Risk Report

KBC Group

2024

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About this report

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 2024 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. This report refers to the financial year 2024, in which the Basel III capital requirements in accordance with the Capital Requirements Regulation, CRR2, are applicable. The CRR2-related disclosure templates can be found on the KBC website, and are published alongside this report. With 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. As of our next report, we will adhere to the Basel III finalisation of post-crisis reforms framework (commonly referred to as Basel IV) which are transposed into CRR3.

Disclosure according to ESG disclosure requirements are in place (e.g., EU Taxonomy disclosure regulations, EBA Pillar 3 requirements, the Sustainable Finance Disclosure Regulation) and can still evolve in the coming years as a result of increasing data availability and changing regulatory requirements. For the first time, KBC has added its Sustainability Statement to the 2024 KBC Annual Report, covering the disclosure requirements under the Corporate Sustainability Reporting Directive (CSRD).

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 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. Requirements relating to activities that are not applicable or do not exist for KBC are 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 of the KBC Risk Report to include its 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) within KBC Insurance's activities has also been included. Additionally, since non-financial risks are managed at a group-wide level, the disclosures offer detailed information at the KBC Group level, covering both banking and insurance. Liquidity risk is also described from a Group perspective, and the report includes detailed information on the technical insurance risk borne by KBC Insurance.

The templates and tables that contain all required quantitative Pillar 3 data at position date 31 December 2024 can be found in a separate Excel file on the KBC website (www.kbc.com), published alongside the KBC Risk Report 2024.

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 (internal and/or external) reporting and underwent a final screening by authorised risk management representatives to ensure quality. In addition, the 2024 KBC Risk Report was submitted to the Executive Committee, Risk & Compliance Committee and 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 KBC Annual Report corresponds with the information in this KBC 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 KBC Annual Report have been reproduced here.

This KBC 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 2026. However, according to regulatory requirements, a defined number of tables will be made public on a quarterly or semi-annual basis during 2025.

For definitions and explanations of specific terms used throughout this KBC Risk Report, we refer to the Glossary (which can be found at end of this document).

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 add value to the report. The table below shows the topics for which reference is made to other reports.

Topics	Reports
Information regarding governance arrangements	See the 'Corporate governance statement' section of the 2024 Annual Report of KBC Group NV
Information on the remuneration policy of financial institutions and corporate governance arrangements	KBC Group Compensation Report See the 'Corporate governance statement' section of the 2024 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 2024 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 2024 Annual Report of KBC Group NV
Credit risk related to KBC Insurance	See the 'How do we manage our risks?' section of the 2024 Annual Report of KBC Group NV
Information regarding corporate sustainability, climate change and the information security strategy	See the 'Sustainability Statement' section of the 2024 Annual Report of KBC Group NV and the 'Information security strategy of KBC Group', which can also be found on the kbc.com website

Introduction to risk management

KBC is a leading European financial group with a focus on providing bank, insurance and asset management 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.

KBC 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 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 ((counterparty) credit risk, market risk (trading and non-trading), liquidity risks and insurance risks) and non-financial risks (operational risks, compliance risks, reputational risks). Environmental, Social & Governance (ESG) risks are key risks related to KBC's environment that manifest themselves through the aforementioned risk areas. Integrated risks occur when the above risks accumulate and, possibly, reinforce each other. While our integrated FICO business model brings clear benefits, it may also lead to some additional risks (e.g., concentration and contagion risks). These are well known and adequate processes are in place to manage them.

KBC and the financial sector as a whole operate in a rapidly changing environment characterised by volatility, uncertainty, complexity and ambiguity:

- The financial industry is undergoing a major transition, with digital transformation bringing new opportunities (e.g., the opportunity to embed artificial intelligence (AI), big data analysis and automation technologies in our operations to make our interactions with our clients instant, straight-through and friction-free) and challenges (including in the areas of cyber risk, ethical AI and new digital competitors);
- At the same time, the financial sector plays a crucial role in the transition to a greener and more sustainable economy: financial institutions not only need to reflect on their own activities, taking into account all new regulations, but also have a crucial role in helping their clients to make the transition towards a more sustainable world;
- On top of this, the industry continues to face major macroeconomic, financial and geopolitical challenges and instability, whereas regulatory and supervisory pressure and uncertainty continue to be extremely challenging.

KBC responds to these key challenges with its data-driven digital strategy, aiming to create ecosystems that help our clients to save time and earn money by combining financial and non-financial services, and with its ambition to contribute to a more sustainable world.

To effectively deal with this fast-changing risk landscape, KBC has a strong and future-proof risk management in place. The risk function operates independently, adequately and effectively, in line with KBC's Corporate Strategy and therefore contributes to the achievement of KBC's strategic objectives in terms of resilience, agility and sustainability.

Clear corporate and risk governance is in place, as well as a sound risk and control environment – which includes 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. We regularly update our risk frameworks and policies, taking into account changes in the internal and external context and new regulatory requirements.

Risk culture

KBC has a strong corporate culture, called PEARL+[1], which guides the actions of our KBC colleagues in all their activities and which also reflects the way risks are managed and decided on throughout the entire organisation. The vision of KBC's Risk Management is to put risk in the hearts and minds of all staff to help KBC create sustainable growth and earn its clients' trust. 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. These aspects are captured via the 'risk culture', which encompasses the collective mindset and the shared set of norms, attitudes and values that shape the everyday behaviour of our employees in terms of awareness, management and control of risks. The strong risk culture is reflected, for example, in business proposals which include a thorough assessment of the risks involved, and in the thoughtful consideration in the decision-making process of the challenge and opinions on these proposals, made by the risk function.

Broadly speaking, risk culture has the following dimensions within KBC:

- **Strong tone from the top and leadership** in our dialogues with all our stakeholders (clients, shareholders, supervisors, society at large, etc.) and in communications to all staff, e.g., on our corporate strategy and corporate culture (PEARL+, which represents our core values);
- **Culture of challenge** (speak-up culture and fostering debate) **embracing diversity** in perspectives and background at all layers of the organisation, starting from the Board of Directors;
- **Accountability for risks** (deeply rooted in the A of PEARL+), with clear allocation of responsibilities for taking, managing and mitigating risks with observance of the three Lines of Defence model, effective escalation and whistleblowing processes, and constructive root cause analysis and lessons learned in case of issues;
- **Balanced incentives**, including in our remuneration, performance and talent management tools, properly dealing with misconduct, breaches of risk appetite and non-compliance with applicable law and regulations, and supportive of remediation of audit and supervisory findings.

KBC's risk culture is therefore not only visible in its governance and policies, but also in the risk-conscious attitude and behaviour of its management and staff throughout the group.

The **'tone from the top'** plays a crucial role in establishing a culture of prudent risk-taking within the organisation. KBC's Board members thoroughly discuss the Risk Appetite Statement, reflecting the amount of risk they are willing to accept in pursuing KBC's strategic objectives. All KBC colleagues need to adhere to the approved risk appetite in their decision-making. KBC strengthens its risk culture by communicating the risk appetite throughout the organisation in a way that is understandable for all stakeholders, to ensure that the risk mindset becomes part of our staff's DNA.

KBC adheres to a **culture of constructive challenge** in which members of the management bodies engage in critical discussions, ask relevant questions and challenge assumptions in line with KBC's PEARL+ values and norms. These constructive challenges are also reflected in the meeting minutes of, for example, the Board of Directors, the Risk & Compliance Committee and the Audit Committee.

Not only at the senior management level, but throughout the entire organisation, KBC promotes a 'dare to speak up' culture in which all colleagues are encouraged to speak up about and discuss any risk or dilemma they encounter. To monitor how KBC staff perceive working within KBC, regular engagement surveys – called 'Shape Your Future' in Belgium – are conducted among all staff. 'Dare to speak up' behaviour is also promoted in this way: the results of these surveys are always discussed within the different KBC teams and at management level. In case the right risk culture calls for additional attention, follow-up actions need to be defined by the respective team leaders, and are regularly monitored during the year.

Clear governance, including well-defined roles and responsibilities and observance of the three Lines of Defence model (see 'Risk management & governance'), support our staff in assuming their **accountability for risks**: KBC's internal governance framework defines who is responsible for taking and managing risks and ensures that risks are properly managed, monitored, mitigated, escalated and reflected in KBC's strategic plans and risk appetite.

[1] PEARL: Performance, Empowerment, Accountability, Responsiveness, Local embeddedness

The risk appetite is clearly expressed and updated at least annually by the Board of Directors and translated into strict limits which are monitored and reported on. KBC also regularly organises awareness campaigns for its staff and clients, for example on responsible behaviour when dealing with suspicious counterparties to avoid cyber incidents, or on responsible climate-related behaviour.

Finally, KBC's **remuneration policies and performance and talent management tools** contribute to establishing a sound risk culture in view of the clear governance and many risk adjustment mechanisms that are included to promote sound and prudent risk management. Good examples are that unethical or non-compliant behaviour cannot be compensated by good financial performance or that variable remuneration should be based on risk- and liquidity-adjusted profit, not on gross revenues. This means that the remuneration policies also reflect and promote a positive risk culture throughout the entire KBC Group.

Risk management in 2024

KBC's risk management at a glance

Risk management refers to the coordinated set of activities to proactively identify and manage the many risks that can affect KBC in its ability to achieve its objectives. It supports KBC to keep its risks under control under various conditions (in business as usual, during changes, under stress and when addressing crisis situations), and to comply with applicable regulation and supervisory expectations.

Christine Van Rijsseghem, KBC Group CRO

Sound risk management is the result of a strong risk culture, adequate resources (sufficient & skilled people, data and tooling), an effective organisation and a qualitative design and implementation of strict governance and effective risk management processes, which are aligned to and transform in sync with the external context, the KBC business model and its various activities, processes and so on.

The principles that govern sound risk management within KBC are documented in the KBC Enterprise Risk Management Framework (ERMF) which defines how risk management should be performed throughout the group. More information about the content of the ERMF and its components are outlined in the 'Risk management & governance' section.

ESG risks are identified in our internal risk taxonomy as key risks related to KBC's business environment that manifest themselves through all other traditional risk areas. As such, we do not regard ESG risks as stand-alone risk types but embed them in our existing risk management frameworks and processes.

Managing risks in 2024

As a financial institution, KBC does not operate in isolation but can instead be impacted by events happening in the economy and on financial markets around the world. Whereas these impacts can result in opportunities which KBC can seize, risks can also emerge and possibly put pressure on our business model.

In 2024, geopolitical risks further increased, as evidenced by the continuing Russia-Ukraine conflict, the conflict in Gaza/Israel and the Middle East, tensions between the US and China, and so on. Furthermore, a significant number of elections, including in the US, added to the geopolitical uncertainty. These events put additional pressure on the economic competitiveness in Europe, causing significant challenges for the economy and financial markets in general, and for the financial sector in particular (including in the areas of credit risk, market risk, liquidity risk, and operational risk).

Regulatory developments (including in relation to capital requirements, operational resilience and the new DORA requirements, anti-money laundering regulations, GDPR and ESG) also remained a dominant theme for the sector, as did enhanced consumer protection. Digitalisation (with technology, including AI, as a catalyst) presents both opportunities and threats to the business model of traditional financial institutions. More specifically, cyber risks (reinforced by the use of AI and deepfake techniques) have become one of the main threats over the past few years and are fuelled by international conflicts, such as the war in Ukraine.

Lastly, climate and environmental-related risks are becoming increasingly prevalent. This was evidenced by storm Boris which caused abundant rainfall for several days in September, leading to severe floods in Central and Eastern Europe. The damage in KBC home countries was the largest in the Czech Republic, but also Slovakia and – albeit to a lesser extent – Hungary were hit. For KBC, the financial consequences of the storm were predominantly visible within our insurance activities. KBC is fully aware of the risks posed by the possible effects of environmental change on our business model and continues to assess this.

We refer to the risk-type-specific sections in this report for an overview of how the above events have impacted a certain risk type, and how they have been managed.

Risk management & Governance

The risk, compliance and actuarial functions (who together constitute the 'CRO Services') support KBC in achieving its strategic objectives, to contribute to its resilience and agility, to provide management and the Board with insights supporting risk-conscious decision-making and to proactively inform them about the risks KBC is facing. Priorities for risk management are defined in the KBC Risk Strategy. This strategy finds its origin in the KBC Risk Appetite, the Corporate Strategy and the PEARL culture and sets the bar for risk management throughout KBC.

To remain in sync with the changing business environment and the KBC Corporate Strategy, the risk, compliance and actuarial functions regularly assess and update their strategy, considering all relevant elements (e.g., top risks), including the 'supervisory view' and upcoming regulatory changes. In this way, we continuously adapt and further strengthen KBC's Risk Management Framework and its underlying risk management processes.

The strategy of the risk, compliance and actuarial functions is based on three key pillars:

1. Support the business: we support, advise and challenge the business in its everyday activities ('business as usual') and in its transformation, aiming to help it keep KBC's control environment up to standards and respect KBC's risk appetite at all times;
2. Transform ourselves: in sync with the KBC Corporate Strategy and business, we become more digital, data-driven and straight-through. By being more efficient and effective in our business-as-usual processes, we create room to develop approaches for new risks. Moreover, we extend and improve our risk and compliance framework for an increasingly digital, interconnected and sustainable future;
3. People: we attract and nurture talent, building an engaged workforce of the future as an enabler of transformation and the execution of our business as usual. We ensure that our people have a clear view of KBC's strategic direction, how KBC's transformation impacts their job and how they contribute to KBC's strategy.

Risk governance & organisation

Our risk governance model includes the following main elements:

- The Board of Directors (Board), supported by the Risk & Compliance Committee, decides on the risk appetite – defining the group's overall risk playing field and the risk strategy – and supervises KBC's risk exposure in relation to this risk appetite. It is also accountable for having robust governance arrangements in place to ensure that all material risks of KBC are managed appropriately, and for promoting a sound, consistent group-wide risk culture. The number of external mandates held by the members of the Board can be found on our KBC 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 2024 Annual Report and under the topic 'Our corporate governance charter' as part of the 'Corporate Governance' section on our KBC website.
- The Risk and Compliance Committee (RCC):
    - is an advisory committee on topics within the Board's accountability, e.g., the group's risk appetite, the monitoring of risk exposure compared to the group's risk appetite and the supervision of the implementation, efficiency and effectiveness of the Risk Management Framework;
    - reviews whether the prices of liabilities and assets and of categories of off-balance-sheet products offered to clients fully take into account the institution's business model and risk appetite, and 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.

- The Executive Committee (ExCo) is the integrating management committee on risk management, operating in alignment with decisions taken by the Board related to risk appetite, strategy, and performance goals.
    - It monitors the group's risk exposure to ensure conformity with the risk appetite and the implementation of the Risk Management Framework throughout the group.
    - It forms, extended with relevant parties, the Group Crisis Committee in group-wide crisis situations.
- The ExCo is supported by the CRO Services Management Committee (CRO Services MC), risk committees (right-hand side of the figure) and business committees (left-hand side of the figure), in which representatives of risk are present.

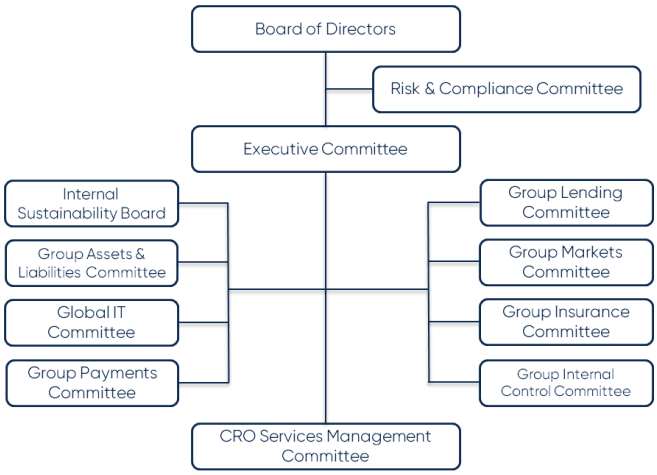


Figure 1 - Schematic overview of the risk governance model

In the table below, an overview of the risk and business committees and their tasks is provided.

Risk committees	
CRO Services Management Committee	• Supports the ExCo in assessing the adequacy of, and compliance with, the Risk Management Framework and defines and implements the vision, mission and strategy for the CRO Services of KBC • Convened on seven occasions during 2024
Activity-based Group Risk Committees	Support the ExCo in integrated risk monitoring for the below activities at group level: ○ for lending: GLC – convened on twelve occasions ○ for markets: GMC – convened on eleven occasions ○ for insurance: GIC – convened on four occasions
Group Internal Control Committee (GICC)	• Supports the ExCo in monitoring and strengthening the quality and effectiveness of KBC's internal control system • Convened on four occasions during 2024
Business committees	
Group Assets and Liabilities Committee (ALCO)	Handles matters related to ALM and liquidity risk
Global IT Committee	Handles matters related to information technology and information security risk
Group Payments Committee	Handles matters related to operational risk in the payments domain
Internal Sustainability Board	Handles matters related to environmental, social and governance (ESG) risks

We manage our risks using the 'Three Lines of Defence (LoD)' model:

- Risk-aware business people act as the first Line of Defence for conducting sound risk management. This involves allocating sufficient priority and capacity to risk topics, performing the right controls in the right manner and making sure that risk self-assessments are of a sufficiently high standard;
- In line with regulation, independent control functions, both at group and local level, act 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 approaches used to identify, measure and report on risks and to define the risk appetite. 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. Risk departments at group (Group Risk, Group Credit Risk Directorate and Model & Model Risk Management Division) and local level (present in the main entities in our home countries) support the CROs and work closely together. Close collaboration with the business is assured since the independent CROs are present in management committees and take part in the local decision-making process, while their independence is achieved through a functional reporting line to the Group CRO. If necessary, they can exercise a right of veto;
    - The compliance function's prime objective is to prevent KBC from running a compliance risk (i.e. incurring loss or damage – regardless of its nature – due to non-compliance with applicable laws, regulations or internal rules) that falls either within the scope of the compliance function or within the areas assigned to it by the ExCo (as described in the Integrity Charter). The compliance function is characterised by its specific status (as provided for by law and regulations and described in the Compliance Charter), its place in the organisation chart (Group Compliance, hierarchically under the CRO) and the associated reporting lines (reporting to the RCC and even to the Board in certain cases);
    - The actuarial function ensures additional quality control by providing expert technical actuarial advice to the supervisory body, the RCC and the executive body of KBC Group NV, of KBC Insurance NV and of 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. As described in the 'Actuarial Function Charter', in order to safeguard independence, the actuarial function holder reports functionally to the Group CRO;
- Internal audit acts as the third Line of Defence. It is responsible for giving reasonable assurance to the Board that the overall internal control environment is effective, and that effective policies and processes are in place and applied consistently throughout the group.

Banks are required to maintain an internal governance and control framework that ensures a well-functioning internal risk management. Each year, the RCC formally assesses whether the risk, compliance and actuarial functions are functioning independently, effectively and efficiently and have sufficient capacity to do so. For this purpose, KBC conducts a yearly assessment of these functions, including a group-wide risk-based capacity assessment for second LoD resources. This exercise covers the quantity, quality and capacity of staff and resources, and the progress of the functions in the different strategic focus areas. Results are presented and discussed at the RCC. For the audit function, this assessment is undertaken by the Audit Committee.

The 2024 iteration of the exercise confirmed again that, overall, the risk, compliance and actuarial functions have sufficient capacity and the right skills to perform sound risk management. Ongoing attention is, however, required to keep our resources aligned with current external challenges such as increasing regulatory/supervisory requirements and expectations and scarcity in the labour market. The exercise also confirmed that a sufficient mix of experience and maturity is present. Finally, KBC ensures that sufficient expertise is built up or available in newer or rapidly evolving areas in which KBC operates, such as ESG, cybersecurity, artificial intelligence, cloud computing and model risk. A comprehensive employee skill management programme is in place and a significant focus on training and skills development ensures continuous development of expertise.

The components of a sound risk management

The KBC Enterprise Risk Management Framework (ERMF), approved by the Board, defines the risk governance, including the Three Lines of Defence, and sets clear rules and procedures on how risk management should be performed throughout the group. It refers to a set of minimum standards and risk methods, processes and tools that must be translated into all risk-type-specific Risk Management Frameworks (RMFs) and that all entities must adhere to. The ERMF and risk-type-specific RMFs not only detail how KBC manages risks in business as usual, but also in change (small and big transformations) and crisis situations, going up to the most stressful situations (like recovery and resolution). They also aim to keep KBC compliant with regulatory requirements. Moreover, they cover risks originating from KBC's own operations as well as from the value chain (e.g., from providing products and services to clients, and from outsourcing activities).

In order to continuously safeguard their relevance, the ERMF and risk-type-specific RMFs are annually reviewed, alongside a formal annual assessment of the quality of their implementation.

The risk management process consists of risk identification, risk measurement, setting and cascading risk appetite, risk analysis, reporting, response and follow-up.

Risk identification

Risk identification is the process of systematically and proactively discovering, assessing and describing risks, both within and outside KBC, that could negatively impact the group's strategic objectives today and in the future. Not only the sources of risk are analysed, but also their potential consequences and – in a later step – materiality. For this purpose, KBC has set up robust and solid processes at both strategic and operational level to proactively identify and assess all material risks to which KBC is exposed. These include:

- The Risk Scan, which is a strategic group-wide exercise aimed at identifying and assessing the top risks for KBC, i.e. the risks that keep managers 'awake at night' because they can severely undermine KBC's business model, financial stability and long-term sustainability. The identified top risks are inputs for the yearly financial planning process and for several risk management exercises, including for defining the priorities of the risk function, risk appetite setting and stress testing;
- The New and Active Products Process (NAPP), which is a group-wide, formalised process to identify and mitigate product-related risks, both for KBC and for its clients. Within KBC, no products, client-facing processes 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. Note that the NAPP is also increasingly used as an important process to manage ESG risks (as explained in the 'ESG in our risk management' section);
- Risk signals, which are continuously collected at all levels of the organisation (group and local). The internal and external environments are constantly scanned, using all possible sources of information, to detect events or changes that can potentially impact the group, either directly or indirectly. Risk signal reporting (see 'Risk analysis, reporting, response and follow-up') provides management with a summary of the identified risks, their potential impact and possible remedial actions;
- Deep dives and challenges (e.g., in-depth or case studies, detailed risk assessments, ethical hacking, etc.) are performed to gain additional insights into the risk profile or into potential (future) vulnerabilities for KBC and/or to test the strength and maturity of the control environment (i.e. check on whether the risk requirements and controls imposed by the ERMF are properly implemented).

Risk measurement

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 by applying a model or methodology'. Once risks have been identified, certain attributes of the risk can be assessed, such as impact, probability of occurrence, size of exposure, etc. This is done with the help of risk measures, which allow us to assess the materiality of risks, to monitor them over time (with a frequency that is appropriate for the risk type) and to assess the impact of risk management actions.

Risk measures (including the calculation method used) 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. An overview of the extensive set of risk measures in use at KBC (both regulatory and internally defined) is provided in the ERMF and risk-type-specific frameworks.

Standards

In order to ensure that risk measures are and remain fit for use and are of high quality, they are subject to strict and robust processes, including adequate documentation and strong governance. Regular reviews and the use of the 'four eyes principle', including independent internal validation where appropriate, further enhance the accuracy and reliability of these risk measures. All requirements that relate to these processes are documented in the KBC Risk Measurement Standards (RMS).

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

High-quality measurements are only possible if they are based on data of good quality and reliable processes to collect the data and perform the calculations. The business requirements 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 specific Enterprise Data Governance Framework and accompanying – and stricter – KBC Data Governance Framework on Management Reporting, owned by KBC's Group Reporting Services department. As part of the overall ERMF, a dedicated Operational Risk Standard on Data Management was adopted in 2023 which defines, among other things, the minimum requirements for the governance of data management risk, including the roles and responsibilities of the first and second LoD (risk functions). Furthermore, as part of the Operational Risk Management Framework, KBC has developed the Model Risk Management Standards (MRMS).

KBC Model Risk Management Standards (MRMS)

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. In this context, AI-based models are 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. Furthermore, it is important to ensure that the output of the AI models we use is aligned with KBC's values and principles. The achieve this, KBC adheres to the Trusted AI Framework.

KBC's Model Risk Management Standards establish a framework for identifying, understanding and efficiently managing model risk, similarly to any other risk type. They include specific guidance on how to build data models and use AI models.

Setting & cascading risk appetite

Taking 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 its 'risk appetite'. This risk appetite expresses – both qualitatively and quantitatively – how much and which types of risk we want to take and within which boundaries they should be managed. The ability to accept risk is limited by financial constraints (available capital and liquidity buffers, borrowing 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 a 'Risk Appetite Statement' (RAS), which is decided at both Group and local level. The RAS reflects the view of the Board and ExCo on the acceptable level and composition of risks, ensuring coherence with the desired return and allowing the group to implement its corporate strategy within a clear risk playing field. The high-level risk appetite objectives, which are annually reviewed and reconfirmed by the Board, are further detailed for each separate risk type via qualitative and quantitative statements and via a risk appetite label, which can be Low, Medium or High, based on a set of risk measures for which risk thresholds are defined. Lastly, risk appetite is translated into risk-type-specific group limits (annually approved by the Board), which are further cascaded down to the entities (annually approved by the ExCo).

As the risk appetite defines the playing field for the business, the risk appetite process is firmly embedded in our financial planning cycle. The Board annually approves the preliminary risk appetite as input into the planning cycle. The financial planning is approved by the Board after a final check has been performed as to whether the preliminary risk appetite is respected throughout the planning horizon. To ensure that the risk profile remains within the risk appetite when executing the financial plan, the risk appetite is translated into concrete limits. Throughout the year, adherence to the limits is strictly monitored. In case of limit breaches, decisions need to be taken by the appropriate committees in the organisation to bring the risk profile back within the approved risk appetite. Furthermore, for some indicators, we also set recovery and resolution triggers which, if breached, trigger the activation of the Recovery/Resolution Plan.

In the graph, the actual and expected risk-taking in line with the financial planning forecast ('risk profile') is compared to the approved risk appetite. The overarching risk profile is expected to improve within the 'medium risk' zone, driven by lower risk profiles for financial performance, operational risk and compliance risk, which compensate an expected increase in the credit and market trading risk profiles.

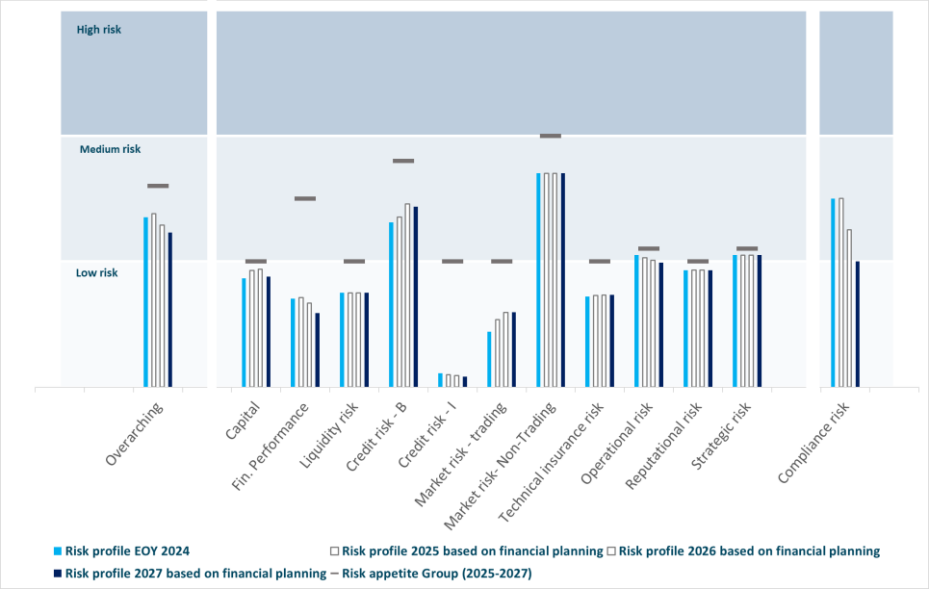


Figure 2 - Schematic overview of the risk appetite statement

Risk analysis, reporting, response and follow-up

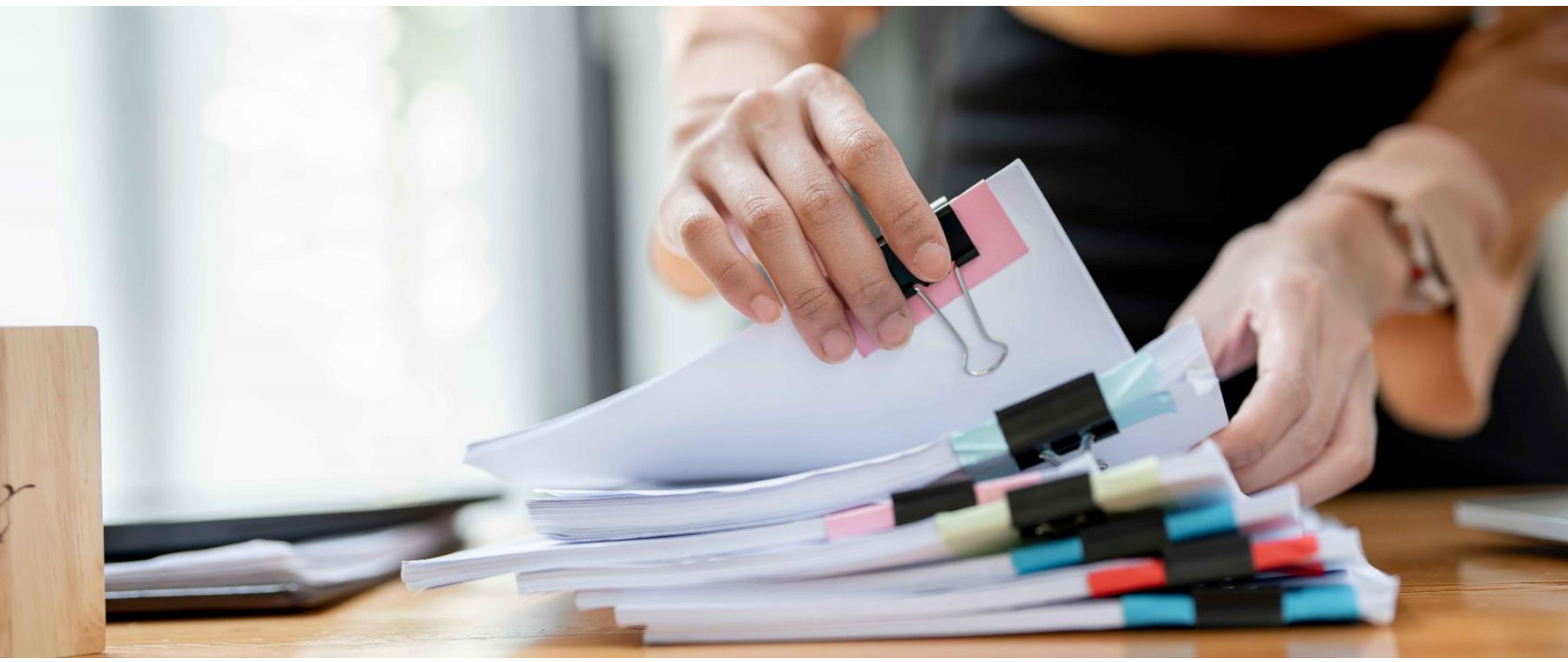
Risk analysis and reporting aim to give management an increased level of transparency by ensuring a comprehensive, forward-looking and ex-post view of the development of the risk profile versus the risk appetite and of the context in which KBC operates.

This is done via reports that are tailored to the needs of the recipients and recognise the different information needs of the Board, RCC, ExCo, top management and other levels in the organisation, helping them to understand potential issues and to take relevant actions. In addition to internal reporting, external reports are also prepared for the different stakeholders of KBC, in particular clients, shareholders, debt holders, supervisory authorities, regulators and rating agencies.

The ExCo, Board and RCC receive periodic and ad hoc updates on KBC's risk landscape through comprehensive internal risk reporting. This includes the 'Integrated Risk Report (IRR)', which is submitted to these committees eight times per year. This holistic risk report consists of risk signals considered material for the group, allowing us to take timely action if and as needed, and of an overview, for all risk types, of the development of various risk measures versus the risk appetite via the 'health check' dashboard. The IRR is complemented with *ad hoc* reporting when required. For instance, twice a year, it is supplemented with a detailed climate risk dashboard and an information risk management dashboard.

The main external reports to the supervisory authority include the ICAAP (Internal Capital Adequacy Assessment Process), ILAAP (Internal Liquidity Adequacy Assessment Process), and ORSA (Own Risk and Solvency Assessment) reports. These provide a holistic and substantiated underpinning of the opinion of the Board and the ExCo on the adequacy of KBC's capital and liquidity. For this purpose, we have internal economic capital models in place to complement the existing regulatory capital models. These allow us to assess our capital adequacy from an internal perspective, in addition to the regulatory perspective. These reports are complemented by an annual FICO (Financial Conglomerate) report which zooms in on additional risks that could be triggered by KBC being a Financial Conglomerate and on their mitigation. In the context of crisis management regulation, the Recovery Plans of KBC Group, KBC Bank and KBC Insurance are created to prepare the possible responses in case of (strong) adverse financial circumstances and to allow for KBC to act more rapidly and effectively in a crisis situation. In case all mitigating actions in business as usual and in crisis management mode fail, the Resolution Plan is activated, which describes the strategy for rapid and orderly resolution in the event of material financial distress and failure of KBC.

On top of the above, dedicated memos on a wide variety of topics are regularly brought to the attention of the ExCo, Board and RCC, such as deep dives and risk-type-specific reports.



Stress testing

Stress testing is an important tool to support our risk management and decision-making processes by simulating the potential negative impact of specific events and/or movements in risk factors on KBC's (financial) condition, so that we can better prepare for these situations or adjust our risk exposure proactively.

For this purpose, KBC has developed a comprehensive set of stress tests, ranging from plausible to exceptional and even extreme events or scenarios, both at the level of individual risk types and across risk types (integrated stress tests). Integrated stress testing is an important tool to assess to what extent KBC's capital is adequate to cover its risks, whether profit generation is sustainable, etc., under various conditions. It complements stress testing per risk type as it looks at the interaction and combined impact of stress across multiple risk types, including interaction and feedback loops between stress on financial indicators. The stress testing mix reflects an appropriate balance of different severities of stress, stress testing methodologies, etc., both at integrated and risk-type-specific level. It is kept relevant and up to date via a yearly review.

