KBC Group NV

(incorporated with limited liability in Belgium)

EUR 5,000,000,000
Euro Medium Term Note Programme

Under this EUR 5,000,000,000 Euro Medium Term Note Programme (the "**Programme**"), KBC Group NV (the "**Issuer**") may from time to time issue notes (the "**Notes**") denominated in any currency agreed between the Issuer and the relevant Dealer(s) (as defined below). The aggregate nominal amount of Notes outstanding will not at any time exceed EUR 5,000,000,000 (or its equivalent in any other currencies). Any Notes issued under the Programme on or after the date of this Base Prospectus are issued subject to the provisions herein.

Notes to be issued under the Programme may comprise (i) unsubordinated Notes ("**Senior Notes**") and (ii) Notes which are subordinated as described herein and have terms capable of qualifying as Tier 2 Capital (as defined herein) (the "**Subordinated Tier 2 Notes**"). The Notes will be issued in the Specified Denomination(s) specified in the applicable Final Terms. The minimum Specified Denomination of the Notes shall be at least €100,000 (or its equivalent in any other currency). The Notes have no maximum Specified Denomination.

The Notes may be issued on a continuing basis to the Dealer specified below and any additional Dealer appointed under the Programme from time to time, which appointment may be for a specific issue or on an ongoing basis (each a "**Dealer**" and together the "**Dealers**").

This base prospectus (the "**Base Prospectus**") has been approved on 13 July 2016 by the Financial Services and Markets Authority (*Autoriteit voor Financiële Diensten en Markten/Autorité des services et marchés financiers*) (the "**FSMA**") in its capacity as competent authority under Article 23 of the Belgian Law dated 16 June 2006 concerning the public offer of investment securities and the admission of investment securities to trading on a regulated market (the "**Prospectus Law**") as a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC, as amended (the "**Prospectus Directive**") in respect of the issue by the Issuer of Notes. This approval cannot be considered as a judgment by the FSMA as to the opportunity or the merits of any issue under the Programme, nor on the situation of the Issuer.

Application has also been made to Euronext Brussels ("**Euronext Brussels**") for Notes issued under the Programme during the period of 12 months from the date of approval of the Base Prospectus to be listed on Euronext Brussels and admitted to trading on the regulated market of Euronext Brussels. References in this Base Prospectus to Notes being "**listed**" (and all related references) shall mean that such Notes have been listed and admitted to trading on Euronext Brussels' regulated market. The regulated market of Euronext Brussels is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments, as amended ("**MiFID**"). The Issuer may also issue Notes which are not listed or request the listing of Notes on any other stock exchange or market.

The Notes will be issued in dematerialised form under the Belgian Companies Code (*Wetboek van Vennootschappen / Code des Sociétés*) (the "**Belgian Companies Code**") and cannot be physically delivered. The Notes will be represented exclusively by book entries in the records of the securities settlement system operated by the National Bank of Belgium (the "**NBB**") or any successor thereto (the "**Securities Settlement System**"). Access to the Securities Settlement System is available through those of its Securities Settlement System Participants whose membership extends to securities such as the Notes. Securities Settlement System Participants include certain banks, stockbrokers (*beursvennootschappen/sociétés de bourse*), Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, société anonyme, Luxembourg ("**Clearstream, Luxembourg**"). Accordingly, the Notes will be eligible to clear through, and therefore accepted by, Euroclear and Clearstream, Luxembourg and investors may hold their Notes within securities accounts in Euroclear and Clearstream, Luxembourg. The Notes issued in dematerialised form and settled through the Securities Settlement System may be eligible as ECB collateral, provided that the applicable ECB eligibility requirements are met.

Information on the aggregate nominal amount of Notes, interest (if any) payable in respect of such Notes, the issue price of such Notes and other information which is applicable to each Tranche (as defined herein) of such Notes will be set out in a final terms document (the "**Final Terms**") which will be delivered to the FSMA and Euronext Brussels on or before the date of issue of the Notes of such Tranche. Copies of Final Terms in relation to Notes to be listed on Euronext Brussels will be published on the website of Euronext Brussels (www.euronext.com).

Notes issued under the Programme may be rated or unrated. When an issue of a certain Series (as defined herein) of Notes is rated, its rating will not necessarily be the same as the rating applicable to the Programme (if any) and such rating may be specified in the applicable Final Terms. Whether or not a rating in relation to any Tranche of Notes will be treated as having been issued by a credit rating agency established in the European Union and registered under Regulation (EC) No 1060/2009 (as amended) on credit rating agencies (the "**CRA Regulation**") will be disclosed in the relevant Final Terms. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Prospective investors should have regard to the factors described under the section headed "Risk Factors" in this Base Prospectus, setting out certain risks in relation to Senior Notes and Subordinated Tier 2 Notes. In particular, holders of Senior Notes and Subordinated Tier 2 Notes may lose their investment if the Issuer were to become non-viable or the Notes were to be written down and/or converted or (in the case of the Senior Notes) bailed-in. See pages 27 to 29 of this Base Prospectus. Moreover, Subordinated Tier 2 Notes include certain risks specific to the nature of such instruments, such as subordination, write-down/conversion features, increased illiquidity, conflicts of interest and redemption. See page 13 to 42 for a description of the risk factors and page 38 to 40 for a description of the risk factors specific to Subordinated Tier 2 Notes.

The Notes may not be a suitable investment for all investors. Accordingly, prospective investors in Notes should decide for themselves whether they want to invest in the Notes and obtain advice from a financial intermediary in that respect, in which case the relevant intermediary will have to determine whether or not the Notes are a suitable investment for them. Notes issued under the Programme will not be placed with "consumers" within the meaning of the Belgian Code of Economic Law.

Arranger and Dealer
KBC Bank

The date of this Base Prospectus is 13 July 2016.

IMPORTANT INFORMATION

IMPORTANT INFORMATION RELATING TO THE USE OF THIS BASE PROSPECTUS

This Base Prospectus comprises a base prospectus for the purposes of Article 5.4 of the Prospectus Directive and for the purpose of giving information with regard to the Issuer, the Issuer and its subsidiaries taken as a whole (the "**KBC Group**") and the Notes which, according to the particular nature of the Issuer and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer.

The Issuer (the "**Responsible Person**") accepts responsibility for the information contained in this Base Prospectus. To the best of the knowledge of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Base Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Base Prospectus has been prepared on the basis that, except to the extent sub-paragraph (ii) below may apply, any offer of Notes in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**") will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Notes. Accordingly any person making or intending to make an offer in that Relevant Member State of Notes which are the subject of an offering contemplated in this Base Prospectus as completed by final terms in relation to the offer of those Notes may only do so (i) in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer, or (ii) if a prospectus for such offer has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State and (in either case) published, all in accordance with the Prospectus Directive, provided that any such prospectus has subsequently been completed by final terms which specify that offers may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State and such offer is made in the period beginning and ending on the dates specified for such purpose in such prospectus or final terms, as applicable and the Issuer has consented in writing to its use for the purpose of such offer. Except to the extent sub-paragraph (ii) above may apply, neither the Issuer nor any Dealer have authorised, nor do they authorise, the making of any offer of Notes in circumstances in which an obligation arises for the Issuer or any Dealer to publish or supplement a prospectus for such offer. The expression "**Prospectus Directive**" means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in the Relevant Member State.

This Base Prospectus is to be read in conjunction with all documents which are incorporated herein by reference (see "*Documents Incorporated by Reference*").

This Base Prospectus contains or incorporates by reference certain statements that constitute forward-looking statements. Such forward-looking statements may include, without limitation, statements relating to the Issuer's business strategies, trends in its business, competition and competitive advantage, regulatory changes, and restructuring plans.

Words such as **believes**, **expects**, **projects**, **anticipates**, **seeks**, **estimates**, **intends**, **plans** or similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. The Issuer does not intend to update these forward-looking statements except as may be required by applicable securities laws.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that predictions, forecasts, projections and other outcomes described or implied in forward-looking statements will not be achieved. A number of important factors could cause actual results, performance or achievements to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include: (i) the ability to maintain sufficient liquidity and access to capital markets; (ii) market and interest rate fluctuations; (iii) the strength of global economy in general and the strength of the economies of the countries in which the Issuer or the Group conducts operations; (iv) the potential impact of sovereign risk in certain European Union countries; (v) adverse rating actions by credit rating agencies; (vi) the ability of counterparties to meet their obligations to the Issuer or the Group; (vii) the effects of, and changes in, fiscal, monetary, trade and tax policies, financial and company regulation and currency fluctuations; (viii) the possibility of the imposition of foreign exchange controls by government and monetary authorities; (ix) operational factors, such as systems failure, human error, or the failure to implement procedures properly; (x) actions taken by regulators with respect to the Issuer's and/or the Group's business and practices in one or more of the countries in which the Issuer or the Group conducts operations; (xi) the adverse resolution of litigation and other contingencies; (xii) the Issuer's and/or the Group's success at managing the risks involved in the foregoing.

The foregoing list of important factors is not exclusive; when evaluating forward-looking statements, investors should carefully consider the foregoing factors and other uncertainties and events, as well as the other risks identified in this Base Prospectus.

This Base Prospectus contains various amounts and percentages which have been rounded and, as a result, when those amounts and percentages are added up, they may not total.

No person has been authorised to give any information or to make any representation other than those contained in this Base Prospectus in connection with the issue or sale of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or any of the Dealers or the Arranger. Neither the delivery of this Base Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer since the date hereof or the date upon which this Base Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer since the date hereof or the date upon which this Base Prospectus has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

The distribution of this Base Prospectus and the offering or sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Base Prospectus comes are required by the Issuer, the Dealers and the Arranger to inform themselves about and to observe any such restriction. The Notes have not been and will not be registered under the United States Securities Act of 1933 (the "**Securities Act**"). Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to U.S. persons. For a description of certain restrictions on offers and sales of Notes and on distribution of this Base Prospectus, see "*Subscription and Sale*".

Notes issued under the Programme will not be placed with "consumers" within the meaning of the Belgian Code of Economic Law.

This Base Prospectus does not constitute an offer of, or an invitation by or on behalf of the Issuer or the Dealers to subscribe for, or purchase, any Notes.

To the fullest extent permitted by law, none of the Dealers or the Arranger accept any responsibility for the contents of this Base Prospectus or for any other statement, made or purported to be made by the Arranger or

a Dealer or on its behalf in connection with the Issuer or the issue and offering of the Notes. The Arranger and each Dealer accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Base Prospectus or any such statement. Neither this Base Prospectus nor any other financial statements are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Issuer, the Arranger or the Dealers that any recipient of this Base Prospectus or any other financial statements should purchase the Notes. Each potential purchaser of Notes should determine for itself the relevance of the information contained in this Base Prospectus and its purchase of Notes should be based upon such investigation as it deems necessary. None of the Dealers or the Arranger undertakes to review the financial condition or affairs of the Issuer during the life of the arrangements contemplated by this Base Prospectus nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Dealers or the Arranger.

The Notes may not be a suitable investment for all investors. In particular, each potential investor should:

(i) have sufficient knowledge and experience to make a meaningful evaluation of the relevant Notes, the merits and risks of investing in the relevant Notes and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement and all information contained in the applicable Final Terms;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Notes and the impact such investment will have on its overall investment portfolio;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Notes, including where the currency for principal and/or interest payments is different from the potential investor's currency;

(iv) understand thoroughly the terms of the relevant Notes and be familiar with the behaviour of any relevant indices, interest rates and financial markets; and

(v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Legal investment considerations may restrict certain investments. The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation, by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (a) Notes are legal investments for it, (b) Notes can be used as collateral for various types of borrowing and (c) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

In this Base Prospectus, unless otherwise specified or the context otherwise requires, references to "euro", "EUR" and "€" are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended.

PROSPECTUS SUPPLEMENT

If at any time the Issuer shall be required to prepare a prospectus supplement pursuant to Article 34 of the Prospectus Law, the Issuer will prepare and make available an appropriate amendment or supplement to this Base Prospectus which, in respect of any subsequent issue of Notes to be listed and admitted to trading on the

Euronext Brussels' regulated market, shall constitute a prospectus supplement as required by Article 34 of the Prospectus Law.

The Issuer has given an undertaking to the Dealers that if at any time during the duration of the Programme there is a significant new factor, material mistake or inaccuracy relating to information contained in this Base Prospectus which is capable of affecting the assessment of any Notes and whose inclusion in or removal from this Base Prospectus is necessary for the purpose of allowing an investor to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer, and the rights attaching to the Notes, the Issuer shall prepare an amendment or supplement to this Base Prospectus or publish a replacement Base Prospectus for use in connection with any subsequent offering of the Notes and shall supply to each Dealer such number of copies of such supplement hereto as such Dealer may reasonably request.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents, which have previously been published or are published simultaneously with this Base Prospectus and have been filed with the FSMA, shall be incorporated in, and form part of, this Base Prospectus:

(a) the audited consolidated annual financial statements of the Issuer for the financial years ended 31 December 2014 and 31 December 2015, together, in each case, with the related auditors' report;

(b) the Extended Quarterly Report 1Q 2016 of the Issuer; and

(c) the press releases dated (and constituting regulated information for purposes of the transparency regulations):

- 7 January 2016: "KBC's comfortable capital position reflected in strong Solvency II ratio";
- 17 February 2016: "Notifications received by KBC Group NV under transparency legislation";
- 18 February 2016 "KBC returns profit of 2.6 billion euros for the full year, profit of 862 million euros posted for last quarter of 2015"; and
- 12 May 2016: "KBC 1Q 2016: Strong start to 2016 reflected in profit of 392 million euros, despite high upfront bank taxes".

Following the publication of this Base Prospectus, a supplement may be prepared by the Issuer and approved by the FSMA in accordance with Article 16 of the Prospectus Directive. Statements contained in any such supplement (or contained in a document incorporated by reference therein) shall, to the extent applicable, be deemed to modify or supersede statements contained in this Base Prospectus or in a document which is incorporated by reference in this Base Prospectus. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Base Prospectus.

Copies of documents incorporated by reference in this Base Prospectus can be obtained from the registered office of the Issuer and the website of the Issuer at www.kbc.com/investors. This Base Prospectus and each document incorporated by reference may also be published on the website of Euronext Brussels (www.euronext.com).

The table below sets out the relevant page references for the audited consolidated statements for the financial years ended 31 December 2014 and 31 December 2015, respectively, as set out in the Issuer's Annual Report. Information contained in the documents incorporated by reference other than information listed in the table below is for information purposes only, and does not form part of this Base Prospectus.

Audited consolidated annual financial statements of the Issuer for the financial years ended 31 December 2014 and 31 December 2015*

	Issuer's Annual Report for the financial year ended 31 December 2014	Issuer's Annual Report for the financial year ended 31 December 2015
Audited consolidated annual financial statements of the Issuer		
report of the board of directors	page 6-171	page 6-147

	Documents incorporated by reference	
balance sheet	page 178	page 154
income statement	page 176	page 152
cash flow statement	page 180-182	page 156-158
notes to the financial statements	page 182-251	page 158-221
statement of changes in equity	page 179	page 155
Auditors' report	page 174-175	page 150-151
Additional information		
ratios used	Annex	Annex

* Page references are to the English language PDF version of the relevant incorporated documents.

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STABILISATION

In connection with the issue of any Tranche, the Dealer or Dealers (if any) named as the stabilising manager(s) (the "Stabilising Manager(s)") (or any person acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or any person acting on behalf of any Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche and 60 days after the date of the allotment of the relevant Tranche. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or any person acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

OVERVIEW OF THE PROGRAMME

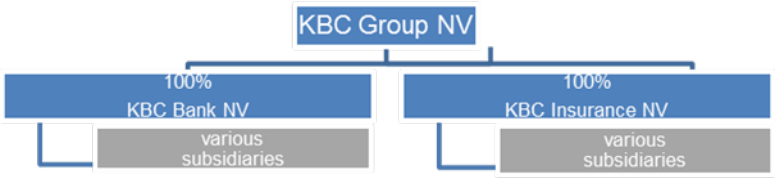
The following overview is qualified in its entirety by the remainder of this Base Prospectus.

Information relating to the Issuer

Issuer: KBC Group NV.

Description of the Issuer: The Issuer is a mixed financial holding company whose purpose is the direct or indirect ownership and management of shareholdings in other companies, including but not limited to credit institutions, insurance companies and other financial institutions. The Issuer also aims to provide support services for third parties, as agent or otherwise, in particular for companies in which the Issuer, directly or indirectly, has an interest.

A simplified chart of KBC Group's legal structure is provided below:



Principal activities of the Issuer: The Issuer and its subsidiaries (the "**Group**") is an integrated bank insurance group, catering mainly for retail, private banking, small and medium-sized enterprises and mid-cap clients. Geographically, the Group focusses on its core markets of Belgium, the Czech Republic, the Slovak Republic, Hungary and Bulgaria. Elsewhere in the world, the Group is present in Ireland and, to a limited extent, in several other countries to support corporate clients from the Group's core markets.

The Group's core business is retail and private bank-insurance (including asset management), although it is also active in providing services to corporations and market activities. Across its home markets, the Group is active in a large number of products and activities, ranging from the plain vanilla deposit, credit, asset management and life and non-life insurance businesses to specialised activities such as, but not exclusively, payments services, dealing room activities (money and debt market activities), brokerage and corporate finance, foreign trade finance, international cash management, leasing etc.

Information relating to the Programme

Description: Euro Medium Term Note Programme.

Notes to be issued under the Programme may comprise (i) unsubordinated Notes ("**Senior Notes**") and (ii) Notes which are subordinated as described herein and have terms capable of qualifying as Tier 2 Capital (as defined herein) (the "**Subordinated Tier 2 Notes**").

Arranger and Dealer:	KBC Bank NV. The Issuer may from time to time terminate the appointment of any dealer under the Programme or appoint additional dealers either in respect of one or more Tranches or in respect of the whole Programme. References in this Base Prospectus to "**Permanent Dealers**" are to the persons listed above as Dealers and to such additional persons that are appointed as dealers in respect of the whole Programme (and whose appointment has not been terminated) and references to "**Dealers**" are to all Permanent Dealers and all persons appointed as a dealer in respect of one or more Tranches.
Agent:	KBC Bank NV.
Size:	Up to EUR 5,000,000,000 (or its equivalent in any other currencies) aggregate nominal amount of Notes outstanding at any one time pursuant to the Euro Medium Term Note Programme (the "**Programme**")
Distribution:	The Notes will be distributed by way of private placement on a syndicated or non-syndicated basis. The Notes will be issued in series (each a "**Series**"), whether or not issued on the same date, that (except in respect of the first payment of interest and their issue price) have identical terms on issue and are expressed to have the same series number. A "**Tranche**" means, in relation to a Series, those Notes of that Series that are identical in all respects. The final terms and conditions for the Notes (or the relevant provisions thereof) will be completed in the final terms (the "**Final Terms**").
Currencies:	Subject to compliance with all relevant laws, regulations and directives, Notes may be issued in any currency agreed between the Issuer and the relevant Dealers.
Maturity:	Subject to compliance with all relevant laws (including the Applicable Banking Regulations), regulations and directives and unless previously redeemed or purchased and cancelled, each Note will have the maturity as specified in the applicable Final Terms. Unless otherwise permitted by the Applicable Banking Regulations, Subordinated Tier 2 Notes constituting Tier 2 Capital will have a minimum maturity of five years.
Issue Price:	Notes may be issued at their nominal amount or at a discount or premium to their nominal amount.
Form of Notes:	The Notes will be issued in dematerialised form in accordance with Article 468 et seq. of the Belgian Companies Code (*Wetboek van Vennootschappen/Code des Sociétés*). The Notes will be represented exclusively by book entry in the records of the clearing system operated by the National Bank of Belgium ("**NBB**") or any successor thereto (the "**Securities Settlement System**"). The Notes cannot be physically delivered and may not be converted into bearer notes (*effecten aan toonder/ titres au porteur*). Title to the Notes will pass by account transfer.
Specified Denomination:	The Notes will be in such denominations as may be specified in the relevant Final Terms save that in the case of any Notes, the specified denomination shall be €100,000 (or its equivalent in any other currency).

Status of Senior Notes:	Senior Notes constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer and shall at all times rank pari passu without any preference among themselves. The payment obligations of the Issuer under the Notes shall, save for such exceptions as may be provided by applicable legislation, at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations.
Status of Subordinated Tier 2 Notes:	Subordinated Tier 2 Notes constitute direct, unconditional and unsecured obligations of the Issuer and rank *pari passu* without any preference among themselves. The rights and claims of the Noteholders in respect of the Subordinated Tier 2 Notes are subordinated in the manner as set out below. In the event of an order being made, or an effective resolution being passed, for the liquidation, dissolution or winding-up of the Issuer by reason of bankruptcy (*faillissement/faillite*) or otherwise (except, in any such case, a solvent liquidation, dissolution or winding-up solely for the purposes of a reorganisation, reconstruction or amalgamation of the Issuer or the substitution in place of the Issuer of a successor in business of the Issuer), the rights and claims of the holders of the Subordinated Tier 2 Notes against the Issuer in respect of or arising under (including any damages awarded for breach of any obligation under) the Subordinated Tier 2 Notes shall, subject to any obligations which are mandatorily preferred by law, rank (a) junior to the claims of all Senior Creditors of the Issuer, (b) at least pari passu with the claims of holders of all obligations of the Issuer which constitute, or would but for any applicable limitation on the amount of such capital constitute, Tier 2 Capital of the Issuer and (c) senior to (1) the claims of holders of all share capital of the Issuer, (2) the claims of holders of all obligations of the Issuer which constitute Tier 1 Capital of the Issuer and (3) the claims of holders of all obligations of the Issuer which are or are expressed to be subordinated to the Subordinated Tier 2 Notes.
Terms of the Notes:	Notes (i) bear interest calculated by reference to a fixed rate of interest (such Note, a "**Fixed Rate Note**"), (ii) bear interest calculated by reference to a fixed rate of interest for an initial period and thereafter by reference to a fixed rate of interest recalculated on one or more dates specified in the Final Terms and by reference to a mid-market swap rate (such Note, a "**Fixed Rate Reset Note**"), (iii) bear interest by reference to one or more floating rates of interest (such Note, a "**Floating Rate Note**"), or (iv) are a combination of two or more of (i) to (iii) of the foregoing, as specified in the Final Terms.
Ratings:	Notes issued under the Programme may be rated or unrated. Where a Tranche of Notes is to be rated, such rating will be specified in the relevant Final Terms. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Withholding Tax:	All payments of principal and interest in respect of the Notes will be made free and clear of withholding taxes of the Kingdom of Belgium, unless the withholding is required by law. In such event, the Issuer shall, subject to customary exceptions, pay such additional amounts as shall result in receipt by the Noteholders of such amounts as would have been received by them had no such withholding been required.
Governing Law:	The Notes (except Conditions 1 (*Form, Denomination and Title*), 2 (*Status of the Notes*) and 10 (*Meeting of Noteholders and modifications*)) and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law. Conditions 1 (*Form, Denomination and Title*), 2 (*Status of the Notes*) and 10 (*Meeting of Noteholders and modifications*) and any non-contractual obligations arising out of or in connection with them shall be governed by, and construed in accordance with, Belgian law.
Listing and Admission to Trading:	Application has been made to Euronext Brussels for Notes issued under the Programme to be listed and to be admitted to trading on the regulated market of Euronext Brussels. As specified in the relevant Final Terms, a Series of Notes may be unlisted.
Selling Restrictions:	There are restrictions on the offer, sale and transfer of the Notes. See "*Subscription and Sale*" below. The Issuer is a Category 2 Issuer for the purposes of Regulation S under the Securities Act.

RISK FACTORS

The Issuer believes that the following factors may affect its ability to fulfil its obligations under Notes issued under the Programme. All of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.

In addition, factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme are also described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in Notes issued under the Programme, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with any Notes may occur for other reasons which may not be considered significant risks by the Issuer based on the information currently available to it or which it may not currently be able to anticipate. The Issuer does not represent that the statements below regarding the risks of holding any Notes are exhaustive. The sequence in which the risk factors are listed is not an indication of their likelihood to occur or of the extent of their consequences. Prospective investors should also read the detailed information set out elsewhere in this Base Prospectus (including any documents incorporated by reference herein) and reach their own views prior to making any investment decision and consult with their own professional advisors (if they consider it necessary).

The "Group" refers to KBC Group NV and its subsidiaries from time to time (including KBC Bank NV and KBC Insurance NV).

Capitalised terms used herein and not otherwise defined shall bear the meanings ascribed to them in "Terms and Conditions of the Notes" below.

RISKS RELATING TO THE ISSUER AND THE GROUP

Risks relating to the market in which the Group operates

Economic and market conditions may pose significant challenges for the Group and may adversely affect its results

The global economy, the condition of the financial markets and adverse macro-economic developments can all significantly influence the Group's performance. The after-effects of the financial crisis on the wider economy and the uncertainty concerning the future economic environment have led to more difficult earnings conditions for the financial sector. The challenging environment in which the Group operates is characterised by a tightening of credit, a prolonged period of low interest rates resulting from (amongst others) ongoing central bank measures to foster economic growth and giving rise to negative interest rates in some areas, increased and unprecedented levels of market volatility and a reduction in business activity with lower overall profitability. Furthermore, a number of countries in Europe have relatively large sovereign debts and/or fiscal deficits, and most European economies face a number of structural challenges.

Since the Group conducts the majority of its business in Belgium, the Czech Republic, the Slovak Republic, Hungary, Bulgaria and the other home markets such as Ireland, its performance is influenced by the level and cyclical nature of business activity in these countries which is in turn affected by both domestic and international economic and political events. A weakening in these economies may in particular have a negative effect on the Group's financial condition and results of operations. Moreover, any deterioration in financial and credit market conditions could further adversely affect the Group's business and, if they were to persist or worsen, could adversely affect the financial condition, results of operations and access to capital and credit of the Group.

General business and economic conditions that could affect the Group include the level and volatility of short-term and long-term interest rates, a prolonged period of low and potentially negative interest rates in some areas, inflation, employment levels, bankruptcies, household income, consumer spending, fluctuations in both debt and equity capital markets, liquidity of the global financial markets, fluctuations in foreign exchange, the availability and cost of funding, investor confidence, political crisis, credit spreads (e.g. corporate, sovereign) and the strength of the economies in which the Group operates.

In addition, the Group's business activities are dependent on the level of banking, finance and financial services required by its customers. In particular, levels of borrowing are heavily dependent on customer confidence, employment trends, the state of the economies in which the Group does business and market interest rates at the time.

All these elements, including market volatility, can negatively affect the Group's banking and asset management activities through a reduction in demand for products and services, a reduction in the value of assets held by the Group, a decline in the profitability of certain assets and a loss of liquidity in certain asset classes.

Political, constitutional and economic uncertainty arising from the outcome of the recent referendum on the membership of the United Kingdom in the European Union.

On 23 June 2016, the United Kingdom held a national referendum on the continued membership of the United Kingdom in the European Union. A majority of voters voted for the United Kingdom to leave the European Union. The announcement of the referendum result caused significant volatility in global stock markets and currency exchange rate fluctuations that resulted in a significant weakening of the pound sterling against the U.S. dollar, the euro and other major currencies. The share prices of major banks in Europe, including the Group, suffered significant declines in market prices. Furthermore, major credit rating agencies have downgraded the sovereign credit rating of the United Kingdom following the result of the referendum.

The result of the referendum does not legally obligate the United Kingdom to exit the European Union, and it is unclear if or when the United Kingdom will formally serve notice to the European Council of its desire to withdraw, a process that is unprecedented in European Union history. A process of negotiation will be required to determine the future terms of the relationship of the United Kingdom with the European Union, and the uncertainty before, during and after the period of negotiation could have a further negative economic impact and result in further volatility in the markets. Regardless of any eventual timing or terms of the United Kingdom's exit from the European Union, the June referendum has already created significant political, social and macroeconomic uncertainty.

The effects on the United Kingdom, European and global economy of the uncertainties arising from the results of the referendum are difficult to predict but may include economic and financial instability in Europe, the United Kingdom and the global economy and the other types of risks described in the risk factor entitled "*Economic and market conditions may pose significant challenges for the Group and may adversely affect its results*" on page 13 of this Base Prospectus.

Increased regulation of the financial services industry or changes thereto could have an adverse effect on the Group's operations

There have been significant regulatory developments in response to the global financial crisis, including various initiatives, measures, stress tests and liquidity risk assessments taken at the level of the European Union, national governments, the European Banking Authority and/or the European Central Bank (the "**ECB**"). This has led to the adoption of a new regulatory framework and the so-called "Banking Union", as a result of which the responsibility for the supervision of the major Eurozone credit institutions (including the Group) has been assumed at the European level.

The most relevant areas of regulatory and legislative developments which affect the Group include the following:

- The revised regulatory framework of Basel III which was implemented in the European Union through the adoption of Regulation (EU) n°575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms ("**CRR**") and Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions on prudential requirements for credit institutions and investment firms ("**CRD**", and together with CRR, "**CRD IV**").

- A new recovery and resolution regime for credit institutions which introduced certain tools and powers with a view to addressing banking crises pre-emptively in order to safeguard financial stability and minimise taxpayers' exposure to losses, through Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending various EU Directives and Regulations ("**RRD**").

- The assumption in November 2014 of certain supervisory responsibilities by the ECB which were previously handled by the National Bank of Belgium (the "**NBB**"), pursuant to Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions (the "**Single Supervision Mechanism**" or "**SSM**").

- Regulation (EU) No 806/2014 of the European Parliament and of the Council of 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Bank Resolution Fund and amending Regulation (EU) No 1093/2010 of the European Parliament and of the Council (the "**Single Resolution Mechanism**" or "**SRM**"). The Single Resolution Mechanism entered into force on 19 August 2014 and applies to credit institutions which fall under the supervision of the ECB, including the Group. It established a Single Resolution Board ("**SRB**") which is responsible since 1 January 2016 of vetting resolution plans and carrying out any resolution in cooperation with the national resolution authorities (the SRB together with the resolution college of the NBB is hereinafter referred to as the "**Resolution Authority**").

In May 2014, the new Belgian law of 25 April 2014 on the status and supervision of credit institutions (the "**Banking Law**") entered into force. The Banking Law replaced the banking law of 22 March 1993 and implemented various directives, including (without limitation) CRD IV and RRD, as well as various other measures taken since the financial crisis. The Banking Law imposes, amongst others, several restrictions with respect to certain activities (including trading activities, which may have to be separated if certain thresholds are exceeded) and prohibits certain proprietary trading activities. Certain provisions of the Banking Law are still subject to further implementation.

In addition, the Banking Law also puts a lot of emphasis on the solid and efficient organisation of credit institutions and introduces to that effect a dual governance structure at management level, specialised advisory committees within the Board of Directors (audit committee, risk committee, remuneration committee and nomination committee), independent control functions, and strict remuneration policies (including limits on the amount of variable remuneration, the form and timing for vesting and payment of variable remuneration, as well as claw-back mechanics). The Banking Law makes a fundamental distinction between the management of banking activities, which is within the competence of the Executive Committee, and the supervision of management and the definition of the credit institution's general and risk policy, which is entrusted to the Board of Directors. Pursuant to the Banking Law, the members of the Executive Committee

and the Board of Directors need to permanently have the required professional reliability and appropriate experience. The same goes for the responsible persons of the independent control functions. The fit and proper standards have been further elaborated by the NBB in a circular of 17 June 2013. The NBB Governance Manual for the Banking Sector contains recommendations to assure the suitability of shareholders, management and independent control functions and the appropriate organisation of the business.

The Group conducts its businesses subject to on-going regulation and associated regulatory risks, including the effects of changes in the laws, regulations, policies and interpretations in Belgium and the other regions in which the Group conducts its business. Changes in supervision and regulation, in particular in Belgium and Central and Eastern Europe (e.g. Hungary), could materially affect the Group's business, the products and services offered by it or the value of its assets.

In particular, it cannot be excluded that the Group would be required to issue further securities that qualify as regulatory capital or to liquidate assets or curtail certain businesses as a result of such new regulations or a different interpretation given by the ECB (or exercise of certain discretions under the applicable banking regulations in a different manner than the NBB). All may have an adverse effect on the Group's business, financial condition and results of operations. Moreover, there seems to have been an increase in the level of scrutiny applied by governments and regulators to enforce applicable regulations and calls to impose further charges on the financial services industry in recent years. There can be no assurance that such increased scrutiny or charges will not require the Group to take additional measures which, in turn, may have adverse effects on its business, financial condition and results of operations.

Risk associated with the highly competitive environment in which the Group operates and which could intensify further as a result of the global market conditions

As part of the financial services industry, the Group faces substantial competitive pressures that could adversely affect the results of its operations in banking, insurance, asset management and other products and services.

In its Belgian home market, the Group faces substantial competition, mainly from BNP Paribas Fortis, ING Group and Belfius Bank. In addition, the Group faces increased competition in the Belgian savings market from smaller-scale banking competitors (and internet bank competitors) seeking to enlarge their respective market shares by offering higher interest rates. In Central and Eastern Europe, the Group faces competition from the regional banks in each of the jurisdictions in which it operates and from international competitors such as UniCredit, Erste Bank and Raiffeisen International.

Competition is also affected by consumer demand, technological changes (including the growth of digital banking), regulatory actions and/or limitations and other factors. Such factors include changes in competitive behaviour due to new entrants to the market (including potentially non traditional financial services providers such as large retail or technology conglomerates) and new lending models (such as, for example, peer-to-peer lending). These competitive pressures could result in increased pricing pressures on a number of the Group's products and services and in the loss of market share in one or more such markets. Moreover, there can be no certainty that the Group's investment in its IT capability intended to address the material increase in customer use of online and mobile technology for banking will be successful or that it will allow the Group to continue to grow such services in the future.

Risks relating to the Group and its business

The Group has significant credit default risk exposure

As a large financial organisation, the Group is subject to a wide range of general credit risks, including risks arising from changes in the credit quality and recoverability of loans and amounts due from counterparties. Third parties that owe the Group money, securities or other assets may not pay or perform under their

obligations. These parties include, among others, borrowers under loans made by the Group (in particular, by KBC Bank NV), the issuers whose securities the Group holds, customers, trading counterparties, counterparties under derivative contracts, clearing agents, exchanges, clearing houses, guarantors and other financial intermediaries. These parties may default on their obligations to the Group due to bankruptcy, lack of liquidity, downturns in the economy or real estate values, operational failure or other reasons.

Credit institutions have witnessed a significant increase in default rates over the past few years as a result of worsening economic conditions. This increase in the scope and scale of defaults is evidenced by the significant increase in the amount of impaired loans in the portfolio of the Group in 2013, although this has been decreasing again since 2014. This trend – i.e. the decreasing amount of impaired loans – remains visible, particularly in Ireland. In some of the Central and Eastern European countries in which the Group is active, credit is also granted in a currency other than the local currency. Changes in exchange rates between the local and such other currency can also have an impact on the credit quality of the borrower. Any further adverse changes in the credit quality of the Group's borrowers, counterparties or other obligors could affect the recoverability and value of its assets and require an increase in the Group's provision for bad and doubtful debts and other provisions. In addition to the credit quality of the borrower, adverse market conditions such as declining real estate prices negatively affect the results of the Group's credit portfolio since these conditions impact the recovery value of the collateral. All this could be further exacerbated in the case of a prolonged economic downturn or worsening market conditions.

The Group's banking business makes provisions for loan losses which correspond to the provision for impairment losses in its income statement in order to maintain appropriate allowances for loan losses based on an assessment of prior loan loss experience, the volume and type of lending being conducted, industry standards, past due loans, economic conditions and other factors related to the collectability of the loan portfolio. This determination is primarily based on the Group's historical experience and judgment. Any increase in the provision for loan losses, any loan losses in excess of the previously determined provisions with respect thereto or changes in the estimate of the risk of loss inherent in the portfolio of non-impaired loans could have a material adverse effect on the Group's business, results of operation or financial condition.

The Group's principal credit risk exposure is to retail and corporate customers, including in its mortgage and real estate portfolio, as well as towards other financial institutions and sovereigns. As this credit risk reflects some concentration, particularly in Belgium, the Czech Republic, the Slovak Republic, Hungary, Bulgaria and the other home markets (such as Ireland) where it is active, the Group's financial position is sensitive to a significant deterioration in credit and general economic conditions in these regions. Moreover, uncertainty regarding Greece and the rest of the Eurozone, the risk of losses as a result of a country's or a credit institution's financial difficulties or a downgrade in its credit rating could have a significant impact on the Group's credit exposure, loan provisioning, results of operation and financial position. In addition, concerns about, or a default by, one credit institution could lead to significant liquidity problems, losses or defaults by other institutions, because the commercial and financial soundness of many financial institutions are closely related as a result of their credit, trading, clearing and other relationships.

The events described above have adversely affected and may continue to adversely affect, the Group's ability to engage in routine transactions as well as the performance of various loans and other assets it holds.

Risks associated with liquidity and funding inherent to the Group's business

The procurement of liquidity for the Group's operations and access to long term financings are crucial to achieve the Group's strategic goals, as they enable the Group to meet payment obligations in cash and on delivery, scheduled or unscheduled, so as not to prejudice the Group's activities or financial situation.

Although the Group currently has a satisfactory liquidity position (with a diversified core deposit base and a large amount of liquid and/or pledgeable assets), its procurement of liquidity could be adversely impacted by the inability to access the debt market, sell products or reimburse financings as a result of the deterioration of market conditions, the lack of confidence in financial markets, uncertainties and speculations regarding the solvency of market participants, rating downgrades or operational problems of third parties. In addition thereto, the Group's liquidity position could be adversely impacted by substantial outflows in deposits and asset management products and life insurance products.

Limitations of the Group's ability to raise the required funds on terms which are favourable for the Group, difficulties in obtaining long-term financings on terms which are favourable for the Group or dealing with substantial outflows could adversely affect the Group's business, financial condition and results of operations. In this respect, the adoption of new liquidity requirements under Basel III and CRD IV must be taken into account since these could give rise to an increased competition resulting in an increase in the costs of attracting the necessary deposits and funding.

Furthermore, as was the case during the financial crisis, protracted market declines can reduce the liquidity of markets that are typically liquid. If, in the course of its activities, the Group requires significant amounts of cash on short notice in excess of anticipated cash requirements, the Group may have difficulty selling investments at attractive prices, in a timely manner, or both. In such circumstances, market operators may fall back on support from central banks and governments by pledging securities as collateral. Unavailability of liquidity through such measures or the decrease or discontinuation of such measures could result in a reduced availability of liquidity on the market and higher costs for the procurement of such liquidity when needed, thereby adversely affecting the Group's business, financial condition and results of operations.

The Group is exposed to counterparty credit risk in derivative transactions

The Group executes a wide range of derivatives transactions, such as interest rate, exchange rate, share/index prices, commodity and credit derivatives with counterparties in the financial services industry.

Operating in derivative financial instruments exposes the Group to market risk and operational risk, as well as the risk that the counterparty defaults on its obligations or becomes insolvent prior to maturity when the Group has an outstanding claim against that counterparty. Non-standardised or individually negotiated derivative transactions can make exiting, transferring or settling the position difficult.

Counterparty credit risk has increased due to recent volatility in the financial markets and may be further exacerbated if the collateral held by the Group cannot be realised or liquidated at a value that is sufficient to cover the full amount of the counterparty exposure.

Changes in interest rates, which are caused by many factors beyond the Group's control, can have significant adverse effects on its financial results

Fluctuations in interest rates affect the return the Group earns on fixed interest investments and also affect the value of the investment and trading portfolio of the Group. Interest rate changes also affect the market values of the amounts of capital gains or losses the Group takes on and the fixed interest securities it holds.

The results of the Group's operations are affected by its management of interest rate sensitivity. Interest rate sensitivity refers to the relationship between changes in market interest rates and changes in net interest income. Changes in market interest rates, including in case of negative interest rates in certain areas, can affect the interest rates that the Group receives on its interest-earnings assets differently to the rates that it pays for its interest-bearing liabilities. Accordingly, the composition of the Group's assets and liabilities, and any gap position resulting from such composition, causes the Group's operations' net interest income to vary with changes in interest rates. In addition, variations in interest rate sensitivity may exist within the repricing

periods and/or between the different currencies in which the Group holds interest rate positions. A mismatch of interest-earning assets and interest-bearing liabilities in any given period may, in the event of changes in interest rates, have a material effect on the financial condition or results of operations of the Group's businesses.

The Group is subject to foreign exchange risk

The Group pursues a prudent policy as regards its structural currency exposure, with a view to limit as much as possible currency risk. Foreign exchange exposures in the asset-liability management ("**ALM**") books of banking entities with a trading book are transferred to the trading book where they are managed within the allocated trading limits. The foreign exchange exposure of banking entities without a trading book and of other entities has to be hedged, if material. Equity holdings in non-euro currencies that are part of the investment portfolio are however generally not hedged. Participating interests in foreign currency are in principle funded by borrowing an amount in the relevant currency equal to the value of assets excluding goodwill. Although the Group pursues a prudent policy with regard to foreign exchange risk, there can still be a limited impact of this risk on the financial results of the Group.

The Group is subject to market risk

The most significant market risks the Group faces are interest rate, spread, foreign exchange and bond and equity price risks. Changes in interest rate levels, yield curves and spreads may affect the interest rate margin realised between lending and borrowing costs. Changes in currency rates affect the value of assets and liabilities denominated in foreign currencies and may affect income from foreign exchange dealing. The performance of financial markets may cause changes in the value of the Group's investment and trading portfolios.

The Group uses a range of instruments and strategies to partly hedge against certain market risks. If these instruments and strategies prove ineffective or only partially effective, the Group may suffer losses. Unforeseen market developments such as those in relation to the government bonds of various countries which occurred in 2011 and 2012 may significantly reduce the effectiveness of the measures taken by the Group to hedge risks. Gains and losses from ineffective risk-hedging measures may heighten the volatility of the results achieved by the Group and could therefore have a material adverse effect on the Group's business, results of operations and financial condition.

A downgrade in the credit rating of KBC Group NV or its subsidiaries may limit access to certain markets and counterparties and may necessitate the posting of additional collateral to counterparties or exchanges

The credit ratings of KBC Group NV and certain of its subsidiaries are important to maintaining access to key markets and trading counterparties. The major rating agencies regularly evaluate KBC Group NV, certain of its subsidiaries and their securities, and their ratings of debt and other securities are based on a number of factors, including financial strength, as well as factors not entirely within the control of the Group, including conditions affecting the financial services industry generally or the rating of the countries in which it operates. In light of the difficulties in the financial services industry and the financial markets, there can be no assurance that KBC Group NV or its subsidiaries will maintain the current ratings.

KBC Group NV's or its subsidiaries' failure to maintain its credit ratings could adversely affect the competitive position of the Group, make entering into hedging transactions more difficult and increase borrowing costs or limit access to the capital markets or the ability of the Group to engage in funding transactions. A further reduction in an entity of the Group's credit ratings could have a significant impact on certain trading revenues, particularly in those businesses where longer term counterparty performance is

critical. In connection with certain trading agreements, an entity of the Group may be required to provide additional collateral in the event of a credit ratings downgrade.

The Group's risk management policies, procedures and methods may leave it exposed to unidentified, unanticipated or incorrectly quantified risks, which could lead to material losses or material increases in liabilities

The Group devotes significant resources to developing risk management policies and models, procedures and assessment methods for its banking and asset management businesses. The Group applies both quantitative and qualitative methods to arrive at quantifications of risk exposures. These include, amongst others, value-at-risk ("**VaR**") models, back testing, Probability of Default ("**PD**") models, Loss Given Default ("**LGD**") models, asset valuation models and stress tests as well as risk assessment methods.

Nonetheless, such risk management techniques and strategies may not be fully effective in assessing risk exposure in all economic and market environments or against all types of risk, including risks that the Group fails to identify or anticipate. Some of the models and metrics used are based upon observed historical behaviour as well as future predictions. Accordingly, the models used by the Group may fail to predict or predict incorrectly future risk exposures and the Group's losses could therefore be significantly greater than such measures would indicate. In addition, the risk management methods used by the Group do not take all risks into account and could prove insufficient. If prices move in a way that the Group's risk modelling has not anticipated, the Group may experience significant losses. These failures can be exacerbated where other market participants are using models that are similar to those of the Group. In certain cases, it may also be difficult to reduce risk positions due to the activity of other market participants or widespread market dislocations. Furthermore, other risk management methods depend on the evaluation of information regarding markets, customers or other publicly-available information. Such information may not always be accurate or up-to-date.

