capital Disqualification event<br>EUR 100,000 per Calculation Amount | 24 July 2024<br>Tax Gross-up events and Tax Deductibility events<br>Following a Capital Disqualification event<br>EUR 100,000 per Calculation Amount | 18 September 2024<br>Tax Gross-up events and Tax Deductibility events<br>Following a Capital Disqualification event<br>EUR 100,000 per Calculation Amount | 11 March 2022<br>Tax Gross-up events and Tax Deductibility events<br>Following a Capital Disqualification event<br>EUR 100,000 per Calculation Amount | n/a | between 07 September 2026 and 07 December 2026<br>Tax Gross-up events and Tax Deductibility events<br>Following a Capital Disqualification event<br>EUR 100,000 per Calculation Amount |
| 16 | Subsequent call dates, if applicable | No | on every Interest Payment Date starting with 24 October 2018 (24 April, 24 October) | on every Interest Payment Date starting with 5 March 2019 (5 September, 5 March) | n/a | n/a | n/a | n/a | n/a | n/a |
| | **Coupons / dividends** | | | | | | | | | |
| 17 | Fixed or floating dividend/coupon | floating | fixed and from (and including) the First Call Date and thereafter, at a fixed rate per annum reset on each Reset Date based on the prevailing Euro 5-year Mid-Swap Rate plus 3.594 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 Euro 5-year Mid-Swap Rate plus 4.689 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 1.10 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 1.50 per cent | fixed | fixed and from (and including) the 07 December 2026 and thereafter, at a fixed rate per annum based on the prevailing Mid swap plus 0.95 per cent |
| 18 | Coupon rate and any related index | n/a | 4,250% per annum<br>To be reset on every Reset Date | 4,750% per annum<br>To be reset on every Reset Date | 0.50 per cent to be reset on 03 December 2024. | 3.125 per cent to be reset on 24 July 2024. | 1.625 per cent to be reset on 18 September 2024 | 1.875 per cent to be reset on 11 March 2022. | EUR 20.00 per Calculation amount | 0,625% to be reset on 07 December 2026 |
| 19 | Existence of a dividend stopper | n/a | No | No | No | No | No | No | No | No |
| EU-20a | Fully discretionary, partially discretionary or mandatory (in terms of timing) | Full discretionary | Fully discretionary | Fully discretionary | Mandatory | Mandatory | Mandatory | Mandatory | Mandatory | Mandatory |
| EU-20b | Fully discretionary, partially discretionary or mandatory (in terms of amount) | Full discretionary | Fully discretionary | Fully discretionary | Mandatory | Mandatory | Mandatory | Mandatory | Mandatory | Mandatory |
| 21 | Existence of step up or other incentive to redeem | n/a | No | No | No | No | No | No | No | No |
| 22 | Noncumulative or cumulative | Non-cumulative | Non-cumulative | Non-cumulative | Cumulative | Cumulative | Cumulative | Cumulative | Cumulative | Cumulative |
| 23 | Convertible or non-convertible | n/a | Non-convertible | Non-convertible | Non-convertible | Non-convertible | Non-convertible | Non-convertible | Non-convertible | Non-convertible |
| 24 | If convertible, conversion trigger(s) | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| 25 | If convertible, fully or partially | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| 26 | If convertible, conversion rate | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| 27 | If convertible, mandatory or optional conversion | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| 28 | If convertible, specify instrument type convertible into | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| 29 | If convertible, specify issuer of instrument it converts into | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| 30 | Write-down features | No | Yes | Yes | No | No | No | No | No | No |
| 31 | If write-down, write-down trigger(s) | n/a | CET1 ratio < 5.125% | CET1 ratio < 5.125% | n/a | n/a | n/a | n/a | n/a | n/a |
| 32 | If write-down, full or partial | n/a | partially or fully | partially or fully | n/a | n/a | n/a | n/a | n/a | n/a |
| 33 | If write-down, permanent or temporary | n/a | Temporary | Temporary | n/a | n/a | n/a | n/a | n/a | n/a |
| 34 | If temporary write-down, description of write-up mechanism | n/a | Upon a Return to Financial Health, the Issuer may, at its discretion and subject to regulatory restrictions, write up the Prevailing Principal Amount of the Securities up to a maximum of the Original Principal Amount. | Upon a Return to Financial Health, the Issuer may, at its discretion and subject to regulatory restrictions, write up the Prevailing Principal Amount of the Securities up to a maximum of the Original Principal Amount. | n/a | n/a | n/a | n/a | n/a | n/a |
| 34a | Type of subordination (only for eligible liabilities) | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| EU-34b | Ranking of the instrument in normal insolvency proceedings | 1 | 2 | 2 | 3 | 3 | 3 | 3 | 3 | 3 |
| 35 | Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument) | Additional Tier 1 | The Issuer's obligations under the Securities are unsecured and deeply subordinated, and will rank junior in priority of payment to unsubordinated creditors of the Issuer and to ordinarily subordinated indebtedness of the Issuer. | The Issuer's obligations under the Securities are unsecured and deeply subordinated, and will rank junior in priority of payment to unsubordinated creditors of the Issuer and to ordinarily subordinated indebtedness of the Issuer. | Senior debt | Senior debt | Senior debt | Senior debt | Senior debt | Senior debt |
| 36 | Non-compliant transitioned features | No | No | No | No | No | No | No | No | No |
| 37 | If yes, specify non-compliant features | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| 37a | Link to the full term and conditions of the instrument (signposting) | n/a | Link | Link | Link | n/a | Link | Link | Link | Link |

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

*Table 90 - EU CCA_Main features of regulatory own funds instruments and eligible liabilities instruments*

# Annex III

## Transitional own funds disclosure template

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

| | | a | b | c | d |
|---|---|---|---|---|---|
| **EU CC1 - Composition of regulatory own funds** | | | | | |
| *At 31 December 2022 (in millions of EUR)* | | | Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation | Legal reference to the CRR Article in REGULATION (EU) No 575/2013 | Additional comment in footnote |
| | **Common Equity Tier 1 (CET1) capital: instruments and reserves** | | | | |
| 1 | Capital instruments and the related share premium accounts | 7 002 | Shareholders equity, row 1 | 26 (1), 27, 28, 29 | |
| | *of which: Instrument type 1* | *0* | | | |
| | *of which: Instrument type 2* | *0* | | | |
| | *of which: Instrument type 3* | *0* | | | |
| 2 | Retained earnings | 10 694 | Shareholders equity, row 1 | 26 (1) (c) | |
| 3 | Accumulated other comprehensive income (and other reserves) | -714 | Shareholders equity, row 1 | 26 (1) | |
| EU-3a | Funds for general banking risk | 0 | | 26 (1) (f) | |
| 4 | Amount of qualifying items referred to in Article 484 (3) CRR and the related share premium accounts subject to phase out from CET1 | 0 | | 486 (2) | |
| 5 | Minority interests (amount allowed in consolidated CET1) | 0 | | 84 | |
| EU-5a | Independently reviewed interim profits net of any foreseeable charge or dividend | -12 | Shareholders equity, row 1 | 26 (2) | Footnote 1 |
| **6** | **Common Equity Tier 1 (CET1) capital before regulatory adjustments** | **16 970** | | **Sum row 1, 2, 3, 3a, 4, 5 and 5a** | |
| | **Common Equity Tier 1 (CET1) capital: regulatory adjustments** | | | | |
| 7 | Additional value adjustments (negative amount) | -31 | | 34, 105 | |
| 8 | Intangible assets (net of related tax liability) (negative amount) | -1 787 | Assets, row 16 | 36 (1) (b), 37 | Footnote 2 |
| 9 | Not applicable | | | | |
| 10 | Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) CRR are met) (negative amount) | -172 | Assets, row 12 | 36 (1) (c), 38 | |
| 11 | Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value | 936 | Shareholders equity, row 1 | 33 (1) (a) | |
| 12 | Negative amounts resulting from the calculation of expected loss amounts | 0 | Assets, row 2 | 36 (1) (d), 40, 159 | |

| | | | | | |
|---|---|---|---|---|---|
| 13 | Any increase in equity that results from securitised assets (negative amount) | 0 | | 32 (1) | |
| 14 | Gains or losses on liabilities valued at fair value resulting from changes in own credit standing | -0 | Shareholders equity, row 1 | 33 (1) (b) | |
| 15 | Defined-benefit pension fund assets (negative amount) | -143 | | 36 (1) (e), 41 | |
| 16 | Direct, indirect and synthetic holdings by an institution of own CET1 instruments (negative amount) | -57 | Assets, row 2; Shareholders equity, row 1 | 36 (1) (f), 42 | Footnote 3 |
| 17 | Direct, indirect and synthetic holdings of the CET 1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount) | 0 | | 36 (1) (g), 44 | |
| 18 | Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount) | 0 | | 36 (1) (h), 43, 45, 46, 49 (2) (3), 79 | |
| 19 | Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount) | 0 | | 36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79 | |
| 20 | Not applicable | n/a | | | |
| EU-20a | Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative | 0 | | 36 (1) (k) | |
| *EU-20b* | *of which: qualifying holdings outside the financial sector (negative amount)* | *0* | | *36 (1) (k) (i), 89 to 91* | |
| *EU-20c* | *of which: securitisation positions (negative amount)* | *0* | | *36 (1) (k) (ii), 243 (1) (b), 244 (1) (b), 258* | |
| *EU-20d* | *of which: free deliveries (negative amount)* | *0* | | *36 (1) (k) (iii), 379 (3)* | |
| 21 | Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met) (negative amount) | 0 | | 36 (1) (c), 38, 48 (1) (a) | |
| 22 | Amount exceeding the 17,65% threshold (negative amount) | 0 | | 48 (1) | |
| *23* | *of which: direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities* | *0* | | *36 (1) (i), 48 (1) (b)* | |
| 24 | Not applicable | n/a | | | |
| *25* | *of which: deferred tax assets arising from temporary differences* | *0* | | *36 (1) (c), 38, 48 (1) (a)* | |
| EU-25a | Losses for the current financial year (negative amount) | 0 | | 36 (1) (a) | |
| EU-25b | Foreseeable tax charges relating to CET1 items except where the institution suitably adjusts the amount of CET1 items insofar as such tax charges reduce the amount up to which those items may be used to cover risks or losses (negative amount) | 0 | | 36 (1) (l) | |
| 26 | Not applicable | n/a | | 36 (1) (j) | |
| 27 | Qualifying AT1 deductions that exceed the AT1 items of the institution (negative amount) | 0 | | | |
| 27a | Other regulatory adjustments | -242 | | | Footnote 4 |
| **28** | **Total regulatory adjustments to Common Equity Tier 1 (CET1)** | **-1 496** | | **Sum row 7 to 20a, 21, 22, 25a, 25b, 27 and 27a** | |
| **29** | **Common Equity Tier 1 (CET1) capital** | **15 474** | | | |
| | **Additional Tier 1 (AT1) capital: instruments** | | | | |
| 30 | Capital instruments and the related share premium accounts | 1 500 | Shareholders equity, row 2 | | |
| *31* | *of which: classified as equity under applicable accounting standards* | *1 500* | *Shareholders equity, row 2* | *51, 52* | *Footnote 5* |
| *32* | *of which: classified as liabilities under applicable accounting standards* | *0* | | | |

| | | | | | |
|---|---|---|---|---|---|
| 33 | Amount of qualifying items referred to in Article 484 (4) CRR and the related share premium accounts subject to phase out from AT1 | 0 | | 484(4) | |
| EU-33a | Amount of qualifying items referred to in Article 494a(1) CRR subject to phase out from AT1 | 0 | | 494a(1) | |
| EU-33b | Amount of qualifying items referred to in Article 494b(1) CRR subject to phase out from AT1 | 0 | | 494b(1) | |
| 34 | Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties | 0 | | 85, 86 | |
| *35* | *of which: instruments issued by subsidiaries subject to phase out* | *0* | | *486 (3)* | |
| **36** | **Additional Tier 1 (AT1) capital before regulatory adjustments** | **1 500** | | **Sum of rows 30,33, 33a, 33b and 34** | |
| | **Additional Tier 1 (AT1) capital: regulatory adjustments** | | | | |
| 37 | Direct, indirect and synthetic holdings by an institution of own AT1 instruments (negative amount) | 0 | | 52 (1) (b), 56 (a), 57 | |
| 38 | Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount) | 0 | | 56 (b), 58 | |
| 39 | Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount) | 0 | | 56 (c), 59, 60, 79 | |
| 40 | Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount) | 0 | | 56 (d), 59, 79 | |
| 41 | Not applicable | 0 | | | |
| 42 | Qualifying T2 deductions that exceed the T2 items of the institution (negative amount) | n/a | | 56 (e) | |
| 42a | Other regulatory adjustments to AT1 capital | 0 | | | |
| **43** | **Total regulatory adjustments to Additional Tier 1 (AT1) capital** | **0** | | **sum of rows 37 to 42a** | |
| **44** | **Additional Tier 1 (AT1) capital** | **1 500** | | **Row 36 minus row 43** | |
| **45** | **Tier 1 capital (T1 = CET1 + AT1)** | **16 974** | | **Sum of row 29 and row 44** | |
| | **Tier 2 (T2) capital: instruments** | | | | |
| 46 | Capital instruments and the related share premium accounts | 1 998 | Liabilities, row 2 | 62, 63 | |
| 47 | Amount of qualifying items referred to in Article 484(5) CRR and the related share premium accounts subject to phase out from T2 as described in Article 486(4) CRR | 0 | | 486 (4) | |
| EU-47a | Amount of qualifying items referred to in Article 494a(2) CRR subject to phase out from T2 | 0 | Liabilities, row 2 | 494a(1) | |
| EU-47b | Amount of qualifying items referred to in Article 494b(2) CRR subject to phase out from T2 | 179 | Liabilities, row 2 | 494b(1) | Footnote 6 |
| 48 | Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties | 0 | Liabilities, row 2 | 87, 88 | |
| *49* | *of which: instruments issued by subsidiaries subject to phase out* | *0* | | *486 (4)* | |
| 50 | Credit risk adjustments | 136 | Assets, row 2 | 62 (c) & (d) | Footnote 7 |
| **51** | **Tier 2 (T2) capital before regulatory adjustments** | **2 313** | | **Sum of row 46, 47, 47a, 47b, 48 and 50** | |
| | **Tier 2 (T2) capital: regulatory adjustments** | | | | |
| 52 | Direct, indirect and synthetic holdings by an institution of own T2 instruments and subordinated loans (negative amount) | 0 | | 63 (b) (i), 66 (a), 67 | |
| 53 | Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount) | 0 | | 66 (b), 68 | |
| 54 | Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount) | 0 | | 66 (c), 69, 70, 79 | |
| 54a | Not applicable | n/a | | | |

| | | | | | |
|---|---|---|---|---|---|
| 55 | Direct, indirect and synthetic holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount) | -500 | | 66 (d), 69, 79 | |
| 56 | Not applicable | n/a | | | |
| EU-56a | Qualifying eligible liabilities deductions that exceed the eligible liabilities items of the institution (negative amount) | 0 | | 66 | |
| EU-56b | Other regulatory adjustments to T2 capital | -46 | Assets, row 2 | | Footnote 8 |
| **57** | **Total regulatory adjustments to Tier 2 (T2) capital** | **-546** | | **Sum of rows 52 to 56b** | |
| **58** | **Tier 2 (T2) capital** | **1 767** | | **Row 51 minus row 57** | |
| **59** | **Total capital (TC = T1 + T2)** | **18 742** | | **Sum of row 45 and row 58** | |
| **60** | **Total Risk exposure amount** | **109 966** | | | |
| | **Capital ratios and requirements including buffers** | | | | |
| 61 | Common Equity Tier 1 capital | 14.07% | | 92 (2) (a) | |
| 62 | Tier 1 capital | 15.44% | | 92 (2) (b) | |
| 63 | Total capital | 17.04% | | 92 (2) (c) | |
| 64 | Institution CET1 overall capital requirements | 11.48% | | | Footnote 9 |
| *65* | *of which: capital conservation buffer requirement* | *2.50%* | | | |
| *66* | *of which: countercyclical capital buffer requirement* | *0.40%* | | | |
| *67* | *of which: systemic risk buffer requirement* | *0.19%* | | | |
| *EU-67a* | *of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer requirement* | *1.50%* | | | |
| *EU-67b* | *of which: additional own funds requirements to address the risks other than the risk of excessive leverage* | *1.05%* | | *Article 104(1) of Directive 2013/36/EU* | *Footnote 10* |
| **68** | **Common Equity Tier 1 capital (as a percentage of risk exposure amount) available after meeting the minimum capital requirements** | 7.18% | | | **Footnote 11** |
| | **National minima (if different from Basel III)** | | | | |
| 69 | Not applicable | n/a | | | |
| 70 | Not applicable | n/a | | | |
| 71 | Not applicable | n/a | | | |
| | **Amounts below the thresholds for deduction (before risk weighting)** | | | | |
| 72 | Direct and indirect holdings of own funds and eligible liabilities of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions) | 33 | Assets, row 2 | 36 (1) (h), 45, 46, 56 (c), 59, 60, 66 (c), 69, 70 | |
| 73 | Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 17.65% thresholds and net of eligible short positions) | 0 | Assets, row 2 | 36 (1) (i), 45, 48 | |
| 74 | Not applicable | | | | |
| 75 | Deferred tax assets arising from temporary differences (amount below 17,65% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met) | 564 | Assets, row 12 | 36 (1) (c), 38, 48 | |
| | **Applicable caps on the inclusion of provisions in Tier 2** | | | | |
| 76 | Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap) | 0 | | 62 | |
| 77 | Cap on inclusion of credit risk adjustments in T2 under standardised approach | 0 | | 62 | |
| 78 | Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap) | 136 | Assets, row 2 | 62 | |

| | | | |
|---|---|---|---|
| 79 | Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach | 482 | 62 |
| | **Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)** | | |
| 80 | Current cap on CET1 instruments subject to phase out arrangements | 0 | 484 (3), 486 (2) & (5) |
| 81 | Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities) | 0 | 484 (3), 486 (2) & (5) |
| 82 | Current cap on AT1 instruments subject to phase out arrangements | 0 | 484 (4), 486 (3) & (5) |
| 83 | Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities) | 0 | 484 (4), 486 (3) & (5) |
| 84 | Current cap on T2 instruments subject to phase out arrangements | 0 | 484 (5), 486 (4) & (5) |
| 85 | Amount excluded from T2 due to cap (excess over cap after redemptions and maturities) | 0 | 484 (5), 486 (4) & (5) |