The outcome of some of the main integrated stress tests is used in important risk management processes and reporting, including ICAAP, ILAAP and ORSA, and recovery and resolution planning. As part of the annual ICAAP, ILAAP and ORSA processes, KBC simulates a once-in-20-years stress event to check and demonstrate that it is able to meet the regulatory capital and liquidity requirements and internal risk appetite targets even under such stressed conditions. Stress tests designed in the context of recovery planning are even more severe and bring KBC to the brink of default. In such scenarios, KBC needs to demonstrate its recovery capacity (in terms of both depth and speed of capital-increasing and risk-reducing actions). Finally, stress testing in the context of resolution prepares KBC for situations when the group is no longer viable and authorities need to step in to either save (via bail-in mechanisms) or liquidate the group.

On top of stress testing performed on KBC's own initiative (at Group and/or local level), the regulator and supervisory authority can also impose stress tests (e.g., biannual EBA Stress Test, annual EIOPA stress tests, ECB Cyber Resilience Stress Test).

ESG in our risk management

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), nature and biodiversity loss (nature risk) or from other environmental issues caused by human influences on nature, such as scarcity of fresh water, (air, water and soil) pollution, and non-circularity.
- 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 e.g., against cybercrime, 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.).

ESG as a cornerstone of KBC's strategy

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 the KBC Corporate Strategy, embedded in our day-to-day business activities and the products and services we offer. Our strategy seeks to safeguard our business whilst preparing ourselves for the evolving regulatory context, the geopolitical context and macroeconomic changes, rapidly changing technologies, societal changes, shifts in client behaviour, also in case these are triggered by sustainability evolutions.

We approach Sustainable Finance from a 'double-materiality' perspective. This means that we are committed to managing both KBC's impact on the environment and the impact of environmental issues on our company:

- Financial materiality (outside-in view): we want to manage the impact of environmental issues on our company. To this end, we closely monitor environmental risks and opportunities, and take appropriate actions to manage them effectively;
- Environmental materiality (inside-out view): we want to manage our business' direct and indirect impact on the environment.

By means of our dedicated Sustainable Finance Programme – which is embedded in our sustainability strategy – we focus on limiting our adverse impact and increasing our positive impact by:

- incorporating environment-related opportunities into our core products, such as bonds, loans, investments and insurance contracts, as much as possible;
- reducing the risks of and exposure to sectors and product lines that have the largest environmental impact; and
- engaging, working with and supporting our clients in their transition towards climate resilience and increasingly including other environmental topics (such as deforestation or plastic pollution) in these discussions.

Over the years, we have been expanding the focus of our Sustainable Finance Programme from climate change to other environmental objectives. We are continuously assessing which ESG aspects should be included in the Programme.

A comprehensive overview of the actions we take as part of our commitment to the environment and our social impact is available in the 'Sustainable Finance' section of the 2024 KBC Sustainability Report, which also includes our TCFD (Task Force on Climate-related Financial Disclosures) report. Additionally, a first version of our TNFD (Task Force on Nature-related Financial Disclosures) is included, which details our direct and indirect nature impacts. In the remainder of this section, we focus on the 'Risk Management' pillar of the TCFD/TNFD framework.

KBC's approach to ESG risk management

If not addressed, environmental change is expected to have devastating effects (extreme storms, floods, natural resource shortages, food and water crises, pandemics, mass migration, economic crisis, etc.) with extremely high costs for society, including for financial institutions and their clients. 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 and nature restoration rules, incentives from the EU Green Deal). These can impact the stability and value of our loan and investment portfolios.

Since 2018, climate risk has been reconfirmed annually as a top risk for KBC in the annual Risk Scan exercise and since 2023, 'other environmental risks' were added to account for the increasing importance of the impacts of environmental degradation. When managing climate and other environmental risks, we differentiate between:

- transition risks: risks arising from disruptions and shifts associated with the transition to a low-carbon, climate-resilient or environmentally sustainable economy. Examples 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., consumers or investors shifting towards more sustainable products and services); and
- physical risks: risks arising from physical phenomena associated with both (chronic) climate or environmental trends such as changing weather patterns, rising sea levels, increasing temperatures, biodiversity loss, resource scarcity, reduced water availability and changes in water and soil productivity, and (acute) extreme weather events, including storms, floods, fires or heatwaves that may disrupt operations or value chains or damage property.

Furthermore, cyber risk, process and third-party risk, people risk, and compliance and conduct risk have been top of mind in this exercise for several years and cover several social and governance risk-related aspects.

In our risk taxonomy, ESG risks are identified as key risks related to KBC's business environment which manifest themselves through (all) other traditional risk areas, such as credit risk, market risk, technical insurance risk, operational and reputational risk.

When managing ESG risks, we also consider the 'double-materiality' perspective:

- Financial materiality (outside-in view): transition risks, for example, can lead to sudden repricing of assets, market volatility, credit losses and sustainability-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;
- Environmental materiality (inside-out view): we want to limit the negative impact of our activities on the environment and increase our positive impact and as such manage our non-financial risks (e.g., reputational and operational risks).

As a financial institution, we are vulnerable to ESG risks mostly indirectly, i.e. with impacts through our core activities (lending, insurance and investments). Nevertheless, we consider three angles when managing ESG risks:

- Direct risks and impacts through our own operations, e.g., our own environmental footprint, workforce considerations, diversity and inclusion, corporate governance and codes of conduct;
- Risk and impacts through our outsourced activities and suppliers (related to the ESG profile of these third parties);
- Indirect risk and impacts through our core activities (lending, insurance and investment) and clients/exposures.

As such, **ESG is not considered in isolation, but firmly embedded in all aspects and areas of KBC's Enterprise Risk Management Framework and underlying processes** (covering the three above-mentioned angles), for example in the New and Active Products Process (NAPP), in outsourcing processes, and in lending, insurance and investment processes. We are advancing our practices by 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.

The remainder of this section gives a comprehensive overview of our main ESG risk management processes from a cross-risk-type perspective. For a more detailed overview of our ESG risk management processes of relevance to specific risk types, please refer to the risk-type-specific disclosures in the remainder of this report, which includes a dedicated ESG risk sub-section. Our sustainability strategy and related opportunities are discussed more thoroughly in the 2024 KBC Sustainability Report, which also includes an overview of the commitments we have made and the international frameworks we adhere to. Furthermore, we refer to the Sustainability Statement in which KBC's disclosures in adherence to the Corporate Sustainability Reporting Directive (CSRD) can be found, published as part of the 2024 KBC Annual Report.

Considering the regulatory and supervisory landscape

The growing attention for the management of ESG risks is also reflected in several legislative initiatives:

- The newly proposed EU Banking Package CRD6 and CRR3 sets out new regulatory requirements on how banks manage their ESG risks. Sustainability is embedded in all ESA's Work Programmes (EBA, EIOPA, ESMA), resulting in additional regulatory guidelines being published (e.g., EBA final Guidelines on the management of ESG risks, draft guidelines on ESG scenario analysis, both published in January 2025);
- KBC has also implemented current ESG-related disclosure requirements (e.g., EU Taxonomy, EBA Pillar 3, Sustainable Finance Disclosure Regulation (SFDR), Corporate Sustainability Reporting Directive (CSRD)) and is preparing for upcoming regulation (such as the EIOPA insurance Climate Quantitative Reporting Templates). See also 'ESG in risk analysis, monitoring, reporting, response and follow-up';
- For banks under ECB remit (such as KBC), supervisory requirements were formulated in the ECB Guide on climate-related and environmental risks, and climate and environmental risks are included in ECB's supervisory priorities for 2025/2027.

When integrating ESG risks in all existing risk management processes, KBC aims for full compliance with current and upcoming regulatory requirements and supervisory expectations.

Our ESG risk governance

The management of ESG risks is fully embedded in our existing Risk Management Governance, as described in the 'Risk management & Governance' section.

With regard to the first, second and third 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.

First-line responsibilities related to ESG risk are taken up by the business departments and sustainability teams within KBC Group. As they have ownership of the ESG risks related to their activities, they identify, understand, and deal with ESG risks and have the necessary controls executed.

The risk function is actively represented on KBC's sustainability committees:

- The Group CRO is a member of the ExCo, the committee having the highest level of direct responsibility for sustainability and climate change;
- Senior management of the risk function is represented on the Internal Sustainability Board (ISB), the main platform for driving sustainability at Group level. Additionally, the risk function is represented in the core team of the Sustainable Finance Programme;
- The senior general managers of Group Risk and the Group Credit Risk Directorate are members of the ISB's supporting sustainability committees:
    - The Sustainable Finance Steering Committee, chaired by the Group CFO, which monitors the overall progress and technical implementation of the Sustainable Finance Programme;
    - The Data & Metrics Steering Committee, chaired by the Group CFO, 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 CSRD Steering Committee and the CSRD Approval Committee, which were established to oversee the implementation of the CSRD regulation at Group level.

As strong embeddedness in local entities is a key requirement, a similar governance is in place in each of KBC's core countries, with local sustainability general managers having been appointed and local risk functions taking active part in locally established sustainability committees.

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, CSRD-related audits concerning the EU Taxonomy and the Double Materiality Assessment). Additionally, the multi-year audit plan includes audits specifically focused on ESG risks.
Sustainability has been integrated into the remuneration systems for our employees and especially our top management (see Annex III).

We continue to take several initiatives to further increase ESG risk awareness, for example by following up on new and changing regulations through a Sustainable Finance Legal Working Group and by organising internal communication and training for (risk) staff and management (see Annex III).

Insights into how ESG is embedded in KBC's risk management practices, exercises and assessments

Addressing uncertainty by considering different time horizons and scenarios

When developing our ESG risk management approach, we incorporate steps to address specific challenges that are inherent to the assessment of ESG risks. These relate in particular to uncertainties regarding the speed and effectiveness of the green transition (e.g., policy and technological developments) and the timing of potential impacts.

- 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 have adjusted 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. In this way, we incorporate a forward-looking perspective.
- Depending on the external 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 environmental 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.). More specifically, we build upon industry-standard climate scenarios in our materiality and quantification exercises. These are made available by the Network for Greening the Financial System (NGFS). More information about these climate scenarios is provided in Annex III.

Furthermore, when assessing potential impacts of social and governance risks, we take a forward-looking approach by considering social trends and/or events that could manifest over different time horizons.

Strong focus on ESG risk identification and materiality assessment

To ensure proactive risk identification, several processes are in place:

- Via our Environmental Risk Impact Map we structurally identify environmental risks (climate change, nature loss, pollution, water stress and non-circularity). Similar pilot exercises have been conducted for social risks in 2024. The cornerstones of these risk identification exercises are outlined below and in Annex III.
- To detect environmental, social and governance risks, we have developed a specific due diligence process to monitor compliance of our lending, insurance activities and advisory services with our sustainability framework. This incorporates procedures to deal with any infringements that are detected. For this purpose, third-party ESG analysts' data is also used. Additionally, our due diligence process includes the possibility of requesting advice on sustainability-related matters (incl. reputational risk aspects) for individual cases by sustainability experts.
- Client dialogue is an essential part of KBC's lending, insurance, advisory services and investments to better understand how our business clients already deal or plan to deal with sustainability challenges and to support them in this transition. We also use this dialogue to collect our clients' environmentally relevant data and steer business clients towards additional disclosures (e.g., related to the Corporate Sustainability Reporting Directive (CSRD) or the EU Taxonomy).
- To investigate, amongst others, the transition and physical risks related to environmental change, annual deep-dives are performed to assess the impact on our loan and insurance portfolios. These are commonly known as the 'White Papers' in which we assess different environmental challenges for the eight emission-intensive sectors and three product lines with the largest environmental impact, considering the specific context of our home countries. In 2024, we also produced White Papers on cross-sectoral environmental themes (deforestation and plastic packaging) because of their significant impact on multiple sectors. More information on our approach and the outcome can be found in the KBC Sustainability Report.
- Social and governance risks are regularly identified via our compliance risk management practices, as explained in the 'Compliance risk management' section.
- ESG considerations are explicitly taken into account when deciding on new products or services through the NAPP, as explained below.

Assessing the materiality of ESG risks

Since 2021, we perform an annual exercise to identify the most material environmental risk drivers for KBC's business and portfolios. While the initial focus was on climate risk, we extended the scope with nature loss and other environmental risks (such as pollution, water stress and non-circular economy).
The Environmental Risk Impact Map (ERIM) reflects, for every risk type, the materiality of each considered environmental risk, by:

- distinguishing between different risk drivers of transition risk (policy and regulation, technological development and consumer preferences) and physical risk (split according to different chronic and acute environmental perils);
- considering three distinct (industry-standard) scenarios for climate and nature risk;
- for three different time horizons: short term (0-to-3-year horizon), medium term (3-to-10-year horizon) and long term (beyond 10-year horizon).

More information on the assessed transition and physical risk drivers, how these can impact our counterparties ('transmission channels') and the scenarios considered is available in Annex III. High-level results are included below and in Annex III, and an overview of the most material environmental risk-related vulnerabilities and their potential impacts on the traditional risk types is provided in the dedicated ESG sections in the remainder of this report.

The conclusions of the Environmental Risk Impact Map feed into our main risk management processes, such as risk appetite, stress testing, internal and external reporting and our ICAAP/ILAAP/ORSA process. It also lies at the basis of the determination of material environmental risks in the context of the Double Materiality Assessment, being part of the disclosures under the Corporate Sustainability Reporting Directive (CSRD).

In that same context (Financial Materiality Assessment for CSRD), a first dedicated materiality assessment for social and governance risks was executed in 2024. As a follow-up step, a more structural risk identification and materiality assessment for social risks is being developed, also with the aim to integrate its conclusions into the different building blocks of KBC's Risk Management Framework and CSRD reporting. More information is available in Annex III.

The identification and materiality analyses performed result in the below list of material ESG risks. The outcome of these analyses serves as the basis for our disclosures according to the Corporate Sustainability Reporting Directive (CSRD). These can be found in our Sustainability Statement, published as part of the KBC Annual Report.

Environmental risks

The most material environmental risks are expected through our lending, insurance and investment activities.

- ***Climate risk:*** transition risks can lead to sudden repricing of assets, market volatility, and climate litigation resulting from financing obsolete (brown) technology or infrastructure, impacting lending and investment portfolios, whereas physical risk can significantly increase the level of claims under the insurance policies we provide as well as impact the value of our assets or collateral over the medium and long term.
- ***Nature loss:*** biodiversity loss and damage to ecosystem services could result in medium- and long-term negative financial effects. For example, policies introduced to contain biodiversity loss (e.g., restrictions on deforestation, excessive land use, etc.) might impact businesses and hence also our loan and investment portfolios. Continued biodiversity loss can also lead to more systemic risks with, for instance, supply chain disruptions, increased pandemic risk or food insecurity, potentially impacting the whole economy (including KBC's loan, investment and insurance portfolios).
- ***Water risk:*** water-related transition risks include, for example, regulatory initiatives to limit the impact of water stress (e.g., redistributing water use from less to more critical sectors), which might impact businesses and hence also our loan and investment portfolios. Physical water-related risks entail, for example, dwindling water supply, which can also cause supply chain disruptions as well as water and food insecurity, potentially impacting the whole economy.

Other environmental topics, currently assessed as not material: pollution and (non-)circular economy.

Social risks

- ***Privacy of our own workforce:*** reputational and litigation risks could arise when the privacy of the employees would not be respected or when employee data would leak as the result of a cyberattack.
- ***Information-related impacts and social inclusion of our clients:*** the material risks identified for our own operations and third parties that relate to our clients can emerge from cyber risks, data protection issues, information-related risks, and social exclusion. These can predominantly lead to non-financial risks (operational, reputational and compliance risk). However, risks are also present in our downstream activities: for example, if our business clients do not adequately deal with the mentioned social topics, this can also lead to financial risks for KBC (e.g., credit risk).

Other social topics, currently assessed to be not material: other workforce-related social topics (also non-privacy-related), and personal safety of our clients.

Governance risks

- ***Business conduct (incl. responsible tax practices, bribery and corruption, whistle-blowing channels, anti-money laundering and counter terrorist financing):*** non-financial risks (legal and compliance risk) could emerge if our own business conduct and related policies (on responsible tax practices, bribery and corruption, whistle-blowing channels, anti-money laundering and counter terrorist financing) are not properly established and managed. Additionally, if our corporate clients or third parties do not actively establish good business conduct-related practices and policies, this can also lead to financial risks.
- ***Relationships with suppliers:*** operational and compliance risks can emerge in case the relationships with our suppliers would be damaged by – for example – inadequate payment practices or when KBC would engage/contract suppliers involved in corruption and bribery.

Other governance topics, currently assessed to be not material: animal welfare, and political engagement and lobbying activities.

Proactively managing ESG risks via the New and Active Products Process (NAPP)

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 review in line with NAPP governance.

The NAPP is an important tool to mitigate several ESG risks, in particular related to consumer protection, as NAPP aims to:

- ensure fair treatment of the client;
- safeguard the strategic fit of products/services;
- proactively identify and mitigate risks related to products, services and changes to client facing processes which might negatively impact the client and/or KBC;
- ensure compliance with regulations, e.g., MiFID II, the Insurance Distribution Directive (IDD), consumer protection regulations, Mortgage Credits Directive (MCD), Consumer Credits Directive, Payments Account Directive and other local and EU Regulations.

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. A mandatory advice of sustainability experts is required when the product is labelled as 'green' or 'towards green'. Therefore, NAPP is an important risk mitigation process to avoid being accused of greenwashing.

As part of the mandatory risk and compliance advice within NAPP, several other ESG risks are assessed by the risk and compliance function such as risks related to data protection and conformity with GDPR, ethical considerations (including non-discrimination of client groups, social inclusion), anti-money laundering and fraud, the use of models (including AI models) and information security.

Strengthening our ESG risk measurement and stress testing

We make use of a series of tools and methodologies to strengthen our ability to identify, measure and analyse climate-related risks. In doing so, we leverage industry practices (such as the Partnership for Carbon Accounting Financials (PCAF) and the Paris Agreement Capital Transition Assessment (PACTA)) and we have also developed internal tools and methodologies. For example, we have assessed several physical risks for our loan and insurance portfolios and our own buildings (see also Annex III). Furthermore, in the context of credit risk, we estimate the impact of climate change transition on credit parameters. More information is included in the risk-type-specific sections.

We cover multiple time horizons and use a combination of methodologies, including:

- exposure-based methodologies (e.g., when required, we conduct an ESG assessment at counterparty level for material credit files during the loan origination and review process);
- portfolio alignment-based methodologies (e.g., in the context of our climate targets, PACTA, TRUCOST); and
- scenario-based methodologies (e.g., scenario analyses and stress testing).

The results of these exercises provide further insights into the impact of climate change on our business model, as well as the impact of our lending, investment and insurance activities on the environment (double materiality). Integrating these methodologies enables us to gradually improve credit and insurance underwriting and investment policies, and support us in engaging with our clients.

We continuously investigate external developments and potential new methodologies, tools and services, to continue to build up relevant knowledge and expertise, and gradually gain more insights. This enables us to take additional steps to advance our risk management processes and practices. As an example, for nature loss we have experimented with the ENCORE tool to determine the sectors that are most material from an impact and dependency perspective for KBC's corporate lending portfolio.

With respect to our own operations, many ESG-related aspects are properly measured and monitored (e.g., our own direct footprint, compliance risks, cyber risks).

Stress testing and sensitivity analyses

Climate risk and other ESG risks have a prominent role in the scenarios of KBC's stress tests and sensitivity analyses. In addition to climate drivers, social drivers such as failure of data protection or operational risk losses from possible cyber hacks were included in several stress-testing exercises such as reverse stress testing and the ICAAP/ORSA stress test. An overview of the applied ESG-related stresses in our stress test mix is included in Annex III. In particular, in 2024, we conducted an internal climate risk stress test, covering both transition and physical risk scenarios.

Several (climate) scenarios and time horizons have been considered within our stress testing. Depending on the assumptions applied regarding the severity and nature of ESG-related scenarios, the range of 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.

Overall, the results of the scenario analyses and stress tests performed demonstrate that no material impact is expected within the short term and that, therefore, the capital that we hold, also from an internal perspective (based on our internal capital model), is adequate. The same holds for the capital that we calculate under Solvency II for the risks associated with natural catastrophe events (physical risks) in our insurance business.

It can be concluded that KBC's long-term financial stability is not jeopardised, as even adverse assumptions regarding the severity of transition and physical risks do not jeopardise our solid capital and liquidity position. Nevertheless, we are already proactively adjusting our 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 caused by transition or physical risks.

ESG-related stress testing exercises and the use of ESG scenarios are continuously enhanced following new insights from, for instance, our Environmental Risk Impact Map or other methodological tracks. In tandem, KBC continues to make significant efforts to enhance data availability which will further enable accurate quantification of the climate and other ESG risks we are exposed to.

Continuously enhancing our ESG data

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. Since 2022, climate-related data is managed via KBC's dedicated Data & Metrics Programme and its Steering Committee. Core projects managed by the Programme relate to the implementation of the EBA binding standards on Pillar 3 disclosures on ESG risks (see Annex III), the EU Taxonomy Regulation and CSRD, as well as to the collection of the necessary data required for setting emission reduction targets for the most climate-relevant sectors (see next 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 ESG data points will remain an important challenge in the coming years.

ESG is firmly embedded in our risk appetite process

When integrating climate-related and other ESG risks into our risk appetite process, we not only focus on short-term impacts, but also take extended time horizons into consideration. Potential short-, medium- and long-term impacts, as identified in the Environmental Risk Impact Map (see 'Strong focus on ESG risk identification and materiality assessment') provide input for our risk appetite discussions so 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-mitigation actions in a timely manner (e.g., making policy adjustments or setting additional targets and limits). In our yearly financial planning exercise, climate evolutions are included in the economic scenarios which form the basis of our budgeting cycle, we follow up on climate-related volumes and targets and the expected impact of climate-related risks on the risk profile is considered.

Given the increased importance KBC assigns to ESG risks, ESG has been included in KBC's Risk Appetite Statement at the highest level via a specific ESG risk appetite objective, covering both perspectives of 'double materiality':

KBC Group is committed to embedding ESG considerations in its decision-making, risk management processes and client and third-party interactions, with the aim of contributing positively to society and safeguarding KBC's long-term sustainability.

Other risk appetite objectives also address other ESG themes. These include:

- championing 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 & Compliance Management, taking into account the internal and external context as key drivers to enhance the organisation's resilience and to create value;
- fostering data-driven digital innovation in a risk-conscious way.

To be less vulnerable to changes in the external environment – including environmental 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.

Our sustainability policies define the risk playing field for credit, insurance, advisory services and investments

The KBC Group Sustainability Policy Framework gives a comprehensive overview of our sustainability policies and how they are applied in our various activities. It also includes more information on the due diligence process and remedial actions in place. As such, the Framework effectively controls and mitigates reputation and litigation risks. It reflects international best practices, entailing that, for example:

- KBC is a signatory of the UN Global Compact Principles, which are integrated into our policies to make sure they are applied in all 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;
- KBC will not provide financing or advisory services to projects where the client is unwilling or unable to comply with the Equator Principles. These are the leading financial industry benchmark for determining, assessing and managing environmental and social risks in major industrial and infrastructure projects.

Being part of the Sustainability Policy Framework, our sustainability policies (which you can learn more about at this link) clearly define the ESG risk playing field for credit, insurance, advisory services and investments (asset management and proprietary investments) as well as supporting activities such as procurement. In our policies, we identify controversial activities with respect to the environment (including climate and biodiversity), human rights, business ethics and sensitive/controversial societal issues (e.g., tobacco and other intoxicating crops, gambling, fur, mining operations, land acquisition and the involuntary resettlement of indigenous people, and prostitution). We will either refrain from engaging in these activities (such as activities related to thermal coal), or only engage in these activities under strict criteria (such as biomass technologies, production of palm oil, etc.). Where relevant and applicable, the group-wide sustainability policies are leveraged when developing risk-related standards, such as the Credit Risk Standards (CRS) on Sustainable and Responsible Lending. Furthermore, they are regularly updated to reflect both society's changing expectations and KBC's evolving ambition level.

More information can be found in the 'Our sustainability policies' section of the 2024 KBC Sustainability Report and in the KBC Group Sustainability Policy Framework, both of which are available on the KBC website.

Through our exclusions and publicly committed targets, we steer our portfolios and activities

In our policies we have a number of zero tolerances for, or bans on, lending, insurance and advisory services for certain activities. For example:

- Some parties are entirely or partially excluded from doing business with KBC. They are listed on the KBC Blacklist, the KBC List of human rights offenders or the KBC List of most controversial regimes;
- Under our Energy Policy, exclusions and restrictions are in place for clients with coal-based energy generation capacity, including, among other things, a complete ban on financing new clients with coal-based electricity or heat generating activities;
- Our 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;
- Furthermore, KBC rules out financing, insurance or advisory services to companies highly involved in gambling (incl. sports and online gambling), to the tobacco industry and to prostitution-related activities.

In addition to the bans and zero tolerances within our policies, we have also committed to aligning our portfolios and business strategy with the Paris Agreement to keep global warming below 2°C while striving for a target of 1.5°C. More information about our decarbonisation targets can be found in the KBC Sustainability Report.

Within our annual financial planning cycle, we focus on the development of new products that provide sustainable solutions, giving priority to energy, real estate, mobility and agriculture. In particular, the business plans at country level include plans to green our portfolio.

We monitor a set of climate-related Key Risk Indicators (as part of our Risk Appetite process)

In addition to the above-mentioned bans, zero tolerances and targets, we have introduced a set of climate-related Key Risk Indicators (KRIs) into our risk appetite process. These are defined for the most material transition and physical risks as identified in the Environmental Risk Impact Map, covering a large part of KBC's activities and portfolios. They were defined for several traditional risk areas (such as credit risk, technical insurance risk, market risk and operational risk – see the risk-type-specific sections below). These KRIs are taken into consideration when assessing the impact of ESG risk on KBC's risk profiles. Early warning levels for a selection of these KRIs are intended to draw attention to any adverse evolution. Going forward, we aim to further enhance the set of climate-related KRIs, leveraging improved data and insights.

ESG in risk analysis, monitoring, reporting, response and follow-up

As described throughout this section, KBC 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 and increasing coverage of ESG risks in both internal and external reporting.

Internal monitoring & reporting

The Board, the RCC and the ExCo 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 firmly integrated into ICAAP/ILAAP/ORSA, these risks are extensively addressed in the corresponding ICAAP/ILAAP/ORSA reporting in addition to management reporting on the related processes (e.g., the Risk Scan, the Risk Appetite Statement, reverse stress testing, financial planning);
- ESG risk-related topics are also part of our Integrated Risk Report (IRR), which is reported to the ExCo, RCC and Board eight times per year. ESG-related risk signals are integrated when relevant and can relate to, e.g., environmental hazards that impacted KBC (such as storm Boris), upcoming ESG regulation, cyber events, etc.;
- Since 2023, a Climate Risk Dashboard is included in the IRR on a semi-annual basis. The dashboard includes an analysis and monitoring of climate-related transition and physical risk metrics for KBC's most relevant portfolios and business lines. As the availability of data and measurement methodologies is gradually improving (see the 'Strengthening our ESG risk measurement and stress testing' section), monitoring of ESG-related risk will also be further enhanced;
- Via the KBC Sustainability Dashboard (presented to the Board twice a year), we monitor progress in the implementation of our sustainability strategy and make adjustments when necessary. Among others things, indicators for climate-related risks and opportunities, climate-related target setting, female entrepreneurship, skill sets and responsible behaviour are integrated in the Dashboard;
- Furthermore, ESG-related topics are an inherent part of risk-type-specific reporting as well. We refer to the risk-type-specific sections for more information on, for example, the Sectoral E&S risk Portfolio Report for our industrial loan portfolio or dedicated monitoring and reporting of the climate KRIs via several risk-type-specific reports.

External reporting

Several externally published reports describe KBC's approach to sustainability, all with different focus points. While these disclosures are predominantly driven by increasing ESG-related disclosure requirements (as highlighted in the 'Considering the regulatory and supervisory landscape' section), they are complemented by a set of documents and reports that are published on a voluntary basis.

- The KBC Risk Report (the document at hand) specifically focuses on how we integrate ESG risks into our risk management processes and frameworks, adhering to the EBA's disclosure requirements on ESG risks. The mandatory EBA templates on Pillar 3 disclosures on ESG risk are included since the 2022 report. In the first iterations 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, as, going forward, more and better data sources will become available (e.g., as a result of the further implementation of the CSRD and the accompanying European Sustainability Reporting Standards (ESRS)). A one-on-one comparison between this and other externally published group reports is not always possible to the full extent, due to differences in scope and calculation methods. In addition to the templates themselves, more details on the methodologies and type of estimates used are available in Annex III.

- The KBC Sustainability Report, voluntarily 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 (including decarbonisation targets) we have set and our main achievements.
- For the first time, an obligatory Sustainability Statement is added to the KBC Annual Report via which we adhere to the Corporate Sustainability Reporting Directive (CSRD). This statement includes an overview of our sustainability strategy, sustainability governance and how we manage our material impacts, risks and opportunities, as identified in a Double Materiality Assessment. Furthermore, reporting on EU Taxonomy eligibility and alignment is also included.
- The Sustainable Finance Disclosure Regulation (SFDR), which KBC Asset Management implemented in the various disclosure requirements (at entity, service and product level).
- Additionally, KBC voluntarily participates in the Carbon Disclosure Project (CDP) Questionnaire of which the answers are available on the CDP website. CDP is a not-for-profit charity that is considered the 'gold standard' for environmental reporting. In 2024, CDP confirmed KBC's position as a sustainability leader in terms of its climate performance (with an A rating and inclusion on CDP's A List).

Capital adequacy and capital management

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

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 KBC, this implies that we calculate our solvency ratios based on the Capital Requirements Regulation/Capital Requirement Directive (CRR/CRD).

CRR/CRD implements the Basel rules in Europe and is updated from time to time. When new requirements are implemented, a transitional period may be allowed during which these rules are gradually phased in. KBC currently makes use of the IFRS 9 transitional measures (applied from the second quarter of 2020). These 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 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 2024 and the final dividend for 2024 will be recognised in the transitional CET1 of the first quarter of 2025, which will be reported after the General Meeting. Since 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 balance sheet reconciliation is included in Annex I.

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 calculations. Following the SREP cycle of 2024, the ECB formally notified KBC that the Pillar 2 Requirement (P2R) would remain unchanged at 1.86% (of which 1.09% in CET1 taking into account CRD Article 104a). KBC may consider further optimising its capital structure by filling up the AT1 and T2 buckets within the P2R. The Pillar 2 Guidance (P2G) remained unchanged at 1.25% 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 countercyclical buffer rates in the countries where KBC's relevant credit exposures are located correspond to a fully loaded countercyclical buffer at KBC group level of 1.15%.

For KBC Group, the systemic capital buffer as decided by the National Bank of Belgium (NBB) remained unchanged at 1.5% CET1.

On 1 May 2022, the 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 6% as from April 2024 (9% until then) of the RWA for exposures secured by residential real estate in Belgium, which corresponds to 0.14% of total RWA for KBC Group Consolidated.

Altogether, this brings the fully loaded CET1 requirement (under the Danish Compromise) to 10.88%, with an additional Pillar 2 Guidance (P2G) of 1.25%.

The data above reflects the situation as known on 31 December 2024, 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 is tailored to that aim. Each year, the Board 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 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 buyback or a combination of both. The dividend policy and the surplus capital threshold will be updated in 2025.

The Board will propose to the General Meeting of Shareholders of 30 April 2025 a total gross dividend of 4.85 euros per share related to the accounting year 2024, consisting of:

- an interim dividend of 0.70 euro per share (280 million euros in total; this is the distribution of the surplus capital above a fully loaded CET1 ratio of 15% as at year-end 2023), as decided by the Board on 15 May 2024 and paid on 29 May 2024;
- an interim dividend of 1.00 euro per share (396 million euros in total), as decided by the Board on 7 August 2024 and paid on 14 November 2024;
- a final ordinary dividend of 3.15 euros per share, to be paid on 8 May 2025 (1 249 million euros in total).

Solvency figures under CRR/CRD

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

In order to meet the requirements for disclosure of the specific items on own funds described in points (d) and (e) of Article 437 (1) of Regulation (EU) No 575/2013, institutions shall complete and publish the general own funds disclosure template as defined in Article 4 of Commission Implementing Regulation (EU) No 1423/2013.

These regulatory required templates can be found in a separate Excel file on the KBC website, published alongside this Risk Report.

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

In millions of EUR	31-12-2024 Fully loaded	31-12-2024 Transitional	31-12-2023 Fully loaded	31-12-2023 Transitional
Total regulatory capital, after profit appropriation[1]	**22 374**	**21 048**	**21 260**	**19 768**
Tier-1 capital	**19 811**	**18 485**	**18 986**	**17 389**
Common equity[2]	**17 947**	**16 621**	**17 236**	**15 639**
Parent shareholders' equity (after deconsolidating KBC Insurance)	21 589	18 932	21 181	18 209
Intangible fixed assets, incl. deferred tax impact (-)	-743	-743	-712	-712
Goodwill on consolidation, incl. deferred tax impact (-)	-1 052	-1 052	-1 070	-1 070
Minority interests	0	0	0	0
Hedging reserve, cashflow hedges (-)	508	508	579	579
Valuation differences in financial liabilities at fair value – own credit risk (-)	-29	-29	-29	-29

Value adjustment due to requirements for prudent valuation (-)[3]	-35	-35	-24	-24
Dividend payout (-)	-1 249	0	-1 287	0
Share buyback	0	0	-803	-803
Coupon on AT1 instruments (-)	-27	-27	-26	-26
Deduction with regard to financing provided to shareholders (-)	-23	-23	-56	-56
Deduction with regard to irrevocable payment commitments (-)	-90	-90	-90	-90
Deduction with regard to NPL backstops (-)[4]	-205	-205	-204	-204
Deduction re pension plan assets (-)	-205	-205	-121	-121
IRB provision shortfall (-)	-141	-66	-4	0
Deferred tax assets on losses carried forward (-)	-353	-353	-98	-98
Transitional adjustments to CET1	0	7	0	84
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	**1 864**	**1 864**	**1 750**	**1 750**
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	1 864	1 864	1 750	1 750
Minority interests to be included in additional going concern capital	0	0	0	0
Tier-2 capital	**2 563**	**2 563**	**2 273**	**2 379**
IRB provision excess (+)	167	167	277	265
Transitional adjustments to Tier-2 capital	0	0	0	-60
Subordinated liabilities issued by KBC Group[6]	2 396	2 396	1 997	2 174
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	**119 945**	**119 950**	**113 038**	**113 029**
Banking	110 082	110 087	103 201	103 192
Credit risk	94 213	94 218	88 051	88 042
IRB Advanced approach	64 532	64 532	59 196	59 196
IRB Foundation approach	0	0	0	0
Standardised approach	26 441	26 441	25 381	25 381
Counterparty credit risk	2 921	2 921	3 166	3 166
Other assets	319	324	308	299
Market risk[7]	2 026	2 026	2 116	2 116
Operational risk	13 843	13 843	13 034	13 034
Insurance	9 133	9 133	9 133	9 133
Holding-company activities	734	734	710	710
Elimination of intercompany transactions	-5	-5	-6	-6
Solvency ratios				
Common equity ratio (or CET1 ratio)	15.0%	13.9%	15.2%	13.8%
Tier-1 ratio	16.5%	15.4%	16.8%	15.4%
Total capital ratio	18.7%	17.6%	18.8%	17.5%

[1] The difference between the fully loaded and the transitional figure as at 31-12-2024 is explained by the net result for 2024 (3 333 million euros under the Danish Compromise method), the proposed final dividend (-1 926 million euros) and the impact of the IFRS 9 transitional measures and IRB excess/shortfall (-81 million euros).