Accordingly, the Group's losses could be significantly greater than such measures would indicate and unanticipated or incorrectly quantified risk exposures could result in material losses in the Group's banking and asset management businesses.

While the Group strictly manages its operational risks, these risks remain inherent to its business

The Group is exposed to many types of operational risks, including fraudulent and other criminal activities (both internal and external), breakdowns in processes or procedures and systems failure or non-availability. In addition, the Group may also be subject to disruptions of its operating systems, or of the infrastructure that supports it, arising from events that are wholly or partially beyond the Group's control (for example natural disasters, acts of terrorism, computer viruses, pandemics, transport or utility failures or external vendors not fulfilling their contractual obligations) which could give rise to losses in service to customers and to loss or liability to the Group.

The operational risks that the Group faces include the possibility of inadequate or failed internal or external processes or systems, human error, regulatory breaches, employee misconduct or external events such as fraud or cyber crime. These events can potentially result in financial loss as well as harm to its reputation. Additionally, the loss of key personnel could adversely affect the Group's operations and results.

The Group attempts to keep operational risks at appropriate levels by maintaining a sound and well controlled environment in light of the characteristics of its business, the markets and the regulatory environments in which it operates. While these control measures mitigate operational risks, they do not eliminate them.

The financial industry, including the Group, is increasingly dependent on information technology systems, which may fail, be inadequate or no longer available

The Group, like other banks, financial and insurance institutions, is increasingly dependent on highly sophisticated information technology (IT) systems for the conduct of its business. The proper functioning of the Group's payment systems, financial and sanctions controls, risk management, credit analysis and reporting, accounting, customer services and other IT services, as well as the communication networks between its branches and main data centres, are critical to the Group's operations.

IT systems are, however, vulnerable to a number of problems, such as software or hardware malfunctions, computer viruses, hacking and physical damage to vital IT centres. IT systems need regular upgrading and banks, including the Group, may not be able to implement necessary upgrades on a timely basis or upgrades may fail to function as planned. Furthermore, failure to protect financial industry operations from cyber-attacks could result in the loss or compromise of customer data or other sensitive information. These threats are increasingly sophisticated and there can be no assurance that banks will be able to prevent all breaches and other attacks on its IT systems. In addition to costs that may be incurred as a result of any failure of IT systems, banks, including the Group, could face fines from bank regulators if they fail to comply with applicable banking or reporting regulations.

The Group's financial statements are in part based on assumptions and estimates which, if inaccurate, could have an impact on its reported results or financial position

The Group's financial statements are based in part on assumptions and estimates which, if inaccurate, could cause material misstatement of the results of its operations and financial position.

The preparation of financial statements in accordance with EU-IFRS requires the use of estimates. It also requires management to exercise judgment in applying relevant accounting policies. The key areas involving a higher degree of judgment or complexity, or areas where assumptions are significant to the consolidated and individual financial statements, include credit impairment charges for amortised cost assets, impairment and valuation of available-for-sale investments, calculation of income and deferred tax, fair value of financial instruments, valuation of goodwill and intangible assets, valuation of provisions and accounting for pensions and post-retirement benefits. There is a risk that if the judgment exercised or the estimates or assumptions used subsequently turn out to be incorrect then this could result in significant loss to the Group, beyond that anticipated or provided for, which could have an adverse effect on its business, financial condition and results of operations.

Observable market prices are not available for many of the financial assets and liabilities that the Group holds at fair value and a variety of techniques to estimate the fair value are used. Should the valuation of such financial assets or liabilities become observable, for example as a result of sales or trading in comparable assets or liabilities by third parties, this could result in a materially different valuation to the current carrying value in the Group's financial statements.

The further development of standards and interpretations under EU-IFRS could also significantly affect the results of operations, financial condition and prospects of the Group.

The Group is exposed to the risk of breaches of regulatory and compliance-related requirements in connection with the exercise of its business activity, such as provisions for limitation of money laundering

The possibility of inadequate or erroneous internal and external work processes and systems, regulatory problems, breaches of compliance-related provisions in connection with the exercise of business activities, such as rules to prevent money laundering, human errors and deliberate legal violations such as fraud cannot be ruled out. The Group endeavours to hedge such risks by implementing appropriate control processes tailored to its business, the market and regulatory environment in which it operates. Nevertheless, it is possible that these measures prove to be ineffective in relation to particular or all operational risks to which

the Group is exposed. Even though the Group endeavours to insure itself against the most significant operational risks, it is not possible to obtain insurance cover for all the operational risks on commercially acceptable terms on the market. Should one, some or all of the risks described in this paragraph materialise, the Group business, results of operations and financial condition could be materially adversely affected.

Litigation or other proceedings or actions may adversely affect the Group's business, financial condition and results of operations

The Group's business is subject to the risk of litigation by customers, employees, shareholders or others through private actions, administrative proceedings, regulatory actions or other litigation. Given the complexity of the relevant circumstances and corporate transactions underlying these proceedings, together with the issues relating to the interpretation of applicable law, it is inherently difficult to estimate the potential liability related to such liability risks, to evaluate the outcome of such litigation or the time when such liability may materialise. Management makes estimates regarding the outcome of legal, regulatory and arbitration matters and creates provisions when losses with respect to such matters are deemed probable and can be reasonably estimated. Estimates, by their nature, are based on judgment and currently available information and involve a variety of factors, including but not limited to the type and nature of the litigation, claim or proceeding, the progress of the matter, the advice of legal counsel and other advisers, possible defences and previous experience in similar cases or proceedings. Legal proceedings with remote or non quantifiable outcomes are not provided for, and the Group may be required to cover litigation losses which are not covered by such provision, including for example series of similar proceedings. As a result, there can be no assurance that provisions will be sufficient to fully cover the possible losses arising from litigation proceedings, and the Group cannot give any assurance that a negative outcome in one or more of such proceedings would not have a material adverse effect on the Group's business, results of operations or financial condition.

Furthermore, plaintiffs in legal proceedings may seek recovery of large or indeterminate amounts or other remedies that may affect the Group's ability to conduct business, and the magnitude of the potential loss relating to such actions may remain unknown for substantial periods of time. Also, the cost to defend future actions may be significant. There may also be adverse publicity associated with litigation that could decrease customer acceptance of its services, regardless of whether the allegations are valid or whether they are ultimately found liable. See further "*Description of the Issuer – Litigation*" on page 114 of this Base Prospectus.

As a result, litigation may adversely affect the Group's business, financial condition and results of operations.

The Group is exposed to risks on account of pension obligations

The Group has various pension obligations towards its current and former staff. These obligations therefore entail various risks which are similar to, amongst others, risks in a life insurance company and risks involving a capital investment. Risks, however, may also arise due to changes in tax or other legislation, and/or in judicial rulings, as well as inflation rates or interest rates. Any of these risks could have a material adverse effect on the Group's business, results of operations and financial condition.

The Group is exposed to certain risks relating to its insurance operations, including underwriting risk

In addition to the risks mentioned elsewhere in this section in relation to the Group, KBC Insurance NV is confronted with risks related to economic (such as lapse rates, expenses) and non-economic (such as mortality, longevity, disability) parameters in the life insurance business and catastrophe and non-catastrophe risks in the damage insurance business. Changes in the frequency of the underlying risk factors may affect the level of liability of KBC Insurance NV and its realised technical income. KBC Insurance NV has

implemented risk management methods to reduce and control the insurance risks to which it is exposed, as for example reinsurance programs, and the risks are constantly measured and monitored.

Risks related to the Group's insurance business

The Group is dependent on the level of insurance services required by its customers. The Group's insurance business faces substantial competitive pressure that could adversely affect the results of its operations. Moreover, its liquidity position could be adversely impacted by substantial outflows in life insurance products.

A new regime governing solvency margins and provisions in relation to insurance undertakings (Solvency II) entered into force as of 1 January 2016

The European Union is currently developing a new solvency framework for insurance and reinsurance companies operating in the European Union, referred to as "Solvency II". The adoption of European Directive 2009/138/EC on the taking-up and pursuit of the business of insurance and reinsurance of 25 November 2009, as amended by Directive 2013/58/EU of 11 December 2013 as regards the date for its transposition and the date of its application and by Directive 2014/51/EU of 16 April 2014 (the "**Solvency II Directive**") marked an important step in this major reform. Implementation of the Solvency II Directive by the EU Member States and its entry into force had originally been scheduled for 1 January 2014. However, on 11 December 2013, the European Parliament adopted a directive amending the Solvency II Directive and pursuant to which the deadline for transposition of Solvency II into national law was scheduled for 31 March 2015 and the application of Solvency II for 1 January 2016.

The Solvency II Directive has partially been transposed into Belgian law through the law of 13 March 2016 on the status and supervision of (re)insurance institutions, which entered into force on 23 March 2016. The other provisions of the Solvency II Directive, more specifically on annual accounts of (re)insurance institutions, life insurance and profit sharing for life insurance, will be further transposed through royal decrees.

The new regime for insurers and reinsurers is based on three pillars: minimum capital requirements, supervisory review of the company's assessment of risk and enhanced disclosure requirements. A key aspect of Solvency II is that capital requirements are risk-based assessed and that under this new regime companies are permitted to use a (partial) self-developed internal model (as opposed to the standard approach or model) for the calculation of the required capital, provided the relevant regulatory authority approves such internal model.

Although the impact of the rules on the Group, its insurance business, capital requirements, financial condition, key risk management resources or results of operations have become increasingly clear over the last years, a few uncertainties still remain, amongst which the impact of the further transposition in national regulation. Nevertheless, the solvency position of KBC Insurance NV is expected to remain strong under Solvency II.

Other risks relating to the Group

The Group is responsible for contributing to compensation schemes and subject to special bank taxes

Like other groups which comprise credit institutions, the Group is required to make contributions to national resolution funds based on a number of criteria, including the amount of its deposit taking. In addition, the Group is required to make contributions to the European Single Resolution Fund which was established pursuant to the SRM and which is to be built up with contributions of the banking sector to ensure the availability of funding support for the resolution of credit institutions. The overall aim of the SRM is to ensure an orderly resolution of failing banks with minimal costs to taxpayers and the real economy. Moreover, the

Group is also subject to special bank taxes which have been introduced after the financial crisis and which have been increased in recent years.

Any levies, taxes or funding requirements imposed on the Group pursuant to the foregoing or otherwise in any of the jurisdictions where they operate could have a material adverse effect on the Group's business, financial condition and results of operations.

The Group is subject to increasingly onerous minimum regulatory capital and liquidity requirements

The Group is, as a bank-insurance group, subject to the capital requirements and capital adequacy ratios of CRD IV, which implements the Basel III capital requirements, and Solvency II. The CRD IV requirements include a capital conservation buffer and, in certain circumstances, a systemic buffer and/or a countercyclical buffer which come on top of the minimum requirements. These additional requirements are being gradually phased in and have an impact on the Group and its operations, as it imposes higher capital requirements.

The Group is subject to the risk, inherent in all regulated financial businesses, of having insufficient capital resources to meet the minimum regulatory capital requirements. Under CRD IV, capital requirements are inherently more sensitive to market movements than under previous regimes. Capital requirements will increase if economic conditions or negative trends in the financial markets worsen. Accordingly, banks could be required to raise additional capital if they were to incur losses or asset impairments. Any such further capital increases may be difficult to achieve or only be raised at high costs in the context of adverse market circumstances.

Any failure of the Group to maintain its minimum regulatory capital ratios could result in administrative actions or sanctions or it ultimately being subject to any resolution action (including bail-in), which in turn is likely to have a material adverse impact on the Group's results of operations. A shortage of available capital may restrict the Group's opportunities for expansion.

Under CRD IV, the Issuer will also become subject to liquidity requirements and a leverage ratio (which compares Tier 1 capital to total assets) in the future.

The Group could become subject to the exercise of "bail-in" powers or other resolution powers by the Resolution Authority. The potential impact thereof is inherently uncertain, including in certain significant stress situations

RRD, which was adopted in May 2014 and implemented in the Banking Law, provides common tools and powers to supervisory and resolution authorities to address banking crises pre-emptively in order to safeguard financial stability and minimise taxpayers' exposure to losses. The powers granted to resolution authorities under the RRD include a "bail-in" power and a statutory "write-down and conversion power". These are the power to write down the claims of unsecured creditors (including the rights of Noteholders) of a failing institution in order to recapitalise the institution by allocating losses to its shareholders and unsecured creditors, or to convert debt into equity, as a means of restoring the institution's capital position. The bail-in power is applicable to all eligible liabilities as defined in the RRD. Pursuant to Article 44 (2) of the RRD, certain liabilities of credit institutions are, however, excluded from the scope of the "eligible liabilities" and therefore not subject to the bail-in. The bail-in power was introduced with effect on 1 January 2016 and comes in addition to the write-down and conversion power applicable to additional Tier 1 and Tier 2 capital instruments, which is to be exercised before or at the latest concurrently with (but immediately prior to) the exercise of any resolution power (including the bail-in power).

Under the Banking Law, substantial powers have been granted to the NBB, the SSM and the SRM in their capacity as supervisory authority and resolution authority. These powers enable the Resolution Authority to deal with and stabilise credit institutions and their holding company (including KBC Group NV and KBC

Bank NV) that are failing or are likely to fail. In line with RRD, the resolution regime will enable the Resolution Authority to: (i) transfer all or part of the business of the relevant entity or the shares of the relevant entity to a private sector purchaser; (ii) transfer all or part of the business of the relevant entity to a "bridge bank"; and (iii) obtain the temporary public ownership of the relevant entity. Moreover, competent supervisory and resolution authorities are entrusted with broad early intervention powers and institutions will be required to draw up recovery and resolution plans and demonstrate their resolvability.

Moreover, in order to make the bail-in power effective, RRD and the Banking Law provide that credit institution groups will at all times have to meet a minimum requirement for own funds and eligible liabilities ("**MREL**") so that there is sufficient capital and liabilities available to stabilise and recapitalise failing credit institutions. These requirements are being gradually phased in. Certain aspects relating to, amongst others, the types of liabilities that will be subject to the bail-in powers and the manner in which they will be computed still need to be further implemented by means of technical standards. It is also not entirely clear at this stage whether and to what extent the approach set out by the Financial Stability Board in respect of the Total Loss-Absorbing Capacity ("**TLAC**") for global systemically important banks ("**G-SIBs**") will be adopted in respect of MREL, including in relation to the sanctions that would apply in the case of an institution's failure to comply with MREL. However, it is possible that a failure to meet MREL requirements would be treated in the same manner as a failure to meet minimum regulatory capital requirements. Accordingly, any failure to comply may have a material adverse effect on the Group's business and results of operation.

As these are new rules and there are still a number of important implementation rules that need to be adopted under CRD IV, RRD and the Banking Law, considerable uncertainty remains about the potential effect thereof on the business and operations of the Group and how the authorities may choose to exercise the powers afforded to them under such rules. This also applies to the exercise of certain discretions accorded by the regulator under CRD IV (including options with respect to the treatment of assets of other affiliates) which may in the future be interpreted in a different manner by the ECB than the NBB.

Belgian bank recovery and resolution regime

RRD has been transposed into Belgian law as from 6 March 2015. Under the Belgian bank recovery and resolution regime, the supervisory and resolution authorities (which includes the Resolution Authority) are able to take a number of measures in respect of any credit institution it supervises if deficiencies in such credit institution's operations are not remedied. Such measures include the appointment of a special commissioner whose consent is required for all or some of the decisions taken by all the institution's corporate bodies; the imposition of additional requirements in terms of solvency, liquidity, risk concentration and the imposition of other limitations; limitations on variable remuneration; the complete or partial suspension or prohibition of the institution's activities; the requirement to transfer all or part of the institution's participations in other companies; the replacement of the institution's directors or managers; the revocation of the institution's licence; and the right to impose the reservation of distributable profits, or the suspension of dividend distributions or interest payments to holders of additional Tier 1 capital instruments.

Furthermore, the lead regulators can impose specific measures on important financial institutions (including the Group), when the Resolution Authority is of the opinion that (a) such financial institution has an unsuitable risk profile or (b) the policy of the financial institution can have a negative impact on the stability of the financial system.

These new regulations confer wide-ranging powers on competent authorities to intervene and to alter an institution's business, operations and capital markets and debt structure which could have significant consequences on the Group's profitability, operations and financing costs. As these are new rules and as there remain a number of important implementing measures that still need to be adopted, there is considerable

uncertainty about the potential effect thereof on the business and operations of the Group and how the authorities may choose to exercise the powers afforded to them under such laws and regulations.

The Group is highly concentrated in and hence vulnerable to European sovereign exposure, in particular in its home country Belgium

The Group conducts the vast majority of its business in the European Union. Part of that business has led to an exposure by the Group towards various countries in the European Union, including certain countries which have come under market pressure in the past few years and which have not yet fully recovered from the effects of the financial crisis. As the overall environment remains challenging, with growth projected to remain weak, it cannot be excluded that political, economic and financial developments in certain European countries could put pressure on their ability to meet their obligations vis-à-vis their creditors, including the Group. If any such sovereign risk were to materialise, the Group's business, financial condition and results of operation could be materially adversely affected. See further "*Description of the Issuer – Risk management – Sovereign debt exposure*" on page 88 of this Base Prospectus.

RISKS RELATING TO THE NOTES

General risks relating to the Notes

The Notes may not be a suitable investment for all investors

The Notes may not be a suitable investment for all investors. In particular, each potential investor should:

(i) have sufficient knowledge and experience to make a meaningful evaluation of the relevant Notes, the merits and risks of investing in the relevant Notes and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement and all information contained in the applicable Final Terms;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Notes and the impact such investment will have on its overall investment portfolio;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Notes, including where the currency for principal and/or interest payments is different from the potential investor's currency;

(iv) understand thoroughly the terms of the relevant Notes and be familiar with the behaviour of any relevant indices, interest rates and financial markets; and

(v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Noteholders may be required to absorb losses in the event the Issuer becomes non-viable or were to fail

Noteholders may lose their investment in case the Issuer were to become non-viable or fail. In such circumstances, resolution authorities may require Subordinated Tier 2 Notes to be written down or converted and Senior Notes to be bailed-in, including (without limitation) Subordinated Tier 2 Notes and Senior Notes issued prior to the date of this Base Prospectus.

New resolution powers

The European recovery and resolution directive RRD provides common tools and powers to the supervisory and resolution authorities to address banking crises pre-emptively in order to safeguard financial stability and minimise taxpayers' exposure to losses.

The powers granted to resolution authorities under RRD include a "write-down and conversion power" and a "bail-in" power, which give the Resolution Authority the power to write down and/or covert into another security (i) regulatory capital instruments (including the Subordinated Tier 2 Notes) and (ii) the claims of certain unsecured creditors of a failing institution (including the Notes). These so-called "bail-in" powers are part of a broader set of resolution tools provided to the Resolution Authority under RRD in relation to distressed credit institutions and investment firms. These include the ability for the Resolution Authority to force, in certain circumstances of distress, the sale of a credit institution's business or its critical functions, the separation of assets, the replacement or substitution of the credit institution as obligor in respect of debt instruments, modifications to the terms of debt instruments (including altering the maturity and/or the amount of interest payable and/or imposing a temporary suspension on payments) and discontinuing the listing and admission to trading of financial instruments.

Write-down / conversion of tier 2 capital instruments, including Subordinated Tier 2 Notes

RRD requires the Resolution Authority to write down the principal amount of tier 2 capital instruments (including the Subordinated Tier 2 Notes) or to convert such principal amount into common equity tier 1 of the Issuer so as to ensure that the regulatory capital instruments (including the Subordinated Tier 2 Notes) fully absorb losses at the point of non-viability of the issuing institution. Accordingly, the Resolution Authority shall be required to write down or convert such capital instruments (including the Subordinated Tier 2 Notes) immediately before taking any resolution action or, independently from any resolution action, if the Issuer were to be deemed to have reached the point of non-viability or were to benefit from public support.

An institution will be deemed to be no longer viable if (i) it is failing or likely to fail and (ii) there is no reasonable prospect that a private action would prevent the failure within a reasonable timeframe.

The resolution authorities has to exercise the write down and conversion powers in a way that results in (i) common equity tier 1 and additional tier one instruments of the Issuer being written down first in proportion to the relevant losses and (ii) thereafter, the principal amount of other tier 2 capital instruments (including Subordinated Tier 2 Notes) being written down potentially on a permanent basis or converted into common equity tier 1.

Bail-in of senior debt and other eligible liabilities, including Senior Notes

The bail-in regime entered into force in Belgium on 1 January 2016. Accordingly, holders of Senior Notes are at risk of losing some or all of their investment (including outstanding principal and accrued but unpaid interest) upon exercise by the resolution authority of the "bail-in" resolution tool in circumstances where the Issuer fails or is likely to fail. The bail-in power includes the power to cancel a liability or modify the terms of contracts for the purposes of reducing or deferring the liabilities of the relevant financial institution and the power to convert a liability from one form to another, all with a view to recapitalising the failing credit institution.

The resolution authority has the power to bail-in (i.e. write down or convert) senior debt such as the Senior Notes, after having written down or converted tier 1 capital instruments and tier 2 capital instruments (such as the Subordinated Tier 2 Notes). The bail-in power enables the Resolution Authority to recapitalise a failed institution by allocating losses to its shareholders and unsecured creditors (including holders of Senior Notes) in a manner which is consistent with the hierarchy of claims in an insolvency of a relevant financial institution. RRD contains certain safeguards which provide that shareholders and creditors that are subject to any write down or conversion should not incur greater losses than they would have incurred had the relevant financial institution been wound up under normal insolvency proceedings.

The Resolution Authority is able to exercise its bail-in powers if the following (cumulative) conditions are met:

(a) the determination that the institution is failing or is likely to fail has been made by the relevant regulator, which means that one or more of the following circumstances are present:

  (i) the institution infringes or there are objective elements to support a determination that the institution will, in the near future, infringe the requirements for continuing authorisation in a way that would justify the withdrawal of the authorisation by the competent authority, including but not limited to, because the institution has incurred or is likely to incur losses that will deplete all or a significant amount of its own funds;

  (ii) the assets of the institution are or there are objective elements to support a determination that the assets of the institution will, in the near future, be less than its liabilities;

(iii) the institution is or there are objective elements to support a determination that the institution will, in the near future, be unable to pay its debts or other liabilities as they fall due;

(iv) the institution request extraordinary public financial support;

(b) having regard to timing and other relevant circumstances, there is no reasonable prospect that any alternative private sector measures or supervisory action taken in respect of the institution would prevent the failure of the institution within a reasonable timeframe; and

(c) a resolution action is necessary in the public interest.

Importantly, certain liabilities of credit institutions will be excluded from the scope of the "eligible liabilities" and therefore not subject to bail-in. These included covered deposits, secured liabilities (including covered bonds) as well as certain debt with maturities of less than 7 days and certain other liabilities. All other liabilities (including the Senior Notes) will be deemed "eligible liabilities" subject to the statutory bail-in powers.

RRD specifies that governments will only be entitled to use public money to rescue credit institutions if a minimum of 8% of the own funds and total liabilities have been written down, converted or bailed in. Moreover, the resolution authorities will be entitled to first bail-in senior debt issued at the level of KBC Group NV, including the Senior Notes, before writing down or bailing in any tier 1, tier 2 capital instruments or senior debt issued at the level of KBC Bank NV.

Impact

The determination that all or part of the principal amount of any series of Subordinated Tier 2 Notes and Senior Notes are subject to loss absorption is likely to be inherently unpredictable and may depend on a number of factors which may be outside of the Group's control. This determination will also be made by the Resolution Authority and there may be many factors, including factors not directly related to the Group, which could result in such a determination. Because of this inherent uncertainty, it will be difficult to predict when, if at all, the exercise of such bail-in powers may occur.

Accordingly, trading behaviour in respect of the Subordinated Tier 2 Notes and potentially Senior Notes is not necessarily expected to follow the trading behaviour associated with other types of securities. Potential investors in the Subordinated Tier 2 Notes and the Senior Notes should consider the risk that a Noteholder may lose all of its investment, including the principal amount plus any accrued and unpaid interest, if such statutory loss absorption measures are acted upon or that the Subordinated Tier 2 Notes or the Senior Notes may be converted into ordinary shares. Noteholders may have limited rights or no rights to challenge any decision to exercise such powers or to have that decision reviewed by a judicial or administrative process or otherwise.

The Issuer is not prohibited from issuing additional debt

There is no restriction on the amount of debt that the Issuer may issue, which may rank *pari passu* or, in the case of Subordinated Tier 2 Notes, senior with the Notes. The issue of any such debt or securities may reduce the amount recoverable by investors upon the Issuer's bankruptcy. If the Issuer's financial condition were to deteriorate, the holders could suffer direct and materially adverse consequences, including suspension of interest and reduction of interest and principal and, if the Issuer were liquidated (whether voluntarily or involuntarily), the holders could suffer loss of their entire investment.

As the Issuer is a holding company, the holders of Notes will be structurally subordinated to other creditors who hold debt instruments at the level of one or more of the operating subsidiaries of the Issuer

The Issuer is the financial holding company of the Group and has two important subsidiaries, KBC Bank NV and KBC Insurance NV. The main sources of operating funds for the Issuer are the dividends, distributions, interest payments and any advances it receives from its operating subsidiaries and the amounts raised through the issuance of debt instruments. The ability of the subsidiaries to make dividends and other payments to the Issuer may depend on their profitability and may be subject to certain legal or contractual restrictions. The extent to which the Issuer is able to receive or raise such funds will, in turn, affect its ability to make payments on the Notes and any other debt instruments of the Issuer, which, in addition, may rank senior. The Notes do not benefit from any guarantee from any of the subsidiaries.

Moreover, the holders of Notes will be structurally subordinated to other creditors who hold debt instruments at the level of one or more of the operating subsidiaries of the Issuer, including, without limitation, the contingent Tier 2 capital notes issued by KBC Bank NV. The subsidiaries of the Issuer generally hold more operational assets than the Issuer. If the assets of the Issuer's subsidiaries were to be realised, it is possible that, after such realisation, insufficient assets would remain available for distribution to the Issuer in order to enable it to fulfil any payment obligations under the Notes. See also risk factor "*Noteholders may be required to absorb losses in the event the Issuer becomes non-viable or were to fail*" on page 27 of this Base Prospectus.

Potential conflicts of interest

The Agent, some of the Dealers and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Issuer or its affiliates. They have received, or may in the future receive, customary fees and commissions for these transactions. In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or its affiliates. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Potential investors should be aware that the Issuer is the parent company of KBC Bank NV, which may act as Dealer, and that the interests of KBC Bank NV and the Issuer may conflict with the interests of the holders of Notes. Moreover, the holders of Notes should be aware that KBC Bank NV, acting in whatever capacity, will not have any obligations vis-à-vis the holders of any Notes and, in particular, will not be obliged to protect the interests of the holders of any Notes.

Where the Issuer acts as Calculation Agent or the Calculation Agent is an affiliate of the Issuer (including KBC Bank NV), potential conflicts of interest may exist between the Calculation Agent and Noteholders, including with respect to certain determinations and judgements that the Calculation Agent may make pursuant to the Conditions (such as in the case of any applicable interest rate determination) which may influence the amount receivable under the Notes. Where any such determination or judgement is to be made, there is generally no or very limited room for discretion as the Conditions stipulate the objective parameters on the basis of which the Calculation Agent has to perform its calculations and tasks (such as, for example, determining a rate by computing a predetermined rate and a screen rate). The Conditions nevertheless provide that, in certain limited and exceptional cases, the Calculation Agent may have to determine certain rates in its sole discretion as fallback in the absence of any such objective parameters (see, for example, Condition 3(b)

and Condition 3c(iii)sub (A) (B)(3)). In such circumstances, the Calculation Agent is likely but not required to make use of methodologies and determinations which are available or customarily used in the market.

Potential conflicts of interest may arise in connection with Notes that are offered to the public, as any distributors or other entities involved in the offer and/or the listing of such Notes as indicated in the applicable Final Terms, will act pursuant to a mandate granted by the Issuer and can receive commissions and/or fees on the basis of the services performed in relation to such offer and/or listing. See also risk factor "*Potential conflicts of interest specific to Subordinated Tier 2 Notes*" on page 40 of this Base Prospectus.

In certain instances the Noteholders may be bound by certain amendments to the Notes to which they did not consent

The Notes are subject to certain statutory provisions of Belgian law allowing for the calling of meetings of Noteholders to consider matters affecting their interests. See Condition 11. These provisions permit defined majorities to bind all holders, including holders who did not attend and vote at the relevant meeting and holders who voted in a manner contrary to the majority. Further, the Issuer may without the consent or approval of the holders make such amendments to the Conditions or the Agency Agreement which are of a formal, minor or technical nature or made to correct a manifest error or comply with mandatory provisions of law or such amendments to the Agency Agreement which are not prejudicial to the interests of the holders (except those changes in respect of which an increased quorum is required).

Moreover, in the case of Subordinated Tier 2 Notes for which such option has been specified in the Final Terms, the Issuer will, subject to certain conditions, be entitled to vary the terms of the Subordinated Tier 2 Notes upon the occurrence and continuation of a Capital Disqualification Event (as defined in Condition 4) so as to ensure that they remain or become Qualifying Securities (as defined in Condition 6). See also risk factor "*Variation of Subordinated Tier 2 Notes upon the occurrence of a Capital Disqualification Event*" on page 40 of the Base Prospectus.

The Notes are subject to early redemption by the Issuer, subject to certain conditions

Redemption at the option of the Issuer

If so specified in the Final Terms, the Notes may be redeemed early at the option of the Issuer, provided that Subordinated Tier 2 Notes may as a general rule and subject to certain other exceptions (see below) only be redeemed by the Issuer after five years. An optional redemption feature is likely to limit the market value of the Notes. During any period when the Issuer may elect to redeem the Notes, the market value of the Notes generally will not rise substantially above the price at which they can be redeemed. In addition, holders will not receive a make-whole amount or any other compensation in the event of any early redemption of Notes.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. Potential investors should consider reinvestment risk in light of other investments available at that time.

Redemption for Taxation Reasons

The Issuer will be entitled to redeem the Notes early if, as a result of a Tax Law Change (as defined in Condition 4(b)), it becomes obliged to pay additional amounts pursuant to Condition 7 or it can no longer deduct payments in respect of the Notes for Belgian income tax purposes. On the occurrence of any such Tax Event (as defined in Condition 4(b)), the Issuer may at its option (but subject to certain conditions, including, in the case of Subordinated Tier 2 Notes, Condition 4(j)) redeem all, but not some only, of any relevant Series of Notes at the applicable Early Redemption Amount together with any accrued but unpaid interest up to (but excluding) the date fixed for redemption. See also risk factor "*Specific risks relating to the Subordinated Tier*

2 Notes" – "*Redemption of Subordinated Tier 2 Notes upon the occurrence of a Capital Disqualification Event, Tax Event or after 5 years*" on page 40 of this Base Prospectus.

Redemption of Senior Notes due to Loss Absorption Disqualification Event

If at any time a Loss Absorption Disqualification Event occurs and is continuing in relation to any Series of Senior Notes and the applicable Final Terms for the Senior Notes of such Series specify that the Issuer has an option to redeem such Senior Notes in such circumstances the Issuer may redeem all, but not some only, of the Senior Notes of such Series at the price set out in the applicable Final Terms together with any outstanding interest. A Loss Absorption Disqualification Event shall be deemed to have occurred if (i) at the time that any Loss Absorption Regulation (as defined in the Conditions) becomes effective, and as a result of such Loss Absorption Regulation becoming so effective, in each case with respect to the Issuer and/or the Group, the Senior Notes do not or (in the opinion of the Issuer or the Relevant Regulator (as defined in the Conditions)) are likely not to qualify in full towards the Issuer's and/or the Group's minimum requirements for (A) own funds and eligible liabilities and/or (B) loss absorbing capacity instruments; or (ii) as a result of any amendment to, or change in, any Loss Absorption Regulation, or any change in the application or official interpretation of any Loss Absorption Regulation, in any such case becoming effective on or after the Issue Date of the first Tranche of the Senior Notes, the Senior Notes are or (in the opinion of the Issuer or the Relevant Regulator) are likely to be fully or partially excluded from the Issuer's and/or the Group's minimum requirements for (A) own funds and eligible liabilities and/or (B) loss absorbing capacity instruments, in each case as such minimum requirements are applicable to the Issuer and/or the Group and determined in accordance with, and pursuant to, the relevant Loss Absorption Regulations; provided that in the case of (i) and (ii) above, a Loss Absorption Disqualification Event shall not occur where the exclusion of the Senior Notes from the relevant minimum requirement(s) is due to the remaining maturity of the Senior Notes being less than any period prescribed by any applicable eligibility criteria for such minimum requirements under the relevant Loss Absorption Regulations effective with respect to the Issuer and/or the Group on the Issue Date of the first Tranche of the Senior Notes. As the implementation of the minimum requirements for eligible liabilities under Directive 2014/59/EC of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms ("**BRRD**") is subject to the adoption of further secondary legislation and implementation in Belgium, the Issuer is currently unable to predict whether the Senior Notes will not (or are likely not to) qualify in full towards its or the Group's minimum requirements for (A) own funds and eligible liabilities and/or (B) loss absorbing capacity instruments, or will be fully or partially excluded from its or the Group's minimum requirements for (A) own funds and eligible liabilities and/or (B) loss absorbing capacity instruments, in each case as such minimum requirements are applicable to the Issuer and/or the Group.

If such Senior Notes are to be so redeemed, there can be no assurance that Noteholders will be able to reinvest the amounts received upon redemption at a rate that will provide the same rate of return as their investment in such Senior Notes.

Change of law

The Terms and Conditions of the Notes will be governed by the laws of England, except for Conditions 1 (*Form, Denomination and Title*), 2 (*Status of the Notes*) and 11 (*Meeting of Noteholders and modifications*) which shall be governed by, and construed in accordance with, Belgian law. No assurance can be given as to the impact of any possible judicial decision or change to the laws of England or Belgium or administrative practice after the date of this Base Prospectus. Any such changes in law may include, but are not limited to, the implementation of a variety of statutory resolution and loss-absorption tools, which may affect the rights of holders of securities issued by the Issuer, including the Notes. Such tools may include the ability to write off sums otherwise payable on such securities (see risk factor "*Noteholders may be required to absorb losses*

in the event the Issuer becomes non-viable or were to fail" on page 27 of this Base Prospectus for further details).

Legal investment considerations may restrict certain investments

Legal investment considerations may restrict certain investments. The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation, by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (a) Notes are legal investments for it, (b) Notes can be used as collateral for various types of borrowing and (c) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

Delay in issuing Notes

Investors should note that, in certain circumstances, Notes may not be issued on the originally designated issue date, for example because either the Issuer and/or any other person specified in the applicable Final Terms has reserved the right to postpone such issue date or, following the publication of a supplement to this Base Prospectus the Issuer has decided to postpone such issue date to allow investors who had made applications to subscribe for Notes before the date of publication of such supplement to exercise their right to withdraw their acceptances. In the event that the issue date is so delayed, the Issuer shall use its reasonable efforts to limit the delay and no interest shall accrue (if applicable) until the issue date of the Notes and no compensation shall be payable.

The secondary market generally

Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Notes. In similar vein, liquidity is likely to be very limited if the relevant Notes are not listed or no listing is obtained.

Moreover, although pursuant to Condition 4(h) (*Purchases*) (and subject, in the case of Subordinated Tier 2 Notes, to Condition 4(j) the Issuer can purchase Notes at any time, the Issuer is not obliged to do so. Purchases made by the Issuer could affect the liquidity of the secondary market of the Notes and thus the price and the conditions under which investors can negotiate these Notes on the secondary market. Furthermore, the Notes may trade with accrued interest, which may be reflected in the trading price of the Notes. See also risk factor "*Secondary market in Subordinated Tier 2 Notes may be subject to increased illiquidity*" on page 39 of this Base Prospectus.

Hedging

In the ordinary course of its business, including without limitation in connection with its market making activities (if any), the Issuer and/or any of its affiliates may effect transactions for its own account or for the account of its customers and hold long or short positions in the Reference Rate(s) or related derivatives. In addition, in connection with the offering of the Notes, the Issuer and/or any of its affiliates may enter into one or more hedging transactions with respect to the Reference Rate(s) or related derivatives. In connection with such hedging or market-making activities or with respect to proprietary or other trading activities by the Issuer and/or any of its affiliates, the Issuer and/or any of its affiliates may enter into transactions in the

Reference Rate(s) or related derivatives which may affect the market price, liquidity or value of the Notes and which could be adverse to the interests of the relevant Noteholders.

Impact of fees, commissions and/or inducements on the Issue Price and/or offer price

Investors should note that the issue price and/or offer price of any issue of Notes may include subscription fees, placement fees, direction fees, structuring fees and/or other additional costs. Any such fees may not be taken into account for the purposes of determining the price of such Notes on the secondary market and could result in a difference between the original issue price and/or offer price, the theoretical value of such Notes, and/or the actual bid/offer price quoted by any intermediary in the secondary market.

Any such difference may have an adverse effect on the value of Notes, particularly immediately following the offer and the issue date relating to such Notes, where any such fees and/or costs may be deducted from the price at which such Notes can be sold by the initial investor in the secondary market.

The Notes are not covered by any government compensation or insurance scheme and do not have the benefit of any government guarantee

An investment in the Notes will not be covered by any compensation or insurance scheme of any government agency of Belgium or any other jurisdiction, and the Notes do not have the benefit of any government guarantee. The Notes are the Issuer's obligation only and holders must solely look to the Issuer for the performance of the Issuer's obligations under the Notes. In the event of the Issuer's insolvency, a holder may lose all or some of its investment in the Notes.

A holder's actual yield on the Notes may be reduced from the stated yield by transaction costs

When Notes are purchased or sold, several types of incidental costs (including transaction fees and commissions) are incurred in addition to the current price of the security. These incidental costs may significantly reduce or even exclude the profit potential of the Notes. For instance, credit institutions as a rule charge their clients for own commissions which are either fixed minimum commissions or pro-rata commissions depending on the order value. To the extent that additional – domestic or foreign – parties are involved in the execution of an order, including but not limited to domestic dealers or brokers in foreign markets, holders must take into account that they may also be charged for the brokerage fees, commissions and other fees and expenses of such parties (third party costs).

In addition to such costs directly related to the purchase of securities (direct costs), holders must also take into account any follow-up costs (such as custody fees). Prospective investors should inform themselves about any additional costs incurred in connection with the purchase, custody or sale of the Notes before investing in the Notes.

Foreign currency Notes expose investors to foreign-exchange risk as well as to Issuer risk

An investment in foreign currency Notes expose investors to the risk of changing foreign exchange rates. This risk is in addition to any performance risk that relates to the Issuer or the type of Note being issued.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency equivalent value of the principal payable on the Notes and (3) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Credit ratings may not reflect all risks and may be lowered, suspended, withdrawn or not maintained

One or more independent credit rating agencies may assign ratings to an issue of Notes and/or the Issuer. The ratings may not reflect the potential impact of all risks related to the structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

In addition, there is no guarantee that any rating of the Notes and/or the Issuer will be maintained by the Issuer following the date of this Base Prospectus. If any rating assigned to the Notes and/or the Issuer is revised lower, suspended, withdrawn or not maintained by the Issuer, the market value of the Notes may be negatively influenced.

Reliance on the procedures of the Securities Settlement System, Euroclear and Clearstream Luxembourg for transfer, payment and communication with the Issuer

The Notes will be issued in dematerialised form under the Belgian Companies Code and cannot be physically delivered. The Notes will be represented exclusively by book entries in the records of the Securities Settlement System. Access to the Securities Settlement System is available through its Securities Settlement System participants whose membership extends to securities such as the Notes. Securities Settlement System participants include certain banks, stockbrokers (*beursvennootschappen/sociétés de bourse*), and Euroclear and Clearstream Luxembourg.

Transfers of interests in the Notes will be effected between the Securities Settlement System participants in accordance with the rules and operating procedures of the Securities Settlement System. Transfers between investors will be effected in accordance with the respective rules and operating procedures of the Securities Settlement System participants through which they hold their Notes.

Neither the Issuer nor the Agent will have any responsibility for the proper performance by the Securities Settlement System or the Securities Settlement System participants of their obligations under their respective rules and operating procedures.

A holder must rely on the procedures of the Securities Settlement System, Euroclear and Clearstream Luxembourg to receive payments under the Notes. The Issuer will have no responsibility or liability for the records relating to the Notes within the Securities Settlement System.

The Agent is not required to segregate amounts received by it in respect of Notes cleared through the Securities Settlement System

The Conditions of the Notes and the Agency Agreement provide that the Agent will debit the relevant account of the Issuer and use such funds to make the relevant payments to the holders under the Notes. The Agency Agreement provides that the Agent will, simultaneously with the receipt by it of the relevant amounts, pay to the holders directly any amounts due in respect of the relevant Notes. However, the Agent is not required to segregate any such amounts received by it in respect of the Notes, and in the event that the Agent were subject to insolvency proceedings at any time when it held any such amounts, holders would not have any further claim against the Issuer in respect of such amounts, and would be required to claim such amounts from the Agent in accordance with applicable Belgian insolvency laws.

Taxation

Potential purchasers and sellers of the Notes should be aware that they may be required to pay taxes or documentary charges or duties in accordance with the laws and practices of the country where the Notes are transferred or other jurisdictions. In some jurisdictions, no official statements of the tax authorities or court decisions may be available in relation to the tax treatment of financial instruments such as the Notes. Potential investors are advised not to rely solely upon the tax summary contained in this Base Prospectus but to ask for their own tax adviser's advice on their individual taxation with respect to the acquisition, holding, sale and redemption of the Notes. Only such adviser is in a position to duly consider the specific situation of the potential investor. This risk factor should be read in connection with the taxation sections of this Base Prospectus. See "*Taxation*" on page 128 of this Base Prospectus.

EU Savings Directive – Common Reporting Standard

Under Directive 2003/48/EC on the taxation of savings income (the "**Savings Directive**"), Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within their jurisdiction to (or secured by such person for the benefit of) an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Austria instead (unless during that period it elects otherwise) operates a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries) subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld.

A number of non-EU countries (including Switzerland), and certain dependent or associated territories of certain EU Member States have adopted similar measures to the Savings Directive (either provision of information or a withholding system; a withholding system in the case of Switzerland) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident in an EU Member State. In addition, the EU Member States have entered into reciprocal provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in an EU Member State to, or collected by such a person for, an individual resident in one of those territories.

On 24 March 2014, the Council of the European Union adopted a Directive amending the Savings Directive (the "Amending Directive"), which, when implemented, will amend and broaden the scope of the requirements described above. In particular, the Amending Directive will broaden the circumstances in which information must be provided or tax withheld pursuant to the Savings Directive, and will require additional steps to be taken in certain circumstances to identify the beneficial owner of interest (and other income) payments. EU Member States have until 1 January 2016 to adopt national legislation necessary to comply with this Amending Directive, which legislation must apply from 1 January 2017.

The exchange of information is, in the near future, expected to be governed by the Common Reporting Standard ("**CRS**") and is in a significant number of countries already governed by the CRS. On 29 October 2014, 51 jurisdictions indeed signed the multilateral competent authority agreement ("**MCAA**"), which is a multilateral framework agreement to automatically exchange financial and personal information, with the subsequent bilateral exchanges coming into effect between those signatories that file the subsequent notifications. More than 40 jurisdictions have committed to a specific and ambitious timetable leading to the first automatic information exchanges in 2017 (early adopters).

Under CRS, financial institutions resident in a CRS country would be required to report, according to a due diligence standard, financial information with respect to reportable accounts, which includes interest, dividends, account balance or value, income from certain insurance products, sales proceeds from financial

assets and other income generated with respect to assets held in the account or payments made with respect to the account. Reportable accounts include accounts held by individuals and entities (which includes trusts and foundations) with fiscal residence in another CRS country. The standard includes a requirement to look through passive entities to report on the relevant controlling persons.

On 9 December 2014, EU Member States adopted Directive 2014/107/EU on administrative cooperation in direct taxation ("**DAC2**"), which provides for mandatory automatic exchange of financial information as foreseen in CRS. DAC2 amends the previous Directive on administrative cooperation in direct taxation, Directive 2011/16/EU.

