KBC Bank Ireland

Pillar 3 Disclosure Document 2014

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1. Background and Introduction

KBC Bank Ireland plc (KBCI) is a wholly owned subsidiary of KBC Bank NV, one of Europe's largest banks. KBCI has been operating in Ireland for over 40 years and became a member of the KBC group in 1978.

KBCI prepares consolidated financial statements under International Financial Reporting Standards (IFRS). KBCI is a credit institution authorised by the Central Bank of Ireland (CBI) and is required to file regulatory returns with the CBI for the purpose of assessing, inter alia, its capital adequacy, balance sheet and liquidity position. All subsidiaries are consolidated for both financial statement presentation and regulatory reporting.

KBCI is required to comply with the Capital Requirements Directive EU 2013/36/EU and the Capital Requirement Regulation EU No 575/2013, hereafter collectively referred to as 'CRD IV', which came into force on 1 January 2014. CRD IV is the legal basis for implementing the Basel III framework.

The framework is based on three pillars;

Pillar 1 ('minimum capital requirements') specifies the minimum capital requirement a bank must hold for credit risk, market risk and operational risk.

Pillar 2 ('supervisory review') requires banks to estimate their own capital through an Internal Capital Adequacy Assessment Process (ICAAP). The ICAAP is subject to supervisory review from the Central Bank of Ireland, through the Supervisory Review and Evaluation Process (SREP). Pillar 2 also includes liquidity risk, business risk, interest rate risk, pension risk and concentration risk.

Pillar 3 ('market discipline') requires banks to disclose a suite of qualitative and quantitative capital and risk management information.

This report represents the Pillar 3 disclosures for KBCI as at 31 December 2014 as required under CRD IV and the Basel III framework.
KBCI is deemed to be a material subsidiary of KBC Bank NV and as such is required to comply with the Pillar 3 disclosure requirements.

This report is produced on an annual basis to coincide with the annual statutory accounts with information as at 31 December. Comparative data has been included where relevant.

KBCI management are satisfied with the adequacy of risk management arrangements in place within KBCI regarding the profile and strategy of the Bank.

2. Highlights and Disclosure Policy 2014

2.1 Macro Economic factors

While accelerating exports remained the main driver of growth, the recovery in the Irish economy showed clear signs of strengthening and broadening as 2014 unfolded. Overall GDP growth was probably in the region of 5% in 2014 and the year saw Ireland successfully emerge from its EU/IMF programme against a backdrop of consistently improving financial market sentiment. Encouragingly, numbers of people at work are growing steadily and a healthier jobs market and growing confidence means household spending and investment are now beginning to improve after many years of weakness. These improvements feed into a clearly stronger operating environment for KBC Bank Ireland plc (the 'Bank').

The Bank reported an operating profit of €107 million before tax and impairment costs and a loss of €91 million after tax and impairment costs for 2014 (FY 2013 loss of €864 million). Overall, total loan impairment costs of €198 million were reported for the Bank for 2014. The Bank's capital base has remained solid with a Tier 1 Capital Ratio of 12.7% as at 31 December 2014.

2.2 KBCI 2014 Highlights

Embedding Risk Management - The Risk Management function has continued to develop in 2014. More detail on the structure of the Risk Management function can be found in the risk management governance section of this report.

Lending Portfolio - The overall outstanding portfolio has reduced by €361m (2.4%) in 2014. This includes repayments from performing customers in addition to a strategic reduction in the corporate portfolio. The Retail portfolio includes growth of new business as well as a level of reduction due to MARS resolution of the distressed portfolio.

Impaired – Outstanding Impaired loans (PD 10-12) increased €661m (9%) in 2014. Retail impaired loans grew €579m (11%) primarily due to the continued roll out of the revised definition of default applied in December 2013 in response to the European Banking Authority (EBA) Technical Standard. Defaults in the corporate portfolio increased by €82m (4%).

Provisions - The provision charge (Specific and IBNR) for 2014 is €198m (excluding Reserved Interest) with €92m and €106m arising from the Retail and Corporate portfolios respectively. Total stock of provisions as at 31 December 2014 is €2,909m (€3,330m including reserved interest). This represents an increase on 2013 of 7%.

Forbearance - Forbearance continues to be offered to customers facing difficult circumstances in the current economic climate. KBCI offers forbearance to customers in order to alleviate financial distress and provide support in returning customers to sustainable solutions on their debt. KBCI has developed and commenced implementation of longer term resolution options for Retail mortgage customers in arrears as part of the Mortgage Arrears Resolution Strategy (MARS).

Funding - The Bank continued to experience strong growth in its retail funding base with total retail deposits at the end of 2014 of approximately €3.4 billion (2013: €2.8 billion). This was principally generated in personal deposits, with competitive interest rates and the introduction of a range of new products for Irish customers.

Liquidity – As at 31 December 2014 the NSFR was 58.46% and the LCR was 59.3%

2.3 Disclosure Policy

KBCI aims to be as open as possible when communicating to the market about its exposure to risk. Risk Management information is therefore included in this separate publication to the annual financial statements.

The Capital Requirement Directive (CRD) came into force on 1 January 2007 and has since been amended a number of times (CRD II and CRD III). The latest amendments came in the form of an updated CRD which was signed into Irish law on 31 March 2014 and a new Capital Requirement Regulation (CRR) which is directly applicable to banks across the EU. The updated CRD and new CRR are collectively known as 'CRD IV'. The aim of CRD IV is to strengthen and provide the regulation of the banking system and provides the legal basis for the implementation of the Basel III framework in the EU. CRD IV came into force on 1 January 2014 and will be phased in over a transition period to 1 January 2019,

This report is based on Basel III's third pillar and the resulting disclosure requirements. Disclosures required under Pillar 3 are only incorporated if they are deemed relevant and material for KBCI and if their omission or misstatement would change or influence the assessment or decision of a user relying on the information. Information regarded as proprietary or confidential has been excluded from this document given the potential impact on KBCI's competitiveness and counterparty relationships.

A comparison with the previous year is provided unless this is not possible due to differences in scope and/or methodology.

The information provided in this document is not required to be subject to an external audit. The disclosures have been checked for consistency with other existing risk reports and were subjected to a final screening by authorised risk management representatives to ensure quality.

Information disclosed under IFRS 7, which has been audited, is presented in KBCI's annual report. The information presented in this report coincides with the annual report where possible, but a one to one comparison cannot always be made due to the different risk concepts under IFRS and Basel III. To avoid compromising the readability of this report, relevant parts of the annual report have been reproduced within this report.

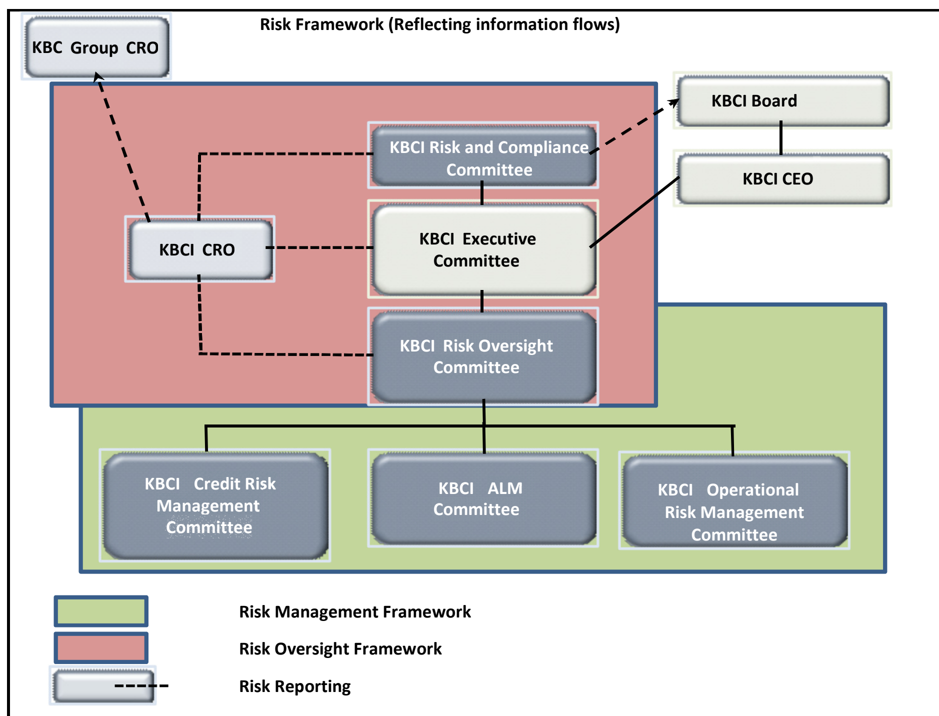
The KBCI Pillar 3 disclosure reports are available on the KBCI website www.kbc.ie. These disclosures do not constitute any form of a Financial Statement and should not be relied upon exclusively in making a judgement on KBCI.

3. Risk Management Governance

The KBCI Board is ultimately responsible for the functioning of an effective Risk Management Framework in KBCI.

KBCI has implemented a clearly defined risk governance structure, captured in a Risk Management Framework, in order to ensure that its risk management is as robust as possible. An element of this structure is the roles and responsibilities that each governance forum has within the context of the Internal Capital Adequacy Assessment Process (ICAAP). The following section sets out these respective roles and responsibilities.

Figure 1 Risk Governance Framework



3.1 Board of Directors

The Board of Directors is the ultimate decision maker and arbiter with regard to matters affecting KBCI's strategy, organisation and internal control.

The Board is responsible for the governance and effective working of KBCI's Risk Management Framework and the integration of capital planning and capital management into the Bank's overall risk management culture and framework. The Board is also responsible for ensuring that the capital plan and management policies and procedures are communicated and implemented across KBCI and are supported by sufficient authority and resources.

The Board has established a Risk and Compliance Committee as a sub-committee to assist it by providing advice in relation to Risk. It is the Board's role to determine risk appetite and set strategy.

3.2 Risk and Compliance Committee

The Risk and Compliance Committee oversees the Risk Management department and the effective working of the Risk Management Framework within KBCI. The Risk and Compliance Committee is required to review the ICAAP, the ICAAP Policy and Risk Frameworks at least annually or more frequently, if required.

The Risk & Compliance Committee met 5 times during 2014.

The papers for the Risk & Compliance Committee meetings and the minutes of the Risk & Compliance Committee meetings are circulated to all members of the Board of Directors. The Chairman of the Risk & Compliance Committee provides a report to the Board of Directors on the main issues discussed at the Risk & Compliance Committee. The Chief Risk Officer is a member of the Board of Directors and an attendee of the Risk and Compliance Committee.

3.3 Executive Committee

The KBC Group approach to risk management is to establish and operate three lines of defence against the risks that could adversely affect the organisation. KBCI have adopted this structure as it reflects best practice in the market and delivers a comprehensive Risk Management Framework with clear roles and responsibilities in terms of the management of risk.

KBCI management act as the first line of defence and are supported in their role by the Chief Risk Officer (CRO) and the Risk Management department, who together act as the second line of defence. Finally, Internal Audit act as the third line of defence.

It is KBC Group practice that the Executive Committee is the common point at which the three lines of defence meet and are managed. This means that the Executive Committee and the Executive Directors maintain a holistic view of the management of KBCI's risks. The Executive Committee advises the Risk and Compliance Committee on risk matters and can escalate issues to the Risk and Compliance Committee as appropriate. The CRO, who is a member of the Executive Committee, acts as a liaison bridge between the Risk and Compliance Committee, the Executive Committee and the Risk Oversight Committee and its sub-committees to ensure that a clear and comprehensive channel of communication is maintained at all times.

