



Working
together
towards a
sustainable
future



Risk Report 2016

Contact details: Investor Relations Office

investor.relations@kbc.com

www.kbc.com

KBC Group NV, Investor Relations Office, Havenlaan 2, 1080 Brussels, Belgium.

Contact details: Press Office

Viviane Huybrecht (General Manager, Group Communication).

+ 32 2 429 85 45

pressofficekbc@kbc.be


KBC Group NV, Group Communication, Havenlaan 2, 1080 Brussels, Belgium.



Table of Contents

Introduction: Highlights in 2016 and Disclosure Policy	6
Highlights in 2016.....	7
Disclosure policy	7
Cross-references	9
Risk Management Governance	10
Risk culture	13
Three Lines of Defence Model (3 LOD model).....	13
Risk appetite.....	15
Risk measurement standards	17
Capital Adequacy	19
Solvency at KBC group level	20
Managing the risk of excessive leverage.....	23
MREL ratio (minimum requirement for own funds and eligible liabilities)	25
Solvency of KBC Bank and KBC Insurance separately	26
ICAAP and ORSA.....	27
Stress testing	28
Credit Risk Management	30
Managing credit risk at transactional level	31
Managing credit risk at portfolio level	32
Forbearance measures	33
Scope of credit risk disclosures	35
Exposure to credit risk	36
Total exposure to credit risk	40
Credit risk in the lending portfolio	41
Breakdown of credit risk in the lending portfolio	45
Impaired credit exposure in the lending portfolio.....	58
Counterparty credit risk	59
Credit value adjustment	62
Credit risk mitigation.....	63
Credit risk related to KBC Insurance.....	73
Structured Credit Products	76
Strategy and processes	77
Scope of structured credit activities	78
Structured credit programmes for which KBC acts as originator	79
KBC's structured credit position (where KBC acts as investor).....	81
Structured credit exposure – capital charges under the CRR (re)securitisation framework	83
Market Risk Management (trading)	85
Strategy and processes	86
Scope of market risk management.....	87
The VaR model	87
Regulatory capital	89
Stress testing	91
Back-testing.....	92

Validation and reconciliation	95
Valuation	95
Non-Financial Risks	97
Operational risk	98
Operational risk governance	98
The building blocks for managing operational risks	99
Operational risk and regulatory capital requirements	100
Additional focus on Information Risk Management	100
Reputational risk	101
Business and strategic risks	101
Market Risk Management (non-trading).....	102
Strategy and processes	103
Scope of non-trading market risk disclosures	104
Interest rate risk	104
Credit spread risk	108
Equity risk	110
Real estate risk	111
Inflation risk	111
Foreign exchange risk	111
Capital sensitivity to market movements	112
Liquidity Risk Management	113
Strategy and processes	114
Scope of liquidity risk management	115
Structural liquidity risk	116
Liquid asset buffer	117
Funding information	117
LCR and NSFR	118
Asset encumbrance	118
Insurance Risk Management	121
Strategy and processes	122
Scope of insurance risk management	122
Insurance risk classification	122
Insurance risk measurement	124
Insurance risk mitigation by reinsurance	124
Best estimate valuations of insurance liabilities	124
Technical provisions and loss triangles, non-life business	127
Solvency II results and risk profile	128
Actuarial function	129
Annexes	130
Glossary	161



Introduction:
Highlights in 2016
and Disclosure
Policy

KBC is an integrated bank-insurance group, whose main focus is on retail clients and small and medium-sized enterprises. We occupy leading positions on our home markets of Belgium, Central and Eastern Europe and Ireland, where we specialise in retail bank-insurance and asset management activities. Elsewhere around the globe, the group has established a presence in selected countries and regions.

Highlights in 2016

- Common equity tier-1 ratio (Basel III fully loaded based on Danish compromise) of 15.8% at year-end.
- Fully loaded Basel III leverage ratio – based on current CRR legislation – of 6.1% at year-end.
- MREL of 21% at year-end.
- Loan portfolio outstanding amount of 148 billion euros, out of which 96% granted in Europe. Overall impaired loan ratio of 7.2%, with impairment charges accounting for a very low 0.09% of the outstanding loan portfolio.
- Continued strong liquidity position at year-end (NSFR at 125% and LCR at 139%). Both ratios well above the minimum regulatory requirements and KBC's internal floors of 105%. Solvency II ratio of 203% at group level (including volatility adjustment), ranking KBC Insurance among the better-capitalised companies in the insurance industry.
- Continued implementation of our reviewed 'Three Lines of Defence' model.
- Underpinning of the risk appetite for the different risk types.

Disclosure policy

In line with its general communication policy, KBC aims to be as open as possible when communicating to the market about its exposure to risk. Risk management information is therefore provided in a separate section of the 2016 Annual Report of KBC Group NV and – more extensively – in this publication.

The most important regulations governing risk and capital management are the Basel III capital requirements applying to banking entities, and the Solvency II capital framework applying to insurance entities. In 2014, the Basel II capital requirements were replaced by the Basel III framework, which is gradually entering into effect. Solvency I has been replaced by the fundamentally reformed Solvency II framework, which officially entered into force in January 2016.

The 2016 Risk Report is based on Basel III's third pillar and the resulting disclosure requirements of the Capital Requirements Regulation. Requirements relating to activities that are not applicable/do not exist for KBC are, therefore, not included. Although the disclosures mostly refer to the Basel III first pillar risk metrics and focus on banking entities, KBC – as a bank-insurance company – has

decided to extend the scope to the insurance activities in order to provide an overall view of the KBC group's risk exposure and risk management activities.

To ensure that a comprehensive view is provided, the credit risk inherent in KBC Insurance's activities has also been included in the section on credit risk management. Furthermore, as they are managed in an overarching group-wide fashion, the disclosures on structured credit products, market risks (non-trading-related, i.e. Asset and Liability Management) and non-financial risks have been drawn up to include detailed information at KBC group level (banking and insurance combined). Liquidity risk is managed at bank level. Detailed information on the technical insurance risk borne by KBC Insurance has also been included.

Information is disclosed at the highest consolidated level. Additional information, specifically on the material entities, is confined to the capital information in the section on 'Capital adequacy'. For more detailed information, please refer to the local capital disclosures of the entity concerned (for instance, those provided on their websites).

KBC ensures that a representative picture is given at all times in its disclosures. The scope of the reported information – which can differ according to the matter being dealt with – is clearly indicated. A comparison with the previous year is provided unless this is not possible due to differences in scope and/or methodology.

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

In addition, the 2016 Risk Report was distributed to the Group Executive Committee, the Board of Directors, as well as to the Risk & Compliance Committee to ensure the appropriate approval of the management body as requested under Basel III.

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

This risk report is available in English on the KBC website and is updated on a yearly basis. KBC's next update is scheduled for the beginning of April 2018. Depending on market requirements, KBC may however decide to provide more frequent updates.

Cross-references

For a number of topics, we refer to other reports in order to avoid too much overlap or duplication of information. This allows us to improve the readability of and to add value to the report.

The table containing the topics where reference is made to other reports is shown below.

Topics	Reports
Information regarding governance arrangements	'Corporate governance statement' section of the annual report
Information on the remuneration policy of financial institutions and corporate governance arrangements	KBC Group Compensation Report 'Corporate governance statement' section of the annual report
Country-by-country information	'Focus on our business units' section of the annual report 'Our business model' strategy section of the annual report
Information regarding securitisation exposure where KBC is the originator	Prospectus for this transaction at https://www.kbc.com/en/home-loan-invest-2016?agree=1



Risk Management Governance

Main elements in our risk governance model:

- The Board of Directors, assisted by the Risk & Compliance Committee (RCC), which decides on and supervises the risk appetite and risk strategy each year. It is also responsible for the development of a sound and consistent group-wide risk culture, based on a full understanding of the risks the group faces and how they are managed, taking into account the group risk appetite.
- Integrated architecture centred on the Executive Committee that links risk appetite, strategy and performance goal setting.
- The Risk Management Committee and activity-based risk committees mandated by the Executive Committee.
- Risk-aware business people who act as the first line of defence for conducting sound risk management in the group.
- A single, independent risk function that comprises the Group Chief Risk Officer (Group CRO), local CROs, local risk functions and the group risk function. The risk function (among other entities) acts as the second line of defence, while Internal Audit is the third line.

Relevant risk management bodies and control functions:

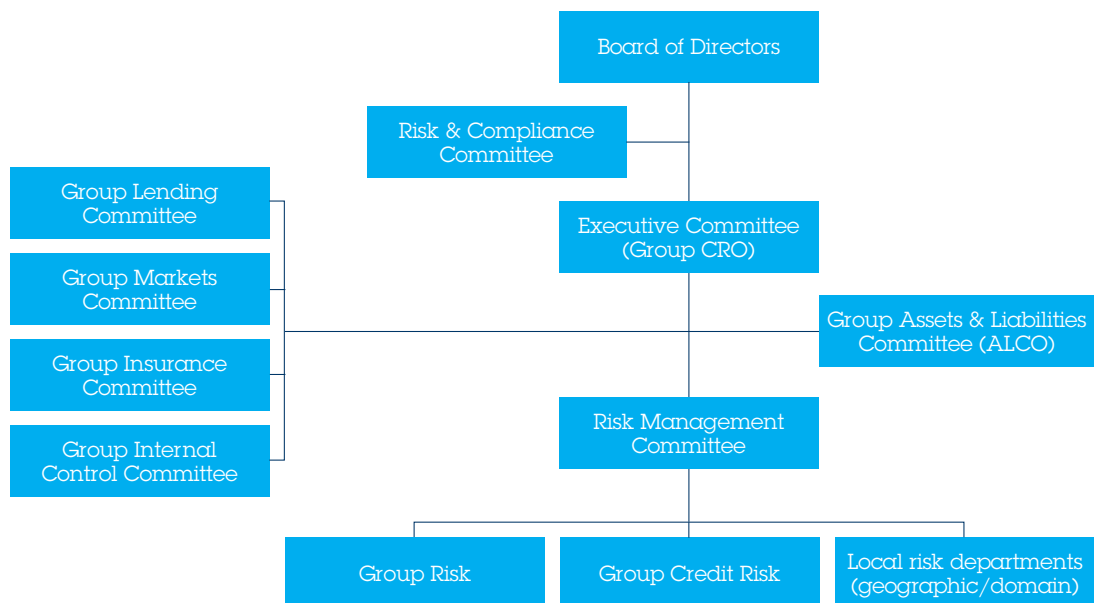
- Executive Committee:
 - makes proposals to the Board of Directors about risk and capital strategy, risk appetite, and the general concept of the risk management framework;
 - decides on the non-strategy-related building blocks of the risk management framework and monitors its implementation throughout the group;
 - allocates capital to activities in order to maximise the risk-adjusted return;
 - acts as the leading risk committee, covering material issues that are channelled via the specific risk committees or the Group Assets & Liabilities Committee (Group ALCO);
 - monitors the group's major risk exposure to ensure conformity with the risk appetite.
- Group ALCO:
 - is a business committee that assists the Executive Committee in the domain of (integrated) balance sheet management at group level. It handles matters related to ALM and liquidity risk.
- Risk committees:
 - The Risk Management Committee supports the Executive Committee in assessing the adequacy of, and compliance with, the KBC Risk Management Framework and defines and implements the vision, mission and strategy for the CRO Services of the KBC group.
 - The activity-based Group Risk Committees (for lending, markets and insurance, respectively) support the Executive Committee in setting and monitoring limits for these activities at group level. Liquidity and ALM issues related to these activities are addressed by the Group ALCO.
 - The Group Internal Control Committee (GICC) supports the Executive Committee in monitoring and strengthening the quality and effectiveness of KBC's internal control system.
- In order to strengthen the voice of the risk function and to ensure that the decision-making bodies of the business entities are appropriately challenged on matters of risk management and receive expert advice, KBC has deployed independent Chief Risk Officers (CROs) throughout the group according to a logical segmentation based on entity and/or business unit. Close

collaboration with the business is assured since they take part in the local decision-making process and, if necessary, can exercise a veto. Independence of the CROs is achieved through a direct reporting line to the Group CRO.

- Group Risk and Group Credit Risk (known collectively as 'the Group risk function') have a number of responsibilities, including monitoring risks at an overarching group-wide level, developing risk and capital models (while business models are developed by business), performing independent validations of all risk and capital models, developing risk frameworks and advising/reporting on issues handled by the Executive Committee and the risk committees. When appropriate, dedicated working groups comprising risk and business-side representatives are set up to deal with emerging risks or unexpected developments in an integrated way (covering all risk types). An example in 2016 was the outcome of the Brexit referendum.

Performance is assessed on a yearly basis as part of the Internal Control Statement.

A simplified schematic of our risk governance model is shown below.



Risk culture

Group Risk has taken several initiatives to further promote a strong risk culture and to realise the Risk Function's vision of putting risk in the hearts and minds of everyone, and of helping KBC create sustainable growth and earning its clients' trust. Having a good risk culture means that risk awareness is part of our DNA and is embedded in our corporate culture.



*Christine Van Rijseghem,
KBC Group CRO*

Responsible behaviour by all KBC staff members is key to creating a positive risk culture. In this regard, the Risk function – in partnership with the business side – has helped flesh out a newly created project, where dilemmas are used as a technique to increase the awareness of top management and all staff on what is responsible behaviour.

At the beginning of 2016, a workshop on risk culture was organised for the members of the Group Executive Committee and the Risk & Compliance Committee. In order to support the business side, more rigid policies on sustainable and responsible lending were implemented in the course of 2016. In addition to the initial gap analysis, regular monitoring of policy compliance for specific loan files is in place.

Besides the exemplary role of top management, a good risk culture ensures that risk management is valued throughout the organisation. A fine example in this regard is the annual planning cycle process (APC), with the discussion of risks and risk appetite becoming an integral part of this process throughout the entire KBC group.

Three Lines of Defence Model (3 LOD model)

To further improve the Internal Control System within the KBC group, the three lines of defence concept was further enhanced. The roles and responsibilities of the different parties within this concept are highlighted below.

First line of defence: **business entities**

The first line of defence (the business side) takes full responsibility for its risks, having to deal with them and putting the necessary controls in place. This involves allocating sufficient priority and capacity to risk topics, making sure that the quality of self-assessments is adequate, and performing the right controls in the right manner.

Second line of defence: **the risk function** (and other parties, including compliance, the actuarial function, ...).

The risk function, as part of the second line of defence, formulates independent opinions on the risks KBC faces and on the way they are mitigated. It provides reasonable assurance that risks are under control.

To do this consistently while adhering to high standards, the risk function develops, imposes and monitors consistent implementation of methods or frameworks and tools to identify, measure and report on risks. To make sure that its voice is heard, the risk function also has a veto right that can be exercised in the different committees where major decisions are taken.

Third line of defence: **internal audit**

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



This 3 LOD model (as reviewed at the end of 2015) ultimately reinforces the resilience of KBC's risk and control environment and safeguards the sustainability of our business model.

Led by CRO Services, the 3 LOD programme and its reviewed model continued to be implemented in 2016, enhancing:

- the quality and effectiveness of KBC's risk and control environment;
- the effectiveness of risk management;
- risk control.

Risk appetite

The overall management responsibility of a financial institution can be defined as managing capital, liquidity, return (income versus costs) and risks, which in particular arise from the special situation of banks and insurers as risk transformers. Taking risks and transforming risks is an integral part – and hence an inevitable consequence of – the business of a financial institution. Therefore, KBC does not aim to eliminate all the risks involved (risk avoidance) but instead looks to identify, control and manage them in order to make optimal use of its available capital (i.e. risk-taking as a means of creating value).

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

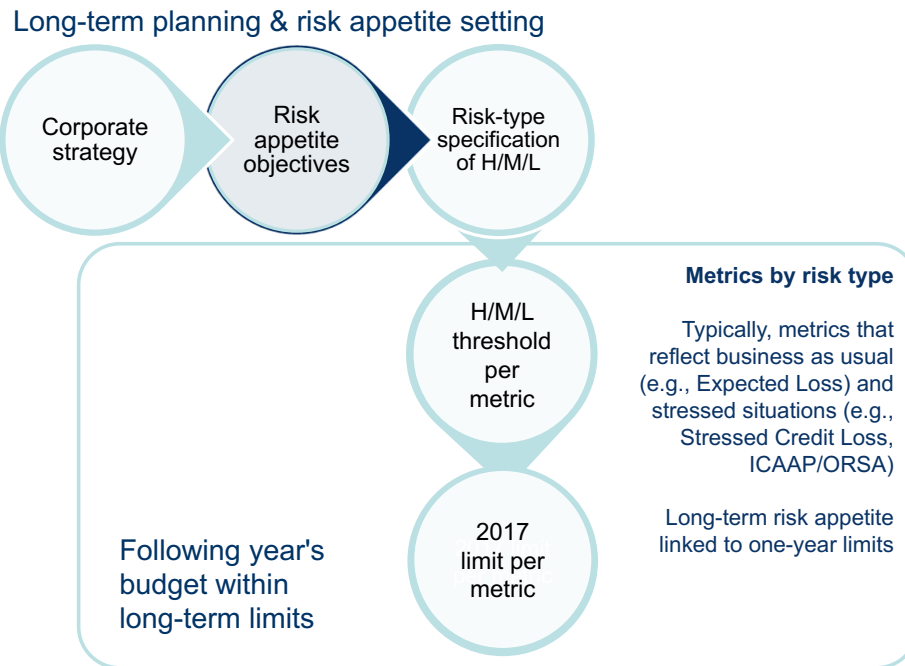
KBC defines risk appetite as the amount and type of risk that it is able and willing to accept in pursuit of its strategic objectives.

The ability to accept risk (also referred to as risk-taking capacity) is limited both by financial constraints (available capital, liquidity profile, etc.) and non-financial constraints (regulations, laws, etc.), whereas the willingness to accept risk depends on the interests of the various stakeholders (shareholders, creditors, employees, management, regulators, clients, etc.). A key component in defining risk appetite is therefore an understanding of the organisation’s key stakeholders and their expectations. The objective of risk appetite is to find the right balance of satisfaction among all stakeholders.

The institution’s risk appetite sets the ‘tone from the top’ and reflects the view of the Board of Directors and the Executive Committee on risk-taking in general, and the acceptable level and composition of risks in particular, while ensuring coherence with the desired return.

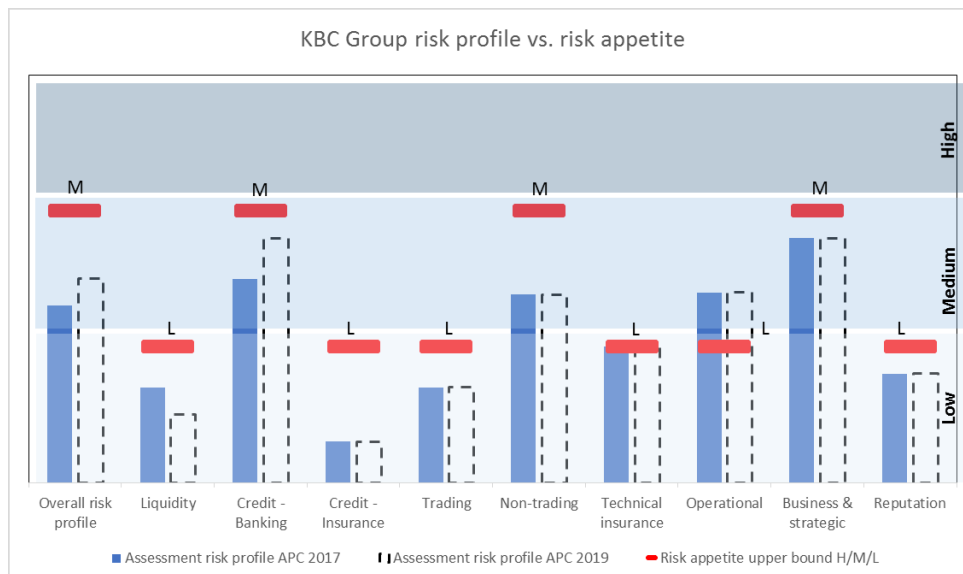
Risk appetite within KBC is set out in a ‘risk appetite statement’, which is produced at both group and local level. In this statement, risk appetite is expressed in a layered way across several dimensions. Risk appetite dimensions are ‘Capital adequacy’, ‘Performance’ and ‘Material risk types’ (as defined in the KBC Risk Map document).

The layered nature of the risk appetite statement is illustrated as follows.



The statement is based on risk appetite objectives that are directly linked to corporate strategy and provide a qualitative description of the KBC group's playing field. These high-level risk appetite objectives are then specified for the different types of risk. For each type, the risk appetite for 2017-2019 is categorised as High (H), Medium (M) or Low (L) based on key metrics and also based on pre-defined thresholds per metric.

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



The risk appetite specification and related thresholds per metric for 2017-2019 define KBC's long-term upper boundary for the full planning cycle. The specific 2017 limits per risk type correspond to the long-term upper limit, but can be set lower. The limits are further cascaded down via (primary) limits imposed on the entities by KBC Group NV.

Risk measurement standards

Risk measurement is an important step in the risk management process as it aims to quantify the various risks that KBC is exposed to. However, 'measuring risk' can be challenging, given that it typically requires taking in a lot of data, developing (complex) mathematical models and bringing it all together in time-critical calculation and reporting processes. Unsurprisingly, this in itself can lead to risks.

Definition

KBC defines risk measurement as 'the action to come to a quantitative expression of a risk, or a combination of risks, on a portfolio of instruments/exposures via a model'. Once risks have been identified, certain attributes of the risk type in question can be assessed, e.g., impact, probability of occurrence, size of exposure, etc. This is done with the help of risk measures. These measures not only allow risks to be quantified, they also help to monitor developments over time and to assess the impact of risk management actions. Risk measures are quantitative by nature, can be designed to measure a specific risk or multiple risks at the same time and can be either internally developed or imposed by the regulator (including how the calculation has to be done). An overview of the risk measures in use in the KBC group (both regulatory and internally defined) is provided in the integrated and risk-type specific frameworks.

Standards

Due to the crucial importance of risk measurement, strict guidelines apply for the design, development and use of risk measures. All requirements that relate to these processes are documented in the KBC Risk Measurement Standards (RMS). These were thoroughly reviewed in 2016.

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

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

In order to arrive at sound measurements that facilitate decision processes, the following principles play a key role in the RMS:

- Transparency: provide stakeholders with a clear view of all aspects relevant to measuring risk, including shortcomings and errors.
- Four-eyes principle: have a second pair of eyes to ensure stakeholders have sufficient confidence in the adequacy of the measurement (i.e. does it adequately reflect the underlying risk) so that the measurement outcome can be used with full confidence for reporting/steering. For certain measures, such as those for measuring required capital, a validation (= more stringent form of verification) is performed by a member of an independent validation unit.
- Materiality: measures can exclude information or contain imperfections if this does not affect the decision-making process, meaning that management would not come to a different conclusion if the information was included or the imperfection was remedied.

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



Capital Adequacy

Capital adequacy (or solvency) risk is the risk that the capital base of the group, the bank or the insurer might fall below an acceptable level. In practice, this entails checking solvency against the minimum regulatory requirements and defined solvency targets. Capital adequacy is approached from both a regulatory and internal perspective.

Solvency at KBC group level

We report the solvency of the group, the bank and the insurance company based on IFRS data and according to the rules imposed by the regulator. For the KBC group, this implies that we calculate our solvency ratios based on CRR/CRD IV. This regulation entered gradually into force on 1 January 2014, and will be fully implemented by 1 January 2022.

The minimum solvency ratios required under CRR/CRD IV are 4.5% for the common equity tier-1 (CET1) ratio, 6.0% for the tier-1 capital ratio and 8.0% for the total capital ratio (i.e. pillar 1 minimum ratios).

As a result of its supervisory review and evaluation process (SREP), the competent supervisory authority (in KBC's case, the ECB) can require that higher minimum ratios be maintained (= pillar 2 requirements) because, for instance, not all risks are properly reflected in the regulatory pillar 1 calculations.

Following the SREP for 2016, the ECB formally notified KBC of its decision (applicable from 1 January 2017) to set:

- a pillar 2 requirement (P2R) of 1.75% CET1;
- a pillar 2 guidance (P2G) of 1.0% CET1.

The ECB decision of 2.75% CET1 equals the previous capital requirement, but no split was made at that time between the P2R (which mandatorily restricts profit distribution and, therefore, is relevant for Additional Tier-1 investors) and the P2G (which might affect dividend policy and hence is relevant for shareholders). The fact that the requirement remains unchanged reflects KBC's low risk profile and its resilience to adverse economic conditions, as demonstrated in the stress tests, whose results were published on 29 July 2016.

The capital requirement for KBC is determined not only by the ECB, but also by the decisions of the local competent authorities in its core markets. Indeed, the decision taken by the relevant Czech and Slovak authorities to introduce a countercyclical buffer requirement of 0.5% in the first and third quarters, respectively, of 2017 corresponds with an additional CET1 requirement of 0.15% at KBC group level (see Annexes IV and V for more details). The objective of a countercyclical buffer is to counteract the effects of the economic cycle on banks' lending activity. As far as Belgium is concerned, the national bank (NBB) kept the countercyclical buffer at 0%.

For Belgian systemic banks, the NBB had already announced its capital buffers back in 2015. For KBC, it means that an additional capital buffer of 1.0% of CET1 is required for 2017, which is to be built up to 1.5% in 2018.

Lastly, the conservation buffer currently stands at 1.25% for 2017, and is to increase to 2.50% in 2019.

Altogether, this brings the fully loaded CET1 requirement (under the Danish compromise) to 10.40% (4.5% (pillar 1) + 1.75% (P2R) + 2.5% (conservation buffer) + 1.5% (systemic buffer) + 0.15% (countercyclical buffer)), with an additional P2G of 1%. KBC clearly exceeds this requirement: at year-end 2016, the fully loaded CET1 ratio came to 15.8%, which represented a capital buffer of 4 757 million euros relative to the minimum requirement of 10.40%.

Furthermore, since part of the capital requirements is to be gradually built up by 2019, the relevant requirement (under the Danish compromise) for 2017 on a phased-in basis has been reduced, i.e. 8.65% of CET1 (4.5% (pillar 1) + 1.75% (P2R) + 1.25% (conservation buffer) + 1% (systemic buffer) + 0.15% (countercyclical buffer)). The regulatory minimum solvency targets were also amply exceeded throughout the entire financial year (see Annex VI for more details).

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

In addition to the solvency ratios under CRD IV, KBC – as a financial conglomerate – also has to disclose its solvency position as calculated in accordance with the Financial Conglomerate Directive (FICOD; 2002/87/EC). This implies that available capital will be calculated on the basis of the consolidated position of the group and the eligible items recognised as such under the prevailing sectoral rules, which are CRD IV for the banking business and Solvency II for the insurance business (Solvency I until the end 2015). 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 in the insurance company under the Danish compromise). At year-end 2016, the phased common equity ratio (under FICOD) was 14.8%.

A detailed calculation of the KBC group's solvency ratios under the Danish compromise method is given below, with summary calculations provided for the FICOD and deduction methods.

Solvency at group level (consolidated; under CRR/CRD IV, Danish compromise method) (in millions of EUR)	31-12-2016 Phased-in	31-12-2016 Fully loaded	31-12-2015 Phased-in	31-12-2015 Fully loaded
Total regulatory capital, after profit appropriation	17 887	17 571	17 305	16 936
Tier-1 capital	15 473	15 286	14 691	14 647
Common equity¹	14 033	13 886	13 242	13 247
Parent shareholders' equity (after deconsolidating KBC Insurance)	15 500	15 500	14 075	14 075
Intangible fixed assets, incl. deferred tax impact (-)	-400	-400	-366	-366
Goodwill on consolidation, incl. deferred tax impact (-)	-483	-483	-482	-482
Minority interests	0	0	0	0
Available-for-sale revaluation reserves (-) ³	-206	-	-466	-
Hedging reserve, cashflow hedges (-)	1 356	1 356	1 163	1 163
Valuation differences in financial liabilities at fair value – own credit risk (-)	-18	-18	-20	-20
Value adjustment due to requirements for prudent valuation (-) ²	-109	-140	-53	-94
Dividend payout (-)	-753	-753	0	0
Coupon on AT1 instruments (-)	-2	-2	-2	-2
Deduction with regard to financing provided to shareholders (-)	-91	-91	-91	-91
IRB provision shortfall (-)	-203	-203	-171	-171
Deferred tax assets on losses carried forward (-)	-557	-879	-345	-765
Additional going concern capital	1 440	1 400	1 450	1 400
Grandfathered innovative hybrid tier-1 instruments	40	0	50	0
Grandfathered non-innovative hybrid tier-1 instruments	0	0	0	0
CRR-compliant AT1 instruments	1 400	1 400	1 400	1 400
Minority interests to be included in additional going concern capital	0	0	0	0
Tier-2 capital	2 414	2 285	2 614	2 289
IRB provision excess (+)	362	367	359	369
Subordinated liabilities	2 053	1 918	2 255	1 920
Subordinated loans non-consolidated financial sector entities (-)	0	0	0	0
Minority interests to be included in tier-2 capital	0	0	0	0
Total weighted risk volume	86 878	87 782	87 343	89 067
Banking	77 579	78 482	78 034	79 758
Insurance	9 133	9 133	9 133	9 133
Holding-company activities	198	198	208	208
Elimination of intercompany transactions	-32	-32	-33	-33
Solvency ratios				
Common equity ratio	16.2%	15.8%	15.2%	14.9%
Tier-1 ratio	17.8%	17.4%	16.8%	16.4%
Total capital ratio	20.6%	20.0%	19.8%	19.0%

1 Audited figures (excluding 'IRB provision shortfall' and 'Value adjustment due to requirements for prudent valuation').

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

3 Relates to the prudential filter for positive revaluation reserves from equity.

More details on own funds are included in Annexes I-III

Solvency at group level (consolidated; FICOD method) (in millions of EUR or %)*	31-12-2016 Phased-in	31-12-2016 Fully loaded	31-12-2015 Phased-in	31-12-2015 Fully loaded
Common equity	14 794	14 647	14 014	14 019
Total weighted risk volume	100 136	101 039	98 107	99 831
Common equity ratio	14.8%	14.5%	14.3%	14.0%

* For more details, please refer to KBC's Extended Quarterly Reports (available at www.kbc.com). The 31-12-2015 figures under FICOD have been adjusted to reflect the switch from Solvency I to Solvency II for KBC Insurance.

Solvency at group level (consolidated; CRR/CRD IV, deduction method) (in millions of EUR or %)*	31-12-2016 Fully loaded	31-12-2015 Fully loaded
Common equity	12 806	12 103
Total weighted risk volume	82 120	83 245
Common equity ratio	15.6%	14.5%

Additional information concerning the calculation of solvency according to CRR/CRD IV (Danish compromise method, fully loaded):

- Parent shareholders' equity: see 'Consolidated statement of changes in equity' in the 'Consolidated financial statements' section of the Annual Report.
- CRR-compliant additional tier-1 instruments: includes a CRR-compliant additional tier-1 instrument issued in 2014 for 1.4 billion euros.
- Total weighted risk volume: since its implementation in 2008, the Internal Rating Based (IRB) approach has primarily been used by KBC to calculate its risk weighted assets. Based on a full application of all the CRR/CRD IV rules, it is used for approximately 82% of the weighted credit risks, approximately 75% of which are calculated according to the Advanced approach and roughly 7% according to the Foundation approach. The remaining weighted credit risks (about 18%) are calculated according to the Standardised approach. The decrease in weighted risks in 2016 was largely driven by volume increases being more than offset by model-related changes and the improved quality of the loan portfolio, as well as lower risk weighted assets for deferred tax assets, among other things.
- It should be noted that the acquisition of United Bulgarian Bank and Interlease in Bulgaria (announced on 30 December 2016) will have a limited impact (estimated at approximately -54 basis points at the time of the announcement) on the fully loaded CET1 ratio of KBC Group NV (Danish compromise).