On 10 November 2015, the Council of the European Union adopted a Directive which repealed the EU Savings Directive with effect from 1 January 2016 (1 January 2017 in the case of Austria) (in each case subject to transitional arrangements). This is to prevent overlap between the EU Savings Directive and the new automatic exchange of information regime provided under DAC2.

On 27 May 2015 the European Union and Switzerland signed a protocol amending their existing Savings agreement and transforming it into an agreement on automatic exchange of financial account information based on the CRS. The revised agreement also takes into account the provisions of the aforementioned Amending Directive. The existing EU-Switzerland Savings agreement will continue to be operational until 31 December 2016. From 1 January 2017, financial institutions in the EU and Switzerland will commence the due diligence procedures envisaged under the new Agreement to identify customers who are reportable persons, i.e. for Switzerland, residents of any EU Member State. By September 2018, the national authorities will report the financial information to each other.

If a payment were to be made or collected through a paying agent in Austria before the end of the transitional period or the implementation of the rules provided under DAC2 or in certain third countries or dependent associated territories of certain Member States and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any paying agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. The Issuer is required to maintain a paying agent in a Member State that is not obliged to withhold or deduct tax pursuant to the Savings Directive.

Investors who are in any doubt as to their position should consult their professional advisers.

Financial Transaction Tax

The European Commission published a proposal for a Directive for a common financial transaction tax (the "**FTT**") in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and the Slovak Republic. In December 2015, Estonia withdrew from the group of states willing to introduce the FTT (the "**Participating Member States**"). The proposed FTT has a very broad scope and could, if introduced in its current form, apply to certain transactions related to the Notes (including secondary market transactions) in certain circumstances.

The proposed FTT could apply in certain circumstances to persons both within and outside of the Participating Member States. Generally, it would apply to certain dealings in Notes where at least one party is a financial institution, and at least one party is established in a Participating Member State. A financial institution may be, or be deemed to be, "established" in a Participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a Participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a Participating Member State.

However, the proposed FTT remains subject to negotiation between the Participating Member States and the scope of any such tax is uncertain. Additional Member States may decide to participate.

Prospective holders of the Notes are strongly advised to seek their own professional advice in relation to the FTT.

FATCA withholding

Pursuant to certain provisions of U.S. law, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting, or related requirements. The Issuer is a foreign financial institution for these purposes. A number of jurisdictions (including Belgium) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply prior to 1 January 2019 and Notes that are not treated as equity for U.S. federal income tax purposes that are issued on or prior to the date that is six months after the date on which final regulations defining "foreign passthru payments" are filed with the U.S. Federal Register generally would be "grandfathered" for purposes of FATCA withholding unless materially modified after such date. However, if additional notes (as described under "*Terms and Conditions of the Notes – Further Issues*") that are not distinguishable from previously issued Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including the Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person will be required to pay additional amounts as a result of the withholding.

Specific risks relating to the Subordinated Tier 2 Notes

Holders of Subordinated Tier 2 Notes may be required to absorb losses in the event that the Issuer becomes non-viable or were to fail

As part of the new recovery and resolution tools granted pursuant to RRD, resolution authorities will be required to write down or convert into equity (or tier 1 instruments) all tier 1 and 2 capital instruments issued by a credit institution or its parent company (including the Subordinated Tier 2 Notes) if it were to become non-viable and prior to exercising any resolution tools (see risk factor "*Noteholders may be required to absorb losses in the event that the Issuer becomes non-viable or were to fail*" on page 27 of this Base Prospectus). In such circumstances, holders of Subordinated Tier 2 Notes may lose their entire investment (including outstanding principal and any accrued but unpaid interest).

Subordinated Tier 2 Notes may trade significantly below their value in certain circumstances

In circumstances of financial distress (whether related to the economy or markets generally or events specific to KBC), there may be uncertainty as to the likelihood that resolution authorities could in the future decide to write down or convert Subordinated Tier 2 Notes into tier 1 instruments. Due to the uncertainty as to whether any such write down or conversion could occur, the trading price of the Subordinated Tier 2 Notes could drop significantly. Moreover, the trading behaviour of the Subordinated Tier 2 Notes may not necessarily follow the trading behaviour of other types of notes issued by the Issuer. Subordinated Tier 2 Notes may have a greater price volatility compared to conventional interest-bearing securities (potentially more aligned with the trading behaviour of the shares or other tier 1 or tier 2 instruments issued by the Issuer).

Any indication that the Issuer's securities may run the risk of being required to absorb losses in the future is likely to have an adverse effect on the market price of the Subordinated Tier 2 Notes. Under such circumstances, investors may not be able to sell their Subordinated Tier 2 Notes or at prices comparable to the prices of more conventional investments.

The Subordinated Tier 2 Notes are subordinated obligations which do not provide for events of default allowing acceleration of payment other than in a dissolution or liquidation

The Subordinated Tier 2 Notes are direct, unconditional, unsecured and subordinated obligations of the Issuer and shall, in the event of a dissolution, liquidation or winding-up of the Issuer (except, in any such case, a solvent liquidation, dissolution or winding-up solely for the purposes of a reorganisation, reconstruction or amalgamation of the Issuer or the substitution in place of the Issuer of a successor in business of the Issuer), be subordinated in right of payment to the claims of Senior Creditors of the Issuer (as provided for and defined in Condition 2(b).

Therefore, if the Issuer were to be wound up, liquidated or dissolved, the liquidator would first apply assets of the Issuer to satisfy all rights and claims of such Senior Creditors. If the Issuer does not have sufficient assets to settle such claims in full, the claims of the holders of Subordinated Tier 2 Notes will not be met and, as a result, the holders will lose the entire amount of their investment in the Subordinated Tier 2 Notes. The Subordinated Tier 2 Notes will share equally in payment with other *pari passu* claims. If the Issuer does not have sufficient funds to make full payments on all of them, holders could lose all or part of their investment. Accordingly, although Subordinated Tier 2 Notes may pay a higher rate of interest than comparable Senior Notes or other debt instruments, which are not subordinated, there is a real risk that an investor in Subordinated Tier 2 Notes will lose all or some of its investment should the Issuer become insolvent.

Furthermore, the Conditions of the Subordinated Tier 2 Notes do not provide for events of default allowing for acceleration of the Subordinated Tier 2 Notes if certain events occur. Accordingly, if the Issuer fails to meet any obligations under the Subordinated Tier 2 Notes, including the payment of any interest, investors will not have the right to accelerate payment principal, which shall only be due in the event of the Issuer's dissolution or liquidation. Upon a payment default, the sole remedy available to holders of Subordinated Tier 2 Notes for recovery of amounts owing in respect of any payment of principal or interest on the Subordinated Tier 2 Notes will be the institution of dissolution or liquidation proceedings to the extent permitted under Belgian law in order to enforce such payment.

Moreover, in any such proceedings, the Subordinated Tier 2 Notes will be subordinated in right of payments in accordance with Condition 2(b). Holders should further be aware that, in or prior to any such dissolution or liquidation scenario, the resolution authorities could decide to write down the principal amount of the Subordinated Tier 2 Notes to zero or convert such principal amount into equity or tier 1 instruments. See also risk factor "*Noteholders may be required to absorb losses in the event the Issuer becomes non-viable or were to fail*" on page 27 of this Base Prospectus.

Secondary market in Subordinated Tier 2 Notes may be subject to increased illiquidity

Subordinated Tier 2 Notes may have no established trading market when issued and one may never develop. If a market does develop, it may not be liquid and, if the relevant Subordinated Tier 2 Notes are not listed or no listing is obtained, liquidity, if any, is likely to be further reduced. Therefore, investors may not be able to sell their Subordinated Tier 2 Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is likely to be particularly the case for Subordinated Tier 2 Notes given that they are designed for specific investment objectives and have been structured to meet the investment requirements of limited categories of investors. Moreover, the Issuer and its subsidiaries will, under applicable legislation, generally be prohibited from purchasing any Subordinated Tier

2 Notes and will not be able to act as market maker in respect of such securities. Illiquidity may have a severely adverse effect on the market value of Subordinated Tier 2 Notes.

Potential conflicts of interest specific to Subordinated Tier 2 Notes

Potential investors should be aware that the reason for issuing the Subordinated Tier 2 Notes is to raise tier 2 capital which enhances the loss absorption capacity for the Issuer. The Issuer is the parent of KBC Bank NV, which will act as Dealer in connection with the issue and placement of certain issues of Subordinated Tier 2 Notes. Therefore, if at any given time, the Issuer would face problems with regard to its regulatory capital, which may be for instance caused by financial problems at the level of KBC Bank NV, the Issuer and KBC Bank NV will act in their own best interest and will not be obliged to protect the interests of the holders of the Subordinated Tier 2 Notes. Furthermore, upon the occurrence of a Capital Disqualification Event, the Issuer may decide to redeem Subordinated Tier 2 Notes early or proceed with a variation thereof in accordance with Condition 6. In determining its course of action in such circumstances, the Issuer will take its own best interest into account, without being obliged to protect the interests of the holders of the Subordinated Tier 2 Notes.

Redemption of Subordinated Tier 2 Notes upon the occurrence of a Capital Disqualification Event, Tax Event or after 5 years

The Issuer will be entitled to redeem Subordinated Tier 2 Notes early if it determines that, as a result of a change in the regulatory classification of such securities, the relevant Series of Subordinated Tier 2 Notes ceases to count wholly or partly towards tier 2 capital of the Issuer. On the occurrence of any such Capital Disqualification Event (as defined in Condition 4(c)), the Issuer may at its option (but subject to certain conditions, including Condition 4 (j)) redeem all, but not some only, of the relevant Series of Subordinated Tier 2 Notes at the applicable Early Redemption Amount together with any accrued but unpaid interest up to (but excluding) the date fixed for redemption.

The Issuer will also be entitled to redeem Subordinated Tier 2 Notes early if a Tax Event occurs (as defined in Condition 4(b)) at the Early Redemption Amount. Furthermore, if so specified in the Final Terms, the Issuer will, subject to meeting certain conditions (as set out in Condition 4(j)), be entitled to redeem Subordinated Tier 2 Notes after 5 years. In any of the above circumstances, Noteholders will not be entitled to receive any make whole amount or other compensation. See also risk factor "*The Notes are subject to early redemption by the Issuer, subject to certain conditions*" on page 31 of this Base Prospectus.

Variation of Subordinated Tier 2 Notes upon the occurrence of a Capital Disqualification Event

The Issuer has the option to specify in the Final Terms in relation to Subordinated Tier 2 Notes that a Capital Disqualification Event Variation is applicable. A Capital Disqualification Event will apply if, as a result of a change to the regulatory classification, the Issuer would no longer be able to count the Subordinated Tier 2 Notes wholly or in part towards its tier 2 capital. A Capital Disqualification Event Variation would, if selected in the Final, Terms, entitle the Issuer in such circumstances to vary the terms of such Subordinated Tier 2 Notes (subject to certain conditions) in order to ensure that they remain or become Qualifying Securities (as defined in Condition 6), i.e. qualify again as tier 2 capital of the Issuer. Importantly, the Issuer would in such circumstances be entitled to vary, subject to the conditions set out in Condition 6, the terms of the Subordinated Tier 2 Notes without the consent of the holders of the Subordinated Tier 2 Notes.

Risks relating to the structure of a particular issue of Notes

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of certain such features.

Fixed/Floating Rate Notes

Fixed/Floating Rate Notes may bear interest at a rate that the Issuer may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. The Issuer's ability to convert the interest rate will affect the secondary market and the market value of such Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same Reference Rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate, the fixed rate may be lower than then prevailing rates on its Notes.

The yield specified for Fixed Rate Notes is calculated at the Issue Date on the basis of the Issue Price, the fixed rate(s) of interest, the Final Redemption Amount and the original tenor of the Notes. Investors should note that the specified yield is not an indication of future yield unless the Notes are held until the Maturity Date.

If a maximum yield is specified for Floating Rate Notes, such maximum yield will be calculated at the Issue Date on the basis of the Issue Price, the maximum floating rate(s) of interest, the Final Redemption Amount and the original tenor of the Notes.

If a minimum yield is specified for Floating Rate Notes, such minimum yield will be calculated at the Issue Date on the basis of the Issue Price, the minimum floating rate(s) of interest, the Final Redemption Amount and the original tenor of the Notes.

Notes with more than one Interest Basis

Notes may bear interest on different Interest Bases. In such case, investors should carefully review the applicable Conditions and the risk factors for each specified Interest Basis set out above.

Interest rate risks

An investment in Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of them.

Notes where a Minimum and/or Maximum Rate of Interest applies

Notes where a Minimum and/or Maximum Rate of Interest applies, will be less exposed to the positive and negative performance or fluctuations of the underlying Reference Rate.

Notes where a Minimum Rate of Interest applies to a particular Interest Basis, have an interest rate that is subject to a minimum specified rate. The minimum Interest Amount payable in respect of such Interest Basis will occur when the applicable formula leads to a Rate of Interest which is lower than the minimum specified rate, in which case the Rate of Interest will be limited to the Minimum Rate of Interest specified in the Final Terms. Investors in such Notes will therefore not be subject to any decreases in the relevant Reference Rate.

Notes where a Maximum Rate of Interest applies to a particular Interest Basis, have an interest rate that is subject to a maximum specified rate. The maximum Interest Amount payable in respect of such Interest Basis will occur when the applicable formula leads to a Rate of Interest which is higher than the maximum specified rate, in which case the Rate of Interest will be limited to the Maximum Rate of Interest specified in the Final Terms. Investors in such Notes will therefore not benefit from any increase in the relevant Reference Rate.

Where the Rate of Interest for any Interest Period or Interest Accrual Period is negative (whether by operation of a negative Margin or otherwise), then such Rate of Interest shall be deemed to be zero.

Notes issued at a substantial discount or premium

The market value of securities issued at a substantial discount or premium to their nominal amount tends to fluctuate more in relation to general changes in interest rates than the price for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility compared to conventional interest-bearing securities with comparable maturities.

The interest rate on Fixed Rate Reset Notes will reset on each Reset Date, which can be expected to affect the interest payment on an investment in Reset Notes and could affect the market value of Fixed Rate Reset Notes

Fixed Rate Reset Notes will initially bear interest at the Initial Rate of Interest until (but excluding) the First Reset Date. On the First Reset Date, the Second Reset Date (if applicable) and each Subsequent Reset Date (if any) thereafter, the interest rate will be reset to the sum of the applicable Mid-Swap Rate and the Margin or as determined by the Calculation Agent on the relevant Reset Determination Date (each such interest rate, a "**Subsequent Reset Rate**"). The Subsequent Reset Rate for any Reset Period could be less than the Initial Rate of Interest or the Subsequent Reset Rate for prior Reset Periods and could affect the market value of an investment in the Fixed Rate Reset Notes.

TERMS AND CONDITIONS OF THE NOTES

The following (excluding italicised paragraphs) *is the text of the terms and conditions that, subject to completion and as supplemented in accordance with the provisions of Part A of the relevant Final Terms, shall be applicable to the Notes. All capitalised terms that are not defined in these Conditions will have the meanings given to them in Part A of the relevant Final Terms. References in the Conditions to Notes'are to the Notes of one Series only, not to all Notes that may be issued under the Programme.*

The Notes are issued subject to a domiciliary, calculation and paying agency agreement (the "**Agency Agreement**") dated on or about the date of this Base Prospectus between KBC Group NV (the "**Issuer**") and KBC Bank NV as domiciliary agent and paying agent (the "**Agent**", which expression shall include any successor domiciliary agent and paying agent). The calculation agent for the time being (if any) is referred to below as the "**Calculation Agent**". The Noteholders (as defined below) are deemed to have notice of all of the provisions of the Agency Agreement applicable to them.

For the purpose of these terms and conditions (the "**Conditions**"), a "**Series**" means a series of Notes comprising one or more Tranches, whether or not issued on the same date, that (except in respect of the first payment of interest and their issue price) have identical terms on issue and are expressed to have the same series number. "**Tranche**" means, in relation to a Series, those Notes of that Series that are identical in all respects.

Copies of the Agency Agreement are available for inspection free of charge during normal business hours by the holders at the specified office of the Agent. If the Notes are admitted to trading on the regulated market of Euronext Brussels, the applicable Final Terms will be published on the website of Euronext Brussels (www.euronext.com). If the Notes are neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive, the applicable Final Terms will be obtainable at the registered office of the Issuer and of the Agent only by a Noteholder holding one or more Notes and such Noteholder must produce evidence satisfactory to the Issuer and the Agent as to its holding of such Notes and identity.

The final terms for the Notes (or the relevant provisions thereof) are set out in Part A of the Final Terms and supplement these Conditions. References to the "**applicable Final Terms**" are to Part A of the Final Terms (or the relevant provisions thereof) and expressions defined or used in the applicable Final Terms shall have the same meanings in these Conditions, unless the context otherwise requires or unless otherwise stated.

1 Form, Denomination and Title

The Notes will be issued in dematerialised form in accordance with Article 468 et seq. of the Belgian Companies Code (*Wetboek van Vennootschappen/Code des Sociétés*). The Notes will be represented exclusively by book entry in the records of the securities settlement system operated by the National Bank of Belgium ("**NBB**") or any successor thereto (the "**Securities Settlement System**"). The Notes can be held by their holders through participants in the Securities Settlement System, including Euroclear and Clearstream, Luxembourg and through other financial intermediaries which in turn hold the Notes through Euroclear and Clearstream, Luxembourg, or other participants in the Securities Settlement System. The Notes are accepted for clearance through the Securities Settlement System, and are accordingly subject to the applicable Belgian clearing regulations, including the Belgian law of 6 August 1993 on transactions in certain securities, its implementing Belgian royal decrees of 26 May 1994 and 14 June 1994 (each as amended or re-enacted or as their application is modified by other provisions from time to time) and the rules of the Securities Settlement System and its annexes, as issued or modified by the NBB from time to time (the laws, decrees and rules mentioned in this Condition being referred to herein as the "**Securities Settlement System Regulations**").

Title to the Notes will pass by account transfer. The Notes cannot be physically delivered and may not be converted into bearer notes (*effecten aan toonder/ titres au porteur*).

If at any time the Notes are transferred to another clearing system, not operated or not exclusively operated by the NBB, these provisions shall apply *mutatis mutandis* to such successor clearing system and successor clearing system operator or any additional clearing system and additional clearing system operator (any such clearing system, an "**Alternative Clearing System**").

Noteholders are entitled to exercise the rights they have, including voting rights, making requests, giving consents, and other associative rights (as defined for the purposes of Article 474 of the Belgian Companies Code) upon submission of an affidavit drawn up by the NBB, Euroclear, Clearstream, Luxembourg or any other participant duly licensed in Belgium to keep dematerialised securities accounts showing such holder's position in the Notes (or the position held by the financial institution through which such holder's Notes are held with the NBB, Euroclear, Clearstream, Luxembourg or such other participant, in which case an affidavit drawn up by that financial institution will also be required).

The Notes are issued in the Specified Denomination(s) specified in the applicable Final Terms. The minimum Specified Denomination of the Notes shall be at least €100,000 (or its equivalent in any other currency). The Notes have no maximum Specified Denomination.

The Notes (i) bear interest calculated by reference to a fixed rate of interest (such Note, a "**Fixed Rate Note**"), (ii) bear interest calculated by reference to a fixed rate of interest for an initial period and thereafter by reference to a fixed rate of interest recalculated on one or more dates specified in the Final Terms and by reference to a mid-market swap rate (such Note, a "**Fixed Rate Reset Note**"), (iii) bear interest by reference to one or more floating rates of interest (such Note, a "**Floating Rate Note**"), or (iv) are a combination of two or more of (i) to (iii) of the foregoing, as specified in the Final Terms.

In addition, the Final Terms of the Notes will specify that the rights of Noteholders with regard to payments under the Notes will either be (i) unsubordinated ("**Senior Notes**") or (ii) subordinated in the manner described under Condition 2(b) below with a fixed redemption date and with terms capable of qualifying as Tier 2 Capital (the "**Subordinated Tier 2 Notes**"). The term "**Tier 2 Capital**" has the meaning given in the Applicable Banking Regulations (as defined in Condition 2(b)).

In these Conditions, "**Noteholder**" and "**holder**" mean, in respect of any Note, the holder from time to time of the Notes as determined by reference to the records of the relevant clearing systems or financial intermediaries and the affidavits referred to in this Condition 1 (*Form, Denomination and Title*) and capitalised terms have the meanings given to them in the applicable Final Terms, the absence of any such meaning indicating that such term is not applicable to the Notes.

In these Conditions, any reference to any law, decree, regulation, directive or any implementing or other legislative measure shall be construed as a reference to such law, decree, regulation, directive or implementing or other legislative measure as the same may be amended, supplemented, restated or replaced from time to time.

2 Status of the Notes

(a) Status of the Senior Notes

(i) *Status*

The Senior Notes (being any Series of the Notes in respect of which the Final Terms specify their status as Senior) constitute direct, unconditional and unsecured obligations of the Issuer and shall at all times rank *pari passu* without any preference among themselves. The payment

obligations of the Issuer under the Notes shall, save for such exceptions as may be provided by applicable legislation, at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations.

(ii) *Waiver of set-off*

If the applicable Final Terms in respect of Senior Notes specify that this Condition 2(a)(ii) applies, then, subject to applicable law, no holder of any such Senior Notes ("**Senior Noteholders**") may exercise or claim any right of set-off in respect of any amount owed to it by the Issuer arising under or in connection with the Senior Notes, and each Senior Noteholder shall, by virtue of its subscription, purchase or holding of any Senior Note, be deemed to have waived all such rights of set-off.

(b) Status of the Subordinated Tier 2 Notes

(i) *Status*

The Subordinated Tier 2 Notes (being any Series of the Notes the Final Terms in respect of which specify their status as Subordinated Tier 2) constitute direct, unconditional and unsecured obligations of the Issuer and rank *pari passu* without any preference among themselves. The rights and claims of the Noteholders in respect of the Subordinated Tier 2 Notes are subordinated in the manner provided in Condition 2(b)(ii) below.

(ii) *Subordination*

In the event of an order being made, or an effective resolution being passed, for the liquidation, dissolution or winding-up of the Issuer by reason of bankruptcy (*faillissement/faillite*) or otherwise (except, in any such case, a solvent liquidation, dissolution or winding-up solely for the purposes of a reorganisation, reconstruction or amalgamation of the Issuer or the substitution in place of the Issuer of a successor in business of the Issuer), the rights and claims of the holders of the Subordinated Tier 2 Notes against the Issuer in respect of or arising under (including any damages awarded for breach of any obligation under) the Subordinated Tier 2 Notes shall, subject to any obligations which are mandatorily preferred by law, rank (a) junior to the claims of all Senior Creditors of the Issuer, (b) at least *pari passu* with the claims of holders of all obligations of the Issuer which constitute, or would but for any applicable limitation on the amount of such capital constitute, Tier 2 Capital of the Issuer and (c) senior to (1) the claims of holders of all share capital of the Issuer, (2) the claims of holders of all obligations of the Issuer which constitute Tier 1 Capital of the Issuer and (3) the claims of holders of all obligations of the Issuer which are or are expressed to be subordinated to the Subordinated Tier 2 Notes.

For the purposes of these Conditions:

"**Senior Creditors**" means creditors of the Issuer whose claims are in respect of obligations which are unsubordinated (including, for the avoidance of doubt, holders of Senior Notes) or which otherwise rank, or are expressed to rank, senior to obligations which constitute Tier 1 Capital or Tier 2 Capital of the Issuer (including any holders of Subordinated Tier 2 Notes).

"**Tier 1 Capital**" and "**Tier 2 Capital**" have the respective meanings given to such terms in the Applicable Banking Regulations from time to time.

"**Applicable Banking Regulations**" means, at any time, the laws, regulations, rules, guidelines and policies of the Relevant Regulator, or of the European Parliament and Council then in effect in Belgium, relating to capital adequacy and applicable to the Issuer at such time (and, for the

avoidance of doubt, including as at the Issue Date the rules contained in, or implementing, CRD IV).

"**CRD IV**" means, taken together, (i) the Capital Requirements Directive, (ii) the Capital Requirements Regulation and (iii) any Future Capital Instruments Regulations.

"**Capital Requirements Directive**" means Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, as amended or replaced from time to time.

"**Capital Requirements Regulation**" means Regulation (EU) n° 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) n° 648/2012, as amended or replaced from time to time.

"**Future Capital Instruments Regulations**" means any further Applicable Banking Regulations that come into effect after the Issue Date and which prescribe (alone or in conjunction with any other rules or regulations) the requirements to be fulfilled by financial instruments for their inclusion in the regulatory capital of the Issuer to the extent required by (i) the Capital Requirements Regulation or (ii) the Capital Requirements Directive.

(iii) *Waiver of set-off*

Subject to applicable law, no holder of a Subordinated Tier 2 Note may exercise or claim any right of set off in respect of any amount owed to it by the Issuer arising under or in connection with the Subordinated Tier 2 Notes and each holder of a Subordinated Tier 2 Note shall, by virtue of his subscription, purchase or holding of any Subordinated Tier 2 Note, be deemed to have waived all such rights of set off.

3 Interest and other calculations

(a) Interest on Fixed Rate Notes

Each Fixed Rate Note bears interest on its outstanding nominal amount from and including the Interest Commencement Date at the rates per annum (expressed as a percentage) equal to the Rate of Interest(s), such interest being payable, subject as provided herein, in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with this Condition 3.

(b) Interest on Fixed Rate Reset Notes

Each Fixed Rate Reset Note bears interest on its outstanding nominal amount:

(i) from and including the Interest Commencement Date up to but excluding the First Reset Date at the Initial Rate of Interest;

(ii) in the First Reset Period, at the First Reset Rate of Interest; and

(iii) for each Subsequent Reset Period thereafter (if any), at the relevant Subsequent Reset Rate of Interest,

payable, subject as provided herein, in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 3(f).

In these Conditions:

"**First Reset Date**" means the date specified as such in the Final Terms;

"**First Reset Period**" means the period from and including the First Reset Date up to but excluding the Second Reset Date or, if no such Second Reset Date is specified in the Final Terms, the Maturity Date;

"**First Reset Rate of Interest**" means the rate of interest as determined by the Calculation Agent on the relevant Reset Determination Date corresponding to the First Reset Period as the sum of the Mid-Swap Rate plus the relevant Margin;

"**Initial Rate of Interest**" means the initial rate of interest per annum specified in the Final Terms;

"**Margin**" means the margin (expressed as a percentage) in relation to the relevant Reset Period specified as such in the Final Terms;

"**Mid-Swap Quotations**" means the arithmetic mean of the bid and offered rates:

(i) if the Specified Currency is Sterling, for a semi-annual fixed leg (calculated on an Actual/365 day count basis) of a fixed for floating interest rate swap transaction in Sterling which (a) has a term commencing on the relevant Reset Date which is equal to that of the relevant Swap Rate Period; (b) is in an amount that is representative of a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the relevant swap market; and (c) has a floating leg based on the 6-month LIBOR rate (calculated on an Actual/365 day count basis);

(ii) if the Specified Currency is Euro, for the annual fixed leg (calculated on a 30/360 day count basis) of a fixed for floating interest rate swap transaction in euro which (a) has a term commencing on the relevant Reset Date which is equal to that of the relevant Swap Rate Period; (b) is in an amount that is representative of a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the relevant swap market; and (c) has a floating leg based on the 6-month EURIBOR rate (calculated on an Actual/360 day count basis); and

(iii) if the Specified Currency is US dollars, for the semi-annual fixed leg (calculated on a 30/360 day count basis) of a fixed for floating interest rate swap transaction in US dollars which (a) has a term commencing on the relevant Reset Date which is equal to that of the relevant Swap Rate Period; (b) is in an amount that is representative of a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the relevant swap market; and (c) has a floating leg based on the 3-month LIBOR rate (calculated on an Actual/360 day count basis).

"**Mid-Swap Rate**" means in respect of a Reset Period, (i) the applicable semi-annual or annualised (as specified in the applicable Final Terms) mid swap rate for swap transactions in the Specified Currency (with a maturity equal to that of the relevant Swap Rate Period specified in the Final Terms) as displayed on the Relevant Screen Page at 11.00 a.m. (in the principal financial centre of the Specified Currency) on the relevant Reset Determination Date (which rate, if the relevant Interest Payment Dates are other than semi annual or annual Interest Payment Dates, shall be adjusted by, and in the manner determined by, the Calculation Agent) or (ii) if such rate is not displayed on the Relevant Screen Page at such time and date, the relevant Reset Reference Bank Rate;

"**Reset Determination Date**" means, in respect of a Reset Period, (a) each date specified as such in the Final Terms or, if none is so specified, (b) (i) if the Specified Currency is Sterling or Renminbi, the first Business Day of such Reset Period, (ii) if the Specified Currency is Euro, the day falling two Business Days prior to the first day of such Reset Period, (iii) if the Specified Currency is US dollars,

the day falling two U.S. Government Securities Business Days prior to the first day of such Reset Period (iv) for any other Specified Currency, the day falling two Business Days in the principal financial centre for such Specified Currency prior to the first day of such Reset Period;

"**Reset Date**" means each of the First Reset Date, the Second Reset Date and each Subsequent Reset Date (as applicable);

"**Reset Period**" means the First Reset Period or a Subsequent Reset Period, as the case may be;

"**Reset Reference Bank Rate**" means the percentage rate determined on the basis of the Mid-Swap Quotations provided by the Reset Reference Banks to the Calculation Agent at or around 11:00 a.m. in the principal financial centre of the Specified Currency on the relevant Reset Determination Date and, rounded, if necessary, to the nearest 0.001 per cent. (0.0005 per cent. being rounded upwards). If at least four quotations are provided, the Reset Reference Bank Rate will be the rounded arithmetic mean of the quotations provided, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest). If only two or three quotations are provided, the Reset Reference Bank Rate will be the rounded arithmetic mean of the quotations provided. If only one quotation is provided, the Reset Reference Bank Rate will be the rounded quotation provided. If no quotations are provided, the Reset Reference Bank Rate will be determined by the Calculation Agent in its sole discretion following consultation with the Issuer;

"**Reset Reference Banks**" means five leading swap dealers in the principal interbank market relating to the Specified Currency selected by the Calculation Agent in its discretion after consultation with the Issuer;

"**Second Reset Date**" means the date specified as such in the Final Terms;

"**Subsequent Reset Date**" means the date or dates specified in the applicable Final Terms;

"**Subsequent Reset Period**" means the period from and including the Second Reset Date to but excluding the next Reset Date, and each successive period from and including a Reset Date to but excluding the next succeeding Reset Date;

"**Subsequent Reset Rate of Interest**" means, in respect of any Subsequent Reset Period, the rate of interest determined by the Calculation Agent on the Reset Determination Date corresponding to such Subsequent Reset Period as the sum of the relevant Mid-Swap Rate plus the relevant Margin;

"**Swap Rate Period**" means the period specified as such in the Final Terms; and

"**U.S. Government Securities Business Day**" means any day except for a Saturday, Sunday or a day on which the Securities Industry and Financial Markets Association recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. government securities.

(c) Interest on Floating Rate Notes

(i) *Interest Payment Dates*

Each Floating Rate Note bears interest on its outstanding nominal amount from and including the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 3(f). Such Interest Payment Date(s) is/are either specified in the Final Terms as Specified Interest Payment Dates or, if Specified Interest Payment Date(s) is/are specified in the Final Terms as not applicable,

"**Interest Payment Date**" shall mean each date which falls the number of months or other period specified in the Final Terms as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

(ii) *Business Day Convention*

If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

(iii) *Rate of Interest for Floating Rate Notes*

The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined in the manner specified in the Final Terms and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified in the Final Terms.

(A) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified in the Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate plus or minus (as indicated in the Final Terms) the Margin (if any). For the purposes of this sub-paragraph (A), "**ISDA Rate**" for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(x) the Floating Rate Option is as specified in the Final Terms;

(y) the Designated Maturity is a period specified in the Final Terms; and

(z) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified in the Final Terms.

provided that, if no Rate of Interest can be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined by the Calculation Agent in its sole and absolute discretion (though applying the Margin, Maximum Rate of Interest and/or Minimum Rate of Interest, if any, relating to the Interest Accrual Period).

For the purposes of this sub-paragraph (A), "**Floating Rate**", "**Calculation Agent**", "**Floating Rate Option**", "**Designated Maturity**", "**Reset Date**" and "**Swap Transaction**" have the meanings given to those terms in the ISDA Definitions.

Unless otherwise stated in the Final Terms, the Minimum Rate of Interest shall be deemed to be zero.

(B) Screen Rate Determination for Floating Rate Notes

(1) Where Screen Rate Determination is specified in the Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:

(i) the offered quotation; or

(ii) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at the Relevant Time on the Interest Determination Date in question as determined by the Calculation Agent.

(2) If the Reference Rate is specified in the applicable Final Terms to be LIBOR or EURIBOR, where:

(a) five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations; or

(b) the Relevant Screen Page is not available or if Condition 3(c)(iii)(B)(1)(i) above applies and no such offered quotation appears on the Relevant Screen Page or if Condition 3(c)(iii)(B)(1)(ii) above applies and fewer than three such offered quotations appear on the Relevant Screen Page in each case as at the time specified above, subject as provided below, the Calculation Agent shall request, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks or, if the Reference Rate is EURIBOR, the principal Eurozone office of each of the Reference Banks, to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at the Relevant Time on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Accrual Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent.

(c) If paragraph (b) above applies, the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered at the Relevant Time on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Eurozone inter-bank market, as the case may be, or, if fewer

than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which at the Relevant Time on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Bank suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Eurozone inter-bank market, as the case may be, provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum Rate of Interest or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum Rate of Interest or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum Rate of Interest or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

(3) If the Reference Rate is Constant Maturity Swap ("**CMS**") and no quotation appears on the Relevant Screen Page at the Relevant Time on the relevant Interest Determination Date, then the Rate of Interest will be determined on the basis of the mid-market annual swap rate quotations provided by five leading swap dealers in the European inter-bank market at approximately the Relevant Time on the relevant Interest Determination Date. The Calculation Agent will select the five swap dealers in its sole discretion and will request each of those dealers to provide a quotation of its rate in accordance with market practice. If at least three quotations are provided, the Rate of Interest for the relevant Interest Period will be the arithmetic mean of the quotations, eliminating the highest and lowest quotations or, in the event, of equality, one of the highest and one of the lowest quotations. If fewer than three quotations are provided, the Calculation Agent will determine the Rate of Interest in its sole discretion.

(d) Accrual of Interest

Interest (if any) shall cease to accrue on each Note (or in the case of the redemption of part only of a Note, that part only of such Note) on the due date for redemption thereof unless payment of principal is improperly withheld or refused or unless default is otherwise made in respect of payment, in which event, interest shall continue to accrue (both before and after judgment) at the Rate of Interest in the manner provided in this Condition 3 to (but excluding) the Relevant Date (as defined in Condition 4(l)).

(e) Margin, Maximum Rate of Interest, Minimum Rates of Interest, Callable Amounts and Rounding

(i) If any Margin is specified in the Final Terms (either (A) generally, (B) in relation to one or more Interest Accrual Periods or (C) in relation to one or more Reset Periods), an adjustment shall, unless the relevant Margin has already been taken into account in determining such Rate of Interest, be made to all Rates of Interest, in the case of (A), or the Rates of Interest for the specified Interest Accrual Periods or Reset Periods, in the case of (B) or (C), calculated, in each case, in accordance with Condition 3(b) above by adding (if a positive number) or subtracting

(if a negative number) the absolute value of such Margin subject always (in the case of Floating Rate Notes only) to the next paragraph.

(ii) If any Maximum Rate of Interest or Minimum Rate of Interest or Callable Amount is specified in the Final Terms in relation to one or more Interest Accrual Periods, then any Rate of Interest or Callable Amount shall be subject to such maximum or minimum, as the case may be.

(iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (A) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (B) all figures shall be rounded to seven significant figures (with halves being rounded up) and (C) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of Yen, which shall be rounded down to the nearest Yen. For these purposes "**unit**" means the lowest amount of such currency that is available as legal tender in the country of such currency.

(f) Calculations

The amount of interest payable per Calculation Amount in respect of any Note for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount specified in the Final Terms and the Day Count Fraction for such Interest Accrual Period, unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Accrual Period, in which case the amount of interest payable per Calculation Amount in respect of such Note for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of any other period for which interest is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be applied to the period for which interest is required to be calculated.

(g) Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts and Optional Redemption Amounts

The Calculation Agent shall as soon as practicable on each Interest Determination Date, Reset Determination Date or such other time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, determine such rate and calculate the Interest Amounts for the relevant Interest Accrual Period (or, if determining the First Reset Rate of Interest or a Subsequent Reset Rate of Interest in respect of Fixed Rate Reset Notes, the Interest Amount for each Interest Accrual Period falling within the relevant Reset Period), calculate the Final Redemption Amount(s), Early Redemption Amount or Optional Redemption Amount, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Accrual Period and the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount(s), Early Redemption Amount or Optional Redemption Amount to be notified to the Agent, the Issuer, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange or admitted to listing by another relevant authority and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any

Interest Payment Date or Interest Period End Date is subject to adjustment pursuant to Condition 3(c)(ii), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and repayable under Condition 9, the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition but no publication of the Rate of Interest or the Interest Amount so calculated need be made. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding on all parties.

(h) Definitions

In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

"**Business Day**" means a day other than a Saturday or Sunday on which:

(i) the Securities Settlement System is operating;

(ii) commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in Belgium and in each Additional Business Centre specified in the applicable Final Terms; and

(i) either (1) in relation to any sum payable in a Specified Currency other than euro, commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney or Wellington, respectively), or (2) in relation to any sum payable in euro, the TransEuropean Automated Real-Time Gross Settlement Express Transfer (TARGET2) System or any successor thereto (the "**TARGET2 System**") is open.

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period or an Interest Accrual Period, the "**Calculation Period**"):

(i) if "**Actual/365**" or "**Actual/Actual**" or "**Actual/Actual – ISDA**" is specified in the Final Terms, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

(ii) if "**Actual/365 (Fixed)**" is specified in the Final Terms, the actual number of days in the Calculation Period divided by 365;

(iii) if "**Actual/360**" is specified in the Final Terms, the actual number of days in the Calculation Period divided by 360;

(iv) if "**30/360**", "**360/360**" or "**Bond Basis**" is specified in the Final Terms, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**Y1**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y2**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M2**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D1**" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

"**D2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30;

(v) if "**30E/360**" or "**Eurobond Basis**" is specified in the Final Terms, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**Y1**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y2**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M2**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D1**" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

"**D2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D2 will be 30;

(vi) if "**30E/360 (ISDA)**" is specified in the Final Terms, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**Y1**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y2**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M2**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D1**" is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D1 will be 30; and

"**D2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D2 will be 30; and

(vii) if "**Actual/Actual ICMA**" is specified in the Final Terms:

(A) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in such Calculation Period divided by the product of:

(x) the number of days in such Determination Period; and

(y) the number of Determination Periods normally ending in any year; or

(B) if the Calculation Period is longer than one Determination Period, the sum of:

(x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (i) the number of days in such Determination Period and (ii) the number of Determination Periods normally ending in any year; and

(y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (i) the number of days in such Determination Period and (ii) the number of Determination Periods normally ending in any year;

where:

"**Determination Period**" means the period from and including a Determination Date (as specified in the Final Terms) in any year to but excluding the next Determination Date; and

"**Determination Date**" means the date specified as such in the Final Terms or, if specified as not applicable in the Final Terms, the Interest Payment Date.

"**Euro**" means the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended.

"**Eurozone**" means the region comprised of member states of the European Union that adopt or have adopted the single currency in accordance with the Treaty establishing the European Community, as amended.

"**Interest Accrual Period**" means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period End Date and each

successive period beginning on (and including) an Interest Period End Date and ending on (but excluding) the next succeeding Interest Period End Date.

"**Interest Amount**" means:

(i) in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Accrual Period and which, in the case of Fixed Rate Notes, and unless otherwise specified in the Final Terms, shall mean the Fixed Coupon Amount or Broken Amount specified in the Final Terms as being payable on the Interest Payment Date on which the Interest Period of which such Interest Accrual Period forms part ends; and

(ii) in respect of any other period, the amount of interest payable per Calculation Amount for that period.

"**Interest Basis**" means the interest basis specified in the Final Terms.

"**Interest Commencement Date**" means the Issue Date or such other date as may be specified in the Final Terms.

"**Interest Determination Date**" means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such in the Final Terms or, if none is so specified, (i) if the specified Relevant Screen Page is a LIBOR (other than euro LIBOR or Sterling LIBOR) rate, the second day on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in London prior to the start of such Interest Accrual Period; (ii) if the specified Relevant Screen Page is a Sterling LIBOR rate, the first day of such Interest Accrual Period; (iii) if the specified Relevant Screen Page is a EURIBOR or euro LIBOR rate, the second day on which the TARGET2 System is open prior to the start of such Interest Accrual Period; and (iv) if the specified Relevant Screen Page is a CMS rate, the second day on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in Frankfurt prior to the start of such Interest Accrual Period.

"**Interest Period**" means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date unless otherwise specified in the Final Terms.

"**Interest Period End Date**" means each Interest Payment Date unless otherwise specified in the Final Terms.

"**ISDA Definitions**" means the 2006 ISDA Definitions, as amended and supplemented and published by the International Swaps and Derivatives Association, Inc. (or as otherwise specified in the Final Terms).

"**Rate of Interest**" means the rate of interest payable from time to time in respect of the Notes and that is either specified or calculated in accordance with the provisions in the Final Terms.

"**Reference Banks**" means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal Eurozone office of four major banks in the Eurozone inter-bank market, in each case selected by the Calculation Agent.

"**Reference Rate**" means the rate specified as such in the Final Terms.

"**Relevant Screen Page**" means such page, section, caption, column or other part of a particular information service as may be specified in the Final Terms (or any successor or replacement page, section, caption, column or other part of a particular information service).

"**Relevant Time**" means, if the Reference Rate is LIBOR, approximately 11.00 a.m. (London time), if the Reference Rate is EURIBOR, 11.00 a.m. (Brussels time), if the Reference Rate is CMS, 11.00 a.m. (Frankfurt time) or as otherwise specified in the Final Terms.

"**Specified Currency**" means the currency specified in the Final Terms or, if none is specified, the currency in which the Notes are denominated.

"**TARGET System**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET2) System or any successor thereto.

(i) Calculation Agent

The Issuer shall procure that there shall at all times be one or more Calculation Agents appointed if provision is made for them in the Final Terms and for so long as any Note is outstanding. Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Accrual Period or Reset Period or to calculate any Interest Amount, Final Redemption Amount(s), Early Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement, the Issuer shall appoint a leading bank or investment banking firm engaged in the interbank market (or, if appropriate, money or swap market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

4 Redemption, Purchase and Options

(a) Final Redemption

Unless previously redeemed or purchased and cancelled as provided below, each Note shall be finally redeemed on the Maturity Date specified in the Final Terms at its Final Redemption Amount (which is its nominal amount, unless otherwise provided in the Final Terms.

Unless otherwise permitted by the Applicable Banking Regulations, Subordinated Tier 2 Notes constituting Tier 2 Capital will have a minimum maturity of five years.

(b) Redemption upon the occurrence of a Tax Event

The Issuer may, at its option (subject, in the case of Subordinated Tier 2 Notes, to Condition 4(j)), having given not less than 30 nor more than 60 days' notice to the holders in accordance with Condition 12 (which notice shall subject, in the case of Subordinated Tier 2 Notes, as provided in Condition 4(j), be irrevocable), redeem all, but not some only, of the Notes outstanding on (if the Notes are Floating Rate Notes) the next Interest Payment Date or (if the Notes are not Floating Rate Notes) at any time, at the Early Redemption Amount, together with any accrued but unpaid interest up to (but excluding) the date fixed for redemption and any additional amounts payable in accordance with Condition 7, if, at any time, a Tax Event has occurred, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which (i) the Issuer would be obliged to pay any additional amounts in case of a Tax Gross-up Event, and (ii) a payment in respect of the Notes

would not be deductible by the Issuer for Belgian corporate income tax purposes or such deduction would be reduced in case of a Tax Deductibility Event, in each case, were a payment in respect of the Notes then due.