3.4 KBCI Management

KBCI’s management are the first line of defence in the management of the risks faced by KBCI and are responsible for the implementation of the Risk Management Framework. This responsibility has been delegated by the Board.

Furthermore, management have the primary responsibility for the operational implementation of risk management and are involved at every stage of the process. Through their day to day involvement, including the monitoring and management of the evolution of KBCI’s risk profile for each material risk type in a timely manner, management is positioned to propose to the Board appropriate amendments to key policies and risk limits to ensure that risk appetite and strategy is maintained.

3.5 The Chief Risk Officer and the Risk Management Department

The CRO, who is a member of the Board and an attendee of the Risk and Compliance Committee, is responsible for the proper functioning of the Risk Management Framework and is supported by the Risk Management department. The Risk Management department, with the Risk Oversight Committee and its subcommittees, form the second line of defence in the management of KBCI’s risks.

3.6 Risk Oversight Committee and its Subcommittees

The Risk Oversight Committee assists the Executive Committee, the Risk and Compliance Committee and the Board in its consideration of the KBCI ICAAP and the Risk Management Framework; an appropriate programme of stress testing activities; the appropriate approach for calculating Pillar I regulatory capital and Pillar II economic capital (Ecap); updates to KBCI’s risk appetite; the models used by KBCI in the measurement and management of risk; the reporting of the risk profile of KBCI; the use of risk mitigation techniques; the reporting of risk related items by subcommittees; Pillar 3 disclosures and risk policies and other risk related documents.

The Risk Oversight Committee has a number of subcommittees (specifically the Credit Risk Management, the Operational Risk Management and the Asset and Liabilities Management Risk Management Committees) to assist it in the management of specific material risks that KBCI faces,

e.g. credit risk is managed by the Credit Risk Management Committee. Each subcommittee has the authority to decide on all topics within its remit.

The Risk Oversight Committee therefore acts as the primary escalation point for any issues arising from subcommittees. The Risk Oversight Committee has the authority to decide on all topics within its remit and all issues escalated to it by the subcommittees. If the committee feels unable to decide on or respond to a specific matter or the financial impact of an issue or decision is outside of its decision authority, the Risk Oversight Committee will escalate the issue to the Executive Committee, or the CRO can escalate the issue straight to the Risk and Compliance Committee as deemed appropriate.

3.7 The Audit Committee

Internal Audit is the third line of defence in the management of KBCI's risks.

The Audit Committee is an independent control function that monitors internal audits of business processes, including risk management, on a periodic basis in accordance with a risk based planning methodology and audit approach. The Audit Committee is a sub-committee of the Board. It reports directly to the Board of Directors and is chaired by an independent non-executive member of the Board.

3.8 Governance surrounding Remuneration and Risk

The objective of KBCI's Remuneration Policy is to increase the transparency in remuneration matters, to support the business goals of the bank by efficient remuneration structures and to create common basic values and guidelines for remuneration and benefits to align the objectives of management and staff with those of the KBC Bank Ireland plc (KBCI) Board, it's parent, KBC Group, and other relevant stakeholders and regulators. It is KBCI's policy to adhere to the high level principles on remuneration and policies relating thereto as set out by KBC Group, to the requirements of the CBI for appropriate remuneration practices that assess and manage risk through remuneration and the EBA guidelines.

The governance of the KBCI Remuneration Policy involves the design, implementation and the ongoing review of remuneration practices within KBC Bank Ireland plc. The main Remuneration Governance Bodies are:

Within KBCI	The Board of Directors (on the basis of advice from KBC Group) The KBCI Remuneration Committee
Within KBC Group	The Supervisory Board of the KBC Group, The Remuneration Committee of the KBC Group and The KBC Group Executive Committee.

Risk-takers are defined as employees whose professional activities have a material impact on the risk profile of the company.

The variable compensation of controlling functions (Audit, Compliance, Risk and Finance) is limited and cannot be dependent on the financial results of the underlying activity being controlled.

- The Remuneration policy outlines remuneration guidelines for all staff, including ratios between remuneration components (base and variable), floors, thresholds and caps on compensation, individual performance-based compensation, incidents when remuneration is risk-adjusted and standards for control and support functions.

A mandatory component in all remuneration schemes is individual performance-based compensation, based on a yearly performance appraisal instrument and taking non-financial criteria into account. Maximum and minimum ratios between remuneration components have been put in place for staff and KBCI Executive Board members. The ratio between variable and fixed remuneration may be no more than 0.5 to 1 for all divisions. In cases where the variable remuneration does not exceed 50,000 EUR, a maximum ratio of 1 to 1 shall be respected.

It also includes guidelines on deferral of result-based variable compensation (currently applicable to KBCI Executive Board members) paid out including application of claw back and malus where applicable.

Figure 2 Remuneration of Persons in management positions

Remuneration of persons in management positions	2013	2014
Number of persons receiving remuneration	6	6
	€	€
Fixed remuneration*	1,454,206	1,540,513
Total performance based remuneration awarded (upfront & deferred)		
- Of which cash	301,707	271,020
- Of which phantom stock	381,176	184,321
Payment related to new employment contracts	-	-

*For loss of office please see Financial Statements.

Figure 3 Remuneration of Persons in management positions - Deferred

Remuneration of persons in management positions	2013	2014
	€	€
Deferred from previous years and paid adjusted for performance	173,588	183,232
Deferred from previous years not yet entitled	169,627	213,869

No individual has received remuneration greater than €1m during 2014, excluding once off loss of office payments. Refer to Financial Statement for details of loss of office.

Directorships held by members of the management body

Figure 4 Directorships held by Management Body

Member of Management Body	Number of directorships (as defined in SI No 158 of 2014) at 31 December 2014
Luc Gijsens (Chairman)	1 executive directorship
Wim Verbraeken (CEO)	1 executive directorship and 2 non-executive directorships
Gary Britton	4 non-executive directorships
Dara Deering	1 executive directorship and 1 non-executive directorship
Jan Gysels	1 non-executive directorship
John Malone	4 non-executive directorships
Cameron Marr	1 executive directorship
Des McCarthy	1 executive directorship and 2 non-executive directorships
Robert Power	4 non-executive directorships
Christine Van Rijsseghem	1 executive directorship

The recruitment policy for the selection of members of the management body and their actual knowledge, skills and expertise

KBCI has established a Nomination Committee as a sub-committee of the Board of Directors of KBC Bank Ireland which assists the Board by providing advice to the Board in relation to the identifying and recommending for approval candidates to fill vacancies on the Board. The recruitment policy for the selection of members of the management body are contained in the Pre-Appointment Policy and the Board of Directors Charter and in summary, KBCI aims to ensure that there is an appropriate mix of skills and experience on the Board. The Board will take all aspects of diversity into consideration when considering nomination of new members to the Board, including but not limited to; Experience; Skills; Background; Age; Gender and Nationality.

Details of the knowledge, skills and expertise of each of the members of the management body are set out in the Annual Report.

The policy on diversity with regard to selection of members of the management body

KBCI adopted a policy on diversity with regard to the selection of members of the Board at the end of 2014. The objective of KBCI's policy in respect of diversity is to ensure that there is sufficient diversity in the experiences and backgrounds of Board members with the ultimate objective of ensuring a balanced and challenging Board. KBCI recognises the benefits of having a diverse Board and believes that diversity in Board members contributes to the ultimate effectiveness of the Board.

In accordance with the Capital Requirements Directive, the Nomination Committee will decide on a target for the representation of the underrepresented gender in the Board and prepare a policy on how to increase the number of the underrepresented gender in the Board to meet that target.
KBCI will look to ensure that the best candidate is selected, in the context of the Board as a whole. The Nomination Committee has not met since the introduction of KBCI's policy in respect of diversity at the end of 2014 and has yet to decide on a target for the representation of the underrepresented gender in the Board.

As at 31 December 2014, there were 10 members of the Board of Directors, two of whom are female and eight of whom are male.

4. Capital Adequacy

Capital adequacy measures the financial strength of an institution. It relates to the level of capital a financial institution needs to implement its business plans, taking into consideration the risks that threaten the realisation of such plans.

4.1 Risk Appetite

KBCI uses ICAAP to ensure it has sufficient capital to cover the current and future risks inherent in its business and future intentions. The objectives of KBCI's ICAAP policy are to adequately identify, measure, aggregate and monitor risks; to use sound risk management systems and continue to develop them further; and to maintain, on an ongoing basis, adequate internal capital to cover the significant risks to which KBCI is exposed, in accordance with KBCI's risk appetite, as determined by the Board.

KBCI's Risk Appetite can be defined as the level of risk KBCI is able and willing to accept in the pursuit of its strategic objectives. This is set and reviewed by the KBCI Board. KBCI attempts, where possible, to define qualitative or quantitative indicators for every risk appetite objective. Typical strategic objectives include not only investor returns, but also stability of earnings, the containment of credit and operational losses, capital adequacy, reputation and regulatory compliance. The relevant risk committees monitor and review, on an on-going basis, the Bank's performance against tolerances set by the Board.

It is KBCI's policy to manage the material risks it faces in its business activities. KBCI's management are the first line of defence in the management of the risks faced by KBCI and are responsible for the implementation of the KBCI Risk Management Framework.

To assess the adequacy of capital held by KBCI in relation to the risks identified and managed under the Risk Management Framework, KBCI uses stress testing to assess the impact on its future earnings and capital requirements under different macro-economic and business conditions. Stress testing enables senior management to be prepared for different economic conditions, and circumstances for which KBCI is most vulnerable. KBCI periodically independently assess its stress testing capability to ensure that the stress testing methodology is comparable with peers and aligned to best practice.

4.2 Policy & Processes

KBCI's capital policy is to maintain a capital amount at all times meeting or in excess of its minimum capital requirement. The capital requirement is measured on a regulatory capital basis. KBCI's minimum capital requirement is that it maintains the minimum Tier 1 ratio as required by the Central Bank of Ireland.

Pillar 1 regulatory capital is calculated using appropriate risk models. The scope of pillar 1 regulatory capital covers credit risk, operational risk and market risk[1]. In calculating the capital requirement for Credit Risk, KBCI employ the appropriate models.

RWAs represent KBCI's assets (both on and off-balance sheet) weighted according to risk. RWAs are calculated using the Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD) for each counterparty adjusted for a maturity factor. RWAs are used in determining the capital requirement of KBCI.

Pillar 2 Ecap takes into account all material risks, as defined in the ICAAP Policy, that KBCI may face. KBCI uses Ecap in determining the adequacy of each material risk's capital requirement. KBCI's calculation of Ecap is performed using appropriate models that form part of the KBC Group Ecap methodology, which is determined by KBCI to be appropriate for use in the Irish market. The Ecap results are reported to the KBCI Risk Oversight Committee, the Risk and Compliance Committee and the Board on a quarterly basis.

KBCI is a significant banking subsidiary of KBC Group for Capital Adequacy purposes. Capital Adequacy limits and targets are defined as part of the Risk Appetite. The Risk Appetite is approved by KBCI Board and the capital targets are required to be approved by KBC Group Executive Committee.