[2] Audited figures (excluding 'IRB provision shortfall', 'Value adjustment due to requirements for prudent valuation' and 'Deduction regarding 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) needs to be brought back to its 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 minimum coverage requirements on non-performing loans for loans originated after 26 April 2019 (CRR requires a deduction from CET1) and the ECB minimum coverage expectations on non-performing loans for exposures defaulted after 1 April 2018 but originated before 26 April 2019 (KBC decided to voluntarily deduct from CET1 any shortfalls relative to supervisory expectations).

[5] In September 2024, KBC Group issued a new AT1 instrument for an amount of 750 million euros and at the same time repurchased 636 million euros from the 1-billion-euro AT1 instrument that was issued in April 2018 and has a first call date of 24 October 2025.

[6] The EBA Monitoring report on AT1, Tier 2 and TLAC/MREL-eligible liabilities instruments (27 June 2024) recommends to use the carrying amounts (including accrued interest and hedge adjustments) instead of nominal amounts for own funds calculation. KBC has applied this EBA recommendation: on 31 December 2024, it had a 47-million-euro positive impact on Tier 2 capital at KBC Group level.

[7] The HVAR and SVAR multiplier used for the calculation of market risk is equal to 3.0.

Table 1 - Solvency at group level (consolidated, under CRR/CRD, Danish Compromise method)

The fully loaded CET1 ratio dropped from 15.2% at year-end 2023 to 15.0% at year-end 2024, which is explained by the 2024 profit (impact of +2.9 percentage points), the proposed 4.85-euros-per-share dividend for 2024 (impact of -1.7 percentage points), the increase in RWA (impact of -1.1 percentage points) and prudential adjustments (DTA and IRB shortfall, among others; impact of -0.5 percentage points).

Note that Basel 4 (based on current EU regulation, a static balance sheet and all other parameters ceteris paribus, without any mitigating actions) is now estimated to have:

- a first-time application impact of +1.0 billion euros in RWA on 1 January 2025;
- a further impact of 7.5 billion euros, including output floor, by 1 January 2033;

resulting in a fully loaded impact of 8.5 billion euros in RWA.

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

In millions of EUR	31-12-2024 Fully loaded	31-12-2024 Transitional	31-12-2023 Fully loaded	31-12-2023 Transitional
Common equity	17 303	15 843	16 521	14 755
Total weighted risk volume	115 372	115 044	108 287	107 858
Common equity ratio	15.0%	13.8%	15.3%	13.7%

Table 2 - 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, except for the 0.11% add-on related to NPL backstop (to be fully covered with CET1).

Buffer vs Overall Capital Requirement (consolidated; under CRR/CRD, Danish Compromise method)

	31-12-2024 Fully loaded	31-12-2024 Actual	31-12-2023 Fully loaded	31-12-2023 Actual
CET1 Pillar 1 minimum	4.50%	4.50%	4.50%	4.50%
Pillar 2 requirement to be satisfied with CET1	1.09%	1.05%	1.05%	1.05%
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	0.14%	0.14%	0.14%	0.21%
Entity-specific countercyclical buffer	1.15%	1.12%	1.24%	0.69%
Overall Capital Requirement (OCR)[1] - with P2R split CRD Art. 104a(4)	**10.88%**	**10.80%**	**10.92%**	**10.45%**
CET1 used to satisfy shortfall in AT1 bucket (B)	0.27%	0.29%	0.30%	0.30%
CET1 used to satisfy shortfall in T2 bucket (C)	0.30%	0.33%	0.45%	0.36%
CET1 requirement for MDA (A+B+C)	**11.45%**	**11.43%**	**11.68%**	**11.11%**
CET1 capital (in millions of EUR)	17 947	16 621	17 225	15 639
CET1 buffer (= buffer compared to MDA) (in millions of EUR)	4 212	2 913	4 025	3 082

[1] *Situation as known at 31 December 2024 (not taking into account changes communicated after that date).*

Table 3 - 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 2024. IFRS 9 transitional measures are no longer applicable as from 1 January 2025.

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 II)	Art. 473a	Yes	7	5	0.00%
Sovereigns under Standardised Approach	Art. 500a	No	-	-	-
Outliers in Market risk VaR models	Art. 500c	No	-	-	-

Table 3 - 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 II.

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).

The leverage ratio is determined and monitored within the quarterly closing process and included in the periodic management reports of the Finance and 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 2024, the fully loaded leverage ratio decreased compared to December 2023, due to higher total assets, mainly driven by a large increase in cash and cash balances with central banks and (to a lesser extent) higher customer loans, only partially offset by also higher Tier 1 capital (mainly driven by the inclusion of 2024 profits).

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 (as from 1 January 2024, a P2R of 0.1% on the leverage ratio is applicable, increasing the minimum regulatory requirement to 3.1%). 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 4.6%, which is well above the regulatory requirement of 3.1%. Furthermore, the absolute size of the balance sheet is also monitored from other perspectives (e.g., in the context of MREL requirements).

Leverage ratio at group level (consolidated; under CRR/CRD, Danish Compromise method) *In millions of EUR*	31-12-2024 Fully loaded	31-12-2024 Transitional	31-12-2023 Fully loaded	31-12-2023 Transitional
Tier-1 capital	19 811	18 485	18 986	17 389
Total exposure	360 085	360 092	333 791	333 894
Total assets	373 048	373 048	346 921	346 921
Deconsolidation of KBC Insurance	-33 734	-33 734	-30 980	-30 980
Transitional adjustment	-	7	-	103
Adjustment for derivatives	-885	-885	-1 341	-1 341
Adjustment for regulatory corrections in determining tier-1 capital	-2 681	-2 681	-2 286	-2 286
Adjustment for securities financing transaction exposures	1 686	1 686	1 357	1 357
Central Bank exposures	-	-	-	-
Off-balance-sheet exposures	22 651	22 651	20 119	20 119
Leverage ratio	5.5%	5.1%	5.7%	5.2%

Table 4 - Leverage ratio at group level

The regulatory required templates with regard to the leverage ratio can be found in a separate Excel file on the kbc.com website, published alongside this Risk Report.

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 develops 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 June 2024, the SRB formally communicated to KBC binding MREL targets expressed as a percentage of Risk-Weighted Assets (RWA) and Leverage Ratio Exposure Amount (LRE):

- 28.48% of RWA as at 31 December 2024 (including a transitional Combined Buffer Requirement of 5.25%);
- 7.42% of LRE.

At the end of December 2024, the MREL ratio stood at 30.7% as a percentage of RWA (unchanged compared to 30.7% as at 31 December 2023) and at 10.2% as a percentage of LRE (as opposed to 10.4% as at 31 December 2023).

The stable MREL ratio as a percentage of RWA reflects the higher total weighted risk volume which is absorbed by retained earnings and growth in issued MREL-eligible debt in 2024. The small decrease of the MREL ratio as a percentage of LRE is mainly explained by the increase of the leverage ratio exposure, which is only partly offset by the growth in available MREL.

The binding subordinated MREL targets are:

- 24.05% of RWA as at 31 December 2024 (including a transitional Combined Buffer Requirement of 5.25%);
- 7.42% of LRE.

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	31-12-2024	31-12-2023
Own funds and eligible liabilities (transitional)	36 818	34 672
CET1 capital (consolidated, CRR/CRD, Danish Compromise method)	16 621	15 639
AT1 instruments (consolidated, CRR/CRD)	1 864	1 750
T2 instruments (consolidated, CRR/CRD)	2 563	2 379
Subordinated liabilities (issued by KBC Group NV but not included in AT1 & T2)	-	8
Senior debt (issued by KBC Group, nominal amount, remaining maturity > 1 year)	15 770	14 897
Risk-Weighted Assets (RWA)	119 950	113 029
MREL as % of RWA	30.7%	30.7%
Leverage Ratio Exposure Amount (LRE)	360 092	333 894
MREL as % of LRE	10.2%	10.4%

Table 5 - MREL hybrid view

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)

In millions of EUR	31-12-2024 Fully loaded	31-12-2024 Transitional	31-12-2023 Fully loaded	31-12-2023 Transitional
Common equity	19 456	18 563	18 625	17 532
Total weighted risk volume	138 265	138 270	128 965	128 956
Common equity ratio	14.1%	13.4%	14.4%	13.2%

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

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) *In millions of EUR*	31-12-2024 Fully loaded	31-12-2024 Transitional	31-12-2023 Fully loaded	31-12-2023 Transitional
Total regulatory capital, after profit appropriation	**20 296**	**18 981**	**19 375**	**17 952**
Tier-1 capital	17 755	16 440	16 924	15 573
Of which common equity	*15 891*	*14 576*	*15 174*	*13 823*
Tier-2 capital	2 541	2 541	2 451	2 379
Total weighted risks	110 082	110 087	103 201	103 192
Common equity ratio	14.4%	13.2%	14.7%	13.4%
Tier-1 ratio	16.1%	14.9%	16.4%	15.1%
Total capital ratio	**18.4%**	**17.2%**	**18.8%**	**17.4%**

Table 7 - Solvency, KBC Bank

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

In millions of EUR	31-12-2024	31-12-2023
Own funds	4 392	4 130
Tier-1	3 891	3 629
IFRS parent shareholders' equity	3 331	3 302
Dividend payout	-91	-233
Deduction of intangible assets and goodwill (after tax)	-207	-198
Valuation differences (after tax)	633	597
Volatility adjustment	189	137
Other	37	25
Tier-2	501	501
Subordinated liabilities	501	501
Solvency capital requirement (SCR)	2 196	2 005
Solvency II ratio	200%	206%
Solvency surplus above SCR	2 196	2 125

Table 8 - 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 ExCo. KBC's ICAAP (Internal Capital Adequacy Assessment Process, covering the group perspective) and ORSA (Own Risk and Solvency Assessment, covering the insurance activities) are governed by the ICAAP and ORSA policies, owned by the BoD. These policies document KBC's ICAAP and ORSA architecture (e.g., objectives, underlying processes and responsibilities) supporting the management and assessment of KBC's capital adequacy. They are set up in line with applicable regulation and guidelines, including the ECB's guidelines on ICAAP and the Solvency II regulation, and are continuously further improved, for example to embed newer risks such as ESG.

The reference points are KBC's Corporate Strategy and risk appetite, which are the anchors for iterative, continuous ICAAP and ORSA processes based on, for instance, risk appetite setting, forward-looking assessments, monitoring and response. 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/ORSA and capital planning.

For this purpose, we have internal economic capital models in place to complement the existing regulatory capital models (Pillar 1). These allow us to assess our capital adequacy from an internal perspective as well and to transfer relevant insights from one perspective to the other, for example to assess to what extent vulnerabilities under stress identified in the internal capital models (e.g., the negative impact of interest rate and spread increases on the economic value of our balance sheet) could show up in the regulatory view and whether these should be proactively mitigated).

Our Internal Capital Model Ratio (no full fair value approach for balance sheet items at amortised cost) is complemented with an Economic Balance Sheet (EBS) ratio (full fair value approach). The outcome of these models is reported to the ExCo and the Board on a quarterly basis via the Integrated Risk Report, with more detailed reporting in the annual ICAAP report. These models are subject to an extensive use test. They are, for example, used to measure risk-adjusted performance, to underpin and set risk limits and to assess capital adequacy. They are complemented by a framework for assessing earnings that aims to reveal vulnerabilities in terms of the longer-term sustainability of our business model, and by a balanced mix of stress tests (see below).

The breakdown of KBC's internal (economic) capital models per risk type is provided in the following tables:

Internal capital distribution based on the Internal Capital Model, KBC Group	2024	2023
Credit risk and counterparty risk	58%	58%
Market risk (banking book)	10%	10%
Market risk (trading book)	1%	1%
Operational risk	9%	9%
Risk related to the insurance entity	17%	17%
Pension risk	5%	5%
Total	100%	100%

Table 9 - Internal economic capital based on the Internal Capital Model, KBC Group

Economic internal capital based on the Economic Balance Sheet ratio, KBC Group	2024	2023
Credit risk and counterparty risk	48%	48%
Market risk (banking book)	23%	23%
Market risk (trading book)	1%	1%
Operational risk	8%	8%
Risk related to the insurance entity	16%	15%
Pension risk	5%	5%
Total	100%	100%

Table 10 - Internal economic capital based on the Economic Balance Sheet ratio, KBC Group

A key process in which our ICAAP and ORSA are 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 models), 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.

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, the effectiveness of KBC's risk and control environment, its governance and risk culture, and the current and expected development of KBC's risk profile under various scenarios. In case of relevant material developments, the ICAAP and ORSA are updated throughout the year in order to check KBC's continued capital adequacy.

Stress testing

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

We define stress testing as a management decision-supporting process that encompasses various techniques which are used to evaluate the potential negative impact on KBC's (financial) condition, caused by specific event(s) and/or movement(s) in risk factors ranging from plausible to extreme, exceptional or implausible. As such, it assists in identifying sources of vulnerability and hence in assessing whether our capital is adequate to cover the risks we face.

For this purpose, KBC has developed a balanced stress-testing mix, for each risk type separately and also at an overarching, integrated level, covering all material existing and new risks. These stress-testing mixes are regularly reviewed and approved by the relevant committee to ensure that they remain relevant given the changing environment and risks that could affect KBC.

The stress-testing mix includes sensitivities to critical assumptions used in the APC 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, financial market or other assumptions (e.g., adverse changes in regulation);
- 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 risk that a contractual party is unwilling or unable to fulfill an obligation to which they have committed (for instance, periodically paying interest and instalments to reimburse a loan, paying interest on a bond or repaying the principal of a bond at maturity). This can have multiple reasons, as the party could be insolvent, might not want to pay or is prevented from doing so because of events which are not under the control of the contractual party.

Managing credit risk

The strategic objective of granting credit through loans and other credit products on a relationship-driven basis to private individuals, businesses and public authorities is to sustainably and profitably support economic activity in the countries and markets in which we operate. Our credit products are varied in type and structure as they are tailored to suit the needs of our clients, the prevailing legal context, the risk profile of the transaction and the sustainability objectives that we have committed to. Our credit activity is subject to a general risk appetite statement decided upon by the Board and managed taking into account continuous input in terms of economic outlook and market information.

KBC manages the risks associated with credit-granting activities through a robust Credit Risk Management Framework, the implementation of various risk-mitigating measures, the adequate and transparent classification of credit risks and the recording of impairment charges as required. The credit risk playing field is made tangible through Credit Risk Standards and group-wide policies that impose restrictions and provide recommendations with regard to credit risk. Moreover, 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.

Scope

Credit risk is managed for all KBC entities, both in our home countries as well as via minor presence in the UK and Asia. Furthermore, the Credit Risk Management Framework applies to all credit (risk) processes and related activities, products and services.

Governance

In the area of credit risk, the ExCo is supported by the Group Lending Committee (GLC), which manages KBC's credit risk and the resulting capital requirement in the area of lending. The governance, rules and procedures on how credit risk management should be performed throughout the group are outlined in the Credit Risk Management Framework (CRMF). Its implementation is monitored by Group Credit Risk (GCRD) and its Credit Risk Competence Centre. GCRD falls under the responsibility of the GCRO and works in close cooperation with the local CROs and local risk departments, which are responsible for the local implementation of the CRMF. Business entities are consulted for those areas of the CRMF that impact business processes and/or governance.

Managing Credit Risk via our Three Lines of Defence (LoD) Model

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 by granting qualitative credits, Risk as one of the second lines by monitoring the credit portfolio and credit policies, and Internal Audit as the third line. They all work together in order to prevent major impact losses for KBC.

The building blocks to manage credit risk

Building upon the Enterprise Risk Management Framework (ERMF), a dedicated Credit Risk Management Framework (CRMF) has been developed which outlines how credit risk should be managed throughout the group.

Identifying credit risks

Several risk identification exercises as described in the 'Components of a sound risk management' section apply to the credit risk management context. A vital part of the credit risk identification process is capturing credit risk signals, at both transactional and portfolio level. Both the internal and external environments are scanned for events or developments that have already occurred or could occur and that directly or indirectly have or could have a significant impact on credit quality. In addition, thematic and sectoral deep dives are performed to gain further insights into credit risk.

New and upcoming prudential (capital) credit risk regulation and product- or client-specific regulation and legislation is followed up at group or local level to ensure that these are promptly implemented in KBC's policies and instructions.

A specific risk identification process is the leading indicator process designed to identify emerging credit risks that could lead to impairment. The main objective is to have a reliable estimate of impairment for the current quarter at an early stage, thus avoiding surprises. It is part of the quarterly reporting round on loan and bond impairment.

Measuring credit risks

Credit risk measurement involves a quantitative expression of a credit risk on a portfolio of instruments/exposures by applying a model or methodology. A minimum group-wide set of credit risk measurements is defined and can be complemented with local measurements.

Central to this is the 'risk class', with a ranking 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 were to default. 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 for both the IRB portfolio and the Standardised portfolio.

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'.

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').

Setting and cascading credit risk appetite

The KBC Credit Risk Appetite Statement defines the amount of credit risk KBC is able and willing to accept in pursuit of its strategic objectives. Credit risk appetite is made tangible by assigning credit risk limits and early warning levels to a limited set of credit risk (signal) indicators, which are valid for one year. KBC's medium risk appetite for credit risk is illustrated by the fact that internal processes to set risk limits are aimed at reaching this risk level. The GLC decides upon and periodically reviews a framework of limits, early warning levels and policies on credit risk activities that is consistent with the group's risk appetite. This framework is submitted to the Board for approval.

Primary credit risk limits are decided by the Board or the ExCo. These entail limits on Expected Loss (EL), Stressed Credit Loss (SCL) and Credit Risk-Weighted Assets (RWA) and, for new home loan production, Loan-to-Value (LTV) and Debt-Service-To-Income (DSTI). These limits are supplemented by a portfolio limit system (PLS) framework to constrain concentration risk on counterparty groups or authorities and other credit risk limits set at group or local level that include sector and activity limits and limits on risks.

The risk playing field is also determined by group-wide risk boundaries defined in Credit Risk Standards, which aim to align risk management of specific credit-risk-related topics throughout the group by defining restrictions and/or recommendations.

Credit risk analysis, reporting, response and follow-up

The loan portfolio is analysed on a continuous basis. In addition to portfolio analyses performed by Business, the local and group credit risk departments analyse the credit risk profile of the loan portfolio in order to obtain an independent view of the evolution of credit risk. The results of the analyses are reported to the appropriate risk committees. It is the responsibility of both line management and the risk committees to respond, i.e. to keep or bring risks in line with the risk appetite. Corrective action can be taken to avoid (further) credit risk, reduce the risk (mitigation), transfer the risk or accept it.

The appropriate risk management committees are periodically informed of relevant credit risk signals or observations. Credit risk signals that are considered material are reported to the ExCo. In addition, thematic and sectoral deep dives are performed to gain further insights into credit risk and to follow up on policies, procedures and monitoring instruments. The information gathered is used, among other things, to formulate policy actions and recommendations.

Stress testing

Stress testing is a core component of sound credit risk management and is performed at local and group level.

Over the past years, we have conducted several stress tests as part of our credit risk management strategy. An overview of the different stress tests we perform, their purposes, and their aims:

- The EBA EU-wide Stress Test is an external stress test mandated by the European Banking Authority (EBA). The aim is to assess the resilience of financial institutions to adverse market developments and ensure they have sufficient capital to withstand economic shocks. The stress scenario is imposed by EBA;
- Internal credit risk stress tests are conducted internally to evaluate the impact of various hypothetical adverse scenarios, determined by KBC, on our credit risk profile. The aim is to identify potential vulnerabilities and ensure that our risk management strategies are robust. Such stress tests are often linked to regulatory requirements such as the ICAAP stress test, recovery stress test and reverse stress test;
- Thematic and sectoral deep dives are internal stress tests or sensitivity analyses focused on specifically identified portfolios or sectors. The goal is to gain deeper insights into the impact of deterioration on these portfolios or sectors;
- Ad-hoc stress tests are performed on an as-needed basis to address specific concerns or emerging risks. The purpose is to provide timely insights and support decision-making in response to unexpected developments.

Managing credit risk in 2024

The continuing Russia-Ukraine war and the associated impact on worldwide energy markets, the aggravating conflict in the Middle East and the election result in the US fuelled the uncertainties surrounding the global economy and thus contributed to geopolitical and emerging risks.

Despite this challenging context, traditional credit risk metrics (such as forbearances, arrears, PD deterioration, new defaults) have not pointed to a substantial deterioration in credit quality for the KBC portfolios in 2024. This is also reflected in the still sound levels of non-performing loans and credit costs. Despite a slight increase, the latter is still well below through-the-cycle levels.

While the inflationary pressure and high-interest-rate environment were somewhat mitigated during 2024, the impact of the challenging context on credit risk may still (re-)emerge. For businesses, persisting increases in energy costs, higher refinancing risks of maturing debt in a still high interest-rate environment and/or demand- or transition-driven stress in certain sectors (e.g., Building & Construction, Automotive), have the potential to trigger more defaults of businesses. This in turn can affect private individuals, where income loss, possibly combined with increased spending for energy and basic needs, could result in payment problems on home loans and consumer finance facilities.

Credit risk management actions have been taken to anticipate, measure, mitigate and manage the above emerging risks. Accordingly, loan portfolios are monitored closely, origination processes have been adjusted (e.g., to reflect the specific challenges in the automotive sector), specific credit policies have been tightened (e.g., regarding underwriting in the Commercial Real Estate sector) and the watchlist concept has been finetuned. Finally, since the Russian invasion in Ukraine, a reserve for geopolitical and emerging risks has been maintained, and a selection of vulnerable portfolios and sub-portfolios have been earmarked for increased risk potential. For related figures, including the methodology and development of this reserve, we refer to Note 3.9 of the 'Consolidated financial statements' section.

Looking ahead, escalation of armed conflicts and protective measures affecting the global economic situation may contribute to heightened geopolitical and emerging risks. This in turn may lead (again) to a disruption of supply chains and/or substantial increases in energy prices, both impacting the real economy and accordingly the quality of the KBC credit portfolio.

On the regulatory front, with respect to credit risk, preparing for the Basel 4 implementation has been an important and challenging task in 2024. The first impact of this change will be visible in the first quarter of 2025 and, from a regulatory point of view, continue to evolve until full implementation in 2033.

Managing credit risk at transactional and portfolio level

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 measurement and analysis of risk embedded in the consolidated loan and investment portfolios and reporting on it, monitoring limit discipline, conducting stress tests under different scenarios and taking risk-mitigating measures

Managing credit risk at transactional level

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

Lending to individuals (e.g., mortgages) is subject to a standardised process, during which the output of scoring models plays an important role in the acceptance procedure. Lending to businesses is subject to an acceptance process in which relationship management, credit acceptance committees and model-generated output are taken into account. For most types of credit risk exposure, monitoring is determined primarily by the risk class, with a distinction being made based on the Probability of Default (PD) and the Loss Given Default (LGD). The latter reflects the estimated loss that would be incurred if an obligor defaults.

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

Managing credit risk at portfolio level

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

Whereas some limits are in notional terms, we also use measures such as 'expected loss' and 'loss given default'. Together with 'probability of default' and 'exposure at default', these concepts form the building blocks for calculating the regulatory capital requirements for credit risk. Irrespective of whether it concerns portfolios under IRBA or Standardised portfolios, IRBA risk parameters are defined for the entire portfolio and used for our internal risk monitoring.

Basel III implementation at KBC Group

With regard to the implementation of Basel III, before the end of 2023, KBC considered IRB roll-out for all important entities. Since the end of 2023 however, the following entities and portfolios switched to the Standardised Approach due to model simplification: the entities ČSOB in Slovakia, K&H, the sovereign portfolios in the entire KBC Group and some immaterial portfolios in the Belgium Business Unit and ČSOB in the Czech Republic. Apart from the above-mentioned exceptions, the main group entities in Belgium and the Czech Republic continue to adopt the IRB Advanced approach, while non-material entities as well as the entire International Markets Business Unit adopt the Standardised Approach.

Roll-out of Basel III pillar 1 approach at end of year shown	2023-2024	2021-2022	2019-2020
IRB Advanced Approach*	KBC Bank CBC Banque ČSOB Czech Republic KBC Lease Belgium KBC Commercial Finance KBC Immolease	KBC Bank CBC Banque ČSOB Czech Republic KBC Lease Belgium KBC Commercial Finance KBC Immolease K&H Bank KBC Bank Ireland	KBC Bank CBC Banque ČSOB Czech Republic KBC Credit Investments KBC Lease Belgium KBC Commercial Finance KBC Immolease K&H Bank KBC Bank Ireland
IRB Foundation approach*		ČSOB Slovak Republic	ČSOB Slovak Republic
Standardised approach	UBB K&H Bank ČSOB Slovak Republic KBC Autolease Non-material entities	UBB KBC Bank Bulgaria (as of 2022) KBC Autolease Non-material entities	UBB OTP Banka Slovensko KBC Autolease 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 11 - Roll-out of Basel III, Pillar 1 approach

A closer look at KBC's Risk Weighted Assets (RWAs)

Risk Weighted Assets (RWA) can be regarded as an exposure weighted according to 'riskiness'. This riskiness depends on factors such as the Loss Given Default (LGD, which in turn is driven by factors such as the amount of collateral of guarantees), the maturity of the exposure and the Probability of Default (PD) of the obligor. The Exposure at Default (EAD) is used as a basis for determining the RWA, which in turn are used to calculate the required capital for the aforementioned exposure. Even though the components of RWA are set, the method that a banking institution uses to calculate these components can differ:

- The Internal Ratings-Based Advanced (IRBA) 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 71% of the RWA. The remaining RWA (about 29%) are calculated according to the Standardised approach. Please refer to the 'KBC's use of the Standardised Approach' and 'KBC's use of the IRB approach' sections for a more detailed explanation.
- 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 do we charge additional RWA in the form of an additional add-on under MOC (e.g., late model review).

The table below provides an overview of how Basel III RWA for the KBC Group changed over 2024. This table shows the overall RWA figures, including non-material entities, non-transactional RWA (e.g., operational risk and market risk) and the RWA for KBC Insurance according to the Danish Compromise method. 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.

EU OV1 - Overview of total risk exposure amounts

		a	b	c
		Total risk exposure amounts (TREA)		Total own funds requirements
In millions of EUR		31/12/2024	31/12/2023	31/12/2024
1	Credit risk (excluding CCR)	101 152	94 697	8 092
2	*Of which the standardised approach*	*26 441*	*25 381*	*2 115*
3	*Of which the Foundation IRB (F-IRB) approach*	*0*	*0*	*0*
4	*Of which slotting approach*			
EU 4a	*Of which equities under the simple risk-weighted approach*	*1 039*	*668*	*83*
5	*Of which the Advanced IRB (A-IRB) approach*	*64 532*	*59 196*	*5 163*
6	Counterparty credit risk - CCR	2 921	3 166	234
7	*Of which the standardised approach*	*998*	*1 030*	*80*
8	*Of which internal model method (IMM)*	*698*	*828*	*56*
EU 8a	*Of which exposures to a CCP*	*87*	*59*	*7*
EU 8b	*Of which credit valuation adjustment - CVA*	*745*	*921*	*60*
9	*Of which other CCR*	*394*	*328*	*32*
15	Settlement risk	0	0	0
16	Securitisation exposures in the non-trading book (after the cap)	13	18	1
17	*Of which SEC-IRBA approach*			
18	*Of which SEC-ERBA (including IAA)*			
19	*Of which SEC-SA approach*	*13*	*18*	*1*
EU 19a	*Of which 1250%*			
20	Position, foreign exchange and commodities risks (Market risk)	1 963	2 068	157
21	*Of which the standardised approach*	*412*	*271*	*33*
22	*Of which IMA*	*1 551*	*1 797*	*124*
EU 22a	Large exposures			
23	Operational risk	13 901	13 079	1 112
EU 23a	*Of which basic indicator approach*			
EU 23b	*Of which standardised approach*	*13 901*	*13 079*	*1 112*
EU 23c	*Of which advanced measurement approach*			
24	**Amounts below the thresholds for deduction (subject to 250% risk weight)**	**1 075**	**1 074**	**86**
25	*Other non-credit-obligation assets excl. DTA (For information, included in row 5)*	*4 725*	*9 868*	*378*
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*
29	**Total**	**119 950**	**113 029**	**9 596**

Table 12 - EU OV1: Overview of total risk exposure amounts

In 2024, RWA at KBC group level increased by +6.9 billion euros (or +6.1%). The largest change can be attributed to credit risk (other than counterparty credit risk) with an increase of +6 454 million euros. Counterparty credit risk showed a decrease of -245 million euros in RWA. Market risk shows a decrease of -105 million euros. Lastly, we have a +823-million-euro RWA increase for operational risk.

The breakdown by the most material entities shows that the consolidated credit risk RWA change is primarily driven by the increase at the Belgium Business Unit (+5.3 billion euros) and, to a lesser extent, ČSOB Czech Republic (+1 billion euros) and UBB Bulgaria (+724 million euros). At K&H (+15 million euros) and ČSOB Slovak Republic (+38 million euros), RWA growth is very limited and there is basically a status quo. Group Centre shows a limited RWA decrease (-196 million euros).

The overall change in Credit Risk RWA in 2024 can be explained mainly by underlying volume changes. The volume impact on the credit risk RWA amounted to roughly +5 billion euros, excluding the foreign-exchange impact. This is roughly the same change as in 2023. The increase was material in most segments and mainly situated in the Belgium Business Unit (2.1 billion euros), ČSOB Czech Republic (1.9 billion euros) and UBB Bulgaria (900 million euros). At K&H, ČSOB Slovak Republic and Group Centre there was virtually no change in RWA volume.

KBC's exposure to credit risk

This section provides an overview of the overall credit risk based on the figures for the end of December 2024 (as described in the EBA guidelines). 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 management' 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.

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).

Forbearance 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 facing, or about to face, financial difficulties. They may involve lowering or postponing interest or fee payments, extending the term of the loan to ease the repayment schedule, capitalising arrears, declaring a moratorium or 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 increased risk of default. In such a case the client's unlikeliness to pay is also assessed (according to specific 'unlikely to pay' criteria). In accordance with IFRS 9 requirements, a facility tagged as 'forborne' is allocated to 'Stage 2' (if the client/facility is classified as 'non-defaulted') or to 'Stage 3' (if the client/facility is classified as 'defaulted').

KBC applies criteria that are consistent with the corresponding EBA standards to move forborne exposures from 'defaulted' to 'non-defaulted' status and to remove the forbearance status. 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.

For the regulatory reporting templates related to credit risk quality and forborne exposures (as imposed by the EBA), we refer to a separate Excel file on the KBC website, which is published alongside the KBC Risk Report.

Credit risk mitigation (CRM)

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

For the regulatory reporting templates related to Credit Risk Mitigation (CRM) techniques (as imposed by the EBA), we refer to a separate Excel file on the KBC website, which is published alongside the KBC Risk Report.

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, the ECB Guidance to banks on non-performing loans and the EBA guidelines on loan origination and monitoring.

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 required capital. The CRD eligibility criteria for the Standardised approach are always the reference for collateral application. However, the effective scope of collateral KBC obtains from its clients to cover exposure falling under the Standardised approach is much broader than the figure taken into account for risk weight 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.

Under the IRB Foundation approach, only collateral meeting the eligibility criteria and minimum requirements (as imposed by the CRR) to qualify for credit risk mitigation has been included in the figures. Note, however, that following the implementation of the model simplification agreed with the ECB, there is only limited IRBF exposure left at KBC Group level.

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.

KBC's use of the Standardised Approach

Credit risk 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 2024, broken down by exposure class, excluding the SFT (Securities Financing Transactions). The exposure classes are those defined for the purpose of regulatory reporting according to the Standardised approach, viz.:

Exposure class (Standardised approach)	Scope
Central governments and 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).

KBC's use of the 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:

Exposure class (Standardised approach)	Scope
Central governments and banks	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	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	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	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	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	Shares and mutual funds.

EAD covered by the IRB methods by exposure class

EAD covered by the A-IRB model

31/12/2024 *(in millions of EUR)*	**EAD**	**EAD %**
Central governments and central banks	0	0.00%
Institutions	12 562	6.79%
Corporates – SMEs	22 851	12.35%
Corporates – Specialised lending	10 844	5.86%
Corporates – Other	45 328	24.50%
Retail – Secured by real estate SMEs	11 353	6.14%
Retail – Secured by real estate non-SMEs	66 756	36.09%
Retail – Qualifying revolving	931	0.50%
Retail – Other SMEs	7 458	4.03%
Retail – Other non-SMEs	6 616	3.58%
Equity IRB	281	0.15%
Total	**184 980**	**99.84%**

Table 13 - EAD covered by the IRB model (A-IRB)

The EAD increase of 12 billion euros year-on-year was mainly in the 'Corporates – SMEs', 'Corporates – Other' and 'Retail – Secured by real estate non-SMEs' asset classes.

EAD covered by the F-IRB model 31/12/2024 *(in millions of EUR)*	EAD	EAD %
Central governments and central banks	0	0.00%
Institutions	0	0.00%
Corporates – SMEs	86	28.27%
Corporates – Specialised lending	0	0.00%
Corporates – Other	218	71.73%
Total	**304**	**0.16%**

Table 14 - EAD covered by the IRB model (F-IRB)

Since ČSOB Slovak Republic was the only KBC Group IRBF entity and it now reports under the Standardised approach, IRBF exposure has become immaterial after the model simplification change in 2023.

For the regulatory reporting templates related to the use of the IRB approach (as imposed by the EBA), we refer to a separate Excel file on the KBC website, which is published alongside the KBC Risk Report.

KBC's exposure to securitisation positions

KBC has a very limited investment portfolio of securitisation positions of 83 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 (simple, transparent and standardised) securitisations.