The Issuer shall deliver to the Agent an opinion of an independent legal advisers of recognised standing to the effect that a Tax Event exists.

A "**Tax Event**" shall be deemed to have occurred if as a result of a Tax Law Change:

(A) in making payments under the Notes, the Issuer has or will on or before the next Interest Payment Date or the Maturity Date (as applicable) become obliged to pay additional amounts as provided or referred to in Condition 7 (and such obligation cannot be avoided by the Issuer taking reasonable measures available to it) (a "**Tax Gross-up Event**"); or

(B) on the next Interest Payment Date or the Maturity Date any payments by the Issuer in respect of the Notes ceases (or will cease) to be deductible by the Issuer for Belgian corporate income tax purposes or such deductibility is reduced (a "**Tax Deductibility Event**").

In these Conditions, a "**Tax Law Change**" means any change or proposed change in, or amendment or proposed amendment to, the laws or regulations of Belgium, including any treaty to which Belgium is a party, or any change in the application or official interpretation of such laws or regulations, including a decision of any court, or any interpretation or pronouncement by any relevant tax authority, which change or amendment (x) (subject to (y)) becomes, or would become, effective on or after the Issue Date, or (y) in the case of a change or proposed change in law, if such change is enacted (or, in the case of a proposed change, is expected to be enacted) on or after the Issue Date.

(c) Redemption of Subordinated Tier 2 Notes following the occurrence of a Capital Disqualification Event

The Issuer may at its option but subject to Condition 4(j), having given not less than 30 nor more than 60 days' notice in accordance with Condition 12, redeem all but not some only of the Subordinated Tier 2 Notes at any time at the Early Redemption Amount, together (if applicable) with any accrued but unpaid interest up to (but excluding) the date fixed for redemption if a Capital Disqualification Event has occurred and is continuing.

In these Conditions:

A "**Capital Disqualification Event**" will occur if at any time the Issuer determines that as a result of a change (or prospective future change which the Relevant Regulator considers to be sufficiently certain) to the regulatory classification of the relevant Series of Subordinated Tier 2 Notes, in any such case becoming effective on or after the Issue Date, such Subordinated Tier 2 Notes cease (or would cease) to be included, in whole or in part, in, or count towards the Tier 2 Capital of the Issuer (other than as a result of any applicable limitation on the amount of such capital as applicable to the Issuer).

"**Group**" means KBC Group NV and its subsidiaries from time to time.

"**Relevant Regulator**" means the National Bank of Belgium or any successor or replacement entity having primary responsibility for the prudential oversight and supervision of the Issuer.

(d) Redemption at the Option of the Issuer

If Issuer Call Option is specified in the Final Terms, the Issuer may at its option (subject, in the case of Subordinated Tier 2 Notes, to Condition 4(j)), on giving not less than 30 nor more than 60 days'

irrevocable notice to the holders (or such other notice period as may be specified in the Final Terms), redeem all or, if so provided, some only of the Notes on any Optional Redemption Date. Any such redemption of Notes shall be at their Optional Redemption Amount specified in the Final Terms (which may be the Early Redemption Amount (as described in Condition 4(f) below)), together with interest accrued to the date fixed for redemption. In the case of a redemption of Notes in part, any such redemption must, if so specified in the Final Terms, relate to Notes of a nominal amount at least equal to the Minimum Callable Amount to be redeemed specified in the Final Terms and no greater than the Maximum Callable Amount to be redeemed specified in the Final Terms.

All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition 4.

(e) Redemption of Senior Notes following the occurrence of a Loss Absorption Disqualification Event

In the case of Senior Notes the Issuer has the option to specify in the Final Terms that a Loss Absorption Disqualification Event is applicable. Where such Loss Absorption Disqualification Event is specified in the Final Terms as being applicable, then any Series of Senior Notes may on or after the date specified in the applicable Final Terms be redeemed at the option of the Issuer in whole, but not in part, on (if the Notes are Floating Rate Notes) the next Interest Payment Date or (if the Notes are not Floating Rate Notes) at any time, on giving not less than the minimum period nor more than the maximum period of notice specified in the applicable Final Terms to the holders in accordance with Condition 12 (which notice shall be irrevocable), if the Issuer determines that a Loss Absorption Disqualification Event has occurred and is continuing.

Upon the expiration of such notice, the Issuer shall be bound to redeem such Notes at their Early Redemption Amount (as determined in accordance with Condition 4(f) below) together (if applicable) with any accrued but unpaid interest up to (but excluding) the date fixed for redemption.

As used in this Condition 4(e), a "**Loss Absorption Disqualification Event**" shall be deemed to have occurred if:

(i) at the time that any Loss Absorption Regulation becomes effective, and as a result of such Loss Absorption Regulation becoming so effective, in each case with respect to the Issuer and/or the Group, the Notes do not or (in the opinion of the Issuer or the Relevant Regulator) are likely not to qualify in full towards the Issuer's and/or the Group's minimum requirements for (A) own funds and eligible liabilities and/or (B) loss absorbing capacity instruments; or

(i) as a result of any amendment to, or change in, any Loss Absorption Regulation, or any change in the application or official interpretation of any Loss Absorption Regulation, in any such case becoming effective on or after the Issue Date of the first Tranche of the Notes, the Notes are or (in the opinion of the Issuer or the Relevant Regulator) are likely to be fully or partially excluded from the Issuer's and/or the Group's minimum requirements for (A) own funds and eligible liabilities and/or (B) loss absorbing capacity instruments,

in each case as such minimum requirements are applicable to the Issuer and/or the Group and determined in accordance with, and pursuant to, the relevant Loss Absorption Regulations; provided that in the case of (i) and (ii) above, a Loss Absorption Disqualification Event shall not occur where the exclusion of the Notes from the relevant minimum requirement(s) is due to the remaining maturity of the Notes being less than any period prescribed by any applicable eligibility criteria for such minimum requirements under the relevant Loss Absorption Regulations effective with respect to the Issuer and/or the Group as at the Issue Date.

"**Loss Absorption Regulations**" means, at any time, the laws, regulations, requirements, guidelines, rules, standards and policies relating to minimum requirements for own funds and eligible liabilities and/or loss absorbing capacity instruments of the Kingdom of Belgium, the Relevant Regulator, the Resolution Authority, the Financial Stability Board and/or of the European Parliament or of the Council of the European Union then in effect in the Kingdom of Belgium including, without limitation to the generality of the foregoing, any delegated or implementing acts (such as regulatory technical standards) adopted by the European Commission and any regulations, requirements, guidelines, rules, standards and policies relating to minimum requirements for own funds and eligible liabilities and/or loss absorbing capacity instruments adopted by the Relevant Regulator and/or the Resolution Authority from time to time (whether or not such regulations, requirements, guidelines, rules, standards or policies are applied generally or specifically to the Issuer or to the Group).

"**Resolution Authority**" means the Single Resolution Board (SRB) (established pursuant to the Regulation 806/2014 of the European Parliament and the Council of 15 July 2014 relating to the Single Resolution Mechanism) and, where relevant, the resolution college of the National Bank of Belgium (within the meaning of Article 21ter of the Act of 22 February 1998 establishing the organic statute of the National Bank of Belgium) or any successor or replacement entity having responsibility for the recovery and resolution of the Issuer.

(f) Early Redemption Amounts

The Early Redemption Amount payable in respect of any Note, upon redemption of such Note pursuant to Condition 4(b), Condition 4(c), Condition 4(d) or Condition 4(e) shall be the Final Redemption Amount(s) unless otherwise specified in the Final Terms.

(g) Directors' Certificate

Prior to the publication of any notice of redemption pursuant to this Condition 4 (other than redemption at the option of the Issuer pursuant to Condition 4(d)), the Issuer shall deliver to the Agent a certificate signed by two Directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, including (in the case of a Tax Event, a Capital Disqualification Event or a Loss Absorption Disqualification Event (as applicable)) that a Tax Event (as defined in Condition 4(b) above), a Capital Disqualification Event (as defined in Condition 4(c) above) or a Loss Absorption Disqualification Event (as defined in Condition 4(e) above) exists.

(h) Purchases

Subject to Condition 4(j) in the case of Subordinated Tier 2 Notes, the Issuer or any of its subsidiaries may at any time, but is not obliged to, purchase Notes in the open market or otherwise at any price. Any Notes so purchased or otherwise acquired may, at the Issuer's discretion, be held or resold or, at the option of the Issuer, surrendered to the Agent for cancellation.

This Condition 4(h) shall apply in the case of Subordinated Tier 2 Notes to the extent purchases of Subordinated Tier 2 Notes are not prohibited by Applicable Banking Regulations.

(i) Cancellation

All Notes which are redeemed or purchased or otherwise acquired as aforesaid and surrendered to the Agent for cancellation will forthwith be cancelled. All Notes so cancelled cannot be reissued or resold.

(j) Conditions to Redemption and Purchase of Subordinated Tier 2 Notes

Any optional redemption of Subordinated Tier 2 Notes pursuant to Condition 4(b), (c) or (d) and any purchase of Subordinated Tier 2 Notes pursuant to Condition 4(h) are subject to the following (in each case only if and to the extent then required by Applicable Banking Regulations):

(ii) compliance with any conditions prescribed under Applicable Banking Regulations, including the prior approval of the Relevant Regulator (if required);

(iii) in respect of any redemption of the relevant Subordinated Tier 2 Notes proposed to be made prior to the fifth anniversary of the Issue Date, (a) in the case of redemption following the occurrence of a Tax Event, the Issuer having demonstrated to the satisfaction of the Relevant Regulator that (A) the Tax Law Change was not reasonably foreseeable as at the Issue Date and (B) the Tax Law Change is material or (b) in the case of redemption following the occurrence of a Capital Disqualification Event, the Issuer having demonstrated to the satisfaction of the Relevant Regulator that the relevant change was not reasonably foreseeable by the Issuer as at the Issue Date; and

(iv) compliance by the Issuer with any alternative or additional pre-conditions to redemption or purchase, as applicable, set out in the Applicable Banking Regulations for the time being or required by the Relevant Regulator.

(k) Notices Final

Subject to Condition 4(j), upon the expiry of any notice period as is referred to in Conditions 4(b), (c), (d) and (e) the Issuer shall be bound to redeem the Notes to which the notice refers in accordance with the terms of such Condition.

(l) Definitions

As used in these Conditions, the "**Relevant Date**" in respect of any payment means the date on which such payment first becomes due or (if the full amount of the moneys payable has not been duly received by the Agent on or prior to such date) the date on which notice is given to the Noteholders that such moneys have been so received.

References in these Conditions to (i) "**principal**" shall be deemed to include any premium payable in respect of the Notes, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts and all other amounts in the nature of principal payable pursuant to this Condition 4 or any amendment or supplement to it, (ii) "**interest**" shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 3 or any amendment or supplement to it and (iii) "**principal**" and/or "**interest**" shall be deemed to include any additional amounts that may be payable under Condition 7.

5 Payments

(a) Payment in euro

Without prejudice to Article 474 of the Belgian Companies Code, payment of principal in respect of the Notes, payment of accrued interest payable on a redemption of the Notes and payment of any interest due on an Interest Payment Date in respect of the Notes will be made through the Securities Settlement System in accordance with the Securities Settlement System Regulations. The payment obligations of the Issuer under the Notes will be discharged by payment to the NBB in respect of each amount so paid.

(b) Payment in other currencies

Without prejudice to Article 474 of the Belgian Companies Code, payment of principal in respect of the Notes, payment of accrued interest payable on a redemption of the Notes and payment of any interest due on an Interest Payment Date in respect of the Notes will be made through the Agent.

(c) Method of payment

Each payment referred to in Condition 5(a) will be made in euro by transfer to a euro account (or any other account to which euro may be credited or transferred) maintained by the payee with a bank in a city in which banks have access to the TARGET System. Each payment referred to in Condition 5(b) will be made in a Specified Currency other than euro by credit or transfer to an account in the relevant Specified Currency maintained by the payee with a bank in the principal financial centre of the country of such Specified Currency.

(d) Payments subject to fiscal laws

All payments are subject in all cases to any applicable fiscal or other laws, regulations and directives in the place of payment or other laws or agreements to which the Issuer or the Agent agrees to be subject and the Issuer will not be liable for any taxes or duties of whatever nature imposed or levied by such laws, regulations, directives or agreements, but without prejudice to the provisions of Condition 7 (*Taxation*). No commission or expenses shall be charged to the Noteholders in respect of such payments. The Issuer reserves the right to require a Noteholder to provide the Agent with such certification or information as may be required to enable the Issuer to comply with the requirements of the United States federal income tax laws or any agreement between the Issuer and any taxing authority.

(e) Appointment of Agents

The Agent and the Calculation Agent initially appointed by the Issuer and their respective specified offices are listed in the applicable Final Terms. The Agent and the Calculation Agent act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Noteholder. The Issuer reserves the right at any time to vary or terminate the appointment of the Agent or the Calculation Agent provided that the Issuer shall at all times maintain (i) an Agent, (ii) a Calculation Agent where the Conditions so require, and (iii) such other agents as may be required by any other stock exchange on which the Notes may be listed. Notice of any such change or any change of any specified office shall promptly be given to the Noteholders.

(f) Non-Business Days

If any date for payment in respect of any Note is not a Business Day, the holder shall not be entitled to payment until the next following Business Day nor to any interest or other sum in respect of such postponed payment.

6 Subordinated Tier 2 Notes –Variation following a Capital Disqualification Event

In the case of Subordinated Tier 2 Notes the Issuer has the option to specify in the Final Terms that a Capital Disqualification Event Variation is applicable. Where such Capital Disqualification Event Variation is specified in the Final Terms as being applicable and the Issuer has satisfied the Agent that a Capital Disqualification Event (as defined in Condition 4(c)) has occurred and is continuing, then the Issuer may, subject to the other provisions of this Condition 6 (without any requirement for the consent or approval of the Noteholders (subject to the notice requirements below)) vary the terms of all (but not some only) of the Subordinated Tier 2 Notes so that they remain or, as appropriate, become, Qualifying Securities.

In connection with any variation in accordance with this Condition 6, the Issuer shall comply with the rules of any stock exchange on which such Notes are for the time being listed or admitted to trading.

Any variation in accordance with this Condition 6 is subject to the Issuer (i) obtaining the permission therefor from the Relevant Regulator, provided that at the relevant time such permission is required to be given; and (ii) giving not less than 30 nor more than 60 calendar days' notice to the Noteholders (which notice shall be irrevocable),in accordance with Condition 11 (*Notices*), which notice shall be irrevocable. Any such notice shall specify the relevant details of the manner in which such variation shall take effect and where the holders can inspect or obtain copies of the new terms and conditions of the Subordinated Tier 2 Notes.

Any variation in accordance with this Condition 6 does not otherwise give the Issuer an option to redeem the relevant Notes under the Conditions.

As used in this Condition 6:

"**Fitch**" means Fitch France S.A.S. or any affiliate thereof.

"**Moody's**" means Moody's France S.A.S. or any affiliate thereof.

"**Qualifying Securities**" means securities issued by the Issuer that:

(a) rank equally with the ranking of the Subordinated Tier 2 Notes;

(b) have terms not materially less favourable to Noteholders than the terms of the Subordinated Tier 2 Notes (as reasonably determined by the Issuer in consultation with an independent investment bank of international standing, and provided that a certification to such effect of two Directors of the Issuer shall have been delivered to the Agent prior to the issue of the relevant securities), provided that such securities

    (1) contain terms such that they comply with the then Applicable Banking Regulations in relation to Tier 2 Capital;

    (2) include terms which provide for the same (or, from a Noteholder's perspective, more favourable) Rate of Interest from time to time, Interest Payment Dates, Maturity Date and Early Redemption Amount(s) as apply from time to time to the relevant Series of Subordinated Tier 2 Notes immediately prior to such variation;

    (3) shall preserve any existing rights under the Conditions to any accrued interest, principal and/or premium which has not been satisfied;

    (4) do not contain terms providing for the mandatory or voluntary deferral of payments of principal and/or interest;

    (5) do not contain terms providing for loss absorption through principal write down, write-off or conversion to ordinary shares; and

    (6) are otherwise not materially less favourable to Noteholders;

(c) are listed on (i) the regulated market of Euronext Brussels or (ii) such other regulated market in the European Economic Area as selected by the Issuer; and

(d) where the Subordinated Tier 2 Notes which have been varied had a published rating from a Rating Agency immediately prior to their variation each such Rating Agency has ascribed, or announced its intention to ascribe, an equal or higher published rating to the relevant Subordinated Tier 2 Notes.

"**Rating Agency**" means each of Fitch, Moody's and S&P or their respective successors.

"**S&P**" means Standard & Poor's Credit Market Services Italy Srl. or any affiliate thereof.

7 Taxation

All payments of principal and interest by or on behalf of the Issuer in respect of the Notes shall be made free and clear of, and without withholding or deduction for, or on account of, any taxes, duties, assessments or governmental charges of whatever nature ("**Taxes**") imposed, levied, collected, withheld or assessed by or within the Kingdom of Belgium or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer shall pay such additional amounts as shall result in receipt by the Noteholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable with respect to any Note:

(i) to, or to a third party on behalf of, a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note by reason of his having some connection with the Kingdom of Belgium other than the mere holding of the Note; or

(ii) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC (as amended from time to time) or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive or any agreement between the EU and any other country or territory providing for similar measures; or

(iii) where such withholding or deduction is imposed because the holder of the Note is not an Eligible Investor (unless that person was an Eligible Investor at the time of its acquisition of the Note but has since ceased (as such term is defined from time to time under Belgian law) being an Eligible Investor by reason of a change in the Belgian tax laws or regulations or in the interpretation or application thereof or by reason of another change which was outside that person's control), or is an Eligible Investor but is not holding the Note in an exempt securities account with a qualifying clearing system in accordance with the Belgian law of 6 August 1993 relating to transactions in certain securities and its implementation decrees; or

(iv) to a Noteholder who is liable to such Taxes because the Notes were upon its request converted into registered Notes and could no longer be cleared through the Securities Settlement System; or

(v) to a holder who is entitled to avoid such deduction or withholding by making a declaration of non-residence or other similar claim for exemption.

Notwithstanding any other provision of the Terms and Conditions, any amounts to be paid on the Notes by or on behalf of the Issuer will be paid net of any deduction or withholding imposed or required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), or otherwise imposed pursuant to Sections 1471 through 1474 of the Code or any regulations thereunder or official interpretations thereof or an intergovernmental agreement between the United States and another jurisdiction facilitating the implementation thereof (or any fiscal or regulatory legislation, rules or practices implementing such an intergovernmental agreement) (any such withholding or deduction, a "**FATCA Withholding**"). Neither the Issuer nor any other person will be required to pay any additional amounts in respect of FATCA Withholding.

8 Prescription

Claims against the Issuer for payment in respect of the Notes shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 4(l)) in respect of them.

9 Senior Notes – Events of Default and Enforcement

If any of the following events (each, an "**Event of Default**") occurs and is continuing:

(i) the Issuer fails to pay any principal or interest due in respect of the Senior Notes when due and such failure continues for a period of 30 Business Days; or

(ii) the Issuer does not perform or comply with any one or more of its other obligations under these Conditions and the Senior Notes or the Agency Agreement which default is incapable of remedy, or, if capable of remedy is not remedied within 90 Business Days after notice of such Event of Default shall have been given by any Noteholder to the Issuer or the Agent at its specified office; or

(iii) (a) proceedings are commenced against the Issuer, or the Issuer commences proceedings itself for bankruptcy or other insolvency proceedings of the Issuer falling under the applicable Belgian or foreign bankruptcy, insolvency or other similar law now or hereafter in effect (including the Belgian Law of 8 August 1997 on bankruptcy (*faillite/faillissement*) and the Belgian Law of 31 January 2009 on the continuity of enterprises), unless the Issuer defends itself in good faith against such proceedings and such a defence is successful, and a judgment in first instance (*eerste aanleg/première instance*) has rejected the petition within the framework of the proceedings within three months following the commencement of such proceedings, or (b) the Issuer is unable to pay its debts as they fall due (*staking van betaling/cessation de paiements*) under applicable law, or (c) the Issuer is announced bankrupt by an authorised court; or

(iv) an order is made or an effective resolution passed for the winding-up or dissolution or administration of the Issuer, except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation, following which the surviving entity assumes all rights and obligations of the Issuer (including the Issuer's rights and obligations under the Senior Notes); or

(v) an enforceable judgment (*uitvoerend beslag/saisie exécutoire*), attachment or similar proceeding is enforced against all or a substantial part of the assets of the Issuer and is not discharged, stayed or paid within 60 Business Days, unless the Issuer defends itself in good faith against such proceedings,

then any Senior Note may, by notice in writing given to the Issuer at its address of correspondence by the holder with a copy to the Agent at its specified office, be declared immediately due and payable whereupon it shall become immediately due and payable at its principal amount together with accrued interest (if any) without further formality unless such Event of Default shall have been remedied prior to the receipt of such notice by the Agent.

10 Subordinated Tier 2 Notes – Enforcement

If default is made in the payment of any principal or interest due in respect of the Subordinated Tier 2 Notes or any of them and such default continues for a period of 30 days or more after the due date any holder may, without further notice, institute proceedings for the dissolution or liquidation of the Issuer in Belgium.

In the event of the dissolution or liquidation (other than on a solvent basis) of the Issuer (including, without limiting the generality of the foregoing, bankruptcy (*faillissement/faillite*), and judicial or voluntary liquidation (*liquidation volontaire ou forcée/vrijwillige of gedwongen vereffening*), under the laws of

Belgium), any holder may give notice to the Issuer that the relevant Subordinated Tier 2 Note is, and it shall accordingly forthwith become, immediately due and repayable at its principal amount, together with interest accrued to the date of repayment.

No remedy against the Issuer other than as referred to in this Condition 10, shall be available to the holders of Subordinated Tier 2 Notes, whether for recovery of amounts owing in respect of the Subordinated Tier 2 Notes or in respect of any breach by the Issuer of any of its obligations under or in respect of the Subordinated Tier 2 Notes.

For the avoidance of doubt, the holders of Subordinated Tier 2 Notes waive, to the fullest extent permitted by law (i) all their rights whatsoever pursuant to Article 1184 of the Belgian Civil Code to rescind (*ontbinden/résoudre*), or to demand legal proceedings for the rescission (*ontbinding/résolution*) of the Subordinated Tier 2 Notes and (ii), to the extent applicable, all their rights whatsoever in respect of the Subordinated Tier 2 Notes pursuant to Article 487 of the Belgian Companies Code.

11 Meetings of Noteholders and Modifications

(a) Meetings of Noteholders

The Agency Agreement contains provisions for convening meetings of holders to consider matters relating to the Notes, including the modification of any provision of these Conditions or the Agency Agreement, in accordance with the rules of the Belgian Companies Code.

Meetings of Noteholders may be convened to consider matters relating to the Notes, including the modification or waiver of any provision of these Conditions. Any such modification or waiver may be made if sanctioned by an Extraordinary Resolution. For the avoidance of doubt, any such modification or waiver shall always be subject to the consent of the Issuer. An "**Extraordinary Resolution**" means a resolution passed at a meeting of Noteholders duly convened and held in accordance with these Conditions and the Belgian Companies Code by a majority of at least 75 per cent. of the votes cast.

All meetings of Noteholders will be held in accordance with the Belgian Companies Code with respect to Noteholders' meetings. Such a meeting may be convened by the board of directors of the Issuer or its auditors and shall be convened by the Issuer upon the request in writing of Noteholders holding not less than one-fifth of the aggregate principal amount of the outstanding Notes. A meeting of Noteholders will be entitled (subject to the consent of the Issuer) to exercise the powers set out in Article 568 of the Belgian Companies Code and generally to modify or waive any provision of these Conditions in accordance with the quorum and majority requirements set out in Article 574 of the Belgian Companies Code, and if required thereunder subject to validation by the court of appeal, provided however that any proposal (i) to modify the maturity of the Notes or the dates on which interest is payable in respect of the Notes, (ii) to reduce or cancel the principal amount of, or interest on, the Notes, (iii) to change the currency of payment of the Notes, or (iv) to modify the provisions concerning the quorum required at any meeting of Noteholders may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which one or more persons holding or representing not less than three-quarters or, at any adjourned meeting, one quarter of the aggregate principal amount of the outstanding Notes form a quorum. Resolutions duly passed in accordance with these provisions shall be binding on all Noteholders, whether or not they are present at the meeting and whether or not they vote in favour of such a resolution.

Convening notices for meetings of Noteholders shall be made in accordance with Article 570 of the Belgian Companies Code, which currently requires an announcement to be published not less than fifteen days prior to the meeting in the Belgian Official Gazette (*Moniteur belge/Belgisch Staatsblad*)

and in a newspaper of national distribution in Belgium. Convening notices shall also be made in accordance with Condition 12 (*Notices*).

The Agency Agreement provides that, if authorised by the Issuer, a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in nominal amount of the Notes outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held, provided that the terms of the proposed resolution have been notified in advance to the Noteholders through the relevant clearing system(s). Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

Resolutions of Noteholders will only be effective if such resolutions have been approved by the Issuer and, if so required, by the Relevant Regulator.

(b) Modification and Waiver

Subject to obtaining the approval therefor from the Relevant Regulator if so required pursuant to applicable regulations, the Agent and the Issuer may agree, without the consent of the holders, to:

(i) any modification (except such modifications in respect of which an increased quorum is required, as mentioned above) of the Agency Agreement which is not prejudicial to the interests of the holders; or

(ii) any modification of these Conditions, the Agency Agreement or of any agreement supplemental to the Agency Agreement, which is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of law.

Any such modification shall be binding on the holders and any such modification shall be notified to the holders in accordance with Condition 12 (*Notices*) as soon as practicable thereafter.

12 Notices

Notices to the holders shall be valid if (i) delivered by or on behalf of the Issuer to the NBB (in its capacity as operator of the Securities Settlement System), for onward communication by it to the participants of the Securities Settlement System, (ii) in the case of Notes held in a securities account, through a direct notification through the applicable clearing system, (iii) in the case of Notes which are not listed or if otherwise required by applicable law, any notice sent pursuant to Condition 4(b), 4(c), 4(d) or 4(e), shall be published in a leading daily newspaper of general circulation in Belgium (which is expected to be *L'Echo* and *De Tijd*) or otherwise if (iv) in compliance with all applicable legal requirements. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the date of the first publication as provided above or, in the case of delivery to the NBB or direct notification through the applicable clearing system, any such notice shall be deemed to have been given on the date immediately following the date of delivery/notification.

In addition to any of the methods of delivery mentioned above, the Issuer shall ensure that all notices are duly published in a manner which complies with the rules and regulations of any other stock exchange or other relevant authority on which the Notes are for the time being listed and, in the case of a convening notice for a meeting of Noteholders, in accordance with Article 570 of the Belgian Companies Code. If publication as provided above is not practicable, notice will be given in such other manner, and shall be deemed to have been given on such date, as the Agent may approve.

13 Further Issues

The Issuer may from time to time without the consent of the Noteholders create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on them) and so that such further notes shall be consolidated and form a single Series with the Notes. References in these Conditions to the Notes include (unless the context requires otherwise) any other notes issued pursuant to this Condition and forming a single Series with the Notes.

14 Third Party Rights

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999 but this does not affect any right or remedy of any person that exists or is available apart from that Act.

15 Governing Law and Jurisdiction

(a) Governing Law

The Agency Agreement and the Notes (except Conditions 1 (*Form, Denomination and Title*), 2 (*Status of the Notes*) and 11 (*Meeting of Noteholders and modifications*)) and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law. Conditions 1 (*Form, Denomination and Title*), 2 (*Status of the Notes*) and 11 (*Meeting of Noteholders and modifications*) and any non-contractual obligations arising out of or in connection with them shall be governed by, and construed in accordance with, Belgian law.

(b) Jurisdiction

The Issuer agrees, for the exclusive benefit of the Noteholders that the courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Agency Agreement and/or the Notes (including, in each case, any dispute relating to any non-contractual obligations arising therefrom or in connection therewith other than Conditions 1, 2 and 11 of the Notes ("**Excluded Matters**"), in respect of which the Courts of Brussels shall have jurisdiction) and that accordingly any suit, action or proceedings (together referred to as "**Proceedings**") arising out of or in connection with the Agency Agreement and/or the Notes (including, in each case, any Proceedings relating to any non-contractual obligation arising therefrom or in connection therewith other than in respect of the Excluded Matters) may be brought in such courts.

The Issuer hereby irrevocably waives any objection which it may have now or hereafter to the laying of the venue of any such Proceedings (other than in respect of the Excluded Matters) in any court of England and any Proceedings related to Excluded Matters in the Courts of Brussels and any claim that any such Proceedings have been brought in an inconvenient forum and hereby further irrevocably agrees that a judgment in any such Proceedings (other than in respect of the Excluded Matters) brought in the English courts and any Proceedings related to Excluded Matters in the Courts of Brussels shall be conclusive and binding upon it and may be enforced in the courts of any other jurisdiction.

Nothing contained in this Condition shall limit any right to take Proceedings against the Issuer in any other court of competent jurisdiction, nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction, whether concurrently or not.

(c) Service of process

The Issuer appoints KBC Bank NV at its London branch at 111 Old Broad Street, London EC2N 1BR as its agent for service of process for Proceedings in England, and undertakes that, in the event of KBC

Bank NV, London branch ceasing so to act or ceasing to be registered in England, it will appoint another person as its agent for service of process in England in respect of any Proceedings in England. Nothing herein shall affect the right to serve proceedings in any other manner permitted by law.

DESCRIPTION OF THE ISSUER

1 Issuer

General

KBC Group NV (the "**Issuer**") is incorporated as a limited liability company (*naamloze vennootschap*) under the laws of Belgium. Its registered office is at Havenlaan 2, B-1080 Brussels, Belgium and it can be contacted via its Telecenter (+32) (0) 16 43 29 15.

Purpose (Article 2 of the Articles of Association)

The Issuer is a financial holding company, which has as purpose the direct or indirect ownership and management of shareholdings in other companies, including but not limited to credit institutions, insurance companies and other financial institutions.

The Issuer also has the purpose to provide support services for third parties, as mandatary or otherwise, in particular for companies in which it has an interest – either directly or indirectly.

The purpose of the Issuer is also to acquire in the broadest sense of the word (including by means of purchase, hire and lease), to maintain and to operate resources, and to make these resources available in the broadest sense of the word (including through letting, and granting rights of use) to the beneficiaries referred to in the previous paragraph.

In addition, the Issuer may function as an intellectual property company responsible for, among other things, the development, acquisition, management, protection and maintenance of intellectual property rights, as well as for making these rights available and/or granting rights of use in respect of these rights to the beneficiaries referred to in the second paragraph above.

The Issuer may also perform all commercial, financial and industrial transactions that may be useful or expedient for achieving its purpose and that are directly or indirectly related to this purpose. The Issuer may also by means of subscription, contribution, participation or in any other form participate in all companies, businesses or institutions that have a similar, related or complementary activity.

In general, the Issuer may, both in Belgium and abroad, perform all acts which may contribute to the achievement of its purpose.

History and development

KBC Group NV was incorporated in Belgium on 9 February 1935 for an indefinite duration in the form of a public limited liability company (under number BE 0403.227.515) as Kredietbank NV. In 1998 Kredietbank merged with CERA Bank and ABB (Insurance). A short history since then is provided below:

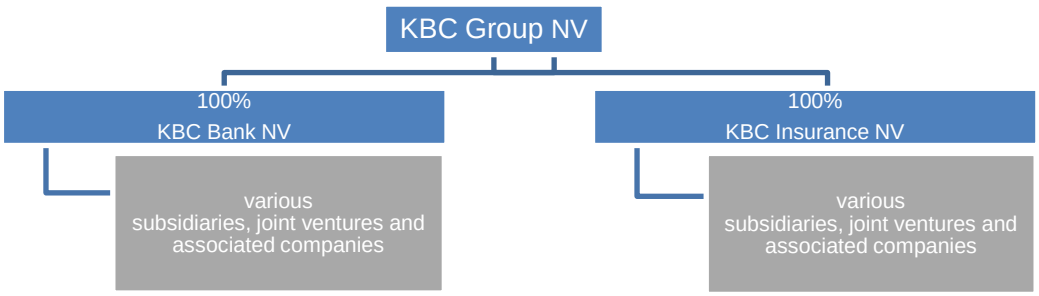
1998:	Two Belgian banks (Kredietbank and CERA Bank) and a Belgian insurance company (ABB) merge to create the KBC Bank and Insurance Holding Company. KBC's unique bancassurance model is launched in Belgium
1999:	The group embarks upon its policy of expansion in Central and Eastern Europe with the acquisition of ČSOB (in the Czech Republic and the Slovak Republic).
2000–2005:	The group continues to expand its position in the banking and insurance markets of Central and Eastern Europe by acquiring banks and insurance companies in Poland, Hungary, the Czech Republic and the Slovak Republic. The bancassurance model is gradually introduced to the home markets in Central and Eastern Europe.
2005:	The KBC Bank and Insurance Holding Company merges with its parent company (Almanij) to

	create KBC Group NV. The benefits to the group include the addition of a network of European private banks.
2006-2008:	KBC's presence in Central and Eastern Europe is stepped up through acquisitions in Bulgaria, Romania and Serbia. KBC establishes a presence on the Russian banking market. Add-on acquisitions/greenfield operations in various countries Capital transactions (state aid) and guarantee agreements with the government (in 2008 and 2009)
2009:	Renewed strategy focuses on home markets in Belgium and five countries in Central and Eastern Europe (the Czech Republic, the Slovak Republic, Hungary, Poland and Bulgaria)
2010:	Start of divestment programme
2011–2013:	Strategic plan is amended (including planned sale of activities in Poland). Further execution of divestment programme First partial repayment of state aid (in 2012, remainder in 2013, 2014 and 2015)
2014:	Divestment programme finished Updated strategy and targets announced on an Investor Day
2015:	Repayment of all remaining outstanding state aid

Organisation

The Issuer has two main subsidiaries: KBC Bank NV ("**KBC Bank**") en KBC Verzekeringen NV ("**KBC Insurance**"), as shown in the simplified schematic below.

"**KBC Group**" means KBC Group NV including all group companies that are included in the scope of consolidation.



A list containing the main group companies as at end 2015 is set out further below.

Capital

The share capital of the Issuer consists of 418,087,058 ordinary shares with no nominal value. All ordinary shares carry voting rights and each share represents one vote. The shares are listed on Euronext Brussels.

As at 31 December 2015, the authorisation to increase the capital of the Issuer amounted to EUR 696,103,433.56. Consequently, when taking into account the accounting par value of a share in the Issuer on 31 December 2015 (EUR 3.48), the board of directors of the Issuer is authorised to issue new shares up to a maximum of 200,029,722 shares. The authorisation to the board of directors of the Issuer to increase the share capital, as provided in the articles of association of the Issuer, may be exercised until 20 May 2018.

Recent capital increases: In December 2014, the Issuer increased its capital by issuing 416,300 new shares following the capital increase reserved for staff. In December 2015, the Issuer increased its capital by issuing 306,400 new shares following the capital increase reserved for staff.

Core capital securities (state aid): In 2008 and 2009, the Issuer issued EUR 7 billion in perpetual, non-transferable, non-voting core-capital securities which were subscribed by the Belgian Federal and Flemish Regional governments (each in the amount of EUR 3.5 billion). In 2012, KBC repaid EUR 3.5 billion to the Belgian Federal Government, along with a 15% penalty. In 2013, KBC repaid EUR 1.17 billion to the Flemish Regional Government, along with a 50% penalty, and early 2014, another EUR 0.33 billion, along with a 50% penalty. At the end of 2015, KBC repaid the outstanding balance of EUR 2 billion, along with a 50% penalty, to the Flemish Regional Government.

Additional Tier 1 capital instrument: In March 2014, the Issuer issued a EUR 1.4 billion CRD IV compliant additional Tier-1 (AT1) instrument. The proceeds were used to strengthen the Issuer's and KBC Bank NV's Tier-1 capital. Following the successful closure of this AT1 securities issue, the Issuer called a number of its outstanding classic Tier-1 securities on their next call date.

New minimum solvency requirements: In 2015, the European Central Bank (the "**ECB**") announced new minimum capital requirements for 2016: a common equity ratio of at least 9.75%, phased in according to the Danish compromise method. In addition to that is the National Bank of Belgium's new capital buffer for systemically important banks: an additional 0.5% in common equity for 2016 to be built up over three years on a straight-line basis to 1.5% in 2018.

Dividends: For the five years preceding the establishment of the Programme, the Issuer paid (gross) dividends on the ordinary shares as follows: over 2011: EUR 0.01 per ordinary share; over 2012: EUR 1 per ordinary share; over 2013: no dividends; over 2014: EUR 2 per ordinary share; over 2015: no dividends. As of 2016, the Issuer intends to pay at least 50% of the consolidated profit available for distribution in the form of dividends and AT1 instruments combined (to be confirmed by the general meeting of shareholders of the Issuer).

2 Short presentation of the shareholder structure of KBC Group

The shareholder structure shown in the table below is based on the most recent notifications made under the transparency rules or, if they are more recent, disclosures made under the Law of 1 April 2007 on public takeover bids or other available information (situation as at 23 May 2016).

Shareholder structure of KBC Group NV (based on notifications)	Number of shares at the time of disclosure	% of the current number of shares
KBC Ancora	77,516,380	18.5%
Cera	11,127,166	2.7%
MRBB	47,889,864	11.5%
Other core shareholders	31,721,555	7.6%
Subtotal for core shareholders	168,254,965	40.2%
Free float	249,832,093	59.8%
Of which (see table further on):		
BlackRock Inc.	20,650,780	4.9%
FMR LLC (Fidelity)	12,312,076	2.9%
Parvus Asset Management Europe Ltd	12,341,146	3.0%
Total	418,087,058	100.0%

A shareholder agreement was concluded between the core shareholders of the Issuer in order to support and co-ordinate the general policy of the Group and to supervise its implementation (more information in the Corporate Governance Charter, available on www.kbc.com). The agreement provides for a contractual shareholder syndicate. The shareholder agreement includes stipulations on the transfer of securities and the exercise of voting rights within the shareholder syndicate. The current agreement applies for a ten-year period with effect as from 1 December 2014.

Notifications received under the transparency rules are available on www.kbc.com. A summary of the notifications received in 2015 and early 2016 follows in the table:

Notification received from	Details	Date	Number of ordinary shares	% of total voting rights
BlackRock Inc.	Change in shareholding triggering a move below the 5% notification threshold. (<5%)	9 February 2016	20 650 780	4.94%
BlackRock Inc.	Change in shareholding triggering a move above the 5% notification threshold. (>5%)	4 December 2015	20 934 882	5.01%
BlackRock Inc.	Change in shareholding triggering a move below the 5% notification threshold. (<5%)	20 August 2015	20 881 252	4.9981%
BlackRock Inc.	Change in shareholding triggering a move above the 5% notification threshold. (>5%)	19 August 2015	20 907 517	5.0044%
BlackRock Inc.	Change in shareholding triggering a move below the 5% notification threshold. (<5%)	17 August 2015	20 886 993	4.9995%
FMR LLC (Fidelity)	Change in shareholding triggering a move below the 3% notification threshold.	4 May 2015	12 312 076	2.95%
Parvus Asset Management Europe Ltd	Change in shareholding triggering a move below the 3% notification threshold.	13 February 2015	12 341 146	2.95%
FMR LLC (Fidelity)	Change in shareholding triggering a move above the 3% notification threshold.	12 January 2015	12 687 206	3.04%

3 The EU Plan of KBC Group

Since 2009, KBC Group has been working on a strategic analysis of its group-wide activities and of the economic and financial environment the Group operates in. This effort has resulted in a strategic plan, which has been tested under different macroeconomic scenarios. The plan analysed the Group's business and its proposed future strategy, and also served as a basis for the European Commission to assess KBC Group's capacity to redeem the capital securities subscribed by the Belgian State and the Flemish Region of Belgium (the core capital securities or 'state aid', as described above) within a reasonable timeframe.

This is common practice for European financial institutions that have taken part in economic stimulus plans launched by the EU Member States. The initial plan was cleared by European regulatory authorities on 18 November 2009. A number of changes were proposed later on and the amended plan was accepted by the EU Commission on 27 July 2011 (the "**EU Plan**").

In the EU Plan, the Group refocuses on its core bank-insurance activities in Belgium and four selected countries in Central and Eastern Europe (Czech and Slovak Republics, Hungary and Bulgaria). A number of subsidiaries and activities, many of which related to investment banking activities, had to be scaled down or sold. International corporate lending outside the home markets had to be scaled down.

More specifically, the restructuring plan agreed with the European Commission included a list of activities that had to be divested. By year-end 2014, the Group had implemented all of this plan.

The completion of the divestment plan also means that the Group is no longer restricted by the price leadership and acquisition bans, two behavioural measures that were included in the EU Plan.

In addition to the divestments included in the EU Plan, the Group also succeeded in scaling down in full its portfolio of CDOs within a timeframe of five years. On 16 and 25 September 2014, the Group collapsed the last two remaining CDOs in its portfolio. Collapsing these CDOs also released the Group from the CDO guarantee agreement which was entered into with the Belgian Federal Government on 14 May 2009 and completely eliminates the Group's exposure to MBIA.

4 The strategy of KBC Group

On 17 June 2014, KBC Group organised an Investor Day, at which occasion (among other things) KBC Group presented an update of its strategy and targets. The presentations and press release of the Investor Day are available on the website at www.kbc.com. It can be summarised as follows:

- KBC Group wants to build on its strengths and be among Europe’s best-performing, retail-focused financial institutions. It intends to achieve this aim by further strengthening its bank-insurance business model for retail, SME and mid-cap clients in its core markets in a highly cost-efficient way. The model has reached different stages of implementation in the different core countries. In Belgium, the bank and the insurance company already act as a single operational unit, achieving both commercial and non-commercial synergies. In its other core countries (the Czech Republic, the Slovak Republic, Hungary and Bulgaria), KBC Group is targeting at least integrated distribution, so that commercial synergies can be realised by 2017 at the latest.

- Having both banking and insurance activities integrated within one group creates added value for both clients and KBC Group. Going forward, KBC Group will put further emphasis on the seamless fulfilment of client needs through its bank-insurance offering in the core countries, allowing it to create sustainable, long-term client relationships and to diversify its income streams.

- KBC Group will focus on sustainable and profitable growth within a solid risk, capital and liquidity framework. Profitability should take priority over growth or increasing market shares. Risk management is already fully embedded in KBC Group’s strategy and decision-making process and KBC Group wishes to secure the independence of the embedded risk framework through closer monitoring by the Group CRO and by reporting to the Board of Directors of each business entity.

- In recent years, KBC Group has invested heavily in its various distribution channels, i.e. its bank branches and insurance agencies, client contact/service centres, websites and mobile apps. KBC Group wants to create added value for clients by accurately meeting their needs in terms of financial products. Therefore, everything is based on the client’s needs and not on the banking or insurance products and services. To ensure this happens, KBC analyses a raft of information in its databases. KBC wants to allow clients to decide for themselves whether they want a more personalised approach and the resultant offering. It is also the client who chooses how and when these products and services are provided and through which distribution channel. That is why the different channels are accorded equal status at KBC and need to seamlessly complement and reinforce each other. Because KBC Group is strongly embedded in its local markets, and clients' needs are defined by their local environment, each core country will make the necessary changes and investments in its own way and at its own pace.

- The seamless integration of the distribution channels creates a dynamic and client-driven distribution model. The client is at the centre of what KBC Group does. This is supported by a performance and client-driven corporate culture that is implemented throughout the Group, with the focus on building long-term client bank-insurance relationships.

- KBC Group has no plans to significantly expand beyond its current geographical footprint. In its core markets (Belgium, the Czech Republic, Hungary, the Slovak Republic, Bulgaria), it will strengthen its bank-insurance presence through organic growth or through acquisitions, if attractive opportunities arise (and based on clear and strict financial criteria), and strive for market leadership (a top 3 bank and top 4 insurer) by 2020. For Ireland, KBC's first priority is to become profitable from 2016 onwards. This target has already been reached at the end of 2015. As of then, all available options will be considered (i.e. whether to organically grow a profitable bank, build a captive bank-insurance group or sell a profitable bank).