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

*2. An amount of 326 276 062 euros is considered 'prudently valued' and therefore risk-weighted (at 100%) instead of deducted from CET1 (Commission Delegated Regulation (EU) 2020/2176).*

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

*4. Other regulatory adjustments: IFRS 9 transitional measures under CRR Art. 473a (46 132 497 euros), deduction for the NPL backstop (-157 580 248 euros), a deduction for Irrevocable Payment Commitments (-90 134 187 euros) and fair value gains and losses arising from the institution's own credit risk related to derivative liabilities (-40 032 309 euros).*

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

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

*7. IRB Excess of provisions over expected losses eligible.*

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

*9. This row shows the MDA threshold: 4,50% pillar 1 CET1 + 0.14% shortfall vs 1.5% pillar 1 AT1 + 0.39% shortfall vs 2.0% pillar 1 T2 + 1.86% P2R + 2.5% capital conservation buffer + 1.5% O-SII buffer + 0.40% entity-specific countercyclical buffer + 0.19% systemic risk buffer.*

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

*11. This row shows the CET1 available after meeting the minimum capital requirements: 14.07% CET1 – 4.50% pillar 1 CET1 – 0.14% shortfall vs 1.5% pillar 1 AT1 – 0.39% shortfall vs 2.0% pillar 1 T2 -1.86% P2R.*

*Table 91 - EU CC1_Composition of regulatory own funds*

# Reconciliation of regulatory own funds to balance sheet

| | | a | b | c |
|---|---|---|---|---|
| **EU CC2 - Reconciliation of regulatory own funds to balance sheet in the audited financial statements** | | | | |
| *At 31 December 2022 (in millions of EUR)* | | Balance sheet as in published | Under regulatory scope of | Reference |
| | **Assets - Breakdown by asset class according to the balance sheet in the published financial statements** | | | |
| 1 | Cash, cash balances with central banks and other demand deposits with credit institutions | 51 427 | 51 385 | |
| 2 | Financial assets | 291 262 | 260 308 | 12, 16, 27a, 50, EU-56b, 72, 73, 78 |
| 3 | Amortised cost | 255 444 | 247 058 | |
| 4 | Fair value through OCI | 12 128 | 3 585 | |
| 5 | Fair value through profit or loss | 23 147 | 9 115 | |
| *6* | *of which held for trading* | *8 471* | *8 448* | |
| 7 | Hedging derivatives | 542 | 549 | |
| 8 | Reinsurers' share in technical provisions, insurance | 192 | 0 | |
| 9 | Profit/loss on positions in portfolios hedged for interest rate risk | -4 335 | -4 335 | |
| 10 | Tax assets | 1 312 | 1 078 | |
| *11* | *Current tax assets* | *174* | *124* | |
| *12* | *Deferred tax assets* | *1 138* | *954* | *10, 75* |
| 13 | Non-current assets held for sale and disposal groups | 8 054 | 8 054 | |
| 14 | Investments in associated companies and joint ventures | 32 | 32 | |
| 15 | Property, equipment and investment property | 3 560 | 3 258 | |
| | Investment property | 571 | 351 | |
| | Property & equipment | 2 989 | 2 906 | |
| 16 | Goodwill and other intangible assets | 2 331 | 2 120 | 8 |
| 17 | Other assets | 2 036 | 1 235 | |
| **18** | **Total assets** | **355 872** | **325 605** | |
| | **Liabilities - Breakdown by liability class according to the balance sheet in the published financial statements** | | | |
| 1 | Financial liabilities | 312 735 | 301 518 | 27a |
| *2* | *of which subordinated liabilities* | *2 177* | *2 177* | *46, EU-47a, EU-47b, 48* |
| 3 | Amortised cost | 289 854 | 290 573 | |
| 4 | Fair value through profit or loss | 22 303 | 10 368 | |
| *5* | *of which held for trading* | *9 096* | *9 163* | |
| 6 | Hedging derivatives | 577 | 577 | |
| 7 | Technical provisions, before reinsurance | 18 484 | 0 | |
| 8 | Profit/loss on positions in portfolios hedged for interest rate risk | -1 443 | -1 443 | |
| 9 | Tax liabilities | 283 | 193 | |
| *10* | *Current tax liabilities* | *150* | *134* | |
| *11* | *Deferred tax liabilities* | *133* | *59* | |
| 12 | Provisions for risks and charges | 418 | 416 | |
| 13 | Other liabilities | 2 568 | 1 778 | |
| **14** | **Total liabilities** | **335 065** | **304 482** | |
| | **Shareholders' Equity** | | | |
| 1 | Parent shareholders' equity | 19 307 | 19 623 | 1, 2, 3, EU-5a, 11, 14, 16 |
| 2 | Additional tier-1 instruments included in equity | 1 500 | 1 500 | 30, 31 |
| 3 | Minority interests | 0 | 0 | |
| **4** | **Total shareholders' equity** | **20 807** | **21 123** | |

*Table 92 - EU CC2_Reconciliation of regulatory own funds to balance sheet in the audited financial statements*

# Annex IV

## Explanations of differences between accounting and regulatory exposures amounts

**EU LIA: Explanations of differences between accounting and regulatory exposures amounts**

| |
|---|
| The general rule under CRR/CRD for insurance participations is that an insurance participation is deducted from common equity at group level, unless the competent authority grants permission to apply a risk weighting instead (Danish compromise). As of the fourth quarter of 2020, the revised CRR/CRD requires the use of the equity method, unless the competent authority allows institutions to apply a different method. KBC Group has received ECB approval to continue to use the historical carrying value (a historical carrying value of 2 469 million euros) for risk weighting (370%), after having deconsolidated KBC Insurance from the group figures. For KBC Group, this implies that the carrying values presented based on the scope of regulatory consolidation will follow the same approach as under the CRD/CRR, whereby KBC Insurance is deconsolidated from the Group figures. |

*Table 93 - EU LIA_Explanations of differences between accounting and regulatory exposures amounts*

# Annex V

## EU INS1_Non-deducted participations in insurance undertakings

**EU INS1 - Insurance participations**

| *At 31 December 2022 (in millions of EUR)* | | Exposure value | Risk exposure amount |
|---|---|---|---|
| 1 | Own fund instruments held in insurance or re-insurance undertakings or insurance holding company not deducted from own funds | 2 469 | 9 133 |

*Table 94 - EU INS1_Non-deducted participations in insurance undertakings*

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

**EU INS2 - Financial conglomerates information on own funds and capital adequacy ratio**

| *At 31 December 2022 (in millions of EUR)* | | a |
|---|---|---|
| 1 | Supplementary own fund requirements of the financial conglomerate (amount) [1] | 123 753 |
| 2 | Capital adequacy ratio of the financial conglomerate (%) [2] | 17.11% |

*1. Risk-weighted asset amount: the capital requirements for the insurance business (based on Solvency II) are multiplied by 12.5 to obtain a risk-weighted asset equivalent (instead of the 370% risk weighting applied to the equity value in the insurance company under the Danish compromise).*
*2. Total own funds as a percentage of Risk Weighted Assets. In line with the FICOD directive, available capital is calculated on the basis of the consolidated position of the group and the eligible items recognised as such under the prevailing sectoral rules, which are CRD for the banking business and Solvency II for the insurance business.*

*Table 95 - EU INS2_ Financial conglomerates information on own funds and capital adequacy ratio*

# Annex VI

## EU LI1_Differences between accounting and regulatory scopes of consolidation

| | EU LI1 - Differences between the accounting scope and the scope of prudential consolidation and mapping of financial statement categories with regulatory risk categories | a | b | |
|---|---|---|---|---|
| | *At 31 December 2022 (in millions of EUR)* | Carrying values as reported in published financial statements | Carrying values under scope of prudential consolidation | Reference |
| 1 | Cash, cash balances at central banks and other demand deposits from credit institutions | 51 427 | 51 385 | |
| 2 | Financial assets | 291 262 | 260 308 | 12, 16, 27a, 50, EU-56b, 72, 73, 78 |
| 3 | Amortised cost | 255 444 | 247 058 | |
| 4 | Fair value through OCI | 12 128 | 3 585 | |
| 5 | Fair value through profit or loss | 23 147 | 9 115 | |
| *6* | *Of which held for trading* | *8 471* | *8 448* | |
| 7 | Hedging derivatives | 542 | 549 | |
| 8 | Reinsurers' share in technical provisions, insurance | 192 | | |
| 9 | Profit/loss on positions in portfolios hedged for interest rate risk | -4335 | -4335 | |
| 10 | Tax assets | 1 312 | 1 078 | |
| *11* | *Current tax assets* | *174* | *124* | |
| *12* | *Deferred tax assets* | *1 138* | *954* | *10, 75* |
| 13 | Non-current assets held for sale and assets associated with disposal groups | 8 054 | 8 054 | |
| 14 | Investments in associated companies and joint ventures | 32 | 2 501 | |
| 15 | Property, equipment and investment property | 3 560 | 3 258 | |
| 16 | Goodwill and other intangible assets | 2 331 | 2 120 | 8 |
| 17 | Other assets | 2 036 | 1 235 | |
| **18** | **Total Assets** | **355 872** | **325 605** | |
| 1 | Financial liabilities | 312 735 | 301 518 | 27a |
| *2* | *of which subordinated liabilities* | | | *46, EU-47a, EU-47b, 48* |
| 3 | Amortised cost | 289 854 | 290 573 | |
| 4 | Fair value through profit or loss | 22 303 | 10 368 | |
| *5* | *Of which held for trading* | *9 096* | *9 163* | |
| 6 | Hedging derivatives | 577 | 577 | |
| 7 | Technical provisions, before reinsurance | 18 484 | | |
| 8 | Profit/loss on positions in portfolios hedged for interest rate risk | -1443 | -1443 | |
| 9 | Tax liabilities | 283 | 193 | |
| *10* | *Current tax liabilities* | *150* | *134* | |
| *11* | *Deferred tax liabilities* | *133* | *59* | |
| 12 | Provisions for risks and charges | 418 | 416 | |
| 13 | Other liabilities | 4 588 | 3 798 | |
| **14** | **Total Liabilities** | **335 065** | **304 482** | |
| 1 | Parent shareholders' equity | 19 307 | 19 623 | 1, 2, 3, EU-5a, 11, 14, 16, 30, 31 |
| 2 | Additional Tier-1 instruments included in equity | 1 500 | 1 500 | |
| 3 | Minority interests | 0 | 0 | |
| **4** | **Total Equity** | **20 807** | **21 123** | |

*Table 96 - EU LI1_Differences between accounting and regulatory scopes of consolidation*

# Annex VII

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

| a | b | c | d | e | f | g | h |
|---|---|---|---|---|---|---|---|
| **EU LI3 - Outline of the differences in the scopes of consolidation (entity by entity)** | | | | | | | |
| Name of the entity | Method of accounting consolidation | Method of prudential consolidation | | | | | Description of the entity |
| | | Full consolidation | Proportional consolidation | Equity method | Neither consolidated nor deducted | Deducted | |
| KBC Groep NV | Full consolidation | x | | | | | bank-insurance holding company |
| DISCAI NV | Full consolidation | x | | | | | ICT |
| Experience@work CVBA | Non consolidated (Equity method) | | | | x | | immaterial- consultancy |
| KBC Bank NV | Full consolidation | x | | | | | credit institution |
| Almafin Real Estate NV | Full consolidation | x | | | | | real estate |
| Apicinq NV | Full consolidation | x | | | | | real estate |
| Immo Arenberg NV | Full consolidation | x | | | | | real estate |
| Immo Genk-Zuid NV | Non consolidated (Full consolidation) | | | | x | | immaterial- issuance of real estate certificates |
| Immolease-Trust NV | Non consolidated (Full consolidation) | | | | x | | immaterial- real estate |
| RHVG DK NV | Non consolidated (Full consolidation) | | | | x | | immaterial- issuance of real estate certificates |
| RHVG QT NV | Non consolidated (Full consolidation) | | | | x | | immaterial- issuance of real estate certificates |
| RHVG RB NV | Non consolidated (Full consolidation) | | | | x | | immaterial- issuance of real estate certificates |
| RHVG SB NV | Non consolidated (Full consolidation) | | | | x | | immaterial- issuance of real estate certificates |
| RHVG TB NV | Non consolidated (Full consolidation) | | | | x | | immaterial- issuance of real estate certificates |
| Almaloisir & Immobilier SAS | Non consolidated (Full consolidation) | | | | x | | immaterial- real estate |
| Bancontact Payconiq Company NV | Equity method | | | x | | | payment services |
| Banking Funding Company NV | Non consolidated (Equity method) | | | | x | | immaterial- payment transactions |
| Batopar | Non consolidated (Equity method) | | | | x | | immaterial- payment services |
| Batopin NV | Equity method | | | x | | | exploitation of ATM's |
| Bel Rom Sapte S.R.L. | Full consolidation | x | | | | | leasing |
| BRS Microfinance Coop CV | Non consolidated (Equity method) | | | | x | | immaterial- investment fund |
| C Plus SAS | Full consolidation | x | | | | | real estate |
| TBI SAS | Full consolidation | x | | | | | real estate |