KBC applies the SEC-SA (Standardised 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 (External Ratings-Based 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.

For the regulatory reporting templates related to exposure to securitisation (as imposed by the EBA), we refer to a separate Excel file on the KBC website, which is published alongside the KBC Risk Report.

Internal modelling and validation

A closer look at the internal models developed within KBC

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

These models are used in the credit process for:

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

The internal rating process depends on the exposure class:

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

Table 15 - Internal rating process

The 'equities' exposure class is not included in this table since we do not use a PD to calculate the RWA. 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). These approaches have four steps in common:

Step 1	**Defining the segment for which a model will be built (segmentation of the portfolio).**
How?	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	**Ranking the clients in the targeted segment according to their creditworthiness.**
How?	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	**Calibrating the ranking score to a probability of default.**
Step 4	**Mapping the probability of default to a rating class.**
How?	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 which is 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 models

Exposure at Default (EaD) is the exposure that KBC would have on an obligor in case that obligor would default in the course of the coming year. 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.

The 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 & decisions on KBC's internal 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 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 31-12-24	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					•	

(*) Portfolio moved to Standardised approach on 31 December 2023, hence the model is no longer used for IRB purposes.

Table 16 - Asset classes, key IRB models

ESG in credit risk management

The impacts associated with climate and other environmental issues on credit risk, as identified in the ERIM, are summarised below:

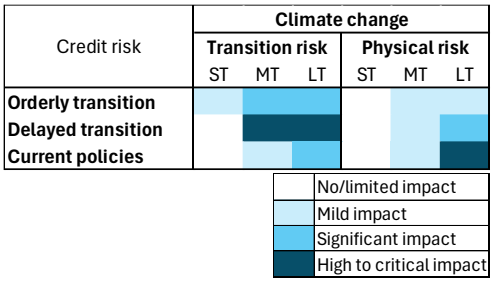


Figure 3 – The impact of climate change on credit risk (assessed as part of the ERIM)

- In the context of climate change, the transition to a low-carbon economy may lead to transition risk, resulting in increased credit risk. Climate change-related regulations and shifting client preferences can significantly impact GHG emitting industries, such as Real Estate, Building & Construction, Agriculture, and Transportation. Not all companies may successfully adjust to, for example, higher GHG emission prices, update their technology, or meet clients' sustainability expectations. Additionally, households might be affected by climate change as energy efficiency considerations and related regulation are increasingly reflected in house prices, reducing the value of energy-inefficient homes. If insufficient progress is made in mitigating global warming, physical – particularly water-related – risks may arise, affecting house prices and thus the collateral value of mortgages in flood-prone areas.
- Also, when considering nature loss and other environmental issues, transition risk drivers such as regulation might impact the creditworthiness of our counterparties. For instance, counterparties with deforestation-related activities may face increased scrutiny for their environmental impact. Insufficient regulatory action could lead to physical risks such as scarcity of resources (e.g., clean water and mineral products), which in itself could disrupt value chains and affect the performance of counterparties. These physical risks may also influence credit risk through changes in collateral valuation at the asset level.

As further detailed below, continuous efforts are made to develop our capabilities to identify environmental, social and governance risks in the context of credit risk.

Integrating ESG risk in the Credit Risk Management Framework

The management of ESG risks is integrally embedded in the Credit Risk Management Framework (CRMF).

Risk identification

The Environmental Risk Impact Map (ERIM) provides a comprehensive view on the climate change and other environmental risk drivers most relevant for the credit risk profile of KBC's credit portfolios, whereas material social risks are identified in our first materiality assessments for social risks. The sectoral White Papers cover ESG risks of specific sectors in the loan book. Another key tool for detecting the ESG related risks in the corporate and SME loan portfolios is the Environmental and Social Heatmap (E&S Heatmap). It provides a qualitative score for environmental as well as social risks at activity level. This heatmap is used for input for various purposes, such as portfolio monitoring, counterparty-specific ESG assessments and stress testing.

Risk measurement

We keep developing and improving our measurement capabilities with respect to ESG risks and continue to evaluate how these risks affect our credit portfolios. This is illustrated by the measurement techniques in 'GHG emissions in our industrial lending portfolio' and 'Client assessment of ESG performance'.

In general, the insights gained from these exercises are valuable for detecting hot spots in our loan portfolio, as input for target setting and monitoring, for initiating policy adjustments and for climate risk stress testing. More information on stress-testing exercises and their results can be found in the 'ESG in our risk management' and 'Strengthening our ESG risk measurement and stress testing' section and in 'Annex III – ESG scenario analysis and stress testing'.

As the availability of data and measurement methodologies will further improve, quantification of ESG-related risks will gradually be extended. Management has the ability to overrule the expected credit losses and to capture events that are not part of the financial assessment, such as the growing insights into ESG and climate-related risks.

Setting and cascading risk appetite

We aim to limit the adverse impact of our activities on the environment and society and to encourage a positive impact, based on a responsible lending culture and according to the principles described in the KBC Group Sustainability Framework. Counterparties that are excluded from lending are identified in the KBC Group Blacklist, the KBC Human Rights Offenders List and the KBC Controversial Regimes List. More information about the KBC Group Sustainability Framework, our exclusion criteria and our sustainability policies can be found in the 'ESG in our risk management' section (in the 'Our group-wide sustainability policies and targets' section) and on the KBC website.

The group-wide policies, such as the KBC Blacklist and the KBC Group Energy Policy, are reflected in our Credit Risk Standards (CRS) and credit risk policies, as these establish the framework for managing credit risk. These standards are regularly reviewed to incorporate ESG risks into our credit processes, such as credit risk underwriting, pricing and collateral valuation. For instance, they restrict the financing of certain activities detrimental to climate, biodiversity and the environment, as well as financing restrictions related to government and social aspects, such as gambling.

As reported in our Sustainability Statement (published as part of the KBC Annual Report), the KBC Sustainability Report and the 'ESG in our risk management' section, we have set climate targets and report on the progress made. These targets are instrumental in managing the transition risks linked to our lending activities.

A number of specific climate risk Key Risk Indicators (KRIs) have been defined to measure and follow up on the most material ESG risks as defined in the Environmental Risk Impact Map, such as for climate change transition risk (e.g., financed emissions in our industrial lending portfolio) and climate change physical risk (e.g., flood risk).

Risk analysis, monitoring, reporting, response and follow-up

ESG risks in our credit portfolio are monitored through different instruments. Based on the E&S Heatmap, the Sectoral Environmental and Social Risk Portfolio Report of the industrial loan portfolio is reported on a periodic basis. In this process, we monitor our exposure to sectors prone to environmental and social risks. The Climate KRIs are regularly reported to the Group Lending Committee. When relevant, climate KRIs are included in the group-wide Climate Risk Dashboard.

ESG risk management in practice

GHG emissions in our industrial lending portfolio

Climate change transition risk is recognised as a material ESG-related risk within credit risk. The shift towards a carbon-neutral economy may affect the performance of counterparties active in carbon-intensive industries. Depending on the pace and stringency of forthcoming low-carbon regulations, and the adaptability of these counterparties, there could be a notable impact on our credit portfolio. The credit quality of our counterparties might be influenced by their inability to transition or increase adaptation costs.

To assess the transition risk associated with financing counterparties that have high greenhouse gas emissions, we employ a progressive approach in gathering actual emission data from our counterparties. The Partnership for Carbon Accounting Financials (PCAF) methodology is used to calculate financed emissions within our corporate loan portfolio. When counterparty-specific data is not available, we employ proxies to augment our dataset. Since 2022, the financed emission intensity (Scope 1 and 2) for climate-sensitive sectors has been declining, as illustrated by figure 4[2]. For a full overview of our financed emissions, we refer to a separate Excel file on the KBC website, which is published alongside the KBC Risk Report (ESG Template 1).

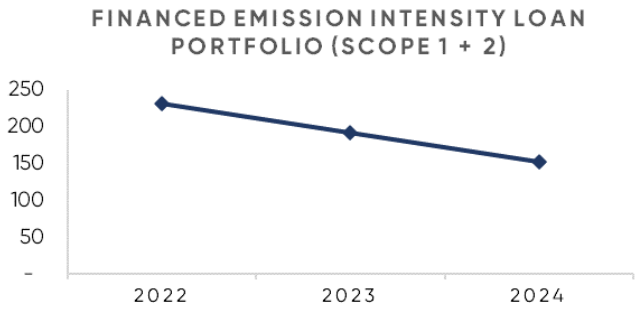


Figure 4 - The evolution of financed emission intensity in our loan portfolio

[2] The financed emission intensity is calculated by dividing the Scope 1 and Scope 2 GHG financed emissions (expressed in tonnes of CO2 equivalents) by the GCA (expressed in millions of euros) of the sectors that highly contribute to climate change. The scope is defined by the ESG package of the EBA Pillar 3 disclosure framework.

Furthermore, the Paris Agreement Capital Transition Assessment (PACTA) methodology enables us to evaluate the transition risk within our loan portfolio. This analysis determines to what extent the companies in our loan portfolio align with transition paths set by various climate scenarios. The results of this year's assessment reaffirm that our industrial loan portfolio has limited exposure to companies contributing significantly to global greenhouse gas emissions. For further details on the PACTA, please refer to the Appendices of the KBC Sustainability Report.

To estimate the impact of climate transition on credit risk parameters, various credit risk assessments were conducted. Earlier analyses estimated the potential changes in Expected Loss (EL) of highly climate-relevant portfolios under different climate scenarios. In 2024, a sectoral impact assessment was performed on the probability of default (PD) using different NGFS scenarios.

We employ group-wide GHG emission targets to steer the sustainable transformation of our portfolio, as outlined in our Sustainability Statement (published as part of the KBC Annual Report) and the KBC Sustainability Report. Within the credit risk management framework, a dedicated KRI has been developed to monitor our financed emissions in the industrial lending portfolio. The 'Client assessment of ESG performance' section describes how transition risk is incorporated in the credit underwriting process.

Client assessment of ESG performance

Understanding how business clients navigate ESG challenges and supporting them in this transition is essential. Client assessments play a critical role in evaluating and managing ESG risks. Various tools are employed to achieve this objective.

According to our credit risk policies, a high environmental or social risk score in the E&S Heatmap necessitates an ESG assessment at counterparty level for material credit files. This assessment occurs both during the loan origination process and the review process and captures risk-increasing ESG factors at counterparty level in credit underwriting. For instance, if a counterparty is involved in a sector subject to emerging environmental regulations (e.g., Regulation on Deforestation-free Products), this factor is thoroughly evaluated at counterparty level. Also, social aspects such as unethical labour practices are evaluated when applicable. For large corporations, management knowledge and experience are taken into account in the loan origination process. Additionally, counterparties are screened for specific incidents, controversies, stakeholder or media campaigns, claims, or legal actions concerning ESG issues. In certain cases, sustainability advice from the Group Corporate Sustainability advisers may also be sought.

For specific counterparties in carbon-intensive industries, an internal carbon price is currently used as a shadow price to make informed credit decisions and to assess the financial impact of carbon taxation on GHG-intensive businesses. Going forward, as data availability is expected to increase (due to initiatives such as the CSRD), we plan to increase the scope of application.

To support clients in this transition, client dialogues are a crucial element of the counterparty assessment. This dialogue is also used to collect environmentally relevant data from our clients, such as EPC values or GHG emissions.

Climate risk in our home loan portfolio

Climate risks, encompassing both transition and physical risks, have the potential to affect our home loan portfolio. Inefficient energy performance may affect the value of real estate due to more stringent energy efficiency regulations, while flood risk could devalue properties situated in flood-prone regions. We integrate flood risk and energy performance into our credit risk management framework.

We evaluate the impact of flood risk on our loan portfolios, specifically addressing fluvial, pluvial, and coastal flood risks. For fluvial and pluvial flood risks, properties classified as high-risk account for a limited share of our home loan portfolio. For further information on this assessment and our overall physical risk evaluations, please refer to 'Annex III – Physical risk assessments'. Additionally, a pilot analysis previously undertaken assessed the potential impacts of flood risk on the Loss Given Default Report. We strive to continually make progress in this field.

With respect to the energy performance of loans collateralised by immovable property, measurement initiatives are in place. The graph shows our portfolio distribution of loans collateralised by residential immovable property, indicating a relatively higher share for assets with a better energy performance.[3] To improve our measurement capabilities, we are committed to enhancing data coverage by actively seeking additional information from counterparties and developing qualitative proxies. For a full overview of our EPC values, we refer to a separate Excel file on the KBC website, which is published alongside the KBC Risk Report (ESG Template 2).

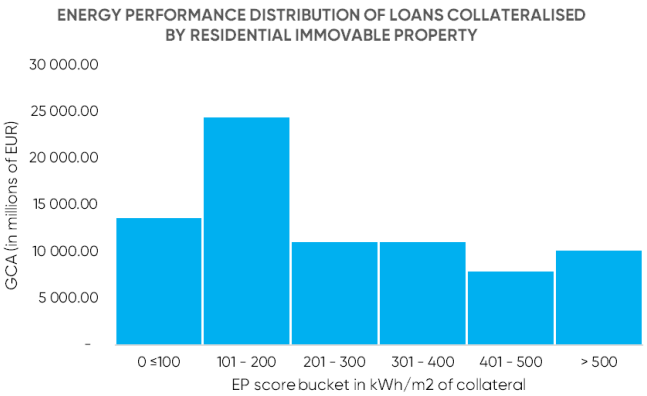


Figure 5 - The energy performance distribution in our loan portfolio

Our credit risk standards and policies include guidelines on residential real estate, considering flood risk and energy performance factors for collateral valuation. Additionally, we have set specific Climate KRIs for flood risk and energy performance of our home loan portfolio.

[3] These figures are expressed in GCA (millions) and include EU and non-EU figures, for which actual EP values or EP proxies are available. The scope is defined by the ESG package of the EBA Pillar 3 disclosure framework.

Counterparty credit risk management

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.

Managing counterparty credit risk

The counterparty credit risk playing field is defined through the standards and policies of the Credit Risk Management Framework for Professional Transactions (CRMF_PT). Our strategic objectives in undertaking trading and sales 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. The credit risks resulting from these activities are called counterparty credit risks (CCR) and originate from trading and sales 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.

Scope

The scope of counterparty credit risk is limited to credit risks related to professional transactions, which are transactions concluded with the intermediation of professional dealers, i.e. traders of the Markets directorate. The transactions consist of:

- Over-the-counter derivative transactions;
- Listed Derivative transactions;
- Security Financing Transactions (SFTs), i.e. repurchase agreements;
- Security Lending and borrowing transactions.

Counterparty credit risk is managed for all entities concluding professional transactions. These are carried out by dealing rooms in our home countries as well as via a minor presence in the UK and Asia. These entities are identical to the ones highlighted in the 'Credit risk management' section.

Governance

In the area of counterparty credit risk, the ExCo is supported by the Group Markets Committee (GMC), which advises on risk monitoring and capital usage with respect to trading activities. In addition, the GMC decides on all non-strategic trading risk-related issues (incl. counterparty credit risk). The ExCo decides on strategic issues, which decisions are drafted and advised upon by the GMC.

The governance, rules and procedures on how counterparty credit risk management should be performed throughout the Group are outlined in the CRMF_PT, a sub-framework of the Credit Risk Management Framework. Its implementation is monitored by the Counterparty Credit Risk Competence Centre of Group Risk, ensuring that an effective CCR management process is in place throughout the Group.

Managing Counterparty Credit Risk via our Three Lines of Defence (LoD) Model

The Front Office (FO), Middle Office (MO) and Back Office (BO) functions are responsible for managing counterparty credit risks in the first LoD. The FO function is organised independently from the MO and BO functions, whereby different management reporting streams are in place for FO versus MO and BO. Given that the risk function is the second LoD, the Counterparty Credit Risk Competence Centre of Group Risk and the local CCR risk teams execute this function in the context of CRR management. Internal audit, being our third LoD, provides reasonable assurance that the overall internal control environment to manage CCR is effective.

Identifying and managing wrong way risk is an inherent part of counterparty credit risk management

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:

1. Specific wrong way risk (SWWR);
2. General wrong way risk (GWWR).

Specific wrong way risk (SWWR)

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. Finally, the derivative portfolio is monitored on a quarterly basis for the presence of SWWR. Detected SWWR trades are presented to the GMC, where mitigating actions can be decided.

General wrong way risk (GWWR)

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 GMC for information purposes.

The building blocks to manage counterparty credit risk

Building upon the Enterprise Risk Management Framework (ERMF) and as part of the Credit Risk Management Framework, a dedicated Credit Risk Management Framework for Professional Transactions (CRMF_PT) has been developed which outlines how counterparty credit risk should be managed throughout the Group.

Identifying counterparty credit risks

All risk identification exercises as described in the 'Components of a sound risk management' section apply to the counterparty credit risk management context (such as the Risk Scan, NAPP and collecting risk signals). Furthermore, we analyse the results of counterparty credit risk calculations (incl. Stress Test and Wrong Way risk results), market developments, industry trends, new modelling insights, changes in regulations, and so on to identify hot spots in the portfolios.

Measuring counterparty credit risks

Counterparty credit risk is measured via a range of regulatory measures. In the 'KBC's exposure to counterparty credit risk' section, we zoom in on each of the methodologies and their link to both capital calculations and limit monitoring.

Setting and cascading counterparty credit risk appetite

The risk appetite does not explicitly distinguish counterparty credit risk from credit risk. Therefore, we refer to the previous section on 'Credit risk management'.

As part of the risk appetite process, and when necessary, limits are set. Counterparties willing to trade Over-The-Counter (OTC) derivatives or enter into Security Financing Transactions (SFTs) with KBC require professional limits, which are subject to approval by the appropriate credit committee. KBC distinguishes between pre-settlement and settlement limits. These allow traders at the bank to monitor – in real time – the outstanding exposure per counterparty.

Counterparty credit risk analysis, reporting, response and follow-up

An important task of the CCR function (at both Group and local level) is to perform qualitative and quantitative analysis and to formulate CCR advice regarding proposals submitted by business actors to the GMC, the Group Lending Committee (GLC) and the CRO Services Management Committee. This role of the CCR function can be split into:

- a proactive part in which the CCR function analyses the results of risk calculations and monitors market developments, industry trends, changes in regulations and new modelling insights. Advice is provided to the GMC with respect to changing and/or improving methodologies and CCR risk processes;

- a reactive part in which 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).

Stress testing

Stress tests related to CCR are documented in the CCR Stress Testing Standards, are conducted on a monthly and/or quarterly basis, and reported quarterly to the GMC. The stress-testing programme consists of a balanced mix both in terms of severity and likelihood, and covers each of the relevant aspects of CCR management.

The stress tests use hypothetical scenarios and stress exposures, Risk Weighted Assets (RWA) and the recovery value of received collateral. We also stress the potential liquidity impact of a stressed event, i.e. by measuring the additional margin calls which might be triggered by the event.

Managing counterparty credit risk in 2024

While the impact of emerging geopolitical risks in 2024 remained limited in the context of Counterparty Credit Risk, we are actively preparing for reporting under the updated Capital Requirements Regulation (CRR III). CRR III will impact our CCR calculations in two ways:

- Firstly, CRR III imposes changes to the methodologies behind our exposure calculations;
- Secondly, the capital requirements for Credit Valuation Adjustment (CVA) risk will change. More specifically, the Standardised CVA approach (which is currently applied by KBC) will be replaced by the 'Basic Approach for CVA' (BA-CVA).

KBC's exposure to counterparty credit risk

Determining our exposure to counterparty credit risk

The exposure calculations of counterparty credit risk make use of one of the following methodologies:

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

These methodologies are used both in KBC's internal risk follow-up (such as in limit management and stress testing) and in KBC's Risk Weighted Assets (RWA) and capital calculations.

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.

The Internal Model Method (IMM)	
Purpose of the model	KBC uses the IMM to measure the exposure of the interest rate and foreign exchange derivatives of KBC Bank NV and CBC Banque NV.
How?	The IMM uses a Monte Carlo-based approach to simulate the expected exposure. The resulting exposure profiles are then used in the appropriate risk process: • Effective Expected Positive Exposure (EEPE) feeds into the capital calculation; • Potential Future Exposure (PFE) results from a time profile of simulated positive exposures. The IMM model is subject to yearly review and validation. During the 2024 review, minor changes were implemented.
The Standardised Counterparty Credit Risk (SA-CCR)	
Purpose of the model	The SA-CCR calculation is used for the remaining part of the derivative portfolio.
How?	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)	
Purpose of the model	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.
How?	To conduct such transactions, a General Master Repurchase Agreement (GMRA) needs to be signed 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. An SFT 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.

Credit risk mitigation

We apply credit risk mitigation techniques, which are provided by a netting agreement governing close-out netting, the exchange of collateral and clearing through Qualified Central Clearing parties.

Close-out netting

Close-out netting is one of the main credit risk mitigation techniques. The aim 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:

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

Close-out netting will reduce counterparty credit risk as it will reduce pre-settlement risk. This is governed by a legal agreement, the most common of which is the International Swaps & Derivatives Association (ISDA) Master Agreement. Netting will only be applied if its legal effectiveness and enforceability is ensured.

Collateral exchange

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 and determines the risk characteristics of the exposure. It stipulates, for example, whether the contract is unilateral or bilateral, the timing of collateral transfers, etc. Collateral has to be eligible for risk mitigation in the regulatory capital calculations.

Despite having a range of eligibility criteria for collateral, the exchanged collateral is limited to either bonds (government or corporate) 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).

We exchange variation margin and (bilateral) initial margin. The general principles described above are an integral part of the collateral standards.

The regulatory required CCR5 template can be found in a separate Excel file on the KBC website, published alongside this Risk Report. In this table, 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:
    - Here 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.

Central clearing

Central clearing is used to reduce counterparty credit exposures. KBC only clears exposures with Qualified Central Clearing Parties (QCCP). An overview of the exposure cleared at a central clearing counterparty is provided in table CCR8. This regulatory required template can be found in a separate Excel file on the KBC website, published alongside this Risk Report.

Impact of 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 testing 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 2024 (in millions of EUR)

Rating Downgrade	Downgrade	Impact on collateral
A-	1-notch downgrade	11
BBB+	downgrade of 2 notches	150
BBB	downgrade of 3 notches	314

Table 17 - Impact of a rating downgrade on required collateral, KBC Bank (31 December 2024)

Regulatory treatment

Default risk RWA

As mentioned above, KBC 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 or the Financial Collateral Comprehensive Method (FCCM) for SFT exposures. Table CCR1 provides a breakdown of the exposure calculations per approach.

The CCR7 table provides an overview of the IMM RWA flows over the last quarter. There was a small increase in the IMM RWA (total impact of 8 million euros), driven by an increase of the exposure (22 million euros RWA), partly offset by an improvement of the Credit Quality of our clients (-14 million euros RWA). For the regulatory reporting templates related to counterparty credit risk quality (as imposed by the EBA), we refer to a separate Excel file on the kbc.com website, which is published alongside the KBC Risk Report.

Default risk RWA 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 in the following tables, which is published in a separate Excel file on the KBC website:

- EU CCR3 – Standardised Approach – CCR exposures by regulatory exposure class and risk weight. 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 CCR4a – IRB F approach – CCR exposures by exposure class and PD scale;
- EU CCR4b – IRB A approach – CCR exposures by exposure class and PD scale.

In 2025, 71.52% of the RWA originated from well-rated counterparties (Probability of Default (PD) below 0.15%), of which the lion's share originated from Financial Institutions, and the 'Corporate – other' asset class (i.e. Non-bank financial institutions). The IRBA approach is used to calculate 55.22% of total RWA.

Credit value adjustment

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

Over 2024, the CVA RWA decreased by 19%, mainly due to a decrease in the total exposure subject to the CVA risk charge (-242 million euros of EAD) .

ESG in counterparty credit risk management

The Environmental Risk Impact Map (ERIM) shows that physical and transition risks stemming from climate change will have a limited impact. Counterparty credit risks related environmental risks arise primarily from equity derivatives and commodity derivatives. However, this portfolio is relatively short-term compared to the horizon of the transition scenarios, and such positions are only held for a short time by definition. As such, no structural (or directional) positions are held as may be the case for other business lines, which limits the risk.

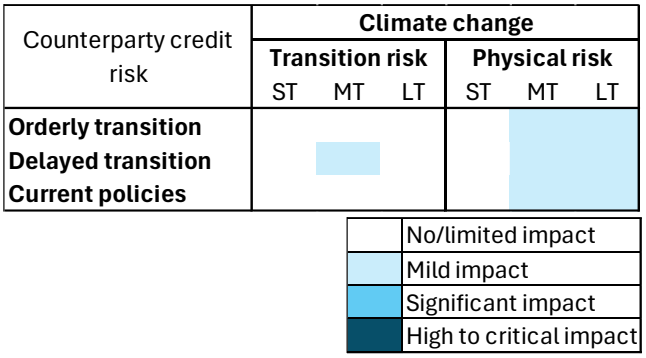


Figure 6 - The impact of climate change on counterparty credit risk (assessed as part of the ERIM)

Integrating ESG risk in the Counterparty credit Risk Management Framework

The management of ESG risks is integrally embedded in the Credit Risk Management Framework for Professional Transactions.

Climate change aspects are explicitly considered in the context of stress testing. More specifically, we perform a climate risk stress test on the CCR portfolio on a quarterly basis whereby we focus on the short-term transition risks (3-year horizon) and follow the 'Disorderly' scenario as required by the 2022 ECB Climate Stress Test. In this test we mainly stress the exposure of equity derivatives and commodity derivatives and assess its impact on the CCR RWA, which is reported to the GMC. In addition to stress testing, we continuously follow up on changes in regulation that might imply that ESG risks are to be factored into CCR management.

Market risk (non-trading) management

Market risk captures the risk that the value and/or earnings of an instrument or portfolio will decrease because of adverse movements in financial markets. This includes changes in a variety of market parameters (for instance, interest rates, equity prices, exchange rates), as well as effects in the volatility and the liquidity of these factors.

In the context of market risk in the non-trading activities, market risk arises from both on- and off-balance sheet exposures in the investment and funding portfolios. This process is also known as Asset/Liability Management (ALM).

Managing market risk in the non-trading activities

The market (non-trading) risk playing field is defined through the standards and policies of the Non-Trading Market Risk Management Framework (NT_MRMF) – the so-called ALM framework. Given that KBC is a bank-insurer, ALM risks occur in both the banking and the insurance activities. While the economics of market risks are identical for both activities, the regulatory environment, accompanying capital requirements and the structure of their balance sheets differ. Among others things, banks tend to have long-dated assets (such as mortgages and investment credits), while their liabilities are much shorter compared to those of insurance companies (customer deposits, current and savings accounts). By contrast, the insurance business tends to have quite long-dated liabilities (such as Life insurance products). However, these differences also lead to opportunities from which both activities can benefit. Therefore, we manage the ALM risk both at the Group level and at the business levels (as explained below).

Scope

The ALM framework is applicable to all KBC entities that are subject to non-trading market risks, being the banking and insurance entities in Belgium, the Czech Republic, Slovakia, Hungary and Bulgaria. Furthermore, our reinsurance company – KBC Group Re, located in Luxembourg – also requires ALM risk management, as well as foreign branches aiming to support client activities in several European and non-European regions (notably in London, New York, Hong Kong, Singapore and Shanghai).

Governance

In the area of market risk in the non-trading activities, the ExCo is supported by the Group Asset and Liability Committee (GALCO), which is to provide assistance in the area of (integrated) balance sheet management at group level. The governance, rules and procedures and how asset and liability risk management is performed throughout the group are outlined in the Non-Trading Market Risk Framework (NT_MRMF). Its implementation is monitored by the Market Non-Trading Risk Competence Centre of Group Risk. Within the risk function, the ALM & Liquidity Risk Council, chaired by the CRO Markets & Treasury, aims to establish, facilitate, promote and support the solid and efficient integration of all tasks assigned to the local and group risk departments covering ALM and liquidity risks.

Managing market risk in the non-trading activities via our Three Lines of Defence (LoD) model

The Group and Local Treasury functions act as the first LoD, and measure and manage the ALM risk according to the market (non-trading) playing field. Given that the risk function is the second LoD, the Market Non-Trading Risk Competence Centre of Group Risk and the local risk teams execute this function in the context of ALM management. Given the specifics of the Treasury domain and in support of the Group CRO, a CRO Markets & Treasury was appointed who is accountable for the risk management of the Treasury activities. Internal audit, being our third LoD, ensures an independent review and challenge of the Group's first- and second-line ALM (risk) management processes.

The building blocks to manage market risk in the non-trading activities

Building upon the Enterprise Risk Management Framework (ERMF), a dedicated Non-Trading Market Risk Management Framework (NT_MRMF) has been developed which outlines how market risk (non-trading) should be managed throughout the group.

Identifying market risks in the non-trading activities

All risk identification exercises as described in the 'Components of a sound risk management' section apply to the non-trading market risk management context (such as the Risk Scan, NAPP and collecting risk signals). Within the NT_MRMF, deep dives (in-depth analyses) are performed to identify specific risks related to the market (non-trading) activities and their materiality. Additionally, the key risk drivers for ALM risk for KBC are determined and updated annually, and regulatory developments are monitored on a continuous basis.

Measuring market risks in the non-trading activities

A common rulebook, which supplements the Framework for technical aspects, and a shared group measurement tool ensure that these risks are measured consistently throughout the group by, among others:

- Basis-Point-Value (BPV) for interest rate risk;
- gap analysis for interest rate risk, related to repricing mismatches between assets and liabilities and inflation risk;
- economic sensitivities for currency risk, equity price risk and real estate price risk.

Measures are complemented by stress tests, covering back-testing of prepayments, net interest income results under various scenarios, or the impact on regulatory capital stemming from interest, spread or equity risk residing within the banking books.

Setting and cascading market risk appetite in the non-trading activities

We pursue a medium risk appetite for non-trading market risk. Limits cover all material market risks resulting from the ALM activities, being interest rate risk, equity risk, real estate risk and foreign exchange risk.

Market risk (non-trading) analysis, reporting, response and follow-up

Besides regulatory reporting, structural reporting to the GALCO is performed. The reporting process includes a sign-off process to ensure data and processing accuracy. A condensed version is presented to the ExCo via the Integrated Risk Report and, when necessary, supplemented by *ad hoc* deep dives to address any new situation.

Stress testing

Stress tests are performed to apprehend the resilience of capital to adverse market movements, for both the banking and insurance business. Additionally, we use scenario analysis for the management of Net Interest Income (NII) in the banking activities (more insights are provided below).

Managing market risk (non-trading) in 2024

The management of the non-trading books can be seen as the art of maintaining the resilience of the balance sheet and a sound profitability whatever the circumstances. Although KBC has activities in Central and Eastern Europe, it is not materially invested in Russia or Ukraine. The conflict clearly impacts the macroeconomic environment in which we operate but does not specifically affect our balance sheet.

The normalisation of the interest rates that started in 2022 and the gradual end of the Quantitative Easing have reduced the downward pressure on sovereign spreads. For financial conglomerates with a large deposit base, long-term insurance liabilities to match and a conservative approach to treasury investments, this is seen as an opportunity to get a better return on our portfolio. At the same time, KBC pays attention to fiscal imbalances and growing public deficits, which pave the way for possible tensions in the markets. While the lion's share of the portfolio will remain 'held to collect' as it matches stable liabilities, KBC is gradually increasing its possibilities for active portfolio management by accounting a larger share of its bond portfolio at Fair Value through Other Comprehensive Income (FVOCI).

Particularly in Belgium, the maturing of the Belgian State Note and the absence of a fiscal stimulus for its renewal had banks competing to regain their share of the repayment. KBC successfully participated to defend its market share, be it at a cost, as we estimate the loss on interest rate income at 87 million euros. In Hungary, KBC opted to review its investment policy in order to mitigate the impact of new bank taxes.

In the context of ALM, too, we are continuously adapting to meet new regulatory reporting requirements.

KBC's exposure to market risk in the non-trading activities

Looking into the sub-risk types of market risk (non-trading)

Interest rate risk

We define interest rate risk in the banking books as the risk arising from adverse movements or volatility in interest rates.

We manage interest rate risk separately for the banking and insurance activities. The main measure used to measure interest rate risk is the 10 Basis Point Value (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 LoD, with the possibility to perform an *ad hoc* analysis between two reporting dates. We also use other techniques to manage interest rate risk such as gap analysis, the duration approach or stress testing.

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	2024	2023
Banking	-55	-45
Insurance	20	11
Total	-35	-33

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

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

Table 18 - Impact of a parallel 10-basis-point increase in the swap curve for the KBC Group, impact on value

Interest rate risk and gap risk for the banking activities

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. The bank adjusts its interest rate profile through interest rate derivatives to stay within the limits set by the risk appetite. 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. The average duration of the portfolio is 3.2 years (i.e., the average tenor of the portfolio ranges between 3 years and 4 years).

We also apply an expected shortfall (Monte Carlo-based) approach to assess the resilience of the capital position to interest rate movements. Scenario analysis (stress test) is performed for net interest income. These measures are performed at least on a quarterly basis.

The following table shows the evolution of the banking book sensitivity over the year, and illustrates the prudential approach of KBC with a quite stable BPV.

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

In millions of EUR	2024	2023
Average for 1Q	-44	-45
Average for 2Q	-58	-46
Average for 3Q	-43	-55
Average for 4Q	-50	-45
As at 31 December	-55	-45
Maximum in year	-60	-55
Minimum in year	-35	-45

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

Table 19 - Swap BPV (10 basis points) of the ALM book, banking activities

Through sensitivity gap analysis in the banking book, KBC manages the interest rate sensitivity of assets and liabilities across the different maturities. To determine the sensitivity gap, we break down the carrying value of assets (positive amount) and liabilities (negative amount) according to their maturity date for fixed rate instruments, or to their repricing date for floating rate instruments. We include derivative financial instruments, which are mainly intended to reduce exposure to interest rate movements.

Generally, assets reprice over a longer term than liabilities, which means that KBC's NII 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.

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

In millions of EUR	0-1 Year*	1–5 years	5–10 years	> 10 years	Non-interest bearing	Total
31/12/2024	4 734	6 053	8 163	1 089	-20 039	0
31/12/2023	6 793	2 343	5 644	2 179	-16 958	0

* The methodology has been adapted to include Cash at central banks and Non maturity deposits kept in O/N in the first time bucket.

Table 20 - Interest sensitivity gap of the ALM book (incl. derivatives), banking activities

For the scope of the banking activities, two other methodologies to measure interest rate sensitivity, which are comparable across institutions, are the outlier stress test (SOT) on Economic Value of Equity (EVE) and the outlier stress test (SOT) on Net Interest Income (NII), both calculated according to the guidelines of the European Banking Authority.