- The profit, capital and liquidity targets, which the Group aims to achieve at the highest level, can be found hereunder. The target for the common equity ratio has been brought in line with the recent regulatory requirements, i.e. the announcement of the ECB's new minimum capital requirements for 2016 (a common equity ratio of at least 9.75%, phased in according to the Danish compromise method) and added to that is the NBB's new capital buffer for systemically important banks (an additional 0.5% in common equity for 2016 to be built up over three years on a straight-line basis to 1.5% in 2018).

Financial targets		By
CAGR total income ('13*-'17) *(excl. MTM valuation of ALM derivatives)*	≥ 2.25%	2017
CAGR bank-insurance gross income ('13-'17)	≥ 5%	2017
Cost/income ratio	≤ 53%	2017
Combined ratio	≤ 94%	2017
Common equity ratio *(phased-in, Danish compromise)*	≥ 10.25%**	2016
Total capital ratio *(fully loaded, Danish compromise)*	≥ 17%	2017
NSFR	≥ 105%	2014
LCR	≥ 105%	2014
Dividend payout ratio *(incl. coupon paid on AT1)*	≥ 50%	2016

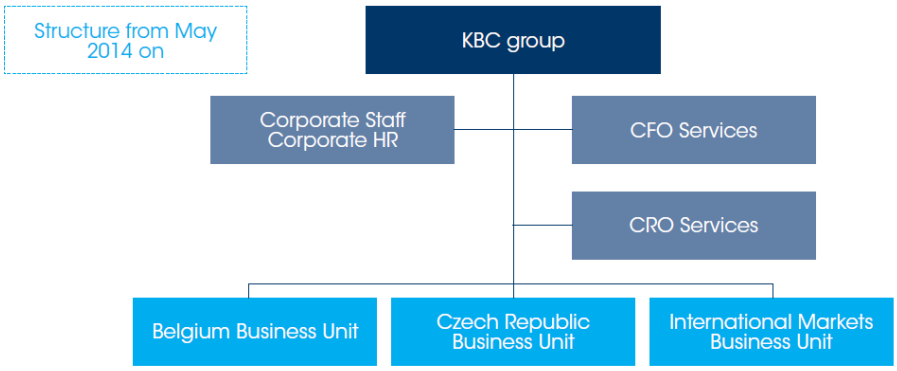
* 2013: adjusted result
** Increases with 0.5%pt in 2017, again with 0.5%pt in 2018

A definition of the abovementioned ratios can be found in the Annex of the 2015 Annual Report of the Issuer, available on the website at www.kbc.com.

- The specific strategic focus and initiatives per business unit or country are also provided in the Group's 2015 Annual Report, available on the website at www.kbc.com.

5 Management structure

KBC Group's strategic choices are fully reflected in the group structure, which consists of a number of business units and support services and which are presented in simplified form as follows:



The structure comprises:

- the three business units, which focus on the local business and are expected to contribute to sustainable earnings and growth:
  - Belgium.
  - Czech Republic.
  - International Markets: encompasses the other core countries in Central and Eastern Europe (the Slovak Republic, Hungary and Bulgaria) and KBC Bank Ireland.
- the CRO Services and CFO Services pillars (which act as an internal regulator, and whose main role is to support the business units), the Corporate Staff pillar (which is a competence centre for strategic know-how and best practices in corporate organisation and communication) and Corporate HR.

Each business unit is headed by a Chief Executive Officer (CEO), and these CEOs, together with the Group CEO, the Chief Risk Officer (CRO) and the Chief Financial Officer (CFO) of KBC Group constitute the executive committee of the KBC Group.

6 Network and ratings of KBC Group

Network (as at 31 December 2015)

Distribution network in Belgium:	783 bank branches, 441 insurance agencies, various electronic channels
Distribution network in Central and Eastern Europe (Czech Republic, Slovak Republic, Hungary and Bulgaria):	750 bank branches, insurance via various channels (agents, brokers, multi-agents, …), various electronic channels
Distribution network in the rest of the world:	mainly 27 bank branches of KBC Bank and KBC Bank Ireland

Credit Ratings (as at 31 March 2016)	Long term rating (+ outlook/watch)	Short term rating (+ outlook/watch)
Fitch		
KBC Bank	A- (positive outlook)	F1
KBC Group NV	A- (positive outlook)	F1

Moody's		
KBC Bank	A1 (stable outlook)	P-1
KBC Group NV	Baa1 (stable outlook)	P-2
Standard & Poors		
KBC Bank	A (negative outlook)	A1
KBC Insurance	A- (stable outlook)	-
KBC Group NV	BBB+ (stable outlook)	A2

Ratings are subject to change. Various ratings exist. Investors should look at www.kbc.com for the most recent ratings and for the underlying full analysis provided by each rating agency to understand the meaning of each rating.

Each of Fitch, Moody's and Standard & Poor's is established in the European Union and is included in the updated list of credit rating agencies registered under Regulation (EC) No. 1060/2009 (as amended) of the European Parliament and of the Council of 16 September 2009 on credit rating agencies published on the European Securities and Markets Authority's ("**ESMA**") website (http://esma.europa.eu/page/List-registered-and-certified-CRAs).
The description of the ratings can be found on the website of the relevant rating agencies. No information from any such website is deemed to be incorporated in or forms part of this Base Prospectus. The Issuer does not take any responsibility for the information contained in any such website.
Ratings can change. Various ratings exist. Investors should look at www.kbc.com for the most recent ratings and for the underlying full analysis of each rating agency to understand the meaning of each rating.

7 Main companies belonging to the Group (as of 31 December 2015)

Essentially, the Group's legal structure comprises KBC Group NV which controls two large companies, being KBC Bank NV and KBC Insurance NV. Each of these companies has several subsidiaries and sub-subsidiaries, the most important of which are listed in the table.

A full list of all companies belonging to the Group is available on www.kbc.com.

Company	Registered office	Ownership percentage at Group level	Activity (simplified)
KBC BANK			
CBC Banque SA	Brussels – BE	100,00	Credit institution
CIBANK EAD	Sofia – BG	100,00	Credit institution
ČSOB a.s. (Czech Republic)	Prague – CZ	100,00	Credit institution
ČSOB a.s. (Slovak Republic)	Bratislava – SK	100,00	Credit institution
KBC Asset Management NV	Brussels – BE	100,00	Asset management
KBC Bank NV	Brussels – BE	100,00	Credit institution
KBC Bank Ireland Plc	Dublin – IE	100,00	Credit institution
KBC Commercial Finance NV	Brussels – BE	100,00	Factoring
KBC Credit Investments NV	Brussels – BE	100,00	Investment firm
KBC Finance Ireland	Dublin – IE	100,00	Lending
KBC Financial Products (group)	Various locations	100,00	Equities and derivatives trading
KBC IFIMA SA	Luxemburg – LU	100,00	Issuance of bonds

Company	Registered office	Ownership percentage at Group level	Activity (simplified)
KBC Investments Ltd	London – GB	100,00	Stock exchange brokers
KBC Lease (group)	Various locations	100,00	Leasing
KBC Securities NV	Brussels – BE	100,00	Stock exchange broker, corporate finance
K&H Bank Rt.	Budapest – HU	100,00	Credit institution
KBC INSURANCE			
ADD NV	Heverlee – BE	100,00	Insurance company
ČSOB Pojišťovna (Czech Republic)	Pardubice – CZ	100,00	Insurance company
ČSOB Poist'ovňa a.s. (Slovak Republic)	Bratislava – SK	100,00	Insurance company
DZI Insurance	Sofia – BG	100,00	Insurance company
VAB Group	Zwijndrecht – BE	95,00	Automobile assistance
K&H Insurance Rt.	Budapest – HU	100,00	Insurance company
KBC Group Re SA	Luxembourg – LU	100,00	Reinsurance company
KBC Insurance NV	Leuven – BE	100,00	Insurance company
NLB Vita d.d.	Ljubljana – SI	50,00	Insurance company
KBC GROUP NV (other direct subsidiaries)			
KBC Group NV	Brussels – BE	100,00	Bank insurance holding company

When KBC Group agreed its strategic refocus with the European Commission in 2009, KBC Group undertook to run down or divest the activities of its subsidiary KBC Financial Holding (in the U.S.) in order to reduce its own risk profile. That process has since been completed, with KBC Group collapsing the last two CDOs it held in portfolio in September 2014. As a final step, KBC Group also liquidated KBC Financial Holding. According to Belgian tax law, the loss in paid-up capital that KBC Bank sustained as a result of the liquidation of KBC Financial Holding is tax deductible for the parent company on the date of liquidation, rather than at the time the losses were incurred (more specifically in 2008 and 2009). On balance, the full impact on the results of 2015 came to EUR 765 million. The recognition of this deferred tax asset had only a limited positive impact in 2015 of approximately 0.2% on KBC Group's solvency (fully loaded CET1 ratio calculated according to the Danish Compromise method).

8 General description of activities of the Group

The Group is an integrated bank insurance group, catering mainly for retail, private banking, SME and mid-cap clients. Geographically, the Group focusses on its core markets of Belgium, the Czech Republic, the Slovak Republic, Hungary and Bulgaria. Elsewhere in the world, the Group is present in Ireland and, to a limited extent, in several other countries to support corporate clients from the Group's core markets.

The Group's core business is retail and private bank-insurance (including asset management), although it is also active in providing services to corporations and market activities. Across its home markets, the Group is active in a large number of products and activities, ranging from the plain vanilla deposit, credit, asset management and life and non-life insurance businesses to specialised activities such as, but not exclusively, payments services, dealing room activities (money and debt market activities), brokerage and corporate finance, foreign trade finance, international cash management, leasing etc.

The Group has in the past years refocused its business on its core bank-insurance activities in Belgium and a number of countries in Central and Eastern Europe (i.e. the home markets of the Czech Republic, the Slovak Republic, Hungary and Bulgaria). Therefore, a number of subsidiaries and activities, many of which related to investment banking activities, have been downscaled or sold. International corporate lending outside the home markets has also been downscaled.

9 Principal markets and activities, per geography

Activities in Belgium

Position in the Belgian market as of 2 March 2016*
783 bank branches
441 insurance agencies
Estimated market share of 21% for traditional bank products, 40% for investment funds, 13% for life insurance and 9% for non-life insurance
Approx. 3.5 million customers

** Market shares and customer numbers: based on own estimates. Share for traditional bank products: average estimated market share for loans and deposits. Market share for life insurance: based on reserves.*

The Group has an extensive network of bank branches and insurance agencies in Belgium (of KBC Bank and KBC Verzekeringen in the Dutch-speaking part of Belgium, CBC Banque and CBC Assurances in the French-speaking part of Belgium and KBC Brussels in the Brussels area). Via this network (and a number of subsidiaries), the Group focusses on providing clients in Belgium with a broad area of credit (including mortgage loans), deposit, investment fund and other asset management products, life and non-life insurance products and other specialised financial banking products and services. KBC Bank's bricks-and-mortar networks in Belgium are supplemented by electronic channels, such as ATMs, telephones and the Internet (including a mobile banking app). The Group serves, based on its own estimates, approximately 3.5 million clients in Belgium.

The Group considers itself to be an integrated bank-insurer. Certain shared and support services are organised at Group level, serving the entire Group, and not just the bank or insurance businesses separately. It is the Group's aim to continue to actively encourage the cross-selling of bank and insurance products. The success of the Group's integrated bank-insurance model is in part due to the cooperation that exists between the bank branches and the insurance agents, whereby the branches sell standard insurance products to retail customers and refer their customers to the insurance agents for non-standard products. Claims-handling is the responsibility of the insurance agents, the call centre and the head office departments at KBC Insurance.

End of 2015, the Group had (see table), based on its own estimates, a 21 % share of traditional banking activities in Belgium (18 % share of the Belgian deposit market and a 23 % share of the lending market). Over the past few years, KBC Bank has built up a strong position in investment funds too, and leads according to its own estimates the Belgian market with an estimated share of some 40 %.

The Group's share of the insurance market came to an estimated 13% for life insurance and 9 % for non-life insurance.

The Group believes in the power of a physical presence through a branch and agency network that is close to its clients. At the same time, however, it expects the importance of online and mobile bank-insurance to grow further and it is constantly developing new applications in these areas. That includes the various mobile banking apps for smartphones and tablets, which are being continuously improved and expanded. KBC-

Online too is providing clients with ever more information and facilities to perform their own banking and/or insurance transactions.

In the Group's financial reporting, the Belgian activities are combined into a single Belgium Business Unit. The results of the Belgium Business Unit essentially comprises the activities of KBC Bank NV and KBC Insurance NV, and their Belgian subsidiaries, the most important of which are CBC Banque, KBC Asset Management, KBC Lease Group and KBC Securities.

Focus on the future:

- New technologies are considered an important means to focus even more on client-centric solutions. In this regard, various initiatives to enhance client centricity have been launched or are planned. For example, a new simplified offering of current account packages (including a charge-free current account) is being provided to clients as of today to better respond to their current needs, a new responsive and convenient bank-insurance platform (Touch) was launched, and the Start it @kbc initiative for people starting up a business has proven to be a success and is growing steadily.
- Up until now, the KBC Group was active in Brussels under the 'KBC' and 'CBC' brands. However, the decision has been taken to more efficiently exploit the full – but currently undertapped – potential of Brussels**.** As of 2015, a new separate 'KBC Brussels' was launched, reflecting the specific cosmopolitan character of Brussels and the needs of its population. Retail and SME clients receive a single, unified bank-insurance product and service offering and existing KBC/CBC branches are being repositioned.
- In Wallonia, CBC – with its autonomous operational and commercial model and strong embeddedness in the local economy – has recorded solid and constant year-on-year gross revenue growth. CBC wishes to further mine the growth potential in selected market segments in banking and insurance. As of 2015, CBC is increasing its footprint in Wallonia and enhancing its availability and service offering**.** CBC will open a number of new bank branches and relocate existing ones.

Activities in Central and Eastern Europe

Market position in 2015*	**Czech Republic**	**Hungary**	**Slovak Republic**	**Bulgaria**
Bank branches	316**	209	125	100
Insurance agencies	Various distribution channels	Various distribution channels	Various distribution channels	Various distribution channels
Customers (millions)	4	1.6	0.6	0.6
Market shares				
– Bank products	19%	10%	11%	3%
– Investment funds	26%	18%	7%	-
– Life insurance	7%	4%	4%	12%
– Non-life insurance	7%	5%	3%	10%

**Market shares and customer numbers: based on own estimates. For bank products: average estimated market share for loans and deposits. For life insurance: based on premiums.*

*** ČSOB Bank + Era (which is one of the brands of the ČSOB-group under which certain financial products and services are offered).*

In the Central and Eastern European region, the Group focuses on four home countries, being the Czech Republic, Hungary, the Slovak Republic and Bulgaria. The main Central and Eastern European entities in those home markets are CIBANK and DZI Insurance (in Bulgaria), ČSOB and ČSOB Poist'ovna (in the Slovak Republic), ČSOB and ČSOB Pojist'ovna (in the Czech Republic), and K&H Bank and K&H Insurance (in Hungary), and their respective subsidiaries.

In its four home countries, the Group caters to between 6 and 7 million customers. This customer base makes KBC Group one of the larger financial groups in the Central and Eastern European region. The Group companies focus on providing clients with a broad area of credit (including mortgage loans), deposit, investment fund and other asset management products (the latter not in Bulgaria), life and non-life insurance products and other specialised financial products and services. In most countries, KBC offers a broad product offer, though in certain markets the focus lies on sub-markets or products segments. Just as in Belgium, the bricks-and-mortar networks in Central and Eastern Europe are supplemented by electronic channels, such as ATMs, telephone and the Internet.

The Group's bank-insurance concept has over the past few years been exported to its Central and Eastern European entities. Contrary to the situation of KBC Bank in Belgium, the Group's insurance companies in Central and Eastern Europe operate not only via tied agents (and bank branches) but also via other distribution channels, such as insurance brokers and multi-agents.

The Group's estimated market share (the average of the share of the lending market and the deposit market, see table) amounted to 19% in the Czech Republic, 11% in the Slovak Republic, 10% in Hungary, and 3% in Bulgaria (rounded figures). The Group also has a strong position in the investment fund market in Central and Eastern Europe (estimated at 26% in the Czech Republic, 7% in the Slovak Republic, and 18% in Hungary). The estimated market shares in insurance are (figures for life and non-life insurance, respectively): Czech Republic: 7% and 7%; Slovak Republic: 4% and 3%; Hungary: 4% and 5%; and Bulgaria: 12% and 10%.

In the Group's financial reporting, the Czech activities are separated in a single Czech Republic Business Unit, whereas the activities in the other Central and Eastern European countries, together with Ireland (see further) are combined into the International Markets business unit. The Czech Republic Business Unit hence comprises all KBC's activities in the Czech Republic, consisting primarily of the activities of the ČSOB group (under the ČSOB, Era, Postal Savings Bank, Hypotečni banka, ČMSS and Patria brands), the insurer ČSOB Pojišt'ovna and ČSOB Asset Management. The International Markets Business Unit comprises the activities conducted by entities in the other (non-Czech) Central and Eastern European core countries, namely ČSOB and ČSOB Poist'ovňa in the Slovak Republic, K&H Bank and K&H Insurance in Hungary and CIBank and DZI Insurance in Bulgaria, plus KBC Bank Ireland's Irish operations.

On 1 July 2015, ČSOB Leasing and Volksbank Leasing International concluded an agreement for ČSOB Leasing to acquire all the shares of Volksbank Leasing Slovakia and its insurance brokerage subsidiary, Volksbank Sprostredkovatel'ska. Volksbank Leasing Slovakia is a universal leasing company in the Slovak Republic with a market share of approximately 6% and a balance sheet total of approximately EUR 170 million. KBC is the clear leader on the Slovak leasing market through ČSOB Leasing. The deal has no material impact on the Group's earnings and capital.

Focus on the future:

- The Czech Republic Business Unit's ambition is to create value for its clients by moving from a primarily channel-driven to a client-driven solution, based on the creation of an integrated model, which brings together clients, third parties and bank-insurance. New types of non-financial, service-oriented products will be integrated to create superior client satisfaction and provide added value for clients. On the one hand, ČSOB will increasingly focus on reducing complexity (in products, IT,

organisation, bank/distribution network, head office and branding) to generate cost-efficiency benefits. On the other, the business unit will further enhance and accelerate bank-insurance in a number of ways, including introducing an advanced and flexible pricing model, developing combined bank-insurance products, and strengthening the insurance sales force. ČSOB wishes to maintain growth in the areas where it traditionally has been very strong, such as corporate loans and mortgages. On top of that, ČSOB will mine the currently undertapped potential in the attractive SME loans market by focusing on sustainable client relationships. In the consumer finance market, too, ČSOB is aiming to increase its current market share, while observing an acceptable cost of risk.

- In the International Markets Business Unit, K&H (Hungary) and ČSOB Slovakia intend to transform their branch-centric model to a hybrid distribution model. K&H plans to further support the Hungarian economy and grow its market shares in all key segments, with continuous improvements in efficiency and profitability. In the Slovak Republic, business income is expected to increase considerably, especially in retail asset classes (home loans, consumer finance, SMEs and leasing). CIBANK and DZI Insurance (Bulgaria) are following the same path as K&H and ČSOB, but with slower dynamics due to a less mature market. The bank-insurance partnership between DZI and CIBANK has grown strongly over the past few years and they plan to extend this partnership by further developing products and distribution channels.

Activities in the rest of the world

A number of companies belonging to the Group are also active in, or have outlets in, countries outside the home markets, among which KBC Bank, which has a network of foreign branches, and KBC Bank Ireland. See also the list of main companies or full list on www.kbc.com.

The loan portfolio of KBC Bank Ireland stood at approximately EUR 13.9 billion at the end of 2015, approximately 84% of which relates to mortgage loans. At the end of December 2015, approximately 47% (EUR 6.6 billion) of the total Irish loan portfolio was impaired (of which EUR 3.3 billion more than 90 days past due). For the impaired loans, some EUR 2.8 billion (specific and portfolio-based) impairments have been booked. In addition to the ongoing management of the problem real estate portfolio, the Group started work in 2013 on transforming and developing KBC in Ireland into an important retail bank (see below). The Group estimates its share of the Irish market in 2015 at 11% for retail mortgage loans and 6% for retail deposits. It caters for around 0.2 million clients there.

Focus on the future:

- KBC Bank Ireland’s main strategic goal is to make the transition from a digitally led mono-liner (mortgage and deposits) bank to a full retail bank, with a complete retail product offering and a limited bricks-and-mortar presence. By not having the heritage of a large branch network, KBC Bank Ireland can make a fresh start in developing a complete retail product offering through digital channels. The multi-platform distribution reach will be digitally led via online and mobile solutions and a contact centre supported by an agile physical presence (hubs, mobile banks and mobile advisers) in key urban areas. The bank has the ambition to grow strongly in retail mortgages while expanding its overall retail product offering. KBC Bank Ireland will continue to reduce its existing corporate and SME loan portfolio in line with its deleveraging strategy.

- The foreign branches of KBC Bank are located mainly in Western Europe, Southeast Asia and the U.S. and focus on serving customers that already do business with KBC Bank's Belgian or Central and Eastern European network. In the past years, many of the other (niche) activities of these branches have been built down, stopped or sold, and the pure international credit portfolio has been scaled down.

- In KBC Group's financial reporting, KBC Bank Ireland is included in the International Markets Business Unit and the foreign branches of KBC Bank are part of the Belgium Business Unit. The three Business Units (Belgium, the Czech Republic and International Markets) are supplemented by the Group Centre. The Group Centre includes the operational costs of the holding activities of the Group, certain capital and liquidity management-related costs, costs related to the holding of participations and the results of the remaining companies or activities earmarked for divestment or in run-down. It also includes results related to the legacy businesses (CDOs, divestment results; both immaterial since 2015) and the valuation of own credit risk.

10 Competition

All of the Group's operations face competition in the sectors they serve.

Depending on the activity, competitor companies include other commercial banks, saving banks, loan institutions, consumer finance companies, investment banks, brokerage firms, insurance companies, specialised finance companies, asset managers, private bankers, investment companies, e-commerce companies etc.

In both Belgium and Central and Eastern Europe, the Group has an extensive bank-insurance network of branches, insurance agencies and other distribution channels. The Group believes most of its main companies have strong name brand recognition in their respective markets.

In Belgium, KBC Group is perceived as one of the top three financial institutions (see market shares). For certain products or activities, KBC Group estimates it has a leading position (e.g. in the area of investment funds). The main competitors in Belgium are BNP Paribas Fortis, Belfius, ING, Ageas, Ethias and AXA, although for certain products, services or markets, other financial institutions may also be important competitors.

In its Central and Eastern Europe European home market KBC Group is one of the leading financial groups (see market shares), occupying significant positions in banking and insurance (see market shares). In this respect, the Group competes in each of these countries against local financial institutions, as well as subsidiaries of other large foreign financial groups (such as Erste Bank, Unicredit and others).

In the rest of the world, the Group's presence primarily consists of a limited number of branches and subsidiaries. In this case, the Group faces competition both from local companies and international financial groups.

11 Staff

As at the end of 2015, the Group had, on a consolidated basis, about 36,400 employees (in full-time equivalent-numbers), the majority of whom were located in Belgium (largely in KBC Bank) and Central and Eastern Europe. In addition to talks at works council meetings and at meetings with union representatives and with other consultative bodies, the Group also works closely in other areas with employee associations. There are various collective labour agreements in force.

12 Risk management

Mainly active in banking and asset management, KBC Group is exposed to a number of typical risks such as – but certainly not exclusively – credit risk, market risks, movements in interest rates and exchange rates, currency risk, liquidity risk, insurance underwriting risk, operational risk, exposure to emerging markets, changes in regulations and customer litigation as well as the economy in general.

The risk management in KBC Group is effected group-wide. As a consequence, the risk management for KBC Bank is embedded in KBC Group risk management and cannot be seen as separate from it. A

description of the risk management is available in the 2015 Risk Report of the Issuer, which is available on the website at www.kbc.com[1]. See also the description in Part II (*Risk Factors*) on page 13 of this Base Prospectus.

Risk Governance

Below is a description of the credit risk, market risk (relating to trading and non-trading activities), liquidity risk and operation risk. A selection of figures on credit risk, asset and liability management ("**ALM**") and market risk in trading activities are provided further on.

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

- Market risk in trading activities is defined as the potential negative deviation from the expected value of a financial instrument (or portfolio of such instruments) due to changes in the level or in the volatility of market prices, e.g. interest rates, exchange rates, equity or commodity prices. The interest rate, foreign exchange and equity risks of the non-trading positions in the banking book are all included in ALM exposure.

- Market risk in non-trading activities (also known as Asset and Liability Management)) is the process of managing the Group's structural exposure to market risks. These risks include interest rate risk, equity risk, real estate risk, foreign exchange risk and inflation risk.

- Liquidity risk is the risk that an organisation will be unable to meet its payment obligations as they come due, without incurring unacceptable losses. The principal objective of KBC Group's liquidity management is to be able to fund such needs and to enable the core business activities of KBC Group to continue to generate revenue, even under adverse circumstances.

- Technical insurance risks stem from uncertainty regarding how often insured losses will occur and how extensive they will be. All these risks are kept under control through appropriate underwriting, pricing, claims reserving, reinsurance and claims handling policies of line management and through independent insurance risk management.

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

KBC Group's risk governance framework defines the responsibilities and tasks required to manage value creation and the associated risks. In recent years, KBC Group's risk management framework underwent significant changes with regard to governance and structure. The goal of these changes was to further improve KBC Group's ability to deal decisively with major economic events in the future by creating an adjusted and comprehensive integrated model that aligns all dimensions of risk, capital and value management.

Credit risk

Credit risk is managed at both transactional and portfolio level. Managing credit risk at the transactional level means that sound practices, processes and tools are in place to identify and measure the risks before and after

[1] https://www.kbc.com/system/files/doc/investor-relations/Results/JVS_2015/Risk_Report_2015.pdf.

accepting individual credit exposures. Limits and delegations are set to determine the maximum credit exposure allowed and the level at which acceptance decisions are taken. Managing the risk at portfolio level encompasses inter alia periodic measuring and analysing of risk embedded in the consolidated loan and investment portfolios and reporting on it, monitoring limit discipline, conducting stress tests under different scenarios, taking risk mitigating measures and optimising the overall credit risk profile.

Credit risk arises in both the banking and insurance activities of the Group. In separate sections below, a closer look is given at the credit risk related to the insurance activities, the Group's investments in structured credit products, government bonds, and the Group's Irish portfolio.

As far as the banking activities are concerned, the main source of credit risk is the loan and investment portfolio. The loan & investment portfolio has been built up mainly through what can be considered as pure, traditional lending activities. It includes all retail lending such as mortgage loans and consumer loans, all corporate lending such as (committed and uncommitted) working capital credit lines, investment credit, guarantee credit and credit derivatives (protection sold) and all non-government debt securities in the investment books of KBC Group's bank entities. The table below excludes other credit risks, such as trading exposure (issuer risk), counterparty risk associated with inter-professional transactions, international trade finance (documentary credit, etc.) and government bonds.

Loan and investment portfolio, banking	31-12-2014[5]	31-12-2015	31-03-2016
Total loan portfolio (in billions of EUR)			
Amount granted	166	174	174
Amount outstanding	139	143	144
Loan portfolio breakdown by business unit (as a % of the portfolio of credit outstanding)			
Belgium	64%	65%	64%
Czech Republic	14%	14%	15%
International Markets	18%	18%	18%
Group Centre	4%	3%	3%
Total	100%	100%	100%
Loan portfolio breakdown by counterparty sector (as a % of the portfolio of credit outstanding)[1]			
Private individuals	42%	42%	42%
Financial and insurance services	6%	6%	6%
Governments	4%	3%	3%
Corporates	49%	49%	49%
Non-financial services	11%	11%	11%
Retail and wholesale trade	8%	8%	8%
Real estate (risk)	7%	7%	7%
Construction	4%	4%	4%
Agriculture, farming, fishing	3%	3%	3%
Automotive	2%	2%	2%
Other[2]	14%	14%	14%
Total	100%	100%	100%
Loan portfolio breakdown by region (as a % of the portfolio of credit outstanding)[1]			
Western Europe	75%	74%	74%
Central and Eastern Europe	21%	22%	22%
North America	1%	1%	2%
Other	2%	3%	3%
Total	100%	100%	100%
Loan portfolio breakdown by risk class (part of the portfolio, as a % of the portfolio of credit outstanding)[1, 3]			
PD 1 (lowest risk, default probability ranging from 0.00% up to, but not including, 0.10%)	30%	31%	31%
PD 2 (0.10% – 0.20%)	11%	11%	12%
PD 3 (0.20% – 0.40%)	13%	14%	13%
PD 4 (0.40% – 0.80%)	15%	15%	16%

PD 5 (0.80% – 1.60%)	11%	11%	11%
PD 6 (1.60% – 3.20%)	10%	9%	9%
PD 7 (3.20% – 6.40%)	5%	4%	4%
PD 8 (6.40% – 12.80%)	2%	2%	2%
PD 9 (highest risk, ≥ 12.80%)	2%	2%	2%
Total	100%	100%	100%
Impaired loans[4] (PD 10 + 11 + 12; in millions of EUR or %)			
Impaired loans[5]	13 692	12 305	11 845
Specific impairment	5 709	5 517	5 383
Portfolio-based impairment (i.e. based on PD 1 to 9)	215	229	231
Credit cost ratio [net changes in individual and portfolio-based impairment for credit risks]/[average outstanding loan portfolio][7]			
Belgium Business Unit	0.23%	0.19%	0.02%
Czech Republic Business Unit	0.18%	0.18%	0.01%
International Markets Business Unit	1.06%	0.32%	-0.04%
Ireland	1.33%	0.34%	-0.10%
Slovak Republic	0.36%	0.32%	0.08%
Hungary	0.94%	0.12%	-0.18%
Bulgaria	1.30%	1.21%	0.67%
Group Centre	1.17%	0.54%	-0.02%
Total	0.42%	0.23%	0.01%
Impaired loans ratio [total outstanding impaired loans (PD 10-11-12)]/[total outstanding loans]			
Belgium Business Unit	4.3%	3.8%	3.7%
Czech Republic Business Unit	3.8%	3.4%	3.2%
International Markets Business Unit	34.1%	29.8%	28.9%
Group Centre	8.6%	10.0%	9.4%
Total	9.9%	8.6%	8.2%
Impaired loans that are more than 90 days past due (PD 11 + 12; in millions of EUR or %)			
Impaired loans that are more than 90 days past due	7 676	6 936	6 772
Specific impairment for impaired loans that are more than 90 days past due	4 384	4 183	4 114
Ratio of impaired loans that are more than 90 days past due			
Belgium Business Unit	2.2%	2.2%	2.2%
Czech Republic Business Unit	2.9%	2.5%	2.4%
International Markets Business Unit	19.0%	16.0%	15.4%
Group Centre	6.3%	6.1%	6.1%
Total	5.5%	4.8%	4.7%
Cover ratio [Specific loan loss impairment]/[impaired loans]			
Total	42%	45%	45%
Total (excluding mortgage loans)	51%	53%	54%

1 Audited figures.

2 Individual sector shares not exceeding 3%.

3 Internal rating scale.

4 Figures differ from those appearing in Note 21 of the 'Consolidated financial statements' section, due to differences in scope.

5 Reconciliation of year-end figures: the difference of EUR 1 387 million between the figures for 2014 and 2015 was due to this category of loan decreasing by EUR 277 million at the Belgium Business Unit, by EUR 5 million at the Czech Republic Business Unit and by EUR 6 million at the Group Centre, and by EUR 1 099 million at the International Markets Business Unit (EUR 962 million of which in Ireland).

The normal loan portfolio is split into internal rating classes ranging from 1 (lowest risk) to 9 (highest risk) reflecting the probability of default ("**PD**"). An internal rating ranging from PD 10 to PD 12 to a defaulted obligor. PD class 12 is assigned when either one of the obligor's credit facilities is terminated by the bank, or when a court order is passed instructing repossession of the collateral. PD class 11 is assigned to obligors that are more than 90 days past due (in arrears or overdrawn), but that do not meet PD 12 criteria. PD class 10 is assigned to obligors for which there is reason to believe that they are unlikely to pay (on time), yet are still performing and do not meet the criteria for classification as PD class 11 or PD class 12. Default status is fully aligned with non-performing status and with impaired status. PD class 10 to 12 are therefore referred to as "defaulted" and "impaired". Likewise, "performing" status is fully aligned with "non-default" and "non-impaired" status.

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

For credit linked to defaulted borrowers in PD class 10 to 12, the impairment losses are recorded based on an estimate of the net present value of the recoverable amount. This is done on a case-by-case basis and on a statistical basis for smaller credit facilities. In addition, for non-defaulted credit in PD class 1 to 9 impairment losses are recorded on a portfolio basis, using a formula based on the IRB advanced models used internally, or an alternative method if a suitable IRB advanced model is not yet available. The "**credit cost ratio**" is defined as net changes in specific and portfolio-based impairment for credit risks divided by the average outstanding loan portfolio.

The following additional information for the loan and investment portfolio in Ireland is provided due to the specific situation in this market.

Details for the loan and investment portfolio of KBC Bank Ireland[1]	31-12-2014	31-12-2015
Total portfolio (outstanding, in billions of EUR)	14	14
Breakdown by loan type		
Home loans	82%	84%
SME & corporate loans	9%	8%
Real estate investment and real estate development	9%	8%
Breakdown by risk class		
Normal (PD 1-9)	48%	53%
Impaired (PD 10)	25%	24%
Impaired (PD 11+12)	27%	24%
Credit cost ratio[2]	1.33%	0.34%
Cover ratio	37%	41%

1 For a definition, see 'Overview of credit risk exposure in the banking activities' (i.e. excluding *inter alia* government bonds).
2 Unaudited.

Besides the credit risks in the loan and investment portfolio, credit risks also arise in other banking activities. The main sources of other credit risk are:

Short-term commercial transactions. This activity involves export or import finance (documentary credit, pre-export and post-import finance, etc.) and only entails exposure to financial institutions. The Group manages risks associated with this activity by setting limits per financial institution and per country or group of countries.

Trading book securities. These securities carry an issuer risk (potential loss on default by the issuer). The Group measures exposure to this type of risk on the basis of the market value of the securities. Issuer risk is curtailed through the use of limits both per issuer and per rating category. The exposure to asset-backed securities and collateralised debt obligations in the trading book is not included in the figures shown in the table, but is reported separately (see the '*Structured credit exposure'* section).

Interprofessional transactions (deposits with professional counterparties and derivatives trading). These transactions result in counterparty risk. The amounts shown in the table are the Group's pre-settlement risks, measured as the sum of the (positive) current replacement value ('mark-to-market' value) of a transaction and the applicable add-on. Risks are curtailed by setting limits per counterparty. The Group also uses close-out netting and collateral techniques. Financial collateral is only taken into account if the assets concerned are considered eligible risk-mitigants for regulatory capital calculations.

Government securities in the investment portfolio of banking entities. Exposure to governments is measured in terms of nominal value and book value. Such exposure relates mainly to EU states (particularly Belgium). The Group has put in place limiting caps for both non-core and core country sovereign bond exposure. Details on the exposure of the combined banking and insurance activities to government bonds are provided in a separate section below.

As mentioned above, the loan portfolio clearly constitutes the main source of credit risk for the Group. However, a number of activities that are excluded from the credit portfolio figures also contain an element of credit risk. Information on risks related to counterparty risk of inter-professional transactions (refers to settlement and the pre-settlement risk of derivatives), trading book securities - issuer risk (refers to the potential loss on default by the issuer of the trading securities) and the government securities in the investment portfolio of banking entities, can be found in the 2015 Annual Report of the Issuer.

Other credit exposure, banking (in billions of EUR)	31-12-2014	31-12-2015
Short-term commercial transactions	4.4	2.9
Issuer risk[1]	0.2	0.1
Counterparty risk in interprofessional transactions[2]	10.1	9.6

1 Excluding a nominative list of central governments, and all exposure to EU institutions and multilateral development banks.

2 After deduction of collateral received and netting benefits.

Sovereign debt exposure

KBC Group holds a significant portfolio of government bonds, primarily as a result of its considerable excess liquidity position and for the reinvestment of insurance reserves into fixed instruments. A breakdown per country is provided in the table below.

Overview of exposure to sovereign bonds at year-end 2015, carrying value[1] (in millions of EUR)

Total (by portfolio)	Available for sale	Held to maturity	Designated at fair value through profit or loss	Loans and receivables	Held for trading	Total	*For comparison purposes: total at year-end 2014*	Economic impact of +100 basis points[3]
Southern Europe and Ireland								
Greece	0	0	0	0	0	0	0	0
Portugal	348	36	0	0	1	385	83	-27
Spain	2 685	263	0	0	3	2 951	1 609	-195
Italy	2 615	116	0	0	8	2 739	2 123	-175
Ireland	489	546	0	0	3	1 038	**775**	-52
KBC core countries								
Belgium	5 845	15 844	77	0	510	22 276	*24 545*	-1 206
Czech Republic	1 841	5 147	0	18	491	7 496	*7 587*	-438
Hungary	578	1 450	0	5	128	2 161	*2 073*	-77
Slovak Republic	1 533	1 380	0	0	2	2 915	*2 792*	-181
Bulgaria	375	15	0	0	0	390	*279*	-25
Other countries								
France	2 248	3 147	0	0	117	5 512	*4 214*	-471
Poland	902	148	12	0	6	1 068	*624*	-52
Germany	317	482	0	0	4	803	*861*	-47
Austria	312	473	21	0	11	817	*1 182*	-56
Netherlands	102	410	1	0	3	516	*905*	-32
Rest[2]	1 703	1 894	10	0	121	3 727	*3 643*	-233
Total carrying	21 892	31 353	120	22	1 408	54 796	*53 298*	–

value								
Total nominal value	19 070	29 566	110	22	1 187	49 956	*48 646*	–

1 Excluding exposure to supranational entities of selected countries. No material impairment on the government bonds in portfolio.
2 Sum of countries whose individual exposure is less than EUR 0.5 billion at year-end 2015.
3 Theoretical economic impact in fair value terms of a parallel 100-basis-point upward shift in the spread over the entire maturity structure (in millions of euros). Only a portion of this impact is reflected in profit or loss and/or equity. Figures relate to banking book exposure only (impact on trading book exposure was very limited and amounted to EUR -27 million at year-end 2015).

Main changes in 2015:

- The carrying value of the total sovereign bond exposure increased by EUR 1.5 billion, due primarily to the higher exposure to Spanish, French, Italian, Polish and Portuguese government bonds (EUR +1.3 billion, EUR +1.3 billion, EUR +0.6 billion, EUR +0.4 billion and EUR +0.3 billion, respectively), but partly offset by a decrease in exposure to Belgian government bonds (EUR -2.3 billion).

Revaluation reserve for available-for-sale assets at year-end 2015:

- At 31 December 2015, the carrying value of the total available-for-sale government bond portfolio incorporated a revaluation reserve of EUR 1.6 billion, before tax.
- This included EUR 602 million for Belgium, EUR 216 million for Italy, EUR 127 million for France, EUR 84 million for the Czech Republic and EUR 529 million for the other countries combined.

KBC sees no major sources of estimation uncertainty that would significantly increase the risk of a material adjustment to the carrying value of sovereign debt over financial year 2016.

Portfolio of Belgian government bonds:

- Belgian sovereign bonds accounted for 41% of the total government bond portfolio at the end of 2015, reflecting the importance to KBC of Belgium, the Group's primary core market. The importance of Belgium, in general, is also reflected in the 'Loan and investment portfolio' table towards the start of this section, in the contribution that Belgium makes to group profit (see 'Belgium') and in the various components of the result (see 'Notes on segment reporting' under 'Consolidated financial statements').
- At year-end 2015, the credit ratings assigned to Belgium by the three main international agencies were Aa3 from Moody's, AA from Standard & Poor's and AA from Fitch. More information on Belgium's macroeconomic performance is provided in the separate section dealing with Belgium. For more information, please refer to the rating agencies' websites.
- The main risk to KBC's holdings of Belgian sovereign bonds is a widening of the credit spread. The potential impact of a 100-basis-point upward shift in the spread (by year-end 2015) can be broken down as follows:
    - Theoretical full economic impact (see previous table):
        - the impact of which on IFRS profit or loss: very limited since the lion's share of the portfolio of Belgian sovereign bonds was classified as 'Available For Sale' (26%) and 'Held To Maturity' (71%);
        - the impact of which on IFRS unrealised gains on available-for-sale assets: EUR -205 million (after tax).
    - Impact on liquidity: a widening credit spread affects the liquidity coverage ratio (LCR), but the Group has a sufficiently large liquidity buffer.

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

Investment portfolio of KBC Group insurance entities (in millions of EUR, market value)[1]	31-12-2014	31-12-2015
Per balance sheet item		
Securities	21 282	22 048
Bonds and other fixed-income securities	19 935	20 490
Held to maturity	6 982	6 629
Available for sale	12 952	13 813
At fair value through profit or loss and held for trading	1	1
As loans and receivables	0	46
Shares and other variable-yield securities	1 345	1 555
Available for sale	1 340	1 551
At fair value through profit or loss and held for trading	5	3
Other	3	3
Property and equipment and investment property	373	341
Investment contracts, unit-linked[2]	13 425	13 330
Other	1 074	1 485
Total	36 155	37 204
Details for bonds and other fixed-income securities		
By external rating[3]		
Investment grade	96%	95%
Non-investment grade	2%	3%
Unrated	2%	2%
By sector[3]		
Governments	65%	59%
Financial[4]	13%	26%
Other	22%	15%
By remaining term to maturity[3]		
Not more than 1 year	12%	12%
Between 1 and 3 years	18%	21%
Between 3 and 5 years	20%	18%
Between 5 and 10 years	30%	26%
More than 10 years	20%	22%

1 The total carrying value amounted to EUR 34,716 million at year-end 2014 and to EUR 35,847 million at year-end 2015.
2 Representing the assets side of unit-linked (class 23) products and completely balanced on the liabilities side. No credit risk involved for KBC Insurance.
3 Excluding investments for unit-linked life insurance. In certain cases, based on extrapolations and estimates.
4 Including covered bonds and non-bank financial companies.

Structured credit exposure (banking and insurance portfolio)

At EUR 1.6 billion, the total net portfolio (i.e. excluding de-risked positions) of structured credit products (consisting primarily of European residential mortgage-backed securities ("**RMBS**") was down EUR 0.1 billion on its level at year-end 2014, as redemptions were slightly higher (by EUR 0.1 billion) than new investments. In 2013, KBC Group decided to lift the strict ban on investments in asset-backed securities ("**ABS**") and to allow treasury investments (see 'Treasury ABS exposure' in the table) in liquid, high-quality, non-synthetic European ABS, which are also accepted as eligible collateral by the ECB. This allows for further diversification in the investment portfolios. The moratorium on investments in synthetic securitisations or re-securitisations is still in place.

In September 2014, KBC Group collapsed the last two remaining CDOs originated by KBC Financial Products, enabling it to fully scale down its CDO portfolio, which stood at more than EUR 25 billion in 2008. Collapsing these CDOs ended the guarantee agreement that KBC Group concluded with the Belgian Federal Government and completely eliminated KBC Group's exposure to MBIA. KBC Group wishes to point out that it is the counterparty to and issuer of a further EUR 0.2 billion worth of CDO notes issued by KBC Financial Products and held by third-party investors that will remain outstanding until November 2017.

Market risk in trading activities

KBC Group is exposed to market risk via the trading books of its dealing rooms in Belgium, the Czech Republic, the Slovak Republic and Hungary, as well as via a minor presence in the UK and Asia. The traditional dealing rooms, with the dealing room in Belgium accounting for the lion's share of the limits and risks, focus on trading in interest rate instruments, while activity on the FX markets has traditionally been limited. All dealing rooms focus on providing customer service in money and capital market products and on funding the bank activities.

There is also a limited market risk in the four legacy business lines of KBC Investments Limited (formerly KBC Financial Products), namely the CDO, fund derivatives, reverse mortgages and insurance derivatives businesses.

The table below shows the Historical Value-at-Risk (HVaR; 99% confidence interval, ten-day holding period, historical simulation) for the linear and non-linear exposure of all the dealing rooms of KBC Group (KBC Securities was included from April 2013 onwards). To allow a year-on-year comparison, the HVaR for KBC Investments Limited (relating to KBC's discontinued CDO business) is also shown.