4.3 Regulatory Capital

Under Article 92 of the CRR banks are required to hold minimum capital levels as follows:

- A Common Equity Tier 1 capital ratio of 4.5%;
- A Tier 1 capital ratio of 6%;
- A total capital ratio of 8%

In addition to the above KBCI, in agreement with the CBI, must maintain a Tier 1 capital ratio of at least 10.5%. The additional requirement over and above the minimum prescribed by the CRR is to cover the bank against Pillar 2 risks, such as Asset and Liability management risk (ALM), business risk and concentration risk, not covered under the Pillar 1 framework.

Risk Weighted Assets (RWAs) are calculated using internal models in relation to the IRB processes. The parameters for RWA are outlined in section 4.2 above.

Regulatory Capital for KBCI is displayed in the table below. Tier 1 ratio has at all times been above the minimum of 10.5% as set by the CBI and is in line with the KBCI risk appetite.

[1] KBCI does not engage in proprietary trading and as such does not view Market Risk as material.

Figure 5 Composition of Regulatory Own Funds

Composition of Regulatory own funds	Note	2013 Basel II €m	2014 Basel III €m
Tier 1 capital			
Paid up capital		1,994	2,124
Share premium		27	27
Previous year retained earnings		(494)	(1,357)
Loss for the year		(864)	(91)
Accumulated other comprehensive income		(39)	(91)
Regulatory adjustments and deductions			
Adjustments due to prudential filters - Cash flow hedge reserve		7	19
Intangible assets		(14)	(32)
Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities		N/A	(76)
Other transitional adjustments to CET1		N/A	98
Common equity Tier 1 capital		**617**	**622**
Additional tier 1 instrument		280	280
Total tier 1 capital		**897**	**902**
IRB provision excess	1	41	37
Tier 2 capital		**41**	**37**
Total own funds		**938**	**939**
Total risk weighted assets		**7,333**	**7,092**
Common equity tier 1 capital ratio		**8.4%**	**8.8%**
Tier 1 capital ratio (%)		**12.2%**	**12.7%**
Total Capital Ratio		**12.8%**	**13.2%**

Note:
1. IRB provision excess held as Tier 2 is capped at lower of provision excess of €286m or 0.6% of credit RWA, €37m

For further information on the transitional own funds disclosure see appendix 1.
Aa reconciliation of regulatory own funds to equity in the Financial Statements is contained in appendix 2.

Original Own Funds

Original Own Funds is comprised of Common Equity Tier I and Additional Tier I capital.

Common Equity Tier 1

Ordinary Shareholders equity is comprised of Issued Ordinary Share Capital, Share Premium in respect of the Issued Ordinary Share Capital, a Capital Conversion Reserve Fund and Retained Earnings.

The Capital Conversion Reserve is an undistributable reserve which arose on the conversion of IR£ share capital to € share capital.

Additional Tier I

KBCI has entered into bi-lateral loan agreements with KBC Bank NV which qualify as Tier I capital.

- The loan facilities are deeply subordinated and are perpetual. The agreement does not provide KBC Bank NV with a right to call for early repayment;
- The loan cannot be repaid without CBI approval, and cannot be repaid prior to 5 years from drawdown date unless it is replaced by regulatory capital which is of equal or higher quality.
- Interest payments are discretionary (cancellable on a non-cumulative basis) and payable from distributable reserves of KBCI only;
- The loan facilities contain a loss absorbency feature whereby at a specified capital ratio trigger, the principal amount of the loan would be converted to ordinary shares in KBCI at par.

See table at appendix 3 for table on Capital instruments main features.

The table below summarises the RWAs for KBCI with the minimum capital requirements as at 31 December 2014.

Figure 6 Exposures, RWA and minimum capital requirements

Capital Requirement		Note	2013 Basel II EAD €m	2013 Basel II Capital Required €m	2013 Basel II RWA Equivalent €m	2014 Basel III EAD €m	2014 Basel III Capital Required €m	2014 Basel III RWA Equivalent €m
Credit risk	**IRB advanced**							
	Retail		12,219	524	4,986	12,191	500	4,758
	IRB foundation							
	Central governments and central banks		798	38	361	1,104	37	353
	Institutions	(1)	4,991	17	164	4,937	14	275
	Corporates		3,244	130	1,235	2,846	72	687
	IRB other							
	Non-credit obligation assets		70	7	70	89	9	89
	Standardised							
	Retail		21	2	16	17	1	11
	Equity		-	-	-	2	0.2	2
	Other	(2)	-	-	-	-	-	453
			21,343	**717**	**6,833**	**21,186**	**633**	**6,628**
Market risk	Foreign exchange position risk management		**0.2**	**0.0**	**0.2**	**0.2**	**0.0**	**0.2**
Operational risk	Standardised			**52**	**499**		**46**	**436**
Other RWA requirements								
	CVA		-	-	-	**-**	**1**	**6**
	RWA for deferred tax assets that rely on future profitability and arise from temporary differences		-	-	-	**-**	**2**	**21**
Total Risk			**21,343**	**770**	**7,333**	**21,186**	**682**	**7,092**

Note:
(1) EAD includes repo exposure
(2) KBCI is required to hold the higher of IRB or standardised approach for it's real estate book leading to an add on of €453m RWA
(3) EAD includes on and off balance sheet and derivative exposure where applicable and is after credit risk mitigation
(4) Under the IRB approach KBCI only has retail exposures secured by immovable property which attract a correlation factor of 0.15

The table below shows credit risk exposure per PD Band in terms of EAD, RWA and exposure weighted average risk weight as at 31st December 2014. Only lending exposure subject to the IRB approach is captured in this table, (non credit obligation assets are not included). The table shows exposure before the application of guarantees. This means that there is no shift in asset class due to PD substitution. The RWA for the exposure, however, is presented after all collateral has been applied. Exposure includes on and off balance sheet exposures, derivatives and Repurchase Agreement (‘Repo’) exposures.

Figure 7 Exposures, RWA and Weighted Average Risk Weight by PD band before application of guarantees 31 December 2014

PD Band	EAD in €ms RWA in €ms Average in %	IRB Foundation			IRB Advanced	Total
		Central Governments and Central Banks	Institutions	Corporates	Retail	
PD 1	EAD	1,017	4,762		25	5,804
	RWA	276	203		1	480
	Weighted Average Risk Weight	27%	4%		2%	8%
PD 2	EAD		53	19	64	137
	RWA		6	10	3	19
	Weighted Average Risk Weight		12%	52%	4%	14%
PD 3	EAD	41		166	121	329
	RWA	32		100	8	139
	Weighted Average Risk Weight	77%		60%	7%	42%
PD 4	EAD	36	3	123	266	428
	RWA	39	4	86	29	158
	Weighted Average Risk Weight	108%	131%	70%	11%	37%
PD 5	EAD			201	1,040	1,241
	RWA			167	232	399
	Weighted Average Risk Weight			83%	22%	32%
PD 6	EAD			93	2,312	2,405
	RWA			90	863	953
	Weighted Average Risk Weight			97%	37%	40%
PD 7	EAD			61	1,397	1,459
	RWA			65	817	882
	Weighted Average Risk Weight			106%	58%	60%
PD 8	EAD			57	429	486
	RWA			80	377	458
	Weighted Average Risk Weight			142%	88%	94%
PD 9	EAD			23	686	709
	RWA			41	718	759
	Weighted Average Risk Weight			175%	105%	107%
	Total PD 1-9 EAD	1,094	4,819	744	6,341	12,998
	Total PD 1-9 RWA	347	213	639	3,048	4,247
	Total PD 1-9 Weighted Average Risk Weight	32%	4%	86%	48%	33%
PD 10-12	EAD			2,230	5,851	8,080
	RWA			-	1,710	1,710
	Weighted Average Risk Weight			-	29%	21%
Total PD1-12						
	EAD	1,094	4,819	2,974	12,191	21,078
	RWA	347	213	639	4,758	5,957
	Weighted Average Risk Weight	32%	4%	21%	39%	28%

Note:

1. In reported Retail figures the €1,710m RWA in PD 10-12 arising from the difference between modelled weighted average LGD and the Best Estimate LGD is not included in the above table
2. There is €76m RWA not shown in the table above relating to impaired corporate exposures that after credit risk mitigation are rated by a counterparty in the institution exposure class
3. In Corporates there is €40m RWA related to PD model uncertainty and additional add ons not shown in above table
4. Figures above include drawn and undrawn commitments

The table below shows the outstanding amounts (EAD Pre CCF) and exposure value for undrawn commitments as at 31 December 2014. Exposures are before the application of guarantees. This means that there is no shift in asset class due to PD substitution.

Figure 8 Exposures on undrawn commitments by exposure class before application of guarantees 31 December 2014

PD Band	EAD in €ms RWA in €ms	IRB Foundation	IRB Advanced
		Corporates	Retail
PD 1	EAD Pre CCF		16
	EAD		3
PD 2	EAD Pre CCF		33
	EAD		6
PD 3	EAD Pre CCF	1	58
	EAD	1	11
PD 4	EAD Pre CCF	0	43
	EAD	0	8
PD 5	EAD Pre CCF	2	15
	EAD	2	3
PD 6	EAD Pre CCF	0	1
	EAD	0	0.3
PD 7	EAD Pre CCF	1	0.14
	EAD	1	0.03
PD 8	EAD Pre CCF	2	
	EAD	-	
PD 9	EAD Pre CCF		
	EAD		
PD 10-12	EAD Pre CCF	7	
	EAD	1	
	Total EAD Pre CCF	**14**	**166**
	Total EAD	**4**	**31**

The table below shows credit risk exposure per PD Band in terms of EAD, RWA and exposure weighted average risk weight as at 31st December 2013. Only lending exposure subject to the IRB approach is captured in this table, (non credit obligation assets are not included). The table shows exposure before the application of guarantees. This means that there is no shift in asset class due to PD substitution. The RWA for the exposure, however, is presented after all collateral has been applied. Exposure includes on and off balance sheet exposures, derivatives and Repo exposures.

Figure 9 Exposures, RWA and Weighted Average Risk Weight by PD band before application of guarantees 31 December 2013

PD Band	EAD in €ms RWA in €ms Average in %	IRB Foundation			IRB Advanced	Total
		Central Governments and Central Banks	Institutions	Corporates	Retail	
PD 1	EAD	292	4,780	13	8	5,093
	RWA	41	95	3	0	140
	Weighted Average Risk Weight	14%	2%	27%	0%	3%
PD 2	EAD	424	9	77	10	520
	RWA	248	3	27	0	278
	Weighted Average Risk Weight	59%	30%	35%	2%	53%
PD 3	EAD	43	0	222	169	434
	RWA	33	0	121	4	158
	Weighted Average Risk Weight	77%	88%	54%	2%	36%
PD 4	EAD	36	16	216	1,766	2,034
	RWA	39	9	111	202	362
	Weighted Average Risk Weight	108%	58%	51%	11%	18%
PD 5	EAD		19	191	2,361	2,570
	RWA		23	205	732	959
	Weighted Average Risk Weight		120%	107%	31%	37%
PD 6	EAD			104	904	1,008
	RWA			114	470	585
	Weighted Average Risk Weight			110%	52%	58%
PD 7	EAD			209	337	546
	RWA			269	280	549
	Weighted Average Risk Weight			129%	83%	101%
PD 8	EAD			98	117	215
	RWA			153	119	272
	Weighted Average Risk Weight			156%	102%	127%
PD 9	EAD			74	1,276	1,350
	RWA			139	1,456	1,596
	Weighted Average Risk Weight			189%	114%	118%
	Total PD 1-9 EAD	795	4,824	1,203	6,948	13,771
	Total PD 1-9 RWA	361	130	1,143	3,264	4,898
	Total PD 1-9 Weighted Average Risk Weight	45%	3%	95%	47%	36%
PD 10-12	EAD			2,210	5,272	7,482
	RWA			0	1,722	1,722
	Weighted Average Risk Weight			0	33%	23%
Total PD1-12						
	EAD	795	4,824	3,413	12,220	21,253
	RWA	361	130	1,143	4,986	6,620
	Weighted Average Risk Weight	45%	3%	33%	41%	31%

Note:

1. In reported Retail figures the €1,721m RWA in PD 10-12 arising from the difference between modelled weighted average LGD and the Best Estimate LGD is not included in the above table
2. There is €29m RWA not shown in the table above relating to impaired corporate exposures that after credit risk mitigation are rated by a counterparty in the institution exposure class
3. In Corporates there is €98m RWA related to PD model uncertainty and additional add ons not shown in above table
4. Figures above include drawn and undrawn commitments

The table below shows the outstanding amounts (EAD Pre CCF) and exposure value for undrawn commitments as at 31 December 2013. Exposures are before the application of guarantees. This means that there is no shift in asset class due to PD substitution.