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

| | | | | | |
|---|---|---|---|---|---|
| Go Connect BV | Non consolidated (Equity method) | | | x | immaterial- payment services |
| Hello Shopping Park S.R.L. | Full consolidation | x | | | leasing |
| Immo Mechelen City Center NV | Non consolidated (Full consolidation) | | | x | immaterial- issuance of real estate certificates |
| Immo NamOtt NV | Non consolidated (Full consolidation) | | | x | immaterial- issuance of real estate certificates |
| Immo NamOtt Tréfonds NV | Non consolidated (Full consolidation) | | | x | immaterial- issuance of real estate certificates |
| Immo Retail Libramont BV | Non consolidated (Full consolidation) | | | x | immaterial- issuance of real estate certificates |
| Vanhee Construction Invest BV | Non consolidated (Full consolidation) | | | x | immaterial- issuance of real estate certificates |
| Immo-Antares NV | Non consolidated (Full consolidation) | | | x | immaterial- issuance of real estate certificates |
| Immo-Basilix NV | Non consolidated (Full consolidation) | | | x | immaterial- issuance of real estate certificates |
| Immo-Beaulieu NV | Non consolidated (Full consolidation) | | | x | immaterial- issuance of real estate certificates |
| Immobilière Distri-Land NV | Non consolidated (Full consolidation) | | | x | immaterial- issuance of real estate certificates |
| Immo-Quinto NV | Non consolidated (Full consolidation) | | | x | immaterial- real estate |
| Immoscoop 2.0 BV | Equity method | | x | | real estate |
| Immo-Zénobe Gramme NV | Non consolidated (Full consolidation) | | | x | immaterial- issuance of real estate certificates |
| Isabel NV | Equity method | | x | | ICT |
| Joyn International NV | Equity method | | x | | digital loyalty card |
| Joyn NV | Equity method | | x | | digital loyalty card |
| Citie NV | Equity method | | x | | digital loyalty card |
| Joyn Urban Services BV | Equity method | | x | | digital loyalty card |
| Julienne Holdings S.à.r.l. | Full consolidation | x | | | holding company |
| Julie LH BV | Full consolidation | x | | | real estate |
| Juliette FH BV | Non consolidated (Full consolidation) | | | x | immaterial- real estate |
| Justinvest NV | Non consolidated (Equity method) | | | x | immaterial- real estate |
| K&H Bank Zrt. | Full consolidation | x | | | credit institution |
| K&H Autópark Bérleti és Szolgáltató Kft. | Full consolidation | x | | | fleet management |
| K&H Csoportszolgáltató Kft. | Full consolidation | x | | | accounting and tax collection |
| K&H Equities Zrt. | Full consolidation | x | | | business and management advice |
| K&H Érték Zrt. | Full consolidation | x | | | stockbroker |
| K&H Faktor Pénzügyi Szolgáltató Zrt. | Full consolidation | x | | | factoring |
| K&H Ingatlanlizing Zrt. | Full consolidation | x | | | leasing |
| K&H Jelzálogbank Zrt. | Full consolidation | x | | | lending |
| K&H Tanácsadó Zrt. | Full consolidation | x | | | securities broking and fund management |
| KBC Asset Management NV | Full consolidation | x | | | asset management |
| ČSOB Asset Management, a.s., Investiční Společnost | Full consolidation | x | | | asset management |
| EveryoneINVESTED BV | Non consolidated (Full consolidation) | | | x | immaterial- supporting asset management services |

| | | | | |
|---|---|---|---|---|
| KBC Asset Management SA | Full consolidation | x | | asset management |
| KBC Fund Management Limited | Full consolidation | x | | asset management |
| KBC Autolease NV | Full consolidation | x | | leasing |
| KBC Lease (Luxembourg) SA | Full consolidation | x | | leasing |
| KBC Bail Immobilier France sas | Full consolidation | x | | leasing |
| KBC Bank Ireland plc | Full consolidation | x | | credit institution |
| Danube Holdings Limited | Full consolidation | x | | real estate |
| Glare Nominee Limited | Full consolidation | x | | (not active) |
| IIB Finance DAC | Full consolidation | x | | commercial and financial services |
| IIB Homeloans and Finance Limited | Full consolidation | x | | holding company |
| Premier Homeloans Limited | Full consolidation | x | | home loans |
| KBC ACS Limited | Full consolidation | x | | (not active) |
| KBC Mortgage Finance | Full consolidation | x | | mortgage financing |
| KBC Nominees Limited | Full consolidation | x | | (not active) |
| Intercontinental Finance | Full consolidation | x | | leasing |
| Linkway Developments Limited | Full consolidation | x | | (not active) |
| Monastersky Limited | Full consolidation | x | | holding company |
| Needwood Properties Limited | Full consolidation | x | | real estate |
| Phoenix Funding 2 DAC | Full consolidation | x | | securitisation |
| Phoenix Funding 3 DAC | Full consolidation | x | | securitisation |
| Phoenix Funding 4 DAC | Full consolidation | x | | securitisation |
| Phoenix Funding 5 DAC | Full consolidation | x | | securitisation |
| Phoenix Funding 6 DAC | Full consolidation | x | | securitisation |
| Phoenix Funding 7 DAC | Full consolidation | x | | securitisation |
| Synch Payments DAC | Non consolidated (Equity method) | | x | immaterial- ICT |
| KBC Commercial Finance NV | Full consolidation | x | | factoring |
| KBC Focus Fund NV | Non consolidated (Full consolidation) | | x | immaterial- investment fund |
| Aito B.V. | Non consolidated (Equity method) | | x | immaterial- ICT |
| Sympl NV | Non consolidated (Equity method) | | x | immaterial- recruiting |
| KBC Ifima SA | Full consolidation | x | | financing |
| KBC Immolease NV | Full consolidation | x | | leasing |
| KBC Investments Limited | Full consolidation | x | | stockbroker |
| KBC Financial Products (Cayman Islands) Limited "Cayman I" | Non consolidated (Full consolidation) | | x | immaterial- stockbroker |
| KBC Lease Belgium NV | Full consolidation | x | | leasing |
| KBC Net Lease Investments LLC | Full consolidation | x | | leasing |
| KBC Real Estate Luxembourg SA | Full consolidation | x | | real estate |
| KBC Securities NV | Full consolidation | x | | stockbroker |
| KBC Securities USA LLC | Non consolidated (Full consolidation) | | x | immaterial- stockbroker |

| | | | | | | |
|---|---|---|---|---|---|---|
| KBC Vastgoedinvesteringen NV | Non consolidated (Full consolidation) | | | x | | immaterial- real estate |
| Brussels North Distribution NV | Non consolidated (Full consolidation) | | | x | | immaterial- real estate |
| Luxembourg North Distribution SA | Non consolidated (Full consolidation) | | | x | | immaterial- issuance of real estate certificates |
| KBC Vastgoedportefeuille België NV | Full consolidation | x | | | | real estate |
| Loan Invest NV | Full consolidation | x | | | | securitisation |
| Midas Life Settlements LLC | Full consolidation | x | | | | life settlement service provider |
| NBX-BE BV | Non consolidated (Equity method) | | | x | | immaterial- ICT |
| Payconiq International S.A. | Equity method | | x | | | payment services |
| Payconiq Services B.V. | Equity method | | x | | | payment services |
| Poelaert Invest NV | Full consolidation | x | | | | real estate |
| Rabot Invest NV | Non consolidated (Equity method) | | | x | | immaterial- real estate |
| Reverse Mortgage Loan Trust 2008-1 | Full consolidation | x | | | | reverse mortgages |
| Soluz.io NV | Non consolidated (Full consolidation) | | | x | | immaterial- support for e-invoicing |
| Start it X NV | Non consolidated (Full consolidation) | | | x | | immaterial- support for startups |
| UBB Interlease EAD | Full consolidation | x | | | | leasing |
| United Bulgarian Bank AD | Full consolidation | x | | | | credit institution |
| Cash Service Company AD | Equity method | | x | | | cash cycle servicing |
| East Golf Properties EAD | Full consolidation | x | | | | real estate |
| UBB Center Management EOOD | Full consolidation | x | | | | real estate |
| UBB Factoring EOOD | Full consolidation | x | | | | factoring |
| UBB Insurance Broker AD | Full consolidation | x | | | | insurance agents and brokers |
| World Alliance Financial LLC | Full consolidation | x | | | | reverse mortgages |
| KBC Global Services NV | Full consolidation | x | | | | cost sharing structure |
| KBC Verzekeringen NV | Full consolidation | | | | x | insurance company |
| ADD NV | Full consolidation | | | | x | insurance broker |
| AIA-Pool cvba | Non consolidated (Equity method) | | | x | | immaterial- insurance broker |
| AssurCard NV | Non consolidated (Equity method) | | | x | | immaterial- automated third-party payment system |
| ČSOB Poisťovňa, a.s. | Full consolidation | | | | x | insurance company |
| ČSOB Pojišťovna, a.s. | Full consolidation | | | | x | insurance company |
| ČSOB Pojišťovací servis, s.r.o. | Non consolidated (Full consolidation) | | | x | | immaterial- insurance broker |
| Pardubická Rozvojová, a.s. | Non consolidated (Full consolidation) | | | x | | immaterial- real estate |
| Double U Building BV | Full consolidation | | | | x | real estate |
| DZI Life Insurance Jsc | Full consolidation | | | | x | life insurance |
| DZI - General Insurance EAD | Full consolidation | | | | x | non-life insurance |
| Pension Insurance Company UBB EAD | Full consolidation | | | | x | pension insurance |
| Groep VAB NV | Full consolidation | | | | x | holding company |
| 24+ NV | Non consolidated (Full consolidation) | | | x | | immaterial- customer care center |

| | | | | |
|---|---|---|---|---|
| Macadam VAB Inspection NV | Non consolidated (Equity method) | x | | immaterial- vehicles |
| Optimobil Belgium NV | Non consolidated (Equity method) | x | | immaterial- vehicles |
| Traject NV | Non consolidated (Full consolidation) | x | | immaterial- mobility |
| VAB Banden Peeters NV | Non consolidated (Full consolidation) | x | | immaterial- vehicles |
| Lubaco BV | Non consolidated (Full consolidation) | x | | immaterial- vehicles |
| VAB Koopman Automotive Solutions NV | Non consolidated (Full consolidation) | x | | immaterial- vehicles |
| VAB NV | Full consolidation | | x | roadside assistance |
| Depannage 2000 NV | Non consolidated (Full consolidation) | x | | immaterial- vehicles |
| Olympus Mobility NV | Non consolidated (Full consolidation) | x | | immaterial- computer programming |
| VAB Rijschool NV | Non consolidated (Full consolidation) | x | | immaterial- driving school |
| VAB Training & Consult NV | Non consolidated (Full consolidation) | x | | immaterial- driving school |
| K&H Biztosító Zrt. | Full consolidation | | x | insurance company |
| KBC Group Re SA | Full consolidation | | x | reinsurance |
| KBC Verzekeringen Vastgoed Nederland I BV | Full consolidation | | x | real estate |
| Maatschappij voor Brandherverzekering CV | Non consolidated (Full consolidation) | x | | immaterial- reinsurance |
| Omnia NV | Non consolidated (Full consolidation) | x | | immaterial- travel agency |
| Sportcomplex Aalst NV | Non consolidated (Full consolidation) | x | | immaterial- real estate |
| Sportcomplex Heist-op-den-Berg NV | Non consolidated (Full consolidation) | x | | immaterial- real estate |

*Table 97 - EU LI3_Outline of the differences in the scopes of consolidation (entity by entity)*

# EU LIB_ Subsidiaries not included in the consolidation scope

| EU LIB_Subsidiaries not included in the consolidation scope (CRR art 436(g))* (31-12-22) | |
|---|---|
| KBC Sustainability Services BV | Batopar |
| Sustainable Impact BV | Synch Payments DAC |
| SPINC SASU | NBX-BE BV |
| KBC Investment Management | Setle BV |
| KBC Service Company | CBCB - Czech Banking Credit Bureau, a.s. |
| Patria investiční společnost, a.s. | První Certifikačni Autorita, a.s. |
| KBC Securities USA LLC | EQUANS REN s.r.o. |
| Francilia Immobilier SARL | Justinvest NV |
| Motokov, a.s. | Gemma Frisius-Fonds K.U. Leuven NV |
| Ušetřeno, s.r.o. | Rabot Invest NV |
| ČSOB nadácia | BRS Microfinance Coop CV |
| ČSOB Advisory, s.r.o. | Sympl NV |
| Luxembourg North Distribution SA | Go Connect BV |
| KBC Financial Products (Cayman Islands) Limited "Cayman I" | Banking Funding Company NV |
| Immolease-Trust NV | Gasco Group NV |
| Immobilière Distri-Land NV | Aito B.V. |
| Immo-Beaulieu NV | Pozyx NV |
| Immo-Basilix NV | Pardubická Rozvojová, a.s. |
| Immo-Zénobe Gramme NV | ČSOB Pojišťovací servis, s.r.o. |
| Immo Genk-Zuid NV | Maatschappij voor Brandherverzekering CV |
| Immo-Quinto NV | Depannage 2000 NV |
| Brussels North Distribution NV | Omnia NV |
| RHVG QT NV | Lubaco BV |
| RHVG TB NV | VAB Training & Consult NV |
| RHVG SB NV | VAB Rijschool NV |
| RHVG RB NV | Traject NV |
| RHVG DK NV | VAB Banden Peeters NV |
| Immo Mechelen City Center NV | Sportcomplex Aalst NV |
| KBC Focus Fund NV | Olympus Mobility NV |
| Soluz.io NV | Sportcomplex Heist-op-den-Berg NV |
| Start it X NV | VAB Koopman Automotive Solutions NV |
| Immo Retail Libramont BV | 24+ NV |
| Immo NamOtt NV | AIA-Pool cvba |
| Immo NamOtt Tréfonds NV | Optimobil Belgium NV |
| Vanhee Construction Invest BV | AssurCard NV |
| Juliette FH BV | Experience@work CVBA |

** CRR art 436(f) - 436(h) - 436(g) part d) are not applicable*

*Table 98 - EU LIB_ Subsidiaries not included in the consolidation scope*

# Annex VIII

## Countercyclical buffers

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

| | | a | b | c | d | e | f | g | h | i | j | k | l | m |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | General credit exposures | | Relevant credit exposures – Market risk | | | | | Own fund requirements | | | | | |
| *At 31 December 2022 (in millions of EUR)* | | Exposure value under the standar-dised approach | Exposure value under the IRB approach | Sum of long and short positions of trading book exposures for SA | Value of trading book exposures for internal models | Securiti-sation exposures - Exposure value for non-trading book | Total exposure value | Relevant credit risk exposures - Credit risk | Relevant credit exposures – Market risk | Relevant credit exposures – Securiti-sation positions in the non-trading book | Total | Risk-weighted exposure amounts | Own fund require-ments weights (%) | Countercyclical buffer rate (%) |
| **010** | **Breakdown by country** | | | | | | | | | | | | | |
| | *DENMARK* | *0* | *13* | | | | *13* | *0* | | | *0* | *3* | *0.00%* | *2.00%* |
| | *NORWAY* | *0* | *2* | | | | *2* | *0* | | | *0* | *0* | *0.00%* | *2.00%* |
| | *ICELAND* | *0* | *1* | | | | *1* | *0* | | | *0* | *0* | *0.00%* | *2.00%* |
| | *CZECH REPUBLIC* | *512* | *38 309* | | | | *38 822* | *906* | | | *906* | *11 328* | *15.12%* | *1.50%* |
| | *REPUBLIC OF BULGARIA* | *9 548* | *76* | | | | *9 624* | *524* | | | *524* | *6 547* | *8.74%* | *1.00%* |
| | *SLOVAK REPUBLIC* | *2 555* | *10 224* | | | | *12 779* | *393* | | | *393* | *4 907* | *6.55%* | *1.00%* |
| | *UNITED KINGDOM* | *9* | *1 838* | | | | *1 846* | *66* | | | *66* | *828* | *1.10%* | *1.00%* |
| | *HONG KONG* | *0* | *269* | | | | *269* | *12* | | | *12* | *146* | *0.19%* | *1.00%* |
| | *SWEDEN* | *0* | *55* | | | | *55* | *2* | | | *2* | *29* | *0.04%* | *1.00%* |
| | *REPUBLIC OF ESTONIA* | *0* | *0* | | | | *0* | *0* | | | *0* | *0* | *0.00%* | *1.00%* |
| | *LUXEMBOURG* | *188* | *2 036* | | | | *2 223* | *112* | | | *112* | *1 395* | *1.86%* | *0.50%* |
| | *ROMANIA* | *38* | *23* | | | | *61* | *4* | | | *4* | *46* | *0.06%* | *0.50%* |
| | *BELGIUM* | *1 809* | *109 483* | | | | *111 292* | *2 715* | | | *2 715* | *33 936* | *45.29%* | |
| | *HUNGARY* | *259* | *7 248* | | | | *7 508* | *379* | | | *379* | *4 735* | *6.32%* | |
| | *IRELAND* | *76* | *8 531* | | | | *8 608* | *294* | | | *294* | *3 676* | *4.91%* | |
| | *OTHER* | *621* | *11 648* | | | *176* | *12 445* | *587* | | *2* | *589* | *7 358* | *9.82%* | |
| **020** | **Total** | **15 615** | **189 755** | | | **176** | **205 547** | **5 993** | | **2** | **5 995** | **74 934** | **100.00%** | |

*Table 99 - EU CCyB1_Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer*

| | | a |
|---|---|---|
| **EU CCyB2 - Amount of institution-specific countercyclical capital buffer** | | |
| *At 31 December 2022 (in millions of EUR)* | | RWA amounts |
| 1 | Total risk exposure amount | 109 966 |
| 2 | Institution specific countercyclical capital buffer rate | 0.40% |
| 3 | Institution specific countercyclical capital buffer requirement | 443 |