Managing the risk of excessive leverage

CRR/CRD IV requires credit institutions to calculate, report and monitor their leverage ratios. The leverage ratio is a supplementary, non-risk based measure to contain the build-up of leverage (i.e. create a backstop on the degree to which a banking firm can leverage its capital base). It is calculated as a percentage of tier-1 capital relative to the total on and off balance sheet exposure (not risk weighted).

The risk of excessive leverage is one of the risks inherent in the banking business and as such is also covered by our overall risk management governance structure. What's more, the leverage ratio is one of the targets defined in KBC's risk appetite statement. The leverage ratio is also part of our second backbone process in risk and capital management, namely multi-dimensional three-year planning, in which strategy, finance, treasury and risk perspectives are taken into account simultaneously.

The leverage ratio is determined and monitored within the quarterly closing process and included in the periodic management reports of the Finance and Credit Risk departments. This monitoring covers both the position of KBC itself (taking into account the above-mentioned risk appetite and planning) as well as benchmarking in terms of relevant peers. If such monitoring triggers the need for certain actions (an increase in tier-1 capital and/or a reduction in exposure amounts), these decisions – including the time line – are prepared by a dedicated cross-functional team consisting of representatives from Finance, Risk, Treasury and Legal (this is the same process that is in place for all other capital requirements).

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

At year-end 2016, our fully loaded leverage ratio at group level stood at 6.1% (see table below). Year-on-year, the ratio fell 0.2 percentage points, due mainly to the higher total exposure being only partly offset by a higher level of tier-1 capital.

Leverage ratio at group level (consolidated; under CRR/CRD IV, Danish compromise method) (in millions of EUR)	31-12-2016 Fully loaded	31-12-2015 Fully loaded
Tier-1 capital	15 286	14 647
Total exposure	251 891	233 675
Total assets	275 200	252 355
Deconsolidation of KBC Insurance	-32 678	-31 545
Adjustment for derivatives	-5 784	-3 282
Adjustment for regulatory corrections in determining Basel III tier-1 capital	-2 197	-806
Adjustment for securities financing transaction exposures	1 094	1 057
Off-balance sheet exposures	16 256	15 897
Leverage ratio	6.1%	6.3%

More details are included in Annex VII).

MREL ratio (minimum requirement for own funds and eligible liabilities)

Besides the ECB and NBB, which supervise KBC on a going concern basis, KBC is also subject to requirements set by the Single Resolution Board (SRB). The SRB is developing resolution plans for the major banks in the euro area. Such a plan describes how the resolution authorities will approach the resolution of a bank that is failing (or likely to fail) in a way that protects its critical functions, government funds and financial stability. It takes account of the specific features of the bank and is tailor-made. A key feature of the resolution plan is deciding at which level the competent resolution authorities will intervene. A choice has to be made between a single resolution authority that resolves the group as a whole (Single Point of Entry or 'SPE') or different authorities that separately resolve those parts of the group that fall within their jurisdiction (Multiple Point of Entry or 'MPE'). In January 2016, KBC indicated its preference for a SPE approach at group level, because our business model relies heavily on integration, both commercially (e.g., banking and insurance) and organisationally (e.g., risk, finance, treasury, etc.).

A major resolution tool is 'bail-in', which implies a recapitalisation and stabilisation of the bank by writing down certain unsecured liabilities and issuing new shares to former creditors as compensation. Depending on the size of the losses, bail-in could be sufficient to bring the capital back to a level that is high enough to restore market confidence and to create a stable point from which additional actions could be implemented. When bail-in is proposed as the primary resolution tool, it is crucial that there are adequate liabilities eligible for bail-in. This is measured by the minimum requirement for own funds and eligible liabilities (MREL), a formal target for which is expected to be set by the SRB in the course of 2017.

In view of our preference for an SPE approach at group level, debt instruments that are positioned for bail-in will be issued by KBC Group NV. This approach keeps the group intact and also safeguards the bank-insurance model in resolution. At year-end 2016, the MREL ratio of KBC Group calculated in this way stood at 21.0% (as a percentage of risk weighted assets). This approach is more restrictive than the MREL definition in the Bank Recovery and Resolution Directive (BRRD), which also includes instruments issued at lower levels in the group.

MREL: based on instruments issued by KBC Group NV (in millions of EUR)	31-12-2016 Fully loaded	31-12-2015 Fully loaded
Own funds and eligible liabilities	18 467	16 327
CET1 capital (consolidated, CRR/CRD IV, Danish compromise method)	13 886	13 247
AT1 instruments	1 400	1 400
T2 instruments (nominal amount, remaining maturity > 1 year)	1 681	1 680
Senior debt (nominal amount, remaining maturity > 1 year)	1 500	0
Risk weighted assets (consolidated, CRR/CRD IV, Danish compromise method)	87 782	89 067
MREL ratio	21.0%	18.3%

Solvency of KBC Bank and KBC Insurance separately

In the table below, we have provided certain solvency information for KBC Bank and KBC Insurance, separately. As is the case for the KBC group, the solvency of KBC Bank is calculated based on CRR/CRD IV.

Solvency, KBC Bank (CRR/CRDIV, fully loaded, in millions of EUR)	31-12-2016	31-12-2015
Total regulatory capital, after profit appropriation	16 229	16 045
Tier-1 capital	12 625	12 346
Of which common equity	11 219	10 941
Tier-2 capital	3 604	3 699
Total weighted risks	78 482	79 758
Common equity ratio	14.3%	13.7%
Tier-1 ratio	16.1%	15.5%
Total capital ratio	20.7%	20.1%

The solvency of KBC Insurance is calculated on the basis of Solvency II, the new regulatory framework for insurers in Europe that was introduced on 1 January 2016. Whereas Solvency I requirements were volume-based, Solvency II pursues a risk-based approach. It aims to implement solvency requirements that better reflect the risks that companies face and to deliver a supervisory system that is consistent across all EU Member States. KBC is subject to the Solvency II regime as regards all its insurance subsidiaries.

Solvency, KBC Insurance (incl. volatility adjustment) (Solvency II, in millions of EUR)	31-12-2016	31-12-2015
Own funds	3 637	3 683
Tier-1	3 137	3 180
IFRS parent shareholders' equity	2 936	2 815
Dividend payout	-103	-71
Deduction of intangible assets and goodwill (after tax)	-123	-123
Valuation differences (after tax)	349	416
Volatility adjustment	120	195
Other	-42	-53
Tier-2	500	503
Subordinated liabilities	500	503
Solvency capital requirement (SCR)	1 791	1 592
Solvency II ratio	203%	231%
Solvency surplus above SCR	1 846	2 091

The decrease in the Solvency II ratio (including volatility adjustment) compared to year-end 2015 is due mainly to:

- the adjustment for deferred taxes in the capital requirements being treated differently. In April 2016, the National Bank of Belgium issued specific rules that limit this adjustment to the amount of net deferred tax liabilities on the economic balance sheet. Disregarding these Belgian rules, the Solvency II ratio at year-end 2016 equalled 214%. The Solvency II ratio at 31 December 2015

in the table above also incorporates application of the Belgian rules, the impact of which was negligible at that time.

- various (technical) legislative changes that further refine the Solvency II calculation, such as the stricter treatment of loans guaranteed by local authorities (impact of around -10% on the Solvency II ratio) and the updated volatility adjustment imposed by EIOPA (impact of around -5% on the Solvency II ratio).
- decreasing interest rates, which have a negative impact on the Solvency II ratio, given that the average maturity of the assets is lower than that of the liabilities. The available capital in Solvency II is based on the full fair value of balance sheet items. Lower interest rates increase the fair value of technical liabilities, but this is only partly offset on the assets side and, therefore, reduces the available capital. The Belgian rules on the adjustment for deferred taxes reinforce this impact via a higher level of required capital. However, the negative impact of decreasing interest rates is counterbalanced by the annual actuarial update of the liabilities cashflow models.

ICAAP and ORSA

KBC's ICAAP (Internal Capital Adequacy Assessment Process) consists of numerous business and risk processes that together contribute to the objective of assessing and ensuring at all times that we are adequately capitalised in view of our risk profile and the quality of our risk management and control environment. For this purpose, we also have an internal capital model in place to complement the existing regulatory capital models. This model is used, for example, to measure risk adjusted performance, to underpin and set risk limits and to assess capital adequacy. It is complemented by a framework for assessing earnings that aims to reveal vulnerabilities in terms of the longer term sustainability of our business model.

The breakdown of KBC's internal capital per risk type is provided in the following table.

Internal capital distribution, KBC Group	2016	2015
Credit and counterparty risk	51 %	52 %
Interest rate and spread risk banking book	17 %	18 %
Market risk trading book	2 %	2 %
Operational risk	8 %	8 %
Risk related to the insurance entity	16 %	16 %
Pension risk	6 %	4 %
Total	100%	100%

A backbone process in our ICAAP is the Alignment of Planning Cycles (APC). This yearly process aims to create an integrated three-year plan in which the strategy, finance, treasury and risk perspectives are collectively taken into account. In this process, the risk appetite of the group is set and cascaded by setting risk limits at entity level.

The APC is not only about planning, it is also about closely monitoring the execution of the plan in all its aspects (P&L, risk weighted assets, liquidity). Such monitoring is reflected in dedicated reports drawn up by the various Group functions.

In addition to the integrated approach at group level, KBC Insurance and its insurance and reinsurance subsidiaries have conducted an Own Risk and Solvency Assessment (ORSA) on a regular basis, in accordance with Solvency II requirements. Similar to ICAAP, the aim of the ORSA is to monitor and ensure that business is managed in a sound and prudent way and that the KBC Insurance group is adequately capitalised in view of its risk profile and the quality of its risk management and control environment. The ORSA process draws to a large extent on the same 'core processes' as the ICAAP and includes APC, risk appetite setting and ongoing business, risk and capital management processes. Where necessary, these processes are enhanced to take account of the specific nature of the (re)insurance activities and to comply with Solvency II requirements.

Stress testing

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

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

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

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

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

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

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

The **EBA stress test** was also performed in 2016. For KBC, the outcome provided a reassuring signal to all stakeholders placing their trust in KBC that our institution is well capitalised:

- Baseline scenario: CET1 (fully loaded) +1.3 percentage points, up to 16.2%, leverage ratio of 7.4%;
- Adverse scenario: CET1 (fully loaded) -3.6 percentage points, down to 11.3%, leverage ratio of 5.7%.

KBC's results were in line with the overall sample average of 51 banks. In absolute CET1 terms, KBC remains in a better position than its peers and above the SREP requirement.

Overall, the press coverage for Belgian banks was very positive, as were the reactions of equity analysts.



Credit Risk Management

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

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

Managing credit risk at transactional level

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

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

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

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

We use the output generated by these models to split the non-defaulted loan portfolio into internal rating classes ranging from 1 (lowest risk) to 9 (highest risk) for the PD. We assign an internal rating ranging from PD 10 to PD 12 to a defaulted obligor. PD class 12 is assigned when either one of the obligor's credit facilities is terminated by the bank, or when a court order is passed instructing

repossession of the collateral. PD class 11 groups obligors that are more than 90 days past due (in arrears or overdrawn), but that do not meet PD 12 criteria. PD class 10 is assigned to obligors for which there is reason to believe that they are unlikely to pay (on time), but that do not meet the criteria for classification as PD 11 or PD 12. 'Defaulted' status is fully aligned with the 'non-performing' and 'impaired' statuses. Obligors in PD classes 10, 11 and 12 are therefore referred to as 'defaulted' and 'impaired'. Likewise, 'performing' status is fully aligned with the 'non-defaulted' and 'non-impaired' statuses.

For credit linked to defaulted borrowers in PD classes 10, 11 and 12, we record impairment losses based on an estimate of the net present value of the recoverable amount. This is done on a case-by-case basis, and on a statistical basis for smaller credit facilities. In addition, for non-defaulted credit in PD classes 1 to 9, we record impairment losses on a 'portfolio basis', using a formula based on the Internal Ratings Based (IRB) Advanced models used internally, or an alternative method if a suitable IRB Advanced model is not yet available.

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

Managing credit risk at portfolio level

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

Whereas some limits are in notional terms, we also use concepts such as 'expected loss' and 'loss given default'. Together with 'probability of default' and 'exposure at default', these concepts form the building blocks for calculating the regulatory capital requirements for credit risk, as KBC has opted to use the Internal Ratings Based (IRB) approach. By the end of 2016, the main group entities (apart from CIBANK in Bulgaria and ČSOB in Slovakia) and some smaller entities had adopted the IRB Advanced approach. 'Non-material' entities will continue to adopt the Standardised approach.

Forbearance measures

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

Forbearance measures consist of concessions towards a borrower facing, or about to face, financial difficulties. They may involve:

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

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

A client with a forborne loan will in principle be assigned a PD class that is higher than the one it had before the forbearance measure was granted, given the higher risk of the client.

If a client/facility has been assigned 'defaulted' status (before or at the time forbearance measures are granted), the client/forborne facility (depending on whether defaulted status is assigned at client or facility level) must remain defaulted for at least one year. Only upon strict conditions can the client/facility be reclassified as 'non-defaulted'. A forborne facility with a 'non-defaulted' status will be tagged as 'forborne' for at least two years after the forbearance measure has been granted, or after the client/facility becomes non-defaulted, and can only be removed when strict extra criteria have been met (non-defaulted, regular payments, etc.).

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

At the end of 2016, forborne loans accounted for some 5% of our total loan portfolio. The tables below provide details on the movement in forborne loan exposure, the relevant impairment recorded between year-end 2015 and year-end 2016, and the breakdown of forborne loans by PD class. Compared to the end of 2015, the forborne loan exposure decreased by 9%, due mainly to repayments and cures, and to a lesser extent to write-offs. In Ireland, the exposure fell by 6%.

On-balance-sheet exposures with forbearance measures (in millions of EUR) – Movements between opening and closing balances							
Gross carrying amount	Movements						Closing balance
	Opening balance	Loans which have become forborne	Loans which are no longer considered to be forborne	Repayments	Write-offs	Other ¹	
2016							
Total	7 794	1 379	-1 054	-861	-192	17	7 083
Of which: KBC Bank Ireland	5 383	320	-201	-296	-123	0	5 083
2015							
Total	7 897	2 099	-1 443	-671	-105	16	7 794
Of which: KBC Bank Ireland	5 703	541	-377	-426	-75	17	5 383

Impairment	Movements						Closing balance
	Opening balance	Existing impairment on loans which have become forborne	Decrease in impairment because loans are no longer forborne	Increase in impairment on forborne loans	Decrease in impairment on forborne loans	Other ²	
2016							
Total	2 203	213	-427	292	-276	-38	1 967
Of which: KBC Bank Ireland	1 607	0	-134	228	-190	0	1 511
2015							
Total	2 108	586	-304	209	-378	-19	2 203
Of which: KBC Bank Ireland	1 664	228	-160	176	-300	0	1 607

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

2 Includes the use of impairment in respect of write-offs.

Forborne loans	As a % of the outstanding portfolio	Breakdown by PD class (as a % of the entity's portfolio of forborne loans)			
		PD 1-8	PD 9	PD 10 (impaired, less than 90 days past due)	PD 11-12 (impaired, 90 days and more past due)
31-12-2016					
Total	5%	9%	13%	52%	26%
Of which: KBC Bank Ireland	39%	1%	16%	56%	27%
By client segment					
Private individuals ¹	8%	9%	18%	54%	19%
SMEs	1%	32%	10%	36%	21%
Corporations ²	4%	4%	5%	50%	41%
31-12-2015					
Total	5%	8%	11%	53%	28%
Of which: KBC Bank Ireland	38%	1%	11%	59%	29%
By client segment					
Private individuals ¹	8%	9%	13%	59%	19%
SMEs	1%	28%	12%	35%	25%
Corporations ²	5%	3%	6%	46%	45%

1 99% of the forborne loans total relates to mortgage loans in 2016 (99% in 2015).

2 47% of the forborne loans relates to commercial real estate loans in 2016 (53% in 2015).

Scope of credit risk disclosures

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

With regard to the timing of and approach to implementing Basel III, KBC has opted for a phased roll-out of the IRB approach at all its material entities. A material entity in this respect is defined as any subsidiary that accounts for more than 1% of the risk-weighted assets for credit risk at KBC Group NV. Compliance with this criterion is checked at least yearly. The first set of material entities started adopting the IRB Foundation approach at the beginning of 2007. As already mentioned above, most of the group entities received regulatory approval to switch to the IRB Advanced approach during 2012.

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

Unless otherwise stated, the scope of this report is limited to the material entities appearing in the roll-out table below and CIBANK (as a home country entity). These entities accounted for 99% of the total credit risk weighted assets of the KBC group in 2016.

Because of this limitation in scope, and also because another definition of exposure¹ is used for the accounting figures, a one-to-one comparison cannot be made with similar disclosures in KBC Bank's 2016 annual report.

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

Roll-out of Basel III pillar 1 approach at end of 2016	2015	2016	2017 - 2018
IRB Advanced Approach	KBC Bank CBC Banque ČSOB Czech Republic ³ KBC Credit Investments KBC Finance Ireland KBC Lease Belgium KBC Commercial Finance KBC Immolease K&H Bank	KBC Bank CBC Banque ČSOB Czech Republic ³ KBC Credit Investments KBC Finance Ireland KBC Lease Belgium KBC Commercial Finance KBC Immolease K&H Bank	KBC Bank CBC Banque ČSOB Czech Republic ³ KBC Credit Investments KBC Finance Ireland KBC Lease Belgium KBC Commercial Finance KBC Immolease K&H Bank
IRB Foundation approach	KBC Bank Ireland KBC Financial Products Antwerp Diamond Bank ¹ ČSOB Slovak Republic	KBC Bank Ireland KBC Financial Products ČSOB Slovak Republic ²	KBC Bank Ireland KBC Financial Products ČSOB Slovak Republic ²
Standardised approach	Non-material entities	Non-material entities	Non-material entities

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

2 Transition from IRB Foundation to IRB Advanced approach for ČSOB Slovak Republic (which was planned for the second quarter of 2018) has been put on hold until the announced regulatory changes (EBA RTS on the definition of default and the estimation of risk parameters) are finalised and the KBC group modelling guidelines are adjusted accordingly.

3 Including Hypoteční banka.

Exposure to credit risk

The tables in this section provide an overview of the overall credit risk expressed in terms of Exposure At Default (EAD) and are based on the figures for the end of December 2016. Exposure to securities in the trading book and to structured credit products is excluded. Information on securities in the trading book is reported in the credit risk section of KBC's annual report and the related risks are taken up in the trading market risk VaR. For structured credit exposure, reference is made to the detailed information in the 'Structured credit products' section in this document.

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

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

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

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

For the portfolio of repo-like instruments, EAD is determined based on the lending leg in the transaction, which means that for reverse repos, including tri-party repos, this is based on the nominal amount of the cash that was provided by KBC, and that for repos it is based on the market value of the securities sold.

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

As regards the group-wide framework for dealing with model uncertainty – as referred to in the section on 'Internal modelling' later on in this report – KBC has taken (and reported under pillar 1) additional RWA for known deficiencies and avoidable uncertainties into account for its PD models since mid-2010, for its LGD models since mid-2012 and for its EAD models since 2013. At year-end 2016, this additional RWA amounted to 1.6 billion euros for PD models, to 1.7 billion euros for LGD models and to 0.5 billion euros for EAD models. Moreover, in 2013, KBC started to capitalise unavoidable uncertainties in the EAD, PD and LGD models, which had an impact on RWA. At year-end 2016, all the unavoidable uncertainties had been included in the percentages calculated for PD, LGD or EAD. Therefore, there is no longer a remaining portion of unavoidable uncertainties that would lead to an additional RWA add-on.

The table below provides an overview of how Basel III credit risk EADs and RWA, on a fully loaded basis², for the KBC group changed over 2016. This table shows the overall EAD and RWA figures, including non-material entities, the structured credit portfolio, CVA capital charges, additional RWA for model deficiencies and uncertainties, and regulatory capital add-ons. Please note that, in all other tables in this report, the scope will be limited to the material entities (see table above) and exclude the structured credit portfolio and additional RWA for unavoidable uncertainties.

² Implies full IRB treatment for home country sovereign risk.

Entity	B III approach (at 31-12-2016) ¹	Credit RWA (in millions of EUR)			Exposure [EAD] (in millions of EUR)		
		31-12-2016	31-12-2015	Δ 2016 vs 2015	31-12-2016	31-12-2015	Δ 2016 vs 2015
KBC Bank	IRB Advanced	30 386	29 908	478	162 699	143 739	18 960
CBC Banque	IRB Advanced	2 189	1 960	228	12 517	11 428	1 088
ČSOB Czech Republic	IRB Advanced	11 230	10 286	944	52 742	38 012	14 730
KBC Credit Investments	IRB Advanced	3 032	3 016	16	18 216	16 642	1 574
KBC Commercial Finance	IRB Advanced	770	939	-170	2 321	2 553	-232
KBC Lease Belgium	IRB Advanced	1 463	1 478	-15	2 415	2 225	191
KBC Immolease	IRB Advanced	336	339	-3	857	775	83
K&H Bank	IRB Advanced	4 945	6 048	-1 103	8 471	9 045	-575
KBC Finance Ireland	IRB Advanced	4	284	-280		763	-130
KBC Bank Ireland	IRB Foundation	6 072	7 040	-968		16 595	-3 179
Antwerp Diamond Bank	IRB Foundation	-	-		62	34	28
KBC Financial Products	IRB Foundation	52	89	-37	176	413	-237
ČSOB Slovak Republic	IRB Foundation	4 211	3 832	379	9 532	8 644	888
CIBANK	Standardised	733	649	84	1 397	1 371	26
KBC Insurance		9 133	9 133	-	2 469	2 469	-
Other entities	Mixed	511	687	-176	1 316	1 599	-284
Total²		75 067	75 688	-621	289 241	256 307	32 933

¹ Basel III is the main approach pursued by a legal entity. Some entities report under IRB, but still have sub-portfolios or subsidiaries that are reported under the Standardised approach.

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

³ Change in regulatory approach (from IRB Foundation method to IRB Advance method)

Overall, there was a substantial increase in EAD and a small decline in RWA. At KBC group level, EAD increased by 13% year-on-year and credit RWA decreased by -0.8% year-on-year.

The change in EAD was due mainly to:

- An increase of about 15 billion euros in excess cash placed at central banks: this increase in EAD did not have any impact on RWA because of its 0% weighting mainly at KBC Bank.
- An increase of 10 billion euros in repo-like transactions: again this increase did not have a significant impact on RWA because of the very low risk weighting of these products mainly at ČSOB (Czech Republic).

RWA broken down by entity clearly shows that the decrease of -621 million euros in consolidated credit RWA was strongly driven by K&H Bank (-1 103 million euros) and KBC Bank Ireland (- 968 million euros), partly offset by an increase in RWA at ČSOB (Czech Republic) (+944 million euros), KBC Bank NV (+478 million euros), ČSOB (Slovak Republic) (+379 million euros) and CBC Banque (+228 million euros). RWA for the participation in KBC Insurance remained stable in 2016.

The change in credit risk RWA in 2016 can be accounted for primarily by internal model-related changes and developments in the underlying portfolio. The overall decline in RWA was the result of a number of compensating events, the most important of which were:

- The changes in the transactional models that resulted in a decrease in RWA of -1.4 billion euros. Implementation of the new PD model for the 'Corporates' segment and the reviewed LGD and EAD models for Belgian non-regulated 'Retail' segment caused the biggest decline in RWA (-1.7 billion euros). Implementation of the new PD pooling model for the Belgian 'Private Persons' segment resulted in the most significant increase in RWA (+480 million euros).
- The increase in loan volumes at most group entities. The exact impact on RWA was hard to quantify given the simultaneous model changes, changes in the product mix, the maturity profiles, collateralisation and the rating distribution. The impact on RWA volumes is estimated to be in the order of +2.3 billion euros. There were higher volumes and RWA in all the major markets, in particular Belgium (KBC's retail and corporate segments: +1 billion euros; CBC: +0.1 billion euros), Czech Republic (ČSOB: +0.7 billion euros), Slovakia (ČSOB: +0.3 billion euros), Hungary (K&H: +0.1 billion euros) and Bulgaria (CIBANK: +0.1 billion euros).
- Credit RWA, which was influenced by several other factors, including the change in RWA for deferred tax assets, PD migration effects and FX effects. These factors had an overall impact on RWA of -1.3 billion euros, the most material of which were as follows:
 - A substantial decrease in credit RWA for deferred tax assets (-405 million euros), in particular for deferred tax assets following the liquidation of KBC Financial Holding Inc.
 - A substantial decrease in credit RWA (-900 million euros) on K&H's sovereign portfolio, due mainly to Hungary's rating upgrade and a lower level of exposure.

Total exposure to credit risk

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

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

EAD is the Exposure At Default after application of the credit conversion factor (and substitution due to guarantees for IRB foundation entities). For IRB exposures, the EAD is before the application of eligible collateral (as this is included in the LGD), for Standardised exposures the EAD is after the application of eligible collateral.

Exposure 31-12-2016* (in billions of EUR)	Lending (on-balan- ce-sheet)	Lending (off-balance-sheet)	Derivatives	Repo-like transactions	Total
Total EAD	215	18	8	37	278
Total RWA	59	6	2	0	67
Exposure 31-12-2015* (in billions of EUR)	Lending (on-balan- ce-sheet)	Lending (off-balance-sheet)	Derivatives	Repo-like transactions	Total
Total EAD	199	19	7	27	252
Total RWA	58	5	2	0	65

* The securitisation on banking books, the exposure and RWA of the non-material entities, additional RWA for model deficiencies and uncertainties, and regulatory capital add-ons are not included in this table and the tables below.

Credit risk in the lending portfolio

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

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

Lending portfolio [EAD] 31-12-2016 (in millions of EUR)	EAD of main categories	'Other'*	Total EAD
Subject to IRB approach	203 256	6 411	209 667
Subject to Standardised approach	22 391	853	23 244
Total	225 646	7 264	232 911
Lending portfolio [EAD] 31-12-2015 (in millions of EUR)	EAD of main categories	'Other'*	Total EAD
Subject to IRB approach	201 857	7 008	208 865
Subject to Standardised approach	7 632	935	8 567
Total	209 489	7 943	217 432

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

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

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

Credit exposure subject to the IRB approach

The table below shows the total exposure calculated via the IRB approach broken down per asset class. The asset classes are those defined for the purpose of regulatory reporting according to the IRB approach:

- **Sovereign:** this category includes claims on public sector entities, regional governments and local authorities as long as they are categorised as 'Sovereign' by the local regulator. Multilateral development banks attracting a 0% risk weighting are included.
- **Institutions:** this category relates mainly to bank exposure. Claims on public sector entities, regional governments and local authorities that do not qualify as 'Sovereign' are also included in this category.

- **Corporates:** besides ordinary corporate exposure, this category also includes specialised lending exposure (such as project finance and commercial real estate) and non-bank financials.
- **SMEs (treated as) Corporates:** these are exposures fulfilling the necessary conditions (total annual sales of under 50 million euros) for determining the minimum capital requirements according to the capital weighting formula for corporate SMEs.
- **Retail:** this includes all types of retail exposure, excluding residential mortgages, such as personal loans and commercial credit to retail SMEs, for which the total exposure of the counterparty (or related group of the counterparty) does not exceed a threshold of 1 million euros. It should be noted that the IRB Foundation approach for retail exposure does not exist and that IRB Advanced is the only approach for this asset class.
- **Residential mortgages:** this category includes home loans to individuals, secured or partly secured by residential mortgages.
- **Other:** besides 'other assets', this category includes the residual value of leasing transactions and the deferred tax assets (DTA).
- **Equity:** this category includes shares and mutual funds.

IRB exposure [EAD] 31-12-2016 (in millions of EUR)	Sovereign	Institutions	Corporates	SME Corporates	Retail	Residential Mortgages	(sub)Total*	Other	Equity	Total
Exposure	50 424	9 377	40 155	21 694	20 705	60 901	203 256	3 764	2 647	209 667
RWA	5 565	2 289	19 066	8 097	3 797	10 362	49 177	3 660	9 543	62 379
IRB exposure [EAD] 31-12-2015 (in millions of EUR)	Sovereign	Institutions	Corporates	SME Corporates	Retail	Residential Mortgages	(sub)Total*	Other	Equity	Total
Exposure	52 216	9 166	41 059	20 271	20 571	58 574	201 857	4 346	2 662	208 865
RWA	6 014	2 203	17 182	7 470	3 526	9 817	46 212	4 646	9 591	60 449

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

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

The change in **RWA** in the IRB asset classes was caused mainly by the increase in RWA for 'Corporates', 'SME Corporates' and 'Residential Mortgages'. There was an increase in all the home markets, but most significantly in Belgium, where the main driver was a change in the PD models, together with new production in the 'SME Corporates' and 'Residential Mortgages' segments (as mentioned above).

Credit exposure subject to the Standardised approach

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

- **Sovereign:** claims on central authorities and governments and other assets weighted at 0% (such as Cash and Cash at central banks).
- **RGLA:** claims on Regional Governments and Local Authorities independently if these qualify as 'Sovereign' under the IRB approach.
- **PSE:** claims on Public Sector Entities.
- **MDB:** claims on Multilateral Development Banks independently if these qualify as 'Sovereign' under the IRB approach.
- **International organisations:** claims on a specific list of organisations (e.g., International Monetary Fund, European Central Bank).
- **Institutions:** claims on banks.
- **Corporates:** claims on all corporate exposure, including small and medium-sized enterprises that are treated as corporate clients.
- **Retail:** claims on retail clients (including SMEs not qualifying for treatment as corporate clients). Most of these claims are related to mortgages and categorised under 'secured by real estate'.
- **Secured by real estate:** claims that are (fully) covered by real estate collateral via mortgages and including real estate leasing. These are extracted from the above categories (mostly retail or corporate).
- **Past due:** all exposure which is past due, meaning that it is more than 90 days in arrears. All past due exposure is extracted from all the other categories.
- **CIU:** claims on Collective Investment Undertakings.
- **High risk:** exposure that is not collateralised and/or not rated, attracting a risk-weighting equal to or higher than 150% and therefore considered 'high risk'. Past due and equity exposure are excluded.
- **Covered bonds:** exposure for which the credit risk is mitigated by risk positions on very highly rated governments, authorities or institutions. Past due, equity and high-risk claims are excluded.
- **Short term:** exposure (to institutions or to corporates) which is rated and has a maturity of less than three months. Past due, equity and high-risk claims are excluded. This exposure has been assigned to its respective exposure type, namely 'Institutions' or 'Corporates'.
- **Equity:** Shares and Mutual Funds. Previously the equities were reported under the asset class of the issuing entity of the equity instrument. Now all equity exposure is grouped on this single asset class.
- **Other:** all other claims (e.g., other assets).