- For the SOT EVE, six different scenarios are applied to the banking books (material currencies) every quarter. These scenarios comprise material parallel shifts up and down, steepening or flattening of the swap curves, or shifts in the short-term rates only. For those 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 worst-case scenario impact (the most negative impact on the economic value of equity) is set off against tier-1 capital. For the banking book, the SOT EVE came to -5.20% of tier-1 capital at year-end 2024. This is well below the -15% threshold, which is monitored by the European Central Bank and indicates that the overall interest rate sensitivity of KBC's balance sheet is limited.
- The SOT EVE is complemented by the SOT NII, which measures the impact of two scenarios (parallel up and down) on NII, assuming a constant balance sheet. The impact of the worst-case scenario on NII is also set off against tier-1 capital. According to this measure, the interest rate sensitivity of KBC, too, is limited: it came to -1.55% at year-end 2024, compared to the 5% outlier threshold used by the supervisory authority.

Interest rate risk in the insurance activities

As regards the group's insurance activities, 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 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 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.

We also adopt an interest rate gap view for our Life insurance activities. The Life insurance assets and liabilities relating to business offering guaranteed rates are grouped according to the expected timing of cashflows.

Expected cashflows (not discounted), life insurance activities

In millions of EUR	0–1 year	1–2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
31/12/2024							
Fixed-income assets backing liabilities, guaranteed component	1 629	942	924	1 072	895	8 507	13 969
Equity							964
Property							286
Other (no maturity)							182
Liabilities, guaranteed component	1 120	941	969	722	714	9 945	14 410
Difference in time-sensitive expected cashflows	509	1	-45	350	181	-1 438	-442
Mean duration of assets							5.67 years
Mean duration of liabilities							7.35 years
31/12/2023							
Fixed-income assets backing liabilities, guaranteed component	1 787	741	932	787	1 044	8 225	13 516
Equity							937
Property							108
Other (no maturity)							299
Liabilities, guaranteed component	1 595	1 201	807	882	834	9 474	14 793
Difference in time-sensitive expected cashflows	192	-460	125	-95	210	-1 250	-1 278
Mean duration of assets							6.72 years
Mean duration of liabilities							7.92 years

Table 21 - Expected cashflows (not discounted), Life insurance activities

As mentioned above, the main interest rate risk for the insurer is the risk of low rates for a longer period. 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	**31/12/2024**	**31/12/2023**
5.00% and higher	3%	3%
More than 4.25% up to and including 4.99%	5%	6%
More than 3.50% up to and including 4.25%	3%	4%
More than 3.00% up to and including 3.50%	9%	9%
More than 2.50% up to and including 3.00%	4%	3%
2.50% and lower	74%	73%
0.00%	2%	2%
Total	**100%**	**100%**

Table 22 - Breakdown of the reserves for non-unit-linked Life insurance by guaranteed interest rate, insurance activities

Interest rate risk for the KBC Group

Given that KBC has interest rate exposure in different home markets and currencies, we also manage our interest rate sensitivity at currency level. The following tables show the impact on KBC of a 10-basis-point parallel upward shift of swap curves, broken down by currency.

Interest Rate Risk – swap BPV in thousands of EUR

31/12/2024	Overall	EUR	CZK	HUF	BGN	USD	GBP	Other
Banking activities	-54 952	-40 887	-16 680	-2 927	8 934	-1 878	-1 506	-8
Insurance activities	20 032	21 516	-714	-339	-431	1	0	0
Total*	**-34 922**	**-19 355**	**-17 413**	**-3 266**	**8 502**	**-1 877**	**-1 506**	**-8**

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

Table 23 - Interest rate risk: Swap BPV (in thousands of EUR, 31/12/2024)

Interest Rate Risk – swap BPV in thousands of EUR

31/12/2023	Overall	EUR	CZK	HUF	BGN	USD	GBP	Other
Banking activities	-44 585	-27 324	-15 253	-3 130	3 031	-804	-1 135	29
Insurance activities	11 476	12 882	-590	-376	-440	0	0	0
Total*	**-33 109**	**-14 442**	**-15 842**	**-3 507**	**2 591**	**-804**	**-1 135**	**29**

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

Table 24 - Interest rate risk: Swap BPV (in thousands of EUR, 31/12/2023)

Credit spread risk

Credit spread risk captures the market volatility of credit and liquidity spreads within the same level of creditworthiness, as to mitigate overlap with credit risk. This implies that the credit spread analysis is limited to bonds. KBC adopts a conservative approach and does not include spread sensitivity on the liability side.

We purchase bonds with a view to acquiring interest income. Their selection is largely conservative and based on criteria such as credit risk rating, risk/return measures and liquidity characteristics. 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 2023, carrying value[1]

Total (by portfolio)

In millions of EUR	At amortised cost	At fair value through other comprehensive income (FVOCI)	Held for trading	Total	*For comparison purposes: total at year-end 2023*	Economic impact of +100 basis points[3]
KBC core countries						
Czech Republic	11 236	1 977	1 755	14 968	*15 611*	-708
Belgium	6 568	5 325	833	12 727	*11 445*	-704
Slovakia	3 577	992	307	4 876	*4 207*	-245
Hungary	2 515	1 203	50	3 767	*3 066*	-106
Bulgaria	2 437	725	39	3 201	*2 649*	-130
Other countries						
France	3 934	2 809	109	6 851	*5 451*	-290
Spain	1 631	615	0	2 246	*2 699*	-88
US	2 687	10	0	2 696	*2 460*	-82
Ireland	536	113	0	650	*1 196*	-33
Italy	348	955	-0	1 303	*1 692*	-24
Rest[2]	6 486	3 440	268	10 194	*9 033*	-533
Total carrying value	41 955	18 165	3 360	63 480	*59 509*	
Total nominal value	42 425	18 721	3 425	64 571	*60 306*	

[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 2023

[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 -55 million euros, including supranational bonds at year-end 2024).

Table 25 - Exposure to sovereign bonds at year-end, carrying value

At year-end 2024, the carrying value of the total government bond portfolio measured at Fair Value through Other Comprehensive Income (FVOCI) incorporated a revaluation reserve of -0.7 billion euros, before tax (-271 million euros for Belgium, -263 million euros for France, -61 million euros for the Czech Republic, -28 million euros for Slovakia and -87 million euros for the other countries combined). At year-end 2024, Belgian and Czech sovereign bonds accounted for 42% 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, we apply two approaches:

1. 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 -1 412 million euros (see previous table);
2. The IFRS approach is limited to banking activities, as the insurance business is captured by the value of its participation under the Danish Compromise. The impact on IFRS profit or loss is limited since the majority of the portfolio of Belgian and Czech sovereign bonds is classified as 'At amortised cost', implying that sales prior to maturity are unlikely (85%: impact only upon realisation). The remaining part is classified as FVOCI (15%: no impact on profit or loss but impact on capital through the 'Other Comprehensive Income' account); the impact of a 100-basis-point increase on IFRS unrealised gains is -177 million euros (before tax) for FVOCI assets.

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

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

In millions of EUR	31/12/2024	31/12/2023
Bonds rated AAA	-122	-87
Bonds rated AA+, AA, AA-	-92	-108
Bonds rated A+, A, A-	-131	-121
Bonds rated BBB+, BBB, BBB-	-34	-30
Non-investment grade and non-rated bonds	-10	-13
Total carrying value (excluding trading portfolio)	12 565	11 736

Table 26 - Exposure to non-sovereign bonds at year-end, by rating (economic impact of +100 basis points)

Equity risk

We define equity risk as the risk due to changes in the level or in the volatility of equity prices. KBC holds equity portfolios, for several purposes. The main exposure to equity is within our insurance business, where the ALM strategies are based on a risk-return evaluation, taking into account the market risk attached to open equity positions. The vast majority of the equity portfolio is held as an economic hedge for long-term liabilities of the insurance company. A limited tactical portfolio (99 million euros) aims to contribute to the financial objectives through dividend pay-outs and capital gains. Smaller equity portfolios are also held by other entities, where the portfolios are of a strategic nature, such as participations in relation to the execution of KBC's 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, portfolio managers will select the more suited methodology. New acquisitions are initially valued at cost. Loss-making participations, among which young companies in development phase, are mostly 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 KBC 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 our Group Finance department.

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

Equity portfolio of the KBC group (breakdown by sector, in %)	Banking activities		Insurance activities		Group[1]	
	31/12/2024	31/12/2023	31/12/2024	31/12/2023	31/12/2024	31/12/2023
Manufacturing	0%	0%	40%	42%	34%	36%
Financial and insurance activities	57%	43%	25%	22%	29%	25%
Information and communication	11%	10%	14%	13%	13%	12%
Scientific and technical activities	17%	17%	2%	2%	4%	4%
Others and not specified	0%	11%	3%	3%	2%	4%
General services	6%	6%	1%	2%	2%	2%
Real Estate Activities	8%	14%	0%	0%	1%	2%
Building & Construction	0%	0%	2%	2%	1%	1%
Human Capital	0%	0%	1%	2%	1%	1%
Transportation and storage	0%	0%	1%	1%	1%	1%
Wholesale and retail trade	0%	0%	12%	12%	10%	10%
Total						
In billions of EUR	**0.24**	**0.23**	**1.42**	**1.39**	**1.66**	**1.63**
of which unlisted	**0.23**	**0.22**	**0.24**	**0.18**	**0.47**	**0.40**

[1] The main reason for the difference between the 1.66 billion euros in this table and the 2.6 billion euros for 'Equity instruments' in Note 4.1 of the 'Consolidated financial statements' section in the 2024 KBC Group Annual Report is that shares in the trading book (0.9 billion euros) are excluded above, but included in the table in Note 4.1.

Table 27 - Equity portfolio of KBC Group (breakdown by sector, in %)

Impact of a 25% drop in equity prices		
In millions of EUR	**2024**	**2023**
Banking activities	-60	-59
Insurance activities	-355	-348
Total	**-415**	**-407**

Table 28 - Impact of a 25% drop in equity prices

Non-trading equity exposure	Net realised gains (in income statement)[1]		Net unrealised gains on year-end exposure (in equity)[1]	
In millions of EUR	31/12/2024	31/12/2023	31/12/2024	31/12/2023
Banking activities	-	-	22	19
Insurance activities	-1	2	339	212
Total	**-1**	**2**	**361**	**231**

Table 29 - Non-trading equity exposure

Real estate risk

We define real estate risk as the risk due to changes in the level or in the volatility of real estate prices. Real estate that is exclusively used by KBC and its subsidiaries for their own activities is excluded here. 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	2024	2023
Bank portfolios	-116	-94
Insurance portfolios	-120	-107
Total	**-235**	**-201**

Table 30 - Impact of a 25% drop in real estate prices

Inflation risk

We define inflation risk as the risk due to changes in the level or in the volatility of inflation rates. Inflation can impact a financial company in many ways, for instance via changes in interest rates or operational costs. Inflation in general, therefore, 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 inflation-linked bonds as an opportunity to diversify its asset portfolio. At KBC Insurance, inflation risk 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 and 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 portfolio of inflation-linked bonds with a sensitivity to inflation (BPI) of 5.6 million euros (for a 0.10% move in inflation expectations) at the end of 2024. For the insurance activities[4] the BPI of liabilities was calculated at -4.9 million euros (increasing the liabilities) against which inflation-linked bonds are held with a 4.2 million-euro BPI, supplemented with a 33-million-euro real estate portfolio.

Foreign exchange risk

Foreign exchange risk results from changes in the level or the volatility of currency exchange rates. We pursue a prudent policy as regards our non-trading 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, some FX exposures have a specific treatment:

- Regarding the hedging of large foreign participations, KBC focuses on stabilising the common equity ratio against foreign exchange fluctuations, rather than the CET1 capital itself. It strengthens 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 under the Danish Compromise. This explains the material sensitivity of non-trading books in CZK, HUF and BGN.
- Non-euro-denominated equity holdings in the insurance portfolio are not required to be hedged, as foreign exchange volatility is considered part of the investment return.

Impact of a 10% decrease in currency value*	Impact on value Banking		Impact on value Insurance	
In millions of EUR	31/12/2024	31/12/2023	31/12/2024	31/12/2023
CZK	-217	-209	-32	-31
HUF	-74	-85	-10	-9
BGN	-100	-93	-25	-22
USD	-3	6	-59	-52

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

Table 31 - Impact of a 10% decrease in currency value

Hedge accounting

Asset/liability 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 Annex IV and 'Notes on the accounting policies' in the 'Consolidated financial statements' section of the 2024 Annual Report of KBC Group NV.

[4] The sensitivity of liabilities to inflation is only known with a quarter's delay. Therefore, the insurance figures in this section are based on the third quarter of 2024.

Capital sensitivity to market movements

Available capital can be impacted by changes in the value of balance sheet items (e.g., sovereign and corporate bonds and equity) booked at FVOCI or fair value through profit or loss. This impact can be negative when the market is stressed, which can be triggered by a number of market parameters, including swap rates or bond spreads that increase or 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.

CET1 ratio sensitivity to main market drivers (under Danish Compromise), KBC group (as % of CET1) IFRS impact caused by	31/12/2024	31/12/2023
+100-basis-point parallel shift in interest rates	-0.1%	-0.1%
+100-basis-point parallel shift in spread	-0.4%	-0.2%
-25% in equity prices	-0.2%	-0.1%

Table 32 - CET1 ratio sensitivity to main market drivers (Danish Compromise), KBC Group (as % of CET1)

The table shows that the sensitivity of capital to market movements is limited. The sensitivity to spread volatility increased over the past year as KBC opted to increase the part of its bond portfolio that is booked at FVOCI. However, the majority of the portfolio is deemed to be held to maturity and is therefore booked at amortised cost. Those positions do not impact capital unless they are liquidated before maturity. Note that KBC holds material amounts of liquid assets (see the liquidity section) to absorb unexpected funding outflows. If these are not sufficient, KBC can still enter into repo agreements to access liquidity rather than having to realise losses on the bonds.

Regulatory capital

Regulatory capital for non-trading market activities totalled 21 million euros. This covers 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 internal model assessments.

ESG in market risk (non-trading) management

In the context of ALM, ESG risks are monitored primarily through their effect on asset value which could be negatively impacted by market developments that price in sustainability.

- Exposure to asset classes which are most likely to experience ESG risk are monitored, using an internal metric. Depending on the asset class and its characteristics, the assessments differ:
  - Government bonds are assessed on a per country basis;
  - Corporate bonds and direct equity are assessed on a per asset basis, with shocks per sector.
- Direct real estate is followed up on a case-by-case basis, both during the initial acquisition of an asset (as part of the asset selection process) and via annual follow up to address changes in the portfolio (if any).
- ESG-related topics are regularly discussed at the GALCO.

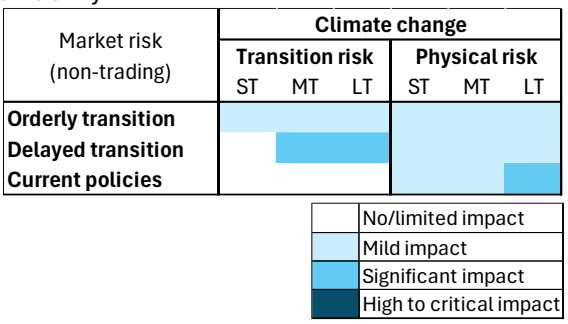


Figure 7 - The impact of climate change on market risk (non-trading) (assessed as part of the ERIM)

In line with the ERIM, the effects of both physical and transition risk impacts are considered. In the context of ALM, balance sheet items with material and direct possible impact on environmental change are included in the analysis (as highlighted above). The results show that transition risk is more material in the context of ALM, concentrated predominantly in the medium and long term. This is due to the fact that assets could fall under more market scrutiny following the continued effects of climate change, which could directly affect asset value (see 'ESG risk management in practice'). However, this effect is considered less material and in the longer term, as market anticipation of these events would likely occur before the negative impact of increasingly material climate events. Nature loss and other environmental risks (water stress, pollution and non-circularity) remain limited for ALM within the observed timeframe and within the existing methodological scope.

Integrating ESG risk in the Non-Trading Market Risk Management Framework

The management of ESG risks is integrally embedded in the Non-Trading Market Risk Management Framework (NT_MRMF). To identify ESG risks in the ALM portfolios, we have performed dedicated assessments in the context of the ERIM. Regarding measuring ESG risks (and climate-related risks in particular), we participated in the internal Integrated Climate Stress Test (as explained in the 'ESG in our risk management' section). Furthermore, for relevant positions in KBC Insurance NV, the carbon footprint of aggregated investment products is assessed using TRUCOST data. ESG risks in our investment portfolios are managed by strictly adhering to the KBC Group Investment Policy. The policy states that 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 Investing and conventional funds, with the exception of index-linked and structured funds) as well as from KBC's proprietary investments. Government bonds of countries that are considered to have the most controversial regimes are also excluded. For the purpose of monitoring, a dedicated Climate KRI monitoring the concentration of high-risk assets was developed and included in the Climate Risk Dashboard.

ESG risk management in practice

Keeping a close eye on risks stemming from stranded assets

Stranded assets are any assets that, between purchase and intended sale, fall out of regulatory compliance or lose material market value due to shifts in market demand (namely regarding sustainability). This risk is especially relevant for real estate as these assets are typically held as a long-term hedge for inflation and are thus prone to (environmental) risks in the long(er) term. On the insurance business side, real estate assets are also held to align with very long-term insurance liabilities. Should these assets become stranded, the hedging strategies applied to the insurance portfolios could be at risk.
Within KBC, the direct real estate portfolio is stable and environmental risks are monitored. However, prudence regarding real estate investments remains vital and is a task that is executed by both the first and second LoD. Investment prospectuses are thoroughly scrutinised before investment and sustainable real estate funds are favoured as these embed pre-emptive sustainability transition risk protection. Monitoring and reporting for stranded assets is an inherent part of the general ALM procedures for addressing ESG risks.

Liquidity risk management

Liquidity risk is the risk that an institution does not have the means to meet its liabilities as they become due and consequently runs the risk of defaulting on its obligations unless it can attract new funds (which has a cost component) or can quickly liquidate assets in the market (thus running the risk of negatively influencing the market). This problem increases when an institution is faced with, for instance, sudden increased withdrawals of funds or when funding lines are cut.

Managing liquidity risk

The liquidity risk playing field is defined through the standards and policies of the Liquidity Risk Management Framework (LRMF). KBC's business model is reflected in KBC's funding mix. A large part of customer funding is held in current and savings accounts (60% of the total funding mix) and consists of stable and granular retail, SME and mid-cap deposits from clients in our core markets. A significant share of those deposits (around 50%) is covered by the Deposit Guarantee Scheme (DGS), further protecting the stability of these funds. In addition to customer funding, the funding mix is completed and diversified by additional funding sources such as debt markets and unsecured and secured wholesale markets.

Apart from a stable and diversified funding mix and good access to market funding, the business model of KBC as an international bank-insurer offers additional benefits which can be leveraged in its funding and liquidity management.

Scope

The Liquidity Risk Management Framework (LRMF) is applicable to all KBC entities that are subject to liquidity risks, being the banking and insurance entities in Belgium, the Czech Republic, Slovakia, Hungary and Bulgaria. For (re)insurance undertakings, the LRMF details liquidity requirements which are in line with the Solvency II requirements concerning risk management and the Own Risk and Solvency Assessment (ORSA).

To efficiently and effectively manage the funding flows in the group and to benefit from KBC Group's and KBC Bank's favourable credit ratings, KBC's liquidity and funding are managed centrally at group level.

Governance

In the area of liquidity risk, the ExCo is supported by the Group Asset and Liability Committee (GALCO), which is chaired by the Group CFO, with the Group CRO as Deputy Chair, and includes senior representatives from Risk and Business. The GALCO provides assistance in the area of (integrated) balance sheet management at group level, including liquidity and funding. The governance, rules and procedures on how asset and liability risk management is performed throughout the group are outlined in the Liquidity Risk Management Framework (LRMF). Its implementation is monitored by the Competence Centre for ALM & Liquidity Risk of Group Risk. Within the risk function, the ALM & Liquidity Risk Council aims to establish, facilitate, promote and support the solid and efficient integration of all tasks assigned to the local and group risk departments.

Managing liquidity risks via our Three Lines of Defence (LoD) model

The group and local treasury functions act as the first LoD, 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 of KBC entities has an incentive to work towards a sound funding profile. The group treasury function also actively monitors its collateral on a group-wide basis.

Given that the risk function is the second LoD, a Liquidity Risk Competence Centre of Group Risk and the local risk teams execute this function in the context of liquidity risk management. Due to the specifics of the Treasury domain and in support of the Group CRO, a CRO Markets & Treasury was appointed who is accountable for risk management of the treasury activities. Internal audit, being our third LoD, ensures an independent review and challenge of the group's first- and second-line liquidity (risk) management processes.

Managing liquidity risks via our Internal Liquidity Adequacy Process (ILAAP)

Ultimate accountability for proper and sound liquidity management and planning at KBC lies with the Board and ExCo. KBC's ILAAP (Internal Liquidity Adequacy Assessment Process) is governed by the ILAAP policy, owned by the Board. This policy documents KBC's ILAAP architecture (e.g., objectives, underlying processes and responsibilities) supporting the management and assessment of KBC's liquidity adequacy. The ILAAP policy is set up in line with applicable regulation and guidelines, including the ECB's guidelines on ILAAP, and is continuously updated (for example to embed newer risks such as ESG).

Points of reference for KBC's ILAAP process are the corporate strategy and risk appetite, which are the anchors of an iterative, continuous ILAAP 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., the risk of outflows of non-maturity deposits) KBC is or may be exposed to so that they can be managed appropriately and taken into account in the ILAAP and liquidity planning.

The regulatory measures on liquidity, such as the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR), on their own do not provide a holistic perspective on the strengths and potential weaknesses of KBC's liquidity position. They are therefore complemented with internal measures including stress tests that, for instance, give an indication of the size and strength of KBC's liquid assets that can be drawn upon in case of significant deposit outflows.

Our ILAAP is deeply embedded in our yearly financial planning cycle in which the liquidity adequacy of KBC and its entities, according to both the regulatory and the internal view, is projected in forward-looking base-case and adverse scenarios.

Once a year, the ILAAP process generates a comprehensive report, which is presented to the ExCo, RCC and Board before being submitted to the ECB. This report allows the Board to make a statement on the ability of the Group and its entities to maintain adequate liquidity going forward in view of the corporate strategy and business model, the effectiveness of KBC's risk and control environment, its governance and risk culture, and the current and expected development of KBC's risk profile under various scenarios. In case of relevant material developments, the ILAAP is extended in order to check KBC's continued liquidity adequacy.

The building blocks to manage liquidity risk

Building upon the Enterprise Risk Management Framework (ERMF), a dedicated Liquidity Risk Management Framework (LRMF) has been developed which outlines how liquidity risk should be managed throughout the Group.

Identifying liquidity risks

All risk identification exercises as described in the 'Components of a sound risk management' section apply to the liquidity risk management context (such as the Risk Scan, NAPP and collecting risk signals).

Measuring liquidity risks

Identified liquidity risks are measured by means of both regulatory metrics such as the Liquidity Coverage Ratio (LCR, 158% in 2024) and the Net Stable Funding Ratio (NSFR, 139%), 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 (Table 33 – Liquidity risk), 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'. For the regulatory reporting templates related to liquidity risk (as imposed by the EBA), we refer to a separate Excel file on the KBC website, which is published alongside the KBC Risk Report.

Setting and cascading liquidity risk appetite

The GALCO monitors the development of the liquidity risk profile in relation to the limits. KBC's low liquidity risk profile is illustrated by the fact that KBC is well above the thresholds for regulatory and internal liquidity measures. The GALCO decides upon and periodically reviews a framework of limits, early warning levels and policies on liquidity risk activities that is consistent with the group's risk appetite.

Liquidity risk analysis, reporting, response and follow-up

To mitigate day-to-day and intraday liquidity risk, group-wide trends in funding liquidity and funding needs are monitored continuously by the group treasury function in the first line and the group risk function in the second line. 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. To assess whether our liquidity situation will remain adequate in forward-looking scenarios, both likely (e.g., base-case) and adverse stress scenario analysis is performed. The internal stress tests constitute a balanced mix with a wide range of scenarios, which are reviewed at least annually and regularly adapted to the changing environment.

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 (as explained above).

Managing liquidity risk in 2024

Despite significant challenges caused by geopolitical risks in 2024, the effect on our liquidity risk profile remained limited and KBC maintained a robust liquidity position throughout the year. Within our Belgian market specifically, we have experienced pressure on the reputation of the entire Belgian banking sector due to the Belgian State Note (issued in 2023), which caused extreme levels of competition. However, after this note matured in September 2024, our inflows totalled 6.5 billion euros and hence surpassed last year's 5.7-billion-euro outflow to the state note. The overall trend of interest rate-driven shifts from non-maturity deposits towards term deposits continued effectively, resulting in a stronger liquidity position. Since June 2024, KBC has fully repaid the Targeted Longer-Term Refinancing Operations (TLTRO) programme launched by the ECB.

KBC's exposure to liquidity risk

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'.

Note that this structural liquidity gap only provides a very partial view on the strength of KBC's liquidity buffers: it 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 to central banks. In the table, cash-generating capacity from bonds is only visible at final maturity of the bond. As a result, the net funding gaps shown in the first buckets are a clear overestimation of the risk, as in practice KBC would monetise its Liquid Asset Buffer (95 billion euros at year-end 2024 (or 101 billion euros 12-months average in 2024), of which 53 billion euros in unencumbered central bank eligible assets and the remainder in cash and withdrawable central bank receivables) to address net outflows. It also ignores any mitigating actions that KBC can take in times of stress in order to improve its liquidity position, such as issuing new bonds.

Liquidity risk (excluding intercompany deals)* *In billions of EUR*	<= 1 month	1-3 months	3-12 months	1-5 years	>5 years	On demand	Not defined	Total
31/12/2024								
Total inflows	7	14	29	105	119	7	55	336
Total outflows	66	25	19	26	7	163	30	336
Professional funding	22	0	0	1	0	8	0	32
Customer funding	26	14	16	13	6	154	0	229
Debt certificates	15	10	3	13	1	0	0	43
Other	3	0	0	0	0	0	30	33
Liquidity gap (excl. undrawn commitments)	-59	-11	10	79	112	-155	25	
Undrawn commitments							49	
Financial guarantees							11	
Net funding gap (incl. undrawn commitments)	-59	-11	10	79	112	-155	-35	-60
31/12/2023								
Total inflows	4	12	27	100	115	7	47	312
Total outflows	49	30	20	26	6	152	29	312
Professional funding	10	3	1	0	0	4	0	18
Customer funding	24	14	14	13	5	148	0	218
Debt certificates	11	13	5	13	1	0	0	43
Other	4	0	0	0	0	0	29	33
Liquidity gap (excl. undrawn commitments)	-45	-18	7	74	108	-145	18	0
Undrawn commitments	-	-	-	-	-	-	-48	-48
Financial guarantees	-	-	-	-	-	-	-11	-11
Net funding gap (incl. undrawn commitments)	-45	-18	7	74	108	-145	-41	-59

** Cashflows include 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.*

Table 33 - Liquidity risk (excluding intercompany deals)

Liquid Asset Buffer

At year-end 2024, KBC had 53 billion euros' worth of unencumbered central bank eligible assets, 44 billion euros of which in the form of liquid government bonds (83%). 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 client 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 client segments and markets. The group's funding mix[5] can be broken down as follows:

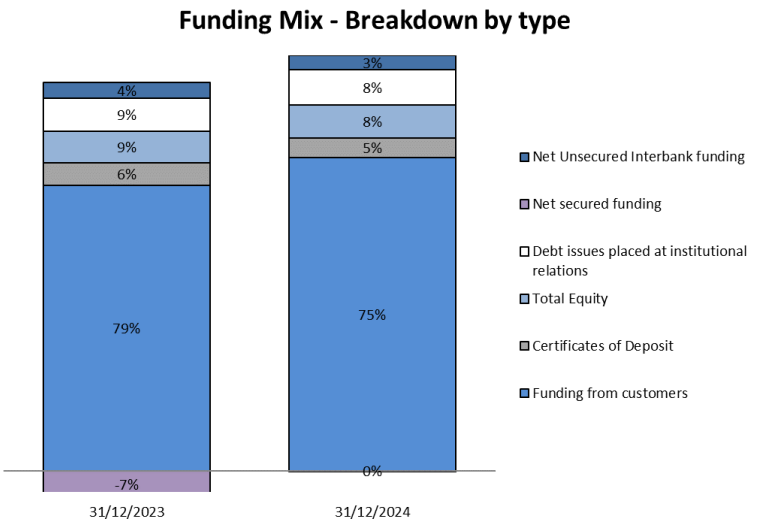


Figure 8 - Funding mix (breakdown by type)

- Funding from customers (roughly 231 billion euros, 75% of the total figure), consisting of demand deposits, time deposits, savings deposits, other deposits, savings certificates and debt issues placed in the network. Some 87% of the funding from customers relates to private individuals and SMEs. A significant share of those deposits (around 50%) are covered by the Deposit Guarantee Scheme (DGS), further protecting the stability of these funds.
- Debt issues placed with institutional investors (26 billion euros, 8% of the total figure), mainly comprising covered bonds issues, tier-2 issues and KBC Group NV senior debt.
- Net unsecured interbank funding (1 billion euros, 3% of the total figure).
- Net secured funding (-0.004 billion euros in repo funding, -0% of the total figure) and certificates of deposit (14 billion euros, 5% of the total figure). Net secured funding was slightly negative at year-end 2024 due to the fact that KBC is a net provider of secured funding, i.e. it carried out more reverse repo transactions than repo transactions.
- Total equity (24 billion euros, 8% of the total figure, including additional tier-1 (AT1) issues for 1 864 billion euros).

Derivatives exposure 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. 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.

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

Asset encumbrance

KBC is a retail-oriented bank that finances 75% 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.

KBC has imposed an internal limit on the share of secured funding in the total funding mix of KBC Bank NV. 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.

For the regulatory reporting templates related to asset encumbrance (as imposed by the EBA), we refer to a separate Excel file on the KBC website, which is published alongside the KBC Risk Report.

ESG in liquidity risk management

The Environmental Risk Impact Map shows that physical and transition risks will have a limited impact with mitigating actions in place or ongoing.
As a result of transition risk, KBC's liquidity buffers could be impacted by increasing credit spreads (see credit and market risk) which could lower the market value of the Liquid Asset Buffer (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).

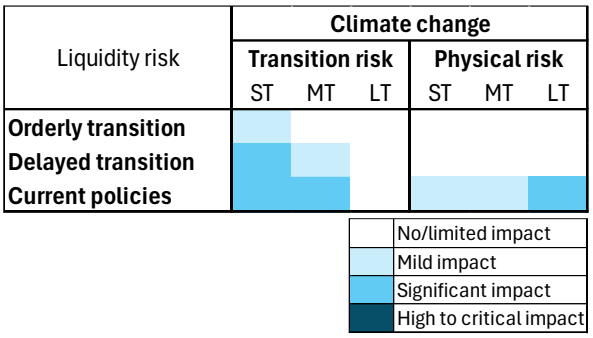


Figure 9 - The impact of climate change on liquidity risk (assessed as part of the ERIM)

Increasing bond/credit spreads due to physical risk (see credit and market risk) can lead to a lowering of the Liquid Asset Buffer and expected inflows, impacting our liquidity positions. Additionally, impacts can also stem from clients withdrawing cash to finance damage repairs resulting from physical events.

Integrating ESG risk in the Liquidity Risk Management Framework

The management of ESG risks is integrally embedded in the Liquidity Risk Management Framework (LMRMF).

Specifically in the context of stress testing, we continue to assess our current ESG stress-testing package of both backward reverse stress testing and forward-looking stress testing against the ongoing changes in regulation and implementation.

Market risk (trading) management

Market risk relates to changes in the level or in the volatility of prices in financial markets. Market risk in trading activities is the potential negative deviation from the expected value of a financial instrument (or portfolio of such instruments) in the trading book due to changing interest rates, exchange rates, equity or commodity prices, etc.

Managing market risk in the trading activities

The market risk (trading) playing field is defined through the standards and policies of the Trading Market Risk Management Framework (T_MRMF). KBC's 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. In addition to 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 limited residual market risks, which are necessary to enable us to fulfil our intermediary role towards clients. The reason for this residual risk is that we have to rely on standard market products for our portfolio hedging, with the result that a certain amount of 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.

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.

Scope

Traditionally, the focus of our trading activities is on interest-rate instruments, while activity on the foreign exchange markets and in relation to equity is limited. In order to ensure the tradability of the positions held in the trading book, the following principles apply:

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

These activities are carried out by dealing rooms in our home countries as well as via a minor presence in the UK and Asia.

Governance

In the area of market risk in the trading activities, the ExCo is supported by the Group Markets Committee (GMC), which advises on risk monitoring and capital usage with respect to trading activities. The governance, rules and procedures on how trading market risk management should be performed throughout the group are outlined in the Trading Market Risk Management Framework (T_MRMF).

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. Consequently, KBC Bank NV holds about 97% of the trading-book-related regulatory capital of KBC Group NV. The centralisation of trading risk management implies close co-operation among all the risk management units at both group and local level, allowing consistent reporting to Group management through the Group Markets Committee (GMC). The GMC is chaired by the Group CRO, with the Group CFO as Deputy Chair, and includes senior representatives from the risk function and Business. The GMC thus has an integrated overview of the risk and capital consumption of the trading activity, including 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. It is the role of the Group CRO to be the liaison between the GMC and the ExCo and thus to decide which items require further submission to the ExCo in addition to the minutes, messages and decisions of each meeting which are always sent for ratification.

Managing market risk in the trading activities via our Three Lines of Defence (LoD) Model

The Front Office (FO), Middle Office (MO) and Back Office (BO) functions are responsible for managing market risks in the trading activities in the first LoD. The FO is organised independently from the MO and BO functions, whereby different management reporting streams are in place for FO versus MO and BO. Given that the risk function is the second LoD, the Trading Market Risk Competence Centre of Group Risk and the local risk teams execute this function in the context of market risk (trading) management. Internal audit, being our third LoD, provides reasonable assurance that the overall internal control environment to manage trading market risks is effective.

The building blocks to manage market risk in the trading activities

Building upon the Enterprise Risk Management Framework (ERMF), a dedicated Trading Market Risk Management Framework (T_MRMF) has been developed which outlines how trading market risk should be managed throughout the group.

Identifying market risks in the trading activities

All risk identification exercises as described in the 'Components of a sound risk management' section apply to the trading market risk management context (such as the Risk Scan, NAPP and collecting risk signals). Furthermore, we analyse the results of value and risk calculations, market developments, industry trends, new modelling insights, changes in regulations, etc.