*Table 100 - EU CCyB2_Amount of institution-specific countercyclical capital buffer*

# Annex IX

## Own funds and capital & leverage ratios with/without transitional arrangements for IFRS 9

**Own funds and capital & leverage ratios with/without transitional arrangements for IFRS 9**

| *In millions of EUR* | | 31-12-2022 | 30-09-2022 | 30-06-2022 | 31-03-2022 | 31-12-2021 |
|---|---|---|---|---|---|---|
| | **Available capital (amounts)** | | | | | |
| 1 | Common Equity Tier1 (CET1) capital | 15 474 | 15 373 | 16 022 | 16 303 | 17 497 |
| 2 | Common Equity Tier1 (CET1) capital as if IFRS 9 has not been applied | 15 428 | 15 339 | 15 976 | 16 238 | 17 020 |
| 3 | Tier 1 capital | 16 974 | 16 873 | 17 522 | 17 803 | 18 997 |
| 4 | Tier 1 capital as if IFRS 9 has not been applied | 16 928 | 16 839 | 17 476 | 17 738 | 18 520 |
| 5 | Total capital | 18 742 | 18 673 | 19 312 | 19 985 | 20 732 |
| 6 | Total capital as if IFRS 9 has not been applied | 18 741 | 18 670 | 19 311 | 19 921 | 20 748 |
| | **Risk exposure amount** | | | | | |
| 7 | Total risk-weighted assets | 109 966 | 110 236 | 106 091 | 107 231 | 104 362 |
| 8 | Total risk-weighted assets as if IFRS 9 has not been applied | 109 981 | 110 245 | 106 105 | 107 256 | 104 646 |
| | **Capital ratios** | | | | | |
| 9 | CET1 (as a % of risk exposure amount) | 14.07% | 13.95% | 15.10% | 15.20% | 16.77% |
| 10 | CET1 (as a % of risk exposure amount) as if IFRS 9 has not been applied | 14.03% | 13.91% | 15.06% | 15.14% | 16.26% |
| 11 | Tier 1 capital (as a % of risk exposure amount) | 15.44% | 15.31% | 16.52% | 16.60% | 18.20% |
| 12 | Tier 1 capital (as a % of risk exposure amount) as if IFRS 9 has not been applied | 15.39% | 15.27% | 16.47% | 16.54% | 17.70% |
| 13 | Total capital (as a % of risk exposure amount) | 17.04% | 16.94% | 18.20% | 18.64% | 19.87% |
| 14 | Total capital (as a % of risk exposure amount) as if IFRS 9 has not been applied | 17.04% | 16.93% | 18.20% | 18.57% | 19.83% |
| | **Leverage ratio** | | | | | |
| 15 | Leverage ratio total exposure measure | 346 431 | 349 586 | 357 195 | 307 985 | 292 363 |
| | Leverage ratio total exposure measure as if IFRS 9 has not been applied | 346 374 | 349 540 | 357 138 | 307 905 | 291 747 |
| 16 | Leverage ratio | 4.90% | 4.83% | 4.91% | 5.78% | 6.50% |
| 17 | Leverage ratio as if IFRS 9 has not been applied | 4.89% | 4.82% | 4.89% | 5.76% | 6.35% |

*On 22 June 2020, KBC received ECB approval to apply CRR Art. 473a at the level of KBC Group and KBC Bank consolidated as of 30 June 2020.*

*KBC applies both the static component (CRR Art. 473a paragraph 2) and the dynamic component (CRR Art. 473a paragraph 4).*

*When recalculating the risk exposure amount, we assign a risk weight of 100 % to exposures under the Standardised approach (CRR Art. 473 paragraph 7a).*

*The impact of Art. 473a stems mainly from ECL accounted for in 2Q20 and recognised in CET1 under CRR Art. 26(2) in 4Q20.*

*Table 101 - Own funds and capital & leverage ratios with/without transitional arrangements for IFRS 9*

# Annex X

## EU KM1_Key metrics template

| | | a | b | c | d | e |
|---|---|---|---|---|---|---|
| **EU KM1 - Key metrics template** | | | | | | |
| *In millions of EUR* | | 12/31/2022 | 9/30/2022 | 6/30/2022 | 3/31/2022 | 12/31/2021 |
| | **Available own funds (amounts)** | | | | | |
| 1 | Common Equity Tier 1 (CET1) capital | 15 474 | 15 373 | 16 022 | 16 303 | 17 497 |
| 2 | Tier 1 capital | 16 974 | 16 873 | 17 522 | 17 803 | 18 997 |
| 3 | Total capital | 18 742 | 18 673 | 19 312 | 19 985 | 20 732 |
| | **Risk-weighted exposure amounts** | | | | | |
| 4 | Total risk exposure amount | 109 966 | 110 236 | 106 091 | 107 231 | 104 362 |
| | **Capital ratios (as a percentage of risk-weighted exposure amount)** | | | | | |
| 5 | Common Equity Tier 1 ratio (%) | 14.07% | 13.95% | 15.10% | 15.20% | 16.77% |
| 6 | Tier 1 ratio (%) | 15.44% | 15.31% | 16.52% | 16.60% | 18.20% |
| 7 | Total capital ratio (%) | 17.04% | 16.94% | 18.20% | 18.64% | 19.87% |
| | **Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount)** | | | | | |
| EU 7a | Additional own funds requirements to address risks other than the risk of excessive leverage (%) | 1.86% | 1.86% | 1.86% | 1.86% | 1.75% |
| EU 7b | of which: to be made up of CET1 capital (percentage points) | 1.05% | 1.05% | 1.05% | 1.05% | 0.98% |
| EU 7c | of which: to be made up of Tier 1 capital (percentage points) | 1.40% | 1.40% | 1.40% | 1.40% | 1.31% |
| EU 7d | Total SREP own funds requirements (%) | 9.86% | 9.86% | 9.86% | 9.86% | 9.75% |
| | **Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount)** | | | | | |
| 8 | Capital conservation buffer (%) | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% |
| EU 8a | Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%) | - | - | - | - | - |
| 9 | Institution specific countercyclical capital buffer (%) | 0.40% | 0.26% | 0.18% | 0.17% | 0.17% |
| EU 9a | Systemic risk buffer (%) | 0.19% | 0.32% | 0.32% | - | - |
| 10 | Global Systemically Important Institution buffer (%) | - | - | - | - | - |
| EU 10a | Other Systemically Important Institution buffer (%) | 1.50% | 1.50% | 1.50% | 1.50% | 1.50% |
| 11 | Combined buffer requirement (%) | 4.59% | 4.58% | 4.50% | 4.17% | 4.17% |
| EU 11a | Overall capital requirements (%) | 14.45% | 14.44% | 14.36% | 14.03% | 13.92% |
| 12 | CET1 available after meeting the total SREP own funds requirements (%) | 7.18% | 7.08% | 8.34% | 8.78% | 10.12% |
| | **Leverage ratio** | | | | | |
| 13 | Total exposure measure | 346 538 | 349 586 | 357 195 | 307 985 | 292 363 |
| 14 | Leverage ratio (%) | 4.90% | 4.83% | 4.91% | 5.78% | 6.50% |
| | **Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)** | | | | | |
| EU 14a | Additional own funds requirements to address the risk of excessive leverage (%) | - | - | - | - | - |
| EU 14b | of which: to be made up of CET1 capital (percentage points) | - | - | - | - | - |
| EU 14c | Total SREP leverage ratio requirements (%) | 3.00% | 3.00% | 3.00% | 3.51% | 3.36% |
| | **Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)** | | | | | |
| EU 14d | Leverage ratio buffer requirement (%) | - | - | - | - | - |
| EU 14e | Overall leverage ratio requirement (%) | 3.00% | 3.00% | 3.00% | 3.51% | 3.36% |
| | **Liquidity Coverage Ratio** | | | | | |
| 15 | Total high-quality liquid assets (HQLA) (Weighted value -average) | 91 928 | 96 638 | 104 182 | 110 199 | 108 642 |
| EU 16a | Cash outflows - Total weighted value | 71 944 | 74 089 | 77 210 | 81 710 | 81 469 |
| EU 16b | Cash inflows - Total weighted value | 11 124 | 11 401 | 10 878 | 13 461 | 16 070 |
| 16 | Total net cash outflows (adjusted value) | 60 820 | 62 688 | 66 332 | 68 250 | 65 399 |
| 17 | Liquidity coverage ratio (%) | 151.62% | 154.59% | 157.49% | 162.41% | 167.36% |
| | **Net Stable Funding Ratio** | | | | | |
| 18 | Total available stable funding | 209 271 | 218 072 | 214 374 | 224 862 | 218 123 |
| 19 | Total required stable funding | 153 767 | 155 755 | 150 697 | 150 766 | 147 731 |
| 20 | NSFR ratio (%) | 136.10% | 140.01% | 142.26% | 149.15% | 147.65% |

*Table 102 - EU KM1_Key metrics template*

# Annex XI

## EU PV1_Prudent valuation adjustments

**EU PV1 - Prudent valuation adjustments (PVA)**

| | | Risk category | | | | | Category level AVA - Valuation uncertainty | | Total category level post-diversification | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Category level AVA | Equity | Interest Rates | Foreign exchange | Credit | Commodities | Unearned credit spreads AVA | Investment and funding costs AVA | | Of which: Total core approach in the trading book | Of which: Total core approach in the banking book |
| *At 31 December 2022 (in millions of EUR)* | | | | | | | | | | | |
| 1 | Market price uncertainty | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 5.85 | 5.45 | 5.65 | 5.65 | 0.00 |
| 2 | Not applicable | | | | | | | | | | |
| 3 | Close-out cost | 9.52 | 11.59 | 0.15 | 0.00 | 0.00 | 0.00 | 0.00 | 10.63 | 9.20 | 1.43 |
| 4 | Concentrated positions | 0.00 | 9.32 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 9.32 | 0.00 | 9.32 |
| 5 | Early termination | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 6 | Model risk | 1.37 | 1.46 | 1.03 | 0.00 | 0.00 | 4.26 | 1.87 | 4.99 | 4.99 | 0.00 |
| 7 | Operational risk | 0.48 | 0.58 | 0.01 | 0.00 | 0.00 | | | 1.06 | 0.92 | 0.14 |
| 8 | Not applicable | | | | | | | | | | |
| 9 | Not applicable | | | | | | | | | | |
| 10 | Future administrative costs | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 11 | Not applicable | | | | | | | | | | |
| **12** | **Total Additional Valuation Adjustments (AVAs)** | **11.37** | **22.94** | **1.18** | **0.00** | **0.00** | **10.11** | **7.31** | **31.65** | **20.75** | **10.89** |

*Table 103 - EU PV1_Prudent valuation adjustments*

# Annex XII

**EU LR1 - LRSum - Summary reconciliation of accounting assets and leverage ratio exposures**

| | *At 31 December 2022 (in millions of EUR)* | a<br>applicable amount |
|---|---|---|
| 1 | Total assets as per published financial statements | 355 872 |
| 2 | Adjustment for entities which are consolidated for accounting purposes but are outside the scope of prudential consolidation | -30 267 |
| 3 | (Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference) | |
| 4 | (Adjustment for temporary exemption of exposures to central banks (if applicable)) | |
| 5 | (Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the total exposure measure in accordance with point (i) of Article 429a(1) CRR) | |
| 6 | Adjustment for regular-way purchases and sales of financial assets subject to trade date accounting | |
| 7 | Adjustment for eligible cash pooling transactions | |
| 8 | Adjustment for derivative financial instruments | -1 024 |
| 9 | Adjustment for securities financing transactions (SFTs) | 813 |
| 10 | Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures) | 25 452 |
| 11 | (Adjustment for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital) | |
| EU-11a | (Adjustment for exposures excluded from the total exposure measure in accordance with point (c) of Article 429a(1) CRR) | |
| EU-11b | (Adjustment for exposures excluded from the total exposure measure in accordance with point (j) of Article 429a(1) CRR) | |
| 12 | Other adjustments | -4307 |
| **13** | **Total exposure measure** | **346 538** |

*Table 104 - EU LR1_LRSum - Summary reconciliation of accounting assets and leverage ratio exposures*

**EU LR2 - LRCom - Leverage ratio common disclosure**

| | *(in millions of EUR)* | a<br>CRR leverage ratio exposures<br>31/12/2022 | <br>31/12/2021 |
|---|---|---|---|
| | **On-balance sheet exposures (excluding derivatives and SFTs)** | | |
| 1 | On-balance sheet items (excluding derivatives, SFTs, but including collateral) | 298 003 | 275 879 |
| 2 | Gross-up for derivatives collateral provided, where deducted from the balance sheet assets pursuant to the applicable accounting framework | 0 | 0 |
| 3 | (Deductions of receivables assets for cash variation margin provided in derivatives transactions) | -1 646 | -2 344 |
| 4 | (Adjustment for securities received under securities financing transactions that are recognised as an asset) | | |
| 5 | (General credit risk adjustments to on-balance sheet items) | | |
| 6 | (Asset amounts deducted in determining Tier 1 capital) | -2 347 | -1 696 |
| **7** | **Total on-balance sheet exposures (excluding derivatives and SFTs)** | **294 010** | **271 839** |
| | **Derivative exposures** | | |
| 8 | Replacement cost associated with SA-CCR derivatives transactions (ie net of eligible cash variation margin) | 1 461 | 2 086 |
| EU-8a | Derogation for derivatives: replacement costs contribution under the simplified standardised approach | | |
| 9 | Add-on amounts for potential future exposure associated with SA-CCR derivatives transactions | 3 974 | 4 348 |

| | | | |
|---|---|---|---|
| EU-9a | Derogation for derivatives: Potential future exposure contribution under the simplified standardised approach | | |
| EU-9b | Exposure determined under Original Exposure Method | | |
| 10 | (Exempted CCP leg of client-cleared trade exposures) (SA-CCR) | | |
| EU-10a | (Exempted CCP leg of client-cleared trade exposures) (simplified standardised approach) | | |
| EU-10b | (Exempted CCP leg of client-cleared trade exposures) (Original Exposure Method) | | |
| 11 | Adjusted effective notional amount of written credit derivatives | | |
| 12 | (Adjusted effective notional offsets and add-on deductions for written credit derivatives) | | |
| **13** | **Total derivatives exposures** | **5 435** | **6 435** |
| | **Securities financing transaction (SFT) exposures** | | |
| 14 | Gross SFT assets (with no recognition of netting), after adjustment for sales accounting transactions | 29 797 | 30 542 |
| 15 | (Netted amounts of cash payables and cash receivables of gross SFT assets) | -8 959 | -5 231 |
| 16 | Counterparty credit risk exposure for SFT assets | 813 | 1 016 |
| EU-16a | Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429e(5) and 222 CRR | | |
| 17 | Agent transaction exposures | | |
| EU-17a | (Exempted CCP leg of client-cleared SFT exposure) | | |
| **18** | **Total securities financing transaction exposures** | **21 652** | **26 327** |
| | **Other off-balance sheet exposures** | | |
| 19 | Off-balance sheet exposures at gross notional amount | 66 460 | 58 425 |
| 20 | (Adjustments for conversion to credit equivalent amounts) | -41 018 | -35 649 |
| 21 | (General provisions deducted in determining Tier 1 capital and specific provisions associated with off-balance sheet exposures) | | |
| **22** | **Off-balance sheet exposures** | **25 442** | **22 776** |
| | **Excluded exposures** | | |
| EU-22a | (Exposures excluded from the total exposure measure in accordance with point (c) of Article 429a(1) CRR) | | |
| EU-22b | (Exposures exempted in accordance with point (j) of Article 429a(1) CRR (on and off balance sheet)) | | |
| EU-22c | (Excluded exposures of public development banks (or units) - Public sector investments) | | |
| EU-22d | (Excluded exposures of public development banks (or units) - Promotional loans) | | |
| EU-22e | (Excluded passing-through promotional loan exposures by non-public development banks (or units)) | | |
| EU-22f | (Excluded guaranteed parts of exposures arising from export credits) | | |
| EU-22g | (Excluded excess collateral deposited at triparty agents) | | |
| EU-22h | (Excluded CSD related services of CSD/institutions in accordance with point (o) of Article 429a(1) CRR) | | |
| EU-22i | (Excluded CSD related services of designated institutions in accordance with point (p) of Article 429a(1) CRR) | | |
| EU-22j | (Reduction of the exposure value of pre-financing or intermediate loans) | | |
| **EU-22k** | **(Total exempted exposures)** | | |
| | **Capital and total exposure measure** | | |
| **23** | **Tier 1 capital** | **16 974** | **18 997** |
| **24** | **Total exposure measure** | **346 538** | **292 363** |
| | **Leverage ratio** | | |
| 25 | Leverage ratio (%) | 4.90% | 6.50% |
| EU-25 | Leverage ratio (excluding the impact of the exemption of public sector investments and promotional loans) (%) | 4.90% | 6.50% |

| | | | |
|---|---|---|---|
| 25a | Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) (%) | 4.90% | 5.80% |
| 26 | Regulatory minimum leverage ratio requirement (%) | 3.00% | 3.56% |
| EU-26a | Additional own funds requirements to address the risk of excessive leverage (%) | 0% | 0% |
| EU-26b | of which: to be made up of CET1 capital | 0% | 0% |
| 27 | Leverage ratio buffer requirement (%) | 0% | 0% |
| EU-27a | Overall leverage ratio requirement (%) | 3.00% | 3.56% |
| | **Choice on transitional arrangements and relevant exposures** | | |
| EU-27b | Choice on transitional arrangements for the definition of the capital measure | NA | NA |
| | **Disclosure of mean values** | | |
| 28 | Mean of daily values of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivable | 29 612 | 43 867 |
| 29 | Quarter-end value of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables | 20 839 | 25 311 |
| 30 | Total exposure measure (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables) | 355 312 | 310 919 |
| 30a | Total exposure measure (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables) | 355 312 | 345 933 |
| 31 | Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables) | 4.78% | 6.11% |
| 31a | Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables) | 4.78% | 5.49% |