As of October 2013, the HVaR for KBC Investment Limited's credit derivatives had fallen to zero due to a series of trades with external counterparties that generated an exact match of the offsetting positions in the scope of KBC Investment Limited's VaR model (perfect Back-to-Back positions). As a result, and due to the above-mentioned inclusion of KBC Securities in the HVaR for KBC Bank, all trading activity for the KBC Group measured by HVaR has been included in the "KBC Bank" figure from that point on, and thus this figure represents the HVaR for KBC Group.

Market risk HVaR [1] (Ten-day holding period, in millions of euro)

	KBC Group	KBC Investments Limited
Average, 1Q 2013	37	1
Average, 2Q 2013	37	1
Average, 3Q 2013	34	1
Average, 4Q 2013	29	-
End of period	*28*	-
Maximum in year	*50*	*5*
Minimum in year	*26*	*0*
Average, 1Q 2014	24	-
Average, 2Q 2014	19	-
Average, 3Q 2014	15	-
Average, 4Q 2014	15	-
End of period	*15*	-
Maximum in year	*29*	-
Minimum in year	*11*	-
Average, 1Q 2015	14	

Average, 2Q 2015	15
Average, 3Q 2015	15
Average, 4Q 2015	16
End of period	*18*
Maximum in year	*21*
Minimum in year	*12*

Regulatory capital charges for market risk

Both KBC Bank and KBC Investments Limited have been authorised by the Belgian regulator to use their respective VaR models to calculate regulatory capital requirements for part of their trading activities. ČSOB (Czech Republic) has also received approval from the local regulator to use its VaR model for capital requirement purposes. These models are also used for the calculation of Stressed VaR (SVaR), which is one of the CRD III Regulatory Capital charges that entered into effect at year-end 2011. The calculation of an SVaR measure is based on the normal VaR calculations and follows the same methodological assumptions, but is constructed as if the relevant market factors were experiencing a period of stress. The period of stress is based on recent history and is calibrated regularly.

The resulting capital requirements for trading risk are shown in the table below. The regulatory capital requirements for the trading risk of local KBC entities that did not receive approval from their respective regulator to use an internal model for capital calculations, as well as the business lines not included in the HVaR calculations, are measured according to the Standardised approach. This approach sets out general and specific risk weightings per type of market risk (interest risk, equity risk, foreign exchange risk and commodity risk). The re-securitisation regulatory capital for 2015 (EUR 15 million) emanates from the counterposition for the EUR 0.2 billion of CDO notes held by investors (the counterposition is located in the trading books of KBC Investments Limited).

Trading Regulatory Capital Requirements by risk type for the KBC Group (in millions of euro)

		Interest rate risk	Equity risk	FX risk	Commodity risk	Re-securitisation	Total
31-12-2014							
Market risks assessed by internal model	HVaR	38	2	11	-	-	126
	SVaR	56	3	17	-		
Market risks assessed by the Standardised Approach		27	4	14	3	19	68
Total		120	9	43	3	19	194
31-12-2015							
Market risks assessed by internal model	HVaR	68	3	9	–	–	192
	SVaR	84	2	26	–		
Market risks assessed by the Standardised Approach		18	5	16	2	15	56
Total		171	10	50	2	15	248

Asset and Liability Management (market risks in non-trading activities)

The BPV (basis point value) below shows the amount with which the value of the economic portfolio would be impacted if interest rates were to fall by ten basis points across the entire curve including spread (negative figures indicate a decrease in the value of the portfolio). More details are available in the 2015 Annual Report of KBC Group.

BPV of the ALM-book of the Group (in millions of EUR) (unaudited, except for those 'As at 31 December')

Average for 1Q 2013	-33
Average for 2Q 2013	-28
Average for 3Q 2013	-21
Average for 4Q 2013	-22
As at 31 December 2013	-22
Average for 1Q 2014	-55
Average for 2Q 2014	-61
Average for 3Q 2014	-71
Average for 4Q 2014	-57
As at 31 December 2014	-57
Average for 1Q 2015	-60
Average for 2Q 2015	-40
Average for 3Q 2015	-28
Average for 4Q 2015	-25
As at 31 December 2015	-25
Average for 1Q 2016	-18

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

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

- mismatches in the banking activities linked to the branch network's acquisition of working funds and the use of those funds (via lending, among other things);
- mismatches in the insurance activities between liabilities in the non-life and life businesses and the cover for these liabilities present in the investment portfolios held for this purpose;
- the risks associated with holding an investment portfolio for the purpose of reinvesting shareholders' equity;

- the structural currency exposure stemming from the activities abroad (investments in foreign currency, results posted at branches or subsidiaries abroad, foreign exchange risk linked to the currency mismatch between the insurer's liabilities and its investments).

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

- a broad range of risk measurement methods such as Basis-Point-Value (BPV), gap analysis and economic sensitivities;
- net interest income simulations under a variety of market scenarios; simulations over a multi-year period are used within budgeting and risk processes;
- capital sensitivities arising from banking book positions that have impact on available regulatory capital (e.g. Available For Sale bonds);
- the Value-at-Risk (VaR) measurement method, which measures the maximum loss that might be sustained over a one-year time horizon with a certain confidence level, as a result of movements in interest rates and other fluctuations in market risk factors.

Technical insurance risk

Technical insurance risks stem from uncertainty regarding how often insured losses will occur and how extensive they will be. All these risks are kept under control through appropriate underwriting, pricing, claims reserving, reinsurance and claims handling policies of line management and through independent insurance risk management.

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

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

Operational risk

KBC has a single, global framework for managing operational risk across the entire group.

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

The Group risk function creates an environment where risk specialists (in various areas, including information risk management, business continuity and disaster recovery, compliance, anti-fraud, legal, tax and accounting matters) can work together (setting priorities, using the same language and tools, uniform reporting, etc.). It is assisted by the local risk management units, which are likewise independent of the business.

The building blocks for managing operational risks

KBC uses a number of building blocks for managing operational risks, which cover all aspects of operational risk management.

Between 2011 and 2015, specific attention was given to the structured set-up of process-based Group Key Controls, which gradually replaced the former Group Standards. These controls are policies containing top-down basic control objectives and are used to mitigate key and killer risks inherent in the processes of KBC entities. As such, they are an essential building block of both the operational risk management framework and the internal control system. The Group Key Controls now cover the complete process universe of KBC Group, defined by 45 KBC Group Processes. Structural risk-based review cycles are installed to manage the process universe, close gaps, eliminate overlap and optimise group-wide risks and controls.

The business and (local) control functions assess the Group Key Controls. The risk self-assessments are consolidated at the Group risk function and ensure that there is a consistent relationship between (i) processes, (ii) risks, (iii) control activities and (iv) assessment scores. KBC created an objective management tool to evaluate its internal control environment and to benchmark the approach across its entities. Each year, KBC Group reports the assessment results to the National Bank of Belgium and the ECB in KBC Group's Internal Control Statement.

Besides these Group Key Controls, there are a number of other building blocks:

- The Loss Event Database. All operational losses of EUR 1,000 or more have been recorded in a central database since 2004. This database also includes all legal claims filed against group companies. Consolidated loss reports are regularly submitted to the Group Internal Control Committee, the Group Executive Committee and the RCC.

- Risk Scans (bottom-up and top-down). These self-assessments focus on the identification of key operational risks at critical points in the process/organisation that are not properly mitigated, and on new or emerging operational risks that are relevant at (sub)group level.

- Risk Signals and Case-Study Assessments. These are used to test the effectiveness of the protection afforded by existing controls against major operational risks that have actually occurred elsewhere in the financial sector.

- Key Risk Indicators. A limited set of KRIs are used to monitor the exposure to certain operational risks and track the existence and effectiveness of the internal controls.

- Maturity Model. In 2014, the Group operational risk function developed a maturity model to support KBC entities build a mature control environment in which process improvements, control monitoring and remedial actions are embedded even more deeply into day-to-day business practices.

The quality of the internal control environment and related risk exposure as identified, assessed and managed by means of these building blocks is reported to KBC's senior management via a management dashboard and to the National Bank of Belgium and the FSMA via the annual Internal Control Statement.

Liquidity risk

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

The principal objective of the Group's liquidity management is to be able to fund the Group and to enable the core business activities of the Group to continue to generate revenue, even under adverse circumstances. Since the financial crisis, there has been a greater focus on liquidity risk management throughout the industry,

and this has been intensified by the minimum liquidity standards defined by the Basel Committee, which have been transposed into European law through CRD IV and CRR.

A group-wide 'liquidity risk management framework' is in place to define the risk playing field. Liquidity management itself is organised within the Group Treasury function, which acts as a first line of defence and is responsible for the overall liquidity and funding management of KBC Group. The Group Treasury function monitors and steers the liquidity profile on a daily basis and sets the policies and steering mechanisms for funding management (intra-group funding, funds transfer pricing). These policies ensure that local management has an incentive to work towards a sound funding profile. It also actively monitors its collateral on a group-wide basis and is responsible for drafting the liquidity contingency plan that sets out the strategies for addressing liquidity shortfalls in emergency situations.

The Group's liquidity risk management framework is based on the following pillars:

- Contingency liquidity risk. This risk is assessed on the basis of liquidity stress tests, which measure how the liquidity buffer of the Group's bank entities changes under extreme stressed scenarios. This buffer is based on assumptions regarding liquidity outflows (retail customer behaviour, professional client behaviour, drawing of committed credit lines, etc.) and liquidity inflows resulting from actions to increase liquidity ('repoing' the bond portfolio, reducing unsecured interbank lending, etc.). The liquidity buffer has to be sufficient to cover liquidity needs (net cash and collateral outflows) over (i) a period that is required to restore market confidence in the Group following a KBC-specific event, (ii) a period that is required for markets to stabilise after a general market event and (iii) a combined scenario, which takes a KBC-specific event and a general market event into account. The overall aim of the liquidity framework is to remain sufficiently liquid in stress situations, without resorting to liquidity-enhancing actions which would entail significant costs or which would interfere with the core banking business of the Group.

- Structural liquidity risk. The Group manages its funding structure so as to maintain substantial diversification, to minimise funding concentrations in time buckets, and to limit the level of reliance on short-term wholesale funding. The Group manages the structural funding position as part of the integrated strategic planning process, where funding – in addition to capital, profits and risks – is one of the key elements. At present, the Group's strategic aim for the next few years is to build up a sufficient buffer in terms of the Basel III Liquidity Cover Ratio ("**LCR**") and Net Stable Funding Ratio ("**NSFR**") requirements via a funding management framework, which sets clear funding targets for the subsidiaries (own funding, reliance on intra-group funding) and provides further incentives via a system of intra-group pricing to the extent subsidiaries run a funding mismatch.

- Operational liquidity risk. Operational liquidity management is conducted in the treasury departments, based on estimated funding requirements. Group-wide trends in funding liquidity and funding needs are monitored on a daily basis by the Group Treasury function, ensuring that a sufficient buffer is available at all times to deal with extreme liquidity events in which no wholesale funding can be rolled over.

At year-end 2015, the NSFR of KBC Group stood at 121% and its LCR at 127%. The LCR for 2015 was calculated based on the Delegated Act definition of LCR, i.e. the binding European definition applying as from October 2015. The NSFR and LCR of KBC Group are both well above the minimum regulatory requirements and KBC Group's internal floor of 105% for both ratios.

Capital adequacy

Capital adequacy (or solvency) risk is the risk that the capital base of KBC Group, the bank or the insurer might fall below an acceptable level. In practice, this entails checking solvency against the minimum

regulatory requirements and against in-house solvency targets. Hence, capital adequacy is approached from both a regulatory and an internal perspective.

Solvency is reported at KBC Group NV, banking and insurance level, calculating it on the basis of IFRS figures and the relevant guidelines issued by the regulators. This implies that KBC Group calculates its solvency ratios based on CRD IV/CRR. This regulation entered gradually into force on 1 January 2014, and is expected to be fully implemented by 1 January 2022.

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

The minimum solvency ratios required under CRD IV/CRR are 4.5% for the common equity tier-1 (CET1) ratio, 6.0% for the tier-1 capital ratio and 8.0% for the total capital ratio (i.e. the pillar 1 minimum ratios). As a result of its supervisory review and evaluation process ("**SREP**"), the competent supervisory authority (in KBC Group's case, the ECB) can require that higher minimum ratios be maintained (i.e. the pillar 2 requirements) because, for instance, not all risks are properly reflected in the regulatory pillar 1 calculations. On top of this, a number of additional buffers have to be put in place, including a capital conservation buffer of 2.5% (to be phased in between 2016 and 2019), a buffer for systemically important banks (to be determined by the supervisory authority) and a countercyclical buffer in times of credit growth (between 0% and 2.5%, likewise to be determined by the supervisory authority). These buffers need to be met using CET1 capital, the strongest form of capital.

The ECB required KBC Group to maintain a CET1 ratio of at least 9.75% (phased-in, in accordance with the Danish Compromise) in 2016, which includes the CRD IV/CRR minimum requirement (4.5%), the conservation buffer (0.625%) and the pillar 2 add-on (4.625%). On top of this, the National Bank of Belgium (NBB) requires KBC Group – as a systemically important Belgian bank – to hold an additional buffer of 0.5% of CET1 (phased-in, in accordance with the Danish Compromise) in 2016, 1.0% in 2017 and 1.5% in 2018.

KBC Group clearly exceeds the targets set by the ECB (9.75%) and the NBB (0.5% in 2016), i.e. an aggregate 10.25% for 2016. At year-end 2015, the phased-in CET1 ratio came to 15.2%, which represented a capital buffer of EUR 4 289 million relative to the minimum requirement of 10.25%. The regulatory minimum solvency targets were also amply exceeded throughout the entire financial year. At 31 March 2016, the phased-in CET1 ratio stood at 14.6%.

In addition to the solvency ratios under CRD IV/CRR, KBC Group NV – as a financial conglomerate – also has to disclose its solvency position as calculated in accordance with the Financial Conglomerate Directive (FICOD; 2002/87/EC). This implies that available capital will be calculated on the basis of the consolidated position of KBC Group and the eligible items recognised as such under the prevailing sectoral rules, which are CRD IV/CRR for the banking business and, as of 1 January 2016, Solvency II for the insurance business. The resulting available capital is to be compared with a capital requirement expressed as a risk weighted asset amount. For this latter figure, the capital requirements for the insurance business (based on Solvency I until the end of 2015 and on Solvency II as of 2016) are multiplied by 12.5 to obtain a risk weighted asset equivalent (instead of the 370% risk weighting applied to the participation under the Danish compromise). At year-end 2015, the phased common equity ratio (under FICOD) was 14.9%.

More information on capital adequacy as well as on the different risk types can be found in the 2015 Annual Report and the 2015 Risk Report of the Issuer, both published on www.kbc.com.

13 Banking Supervision and regulation

Introduction: supervision by the European Central Bank

KBC Bank, a credit institution governed by the laws of Belgium, is subject to detailed and comprehensive regulation in Belgium, and is supervised by the European Central Bank ("**ECB**"). The ECB exercises its prudential supervisory powers by means of application of EU rules and national (Belgian) legislation. The supervisory powers conferred to the ECB include, amongst others, the granting and withdrawal of authorisations to and from credit institutions, the assessment of acquisitions and disposals of qualifying holdings in credit institutions, ensuring compliance with the rules on equity, liquidity, statutory ratios and the carrying out of supervisory reviews (including stress tests) for credit institutions.

Pursuant to Regulation (EU) n° 468/2014 of 16 April 2014 establishing a framework for cooperation within the Single Supervisory Mechanism between the ECB and national competent authorities, a joint supervisory teams has been established for the prudential supervision of KBC Bank (and KBC Group NV). This team is composed of staff members from the ECB and from the national supervisory authority (*in casu* the National Bank of Belgium (the "**NBB**")) and working under the coordination of an ECB staff member.

The Financial Services and Markets Authority ("**FSMA**"), an autonomous public agency, is in charge of supervision of conduct of business rules for financial institutions and financial market supervision.

EU directives have had and will continue to have a significant impact on the regulation of the banking business in the EU, as such directives are implemented through legislation adopted in each Member State, including Belgium. The general objective of these EU directives is to promote a unified internal market for banking services and to improve standards of prudential supervision and market efficiency through harmonisation of core regulatory standards and mutual recognition among EU Member States of regulatory supervision and, in particular, licensing.

Supervision and regulation in Belgium

The banking regime in Belgium is governed by the Law of 25 April 2014 on the legal status and supervision of credit institutions (the "**Banking Law**"). The Banking Law replaces the Law on the Legal Status and Supervision of Credit Institutions of 22 March 1993 and implements various EU directives, including, without limitation, Directive 2013/36/EU of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms ("**CRD**") and, where applicable, Regulation 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms ("**CRR**", and together with CRD, "**CRD IV**") and Directive 2014/59 of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms ("**BRRD**"). CRD IV applies in Belgium since 1 January 2014, subject to certain requirements being phased in over a number of years, as set out therein. The provisions of the Banking Law which implement the BRRD have largely entered into force on 1 January 2016, with the exception of some provisions with regard to intragroup support and the coordination of early intervention measures in relation to groups.

The Banking Law sets forth the conditions under which credit institutions may operate in Belgium and defines the regulatory and supervisory powers of the ECB/NBB. The main objective of the Banking Law is to protect public savings and the stability of the Belgian banking system in general.

Supervision of credit institutions

(1) All Belgian credit institutions must obtain a license from the ECB before they may commence operations. In order to obtain a license and maintain it, each credit institution must fulfil numerous conditions, including certain minimum paid-up capital requirements. In addition, any shareholder

holding 10 per cent. or more (directly or indirectly, alone, together with affiliated persons or in concert with third parties) of the capital or the voting rights of the institution must be of "fit and proper" character to ensure proper and prudent management of the credit institution. The ECB therefore requires the disclosure of the identity and participation of any shareholder with a 10 per cent. or greater capital or voting interest. If the ECB considers that the participation of a shareholder in a credit institution jeopardizes its sound and prudent management, it may suspend the voting rights attached to this participation and, if necessary, request that the shareholder transfers to a third party its participation in the credit institution. Prior notification to and non-opposition by the ECB is required each time a person intends to acquire shares in a credit institution, resulting either in the direct or indirect ownership of a qualified holding of the capital or voting rights (i.e. 10 per cent. or more), or in an increase of such qualified holding thereby attaining or surpassing 20 per cent., 30 per cent. or 50 per cent., or when the credit institution would become his subsidiary. Furthermore, a shareholder who wishes to directly or indirectly sell his participation or a part thereof, which would result in his shareholding dropping below any of the above-mentioned thresholds, must notify the ECB thereof. The Belgian credit institution itself is obliged to notify the ECB of any such transfer when it becomes aware thereof. Moreover, every shareholder acquiring, decreasing or increasing its holding (directly or indirectly, alone, together with affiliated persons or in concert with third parties) to 5 per cent. or more of voting rights or capital without reaching the qualifying holding threshold of 10 per cent., must notify the ECB thereof within 10 working days.

(2) The Banking Law requires credit institutions to provide detailed periodic financial information to the ECB and, under certain circumstances, the FSMA. The ECB also supervises the enforcement of laws and regulations with respect to the accounting principles applicable to credit institutions. The ECB sets the minimum capital adequacy ratios applicable to credit institutions. The ECB may also set other ratios, for example, with respect to the liquidity and gearing of credit institutions. It also sets the standards regarding solvency, liquidity, risk concentration and other limitations applicable to credit institutions, and the publication of this information. The NBB may in addition impose capital requirements for capital buffers (including countercyclical buffer rates and any other measures aimed at addressing systemic or macro-prudential risks). In order to exercise its prudential supervision, the ECB may require that all information with respect to the organisation, the functioning, the position and the transactions of a credit institution be provided to it. Further, the ECB supervises, among other things, the management structure, the administrative organisation, the accounting and the internal control mechanisms of a credit institution. In addition, the ECB may conduct on-site inspections (with or without the assistance of NBB staff). The comprehensive supervision of credit institutions is also exercised through Statutory Auditors who cooperate with the supervisor in its prudential supervision. A credit institution selects its Statutory Auditor from the list of auditors or audit firms accredited by the ECB. Within the context of the European System of Central Banks, the ECB issues certain recommendations regarding monetary controls.

(3) The Banking Law has introduced a prohibition in principle on proprietary trading as from 1 January 2015. However, certain proprietary trading activities are excluded from this prohibition. Permitted proprietary trading activities (including certified market-making, hedging, treasury management, and long-term investments) are capped, and these type of activities must comply with strict requirements on reporting, internal governance and risk management.

(4) The Banking Law establishes a range of instruments to tackle potential crises of credit institutions at three stages:

(a) Preparation and prevention

Credit institutions have to draw up recovery plans, setting out the measures they would take to restore their financial position in the event of a significant deterioration to their financial position. These recovery plans must be updated at least annually or after a change to the legal or organisational structure of the institution, its business or its financial situation, which could have a material effect on, or necessitates a change to, the recovery plans. In its review of the recovery plan, the ECB pays particular attention to the appropriateness of the capital and financing structure of the institution in relation to the degree of complexity of its organisational structure and its risk profile.

The Single Resolution Board will have to prepare a resolution plan for each significant Belgian credit institution, laying out the actions it may take if it were to meet the conditions for resolution (as set out in (c) below). The Resolution College of the NBB has the same powers with regard to the non-significant Belgian credit institutions. If the Single Resolution Board or the Resolution College identifies material impediments to resolvability during the course of this planning process, it can require a credit institution to take appropriate measures, including changes to corporate and legal structures.

(b) Early intervention

The ECB/NBB dispose of a set of powers to intervene if a credit institution faces financial distress (e.g. when a credit institution is not operating in accordance with the provisions of the Banking Law or CRD IV), but before its financial situation deteriorates irreparably. These powers include the ability to dismiss the management and appoint a special commissioner, to convene a meeting of shareholders to adopt urgent reforms, to suspend or prohibit all or part of the credit institution's activities (including a partial or complete suspension of the execution of current contracts), to order the disposal of all or part of the credit institution's shareholdings, and finally, to revoke the license of the credit institution.

(c) Resolution

- The resolution authority can take resolution measures if it considers that all of the following circumstances are present: (i) the determination has been made by the resolution authority that a credit institution is failing or is likely to fail, (ii) there is no reasonable prospect that any alternative private sector measures or supervisory action can be taken to prevent the failure of the institution, and (iii) resolving the credit institution is necessary from a public interest perspective. The resolution tools are: (i) the sale of (a part of) the assets/liabilities or the shares of the credit institution without the consent of shareholders, (ii) the transfer of business to a temporary structure ("bridge bank"), (iii) the transfer of certain assets, rights or liabilities to a separate vehicle and (iv) bail-in. Each decision will be subject to prior judicial control.

  The fourth resolution tool, i.e. the bail-in tool, entered into force on 1 January 2016. It was implemented into Belgian law through the Royal Decree of 18 December 2015 implementing the Banking Law. Bail-in is a mechanism to write down the liabilities (subordinated debt, senior debt and eligible deposits) or to convert debt into equity, as a means of restoring the institution's capital position. The bail-in tool applies to existing debt instruments as well.

- The resolution authority is also empowered (and in certain circumstances required) to write down or convert capital instruments (such as Common Equity Tier 1-, Additional Tier 1- and Tier 2-instruments), before or together with the use of any resolution tools, if

it determines that a credit institution becomes non-viable, that the conditions for the exercise of the resolution powers are fulfilled and/or that a credit institution has asked for public support.

- The applicability of the resolution tools and measures to credit institutions that are part of a cross-border group are regulated by the Royal Decree of 26 December 2015 implementing the Banking law, which entered into force on 1 January 2016.

(5) In relation to credit institutions falling within the scope of the Single Supervisory Mechanism, such as KBC Bank NV (and KBC Group NV), the Single Resolution Board is the resolution decision-making authority since 1 January 2016. Pursuant to Regulation (EU) No 806/2014 of 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund, the Single Resolution Board replaced national resolution authorities (such as the Resolution College of the NBB) for resolution decisions in relation to significant credit institutions.

Bank governance

The Banking Law also puts a lot of emphasis on the solid and efficient organisation of credit institutions and introduces to that effect a dual governance structure at management level, specialised advisory committees within the Board of Directors (Audit Committee, Risk Committee, Remuneration Committee and Nomination Committee), independent control functions, and strict remuneration policies (including limits on the amount of variable remuneration, the form and timing for vesting and payment of variable remuneration, as well as claw-back mechanics).

The Banking Law makes a fundamental distinction between the management of banking activities, which is within the competence of the Executive Committee, and the supervision of management and the definition of the credit institution's general and risk policy, which is entrusted to the Board of Directors. According to the Banking Law, KBC Bank has an Executive Committee of which each member is also a member of the Board of Directors.

Pursuant to the Banking Law, the members of the Executive Committee and the Board of Directors need to permanently have the required professional reliability and appropriate experience. The same goes for the responsible persons of the independent control functions. The fit and proper standards have been further elaborated by the NBB in a circular of 17 June 2013.

The NBB Governance Manual for the Banking Sector (the "**Governance Manual**") contains recommendations to assure the suitability of shareholders, management and independent control functions and the appropriate organisation of the business. As required by the Banking Law and the Governance Manual, KBC Group has drafted a Group Internal Governance Memorandum (the "**Governance Memorandum**"), which sets out the corporate governance policy applying to KBC Group and its subsidiaries and of which the governance memorandum of KBC Bank forms part. The corporate governance policy of a credit institution must meet the principles set out in the law and the Governance Manual. The most recent version of the Governance Memorandum was approved on 17 December 2015 by the Board of Directors of KBC Group NV, KBC Bank and KBC Insurance NV and has been sent to the NBB.

KBC Bank has also a Corporate Governance Charter which is published on www.kbc.com.

Solvency supervision

Capital requirements and capital adequacy ratios are provided for in CRR, transposing the Basel III regulation into European law. CRR requires that credit institutions must comply with several minimum solvency ratios. These ratios are defined as Common Equity Tier 1, Tier 1 or Total Capital divided by risk-weighted assets.

The absolute minimum is a Common Equity Tier 1 ratio of 4.5%. Risk weighted assets are the sum of all assets and off-balance sheet items weighted according to the degree of credit risk attributed to them. The solvency ratios also takes into account market risk with respect to the bank's trading book (including interest rate and foreign currency exposure) and operational risk in the calculation of the weighted risk. On top of the capital requirements defined by the solvency ratios, the regulation imposes a capital conservation buffer and, in certain cases a systemic risk buffer and/or a countercyclical buffer.

Solvency is also limited by the leverage ratio, which compares Tier 1 capital to non-risk weighted assets.

In the context of its supervisory authority, the ECB has imposed the following capital and liquidity requirements for KBC Group: (a) an own funds requirement of an overall CRD IV fully loaded Common Equity Tier 1 capital ratio (based on the Danish compromise method as approved by NBB on 21 January 2014) of at least 10.5% and (b) a minimum LCR requirement of 100% (upon entry into force of the relevant Commission regulation) and a liquidity requirement so that the one-month NBB stress test ratio does not exceed 100% (before such entry into force). In addition, under Article 205 of the Belgian Banking Law (which implements Article 119 of CRD IV in relation to mixed financial holding companies, KBC Group is required to maintain at all times an own funds requirement of an overall fully loaded Common Equity Tier 1 capital ratio (building block method) of at least 10.5%.

The payment of dividends by Belgian credit institutions is not limited by Belgian banking regulations, except indirectly through capital adequacy and solvency requirements when capital ratios fall below certain thresholds. The pay-out is further limited by the general provisions of Belgian company law.

Large exposure supervision

European regulations ensure the solvency of credit institutions by imposing limits on the concentration of risk in order to limit the impact of failure on the part of a large debtor. For this purpose, credit institutions must limit the amount of risk exposure to any single counterparty to 25 per cent of the total capital. European regulations also require that the credit institutions establish procedures to contain concentrations on economic activity sectors and geographic areas.

Money laundering

Belgium has implemented Directive 2005/60/EC of 26 October 2005 on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing by amended the Law of 11 January 1993 (as amended from time to time). This legislation contains a preventive system imposing a number of obligations in relation to money laundering and the financing of terrorism. These obligations are related, among other things, to the identification of the client, special attention for unusual transactions, internal reporting, processing and compliance mechanisms with the appointment of a compliance officer, and employee training requirements. When, after investigation, a credit or financial institution suspects money laundering to be the purpose of a transaction, it must promptly notify an independent administrative authority, the Financial Intelligence Unit. This Unit is designated to receive reports on suspicious transactions, to investigate them and, if necessary, to report to the criminal prosecutors to initiate proceedings. The NBB has issued guidelines for credit and financial institutions and supervises their compliance with the legislation. Belgian criminal law specifically addresses criminal offences of money-laundering (Article 505, subsection 1, 2°-4° of the Criminal Code) and sanctions them with a jail term of a minimum of 15 days and a maximum of 5 years and/or a fine of a minimum of EUR 26 and a maximum of EUR 100,000 (to be multiplied by 6) or, for legal entities, a fine of a minimum of EUR 500 and a maximum of EUR 200,000 (to be increased with the additional penalty or, in other words to be multiplied by 6).

Consolidated supervision - supplementary supervision

KBC Bank is subject to consolidated supervision by the ECB on the basis of the consolidated financial situation of KBC Group NV, which covers among other things solvency as described above, pursuant to Articles 165 and following of the Banking Law. As a subsidiary of a Belgian regulated entity (KBC Group NV) and part of a financial conglomerate, KBC Bank is also subject to the supplementary supervision by the ECB, according to Directive 2011/89/EU of 16 November 2011 amending Directives 98/78/EC, 2002/87/EC, 2006/48/EC and 2009/138/EC as regards the supplementary supervision of financial entities in a financial conglomerate (implemented in Articles 185 and following of the Banking Law). The supplementary supervision relates to, among other things, solvency, risk concentration and intra-group transactions and to enhanced reporting obligations.

The consolidated supervision and the supplementary supervision will be aligned as much as possible, as described in Article 170 of the Banking Law.

KBC Asset Management

As from June 2005, the status of KBC Asset Management has been changed from "investment firm" to a "management company of undertakings for collective investment in transferable securities (UCITS)" (a "**UCITS-management company**"). Its activities are, inter alia, the management of UCITS and the management of portfolios of investments in accordance with mandates given by investors on a discretionary, client-by-client basis. KBC Asset Management is subject to detailed, comprehensive regulation in Belgium, supervised by the FSMA.

The UCITS-management company regime in Belgium is governed by the "Law on certain forms of collective management of investment portfolios" of 3 August 2012 ("**Law of 3 August 2012**"). The Act of 3 August 2012 implements European Directive 2001/107/EC of 21 January 2002 relating to UCITS, as amended from time to time. This Law regulates management companies and sets forth the conditions under which UCITS-management companies may operate in Belgium; furthermore, it defines the regulatory and supervisory powers of the FSMA.

The regulatory framework concerning supervision on UCITS-management companies is mostly similar to the regulation applicable to investment firms. The Law of 3 August 2012 contains, inter alia, the following principles:

- certain minimum paid-up capital requirements and rules relating to changes affecting capital structure;
- obligation for management companies to carry out their activities in the interests of their clients or of the UCITS they manage (e.g. creation of Chinese walls);
- obligation to provide, on a periodical basis, a detailed financial statement to the FSMA;
- supervision by the FSMA; and
- subjection to the control of Statutory Auditors.

14 Insurance Supervision and regulation

Introduction

KBC Insurance, an insurance company governed by the laws of Belgium, is subject to detailed, comprehensive regulation in Belgium, supervised by the NBB, the Belgian central bank.

Since the implementation on 1 April 2011 of the "Twin Peaks Act", the powers relating to prudential supervision have been transferred from the CBFA to the NBB. The remaining supervisory powers previously

exercised by the CBFA are now exercised by the FSMA. This autonomous public agency is in charge of supervision with regard to conduct of business rules and financial services providers (intermediaries).

EU directives have had and will continue to have a significant impact on the regulation of the insurance business in the EU, as such directives are implemented through legislation adopted within each Member State, including Belgium. The general objective of these EU directives is to promote the realisation of a unified internal market and to improve standards of prudential supervision and market efficiency through harmonisation of core regulatory standards and mutual recognition among EU Member States of regulatory supervision, and in particular, licensing.

Supervision and regulation in Belgium

The insurance regime in Belgium is governed by the Law of 13 March 2016 on the legal status and supervision of insurance and reinsurance undertakings (the "**Insurance Supervision Law**"), and the (general) Insurance Act of 4 April 2014.

The Insurance Supervision Law, among other things, implements the European legislation on EU Directive 2009/138/EC of 25 November 2009 ("**Solvency II**"). It sets forth the conditions under which insurance companies may operate in Belgium and defines the regulatory and supervisory powers of the NBB.

The Insurance Act of 4 April 2014, among other things, implements European legislation such as the consumer related aspects provided in Solvency II. It sets forth the conditions under which insurance companies may operate on the Belgian insurance market and defines the regulatory and supervisory powers of the FSMA.

The regulatory framework is in some respects similar to the regulation applicable to banks in Belgium.

Supervision of insurance companies

All Belgian insurance companies must obtain a licence from the NBB before they may commence operations. In order to obtain a licence and maintain it, each insurance company must fulfil numerous conditions, including certain minimum capital requirements. This requires the calculation of best estimate cash flows, raised with a risk margin, corresponding to what was previously known as "technical reserves". In addition, a Solvency Capital Requirement ("**SCR**") and a Minimal Capital Requirement ("**MCR**") should be calculated and respected. The SCR is the capital an insurer needs to limit the default risk to less than 0.5% in the next twelve months.

In addition, any shareholders holding (directly or indirectly, acting alone or in concert with third parties) a substantial stake in the company (in general, this means 10% or more of the capital or the voting rights) must be of "fit and proper" character to ensure proper and prudent management of the insurance company.

Moreover, any shareholder wishing to increase such substantial stake to a 20%, 33% or 50% capital or voting interest or to any stake that allows him to exercise control over the company, must disclose this to the NBB. If the NBB considers that the influence of such a shareholder in an insurance company jeopardises its sound and prudent management, it may suspend the voting rights attached to this participation. Furthermore, a shareholder who wishes to sell his participation or a part thereof, which sale would result in his shareholding dropping below any of the above-mentioned thresholds, must notify the NBB thereof one month in advance. The Belgian insurance company itself is obliged to notify the NBB of any such transfer when it becomes aware of it.

The Insurance Supervision Law requires insurance companies to provide detailed periodic financial information to the NBB and the public (i.a. through the Solvency and Financial Conditions Reporting ("**SFCR**" – yearly) and the Regular Supervisory Reporting ("**RSR**" – quarterly). The NBB also supervises the

enforcement of laws and regulations with respect to the accounting principles applicable to insurance companies.

Pursuant to the Insurance Supervision Law, the NBB may, in order to exercise its prudential supervision, require that all information with respect to the financial position and the transactions of an insurance company be provided to it, either by the insurance company itself or by its affiliated companies. The NBB may supplement these communications by on-site inspections. The NBB also exercises its comprehensive supervision of insurance companies through Statutory Auditors who collaborate with the NBB in its prudential supervision. An insurance company selects its Statutory Auditors from among the list of auditors or audit firms accredited by the NBB.

If an insurance company does not provide for the required capital requirements, the NBB may restrict or prohibit the company's free use of its assets. If an insurance company no longer meets the solvency capital requirement, the NBB must require that a recovery plan be prepared. If an insurance company no longer meets the minimum capital requirement, its authorisations should be withdrawn.

In general, if the NBB finds that an insurance company is not operating in accordance with the provisions of the Insurance Supervision Law, that its management policy or its financial position is likely to prevent it from honouring its commitments or that its administrative and accounting procedures or internal control systems present deficiencies, it will set a deadline by which the situation must be rectified. If the situation has not been rectified by the deadline, the NBB has the power to appoint a special commissioner to replace management, to prohibit or limit certain activities, to dispose of all or part of its activities, and to order the replacement of the Board of Directors and management, failing which it will itself appoint a provisional manager.

Insurance governance

The Insurance Supervision Law puts a lot of emphasis on the solid and efficient organisation of insurance companies and introduces to that effect *inter alios* a dual governance structure at management level, specialised advisory committees within the Board of Directors (Audit Committee, Risk Committee and Remuneration Committee), independent control functions, and sound remuneration policies.

The Insurance Supervision Law makes a fundamental distinction between the management of insurance activities, which is the competence of the Executive Committee, and the supervision of management and the definition of the insurance company's general and risk policy, which is entrusted to the Board of Directors. KBC Insurance has an Executive Committee of which each member is also a member of the Board of Directors.

Pursuant to the Insurance Supervision Law, the members of the Executive Committee need to permanently have the required professional reliability and appropriate experience. The same goes for the responsible persons of the independent control functions. The fit and proper standards have been further elaborated by the NBB in a circular of 17 June 2013. The Circular of 30 March 2007 regarding prudential expectations with respect to corporate governance (the "**Circular Corporate Governance**") contains recommendations to assure the autonomy of the insurance function, the organisation of the independent control functions and the proper governance of the insurance company.

As required by the Insurance Supervision Law and the Circular Corporate Governance, KBC has a Governance Memorandum, which sets out the corporate governance policy applying to KBC Group and its subsidiaries and of which the governance memorandum of KBC Insurance forms part. The corporate governance policy of an insurance company must meet the principles set out in the law and the applicable Circulars. Because of the introduction of Solvency II and the new Insurance Supervision Law, the existing circulars should be reviewed. Currently, a new circular regarding prudential expectations with respect to

corporate governance in the (re)insurance sector is being drafted. KBC Insurance also has a Corporate Governance Charter which is published on www.kbc.com.

Money laundering

Belgian insurance companies are also subject to the Act of 11 January 1993 referred to above.

15 Capital Transactions with the Government in 2008 and 2009

In 2008 and 2009, KBC Group issued EUR 7 billion of perpetual, non-transferable, non-voting core-capital securities which rank equally (*pari passu*) with ordinary shares upon liquidation. These securities were subscribed by the Belgian State (the *Federale Participatie- en Investeringsmaatschappij*) and the Flemish Region (EUR 3.5 billion each).

KBC Group repaid that amount as follows:

- in 2012: EUR 3.5 billion, along with a 15% penalty, to the Belgian Federal Government;
- in 2013: EUR 1.17 billion, along with a 50% penalty to the Flemish Regional Government;
- in 2014: EUR 0.33 billion, along with a 50% penalty to the Flemish Regional Government; and
- in 2015: EUR 2 billion, along with a 50% penalty to the Flemish Regional Government.

In 2009, KBC Group signed an agreement with the Belgian State regarding a guarantee for a substantial part of its structured credit portfolio. The plan initially related to a notional amount totalling EUR 20 billion. More information on the structure of that transaction is provided in the previous annual reports. In recent years, KBC Group rapidly reduced its exposure to CDOs and collapsed the two remaining CDOs in its portfolio in 2014. Over a period of just five years, KBC Group succeeded in scaling back its entire CDO portfolio, which had exceeded EUR 25 billion in 2008, thus releasing it from the guarantee agreement.

16 Recent Events

Information about recent events in relation to the Issuer can be found in the following sections: "*the EU Plan of the Group*", "*the strategic plan of the Group*", "*general description of the activities of the Group*", "*principal markets and activities, per geography*", "*Risk management*", "*Banking supervision and regulation*", "*Insurance supervision and regulation*" and "*litigation*".

Detailed information is set out in KBC Group's press releases and financial reports, all of which are available on www.kbc.com. For the avoidance of doubt, the information available on KBC Group's website, www.kbc.com, shall not be incorporated by reference in, or form part of, this Base Prospectus (other than as referred to in the section "*Documents incorporated by reference*").

17 Trend Information – International economic environment

A major economic risk to the Eurozone economy, the Brexit, has materialised after the referendum that was held in the United Kingdom on 23 June 2016. This caused an increase in volatility on financial markets and will weigh on economic sentiment (both of producers and consumers). On balance, it will have a negative impact on the economic recovery in the Eurozone. In particular, it will emphasise the main source of fragility, being the relative weakness of investment growth. The Brexit decision occurred against the background that not only sentiment indicators, but also "hard" economic data, such as the strong real Gross Domestic Product growth in the first quarter of 2016 in the Eurozone, had supported a somewhat optimistic view. In the Eurozone, growth in the first quarter of 2016 accelerated to +0.6%. In particular the growth rate of the German economy (+0.7%), already operating close to full capacity, caught the eye. However, this strong first quarter performance will probably not be sustainable.

Outside the Eurozone, growth in 2016 started relatively weak. Going forward in 2016, investment growth in the United States is expected to pick up again and net exports are expected to be less of a drag on growth. Sustained consumption growth, mainly backed by solid job creation and moderate but steady real income growth will continue to be the backbone of the economic expansion in the United States. Global export growth dynamics recovered as well, mainly in the emerging markets, which is to a large extent a reflection of recovering demand for commodities (including non-energy commodities).

In the meantime, global inflation remains subdued. In the economy in the United States, inflation has reached relatively normal levels. In the Eurozone, on the other hand, the latest core inflation rate is broadly half of the inflation target of the European Central Bank (2%). The underlying reasons include the high unemployment rate, subdued nominal wage growth, and the trade-weighted appreciation of the euro, making import prices even more negative.

After the Brexit decision of the UK referendum on 23 June 2016 and the uncertainty that it causes, KBC Bank Group's base scenario works on the assumption that the Federal Reserve System (the "**Fed**") will keep its policy rate on hold for the remainder of 2016 and will raise its policy rate only twice in 2017. In the meantime, the European Central Bank is likely to keep its negative deposit rate unchanged, or even lower, until well after the end of its Asset Purchase Programme (currently scheduled for March 2017). A first rise of the European Central Bank's deposit rate will probably only occur in 2018 at the earliest. As a result of the 'flight to quality' on financial markets after the Brexit decision, it is expected that the US dollar will strengthen moderately against the euro in 2016 and 2017. The expected robust economic expansion in the United States, together with the expected Fed rate hikes in 2017, are expected to lead to a moderate rise of US bond yields. This will also pull up German rates to some extent given the global integration of the main bond markets.

18 Material Contracts

Except as stated in the paragraph below, the Issuer has not entered into any material contracts outside the ordinary course of its business which could result in any member of the Group being under an obligation or entitlement that is material to the Issuer's ability to meet its obligations to Holders.