Figure 10 Exposures on undrawn commitments by exposure class before application of guarantees 31 December 2014

PD Band	EAD in €ms RWA in €ms	IRB Foundation Corporates	IRB Advanced Retail
PD 1	EAD Pre CCF		1
	EAD		0
PD 2	EAD Pre CCF	4	7
	EAD	3	1
PD 3	EAD Pre CCF	1	14
	EAD	1	3
PD 4	EAD Pre CCF		20
	EAD		4
PD 5	EAD Pre CCF	4	3
	EAD	2	1
PD 6	EAD Pre CCF	1	1
	EAD	1	0.1
PD 7	EAD Pre CCF	0	0.11
	EAD	-	0.02
PD 8	EAD Pre CCF	2	
	EAD	-	
PD 9	EAD Pre CCF	0	
	EAD	0	
PD 10-12	EAD Pre CCF	11	
	EAD	6	
	Total EAD Pre CCF	**19**	**46**
	Total EAD	**10**	**8**

The table below shows financial collateral and other eligible collateral and guarantees received.

Figure 11 Eligible collateral and guarantees

Eligible collateral	2013			2014		
IRB Foundation	Financial Collateral €ms	Real Estate Collateral €ms	Guaranteed €ms	Financial Collateral €ms	Real Estate Collateral €ms	Guaranteed €ms
Central Governments and Central Banks	-	10		-	9	0
Institutions	3,627	-		3,915	-	0
Corporates	35	546	182	15	384	157
Total	**3,662**	**556**	**182**	**3,930**	**394**	**157**

Economic Capital (Ecap)

The Ecap distribution as at 31 December 2014 for KBCI on a standalone basis is displayed in the table below.

Figure 12 ECAP

ECAP for the year ended 31 December

Economic Capital		
	2013	2014
	Capital Required	Capital Required
ECAP Per Risk Type	%	%
Credit Risk	75%	72%
Operational Risk	6%	6%
ALM Risk	13%	14%
Business Risk	6%	8%
Total ECAP	**100%**	**100%**

The Ecap represents the minimum amount of capital which has to be available in order to protect KBCI against economic insolvency under extreme circumstances.

KBCI's Pillar 2 capital requirement is based on standalone ECAP at a 99.9% confidence interval.

5. Credit Risk Management

5.1 Strategy and Processes

Credit risk is managed at both transactional and portfolio level. Managing credit risk at the transactional level means that there are sound procedures, processes and applications in place to identify and measure the risks before and after accepting individual exposures. Limits and delegations (based on parameters such as internal risk class, type of counterparty) are set to determine the maximum credit exposure allowed and the acceptance levels for decision making.

Managing the level of risk at portfolio level encompasses *inter alia* periodic measuring of, and reporting on, risk embedded in the consolidated loan and investment portfolios, monitoring limits, conducting stress tests under different scenarios, taking risk mitigating measures and optimising the overall credit risk profile. On a monthly basis, portfolio reports are presented to the Credit Risk Management Committee. An analysis of the credit profile of KBCI is presented to the Board.

5.2 Scope of Credit Risk Disclosures

The scope of the disclosures for credit risk is based on the implementation of Basel II at KBCI as outlined in Section 5.5 below.

5.3 Exposure to Credit Risk

Credit Risk is the most material risk facing KBCI given the profile of its book. The table below shows the distribution of credit risk on loans and advances to customers across the different business units

of KBCI based on the approach taken in calculating minimum capital requirements. This table shows the outstanding loan balance at 31 December 2014.

Figure 13 Credit Risk Exposures

Credit Risk Exposures €m			
	31-12-2013 Outstanding Loan Balance	31-12-2014 Outstanding Loan Balance	Δ 2014 vs 2013 €m
Standardised	33	21	-12
IRB Foundation ^	3,121	2,814	-308
IRB Advanced	12,125	12,084	-41
Total	**15,280**	**14,919**	**-361**

^ Unlike figure 6, the IRB Foundation category in the table above excludes the Central Governments, Central Banks, Institutions and Counterparty exposure categories. Credit risk exposures are presented in terms of outstanding balance, whereas in figure 6 Exposure At Default figures are used.

Figure 14 Retail Portfolio

Retail Portfolio - Additional Information			
Retail Book	**31-12-2013 €m**	**31-12-2014 €m**	**Δ 2014 vs 2013 €m**
Outstanding Balance	12,125	12,084	-41
Undrawn Amount	45	164	119
Total	**12,170**	**12,248**	**78**
PD Profile	**31-12-2013 €m**	**31-12-2014 €m**	**Δ 2014 vs 2013 €m**
PD 1-4	1,964	569	-1,395
PD 5-7	3,560	4,723	1,163
PD 8-9	1,374	1,106	-268
PD 10-12	5,272	5,851	579
Total	**12,170**	**12,248**	**78**
Weighted Average LGD	**31-12-2013 %**	**31-12-2014 %**	**Δ 2014 vs 2013 €m**
WALGD	**25.19%**	**25.19%**	**0.00%**
Peforming (PD1-9)	19.14%	**16.01%**	-3.12%
Non Performing (PD 10-12)	33.04%	**34.97%**	1.93%

The evolution of the PD bands between 2013 and 2014 is due to the recalibration of the PD model and not a change in the overall risk profile of the underlying portfolio.

The maturity profile of the credit portfolio as at 31 December 2014 is shown in the table below.

Figure 15 Residual Maturity for KBCI Outstanding Exposures

Residual Maturity for KBCI Outstanding Exposures €m				
Maturity Bands 31-12-2013	**Corporate/SME**	**Real Estate**	**Retail**	**Total**
< 1 year	271	1,067	42	1,380
>= 1 to <5 years	252	277	266	795
>=5 to <10 years	304	118	1,113	1,535
>=10 years	654	212	10,704	11,570
Total	**1,481**	**1,674**	**12,125**	**15,280**
Maturity Bands 31-12-2014	**Corporate/SME**	**Real Estate**	**Retail**	**Total**
< 1 year	279	941	44	1,264
>= 1 to <5 years	273	254	318	845
>=5 to <10 years	273	141	1,254	1,669
>=10 years	522	152	10,467	11,141
Total	**1,348**	**1,487**	**12,084**	**14,919**

5.4 Impaired & Past Due Not Impaired

For the definition of Impaired, please refer to the audited financial statements.
Loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. Loans that are not impaired and in arrears but not 90 days past due are categorised as "Past Due but Not Impaired".

The two tables below show the profile of the book in relation to Impaired, Past Due but not Impaired and neither Past Due nor Impaired as at 31 December 2014. The first table shows the split based on industry class while the second shows the profile based on geographical breakdown.

Figure 16 Past Due and Impaired Outstanding Exposures by Industry

Past Due and Impaired Outstanding Exposures by Industry €m				
Industry Class 31-12-2013	**Neither Past due Nor Impaired**	**Past Due but Not Impaired**	**Impaired**	**Total**
Corporate	1,112	10	2,032	3,155
Retail	6,494	359	5,272	12,125
Total	**7,606**	**369**	**7,304**	**15,280**
Industry Class 31-12-2014	**Neither Past due Nor Impaired**	**Past Due but Not Impaired**	**Impaired**	**Total**
Corporate	714	7	2,114	2,835
Retail	6,166	68	5,851	12,084
Total	**6,879**	**75**	**7,965**	**14,919**

Figure 17 Past Due and Impaired Outstanding Exposures by Geography

Past Due and Impaired Outstanding Exposures by Geography €m				
Geographic Breakdown 31-12-2013	**Neither Past due Nor Impaired**	**Past Due but Not Impaired**	**Impaired**	**Total**
Ireland	7,326	351	6,906	14,583
UK	260	18	300	578
Other	21	0	98	119
Total	**7,606**	**369**	**7,304**	**15,280**
Geographic Breakdown 31-12-2014	**Neither Past due Nor Impaired**	**Past Due but Not Impaired**	**Impaired**	**Total**
Ireland	6,693	72	7,516	14,280
UK	179	3	338	521
Other	7	0	111	118
Total	**6,879**	**75**	**7,965**	**14,919**

For credit granted to clients in PD bands 10, 11 and 12 (Impaired loans), the Bank records specific impairments allowances based on an estimate of the net present value of the recoverable amount. For credit granted to clients in PD bands 1 to 9, a collective impairment loss is taken on a 'portfolio basis' using a formula that takes account of the expected loss on the portfolio, adjusted by an emergence period to reflect the incurred but not reported impairment loss.

The credit impairment allowances of KBCI at 31 December 2014 based on industry class and geographical segment are included in the two tables below. The provision amounts reported are net of reserved interest (reduced by Reserved Interest).

Figure 18 Specific and Portfolio Provisions for Impairment of KBCI loans

Specific & Portfolio Provisions for Impairment of KBCI Loans €m					
Industry Class 31-12-2013	**Outstanding Exposure**	**Performing Outstanding Exposure**	**Portfolio Provisions**	**Impaired Outstanding Exposure**	**Specific Provision Balance***
Corporate	3,155	1,122	35	2,032	1,165
Retail	12,125	6,853	109	5,272	1,692
Total	**15,280**	**7,976**	**144**	**7,304**	**2,857**
Industry Class 31-12-2014	**Outstanding Exposure**	**Performing Outstanding Exposure**	**Portfolio Provisions**	**Impaired Outstanding Exposure**	**Specific Provision Balance***
Corporate	2,835	720	15	2,114	1,334
Retail	12,084	6,234	72	5,851	1,909
Total	**14,919**	**6,954**	**87**	**7,965**	**3,243**

* Specific Provisions are Gross of Reserved Interest (previously Net of Reserved Interest). 2013 Specific Provisions have been restated to align with 2014.

Figure 19 Specific and Portfolio Provisions for Impairment of KBCI Loans

Specific & Portfolio Provisions for Impairment of KBCI Loans €m					
Geographic Breakdown 31-12-2013	Outstanding Exposure	Performing Outstanding Exposure	Portfolio Provisions	Impaired Outstanding Exposure	Specific Provision Balance*
Ireland	14,583	7,677	133	6,906	2,734
UK	578	278	11	300	55
Other	119	21	0	98	68
Total	**15,280**	**7,976**	**144**	**7,304**	**2,857**
Geographic Breakdown 31-12-2014	Outstanding Exposure	Performing Outstanding Exposure	Portfolio Provisions	Impaired Outstanding Exposure	Specific Provision Balance*
Ireland	14,280	6,765	81	7,516	3,072
UK	521	183	6	338	87
Other	118	7	0	111	84
Total	**14,919**	**6,954**	**87**	**7,965**	**3,243**

* Specific Provisions are Gross of Reserved Interest (previously Net of Reserved Interest). 2013 Specific Provisions have been restated to align with 2014.