*Table 105 - EU LR2_LRCom - Leverage ratio common disclosure*

**EU LR3 - LRSpl - Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)**

| *At 31 December 2022 (in millions of EUR)* | | a<br>CRR leverage ratio exposures |
|---|---|---|
| **EU-1** | **Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:** | **296 357** |
| EU-2 | Trading book exposures | |
| EU-3 | Banking book exposures, of which: | 296 357 |
| *EU-4* | *Covered bonds* | |
| *EU-5* | *Exposures treated as sovereigns* | *52 087* |
| *EU-6* | *Exposures to regional governments, MDB, international organisations and PSE, not treated as sovereigns* | *6 000* |
| *EU-7* | *Institutions* | *11 325* |
| *EU-8* | *Secured by mortgages of immovable properties* | *91 772* |
| *EU-9* | *Retail exposures* | *15 142* |
| *EU-10* | *Corporates* | *71 297* |
| *EU-11* | *Exposures in default* | *152* |
| *EU-12* | *Other exposures (eg equity, securitisations, and other non-credit obligation assets)* | *48 582* |

*Table 106 - EU LR3_LRSpl - Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)*

# Annex XIII

## Physical risk assessments

The following sections contain a description of various physical risk assessments performed in the course of 2022. In line with our Climate Risk Impact Map, both acute and chronic physical hazards were considered. The assessments were geographically tailored to the territories of the five KBC home countries (Belgium, the Czech Republic, Slovakia, Hungary and Bulgaria). The flood risk analyses cover both bank and insurance perspectives while all other analyses are from a bank perspective only. The actual sectoral impacts (per NACE level and from a bank perspective) are provided in template 5 of Annex XIII.

### Flood risk

A harmonised flood risk assessment was performed on various loan and property insurance portfolios throughout the group. The assessment distinguished between fluvial, pluvial and coastal flood risks.

**Fluvial flood risk**

The basis of the fluvial flood risk analysis is the fluvial (riverine) flood map provided by the Joint Research Centre (JRC)[6] which reflects those areas with a flooding return period of 10 years.

For the mortgage portfolios assessed, the percentage of potentially impacted properties is relatively similar across KBC Group's home countries, around 2%. For the corporate and SME portfolios assessed, this percentage is in the range of 4% to 6%.

For the property insurance portfolios, the analysis was enriched with a forward-looking view. Under current climate conditions, the percentage of insured properties located in a fluvial flood zone varies across countries somewhat more pronouncedly than for mortgages, specifically from 0.6% (Bulgaria) to 4.7% (Czech Republic). Under the adverse 'Current policies' climate scenario, this percentage may increase quite steeply for Hungary and a bit more moderately for Belgium. In the other home countries, the development of flood risk is less pronounced compared to today's climate.

**Pluvial flood risk**

Pluvial flooding is geographically more widespread. Our risk modelling team designed in-house pluvial flood maps per country based on a surface water run-off algorithm which simulates water flowing to local topographic minima.

The percentage of properties in the mortgage and property insurance portfolios which may potentially be impacted by pluvial flooding is considerably higher than for fluvial risk, in the range of 7% to 9% across the KBC home countries. Similar to fluvial flood risk, the corporate and SME portfolios assessed are somewhat more exposed, with a percentage of around 12-14%.

[6] *https://data.jrc.ec.europa.eu/collection/id-0054*

**Coastal flood risk**

For KBC Group, coastal flood risk is assumed to be most relevant along the Belgian coastline as a combination of strong windstorms and high tides is a natural condition for this type of hazard (which is less likely to occur along the Bulgarian coastline).

The basis of the analysis is a coastal flood map with a return period of 100 years, provided by the Flemish Environmental Agency (VMM). A percentage of around 0.9% of our exposure is prone to coastal flooding.

**Risk mitigation**

Insurance cover for flooding is relatively high in the KBC home countries (especially for the 'collateralised with immovable property' exposure, for which property insurance is a standard requirement) and the (credit) risk is thus partially mitigated. In template 5 of the Pillar 3 report we therefore indicate the portion of the portfolio which has the potential to be more severely affected by floods. This specifically involves properties located in a flooding area with a flood depth of more than one metre. This threshold ensued from literature and methodologies used by insurance brokers. To reflect increased flood severity implied by adverse climate scenarios, the threshold is lowered to 0.5 metres for longer-term exposure.

### Heat stress

Heat waves occur in all of the KBC home countries, with varying frequencies, intensities and durations. Table 1 illustrates this by means of the average number of observed and projected (RCP8.5 scenario) heat wave days, obtained from the Copernicus Climate Portal[7]. Clearly the heat stress is higher and tends to increase more prominently in the more southern countries.

| | BE | CZ | SK | HU | BG |
|---|---|---|---|---|---|
| 2020 (observed) | 7 | 7 | 8 | 9 | 8 |
| 2040 (projected) | 7 | 10 | 12 | 14 | 16 |

**Table 1 - Average number of heat wave days**

The assessed sectors where heat stress may result in unrealised income are the agricultural and energy sectors. As there is a natural overlap with the drought hazard type, within this assessment the sensitivity to heat stress of the agricultural sector is implicitly covered in the drought risk assessment and further described in the corresponding section. Regarding the energy sector, heat stress may for instance result in emergency actions to avoid outages due to very high electricity consumption (cf. 2022 Texas power outages) or reduced electricity production due to reduced cooling capabilities (cf. 2022 French nuclear plants). Some activities in this sector may be more exposed than others (e.g., renewable energy production has no or limited cooling needs) but in this initial assessment no distinction is made on the basis of economic activity in the sector.

The sensitivity to heat stress is driven by the country's average number of heat wave days during the warm period of the year (June-July-August-September). More specifically, for short-term and medium-term exposure the sensitivity is driven

[7] *https://cds.climate.copernicus.eu/cdsapp#!/software/app-health-heat-waves-projections?tab=app*

by the observed number of heat days, while for longer-term exposure the number of heat days projected for 2040 becomes the driver.

### Drought

Periods of low water or soil moisture levels occur in all of the KBC home countries and may impact a variety of sectors in different ways: lower crop yields, water scarcity for water-intensive sectors, riverine-based supply chain issues, etc. Some of the secondary effects may be broad but difficult to quantify and the focus in the current assessment is therefore restricted to the agricultural and water (supply) sectors.

Scientific research[8] has established a relationship between observed drought levels (quantified via the Standardised Precipitation-Evapotranspiration Index or SPEI) and the likelihood that different economic activities will be impacted. Given the limited geographic size of the KBC home countries, no further distinction is made based on areas within a country. The assessment has resulted in the breakdown provided in Table 2.

| | BE | CZ | SK | HU | BG |
|---|---|---|---|---|---|
| Agriculture | 17% | 12% | 13% | 14% | 16% |
| Water (supply) | 14% | 11% | 9% | 10% | 11% |

**Table 2 - Sensitivity to drought risk**

### Wildfires

Statistics of the Global Wildfire Information System (GWIS)[9] show that wildfire events occur in all of KBC's home countries, albeit rarely, and that almost all burned areas observed are cropland. The risk is hence concentrated in NACE sector A, specifically agricultural activities (A1.1 and A1.2).

Table 3 below shows for each KBC home country the regional variation of the percentage of cropland which is burned on average per year. The very low values indicate that wildfire risk is negligible in most home countries apart from some regions in Bulgaria. No clear trend could be identified in the historical time series provided by GWIS.

| BE | CZ | SK | HU | BG |
|---|---|---|---|---|
| 0.0% | 0.0% | 0.0% - 0.1% | 0.0% - 0.5% | 0.0% - 3.7% |

**Table 3 - Regional variation of average percentage of burned cropland**

[8] *Blauhut et al., 2015, Towards pan-European drought risk maps: quantifying the link between drought indices and reported drought impacts, Environ. Res. Lett. 10 (2015) 014008*

[9] *https://gwis.jrc.ec.europa.eu/apps/country.profile/*

### Windstorms

Windstorm risk is present throughout the European continent , which means that any real estate asset as well as various economic activities will carry a certain risk as physical assets may be damaged and economic activities may be (temporarily) interrupted in case of severe windstorms. However, the impact from the windstorm hazard is typically insured (especially in case of exposure collateralised with immovable property) and the risk from a credit risk perspective is consequently partially mitigated. Our assessment therefore reflects the residual risk of very extreme windstorm events where potential underinsurance may materialise. The Windstorm Information System (WISC) of the Copernicus Climate Portal[10] allows us to identify those European regions with the greatest historical average annual windstorm damage. As only one thinly populated area in Belgium is in a top 5% impacted region, we conclude that from a credit/collateral perspective the windstorm hazard is not a material risk in the KBC home markets.

### Landslides

Landslides typically occur on steep hilly terrain where a significant amount of rainwater has accumulated and may destroy infrastructure and/or (temporarily) prevent economic activities (e.g., growing crops). The European Soil Data Centre (ESDAC) provides a European spatial dataset[11] which maps the landslide susceptibility levels on a scale of 1 (very low) to 5 (very high) and which is used to geographically identify the risk. Although only smaller areas of high risk are present in Belgium, it is the country with the most pronounced sensitivity (see Table 4). This can likely be explained by the more densely populated profile compared to the other home countries.

| BE | CZ | SK | HU | BG |
|---|---|---|---|---|
| 2.8% | 0.3% | 1.8% | 0.9% | 0.4% |

**Table 4 - Sensitivity to landslide risk**

### Subsidence

Subsidence is the downward vertical movement of the Earth's surface, which can be caused by both natural processes and human activities. In particular groundwater-related subsidence has become a growing issue, especially in Belgium. The main risk is damage to real estate (and a corresponding loss in property value) and the assessment is hence confined to exposure collateralised by real estate.

The European Soil Data Centre (ESDAC) provides a European spatial dataset[12] which maps the natural susceptibility of agricultural soils to compaction if they were to be exposed to compaction, on a scale of 1 (low) to 4 (very high). The areas in the KBC home countries with the highest risk are located in Belgium and Hungary.

[10] *https://wisc.climate.copernicus.eu/wisc/*

[11] *https://esdac.jrc.ec.europa.eu/content/european-landslide-susceptibility-map-elsus-v2*

[12] *https://esdac.jrc.ec.europa.eu/content/natural-susceptibility-soil-compaction-europe*

For Belgium, recent scientific research[13] provides insight into the subsidence actually observed and identifies the West of Belgium and the port of Antwerp as the areas with the highest risk. Other scientific research[14] assesses the likelihood that subsidence will occur based on various conditions, such as the rate of decline of the groundwater table. Combining this information allows us to conclude that around 1.3% of residential properties and 3.7% of commercial properties have a very high risk of being damaged due to subsidence.

For Hungary, the identified area is thinly populated and the subsidence risk is considered to be limited.

### Erosion

Soil erosion by water is a significant threat with a negative impact on ecosystem services, crop production, drinking water and carbon stocks. The European Soil Data Centre (ESDAC) provides a European spatial dataset[15] which maps Soil Loss by Water Erosion. The highest erosion risk in the KBC home countries is found in the steep mountainous areas of Slovakia. In terms of economic activities, the sector suffering the most severe impact is the agricultural sector. The table below provides a geographic breakdown of sensitivity for this sector.

| BE | CZ | SK | HU | BG |
|---|---|---|---|---|
| 0.02% | 0.11% | 1.55% | 0.05% | 0% |

**Table 5 - Sensitivity to soil erosion (agricultural sector)**

[13] *https://orbi.uliege.be/bitstream/2268/263690/1/ShortPaper-IGARS2021_PYDeclercq.pdf*

[14] *Li et al. 2021, Land subsidence due to groundwater pumping: hazard probability assessment through the combination of Bayesian model and fuzzy set theory, Nat. Hazards Earth Syst. Sci., 21, 823–835*

[15] *https://esdac.jrc.ec.europa.eu/content/soil-erosion-water-rusle2015*

## EBA P3 templates on ESG risks

**Introduction**

This Annex discloses the quantitative templates required by the Implementing Technical Standards (ITS) on Pillar 3 disclosures on ESG risks (published by the EBA in January 2022). In compliance with regulatory imposed implementation dates, the following templates have been completed and can be consulted in this Annex:

- Templates 1, 2 and 4: quantitative disclosures on climate-change-related transition risks, including information on exposures towards carbon-related assets.
- Template 5: quantitative disclosures on climate-change-related physical risks, including information on assets subject to chronic and acute climate change events.
- Template 10: quantitative disclosures on mitigating actions supporting our counterparties in the transition to a carbon-neutral economy and in the adaptation to climate change.

In the first iteration of this regulatory reporting exercise, required data inputs are based on information that is collected on a best-effort basis and hence is also reliant on proxy estimations. Consequently, the templates must be interpreted with care and regarded as work in progress as, going forward, more and better data sources will become available (e.g., as a result of the further implementation of the Corporate Sustainability Reporting Directive (CSRD) and the European Reporting Standards (ESRS)). This should allow a better assessment of KBC's exposure to transition and physical risk based on the reported templates.

A one-on-one comparison between this and other externally published group reports is not always possible to the full extent.

Other templates described in the ITS – with required implementation dates in the future – are:

- Template 3: information about the alignment efforts with the Paris Agreement objectives for a selected number of sectors;
- Templates 6, 7, 8 and 9: KPIs on institutions' assets financing activities that are environmentally sustainable according to the EU Taxonomy.

With implementation deadlines beyond this reporting cycle, the action plan in place for these templates in order to provide the required data by the requested reporting date is described below.

**Overview of templates**

All templates in this Annex have been prepared as at reporting date 31 December 2022, taking KBC Bank Consolidated as the scope of reporting.

### Template 1 – Indicators of potential climate change transition risk

Template 1 contains information on those exposures more susceptible to potential risks related to the transition towards a low-carbon and climate-resilient economy. It includes exposures of non-financial corporates operating in climate-sensitive sectors, including non-performance status, stage 2 classification and related provisions as well as maturity buckets and

information on financed GHG emission data (scope 1 and scope 2). Scope 3 data will be added to the template at a later stage, once more data is available or by applying the PCAF methodology (EBA deadline: June 2024).

The financed GHG emissions (expressed in tonnes of CO2 equivalent) are calculated based on the guidelines created by the Partnership for Carbon Accounting Financials (PCAF) in the 'The Global GHG Accounting & Reporting Standard for the Financial Industry'. In case data could not be obtained directly from the counterparty, the scope 1 and 2 financed emissions were calculated based on the PCAF asset-based emission factor (based on the counterparty's NACE rev2 code and country).

The findings from template 1 are in line with previous materiality assessments performed within KBC. For example, the eight industrial sectors selected for the White Paper strategic projects (see the 'Climate-related and other ESG risks' section in this Risk Report) are the very sectors that are the most material for KBC's portfolio from a Greenhouse Gas (GHG) perspective. It concerns the energy, commercial real estate, agriculture, food production, building and construction, chemicals, transportation and metals sectors. Being well aware of the higher transition risk for these sectors, KBC has increased its focus on managing the risks (materialising through, for example, credit and reputational risk) by performing sectoral deep dives (White Papers), restricting certain activities (e.g., energy policy), performing ESG due diligence at loan origination and setting decarbonisation targets for these sectors. See also the 'Climate-related and other ESG risks' section in this Risk Report for more details.