Measuring market risks in the trading activities

We measure trading market risk via a number of parameters including nominal positions, concentrations, Basis Point Value (BPV) and other sensitivities (the so-called 'greeks') and scenario analysis. However, the primary tool we use for measuring and monitoring market risk exposures in the trading book is the Historical Value-at-Risk (HVaR) method, which gives 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.

Setting and cascading a market risk appetite in the trading activities

The risk appetite for market risk in the trading activities is set at low and is overseen by the GMC via a risk limit framework consisting of a hierarchy of limits and early warning indicators, approved by the Board. KBC's low risk appetite for market risk in trading activities is illustrated by the fact that market risk RWA for trading activities are around 2 to 3% of KBC's total RWA. The limits and early warning indicators are defined down to trading desk level and, in addition to the HVaR, include a series of concentration limits, BPV limits and (stress) scenario limits.

The hierarchy of the risk limit framework can be split into the main 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 Trading Market Risk RWA limit) could imply a breach of the group risk appetite and hence can only be approved by the Board. Primary limit overruns at entity level must be approved by the ExCo. However, it is important to point out that, other than KBC Bank NV, all entity limits are small.
- In addition to the primary limits, a wide range of more granular additional – secondary – limits are set to ensure efficient and effective day-to-day risk management. These limits include basis-point-value limits for interest rate and basis risk and concentration limits. Non-linear positions are monitored via the 'greeks' and scenario limits. The limits are set at a level that triggers early discussion at (senior) management level about evolutions in the risk profile and possible risk mitigating measures, before breaching primary limits. 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 secondary limit breaches and/or breaches for a limited period of time to a lower management level.

The Market Risk Trading Competence Centre keeps a log of all limit overruns, with full details. Overruns are presented at the following GMC meeting with a request for ratification. If the GMC refuses to ratify the overrun, the overrun in question must be reduced as fast as market conditions allow.

Market risk (trading) analysis, reporting, response and follow-up

In addition to the more proactive elements described under 'Risk identification', this involves compiling the necessary external and internal reports, issuing advice on business proposals, and monitoring and advising on the risks attached to the positions. Thus, overall, we monitor and follow up 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 materiality of proxies);
- internal assessments;
- a comprehensive stress test framework.

The GMC, which meets every month, receives an extensive Core Report as well as periodic and *ad hoc* memos and reports. For each of these meetings, the ExCo ratifies the minutes and the related decisions. The GMC also receives a dashboard halfway between the monthly meetings whose frequency is increased (up to daily, if needed) depending on market circumstances.

Stress testing

In addition to the risk limit framework, we conduct extensive stress tests on our positions on a weekly basis. The stress tests are discussed at GMC meetings to enable the members to gain an insight into potential vulnerabilities in the positions held by the group. More information on the stress tests performed can be found below.

Managing market risk (trading) in 2024

Despite significant events on the world's stage during 2024 (e.g., geopolitical events, US elections), the financial markets where KBC is active were relatively uneventful. The relatively calm markets (and thus milder scenarios used in our HVaR model) were the main driver of the gradual decrease in market risk RWA derived from our Approved Internal Model in 2024 compared to 2023.

We are actively preparing our risk management systems and reporting to align with the updated Capital Requirements Regulation (CRR III) and are confident of a smooth transition. Awaiting the Fundamental Review of the Trading Book (FRTB), which is expected from January 2026 and will also be factored into the CRR, we are preparing to calculate the market risk RWA and keep the corresponding capital under the FRTB Standardised approach. For the last two years, we have already been reporting to the GMC regarding the FRTB's effect on market risk RWA. FRTB calculations will produce more stable results as, unlike Approved Internal Model, they use fixed shifts and are therefore independent of the market environment.

KBC's exposure to market risk in the trading activities

The VaR model

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.

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 the T_MRMF and regulatory capital calculations. The risk factors used in the VaR calculations cover all the main market risk drivers for the trading books, namely interest rates, interest rate volatility, basis risk, sovereign credit spreads, exchange rates, exchange rate volatility, equity, equity volatility, equity dividends and inflation rates. Specific (issuer) risk is calculated using the Standardised Approach. To compute shifts in the risk factors, the Historical Value-at-Risk method is used (HVaR). This means that the actual market performance is used in order to simulate how the market could develop going forward, i.e. this method does not rely on assumptions regarding the distribution of price fluctuations or correlations, but is based on patterns of experience in the past.

KBC's HVaR methodology for regulatory capital calculations is based on a 10-day holding period and a 99% confidence level, with historical data going back 500 working days, i.e. it equals the fifth worst outcome (1% of 500 scenarios, with an equal weighting for each scenario). The 500-day historical data set is a daily moving window (with a two-day lag which serves as a data-cleaning buffer), i.e. movements in the markets each day they are open are added to the data set and the oldest scenarios removed. The outcome for a 10-day holding period is calculated in three steps:

1. 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;
2. 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;
3. 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 (the materiality of this entity 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 2024, 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 group that can be modelled by HVaR.

Market risk (management HVaR)

In millions of EUR	2024	2023
Average for 1Q	7	7
Average for 2Q	5	6
Average for 3Q	5	6
Average for 4Q	4	7
As at 31 December	4	8
Maximum in year	10	10
Minimum in year	3	4

Table 34 - 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 2024	Average for 2023
Interest rate risk	4.9	6.3
FX risk	0.5	0.9
Equity risk	1.9	2.1
Diversification effect	-2.0	-2.8
Total HVaR	**5.2**	**6.5**

Table 35 - Breakdown by risk factor of trading HVaR, 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 2024 Annual Report of KBC Group NV.

Regulatory capital

A summary of the capital requirements for trading market risk at year-ends 2023 and 2024 is 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. For the regulatory reporting templates related to the use of the Standardised Approach and internal models for market risk (as imposed by the EBA), we refer to a separate Excel file on the KBC website, which is published alongside the KBC Risk Report.

Trading regulatory capital requirements by risk type

In millions of EUR		Interest rate risk	Equity risk	FX risk	Commodity risk	Total	Resulting RWAs
31/12/2024							
Market risks assessed by Approved Internal Model	HVaR	19	10	5		33	419
	SVaR	51	23	16		91	1 132
Market risks assessed by the Standardised Approach		8	3	22*		33	412
Total		78	36	42		157	1 963
31/12/2023							
Market risks assessed by Approved Internal Model	HVaR	43	13	5		61	759
	SVaR	57	16	10		83	1 038
Market risks assessed by the Standardised Approach		5	2	15*	0	22	271
Total		105	31	29	0	165	2 068

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

Table 36 - Trading regulatory capital requirements by risk type

Approved Internal Model (AIM)

As can be seen in the above table, about 79% of KBC's capital requirements related to market (trading) risk are determined using KBC Bank NV's Approved Internal Model (AIM). This figure increases to 91% if capital requirements for foreign exchange risk in the banking book are removed (which is thus the percentage of capital requirements covered in the 'Back-testing' section, see below). As can be seen in the table, the HVaR component dropped significantly, driven by a combination of milder scenarios in the 500-day scenario window used for HVaR calculations and smaller interest rate positions, whereas the SVaR component was relatively stable.

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. As required by regulation, the stressed period used for SVaR is calibrated on a yearly basis. During 2024, the SVaR period was from June 2008 to June 2009, i.e. the period of the Lehman Brothers crisis (unchanged compared to 2023).

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 Standardised Approach sets out general and specific risk weightings per type of market risk (interest rate risk, equity risk, FX risk and commodity risk). The 33 million euros in capital requirements shown in the table in the 'Regulatory capital' section would drop to 12 million euros when the capital requirements for the FX risk in the banking book are removed. Similarly, the corresponding figure without the banking book FX risk for 2023 would have been 8 million euros, thus no significant RWA movements between the two reporting dates.

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 (i.e. two or three times a year). A loss in excess of the HVaR is referred to in the Capital Requirements Regulation (CRR) as an overshooting.

Back-testing is performed on the portfolios for which an HVaR (sub)limit is defined and as such covers different levels of granularity. The number of overshootings for all levels are used to underpin the performance of the HVaR model. A consideration made in the assessment of the quality of the HVaR model is that these overshootings might become more frequent when back-testing is done at desk level, as there is less diversification compared to back-testing at the consolidated level.

The CRR stipulates that all banks with 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, 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 average HVaR and SVaR used for AIM capital requirement calculations. Overshootings are reported to the relevant risk committees and the applicable regulators on both an ad hoc and quarterly basis.

For more information regarding the evolution of the back-tests and the overshootings during 2023 and 2024, we refer to a separate Excel file on the KBC website, which is published alongside the KBC Risk Report.
The KBC Bank AIM had one overshooting during 2024, less than the four overshootings recorded in 2023. The overshooting, which occurred at the end of the third quarter, was caused by valuation adjustments, booked on a quarterly basis in the P&L used for back-testing.

As there were less than four overshootings during both 2023 and 2024, in compliance with CRR regulations, the multiplier of the average HVaR and SVaR used for AIM market risk RWA calculations was the floor level, i.e. 3.0 for both 2023 and 2024.

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 (such as the Lehman Brothers crisis, early COVID-19, and the 2023 banking turmoil). Given the relatively uneventful financial markets, no new scenario has been added in 2024.

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.

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

Validation, reconciliation and valuation

Validation and reconciliation

The VaR implementation and methodology is reviewed and validated by an independent Risk Validation Unit at least once a year. In addition, there is an annual audit of the VaR model. In order to guarantee the quality of transaction data used in the risk calculation engine, a daily reconciliation process has been set up where the transaction data provided by the source systems is reconciled with the data used in the risk calculation engine.

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 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 include inactive markets where a proxy from a more liquid market has to be used, parameters such as interest rate and equity correlation factors, or third-party pricing in the absence of alternative observable market data. Such inputs reflect KBC's own assumptions regarding the parameters that market participants would use in pricing the asset or liability (including their expected assessments concerning the risks involved).

The KBC valuation methodology of the most commonly used financial instruments is summarised in Note 4.5 of the 2024 Annual Report of KBC Group NV.

Within KBC, valuation models are validated by an independent Risk Validation Unit. In addition, the ExCo established a Group Valuation Committee (GVC) to ensure that KBC 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 XVA & AVA 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.

ESG in market risk (trading) management

The Environmental Risk Impact Map (ERIM) shows that physical and transition risks will have a limited impact. Market risk-related environmental risks arise primarily from equity derivatives, corporate bonds and sovereign bonds.

- There are no material or strategic open equity or corporate bond positions in our trading environment. Therefore, exposures to the specific sectors that are susceptible to transition and physical risks remain limited.
- Sovereign bond positions are an important part of the Trading book. Some environmental risk drivers could lead to downgrades of countries' credit ratings i.e. in scenarios with the most severe transition shocks or the highest physical risks. The expected impact remains mild due to the nature of the trading positions: as they can be turned around within a few days, the impact of potential downgrades of governments can be contained.

Market risk (trading)	Climate change					
	Transition risk			Physical risk		
	ST	MT	LT	ST	MT	LT
Orderly transition						
Delayed transition						
Current policies						

	No/limited impact
	Mild impact
	Significant impact
	High to critical impact

Figure 10 - The impact of climate change on market risk (trading) (assessed as part of the ERIM)

Integrating ESG risk in the Trading Market Risk Management Framework

The management of ESG risks is integrally embedded in the Trading Market Risk Management Framework (T_MRMF). Climate change aspects are explicitly considered in the context of stress testing. More specifically, we perform a climate risk stress test on the trading portfolio on a quarterly basis whereby we focus on the short-term transition risks (3-year horizon) and follow the 'Disorderly' scenario as included in the 2022 ECB Climate Risk Stress Test. Additionally, the impact of ESG risks is considered in several internal and external stress tests, such as our Integrated Climate Stress Test and EBA's Fit-for-55. In the context of risk reporting, monitoring and follow-up, we monitor trading positions that can be sensitive to climate change. These are factored into dedicated climate KRIs and reported to the GMC as part of our Climate Risk Dashboard.

Technical insurance risk management

Technical insurance risk is the risk of loss due to (re)insurance liabilities or of adverse developments in the value of (re)insurance liabilities related to Non-life, Life and health (re)insurance contracts, stemming from uncertainty about the frequency and severity of losses.

More detailed information can be found in our 2024 Solvency & Financial Condition Report, which is available on the kbc.com website. We refer to the KBC Annual Report for disclosures relating to IFRS 17 (see the 'Technical insurance risk' section).

Managing technical insurance risk

The technical insurance risk playing field is defined through the standards and policies of the Insurance Risk Management Framework. To support stability in earnings and capital, appropriate risk mitigation is implemented by means of reinsurance programmes protecting against the impact of large claims or accumulation of losses and by means of a diversified exposure across all core markets.

Scope

As a bank-insurer, KBC also has insurance activities in all of its home countries: Belgium (KBC Insurance NV), the Czech Republic (ČSOB Pojišťovna), Slovakia (ČSOB Poist'ovňa), Hungary (K&H Insurance Zrt) and Bulgaria (DZI Insurance). Furthermore, reinsurance subsidiary KBC Group Re SA is active in Luxembourg. The company specialises in protecting KBC's bank and insurance entities. It provides (protection) reinsurance for insurers that are part of KBC, while diversifying and optimising the Group's overall risk retention.

Governance

In the area of technical insurance risk, the ExCo is supported by the Group Insurance Committee (GIC), which monitors risks and capital regarding the (re)insurance activities. The governance, rules and procedures on how technical insurance risk management should be performed throughout the Group are outlined in the Technical Insurance Risk Management Framework. Its implementation is monitored by Group Risk and its Insurance Risk Competence Centre. The Competence Centre is responsible for providing support for local implementation and for the functional direction of the insurance risk management processes of the insurance subsidiaries. The actuarial function helps to ensure continuous compliance with the requirements regarding the calculation of technical provisions and the risks arising from this calculation, and assesses the reinsurance policy and underwriting risk.

Internal governance has been set up proportionate to KBC Insurance's size and complexity. As KBC Insurance is part of KBC Group, the governance at KBC Group level and how it interacts with the governance of KBC Insurance has also been carefully designed to protect the best interests of all stakeholders involved. The internal governance is defined by several policies such as the Corporate Governance Charter of KBC Insurance and the Actuarial Function Charters.

Managing technical insurance risk via our Three Lines of Defence (LoD) Model

In the business activities, our insurance brokers and agents act as our first LoD. The second LoD role is taken up by the risk, compliance and actuarial functions. As required by the Solvency II regulation, the actuarial function is an independent function that provides quality assurance through expert technical actuarial advice. Via our third LoD, regular internal audits are performed on our technical insurance risk practices and processes.

Protection against the impact of large claims or accumulation of claims

The insurance portfolios are protected against the impact of large claims or the accumulation of claims through:

- limits per policy;
- diversification of the portfolio across product lines and geographical regions;
- reinsurance.

Reinsurance is insurance for insurance companies. The main reasons to buy reinsurance are limiting risk and reducing volatility in the P&L account and capital. Although paying a reinsurance premium to cover the insurance business is usually a risk-reducing factor, it could be a risk-increasing factor if reinsurance is not available or not available at an acceptable price. Moreover, buying reinsurance reduces technical insurance risk, but increases exposure to counterparty default risk. However, all reinsurers must strictly comply with the requirements of the reinsurance policy to mitigate this risk.

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 catastrophe events.

Our reinsurance company KBC Group Re reinsures a large part of the risk of the insurance companies within KBC – external risks are not accepted. Therefore, KBC Group Re is called the 'captive' of KBC Group. KBC Group Re acts as a centralisation reinsurance entity, collecting the main reinsurance programmes of the KBC insurance entities and subsequently stepping into the external reinsurance market.

The building blocks to manage technical insurance risk

Building upon the Enterprise Risk Management Framework (ERMF), a dedicated Technical Insurance Risk Management Framework (TIRMF) has been developed which outlines how technical insurance risk should be managed throughout the group.

Identifying technical insurance risks

All risk identification exercises as described in the 'Components of a sound risk management' section apply to the technical insurance risk management context (such as the Risk Scan, NAPP and collecting risk signals). Furthermore, special attention is paid to the adequacy of the technical provisions. Risk identification is key for KBC Insurance and is always adapted to the new and existing risks we face (such as ESG risks).

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, each sub-divided into catastrophe and non-catastrophe risks.

Measuring technical insurance risks

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, Non-life capital requirements based on internal stochastic models. These measures of insurance risk are used consistently throughout the group.

The Solvency Capital Requirement (SCR) is a regulatory capital measurement for (re)insurance entities. The SCR is the capital required to ensure that the (re)insurance company will be able to meet its obligations over the next 12 months, with a probability of at least 99.5%. The KBC Solvency capital ratio stood at 200% at year-end 2024, as opposed to 206% at year-end 2023.

The diagram 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).

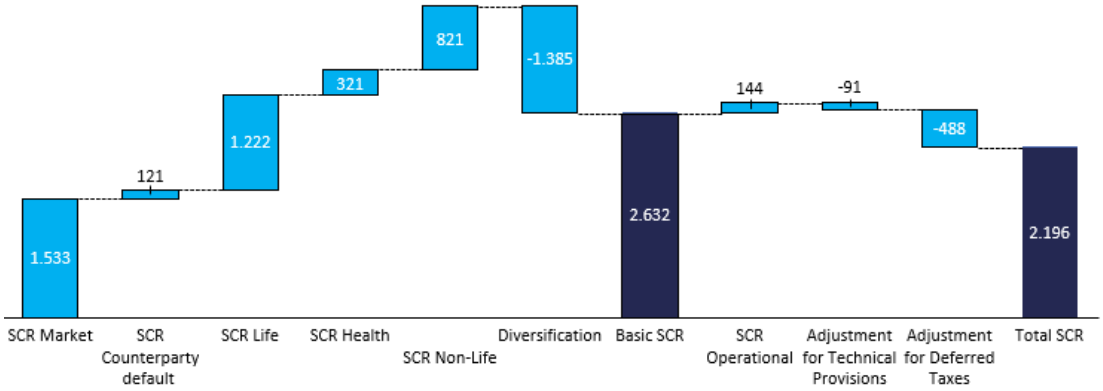


Figure 11 - Solvency II capital requirements (at 31/12/2024)

Aside from the regulatory and internal measures, we also consider complementary measures which are not considered (technical insurance) risk measures, but provide additional insights into the insurance liabilities from a risk perspective. These include, for example, value of new business, value of business in force, economic return and economic combined ratios, through-the-cycle combined ratio, etc.

Setting and cascading the technical insurance risk appetite

The risk appetite for technical insurance is set as low and is overseen by the GIC, where the defined limits are reviewed and reported. This low level is illustrated by the fact that insurance business is mainly found in the segments of retail and small enterprises (i.e. retail, self-employed and SME clients) with whom KBC wants to build a sustainable relationship. By offering a wide range of insurance products to these clients and by spreading our exposure across all core markets, we reach a high degree of diversification. If larger risks are taken in the portfolio or where risks could accumulate, we buy appropriate reinsurance cover to mitigate the risk. The insurance risk limits are determined and set at group level and further cascaded to the local entities. The necessary compliance checks are conducted.

Technical insurance risk analysis, reporting, response and follow-up

Regular reporting and follow-up of the risk measurements is presented in the Insurance Integrated Risk Report, which is submitted to the GIC on a quarterly basis. In addition, relevant risk signals are reported on a regular basis as part of the regular (Insurance) Integrated Risk Report.

Furthermore, technical insurance risks are extensively addressed in several of our main insurance-related internal and external reports. These include, among others, the Own Risk and Solvency Assessment (ORSA), the Actuarial Function Report (AFR), the Regular Supervisory Report (RSR), the Solvency and Financial Condition Report (SFCR) and the Quantitative Reporting Templates (QRTs).

Stress testing

Internally and externally driven (regulatory) stress tests and sensitivity analyses are performed and the outcome of these tests is reported in the annual ORSA report and other reports (such as the Regular Supervisory Report (RSR) and the Insurance Integrated Risk Report).

Both our internal and external stress tests confirm that the capital of KBC Insurance Group and KBC Insurance NV is adequate to absorb severe stress.

Managing technical insurance risk in 2024

As a result of the geopolitical risks that further emerged in 2024, inflationary pressure and interest rates increased. Unfortunately, high inflation can drive up the pressure on the profitability of Non-life products and all KBC Insurance entities have observed an increase in the average claim cost due to inflation. This effect was not only observed in CASCO (motor all-risk insurance), but also in MTPL (Motor Third-Party Liability insurance), Property and GTPL (General Third-Party Liability insurance). Consequently, mitigating actions were taken by all entities, both on the premiums side and on the claims side. Currently, caution is still advised and the market situation is closely monitored in every KBC entity.

As already highlighted in the 'Managing risks in 2024' section, storm Boris caused abundant rainfall for several days in September 2024, leading to severe floods in Central and Eastern Europe. The damage in the KBC home countries was the largest in the Czech Republic, but also Slovakia and – albeit to a lesser extent – Hungary were hit. Within KBC, the financial consequences were predominantly visible within our insurance activities.

We are (pro)actively and continuously preparing for upcoming regulatory adjustment (e.g., Solvency II review).

The actuarial function

The Solvency II regulatory framework requires an actuarial function to be installed as one of the independent control functions (in addition to the risk management, compliance and internal audit functions) at the level of 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 of technical actuarial topics in an independent manner.

The main tasks of the actuarial function are to:

- 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;
- 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 detailed information on the actuarial function can be found in our 2024 Solvency & Financial Condition Report, which is available on the KBC website.

ESG in technical insurance risk management

ESG risks can impact technical insurance risk through a variety of channels, resulting in an increase of the amount and/or size of insurance claims, a decrease in the financial result and a decrease in solvency.

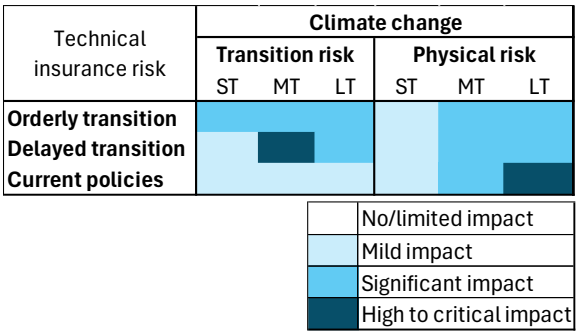


Figure 12 - The impact of climate change on technical insurance risk (assessed as part of the ERIM)

Climate change transition risk drivers can significantly impact pricing, underwriting and claims management of insurance products. Higher claims on insurance products covering new sustainable technologies can result in higher losses because of underpricing due to a lack of data. The ongoing shift from internal combustion engine to electric and hybrid vehicles is especially significant due to the large casco and motor third-party liability business lines (see 'Dealing with the transition to electric and hybrid vehicles'). Insurance claims can also increase due to legally imposed broader coverage for certain products or a change in the legal limits which currently restrict the loss for insurers in case of large flood events in Belgium. Increased climate litigation can increase general third-party liability claims.

Physical risks of climate change mainly impact technical insurance risk through a potential increase in the frequency and severity of natural catastrophes, resulting in higher property insurance and, to a lesser degree, Life and Health insurance claims. For floods especially, an increase in claims is expected for KBC's home markets (see 'Flood risk as the second most important NatCat risk'). More frequent and severe natural catastrophes can lead to a further hardening of the reinsurance market, resulting in higher reinsurance premiums, higher risk retention or a combination of both (see 'Hardening of the reinsurance market'). 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.

Nature loss can increase technical insurance risk in both the Life and Non-life portfolio, through multiple transmission channels. A degradation in regulating services (climate regulation, flood mitigation) can increase the frequency and severity of natural catastrophes, impacting mainly property insurance. A degradation in provisioning services (food, medicine) and regulation services (air and water quality, disease and pest control) can negatively impact human health and lead to an increase in mortality, morbidity and hospitalisation risk, affecting the Life and Health portfolio. Pollution also has a negative impact on human health and can likewise affect the Life and Health portfolio through an increase in mortality, morbidity and hospitalisation risk.

Changing legislation and regulatory initiatives related to social topics, such as the right to be forgotten, can make it challenging to adequately price the risk in our insurance portfolios.

Integrating ESG risk in the Technical Insurance Risk Management Framework

The management of ESG risks is integrally embedded in the Technical Insurance Risk Management Framework (TIRMF).

Risk identification

The Environmental Risk Impact Map (ERIM) provides a comprehensive view on the climate change and other environmental risk drivers most relevant for the technical insurance risk profile of KBC's insurance portfolios, while material social risks are identified in the context of the performed materiality exercises on social risk. Through the NAPP process, ESG risks are identified for new and existing insurance products offered by KBC at the individual product level. The sectoral White Papers cover ESG risks of specific sectors in the insurance portfolio. More information on the ERIM, ESG in NAPP and the White Papers is provided in the 'ESG in our risk management' section.

Deep dive exercises are used to gain a thorough understanding of and detailed insights into all aspects of specific ESG risk drivers with a high impact on Technical Insurance Risk, such as the impact of climate change on windstorms and floods and the resulting impact on expected and potential claims. Through a comprehensive approach of dialogue with internal and external stakeholders and following up news, industry, regulatory, governmental and academic sources, newly emerging ESG risks and trends (risk signals) are also identified early.

ESG risks are also top of mind during various general exercises such as the yearly risk scan, with the goal of identifying the top risks, and the yearly blind-spot analysis for the TIRMF, aiming to identify specific risks currently not sufficiently covered by the framework.

Risk measurement (incl. stress testing)

Through stress testing and scenario analysis, the impact of ESG risks on the insurance activities is measured using a variety of metrics, including both general (such as the financial result) and insurance-specific metrics (such as technical provisions and best estimates, (re)insurance claims and Solvency 2 ratio, amongst others). In the Non-life portfolio, a mix of both internal and external broker and vendor models are used within KBC to model more extreme weather conditions (such as changes in flood, windstorm, hail and precipitation patterns). KBC insists on an active dialogue regarding the inclusion of climate change in the scenario analysis performed by these providers.

Setting and cascading risk appetite

To support stability in earnings and capital for our insurance business, appropriate risk mitigation is implemented by means of reinsurance programmes protecting against the impact of large claims or accumulation of losses due to climate change effects and by means of a diversified exposure across all core markets. A number of specific climate risk KRIs have been defined to measure and follow up on the most material ESG risks as defined in the Environmental Risk Impact Map (ERIM), such as for climate change transition risk (electric and hybrid vehicles) and climate change physical risk (floods). Early warning levels for the climate risk-related KRIs are intended to draw attention to the adverse evolution of the risk profile in case of a breach.

Risk analysis, monitoring, response and follow-up

ESG-related risk signals, risk analyses and the climate risk KRIs are reported to the GIC (e.g., via the Insurance Integrated Risk Report or via the Climate Risk Dashboard). Through a variety of external reports (see 'Components of a sound risk management'), we also inform our external stakeholders on ESG risks in our insurance activities.

ESG risk management in practice

Navigating the transition to electric and hybrid vehicles

KBC wants to play its role in the transition towards a sustainable economy and hence offers motor insurance for electric and hybrid vehicles (both casco and third-party liability insurance). The limited availability of historical claims data for these vehicles poses an actuarial challenge for the appropriate pricing of these products, as significant uncertainty remains regarding the frequency and average claim cost of electric and hybrid vehicles and how these compare to those of internal combustion engine vehicles. While the historical data is limited, the share of electric and hybrid vehicles in the motor insurance portfolio is rapidly increasing, especially in Belgium due in part to the fiscal incentives for company-sponsored vehicles. Combined with the large absolute and relative size of motor insurance in the non-life portfolio, different claims ratios for electric and hybrid vehicles compared to internal combustion engine vehicles can significantly impact the insurance risk profile and would require adequate risk-based pricing to achieve an appropriate risk/return profile.

KBC closely monitors the claims data of its electric and hybrid vehicle insurance products, and how these compare to internal combustion engine vehicles. Climate KRIs, including Early Warning Thresholds, are in place via the Climate Risk Dashboard to monitor both the share of electric and hybrid vehicles in new motor insurance production and the total motor insurance portfolio, and the difference in loss ratios of electric and hybrid vehicles versus internal combustion engine vehicles. This follow-up ensures timely action can be taken in the product offering in case of adverse evolutions of the risk profile. Additionally, scenario analysis is performed to assess the impact of potential adverse evolutions in claim ratios for electric and hybrid vehicles.

Flood risk as the second most important NatCat risk

From a technical insurance risk perspective, flood risk is the second most important natural catastrophe risk for KBC (with windstorm being the most important one). This is evidenced by multiple measures, such as regulatory capital requirements, internal modelling and claims history. Due to climate change, an increase is expected in both the frequency and severity of floods in most of KBC's home markets. Additionally, unexpected changes to the legal limits for flood cover can have a significant impact on the technical insurance risk profile.

Specific flood risk deep dives are performed, simulating future flood losses under a range of climate change scenarios and time horizons, using forward-looking flood maps. Additionally, scenario analysis is performed to simulate the potential impact of natural catastrophes in various geographic locations (e.g., specific water-bomb scenarios). Via stress testing, the impact of a variety of extreme flood events on the solvency position is also measured. Expected (fluvial) flood risk evolution is followed up via a specific climate KRI, showing the current and future expected share of properties prone to fluvial floods. Follow-up of this KRI, including the Early Warning Threshold, provides useful insights on the evolution of the properties in the insurance portfolio allowing early management reaction. Risk mitigation is achieved through a variety of measures. Flood maps and scores are used in the property underwriting process for risk acceptance and pricing purposes, while natural catastrophe (including flood) reinsurance limits the loss of extreme flood events.

Hardening of the reinsurance market

As climate change increases the frequency and severity of natural catastrophes, reinsurers can reevaluate the risks in their portfolios. Additionally, ESG risks in their investment portfolios can result in lower investment returns. As a result, reinsurance can become increasingly difficult to obtain, resulting in increased reinsurance premiums, higher retention of risk or a combination of both. In extreme cases, reinsurance might become unavailable at any price, resulting in higher risk retention or an inability to underwrite certain risks altogether to stay within the approved risk appetite. Higher reinsurance premiums lower the technical insurance result while higher risk retention increases the technical insurance risk. A hardening of the reinsurance market has already been observed during the last years, leading to a combination of higher reinsurance premiums and higher risk retention especially for property reinsurance. While the hardening of the reinsurance market is currently most pronounced for property insurance, specific ESG trends can potentially also lead to a hardening in other areas of the reinsurance market, such as cyber reinsurance due to an increase in cyber events.

To mitigate the risks of a hardening reinsurance market, the evolution of physical risks (not only in KBC's home markets but worldwide) are monitored closely as they impact the reinsurance market. Retention limits are in place and reviewed annually, as part of the reinsurance renegotiation process, determining the minimum amount of cover to be bought. Through stress testing and scenario analysis, the impact of higher reinsurance premiums and risk retention on profitability and solvency is assessed to better understand and anticipate potential future reinsurance market evolutions.

Operational risk management

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 2024 Annual Report of KBC Group NV.

Managing operational risk

The operational risk playing field is defined through the standards and policies of the Operational Risk Management Framework (ORMF). In order to achieve its strategic goals of client centricity and sustainable growth, KBC is committed to pursuing operational excellence, to striving for simplicity (e.g., reducing process complexity) and to leveraging straight-through processing. This is an integral part of KBC's risk culture, as described in the dedicated section.

Scope

The Operational Risk Management Framework (ORMF) applies to all KBC entities, as operational risk lies at the core of any company's day-to-day business operations and 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 (e.g., 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

In the area of operational risk, the ExCo is supported by the Group Internal Control Committee (GICC) to strengthen the quality and effectiveness of KBC's internal control system. The governance, rules and procedures on the performance of operational risk management throughout the group are outlined in the Operational Risk Management Framework (ORMF). The framework aligns with the Basel requirement for Operational Resilience and the EU Digital Operational Resilience Act (DORA) – Regulation (EU) 2022/2554. Its implementation is coordinated and monitored by the Operational Risk Competence Centre of Group Risk, which consists of risk experts at both group and local level. The Competence Centre cooperates with other expert functions covering the nine operational sub-types: Information Technology, Information Security, Business Continuity, Process, Third-party and Outsourcing, Model, Legal, Fraud and Personal and Physical Security risk.

Besides the GICC there are also several Business Committees that centrally steer management of operational risks:

- The Global IT Committee (GITCO) serves as the governance structure to ensure alignment on Information Security and IT strategy and related group-wide mandatory controls;
- The Global Payments Committee (PAYCO) decides on actions to manage operational risks in the Payments domain within KBC and monitors progress and residual risk exposures;
- The Managerial Group Outsourcing Council (GOC) follows up outsourcing group-wide and decides on actions to improve handling of outsourcing files and the quality of the outsourcing register.

A risk committee structure – consisting of one or more committees with clear roles and responsibilities – is also established at local level.

Managing operational risks via our Three Lines of Defence (LoD) model

The Local Operational Risk Manager (LORM) plays a key supporting role in the management of operational risks within the first LoD and acts as an adviser of the accountable manager to support them in managing operational risks. The LORM supports Business in interpreting and implementing the ORMF and challenges the quality of the first LoD risk management processes and quality of the control environment.

The Division Operational Resilience of Group Risk is composed of second LoD group experts who, together with the second LoD local experts, design the Operational Risk framework and related standards, adding to group-wide consistency, and create oversight over the group's control environment and risk exposure. To facilitate and promote the proper and efficient functioning of our second LoD, the following Councils have been established:

- Operational Risk Council: with the Heads of Operational Risk Teams of all material entities and Group Risk, to ensure alignment on group-wide Operational Risk management topics, approaches, reports and concepts, with the final goal to support risk committees (mainly GICC and CRO Services MC) for all matters that relate to Operational Risk;
- 2LoD Group Operational Risk Council: with representatives of the different group functions, to, among other things, discuss planning of common risk management activities, have in-depth discussions across domains and share relevant information.

Internal audit, being our third LoD, gives reasonable assurance to the supervisory bodies of KBC that the overall internal control environment is effective, and that policies and processes are in place, effective, and consistently applied throughout the group.

The building blocks to manage operational risk

Building upon the Enterprise Risk Management Framework (ERMF), a dedicated Operational Risk Management Framework (ORMF) has been developed which outlines how operational risk should be managed throughout the group.

Identifying operational risks

KBC identifies its operational risks based on various sources such as following up on legislation, using the output of the New and Active Products Process (NAPP), performing risk scans, analysing key risk indicators and performing independent control monitoring activities and root cause analysis of operational incidents, near misses and losses. A structured repository of operational risks and related mitigating controls is in place, with a review process ensuring that the repository remains in line with new or emerging operational risk sub-types. Risk self-assessments on the operational business lines are performed by the first LoD with the aim of identifying additional local risks and possible operational control gaps. Dynamic trigger-based risk assessments are executed based on the continuous screening of both internal and external risk events. On top of that, risk signals are collected by regular proactive scanning of the environment in order to identify external or internal (cyber) trends which could negatively impact our company in a direct or indirect way.