The movement in impairment provisions for 2014 is outlined in the table below.

Figure 20 Provisions Analysis

Provisions Analysis*				
Provisions 31-12-2013	Opening Balance	Charge	IFRS Unwind / Write Offs*	Closing Balance
Specific	1,806	1,109	-57	2,857
Portfolio	100	44	0	144
Total	**1,906**	**1,153**	**-58**	**3,001**
Provisions 31-12-2014	Opening Balance	Charge	IFRS Unwind / Write Offs	Closing Balance
Specific	2,857	397	-10	3,243
Portfolio	144	-57	0	87
Total	**3,001**	**340**	**-10**	**3,330**

*All provision figures are Gross of Reserved Interest (previously Net of Reserved Interest). All figures have been restated for previous years to align with 2014.

** FX movements and Settlements included in IFRS Unwind / Write Offs

5.5 Approaches to Credit Risk

The Capital Requirements Directive ("CRD") provides two approaches for the calculation of minimum regulatory capital requirements for credit risk:

1. The Standardised Approach; and
2. Internal Ratings Based Approach ("IRB Approach"), which can be sub divided into
   a. Foundation Internal Ratings Based Approach ("Foundation IRB Approach");
   b. Advanced Internal Ratings Based Approach ("Advanced IRB Approach");

KBCI has been granted permission by the CBI to apply the Advanced IRB approach to its retail mortgage portfolio and the Foundation IRB approach to its Banking and Treasury portfolios. KBCI uses PDs, LGDs and EADs in the calculation of Pillar I capital requirement for these portfolios.

Under the Standardised Approach, risk weightings for rated counterparties are regulatory-determined standardised risk weightings.

Banks operating under the IRB Advanced Approach are allowed to use their own internal estimates of certain risk parameters to calculate regulatory capital requirements for credit risk across different asset classes. These risk parameters are:

- Probability of default (PD),
- Loss given default (LGD)
- Exposure at default (EAD).

For non retail exposures, there are two IRB approaches. Under the Foundation IRB Approach, banks use their own estimate of PD, and regulatory estimates of LGD and EAD. Under the Advanced IRB

Approach, banks use their own estimates of all three risk components. For retail exposures, there is no Foundation approach so all three risk measure are internally estimated.

The Pillar I credit risk models are challenged and back-tested on a regular basis to assess their performance on KBCI's portfolios. All models are subject to an annual review and more frequent monitoring report. Annual reviews are then validated by the independent validation team. Annual reviews, validations of these reviews and monitoring reports are subject to approval by the Credit Risk Management Committee.

KBCI calculates its Pillar II Ecap for Credit risk using the outputs of the KBC Group Credit Portfolio Model (CPM). CPM is developed in accordance with the KBC Group Model Management Framework and is subject to the standard KBC Group modelling and validation processes.

5.6 Credit Risk Mitigation Techniques

KBCI's Credit Assessment is primarily based on an assessment of affordability and repayment capacity.

KBCI views its risk governance structure, including the Board, Risk and Compliance Committee, Risk Oversight Committee, Credit Risk Management Committee, and the responsibilities for credit risk management from Board level down to line management, as a significant mitigant of credit risk.

In addition to these governance bodies, the KBCI Credit Decision Authorities monitor credit risk at a transaction level for new and existing transactions and the KBCI New and Active Products committee monitors the credit risk involved in new products and processes, or in changes to existing products and processes.
A Credit Policy is in place outlining policies in relation to securing collateral (e.g. Property mortgage and guarantees), establishing credit reserves and risk exposures.

5.7 Internal Modelling

The credit risk models developed by KBCI include PD, LGD and EAD models, plus application and behavioural scorecards for specific portfolios (retail).

These models are used within the credit process for:
- defining the delegation level for credit approval (e.g. PD models);
- accepting credit transactions (e.g. application scorecards);
- setting limits;
- pricing credit transactions ;
- monitoring the risk of a (client) portfolio;
- calculating the internal Ecap;
- calculating the regulatory capital;

Probability of Default (PD)

Probability of Default (PD) is the likelihood that an obligor/facility will default on its obligations within a one-year time horizon, with default being defined in accordance with Basel II rules. The PD is calculated for each client for non-retail exposures and for each facility for retail exposures. As KBCI operates under the IRB approach, KBCI uses its own internal estimates of PD for regulatory capital calculations.

Within KBCI, there are three types of PD models developed:

- ➢ Statistical default/non-default models based on objective inputs: Rankings are derived purely mechanically with no subjective input, using regression techniques. At KBCI, this method is only used in the retail segment where objective data is plentiful (e.g. behavioural information).

- Statistical default/non-default models based on objective and subjective input: These are very similar to the purely objective models, but also use subjective input entered by a credit adviser (for instance management quality, market position). At KBCI, this method is used to rank corporate customers.

- 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 KBCI, this method is used to rank financial institutions.

The PD score resulting from the rating model is then calibrated towards the Central Tendency (CT). The CT is the expected long term default rate for the given portfolio over a full economic cycle. As such, all of KBCI's PD models are considered to be Through the Cycle (TTC) models.

The output generated by these models is used to split the performing loan portfolio into internal rating classes ranging from 1 (lowest risk) to 9 (highest risk) for the PD according to the KBCI masterscale[2].

Loss Given Default (LGD) 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).

KBCI estimates LGD by determining the sum of cash flows resulting from the workout and/or collections process, discounted to the time of default and expressed as a percentage of the estimated exposure at default. Each of the models developed are methodologically based on historical recovery rates and cure rates (the percentage of defaulted clients returning to performing state) per collateral type or per pool (segmentation-based approach).

As proposed by Basel II, the LGD estimates used for regulatory capital calculations are downturn estimates of LGD.

Exposure At Default (EAD) Models

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

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.

All of KBCIs regulatory models are continuously back tested to ensure their performance is satisfactory. Before a model is implemented the following are tested:

- Performance of the calibration
- Rank ordering of defaults/cures
- Migration of defaults/cures
- Stability index

Each model is also independently validated by a separate validation unit where several quantitative and qualitative checks are preformed. Before the approval of a new rating model, the findings of the validation report are presented to the approval committee.

[2] The KBCI masterscale is a mapping of PD % to specific bands in order to pool clients based on their risk profile. It consists of 9 bands running from low to high risk where each band is double the risk of the one before it.

Credit Portfolio Model (CPM)

Ecap for credit risk is calculated in KBCI using the Credit Portfolio Model (CPM). The CPM models loan portfolio behaviour by simulating common default behaviour between counterparties. CPM takes the idiosyncratic (i.e. individual) behaviour of larger loans and the systematic (i.e. common) behaviour of pools of smaller similar loans into account in simulating multiple default scenarios.

CPM models the systematic behaviour of a counterparty using three risk factors – industry sector, geographical region and size. CPM's sectoral approach uses CREDAC codes associated with each Banking loan. Size is computed based on information gleaned from audited accounts. A significant majority of KBCI's borrowers are based in Ireland and so geography is a less important risk driver for the calculation of KBCI's Ecap on a standalone basis.

CPM uses multiple random simulations of loss events to determine correlated behaviour across segments. In this way the concentration risk originating from a correlated movement of individual sectors is also captured by CPM.

The KBCI specific configuration of CPM includes the following:

- Inter- and intra-sector correlations based on UK and Ireland data, for use with the Banking portfolio.
- A retail index based on unemployment and short term interest rates, for use with the Homeloans portfolio.

CPM assesses concentration risk from the overall perspective of the KBCI portfolio, together with the portfolio structure (i.e. the combination of Retail mortgages, SME, Corporate and CRE lending) and diversification characteristics.

5.8 Counterparty Credit Risk

KBCI defines counterparty credit risk as the credit risk resulting from over the counter transactions, which are in the main interest related transactions (e.g. Interest Rate Swaps), currency related transactions (e.g. FX swaps) or equity related transactions.

Counterparty limits are set for each individual counterparty, taking into account the general rules and procedures set out in a group wide policy. Sub limits can be put in place for each product type. The risk is monitored by a real time limit control system which allows the ALM desk to check limit availability at any time. Positions against limits are monitored and reported by Risk Management on a daily basis.

The counterparty credit risk exposure at replacement risk for derivatives is €123m at 31st December 2014. Please see table below which reflects KBCI's counterparty credit exposures, including the impact of netting and collateral measures using the Mark to Market methodology. Current credit exposures consist of the replacement cost of contracts together with potential future credit exposure.

Figure 21 Minimum capital requirements at 10.5%

		2013	2014
		Basel II	Basel III
Minimum capital requirements at 10.5%	Note	€m	€m
Repo			
Gross positive fair value		3,602	3,867
Volatility Adjustments		306	328
Total current credit exposure		3,907	4,196
Netting benefits		-	-
Netted current credit exposure		3,907	4,196
Cash Collateral		(3,600)	(3,865)
Net credit exposure		**307**	**331**
Derivatives			
Gross positive fair value		136	214
Potential future credit exposure		92	105
Total current credit exposure		228	319
Netting benefits		(66)	(145)
Netted current credit exposure		162	173
Cash Collateral		(27)	(32)
Net credit exposure		**135**	**142**

6. Liquidity Risk Management

Liquidity risk is the risk that an organisation will be unable to meet its liabilities / obligations as they come due, without incurring unacceptable losses.

6.1 Strategy & Processes

KBCI is committed to adopting prudent liquidity and funding management policies with the objective of maintaining a diversified funding base and ensuring that reliance on short term wholesale sources of funds are within acceptable levels. The management of liquidity and funding risk within KBCI is undertaken within designated limits and other policy guidelines set by the CBI, KBC Group, KBCI Board of Directors and best practice.

Liquidity management for KBCI focuses on the overall balance sheet structure and the control of risk arising from the mismatch of maturities across the balance sheet. KBCI manages its operational liquidity within a delegated 30 day contingency gap limit and makes use of Net Stable Funding Ratio (NSFR), Liquidity Coverage Ratio (LCR) and Loan To Deposits Ratio (LTD) to measure and report on the evolution of its liquidity and funding profile.

It is KBCI's policy to ensure that resources are available at all times to meet the Bank's obligations arising from withdrawal of customer demand or term deposits, non-renewal of interbank liabilities, the drawdown of customer facilities, asset expansion and other contingent obligations.

KBC Bank Ireland's (KBCI) main source of encumbrance as at 31st December 2014 is funding received from KBC Bank NV through bi lateral repurchase agreements. This funding is collateralized by residential mortgages which have been deemed eligible for ECB market operations through a retained residential mortgage backed security (RMBS). Additional sources of encumbrance arise from credit support provided for derivative transactions with third parties where a CSA agreements is in place. In instances where credit support is required cash is transferred between counterparties in line with the terms and conditions of the CSA. Please refer to appendix 4 for more information.

6.2 Scope of Liquidity Risk Management

The Liquidity Policy covers liquidity risk management and reporting for KBCI.

6.3 Structural Liquidity Risk

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

KBC's contingency liquidity gap framework is based on operating within a predefined liquidity gap in a 30 day period.