**Banking book - indicators of potential climate change transition risk: credit quality of exposures by sector, emissions and residual maturity**

| | | a | b | c | d | e | f | g | h | i | j | k | l | m | n | o | p |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Gross carrying amount (in millions of EUR) | | | | | Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions (in millions of EUR) | | | GHG financed emissions (Scope 1, Scope 2 and Scope 3 emissions of the counterparty) (in tons of $CO_2$ equivalent) | | GHG emissions (column i): gross carrying amount percentage of the portfolio derived from company-specific reporting | ≤ 5 years | > 5 year ≤ 10 years | > 10 year ≤ 20 years | > 20 years | Average weighted maturity |
| | Sector/subsector | | Of which exposures towards companies excluded from EU Paris-aligned Benchmarks in accordance with Article 12(1) points (d) to (g) and Article 12(2) of Regulation (EU) 2020/1818 | Of which environmentally sustainable (CCM) | Of which Stage 2 exposures | Of which non-performing exposures | | Of which Stage 2 exposures | Of which non-performing exposures | | Of which Scope 3 financed emissions | | | | | | |
| 1 | **Exposures towards sectors that highly contribute to climate change*** | | | | | | | | | | | | | | | | |
| 2 | A - Agriculture, forestry and fishing | 2 860 | | | 1 873 | 69 | - 36 | - 12 | - 22 | 4 191 361 | | 0.00% | 946 | 911 | 951 | 43 | 8.23 |
| 3 | B - Mining and quarrying | 153 | 107 | | 22 | 1 | - 1 | | - 1 | 292 278 | | 0.00% | 137 | 12 | 1 | 0 | 2.41 |
| 4 | *B.05 - Mining of coal and lignite* | | | | | | | | | | | 0.00% | 0 | 0 | 0 | 0 | 0.00 |
| 5 | *B.06 - Extraction of crude petroleum and natural gas* | *1* | | | | | | | | 24 197 | | 0.00% | 1 | 0 | 0 | 0 | 1.49 |
| 6 | *B.07 - Mining of metal ores* | | | | | | | | | 7 | | 0.00% | 0 | 0 | 0 | 0 | 1.50 |
| 7 | *B.08 - Other mining and quarrying* | *43* | | | *14* | | | | | 14 780 | | 0.00% | 28 | 12 | 1 | 0 | 4.89 |
| 8 | *B.09 - Mining support service activities* | *109* | *107* | | *8* | | *- 1* | | | 253 295 | | 0.00% | 109 | 0 | 0 | 0 | 1.44 |
| 9 | C - Manufacturing | 15 235 | 80 | | 4 454 | 566 | - 412 | - 77 | - 327 | 2 426 913 | | 2.67% | 10 153 | 2 975 | 1 629 | 36 | 4.21 |
| 10 | *C.10 - Manufacture of food products* | 2 959 | | | 989 | 110 | - 80 | - 21 | - 58 | 376 645 | | 0.82% | 1 731 | 675 | 505 | 9 | 5.26 |
| 11 | *C.11 - Manufacture of beverages* | 418 | | | 143 | 15 | - 11 | - 6 | - 5 | 35 998 | | 0.00% | 183 | 191 | 36 | 0 | 5.01 |
| 12 | *C.12 - Manufacture of tobacco products* | | | | | | | | | 2 | | 0.00% | 0 | 0 | 0 | 0 | 0.91 |
| 13 | *C.13 - Manufacture of textiles* | 505 | | | 121 | 18 | - 13 | | - 13 | 57 133 | | 0.00% | 287 | 141 | 12 | 0 | 3.18 |
| 14 | *C.14 - Manufacture of wearing apparel* | 229 | | | 17 | 9 | - 6 | - 1 | - 5 | 30 558 | | 0.00% | 118 | 102 | 6 | 0 | 4.21 |
| 15 | *C.15 - Manufacture of leather and related products* | 68 | | | 13 | 3 | - 2 | - 2 | | 7 964 | | 0.00% | 63 | 4 | 0 | 0 | 2.43 |
| 16 | *C.16 - Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials* | 560 | | | 82 | 21 | - 15 | - 1 | - 14 | 90 191 | | 0.00% | 296 | 157 | 76 | 1 | 5.79 |
| 17 | *C.17 - Manufacture of paper and paper products* | *336* | | | *155* | *13* | *- 9* | *- 6* | *- 3* | 37 112 | | 0.00% | 224 | 84 | 26 | 0 | 4.22 |
| 18 | *C.18 - Printing and reproduction of recorded media* | *283* | | | *66* | *11* | *- 8* | *- 1* | *- 7* | 17 824 | | 0.00% | 174 | 64 | 42 | 1 | 5.07 |
| 19 | *C.19 - Manufacture of coke and refined petroleum products* | *88* | *80* | | *45* | *3* | *- 2* | | *- 2* | 66 782 | | 0.00% | 70 | 1 | 1 | 0 | 2.26 |
| 20 | *C.20 - Manufacture of chemicals and chemical products* | *857* | | | *110* | *32* | *- 23* | *- 5* | *- 18* | 294 544 | | 0.00% | 664 | 108 | 74 | 1 | 3.38 |
| 21 | *C.21 - Manufacture of basic pharmaceutical products and pharmaceutical preparations* | *388* | | | *57* | *14* | *- 10* | *- 5* | *- 3* | 143 927 | | 0.00% | 332 | 14 | 18 | 0 | 3.17 |
| 22 | *C.22 - Manufacture of rubber products* | *970* | | | *339* | *36* | *- 26* | *- 11* | *- 15* | 77 921 | | 0.00% | 754 | 135 | 74 | 0 | 3.22 |
| 23 | *C.23 - Manufacture of other non-metallic mineral products* | *707* | | | *255* | *26* | *- 19* | *- 5* | *- 14* | 489 020 | | 0.00% | 402 | 194 | 108 | 2 | 5.00 |
| 24 | *C.24 - Manufacture of basic metals* | *772* | | | *381* | *29* | *- 21* | *- 3* | *- 18* | 257 765 | | 1.71% | 730 | 33 | 5 | 0 | 1.25 |
| 25 | *C.25 - Manufacture of fabricated metal products, except machinery and equipment* | *1 790* | | | *571* | *67* | *- 49* | *- 13* | *- 33* | 115 842 | | 0.00% | 979 | 430 | 285 | 8 | 5.10 |
| 26 | *C.26 - Manufacture of computer, electronic and optical products* | *295* | | | *46* | *11* | *- 8* | *- 1* | *- 6* | 25 669 | | 0.00% | 163 | 45 | 22 | 1 | 2.95 |
| 27 | *C.27 - Manufacture of electrical equipment* | *453* | | | *83* | *17* | *- 12* | *- 5* | *- 6* | 27 303 | | 0.00% | 308 | 61 | 74 | 1 | 4.37 |
| 28 | *C.28 - Manufacture of machinery and equipment n.e.c.* | *1 152* | | | *218* | *43* | *- 31* | *- 10* | *- 21* | 58 536 | | 0.00% | 862 | 217 | 56 | 2 | 4.15 |
| 29 | *C.29 - Manufacture of motor vehicles, trailers and semi-trailers* | *1 091* | | | *308* | *41* | *- 30* | *- 2* | *- 27* | 39 357 | | 19.91% | 987 | 62 | 20 | 1 | 2.56 |
| 30 | *C.30 - Manufacture of other transport equipment* | *366* | | | *220* | *14* | *- 10* | *- 6* | *- 3* | 46 966 | | 30.44% | 247 | 100 | 10 | 0 | 2.83 |
| 31 | *C.31 - Manufacture of furniture* | *278* | | | *73* | *10* | *- 8* | *- 1* | *- 6* | 46 232 | | 0.00% | 243 | 32 | 28 | 1 | 5.74 |
| 32 | *C.32 - Other manufacturing* | *309* | | | *35* | *12* | *- 8* | | *- 8* | 45 044 | | 0.00% | 134 | 78 | 53 | 1 | 4.24 |
| 33 | *C.33 - Repair and installation of machinery and equipment* | *362* | | | *128* | *14* | *- 10* | *- 3* | *- 7* | 38 578 | | 10.65% | 202 | 48 | 98 | 9 | 6.01 |
| 34 | D - Electricity, gas, steam and air conditioning supply | 3 074 | 1 384 | | 1 139 | 45 | - 34 | - 21 | - 11 | 3 444 671 | | 0.00% | 858 | 900 | 1 119 | 37 | 7.86 |
| 35 | *D35.1 - Electric power generation, transmission and distribution* | 2 421 | 1 315 | | 423 | 37 | - 27 | - 10 | - 16 | 2 011 953 | | 0.00% | 654 | 577 | 1 086 | 37 | 8.85 |
| 36 | *D35.11 - Production of electricity* | *1 620* | *1 315* | | *351* | *25* | *- 18* | *- 6* | *- 12* | 1 922 218 | | 0.00% | 502 | 432 | 623 | 36 | 8.62 |
| 37 | *D35.2 - Manufacture of gas; distribution of gaseous fuels through mains* | *591* | *69* | | *465* | *7* | *- 6* | *- 6* | | 812 086 | | 0.00% | 182 | 281 | 6 | 0 | 3.34 |
| 38 | *D35.3 - Steam and air conditioning supply* | *62* | | | *49* | *1* | *- 1* | *- 1* | | 589 540 | | 0.00% | 14 | 21 | 27 | 0 | 9.27 |
| 39 | E - Water supply; sewerage, waste management and remediation activities | 1 181 | | | 112 | 3 | - 3 | - 1 | - 2 | 471 776 | | 0.00% | 409 | 288 | 428 | 21 | 8.43 |
| 40 | F - Construction | 5 824 | | | 1 697 | 281 | - 169 | - 12 | - 148 | 173 524 | | 0.00% | 3 220 | 811 | 1 254 | 377 | 6.50 |
| 41 | *F.41 - Construction of buildings* | *2 346* | | | *790* | *113* | *- 67* | *- 4* | *- 63* | 63 156 | | 0.00% | 1 497 | 262 | 399 | 95 | 4.71 |
| 42 | *F.42 - Civil engineering* | *905* | | | *70* | *43* | *- 26* | | *- 19* | 45 296 | | 0.00% | 503 | 94 | 132 | 123 | 7.06 |
| 43 | *F.43 - Specialised construction activities* | *2 573* | | | *836* | *126* | *- 76* | *- 12* | *- 61* | 67 115 | | 0.00% | 1 220 | 455 | 723 | 158 | 7.95 |
| 44 | G - Wholesale and retail trade; repair of motor vehicles and motorcycles | 14 004 | 72 | | 2 747 | 825 | - 707 | - 26 | - 671 | 887 556 | | 0.58% | 8 210 | 2 780 | 2 219 | 101 | 5.32 |
| 45 | H - Transportation and storage | 5 175 | | | 2 045 | 83 | - 69 | - 37 | - 27 | 1 968 755 | | 0.00% | 3 066 | 1 224 | 697 | 16 | 4.64 |
| 46 | *H.49 - Land transport and transport via pipelines* | *2 216* | | | *933* | *34* | *- 29* | *- 17* | *- 9* | 332 998 | | 0.00% | 1 265 | 531 | 276 | 7 | 4.92 |
| 47 | *H.50 - Water transport* | *1 000* | | | *419* | *16* | *- 14* | *- 11* | *- 2* | 1 487 895 | | 0.00% | 639 | 102 | 224 | 4 | 4.21 |
| 48 | *H.51 - Air transport* | *77* | | | *2* | *1* | *- 1* | | *- 1* | 72 434 | | 0.00% | 71 | 2 | 3 | 0 | 2.24 |
| 49 | *H.52 - Warehousing and support activities for transportation* | *1 846* | | | *674* | *30* | *- 25* | *- 14* | *- 9* | 74 822 | | 0.00% | 1 068 | 586 | 185 | 1 | 4.57 |
| 50 | *H.53 - Postal and courier activities* | *36* | | | *17* | *1* | | | | 607 | | 0.00% | 23 | 2 | 8 | 2 | 6.93 |
| 51 | I - Accommodation and food service activities | 1 127 | | | 872 | 103 | - 37 | - 10 | - 26 | 33 097 | | 0.00% | 400 | 270 | 425 | 27 | 8.42 |
| 52 | L - Real estate activities | 11 376 | | | 2 840 | 442 | - 223 | - 37 | - 168 | 123 704 | | 0.00% | 5 558 | 2 823 | 2 792 | 182 | 6.42 |
| 53 | **Exposures towards sectors other than those that highly contribute to climate change*** | | | | | | | | | | | | | | | | |
| 54 | K - Financial and insurance activities | 3 535 | | | 576 | 93 | - 37 | - 3 | - 32 | | | | 2 283 | 674 | 437 | 43 | 4.56 |
| 55 | Exposures to other sectors (NACE codes J, M - U) | 17 202 | | | 4 330 | 422 | - 262 | - 38 | - 213 | | | | 7 259 | 3 380 | 5 118 | 1 250 | 8.42 |
| 56 | **Total** | **80 744** | **1 643** | | **22 706** | **2 933** | **-1 991** | **- 274** | **- 231** | **15 067 807** | | **0.40%** | **42 501** | **17 048** | **17 069** | **2 134** | **6.37** |

** In accordance with the Commission Delegated Regulation EU) 2020/1818 supplementing Regulation (EU) 2016/1011 as regards minimum standards for EU Climate Transition Benchmarks and EU Paris-aligned Benchmarks -Climate Benchmark Standards Regulation - Recital 6: Sectors listed in Sections A to H and Section L of Annex I to Regulation (EC) No 1893/2006*

*Table 107 - Template 1 – Indicators of potential climate change transition risk*

## Template 2 – Climate change transition risk: loans collateralised by immovable property collateral – Energy efficiency of the collateral

Template 2 includes information on the loans collateralised by commercial and residential immovable property, including information on the level of energy efficiency of the collateral measured or estimated in terms of kWh/m2 energy consumption, and in terms of the label of the energy performance certificate (EPC).

When energy efficiency scores were not available but details of the underlying asset were available, internal estimates were used to complete columns b-g of the template. Due to the wide variety of EPC methods adopted on national and even regional levels (based on the EPB directive), EPC labels are not uniformly reported across KBC's core countries. The allocation to the EPC labels of the report is text-based, i.e. if the label contains A, in whichever form, it will be allocated to the A label and likewise for labels B-G. Loans of which the collateral was obtained by taking possession are not reported due to the low materiality of the portfolio. The collection of EP scores or labels is an ongoing process and both the share of certified scores and the share of estimated scores will continuously improve going forward.

**Banking book - indicators of potential climate change transition risk: loans collateralised by immovable property - energy efficiency of the collateral**

| | | **Total gross carrying amount amount** (in millions of EUR) | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | **Level of energy efficiency** (EP score in kWh/m² of collateral) | | | | | | **Level of energy efficiency** (EPC label of collateral) | | | | | | | **Without EPC label of collateral** | |
| | **Counterparty sector** | | 0 ≤100 | > 100; ≤ 200 | > 200; ≤ 300 | > 300; ≤ 400 | > 400; ≤ 500 | > 500 | A | B | C | D | E | F | G | | Of which level of energy efficiency (EP score in kWh/m² of collateral) estimated |
| **1** | **Total EU area** | **100 934** | **6 906** | **12 185** | **8 616** | **6 206** | **7 149** | **9 661** | **912** | **2 791** | **2 474** | **1 847** | **1 400** | **2 035** | **810** | **88 663** | **38 886** |
| *2* | *Of which Loans collateralised by commercial immovable property* | *22 523* | *301* | *94* | *364* | *26* | *78* | *392* | *83* | *133* | *113* | *38* | *43* | *17* | *124* | *21 972* | *1 056* |
| *3* | *Of which Loans collateralised by residential immovable property* | *78 412* | *6 605* | *12 091* | *8 252* | *6 180* | *7 071* | *9 269* | *830* | *2 659* | *2 361* | *1 810* | *1 357* | *2 018* | *686* | *66 691* | *37 830* |
| *4* | *Of which Collateral obtained by taking possession: residential and commercial immovable properties* | | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* | | |
| *5* | *Of which Level of energy efficiency (EP score in kWh/m² of collateral) estimated* | *38 886* | *5 562* | *9 400* | *6 111* | *4 382* | *5 902* | *7 529* | | | | | | | | *38 886* | *38 886* |
| **6** | **Total non-EU area** | **360** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **360** | **0** |
| *7* | *Of which Loans collateralised by commercial immovable property* | *117* | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *117* | *0* |
| *8* | *Of which Loans collateralised by residential immovable property* | *242* | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *242* | *0* |
| *9* | *Of which Collateral obtained by taking possession: residential and commercial immovable properties* | | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* | | *0* |
| *10* | *Of which Level of energy efficiency (EP score in kWh/m² of collateral) estimated* | *0* | *0* | *0* | *0* | *0* | *0* | *0* | | | | | | | | | |

Table 108 - Template 2 – Climate change transition risk: loans collateralised by immovable property collateral – Energy efficiency of the collateral

*27/10/2023 – We restated the figures to ensure alignment with other supervisory reporting.*

### Template 3 – Climate change transition risk – Alignment metrics

Template 3 aims to gather information on efforts to align with the objectives of the Paris Agreement for a selected number of sectors. The reporting of template 3 is only required as of June 2024.