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

Standardised exposure [EAD] 31-12-2016 (in millions of EUR)	Exposure	RWA
Sovereign	19 562	2
RGLA	192	42
PSE	0	0
MDB	7	0
International organisations	0	0
Institutions	147	56
Corporates	815	788
Retail	1 243	900
Secured by real estate	300	153
Past due	124	141
CIU	0	0
(sub)Total ¹	22 391	2 082
High risk	0	0
Covered bonds	0	0
Short term	0	0
Equity ²	190	455
Other	663	275
Total	23 244	2 812
Standardised exposure [EAD] 31-12-2015 (in millions of EUR)	Exposure	RWA
Sovereign	4 644	2
RGLA	205	45
PSE	0	0
MDB	5	0
International organisations	0	0
Institutions	500	81
Corporates	698	684
Retail	1 164	828
Secured by real estate	282	153
Past due	132	154
CIU	0	0
(sub)Total ¹	7 632	1.945
High risk	0	0
Covered bonds	0	0
Short term	0	0
Equity	226	493
Other	709	250
Total	8 567	2.688

¹ Accounted for in the section on concentrations in the lending portfolio.

² Includes KBC Insurance participation (2.5-billion-euro exposure).

There was a strong increase in exposure for the standardised 'Sovereign' asset class at KBC Bank, related to increased cash balances at central banks. This increase had no impact on RWA due to the 0% RWA weighting.

Breakdown of credit risk in the lending portfolio

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

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

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

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

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

Total credit exposure in the lending portfolio per geographic region

Exposure [EAD] 31-12-2016 (in millions of EUR)	Sovereign	Institutions	Corporates	SME Corporates	Retail	Residential Mortgages	Total
Africa	214	187	227	26	3	0	658
Asia	286	1 696	1 171	70	2	0	3 225
Central and Eastern Europe & Russia	15 622	1 413	10 788	5 863	4 331	14 959	52 978
Of which							
Bulgaria	484	7	286	87	344	171	1 377
Czech Republic	8 162	594	6 617	3 723	2 161	10 168	31 425
Hungary	3 136	41	1 477	1 532	206	1 648	8 039
Poland	1 149	34	105	0	10	0	1 298
Russia	1	161	1	13	1	0	177
Slovak Republic	2 541	425	2 004	502	1 606	2 968	10 046
Latin America	51	43	52	0	3	0	149
Middle East	4	1 167	241	17	4	0	1 433
North America	1 266	502	1 638	7	32	0	3 445
Oceania	0	642	111	0	2	0	755
Western Europe	52 556	4 060	26 592	15 962	17 619	46 215	163 004
Of which							
Belgium	19 851	349	18 804	14 626	17 381	34 505	105 515
Ireland	1 087	119	1 157	805	1	11 686	14 856
Total	69 998	9 710	40 820	21 946	21 998	61 175	225 646
Exposure [EAD] 31-12-2015 (in millions of EUR)	Sovereign	Institutions	Corporates	SME Corporates	Retail	Residential Mortgages	Total
Africa	199	204	231	27	3	0	664
Asia	195	1 773	1 182	49	3	0	3 201
Central and Eastern Europe & Russia	17 688	1 597	10 658	6 112	3 524	13 194	52 775
Of which							
Bulgaria	495	7	184	154	137	0	1 188
Czech Republic	10 099	737	6 261	3 787	1 872	9 014	31 770
Hungary	3 809	13	1 790	1 499	25	1 591	8 727
Poland	761	21	150	1	8	0	941
Russia	1	373	33	1	1	0	410
Slovak Republic	2 476	365	1 886	600	1 459	2 443	9 229
Latin America	22	21	84	1	4	0	131
Middle East	1	1 131	289	5	4	0	1 430
North America	1 057	534	1 746	25	32	0	3 394
Oceania	0	575	233	0	2	0	811
Western Europe	37 698	4 030	27 505	14 350	17 865	45 636	147 084
Of which							
Belgium	20 896	292	19 169	12 912	17 667	33 642	104 577
Ireland	968	5	2 041	940	1	11 970	15 925
Total	56 859	9 865	41 928	20 569	21 437	58 831	209 489

The geographic regions in the above table are those where each borrower (or guarantor) is situated. The table shows that the KBC home markets comprise mainly Belgium (47%) and the four CEE countries (Bulgaria, Czech Republic, Hungary, Slovak Republic) (23%), which combined represented 69% of exposures in 2016. They even represented more than 80% of EAD for the 'Residential Mortgages' exposure class, almost 99% for 'Retail' and more than 93% for 'SME Corporates'.

For institutions, exposures outside the home markets were predominantly in Western Europe (mainly Germany, France and Spain) and in Asia (mainly China).

The material increase observed for Western European sovereign exposures related to the increase in cash balances at central banks. The rise in the 'Residential Mortgage' exposure class was caused by new production in the home markets.

Total credit exposure in the lending portfolio per sector

Exposure [EAD] 31-12-2016 (in millions of EUR)	Sovereign	Institutions	Corporates	SME Corporates	Retail	Residential Mortgages	Total
Agriculture, Farming & Fishing	0	0	483	1 599	2 400	0	4 483
Authorities	67 975	1	271	1	1	0	68 249
Automotive	0	0	1 740	1 052	1 562	0	4 354
Building & Construction	0	0	2 945	1 500	1 642	0	6 088
Chemicals	0	0	1 311	403	65	0	1 779
Commercial Real Estate	0	0	7 208	3 167	1 143	0	11 518
Distribution	0	0	5 019	4 339	2 661	0	12 020
Electricity	0	0	2 225	160	19	0	2 404
Finance & Insurance	520	9 694	1 279	1 044	322	0	12 860
Food Producers	0	0	1 476	366	189	0	2 031
Metals	0	0	1 316	575	284	0	2 175
Oil, Gas & Other Fuels	0	0	1 086	24	3	0	1 113
Private Persons	0	0	196	92	5 605	61 184	67 077
Services	25	14	7 009	4 768	4 508	0	16 324
Other*	1 478	0	7 072	3 040	1 582	0	13 173
Total	69 998	9 710	40 637	22 128	21 988	61 184	225 646
Exposure [EAD] 31-12-2015 (in millions of EUR)	Sovereign	Institutions	Corporates	SME Corporates	Retail	Residential Mortgages	Total
Agriculture, Farming & Fishing	0	0	502	1 479	2 288	0	4 269
Authorities	56 053	204	461	1	1	0	56 720
Automotive	21	0	1 934	1 098	499	0	3 552
Building & Construction	0	0	3 018	1 388	1 523	0	5 929
Chemicals	0	0	1 171	449	55	0	1 675
Commercial Real Estate	0	0	6 933	3 033	1 190	0	11 157
Distribution	0	0	4 968	4 132	2 550	0	11 650
Electricity	0	0	2 354	181	19	0	2 555
Finance & Insurance	471	9 643	3 310	295	305	0	14 024
Food Producers	0	0	1 299	356	184	0	1 840
Metals	0	0	1 072	535	246	0	1 854
Oil, Gas & Other Fuels	0	0	1 170	25	3	0	1 198
Private Persons	0	0	187	89	6 964	58 831	66 070
Services	315	17	6 738	4 428	4 080	0	15 578
Other*	0	0	6 809	3 079	1 529	0	11 418
Total	56 859	9 865	41 928	20 569	21 437	58 831	209 489

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

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

Maturity analysis of the total credit exposure in the lending portfolio

Residual maturity 31-12-2016 (in millions of EUR)	Sovereign	Institutions	Corporates	SME Corporates	Retail	Residential Mortgages	Total
<1 year	27 434	4 273	20 076	6 799	3 083	962	62 626
=>1 to <5 years	13 608	2 244	8 106	4 380	6 812	2 447	37 597
=>5 to <10 years	21 721	1 850	5 189	3 858	4 451	8 052	45 120
=>10 years	6 560	74	4 727	4 914	4 754	49 444	70 473
Until Further Notice*	675	1 270	2 539	2 178	2 888	278	9 829
Total	69 998	9 710	40 637	22 129	21 988	61 184	225 646
Residual maturity 31-12-2015 (in millions of EUR)	Sovereign	Institutions	Corporates	SME Corporates	Retail	Residential Mortgages	Total
<1 year	12 646	4 199	19 842	7 092	3 137	795	47 710
=>1 to <5 years	15 579	2 275	7 989	4 289	6 494	2 260	38 886
=>5 to <10 years	20 139	2 162	4 872	3 294	5 007	16 120	51 593
=>10 years	8 175	17	4 765	4 434	4 357	39 434	61 180
Until Further Notice*	320	1 212	4 460	1 461	2 443	223	10 120
Total	56 859	9 865	41 928	20 569	21 437	58 831	209 489

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

About 44% of the lending portfolio will mature within five years. Within the 'Institutions' and 'Corporates' exposure classes, this percentage even reached 67%. The longest maturity bucket is mainly concentrated in the 'Residential Mortgages' class.

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

Total credit exposure in the lending portfolio per product type

Exposure [EAD] 31-12-2016 (in millions of EUR)	Sover- eign	Instituti- ons	Corporates	SME Corporates	Retail	Residential Mortgages	Total
Guarantee	307	487	2 189	1 193	732	0	4 908
Debt instrument	43 467	3 578	372	1 978	0	0	49 394
Leasing	25	11	1 358	1 273	1 773	0	4 441
Home loans ¹	0	0	0	0	1 249	57 822	59 071
Other lending	26 199	5 634	36 718	17 685	18 234	3 362	107 832
Total	69 998	9 710	40 637	22 128	21 988	61 184	225 646
Exposure [EAD] 31-12-2015 (in millions of EUR)	Sover- eign	Instituti- ons	Corporates	SME Corporates	Retail	Residential Mortgages	Total
Guarantee	301	417	2 356	1 211	768	0	5 053
Debt instrument	42 389	3 357	629	2	0	0	46 377
Leasing	26	4	1 290	1 127	1 647	0	4 094
Home loans ¹	0	0	0	0	^{1 120}	55 430	56 550
Other lending	14 143	6 086	37 653	18 230	17 902	3 400	97 414
Total	56 859	9 865	41 928	20 569	21 437	58 831	209 489

¹ Home loans to individuals which are not (partly) secured by residential mortgages.

² Restated.

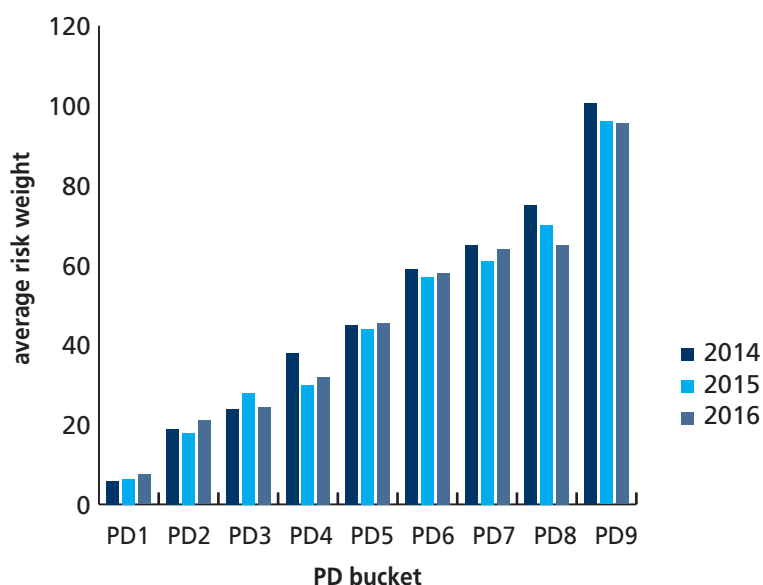
The distribution over the different product types remained unchanged. The 'Other lending' and 'Home loans' categories continued to account for the majority of the lending portfolio.

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

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

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

IRB exposure - credit quality analysis



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

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

The total average risk weight increased slightly in 2016, going up from 23% to 25% on account of ‘cured’ counterparties moving out of the default portfolio back into PD buckets 8 or 9, and the implementation of new or reviewed PD models.

In millions of EUR – 31-12-2016

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

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

In millions of EUR – 31-12-2015

PD Master scale	Exposure [EAD] RWA Average in %	Sovereign	Institutions	Corporates	SME Corporates	Retail	Residential Mortgages	Total
1 [0.00% - 0.10%]	Sum of EAD	47 278	3 922	6 759	672	3 969	27 104	89 704
	Sum of RWA	3 274	662	802	74	132	1 754	6 697
	weighted average	7%	17%	12%	11%	3%	6%	7%
2 [0.10% - 0.20%]	Sum of EAD	421	2 729	4 580	1 844	3 485	4 217	17 276
	Sum of RWA	99	614	1 422	314	179	413	3 040
	weighted average	23%	23%	31%	17%	5%	10%	18%
3 [0.20% - 0.40%]	Sum of EAD	4 118	458	7 160	3 558	2 979	5 092	23 365
	Sum of RWA	2 478	174	2 544	896	332	594	7 017
	weighted average	60%	38%	36%	25%	11%	12%	30%
4 [0.40% - 0.80%]	Sum of EAD	48	1 378	7 592	3 813	3 088	6 783	22 704
	Sum of RWA	72	454	3 448	1 385	524	1 067	6 950
	weighted average	148%	33%	45%	36%	17%	16%	31%
5 [0.80% - 1.60%]	Sum of EAD	86	194	5 673	3 500	2 250	4 399	16 102
	Sum of RWA	33	79	3 694	1 674	655	1 308	7 443
	weighted average	38%	40%	65%	48%	29%	30%	46%
6 [1.60% - 3.20%]	Sum of EAD	189	81	3 091	2 759	2 079	2 280	10 479
	Sum of RWA	28	22	2 626	1 422	714	1 179	5 990
	weighted average	15%	27%	85%	52%	34%	52%	57%
7* [3.20% - 6.40%]	Sum of EAD	52	286	1 585	1 209	933	802	4 867
	Sum of RWA	10	145	1 258	773	348	479	3 013
	weighted average	18%	51%	79%	64%	37%	60%	62%
8 [6.40% - 12.80%]	Sum of EAD	10	34	733	419	481	318	1 995
	Sum of RWA	25	9	598	345	189	253	1 420
	weighted average	257%	26%	82%	82%	39%	80%	71%
9 [12.80% - 100.00%]	Sum of EAD	0	42	313	339	573	1 461	2 730
	Sum of RWA	1	14	357	307	276	1 657	2 612
	weighted average	164%	34%	114%	91%	48%	113%	96%
Total exposure		52 202	9 125	37 486	18 113	19 838	52 457	189 221
Total risk-weighted assets		6 018	2 172	16 750	7 188	3 349	8 704	44 182
Total weighted average		12%	24%	45%	40%	17%	17%	23%

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

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

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

(in millions of EUR)

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

Further detailed quality information on IRB Advanced exposure, 31-12-2015

(in millions of EUR)

Asset class	PD	1	2	3	4	5	6	7	8	9	Total
Sovereign	EAD	44 560	418	4 040	48	76	189	52	10	0	49 393
	Outstanding amount	43 966	403	3 948	43	73	188	52	10	0	48 684
	Undrawn amount	858	86	102	5	13	41	14	0	0	1 120
	Average CCF %	69%	16%	90%	73%	20%	2%	2%	0%	85%	63%
	LGD %	22%	22%	42%	32%	17%	5%	5%	49%	28%	23%
Institutions	EAD	3 752	2 550	454	1 376	194	80	263	32	41	8 743
	Outstanding amount	2 592	1 972	326	975	94	54	107	20	10	6 152
	Undrawn amount	1 284	586	133	926	100	27	156	12	31	3 255
	Average CCF %	90%	98%	95%	43%	100%	93%	100%	96%	100%	78%
	LGD %	25%	21%	28%	20%	16%	9%	12%	4%	5%	22%
Corporates	EAD	6 664	4 431	6 726	7 278	5 162	2 684	1 427	612	275	35 257
	Outstanding amount	4 425	3 127	5 234	5 380	4 125	2 162	926	487	218	26 083
	Undrawn amount	9 124	4 996	5 583	4 671	3 055	1 400	788	248	80	29 946
	Average CCF %	24%	21%	22%	35%	30%	35%	60%	48%	67%	27%
	LGD %	19%	32%	26%	25%	28%	29%	22%	15%	20%	25%
SMEs	EAD	668	1 792	3 481	3 659	3 273	2 588	1 093	383	314	17 250
	Outstanding amount	614	1 582	3 115	3 101	2 773	2 185	933	347	283	14 932
	Undrawn amount	215	546	1 013	1 119	951	756	263	72	54	4 991
	Average CCF %	25%	33%	31%	42%	45%	45%	52%	41%	53%	40%
	LGD %	19%	21%	22%	24%	25%	23%	24%	25%	20%	19%
Retail	EAD	3 969	3 485	2 979	3 088	2 250	2 079	933	481	573	19 838
	Outstanding amount	3 154	3 160	2 613	2 605	2 020	1 848	777	450	538	17 165
	Undrawn amount	892	582	599	704	384	317	196	46	47	3 767
	Average CCF %	90%	52%	59%	60%	58%	67%	78%	62%	73%	67%
	LGD %	26%	20%	25%	25%	28%	29%	28%	28%	25%	25%
Residential mortgages	EAD	27 104	4 217	5 092	6 783	4 399	2 280	802	318	1 461	52 457
	Outstanding amount	26 010	4 055	4 945	6 678	4 209	1 963	780	312	1 451	50 403
	Undrawn amount	1 094	162	147	106	190	317	23	7	10	2 054
	Average CCF - %	100%	0%	99%	87%	78%	95%	100%	100%	100%	100%
	Average LGD - %	14%	14%	19%	17%	20%	23%	18%	17%	19%	16%

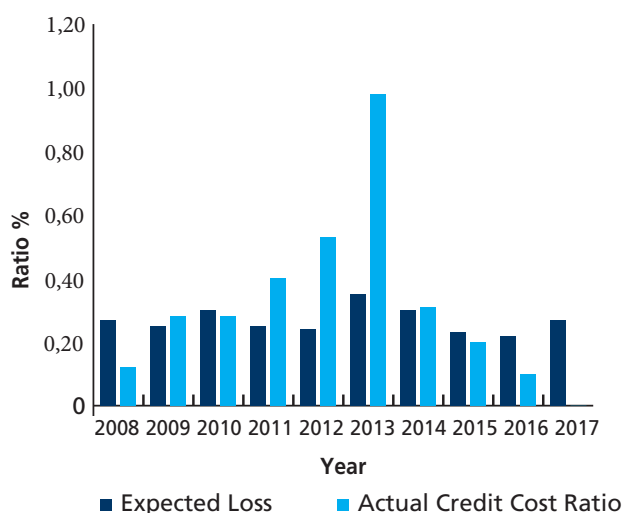
The table shows that LGDs for 'Residential mortgages' remain stable and are the lowest of the different asset classes, due to the fact that these exposures, by definition, have a partly or fully secured nature. On the other hand, LGDs for 'Corporates' and 'Retail', which historically are among the highest of the different asset classes, increased slightly on their 2015 levels.

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

The graph compares KBC's EL ratio (EL related to the EAD) with the actual average credit cost percentage. As EL expresses the modelled expectations with a one-year time horizon, there is a time lag compared to the credit cost ratio. The credit cost ratio shown for 2016 incorporates the actual losses over 2016, whereas the EL for 2016 is calculated on the basis of the portfolio at year-end 2015 and is thus a modelled expectation for 2016. This also explains why only the EL (modelled expectations) is given for 2017. Please note that only the normal (i.e. non-default) portfolio is taken into account for the EL calculation. Exposures to the low-default 'Sovereigns' and 'Institutions' classes have been excluded from this comparison, which means that the focus lies with the corporate, SME and retail credit portfolio.

Given the focus on the IRB Advanced portfolio, the scope of the graph changes over time. Up to 2009, it had been limited to the Belgian retail portfolio. KBC Homeloans (the retail portfolio of KBC Bank Ireland) only switched from the Standardised to the IRB approach in mid-2008 and was thus only incorporated into the graph below from 2009 on. As of 2013, the graph includes both the retail and corporate/SME portfolio of those entities that have adopted the IRB Advanced approach, as well as the retail portfolio of KBC Bank Ireland and K&H Bank (both IRB Foundation entities). For 2016, the corporate and SME portfolios of K&H were added to the scope, reflecting the adoption of the IRB Advanced approach at K&H.

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



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

In 2013, actual losses went up substantially mainly on account of KBC Ireland. They started falling again in 2014, coming more into line with the modelled losses, and were noticeably lower as from 2016.

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

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

KBC uses the regulatory defined risk buckets to assess the quality and linked risk weight for all exposure calculated according to the Standardised approach. It uses external ratings from S&P's, Fitch and Moody's to define the risk bucket of exposures. If there are three external ratings with different risk weights attached to them, the risk weight corresponding with the second best external rating is applied.

The table below shows credit risk exposure calculated according to the Standardised approach and broken down by type of exposure and risk bucket.

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

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

Standardised exposure [EAD] 31-12-2015 (in millions of EUR)	Quality steps						Unrated	Total
	1	2	3	4	5	6		
Sovereign	4 148	496	0	0	0	0	0	4 644
RGLA	0	0	0	0	0	0	205	205
PSE	0	0	0	0	0	0	0	0
MDB	5	0	0	0	0	0	0	5
International organisations	0	0	0	0	0	0	0	0
Institutions	61	15	107	0	0	0	0	183
Corporates	0	0	0	180	0	0	518	698
Retail	0	0	0	0	0	0	1 164	1 164
Secured by real estate	0	0	0	35	0	0	247	282
Past due	0	0	0	0	0	0	132	132
High risk	0	0	0	0	0	0	0	0
Covered bonds	0	0	0	0	0	0	0	0
CIU	0	0	0	0	0	0	0	0
Short term	0	0	0	0	0	0	0	0
Equity*	0	0	0	0	0	0	226	226
Other	0	0	0	0	0	0	707	707
Total	4 215	511	107	215	0	0	3 202	8 250

The robust increase in total Standardised exposure can be fully attributed to the 'Sovereign' asset class and, as mentioned earlier in this report, related to increased cash balances at central banks (no impact on RWA). For all the other asset classes, exposures remained the same because the portfolio was stable and there were no additional shifts from the Standardised approach to the IRB approach in 2016.

Impaired credit exposure in the lending portfolio

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

They include all exposure in the lending portfolio, independently of the regulatory approach or the assigned exposure type or asset class. If exposure is treated according to the IRB approach, impairment is determined in the same way as for accounting purposes, i.e. the PD assigned to the obligor of the exposure is PD 10, 11 or 12. If exposure is treated according to the Standardised approach, impairment is determined by the fact that provisions were set for the exposure and/or as 'past due' in this section. It is worth mentioning that the EAD reported here and originated via the Standardised approach, is net of provisions. For exposure calculated according to the IRB approach, this is not the case.

Impaired exposure per geographic region [EAD] (in millions of EUR)	31-12-2016	31-12-2015
Africa	2	1
Asia	88	88
Central and Eastern Europe & Russia	1 478	1 795
Latin America	0	1
Middle East	15	6
North America	290	302
Oceania	12	134
Western Europe	9 116	10 439
Of which Belgium	2 373	2 739
Of which Ireland	6 110	6 924
Total	11 002	12 766
Impaired exposure per sector [EAD] (in millions of EUR)	31-12-2016	31-12-2015
Agriculture, Farming & Fishing	134	120
Automotive	74	79
Building & Construction	423	508
Chemicals	94	44
Commercial Real Estate	1 549	2 336
Distribution	1 073	1 095
Electrotechnics	21	34
Finance & Insurance	87	79
Hospitality	289	380
IT	119	115
Machinery & Heavy Equipment	107	41
Metals	165	174
Private Persons	5 594	5 974
Services	711	764
Shipping	43	61
Textile & Apparel	60	56
Other*	25	6
Total	11 002	12 766

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

Overall, there was a decrease in the impaired portfolio for KBC's home markets. The decrease can largely be attributed to KBC Bank Ireland, where certain counterparties were 'cured' and others 'settled'. The decrease was highest in the 'Commercial Real Estate' and 'Private Persons' sectors, with the decline for 'Commercial Real Estate' being accounted for by large files being cured and settled, while for 'Private Persons' it concerned the lower impaired exposure to home loans mainly at KBC Bank Ireland.

Provisioning for impaired exposures:

Provision per geographic region [EAD] (in millions of EUR)	31-12-2016	31-12-2015
Africa	0	0
Asia	57	33
Central and Eastern Europe & Russia	815	886
Latin America	0	1
Middle East	13	1
North America	110	73
Oceania	11	63
Western Europe	4 415	4 766
Of which Belgium	1 201	1 189
Of which Ireland	2 966	3 235*
Total	5 422	5 823

* Restated.

For all data on impairment, provisions and value adjustments, reference is made to the 'Consolidated financial statements' section of the 2016 Annual Report for KBC Group NV.

Counterparty credit risk

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

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

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

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

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

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

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

Transaction type 31-12-2015 (in millions of EUR)	Marked-to-market	Add-on	Counterparty risk [EAD]	Notional value of contracts	RWA *
CDS bought - Trading	3	28	31	399	4
CDS sold - Trading	0	3	3	331	1
Other	0	0	0	0	0
Total credit derivatives	3	31	35	730	5
Interest Rate Swaps (IRS)	5 496	1 421	7 142	208 767	1 033
Caps/Floors	486	119	606	18 259	73
Other	483	190	678	29 913	73
Total interest-related transactions	6 465	1 731	8 426	256 939	1 179
FX forward	146	200	361	14 057	86
FX swap	786	912	1 709	85 212	130
Cross Currency IRS	664	547	1 227	29 557	181
Other	104	156	262	12 866	44
Total currency-related transactions	1 700	1 814	3 558	141 693	441
Equity swaps	1 803	1 365	3 169	36 858	358
Equity options	159	138	297	2 427	26
Total equity-related transactions	1 962	1 502	3 465	39 285	384
Total commodity transactions	128	110	240	1 094	22
Gross counterparty risk	10 259	5 188	15 725	439 740	
Netting benefit (-)			-8 259		
Total counterparty risk after netting			7 466		
Collateral benefit (-)			-2 432		
Total net Counterparty risk			5 034		2 030

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

In 2016, the exposure to counterparty risk increased. More specifically, gross counterparty risk went up by 4% and the net counterparty risk (after netting and collateral) by 10% on a year-to-year basis. Interest-related transactions decreased, but this was largely offset by an increase of currency-related transactions.

A breakdown of the net counterparty risk is provided below, both by geographic region (i.e. where the counterparty is located) and by rating band (based on external ratings). This reveals that around 73% of the total counterparty credit risk was in the form of exposure to investment-grade counterparties.

Net derivative exposure per geographic region [EAD]¹ (in millions of EUR)	31-12-2016	31-12-2015
Africa	1	3
Asia	57	130
Central and Eastern Europe & Russia	896	453
Latin America	5	0
Middle East	25	29
North America	116	106
Oceania	39	26
Western Europe	4 413	4 286
Total	5 553	5 034

Net derivative exposure per rating band² [EAD]¹ (in millions of EUR)	31-12-2016	31-12-2015
AAA	404	22
AA	751	932
A	2 052	1 944
BBB	860	1 086
BB	388	513
B and below	202	129
No rating	896	409
Total	5 553	5 034

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

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

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

Credit value adjustment

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

Credit value adjustment (in millions of EUR)	31/12/2016	31/12/2015
Exposure value	2 286	2 302
of which OTC derivatives	2 253	2 236
SFT*	34	66
Risk weighted assets	759	904
Number of counterparties	777	745

* Securities financing transaction.

The exposure value remained stable, while RWA decreased as a result of a more favourable rating distribution in the OTC derivatives & SFT portfolio.

Credit risk mitigation

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

Netting

To date, KBC has not engaged in on-balance-sheet netting (i.e. the offsetting of balance-sheet products such as loans and deposits). Close-out netting, on the other hand, is applied in order to manage the counterparty risk arising from derivative transactions. For netting to apply, such transactions need to be documented under ISDA-92 or ISDA-2002 Master Agreements. In addition, 'suitable for netting' rules have been established for all relevant jurisdictions and all relevant products, based on legal opinions published by the ISDA. Accordingly, close-out netting is only applied if legal effectiveness and enforceability is assured.

Based on figures for the end of December 2016, the netting impact on derivative exposure amounted to 8.4 billion euros. Intra-group netting is not included in this figure.

Collateral in repo transactions

KBC engages in the following types of repo transaction:

- **Reverse repos and 'buy and sell-back' transactions:** These transactions are considered deposits made by KBC, with KBC lending cash against securities until the cash is repaid. The difference between reverse repos and buy and sell-backs is technical and relates to the way coupon payments are handled during the transaction.
- The securities underlying the reverse repo transactions are almost entirely government securities, with the underlying issuers of the remaining securities being mainly banks and corporate entities. In order to conclude such transactions, a standard General Master Repurchase Agreement (GMRA) needs to be concluded with the counterparty, and legal certainty must exist for all relevant jurisdictions. Transactions also need to be compliant with KBC's repo policies for all relevant entities.
- **Repos and 'sell and buy-back' transactions:** These transactions are considered funding, as KBC receives cash in exchange for securities provided as collateral until the cash is repaid. Here too, the difference between repos and sell and buy-backs is a technical one.

31-12-2016 (in millions of EUR)	Exposure [EAD]	Covered exposure [EAD]	Covered exposure [%]
Reverse repos/'buy and sell-back' ¹	20 299	19 895	98%
Repos/'sell and buy-back' ²	16 789	16 195	96%
Total	37 088	36 089	97%
31-12-2015 (in millions of EUR)	Exposure [EAD]	Covered exposure [EAD]	Covered exposure [%]
Reverse repos/'buy and sell-back' ¹	12 218	11 621	95%
Repos/'sell and buy-back' ²	14 946	14 444	97%
Total	27 164	26 065	96%

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

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

Other collateral

This section covers credit risk mitigation by means of collateral provided to cover the counterparty risk arising from derivative transactions and the lending portfolio. The tables show the EAD covered, broken down into different portfolios and different types of credit risk mitigation.

Counterparty risk arising from derivative transactions (excluding repo-like transactions)

With regard to collateral for counterparty risk arising from derivative transactions (other than repos which are covered above), a collateral management policy is in place. Financial collateral is only taken into account if the assets concerned are considered eligible risk-mitigants for regulatory capital calculations. This implies, among other things, that legal comfort must have been obtained regarding the ownership of the collateral for all relevant jurisdictions.

Of the total counterparty risk exposure, after netting and before collateral, 30.0% (2.4 billion euros of 7.9 billion euros) was classified as collateralised at the end of 2016, virtually unchanged on its year-earlier level. A breakdown of covered exposure values by exposure classes and type of collateral is provided in the table below. Both debt securities and cash collateral were taken into account for credit risk mitigation of counterparty risk exposure. In this respect, it should be noted that, according to the applicable policy, equity collateral is not eligible.

Covered exposure ^{1,2} [EAD] 31-12-2016 (in millions of EUR)	Sovereigns	Institutions	Corporates	SME Corporates	Total
Cash	3	1 880	18	0	1 900
Debt securities	0	93	354	39	486
Total	3	1 973	371	39	2 386

Covered exposure ^{1,2} [EAD] 31-12-2015 (in millions of EUR)	Sovereigns	Institutions	Corporates	SME Corporates	Total
Cash	0	1 530	225	0	1 755
Debt securities	0	102	575	0	677
Total	0	1 632	801	0	2 432

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

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

Lending portfolio

Exposures and collateral subject to the **Standardised approach** are excluded from the table below. Collateral applying to lending exposure subject to the Standardised approach has a direct effect by lowering the EAD, which in turn has a direct effect on RWA and on capital. Since LGD is irrelevant for these exposures, the collateral is not included in the table.

