KBC Bank Annual Report for 2016

To the reader

Company name

'KBC', 'the group', 'we' or 'KBC Bank' as used in this annual report refer (unless otherwise indicated) to the consolidated bank entity, i.e. KBC Bank NV including all group companies included in the scope of consolidation. 'KBC Bank NV' refers solely to the non-consolidated entity. The 'Company annual accounts' section deals only with the non-consolidated entity.

Difference between KBC Bank and KBC Group

KBC Bank NV is a subsidiary of KBC Group NV. The KBC group's legal structure has one single entity – KBC Group NV – in control of two underlying companies, viz. KBC Bank NV and KBC Insurance NV. All KBC Bank NV shares are owned (directly and indirectly) by KBC Group NV. A number of KBC Bank NV's debt instruments are exchange-listed. Where mention is made of KBC Group or the KBC group in this annual report, KBC Group NV is meant, including all group companies included in the scope of consolidation.

Forward-looking statements

The expectations, forecasts and statements regarding future developments that are contained in this annual report are based on assumptions and assessments made when drawing up this report. By their nature, forward-looking statements involve uncertainty. Various factors could cause actual results and developments to differ from the initial statements.

Translation

This annual report is available in Dutch and English. The Dutch version is the original and the English-language version an unofficial translation. KBC warrants that every reasonable effort has been made to avoid any discrepancies between the different language versions. However, should such discrepancies exist, the Dutch version will take precedence.

Articles 96 and 119 of the Belgian Companies Code

These articles specify the minimum content of company and consolidated financial statements required by law. This information has been incorporated into the different sections of the 'Report of the Board of Directors', which also contains additional, non-compulsory information. To avoid repetition, reference is sometimes made to information presented in other sections of this report. Pursuant to Article 119, KBC Bank NV has combined the reports for its company and consolidated financial statements. The Risk Report and the www.kbc.com website referred to in certain sections do not form part of the annual report.

Note:

Regarding the acquisition of United Bulgarian Bank and Interlease in Bulgaria announced on 30 December 2016, we expect the deal to be finalised by no later than the second quarter of 2017. Unless explicitly stated otherwise, therefore, the consolidated data in this annual report refers to the situation without the impact of the announced acquisition.

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Ratios used

See 'Additional information'.

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Report of the Board of Directors

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Statement by the Chairman of the Board of Directors and the Chief Executive Officer

KBC revamped its sustainability approach in 2016. What are the key takeaways from that?

Johan Thijs: First of all, we view sustainability for a financial institution much more broadly than simply from the traditional angle, which is based mainly on environmental, philanthropic or corporate governance considerations.
To us, sustainability means that we have to be able to live up to the expectations of all our stakeholders, not just today but also in the future, and to do so, of course, without assistance from outside sources. We have developed a group-wide sustainability framework to this end with clear guiding principles and views. This forms the sustainable backbone of our operations.
In brief, our approach to sustainability is based on three cornerstones. Firstly, we want to enhance our positive impact on society. To achieve this, we have chosen a number of focus areas in which we can make a difference. The chosen areas are financial literacy, environmental responsibility, promoting entrepreneurship, and demographic ageing and health. Secondly, we want to limit any negative impact we may have as much as possible. We do this primarily by reducing our own ecological footprint and by means of our updated policy guidelines in areas such as lending to the energy sector. We are also placing even greater emphasis on socially responsible investment funds. Thirdly, we want to encourage responsible behaviour on the part of all our employees.

What other event stood out for you in 2016?

Thomas Leysen: An obvious one is the acquisition of United Bulgarian Bank and Interlease in Bulgaria, which was announced at the end of 2016. It is a logical and important step in our expansion in Central and Eastern Europe, a strategy we embarked on almost twenty years ago. Combining this latest development with our existing presence through CIBANK puts us into third place for banking, and bringing DZI Insurance into the equation means that KBC Group also becomes the reference for bank-insurance in Bulgaria, which is an attractive growth market. We can share our know-how and extensive experience in the field of bank-insurance, leasing, asset management and factoring there, generating all sorts of synergies and so create value for our shareholders. We expect the acquisition to be finalised in the second quarter of 2017.

Our net profit came to 2 billion euros in 2016. What were the most important contributors to that figure?