7. Securitisations

The objective of securitisations is to turn illiquid mortgage assets into securitised notes / collateral, against which funding can be raised. The credit institution is the loan originator for the mortgage assets. It then sells the assets to the securitisation vehicle in return for the securitised notes. It continues to act as servicer for the assets and as mortgage manager for the securitisation vehicles. It also acts as transaction swap counterparty for some of the securitisations and subordinated loan provider for all issues. KBCI has ownership of all floating rate notes issued by Phoenix Funding 2 Limited, Phoenix Funding 3 Limited, Phoenix Funding 4 Limited and Phoenix Funding 5 Limited[3]. In 2008, the Bank transferred mortgage loans into Phoenix Funding 2 Limited and Phoenix Funding 3

[3] Phoenix Funding 2 Limited, Phoenix Funding 3 Limited, Phoenix Funding 4 Limited and Phoenix Funding 5 Limited referred to in this document as the Phoenix Programme.

Limited, in 2009 into Phoenix Funding 4 Limited and in 2012 into Phoenix Funding 5 Limited. The share capital of the Phoenix Programme is owned by Capita Trust Nominees No. 1 Limited, a company not related to KBC Bank Ireland plc or any of its subsidiaries.

The financial statements of the Phoenix Programme are consolidated into the financial statements of KBC Bank Ireland plc. Although the companies are not subsidiaries of KBC Bank Ireland plc, the Bank retains substantially all the risks and rewards of the ownership of the assets in the Phoenix Programme. The floating rate notes issued by the Phoenix Programme are listed on the Irish Stock Exchange.

At 31 December, 2014, the notes were rated by a range of external credit assessment institutions (ECAI's) as follows:

Figure 22 External Credit Assessment Institutions

ECAI	Moody's Investor Services	Fitch Ratings	DBRS
Phoenix 2 – Class A	Aa3	A+	A
Phoenix 2 – Class B	Not Rated	Not Rated	Not Rated
Phoenix 3 – Class A	Aa3	A+	Not Rated
Phoenix 3 – Class B	Not Rated	Not Rated	Not Rated
Phoenix 4 – Class A	Aa3	A+	Not Rated
Phoenix 4 – Class B	Not Rated	Not Rated	Not Rated
Phoenix 5 – Class A1	Not Rated	A+	A (high)
Phoenix 5 – Class A2	Not Rated	A+	A (high)
Phoenix 5 – Class A3	Not Rated	A+	A (high)

7.1 Total Outstanding Securitised Exposures

The gross carrying amount of mortgages in the securitised companies recognised in the statement of financial position at 31 December 2014 is:

Figure 23 Outstanding Securitised Exposures

KBCI Securitisations - €m			
Securitised Book	**Outstanding Exposure 2014 ***	**Outstanding Exposure 2013 ***	**Movement Since 31.12.13**
Phoenix 2	5,798	6,167	(369)
Phoenix 3	2,388	2,543	(155)
Phoenix 4	628	678	(50)
Phoenix 5	786	839	(53)
Total	**9,600**	**10,227**	**(627)**

* Outstanding Exposure excludes all un-secured Top Ups in addition to secured loans which do not meet the criteria for inclusion in the respective pools

The notes are eligible as collateral for the ECB and thus provide an added liquidity buffer for KBC Bank. The Basel II securitisation framework does not apply to KBCI as an insufficient amount of the risk incurred has been transferred.

The securitisations are internal and consolidated into the financial statements of KBC Bank Ireland plc. The accounting policies of the securitization companies are in line with the policies adopted by the Bank and are set out in the Bank's consolidated financial statements.

8. ALM Risk

The process of managing KBCI's structural exposure to market risk is also known as Asset/Liability Management (ALM). ALM risk is defined by KBCI as the potential negative deviation from the expected net asset value of KBCI's banking book and sovereign bond portfolio due to changes in the level or in the volatility of market prices.

8.1 Sources of ALM Risk

The primary sources of KBCI ALM risk, i.e. interest rate risk and foreign exchange risk, are:

- The structural interest rate risk position (sovereign bond portfolio); and
- The interest rate risk arising from funding, lending, sales and hedging activities.

8.2 Measurement Methodology for ALM Risk

KBCI uses two distinct methodologies for the measurement of ALM risk.

KBCI uses the Basis Point Value (BPV) methodology to measure its exposure to interest rate movements. BPV is used to measure interest rate risk associated with loans, funding, swaps, bonds, futures and other interest rate derivatives to capture all interest rate risk arising from KBCI's ALM activities. KBCI uses foreign exchange exposure nominal limits to measure foreign exchange risk. This measurement is carried out daily.

BPV quantifies the gain or loss on interest rate positions for a 0.1% (10 basis points) parallel shift upwards in the yield curve.

KBCI uses a parametric value at risk (PVaR) methodology to measure and to calculate the Ecap required to be set aside for ALM risk. This measurement is carried out on a quarterly basis. The PVaR model estimates the value at risk of KBCI's ALM position as the maximum value the portfolio can loose.

- Under instantaneous shocks to key risk drivers such as interest rate and non domestic spread risk;
- Reflecting market movements over a 1 year period;
- Within a 99.93% confidence level, meaning that there is a 1% probability that an actual loss will be higher than the predicted loss;
- With respect to the expected value under these shocks;
- For a fixed portfolio composition over a 1 year holding period.

Interest and foreign exchange rates are the key risk to the value of KBCI's ALM portfolio. The PVaR model calculates the value at risk by applying, for example, shocks to interest and foreign exchange rates and recalculating the net present value of the ALM portfolio multiple times. The 99.93% worst loss from these multiple shock scenarios become's KBCI's ALM capital requirement.

The PVaR model uses a term structure for interest rates, reflecting the fact that interest rates may change over time. To reduce complexity, shocks are applied to interest rate curves in terms of:

- The level of the rate curve, which leads to a parallel move of the curve up or down.
- The slope or steepness of the rate curve, which leads to a steepening or flattening of the curve.

8.3 Management and Monitoring of ALM Risk

ALM risk is managed by the KBCI ALM Committee, a subcommittee of the Risk Oversight Committee.

The management of KBCI's ALM positions is determined by the ALM Committee in accordance with the KBCI Treasury Policy and KBCI Strategic Interest Rate Risk Policy which clearly sets out the limits and criteria for the banking book and the sovereign bond portfolio respectively.

The banking book position and the sovereign bond portfolio are monitored on an ongoing basis by the Treasury Risk Management department, and by the ALM Committee.

8.4 Mitigation of ALM Risk

Capital is considered a mitigant for ALM interest rate risk as the crystallisation of such risk involves opportunity cost losses which impact on the capital base.

9. Operational Risk Management

Operational Risk is defined by KBCI as the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events. Operational risks include the risk of fraud as well as legal, compliance and tax risks.

The impact of incidents on KBCI's and KBC Group's reputation is taken into consideration when establishing vulnerability to operational risk incidents.

KBCI is committed to adopting prudent operational risk management policies with the objective of managing the operational risks faced by KBCI within the KBCI Risk Appetite.

KBCI uses the Standardised Approach to calculate the regulatory capital for operational risk.
The capital requirement is calculated annually and is the sum of the previous three years' average gross income of each business line adjusted by a beta. The average gross income is used to prevent major fluctuations in the operational risk capital charge.

Whilst the CRD sets out eight business lines allowable under the Standardised Approach approach, only three are applicable to KBCI:

- Commercial Banking
- Retail Banking
- Trading and Sales

9.1 Strategy & Processes

KBC Group has a single, global framework for managing operational risk across the entire group. This framework is embedded in KBCI and consists of a uniform operational risk language in group wide key controls, one methodology and centralised and decentralised reporting.

9.2 Scope of Operational Risk Management

The scope of the Operational Risk Management Committee covers all matters relating to operational risk, with particular focus on operational risks associated with internal processes, people, systems and external events.

The scope of KBCI's operational risk management also includes all subsidiaries and branches of KBCI.

9.3 Operational Risk Governance

The Operational Risk Management Committee (ORMC) assists the Risk Oversight Committee in relation to the operational risk matters by reviewing, recommending and/or making decisions as deemed appropriate.

Only the Risk Oversight Committee can change the functional composition of the ORMC.

KBCI line management remains responsible and accountable for the management of the operational risks incurred by the business areas for which they are responsible.

10. Business and Strategy Risk

Business/strategy risk is defined by KBCI as the risk of the potential negative deviation from the expected economic value of the organisation due to changes in the volumes and operational margins resulting from changes in the environment of the organisation and maladjusted or inadequately implemented strategies.

10.1 Sources of Business/Strategy Risk

The primary source of business/strategy risk is a change in the KBCI's market environment that results in a negative deviation from KBCI's expected economic value.

The secondary source of business/strategy risk is a maladjusted or inadequately implemented strategy that results in a negative deviation from KBCI's expected economic value.

KBCI also manages the business concentration risk associated with, for example, its distribution channels.

10.2 Measurement Methodology for Business/Strategy Risk

Business/Strategy Risk represents the volatility of revenues and costs due to the impact of changes in the market environment and/or strategic decisions. KBCI does not have a risk model to measure business/strategic risk, but in order to create awareness for this risk it is included in the ICAAP Ecap calculations.

The measurement is based on a high level estimation using a percentage of operating expenses. The calculations are based on a conservative external benchmark approach and validated on an annual basis by KBCI.

10.3 Management and Monitoring of Business/Strategy Risk

The Executive Committee manage KBCI's business/strategy risk by ensuring that the business model continues to be appropriate for the current and foreseeable market circumstances;

- Strategic management:
- Monitoring developments in key markets:
- Revenue and cost management:

The monitoring and control of KBCI's business risk is carried out by the Executive Committee and the Board in reviewing the stability of earnings and in considering the impact on these earnings of changes in the market environment and any strategic decisions taken by the Board.

The Board also reviews and approves annually KBCI's Alignment of Planning Cycles strategic document.

10.4 Mitigation of Business/Strategy Risk

Capital is considered a mitigant for business risk as the crystallisation of such risk involves a reduction in capital generation through lower profits or realisation of losses which impact on the capital base without proportionate decrease in risk assets.

11. Reputational Risk

Reputational risk is defined by KBCI as the risk arising from the negative perception on the part of stakeholders such as customers, counterparties, shareholders, investors, debt-holders, market analysts, other relevant parties or regulators that can adversely affect a bank's ability to maintain existing, or establish new, business relationships and continued access to sources of funding.

11.1 Sources of Reputational Risk

The primary sources of reputational risk are those activities or actions that can result in a negative perception of KBCI.

KBCI manages the potential impact of reputational risk on its business activities.

11.2 Measurement Methodology for Reputational Risk

The scale of the risk is assessed by the Board on the basis of the profile of KBCI in the Irish market, which reflects the nature and scale of the business activities, the size of the customer base and the market appetite of KBCI, and the conditions of the Irish market which is affected by the actions of all participants, e.g. financial services providers, customers, intermediaries, regulatory authorities, commentators, analysts etc.

11.3 Management and Monitoring of Reputational Risk

The Executive Committee manages reputational risk through controlled business processes, the Risk Management Framework, appropriate policies and procedures, the Staff Code of Conduct, market information, NAPP and operational risk monitoring.

The monitoring and control of KBCI's reputation risk is carried out by the Executive Committee and the Board in considering the reputational impact of the strategy and business activities of KBCI. The Executive Director responsible for Reputation together with the Marketing Communications Function and External PR advisors monitor and review potential reputational risk issues and activities.