19 Management of KBC Group

The Board of Directors

The Board of Directors of the Issuer consists of 16 members as listed below:

Name and address	Position	Expiry date mandate	External mandates
LEYSEN Thomas Dennenlaan 9a 2020 Antwerpen België	Chairman	2019	Chairman of the Board of Directors of Umicore NV Chairman of the Board of Directors of Corelio NV Non-executive Director of Booischot NV Chairman of the Board of Directors of KBC Verzekeringen NV Chairman of the Board of Directors of KBC Bank NV Executive Director of Tradicore NV Non-executive director of Mediahuis NV

Name and address	Position	Expiry date mandate	External mandates
VLERICK Philippe Ronsevaalstraat 2 8510 Bellegem Belgium	Deputy Chairman	2017	Executive Director of Vlerick Investeringsmaatschappij CVBA Executive Director of Raymond Uco denim Private Non-executive Director of Pentahold NV Non-executive Director of Indus Kamdhenu Fund Executive Director of Point NV Non-executive Director of HAMON & CIE (International) SA Non-executive Director of Durabilis NV Executive Director of Lutherick NV Executive Director of Bareldam SA Non-executive Director of Sapient Investment managers Executive Director of Lurick NV Executive Director of Therick NV Non-executive Director of BESIX Group NV Non-executive Director of B.M.T. NV Non-executive Director of EXMAR NV Non-executive Director of BATIBIC NV Non-executive Director of TESSA LIM NV Non-executive Director of ETEX GROUP SA Non-executive Director of Corelio NV Non-executive Director of Belgian International Carpet C° Member of Artevelde Non-executive Director of BMT International SA Executive Director Vobis Finance NV

Name and address	Position	Expiry date mandate	External mandates
DEPICKERE Franky Cera Philipssite 5/10 3001 Leuven Belgium	Non-executive Director	2019	Executive Director of Almancora Beheers-maatschappij NV Executive Director of FWR Consult cvba Executive Director of Cera cvba Executive Director of Cera Beheersmaatschappij NV Non-executive Director of International Raiffeisen Union e.V. Non-executive Director of CBC Banque SA Non-executive Director of KBC Bank NV Executive Director of BRS Microfinance Coop cvba Non-executive Director of KBC Verzekeringen NV Non-executive Director of Ceskoslovenska Obchodni Banka a.s. (CR) Member of management of KBC Ancora commanditaire vennootschap op aandelen
DISCRY Luc Cera Philipssite 5 B 10 3001 Leuven Belgium	Non- executive Director	2019	Non-executive Director of KBC Verzekeringen NV Non-executive Director of KBC Bank NV Executive Director of Cera Beheersmaatschappij NV Non-executive Director of Precura Verzekeringen NV Executive Director of Cera CVBA
DONCK Frank Floridalaan 62 1180 Ukkel Belgium	Non-executive Director	2019	Executive Director of 3D Private Equity NV Non-executive Director of 3D Real Estate NV Non-executive Director of Iberanfra BVBA Executive Director of TRIS NV Executive Director of Ibervest NV Non-executive Director of Anchorage NV Executive Director of Hof Het Lindeken CVBA Executive Director of Huon & Kauri NV Non-executive Director of Winge Golf NV Non-executive Director of KBC

Name and address	Position	Expiry date mandate	External mandates
			Verzekeringen NV Non-executive Director of Elia System Operator NV Non-executive Director of Elia Asset NV Non-executive Director of Tele Columbus NV Non-executive Director of BARCO NV
VAN RIJSSEGHEM Christine KBC Group NV Havenlaan 2 1080 Brussel Belgium	Executive Director	2019	Executive Director of KBC Bank NV Executive Director of KBC Verzekeringen NV Non-executive Director of Ceskoslovenska Obchodni Banka a.s. (CR) Non-executive Director of Ceskoslovenska Obchodna Banka a.s. (SR) Non-executive Director of K & H Bank Zrt. Non-executive Director of CIBANK EAD Non-executive Director of KBC Bank Ireland Plc. Member of the Management Board of KBC Bank NV, Dublin Branch
MORLION Lode Weststraat 18 8647 Lo-Reninge Belgium	Non-executive Director	2020	Executive Director of M & D Invest NV Non-executive Director of Financieringsvereniging Gaselwest Figga Non-executive Director of Cera Beheersmaatschappij NV Non-executive Director of Woonmaatschappij Ijzer en Zee CVBA Non-executive Director of KBC Verzekeringen NV Non-executive Director of KBC Bank NV
POPELIER Luc KBC Group NV Havenlaan 2 1080 Brussel Belgium	Executive Director	2019	Executive Director of KBC Verzekeringen NV Executive Director of KBC Bank NV Non-executive Director of KBC Credit Investments NV
ROUSSIS Theodoros Poederstraat 51 2370 Arendonk Belgium	Non-executive Director	2020	Non-executive Director of Pentahold NV Executive Director of Asphalia NV Non-executive Director of KBC Verzekeringen NV

Name and address	Position	Expiry date mandate	External mandates
THIJS Johan KBC Group NV Havenlaan 2 1080 Brussel	Managing Director (CEO)	2020	Executive Director of KBC Verzekeringen NV Non-executive Director of Febelfin Executive Director of KBC Bank NV Non-executive Director of VOKA
VAN KERCKHOVE Ghislaine Wegvoeringstraat 62 9230 Wetteren Belgium	Non-executive Director	2020	Non-executive Director of KBC Bank NV Non-executive Director of KBC Verzekeringen NV
DE BECKER Sonja MRBB Diestsevest 40 3000 Leuven Belgium	Non-executive Director	2020	Non-executive Director of Gimv-Agri+ Investment Fund Non-executive Director of KBC Bank NV Non-executive Director of M.R.B.B. CVBA – Maatschappij voor Roerend Bezit van de Boerenbond Non-executive Director of Agri Investment Fund CVBA Non-executive Director of KBC Verzekeringen NV Non-executive Director of Acerta cvba Non-executive Director of SBB Accountants en Belastingconsulenten BV CVBA

Name and address	Position	Expiry date mandate	External mandates
WITTEMANS Marc MRBB cvba Diestsevest 40 3000 Leuven Belgium	Non-executive Director	2018	Non-executive Director of KBC Bank NV Non-executive Director of Arda Immo NV Non-executive Director of Acerta cvba Non-executive Director of Acerta Consult CVBA Non-executive Director of Acerta Public NV Non-executive Director of SBB Accountants en Belastingconsulenten BV CVBA Non-executive Director of SBB bedrijfsdiensten CVBA Executive Director of M.R.B.B. CVBA – Maatschappij voor Roerend Bezit van de Boerenbond Non-executive Director of Aktiefinvest CVBA Non-executive Director of KBC Verzekeringen NV Non-executive Director of Shéhérazade Developpement CVBA
KIRALY Julia KBC Bank NV Havenlaan 2 1080 Brussel Belgium	Independent Director	2018	-
PAPIRNIK Vladimira KBC Group NV Havenlaan 2 1080 Brussel Belgium	Independent Director	2020	-
BOSTOEN Alain Coupure 126 9000 Gent Belgium	Non-executive Director	2019	Executive Director of Quatorze Juillet BVBA Executive Director of ALGIMO NV Executive Director of Christeyns Group NV Non-executive Director of KBC Verzekeringen NV Non-executive Director of AGROBOS NV

The Board of Directors does not include any legal persons among its members and its Chairman may not be a member of the Executive Committee. A mandate is no longer than six years (in practice four years). Directors can be re-elected when their term expires. The mandate of non-executive directors comes to an end at the date of the annual meeting following the day on which they reach the age of 70, save for exceptional situations. The mandate of executive directors ends at the end of the month when they reach the age of 65, save for exceptional situations.

The Board of Directors is responsible for determining the overall strategy and monitoring the executive management. It meets at least eight times a year and decides by simple majority. The activities of the Board are governed by Belgian company law, by the Banking Law and by the statutes of the Issuer.

Advisory Committees of the Board of Directors

The Board of Directors includes the following advisory committees: an Audit Committee, a Risk and Compliance Committee, a Nomination Committee and a Remuneration Committee. All committees are exclusively composed of members of the Board of Directors and a Director may not be a member in more than two of the aforementioned committees.

The powers and composition of the advisory committees of the Board of Directors, as well as their way of functioning, are set out in the Corporate Governance Charter of KBC Group which is published on www.kbc.com.

Executive Committee

The Board of Directors has delegated its management powers to the Executive Committee in accordance with article 524bis of the Belgian Companies Code and article 212 of the Banking Law. The Executive Committee exercises such powers autonomously, but always within the framework of the strategy adopted by the Board of Directors. The delegation does not extend to the general policy or matters assigned by law to the Board of Directors. The Executive Committee consists of 6 members appointed by the Board of Directors and is chaired by the CEO of KBC Group.

Johan Thijs	**Luc Popelier**	**Christine Van Rijsseghem**	**Daniel Falque**	**Luc Gijsens**	**John Hollows**
in service since 1988	in service since 1988	in service since 1987	in service since 2009	in service since 1977	in service since 1996
CEO (Chief Executive Officer) KBC Group	CFO (Chief Financial Officer)	CRO (Chief Risk Officer)	CEO Belgium Business Unit	CEO International Product Factories Business Unit	CEO Czech Republic Business Unit

Corporate Governance

The Banking Law, of which certain provisions also apply to (mixed) financial holding companies, makes a fundamental distinction between the management of the activities of KBC Group, which is within the competence of the Executive Committee, and the supervision of management and the definition of the institution's general policy, which is entrusted to the Board of Directors. According to the Banking Law, KBC Group has an Executive Committee of which at least 3 members are also a member of the Board of Directors.

Pursuant to the Banking Law, the members of the Executive Committee and the Board of Directors need to permanently have the required professional reliability and appropriate experience. The same goes for the

responsible persons of the independent control functions. The fit and proper standards have been further elaborated by the NBB in a circular of 17 June 2013.

The Circular Corporate Governance contains recommendations to assure the proper governance of the (mixed) financial holding company.

As required by the Banking Law and the Circular Corporate Governance, KBC has a Governance Memorandum, which sets out the corporate governance policy applying to KBC Group and its subsidiaries. The corporate governance policy must meet the principles set out in the law and the Circular Corporate Governance. The most recent version of the Governance Memorandum was approved on 17 December 2015 by the Board of Directors of KBC Group, KBC Bank and KBC Insurance.

Furthermore, in its capacity as listed company, KBC Group uses the Belgian Corporate Governance Code 2009 (the "**Code**") as reference code. The Code seeks to ensure transparency in the area of corporate governance through the publication of information in the Corporate Governance Charter and the Corporate Governance Statement.

The Corporate Governance Charter sets out the main aspects of the policy of KBC Group in the area of corporate governance, such as the governance structure, the internal regulations of the Board of Directors, its advisory committees and the Executive Committee, and other important topics.

The Charter is published on www.kbc.com.

The Corporate Governance Statement is published in the annual report and contains more factual information about the corporate governance of KBC Group, including a description of the composition and functioning of the Board, relevant events during the year, provisions of the Code which may be waived, the remuneration report and a description of the main features of the internal control and risk management systems.

Conflict of interests policy

1. *Conflicts of interest on the part of members of the Executive Committee or Board of Directors and Intragroup conflicts of interest*

The policy related to these conflicts of interests can be found in the Corporate Governance Charter of the Issuer and in the Governance Memorandum.

The information regarding conflicts of interest which took place in the course of the year is mentioned in the Corporate Governance Statement in the annual reports of the Issuer.

In the financial years 2014 and 2015, there were no conflicts of interest within the meaning of Article 523, 524 or 524ter of the Belgian Companies Code.

The Issuer is not aware of any potential conflicts of interests between the obligations which a director has with respect to the Issuer and the personal interests and / or other obligations of that director.

2. *Other conflicts of interests*

The information related to the policy of other conflicts of interest (e.g. between shareholders/employees/clients and the Issuer is set out in the Governance Memorandum.

20 Litigation

The following describes material litigation to which KBC Group NV or any of its companies (or certain individuals in their capacity as current or former employees or officers of KBC Group NV or any of its companies) are party. It describes all claims, quantified or not, that could lead to the impairment of the

relevant company's reputation or to a sanction by an external regulator or governmental authority, or that could present a risk of criminal prosecution for that corporation, its members of the board or its management.

Although the outcome of these matters is uncertain and some of the claims concern relatively substantial amounts in damages, the management does not believe that the liabilities arising from these claims will adversely affect KBC Group's consolidated financial position or results, given the provisions that, where necessary, have been set aside for these disputes.

Judicial inquiries and criminal proceedings

(i) From late 1995 until early 1997, Kredietbank NV the predecessor of KBC Bank NV and KB Consult NV ("**KB Consult**") were involved in the sale of "**cash companies**" to various purchasers. A "**cash company**" is characterised by the fact that a substantial majority of the assets consist of accounts receivable, fixed financial assets, cash and other highly liquid assets. KB Consult acted as an intermediary between the seller and the purchaser of the cash companies. The involvement of KBC Bank differed from sale to sale, but generally related to the handling of payments and the granting of loans. The transfer of a cash company is in principle a legal transaction. However, in March 1997, KBC Bank and KB Consult discovered that certain purchasers of these cash companies failed to reinvest such companies' cash in qualifying assets and to file tax returns for the cash companies they purchased in order to thereby defer the taxes owed by such companies. KBC Bank and KB Consult immediately took the necessary measures to preclude any further involvement with these parties. The activities of KB Consult were subsequently wound up.

KBC Bank and KB Consult were summoned separately or jointly to court in 28 legal actions. This resulted in 20 lawsuits of which 17 are still pending before the courts. In one lawsuit the court ruled that KB Consult was summoned as third party without cause and therefore the claim was dismissed. In two lawsuits, of which one lawsuit is in degree of appeal, the claims of the Belgian State were dismissed and the judgments are definite. Subsequently, the provision for these cases was offset in the accounts. KB Consult was placed under suspicion by an investigating magistrate in December 2004. A provision of EUR 28.4 million (status as at 31 March 2016) has been constituted to cover the potential impact of any liability with respect to these actions.

In addition to KB Consult and KBC Bank, KBC Group was also summoned before the Chambers section of the Court of First Instance in Bruges on 25 February 2009. The charges against the aforesaid KBC entities only relate to the use of false documents. The trial was postponed several times. On 9 November 2011 a judgment ordered KBC Bank and KB Consult to be prosecuted together with 21 other parties indicted of various crimes with regard to tax fraud. The claim against KBC Group was dismissed. An appeal was lodged against this dismissal by the Prosecutor and two civil parties. On 27 October 2015 the court decided that the prosecution was barred by limitation and ordered the dismissal of the prosecution of KBC Group together with other parties.

KBC Bank and KB Consult, which did not appeal the court order of 9 November 2011, were summoned before the Court of First Instance in Bruges on 16 December 2015. The case was postponed several times and has been scheduled for a hearing on 25 May 2016.

(ii) In 2003, an important case of fraud perpetrated by an employee, Atilla Kulcsár, involving about EUR 140.6 million, came to light at K&H Equities in Hungary. Orders and portfolio statements of clients were forged. Many clients suffered substantial losses in their portfolio as a result of unauthorised speculation and the misappropriation of funds. On 28 August 2008 a Budapest court sentenced Atilla Kulcsár to eight years imprisonment and a fine of 230 million forints. The court acquitted Tibor E. Rejto, former CEO of K&H Bank, who had also been charged with embezzlement as an accomplice. Other persons involved were sentenced to severe punishments.

The Public Prosecutor and all the persons who had been found guilty filed an appeal before the Court of Appeal. On 27 May 2010, the Court of Appeal annulled the first instance court verdict and ordered a complete retrial. The new trial before the first instance court started on 1 December 2010 and several hearings took place. A decision was rendered on 29 December 2015. Atilla Kulcsár was sentenced to six and a half years in prison and Tibor E. Rejto was fully acquitted of all charges. The prosecutor appealed against this decision.

All claims have been settled, either amicably or following an arbitral decision.

Other litigation

(i) In March 2000, the Belgian State, Finance Department, summoned Rebeo (currently Almafin Real Estate Services) and Trustimmo, two former subsidiaries of former Almafin, currently KBC Real Estate, a Belgian subsidiary of KBC Bank, before the civil court in Brussels, together with four former directors of Broeckdal Vastgoedmaatschappij (a real estate company), for not paying approximately EUR 16.7 million in taxes due by Broeckdal Vastgoedmaatschappij. In November 1995, this company had been converted into a cash company and sold to Mubavi België (currently BeZetVe), a subsidiary of Mubavi Nederland (a Dutch real estate investment group). According to the Belgian State, Finance Department, Mubavi België did not make real investments and failed to file proper tax returns. A criminal investigation is pending. However Broeckdal Vastgoedmaatschappij contested the tax claims and in December 2002 commenced a lawsuit before the civil court in Antwerp against the Belgian State, Finance Department.

The civil lawsuit pending in Brussels has been suspended pending a final judgment in the tax lawsuit in Antwerp. An adjusted provision of EUR 31 million (at 31 March 2016) has been reserved to cover the potential impact of liability with respect to these actions.

In July 2003, Broeckdal Vastgoedmaatschappij, Mubavi België and Mubavi Nederland summoned KBC Bank, KB Consult, Rebeo and Trustimmo before the commercial court in Brussels in order to indemnify them against all damages the former would suffer if the tax claims were approved by the court in Antwerp. In March 2005, Mubavi Nederland was declared bankrupt by the court of 's-Hertogenbosch in the Netherlands.

In November 2005, KBC Bank, KB Consult, Rebeo and Trustimmo and the four former directors of Broeckdal Vastgoedmaatschappij summoned the auditor of Broeckdal Vastgoedmaatschappij, Deloitte & Touche, before the civil court in Brussels in order to indemnify them for any amount they should be ordered to pay as a result of the aforementioned claims. In November 2008 Mubavi België (currently BeZetVe) was also declared bankrupt by the commercial court in Antwerp.

On 2 November 2010 Broeckdal Vastgoedmaatschappij was declared dissolved by the commercial court in Antwerp and the liquidation of the company was closed by judgment of 13 September 2011 by the same court.

(ii) KBC Bank and subsidiaries such as K&H Bank and ČSOB SK received numerous complaints about CDO notes issued by KBC Financial Products that were sold to private banking and corporate clients and which have now been downgraded. Such clients have been asking for their notes to be bought back at their original value.

KBC Bank decided to examine all CDO related files with respect to private banking and retail clients on a case-by-case basis and to settle the disputes as much as possible out of court.

In Belgium settlements were reached with clients in KBC Bank Private Banking and Retail Banking. As a result of complaints, some Corporate Banking files were also examined. Subsequently

negotiations started in the files where a decision to propose a settlement was taken and in a limited number of files settlements were reached. Only a few lawsuits are on-going. In ten cases the courts rendered judgments in favour of KBC. In one case, the court decided that the bank and the client were jointly responsible. KBC Bank appealed against this decision in June 2013. In one case the court of appeal in Brussels ruled on 11 July 2014 in favour of KBC Group and condemned the plaintiff for frivolous actions. In another case the court of appeal in Antwerp rendered on 5 February 2015 a judgment entirely in favour of KBC Bank. On 24 November 2015 the court of appeal in Brussels rendered a judgement entirely in favour of KBC Bank. Three cases are currently pending in degree of appeal. In Hungary a marketing brochure was used which could be misinterpreted as a guarantee on a secondary market and contained a possibly misleading comparison with state bonds. In more than 94% of the files, a settlement has been reached. A limited number of clients started a lawsuit. Most of the lawsuits were terminated by a settlement out of court; a few remaining court cases were lost and settled. All court proceedings are now finished.

On 10 December 2009, the Hungarian Competition Authority ("**HCA**") passed a resolution whereby K&H was ordered to pay a fine of HUF 40,000,000 (approximately EUR 150,000) based on the violation of the Hungarian Act on the prohibition of unfair and restrictive market practices in relation to K&H's trade in CDO bonds. The appeal filed by K&H against the HCA resolution was rejected by the Budapest Metropolitan Court. K&H Bank submitted a revision claim before the Supreme Court which approved in May 2012 the second level decision.

In ČSOB SK a similar approach as in Belgium was followed and in all cases of CDO investments with Private Banking and Retail clients, settlements were reached. No lawsuit in respect of CDO investments is pending.

(iii) Lazare Kaplan International Inc. is a U.S. based diamond company ("**LKI**"). Lazare Kaplan Belgium NV is LKI's Belgian affiliate ("**LKB**"). LKI and LKB together are hereinafter referred to as "**LK**".

Fact summary

Since 2008, LKB has been involved in a serious dispute with its former business partners, DD Manufacturing NV and KT Collection BVBA ("**Daleyot**"), Antwerp based diamond companies belonging to Mr. Erez Daleyot. This dispute relates to a joint venture LK and Daleyot set up in Dubai (called "**Gulfdiam**").

LKB and Daleyot became entangled in a complex litigation in Belgium, each claiming that the other party is their debtor. Daleyot initiated proceedings before the Commercial Court of Antwerp claiming the non-payment of commercial invoices for an amount of (initially) approximately USD 9 million. LKB launched a counter claim claiming the non-payment of commercial invoices for (initially) an amount of approximately USD 38 million.

The dispute has escalated to the degree that LK is directly involving Antwerpse Diamantbank NV ("**ADB**") and KBC Bank by launching legal claims against ADB in Belgium (Antwerp) and against both ADB and KBC in the USA (New York) alleging that LK was swindled out of some USD 140 million by DD Manufacturing and other Daleyot entities in cooperation with ADB. This development was triggered by the fact that, at the end of 2009, ADB terminated LK's credit facilities and started proceedings before the Commercial Court in Antwerp.

Essentially, all legal proceedings initiated by LK against ADB and/or KBC Bank in Belgium and the USA only relate to the dispute between ADB and LKI with regard to the termination of the credit facility and the recovery of all the monies LKI owes under the terminated credit facility.

The merger between KBC Bank and ADB by absorption of the latter that took place on 1 July 2015 entails that KBC, whether in its own name or in its capacity as legal successor to ADB, remains the only counterparty in all proceedings against Lazare Kaplan. However, for the sake of clarity further reference is made to ADB on the one hand and KBC on the other hand since all proceedings were initiated before the merger.

Overview legal proceedings

(A) Belgian proceedings (overview per court entity)

Commercial Court of Antwerp

Proceedings were initiated by ADB against LKI in order to recover the monies owed to it under the terminated credit facility (approximately USD 45 million in capital). LKB voluntarily intervened in this proceeding and claimed an amount of USD 350 million from ADB. LKI launched a counterclaim of USD 500 million (including the USD 350 million of LKB) against ADB. LK appealed against the latest decision of the Commercial Court. A hearing before the Court of Appeals is set for 26 September 2016 and until a judgement on appeal regarding the briefing round the proceedings before the commercial court are stayed.

Commercial Court of Antwerp

LK filed four separate winding-up petitions against certain Daleyot entities. LK also involved both ADB and ABN Amro in this proceeding in order to have the court declare the decision to be taken opposable vis-à-vis ADB and ABN. On 23 June 2015, the court decided that the proceedings against DDM Holding, K.T. Collection & Kertalor Holding became meaningless given the commencement of the voluntary liquidation proceedings of the Daleyot related entities. By decision of 15 September 2015, the Commercial Court of Antwerp declared K.T. Collection bankrupt.

On 26 May 2015, the proceedings against DD Manufacturing were postponed *sine die*. On 5 November 2015, DD Manufacturing was declared bankrupt. DD Manufacturing appealed this decision, but on 18 February 2016, the Court of Appeals dismissed the appeal.

Commercial Court of Antwerp

LK launched proceedings against ADB and certain Daleyot entities. This claim is aimed at having certain transactions of the Daleyot entities declared null and void or at least not opposable against LK.

LK also filed a damage claim against ADB for a provisional amount of USD 60 million based on the alleged third party complicity of ADB. This case is still pending.

Commercial Court of Antwerp

Lazare Kaplan filed a proceeding against ADB and KBC claiming an amount of approximately 77 million USD, based on the alleged misbehavior of the banks regarding the granting and maintaining of the credit facilities to the Daleyot entities. In its last court brief Lazare Kaplan claims an additional amount of approximately 5 million USD. A court hearing will take place on 11 October 2016.

President of the Commercial Court of Antwerp

LKB launched proceedings against ADB, DD Manufacturing, KT Collection and Erez Daleyot before the President of the Commercial Court of Antwerp. LKB applies to the court for, among

other, a sequestration relating to paintings which are pledged by Erez Daleyot in favour of ADB concerning the DD Manufacturing and KT collection credit files. LKB also requested the court to impose penalty payments for an amount of EUR 50,000. By decision dated 7 July 2015, the Commercial Court referred the case to the Court of First Instance of Antwerp since the Commercial Court lacks jurisdiction over Lazare Kaplan's claim.

Court of First Instance of Antwerp (Judge of Seizures)

By decision of 21 January 2014, ADB obtained permission from the Antwerp Judge of Seizures to have LKI's claim against Trau Bros, as purchaser of the LK Botswana entity, put under garnishment. LKI has filed a petition with the Judge of Seizures against the garnishment. By decision of 8 June 2015, LKI's petition was dismissed.

Court of First Instance of Antwerp (Judge of Seizures)

Proceeding initiated by LKB which is aimed at declaring ADB a debtor of LKB with respect to the alleged claim LKB has against D.D. Manufacturing for a provisional amount of 21 million EUR. This claim is based on the alleged untimely and improper declaration made by ADB with regard to the third party seizure against D.D. Manufacturing at the request of LKB. By decision of 23 June 2015 LKB's claim was dismissed.

Court of First Instance of Antwerp

Proceedings launched by LK against KBC, ADB and Erez Daleyot, his wife and certain Daleyot entities. This claim is aiming at having the security interests granted in favor of either KBC or ADB declared null and void or at least not opposable against LK. By decision dated 7 July 2015, the Commercial Court referred the case to the Court of First Instance of Antwerp, since the Commercial Court decided it does not have juridisdiction to decide over Lazare Kaplan's claim. LK also filed a claim against ADB for a provisional amount of USD 120 million and against ADB en KBC together for a provisional amount of USD 60 million based on the alleged third party complicity of ADB. Although a court hearing was set for 3 March 2016, LKI requested the Court for another briefing round given the fact that DD Manufacturing is bankrupted. The Court allowed this request and set a new court hearing for 22 December 2016.

Court of Cassation

LKI summoned ADB directly before the Criminal Court in Antwerp mainly under accusation of fraud, abuse of trust and money laundering.

Both Criminal Court and Court of Appeals already decided that they have no jurisdiction over LKI's claim. LKI filed an appeal with the Court of Cassation. By decision of 28 April 2015 the Court dismissed LKI's appeal.

Court of Cassation

Criminal complaint of LKI against ADB with the investigation magistrate of Antwerp on the basis of alleged bribery of ADB officers / directors by Daleyot.

The Chamber of Accusation declared the criminal complaint as inadmissible. LKI filed an appeal with the Court of Cassation. By decision of 28 April 2015 the Court dismissed LKI's appeal.

(B) US proceedings

Claim of USD 500 million initiated by LKI against both ADB and KBC Bank, based on the so-called RICO-act; this claim is in fact a non- cumulative duplicate of the one brought before the Commercial Court in Belgium. After the District Court granted ADB's and KBC Bank's motions to dismiss, the Court of appeals referred the case back to the District Court because the first decision of the District Court was not legally well-founded. Later on, the District Court ruled that reciprocal discovery is appropriate.

LKI also requested the court to impose an obligation on ADB to produce certain non-privileged documents. A court hearing took place on 5 May 2015. During this hearing LKI repeated its deposition request addressed to several ADB officers and lawyers. By decision of 31 July 2015, the Court allowed some depositions in advance of a hearing on the forum selection clauses. All depositions took place. By letter dated 22 February 2016, LKI requested the District Court a pre-motion conference to discuss a motion for sanctions against KBC Bank. LKI claimed that the sworn declarations made by some of KBC Bank's employees to the District Court were false and misleading. Moreover, LKI alleged that KBC Bank concealed documents from the court.

LKI seeked a court order sanctioning KBC Bank by (i) holding that the Court has jurisdiction over the RICO-claim; (ii) directing parties to proceed immediately with the merits discovery and (iii) awarding Lazare its reasonable costs, attorney fees and expenses. KBC Bank strongly disputed these new allegations. On 4 March 2016, the court decided to deny Lazare Kaplan's requests for a pre-motion conference and to file a motion for sanctions against KBC Bank. The court directed the parties to file a joint status report by 1 April 2016.

On 1 April 2016 and as instructed by the Court, the parties filed a joint status report regarding the status of any depositions or open discovery, and any other issues to be resolved prior to the scheduling of the New Moon hearing (i.e. an evidentiary hearing on the question whether the Court has territorial jurisdiction over LKI's claim). Parties are waiting for a court decision regarding the joint status report.

(iv) On 6 October 2011, Irving H. Picard, trustee for the substantively consolidated SIPA (Securities Investor Protection Corporation Act) liquidation of Bernard L. Madoff Investments Securities LLC and Bernard L. Madoff, sued KBC Investments Ltd before the bankruptcy court in New York to recover approximately USD 110 million worth of transfers made to KBC entities. The basis for this claim were the subsequent transfers that KBC had received from Harley International, a Madoff feeder fund established under the laws of the Cayman Islands. This claim is one of a whole set made by the trustee against several banks, hedge funds, feeder funds and investors. In addition to the issues addressed by the district court, briefings were held on the applicability of the Bankruptcy Code's 'safe harbor' and 'good defenses' rules to subsequent transferees (as is the case for KBC). KBC, together with numerous other defendants, filed motions for dismissal. District court Judge Jed Rakoff has made several intermediate rulings in this matter, the most important of which are the rulings on extraterritoriality and good faith defences. On 27 April 2014, Judge Rakoff issued an opinion and order regarding the 'good faith' standard and pleading burden to be applied in the Picard/SIPA proceeding based on sections 548(b) and 559(b) of the Bankruptcy Code. As such, the burden of proof that lies on Picard/SIPA is that KBC should have been aware of the fraud perpetrated by Madoff. On 7 July 2014, Judge Rakoff ruled that Picard/SIPA's reliance on section 550(a) does not allow for the recovery of subsequent transfers received abroad by a foreign transferee from a foreign transferor (as is the case for KBC Investments Ltd.). Therefore, the trustee's recovery claims have been dismissed to the extent that they seek to recover purely foreign transfers. In June 2015, the trustee filed a petition against KBC to

overturn the ruling that the claim fails on extraterritoriality grounds. In this petition, the trustee also amended the original claim including the sum sought. The amount has now been increased to USD 196 million.

(v) In the spring of 2008, KBC issued two bonds, KBC IFIMA S.A. 5-5-5 and KBC Group NV 5-5-5 (totalling EUR 0.66 billion). These structured bonds had a term of five years, a gross coupon of 5%, and were linked until their maturity to the public debt of five countries (Belgium, France, Spain, Italy and Greece). They allowed for early redemption of the residual value as soon as a credit event occurred with respect to one of these countries. When the 5-5-5 bonds were launched, the sovereign risks were generally regarded as very low. However, the unexpected, far-reaching changes in market conditions early in 2010 (the Greek crisis) changed the original risk profile of these bonds. At the start of 2011, KBC pro-actively decided to offer additional security to holders of 5-5-5 bonds and informed them of this in writing: if a credit event occurred, investors would still receive the amount they had invested, less the coupons already received and less taxes and charges. On 9 March 2012, a credit event actually occurred in Greece, and KBC honoured the promise it made. On 8 October 2012, a number of parties who had subscribed to the 5-5-5 bonds issued by KBC IFIMA S.A. and by the Issuer initiated proceedings before the Brussels Court of First Instance, as they were not satisfied with the proposed settlement. In the case involving the issue by the Issuer, the court handed down a judgment on 20 January 2016, in favour of one of the plaintiffs. KBC Bank and KBC Group NV have examined the judgment in detail and are of the view that there is sufficient ground for appealing the case, and have therefore decided to file a petition to that effect.

SELECTED FINANCIAL INFORMATION

The following tables set out in summary form certain statements of financial position, income statements, statements of comprehensive income and cash flow information relating to the Issuer. The information has been extracted from the audited consolidated financial statements of the Issuer for the years ended 31 December 2014 and 31 December 2015 and from the Extended Quarterly Report 1Q 2016 of the Issuer.

The consolidated financial statements of the Issuer for the years ended 31 December 2014 and 31 December 2015 have been audited in accordance with ISA.

Consolidated balance sheet

ASSETS (in millions of EUR)	31-12-2014	31-12-2015	31-03-2016
Cash and cash balances with central banks	5 771	7 038	6 000
Financial assets	231 421	237 346	246 995
Held for trading	12 182	10 385	12 049
Designated at fair value through profit or loss	18 163	16 514	21 589
Available for sale	32 390	35 670	36 098
Loans and receivables	135 784	141 305	144 213
Held to maturity	31 799	32 958	32 553
Hedging derivatives	1 104	514	493
Reinsurers' share in technical provisions	194	127	137
Fair value adjustments of hedged items in portfolio hedge of interest rate risk	168	105	283
Tax assets	1 814	2 336	2 514
Current tax assets	88	107	98
Deferred tax assets	1 726	2 228	2 416
Non-current assets held for sale and assets associated with disposal groups	18	15	14
Investments in associated companies and joint ventures	204	207	214
Investment property	568	438	433
Property and equipment	2 278	2 299	2 315
Goodwill and other intangible assets	1 258	959	965
Other assets	1 480	1 487	1 681
TOTAL ASSETS	245 174	252 356	261 551

LIABILITIES AND EQUITY (in millions of EUR)	31-12-2014	31-12-2015	31-03-2016
Financial liabilities	205 644	213 333	221 836
Held for trading	8 449	8 334	9 220
Designated at fair value through profit or loss	23 908	24 426	26 713
Measured at amortised cost	169 796	178 383	183 668
Hedging derivatives	3 491	2 191	2 235
Technical provisions, before reinsurance	18 934	19 532	19 619
Fair value adjustments of hedged items in portfolio hedge of interest rate risk	189	171	278
Tax liabilities	697	658	725
Current tax liabilities	98	109	129
Deferred tax liabilities	599	549	596

Liabilities associated with disposal groups	0	0	0
Provisions for risks and charges	560	310	279
Other liabilities	2 629	2 541	3 080
TOTAL LIABILITIES	228 652	236 545	245 816
Total equity	16 521	15 811	15 735
Parent shareholders' equity	13 125	14 411	14 335
Non-voting core-capital securities	2 000	0	0
Additional Tier-1 instruments included in equity	1 400	1 400	1 400
Minority interests	- 3	0	0
TOTAL LIABILITIES AND EQUITY	245 174	252 356	261 551

Consolidated income statement

In millions of EUR	2014	2015	1Q 2015	1Q 2016
Net interest income	4 308	4 311	1 091	1 067
Interest income	7 893	7 150	1 850	1 707
Interest expense	- 3 586	- 2 839	- 759	- 639
Non-life insurance before reinsurance	512	611	167	145
Earned premiums Non-life	1 266	1 319	320	341
Technical charges Non-life	- 754	- 708	- 153	- 196
Life insurance before reinsurance	- 216	- 201	- 48	- 35
Earned premiums Life	1 247	1 301	302	426
Technical charges Life	- 1 463	- 1 502	- 350	- 461
Ceded reinsurance result	16	- 29	- 11	- 8
Dividend income	56	75	12	10
Net result from financial instruments at fair value through profit or loss	227	214	57	93
Net realised result from available-for-sale assets	150	190	80	27
Net fee and commission income	1 573	1 678	459	346
Fee and commission income	2 245	2 348	632	507
Fee and commission expense	- 672	- 670	- 174	- 161
Net other income	94	297	49	51
TOTAL INCOME	6 720	7 148	1 855	1 697
Operating expenses	- 3 818	- 3 890	- 1 125	- 1 186
Staff expenses	- 2 248	- 2 245	- 561	- 556
General administrative expenses	- 1 303	- 1 392	- 502	- 570
Depreciation and amortisation of fixed assets	- 266	- 253	- 62	- 60
Impairment	- 506	- 747	- 77	- 28
on loans and receivables	- 587	- 323	- 73	- 4
on available-for-sale assets	- 29	- 45	- 3	- 24
on goodwill	0	0	0	0
on other	109	- 34	- 1	- 1
Share in results of associated companies and joint ventures	25	24	6	7
RESULT BEFORE TAX	2 420	2 535	659	489
Income tax expense	- 657	104	- 149	- 97

Net post-tax result from discontinued operations	0	0	0	0
RESULT AFTER TAX	1 763	2 639	510	392
Attributable to minority interest	0	0	0	0
of which relating to discontinued operations	*0*	*0*	*0*	*0*
Attributable to equity holders of the parent	**1 762**	**2 639**	**510**	**392**
of which relating to discontinued operations	*0*	*0*	*0*	*0*
Earnings per share (in EUR)				
Basic	3,32	3,80	1,19	0,91
Diluted	3,32	3,80	1,19	0,91

Consolidated cash flow statement

In millions of EUR	2014	2015	1Q 2015	1Q 2016
Operating activities				
Result before tax	2 420	2 535		
Adjustments for:	1 775	1 392		
Result before tax related to discontinued operations	0	0		
Depreciation, impairment and amortisation of property and equipment, intangible assets, investment property and securities	213	698		
Profit/Loss on the disposal of investments	- 25	- 24		
Change in impairment on loans and advances	587	323		
Change in gross technical provisions - insurance	143	429		
Change in the reinsurers' share in the technical provisions	- 48	69		
Change in other provisions	- 37	- 224		
Other non realised gains or losses	967	147		
Income from associated companies and joint ventures	- 25	- 24		
Cashflows from operating profit before tax and before changes in operating assets and liabilities	4 195	3 927		
Changes in operating assets (excl. cash & cash equivalents)	- 11 151	- 2 897		
Loans and receivables	- 5 037	- 3 866		
Available for sale	- 4 561	- 3 324		
Held for trading	- 248	1 656		
Designated at fair value through P&L	- 686	2 066		
Hedging derivatives	- 325	590		
Operating assets associated with disposal groups & other assets	- 294	- 20		
Changes in operating liabilities (excl. cash & cash equivalents)	11 913	10 032		
Deposits at amortised cost	12 076	9 464		
Debt certificates at amortised cost	3 218	255		
Financial liabilities held for trading	- 4 682	172		
Financial liabilities designated at fair value through P&L	1 112	1 226		
Liability-derivatives hedge accounting	522	- 998		
Operating liabilities associated with disposal groups & other liabilities	- 333	-88		
Income taxes paid	- 407	- 457		

	Selected financial information			
Net cash from (used in) operating activities	4 550	10 604	5 041	4 191
Investing activities				
Purchase of held-to-maturity securities	- 1 929	- 3 202		
Proceeds from the repayment of held-to-maturity securities at maturity	1 012	2 029		
Acquisition of a subsidiary or a business unit, net of cash acquired (increase in participation interests included)	0	200		
Proceeds from the disposal of a subsidiary or business unit, net of cash disposed (decrease in participation interests included)	559	0		
Purchase of shares in associated companies and joint ventures	0	0		
Proceeds from the disposal of shares in associated companies and joint ventures	0	0		
Dividends received from associated companies and joint ventures	- 30	23		
Purchase of investment property	- 19	- 5		
Proceeds from the sale of investment property	53	15		
Purchase of intangible fixed assets (excl. goodwill)	- 153	- 158		
Proceeds from the sale of intangible fixed assets (excl. goodwill)	28	39		
Purchase of property and equipment	- 441	- 558		
Proceeds from the sale of property and equipment	304	233		
Net cash from (used in) investing activities	- 615	- 1 385	- 44	340
Financing activities				
Purchase or sale of treasury shares	0	0		
Issue or repayment of promissory notes and other debt securities	- 4 148	- 537		
Proceeds from or repayment of subordinated liabilities	- 2 396	- 277		
Principal payments under finance lease obligations	0	0		
Proceeds from the issuance of share capital	19	17		
Proceeds from or repayment of non-voting core-capital securities	- 500	- 3 000		
Proceeds from the issuance or repayment of preference shares	1 042	0		
Dividends paid	- 39	- 1 058		
Net cash from (used in) financing activities	- 6 023	- 4 855	385	30
Change in cash and cash equivalents				
Net increase or decrease in cash and cash equivalents	- 2 088	4 364	5 382	4 561
Cash and cash equivalents at the beginning of the period	8 691	6 518	6 518	10 987
Effects of exchange rate changes on opening cash and cash equivalents	- 84	104	123	-10
Cash and cash equivalents at the end of the period	6 518	10 987	12 024	15 538
Additional information				
Interest paid	- 3 586	- 2 839		
Interest received	7 893	7 150		
Dividends received (including equity method)	56	98		
Components of cash and cash equivalents				
Cash and cash balances with central banks	5 771	7 038		
Loans and advances to banks repayable on demand and term loans to banks < 3 months	4 287	6 541		
Deposits from banks repayable on demand and redeemable at notice	- 3 539	- 2 593		
Cash and cash equivalents included in disposal groups	0	0		

Total	6 518	10 987
Of which not available	0	0

USE OF PROCEEDS

The net proceeds from the Notes to be issued under the Programme will be used for general corporate purposes of the Group.

The net proceeds of the Subordinated Tier 2 Notes will strengthen the Issuer's capital base under a fully loaded CRD IV approach and are part of the Issuer's long-term funding, which the Issuer uses to fund and manage its activities and which it may on-lend to its subsidiaries. The Issuer may on-lend the proceeds of the Subordinated Tier 2 Notes to KBC Bank NV under a framework agreement which will also qualify at the level of KBC Bank NV as Tier 2 capital for regulatory capital purposes.

The Issuer may, if it so elects, on-lend the proceeds of the Senior Notes to its subsidiaries on a subordinated basis in order for the relevant loan to be included as minimum requirement for own funds and eligible liabilities ("**MREL**") under applicable regulation.

If in respect of any particular issue, there is a particular identified use of proceeds, this will be stated in the applicable Final Terms.

TAXATION

EU Savings Directive – Common Reporting Standard

Under Council Directive 2003/48/EC on the taxation of savings income in the form of interest payments (the "**Savings Directive**"), each Member State is required to provide to the tax authorities of another Member State details of payments of interest or similar income (within the meaning of the Savings Directive) paid by a person located within their jurisdiction to, or collected by such a person for, an individual resident in that other Member State or to certain limited types of entities (as defined in the article 4.2 of the Savings Directive) established in that other Member State. However, for a transitional period, Austria may instead (unless during that period it elects for one of the two information exchange procedures available) operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories have adopted similar measures.

According to the Luxembourg law dated 25 November 2014, the Luxembourg government has abolished the withholding tax system with effect from 1 January 2015 in favour of the automatic information exchange mechanism under the Savings Directive. Furthermore, in October 2014, Austria reportedly agreed to a proposal amending Directive 2011/16/EU which aims at reinforcing the current EU legislation in the field of automatic exchange of information and which may ultimately lead to Austria abolishing the withholding system provided for in the Savings Directive. This proposal was finally adopted on 9 December 2014 as Directive 2014/107/EU on administrative cooperation in direct taxation which is further described below (see "**Common Reporting Standard**").

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of tax were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. The Issuer is required to maintain a Paying Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the Savings Directive.

The Council of the European Union formally adopted Council Directive 2014/48/EU amending the Savings Directive on 24 March 2014 (the "**Amending Directive**"). The Amending Directive broadens the scope of the requirements described above. Member States have until 1 January 2016 to adopt the national legislation necessary to comply with the Amending Directive and are required to apply these new requirements from 1 January 2017. The changes made under the Amending Directive include extending the scope of the Savings Directive to payments made to, or collected for, certain other entities and legal arrangements. They also broaden the definition of "interest payment" to cover income that is equivalent to interest.

On 10 November 2015, the Council of the European Union adopted a Directive which repealed the EU Savings Directive with effect from 1 January 2016 (1 January 2017 in the case of Austria) (in each case subject to transitional arrangements). This is to prevent overlap between the EU Savings Directive and the new automatic exchange of information regime provided under DAC2. The Directive also provides that Member States will not be required to apply the new requirements of the Amending Directive.

On 27 May 2015 the European Union and Switzerland signed a protocol amending their existing Savings agreement and transforming it into an agreement on automatic exchange of financial account information based on the Global Standard.

Common Reporting Standard

On 9 December 2014, EU Member States adopted Directive 2014/107/EU on administrative cooperation in direct taxation ("**DAC2**"), which provides for mandatory automatic exchange of financial information as foreseen in CRS. DAC2 amends the previous Directive on administrative cooperation in direct taxation, Directive 2011/16/EU. DAC2 requires EU member states to establish an automatic exchange of information effective as from 1 January 2016 (and in the case of Austria as from 1 January 2017).

As from 1 January 2016, the exchange of information is, in a significant number of countries already governed by the Common Reporting Standard ("**CRS**"). On 29 October 2014, 51[2] jurisdictions signed the multilateral competent authority agreement ("**MCAA**"), which is a multilateral framework agreement to automatically exchange financial and personal information, with the subsequent bilateral exchanges coming into effect between those signatories that file the subsequent notifications. More than 50 jurisdictions have committed to a specific and ambitious timetable leading to the first automatic information exchanges in 2017 ("early adopters"). More than 40 jurisdictions have committed to exchange information as from 2018.

Under CRS, financial institutions resident in a CRS country will be required to report, according to a due diligence standard, financial information with respect to reportable accounts, which includes interest, dividends, account balance or value, income from certain insurance products, sales proceeds from financial assets and other income generated with respect to assets held in the account or payments made with respect to the account. Reportable accounts include accounts held by individuals and entities (which includes trusts and foundations) with fiscal residence in another CRS country. The standard includes a requirement to look through passive entities to report on the relevant controlling persons.

Investors who are in any doubt as to their position should consult their professional advisers.

Belgium

The following summary describes the principal Belgian tax considerations of acquiring, holding and selling the Notes. This information is of a general nature and does not purport to be a comprehensive description of all Belgian tax considerations that may be relevant to a decision to acquire, to hold or to dispose of the Notes. In some cases, different rules can be applicable. Furthermore, this description is based on current legislation, published case law and other published guidelines and regulations as in force at the date of this document and remains subject to any future amendments, which may or may not have retroactive effect.