Of the lending EAD, subject to the **IRB Foundation approach**, 5.7 billion euros was classified as collateralised at the end of 2016, implying that a lower LGD percentage is applied to this portion of exposure in the capital calculations. The impacted exposure is to be interpreted as the total

collateralised³ EAD to which an LGD percentage of 0%, 35% or 40% has been applied in the capital requirement calculations (compared to an LGD of 45% as used for un-collateralised amounts). The exact percentages depend on the type of collateral concerned as indicated in the table below. Additional information on the extent to which collateral was taken into account in the internal LGD estimation under this approach is provided in the 'Internal modelling' section.

It is clear that credit risk mitigation is only applied when the necessary policies and procedures are in place. Under the IRB Foundation approach, only the collateral meeting the eligibility criteria and minimum requirements (as imposed by the CRD) to qualify for credit risk mitigation has been included in the figures. Hence, bearing in mind that the figures refer to collateralised EAD as described in the previous paragraph, the effective amount of collateral obtained in KBC is much higher than the figure taken into account for risk mitigation purposes. Real estate collateral obtained for KBC's commercial real estate financing activities is not taken into account for credit risk mitigation purposes, for instance.

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

Covered IRB Foundation lending exposure [EAD]¹ 31-12-2016 (in millions of EUR)	Sovereign	Institutions	Corporates	SME Corporates	Total
Cash	4	0	169	121	294
Debt securities	0	8	8	49	65
Equity collateral	0	0	36	0	36
Total financial collateral	4	8	213	171	395
Real estate ³	10	0	1 575	1 398	2 983
Receivables	0	0	6	3	8
Lease collateral	0	0	0	0	0
Other physical collateral	0	0	479	506	985
Total physical collateral	10	0	2 059	1 907	3 977
General total	14	8	2 272	2 078	4 372
Covered IRB Foundation lending exposure [EAD]¹ 31-12-2015 (in millions of EUR)	Sovereign	Institutions	Corporates	SME Corporates	Total
Cash	0	2	60	42	104
Debt securities	0	0	32	105	137
Equity collateral	0	0	36	0	36
Total financial collateral	0	2	128	147	277
Real estate ²	9	0	1 110	1 045	2 165
Receivables	0	0	10	8	18
Lease collateral	0	0	0	0	0
Other physical collateral	0	0	449	327	775
Total physical collateral	9	0	1 568	1 380	2 958
General total	9	2	1 696	1 527	3 234

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

² Including real estate leasing.

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

The significant increase in collateral was accounted for by more real estate collateral.

The table shows that the bulk of the collateralised amount relates to physical collateral (4.0 billion euros), while financial collateral, which has a bigger impact on capital as it attracts a LGD of 0%, was limited to 0.4 billion euros. Furthermore, as financial collateral comprises cash collateral and non-cash financial collateral (with the latter being amply diversified), issuer concentration risk in respect of financial collateral is negligible.

Where physical collateral is concerned, the concentrations shown in the table are in line with expectations, as most collateral is held for the 'Corporates' and 'SME Corporates' asset classes (and not 'Sovereign' and 'Institutions'). Real estate collateral remains the preferred type of asset when collateral is called for.

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

Unfunded credit protection

Unfunded credit protection is provided entirely through guarantees. For guarantees, the impacted exposure (i.e. amounts receiving a better rating through PD substitution, resulting in lower capital requirements) decreased by 11% to 1.34 billion euros at the end of 2016. This relates solely to exposures treated under the Standardised and IRB Foundation approaches.

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

Covered exposure [EAD] ^{1, 2, 3} 31-12-2016 (in millions of EUR)	Sovereign	Institutions	Corporates	SME Corporates	Total
Credit derivatives	0	0	0	0	0
Guarantees	145	47	834	309	1 336
Total	145	47	834	309	1 336
Covered exposure [EAD] ^{1, 2, 3} 31-12-2015 (in millions of EUR)	Sovereign	Institutions	Corporates	SME Corporates	Total
Credit derivatives	0	0	0	0	0
Guarantees	30	125	1 024	315	1 494
Total	30	125	1 024	315	1 494

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

2 The breakdown refers to the exposure classes before substitution is applied.

3 The scope of the table includes the Standardised and IRB Foundation approaches.

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

Internal modelling

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

These models are used in the credit process for:

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

Probability of Default models

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

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

Step 1: The segment for which a model will be built is defined (segmentation of the portfolio). It is important that a good balance be struck between the homogeneity of the segment, the exposure, the number of clients and the number of default events. Having too many models will lead to additional operational risks in the credit process, smaller and less reliable data samples and high maintenance costs. On the other hand, the predictability of the models will go down if the segments are less homogeneous. Once the segment has been defined, the data sample on which the model development will be based can be created. This usually requires some 'cleansing' of the available data (for instance, handling missing values and outliers). KBC has built its rating models mainly on internal data.

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

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

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

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

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

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

Loss Given Default models

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

In general, there are many ways of modelling the LGD, such as:

- Market LGD: this is observed from market prices of defaulted bonds or marketable loans soon after the actual default event.
- Workout LGD: this is determined by the sum of cashflows resulting from the workout and/or

collections process, discounted to the time of default and expressed as a percentage of the estimated exposure at default.

The LGD models currently used at KBC are all workout LGDs. The models developed are (methodologically) based on historical recovery rates and cure rates⁴ per collateral type or per pool (segmentation-based approach).

A major challenge posed by the Basel regulations is the 'downturn requirement'. The underlying principle is that the LGD is correlated to the PD, and loss rates will be higher in a year with many defaults. This effect has been demonstrated in a number of studies. However, as these studies almost exclusively used market LGD, they are not necessarily relevant for workout LGD.

One explanation for the difference in cyclicity between market LGD and workout LGD is the fact that workout LGD is based on a recovery process that can take several years. In most cases, the workout period will thus include periods of both upturn and downturn economic conditions. Market LGD is based entirely on information one month after default. In downturn economic conditions, the market will be hit by a large supply of defaulted bonds, depressing prices. The classic market mechanism based on supply and demand may prove to be a stronger driver for 'downturn' recovery rates than the macroeconomic conditions that led to the higher number of defaults.

Data collected from the credit crisis helps KBC to model downturn LGD based on its own portfolios and workout processes.

Exposure At Default (EAD) models

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

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

Pooling models

A pool is a set of exposures that share the same attributes (characteristics).

Pooling can be based on continuous estimates of PD, LGD and EAD or on other relevant characteristics.

- If pooling is based on continuous estimates of PD, LGD and EAD the pooling merely consists of aggregating the continuous estimates into PD, LGD and EAD bands. The added value of pooling

⁴ The cure rate is the percentage of defaulted clients returning to a non-defaulted state.

is that exposure can be processed on an aggregate basis, which enhances calculation performance.

- If pooling is based on other criteria, loans are aggregated into pools based on these criteria. Since criteria need not be continuous (for example, whether or not there is a current account, which only has two categories) the resulting PD, LGD and EAD estimates are not necessarily on a continuous scale.

Group-wide framework for dealing with model uncertainty

While KBC makes extensive use of modelling to steer its business processes, it aims to do so in a cautious manner. In particular, it recognises that no value or risk model provides a perfect prediction of future outcomes. Explicit measures for dealing with model risk are therefore imposed. The potential shortcomings of credit risk models are grouped into three categories, each of which is evaluated using a fixed group-wide assessment.

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

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

Overview of credit risk models

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

PD models used under the IRB approach, 31-12-2016 ¹ (in billions of EUR)	Exposure granted [EAD]	Central tendency ²	Historical default rate ³	Average model PD (excl. overrulings) ⁴
PD models for government and public sector segments				
PD model for worldwide central governments	52.60	0.50%	0.36%	2009-2015
FRT for worldwide sub-national governments				
<i>Belgium, US and UK</i>	3.17	0.06%	0.00%	2004-2014
<i>Czech Republic^{6,7}</i>		0.27%	0.18%	2005-2014
<i>Slovakia^{6,7}</i>		0.50%	3.35%	2006-2014
<i>Hungary & Bulgaria^{6,7}</i>	0.04	1.31%	0.89%	2004-2014
Czech municipalities	0.26	0.30%	0.22%	2008-2014
PD models for corporate and institutional segments				
PD model for corporates				
<i>of which non-Irish, mid-size</i>	2.98	2.00%	2.12%	2009-2014
<i>of which non-Irish, large</i>	13.33	1.51%	1.60%	2009-2014
PD model for Czech corporates	4.90	1.20%	1.17%	2007-2014
PD model for Hungarian corporates	1.46	1.56%	1.56%	2007-2015
PD model for worldwide banks				
<i>of which Developed countries</i>	21.11	0.35%	0.14%	2007-2015
<i>of which Others</i>		1.35%	0.43%	2007-2015
PD model for worldwide project finance	2.63	1.42%	1.75%	2008-2015
PD model for worldwide asset based real estate lending				
<i>of which non-Irish, Investment to let</i>	2.23	2.24%	2.24%	2002-2015
<i>of which Irish, Investment to let</i>	0.18	10.21%	4.07%	2007-2008
PD model for worldwide MBO-LBO	1.36	2.66%	2.66%	2007-2014
PD rating model for corporates in CSOB SR ⁸	1.87	2.42%	2.51%	2006-2014
PD models for SME segments				
PD model for Belgian professionals and self-employed farmers				
<i>of which liberal professions⁹</i>	0.23	0.49%	0.49%	2009-2015
<i>of which self-employed professionals⁹</i>	1.01	1.87%	1.87%	2009-2015
<i>of which private persons⁹</i>	0.42	1.56%	1.54%	2009-2015
<i>of which self-employed farmers⁹</i>	1.01	0.65%	0.65%	2009-2015
PD model for Belgian farmers (legal entities) ⁹	1.28	1.58%	1.48%	2009-2014
PD model for Belgian SMEs ⁸				
<i>of which small businesses⁹</i>	16.07	2.01%	2.01%	2009-2014
PD model for Belgian legal entities without financial statements and SPOS				
<i>of which legal entities⁹</i>	1.16	0.49%	0.49%	2009-2015
<i>of which hospitals</i>	2.24	1.87%	1.87%	2009-2015
<i>of which schools</i>	0.40	1.56%	1.54%	2009-2015
<i>of which homes for elderly</i>	0.85	0.65%	0.65%	2009-2015
PD model for Belgian starters ⁹	0.63	3.58%	3.47%	2009-2014
PD model for Czech large and mid SMEs	1.57	3.20%	3.30%	2005-2014
PD model for Hungarian upper SMEs	0.00	2.68%	2.68%	2007-2015

- 1 Non-exhaustive list of models used under the IRB approach, and excluding all retail pooling models.
- 2 The central tendency (CT) is the long term (through-the-cycle) expected average default probability of a portfolio. The historical average observed default rate is a good starting point for determining the CT, but does not necessarily equal it, as forward looking information and expert judgement also need to be taken into account.
- 3 The default rate is the observed number of defaulted obligors during a certain time period as a percentage of total non-defaulted obligors at the beginning of the period (this result is scaled to a one-year period).
- 4 The observation period for which the historical default rate was calculated.
- 5 The average model PD is the mean PD of all obligors according to the model. The value at the time of the latest review is shown.
- 6 The reported CTs are those proposed in the latest model review. These reviews have already been internally approved, but they contain material changes. Hence, in line with the new Commission Delegated Regulation (EU) No 529/2014 on this topic, these changes were submitted to the regulators for their approval. Until regulatory approval is received, these new models will not be implemented.
- 7 The worldwide model for sub-national governments is not yet being used for regulatory reporting in the Czech Republic (the local Czech municipalities model is currently being used), Slovakia (currently the Standardised model for municipalities) and Bulgaria (currently the Standardised model).
- 8 The reported CTs are those proposed in the latest model review. Regulatory approval for the corresponding material change was only received in December 2015. Hence, this new model was only implemented in 1Q16.
- 9 Central tendency, default rate and average model PD values can differ from entity to entity. The values shown here are those for KBC Bank NV.

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

LGD models used under the IRB-Advanced approach 31-12-2016 (In billions of EUR)	Exposure granted [EAD]	Average LGD non-defaulted exposures (PD 1-9)	Average LGD defaulted exposures (uncertain, PD 10-11)	Average LGD defaulted exposures (irrecoverable, PD 12)
LGD models for government and public sector segments				
(Worldwide) model for central governments	46.1	24%	24%	
LGD model for Czech municipalities	0.2	20%	0%	0%
LGD model for Hungarian municipalities	0.0	36%	0%	0%
LGD models for corporate and financial segments ¹				
(Worldwide) financial institutions	11.1	24%	30%	10%
(Worldwide) corporates	18.4	30%	29%	65%
LGD model for Czech corporates	5.7	25%	20%	67%
LGD model for Hungarian corporates	1.6	47%	60%	96%
(Worldwide) commercial real estate project finance	4.4	24%	40%	60%
(Worldwide) model for management buy outs	1.4	37%	31%	31%
LGD models for SME segments				
LGD model for Belgian SMEs	28.3	18%	15%	32%
LGD model for Czech SMEs	2.2	35%	0%	83%
LGD model for Hungarian SMEs	0.4	56%	75%	39%
LGD pooling models for retail ⁴				
LGD pooling model for Belgian regulated retail	39.1	16%	20%	53%
LGD pooling model for Irish mortgage loans	11.7	15%	25%	78%
LGD pooling models for Czech retail	0.7	24%	0%	65%
LGD leasing pooling model	1.0	27%	0%	33%
LGD pooling model for Hungarian retail	1.8	28%	49%	96%
LGD pooling model for Slovak mortgage loans	2.9	12%	12%	67%

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

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

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

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

Credit risk related to KBC Insurance

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

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

Credit risk in the investment portfolio of KBC Insurance

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

Investment portfolio of KBC group insurance entities (in millions of EUR, market value) ¹	31-12-2016	31-12-2015
---	------------	------------

Per balance sheet item

Securities	22 211	22 048
Bonds and other fixed-income securities	20 890	20 490
Held to maturity	6 550	6 629
Available for sale	14 286	13 813
At fair value through profit or loss and held for trading	5	1
As loans and receivables	48	46
Shares and other variable-yield securities	1 321	1 555
Available for sale	1 317	1 551
At fair value through profit or loss and held for trading	3	3
Other	0	3
Property and equipment and investment property	332	341
Investment contracts, unit-linked ²	13 693	13 330
Other	1 831	1 485
Total	38 066	37 204

Details for bonds and other fixed-income securities

By external rating ³		
Investment grade	96%	95%
Non-investment grade	4%	3%
Unrated	0%	2%
By sector ³		
Governments	61%	59%
Financial ⁴	25%	26%
Other	14%	15%
By remaining term to maturity ³		
Not more than 1 year	12%	12%
Between 1 and 3 years	19%	21%
Between 3 and 5 years	15%	18%
Between 5 and 10 years	31%	26%
More than 10 years	23%	22%

¹ The total carrying value amounted to 35 847 million euros at year-end 2015 and to 34 716 million euros at year-end 2014.

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.

In 2016, KBC Insurance bought a 333-million-euro portfolio of newly originated mortgages from KBC Bank, further diversifying its investments. KBC Bank selected these loans according to a predefined list of eligibility criteria defined by KBC Insurance. While this is a full sale, servicing remains with KBC Bank.

We are also exposed to a credit risk in respect of (re)insurance companies, since they could default on their commitments under (re)insurance contracts concluded with us. We measure this particular type of credit risk by means of a nominal approach (the maximum loss) and expected loss, among other techniques. Name concentration limits apply. PD – and by extension – expected loss is calculated using internal or external ratings. We determine the exposure at default by adding up the net loss reserves and the premiums, and the loss given default percentage is fixed at 50%.

Credit exposure to (re)insurance companies by risk class¹: Exposure at Default (EAD) and Expected Loss (EL)² (in millions of EUR)	EAD 2016	EL 2016	EAD 2015	EL 2015
AAA up to and including A-	186	0.08	236	0.10
BBB+ up to and including BB-	12	0.02	27	0.03
Below BB-	0	0	0	0
Unrated	2	0.04	4	0.09
Total	200	0.13	267	0.22

1 Based on internal ratings.

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



Structured Credit Products

This section deals with KBC's structured credit activities at year-end 2016. These activities relate to Asset-Backed Securities (ABS) and Collateralised Debt Obligations (CDOs), which are defined as follows:

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

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

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

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

- structured credit programmes where KBC acts as the originator;
- KBC's investments in structured credit products at year-end 2016, together with information on the credit quality of the securities, a view on the quality of the underlying collateral, a discussion on valuation and accounting principles;
- the capital charges corresponding to the structured credit exposures.

Strategy and processes

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

The treasury ABS portfolio is held by KBC Credit Investments, which monitors transactions on an annual basis, except for transactions that are triggered by one of the following events (which are subject to quarterly monitoring): (i) external rating trigger (i.e. loss of 'BBB' rating), (ii) market price dropping below 94% and (iii) weak performance of the underlying collateral (measured at the 90 days arrears rate exceeding 5% of the total underlying portfolio).

The corporate banking ABS is an investment in a client-related lease receivables transaction.

The legacy ABS assets, which comprise the retained assets of the former KBC conduit Atomium and three assets held by KBC Insurance, are reviewed on a quarterly basis.

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

Investments in asset-backed securities are valued:

- at amortised cost (intention to hold positions until maturity date), with account being taken of impairment recorded for unrecoverable amounts. Positions can only be sold under specific conditions, with realised gains/losses being recognised in profit or loss (under 'Net other income').
- at market value, with revaluation gains/losses going through equity (AFS reserve). Gains or losses from sales are recognised in profit or loss (under 'Net gains on available-for-sale assets').

Periodic coupons consist of the repayment of capital and interest.

In 2014, KBC turned the page on KBC Financial Products' legacy CDO exposure when the remaining transactions were de-risked. For the record, KBC wishes to point out that it is the counterparty to and issuer of a further 0.15 billion euros' worth of KBC Financial Products CDO notes held by investors that will remain outstanding until October 2017. This effectively means that KBC is now a net buyer of credit risk protection, which is valued at fair value. Consequently, negligible movements may yet be recorded in KBC's income statement in the coming quarters based on changes in the value of these notes (due primarily to credit spread movements on the underlying portfolio and reducing time value).

Scope of structured credit activities

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

Structured credit programmes for which KBC acts as originator

The structured credit transactions in which KBC entities have an originating role are summarised under this heading. These operations are now limited to structured credit with underlying assets arising directly from KBC's credit-granting activities.

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

Structured credit transactions whose underlying assets arise directly from KBC's credit-granting activities, 31-12-2016 (in millions of EUR)				
Programme	Role	Type of underlying exposure	Notional amount of the underlying	Notes outstanding
Home Loan Invest 2007	Originator	Mortgage loans	1 096	721
Home Loan Invest 2016	Originator	Mortgage loans	3 088	2 757
Phoenix Funding 2 (2008)	Originator	Mortgage loans	4 872	4 893
Phoenix Funding 3 (2008)	Originator	Mortgage loans	1 983	2 013
Phoenix Funding 4 (2009)	Originator	Mortgage loans	525	538
Phoenix Funding 5 (2016)	Originator	Mortgage loans	649	640
Phoenix Funding 6 (2016)	Originator	Mortgage loans	1 249	1 071

All Phoenix Funding notes are being retained by KBC Bank Ireland plc. Phoenix note balances were last reduced in December 2016 by virtue of capital repayments based on the closing balances in November 2016.

Home Loan Invest 2007

Home Loan Invest 2007 is a 'Residential Mortgage-Backed Securities' (RMBS) issue where KBC Bank acts as the originator. An SPV acquired a pool of Belgian residential mortgages granted by KBC and raised funds through the issuance of notes (Class A and Class B Notes, rated 'AAA' and 'Aaa' by Fitch and Moody's, respectively) and KBC's subscription to a subordinated loan of 376 million euros. The notes are eligible as collateral for the European Central Bank (ECB), and thus provide KBC Bank with a liquidity buffer. The portfolio of mortgages was a revolving facility where the number of loans and total amount can vary. In July 2012, the portfolio started to amortise and as such comprised loans totalling 1 096 million euros, with 721 million euros in notes outstanding at year-end 2016. Since KBC holds the first loss piece in the form of the subordinated loan and all notes, after the successful tender of the outstanding notes in July 2012, the Basel III securitisation framework does not apply to this structured credit programme, as an insufficient amount of the risk incurred has been transferred. Assets are held as regular assets on the balance sheet of KBC Bank and treated accordingly for capital adequacy calculation purposes.

Home Loan Invest 2016

In May 2016, KBC Bank set up its fifth securitisation transaction in the HLI series. Home Loan Invest 2016 securitised a portfolio comprising 3 667 million euro's worth of Belgian mortgage loans and set aside a reserve account of 36 million euros. The SPV issued 3 270 million euros' worth of notes, rated 'Aaa' and 'AAA' by Moody's and Fitch, respectively. The whole issue was retained by KBC

Bank. It was set up as an amortising transaction and comprised loans totalling 3 088 million euros, with 2 757 million euros in notes outstanding at year-end 2016.

Phoenix Funding 2

On 16 June 2008, a residential mortgage backed securitisation (RMBS) transaction called Phoenix Funding 2 was set up as a source of contingent funding. The SPV has a remaining underlying pool of residential mortgages originated by KBC Bank Ireland plc (a fully owned subsidiary of KBC Bank NV), with corresponding note balances amounting to 4 893 million euros. KBC Bank Ireland plc has retained all of the notes, which implies that the Basel III securitisation framework does not apply, as an insufficient amount of the risk incurred has been transferred. The outstanding notes are divided into two classes, i.e. 55.7% in class A (Moody's 'Aaa' / Fitch 'A+' ratings / DBRS 'AA' ratings) and 44.3% in class B (these notes are not rated), maturing in 2050. The Class A notes are eligible for placement with the ECB.

Phoenix Funding 3

Phoenix Funding 3, which is similar to Phoenix Funding 2, was set up in November 2008. The SPV has a remaining underlying pool of residential mortgages originated by KBC Bank Ireland plc, with corresponding note balances amounting to 2 013 million euros. KBC Bank Ireland plc has retained all of the notes, which implies that the Basel III securitisation framework does not apply, as an insufficient amount of the risk incurred has been transferred. The outstanding notes are split into two classes, i.e. 64.3% in class A (Moody's 'Aaa' / Fitch 'A+' ratings) and 35.7% in class B (the class B notes are not rated), maturing in 2050. The class A notes are eligible for placement with the ECB.

Phoenix Funding 4

Phoenix Funding 4 was set up in August 2009. The SPV has a remaining underlying pool of residential mortgages originated by KBC Bank Ireland plc with corresponding note balances amounting to 538 million euros. KBC Bank Ireland plc has retained all of the notes. The outstanding notes are split into two classes, i.e. 62.7% in class A (Moody's 'Aaa' / Fitch 'A+' ratings) and 37.3% in class B (these notes are not rated), maturing in 2046. The class A notes of Phoenix Funding 4 are eligible for placement with the ECB.

Phoenix Funding 5

Phoenix Funding 5 was set up in June 2012. The SPV has a remaining underlying pool of residential mortgages originated by KBC Bank Ireland plc with corresponding note balances amounting to 640 million euros. KBC Bank Ireland plc has retained all of the notes. The outstanding assets are split into three classes of A notes totalling 61% (Fitch 'A+' and DBRS 'AAA' ratings) and an unrated class Z loan of 39%. The class A notes of Phoenix Funding 5 are eligible for placement with the ECB. The class A1 notes were redeemed in April 2015.

Phoenix Funding 6

Phoenix Funding 6 was set up in December 2016. The SPV has an underlying pool of residential mortgages originated by KBC Bank Ireland plc with corresponding note balances amounting to 1 071 million euros. KBC Bank Ireland plc has retained all of the notes. The outstanding assets are split

into two classes of A notes totalling 85% (Fitch 'AA+' and DBRS 'AA(H)') and an unrated class Z loan of 15%. In early 2017, the loans were being reviewed for eligibility with the ECB.

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

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

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

In the following paragraphs, an overview is given of the overall exposure and of the credit quality of the securities. Further on, the valuation principles and the accounting principles are examined.

Overall net exposure

Since mid-2013, KBC has presented the net exposure instead of original notional amounts of its remaining investment in CDOs or other ABS.

KBC investments in structured credit products (CDOs and ABS) (notional amounts in millions of EUR)	31-12-2016
Total net exposure	1 429
of which other legacy CDO exposure	65
of which legacy ABS exposure	19
of which treasury ABS exposure	1 305
of which corporate banking ABS exposure	40
Cumulative value markdowns (mid-2007 to date)*	-30
Value markdowns	
for other legacy CDO exposure	-16
for other legacy ABS exposure	-2
for treasury ABS exposure	-12
for corporate banking ABS exposure	0

* Mainly includes AFS reserves and specific/collective impairments on ABS or other (non-KBC Financial Products) CDOs which have been reclassified to L&R.

During 2016, KBC's CDO and ABS exposure decreased slightly as a result of:
 redemptions to the tune of 236 million euros;
 a 40-million-euro new investment in a European lease receivables ABS;
 a 5-million-euro new investment in a high-quality European RMBS in the treasury ABS portfolio;
 the USD appreciation of the legacy CDO and ABS USD assets (up by 2 million euros).

Detailed overview of the securities held (31-12-2016)

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

Structured credit exposure

ABS exposure broken down by type and quality, based on Moody's rating class, 31-12-2016, amounts at notional value (in millions of EUR)										
Moody's rating class*		Aaa	Aa	A	Baa	Ba	B	Caa	<Caa3	Total
Legacy CDO exposure		-	18	46	-	-	-	-	-	65
Legacy ABS exposure										
RMBS		3	2	9	-	-	-	-	-	14
Region	United States	3	2	3	-	-	-	-	-	8
	of which Prime (<2005 vintage)	-	-	3	-	-	-	-	-	3
	of which Subprime (<2005 vintage)	3	2	-	-	-	-	-	-	5
	Spain	-	-	6	-	-	-	-	-	6
	Belgium (EUR 0.04 million)	-	0	-	-	-	-	-	-	0
Other ABS		2	-	-	3	-	-	-	-	5
Type	CLO	2	-	-	-	-	-	-	-	2
	Student loans	-	-	-	3	-	-	-	-	3
Total legacy ABS		6	2	9	3	-	-	-	-	19
Treasury ABS exposure										
RMBS		447	485	208	33	9	-	-	-	1 181
Region	Spain	-	315	73	-	9	-	-	-	397
	Netherlands	404	-	-	-	-	-	-	-	404
	Italy	-	169	9	6	-	-	-	-	184
	Portugal	-	-	126	27	-	-	-	-	153
	France	39	-	-	-	-	-	-	-	39
	United Kingdom	5	-	-	-	-	-	-	-	5
Included in the above:	Total RMBS not rated by Moody's	114	77	18	-	-	-	-	-	210
Moody's equivalent	Netherlands	114	-	-	-	-	-	-	-	114
rating class for RMBS	Italy	-	64	-	-	-	-	-	-	64
not rated by Moody's	Spain	-	14	18	-	-	-	-	-	32
Other ABS		120	2	2	-	-	-	-	-	124
Type	CLO (multiple countries for all assets)	119	-	-	-	-	-	-	-	119
	SME loans	-	2	-	-	-	-	-	-	2
	Student loans	1	-	-	-	-	-	-	-	1
	Lease	-	-	2	-	-	-	-	-	2
Total treasury ABS		567	487	210	33	9	-	-	-	1 305
Corporate Banking	European lease receivables ABS	-	-	-	40	-	-	-	-	40
Grand total		572	507	265	76	9	-	-	-	1 429

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

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

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

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

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

Structured credit products – details of capital charges under the CRD III (re)securitisation framework, 31-12-2016
(in millions of EUR)

	Notional amount for securitisation	Not. amount for re-securitisation	Total not. amount for CRD III	Of which 6 – 18%	Of which 20 – 35%	Of which 50 – 100%	Of which 250 – 850%	Of which 1250%	RWA 31-12-2016
Banking entities									
Trading book	-	154	154	-	-	-	-	154	9
Legacy FP CDO exposure	-	154	154	-	-	-	-	154	9
<i>of which senior positions</i>	-	-	-	-	-	-	-	-	-
<i>of which non-senior positions¹</i>	-	154	154	-	-	-	-	154	9
Banking book	1 420	-	1 380	1 147	121	64	39	-	455
CDO exposure	65	-	65	49	6	10	-	-	14
<i>of which senior positions</i>	65	-	65	49	6	10	-	-	14
<i>of which non-senior positions</i>	-	-	-	-	-	-	-	-	-
Other legacy ABS exposure	10	-	10	10	-	-	-	-	1
<i>of which senior positions</i>	10	-	10	10	-	-	-	-	1
Other treasury ABS positions	1 305	-	1 305	1 088	115	55	39	-	441
<i>of which senior positions</i>	1 280	-	1 280	1 063	115	55	39	-	436
<i>of which non-senior positions</i>	25	-	25	25	-	-	-	-	5
Single tranche corporate ABS	40	-	-	-	-	-	-	-	-
Total for banking entities	1 420	154	1 533	1 147	121	64	39	154	464
Insurance entities									
CDO exposure	-	-	-	-	-	-	-	-	-
Other ABS exposure	9	-	-	-	-	-	-	-	-
Total for insurance entities	9	-	-	-	-	-	-	-	-
Total net exposure for KBC Group	1 429	154	1 533						
Client credit facility ²	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	33
Total RWA									497

¹ Including the capital charge for the de-risked deals as the structures themselves still attract capital as long as they have not been fully terminated. The trading book RWA is calculated on the net MtM value of 0.7 million euros.

² For historical reasons, this credit facility (with receivables as collateral) is provided to a single client in the form of commercial paper, all of which is held by KBC. It is therefore subject to the Supervisory Formula Approach for the purpose of capital adequacy calculations and is included in this table for the sake of completeness.



Market Risk
Management
(trading)

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

Strategy and processes

The objective of market risk management (trading activities) is to measure, report and advise on the market risk of the aggregate trading position at group level, taking into account the main risk factors and specific risk in order to ensure that activities are consistent with the Group Risk Appetite. The Group Risk Appetite, including the strategic objectives with regard to (trading) market risk tolerance, is determined by the Board of Directors by means of an annual review. The Group Markets Committee (GMC) decides upon and periodically reviews a framework of limits and policies on trading activities that is consistent with this Group Risk Appetite. This framework is submitted to the Board of Directors for approval.

This risk framework consists of a hierarchy of limits. Whereas HVaR calculations serve as a primary risk measurement tool, risk concentrations are monitored via a series of secondary limits including equity concentration limits, FX concentration limits and basis-point-value limits for interest rate risk and basis risk. The specific risk associated with a particular issuer or country is also subject to concentration limits. There are also scenario analysis limits, and, where deemed appropriate, stress scenario limits, involving multiple shifts of underlying risk factors. In addition, secondary limits are in place to monitor the risks inherent in options (the so-called 'greeks'). Some composite and/or illiquid instruments, which cannot be modelled in an HVaR context, are subject to nominal and/or scenario limits.

The centralisation of trading risk management implies close co-operation between all value and risk management units at both group and local level. This close co-operation allows consistent reporting to group senior management through the GMC, which is chaired by the Group CRO and includes senior representatives from line management, risk management and other top management. It manages market risk and addresses the operational and counterparty risks of the dealing rooms. It keeps track of structural trends, monitors risk limits and may decide to impose corrective actions. The GMC, which receives relevant reports on an ad hoc and biweekly basis, meets formally every four weeks in order to enable the KBC group to take decisions regarding trading risk on the basis of accurate and up-to-date information.