Measuring operational risks

Unified group metrics and scales are in place to determine individual (inherent and residual) operational risk levels in the business lines and to underpin the risk profile of an entity in a comprehensive and integrated way across operational risk sub-types and across KBC and its entities.

In addition, KBC closely monitors the maturity of its internal control environment in a data-driven way. This allows us to frequently assess and report on maturity and take action when necessary. Once a year, these insights also serve as input for the regulatory required Internal Control Statement (ICS) which evaluates how well KBC is in control of and manages its operational risks.

To determine the degree of assurance that a control mitigates a particular risk as expected, we measure the 'control effectiveness' via several metrics such as employee phishing campaign click rates, website vulnerability patching speeds and the number of processing errors.

Setting and cascading operational risk appetite

Overall, KBC strives for a low operational risk environment in a business-as-usual situation. However, in the case of projects that introduce a large-scale transformation (such as mergers or acquisitions), the level is increased to 'the lower end of medium' whilst maintaining strict boundaries. The operational risk appetite is set at the overarching level as well as at the level of each operational sub-type. The current operational risk profile in relation to the operational risk appetite is discussed every quarter as part of the Operational & Compliance Risk Report submitted to the GICC.

Operational risk analysis, reporting, response and follow-up

Operational risk analysis and reporting aim to give a transparent and comprehensive, forward-looking and ex-post view on the development of the risk profile and the context in which KBC operates. Structural reporting is done on a quarterly basis to the GICC (via the Operational and Compliance Risk Report), to the Board, RCC and ExCo (via the Integrated Risk Report), and on a monthly basis to the Global IT Committee (GITCO). The maturity of the internal control environment is reported once a year via the annual Internal Control Statement, to the ExCo/RCC/Board and to the NBB, the FSMA and the ECB. These are complemented by regular or *ad hoc* reports that provide additional detail to the aforementioned reports.

Stress testing

Stress testing in the context of operational risk is done by using scenarios with a potential negative impact on KBC's (financial) position in order to prepare the KBC entities for (extreme) crisis situations. These scenarios describe specific operational risk events ranging from plausible to exceptional or even extreme and/or movements in operational risk loss impacts. Stress testing, for example, enables KBC entities to deal with local cyber crises and handle major incidents. To ensure that Information Security and Information Technology risks are effectively mitigated, a number of challenges are performed throughout the group on a regular basis, such as technical cyber resilience & readiness testing, detailed investigations, employee phishing tests, crisis simulations and other incident drills. Furthermore, in 2024, we also participated in ECB's Cyber Resilience Stress Test.

Managing operational risk in 2024

As a result of the geopolitical risks that further emerged in 2024, the cyber threat landscape was under increased pressure. Furthermore, the rapid evolution of Artificial Intelligence (incl. deepfake technology) also presented challenges for our information risk management. KBC experienced several cyber incidents during 2024. However, none of these incidents caused damage to our systems or had a serious impact on our customer service. This is mainly the result of our mature internal controls, strong detection mechanisms and swift management response. Note that KBC also has comprehensive insurance policies to mitigate any possible financial impacts caused by potential cyberattacks. Information security, including cyber-crime fraud will remain a top risk within the group. As such, the Board and RCC very closely monitor this risk.

In 2024, there was an increase in data breaches at third-party providers, which were investigated, analysed and managed as per processes and procedures in place to ensure that we continue to take the best preventive and detective measures. There was no impact on our clients or employees. We remain vigilant in safeguarding data and preventing data breaches.

We have been actively preparing for reporting under the updated Capital Requirements Regulation (CRR III). In the context of operational risk, all existing calculation methodologies are replaced by one single methodology: the Business Indicator Component (BIC). Additionally, we have also been actively preparing for the Digital Operational Resilience Act (DORA), which will be effective upon publication of this KBC Risk Report. The DORA aims to create a dedicated framework to safeguard digital operational resilience as the ability of firms and the financial sector as a whole to prevent, adapt, respond to, recover, and learn from operational disruptions. KBC has set-up a programme to comply with the requirements of DORA and ensure consistent and transparent implementation, by providing steering, oversight and reporting.

Furthermore, we also continuously follow up on changes in European regulations (e.g., Payments Services Regulation, Instant Payment Regulation) and national jurisdictions (e.g., the Cybershield programme in Hungary, the Belgian Private Investigation Act).

Internal Control Statement (ICS)

The Internal Control Statement is a regulatory required, annual reporting on the overall quality of KBC's Internal Control System based on a holistic, integrated view. It is prepared for each material, regulated bank/insurance entity in the group, in compliance with the reporting requirements of the NBB on the 'Report of the senior management on the assessment of the internal control'.

In support of the KBC ICS, the KBC ICS Policy describes the governance in place and the ICS process, including the roles and responsibilities of the main stakeholders involved. The KBC ICS Policy is owned and approved by the Board.

The management and decision-making processes for the assessment of the state and quality of the Internal Control System need to be coherent and consistent across KBC. Hence the KBC ICS Policy is applicable to all entities in scope of the ICS as their local ICS ExCo statements underpin the ICS reporting of KBC Group.

The ICS process is a well-embedded process throughout the organisation, following a cascade of steps. The opinion on KBC's Internal Control System has been formulated based on the self-assessment by Business and challenge by domain experts, and on the independent opinion of the risk, compliance and audit functions, both at Local and group level. Business, risk, compliance and audit each use relevant, fact-based data as input for their opinion.

While executing the bottom-up ICS process, all three Lines of Defence express their opinion by means of the following unique scoring scale:

1. Strong
2. Limited improvements needed
3. Significant improvements needed
4. Immediate remedial action required

The ExCo is of the opinion that the overall quality of KBC's Internal Control System at the end of 2024 is largely up to standards – score 2. In specific areas, (continued) improvements are needed in view of the overall risk appetite of the KBC group. Appropriate actions have been defined or are ongoing.

KBC's exposure to operational risk

Dedicated focus to manage our major operational risks

Information (security) risk management

Information risk management encompasses the risks of information security and information technology, driven by an ever-changing cyber threat landscape. Information security risk is one of the most material risks that financial institutions face today, as it is driven by factors such as geopolitical tensions, organised cybercrime, technological growth and innovation (e.g., use of AI for phishing, deepfakes, etc.) and internal factors (such as further digitalisation, experiments with emerging technology, and so on). These threats could lead to a loss of integrity, loss of confidentiality and unplanned unavailability, which could impact our data, the availability of our operations and services, KBC's reputation, and so on.

Cyber-risk management is integrated into the Risk Management Framework, including analysis, reporting, registration and follow-up. This ensures alignment with broader risk oversight and KBC objectives.
The actions implemented to manage cyber risk have a group-wide coverage and are part of a continuous process.

KBC actively identifies cyber risks by:

- monitoring the evolving cyber threat landscape, leveraging cyber threat intelligence from trusted sources, including industry reports, open and commercial threat information feeds, and government information. This ensures early awareness about active and emerging cyber threats;
- structured vulnerability management to identify, assess, and address security weaknesses across IT systems and infrastructure;
- comprehensive attack surface management to identify and map all externally exposed assets, identifying areas at risk for cyber threats;
- third-party and supply-chain management. A thorough vetting process is in place to assess the cybersecurity practices of suppliers, contractors and partners before engagement. By maintaining transparency and collaboration with third parties, KBC mitigates risks associated with external dependencies and ensures a secure and resilient supply chain;
- regular ethical hacks, challenges, tabletop exercises and stress tests to recognise cyber threats;
- targeted training and awareness programmes ensure employees across all levels are equipped to identify and report suspicious activities. By fostering a culture of vigilance and preparedness, we strengthen our workforce against cyber risks. To achieve this, we – among other things – regularly conduct internal phishing tests;
- monitoring the evolving cyber fraud landscape to enhance client protection and safeguard stakeholder data and financial assets. Continuous analysis and adaptation of security measures supports the commitment to stakeholder protection.

By combining cyber threat intelligence with insights and findings from the above activities, we proactively identify, assess and understand cyber risks that could target our company and stakeholders, enhancing our ability to defend against and respond to cyber threats effectively. Cyber risks are specifically analysed based on likelihood and impact, enabling risk prioritisation and mitigation efforts. Mitigation strategies include implementing robust technical controls, and ensuring adherence to best practices, industry standards and government regulations.

Third-party risk and outsourcing risk management

Third-party and outsourcing risk is the risk stemming from problems regarding continuity, integrity and/or quality of the activities outsourced to third parties (whether or not within the group), partnered with third parties or from the equipment or staff made available by these third parties.

Third-party risk management

In view of the potential impact on KBC and its clients, it is important to identify, assess, monitor, and control risks related to third-party relationships throughout the entire lifecycle of those relationships. Therefore, effective third-party risk management follows the stages of the life cycle for third-party arrangements, which includes due diligence, risk assessment, contracting, onboarding, ongoing monitoring and termination.

Internal governance arrangements and sound risk management are in place to assure that the third-party arrangements and the related third-party risks are properly managed and kept within the boundaries of the risk appetite. The business, as the first LoD, remains accountable for its activities at all times, whether they are (partially) performed by third-parties or not. In its Operational Risk Standard on Third-Party Risk Management (TPRM) KBC specifies, both towards the first and second LoD, the minimum requirements for risk assessments, covering all risks affecting the operational and financial resilience of the third party, as well as the mandatory controls to be performed.

Outsourcing risk management

Outsourcing risk management is a specific aspect of TPRM. Regulatory requirements regarding follow-up, measurement and reporting of outsourcing risk have increased over the years (for example, via DORA and the EBA and EIOPA Guidelines on Outsourcing). 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.

To ensure robust management of its outsourcing processes and risks, KBC has put in place a group-wide outsourcing framework. The framework comprises a group-wide Outsourcing & DORA TPRM policy which sets out the principles and strategy for outsourcing activities and aims to standardise the approach when transfer of an activity is considered for outsourcing. These are supported by Outsourcing & DORA TPRM Process Guidance to ensure a strict and standardised approach throughout the group, applicable for both outsourcing and nearshoring.

Controls are in place to adequately mitigate risks arising from either external or internal outsourcing during the full lifecycle of a service provider. Qualitative risk governance of KBC's 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 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 that allows model risk to be identified, understood and efficiently manage, similar to any other risk type. The scope of this framework covers, in particular, generative AI models and high-risk AI models in line with the EU AI Act.

As the use of AI models is an important aspect of KBC's strategy, it is important to ensure that the output of the AI models we use is aligned with KBC's values and principles. To achieve this, KBC adheres to the Trusted AI Framework.

Business continuity risk management, including crisis management

To ensure availability of critical services, KBC has a business continuity management (BCM) 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. Lessons are drawn from any (internal or external) incident or crisis and, when needed, our BCM plans are adapted.

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. 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 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 (< 5%).

Basel risk event type	Gross P&L impact (%)
Execution, delivery & process management	60.01%
Natural disasters & public safety	1.36%
Technology & infrastructure failure	3.66%
Clients, products & business practices	5.95%
Employee practices & workplace safety	0.24%
External fraud	28.37%
Internal fraud	0.41%

Table 37 - Operational risk losses per Basel risk type

Regulatory capital

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. Please note that these disclosures are in line with CRR2. In the 2025 KBC Risk Report, the Business Indicator Component will be determined according to CRR3.

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 38 - Beta factors for Basel business lines, used for the Standardised approach for operational risk regulatory capital

Operational Risk Regulatory capital *In millions of EUR*	2024	2023
Risk-Weighted Assets	13 901	13 079
Capital	1 112	1 046

Table 39 - Operational risk regulatory capital

Operational risk capital at KBC totalled 1 112 million euros at the end of 2024, compared to 1 046 million euros at the end of 2023. This increase of 6.3% originates from higher gross income.

ESG in operational risk management

The most severe impacts of ESG on operational risk have been identified in the Environmental Risk Impact Map (ERIM) and in the performed materiality exercises on social risk.

For transition risks, the most relevant is litigation risk in the fast-evolving regulatory landscape and business continuity risk impacted by the energy transition and evolution to more energy-efficient and sustainable technologies.

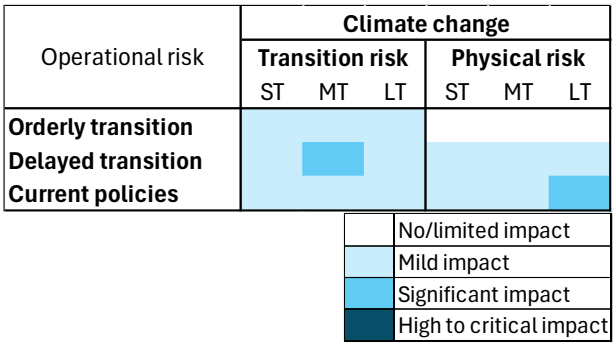


Figure 13 - The impact of climate change on operational risk management (assessed as part of the ERIM)

The main physical risks are natural disasters such as floods, drought, hurricanes, etc. which may lead to damage to the operational buildings and impact on the operations of KBC (e.g., outage of a data centre due to physical damage). Employees could also be harmed or rendered unavailable (either their property is also impacted, events have health implications for them or they are forced to migrate due to shortages of water, food, soil, etc.).

Nature loss further magnifies the effects, but also brings new risks like pandemics. The effects of these physical risks will most probably increase in likelihood and in severity over time, which may also result in an increased impact on KBC's operations.

The impact of social factors can lead to several operational risks for KBC. One significant risk is model risk, which arises when biases are present in the models used by the organisation. Additionally, there is a risk of litigation, increased turnover or loss of know-how if the organisation encounters lawsuits and disputes related to social issues. This could also occur in situations where third-party partners do not comply with social laws or fail to adequately protect data. Such instances can result in legal actions against KBC. Furthermore, insufficient protection of client and employee data or the loss of this data due to cyber threats can also pose significant risks, as it may lead to breaches of privacy and data security, further exposing the organisation to legal challenges and loss of trust from stakeholders.

The influence of governance factors can lead to misconduct and non-compliance with corporate guidelines. This may manifest as involvement in corrupt activities or inadequate protection of whistleblowers, potentially resulting in legal actions and fines. Additionally, mismanagement of third-party relationships might incur penalties for late payments or even disrupt the supply chain, causing operational issues.

Integrating ESG risk in the Operational Risk Management Framework

The management of ESG risks is integrally embedded in the Operational Risk Management Framework (ORMF).

Risk identification

KBC has implemented various methods to identify ESG risks. These risks are identified based on the ERIM and NAPP procedure (as described in the 'ESG in our risk management' section). Additional operational risk identification exercises include but are not limited to ESG loss collection and labelling, control identification through a thorough review process of the risks and controls, performing modelling exercises and external assessments that capture the impact of natural disasters on critical infrastructure, as well as conducting ESG assessments of third parties or vulnerability scanning for data breaches.

Risk measurement

The ESG risks are measured by means of tracking of the ESG-related losses, the effectiveness of the relevant controls, the outsourcing risk assessments, the capital underpinning exercise and, finally, the quarterly evaluation of information security risks.

Setting and cascading risk appetite

The results of the above measures are also included in the risk appetite. Within our operational risk management processes, controls are established for managing cyber risk, model risk (such as avoiding bias in models and ensuring ethical AI), business continuity risk (such as maintaining service continuity for clients in the event of disruption caused by climate or other ESG risk drivers), legal risk (including climate litigation), and personal and physical security risk (concerning personnel and clients).

A number of specific climate risk KRIs have been defined to measure and follow up on the most material ESG risks as defined in the Environmental Risk Impact Map (ERIM). More specifically, dedicated KRIs are defined to monitor our losses related to litigation and exposures to flood risk.

Risk analysis, monitoring, response and follow-up

Building on the integration of ESG considerations into the ORMF, it is crucial to examine how these strategies perform in real-world situations. The above-mentioned climate KRIs and any ESG-related losses are also included in the Operational Risk Core Report.

ESG risk management in practice

The effect of environmental disasters on our operations

Environmental disasters can affect the operational buildings such as the data centres and head offices but also (critical) personnel, both of which have an impact on business continuity management (BCM). Literature indicates that in the future, the severity and likelihood of severe natural disasters will most probably increase further.

BCM is a critical aspect of ensuring KBC's business continuity when faced with adverse conditions, particularly in light of increasing environmental and geopolitical challenges. One of the significant risks identified is the increasing occurrence of floods. This risk is quantified through ESG stress tests, modelling exercises, and the analysis of losses observed from events like the recent storm Boris, which affected some of the KBC home countries. KBC has a systematic process for identifying infrastructure prone to floods (e.g., modelling exercise aimed at identifying the infrastructure at risk of natural disasters across different timelines) and ensuring that these buildings are adequately prepared to withstand such events. Even in the event that a facility is affected, measures can be taken to continue operations such as multiple data centres at different locations taking over each other's workload to allow for operations to continue.

In addition to environmental risks, geopolitical factors such as the ongoing Ukraine-Russia war, the planned ban on fossil fuel energy, and the decreasing availability and quality of water pose a risk of infrastructure disruption, particularly for data centres. Another increasingly important factor is cyber threat, which can impact operations (e.g., ransomware attacks). KBC's BCM preparedness for such situations involves ensuring that head offices and data centres are able to function in these circumstances to guarantee uninterrupted operations. This comprehensive approach to risk management helps KBC maintain operational resilience in the face of diverse and evolving threats.

Maintaining operational resilience in case of pandemics

The impact of biodiversity loss and diseases is becoming increasingly significant, particularly as the frequency of such diseases is expected to rise due to climate change and the lack of biodiversity. This trend can directly affect employee availability, as well as the regulatory environment. For instance, the Covid-19 pandemic has shown how quickly a disease can spread and disrupt normal operations. The experience gained from the Covid-19 pandemic, including the internal losses observed, can be used to quantify the potential impact of future diseases.

KBC has taken several actions to mitigate the impacts of biodiversity loss and diseases. This includes promoting remote work and remote sales to ensure business continuity even when employees cannot be physically present. In the event of diseases, KBC ensures that all hygienic and safety measures are followed. By adopting these strategies, KBC aims to maintain operational resilience and minimise disruptions caused by the increasing frequency of diseases linked to biodiversity loss.

KBC's Cybersecurity Awareness and Protection Initiatives.

With respect to the social aspect of ESG, KBC plays an important role in society by protecting clients and the public in general from fraud and personal data theft. As social engineering and new fraud techniques within cybersecurity continue to evolve and can cause significant impact, several initiatives have been implemented to raise cyber security awareness among clients, employees, management and the public.

National awareness campaigns are conducted through various communication channels, including websites, cash terminals, lobby screens at bank branches, and via social media. These campaigns include activities such as providing general security tips and blogs, offering cybersecurity prevention courses, informing clients about phishing scenarios, and providing a contact point for reporting suspicious activity. Phishing simulation tests are regularly conducted for employees to maintain vigilance. Additionally, eLearning modules, workshops, sessions, and corporate intranet information are provided to raise awareness, supplemented by specialised training for management.

To protect KBC and its clients against the increased cyber risk, measures such as cyber security rating services to monitor third-party service providers for data breaches, and vulnerability scanning of our internal, external hosted and third-party services are implemented and continuously enhanced.

Compliance risk management

Compliance risk is the risk that a judicial, administrative or regulatory sanction is imposed on an institution and/or its employees because of non-compliance with the laws and regulations pertaining to the compliance domains, resulting in loss of reputation and potential financial loss. This loss of reputation can also be the result of non-compliance with the internal policy in this regard and with the institution's own values and codes of conduct in relation to the integrity of its activities.

Managing compliance risk

Scope

As a matter of priority and as a minimum, the scope of activities of the Compliance Function is to be concentrated on the following areas of integrity: Anti-Money Laundering and Countering the Financing of Terrorism, Tax Fraud Prevention, Investor Protection and Protection of the Policyholder, Data Protection and AI including AI Act compliance, Business Ethics, Consumer Protection, Governance aspects of CRD IV and V, Solvency II and/or local legislation and Sustainable Finance and Sustainability.

All KBC entities within the Compliance Universe are in scope of Compliance Risk Management.

Governance

Compliance risk is covered by a holistic framework that includes the Compliance Charter, the Integrity Policy, the specific risk appetite and accompanying Key Risk Indicators (KRIs), the Group Compliance Rules, the Compliance Monitoring Programme and other reporting. A proper governance is in place to guarantee the independence of the Compliance Function with an adequate escalation process to the ExCo, the Risk & Compliance Committee and the Board of Directors. The governance of the Compliance Function is further described in the Compliance Charter and is in line with EBA/EIOPA guidelines on internal governance.

The compliance function is structured at the group and subgroup level. KBC Group Compliance and each compliance function within the Group overseeing subgroup activities shall perform a steering, supporting and monitoring role, in consultation with the local Chief Compliance Officers. Reporting lines are defined in the KBC Compliance Charter.

Managing compliance risks via our Three Lines of Defence (LoD) Model

Business lines, acting as the first LoD, are the direct owners of the compliance risks in their day-to-day activities and are fully accountable towards the Board of Directors and regulatory authorities. As the second LoD, the compliance function is accountable to support the business to manage and monitor these risks through advice, training, policies and procedures, monitoring and recommendations. The audit function operates as the third LoD and independently assesses the functioning, effectiveness and compliance risk management activities of the first and second LoD.

Managing compliance risks via our KBC Integrity Policy

The KBC Corporate Strategy, along with the values defended by the Group and key requirements, are set out in detail in the KBC Integrity Policy. They are complemented by (i) a Group Compliance content-based strategy, and (ii) backward and forward-looking, qualitative and quantitative key risk and performance indicators as defined by the Group Compliance Risk Appetite 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 Group Compliance content-based strategy

The Group Compliance Content Strategy 2024 – 2026, as approved by the Board, focuses, among other things, on the following strategic pillars:

- Improving controls through further effectiveness of compliance monitoring;
- Enhancing cooperation with, and training of, the first Line of Defence;
- Following up on regulatory evolutions, e.g., AMLA, AI Act, FIDA, MiCAR etc.;
- Ensuring a holistic view through working programmes;
- Enhancing our 'Group role' as a Group Function across the entire KBC Group.

In March 2024, the strategy was updated and must-win battles were determined which outline the challenges we currently face and must overcome. These Must-Win Battles build upon the following foundations: (i) We Put People First, (ii) We Master our Data, and (iii) We Embrace Sustainability.

The Group Compliance Risk Appetite

The risk appetite related to compliance matters means behaving in conformity with the letter and the spirit of the law, in a responsible and integer manner, giving priority to the interests of the client ('gatekeeper role'). Hence, we pursue a low risk appetite in the context of compliance risk.

Each entity within the Group assesses its overall risk profile on a quarterly basis based on the defined KRIs per compliance domain. Every quarter, this assessment is reported to the RCC. Additionally, a group-wide consolidated overview and analysis of the risk profiles is reported to the RCC twice a year.

The building blocks to manage compliance risks

To manage compliance risks, KBC aims to comply with laws and regulations in the compliance domains as determined by KBC's Compliance Charter. The compliance function's role in managing compliance risk is twofold:

- On the one hand, the compliance function is particularly dedicated to the identification, assessment and analysis of the risks linked to the compliance domains. Furthermore, 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 and awareness initiatives, information on new regulatory developments to the governance bodies in support of group strategy, and the implementation of legal and regulatory requirements by the various businesses concerned.

  Additionally, the compliance function also provides advice and independent opinions in the New and Active Products Process (NAPP). Together with the other control functions, the compliance function continues to ensure that, under the NAPP, 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.

- On the other hand – as the second LoD – it carries out risk-based monitoring to ensure the adequacy of the internal control environment. More specifically, monitoring allows it to verify whether legal and regulatory requirements are 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 by Group Compliance in the main Group entities to assure the Board that the compliance risk is properly assessed by the local compliance function.

Insights into managing some specific compliance domains

Group Compliance (GCPL) has been working on developing the foundations of a strong group-wide compliance function. The main focus points were processes and efficiency, creating a future-proof strategy reflected in the vision, and strengthening the staffing and the management team. In addition, GCPL invested in different tools and in the Group's role (including the demarcation of the first and second LoD) in order to meet the ECB expectations. Going forward, the focus will be on further improving methodology and processes within compliance in order to provide the necessary assurance to the Board and the regulator.

GCPL strives towards a mature organisation, with a data-driven and documented planning which will support group-wide steering. The goal is synergy and scalability group-wide, across all levels and domains, e.g., risk assessments, regulatory watches, knowledge management, etc. The main goal is a holistic, risk-based and data-driven approach to compliance.

Financial Crime

A Financial Crime Compliance department was set up to enhance synergies between AML (Anti-Money Laundering), embargoes and other related domains.

The prevention of money laundering and terrorism financing, including embargoes, has been a top priority for the compliance function in the past years and will continue to be prioritised. 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. As such, the compliance function also closely follows EU developments at the level of the new AML Authority (AMLA) and regulatory provisions expected in 2024 and subsequent years. Special emphasis is placed on a preventive risk management approach (for example, embargo circumvention measures).

A common integrated platform to enhance the management of money laundering – on 'Know Your Transaction' – has been developed and is being rolled out in Belgium and at the Central European entities. Based on modelling and machine learning it allows, among other things, improved detection of atypical behaviour. In the past few years, resources were increased within the compliance function to enable a strong reinforcement of the Compliance Monitoring Programme, to keep pace with the expanding regulatory requirements and fast strategic and business developments.

Data and Consumer Protection and AI

Conformity with data and consumer protection obligations is a central hallmark of any sustainable and client-centric organisation. In the context of KBC's data-driven strategy, it is crucial to pay attention to all upcoming regulatory developments in the data and consumer protection domains to ensure future-proof, reliable and trustworthy bank-insurance activities for KBC clients. The compliance function closely follows up on the regulatory developments impacting the data and/or consumer protection domains such as FIDA, PSD3/PSR, and the Basic Banking Service.

Since 2020, Kate, the personal assistant, has gained maturity and can increasingly facilitate the everyday lives of our clients. The study of the potential use of generative AI models is closely followed to ensure that risks in this area are duly identified including the new risks deriving from the AI Act. In anticipation of the implementation of the AI Act, KBC has developed its Trusted AI framework, which ensures that the technologies we use operate in a transparent, fair and secure way.

Investor and Policyholder Protection

Financial markets and insurance legislation are subject to constant changes and continuous expansion. KBC strives for early preparedness by ensuring the internal framework (rules, policies, and, as a minimum, first- and second-line controls) allows frictionless adaptations of business activities. In 2024, this implied a forward-looking approach to translate upcoming requirements into actionable business advice (e.g., Value for Money in insurance, new market structure rules, changes to market abuse provisions). In addition, the compliance function anticipated regulatory expectations in new fields (e.g., crypto-asset legislation). To foster the compliance culture and reduce compliance risk, several initiatives were taken to make Group Compliance Rules easier to understand, use, and interpret (e.g., methodology changes, e-Learnings, Guidelines, standardised texts).

Corporate Governance and Business Ethics

Corporate governance in credit institutions and insurance undertakings aims to ensure that they operate in a safe and sound manner, manage risks effectively, and make decisions that are in the best interests of their stakeholders. Strong corporate governance practices strengthen KBC in dealing with, and controlling, compliance risk. As in previous years, compliance therefore advises upon and monitors compliance with governance aspects of CRD IV and V and Solvency II such as outsourcing, functioning and composition of committees, Fit & Proper, incompatibility of mandates, follow-up on handling of complaints, conflicts of interest, sound remuneration, etc. In 2024, particular attention was paid to efficiency gains (e.g., within the complaints handling reporting process towards the Board) and the follow-up of new and/or upcoming regulatory requirements impacting the aforementioned governance areas (e.g., CRD VI, DORA, etc.).

Additionally, governance of the compliance function, as an independent control function, is of utmost importance in dealing with compliance risk. Continuous efforts are made to strengthen compliance governance and enhance group-wide steering, alignment and cooperation with local entities.

The principles of corporate governance go hand in hand with responsible behaviour, which is one of the three cornerstones of KBC's sustainability strategy. Together with business ethics, responsible behaviour is essential in ensuring that KBC maintains one of its most valuable assets: trust.

Risks linked to irresponsible and/or unethical behaviour are often labelled as 'conduct risk'. As in previous years, KBC continues to limit and mitigate these risks with targeted training and awareness programmes, codes of conduct and specific policies on conflicts of interest, anti-corruption, gifts and entertainment, protection of whistleblowers, and so on. The recurrent risk assessments and quality controls ensure a sound implementation of these policies. Particular attention in the Business Ethics domain is also paid to the risks associated with the increased use of AI solutions.

ESG in compliance risk management

From the point of view of sustainability, KBC promotes a strong corporate culture that encourages responsible behaviour throughout the entire organisation, including in terms of ESG responsibility. Several compliance domains are closely linked to these aspects, such as corporate governance, investor/consumer protection, ethics and fraud, and anti-money laundering. For example:

- Sustainable investments and ESG characteristics in MiFID and IDD are closely followed from the compliance perspective;
- Sustainability and climate-related policies are taken into account when deciding on new products or services (NAPP). Particular attention is paid to the ESG characteristics of investment products and the methodology used to define these characteristics, aligned with regulatory frameworks such as the Sustainable Finance Disclosure Regulation (SFDR) and the Taxonomy Regulation;
- Greenwashing is closely followed, especially regarding marketing documentation;
- The effective implementation of sustainability policies is monitored.

Reputational risk management

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.

Managing reputational risk

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, fulfilling our role in society and the local economy to the full to the benefit of all stakeholders. We promote a strong corporate culture that encourages responsible behaviour throughout the entire organisation, including social and environmental responsibilities. We put clients' interests at the heart of what we do and foster trust by treating the client fairly and honestly.

Scope

Reputational risk should be a key point of attention in the day-to-day risk management of each entity, irrespective of their size or legal structure. Reputational risk is also present in all processes and related activities, products and services, and hence should be top of mind for every employee.

Governance

The governance, rules and procedures and how reputational risk management should be performed throughout the group are outlined in the Reputational Risk Management Framework. Its implementation is monitored by Group 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). In this respect, we actively monitor a non-exhaustive list of business indicators which provide valuable input from a risk management perspective, including Net Promoter Scores (NPS), the Corporate Reputation Index, statistics on complaints, ESG ratings and the evolution of the stock price index and other financial indicators.

Managing reputational risk via our Three Lines of Defence (LoD) model

Although KBC's reputation should be top of mind for every KBC employee, some departments play a more crucial role in managing reputational risk in the first LoD. Firstly, Group Communication is responsible for group-wide strategic, stock and reputation-sensitive internal and external communications, crisis communications, press relations group-wide and for all Belgian entities, and group (online) reputation management. Secondly, Investor Relations interacts with, and receives feedback from the investment community. In the second LoD, the risk function is responsible for the core risk management process, while the Compliance function is heavily involved in complaints handling. Both thus continuously consider and aim to manage our reputational risks. Internal audit, our third LoD, covers reputational risks when auditing all other risk types. Internal audits are also performed on Group Communication.

The building blocks to manage reputational risk

Building upon the Enterprise Risk Management Framework (ERMF), a dedicated Reputational Risk Management Framework (RRMF) has been developed which outlines how reputational risk should be managed throughout the Group.

Identifying reputational risks

All risk identification exercises as described in the 'Components of a sound risk management' section apply to the reputational risk management context (such as the Risk Scan, NAPP and collecting risk signals). Furthermore, many risk identification activities are situated in the first LoD and can be based on different sources such as signals from client complaints handling. Notably, the Group Communication and Investor Relations departments implement tools and procedures to detect issues early and proactively address them (including related to disinformation/fake news) which can impact KBC's reputation, for instance by screening the external world (press articles, social media, analyst reports, etc.).

Measuring reputational risks

Reputational risk cannot be easily or reliably quantified. Reputational risk events do not necessarily inflict direct losses but often materialise indirectly via damage to trust negatively impacting franchise value (e.g., leading to future revenue losses), or via spill-over effects to other risk types (e.g., increased liquidity outflows). However, we monitor some business indicators that provide valuable input from a risk management perspective such as the outcomes of client surveys, statistics on complaints, the evolution of the stock price and ESG ratings. Additionally, reputational risk events are taken into account in stress testing, e.g., a reputational risk event leading to liquidity outflows. In this way, reputational risk is incorporated in assessments of capital, liquidity and earnings.

Setting and cascading reputational risk appetite

The group risk appetite, including the strategic objectives with regard to reputational risk tolerance, is determined by the Board by means of an annual review. KBC's low risk appetite for reputational risk is illustrated by the fact that we have set a strict risk appetite for all our risks and have policies and processes in place to manage them (e.g., NAPP). We also proactively manage incidents. We put the clients' interests at the heart of what we do and foster trust by treating our clients fairly and honestly, by meeting their expectations as fully as possible and by approaching them proactively in a highly personal manner.

Reputational risk analysis, reporting, response and follow-up

When relevant, signals on reputational risk are included in risk-type-specific core reports and/or the Integrated Risk Report. Managing and reporting on reputational risks is also significantly relevant in the context of crisis management. Any crisis, big or small, can have an impact on our reputation. Therefore, preparation, speed of action and good communication is crucial in any crisis to increase the likelihood of successfully weathering it, and to limit reputational damage. To support its reputational resilience, KBC proactively prepares for potential crisis situations via, for example, its Business Continuity Plans (as outlined in the 'Operational risk management' section) or the Recovery Plan.

ESG in reputational risk management

The Environmental Risk Impact Map (ERIM) shows that reputational risk can be impacted by both transition and physical risks:

- Among transition risks, changing investor, client or community expectations and scrutiny regarding the financing of sectors or counterparties that are (perceived as) harmful can lead to reputational damage. Litigation could also be triggered in case of an unsuccessful implementation of stricter policies and regulations, or due to greenwashing accusations, i.e. when offering services or products that are not perceived as environmentally friendly.
- Within physical risk, a higher frequency and severity of natural catastrophes could lead to an increased number of complaints in insurance claims handling, giving rise to reputational risk. In the longer term, reputational risk could also become more important if insurers increasingly restrict their underwriting or drastically increase insurance premiums in an attempt to keep the risks insurable, whilst keeping their loss ratio under control. Insurance companies have a societal role and can be scrutinised for not fulfilling this role.