Johan Thijs: Firstly, it's important to bear in mind when comparing our results with last year's that the numbers for 2015 were enhanced by the liquidation of a group company, which had a net positive impact of 765 million euros, and that we recorded substantial goodwill impairment charges in this year. Disregarding that effect, our net profit was 14% higher than its 2015 level, even though market conditions were challenging. Our net interest income, for instance, fell by just 1%, despite the negative impact of the climate of low interest rates. Our net fee and commission income was down 10%, due mainly to the lower level of income generated by our asset management activities, reflecting investor caution that had arisen because of uncertainty on the markets. The quality of our loan portfolio improved further, resulting in exceptionally low loan loss provisioning, thanks in part to Ireland, where we were actually able to reverse impairment charges, on balance. We do not expect, however, to be able to maintain this exceptionally low level of provisioning in the years ahead. We kept our costs well under control too, with the result that our cost/income ratio come to an excellent 54%. This brought our net profit for 2016 to a total of 2 billion euros, an excellent performance to be proud of and one for which we're genuinely grateful to our clients and employees.

All eyes right now are on digital transformation. How does KBC view these developments?

Thomas Leysen: Digitisation is a means rather than an end. Our credo is and will remain 'putting the client at the heart of what we do'. That means looking constantly at how we can adapt in order to respond to our clients' changing needs. Our focus is on an omnichannel approach that enables us to provide solutions in an accessible way, wherever and whenever the client requires them. We place particular importance on enabling flawless and seamless interaction between our bank branches, insurance agencies, advisory centres, websites and mobile apps, so that we can offer clients an optimum bank-insurance experience and save them as much of their valuable time as possible.

Johan Thijs: Our clients are obviously looking for a different way of banking and insurance than, say, ten years ago. This has led to a shift – on our part too – between the different distribution channels, with a particular increase in the importance of digital channels. We've firmly committed ourselves to those channels, as demonstrated by the success of our mobile apps. But we're not neglecting our other channels: we continue to work hard, for instance, on innovative branch concepts. Incidentally, we have been involved in the digital transformation process for a long time – it didn't just come out of the blue. We have pursued a gradual path for years now, working at our clients' pace and with respect for our staff, shareholders and other stakeholders. That too is an example of corporate social responsibility.

What do you expect to see in 2017?

Thomas Leysen: The past year has been a turbulent one, to say the least. I'm obviously thinking of Brexit and the US elections, which will have an impact on economic and political developments in 2017. We expect the steady economic growth of 2016 to continue in 2017 and inflation to pick up further, although the increase in underlying core inflation will probably be limited. The ECB's flexible monetary policy is likely to keep European government bond yields low, though the elections in a number of European countries could bring extra volatility.

Johan Thijs: We signed an important acquisition agreement in Bulgaria, which fits our strategy perfectly. We also included Ireland as one of our core countries at the beginning of 2017. We revamped our sustainability strategy and are working hard on our digital transformation to enable us to provide even better quality service to our clients. This puts us in an excellent position to look confidently to 2017 and to work together towards a sustainable future. As we do so, we will continue to put our clients at the heart of everything we do.

We hope you enjoy our annual report.

Johan Thijs
Chief Executive Officer

Thomas Leysen
Chairman of the Board of Directors

Area of operation and activities

KBC Bank is a multi-channel bank catering mainly for retail, private banking, SME and mid-cap clients. Geographically, we focus on our core markets of Belgium, the Czech Republic, Slovakia, Hungary, Bulgaria and Ireland. We have a limited presence elsewhere in the world, primarily to support corporate clients from our core markets.

Shareholders

Shareholder structure (31-12-2016)	Number of shares
KBC Group NV	915 228 481
KBC Insurance NV	1
Total	915 228 482

All shares carry voting rights. The shares are not listed.

Network and personnel

Network and personnel	
Bank branches (31-12-2016)	
Belgium	716
Central and Eastern Europe (the four home markets of the Czech Republic, Slovakia, Hungary and Bulgaria)	715
Rest of the world	25
Number of staff (2016 average in FTEs)	approx. 28 000

Financial calendar

Financial communication is largely organised at KBC Group level. Financial information relating to KBC Bank is available at www.kbc.com/Investor Relations/Information on KBC Bank.

Financial calendar for KBC Group and KBC Bank	
FY2016	KBC Group Annual Report for 2016 and Risk Report for 2016 available: 31 March 2017
	KBC Bank Annual Report for 2016 available: 31 March 2017
	AGM of KBC Bank: 26 April 2017
	AGM of KBC Group: 4 May 2017
1Q2017	Earnings release for KBC Group: 11 May 2017
2Q2017/1H2017	Earnings release for KBC Group: 10 August 2017
	Earnings release for KBC Bank: 31 August 2017
3Q2017/9M2017	Earnings release for KBC Group: 16 November 2017

The most up-to-date version of the financial calendar is available at www.kbc.com.