Scope of market risk management

We are exposed to market risk via the trading books of our dealing rooms in Belgium, the Czech Republic, Slovakia and Hungary, as well as via a minor presence in the UK and Asia. 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.

The market risk and regulatory capital in the four legacy business lines of KBC Investments Limited, namely the CDO, fund derivatives, reverse mortgages and insurance derivatives businesses, have been reduced in recent years and are now almost equal to zero. This is especially the case for the fund derivatives, reverse mortgages and insurance derivatives businesses where the market risk regulatory capital charges represent only about 1% of the total. These legacy business lines continue to be monitored and wound down by dedicated teams.

Regarding the other legacy business (i.e. the CDO business), the remaining small positions will be expired in by October 2017. However, these positions (pertaining to the 0.15 billion euros of CDO notes held by investors) are located in the trading books of KBC Investments Limited. Consequently, the market risk regulatory capital charges for this position are recorded under the re-securitisation column in the 'Trading regulatory capital requirements' table. Please note that the market risk regulatory capital charges for this legacy position (less than 1 million euros) correspond to the maximum loss that can be incurred (see also the 'Structured credit products' section).

The VaR model

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

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

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

KBC's current HVaR methodology is based on a 10-day holding period and a 99% confidence level, with historical data going back 500 working days i.e. it equals the fifth worst outcome (1% of 500 scenarios). The 500 day historical data set is updated once a week by omitting the five oldest scenarios and adding the five most recent ones. The most recent scenario in the new data set corresponds to the historical change observed one week earlier (this lag serves as a data cleaning buffer). The outcome for a 10-day holding period is calculated in two steps. The historical daily movements in the risk factors used in the VaR calculations are first multiplied by the square root of 10, then these shifts in the risk factors are applied to the current market situation and the corresponding P&Ls computed to produce the outcome for that scenario.

The management HVaR and the HVaR calculated for regulatory capital requirements use the same holding period and confidence level (i.e. 10-day holding period and 99% confidence level). An HVaR is calculated at consolidated Group level and at trading entity level as well as at desk level for all trading entities worldwide on a daily basis.

As with any model, there are a certain number of uncertainties/deficiencies. However, the model is subject to regular review and improvements. Apart from implementing some minor improvements during 2016, attention was also devoted to preparing for the future regulatory demands and the quality standards that will be necessary once the requirements stipulated in the Fundamental Review of the Trading Book come into effect.

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

Market risk (VaR) (in millions of EUR) Holding period: 10 days	2016	2015
Average for 1Q	16	14
Average for 2Q	15	15
Average for 3Q	15	15
Average for 4Q	14	16
As at 31 December	20	18
Maximum in year	20	21
Minimum in year	11	12

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

Breakdown by risk factor of trading HVaR for the KBC group (in millions of EUR)	Average for 2016	Average for 2015
Interest rate risk	15.2	14.7
FX risk	2.0	2.6
FX option risk	1.1	2.2
Equity risk	1.9	1.8
Diversification effect	-4.8	-6.1
Total HVaR	15.3	15.1

An overview of the derivative products has been provided under Note 4.10 in the 'Consolidated financial statements' section of the 2016 Annual Report of KBC Group NV.

Regulatory capital

Both KBC Bank NV and KBC Investments Limited have been authorised by the Belgian regulator to use their respective VaR models to calculate regulatory capital requirements for most of their trading activities. Similarly, ČSOB (Czech Republic) has received approval from the local regulator to use its VaR model for capital requirement purposes. These models (approved internal 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 SVaR, like the HVaR, measures the maximum loss from an adverse market movement within a given confidence level (99%) and for a given holding period (10 days). However, the 500 scenarios which are used for calculating the SVaR are not based on the most recent past, but consist of 250 'regular' historical scenarios from the period which resulted in the most negative VaR figure for that entity (the 'stressed' period), and 250 antithetic ('mirror') scenarios, obtained by reversing these 250 regular scenarios. The stressed period which is used for calculating the SVaR has to be calibrated at least on a yearly basis. As at the date of preparation of this report, the period relevant to the measurement of SVaR during 2016 and the period that will be used from 2017 onwards are shown in the table below:

Approved Internal Model	2017	2016
KBC Bank NV AIM	Jul 2008 – Jun 2009	Jul 2008 – Jun 2009
KBC Investments Limited AIM	May 2007 – Apr 2008	Jul 2008 – Jun 2009
ČSOB (Czech Republic) AIM	Oct 2012 – Sep 2013	Jul 2008 – Jun 2009

The resulting capital requirements for trading risk at year-ends 2015 and 2016 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). It should be noted that the trading regulatory capital requirements assessed by the internal model (shown in the table below) are derived by adding the regulatory capital requirements calculated using the three approved internal models referred to in the previous paragraph. However, as European equity derivatives is KBC Investments Limited's only non-legacy business line (and the only business line in its approved internal model) – and is managed as part of the Brussels dealing room – KBC has been working towards incorporating this business into the KBC Bank NV approved internal model to more closely align management scope with regulatory scope. Given that this would result in two approved internal models instead of three, it would also cut costs and reduce complexity.

Trading regulatory capital requirements, by risk type (in millions of EUR)		Interest rate risk	Equity risk	FX risk	Commodity risk	Re-securitisation	Total
31-12-2016							
Market risks assessed by internal model	HVaR	57	2	7	-	-	156
	SVaR	74	2	14	-	-	
Market risks assessed by the Standardised approach		18	4	13	0	1	37
Total		150	8	34	0	1	193
Total RWA		1869	103	427	3	9	2411
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
Total RWA		2133	128	629	27	182	3099

As can be seen from the above table, the total capital requirement at year-end 2016 was 55 million euros lower than a year earlier (i.e. a 688-million-euro reduction in RWA):

- 36 million euros of which was due to a decrease in internal model-based capital requirements;
- 19 million euros to a decrease in capital requirements assessed by the Standardised approach.

Almost all of the decrease in the internal model-based capital requirements came about because of the decline in the number of outliers in 2015 compared to 2016 (see the back-testing sub-section below). This caused the regulatory multipliers of average HVaR and SVaR, which are used to calculate capital requirements for KBC Bank NV and ČSOB (Czech Republic), to fall from 3.65 and 3.85, respectively, at year-end 2015 to 3.00 (the floor level for both multipliers) at year-end 2016. The decline in capital requirements assessed by the Standardised approach was due mainly to a 14-million-euro decrease in the re-securitisation charge, because the small positions remaining in the legacy CDO business have reached maturity or been wound down, and to a 2-million-euro decline in the commodity risk charge following a change in the method of calculation (to more correctly reflect the fact that there were, in effect, no open market risk positions in commodities in the trading books of KBC).

Stress testing

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

For the Financial Markets activities (including European equity derivatives), both hypothetical and historical stress tests are performed on a weekly basis, whereby risk factors relating to interest rates (IR), exchange rates (FX) and equity prices (EQ) are shifted. These scenarios model inter alia parallel interest rate shifts, steepening/flattening of interest rate curves, changes in basis swap spreads, FX rate (volatility) movements and equity price shifts (=hypothetical stress tests).

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

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

The complete and thorough review of all the scenarios and calculation methodologies for the historical and hypothetical stress tests that was initiated in 2015 was virtually completed during 2016, with the remaining new stress tests scheduled to be rolled out by the second quarter of 2017. The validity of the calibrated shifts are checked by comparing them with the most relevant regulatory stress tests. However, unlike the case with regulatory stress tests – which typically only use market shifts in one direction – KBC also calculates the result for a given shift in the opposite direction, which better reflects the dynamic nature of trading book positions. The worst case scenarios, together with the respective losses, are then reported at the GMC meetings. These results are accompanied by an analysis of the positions that are sensitive to these worst case scenarios, giving the GMC an insight into potential vulnerabilities in the portfolio. In addition, a more in-depth report on stress test results is submitted to the GMC on a quarterly basis. In all the stress tests

conducted during the year, it turned out that both regulatory and internal capital would provide a sufficient buffer were such scenarios to materialise.

Back-testing

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

The one-day profit used in back-tests can be defined in a number of ways, depending on the HVaR model property being tested, but can broadly be split into two types. The first type of back-test, often called a 'theoretical back-test', is a statistical check to see whether the HVaR calculation based on the historical scenario dates used is representative of current market conditions. This type of back-test compares the one-day HVaR to the theoretical P&L obtained by applying the next day's market movements to the end-of-day trading positions using the risk systems. The second type of back-test compares the one-day HVaR to the trading outcome obtained by the Middle Office (often referred to as 'real back-testing'). This type of back-test checks whether the capital requirements calculated using the approved internal models (i.e. the 'cushion' for absorbing losses that may arise due to market risk) is sufficiently in-line with daily economic P&L movements for the activities in scope of these approved internal models.

The CRR defines two back-tests that all banks with approved internal models (AIMs) must apply to their positions. If, for a given quarter and within the scope of a given AIM, there are more than four outliers in the previous year (defined as 250 trading days), then the regulator imposes an additional plus factor to the multiplier of average HVaR and SVaR for calculating regulatory capital. In September 2016, following discussions with the ECB as part of the *Targeted Review of Internal Model (TRIM) preliminary expectations for market risk in 2016*, the two required back-tests started to use Middle Office figures (previously a 'theoretical back-test' and a 'real back-test' had been required). One of the imposed back-tests compares the one-day HVaR outcome with the 'hypothetical P&L' (the daily economic P&L of the Middle Office, less fees, commissions and net interest, as well as new, cancelled, late and amended trades of that day; sometimes referred to as the 'hands-off P&L'). The second imposed back-test compares the one-day HVaR with the 'actual P&L' (the P&L calculated by the Middle Office, but corrected for fees and commissions). Please note that KBC continues to perform 'theoretical back-tests' for its own internal analysis (and because it is also needed for FRTB requirements in the future), but theoretical outliers no longer affect capital requirements and are no longer reported to the regulator.

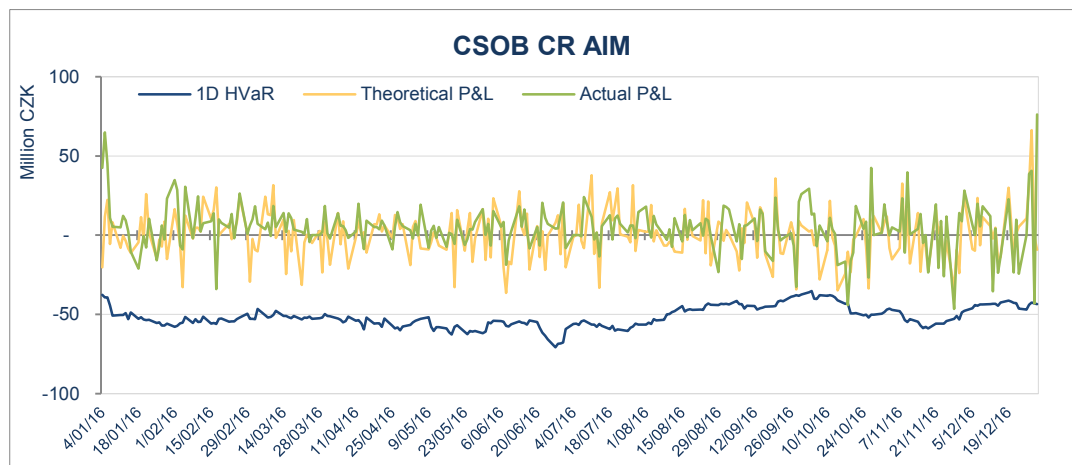
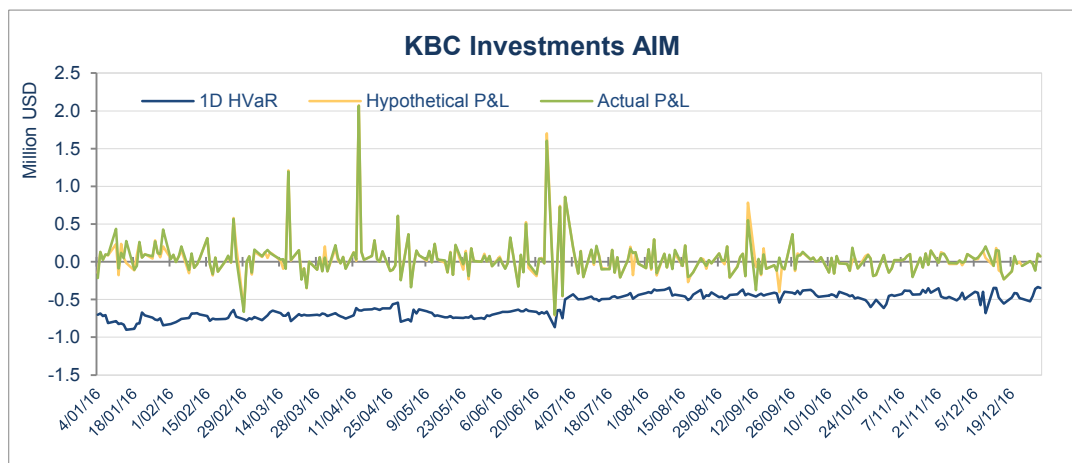
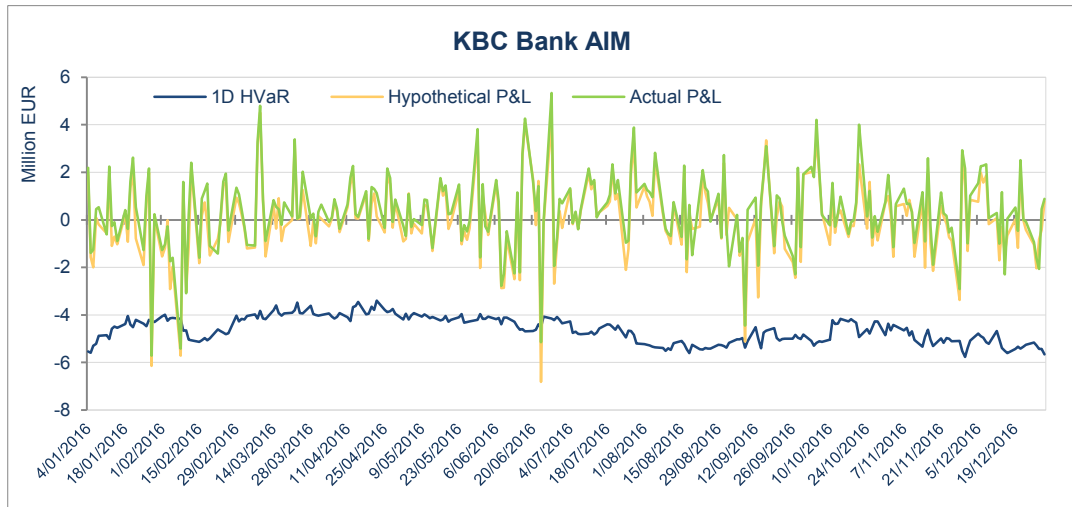
The graphs and table below show the back-test results generated by the new methodology for the KBC Bank and KBC Investments Limited AIMs for 2016, and the results generated by the relevant back-test requirements for 2015. The back-test results for ČSOB (Czech Republic) in the table below follow the requirements of the local regulator i.e. the Czech National Bank (CNB), which required an 'actual back-test' and a 'theoretical back-test' for both 2016 and 2015. From the second quarter of 2017, back-testing at ČSOB (Czech Republic) will be adjusted to ensure it uses the same methodology as the other two AIMs. To summarise, the 'theoretical back-test' for the KBC Bank and KBC Investments Limited AIMs was replaced in 2016 by an 'actual back-test', whereas the back-test methodology imposed by the regulator for the ČSOB (Czech Republic) AIM for 2015 and 2016 remained unchanged. Outliers are reported to the relevant risk committees (on both an ad hoc and quarterly basis), i.e. when the negative P&L result exceeds the one-day HVaR for either of the two back-tests imposed by the regulator.

The following table shows the number of outliers for the three Approved Internal Models (AIM) in 2016 and 2015.

	KBC Bank AIM		KBC Investments Limited AIM		ČSOB CR AIM	
Number of outliers of the Approved Internal Models of KBC group						
2016	Hypothetical	Actual	Hypothetical	Actual	Actual	Theoretical
2015	Hypothetical	Theoretical	Hypothetical	Theoretical	Actual	Theoretical
2016	3	3	0	0	1	0
2015	7	7	0	0	5	9

As can be seen in the table, even allowing for the different methodology, there were fewer outliers in 2016 for both KBC Bank and ČSOB (Czech Republic) AIMs than in 2015, reflecting less volatile markets in the last three quarters of 2016. As has been the case for the last few years, there were no outliers for the KBC Investments Limited AIM. For the KBC Bank AIM, two of the outliers occurred during the first quarter of 2016 (on 28 January and 8 February) when the Chairman of the United States Federal Reserve announced delays in raising rates 'due to volatile markets'. Other events when the outliers took place included the Bank of Japan unexpectedly introducing negative interest rates and concerns about Deutsche Bank's financial health. The other outlier was on position date 23 June 2016 in the ensuing market chaos following the unexpected outcome of the Brexit referendum. The outlier for the ČSOB (Czech Republic) AIM (on 18 October 2016) was due to the effect on the residual positions held at ČSOB (Czech Republic) of a huge liquidity surplus and speculation on the Czech koruna strengthening after signs that the CNB would cease to intervene on the market sometime in 2017.

Graphs comparing the one-day HVaR with the daily P&L results during 2016 at AIM level:



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

Validation and reconciliation

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

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

Valuation

One of the building blocks of sound risk management is prudent valuation. A daily independent middle-office valuation of front-office positions is performed. Whenever the independent nature or the reliability of the valuation process is not guaranteed, we perform a monthly parameter review. Where applicable, adjustments to the fair value are made to reflect close-out costs, adjustments for less liquid positions or markets, mark-to-model-related valuation adjustments, counterparty risk, liquidity risk and operations-related costs.

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

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

The KBC valuation methodology of the most commonly used financial instruments is summarised in Note 1.0 of the 2016 Annual Report of KBC Group NV.

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



Non-Financial Risks

Operational risk

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

This definition is in line with the definition in the Basel II Capital Accord and the Capital Requirements Directive.

Information on legal disputes is provided in Note 5.7 of the 'Consolidated financial statements' section of the 2016 Annual Report of KBC Group NV.

KBC's operational risk management framework covers all entities in which it, directly or indirectly, holds at least 50% of the shares or in respect of which it has the power de jure or de facto to exercise a decisive influence on the appointment of the majority of its directors or managers.

Information is presented below on operational risk governance, the tools used to manage operational and other non-financial risks and the capital charges for them.

Operational risk governance

We have a single, global framework for managing operational risk across the entire group.

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

In early 2016, a new Competence Centre for Operational Risk was set up following a review of the 'Three Lines of Defence' model. It sets the standards for managing and monitoring operational risks within the group and also includes the Competence Centre for Information Risk Management, which deals with cyber risk, among other things.

The main tasks of the Competence Centre for Operational Risk are to:

- plan and perform independent 'in-depth' challenges of internal controls on behalf of senior management;
- provide oversight and reasonable assurance on the effectiveness of controls executed to reduce operational risk;
- inform senior management and oversight committees on the operational risk profile;
- define the operational risk management framework and approach for the group;
- create an environment where risk specialists (in various areas, including information risk management, business continuity and disaster recovery, compliance, anti-fraud, legal, tax and

accounting matters) can work together (setting priorities, using the same language and tools, uniform reporting, etc.). It is assisted by the local risk management units, which are likewise independent of the business.

The building blocks for managing operational risks

Since 2011, specific attention has been given to the structured set-up of process-based Group Key Controls. 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. Our Group Key Controls now cover the complete process universe of the group (68 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.

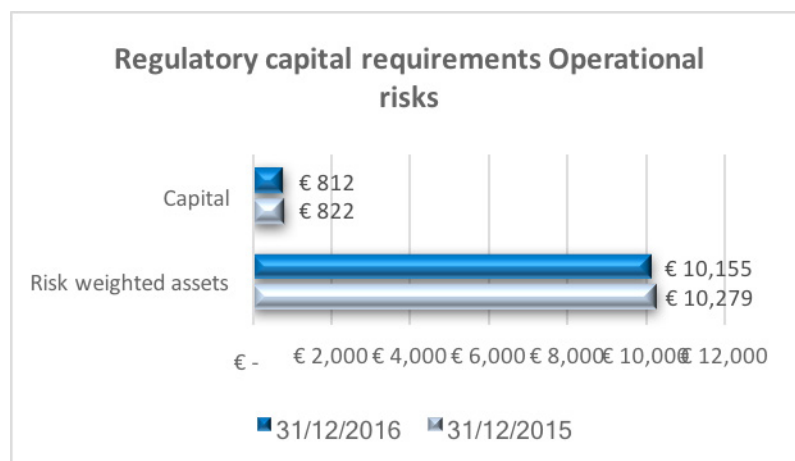
The business and (local) control functions assess these Group Key Controls. The risk self-assessments are consolidated at the Group Risk function and ensure that there is a consistent relationship between (i) processes, (ii) risks, (iii) control activities and (iv) assessment scores. In 2016, KBC implemented a management tool to evaluate its internal control environment and to benchmark the approach across its entities. In this regard, it consolidates operational risk information flows across the business, risk, audit and compliance functions.

In line with the other risk types, we use a number of building blocks for managing operational risks, which cover all aspects of operational risk management:

- Risk identification: identifying operational risks involves following up legislation, as well as using the New and Active Product Process, risk scans, key risk indicators, deep dives and risk signals.
- Risk measurement: as operational risk is embedded in all aspects of the organisation, measures that support quantification of the risk profile are available at the level of each entity, process and risk. Single or aggregated loss events are captured and measured for any failing or non-existent controls.
- Setting and cascading risk appetite: the risk appetite for operational risk is set in line with the overall requirements as defined in our overarching risk management framework.
- Risk analysis, reporting and follow-up:
 - Prevention: ex ante risk analysis.
 - Remedial action: ex post risk analysis.
 - Reporting: the quality of the internal control environment and related risk exposure is reported to KBC's senior management via a management dashboard and to the National Bank of Belgium and the FSMA via the annual Internal Control Statement.
 - Risk response and follow-up.
- Stress testing: an annual stress test is performed to assess the adequacy of pillar 1 operational risk capital.

Operational risk and regulatory capital requirements

We use the Standardised approach for operational risk under Basel III. Operational risk capital at KBC group level totalled 822 million euros at the end of 2015 and 812 million euros at the end of 2016.



Risk weighted assets and the pillar 1 operational risk capital remained stable compared to the previous year. For divested entities, KBC keeps operational risk capital (under pillar 2) in line with the outstanding contractual liabilities.

Additional focus on Information Risk Management

The Group Competence Centre For Information Risk Management (IRM) focuses on information security and IT-related risks, especially risks caused by cybercrime.

At the end of 2015, the decision was taken to make a number of changes relating to information risk management. Firstly, the Group CRO became the CRO responsible for the entities belonging to CFO Services and Corporate Staff Services, including IT (the first line of defence). All major decisions at these entities are now presented to the Group Executive Committee, on which the Group CRO sits. Secondly, the former Information Risk Management Practice function was re-positioned as the Group Competence Centre for Information Risk Management (IRM) in the new Group Operational Risk unit, under the Senior General Manager of Group Risk (the second line of defence). This unit is an independent assurance provider and risk ambassador, headed up by the Group Information Security Officer. It focuses on information risks, such as information security, cybercrime, operational risks for IT, vendors and third parties, the cloud, etc. It shapes the information risk framework, provides oversight, enables risk governance and helps the group's entities to strengthen their risk capabilities by:

- developing and measuring group-wide information security and IT policies;
- driving risk governance via group-wide risk reporting and oversight;
- conducting independent investigations via group-wide challenges, detailed investigations and observations;

- turning the community of information security officers into an active, strong alliance by offering on-site coaching and support;
- owning the cyber maturity tool and methodology.

Reputational risk

Reputational risk is the risk arising from the negative perception on the part of clients, counterparties, shareholders, investors, debt-holders, market analysts, other relevant parties or regulators that can adversely affect a financial institution's ability to maintain existing, or establish new business relationships and to have continued access to sources of funding (for instance, through the interbank or securitisation markets).

Reputational risk is mostly a secondary or derivative risk since it is usually connected to and will materialise together with another risk.

We refined the Reputational Risk Management Framework in 2016, in line with the KBC Risk Management Framework. The pro-active and re-active management of reputational risk is the responsibility of the business, supported by many specialist units (including Group Communication and Group Compliance).

Under the pillar 2 approach to capital, the impact of reputational risk on the current business is covered in the first place by the capital charge for primary risks (including credit or operational risk, etc.).

Business and strategic risks

Business risk is the risk arising from changes in external factors (the macroeconomic environment, regulations, client behaviour, competitive landscape, socio-demographic environment, etc.) that impact the demand for and/or profitability of our products and services. Strategic risk is the risk caused by not taking a strategic decision, by taking a strategic decision that does not have the intended effect or by not adequately implementing strategic decisions.

Business and strategic risks are assessed as part of the strategic planning process, starting with a structured risk scan that identifies the top financial and non-financial risks. Exposure to the identified business and strategic risks is monitored on an ongoing basis. Besides the risk scan, business and strategic risks are continually monitored by means of risk signals being reported to top management. In addition, these risks are discussed during the aligned planning process and are quantified under different stress test scenarios and long-term earnings assessments.

Under the pillar 2 approach to capital, business risk is incorporated by performing a one-year stress test on profit or loss.



Market Risk
Management
(non-trading)

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 our commercial activity or in our long-term positions (banking and insurance). Trading activities are consequently not included. Structural exposure can also be described as a combination of:

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

Strategy and processes

Management of the ALM risk strategy at KBC is the responsibility of the Group Executive Committee, assisted by the Group ALCO, which has representatives from both the business side and the risk function.

Managing the ALM risk on a daily basis starts with risk awareness at Group Treasury and the local treasury functions. The treasury departments measure and manage interest rate risk on a playing field defined by the risk appetite. They take into account measurement of prepayment and other option risks in KBC's banking book, and manage a balanced investment portfolio. KBC's ALM limits are approved at two levels. Primary limits for interest rate risk, equity risk, and real estate risk for the consolidated entities are approved by the Board of Directors. Secondary limits for interest rate risk, equity risk, real estate risk and foreign exchange risk are approved for each entity by the Executive Committee. Together this forms the playing field for KBC's solid first line of defence for ALM risk.

KBC's second line of defence is the responsibility of Group Risk and the local risk departments. Their main task is to measure ALM risks and flag up current and future risk positions. A common rulebook and shared group measurement infrastructure ensures that these risks are measured consistently throughout the group. The ALM Risk Rulebook has been drawn up by Group Risk.

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

- a broad range of risk measurement methods such as Basis-Point-Value (BPV), gap analysis and economic sensitivities;
- net interest income simulations performed under a variety of market scenarios. Simulations over a multi-year period are used in budgeting and risk processes;

- capital sensitivities arising from banking book positions that impact available regulatory capital (e.g., available-for-sale bonds).
- stress testing and sensitivity analysis.

Scope of non-trading market risk disclosures

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

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

Interest rate risk

Interest rate risk for the banking activities

The main technique used to measure interest rate risks is the 10 BPV method, which measures the extent to which the value of the portfolio would change if interest rates were to go up by ten basis points across the entire swap curve (negative figures indicate a decrease in the value of the portfolio). We also use other techniques such as gap analysis, the duration approach, scenario analysis and stress testing (both from a regulatory capital perspective and from a net income perspective).

Impact of a parallel 10-basis-point increase in the swap ² curve for the KBC group (in millions of EUR)	Impact on value ¹	
	2016	2015
Banking	-83	-30
Insurance	5	10
Total	-79	-20

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

² From 2016 – and in accordance with changing market standards – sensitivity figures are based on a risk-free curve (swap curve).

We manage the ALM interest rate positions of the banking entities via a system of market-oriented internal pricing for products with a fixed maturity date, and via a replicating portfolio technique for products without a fixed maturity date (e.g., current and savings accounts).

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

Swap BPV (10 basis points) of the ALM book, banking activities* (in millions of EUR)	2016	2015
Average for 1Q	-24	-63
Average for 2Q	-35	-46
Average for 3Q	-50	-33
Average for 4Q	-83	-30
As at 31 December	-83	-30
Maximum in year	-83	-63
Minimum in year	-24	-30

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

In line with the Basel guidelines, we conduct a 200-basis-point stress test at regular intervals. It sets off the total interest rate risk in the banking book (given a 2% parallel shift in interest rates) against total capital and reserves. For the banking book at KBC group level, this risk came to 5.95% of total capital and reserves at year-end 2016. This is well below the 20% threshold, which is monitored by the National Bank of Belgium.

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

Interest sensitivity gap of the ALM book (including derivatives), banking activities (in millions of EUR)	≤ 1 month	1–3 months	3–12 months	1–5 years	5–10 years	> 10 years	Non-interest-bearing	Total
31-12-2016	-3 218	-2 698	7 941	6 631	7 421	2 780	-18 856	0
31-12-2015	-20 413	300	13 132	15 847	8 163	-4 006	-13 024	0

The interest sensitivity gap shows our overall long position in interest rate risk. Generally, assets reprice over a longer term than liabilities, which means that KBC's net interest income benefits from a normal yield curve. The economic value of the KBC group is sensitive primarily to movements at the long-term end of the yield curve.

An analysis of net interest income is performed by measuring the impact of a one percent upward shock to interest rates over a one-year period, assuming a constant balance sheet. For the banking activities, the analysis shows that net interest income would remain under pressure over the next year due to the low rate environment. If rates increased by 1%, we could expect net interest income to improve by between 1% and 1.5%.

Interest rate risk for the insurance activities

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

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

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

Expected cashflows (not discounted), life insurance activities (in millions of EUR)						
	0–5 years	5–10 years	10–15 years	15–20 years	> 20 years	Total
31-12-2016						
Fixed-income assets backing liabilities, guaranteed component	9 248	5 097	2 340	1 560	1 147	19 391
Liabilities, guaranteed component	8 832	3 836	2 316	1 767	2 818	19 570
Difference in expected cashflows	416	1 260	24	-207	-1 672	-179
Mean duration of assets						6.50 years
Mean duration of liabilities						7.90 years
31-12-2015						
Fixed-income assets backing liabilities, guaranteed component	10 309	4 368	2 469	1 259	1 264	19 671
Liabilities, guaranteed component	9 860	3 371	2 292	1 769	2 802	20 094
Difference in expected cashflows	449	997	177	-509	-1 538	-423
Mean duration of assets						5.94 years
Mean duration of liabilities						7.29 years

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

Breakdown of the reserves for non-unit-linked life insurance by guaranteed interest rate, insurance activities	31-12-2016	31-12-2015
5.00% and higher ¹	2%	3%
More than 4.25% up to and including 4.99%	9%	10%
More than 3.50% up to and including 4.25%	5%	5%
More than 3.00% up to and including 3.50%	9%	21%
More than 2.50% up to and including 3.00%	19%	20%
2.50% and lower ²	52%	40%
0.00%	2%	2%
Total	100%	100%

¹ Contracts in Central and Eastern Europe.

² Starting from 2016, future returns on specific insurance contracts under Belgian law have been indexed to the market (with a threshold at 1.75%).