Each prospective holder of Notes should consult a professional adviser with respect to the tax consequences of an investment in the Notes, taking into account their own particular circumstances and the influence of each regional, local or national law.

Belgian withholding tax

For Belgian income tax purposes, interest includes (i) periodic interest income, (ii) any amounts paid by the Issuer in excess of the issue price (upon full or partial redemption whether or not at maturity, or upon purchase by the Issuer), and (iii) in case of a sale of the Notes between interest payment dates to any third party, excluding the Issuer, the pro rata of accrued interest corresponding to the holding period.

[2] Albania, Anguilla, Argentina, Aruba, Austria, Belgium, Bermuda, British Virgin Islands, Cayman Islands, Colombia, Croatia, Curaçao, Cyprus, Czech Republic, Denmark, Estonia, Faroe Islands, Finland, France, Germany, Gibraltar, Greece, Guernsey, Hungary, Iceland, Ireland, Isle of Man, Italy, Jersey, Korea, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Mauritius, Mexico, Montserrat, Netherlands, Norway, Poland, Portugal, Romania, San Marino, Slovak Republic, Slovenia, South Africa, Spain, Sweden, Switzerland, Turks & Caicos Islands, United Kingdom.

Payments of interest on the Notes made by or on behalf of the Issuer are as a rule subject to Belgian withholding tax, currently at a rate of 27 per cent. on the gross amount.

However, the holding of the Notes in the securities settlement system of the NBB (the "**Securities Settlement System**") permits investors to collect interest on their Notes free of Belgian withholding tax if and as long as at the moment of payment or attribution of interest the Notes are held by certain investors (the "**Eligible Investors**", see below) in an exempt securities account ("**X-account**") that has been opened with a financial institution that is a direct or indirect participant (a "**Participant**") in the Securities Settlement System. Euroclear and Clearstream Luxembourg are directly or indirectly Participants for this purpose.

Holding the Notes through the Securities Settlement System enables Eligible Investors to receive the gross interest income on their Notes and to transfer the Notes on a gross basis.

Participants to the Securities Settlement System must keep the Notes which they hold on behalf of Eligible Investors on an X-account, and those which they hold on behalf of non-Eligible Investors in a non-exempt securities account ("**N-account**"). Payments of interest made through X-accounts are free of withholding tax; payments of interest made through N-accounts are subject to withholding tax, currently at a rate of 27 per cent, which is withheld from the interest payment and paid by the NBB to the tax authorities.

Eligible Investors are those entities referred to in article 4 of the Belgian Royal Decree of 26 May 1994 on the deduction of withholding tax (*koninklijk besluit van 26 mei 1994 over de inhouding en de vergoeding van de roerende voorheffing/arrêté royal du 26 mai 1994 relatif à la perception et à la bonification du précompte mobilier*), which includes *inter alia*:

(i) Belgian resident companies referred to in article 2, §1, 5°, b) of the Belgian Income Tax Code of 1992 (*wetboek van inkomstenbelastingen 1992/code des impôts sur les revenus 1992*) ("**BITC**");

(ii) Without prejudice to article 262, 1° and 5° of the BITC, the institutions, associations or companies referred to in article 2, §3 of the law of 9 July 1975 with respect to the control of insurance companies other than those referred to in (i) and (iii);

(iii) Semi-governmental institutions (*parastatalen/institutions parastatales*) for social security or institutions equated therewith referred to in article 105, 2° of the Royal Decree of 27 August 1993 implementing the BITC ("**RD/BITC**");

(iv) Non-resident investors referred to in article 105, 5° of the RD/BITC whose holding of the Notes is not connected to a professional activity in Belgium;

(v) Investment funds referred to in article 115 of the RD/BITC;

(vi) Investors referred to in article 227, 2° of the BITC, subject to non-resident income tax (*belasting van niet inwoners/impôt des non-résidents*) in accordance with article 233 of the BITC and which have used the income generating capital for the exercise of their professional activities in Belgium;

(vii) The Belgian State, in respect of investments which are exempt from withholding tax in accordance with article 265 of the BITC;

(viii) Investment funds governed by foreign law (such as *beleggingsfondsen/fonds de placement*) that are an undivided estate managed by a management company for the account of the participants, provided the funds units are not publicly issued in Belgium or traded in Belgium; and

(ix) Belgian resident companies not referred to under (i), whose activity exclusively or principally exists of granting credits and loans.

Eligible Investors do not include, *inter alia*, Belgian resident individuals and Belgian non-profit organisations, other than those mentioned under (ii) and (iii) above.

Transfers of Notes between an X-account and an N-account give rise to certain adjustment payments on account of withholding tax:

- A transfer from an N-account (to an X-account or N-account) gives rise to the payment by the transferor non-Eligible Investor to the NBB of withholding tax on the accrued fraction of interest calculated from the last interest payment date up to the transfer date.
- A transfer to an N-account (from an X-account or an N-account) gives rise to the refund by the NBB to the transferee non-Eligible Investor of withholding tax on the accrued fraction of interest calculated from the last interest payment date up to the transfer date.
- Transfers of Notes between two X-accounts do not give rise to any adjustment on account of withholding tax.

When opening an X-account for the holding of Notes, an Eligible Investor will be required to certify its eligible status on a standard form claimed by the Belgian Minister of Finance and send it to the participant to the Securities Settlement System where this account is kept. This statement needs not be periodically reissued (although Eligible Investors must update their certification should their eligible status change). Participants to the Securities Settlement System are however required to make declarations to the NBB as to the eligible status of each investor for whom they hold Notes in an X-account during the preceding calendar year.

These identification requirements do not apply to Notes held with Euroclear or Clearstream Luxembourg acting as Participants to the Securities Settlement System, provided that they only hold X-accounts and that they are able to identify the Holders for whom they hold Notes in such account.

Belgian income tax and capital gains

Belgian resident individuals

For natural persons who are Belgian residents for tax purposes, i.e. who are subject to the Belgian personal income tax (*Personenbelasting/Impôt des personnes physiques*) and who hold the Notes as a private investment, payment of the 27 per cent. withholding tax fully discharges them from their personal income tax liability with respect to these interest payments (*bevrijdende roerende voorheffing/précompte mobilier libératoire*). This means that they do not have to declare the interest obtained on the Notes in their personal income tax return, provided withholding tax was levied on these interest payments.

Belgian resident individuals may nevertheless elect to declare the interest payment (as defined above in the Section "*Belgian withholding tax*") in their personal income tax return. Where the beneficiary opts to declare them, interest payments will normally be taxed at the interest withholding tax rate of 27 per cent. (or at the progressive personal tax rate taking into account the taxpayer's other declared income, whichever is lower). If the interest payment is declared, the withholding tax retained may be credited.

Capital gains realised on the sale of the Notes are in principle tax exempt, unless the capital gains are realised outside the scope of the normal management of one's private estate or unless the capital gains qualify as interest (as defined above in the Section "*Belgian withholding tax*"). Capital losses are in principle not tax deductible.

Other tax rules apply to Belgian resident individuals who do not hold the Notes as a private investment.

Belgian resident individuals will be subject to the provisions of the Savings Directive, if they receive any profit derived from the Notes from a paying agent (within the meaning of the Savings Directive) established

in Austria until the end of the transitional period or the implementation of the rules provided for in Council Directive 2011/16/EU on administrative cooperation in the field of taxation, as amended by Council Directive 2014/107/EU or certain third countries or dependent or associated territories of certain Member States. If the profit received by a Belgian resident individual has been subject to any withholding tax permitted under the Savings Directive during said transitional period, such withholding does not liberate the Belgian resident individual from reporting this profit (including the foreign withholding tax) in his individual Belgian tax return. Such foreign withholding tax can be credited against the Belgian personal income tax and any excess amount (of at least € 2.5) will be reimbursed.

Belgian resident companies

Interest on the Notes derived by Belgian corporate investors who are Belgian residents for tax purposes, i.e. who are subject to Belgian Corporate Income Tax (*Vennootschapsbelasting/Impôt des sociétés*) and capital gains realised on the Notes will be subject to Belgian corporate income tax at a rate of in principle 33.99 per cent. Capital losses are in principle tax deductible.

Belgian legal entities

For legal entities subject to Belgian legal entities tax (*Rechtspersonenbelasting/Impôts des personnes morales*) which have been subject to the 27 per cent. Belgian withholding tax on interest payments, such withholding tax constitutes the final taxation.

Belgian legal entities which have received interest income on Notes without deduction for or on account of Belgian withholding tax are required to declare and pay the 27 per cent. withholding tax to the Belgian tax authorities themselves.

Capital gains realised on the sale of the Notes are in principle tax exempt, unless the capital gain qualifies as interest (as defined above in the Section "*Belgian withholding tax*"). Capital losses are in principle not tax deductible.

Organisation for Financing Pensions

Interest and capital gains derived by Organisations for Financing Pensions in the meaning of the Law of 27 October 2006 on the activities and supervision of institutions for occupational retirement provision, are in principle exempt from Belgian corporate income tax. Capital losses are in principle not tax deductible. Subject to certain conditions, the Belgian withholding tax that has been levied can be credited against any corporate income tax due and any excess amount is in principle refundable.

Belgian non-residents

Holders of Notes who are non-residents of Belgium for Belgian tax purposes and are not holding the Notes through a Belgian establishment and do not invest the Notes in the course of their Belgian professional activity will not incur or become liable for any Belgian tax on income or capital gains by reason only of the acquisition, ownership or disposal of the Notes, provided that they qualify as Eligible Investors and hold their Notes in an X-account.

If the Notes are not entered into an X-account by the Eligible Investor, withholding tax on the interest is in principle applicable at the current rate of 27 per cent., possibly reduced pursuant to a tax treaty, on the gross amount of the interest.

Pursuant to the law of 16 December 2015 implementing into Belgian national law the provisions of the Directive 2014/107/EU on administrative cooperation in direct taxation (see the section "*EU Savings Directive – Common Reporting Standard*" below), Belgian financial institutions are required to report, according to a due diligence standard, financial information with respect to reportable accounts, which includes interest, dividends, account balance or value, income from certain insurance products, sales proceeds

from financial assets and other income generated with respect to assets held in the account or payments made with respect to the account. Reportable accounts include accounts held by individuals and entities with fiscal residence in another EU Member State.

In addition to the aforementioned Belgian withholding tax of 27 per cent., profits derived from the Notes may therefore be subject to a system of automatic exchange of information between the relevant tax authorities.

Exchange of information

The Notes are subject to the provisions of Directive 2014/107/EU on administrative cooperation in direct taxation of 9 December 2014 ("**DAC2**"). Under this Directive (and the Belgian law of 16 December 2015 implementing DAC2 ("*Wet tot regeling van de mededeling van inlichtingen betreffende financiële rekeningen, door de Belgische financiële instellingen en de FOD Financiën in het kader van automatische uitwisseling van inlichtingen op internationaal niveau en voor belastingdoeleinden*"/"*Loi réglant la communication des renseignements relatifs aux comptes financiers, par les institutions financières belges et le SPF Finances, dans le cadre d'un échange automatique de renseignements au niveau international et à des fins fiscales*"), Belgian financial institutions holding these Notes for tax residents in another CRS contracting state, shall report financial information regarding the Notes (income, gross proceeds,…) to the Belgian competent authority, who shall communicate the information to the competent authority of the CRS state where the beneficial owner is tax resident

Tax on stock exchange transactions

A tax on stock exchange transactions (*beurstaks*/*taxe sur les opérations de bourse*) will be due on the purchase and sale (and any other transaction for consideration) with respect to existing Notes if such transaction is either entered into or carried out in Belgium through a professional intermediary. The rate applicable for secondary sales and purchases in Belgium through a professional intermediary is 0.09 per cent. with a maximum amount of EUR 650 per transaction and per party. The tax is due separately from each party to any such transaction, i.e. the seller (transferor) and the purchaser (transferee), both collected by the professional intermediary.

However, no tax on stock exchange transactions will be payable by exempt persons acting for their own account including investors who are not Belgian residents provided they deliver an affidavit to the financial intermediary in Belgium confirming their non-resident status and certain Belgian institutional investors as defined in Article 126.1 2° of the Code of miscellaneous taxes and duties (*Code des droits et taxes divers/Wetboek diverse rechten en taksen*).

As stated below, the EU Commission adopted on 14 February 2013 the Draft Directive on a FTT. The Draft Directive currently stipulates that once the FTT enters into force, the Participating Member States shall not maintain or introduce taxes on financial transactions other than the FTT (or VAT as provided in the Council Directive 2006/112/EC of 28 November 2006 on the common system of value added tax). For Belgium, the tax on stock exchange transactions should thus be abolished once the FTT enters into force. The Draft Directive is still subject to negotiation between the Participating Member States and therefore may be changed at any time.

Financial Transaction Tax

On 14 February 2013, the EU Commission adopted a proposal for a Council Directive (the "**Draft Directive**") on a common financial transaction tax ("**FTT**"). Pursuant to the Draft Directive, the FTT shall be implemented and enter into effect in eleven EU Member States (Austria, Belgium, Estonia, France, Germany, Greece, Italy, Portugal, Slovak Republic, Slovenia and Spain; the "**Participating Member States**"). In December 2015, Estonia withdrew from the Participating Member States.

According to the Draft Directive, the FTT shall be payable on financial transactions provided that at least one party to the financial transaction is established (or deemed established) in a Participating Member State and that there is a financial institution established (or deemed established) in a Participating Member State which is a party to the financial transaction, or is acting in the name of a party to the transaction. The FTT shall, however, not apply to among others primary market transactions referred to in Article 5 (c) of Regulation (EC) No 1287/2006, including the activity of underwriting and subsequent allocation of financial instruments in the framework of their issue.

The rates of the FTT shall be fixed by each Participating Member State but for transactions involving financial instruments other than derivatives they shall amount to at least 0.1 per cent. of the taxable amount. The taxable amount for such transactions shall in general be determined by reference to the consideration paid or owed in return for the transfer or the market price (whichever is higher). The FTT shall be payable by each financial institution established (or deemed established) in a Participating Member State which is a party to the financial transaction, which is acting in the name of a party to the transaction or where the transaction has been carried out on its account. Where the FTT due has not been paid within the applicable time limits, each party to the relevant financial transaction, including persons other than financial institutions, shall become jointly and severally liable for the payment of the FTT due.

However, the FTT proposal remains subject to negotiation between the Participating Member States, and the scope of any such tax is uncertain. Additional EU Member States may decide to participate

Prospective Holders of the Notes should consult their own tax advisers in relation to the consequences of the FTT associated with the subscription, purchase, holding or disposal of the Notes.

SUBSCRIPTION AND SALE

Summary of Programme Agreement

Subject to the terms and on the conditions contained in a programme agreement dated on or about the date of this Base Prospectus (the "**Programme Agreement**") between the Issuer, the Permanent Dealer and the Arranger, the Notes will be offered on a continuous basis by the Issuer to the Permanent Dealer. However, the Issuer has reserved the right to sell Notes directly on its own behalf to dealers that are not the Permanent Dealer. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer. The Notes may also be sold by the Issuer through the Dealers, acting as agents of the Issuer. The Programme Agreement also provides for Notes to be issued in syndicated Tranches that are jointly and severally underwritten by two or more Dealers.

As set out in the Programme Agreement, the Issuer may from time to time terminate the appointment of any Dealer under the Programme or appoint additional Dealers either in respect of one or more Tranches or in respect of the whole Programme.

The Issuer will pay each relevant Dealer a commission as agreed between them in respect of Notes subscribed by it. The Issuer has agreed to reimburse the Arranger for certain of its expenses incurred in connection with the establishment of the Programme and the Dealers for certain of their activities in connection with the Programme.

The Issuer has agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Notes. The Programme Agreement entitles the Dealers to terminate any agreement that they make to subscribe Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

Selling Restrictions

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that, except as permitted by the Programme Agreement, it will not offer or sell Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of an identifiable tranche of which such Notes are a part, as determined and certified to the Agent by such Dealer (or, in the case of an identifiable tranche of Notes sold to or through more than one Dealer, by each of such Dealers with respect to Notes of an identifiable tranche purchased by or through it, in which case the Agent shall notify such Dealer when all such Dealers have so certified), within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each Dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting out the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in the preceding sentence have the meanings given to them by Regulation S.

The Notes are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S.

In addition, until 40 days after the commencement of the offering of any identifiable tranche of Notes, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering of such tranche of Notes) may violate the registration requirements of the Securities Act.

This Base Prospectus has been prepared by the Issuer for use in connection with the offer and sale of the Notes outside the United States. The Issuer and the Dealers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason. This Base Prospectus does not constitute an offer to any person in the United States. Distribution of this Base Prospectus by any non-U.S. person outside the United States to any U.S. person or to any other person within the United States, is unauthorised and any disclosure without the prior written consent of the Issuer of any of its contents to any such U.S. person or other person within the United States, is prohibited.

Public Offer Selling Restriction under the Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Base Prospectus as completed by the final terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

(i) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(ii) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer;

(iii) at any time if the denomination per Note being offered amounts to at least €100,000 (or its equivalent in any other currency); or

(iv) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (i) to (iv) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive, or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "**offer of Notes to the public**" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression "**Prospectus Directive**" means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in the Relevant Member State.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(i) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes

other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the UK Financial Services and Markets Act 2000 by the Issuer;

(ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the UK Financial Services and Markets Act 2000) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the UK Financial Services and Markets Act 2000 would not, if the Issuer was not an authorised person apply to the Issuer; and

(iii) it has complied and will comply with all applicable provisions of the UK Financial Services and Markets Act 2000 with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the "**Financial Instruments and Exchange Act**") and each Dealer appointed under the Programme will be required to represent and agree, that it has not, directly or indirectly, offered or sold and will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with the Financial Instruments and Exchange Act and any other relevant laws and regulations of Japan.

Czech Republic

No approval of a prospectus has been sought or obtained from the Czech National Bank under Act No. 256/2004 Coll. on Conducting Business in the Capital Market, as amended (the "**Capital Market Act**") with respect to the Notes. No action has been taken to passport a prospectus approved by the competent authority of the home Member State of the Issuer into the Czech Republic by delivery of a certificate of the competent authority of the home Member State of the Issuer to the Czech National Bank attesting that a prospectus approved by the home Member State authority has been drawn up in accordance with the laws of the European Union.

No application has been filed nor has any permission been obtained for listing nor has any other arrangement for trading the Notes on any regulated market in the Czech Republic (as defined by the Capital Market Act) been made. Accordingly, each Dealer appointed under the Programme will have to represent and agree that it will not offer, sell or otherwise introduce the Notes for trading in the Czech Republic in a manner that would require (i) the approval of a prospectus by the Czech National Bank or (ii) passporting of a prospectus approved by the competent authority of the home Member State of the Issuer into the Czech Republic by delivery of a certificate of the competent authority of the home Member State of the Issuer to the Czech National Bank attesting that a prospectus approved by the home Member State authority has been drawn up in accordance with the laws of the European Union.

Accordingly, any person making or intending to make any offer within the Czech Republic of Notes which are the subject of the placement contemplated in this Base Prospectus should only do so in circumstances in which no obligation arises for the Issuer or any of the Dealers to produce a prospectus for such offer. Neither the Issuer nor the Dealers have authorised, nor do they authorise, the making of any offer of Notes through

any financial intermediary, other than offers made by Dealers which constitute the final placement of Notes contemplated in this Base Prospectus.

Any person intending to acquire or acquiring any Notes from any person should be aware that, in the context of an offer to the public as defined in section 34 (1) of the Capital Market Act, the Issuer may be responsible to the investor for the Base Prospectus under section 36b of Capital Market Act, only if the Issuer has authorised that offeror to make the offer to the investor. Each investor should therefore enquire whether the offeror is so authorised by the Issuer. If the offeror is not authorised by the Issuer, the investor should check with the offeror whether anyone is responsible for the Base Prospectus for the purposes of section 36b of the Capital Market Act in the context of the offer to the public, and, if so, who that person is. If the investor is in any doubt about whether it can rely on the prospectus and/or who is responsible for its contents it should take legal advice.

An investor intending to acquire or acquiring any Notes from an offeror will do so, and offers and sales of the Notes to an investor by an offeror will be made, in accordance with any terms and other arrangements in place between such offeror and such investor including as to price, allocations and settlement arrangements. The Issuer will not be a party to any such arrangements with investors (other than a Dealer) in connection with the offer or sale of the Notes and, accordingly, this prospectus and any Final Terms will not contain such information and an investor must obtain such information from the offeror.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has complied with and will comply with all the requirements of the Capital Market Act and the Bonds Act and has not taken, and will not take, any action which would result in the Notes being deemed to have been issued in the Czech Republic, the issue of the Notes being classed as "accepting of deposits from the public" by the Issuer in the Czech Republic under Section 2(2) of Act of Czech Republic No.21/1992 Coll., on Banks (as amended) (the "**Banking Act**") or requiring a permit, registration, filing or notification to the Czech National Bank or other authorities in the Czech Republic in respect of the Notes in accordance with the Capital Market Act, the Bonds Act, and the Banking Act or the practice of the Czech National Bank.

General

These selling restrictions may be modified by the agreement of the Issuer and the Dealers following a change in a relevant law, regulation or directive.

No representation is made that any action has been taken in any jurisdiction that would permit a public offering of any of the Notes, or possession or distribution of the Base Prospectus or any other offering material or any Final Terms, in any country or jurisdiction where action for that purpose is required.

Neither the Issuer nor any Dealer represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it shall, to the best of its knowledge and belief, comply with all relevant laws, regulations and directives in each jurisdiction in which it purchases, offers, sells or delivers Notes or has in its possession or distributes this Base Prospectus, any other offering material or any Final Terms and, that it will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws, regulations and directives in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries, and neither the Issuer nor any Dealer shall have any responsibility therefor.

FORM OF FINAL TERMS

Final Terms dated [●]

KBC Group NV

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
under the EUR 5,000,000,000
Euro Medium Term Note Programme

PART A — CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated 13 July 2016 [and the supplement(s) to it dated [*date*]] which [together] constitute[s] a base prospectus (the "**Base Prospectus**") for the purposes of Directive 2003/71/EC (as amended, including by Directive 2010/73/EU) (the "**Prospectus Directive**"). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus has been published on the Issuer's website (www.kbc.com) and copies may be obtained during normal business hours at [*address*/the registered office of the Issuer].

1	(i)	Series Number:	[•]
	(ii)	[Tranche Number:]	[•]
	(iii)	[Date on which Notes will be consolidated and form a single Series]	[The Notes will be consolidated and form a single Series with [•] on [[*insert date*]/the Issue Date] [Not Applicable]]
2		Specified Currency:	[•]
3		Aggregate Nominal Amount:	[•]
	(i)	[Series:]	[•]
	(ii)	[Tranche:]	[•]
4		Issue Price:	[•] per cent. of the Aggregate Nominal Amount [plus accrued interest from [*insert date*]]
5	(i)	Specified Denominations:	[•]
	(ii)	Calculation Amount:	[•]
6	(i)	[Issue Date:]	[•]
	(ii)	[Interest Commencement Date:]	[Issue Date/[•]/Not Applicable]
7		Maturity Date:	[[•]/Interest Payment Date falling in [or nearest to] [*specify month and year*]]
8		Interest Basis:	[Fixed Rate/ Fixed Rate Reset / Floating Rate]

9	Redemption Basis:	Subject to any purchase and cancellation or early redemption, the Notes will be redeemed on the Maturity Date at [•] per cent. of their nominal amount.
10	Change of Interest Basis:	[[•]/Not Applicable]
11	Issuer Call Option:	[Applicable/Not Applicable] [(*further particulars specified below*)]
12	(i) Status of the Notes:	[Senior Notes] [Subordinated Tier 2 Notes]
	(ii) Waiver of set-off in respect of Senior Notes:	Condition 2(a)(ii): [Applicable/Not Applicable]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

13	**Fixed Rate Note Provisions**	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i) Rate(s) of Interest:	[[•] per cent. per annum payable in arrear [on each Interest Payment Date]]
	(ii) Interest Payment Date(s):	[[•] [and [•]] in each year [from and including [•]][until and excluding [•]]]
	(iii) Fixed Coupon Amount[(s)]:	[[•] per Calculation Amount] [Not Applicable]
	(iv) Broken Amount(s):	[[•] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [•]/Not Applicable]
	(v) Day Count Fraction:	[Actual/365] [Actual/Actual] [Actual/Actual (ISDA)] [Actual/365 (fixed)] [Actual/360] [30/360] [360/360] [Bond Basis] [30E/360] [Eurobond Basis] [30E/360 (ISDA)] [Actual/Actual ICMA]
	(vi) Determination Dates:	[[•] in each year/Not Applicable]
14	**Fixed Rate Reset Note Provisions**	[Applicable/Not Applicable]
	(i) Initial Rate of Interest:	[•] per cent. per annum payable in arrear [on each Interest Payment Date]
	(ii) Interest Payment Date(s):	[•] [and [•]] in each year [from and including [•]][until and excluding [•]]
	(iii) First Reset Date:	[•]
	(iv) Second Reset Date:	[[•]/Not Applicable]
	(v) Subsequent Reset Date(s):	[[•] [and[•]]/Not Applicable]
	(vi) Reset Determination Dates:	[•]

	(vii) Mid-Swap Rate:	[semi-annual] [annualised]
	(viii) Swap Rate Period:	[[•]]
	(ix) Relevant Screen Page:	[•] Not Applicable]
	(x) Margin(s):	[+/–][•] per cent. per annum [in respect of the First Reset Period] [+/–][•] per cent. per annum [in respect of each Subsequent Reset Period]
	(xi) Fixed Coupon Amount[(s)] in respect of the period from (and including) the Interest Commencement Date up to (but excluding) the First Reset Date:	[[•] per Calculation Amount]
	(xii) Broken Amount(s):	[[•] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [•]/Not Applicable]
	(xiii) Day Count Fraction:	[Actual/365] [Actual/Actual] [Actual/Actual (ISDA)] [Actual/365 (fixed)] [Actual/360] [30/360] [360/360] [Bond Basis] [30E/360] [Eurobond Basis] [30E/360 (ISDA)] [Actual/Actual ICMA]
	(xiv) Determination Dates:	[[•] in each year/Not Applicable]
15	**Floating Rate Note Provisions**	[Applicable/Not Applicable]
	(i) Interest Period(s):	[[•][, subject to adjustment in accordance with the Business Day Convention set out in (v) below/, not subject to any adjustment[, as the Business Day Convention in (v) below is specified to be Not Applicable]]]
	(ii) Specified Interest Payment Dates:	[•][from and including [•]][up to and [including/excluding] [•]][, subject to adjustment in accordance with the Business Day Convention set out in (v) below/, not subject to any adjustment[, as the Business Day Convention in (v) below is specified to be Not Applicable]] [Not Applicable]
	(iii) Interest Period End Date:	[Not Applicable]/ [•] in each year [up to and [including/excluding] [•]] [, subject to adjustment in accordance with the Business Day Convention set out in (v) below/, not subject to any adjustment[, as the Business Day Convention in (v) below is specified to be Not Applicable]]
	(iv) First Interest Payment Date:	[•]
	(v) Business Day Convention:	

	Interest Period(s) and Specified Interest Payment Dates:	[Following Business Day Convention/Preceding Business Day Convention] [Not Applicable]
	Interest Period End Date:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention] [Not Applicable]
(vi)	Additional Business Centre(s):	[•] (*please specify other financial centres required for the Business Day definition*)
(vii)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination]
(viii)	Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Agent):	[•]
(ix)	Screen Rate Determination:	[Applicable/Not Applicable]
	– Reference Rate:	[LIBOR][EURIBOR][CMS]
	– Interest Determination Date(s):	[•] [TARGET/[•]] Business Days [in [•]] prior to the [•] day in each Interest Accrual Period/each Interest Payment Date
	– Relevant Screen Page:	[•] [Reuters Page <ISDAFIX2>, under the heading "EURIBOR Basis-EUR"] (*if CMS*)
	– Relevant Time:	[•]
(x)	ISDA Determination:	[Applicable/Not Applicable]
	– Floating Rate Option:	[•]
	– Designated Maturity:	[•]
	– Reset Date:	[•]
(xi)	Margin(s):	[+/–][•] per cent. per annum [in respect of each Interest Accrual Period ending on [●]] [[+/–][•] per cent. per annum in respect of each Interest Accrual Period ending on [●]]
(xii)	Minimum Rate of Interest:	[[•] per cent. per annum][Not Applicable]
(xiii)	Maximum Rate of Interest:	[[•] per cent. per annum][Not Applicable]
(xiv)	Day Count Fraction:	[Actual/365] [Actual/Actual] [Actual/Actual (ISDA)] [Actual/365 (fixed)] [Actual/360] [30/360] [360/360] [Bond Basis] [30E/360] [Eurobond Basis] [30E/360 (ISDA)] [Actual/Actual ICMA]

PROVISIONS RELATING TO REDEMPTION

16	**Tax Event**	
	Notice periods for Condition 4 (b):	Minimum period: [30] [•] days Maximum period: [60] [•] days
17	**[Capital Disqualification Event**	
	Notice periods for Condition 4 (c):	Minimum period: [30] [•] days Maximum period: [60] [•] days]
18	**Capital Disqualification Event Variation**	[Applicable/Not Applicable]
19	**Issuer Call Option**	[Applicable/Not Applicable]
	(i) Optional Redemption Date(s):	[•]
	(ii) Optional Redemption Amount(s):	[[•] per Calculation Amount/Early Redemption Amount]
	(iii) If redeemable in part:	[Applicable/Not Applicable]
	(a) Minimum Callable Amount:	[•]/[Not Applicable]
	(b) Maximum Callable Amount:	[•]/[Not Applicable]
	(iv) Notice period:	Minimum period: [30] [•] days Maximum period: [60] [•] days
20	**Loss absorption Disqualification Event in respect of Senior Notes:**	Condition 4(e): [Applicable from [●]/Not Applicable]
	(i) Notice periods for Condition 4(e)	[Minimum period: [●] days Maximum period: [●] days]
21	**Final Redemption Amount**	[[•] per Calculation Amount/[•]]
22	**Early Redemption Amount**	
	Early Redemption Amount(s) payable on redemption following a Tax Event, following a Capital Disqualification Event (in the case of Subordinated Tier 2 Notes), following a Loss Absorption Disqualification Event (in the case of Senior Notes) or on event of default or other early redemption:	[[•] per Calculation Amount /[•]]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

23	**Form of Notes:**	Dematerialised form

THIRD PARTY INFORMATION

The Issuer accepts responsibility for the information contained in these Final Terms. [[•] has been extracted from [•]. The Issuer confirms that such information has been accurately reproduced and that,

so far as it is aware, and is able to ascertain from information published by [•], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of the Issuer:

By: [●]
Duly authorised

By: [●]
Duly authorised

PART B – OTHER INFORMATION

1	**LISTING AND ADMISSION TO TRADING**	
	(i) Admission to trading:	[Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on [*specify relevant regulated market*] with effect from [•].] [Application is expected to be made by the Issuer (or on its behalf) for the Notes to be admitted to trading on [[Euronext Brussels][*specify relevant regulated market*]] with effect from [•].] [Not Applicable.]
	(ii) Estimate of total expenses related to admission to trading	[•]
2	**RATINGS**	[The Notes to be issued [are not]/[have been]/[are expected to be] rated]/[The following ratings reflect ratings assigned to Notes of this type issued under the Programme generally]: [*Need to include here a brief explanation of the meaning of the ratings if this has previously been published by the rating provider.*] [name of rating agency]: [•] [[•] is established in the EU and registered under Regulation (EC) No 1060/2009 (the "**CRA Regulation**"). As defined by [•] a [•] rating means that the obligations of the Issuer under the [Programme] [Notes] are [ ]. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.]
3	**INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE**	
	[Save as discussed in ["*Subscription and Sale*"], so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the issue." [•]]	
4	**YIELD**	
	[Indication of yield:	(*Include for Fixed Rate Notes only*)
	(i) Gross yield:	[●] [Calculated as [*include details of method of calculation in summary form*] on the Issue Date.] [Not Applicable]
	(ii) Net yield:	[●] [Calculated as [*include details of method of calculation in summary form*] on the Issue Date.] [Not Applicable]

Maximum yield:	[●][*Include for Floating Rate Notes only where a maximum rate of interest applies*] [Calculated as [*include details of method of calculation in summary form*] on the Issue Date.] [Not Applicable]
Minimum yield:	[●][*Include for Floating Rate Notes only where a minimum rate of interest applies*] [Calculated as [*include details of method of calculation in summary form*] on the Issue Date.] [Not Applicable]] [Not Applicable]

5 **HISTORIC INTEREST RATES** (*Floating Rate Notes only*)

[Details of historic [LIBOR/EURIBOR/CMS] rates can be obtained from [Reuters].][Not Applicable]

6 **OPERATIONAL INFORMATION**

(i)	ISIN:	[•]
(ii)	Common Code:	[•]
(iii)	Any clearing system(s) other than the Securities Settlement System, Euroclear Bank S.A./N.V. and Clearstream Banking, *société anonyme* and the relevant identification number(s):	[Not Applicable/[•]].
(iv)	Delivery:	Delivery against payment
(v)	Names and addresses of additional Agent(s) (if any):	[●]/[Not Applicable]
(vi)	Name and address of the Calculation Agent when the Calculation Agent is not KBC Bank NV	[●]/[Not Applicable]
(vii)	Intended to be held in a manner which would allow Eurosystem eligibility:	[Yes, provided that Eurosystem eligibility criteria have been met.] [No]

7 **DISTRIBUTION**

(i)	Method of distribution		[Syndicated/Non-syndicated]
(ii)	If syndicated:		
	(A)	Names and addresses of Dealers and underwriting commitments/quotas:	[Not Applicable/give names, addresses and underwriting commitments]
	(B)	Date of [Subscription] Agreement:	[Not Applicable]/[•]

	(C) Stabilising manager(s) (if any):	[Not Applicable/[•]]
(iii)	If non-syndicated, name and address of Dealers:	[Not Applicable/[•]]
(iv)	US Selling Restrictions	Reg. S Category 2; TEFRA not applicable
(v)	Additional selling restrictions:	[Not Applicable/[•]]

GENERAL INFORMATION

(1) The update of the Programme and the issue of Notes have been duly authorised by resolutions of the Issuer's Executive Committee dated 2 September 2014 and 16 December 2014 and by resolution of Rik Janssen (Group Treasurer) dated 8 June 2016.

(2) This Base Prospectus has been approved on 13 July 2016 by the FSMA in its capacity as competent authority under Article 23 of the Prospectus Law as a base prospectus for the purposes of Article 5.4 of the Prospectus Directive in respect of the issue by the Issuer of Notes. Application has also been made to Euronext Brussels for Notes issued under the Programme during the period of 12 months from the date of approval of this Base Prospectus to be listed on Euronext Brussels and admitted to trading on the regulated market of Euronext Brussels. The regulated market of Euronext Brussels is a regulated market for the purposes of the Prospectus Directive.

(3) Other than as disclosed in this Base Prospectus, there has been no significant change in the financial or trading position of the Issuer since 31 December 2015 and no material adverse change in the prospects of the Issuer since 31 December 2015.

(4) Other than as set out in Section "*Description of the Issuer – Litigation*", the Issuer is not involved in any governmental, legal or arbitration proceedings (including any proceedings which are pending or threatened of which the Issuer is aware) which may have or have had in the 12 months preceding the date of this Base Prospectus a significant effect on the financial position or profitability of the Issuer.

(5) Notes have been accepted for clearance through the facilities of the Securities Settlement System, Euroclear and Clearstream, Luxembourg. The Common Code, the International Securities Identification Number (ISIN) and (where applicable) the identification number for any other relevant clearing system for each Series of Notes will be set out in the relevant Final Terms.

The address of the Securities Settlement System is Boulevard de Berlaimont 14, BE-1000 Brussels. The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855 Luxembourg. The address of any alternative clearing system will be specified in the applicable Final Terms.

(6) Where information in this Base Prospectus has been sourced from third parties, this information has been accurately reproduced and as far as the Issuer is aware and is able to ascertain from the information published by such third parties no facts have been omitted which would render the reproduced information inaccurate or misleading. The source of third party information is identified where used.

(7) The issue price and the amount of the relevant Notes will be determined, before filing of the relevant Final Terms of each Tranche, based on the prevailing market conditions. The Issuer does not intend to provide any post-issuance information in relation to any issues of Notes.

(8) For so long as Notes may be issued pursuant to this Prospectus, the following documents will be available, during usual business hours on any weekday (Saturdays and public holidays excepted), for inspection at the registered office of the Issuer:

(i) the constitutional documents of the Issuer;

(ii) the Agency Agreement;

(iii) the audited consolidated financial statements of the Issuer for each of the two financial years ended 31 December 2014 and 31 December 2015, in each case together with the audit reports in connection therewith;

(iv) each Final Terms (save that Final Terms relating to a Note which is neither admitted to trading on a regulated market within the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Agent as to its holding of Notes and identity); and

(v) a copy of the Base Prospectus together with any further or supplement prospectuses relating to the Programme.

This Base Prospectus, the Final Terms for Notes that are listed and admitted to trading on Euronext Brussels' regulated market and each document incorporated by reference will be published on the website of Euronext Brussels (www.euronext.com).

(9) Copies of the latest annual report and audited consolidated annual financial statements of the Issuer and the latest unaudited interim condensed consolidated financial statements of the Issuer may be obtained, and copies of the Agency Agreement will be available for inspection, at the specified offices of the Agent during normal business hours, so long as any of the Notes is outstanding.

(10) Until 4 May 2016, the statutory auditors of the Issuer was Ernst & Young Bedrijfsrevisoren BCVBA (*erkende revisor/réviseur agréé*), represented by Christel Weymeersch and/or Jean-François Hubin, with offices at De Kleetlaan 2, B-1831 Diegem (Brussels) ("**Ernst & Young**"). The consolidated financial statements of the Issuer (as well as the annual accounts of the Issuer) for the years ended 31 December 2014 and 31 December 2015 have been audited in accordance with ISA by Ernst & Young and the audits resulted, in each case, in an unqualified opinion. During the relevant period, Ernst & Young had no material interest in the Issuer.

On 4 May 2016, PricewaterhouseCoopers Bedrijfsrevisoren BCVBA (*erkende revisor/réviseur agréé*), represented by Roland Jeanquart and/or Tom Meuleman, with offices at Woluwedal 18, B-1932 Sint-Stevens-Woluwe (Brussels) ("**PwC**"), has been appointed as auditor of the Issuer for the financial years 2016-2018. PwC has no material interest in the Issuer

Both Ernst & Young and PwC are members of the *Instituut der Bedrijfsrevisoren/Institut des Reviseurs d'Entreprises*.

The reports of the auditors of the Issuer are included or incorporated in the form and context in which they are included or incorporated, with the consent of the auditors.

(11) The Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to the Issuer and its affiliates in the ordinary course of business. In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or its affiliates. Certain of the Dealers or their affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes

issued under the Programme. Any such short positions could adversely affect future trading prices of Notes issued under the Programme. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments

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GLOSSARY

The below list contains an overview of certain defined terms which are frequently used in the sections "Risk Factors" and "Description of the Issuer" of this Base Prospectus and are not defined in the Terms and Conditions of the Notes.

ABS:	Asset Backed Securities. ABS are bonds or notes backed by loans or accounts receivables originated by providers of credit such as banks and credit card companies. Typically, the originator of the loans or accounts receivables transfers the credit risk to a trust, which pools these assets and repackages them as securities. These securities are then underwritten by brokerage firms, which offer them to the public.
ALM:	Asset Liability Management, i.e. the ongoing process of formulating, implementing, monitoring and revising strategies for both on-balance-sheet and off-balance-sheet items, in order to achieve an organisation's financial objectives, given the organisation's risk tolerance and other constraints.
Banking Law:	The Belgian law of 25 April 2014 on the status and supervision of credit institutions.
BPV:	Basis Point Value, i.e. the measure that reflects the change in the net present value of interest rate positions, due to an upward parallel shift of 10 basis points (i.e. 0.10%) in the zero coupon curve.
CAGR:	compound annual growth rate.
CDO:	Collateral Debt Obligations. CDOs are a type of asset-backed security and a structured finance product in which a distinct legal entity, a special purpose vehicle (SPV), issues bonds or notes against an investment in an underlying asset pool. Pools may differ with regard to the nature of their underlying assets and can be collateralised either by a portfolio of bonds, loans and other debt obligations, or be backed by synthetic credit exposures through use of credit derivatives and credit-linked notes. The claims issued against the collateral pool of assets are prioritised in order of seniority by creating different tranches of debt securities, including one or more investment grade classes and an equity/first loss tranche. Senior claims are insulated from default risk to the extent that the more junior tranches absorb credit losses first. As a result, each tranche has a different priority of payment of interest and/or principal and may thus have a different rating.
Combined ratio (non-life insurance):	The sum of technical insurance charges (including the internal cost of settling claims) divided by earned premiums and operating expenses divided by written premiums (after reinsurance in each case)

Common Equity Tier 1 ratio or **CET1:**	Common Equity Tier 1 ratio, i.e. the common equity tier 1 capital of the Group (including the core-capital securities sold to the government that are grandfathered by the regulator) divided by the risk weighted assets of the Group, as calculated based on CRD IV.
Cost/income ratio (banking):	operating expenses of the banking activities divided by the total income of the banking activities.
Cover ratio:	The specific impairment on loans divided by the outstanding impaired loans.
CRD:	Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions on prudential requirements for credit institutions and investment firms.
CRD IV:	CRR and CRD.
Credit cost ratio:	The net changes in individual and portfolio-based impairment for credit risks divided by the average outstanding loan portfolio. Note that, inter alia, government bonds are not included in this formula.
CRR:	Regulation (EU) n°575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms.
Dividend payout ratio:	The amount of dividend to be distributed together with the coupon to be paid on the core-capital securities sold to the government and on the additional tier-1 instruments included in equity divided by the consolidated net profit.
ECB:	European Central Bank.
FICOD:	Directive 2002/87/EC of the European Parliament and of the Council of 16 December 2002 on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate and amending Council Directives 73/239/EEC, 79/267/EEC, 92/49/EEC, 92/96/EEC, 93/6/EEC and 93/22/EEC, and Directives 98/78/EC and 2000/12/EC of the European Parliament and of the Council.
FSMA:	The Belgian Financial Services and Markets Authority.
HVaR:	Historical Value-at-Risk estimates the maximum amount of money that can be lost on a given portfolio due to adverse market movements over a defined holding period, with a given confidence level and using real historical market performance data.
IFRS:	International Financial Accounting Standards
Impaired loans ratio:	The total outstanding impaired loans (PD 10-11-12) divided by the total outstanding loans.

LGD:	Loss Given Default, i.e. the loss a bank expects to experience if an obligor defaults, taking into account the eligible collateral and guarantees provided for the exposure.
Liquidity Coverage Ratio or **LCR:**	Stock of high-quality liquid assets divided by total net cash outflows over the next 30 calendar days.
MBIA:	Municipal Bond Insurance Association.
MTM:	Market-to-market.
NBB:	National Bank of Belgium.
NSFR:	available amount of stable funding divided by the required amount of stable funding
PD:	Probability of Default, i.e. the probability that an obligor will default within a one-year horizon.
RRD:	Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012, of the European Parliament and of the Council.
Single Resolution Mechanism or **SRM:**	Regulation (EU) No 806/2014 of the European Parliament and of the Council of 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Bank Resolution Fund and amending Regulation (EU) No 1093/2010 of the European Parliament and of the Council.
Single Supervision Mechanism or **SSM:**	Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions.
Solvency II Directive:	Directive 2009/138/EC on the taking-up and pursuit of the business of insurance and reinsurance of 25 November 2009, as amended by Directive 2013/58/EU of 11 December 2013 as regards the date for its transposition and the date of its application and by Directive 2014/51/EU of 16 April 2014.
SVaR:	Stressed Value-At-Risk is analogous to the Historical VaR, but it is calculated for the time series of a maximum stressed period in recent history.
Total capital ratio:	the total regulatory capital of the Group (including the core-capital securities sold to the government that are grandfathered by the regulator) divided by the risk weighted assets of the Group, as calculated based on CRD IV.

VaR:	Value at Risk, i.e. the unexpected loss in the fair value (= difference between the expected and worst case fair value), at a certain confidence level and with a certain time horizon.

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