KBC Group has prepared strategic assessments (the so-called 'White Papers') of sectors with the largest climate impact because of the nature of the activities (carbon-intensive industrial sectors) and based on the size of our exposure to that sector. Based on these White Papers, KBC Group published its first climate report in September 2022. This climate report contains sector-specific metrics and targets for its lending business. See also the 'Climate-related and other ESG risks' section in this Risk Report. These metrics and targets cover the majority of the exposure in the loan portfolio as well as the majority of the GHG emissions. The targets have been set for 2030 and for 2050, as determined by the UNEP FI guidelines and using the Sectoral Decarbonisation Approach as worked out by SBTi. Interim targets (reporting year +3 years), as requested in the template, indicate for KBC the interim data points calculated, which are an indication of the linear pathway to be followed. However, this pathway may be subject to interim fluctuations. KBC still adheres to its 2030 and 2050 targets.

The 2022 Sustainability Report also reports on the progress made on these targets for the first time. Both the baseline for the targets and the initial progress reports have been externally validated by PWC. In addition, for some industrial sectors, KBC also calculates alignment metrics based on the PACTA methodology. These results are also published in the 2022 Sustainability Report.

In all metrics and targets published, we emphasise the most relevant subsectors for our portfolio and the subsectors within the value chain that have the greatest impact on climate change (as explicitly defined in the PACTA methodology, for example).

Although KBC has already set alignment metrics and targets for most of the portfolio (in terms of exposure and emissions), we still need to take some additional steps before we can report in template 3 of this EBA Pillar 3 reporting as

- KBC is not yet measuring alignment metrics for all the sectors which are explicitly mentioned in the template;
- the climate alignment benchmark (IEA Net Zero 2050) differs from the climate benchmarks KBC currently uses, which are based on well below 2°C climate scenarios.

For some sectors (chemicals and maritime transport), the possibilities to collect data and set up a metric will be further elaborated in 2023 and early 2024. These will be included in more detail in our environmental sector analyses that are regularly updated (the so-called 'White Papers'). However, we point out that the chemicals sector consists of a wide range of different sub-sectors, which complicates establishing a physical intensity target and defining a clear target for the sector as a whole.

KBC will always align the targets, in terms of setting the level as well as the coverage of the various sectors, with the existing climate strategy (and consequently the deliberate choice for White Paper sectors and sectors for which metrics and targets have been established) and its current commitment by means of the UNEP FI Collective Commitment to Climate Action (the 'CCCA'). In the coming months, we will also calculate the alignment of our sectors with the IEA's prescribed Net Zero pathway. The necessary calculations still need to be made for this. As stipulated in the Guidelines, we will finalise these actions in time for their first inclusion in the June 2024 EBA Pillar 3 reporting.

## Template 4 – Climate change transition risk: Exposures to top 20 carbon-intensive firms

The list of the top 20 most carbon-intensive corporates worldwide is selected based on data provided by S&P Trucost Limited (reference period: 30/09/2022) . More specifically, it is based on the list of 20 companies with the highest absolute GHG emissions worldwide (scopes 1, 2 and 3). Although we have also included scope 3 emissions, the availability of scope 3 disclosures from companies is very limited. Figures from our data provider show that less than 10% of companies in their scope fully disclose scope 3 downstream emissions.

KBC Group's total outstanding exposure to these top 20 carbon-intensive firms at year-end 2022 is very limited (25 115 320 euros):

- A large part of which contributes to climate change mitigation (renewable energy projects) = 13 396 127 euros;
- This also includes limited (short-term) exposure to Commercial Finance debtor cover and Non-credit replacing guarantees.

**Banking book - indicators of potential climate change transition risk: exposures to top 20 carbon-intensive firms**

| | Gross carrying amount (aggregate) | Gross carrying amount towards the counterparties compared to total gross carrying amount (aggregate)* | Of which environmentally sustainable (CCM) | Weighted average maturity | Number of top 20 polluting firms included |
|---|---|---|---|---|---|
| 1 | 25.12 | 0.01% | 13.40 | 6.96 years | 6 |

**For counterparties among the top 20 carbon emitting companies in the world*

Table 109 - Template 4 – Climate change transition risk: Exposures to top 20 carbon-intensive firms

*27/10/2023 – The narrative has been updated to align with regulatory requirements.*

## Template 5 – Climate change physical risk: Exposures to physical risk

Template 5 includes information on exposures in the banking book to non-financial corporates, on loans collateralised by immovable property and on repossessed real estate collateral, exposed to chronic and acute climate-related hazards, with a breakdown by sector of economic activity and by geography of location of the activity of the counterparty or of the collateral, for those sectors and geographical areas subject to climate change acute and chronic events. We refer to 'Annex XIII - Physical risk assessments' for an overview of the sources of information and the methodologies applied to identify the exposures subject to climate change physical risk.

**Template 5: Banking book - Indicators of potential climate change physical risk: exposures subject to physical risk**

| | a | b | c | d | e | f | g | h | i | j | k | l | m | n | o |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | **Gross carrying amount** (in millions of EUR) | | | | | | | | | | | | | |
| | | | **of which exposures sensitive to impact from climate change physical events** | | | | | | | | | | | | |
| | | | **Breakdown by maturity bucket** | | | | | of which exposures sensitive to impact from chronic climate change events | of which exposures sensitive to impact from acute climate change events | of which exposures sensitive to impact both from chronic and acute climate change events | Of which Stage 2 exposures | Of which non-performing exposures | **Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions** | | |
| | **Belgium - subject to climate change physical risk - acute and chronic events** | | ≤ 5 years | > 5 year ≤ 10 years | > 10 year ≤ 20 years | > 20 years | Average weighted maturity | | | | | | | of which Stage 2 exposures | Of which non-performing exposures |
| 1 | A - Agriculture, forestry and fishing | 1 522 | 96 | 93 | 96 | 4 | 8.22 | 0 | 287 | 3 | 80 | 8 | -3 | -1 | -2 |
| 2 | B - Mining and quarrying | 118 | 13 | 1 | 0 | 0 | 2.41 | 0 | 14 | 0 | 0 | 1 | 0 | 0 | 0 |
| 3 | C - Manufacturing | 9 991 | 283 | 82 | 57 | 1 | 4.47 | 33 | 436 | 0 | 102 | 18 | -12 | -2 | -10 |
| 4 | D - Electricity, gas, steam and air conditioning supply | 2 004 | 125 | 141 | 114 | 0 | 6.07 | 0 | 184 | 219 | 47 | 4 | -3 | 0 | -3 |
| 5 | E - Water supply; sewerage, waste management and remediation activities | 828 | 54 | 8 | 52 | 4 | 5.71 | 0 | 155 | 0 | 17 | 0 | 0 | 0 | 0 |
| 6 | F - Construction | 4 287 | 98 | 9 | 32 | 49 | 9.15 | 11 | 228 | 0 | 15 | 13 | -7 | -1 | -6 |
| 7 | G - Wholesale and retail trade; repair of motor vehicles and motorcycles | 8 742 | 286 | 87 | 26 | 0 | 7.51 | 46 | 478 | 0 | 53 | 42 | -36 | -1 | -35 |
| 8 | H - Transportation and storage | 3 191 | 27 | 83 | 18 | 0 | 3.83 | 2 | 205 | 0 | 49 | 3 | -1 | -1 | 0 |
| 9 | L - Real estate activities | 6 454 | 153 | 208 | 42 | 0 | 6.49 | 17 | 403 | 0 | 33 | 25 | -9 | -2 | 0 |
| 10 | Loans collateralised by residential immovable property | 45 326 | 218 | 445 | 1 576 | 1 008 | 15.69 | 236 | 3 069 | 109 | 448 | 14 | -6 | -2 | -4 |
| 11 | Loans collateralised by commercial immovable property | 10 146 | 126 | 265 | 463 | 46 | 11.14 | 0 | 849 | 51 | 262 | 61 | -17 | -5 | -11 |
| 12 | Repossessed collaterals | | | | | | | | | | | | | | |
| 13 | Other relevant sectors (breakdown below where relevant) | | | | | | | | | | | | | | |

*Table 110 - Template 5 – Climate change physical risk: Exposures to physical risk (Belgium)*

**Template 5: Banking book - Indicators of potential climate change physical risk: exposures subject to physical risk**

| | a | b | c | d | e | f | g | h | i | j | k | l | m | n | o |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Gross carrying amount (in millions of EUR) | | | | | | | | | | | | |
| | | | of which exposures sensitive to impact from climate change physical events | | | | | | | | | | | | |
| | | | Breakdown by maturity bucket | | | | | of which exposures sensitive to impact from chronic climate change events | of which exposures sensitive to impact from acute climate change events | of which exposures sensitive to impact both from chronic and acute climate change events | Of which Stage 2 exposures | Of which non-performing exposures | Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions | | |
| | Czech Republic - subject to climate change physical risk - acute and chronic events | | ≤ 5 years | > 5 year ≤ 10 years | > 10 year ≤ 20 years | > 20 years | Average weighted maturity | | | | | | | of which Stage 2 exposures | Of which non-performing exposures |
| 1 | A - Agriculture, forestry and fishing | 205 | 10 | 14 | 9 | 1 | 8.21 | 0 | 34 | 0 | 19 | 1 | -1 | -1 | 0 |
| 2 | B - Mining and quarrying | 6 | 0 | 0 | 0 | 0 | 2.77 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 3 | C - Manufacturing | 2 409 | 173 | 96 | 28 | 0 | 4.33 | 9 | 317 | 0 | 119 | 13 | -12 | -4 | -8 |
| 4 | D - Electricity, gas, steam and air conditioning supply | 302 | 4 | 7 | 0 | 0 | 2.77 | 0 | 19 | 0 | 14 | 1 | 0 | 0 | 0 |
| 5 | E - Water supply; sewerage, waste management and remediation activities | 245 | 18 | 22 | 5 | 0 | 6.02 | 0 | 51 | 0 | 3 | 0 | 0 | 0 | 0 |
| 6 | F - Construction | 572 | 9 | 2 | 2 | 3 | 8.33 | 2 | 16 | 0 | 3 | 1 | 0 | 0 | 0 |
| 7 | G - Wholesale and retail trade; repair of motor vehicles and motorcycles | 2 066 | 65 | 20 | 8 | 0 | 3.82 | 5 | 98 | 0 | 17 | 3 | -3 | -1 | -2 |
| 8 | H - Transportation and storage | 1 040 | 79 | 39 | 36 | 0 | 5.65 | 0 | 165 | 0 | 20 | 3 | -5 | -3 | -2 |
| 9 | L - Real estate activities | 2 754 | 15 | 16 | 8 | 2 | 7.93 | 8 | 41 | 0 | 9 | 0 | -1 | 0 | 0 |
| 10 | Loans collateralised by residential immovable property | 20 583 | 20 | 44 | 158 | 576 | 20.13 | 564 | 504 | 0 | 101 | 6 | -3 | -2 | -1 |
| 11 | Loans collateralised by commercial immovable property | 5 291 | 83 | 112 | 95 | 4 | 8.27 | 16 | 307 | 0 | 65 | 6 | -5 | -2 | -3 |
| 12 | Repossessed collaterals | | | | | | | | | | | | | | |
| 13 | Other relevant sectors (breakdown below where relevant) | | | | | | | | | | | | | | |

*Table 111 - Template 5 – Climate change physical risk: Exposures to physical risk (Czech Republic)*

**Template 5: Banking book - Indicators of potential climate change physical risk: exposures subject to physical risk**

| | | Gross carrying amount (in millions of EUR) | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | of which exposures sensitive to impact from climate change physical events | | | | | | | | | | | |
| | | | Breakdown by maturity bucket | | | | | of which exposures sensitive to impact from chronic climate change events | of which exposures sensitive to impact from acute climate change events | of which exposures sensitive to impact both from chronic and acute climate change events | Of which Stage 2 exposures | Of which non-performing exposures | Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions | |
| | Bulgaria - subject to climate change physical risk - acute and chronic events | | ≤ 5 years | > 5 year ≤ 10 years | > 10 year ≤ 20 years | > 20 years | Average weighted maturity | | | | | | of which Stage 2 exposures | Of which non-performing exposures |
| 1 | A - Agriculture, forestry and fishing | 202 | 22 | 15 | 1 | 0 | 4.26 | 0 | 39 | 0 | 7 | 2 | -1 | 0 | -1 |
| 2 | B - Mining and quarrying | 10 | 0 | 0 | 0 | 0 | 6.97 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 3 | C - Manufacturing | 860 | 58 | 24 | 3 | 0 | 3.67 | 0 | 85 | 0 | 28 | 3 | -2 | 0 | -1 |
| 4 | D - Electricity, gas, steam and air conditioning supply | 146 | 3 | 2 | 5 | 0 | 9.26 | 0 | 10 | 0 | 0 | 0 | 0 | 0 | 0 |
| 5 | E - Water supply; sewerage, waste management and remediation activities | 27 | 1 | 2 | 0 | 0 | 6.42 | 0 | 3 | 0 | 1 | 0 | 0 | 0 | 0 |
| 6 | F - Construction | 102 | 0 | 0 | 0 | 0 | 2.17 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 7 | G - Wholesale and retail trade; repair of motor vehicles and motorcycles | 764 | 4 | 2 | 0 | 0 | 3.66 | 0 | 7 | 0 | 1 | 0 | 0 | 0 | 0 |
| 8 | H - Transportation and storage | 132 | 0 | 0 | 0 | 0 | 5.58 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 9 | L - Real estate activities | 69 | 0 | 0 | 0 | 0 | 5.93 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 10 | Loans collateralised by residential immovable property | 1 076 | 1 | 2 | 6 | 15 | 19.44 | 14 | 17 | 0 | 2 | 1 | 0 | 0 | 0 |
| 11 | Loans collateralised by commercial immovable property | 1 405 | 18 | 17 | 2 | 0 | 4.87 | 0 | 38 | 0 | 6 | 2 | -1 | 0 | -1 |
| 12 | Repossessed collaterals | | | | | | | | | | | | | | |
| 13 | Other relevant sectors (breakdown below where relevant) | | | | | | | | | | | | | | |