Aggregate interest rate risk for the KBC group

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

Interest Rate Risk – swap BPV in thousands of EUR – 31-12-2016									
	Overall	EUR	CHF	USD	GBP	CZK	HUF	PLN	Other
Banking activities	-83 411	-77 301	1	1 407	-54	-3 303	-4 276	-1	115
Insurance activities	4 599	4 565	-18	4	0	561	-376	0	-138
Total*	-78 823	-72 756	-17	1 411	-54	-2 734	-4 652	1	-23
Interest Rate Risk – swap BPV in thousands of EUR – 31-12-2015									
	Overall	EUR	CHF	USD	GBP	CZK	HUF	PLN	Other
Banking activities	-29 650	-30 520	11	4 351	-17	-774	-2 711	-4	13
Insurance activities	10 098	9 678	-43	-15	0	795	-89	0	-228
Total*	-19 556	-20 851	-33	4 337	-17	22	-2 800	0	-214

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

Credit spread risk

We manage the credit spread risk for, inter alia, the sovereign portfolio by monitoring the extent to which the value of the sovereign bonds would change if credit spreads were to go up by 100 basis points across the entire curve. This economic sensitivity is illustrated in the table below, together with a breakdown per country.

Exposure to sovereign bonds at year-end 2016, 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 2015	Economic impact of +100 basis points ³
KBC core countries								
Belgium	5 496	15 231	28	0	130	20 886	22 276	-1 110
Czech Rep.	2 341	5 022	0	12	168	7 543	7 496	-414
Hungary	721	1 458	0	4	176	2 358	2 161	-96
Slovakia	1 362	1 590	0	0	1	2 953	2 915	-182
Bulgaria	471	15	0	0	1	487	390	-31
Ireland	433	774	0	0	1	1 207	1 038	-65
Southern Europe								
Greece	0	0	0	0	0	0	0	0
Portugal	323	36	0	0	0	359	385	-22
Spain	2 760	256	0	0	1	3 017	2 951	-182
Italy	2 132	115	0	0	3	2 250	2 739	-141
Other countries								
France	2 944	3 843	0	0	137	6 924	5 512	-558
Poland	1 229	270	12	0	4	1 515	1 068	-86
Germany	326	523	0	0	2	850	803	-41
Austria	308	489	0	0	0	796	817	-53
Netherlands	102	399	0	0	1	502	516	-31
Rest ²	2 035	2 112	7	0	88	4 243	3 727	-186
Total carrying value	22 982	32 131	47	16	713	55 889	54 796	–
Total nominal value	20 005	30 413	43	16	572	51 048	40 956	–

1 The carrying amount refers to the amount at which an asset or a liability is recognised in the company's books. This is the fair value amount for instruments categorised as available for sale, designated at fair value through profit or loss and held for trading and the amount at amortised cost for instruments categorised as held to maturity. This table excludes exposure to supranational entities of selected countries. No material impairment on the government bonds in portfolio.

2 Sum of countries whose individual exposure is less than 0.5 billion euros at year-end 2016.

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 -8 million euros at year-end 2016).

Main changes in 2016:

- The carrying value of the total sovereign bond exposure increased by 1.1 billion euros. There was a significant increase in exposure to bonds issued by France (+1.4 billion euros), Poland (+0.4 billion euros) and Hungary (+0.2 billion euros), but a decrease in exposure to Belgium (-1.4 billion euros) and Italy (-0.5 billion euros).

Revaluation reserve for available-for-sale assets at year-end 2016:

- The carrying value of the total available-for-sale government bond portfolio incorporated a revaluation reserve of 1.8 billion euros, before tax (0.2 billion euros of which at KBC Bank).
- This included 630 million euros for Belgium, 214 million euros for Italy, 203 million euros for France, 179 million euros for Spain, and 530 million euros for the other countries combined.

Portfolio of Belgian government bonds:

- Belgian sovereign bonds accounted for 37% of our total government bond portfolio at the end of 2016, reflecting the importance to KBC of Belgium, the group's primary core market. The importance of Belgium, in general, is also reflected in the 'Loan and investment portfolio' table at the start of the 'Credit risk' section, in the contribution that Belgium makes to group profit and in the various components of the result (see 'Notes on segment reporting' under 'Consolidated financial statements' in the 2016 Annual Report of KBC Group NV).
- At year-end 2016, 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 on the rating agencies' websites.
- Apart from interest rate risk, the main risk to our holdings of Belgian sovereign bonds is a widening of the credit spread. The potential impact of a 100-basis-point upward shift in the spread (by year-end 2016) can be broken down as follows:
 - Theoretical full economic impact (see previous table): the impact on IFRS profit or loss is very limited since the lion's share of the portfolio of Belgian sovereign bonds was classified as 'Available For Sale' (26%, impact only upon realisation) and 'Held To Maturity' (73%, no impact on profit or loss); the impact on IFRS unrealised gains on available-for-sale assets is -218 million euros (after tax) for an increase of 100 basis points.
 - Impact on liquidity: a widening credit spread affects the liquidity coverage ratio (LCR), but the group has a sufficiently large liquidity buffer.

Equity risk

The main exposure to equity is within our insurance business, where the ALM strategies are based on a risk-return evaluation, account taken of the market risk attached to open equity positions. Please note that a large part of the equity portfolio is held for the DPF of insurance liabilities (especially profit-sharing in the Belgian market). Apart from the insurance entities, smaller equity portfolios are also held by other group entities, e.g., KBC Bank and KBC Asset Management. We have provided more information on total non-trading equity exposures at KBC in the tables below.

Equity portfolio of the KBC group (breakdown by sector, in %)	Banking activities		Insurance activities		Group	
	31-12-2016	31-12-2015	31-12-2016	31-12-2015	31-12-2016	31-12-2015
Financials	60%	71%	21%	19%	28%	24%
Consumer non-cyclical	0%	0%	13%	14%	11%	12%
Communication	0%	1%	2%	3%	1%	3%
Energy	0%	0%	7%	5%	6%	5%
Industrials	26%	25%	34%	36%	33%	35%
Utilities	0%	0%	2%	4%	2%	3%
Consumer cyclical	5%	1%	15%	13%	13%	12%
Materials	0%	0%	6%	5%	5%	5%
Other and not specified	9%	2%	1%	1%	2%	2%
Total	100%	100%	100%	100%	100%	100%
In billions of EUR	0.26	0.25	1.35	1.6	1.6*	1.8
of which unlisted	0.1	0.1	0.0	0.0	0.1	0.1

* The main differences between the 1.6 billion euros in this table and the 2.2 billion euros for 'Equity instruments' in the table appearing in Note 4.1 of the 'Consolidated financial statements' section – besides a number of minor differences in the scope of consolidation – are that:

- (a) Shares in the trading book (0.4 billion euros) are excluded above, but are included in the table in Note 4.1.
- (b) Real estate participations that are not consolidated are classified as 'investments in building' in this table, but classified as 'shares' in the table in Note 4.1 (as they are not consolidated).
- (c) Most 'investments in funds' are treated on a 'look-through' basis (according to the underlying asset mix of the fund and therefore also partially classified as 'fixed-income instruments'), whereas they are classified as 'shares' in the table in Note 4.1.

Impact of a 25% drop in equity prices (in millions of EUR)	Impact on value	
	2016	2015
Banking activities	-64	-61
Insurance activities	-329	-397
Total	-393	-458

Non-trading equity exposure (in millions of EUR)	Net realised gains (in income statement)		Net unrealised gains on year-end exposure (in equity)	
	31-12-2016	31-12-2015	31-12-2016	31-12-2015
Banking activities	113	31	123	238
Insurance activities	53	105	375	320
Total*	165	136	503	573

* The total figure includes gains from some equity positions directly attributable to the KBC group. Gains from joint participations involving the banking and insurance entities of the KBC group have been eliminated, since these participations are consolidated at group level.

Real estate risk

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

Impact of a 25% drop in real estate prices (in millions of EUR)	Impact on value	
	2016	2015
Bank portfolios	-92	-95
Insurance portfolios	-55	-60
Total	-146	-155

Inflation risk

KBC's exposure to inflation is secondary in nature, i.e. via changes in interest rates. We monitor and hedge this risk in line with the policy for managing interest rate risk (see above). The direct exposure of KBC to the inflation risk is limited and mainly arises from contractual payments that are linked to wage inflation, e.g., in the non-life insurance business in Central Europe and in the pension fund for own employees.

Foreign exchange risk

We pursue a prudent policy as regards our structural currency exposure, essentially seeking to avoid currency risk. Foreign exchange exposures in the ALM books of banking entities with a trading book are transferred to the trading book where they are managed within the allocated trading limits. The foreign exchange exposure of banking entities without a trading book, of the insurance entities and of other entities has to be hedged, if material. Equity holdings in non-euro currencies that are part of the investment portfolio do not need to be hedged. Participating interests in foreign currency are in principle funded by borrowing an amount in the relevant currency equal to the value of the net assets excluding goodwill.

Capital sensitivity to market movements

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

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

CET1 sensitivity to main market drivers (under Danish compromise), KBC group (as % of CET1)		
IFRS impact caused by	31-12-2016	31-12-2015
+100-basis-point parallel shift in interest rates	-0.2%	-0.04%
+100-basis-point parallel shift in spread	-0.9%	-0.8%
-25% in equity prices	-0.3%	-0.2%
Joint scenario	-1.3%	-1.1%



Liquidity Risk Management

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 our liquidity management is to be able to fund the group and to enable the core business activities of the group to continue to generate revenue, even under adverse circumstances. Since the financial crisis, there has been a greater focus on liquidity risk management throughout the industry, and this has been intensified by the minimum liquidity standards defined by the Basel Committee, which have been transposed into European law through CRD IV/CRR.

Strategy and processes

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 the KBC group. The Group Treasury function monitors and steers the liquidity profile on a daily basis and sets the policies and steering mechanisms for funding management (intra-group funding, funds transfer pricing). These policies ensure that local management has an incentive to work towards a sound funding profile. It also actively monitors its collateral on a group-wide basis and is responsible for drafting the liquidity contingency plan that sets out the strategies for addressing liquidity shortfalls in emergency situations.

Our liquidity risk management framework is based on the following pillars:

- **Contingency liquidity risk.** This risk is assessed on the basis of liquidity stress tests, which measure how the liquidity buffer of the group's bank entities changes under extreme stressed scenarios. This buffer is based on assumptions regarding liquidity outflows (retail customer behaviour, professional client behaviour, drawing of committed credit lines, etc.) and liquidity inflows resulting from actions to increase liquidity ('repoing' the bond portfolio, reducing unsecured interbank lending, etc.). The liquidity buffer has to be sufficient to cover liquidity needs (net cash and collateral outflows) over (i) a period that is required to restore market confidence in the group following a KBC-specific event, (ii) a period that is required for markets to stabilise after a general market event and (iii) a combined scenario, which takes a KBC-specific event and a general market event into account. The overall aim of the liquidity framework is to remain sufficiently liquid in stress situations, without resorting to liquidity-enhancing actions which would entail significant costs or which would interfere with the core banking business of the group.
- **Structural liquidity risk.** We manage our funding structure so as to maintain substantial diversification, to minimise funding concentrations in time buckets, and to limit the level of reliance on short-term wholesale funding. We manage the structural funding position as part of the integrated strategic planning process, where funding – in addition to capital, profits and risks – is one of the key elements. At present, our strategic aim for the next few years is to build up a

sufficient buffer in terms of LCR and NSFR via a funding management framework, which sets clear funding targets for the subsidiaries (own funding, reliance on intra-group funding) and provides further incentives via a system of intra-group pricing to the extent subsidiaries run a funding mismatch.

In the table below, we have illustrated the structural liquidity risk by grouping the assets and liabilities according to the remaining term to maturity (contractual maturity date). The difference between the cash inflows and outflows is referred to as the 'net funding gap'. At year-end 2016, KBC had attracted 32 billion euros' worth of funding on a gross basis from the professional interbank and repo markets.

- 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.

Scope of liquidity risk management

The liquidity risk report covers most material entities of the KBC group that carry out banking activities, i.e. KBC Bank NV, CBC Banque SA, KBC Lease, KBC Investments Limited (formerly KBC Financial Products), ČSOB Czech Republic, ČSOB Slovak Republic, KBC Bank Ireland, CIBANK, KBC Credit Investments, KBC Finance Ireland, KBC Commercial Finance, IFIMA and K&H Bank.

Structural liquidity risk

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

Liquidity risk (excluding intercompany deals)* (in billions of EUR)	<= 1 month	1-3 months	3-12 months	1-5 years	5-10 years	> 10 years	On demand	not defined	Total
31-12-2016									
Total inflows	22	8	19	56	50	33	19	32	239
Total outflows	39	12	14	31	14	1	103	26	239
Professional funding	17	7	1	6	1	0	0	0	32
Customer funding	19	5	6	9	1	0	102	0	143
Debt certificates	1	0	6	16	11	1	0	0	36
Other	3	–	–	–	–	–	–	26	29
Liquidity gap (excl. undrawn commitments)	-18	-4	5	26	37	32	-84	7	0
Undrawn commitments	–	–	–	–	–	–	–	-34	–
Financial guarantees	–	–	–	–	–	–	–	-10	–
Net funding gap (incl. undrawn commitments)	-18	-4	5	26	37	32	-84	-38	-44
31-12-2015									
Total inflows	17	11	15	56	48	34	4	34	218
Total outflows	34	14	10	28	12	1	93	26	218
Professional funding	15	4	1	6	1	0	0	0	28
Customer funding	17	10	6	9	3	0	93	0	138
Debt certificates	0	0	3	13	8	1	0	0	24
Other	2	–	–	–	–	–	–	26	28
Liquidity gap (excl. undrawn commitments)	-17	-3	6	28	36	33	-90	8	0
Undrawn commitments	–	–	–	–	–	–	–	-37	–
Financial guarantees	–	–	–	–	–	–	–	-9	–
Net funding gap (incl. undrawn commitments)	-17	-3	6	28	36	33	-90	-38	-46

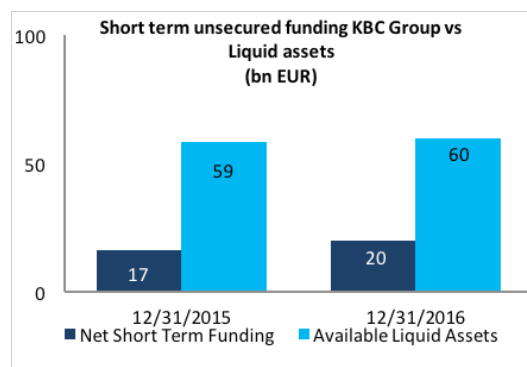
* Cashflows exclude interest rate flows consistent with internal and regulatory liquidity reporting. Inflows/outflows that arise from margin calls posted/received for MtM positions in derivatives are reported in the 'not defined' bucket. 'Professional funding' includes all deposits from credit institutions and investment firms, as well as all repos. Instruments are classified on the basis of their first callable date. Some instruments are reported at fair value (on a discounted basis), whereas others are reported on an undiscounted basis (in order to reconcile them with Note 4.1 of the 'Consolidated financial statements' section of the Annual Report of KBC Group NV). Due to the uncertain nature of the maturity profile of undrawn commitments and financial guarantees, these instruments are reported in the 'not defined' bucket. The category 'Other' under 'Total outflows' contains 'own equity, short positions, provisions for risks and charges, tax liabilities and other liabilities.

Typical for a banking group, funding sources generally have a shorter maturity than the assets that are funded, leading to a negative net liquidity gap in the shorter time buckets and positive net liquidity gap in the longer term buckets. This creates liquidity risk if we would be unable to renew maturing short-term funding. Our liquidity framework imposes a funding strategy to ensure that the liquidity risk remains within the group's risk appetite.

Liquid asset buffer

We have a solid liquidity position. At year-end 2016, the KBC group had 60 billion euros' worth of unencumbered central bank eligible assets, 45 billion euros of which in the form of liquid government bonds (75%). The remaining available liquid assets were mainly other ECB/ FED eligible bonds (10%) and pledgeable credit claims (4%). Most of the liquid assets are expressed in euros, Czech koruna and

Hungarian forint (all home market currencies). Unencumbered liquid assets were three times the net recourse to short-term wholesale funding, while funding from non-wholesale markets was accounted for by stable funding from core customer segments in our core markets.



Funding information

We have a strong retail/mid-cap deposit base in our core markets, resulting in a stable funding mix. A significant portion of the funding is attracted from core customer segments and markets.

The KBC group's funding mix (at 31 December 2016) can be broken down as follows:

- Funding from customers (circa 145 billion euros, 69% of the total figure), consisting of demand deposits, time deposits, savings deposits, other deposits, savings certificates and debt issues placed in the network. Some 60% of the funding from customers relates to private individuals and SMEs.
- Debt issues placed with institutional investors (16 billion euros, 8% of the total figure), mainly comprising IFIMA debt issues (3 billion euros), covered bonds (7 billion euros), the contingent capital notes issued in January 2013 (0.9 billion euros), tier-2 issues (2 billion euros) and KBC Group NV senior debt (1.5 billion euros).
- Net unsecured interbank funding (17 billion euros, 8% of the total figure).
- Net secured funding (-2.4 billion euros in repo funding, -1% of the total figure) and certificates of deposit (17 billion euros, 8% of the total figure). Net secured funding was negative at year-end 2016 due to the fact that KBC carried out more reverse repo transactions than repo transactions (difference: -2.4 billion euros).
- Total equity (17 billion euros, 8% of the total figure, including an additional tier-1 issue of 1.4 billion euros).

Please note that:

- In November 2012, we announced our 10-billion-euro Belgian residential mortgage covered bonds programme. This programme gives KBC access to the covered bond market, allowing it to diversify its funding structure and reduce the cost of long-term funding. At the start of December 2012, we launched a first covered bond issue in the amount of 1.25 billion euros.

Since then, we have issued covered bonds each year (including 1.25 billion euros' worth in 2016).

- In 2016, we borrowed 4.2 billion euros from the ECB under the targeted long-term refinancing operations (TLTRO II).

LCR and NSFR

Both the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) are defined in the 'Glossary of ratios and terms'. At year-end 2016, our NSFR stood at 125% and our LCR at 139%. Our NSFR and LCR are both well above the minimum regulatory requirements and KBC's internal floors of 105%.

Asset encumbrance

KBC is a retail-oriented bank that finances 69% of its assets by means of customer funding. A certain reliance on long-term wholesale funding is tolerated and even desired for bail-in purposes, funding diversification and cost optimisation purposes. By the end of 2012, KBC received approval to set up a covered bond programme, which has further diversified the investor base and offers the bank access to funding markets that remain open in times of market stress. The regulator imposed a limit on the programme corresponding to 8% of the balance sheet of KBC Bank NV (stand-alone), or 10 billion euros. When the programme reaches full capacity, it will account for about 50% of all long-term institutional wholesale funding raised by KBC. Covered bonds are not intended to increase the overall size of the balance sheet, as other sources of funding will merely be replaced by covered bonds. As a consequence, covered bonds do not negatively affect the solvency ratios or leveraging of KBC Bank.

Besides covered bonds, KBC has also rendered part of its mortgage book liquid via the creation of Residential Mortgage-Backed Securities (RMBS) notes that are almost fully retained on the balance sheet. Their prime purpose is therefore not to attract funding, but to enhance liquidity.

A relatively small part of the loan book is pledged directly as collateral for intraday liquidity and for Targeted Longer-Term Refinancing Operations (TLTROs) or other ECB funding. KBC prefers to record non-LCR collateral for these operations, thereby safeguarding the LCR-eligible liquidity buffer. Using this illiquid collateral increases encumbrance in relative terms due to the high haircut used.

KBC has imposed an internal limit of 25% on the share of secured funding in the total funding mix of KBC Bank (consolidated). In this regard, secured funding includes net repo exposure (both long term and short term), covered bonds and securitised exposure amounts issued by KBC and effectively sold on the market.

In addition to encumbered loans in the cover pool, KBC commits to maintain unencumbered cover assets (outside the cover pool) amounting to at least 5% of the total covered bond programme. This buffer can be used if there are breaches of cover asset tests, breaches of liquidity tests and breaches of committed overcollateralisation levels. The buffer should preferably be composed of mortgage loans, but can also consist of liquid ECB eligible assets. Given the regulatory imposed limit of 8% on cover assets, there should be more than sufficient mortgage assets available for the additional buffer.

The tables below show in more detail the asset encumbrance for KBC Bank (consolidated). The total volume of encumbered assets amounts to 40 billion euros, 47% of which debt securities (18.6 billion euros issued by general governments and 0.3 billion euros issued by financial corporations) and 53% loans and advances (of which 10.8 billion euros in mortgage loans).

Template A-Assets		Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
		010	040	060	090
010	Assets of the reporting institution	40 355 185 618		202 143 195 642	
030	Equity instruments	0	0	832 087 194	0
040	Debt securities	18 996 375 820	18 996 375 820	32 373 303 196	32 783 662 368
120	Other assets	21 358 809 798		168 937 805 252	

All the collateral received that is encumbered are debt securities issued by general governments for a total amount of 1 billion euros.

Template B-Collateral received		Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
		010	040
130	Collateral received by the reporting institution	1 029 409 644	21 398 014 050
150	Equity instruments	0	0
160	Debt securities	1 029 409 644	21 398 014 050
230	Other collateral received	0	0
240	Own debt securities issued other than own covered bonds or ABSs	0	0

The sources of asset encumbrance (i.e. the matching financial liabilities in the table below) total 32.4 billion euros and consist mainly of:

- OTC derivatives (8.9 billion euros, 28% of the total figure)
- Repurchase agreements (9.7 billion euros, 30% of the total figure)
- TLTROs (4.2 billion euros, 13% of the total figure)
- Other secured financing, excl. retail (1 billion euros, 3% of the total figure)
- Own covered bonds issued (8.4 billion euros, 26% of the total figure)

Template C-Encumbered assets/collateral received and associated liabilities

		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
		010	030
010	Carrying amount of selected financial liabilities	32 466 579 390	41 384 595 262



Insurance Risk Management

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

Strategy and processes

The Group risk function develops and rolls out a group-wide framework for managing insurance risks. It is responsible for providing support for local implementation and for the functional direction of the insurance risk management process of the insurance subsidiaries.

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

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

Scope of insurance risk management

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

Insurance risk classification

Part of the risk identification process consists of reliably classifying all insurance risks that may be triggered by (re)insurance contracts.

Under the Solvency II directive, insurance activities are split up into three main categories, namely Life, Non-life and Health.

- **Life insurance risks** are further split up into catastrophe risks and non-catastrophe risks. Life non-catastrophe risks cover the biometric risks (longevity, mortality and disability-morbidity risk), revision risk, expense risk and lapse risk related to life insurance contracts.

- **Non-life insurance risks** are further split up into catastrophe and non-catastrophe risks. Non-life non-catastrophe risks cover the premium risk, reserve risk and lapse risk related to non-life insurance contracts.
- **Health risks** are also split up into catastrophe risks and non-catastrophe risks. The latter are then further subdivided into Health Similar to Life Techniques (includes longevity, mortality, disability-morbidity, expense risk and lapse risk) and Health Non-Similar to Life Techniques (premium and reserve risk, lapse risk). In other words, all subtypes included under 'Life' and 'Non-life' also appear in the 'Health' category.

The various subtypes of insurance risk, linked to the different insurance categories (Life, Non-life and Health) are defined as follows:

- Catastrophe risk: the risk that a single damaging event, or series of correlated events, of major magnitude, usually over a well-defined, short time period leads to a significant deviation in actual claims from the total expected claims. A distinction is made between natural catastrophes (e.g., wind storms, floods, earthquakes) and man-made catastrophes (e.g., terrorist attacks like 9/11). Not only the non-life, but also the life insurance business can be exposed to catastrophes, such as the pandemic threat of bird flu or accidental events.
- Lapse risk: the risk that the actual rate of policy lapses (i.e. premature full or partial termination of the contract by the policyholder) differs from those used in pricing.
- Expense risk: the risk that the cost assumptions used in pricing or valuing insurance liabilities in terms of acquisition costs, administration costs or internal settlement costs, turn out to be too optimistic.
- Revision risk: the potential negative deviation from the expected value of an insurance contract or a portfolio thereof due to unexpected revisions of claims. Only to be applied to annuities where the amount of the annuity may be revised during the next year.
- Biometric risk: the potential negative deviation from the expected value of an insurance contract or a portfolio thereof due to unexpected changes related to human life conditions.
 - Longevity risk: the risk that the mortality rates used in pricing annuity products (or other products with negative capital at risk) turn out to be too high, i.e. people live longer than expected.
 - Mortality risk: the risk that the mortality rates used in pricing will turn out to be too low, i.e. people die earlier than expected.
 - Disability-morbidity risk: the risk that the part of the premium charged to cover hospitalisation or disability claims is not sufficient, due to a higher number of claims or more expensive claims than expected.
- Premium risk: the risk that the premium that will be earned next year will not be enough to cover all liabilities resulting from claims in this portfolio, due for instance to the fact that the number of claims will be higher than expected (frequency problem) or the severity of the claims will be higher than expected (severity problem)
- Reserve risk: the risk that the liabilities stemming from claims, which have occurred in the past, but have still to be finally settled, will turn out to be more expensive than expected.

Insurance risk measurement

We develop models from the bottom up for all material group-wide insurance liabilities, i.e. (i) future claims that will occur over a predefined time horizon, as well as the claims settlement pattern, (ii) the future settlement of claims (whether already reported to the insurer or not) that have occurred in the past but have not yet been fully settled, and (iii) the impact of the reinsurance programme on these claims. We use these models to steer the group's insurance entities towards creating more shareholder value, by means of applications to calculate the internal capital (ICM model), support decisions on reinsurance, calculate the ex post profitability of specific sub-portfolios and set off internal capital requirements against the relevant return in pricing insurance policies.

Insurance risk management has developed an internal model for the group-wide exposure to all non-life insurance risks, including natural hazards. This model measures the most material non-life insurance risks (catastrophe and premium & reserve risk) for all group insurance and reinsurance companies, with account being taken of outward reinsurance (external and intra group). The internally developed models follow the Risk Measurement Standards and are validated within this scope by the independent validation unit.

Insurance risk mitigation by reinsurance

The insurance portfolios are protected against the impact of large claims or the accumulation of losses (due, for instance, to a concentration of insured risks) by means of reinsurance. We divide these reinsurance programmes into three main groups, i.e. property insurance, liability insurance and personal insurance, and we re-evaluate and renegotiate them every year.

Most of our reinsurance contracts are concluded on a non-proportional basis, which provides cover against the impact of large claims or loss events. The independent insurance risk management function is also responsible for advising on the restructuring of the reinsurance programmes. This approach has resulted in optimising the retention of the KBC group particularly in respect of its exposure to natural catastrophe risk, but also in respect of other lines of business.

Best estimate valuations of insurance liabilities

As part of its mission to independently monitor insurance risks, the Group risk function regularly carries out in-depth studies. These confirm that there is a high degree of probability that the non-life technical provisions at subsidiary level are adequate. Adequacy is checked per business line at subsidiary level and the overall adequacy is assessed at subsidiary level for all business lines combined.

In addition, various group companies conduct Liability Adequacy Tests (LAT) that meet local and IFRS requirements for the life technical provisions. We make calculations using prospective methods (cashflow projections that take account of lapse rates and a discount rate that is set for each insurance entity based on local macroeconomic conditions and regulations), and build in extra market-value margins to deal with the factor of uncertainty in a number of parameters. Since no deficiencies were identified by year-end 2016, there was no need for a deficiency reserve to be set aside within the KBC group.

In the table below, an overview is provided of the KBC group's best estimate provisions, broken down across Solvency II lines of business at 31 December 2016.

Life lines of business:

Line of business	Best Estimate gross of reinsurance recoverables [EUR]	%
Total Best Estimate for Life excluding Health and Unit Linked categories	16 713 499 148	54.5%
30 Insurance with profit participation	16 536 040 694	53.9%
32 Other Life insurance	-17 806 616	-0.1%
34 Annuities stemming from Non life not related to health	16 725 784	0.1%
36 Life reinsurance	178 539 286	0,6%
Total Best Estimate for Health similar to Life	453 235 777	1.5%
29 Health reinsurance	110 932 996	0.4%
33 Annuities stemming from Non-life related to health	342 302 782	1.1%
Total Unit Linked Best Estimate and value as a whole	13 488 236 693	44.0%
31 Index-linked and unit linked insurance	13 488 236 693	44.0%
Total Best Estimate for Life provisions (incl. Health similar to Life and Unit Linked)	30 654 971 618	100.0%

Breakdown by Solvency II lines of business of best estimate for Life provisions gross of ceded reinsurance (situation at 31.12.2016)

Non-Life lines of business:

Line of business		Best Estimate gross of reinsurance recoverables [EUR]	%
Total Best Estimate for Non-Life excluding Health category		1 523 616 746	87.8%
04	Motor vehicle liability insurance	735 063 460	42.4%
05	Other Motor Insurance	49 977 182	2.9%
06	Marine, aviation and transport insurance	3 934 001	0.2%
07	Fire and other damage to property insurance	188 915 971	10.9%
08	General liability insurance	374 579 187	21.6%
09	Credit and suretyship insurance	425 644	0.0%
10	Legal Expenses insurance	103 412 920	6.0%
11	Assistance	5 252 482	0.3%
12	Miscellaneous financial loss	5 244 484	0.3%
16	Proportional Motor Vehicle Liability reinsurance	532 291	0.0%
17	Proportional Other Motor insurance reinsurance	0	0.0%
18	Proportional Marine, aviation and transport reinsurance	278 364	0.0%
19	Proportional Fire and other damage to property reinsurance	1 824 299	0.1%
20	Proportional General liability reinsurance	15 539 349	0.9%
21	Proportional Credit and suretyship reinsurance	-208 400	0.0%
22	Proportional Legal Expenses reinsurance	33 212	0.0%
24	Proportional Miscellaneous financial loss reinsurance	1 658 367	0.1%
26	Non-Proportional Casualty reinsurance	17 143 930	1.0%
27	Non-Proportional Property reinsurance	63 509	0.0%
28	Non-Proportional Marine, aviation and transport reinsurance	19 946 494	1.2%
Total Best Estimate for Health similar to Non-Life		210 729 945	12.2%
01	Medical Expense insurance	12 855 359	0.7%
02	Income Protection insurance	667 569	0.0%
03	Workers' Compensation insurance	193 518 658	11.2%
13	Proportional Medical expense reinsurance	115	0.0%
14	Proportional Income Protection reinsurance	674 890	0.0%
15	Proportional Workers' compensation reinsurance	2 011 462	0.1%
25	Non-Proportional Health Reinsurance	1 001 892	0.1%
Total Best Estimate for Non-life provisions		1 734 346 691	100.0%

Breakdown by Solvency II lines of business of the best estimate Non-Life provisions gross of ceded reinsurance (situation at 31.12.2016)

Technical provisions and loss triangles, non-life business

The table below shows claims settlement figures in the non-life business over the past few years and includes KBC Insurance NV, ČSOB Pojišť'ovna (Czech Republic), ČSOB Poist'ovňa (Slovakia), DZI Insurance (from financial year 2008), K&H Insurance, and KBC Group Re. All provisions for claims to be paid at the close of 2016 have been included. The claims-settlement figures incorporate all amounts that can be allocated to individual claims, including the Incurred But Not Reported (IBNR) and Incurred But Not Enough Reserved (IBNER) provisions, and the external claims handling expenses, but do not include internal claims settlement expenses and provisions for amounts expected to be recovered. The provision figures included are before reinsurance and have not been adjusted to eliminate intercompany amounts.

The first row in the table shows the total claims burden (claims paid plus provisions) for the claims that occurred during a particular year, as estimated at the end of the year of occurrence. The following rows indicate the situation at the end of the subsequent calendar years. We restated the amounts to reflect exchange rates at year-end 2016.