The reports to the Executive Committee, Audit Committee, Risk and Compliance Committee and Board from the Internal Audit and Compliance functions include areas that are susceptible to reputation risk.

11.4 Mitigation of Reputational Risk

Capital is not considered a mitigant for reputation risk.

KBCI's corporate and social responsibility programme is an example of a pro-active mitigant in relation to reputational risk. KBCI's outreach into the community recognises that its good name and reputation is earned, managed and optimised based on its behaviour towards all stakeholders.

The procedure for dealing with events that could harm KBCI's reputation, such as the dissemination of inaccurate or misleading market commentary or media coverage, which includes the rapid, clear communication to relevant parties, is considered by KBCI to be the most effective mitigation for reputation risk.

12. Pension Risk

KBCI's Pension risk is defined by KBCI as the risk that a deficit could occur on KBCI's defined benefit pension fund which would impact on KBCI's capital base.

The source of pension risk is KBCI's staff defined benefit pension scheme. From the 31st August 2012, the Scheme closed to future accrual of pensionable service. There is no pension risk attached to the new staff defined contribution pension scheme. Therefore, future pension risk is on a diminishing basis.

12.1 Sources of Pension Risk

The source of pension risk is KBCI's staff defined benefit pension scheme.

12.2 Management and Monitoring of Pension Risk

The Executive Committee manages pension risk in conjunction with the pension trustees by assessing the pension funding against the MFS requirement.

The monitoring and control of KBCI's pension risk is carried out by the Executive Committee and the pension trustees, and reported as required to the Board.

12.3 Mitigation of Pension Risk

Risk is mitigated by holding a diversified range of assets in the pension scheme

Capital is also considered a mitigant for pension risk. Capital would be assigned for any gap in pension funding as identified by the Minimum Funding Standard requirement. As at 31 December 2014 the scheme met its Minimum Funding Standard requirement.

13. Stress Testing

13.1 Stress Testing Pillar III Disclosure

Stress testing is an important risk management tool that is used by KBCI as part of its internal risk management. Stress testing is a means for considering how KBCI's risk profile and capital requirements can be impacted through adverse scenarios. Stress tests inform KBCI on the impact of changing hypothetical internal and external conditions on risk, liquidity and capital needs, any 'buffer' required to regulatory capital and the overall credit-worthiness of the KBCI portfolios.

Stress testing is an important constituent of KBCI's Risk Management Framework and KBCI uses stress testing to assess capital adequacy in relation to its material risks, including credit risk, ALM (interest rate) risk, operational risk, concentration risk and liquidity risk. Within the context of capital adequacy, KBCI carries out stress testing on its Ecap requirement.

All material risks, identified in the ICAAP, are subject to stress testing at minimum annually.

13.2 Scenario Stress Tests:

Scenario stress tests combine stresses on different risk types, to examine the evolution over time of aspects of financial measures like P&L, capital required and available liquidity, through a scenario which can be defined under normal (base case) or under stressed (adverse case) conditions, with the aim of triggering management decisions.

KBCI conducts a range of scenario stress testing with appropriate degrees of severity to inform management of possible outcomes. The exact combinations of mild/severe scenarios are determined by the stress testing requirements of the Risk and Compliance Committee.

Scenario stress tests combine the impact on several material risks with the purpose of identifying KBCI specific vulnerabilities. Inter-risk concentration risk stress testing is included in the scope of scenario stress testing.

13.3 Sensitivity Stress Tests:

Sensitivity stress tests are forward looking stress tests performed on all or a part of KBCI's portfolio, focusing on a single type of risk or a single risk measure and seeking to identify KBCI specific vulnerabilities. Intra-risk concentration risk stress testing is included in the scope of sensitivity stress testing.

A range of sensitivity stress testing may be conducted with different degrees of severity to inform management of possible outcomes. The time horizon over which the sensitivity is analysed varies to a greater degree than scenario stress tests, being dependant on the specific risk measure. Over time, scenario stress tests consider all material risk types individually and address the main drivers of risk that KBCI is exposed to.

13.4 Reverse Stress Tests

Reverse Stress Testing is a risk management technique to complement the other tools in KBCI's risk management framework. It is used to determine what scenario or scenarios could give rise to a situation that threatens KBCI's solvency or ability to continue in business. Its objective is not to determine a level of capital that would be required as a mitigant of risk; instead the purpose of a reverse stress test is to provide a qualitative description of that event or confluence of events that would transpire and outline potential mitigating actions that could be considered as the event unfolded.

A further objective of reverse stress testing is to provide a sounding board for the other elements of KBCI's stress testing program, in particular the firm-wide scenario type stress tests. The top-down nature of reverse stress testing should be able to identify potential business vulnerabilities, which may not be apparent from sensitivity analysis.

Reverse stress testing is a firm-wide test. In common with other types of stress testing, the principle of first round and feedback effects are factored into any macro-economic shocks to KBCI's solvency.

13.5 Risk Specific Stress Tests:

Credit Risk Stress Testing

KBCI performs credit stress testing based on a number of hypothetical economic scenarios.

Credit stress testing is performed at a portfolio or sub-portfolio level and consists of modifications of the baseline credit risk parameters, i.e. Default Rate, Loss Rate, PD, LGD and EAD, to simulate credit quality migration based on the changing economic situation and measurement of the consequent impact on the regulatory capital requirements in line with the requirements of Basel II. A credit risk stress scenario may also stress collateral values as changes to collateral values may have a material impact on credit losses. PD and LGD movements may be stressed individually or jointly, depending on the needs of the scenario.

Credit stress testing results are reported to the Risk Oversight Committee and the Risk and Compliance Committee.

ALM (Interest Rate) Risk Stress Testing

KBCI carries out market risk stress tests on interest rates and foreign exchange movements. Scenario analysis is used on a regular basis to analyse possible future events and to capture losses under stress situations as well as normal market conditions. Different scenarios are used to anticipate the impact of different curve movements (FX and Interest rate) and historical events in order to anticipate potential losses arising from these scenarios.

Operational Risk Stress Testing

KBCI performs a number of different stress tests on its operational risk. KBCI uses stress tests based on scenario analysis of hypothetical operational risk events to assess the adequacy of operational risk capital. These tests may be informed by past losses and loss data, but the scenarios are essentially forward looking and may provide narrative on possible new losses that have not occurred in the past.

KBCI views the Business Continuity Test as a critical form of stress test for key operational risks, such as staff, technology and processes.

Liquidity Risk Stress Testing

KBCI carries out Liquidity Risk Stress Testing on a weekly and monthly basis. The liquidity stress testing covers all products in KBCI, in accordance with Regulatory requirements. Scenarios are conducted on point in time data, and stressed severely from there. Time horizons range from one to three months. The results of the stress tests are used to propose risk tolerances for cash-flow mismatches and determine appropriate action for breaches of predetermined tolerances.

Concentration Risk Stress Testing

In identifying suitable concentration risk stress scenarios, KBCI recognises that concentration risk may impact different risk in different ways, e.g.

- Credit risk – large exposure concentrations, counterparty concentration risk, sectoral concentrations, geographical concentrations, collateral type concentrations, correlations between obligors and sectors increase in times of stress.
- Operational risk – the use of loss data in identifying current high frequency medium impact loss events that could increase in frequency and impact in a stressed period
- Liquidity risk – funding concentration on KBC Group, large individual depositors concentration,

KBCI also recognises the inter-risk types of concentration risk, e.g.

- Reputational and funding risk – KBCI relies on its good reputation to attract customer deposits to diversify its funding risk and reduce its funding concentration.
- Operational and liquidity risk – KBCI could have a concentration of operational risk in relation to a single counterparty, which could lead to increased liquidity risk.
- Credit and liquidity risk – further haircuts on KBCI's liquid collateral could result in a reduction in KBCI's available liquidity.

As part of its overall stress testing programme, KBCI includes scenarios that specifically stress concentration risk to understand the impact of risk concentrations specific to KBCI's portfolios and business and funding models.

13.6 ICAAP Stress Testing

On an annual basis KBCI conducts the Alignment of Planning Cycles (APC) strategic forecasting process as part of its Internal Capital Adequacy Assessment Process (ICAAP).

Appendix 1 - Transitional own funds disclosure template

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

Common Equity Tier 1 capital: instruments and reserves (1)		**2014**	**(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013**
1	Capital instruments and the related share premium accounts	2,151	
	of which: Instrument type 1	N/A	
	of which: Instrument type 2	N/A	
	of which: Instrument type 3	N/A	
2	Retained earnings	-1,447	
3	Accumulated other comprehensive income (and any other reserves)	-91	
3a	Funds for general banking risk	N/A	
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	N/A	
	Public sector capital injections grandfathered until 1 january 2018	N/A	
5	Minority interests (amount allowed in consolidated CET1)	N/A	N/A
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	N/A	
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	613	
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	N/A	N/A
8	Intangible assets (net of related tax liability) (negative amount)	-32	N/A
9	Empty set in the EU	0	N/A
10	Deferred tax assets that rely on future profitability excluding those arising from temporary difference (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	0	-76
11	Fair value reserves related to gains or losses on cash flow hedges	19	N/A
12	Negative amounts resulting from the calculation of expected loss amounts	0	N/A
13	Any increase in equity that results from securitised assets (negative amount)	N/A	N/A
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	N/A	N/A
15	Defined-benefit pension fund assets (negative amount)	N/A	N/A
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	N/A	N/A
17	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negatvie amount)	N/A	N/A
18	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	N/A	N/A
19	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	N/A	N/A
20	Empty set in the EU	0	
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	N/A	N/A
20b	of which: qualifying holdings outside the financial sector (negative amount)	N/A	N/A
20c	of which: securitisation positions (negative amount)	N/A	N/A
20d	of which: free deliveries (negative amount)	N/A	N/A

21	Deferred tax assets arising from temporary difference (amount above 10 % threshold , net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	N/A	N/A
22	Amount exceeding the 15% threshold (negative amount)	N/A	N/A
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	N/A	N/A
24	Empty set in the EU	0	N/A
25	of which: deferred tax assets arising from temporary difference	N/A	N/A
25a	Losses for the current financial year (negative amount)	N/A	N/A
25b	Foreseeable tax charges relating to CET1 items (negative amount)	N/A	N/A
26	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment	N/A	
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	-20	
	Of which: Unrealised gains on exposures to central governments classified in the "Available for sale" category of EU-endorsed IAS39	(20)	
26b	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR	43	
	Of which : Additional filters - Defined Benefit Pension Liability net of tax	43	
27	Qualifying AT1 deductions that exceeds the AT1 capital of the institution (negative amount)	N/A	
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	9	
29	**Common Equity Tier 1 (CET1) capital**	622	
Additional Tier 1 (AT1) capital: instruments			
30	Capital instruments and the related share premium accounts	280	
31	of which: classified as equity under applicable accounting standards	280	
32	of which: classified as liabilities under applicable accounting standards	N/A	
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1	N/A	
	Public sector capital injections grandfathered until 1 january 2018	N/A	
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interest not included in row 5) issued by subsidiaries and held by third parties	N/A	N/A
35	of which: instruments issued by subsidiaries subject to phase-out	N/A	
36	Additional Tier 1 (AT1) capital before regulatory adjustments	280	
Additional Tier 1 (AT1) capital: regulatory adjustments			
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	N/A	N/A
38	Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	N/A	N/A
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	N/A	N/A
40	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	N/A	N/A
41	Regulatory adjustments applied to Additional Tier 1 capital in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase-out as prescribed in Regulation (EU) No 585/2013 (ie. CRR residual amounts)	N/A	
41a	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	N/A	
41b	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Tier 2 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	N/A	
41c	Amounts to be deducted from added to Additional Tier 1 capital with regard to additional filters and deductions required pre- CRR	N/A	