*Table 112 - Template 5 – Climate change physical risk: Exposures to physical risk (Bulgaria)*

| | a | b | c | d | e | f | g | h | i | j | k | l | m | n | o |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Template 5: Banking book - Indicators of potential climate change physical risk: exposures subject to physical risk** | | | | | | | | | | | | | | |
| | | | **Gross carrying amount** (in millions of EUR) | | | | | | | | | | | | |
| | | | **of which exposures sensitive to impact from climate change physical events** | | | | | | | | | | | | |
| | | | **Breakdown by maturity bucket** | | | | | of which exposures sensitive to impact from chronic climate change events | of which exposures sensitive to impact from acute climate change events | of which exposures sensitive to impact both from chronic and acute climate change events | Of which Stage 2 exposures | Of which non-performing exposures | **Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions** | | |
| | **Slovakia - subject to climate change physical risk - acute and chronic events** | | ≤ 5 years | > 5 year ≤ 10 years | > 10 year ≤ 20 years | > 20 years | Average weighted maturity | | | | | | | of which Stage 2 exposures | Of which non-performing exposures |
| 1 | A - Agriculture, forestry and fishing | 89 | 14 | 3 | 0 | 0 | 3.99 | 0 | 17 | 0 | 7 | 0 | 0 | 0 | 0 |
| 2 | B - Mining and quarrying | 10 | 0 | 0 | 0 | 0 | 5.51 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 3 | C - Manufacturing | 640 | 40 | 10 | 3 | 0 | 3.72 | 2 | 54 | 0 | 33 | 2 | -3 | -1 | -1 |
| 4 | D - Electricity, gas, steam and air conditioning supply | 266 | 53 | 14 | 1 | 0 | 3.52 | 0 | 74 | 0 | 51 | 1 | -2 | -1 | -1 |
| 5 | E - Water supply; sewerage, waste management and remediation activities | 96 | 5 | 8 | 7 | 3 | 10.27 | 0 | 22 | 1 | 4 | 0 | 0 | 0 | 0 |
| 6 | F - Construction | 289 | 8 | 1 | 2 | 2 | 7.21 | 0 | 14 | 0 | 4 | 1 | -1 | 0 | -1 |
| 7 | G - Wholesale and retail trade; repair of motor vehicles and motorcycles | 695 | 64 | 21 | 6 | 0 | 4.30 | 0 | 91 | 0 | 22 | 2 | -3 | -1 | -1 |
| 8 | H - Transportation and storage | 253 | 13 | 7 | 0 | 0 | 4.27 | 0 | 20 | 0 | 10 | 1 | -1 | 0 | 0 |
| 9 | L - Real estate activities | 599 | 107 | 24 | 9 | 2 | 3.85 | 0 | 143 | 0 | 58 | 1 | -3 | -2 | -1 |
| 10 | Loans collateralised by residential immovable property | 6 182 | 2 | 8 | 54 | 315 | 23.09 | 222 | 211 | 9 | 18 | 2 | -2 | -1 | 0 |
| 11 | Loans collateralised by commercial immovable property | 1 262 | 54 | 33 | 19 | 0 | 5.73 | 0 | 105 | 0 | 37 | 1 | -3 | -2 | -1 |
| 12 | Repossessed collaterals | | | | | | | | | | | | | | |
| 13 | Other relevant sectors (breakdown below where relevant) | | | | | | | | | | | | | | |

*Table 113 - Template 5 – Climate change physical risk: Exposures to physical risk (Slovakia)*

| | a | b | c | d | e | f | g | h | i | j | k | l | m | n | o |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Template 5: Banking book - Indicators of potential climate change physical risk: exposures subject to physical risk** | | | | | | | | | | | | | | | |
| | | **Gross carrying amount** (in millions of EUR) | | | | | | | | | | | | | |
| | | | **of which exposures sensitive to impact from climate change physical events** | | | | | | | | | | | | |
| | | | **Breakdown by maturity bucket** | | | | | of which exposures sensitive to impact from chronic climate change events | of which exposures sensitive to impact from acute climate change events | of which exposures sensitive to impact both from chronic and acute climate change events | Of which Stage 2 exposures | Of which non-performing exposures | **Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions** | | |
| | **Hungary - subject to climate change physical risk - acute and chronic events** | | ≤ 5 years | > 5 year ≤ 10 years | > 10 year ≤ 20 years | > 20 years | Average weighted maturity | | | | | | | of which Stage 2 exposures | Of which non-performing exposures |
| 1 | A - Agriculture, forestry and fishing | 346 | 32 | 16 | 3 | 0 | 4.49 | 0 | 51 | 0 | 24 | 0 | -1 | 0 | 0 |
| 2 | B - Mining and quarrying | 3 | 0 | 0 | 0 | 0 | 0.16 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 3 | C - Manufacturing | 861 | 36 | 7 | 1 | 0 | 2.36 | 0 | 48 | 0 | 23 | 2 | -1 | 0 | -1 |
| 4 | D - Electricity, gas, steam and air conditioning supply | 211 | 0 | 3 | 15 | 0 | 12.73 | 0 | 18 | 0 | 7 | 0 | 0 | 0 | 0 |
| 5 | E - Water supply; sewerage, waste management and remediation activities | 29 | 2 | 1 | 0 | 0 | 2.64 | 0 | 3 | 0 | 0 | 0 | 0 | 0 | 0 |
| 6 | F - Construction | 79 | 1 | 0 | 0 | 0 | 6.83 | 0 | 2 | 0 | 1 | 0 | 0 | 0 | 0 |
| 7 | G - Wholesale and retail trade; repair of motor vehicles and motorcycles | 403 | 18 | 4 | 0 | 0 | 2.47 | 0 | 22 | 0 | 10 | 0 | 0 | 0 | 0 |
| 8 | H - Transportation and storage | 166 | 8 | 2 | 1 | 0 | 4.35 | 0 | 11 | 0 | 3 | 0 | 0 | 0 | 0 |
| 9 | L - Real estate activities | 397 | 2 | 12 | 0 | 0 | 6.87 | 0 | 15 | 0 | 3 | 0 | 0 | 0 | 0 |
| 10 | Loans collateralised by residential immovable property | 1 644 | 6 | 14 | 50 | 19 | 15.65 | 19 | 85 | 0 | 30 | 4 | -2 | -1 | -1 |
| 11 | Loans collateralised by commercial immovable property | 1 405 | 35 | 26 | 4 | 10 | 6.42 | 106 | 69 | 0 | 77 | 4 | -3 | -1 | -1 |
| 12 | Repossessed collaterals | | | | | | | | | | | | | | |
| 13 | Other relevant sectors (breakdown below where relevant) | | | | | | | | | | | | | | |

*Table 114 - Template 5 – Climate change physical risk: Exposures to physical risk (Hungary)*

### Templates linked to EU Taxonomy reporting (templates 6 to 9)

Templates 6, 7, 8 and 9 include KPIs on asset financing activities that are environmentally sustainable according to the EU Taxonomy. The reporting of templates 6, 7 and 8 is only required as of the beginning of 2024 and is closely linked with KBC's Taxonomy reporting. KBC reported for the first time on EU Taxonomy eligibility in the Annual Report on the financial year 2021, and this is repeated in the 2022 Annual Report ('Focus on the climate' section) of KBC Group NV. As such, part of the information contained in the GAR templates of Pillar 3 is currently already available within KBC.

Our methodology on eligibility reporting includes the recommendations issued by the European Commission in December 2021 and February 2022 (the so-called 'FAQ1' and 'FAQ2') and we also based our reporting on the guiding documents issued by UNEP FI ('Testing the application of the EU Taxonomy to core banking products' and 'Practical approaches to applying the EU Taxonomy to bank lending').

In parallel with the eligibility reporting, KBC is already working on the interpretation and implementation of the EU Taxonomy alignment reporting. Templates 6 to 8 of the Pillar 3 reporting are included in this exercise.

Template 9 (BTAR) aims to provide information on the EU Taxonomy eligibility and EU Taxonomy alignment with regard to the environmental objectives of climate change adaptation for counterparties that are non-financial corporates and that do not have disclosure obligations. These will be included in the same implementation exercise as for the GAR reporting.

### Template 10 – Other climate change mitigating actions that are not covered in the EU Taxonomy

Template 10 provides information about other climate change mitigating actions (not covered in the EU Taxonomy) and includes exposures of the institutions that are not Taxonomy-aligned according to templates 7 and 8 but that still support counterparties in the transition and adaptation process for the objectives of climate change mitigation and climate change adaptation.

We disclose various actions contributing to climate change mitigation, based on frameworks that are market practice but that do not fully reflect the technical criteria of the EU Taxonomy. Hence this template does not include loans that will be reported in templates 6, 7, 8 and 9 going forward.

<u>Bonds</u>

- KBC Bank NV's own investments (all subsidiaries): KBC Bank supports the green investments made by governments and other financial institutions by investing in Green Bonds which are aligned with the ICMA Green Bond Principles. The total nominal value of this Green Bond Portfolio as at 31 December 2022 equals 618 703 274 euros and consists of
    - Bonds of governments and local authorities (541 024 866 euros);
    - Bonds of credit institutions and financial institutions (77 678 408 euros).

<u>Loans</u>

- Sustainability-Linked Loans (syndicated and bilateral loans) with a total gross carrying amount of 611 726 270 euros (as at 31 December 2022):
    - Bilateral loans to non-financial corporates (117 333 333 euros);
    - Syndicated loans (494 392 937 euros) to non-financial corporates (484 903 886 euros) and financial institutions (9 489 051 euros).

  All of these loans have at least one KPI that contributes to the climate transition (many of them have GHG emission reduction targets and/or energy reduction targets).

- Loans to non-financial corporates that can be labelled as ‘Green’ according to the LMA Framework, with a total gross carrying amount of 67 570 423 euros (as at 31 December 2022), either
    - Contributing to the climate transition (51 153 756 euros); or
    - Contributing to climate adaptation (16 416 667 euros).
- Loans to non-financial corporates that are ‘eligible for Climate Action’ based on the EIB Framework, with a total gross carrying amount of 32 306 709 euros (as at 31 December 2022), all of them contributing to the climate transition.
- Loans to non-financial corporates provided by ČSOB Czech Republic, with a total gross carrying amount of 4 849 784 euros (as at 31 December 2022), of which collateralised by immovable property = 821 087 euros. All of these loans contribute to the climate transition and have been granted based on one of the following frameworks:
    - OPŽP (Environment Operational Programme)
      Source of funding: European Regional Development Fund (ERDF) / Cohesion Fund (CF);
    - OPPIK (entrepreneurship and innovation for competitiveness operational programme)
      Environmental part of the programme: subsidies for energy savings in companies.

Loans to households provided by K&H Hungary, with a total gross carrying amount of 86 182 euros (as at 31 December 2022), all of which are renovation loans and contribute to the climate transition. These loans have been granted based on the Green Capital Relief Programme of the Hungarian National Bank.

| | a | b | c | d | e | f |
|---|---|---|---|---|---|---|
| **Other climate change mitigating actions that are not covered in Regulation (EU) 2020/852** | | | | | | |
| | **Type of financial instrument** | **Type of counterparty** | **Gross carrying amount** (in millions of EUR) | **Type of risk mitigated** (climate change transition risk) | **Type of risk mitigated** (climate change physical risk) | **Qualitative information on the nature of the mitigating actions** |
| 1 | Bonds (e.g. green, sustainable, sustainability-linked under standards other than the EU standards) | Financial corporations | 77.68 | 77.68 | 0.00 | green bonds / ICMA principles aligned |
| 2 | | Non-financial corporations | | | | |
| *3* | | *Of which Loans collateralised by commercial immovable property* | | | | |
| 4 | | Other counterparties | 541.02 | 541.02 | 0.00 | green government / local authorities bonds / ICMA principles aligned |
| 5 | Loans (e.g. green, sustainable, sustainability-linked under standards other than the EU standards) | Financial corporations | 9.49 | 9.49 | 0.00 | Sustainability-linked loans |
| | | Non-financial corporations | 706.96 | 690.55 | 16.42 | Sustainability-linked loans / LMA framework / EIB framework / Specific frameworks Czech Rep. |
| *7* | | *Of which Loans collateralised by commercial immovable property* | *20.27* | *20.27* | *0.00* | |
| 8 | | Households | 0.09 | 0.09 | | renovation loans (Green Capital Relief Program of the Hungarian National Bank) |
| *9* | | *Of which Loans collateralised by residential immovable property* | | | | |
| *10* | | *Of which building renovation loans* | *0.09* | *0.09* | | |
| 11 | | Other counterparties | | | | |

Template 10 – Other climate change mitigating actions that are not covered in the EU Taxonomy

# Annex XIV

## List of tables

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# Glossary

### 3 LOD (Three Lines of Defence)

The 3 LOD model ensures the resilience of KBC's risk and control environment and safeguards the sustainability of our business model going forward. In this model, Business acts as the first line of defence, Risk as one of the second lines and Internal Audit as the third line. They all work together in order to prevent big impact losses for the KBC group.

### ALM (Asset and Liability Management)

The ongoing process of formulating, implementing, monitoring and revising strategies for both on-balance-sheet and off-balance-sheet items, in order to achieve an organisation's financial objectives, given the organisation's risk tolerance and other constraints.

### Asset class

A classification of credit exposures according to the Capital Requirements Directive – IRB approach. The main classes are Sovereigns, Institutions, Corporates, SME Corporates and Retail. Classification depends on the type of obligor, the total annual sales of the obligor, the type of product and the exposure value.

### Banking book

KBC's banking book is defined as all positions in the KBC Bank group that are not in the trading book.

A trading book consists of positions in financial instruments and commodities held either with trading intent or in order to hedge other elements of the trading book. To be eligible for trading book capital treatment, financial instruments must either be free of any covenants restricting their tradability or be able to be hedged completely. In addition, positions should be frequently and accurately valued, and the portfolio actively managed.

### Basel III

Basel III is a global regulatory standard on bank capital adequacy, stress testing and market liquidity risk agreed upon by the members of the Basel Committee on Banking Supervision in 2010. Basel III was developed in response to the deficiencies in financial regulation revealed by the late-2000s financial crisis.

### BPV (Basis Point Value)

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

### CAD ratio

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

### CET1 ratio (common equity ratio)

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

### Cure rate

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

### Default

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

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

### Downturn LGD (Downturn Loss Given Default)

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

### DPF (Discretionary Participation Feature)

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

### EAD (Exposure At Default)

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

### EBA (European Banking Authority)

The successor to the CEBS (Committee of European Banking Supervisors).

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

### EIOPA (European Insurance and Occupational Pensions Authority)

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

### EL (Expected Loss)

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

### FV (Fair Value)

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

### Forbearance measures

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

### Forborne loans

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

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

They do not apply to:

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

### FSMA (Financial Services and Markets Authority)

The FSMA is the successor to the former Banking, Financial and Insurance Commission (CBFA). It is responsible for supervising the financial markets and listed companies, authorising and supervising certain categories of financial institutions, overseeing compliance by financial intermediaries with codes of conduct and supervising the marketing of

investment products to the general public, as well as for the 'social supervision' of supplementary pensions. The Belgian government has also tasked the FSMA with contributing to the financial education of savers and investors.

### GMRA (General Master Repurchase Agreement)

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

### Haircuts

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

### HVaR (Historical Value at Risk)

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

### IBNR (Incurred but not Reported) impairments

IBNR impairments are impairment losses recognised on unimpaired loans and advances, as well as on unimpaired debt securities in a Loans & Receivables book, Available-for-Sale (AFS) book or Held-to-Maturity (HTM) book.

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

### ICAAP (Internal Capital Adequacy Assessment Process)

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

### Impairment on financial assets

A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cashflows of the financial asset or group of financial assets that can be reliably estimated. If any such evidence exists, the entity applies the appropriate impairment methodology to the financial asset concerned.

Losses expected as a result of future events, no matter how likely, are not recognised.

### Impaired Loans Ratio

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

### 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 (International Swaps and Derivatives Association Master Agreements)

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

### LCR (Liquidity Coverage Ratio)

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

### Leverage ratio

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

### LGD (Loss Given Default)

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

### Market value

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

### MtM (Mark-to-Market)

The act of assigning a market value to an asset.

### MREL (Minimum Requirement for own funds and Eligible Liabilities)

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

### MVA (Market Value Adjustment)

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

### NBB (National Bank of Belgium)

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

- prudential supervision of financial institutions from both the micro-prudential and macro-prudential angle, and the prompt detection of systemic risk;
- supervision of information, the functioning of the financial markets and respect for the appropriate code of conduct, together with consumer protection.

### NPL exposure

For Non-Performing Loans (NPL) exposure, KBC uses the Impaired Loans Ratio (please refer to this definition).

### Netting

An agreed offsetting of positions or obligations by trading partners or participants to an agreement. Netting reduces the number of individual positions or obligations subject to an agreement to a single obligation or position.

### NSFR (Net Stable Funding Ratio)

Available stable funding divided by required stable funding, with available stable funding derived from the different parts of the liabilities side of the balance sheet (required funding = assets side). Regulatory defined weightings to describe stability are assigned to the different parts (both assets and liabilities). A ratio of 100% means that the funding situation is stable.

### ORSA (Own Risk and Solvency Assessment)

The Own Risk and Solvency Assessment covers the entirety of the processes and procedures employed for identifying, assessing, monitoring, managing, and reporting on the short- and long-term risks a (re)insurance undertaking faces or may

face, and for determining the own funds necessary to ensure that the undertaking's overall solvency needs are met at all times.

### OTC (Over The Counter)

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

### Past due

A financial contract is past due when a counterparty fails to make payment when contractually due.

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

### PD (Probability of Default)

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

### PIT PD (Point-In-Time PD)

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

### RBA (Ratings-Based Approach)

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

### Risk appetite

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

### RMBS (Residential Mortgage-Backed Security)

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

### RWA (Risk-Weighted Asset)

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

### Solvency II

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

### SRB (Single Resolution Board)

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

### SVaR (Stressed Value At Risk)

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

### (Core) Tier-1 ratio

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

### 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.