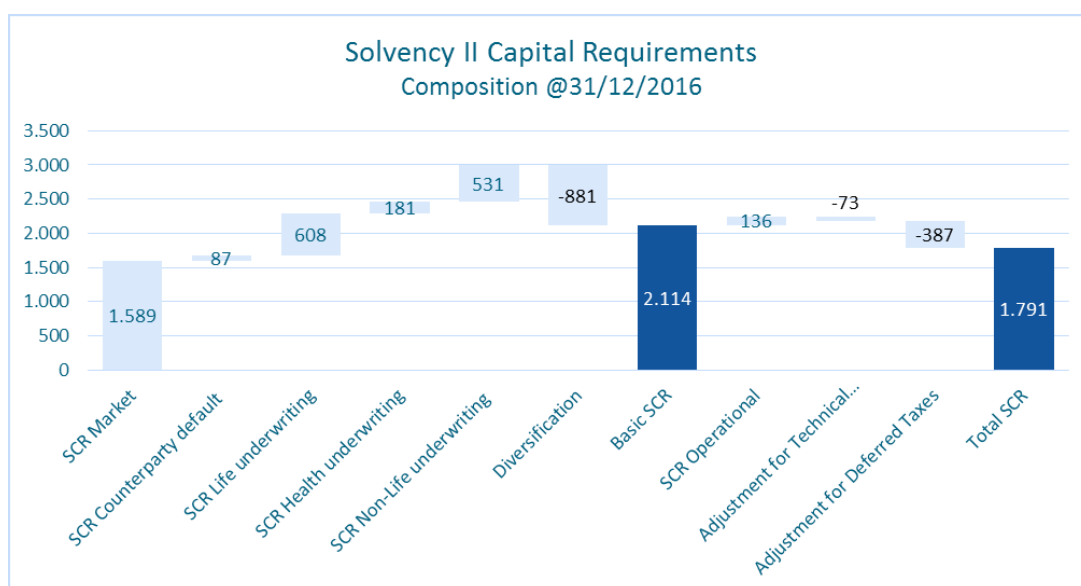
Loss triangles, KBC Insurance (in millions of EUR)	Year of occurrence									
	2007	2008*	2009	2010	2011	2012	2013	2014	2015	2016
Estimate at the end of the year of occurrence	687	792	824	871	810	849	916	994	948	1.049
1 year later	621	755	720	774	711	742	770	883	802	
2 years later	587	726	668	723	655	706	700	828	–	
3 years later	565	713	650	719	636	682	677	–	–	
4 years later	561	708	633	714	624	668	–	–	–	
5 years later	556	701	626	705	617	–	–	–	–	
6 years later	549	675	619	699	–	–	–	–	–	
7 years later	549	671	616	–	–	–	–	–	–	
8 years later	548	664	–	–	–	–	–	–	–	
9 years later	548	–	–	–	–	–	–	–	–	
Current estimate	548	664	616	699	617	668	677	828	802	1.049
Cumulative payments	480	604	535	612	526	535	552	631	512	381
Current provisions	66	60	81	87	91	132	125	197	291	668

* From financial year 2008, the figures for DZI Insurance (Bulgaria) have been included. If these figures had not been taken into account, the following amounts would have been arrived at for financial year 2008 (amount and year of occurrence): 586 for 2007.

Solvency II results and risk profile

Solvency II results and more detailed information on how the Solvency II ratio (203% incl. volatility adjustment) developed in 2016 are provided under 'Solvency of KBC Bank and KBC Insurance separately' in the 'Capital adequacy' section.

The presentation below shows the solvency capital requirement (SCR) broken down by risk module, illustrating the impact of the technical insurance risk modules (Life, Non-Life and Health underwriting). It should be noted that the total SCR for the underwriting risk accounts for 44% of undiversified basic Solvency II Pillar 1 capital.



Actuarial function

The Actuarial function is one of the key control functions that is defined in the Solvency II regulatory framework. Solvency II requires an Actuarial function to be installed in each insurance entity and at insurance group level. Basically, the task of such a function is to ensure that the company's Board of Directors or Supervisory Board is fully informed in an independent manner. It does this, for example, by:

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

More information on the insurance activities of the group can be found under Notes 3.7 and 5.6 of the 'Consolidated financial statements' section of the 2016 Annual Report of KBC Group NV. A breakdown by business unit of earned premiums and technical charges is provided in the notes dealing with segment reporting.



Annexes

ANNEX I

Balance Sheet Reconciliation

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

Capital Base (in billions of EUR)	Financial state- ments 31-12-2016 (*)	deconsolida- tion insurance	Prudential treatment	Own funds 31-12-2016 (*)
Total regulatory capital, KBC Group (after profit appropriation)				17.887.213.910
Tier-1 capital				15.472.948.633
Common equity				14.032.692.632
Parent shareholders' equity	15.957.194.271	-457.582.213		15.499.612.058
Intangible fixed assets (incl deferred tax impact) (-)	-408.995.165	8.686.854		-400.308.311
Goodwill on consolidation (incl deferred tax impact) (-)	-599.640.561	116.421.153		-483.219.408
Minority interests	-197.259	197.259		0
AFS revaluation reserve sovereign bonds (-)	-918.847.102	533.130.158	231.430.166	-154.286.778
AFS revaluation reserve other bonds(-)	-347.036.038	216.577.643	78.275.037	-52.183.358
AFS revaluation reserve other (-)	-3.535	3.535		0
Hedging reserve (cash flow hedges) (-)	1.347.066.887	8.944.776		1.356.011.663
Valuation diff. in fin. liabilities at fair value - own credit risk (-)	-18.257.493			-18.257.493
Value adj due to the requirements for prudent valuation (-)				-109.095.154
Dividend payout (-)				-753.069.748
Remuneration of AT1 instruments (-)			-1.566.607	-1.566.607
Deduction re. financing provided to shareholders (-)				-90.538.842
IRB provision shortfall (-)				-203.261.796
Deferred tax assets on losses carried forward (-)	-928.697.658	124.999	371.429.064	-557.143.595
Additional going concern capital				1.440.256.001
Grandfathered innovative hybrid tier-1 instruments	50.804.552		-10.548.551	40.256.001
CRR compliant AT1 instruments	1.400.000.000			1.400.000.000
Tier 2 capital				2.414.265.276
IRB provision excess (+)				361.721.637
Subordinated liabilities	2.927.752.353	-500.000.000	-375.208.714	2.052.543.639

(*) An overview of the entities included in the financial statements of KBC Group NV and their consolidation methods is provided at <https://www.kbc.com/en/our-structure>

ANNEX II

Capital instruments' main features template

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

Capital instruments' main features template (1)

	1 Issuer	KBC Group NV	KBC Group NV	KBC Group NV	KBC Group NV	KBC Group NV	KBC Group NV	KBC Bank NV
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	BE0002 463389	BE0002 475508	BE0002 479542	BE0002 475508	BE0002 485606	BE0002 223890	BE0119 284710
3	Governing law(s) of the instrument	Belgian/ English	Belgian/ English	Belgian/ English	Belgian/ English	Belgian/ English	Belgian/ English	Belgian/ English
4	Transitional CRR rules	Additional Tier 1	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Additional Tier 1
5	Post-transitional CRR rules	Additional Tier 1	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	ineligible
6	Eligible at solo/ (sub-)consolidated/ solo & (sub-)consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated
7	Instrument type (types to be specified by each jurisdiction)	Additional Tier 1 as published in Regulation (EU) No 575/2013 article 52	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Additional Tier 1 as published in Regulation (EU) No 575/2013 article 52
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	EUR 1,400m	EUR 148m	EUR 749m	EUR 25m	EUR 749m	EUR 10m	EUR 50,8m
9	Nominal amount of instrument	EUR 1,400m	EUR 150m	EUR 750m	EUR 25m	EUR 750m	EUR 10m	GBP 43,5m
9a	Issue price	100%	98.8 per cent	99.874 per cent	98.8 per cent	99.494 per cent	100.00 per cent	100%
9b	Redemption price	At their prevailing principal amount	100 per cent of their nominal amount	100 per cent of their nominal amount	100 per cent of their nominal amount	100 per cent of their nominal amount	100 per cent of their nominal amount	At par
10	Accounting classification	Equity	Liability	Liability	Liability	Liability	Liability	Liability

11	Original date of issuance	19 March 2014	24 July 2014 and 1 August 2014	25 November 2014	2 February 2015	11 March 2015	6 March 2015	19 December 2003
12	Perpetual or dated	Perpetual	dated	dated	dated	dated	dated	Perpetual
13	Original maturity date	No maturity	24 July 2029	25 November 2024	24 July 2029	11 March 2027	6 March 2025	No maturity
14	Issuer call subject to prior supervisory approval	Yes	Yes	Yes	Yes	Yes	Yes	Yes
15	Optional call date, contingent call dates, and redemption amount	19 March 2019 Tax Gross-up call and Tax Deductibility Call At the Prevailing Principal Amount together with accrued interest	24 July 2024 Tax Gross-up events and Tax Deductibility events Following a Capital Dis-qualification event EUR 100,000 per Calculation Amount	25 November 2019 Tax Gross-up events and Tax Deductibility events Following a Capital Dis-qualification event EUR 100,000 per Calculation Amount	24 July 2024 Tax Gross-up events and Tax Deductibility events Following a Capital Dis-qualification event EUR 100,000 per Calculation Amount	11 March 2022 Tax Gross-up events and Tax Deductibility events Following a Capital Dis-qualification event EUR 100,000 per Calculation Amount	n/a	n/a
16	Subsequent call dates, if applicable	on every Interest Payment Date starting with 19 June 2019 (19 March, 19 June, 19 September and 19 December)	n/a	n/a	n/a	n/a	n/a	19 December 2019 on every Interest Payment Date thereafter
Coupons / dividends								
17	Fixed or floating dividend/coupon	and from (and including) the First Call Date and thereafter, at a fixed rate per annum reset on each Reset Date based on the prevailing Euro 5-year Mid-Swap Rate plus 4.759 per cent	fixed and from (and including) the First Call Date and thereafter, at a fixed rate per annum reset on each Reset Date based on the prevailing Eurbor plus 1.90 per cent	fixed and from (and including) the First Call Date and thereafter, at a fixed rate per annum reset on each Reset Date based on the prevailing Eurbor plus 1.98 per cent	fixed and from (and including) the First Call Date and thereafter, at a fixed rate per annum reset on each Reset Date based on the prevailing Eurbor plus 1.90 per cent	fixed and from (and including) the First Call Date and thereafter, at a fixed rate per annum reset on each Reset Date based on the prevailing Eurbor plus 1.50 per cent	fixed	fixed to floating
18	Coupon rate and any related index	5.625% per annum To be reset on every Reset Date	3.125 per cent to be reset on 24 July 2024.	2.375 per cent to be reset on 25 November 2019.	3.125 per cent to be reset on 24 July 2024.	1.875 per cent to be reset on 11 March 2022.	EUR 20.00 per Calculation amount	6.202% per annum - rate after 19/12/2019 : libor 3m + 193 bp
19	Existence of a dividend stopper	No	No	No	No	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory

20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No	No	No	No	No	Yes
22	Noncumulative or cumulative	Non-cumulative	Cumulative	Cumulative	Cumulative	Cumulative	Cumulative	Cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Convertible
24	If convertible, conversion trigger (s)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	creditorum
25	If convertible, fully or partially	n/a	n/a	n/a	n/a	n/a	n/a	n/a	fully
26	If convertible, conversion rate	n/a	n/a	n/a	n/a	n/a	n/a	n/a	stock) having a total nominal value in euro equal to the aggregate of (i) the aggregate outstanding principal amount of the Securities, (ii) accrued but unpaid interest on the Adjusted Outstanding Principal Amount, if any, with respect to the current Interest Period accrued on a daily basis to (but excluding) the date of the Mandatory Conversion, (iii) unpaid Deferred Coupons, if any, and (iv) Additional Amounts, if any (the "Mandatory Conversion Amount").
27	If convertible, mandatory or optional conversion	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
28	If convertible, specify instrument type convertible into	n/a	n/a	n/a	n/a	n/a	n/a	n/a	profit sharing certificates

29	If convertible, specify issuer of instrument it converts into	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	KBC Bank NV
30	Write-down features	Yes	No	No	No	No	No	No	No	No
31	If write-down, write-down trigger (s)	CET1 ratio < 5.125%	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
32	If write-down, full or partial	partially or fully	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
33	If write-down, permanent or temporary	Temporary	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
34	If temporary write-down, description of write-up mechanism	Upon a Return to Financial Health, the Issuer may, at its discretion and subject to regulatory restrictions, write up the Prevailing Principal Amount of the Securities up to a maximum of the Original Principal Amount.	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	The Issuer's obligations under the Securities are unsecured and deeply subordinated, and will rank junior in priority of payment to unordinated creditors of the Issuer and to ordinarily subordinated indebtedness of the Issuer.	Senior debt	Senior debt	Senior debt	Senior debt	Senior debt	Senior debt	Senior debt	In a liquidation of the Issuer, the Holders of Profit Sharing Certificates will be entitled to the repayment of the nominal value of the Profit-Sharing Certificates, subject to the above ranking provisions, but will not be entitled to share in further liquidation
36	Non-compliant transitioned features	No	No	No	No	No	No	No	No	Yes
37	If yes, specify non-compliant features	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	Instrument issued according to earlier rules. Features include e.g. step-up and do not include fully discretionary coupons.

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

ANNEX II

Capital Instruments' main features template

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

Capital instruments' main features template (1)									
1	Issuer	KBC Bank NV	KBC Bank NV	KBC Bank NV	KBC Bank NV	KBC Bank NV	KBC Bank NV	KBC Bank NV	KBC Bank NV
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	BE6248 510610	Grouped certificates	Grouped certificates	Grouped certificates	Grouped certificates	Grouped certificates	Grouped sub. term accounts	Grouped sub. term accounts
3	Governing law(s) of the instrument	Belgian/ English	Belgian	Belgian	Belgian	Belgian	Belgian	Belgian	Belgian
<i>Regulatory treatment</i>									
4	Transitional CRR rules	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
5	Post-transitional CRR rules	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
6	Eligible at solo/ (sub-)consolidated/solo & (sub-)consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated
7	Instrument type (types to be specified by each jurisdiction)	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	EUR 824m	EUR 1m	EUR 4m	EUR 1m	EUR 42m	EUR 0m	EUR 0m	EUR 0m
9	Nominal amount of instrument	USD 1 000m	EUR 16m	EUR 20m	EUR 2m	EUR 97m	EUR 1m	EUR 3m	EUR 3m
9a	Issue price	100%							
9b	Redemption price	At their aggregate principal amount	At par	At par	At par	At par	At par	At par	At par

10	Accounting classification	Liability	Liability	Liability	Liability	Liability	Liability	Liability
11	Original date of issuance	25 January 2013						
12	Perpetual or dated	Dated	Dated	Dated	Dated	Dated	Dated	Dated
13	Original maturity date	25 January 2023	7 Years after issuance	8 Years after issuance	9 Years after issuance	10 Years after issuance	7 Years after issuance	8 Years after issuance
14	Issuer call subject to prior supervisory approval	Yes	n/a	n/a	n/a	n/a	n/a	n/a
15	Optional call date, contingent call dates, and redemption amount	The Issuer may redeem the Securities on the Reset Date (25 January 2018) in whole and not in part at their principal amount, together with interest accrued to but excluding the date of redemption. At any time upon the occurrence of a	n/a	n/a	n/a	n/a	n/a	n/a
16	Subsequent call dates, if applicable	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<i>Coupons / dividends</i>								
17	Fixed or floating dividend/coupon	Fixed	To be reset on the Reset Date.					
18	Coupon rate and any related index	8.0% per annum until the Reset Date. If not called on or before the Reset Date the Securities will bear interest at a fixed rate per annum which will be based on the initial credit spread and the then prevailing USD 5-year Mid-Swap Rate						

19	Existence of a dividend stopper	No	No	No	No	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No	No	No	No	No
22	Noncumulative or cumulative	Cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
25	If convertible, fully or partially	n/a	n/a	n/a	n/a	n/a	n/a	n/a
26	If convertible, conversion rate	n/a	n/a	n/a	n/a	n/a	n/a	n/a
27	If convertible, mandatory or optional conversion	n/a	n/a	n/a	n/a	n/a	n/a	n/a
28	If convertible, specify instrument type convertible into	n/a	n/a	n/a	n/a	n/a	n/a	n/a
29	If convertible, specify issuer of instrument it converts into	n/a	n/a	n/a	n/a	n/a	n/a	n/a

30	Write-down features	Yes	No	No	No	No	No	No	No
31	If write-down, write-down trigger ⁽⁵⁾	CET1 ratio < 7.00%	n/a	n/a	n/a	n/a	n/a	n/a	n/a
32	If write-down, full or partial	Full	n/a	n/a	n/a	n/a	n/a	n/a	n/a
33	If write-down, permanent or temporary	Permanent	n/a	n/a	n/a	n/a	n/a	n/a	n/a
34	If temporary write-down, description of write-up mechanism	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Rank junior to the rights and claims of holders of all depositors and other unsecured and subordinated creditors.	Senior debt	Senior debt	Senior debt	Senior debt	Senior debt	Senior debt	Senior debt
36	Non-compliant transitioned features	No	No	No	No	No	No	No	No
37	If yes, specify non-compliant features	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

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

ANNEX II

Capital instruments' main features template

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

Capital instruments' main features template (1)								
1	Issuer	KBC Bank NV	KBC Bank NV	CBC Banque SA	CBC Banque SA	CBC Banque SA	KBC Ifima NV	KBC Ifima NV
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	Grouped sub. term accounts	Grouped sub. term accounts	Grouped certificates	Grouped certificates	Grouped certificates	XS0210 976329	XS0219 888988
3	Governing law(s) of the instrument	Belgian	Belgian	Belgian/English	Belgian/English	Belgian/English	Belgian/English	Belgian/English
<i>Regulatory treatment</i>								
4	Transitional CRR rules	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
5	Post-transitional CRR rules	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
6	Eligible at solo/(sub-) consolidated/solo & (sub-)consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated
7	Instrument type (types to be specified by each jurisdiction)	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	EUR 0,1m	EUR 11m	EUR 0m	EUR 0m	EUR 1m	EUR 142m	EUR 7m
9	Nominal amount of instrument	EUR 0,3m	EUR 21m	EUR 0,1m	EUR 0,1m	EUR 3m	USD 150m	EUR 72m
9a	Issue price						EUR 115m	EUR 72m
9b	Redemption price	At par	At par	At par	At par	At par	At par	At par
10	Accounting classification	Liability	Liability	Liability	Liability	Liability	Liability	Liability
11	Original date of issuance						07/Feb/05	30/Jun/05
12	Perpetual or dated	Dated	Dated	Dated	Dated	Dated	dated	dated
13	Original maturity date	9 Years after issuance	10 Years after issuance	7 Years after issuance	8 Years after issuance	10 Years after issuance	07/Feb/25	30/Jun/17
14	Issuer call subject to prior supervisory approval	n/a	n/a	n/a	n/a	n/a	n/a	n/a
15	Optional call date, contingent call dates, and redemption amount	n/a	n/a	n/a	n/a	n/a	n/a	n/a
16	Subsequent call dates, if applicable	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<i>Coupons / dividends</i>								
17	Fixed or floating dividend/coupon						Floating (CMS-linked)	Floating
18	Coupon rate and any related index						4,692%	Interest rate linked

19	Existence of a dividend stopper	No	No	No	No	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No	No	No	No	No
22	Noncumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
25	If convertible, fully or partially	n/a	n/a	n/a	n/a	n/a	n/a	n/a
26	If convertible, conversion rate	n/a	n/a	n/a	n/a	n/a	n/a	n/a
27	If convertible, mandatory or optional conversion	n/a	n/a	n/a	n/a	n/a	n/a	n/a
28	If convertible, specify instrument type convertible into	n/a	n/a	n/a	n/a	n/a	n/a	n/a
29	If convertible, specify issuer of instrument it converts into	n/a	n/a	n/a	n/a	n/a	n/a	n/a
30	Write-down features	No	No	No	No	No	No	No
31	If write-down, write-down trigger (s)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
32	If write-down, full or partial	n/a	n/a	n/a	n/a	n/a	n/a	n/a
33	If write-down, permanent or temporary	n/a	n/a	n/a	n/a	n/a	n/a	n/a
34	If temporary write-down, description of write-up mechanism	n/a	n/a	n/a	n/a	n/a	n/a	n/a
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior debt	Senior debt	Senior debt	Senior debt	Senior debt	Senior debt	Senior debt
36	Non-compliant transitioned features	No	No	No	No	No	No	No
37	If yes, specify non-compliant features	n/a	n/a	n/a	n/a	n/a	n/a	n/a

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

ANNEX II

Capital instruments' main features template

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

Capital instruments' main features template (1)				
1	Issuer	KBC Ifima NV	KBC Ifima NV	KBC Ifima NV
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	XS0238162530	total Bond Programme - EUR	total Bond Programme - USD
3	Governing law(s) of the instrument	Belgian/ English	Belgian/ English	Belgian/ English
<i>Regulatory treatment</i>				
4	Transitional CRR rules	Tier 2	Tier 2	Tier 2
5	Post-transitional CRR rules	Tier 2	Tier 2	Tier 2
6	Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated
7	Instrument type (types to be specified by each jurisdiction)	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	EUR 38m	EUR 45m	EUR 5m
9	Nominal amount of instrument	SKK 1 450m	EUR 123m	EUR 26m
9a	Issue price	EUR 48m	100,17%	100,10%
9b	Redemption price	At par	At par	At par
10	Accounting classification	Liability	Liability	Liability
11	Original date of issuance	21/Dec/05		
12	Perpetual or dated	dated	dated	dated
13	Original maturity date	21/Dec/20		
14	Issuer call subject to prior supervisory approval	n/a	n/a	n/a
15	Optional call date, contingent call dates, and redemption amount	n/a	n/a	n/a
16	Subsequent call dates, if applicable	n/a	n/a	n/a
<i>Coupons / dividends</i>				
17	Fixed or floating dividend/coupon	Fixed	Fixed	Fixed
18	Coupon rate and any related index	4,05%		
19	Existence of a dividend stopper	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No
22	Noncumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	n/a	n/a	n/a
25	If convertible, fully or partially	n/a	n/a	n/a
26	If convertible, conversion rate	n/a	n/a	n/a
27	If convertible, mandatory or optional conversion	n/a	n/a	n/a
28	If convertible, specify instrument type convertible into	n/a	n/a	n/a

29	If convertible, specify issuer of instrument it converts into	n/a	n/a	n/a
30	Write-down features	No	No	No
31	If write-down, write-down trigger (s)	n/a	n/a	n/a
32	If write-down, full or partial	n/a	n/a	n/a
33	If write-down, permanent or temporary	n/a	n/a	n/a
34	If temporary write-down, description of write-up mechanism	n/a	n/a	n/a
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior debt	Senior debt	Senior debt
36	Non-compliant transitioned features	No	No	No
37	If yes, specify non-compliant features	n/a	n/a	n/a

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

ANNEX III

Transitional own funds disclosure template

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

Common Equity Tier 1 capital: instruments and reserves (1)	(A) AMOUNT AT DIS- CLOSURE DATE	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE- REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESI- DUAL AMOUNT OF REGULATION (EU) 575/2013
1 Capital instruments and the related share premium accounts	6.907.974.012	26 (1), 27, 28, 29, EBA list 26 (3)	
of which: Instrument type 1	n/a	EBA list 26 (3)	
of which: Instrument type 2	n/a	EBA list 26 (3)	
of which: Instrument type 3	n/a	EBA list 26 (3)	
2 Retained earnings	7.414.621.625	26 (1) (c)	
3 Accumulated other comprehensive income (and any other reserves)	-789.672.478	26 (1)	
3a Funds for general banking risk	n/a	26 (1) (f)	
4 Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	n/a	486 (2)	
Public sector capital injections grandfathered until 1 January 2018	0	483 (2)	
5 Minority interests (amount allowed in consolidated CET1)	0	84, 479, 480	n/a
5a Independently reviewed interim profits net of any foreseeable charge or dividend	1.212.052.544	26 (2)	
6 Common Equity Tier 1 (CET1) capital before regulatory adjustments	14.744.975.703		
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7 Additional value adjustments (negative amount)	-109.095.154	34, 105	-31.324.753
8 Intangible assets (net of related tax liability) (negative amount)	-883.527.719	36 (1) (b), 37, 472 (4)	n/a
9 Empty set in the EU			
10 Deferred tax assets that rely on future profitability excluding those arising from temporary difference (net of related tax liability where the conditions in Article 38(3) are met) (negative amount)	-557.143.595	36 (1) (c), 38, 472 (5)	-321.908.845
11 Fair value reserves related to gains or losses on cash flow hedges	1.356.011.663	33 (a)	n/a
12 Negative amounts resulting from the calculation of expected loss amounts	-203.261.796	36 (1) (d), 40, 159, 472 (6)	n/a
13 Any increase in equity that results from securitised assets (negative amount)	n/a	32 (1)	n/a
14 Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-18.257.493	33 (1) (b) (c)	n/a
15 Defined-benefit pension fund assets (negative amount)	n/a	36 (1) (e), 41, 472 (7)	n/a
16 Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	-90.538.842	36 (1) (f), 42, 472 (8)	n/a

17	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative)	n/a	36 (1) (g), 44, 472 (9)	n/a
18	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	n/a	36 (1) (h), 43, 45, 46, 49 (2) (3), 79, 472 (10)	n/a
19	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	n/a	36 (1) (i), 43, 45, 47, 48 (1) (b), 49(1) to (3), 79, 470, 472 (11)	n/a
20	Empty set in the EU			
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	n/a	36 (1) (k)	n/a
20b	of which: qualifying holdings outside the financial sector (negative amount)	n/a	36 (1) (k) (i), 89 to 91	n/a
20c	of which: securitisation positions (negative amount)	n/a	36 (1) (k) (ii) 243 (1) (b) 244 (1) (b) 258	n/a
20d	of which: free deliveries (negative amount)	n/a	36 (1) (k) (iii), 379 (3)	n/a
21	Deferred tax assets arising from temporary difference (amount above 10 % threshold , net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	n/a	36 (1) (c), 38, 48 (1) (a), 470, 472(5)	n/a
22	Amount exceeding the 15% threshold (negative amount)	n/a	48 (1)	n/a
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	n/a	36 (1) (i), 48 (1) (b), 470, 472 (11)	n/a
24	Empty set in the EU			
25	of which: deferred tax assets arising from temporary difference	n/a	36 (1) (c), 38, 48 (1) (a), 470, 472(5)	n/a
25a	Losses for the current financial year (negative amount)	n/a	36 (1) (a), 472 (3)	n/a
25b	Foreseeable tax charges relating to CET1 items (negative amount)	n/a	36 (1) (l)	n/a
26	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment	n/a		
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	-206.470.136		
26b	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR	n/a	481	
27	Qualifying AT1 deductions that exceeds the AT1 capital of the institution (negative amount)	n/a	36 (1) (j)	
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	-712.283.071		
29	Common Equity Tier 1 (CET1) capital	14.032.692.632		

Additional Tier 1 (AT1) capital: instruments				
30	Capital instruments and the related share premium accounts	1.400.000.000	51, 52	
31	of which: classified as equity under applicable accounting standards	1.400.000.000		
32	of which: classified as liabilities under applicable accounting standards	n/a		
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1	n/a	486 (3)	
	Public sector capital injections grandfathered until 1 January 2018	n/a	483 (3)	
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interest not included in row 5) issued by subsidiaries and held by third parties	n/a	85, 86, 480	n/a
35	of which: instruments issued by subsidiaries subject to phase-out	n/a	486 (3)	
36	Additional Tier 1 (AT1) capital before regulatory adjustments	1.400.000.000		
Additional Tier 1 (AT1) capital: regulatory adjustments				
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	n/a	52 (1) (b), 56 (a), 57, 475 (2)	n/a
38	Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	n/a	56 (b), 58, 475 (3)	n/a
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	n/a	56 (c), 59, 60, 79, 475 (4)	n/a
40	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	n/a	56 (d), 59, 79, 475 (4)	n/a
41	Regulatory adjustments applied to Additional Tier 1 capital in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase-out as prescribed in Regulation (EU) No 585/2013 (i.e. CRR residual)	40.256.001		
41a	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	n/a	472, 473(3)(a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a)	
41b	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Tier 2 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	n/a	477, 477 (3), 477 (4) (a)	
41c	Amounts to be deducted from added to Additional Tier 1 capital with regard to additional filters and deductions required pre- CRR	n/a	467, 468, 481	
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	n/a	56 (e)	
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital	40.256.001		

44	Additional Tier 1 (AT1) capital	1.440.256.001		
45	Tier 1 capital (T1 = CET1 + AT1)	15.472.948.633		
Tier 2 (T2) capital: instruments and provisions				
46	Capital instruments and the related share premium accounts	1.180.816.696	62, 63	
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	n/a	486 (4)	
	Public sector capital injections grandfathered until 1 January 2018	n/a	483 (4)	
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interest and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third party	871.726.943	87, 88, 480	-134.747.940
49	of which: instruments issued by subsidiaries subject to phase-out	n/a	486 (4)	
50	Credit risk adjustments	361.721.637	62 (c) & (d)	
51	Tier 2 (T2) capital before regulatory adjustment	2.414.265.276		
Tier 2 (T2) capital: regulatory adjustments				
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	n/a	63 (b) (i), 66 (a), 67, 477 (2)	n/a
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institutions designed to inflate artificially the own funds of the institution (negative amount)	n/a	66 (b), 68, 477 (3)	n/a
54	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10 % threshold and net of eligible short positions) (negative amount)	n/a	66 (c), 69, 70, 79, 477 (4)	n/a
54a	Of which new holdings not subject to transitional arrangements	n/a		n/a
54b	Of which holdings existing before 1 January 2013 and subject to transitional arrangements	n/a		n/a
55	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amounts)	n/a	66 (d), 69, 79, 477 (4)	n/a
56	Regulatory adjustments applied to tier 2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	n/a		
56a	Residual amounts deducted from Tier 2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	n/a	472, 472(3)(a), 472 (4), 472 (6), 472 (8), 472 (9), 472 (10) (a), 472(11) (a)	

56b	Residual amounts deducted from Tier 2 capital with regard to deduction from Additional Tier 1 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	n/a	475, 475 (2) (a), 475 (3), 475 (4)(a)
56c	Amounts to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre- CRR	n/a	467, 468, 481
57	Total regulatory adjustments to Tier 2 (T2) capital	0	
58	Tier 2 (T2) capital	2.414.265.276	
59	Total capital (TC = T1 + T2)	17.887.213.910	
59a	Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amount)	86.878.354.318	
	Of which:... items not deducted from CET1 (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Deferred tax assets that rely on future profitability net of related tax liability, indirect holdings of own CET1, etc.)	1.638.288.191	472, 472 (5), 472 (8) (b), 472 (10)(b), 472 (11) (b)
	Of which:... items not deducted from AT1 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Reciprocal cross holdings in T2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc.)	n/a	475, 475 (2) (b), 475 (2) ©, 475 (4)(b)
	Items not deducted from T2 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Indirect holdings of own T2 instruments, indirect holdings of non-significant investments in the capital of other financial sector entities, indirect holdings of significant investments in the capital of other financial sector entities etc.)	n/a	477, 477 (2) (b), 477 (2) (c), 477(4) (b)
60	Total risk-weighted assets	86.878.354.318	
Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	16,2%	92 (2) (a), 465
62	Tier 1 (as a percentage of total risk exposure amount)	17,8%	92 (2) (b), 465
63	Total capital (as a percentage of total risk exposure amount)	20,6%	92 (2) (c)
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount)	10,25%	CRD 128, 129, 140
65	of which: capital conservation buffer requirement	0,625%	
66	of which: countercyclical buffer requirement	0%	
67	of which: systemic risk buffer requirement	0,50%	
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	n/a	CRD 131
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	6,4%	CRD 128