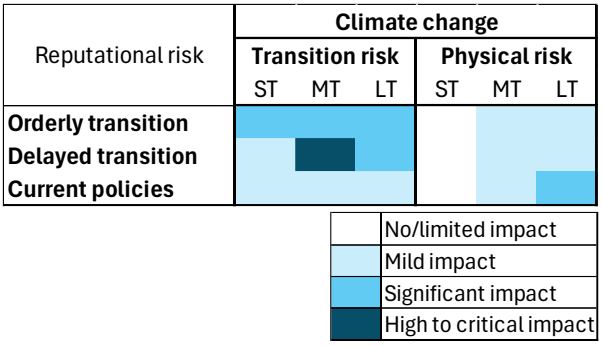


Figure 14 - The impact of climate change on reputational risk (assessed as part of the ERIM)

For social risks, reputational risks can also emerge via our loan portfolio (when financing companies failing to meet social standards) or via our insurance portfolio (when underwriting comes under pressure due to societal changes). Additionally, if we would not adequately manage our own social risks (e.g., via adequate cyber risk management or establishing good working conditions) and/or our suppliers fail to meet social standards, this can also lead to reputational risk.

Managing reputational risks as an important aspect of KBC's sustainability strategy

Embedding sustainability in our day-to-day business activities, in our products and services, in our outsourcing activities, in our contracts with suppliers and in the minds of our employees is a key requisite of KBC's sustainability strategy. All the initiatives taken in this respect contribute to KBC's reputation and limit any reputational risks. As a financial institution, we are aware of the societal role that we play. Therefore, we aim to limit the adverse impact of our core activities on the environment and society, and encourage a positive impact.

To this end, responsible behaviour is one of the cornerstones of KBC's sustainability strategy. It is crucial for us that we act in a responsible and ethical way to gain and keep the trust of our stakeholders:

- We genuinely care about and encourage responsible behaviour of all our employees;
- We act according to strict business ethics by diligently following (local) laws and regulations and respecting our additional corporate policies. In particular, we focus on respecting human rights throughout all our activities;
- We proactively deal with cyber and information security threats;
- We strictly respect the privacy of our stakeholders and deal with personal data in a lawful and transparent manner. In this regard, KBC has signed the Principles for Responsible Banking (PRB), the Principles for Responsible Investment (PRI), the Principles for Sustainable Insurance (PSI) 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;
- We adhere to the principles described in the KBC Group Sustainability Framework. Reputational risk is mitigated by our sustainability policies (which you can learn more about at this link) for credit, insurance, advisory services and investments (asset management and proprietary investments) as well as supporting activities such as procurement. In our policies, we identify controversial activities with respect to the environment, human rights, business ethics and sensitive/controversial societal issues. Furthermore, counterparties that are excluded from doing business with KBC are identified in the KBC Group Blacklist, the KBC Human Rights Offenders List and the KBC Controversial Regimes List. More details are included in the 'ESG in our risk management' section.

To proactively identify and manage any reputational risks that might still arise, we have several initiatives in place:

- We closely monitor and peer benchmark our ESG ratings, which is regularly reported to the ExCo, RCC and Board;
- We also follow up on whether KBC's publicly committed climate targets are on track and report on this to the ExCo, RCC and Board,
- To detect ESG risks and to avoid related controversies, we have developed a specific due diligence process to monitor compliance of our lending, insurance activities and advisory services with our sustainability framework. This incorporates procedures to deal with any infringements that are detected. For this purpose, third-party ESG analysts' data is also used. Additionally, our due diligence process includes the possibility of requesting advice on sustainability-related matters (incl. reputational risk aspects) for individual cases by sustainability experts;
- We conduct several assessments to identify potential reputational risks. For example: we monitor the exposure to climate-vulnerable sectors in our loan portfolio, we consider reputational ESG-related risk scores for large companies in vulnerable sectors, we screen our third parties and suppliers using the Sustainability Code of Conduct, etc.;
- Finally, our NAPP process ensures fair treatment of our clients and compliance with related regulation whilst also considering several ESG aspects (see 'ESG in our risk management'). Lastly, given KBC's data-driven strategy, it is crucial to correctly protect and manage the personal data of our employees and clients, as explained in the 'Operational risk management' section.

Annexes

Annex I– Balance sheet reconciliation

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

Capital Base *In millions of EUR*	Financial statements KBC Group	Deconsolidation KBC Insurance	Prudential treatment	Own funds 31-12-24 (*)
Total regulatory capital, KBC Group (after profit appropriation)		**-1 111**	**-795**	**21 048**
Tier-1 capital		**- 611**	**-962**	**18 485**
Common equity		**- 611**	**-962**	**16 621**
Parent shareholders' equity	22 447	-858	-2 656	18 932
Intangible fixed assets (incl. deferred tax impact) (-)	-1 247	79	426	-743
Goodwill on consolidation (incl. deferred tax impact) (-)	-1 219	168		-1 052
Minority interests	0			0
Hedging reserve (cashflow hedges) (-)	507	1		508
Valuation diff. in fin. liabilities at fair value - own credit risk (-)	-29			-29
Value adjustment due to the requirements for prudent valuation (-)	0		-35	-35
Dividend payout/Share buyback (-)	-1 249		1 249	0
Remuneration of AT1 instruments (-)	0		-27	-27
Deduction re. financing provided to shareholders (-)	-23			-23
Deduction re. Irrevocable payment commitments (-)	-90			-90
Deduction re NPL backstops (-)	-205			-205
Deduction re pension plan assets (-)	-204	-1		-205
IRB provision shortfall (-)	-141		75	-66
Deferred tax assets on losses carried forward (-)	-353			-353
Transitional adjustments to CET1	0		7	7
Limit on deferred tax assets from timing differences relying on future profitability and significant participations in financial sector entities (-)	0			0
Additional going concern capital				**1 864**
CRR compliant AT1 instruments	1 864			1 864
Tier-2 capital		**-500**	**167**	**2 563**
IRB provision excess (+)	0		167	167
Transitional adjustments to CET1	0			0
Subordinated liabilities	2 896	-500		2 396

(*) 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 40 - Balance sheet reconciliation

Annex II – 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		31-12-2024	30-09-2024	30-06-2024	31-03-2024	31-12-2023
	Available capital (amounts)					
1	Common Equity Tier 1 (CET1) capital	16 621	16 985	16 995	17 215	15 639
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 has not been applied	16 614	16 978	16 988	17 206	15 555
3	Tier 1 capital	18 485	18 849	18 745	18 965	17 389
4	Tier 1 capital as if IFRS 9 has not been applied	18 478	18 842	18 738	18 956	17 305
5	Total capital	21 048	22 124	22 669	22 903	19 768
6	Total capital as if IFRS 9 has not been applied	21 042	22 117	22 662	22 898	19 744
	Risk exposure amount					
7	Total risk-weighted assets	119 950	116 822	115 640	114 101	113 029
8	Total risk-weighted assets as if IFRS 9 has not been applied	119 945	116 817	115 635	114 101	113 038
	Capital ratios					
9	CET1 (as a % of risk exposure amount)	13.86%	14.54%	14.70%	15.09%	13.84%
10	CET1 (as a % of risk exposure amount) as if IFRS 9 has not been applied	13.85%	14.53%	14.69%	15.08%	13.76%
11	Tier 1 capital (as a % of risk exposure amount)	15.41%	16.13%	16.21%	16.62%	15.38%
12	Tier 1 capital (as a % of risk exposure amount) as if IFRS 9 has not been applied	15.41%	16.13%	16.20%	16.61%	15.31%
13	Total capital (as a % of risk exposure amount)	17.55%	18.94%	19.60%	20.07%	17.49%
14	Total capital (as a % of risk exposure amount) as if IFRS 9 has not been applied	17.54%	18.93%	19.60%	20.07%	17.47%
	Leverage ratio					
15	Leverage ratio total exposure measure	360 092	342 043	350 530	346 562	333 894
	Leverage ratio total exposure measure as if IFRS 9 has not been applied	360 085	342 034	350 521	346 545	333 791
16	Leverage ratio	5.13%	5.51%	5.35%	5.47%	5.21%
17	Leverage ratio as if IFRS 9 has not been applied	5.13%	5.51%	5.35%	5.47%	5.18%

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 mainly stems from ECL accounted for in 2Q20 and recognised in CET1 under CRR Art. 26(2) in 4Q20.

Table 41 - Own funds and capital & leverage ratios with/without transitional arrangements for IFRS 9

Annex III – Additional information on our ESG risk management

This Annex includes additional information on several subjects included in the 'ESG in our risk management' section. In particular, the following topics are further detailed:

III.1 ESG in remuneration and training initiatives
III.2 The Environmental Risk Impact Map
III.3 Identification and materiality assessments for social risks
III.4 Physical risk assessments
III.5 ESG scenario analysis and stress testing

III.1 ESG in remuneration and training initiatives

Integrating sustainability into our remuneration policy

Our sustainability strategy can only be integrated throughout our Group via a firm sustainability governance. Therefore, sustainability has been integrated into the remuneration of our top management and employees:

- Elements such as sustainability are becoming increasingly important and today determine at least 30% of the collective, variable, results-related remuneration components awarded to members of the ExCo. Progress on these criteria is evaluated every six months using the KBC Sustainability Dashboard. The ultimate assessment of the criteria used to evaluate the members of the ExCo lies with the Board via the Remuneration Committee;
- All members of KBC's top management 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 top 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 2024, 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).

Continuously creating awareness on ESG risk

We are continuously creating and increasing awareness regarding sustainability and the accompanying ESG risks. In 2024, we continued to further increase ESG 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 ESG risks (e.g., collaboration with UNEP FI, 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 (including a dedicated training on ESG risk to new risk managers);
  - further roll-out of the internally developed climate game (a simulation-based game 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, (expert) risk managers, etc.);
  - offering a specific (mandatory) training programme for new KBC senior managers with specific attention for trust and psychological safety, and adaptive and inclusive leadership. Additionally, it includes a deep dive into KBC's overall strategy with a focus on such topics as sustainability, responsible behaviour and artificial intelligence. These programmes are offered through 'KBC University', as explained in the KBC Sustainability Report.

III.2 The Environmental Risk Impact Map (ERIM)

Since 2021, we have performed an annual exercise to identify environmental risks. While the initial focus of the Environmental Risk Impact Map was on climate risk, we extended the scope with nature loss and other environmental risks (air, water and soil pollution, substances of concern and microplastics, water stress, marine resource depletion and non-circular economy.

This Environmental Risk Impact Map (ERIM) reflects, for every risk type, the materiality of each considered environmental risk, by:

- distinguishing between different risk drivers of transition risk (policy and regulation, technological development and consumer preferences) and physical risk (split according to different environmental chronic and acute perils);
- considering three distinct (industry-standard) scenarios for climate and nature risk;
- for three different time horizons: short term (0-to-3-year horizon), medium term (3-to-10-year horizon) and long term (beyond 10-year horizon).

In addition to an Environmental Risk Impact Map at group level, separate maps have been constructed for KBC Bank, KBC Insurance and KBC Asset Management. Furthermore, separate impact maps have been created for our core countries, given that the materiality of environmental-related risks can vary across different jurisdictions (transition risks) and locations (physical risks).

In addition to the risk-type-specific impact maps that mainly focus on potential losses, a complementing assessment of the potential impact of environmental risk drivers on KBC's business model is made with a focus on impact on KBC's revenues and the demand for KBC's products and services.

Distinguishing between different drivers of transition and physical risk

Within KBC's approach for identifying environmental risks, environmental risk drivers generate transition and physical risks, which in turn generate economic risks (via transmission channels) and could result in financial and non-financial risks for KBC. An integrated approach to environmental risk management is recommended as climate change, nature loss and the other environmental issues are interconnected and can amplify the effects of physical and transition risks.

The transition and (chronic and acute) physical risk drivers considered in the Environmental Risk Impact Map are listed in the tables below. The transition risk drivers are the same for climate change, nature loss and the other environmental issues and are described together. However, the physical risk drivers are different and are presented separately.

Transition risks are the risks arising from shifts and disruptions associated with the transition to a low-carbon, climate-resilient or environmentally sustainable economy.	
Policy and regulation	• The risks associated with policy changes or regulations to make the transition towards a climate-resilient or environmentally sustainable economy. As regards climate change, potential consequences include higher carbon and energy prices, more carbon taxes and regulatory fines. • For nature loss, these are policies and regulations aiming to maintain, preserve and increase biodiversity and natural resources, wildlife and endangered species. • Furthermore, the policy changes or regulations for the other environmental issues aim to make the transition towards a resilient, circular economy while limiting pollution, water stress and pressure on marine resources.
Technological development	Substitution of existing and development of new products and services with green alternatives based on new technologies or failure of/uncertainty surrounding new technologies.
Consumer preferences	Changes in client behaviour and market/investor expectations, uncertainty in market signals, client/community perceptions of an organisation's contribution to climate change, green competition, nature loss, pollution, water scarcity or a non-circular economy.

Physical risks are the risks arising from physical phenomena associated with both (chronic) climate or environmental trends such as changing weather patterns, rising sea levels, increasing temperatures, biodiversity loss, resource scarcity, reduced water availability and changes in water and soil productivity, and (acute) extreme weather events, including storms, floods, fires or heatwaves that may disrupt operations or value chains or damage property.			
		Chronic	**Acute**
Climate change	Temperature-related	Increase/decrease of average temperature, increase/decrease in max. and min. temperatures, etc.	Increase in frequency and severity of heat/cold waves, wildfires, etc.
	Wind-related	Changing wind patterns.	Cyclones/windstorms, tornadoes, etc.
	Water-related	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-related	Erosion, degradation of soil integrity and quality, etc.	Landslides, subsidence, erosion, etc.
Decline in ecosystem services		A gradual decline of species diversity of pollinators resulting in reduced crop yields, degradation of agricultural land, gradual deforestation.	Increasingly severe natural disasters, such as increased probability of new pandemics, forest fires or pests affecting harvest.
Pollution		Gradual pollution stemming from pesticide use, pollution by industrial emissions, etc.	Leak of hazardous compounds in the environment with consequences for human health (e.g., significant pollution discharges in rivers, air and soils).
Water stress		Gradual build-up of water stress due to pollution and increased demand for water driven by, for example, population and GDP growth.	Sudden shortage of water supply due to a pollution event or high withdrawals.
Marine resource depletion		Gradual decline of marine resources due to pollution, marine transportation, offshore wind energy production, overexploitation, invasive species, etc.	Sudden decline of marine resources due to acute local pollution (e.g., oil spill) or other local events.
Non-circular economy		The lack or depletion of primary resources due to failure to transition from a linear to a circular economy (reduction, re-use, recovery and recycling) or due to the transition being too late or not sufficiently effective.	

The different drivers can affect KBC via several transmission channels

Both transition and physical risks can materialise via several transmission channels (at macroeconomic, regional/sectoral and microeconomic level), potentially impacting KBC's balance sheet through several risk types. Macroeconomic transmission channels are the mechanisms by which environmental risk drivers affect macroeconomic factors (for example, labour productivity and economic growth) and how these, in turn, may have an impact on macroeconomic variables such as risk-free interest rates, inflation, commodities and foreign exchange rates. On the other hand, microeconomic transmission channels include the causal chains by which risk drivers affect financial institutions' individual counterparties (corporates, households, sovereigns and financial institutions). A general overview of these transmission channels is provided in the table below.

	Transition risk	**Physical risk**
Corporates	Depending on each individual company's transition plans, impacts can differ across and within sectors: • 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. • Failure to make a transition or making a transition at too slow pace can lead to a loss of business. Additional investments might be necessary and costs may increase.	Companies can be impacted by physical risk: • Critical assets can be damaged/destroyed or infrastructure can become temporarily unavailable due to, for instance, extreme weather events. This can translate into additional investments, relocations of production sites and capital depletion. • Physical risks can cause supply-side shocks when impacting transportation or primary resources, impacting the prices of affected products.

Households	• Households can face increased costs regarding utilities, medicines and/or food. • Households may come under pressure to invest to lower their own emissions due to energy performance regulation and to reduce freshwater use. • As energy efficiency considerations are increasingly being factored into house prices, 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. • Costs can increase, e.g., due to increased costs for cooling/heating, increased food costs, etc. • Additional health expenditures may occur because of pollution, scarcity of freshwater or other extreme weather events. In case of extreme pollution, mortality rates may increase.
Sovereigns	Sovereigns can face lower tax revenues due to impaired corporates, reduced household income and an overall reduction in GDP. Also, higher government spending to address and/or compensate for negative environmental impacts can be expected. The impact on sovereigns follows the impacts on the underlying (general) economy and are not assumed to trigger default of developed countries. However, the potentially increased sovereign debt and sovereigns which are most vulnerable to transition and physical risks can, for example, run the risk of downgrades in sovereign ratings and hence sovereign bond valuations.	
Financial institutions	The extent to which financial institutions may be impacted by transition and physical risks depends on their business (banking/(re)insurance) and portfolio characteristics.	

Considering different time horizons and scenarios to determine future environmental impact

The timing and severity of transition and physical risks (i.e. 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. When assessing the possible risks stemming from nature loss, we use similar (smart-copied) scenarios as the mentioned NGFS scenarios. For the assessments of the other environmental issues, we currently do not use any scenarios given that no industry standards or practices are available at this point in time.

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 the NGFS scenarios ensures assumptions are aligned with the industry standards and facilitate a comparison between the ERIM and other internal and external environmental 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)**: this scenario assumes that ambitious climate policies are introduced immediately. CDR (Carbon Dioxide Removal) is used to accelerate the decarbonisation but kept to the minimum possible and broadly in line with sustainable levels of bioenergy production. Net CO_2 emissions reach zero around 2050, giving at least a 50% chance of limiting global warming to below 1.5 °C by the end of the century, with limited overshoot (< 0.2 °C) of 1.5 °C in earlier years. Physical risks are relatively low but transition risks are high.

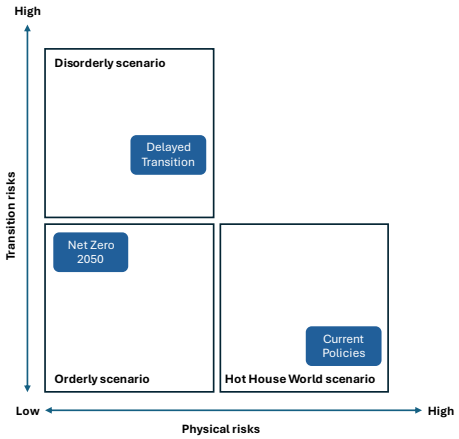


Figure 15 - Climate scenarios by the Network For Greening the Financial System (NGFS)

- **Delayed transition (Disorderly scenario)**: under this scenario, global annual emissions do not decrease until 2030. To compensate for the delayed start, strong policies are needed to limit warming to below 2°C. 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. Negative emissions are limited. Physical risks increase more than in the Net Zero 2050 scenario and transition risks are severe.
- **Current policies (Hot house world)**: this scenario assumes that only currently implemented policies are preserved, leading to high physical risks with climate impacts reflecting the riskier (high) end of current estimates. Emissions grow until 2080 leading to about 3 °C of warming and severe physical risks. This includes irreversible changes like higher sea level rise. This scenario can help central banks and supervisors consider the long-term physical risks to the economy and financial system if we continue on our current path to a 'Hot house world'.

As the impacts of environmental risks will materialise over different time horizons, impacts are assessed for three different time frames: short (0-3 years), medium (3-10 years) and long term (>10 years).

For each risk type, the vulnerability to a specific risk driver , scenario and time horizon is indicated via a scoring system. This is based on expert judgement, but supported by all available quantitative insights. With every (yearly) review of the Environmental Risk Impact Map, additional insights, data and quantification are added to the basis for the assessments to allow KBC to evaluate environmental risks in a progressively data-driven way.

In general, considering the risk drivers, scenarios and time horizons, the Environmental Risk Impact Map results in the following conclusions:

- Most significant impacts can be expected for climate change, nature loss and water stress, for example due to the macroeconomic and systemic effects these risks can generate;
- For the other environmental issues less pronounced risks are expected.

In the more severe scenarios ('Delayed transition' for transition risks or 'Current policies' for physical risks), climate change and nature loss can put pressure on multiple facets and actors of the economy (households, companies, governments), leading to impacts in many risk areas. Over all environmental topics, the most significant impacts (with magnitude of impacts dependent on the considered scenario and time horizon) are identified:

- Impact on credit risk, for example through loans to companies in environmentally vulnerable sectors (from a transition or physical risk point of view), impacting collateral devaluation (real estate) and repayment capacity issues (due to price increases in case of resource scarcity);
- Impact on technical insurance risk: whereas climate change primarily impacts the Non-Life portfolios (through natural catastrophes), nature loss and other environmental issues will mainly impact the Risk Life portfolio (through their impact on human health). Reinsurers might limit their coverage, and/or become more expensive;
- All considered environmental risks might generate reputational risk (e.g., when financing companies active in fossil fuels/deforestation/etc., no longer insuring specific hazards or diseases, or being perceived to be greenwashing);
- Furthermore, in terms of operational risks, climate risk and nature loss might impact operations (damage to buildings, impact of pandemics, etc.) for KBC and/or its third parties or generate legal risks (environmental litigation).

We refer to the risk-type-specific sections for more detailed scoring and results.

III.3 Identification and materiality assessments for social risks

In the context of the Financial Materiality Assessment for CSRD, a first dedicated materiality assessment for social and governance risks was executed in 2024. As a follow-up step, a more structural risk identification and materiality assessment for social risks is being developed, also with the aim to integrate its conclusions into the different building blocks of KBC's Risk Management Framework and CSRD reporting.

Within our approach, we identify and estimate the impact of several types of social risk drivers on KBC. When performing this assessment, for every risk type separately, we:

- consider similar social sustainability matters as included in the Corporate Sustainability Reporting Directive (see below table with 'social factors');
- consider three potential risk drivers: changes in policy and regulation, external developments and changes in societal preferences regarding social factors;
- consider both potential structural movements and immediate issues; we bear in mind the likelihood of these materialising, however without introducing social scenarios (since no industry practices exist in this regard).

The assessment is performed at the level of KBC Group, with a breakdown for KBC Bank and KBC Insurance.

The following social risk factors are assessed:

Social factors are social matters that may have a positive or negative impact on the financial performance or solvency of an entity, sovereign or individual.	
Working conditions	A decent work environment for the own workforce (employees) and workers in the value chain. More specifically, it concerns: secure employment, work-life balance, adequate wages, association and participation and health and safety.
Equal treatment and opportunities for all	Equal treatment is a general principle of European law which presupposes that comparable situations or parties in comparable situations are treated in the same way. Equal opportunities are based on equal and non-discriminatory access to opportunities for, e.g., education, training, employment, etc. without being disadvantaged on the basis of criteria such as gender, racial or ethnic origin or sexual orientation. More specifically, it concerns: gender equality and equal pay for work of equal value, training and skills development, employment and inclusion of people with disabilities, measures against violence and harassment in the workplace and diversity.
Human rights and protection	Safeguarding human rights of the own workforce (employees) and workers in the value chain, protection of communities and the wider society and protecting consumers and end-users. More specifically, it concerns: child & forced labour, adequate housing, privacy, rights of affected communities, information-related impacts and personal safety for and social inclusion of consumers and/or end-users.

The above-mentioned social risk factors are driven by changes in three risk drivers:

Policy and regulation	Risks associated with policy or regulation changes/introductions regarding emerging social factors.
External development	Risks of substitution of existing and developments of new products, systems and working conditions based on new external evolutions.
Societal preferences	Risks of changes in workforces', clients', suppliers' and communities' behaviour and market/investor sentiment, uncertainty in market signals, client/community perceptions of an organisation's socially responsible behaviour.

The social risk drivers can impact different economic segments through transmission channels (micro and macroeconomic), via which economic risks can subsequently translate into (non-)financial risks that adversely affect individual financial institutions or financial systems as a whole.

The assessment is still primarily based on expert judgement. An overview of the outcome of the assessment is provided in the 'ESG in our risk management' section.

III.4 Physical risk assessments

The following sections contain a description of the various physical risk assessments performed. 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 actual sectoral impacts (per NACE level and from a bank perspective) are provided in ESG Template 5, available in a separate Excel file on the KBC website, which is published alongside the KBC Risk Report.

An important observation regarding the physical risk evolution of ESG parameters is that the available ESG data is still unstable and the continuous improvement and supplementation of this data causes shifts in the parameters that mask the organic evolution of the portfolio in this area. Continuous efforts are made to improve our data quality and availability.

Flood risk

A harmonised flood risk assessment was performed on various loan portfolios throughout the Group. The assessment distinguishes 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)[1] which reflects those areas with a flooding return period of 10 years. For the mortgage portfolios, the fraction of very high-risk properties is limited across the KBC Group home countries (up to 3%). For the corporate and SME portfolios, this fraction is slightly higher (up to 4%).

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 fraction of properties in the mortgage portfolios which will highly likely be impacted by pluvial flooding is again limited across the KBC Group home countries (up to 3%). Similar to fluvial flood risk, the corporate and SME portfolios are slightly more exposed to pluvial risk than the mortgage portfolios.

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). Only a marginal percentage of our exposure is considered high-risk.

Risk mitigation

Insurance cover for flooding is relatively high in the KBC Group 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. The metrics above consequently focus on the fraction of the portfolio for which the assets have a potential to be very 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.

[1] https://data.jrc.ec.europa.eu/collection/id-0054

Heat stress

Heat waves occur in all of the KBC Group home countries, with varying frequencies, intensities and durations. Table 42 illustrates this by means of the average number of observed and projected (RCP8.5 scenario) heat wave days, obtained from the Copernicus Climate Portal[2]. 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 42 - 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 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 Group 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[3] 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 43.

	BE	CZ	SK	HU	BG
Agriculture	17%	12%	13%	14%	16%
Water (supply)	14%	11%	9%	10%	11%

Table 43 - Sensitivity to drought risk

[2] https://cds.climate.copernicus.eu/cdsapp#!/software/app-health-heat-waves-projections?tab=app
[3] *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*

Wildfires

Statistics of the Global Wildfire Information System (GWIS)[4] show that wildfire events occur in all of KBC Group'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 44 below shows for each KBC Group 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 44 - Regional variation of average percentage of burned cropland

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[5] 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 Group 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[6] 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. The sensitivity to high landslide risk is limited across the KBC Group home countries (up to about 2% of the portfolio exposure in some countries).

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[7] 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 Group home countries with the highest risk are located in Belgium and Hungary. For Belgium, recent scientific research[8] 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[9] 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 a limited fraction of residential and commercial properties have a very high risk of being damaged due to subsidence (1% of the portfolio exposure). For Hungary, the identified area is thinly populated and the subsidence risk is considered to be limited.

[4] https://gwis.jrc.ec.europa.eu/apps/country.profile/
[5] https://wisc.climate.copernicus.eu/wisc/
[6] https://esdac.jrc.ec.europa.eu/content/european-landslide-susceptibility-map-elsus-v2
[7] https://esdac.jrc.ec.europa.eu/content/natural-susceptibility-soil-compaction-europe
[8] https://orbi.uliege.be/bitstream/2268/263690/1/ShortPaper-IGARS2021_PYDeclercq.pdf
[9] *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*

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[10] which maps Soil Loss by Water Erosion. The highest erosion risk in the KBC Group home countries is found in the steep mountainous areas of Slovakia and Bulgaria , while the risk is negligible for the other countries. In terms of economic activities, the sector suffering the most severe impact is the agricultural sector.

[10] https://esdac.jrc.ec.europa.eu/content/soil-erosion-water-rusle2015

III.5 ESG scenario analysis and stress testing

An overview of the applied ESG-related stresses in our stress test mix is included below.

Integrated climate stress test	
What?	In 2024, we made significant improvements related to climate stress testing and developed an integrated climate stress test, targeting all aspects of our activities (including lending, insurance and investments, etc.).
How?	Within the stress test, one transition risk scenario and two acute physical risk events (flood and drought) are included. These scenarios and assumed impacts target our most vulnerable activities as identified in the Environmental Risk Impact Map.
Reverse stress testing	
What?	In reverse stress testing, as part of our capital adequacy assessment, several scenarios related to ESG risk are included in KBC's stress-testing mix (as outlined below). 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.
How?	• Climate risk scenarios are included and split into two sub-scenarios: 1. 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 and SME PD downgrades across entire climate-vulnerable sectors and spillovers to equity markets. The scenario also assumes a transition-risk-related operational loss event. 2. The second scenario focuses on severe physical climate risk impacts. Credit risk and technical insurance risk impacts have been included in the stress-test calculations by considering corporate and SME PD downgrades in entire climate-vulnerable sectors, spillovers to equity markets, and increasing life and non-life insurance claims. The scenario also assumes an operational loss caused by a major flood event. • To specifically assess the capital adequacy of our insurer, two scenarios related to non-climate environmental risks (pollution and biodiversity loss) were added in which mortality rates and healthcare costs increase. • The reverse stress test scenarios also included a simulation of a cyberattack leading to, among other things, a data leak (social risk) and resulting in a GDPR fine and reputational loss for KBC. • A dedicated social risk scenario is also included which assumes that the materialisation of social risk leads to a decrease in the creditworthiness of counterparties in social-risk-sensitive sectors (such as chemicals and healthcare) and downgrades of countries with low external social-risk ratings.
ICAAP/ORSA and ILAAP stress test	
What?	The ICAAP/ORSA and ILAAP stress tests are part of our ICAAP/ORSA/ILAAP reports, which provide insights on the capital and liquidity position of the banking and insurance business.
How?	• In the ICAAP/ORSA stress test (3-year scenario) specific ESG risk-related scenarios are included. Besides the main scenario, which is based on a severe stagflation scenario triggered by geopolitical tension, we assume that the impact of climate change is felt earlier and more intensely than expected. This leads 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 and further hardening the reinsurance market. European governments decide on additional actions, such as accelerated and stricter regulation of EPC requirements and renovations, leading to a downward correction in housing markets. Furthermore, European legislation aimed to protect nature and human health, such as the Nature Restoration Law and local nitrogen deals, are inefficiently translated to local regulation, and erratic implementation can harm relevant sectors such as agriculture. The ICAAP/ORSA stress test also included a cyber risk event in the form of an increased number of cyberattacks targeting European banks, impacting KBC's reputation and clients' trust. • In the ILAAP stress test (also a 3-year scenario), we include a scenario in which KBC is accused of green and social washing and has to buy back the green and social bonds. In another scenario, we simulate that the wholesale funding plan of these bonds is not met.
Assessing the resilience of our business model	
What?	Via this exercise, we assess the resilience of our business model and our capacity to honour our financial responsibilities.
How?	• In this assessment, 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 and RWA stemming from climate stress on corporate sectors, insurance claims stemming from natural catastrophe events and reinsurance premiums.

Annex IV – Hedge accounting

Assets/liability 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 2024 Annual Report of KBC Group NV.

Hedging interest rate risks

Hedging derivatives are used to mitigate 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 only the credit spread profile is relevant. Liabilities include KBC's own issues. Micro hedges are either fair-value or cashflow based.

Hedging foreign exchange risks

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 common equity 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 (micro-hedge) 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 training

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 GALCO.

Annex V – List of tables & figures

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Glossary & definitions

Term	Definition
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.
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) turns 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.
BPV (Basis Point Value)	The measure that reflects the change in the net present value of interest rate positions, due to an upward parallel shift of 10 basis points (i.e. 0.10%) in the zero coupon curve.
Business continuity risk	The risk that business activities cannot be continued at an acceptable pre-defined level resulting from the inability of the organisation to plan for and respond to serious (business) disruptions, crises or disasters.
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.
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.
EEPE (Effective Expected Positive Exposure)	EEPE is the weighted average over time of the effective expected exposure over the first year, or, if all the contracts in the netting set mature before one year, over the time period of the longest-maturity contract in the netting set where the weights are the proportion that an individual expected exposure represents the entire time interval.
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.
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.
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).
Fraud risk	The risk of deliberate abuse of procedures, systems, assets, products and/or services by one or more persons who intend to deceitfully or unlawfully benefit themselves or others. It excludes: fraud activities which are part of Information Security Risk, i.e., intentional damage to information systems and theft of information.

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.
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.
GMRA (General Master Repurchase Agreement)	Standardised contract used when entering into (reverse) repo-like transactions.
Health risks	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.
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.
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.
Information risk	The risk of ineffective lifecycle management of information and related technology used by an organisation ranging from non-delivery of business and regulatory requirements, increasing cost and IT complexity, to business operations compromised by unstable or unavailable IT services.
Information security risk	The risks arising from loss, misuse, unauthorised disclosure or modification, inaccessibility, inaccuracy and damage of information. It concerns all forms of information (spoken, written, printed, electronic or any other medium) and their processing and handling, regardless of whether they involve people and technology or relationships with trading partners, clients and third parties.
(Bilateral) Initial margin	The collateral exchanged between counterparties to OTC derivative contracts to cover current and potential future exposure in the time interval between the last exchange of variation margin before the default of a counterparty and the liquidation of positions or hedging of market risk following the default.
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.
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.
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.
Life insurance risks	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.
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).
Model risk	The potential loss an institution may incur as a consequence of decisions that could be principally based on the output of models, due to errors in the development, implementation or use of these models (Article 3, paragraph 1, number 11 of CRD IV).
Moratorium	A type of forbearance measure which includes a temporary principal and/or interest payment holiday.
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.
Non-life insurance risks	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.
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.

Personal and physical (security) risk	The risk of adverse consequences arising from damage to physical assets and from acts inconsistent with employment, health or safety laws or agreements, from personal injury claims, or from diversity/discrimination events.
PD (Probability of Default)	The probability that an obligor will default within a one-year horizon.
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).
Pre-settlement risk	The risk that the counterparty will default prior to maturity of the transaction. This default would result in the premature termination of the contract and potentially generate loss.
Process risk	The risk of adverse consequences caused by insufficient, badly designed or poorly implemented processes and processing controls and unintentional human errors or omissions during normal (transaction) processing.
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.
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.
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.
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) or TREA (Total Risk Exposure Amount)	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.
Settlement risk	The risk of not receiving the asset due, after already having paid for this asset (e.g., not receiving GBP when having paid EUR in a foreign exchange deal).
SFT (Securities Financing Transactions)	Financial transactions where securities are used to borrow or lend cash or other securities. These transactions include repurchase agreements (repos), reverse repurchase agreements (reverse repos), securities lending, and securities borrowing.
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.
STS securitisations	Simple, Transparent and Standardised securitisations.
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.
Third-party and outsourcing risk	The risk stemming from problems regarding continuity, integrity and/or quality of the activities outsourced to third parties (whether or not within the group), partnered with third parties or from the equipment or staff made available by these third parties.
(Core) Tier-1 ratio	$\frac{Tier\ 1\ capital}{Total\ weighted\ risks}$ 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.
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.
Variation margin	The collateral exchanged between counterparties, which covers changes in the market value of the portfolio of trades. Variation margin payments are usually made daily and are typically in cash.