Long-term credit ratings

The table shows the long-term and short-term credit ratings of KBC Bank NV.

Credit ratings for KBC Bank (20 March 2017)	long-term ratings	short-term ratings
Fitch	A (stable outlook)	F1
Moody's	A1 (stable outlook)	P-1
Standard & Poor's	A (stable outlook)	A-1

Please refer to the respective credit rating agencies for definitions of the different ratings and methodologies.

Our business model

The strategy, business model and management structure of KBC Bank is embedded in that of the KBC group. A summary is given below of the business model of the KBC group, where KBC Bank is essentially responsible for the banking business and KBC Insurance for the insurance business.

For more detailed information, please see the KBC Group annual report for 2016.

How do we create value? (KBC Group)

In our capacity as a bank, we ensure that our clients can save and invest in a well-informed manner. In this way, every client can grow their assets in keeping with their personal risk profile, and call on the expertise of our staff to assist them. We also want to contribute to general financial education and have taken a variety of initiatives in that field, as discussed below.

We use the money from the deposits our clients entrust to us to provide loans to individuals, businesses and public authorities, thereby putting that money to productive use in society. As a lender, we enable people to build a house or buy a car, for instance, and businesses to be created or to grow.

We also hold a portfolio of investments, which means we invest in the economy indirectly too. Besides loans to individuals and businesses, we fund specific sectors and target groups, such as the social profit sector, infrastructure projects that have a major impact on the domestic economy, and green energy projects.

The role we play as a deposit-taker and a lender ultimately means that we assume our clients' risks for them. Our highly developed risk and capital management know-how allows us to manage those risks.

As an insurer, we enable our clients to operate free of worry and to limit their risks. We work hard every day to provide the best insurance cover at a fair price and we invest in a high-quality claims-handling service, because that will always be the true litmus test of any non-life policy. What's more, we use our knowledge of the causes of accidents to develop accident prevention campaigns and we have a long-standing tradition of working with organisations involved in road safety, welfare and victim assistance.

We also offer our clients a variety of other services that are important to them in their everyday lives, including payments, cash management, trade finance, leasing, corporate finance, and money and capital market products. In this way too, we contribute to the economic system.

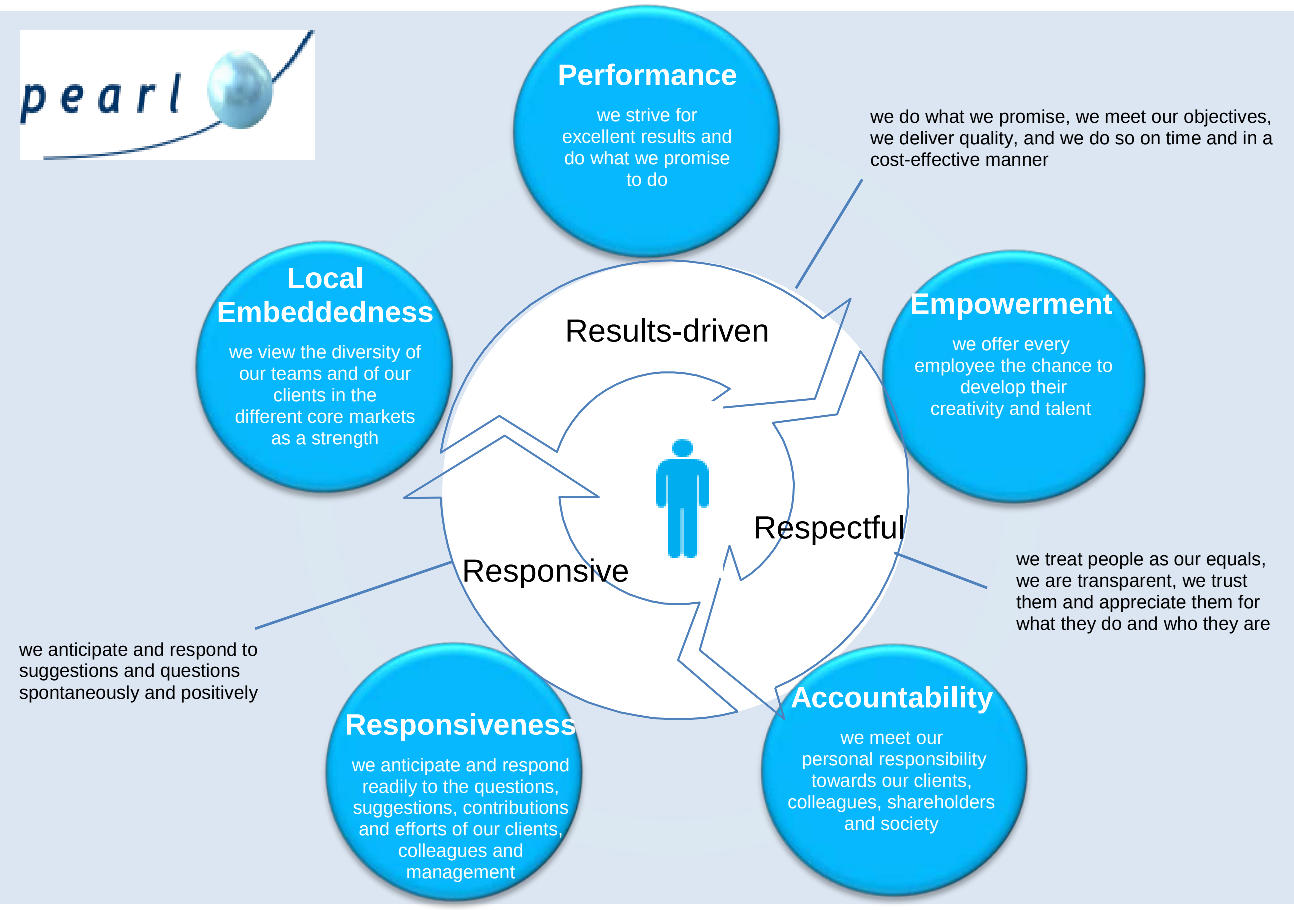
We make an important contribution to employment in all our core markets. We recognise that we have a significant direct impact on the lives of our people. Therefore, we offer them a fair reward for their work, thereby contributing to the welfare of the countries in which we operate. We also offer them development opportunities and the means to maintain the best possible work-life balance.