69	[non-relevant in EU regulation]			
70	[non-relevant in EU regulation]			
71	[non-relevant in EU regulation]			
Amounts below the thresholds for deduction (before risk-weighting)				
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	20.122.544	36 (1) (h), 45, 46, 472 (10)56 (c), 59, 60, 475 (4), 66 (c), 69,70, 477 (4)	
73	Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	27.216.046	36 (1) (i), 45, 48, 470, 472 (11)	
74	Empty set in the EU			
75	Deferred tax assets arising from temporary difference (amount below 10 %threshold , net of related tax liability where the conditions in Article 38 (3) are met)	655.315.277	36 (1) (c), 38, 48, 470, 472 (5)	
Applicable caps on the inclusion of provisions in Tier 2				
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	n/a	62	
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	n/a	62	
78	Credit risk adjustments included in T2 in respect of exposures subject to internal rating-based approach (prior to the application of the cap)	505.334.935	62	
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	361.721.637	62	
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)				
80	- Current cap on CET1 instruments subject to phase-out arrangements	n/a	484 (3), 486 (2) & (5)	
81	- Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	n/a	484 (3), 486 (2) & (5)	
82	- Current cap on AT1 instruments subject to phase-out arrangements	n/a	484 (4), 486 (3) & (5)	
83	- Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	n/a	484 (4), 486 (3) & (5)	
84	- Current cap on T2 instruments subject to phase-out arrangements	n/a	484 (5), 486 (4) & (5)	
85	- Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	n/a	484 (5), 486 (4) & (5)	

(1) 'NA' inserted if the question is not applicable

ANNEX III

Transitional own funds disclosure template

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

Own Funds Disclosure template	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE
Common Equity Tier 1 (CET1) capital: instruments & reserves	
6 Common Equity Tier 1 (CET1) capital before regulatory adjustments	14.744.975.703
Common Equity Tier 1 (CET1) capital: regulatory adjustments	
28 Total regulatory adjustments to Common Equity Tier 1 (CET1)	-712.283.071
29 Common Equity Tier 1 (CET1) capital	14.032.692.632
Additional Tier 1 (AT1) capital: instruments	
36 Additional Tier 1 (AT1) capital before regulatory adjustments	1.400.000.000
Additional Tier 1 (AT1) capital: regulatory adjustments	
43 Total regulatory adjustments to Additional Tier 1 (AT1) capital	40.256.001
44 Additional Tier 1 (AT1) capital	1.440.256.001
45 Tier 1 capital (T1 = CET1 + AT1)	15.472.948.633
Tier 2 (T2) capital: instruments and provisions	
51 Tier 2 (T2) capital before regulatory adjustment	2.414.265.276
Tier 2 (T2) capital: regulatory adjustments	
57 Total regulatory adjustments to Tier 2 (T2) capital	0
58 Tier 2 (T2) capital	2.414.265.276
59 Total capital (TC = T1 + T2)	17.887.213.910
Capital ratios and buffers	
61 Common Equity Tier 1 (as a percentage of total risk exposure amount)	16,2%
62 Tier 1 (as a percentage of total risk exposure amount)	17,8%
63 Total capital (as a percentage of total risk exposure amount)	20,6%

ANNEX IV

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

KBC Group – Countercyclical Capital Buffer Rate Disclosure

Row	Breakdown by country	General credit exposure		Trading book exposure		Securitisation exposure	
		Exposure value for SA	Exposure value for IRB	Sum of long and short positions of trading book exposure for SA	Value of trading book exposure for Internal models	Exposure value for SA	Exposure value for IRB
		010	020	030	040	050	060
010	Belgium	1.414.350.902	88.213.702.931				
011	Bulgaria	980.122.280	20.074.995				
012	Czech Republic	643.339.892	22.614.221.468				
013	Spain	43.565	149.722.193				399.375.765
014	France	116.209.989	1.671.943.352				279.036.740
015	Hong Kong	46	356.406.194				
016	Ireland	40.347.318	14.296.146.636				72.000.000
017	Italy	786	167.882.760				186.232.488
018	Netherlands	5.110.722	2.145.407.585				440.339.224
019	Norway	45.205	817.696				
020	Portugal		13.650.481				152.785.319
021	Sweden	0	38.579.197				
022	Slovakia	1.477.959.968	5.869.916.070				
023	United States	9.714.871	1.698.928.425				124.534.941
024	Rest	341.833.448	10.558.232.469				81.689.781
020	Total	5.029.078.991	147.815.632.453	0	0	0	1.735.994.258

Row	Breakdown by country	Own funds requirements				Own funds requirements weights	Countercyclical capital buffer rate (%)
		of which: General credit exposures	of which: Trading book exposures	of which: Securitisation exposures	Total		
		070	080	090	100	110	120
010	Belgium	2.192.505.298			2.192.505.298	49,9%	0,00%
011	Bulgaria	58.538.711			58.538.711	1,3%	0,00%
012	Czech Republic	730.908.503			730.908.503	16,6%	0,00%
013	Spain	733.296		25.744.811	26.478.107	0,6%	0,00%
014	France	105.079.458		2.884.144	107.963.602	2,5%	0,00%
015	Hong Kong	16.677.620			16.677.620	0,4%	0,63%
016	Ireland	289.264.714		427.392	289.692.106	6,6%	0,00%
017	Italy	6.659.064		1.548.284	8.207.348	0,2%	0,00%
018	Netherlands	119.333.883		2.613.854	121.947.737	2,8%	0,00%
019	Norway	35.487			35.487	0,0%	1,50%
020	Portugal	671.466		4.610.346	5.281.812	0,1%	0,00%
021	Sweden	2.366.649			2.366.649	0,1%	1,50%
022	Slovakia	285.848.886			285.848.886	6,5%	0,00%
023	United States	53.239.585		747.916	53.987.501	1,2%	0,00%
024	Rest	491.182.454		1.196.851	492.379.305	11,2%	0,00%
020	Total	4.353.045.072	0	39.773.598	4.392.818.670	100,0%	

Institution specific countercyclical capital buffer rate (see Table V, row 020): 0,0032%

ANNEX IV

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

KBC Bank Consolidated – Countercyclical Capital Buffer Rate Disclosure

Row	Breakdown by country	General credit exposure		Trading book exposure		Securitisation exposure	
		Exposure value for SA	Exposure value for IRB	Sum of long and short positions of trading book exposure for SA	Value of trading book exposure for Internal models	Exposure value for SA	Exposure value for IRB
		010	020	030	040	050	060
010	Belgium	1.256.678.756	88.213.702.931				
011	Bulgaria	980.122.280	20.074.995				
012	Czech Republic	643.339.892	22.614.221.468				
013	Spain	43.565	149.722.193				399.375.765
014	France	116.209.989	1.671.943.352				279.036.740
015	Hong Kong	46	356.406.194				
016	Ireland	40.347.318	14.296.146.636				72.000.000
017	Italy	786	167.882.760				186.232.488
018	Netherlands	5.110.722	2.145.407.585				440.339.224
019	Norway	45.205	817.696				
020	Portugal		13.650.481				152.785.319
021	Sweden	0	38.579.197				
022	Slovakia	1.477.959.968	5.869.916.070				
023	United States	9.714.871	1.698.928.425				124.534.941
024	Rest	341.833.448	10.558.232.469				81.689.781
020	Total	4.871.406.845	147.815.632.453	0	0	0	1.735.994.258

Row	Breakdown by country	Own funds requirements				Own funds requirements weights	Countercyclical capital buffer rate (%)
		of which: General credit exposures	of which: Trading book exposures	of which: Securitisation exposures	Total		
		070	080	090	100	110	120
010	Belgium	1.448.587.311			1.448.587.311	43,4%	0,00%
011	Bulgaria	58.538.711			58.538.711	1,8%	0,00%
012	Czech Republic	730.908.503			730.908.503	21,9%	0,00%
013	Spain	733.296		25.744.811	26.478.107	0,8%	0,00%
014	France	105.079.458		2.884.144	107.963.602	3,2%	0,00%
015	Hong Kong	16.677.620			16.677.620	0,5%	0,63%
016	Ireland	289.264.714		427.392	289.692.106	8,7%	0,00%
017	Italy	6.659.064		1.548.284	8.207.348	0,2%	0,00%
018	Netherlands	119.333.883		2.613.854	121.947.737	3,7%	0,00%
019	Norway	35.487			35.487	0,0%	1,50%
020	Portugal	671.466		4.610.346	5.281.812	0,2%	0,00%
021	Sweden	2.366.649			2.366.649	0,1%	1,50%
022	Slovakia	285.848.886			285.848.886	8,6%	0,00%
023	United States	53.239.585		747.916	53.987.501	1,6%	0,00%
024	Rest	181.343.373		1.196.851	182.540.224	5,5%	0,00%
020	Total	3.299.288.005	0	39.773.598	3.339.061.603	100,0%	

Institution specific countercyclical capital buffer rate (see Table V, row 020): 0,0042%

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

Row		Column
		010
010	Total risk exposure amount	86.881.393.982
020	Institution specific countercyclical capital buffer rate	0,0032%
030	Institution specific countercyclical capital buffer requirement	2.774.211

KBC Bank Consolidated – Countercyclical Capital Buffer Rate Disclosure

Row		Column
		010
010	Total risk exposure amount	77.581.823.157
020	Institution specific countercyclical capital buffer rate	0,0042%
030	Institution specific countercyclical capital buffer requirement	3.259.054

ANNEX VI
Fully loaded CET1 requirement

Joint Capital decision (JCD) Target applicable in		JCD 2015	JCD 2016	projection	
		2016 phased	2017 phased	2018 phased	2019 fully loaded
Pillar 1 minimum requirement (P1 min)	CET1	4,5%	4,5%	4,5%	4,5%
	AT1	-	1,5%	1,5%	1,5%
	T2	-	2,0%	2,0%	2,0%
Pillar 2 requirement (P2R)	CET1	phased: 4,625% full: 2,75%	1,75%	1,75%	1,75%
Conservation buffer	CET1	phased: 0,625% full: 2,5%	-	-	-
Total SREP Capital Requirement (TSCR)	CET1	9,75%	6,25%	6,25%	6,25%
	T1	-	7,75%	7,75%	7,75%
	Total capital	-	9,75%	9,75%	9,75%
Combined Buffer Requirement (CBR)					
Conservation buffer	CET1	-	1,25%	1,875%	2,50%
O-SII buffer	CET1	0,50%	1,00%	1,50%	1,50%
Countercyclical buffer	CET1	0,00%	0,15%	0,15%	0,15%
Overall capital requirement (OCR) = MDA threshold	CET1	10,25%	8,65%	9,775%	10,40%
	T1	-	10,15%	11,275%	11,90%
	Total capital	-	12,15%	13,275%	13,90%
Early warning threshold	CET1	0,25%	-	-	-
Pillar 2 Guidance (P2G)	CET1	-	1,00%	1,00%	1,00%
CET1 requirement +P2G	CET1	10,50%	9,65%	10,775%	11,40%

ANNEX VII
CRR Leverage ratio

KBC Group – Leverage Ratio

Table LRSum: Summary reconciliation of accounting assets and leverage ratio exposures		Applicable Amounts
1	Total assets as per published financial statements	242.522.234.667
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	0
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013 "CRR")	0
4	Adjustments for derivative financial instruments	-5.784.403.827
5	Adjustments for securities financing transactions "SFTs"	1.093.978.500
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	16.255.680.620
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation (EU) No 575/2013)	0
EU-6b	(Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (14) of Regulation (EU) No 575/2013)	0
7	Other adjustments	-2.196.800.703
8	Total leverage ratio exposure	251.890.689.257

Table LRCom: Leverage ratio common disclosure

		CRR leverage ratio exposures
On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	220.027.994.422
2	(Asset amounts deducted in determining Tier 1 capital)	-2.196.800.703
3	Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	217.831.193.719
Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	1.778.425.369
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	3.291.905.399
EU-5a	Exposure determined under Original Exposure Method	0
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	0
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-2.089.477.009
8	(Exempted CCP leg of client-cleared trade exposures)	0
9	Adjusted effective notional amount of written credit derivatives	153.616.403
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-153.616.403
11	Total derivative exposures	2.980.853.759
Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	13.728.982.659
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	0
14	Counterparty credit risk exposure for SFT assets	1.093.978.500
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation (EU) No 575/2013	0
15	Agent transaction exposures	0
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	0
16	Total securities financing transaction exposures	14.822.961.159
Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	45.283.463.336
18	(Adjustments for conversion to credit equivalent amounts)	-29.027.782.716
19	Other off-balance sheet exposures	16.255.680.620
Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)		
EU-19a	(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	0
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	0
Capital and total exposures		
20	Tier 1 capital	15.285.929.170
21	Total leverage ratio exposures	251.890.689.257
Leverage ratio		
22	Leverage ratio	6,068%
Choice on transitional arrangements and amount of derecognised fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	Transitional
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) NO 575/2013	0

Table LRSpl: Breakdown of on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)		CRR leverage ratio exposures
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	220.027.994.422
EU-2	Trading book exposures	9.683.476.422
EU-3	Banking book exposures, of which:	210.344.518.000
EU-4	Covered bonds	0
EU-5	Exposures treated as sovereigns	50.249.094.676
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	0
EU-7	Institutions	6.974.893.790
EU-8	Secured by mortgages of immovable properties	53.113.234.640
EU-9	Retail exposures	18.498.523.400
EU-10	Corporate	49.176.243.340
EU-11	Exposures in default	11.416.126.384
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	20.916.401.770

ANNEX VII
CRR Leverage ratio

KBC Bank consolidated – Leverage Ratio

Table LRSum: Summary reconciliation of accounting assets and leverage ratio exposures		Applicable Amounts
1	Total assets as per published financial statements	239.332.823.828
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	0
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013 "CRR")	0
4	Adjustments for derivative financial instruments	-5.784.403.827
5	Adjustments for securities financing transactions "SFTs"	1.093.978.500
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	16.286.873.713
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation (EU) No 575/2013)	0
EU-6b	(Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (14) of Regulation (EU) No 575/2013)	0
7	Other adjustments	-2.169.511.660
8	Total leverage ratio exposure	248.759.760.554

Table LRCom: Leverage ratio common disclosure		CRR leverage ratio exposures
On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	216.838.583.583
2	(Asset amounts deducted in determining Tier 1 capital)	-2.169.511.660
3	Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	214.669.071.923
Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	1.778.425.369
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	3.291.905.399
EU-5a	Exposure determined under Original Exposure Method	0
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	0
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-2.089.477.009
8	(Exempted CCP leg of client-cleared trade exposures)	0
9	Adjusted effective notional amount of written credit derivatives	153.616.403
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-153.616.403
11	Total derivative exposures	2.980.853.759
Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	13.728.982.659
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	0
14	Counterparty credit risk exposure for SFT assets	1.093.978.500
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation (EU) No 575/2013	0
15	Agent transaction exposures	0
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	0
16	Total securities financing transaction exposures	14.822.961.159
Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	45.594.624.768
18	(Adjustments for conversion to credit equivalent amounts)	-29.307.751.055
19	Other off-balance sheet exposures	16.286.873.713
Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)		
EU-19a	(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	0
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	0
Capital and total exposures		
20	Tier 1 capital	12.625.254.411
21	Total leverage ratio exposures	248.759.760.554
Leverage ratio		
22	Leverage ratio	5,075%
Choice on transitional arrangements and amount of derecognised fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	Transitional
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) NO 575/2013	0

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

		CRR leverage ratio exposures
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	216.838.583.583
EU-2	Trading book exposures	9.786.834.860
EU-3	Banking book exposures, of which:	207.051.748.723
EU-4	Covered bonds	0
EU-5	Exposures treated as sovereigns	50.249.094.676
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	0
EU-7	Institutions	6.961.289.124
EU-8	Secured by mortgages of immovable properties	53.113.234.640
EU-9	Retail exposures	18.498.523.400
EU-10	Corporate	49.022.258.831
EU-11	Exposures in default	11.416.126.384
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	17.791.221.669



Glossary

3 LOD (Three Lines of Defence)

The 3 LOD model ensures the resilience of KBC's risk and control environment and safeguards the sustainability of our business model going forward. In this model, Business acts as the first line of defence, Risk as one of the second lines and Internal Audit as the third line. They all work together in order to prevent big impact losses for the KBC group.

ABS (Asset Backed Securities)

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

Add-On

Basel-II-defined factor to reflect the potential future increase in exposure stemming from derivatives transactions.

ALM (Asset and Liability Management)

The ongoing process of formulating, implementing, monitoring and revising strategies for both on-balance-sheet and off-balance-sheet items, in order to achieve an organisation's financial objectives, given the organisation's risk tolerance and other constraints.

Alt-A

A classification of mortgages considered riskier than prime, but less risky than subprime. As a result of the subprime crisis, Alt-A mortgages came under particular scrutiny.

Asset class

A classification of credit exposures according to the Capital Requirements Directive – IRB approach. The main classes are Sovereigns, Institutions, Corporates, SME Corporates and Retail. Classification depends on the type of obligor, the total annual sales of the obligor, the type of product and the exposure value.

Asset quality review (AQR)

The asset quality review is part of the ECB's comprehensive assessment, an exercise to deliver greater transparency on bank's balance sheets, to prompt the repair of impaired balance sheets and to rebuild confidence in banks. It took place for the first time in 2014. The asset quality review was based on balance sheets at year-end 2013, the assessment covered credit and market, on- and off-balance-sheet, domestic and non-domestic exposures.

Banking book

KBC's banking book is defined as all positions in the KBC Bank group that are not in the trading book. A trading book consists of positions in financial instruments and commodities held either with trading intent or in order to hedge other elements of the trading book. To be eligible for trading book capital treatment, financial instruments must either be free of any covenants restricting their tradability or be able to be hedged completely. In addition, positions should be frequently and accurately valued, and the portfolio actively managed.

Basel III

Basel III is a global regulatory standard on bank capital adequacy, stress testing and market liquidity risk agreed upon by the members of the Basel Committee on Banking Supervision in 2010. Basel III was developed in response to the deficiencies in financial regulation revealed by the late-2000s financial crisis.

BIS (Bank for International Settlements)

The Bank for International Settlements (BIS) is an international organisation that fosters cooperation towards monetary and financial stability and serves as a bank for central banks. It is the world's oldest international financial institution and remains to this day the principal centre for international central bank cooperation. (BIS website: www.bis.org).

BPV (Basis Point Value)

The measure that reflects the change in the net present value of interest rate positions, due to an upward parallel shift of 10 basis points (i.e. 0.10%) in the zero coupon curve.

Business risk

Business risk is the risk arising from changes in external factors that impact the demand for and/or profitability of our products and services. Risk factors that are taken into consideration include the macroeconomic environment, the regulatory framework, client behaviour, the competitive landscape and the socio-demographic environment. Business risk is assessed on the basis of structured risk scans.

CAD ratio

Total eligible capital / Risk-weighted assets (the result must be at least 8% according to the Basel regulations).

CDO (Collateralised Debt Obligation)

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

synthetic credit exposures through use of credit derivatives and credit-linked notes.

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

CDS (Credit Default Swap)

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

Central Tendency

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

CLO (Collateralised Loan Obligation)

CDO holding only loans as underlying assets.

CP (Commercial Paper)

Unsecured short-term promissory notes which generally have maturities of less than 270 days.

CRD (Capital Requirements Directive)

European-Union-specific interpretation of the general Basel II regulations. The CRD is in turn transposed into the national legislation and regulations of the EU Member States.

Credit risk

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

Cure rate

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

Downturn LGD

LGD in an economic downturn. The underlying idea in the Basel regulation is that LGD is correlated to PD and loss rates will be higher in a year with many defaults.

DPF (Discretionary Participation Feature)

Part of the annual profit that is attributed to the policyholders of an insurance contract.

EAD (Exposure At Default)

The amount expected to be outstanding if an obligor defaults. At the time of default, it is equal to the actual amount outstanding, and therefore is no longer an expectation.

EBA (European Banking Authority)

The successor to the CEBS (Committee of European Banking Supervisors). A committee comprised of high level representatives from the banking supervisory authorities and central banks of the European Union. It gives advice to the European Commission on banking policy issues and promotes co-operation and convergence of supervisory practice across the European Union. The committee also fosters and reviews common implementation and consistent application of Community legislation.

ECAP (Economic Capital)

Economic capital is the amount of capital needed to absorb very severe losses, expressed in terms of the potential reduction in the economic value of the group (= difference between the current economic value and the worst case economic value over a one-year time horizon and measured at a certain confidence level). It represents the minimum amount of capital which is required in order to protect KBC group debt holders against economic insolvency under extreme circumstances.

EIOPA (European Insurance and Occupational Pensions Authority)

The successor to the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS), EIOPA is part of the European System of Financial Supervision consisting of three European Supervisory Authorities and the European Systemic Risk Board. It is an independent advisory body to the European Parliament and the Council of the European Union. EIOPA's core responsibilities are to support the stability of the financial system, transparency of markets and financial products, as well as the protection of insurance policyholders, pension scheme members and beneficiaries.

EL (Expected Loss)

The expected value of losses due to default over a specified horizon. EL is typically calculated by multiplying the Probability of Default (a percentage) by the Exposure At Default (an amount) and Loss Given Default (a percentage). It is always considered 'an expectation' due to the 'Probability of Default' factor.

Fair value

The amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. Market-consistent value or fair value is based on relative pricing or the 'no arbitrage' argument.

Forbearance measures

Forbearance measures consist of concessions (the loan's terms/conditions are renegotiated) towards a borrower facing, or about to face, financial difficulties. Forbearance measures can be taken only if the borrower and the bank both agree to them. Forbearance measures are applied at facility level.

Forborne loans

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

FSMA (Financial Services and Markets Authority)

The FSMA is the successor to the former Banking, Financial and Insurance Commission (CBFA). It is responsible for supervising the financial markets and listed companies, authorising and supervising certain categories of financial institutions, overseeing compliance by financial intermediaries with codes of conduct and supervising the marketing of investment products to the general public, as well as for the 'social supervision' of supplementary pensions. The Belgian government has also tasked the FSMA with contributing to the financial education of savers and investors.

G-RISK (Group Risk)

The Group Risk (G-RISK) division supports the CRO of KBC Group NV, KBC Bank and KBC Insurance and business entities at group level. G-RISK designs the KBC Risk Management Framework (RMF) and most of its underlying building blocks.

GMRA (General Master Repurchase Agreement)

Standardised contract used when entering into (reverse) repo-like transactions.

Haircuts

The difference between the market value of a security and its collateral value. Haircuts are taken in order to account for a possible decline in the market value of a collateralising security upon liquidation.

HVaR (Historical Value at Risk)

Historical Value-at-Risk estimates the maximum amount of money that can be lost on a given portfolio due to adverse market movements over a defined holding period, with a given confidence level and using real historical market performance data.

IBNR (Incurred but not Reported) impairments

IBNR impairments are impairment losses recognised on unimpaired loans and advances, as well as on unimpaired debt securities in a Loans & Receivables book, Available-for-Sale (AFS) book or Held-to-Maturity (HTM) book. They are estimated on a portfolio basis using a model-based (statistical) method. Loans and advances, as well as debt securities in a Loans & Receivables book, Available-for-Sale (AFS) book or Held-to-Maturity (HTM) book, are grouped together based on a default expectation rating that takes several indicators of impairment into account. IBNR impairments are an estimate of the specific provisions to be booked for a credit event (also known as the 'impairment trigger') that has already occurred, but is still unknown, and will only emerge at a later date.

ICAAP (Internal Capital Adequacy Assessment Process)

The internal process a bank should have in place for assessing its overall capital adequacy in relation to its risk profile, as well as its strategy for maintaining adequate capital levels in the future.

Impairment on financial assets

A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cashflows of the financial asset or group of financial assets that can be reliably estimated. If any such evidence exists, the entity applies the appropriate impairment methodology to the financial asset concerned. Losses expected as a result of future events, no matter how likely, are not recognised.

Insurance risk

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

Interest rate risk

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

IRB (Internal Ratings-Based)

An approach defined in the Capital Requirements Directive to calculate the credit-risk-related capital requirements, where a financial institution uses its own models to perform the calculation. There are two possibilities: the IRB Foundation or the IRB Advanced approach. When applying the IRB Foundation approach, internal estimates of the Probability of Default are used to calculate minimum requirements, while the IRB Advanced method also takes into account the internal estimates of Exposure At Default and Loss Given Default.

ISDA Master Agreements

Standardised contracts developed by the International Swaps and Derivatives Association and used to document bilateral professional transactions. The presence of such contracts also allows professional exposures between the contracting parties to be netted.

Lapse risk

The potential negative deviation from the expected value of an insurance contract or a portfolio thereof due to unexpected changes in policy lapses. Note that the term surrender risk refers specifically to contracts with surrender value.

LCR (Liquidity Coverage Ratio)

'Stock of high-quality liquid assets minus Total net cash outflows over the next 30 calendar days'. A result of 100% (or more) indicates that a bank is maintaining a sufficient stock of 'high-quality liquid assets' to cover net cash outflows for a 30-day period under a stress scenario. The parameters of the stress scenario are defined under Basel III.

Leverage ratio

The leverage ratio is a new supplementary non-risk based measure to contain the build-up of leverage (i.e. a backstop as regards the degree to which a bank can leverage its capital base). It is calculated as a percentage of tier-1 capital relative to the total on and off balance sheet exposure (non-risk weighted).

LGD (Loss Given Default)

The loss a bank expects to experience if an obligor defaults, taking into account the eligible collateral and guarantees provided for the exposure. It can be expressed as an amount or as a percentage of the EAD (Exposure At Default). At the time of default, the loss experienced is a loss of the actual amount outstanding, thus no longer an expectation.

Liquidity risk

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

Market risk

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

Market value

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

Mark-to-Market

The act of assigning a market value to an asset

MREL

The minimum requirement for own funds and eligible liabilities. It is set on a case-by-case basis by the SRB.

MVA (Market Value Adjustment)

IFRS-inspired adjustments or reserves recognised on positions at fair value. MVAs cover close-out costs, adjustments for less liquid positions or markets, counterparty exposure resulting from OTC derivatives, model-linked valuation adjustments, operation-related costs, as well as transaction-specific adjustments.

NBB (National Bank of Belgium)

One of the tasks of the NBB is financial supervision, which is the instrument for ensuring financial stability, and the second key function of a central bank, alongside monetary stability. Financial supervision covers the:

1. prudential supervision of financial institutions from both the micro-prudential and macro-prudential angle, and the prompt detection of systemic risk;
2. supervision of information, the functioning of the financial markets and respect for the appropriate code of conduct, together with consumer protection.

Netting

An agreed offsetting of positions or obligations by trading partners or participants to an agreement. Netting reduces the number of individual positions or obligations subject to an agreement to a single obligation or position.

NSFR (Net Stable Funding Ratio)

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

Operational risk

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

ORSA (Own Risk and Solvency Assessment)

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

OTC (Over The Counter)

An over-the-counter contract is a bilateral contract where two parties agree on how a particular trade or agreement is to be settled in the future. It is usually a direct contract between a bank (or an investment bank) and its clients. It contrasts with exchange trading.

PD (Probability of Default)

The probability that an obligor will default within a one-year horizon.

PIT PD (Point-In-Time PD)

PD reflecting the expected default rate in the next year, based on current economic conditions (contrast with Through-the-Cycle PD).

RAPM (Risk-Adjusted Performance Measurement)

The risk-adjusted performance measurement policy defines a set of risk-adjusted performance metrics to be used for (i) allocating capital and (ii) setting variable remuneration.

RAROC

A measure, expressed as a percentage, used to reflect the profitability of transactions and/or financial instruments, account taken of the risk involved in these transactions and/or financial instruments. Generally speaking, it equals the 'expected profits minus the expected losses' divided by the capital invested.

RBA (Ratings-Based Approach)

Basel II approach for calculating the risk-weighted assets applied to securitisation exposures that are externally rated, or where a rating can be inferred.

Risk appetite

Risk appetite, as defined by the Board of Directors, is the amount and type of risk that KBC is able and willing to accept in pursuit of its strategic objectives. While the ability to accept risk is limited by financial (e.g., available capital) and non-financial regulatory and legal constraints, the willingness to accept risk depends on the interests of various stakeholders (shareholders, creditors, employees, management, regulators, clients, etc.). Risk appetite aims to find the right balance of satisfaction for all stakeholders.

RMBS (Residential Mortgage-Backed Security)

A type of structured credit product whose underlying assets are residential debt such as mortgages, home-equity loans and subprime mortgages.

RWA (Risk-Weighted Asset)

An exposure weighted according to the 'riskiness' of the asset concerned. 'Riskiness' depends on factors such as the probability of default by the obligor, the amount of collateral or guarantees and the maturity of the exposure.

SFA (Supervisory Formula Approach)

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

Solvency II

Solvency II is a project, initiated by the European Commission in 2001, which establishes capital requirements and risk management standards that will apply across the EU and will affect all areas of an insurer's operations. Solvency II aims to move away from the idea that 'one approach fits all' and thus encourages companies to manage risk in a way which is appropriate to the size and nature of their business in order to provide protection to policyholders by reducing the risk of insolvency to insurers.

SPV (Special Purpose Vehicle)

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

SRB (Single Resolution Board)

The Single Resolution Board (SRB), which became operational on 1 January 2015 (fully responsible for resolution on 1 January 2016), is the resolution authority for significant banking groups and for any cross-border banking group established within participating member states. Resolution is the restructuring of a bank by a resolution authority through the use of resolution tools in order to safeguard public interests, including the continuity of the bank's critical functions and financial stability, at minimal costs to taxpayers.

SSS (Super Senior Swap)

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

SVaR (Stressed Value At Risk)

Stressed Value-At-Risk is analogous to the Historical VaR, but it is calculated for the time series of a maximum stressed period in recent history.

(Core) Tier-1 ratio

$[\text{tier-1 capital}] / [\text{total weighted risks}]$. The calculation of the core tier-1 ratio does not include hybrid instruments (but does include the core-capital securities sold to the Belgian and Flemish governments).

TLTRO (Targeted Longer-Term Refinancing Operation)

The targeted longer-term refinancing operations (TLTROs) are Eurosystem operations that provide financing to credit institutions for periods of up to four years. They offer long-term funding at attractive conditions to banks in order to further ease private sector credit conditions and stimulate bank lending to the real economy. The TLTROs are targeted operations, as the amount that banks can borrow is linked to their loans to non-financial corporations and households. Moreover, in TLTRO II the interest rate to be applied is linked to the participating banks' lending patterns.

Trading book

The trading book consists of positions in financial instruments and commodities held either with trading intent or in order to hedge other elements of the trading book. Positions held for trading intent are those held intentionally for resale in the short term and/or with the intent of benefiting from actual or expected price movements in the short term or to lock in arbitrage profits.

TTC PD (Through-The-Cycle PD)

PD reflecting the one-year expected default rate averaged out over a longer period (contrast with Point-in-Time PD).

VaR (Value At Risk)

The unexpected loss in the fair value (= difference between the expected and worst case fair value), at a certain confidence level and with a certain time horizon.