42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	N/A	
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	N/A	
44	Additional Tier 1 (AT1) capital	280	
45	**Tier 1 capital (T1 = CET1 + AT1)**	902	
Tier 2 (T2) capital: instruments and provisions			
46	Capital instruments and the related share premium accounts	N/A	
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	N/A	
	Public sector capital injections grandfathered until 1 january 2018	N/A	
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interest and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third party	N/A	N/A
49	of which: instruments issued by subsidiaries subject to phase-out	N/A	
50	Credit risk adjustments	37	
51	Tier 2 (T2) capital before regulatory adjustment	37	
Tier 2 (T2) capital: regulatory adjustments			
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	N/A	N/A
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institutions designed to inflate artificially the own funds of the institution (negative amount)	N/A	N/A
54	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10 % threshold and net of eligible short positions) (negative amount)	N/A	N/A
54a	Of which new holdings not subject to transitional arrangements	N/A	N/A
54b	Of which holdings existing befor 1 January 2013 and subject to transitional arrangements	N/A	N/A
55	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amounts)	N/A	N/A
56	Regulatory adjustments applied to tier 2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	N/A	
56a	Residual amounts deducted from Tier 2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	N/A	
56b	Residual amounts deducted from Tier 2 capital with regard to deduction from Additional Tier 1 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	N/A	
56c	Amounts to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre- CRR	N/A	
57	**Total regulatory adjustments to Tier 2 (T2) capital**	N/A	
58	**Tier 2 (T2) capital**	37	
59	**Total capital (TC = T1 + T2)**	939	
59a	Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amount)	N/A	
	Of which:… items not deducted from CET1 (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Deferred tax assets that rely on future profitability net of related tax liability, indirect holdings of own CET1, etc)	N/A	
	Of which:…items not deducted from AT1 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Reciprocal cross holdings in T2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc.)	N/A	

	Items not deducted from T2 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Indirect holdings of own T2 instruments, indirect holdings of non-significant investments in the capital of other financial sector entities, indirect holdings of significant investments in the capital of other financial sector entities etc)	N/A
60	**Total risk-weighted assets**	7,092
Capital ratios and buffers		
61	**Common Equity Tier 1 (as a percentage of total risk exposure amount**	8.8%
62	**Tier 1 (as a percentage of total risk exposure amount**	12.7%
63	**Total capital (as a percentage of total risk exposure amount**	13.2%
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount)	not yet implemented
65	of which: capital conservation buffer requirement	not yet implemented
66	of which: countercyclical buffer requirement	not yet implemented
67	of which: systemic risk buffer requirement	not yet implemented
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	not yet implemented
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	not yet implemented
69	[non-relevant in EU regulation]	N/A
70	[non-relevant in EU regulation]	N/A
71	[non-relevant in EU regulation]	N/A
Amounts below the thresholds for deduction (before risk-weighting)		
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions	N/A
73	Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions	N/A
74	Empty set in the EU	N/A
75	Deferred tax assets arising from temporary difference (amount below 10 % threshold , net of related tax liability where the conditions in Article 38 (3) are met)	8
Applicable caps on the inclusion of provisions in Tier 2		
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	N/A
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	N/A
78	Credit risk adjustments included in T2 in respect of exposures subject to internal rating-based approach (prior to the application of the cap)	6,182
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	37
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)		
80	- Current cap on CET1 instruments subject to phase-out arrangements	N/A
81	- Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	N/A
82	- Current cap on AT1 instruments subject to phase-out arrangements	N/A
83	- Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	N/A
84	- Current cap on T2 instruments subject to phase-out arrangements	N/A
85	- Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	N/A
(1) 'N/A' inserted if the question is not applicable		

Appendix 2 - Balance Sheet Reconciliation Methodology

Reconciliation of Equity in Financial Statements to Regulatory own funds		
Reconciliation of Equity in Financial Statements to Regulatory own funds	**Financial Statements**	**Regulatory**
Share Capital	2,124	2,124
Share premium	27	27
Retained earnings	(1,447)	(1,447)
Other reserves	(91)	(91)
Regulatory adjustment and filters		
Adjustments due to prudential filters - Cash flow hedge reserve		19
Intangible assets		(32)
Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities		(76)
Other transitional adjustments to CET1		98
Total Common Equity Tier 1	**613**	**622**
Other additonal Tier 1 instruments	280	280
Total Tier 1	893	902
Tier 2 - IRB provision excess		37
Total Own funds	**893**	**939**

Appendix 3 - Capital instruments' main features template

Disclosure according to Article 3 in Commission implementing regulation (EU) No 1423/2013

	Capital instruments' main features template (1)			
1	Issuer	KBC Bank Ireland PLC	KBC Bank Ireland PLC	KBC Bank Ireland PLC
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement	N/A	N/A	N/A
3	Governing law (s) of the instrument	Ireland	Ireland	Ireland
	Regulatory treatment			
4	Transitional CRR rules	Additional Tier 1	Additional Tier 1	Additional Tier 1
5	Post-transitional CRR rules	Additional Tier 1	Additional Tier 1	Additional Tier 1
6	Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	Solo & Consolidated	Solo & Consolidated	Solo & Consolidated
7	Instrument type (types to be specified by each jurisdiction)	Additional Tier 1 as published in Regulation (EU) No 575/2013 article 61	Additional Tier 1 as published in Regulation (EU) No 575/2013 article 61	Additional Tier 1 as published in Regulation (EU) No 575/2013 article 61
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	75	50	155
9	Nominal amount of instrument	75	50	155
9a	Issue price	100 per cent	100 per cent	100 per cent
9b	Redemption price	100 per cent	100 per cent	100 per cent
10	Accounting classification	Equity - other equity instrument	Equity - other equity instrument	Equity - other equity instrument
11	Original date of issuance	28/03/2012	27/06/2012	21/12/2012
12	Perpeptual or dated	Perpetual	Perpetual	Perpetual
13	Original maturity date	N/A - perpetual	N/A - perpetual	N/A - perpetual
14	Issuer call subjet to prior supervisory approval	Yes	Yes	Yes
15	Optional call date, contingent call dates, and redemption amount	N/A	N/A	N/A
16	Subsequent call dates, if applicable	N/A	N/A	N/A
	Coupons / dividends			
17	Fixed or floating dividend/coupon	Fixed	Fixed	Fixed
18	Coupon rate and any related index	15.50%	16.70%	12%
19	Existence of a dividend stopper	Yes	Yes	Yes
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing	Timing of payments (if payable) is mandatory	Timing of payments (if payable) is mandatory	Timing of payments (if payable) is mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Full discretion to cancel any interest payment	Full discretion to cancel any interest payment	Full discretion to cancel any interest payment
21	Existence of step up or other incentive to redeem	No	No	No
22	Noncumulative or cumulative	Non cumulative	Non cumulative	Non cumulative
23	Convertible or non-convertible	Convertible	Convertible	Convertible
24	If convertible, conversion trigger (s)	On occurrence of a Capital Deficiency Event or a Viability Event	On occurrence of a Capital Deficiency Event or a Viability Event	On occurrence of a Capital Deficiency Event or a Viability Event
25	If convertible, fully or partially	Fully	Fully	Fully
26	If convertible, conversion rate	Covertible to ordinary shares at nominal value of ordinary shares	Covertible to ordinary shares at nominal value of ordinary shares	Covertible to ordinary shares at nominal value of ordinary shares
27	If convertible, mandatory or optional conversion	Mandatory conversion on a Conversion Event	Mandatory conversion on a Conversion Event	Mandatory conversion on a Conversion Event
28	If convertible, specifiy instrument type convertible into	Ordinary shares	Ordinary shares	Ordinary shares
29	If convertible, specifiy issuer of instrument it converts into	KBC Bank Ireland PLC	KBC Bank Ireland PLC	KBC Bank Ireland PLC
30	Write-down features	N/A	N/A	N/A
31	If write-down, write-down trigger (s)	N/A	N/A	N/A
32	If write-down, full or partial	N/A	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A	N/A
35	Position in subordination hierachy in liquidation (specify instrument type immediately senior to instrument)	Tier 2 Capital	Tier 2 Capital	Tier 2 Capital
36	Non-compliant transitioned features	No	No	No
37	If yes, specifiy non-compliant features	N/A	N/A	N/A
(1) 'N/A' inserted if the question is not applicable				

Appendix 4 - Disclosure on asset encumbrance

Assets

		Carrying amount of encumbered assets €m	Fair value of encumbered assets €m	Carrying amount of unencumbered assets €m	Fair value of unencumbered assets €m
		010	040	060	090
010	**Assets of the reporting institution**	6,074		7,636	
030	Equity instruments			2	2
040	Debt securities			987	1,078
120	Other assets	4		833	

Collateral received

		Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
		010	040
130	**Collateral received by the reporting institution**		
150	Equity instruments		
160	Debt securities		
230	Other collateral received		
240	**Own debt securities issued other than own covered bonds or ABSs**		

Encumbered assets/collateral received and associated liabilities

		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
		010	030
010	**Carrying amount of selected financial liabilities**	3,869	6,074

Information on importance of encumbrance

KBC Bank Ireland's (KBCI) main source of encumbrance as at 31st December 2014 is funding received from KBC Bank NV through bi-lateral repurchase agreements. This funding is collateralized by residential mortgages which have been deemed eligible for ECB market operations through a retained residential mortgage backed security (RMBS). Additional sources of encumbrance arise from credit support provided for derivative transactions with third parties where a CSA agreements is in place. In instances where credit support is required cash is transferred between counterparties in line with the terms and conditions of the CSA.

Only a very small portion of the items in column 060 "carrying amount of unencumbered assets" row 120 "other assets" would be considered available for encumberence during the normal course of business. This would relate to credit support (cash transfer) provided for derivative transactions with third parties where a CSA agreement in in place. At 31st December 2014 this amount was only €4m.

Appendix 5 – Glossary (Key Terms & Abbreviations)

Term	Definition
APC	Annual Planning Cycle
ARC	Audit Committee
BPV	Basis Point Value
BRC	Board Risk Committee
CAD	Capital Adequacy ratio
CBI	Central Bank of Ireland
CPM	Credit Portfolio Model
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulations
CRO	Chief Risk Officer
CSA	Credit Support Annex
CSO	Central Statistics Office
CT	Central Tendency
EAD	Exposure at Default
EBA	European Banking Authority
EC	Executive Committee
ECAP	Economic Capital
Financial Statement	The KBC Ireland plc. and subsidiaries Consolidated Financial Statements for the year ended 31st December 2013.
ICAAP	Internal Capital Adequacy Assessment Process
IRB	Internal Ratings Based Approach
KBCI	KBC Bank Ireland plc
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
LTD	Loan To Deposits Ratio
MARS	Mortgage Arrears Resolution Strategy
MMF	Model Management Framework
NAPP	New and Active Products Process
NSFR	Net Stable Funding Ratio
ORMC	Operational Risk Management Committee
PD	Probability of Default
PVAR	Parametric Value At Risk
RAF	Risk Appetite Framework
RMF	Risk Management Framework
ROC	Risk Oversight Committee
RWA	Risk Weighted Asset
SREP	Supervisory Review and Evaluation Process
TTC	Through The Cycle