What's more, as a major local player in each of our core countries, we form part of the economic and social fabric in those countries. We take account of this in our activities, and we take a range of initiatives to support local communities.

What makes us who we are? (KBC Group)

We sum up our business culture and our values in the acronym 'PEARL', which stands for Performance, Empowerment, Accountability, Responsiveness and Local Embeddedness. We also encourage all our employees to behave in a way that is responsive, respectful and results-driven. An explanation of what we mean is given in the following diagram.

It goes without saying that we monitor how embedded this culture is among our staff. We have even appointed a dedicated PEARL manager to make sure that all our employees are thoroughly imbued with these values. The PEARL manager reports regularly to our CEO, ensuring that senior management is aware of the extent to which PEARL is known, practised and embedded within our group.



Besides our culture and our values, we distinguish ourselves from our competitors through several specific features, including our integrated bank-insurance model and our focus on a number of specific countries. The table below go into this in greater depth.

What differentiates us from our peers?

Our integrated bank-insurance model
We offer an integrated response to our clients' banking and insurance needs. Our organisation is similarly integrated, with most services operating at group level and the group also managed in an integrated style. Our integrated model offers our clients the benefit of a comprehensive, one-stop financial service that allows them to choose from a wider, complementary and optimised range of products and services. For ourselves, it offers benefits in terms of income and risk diversification, additional sales potential through intensive co-operation between the bank and insurance distribution channels, and significant cost-savings and synergies.

Our strong geographical focus
We focus on our core markets of Belgium, the Czech Republic, Hungary, Slovakia, Bulgaria and Ireland. As a result, we now operate in a mix of mature and growth markets, taking advantage in the latter of the catch-up potential for financial services. We have a limited presence elsewhere in the world, primarily to support activities in our core markets.

Our focus on *local responsiveness*
We want to build sustainable local relationships with private individuals, SMEs and mid-caps in our core countries. Local responsiveness is very important to us in that regard. It means we know and understand our local clients better, that we pick up signals effectively and respond to them proactively, and that we offer products and services tailored to these local needs. It also means that we focus on the sustainable development of the different communities in which we operate.

Our shareholder structure
A special feature of the shareholder structure of KBC Group is the core shareholder syndicate consisting of Cera, KBC Ancora, MRBB and the other core shareholders, which together held about 40% of our shares at the end of 2016. These shareholders act in concert, thereby ensuring shareholder stability and the further development of our group. KBC Bank and KBC Insurance are wholly owned by KBC Group.

Our strengths

A well-developed bank-insurance strategy, which enables us to respond immediately to our clients' needs	Strong and finely meshed commercial banking and insurance franchises in Belgium and the Czech Republic	Turnaround achieved in the International Markets Business Unit	Successful track record of underlying business results	Solid capital position and strong liquidity	Firmly embedded in the local economies of our core countries

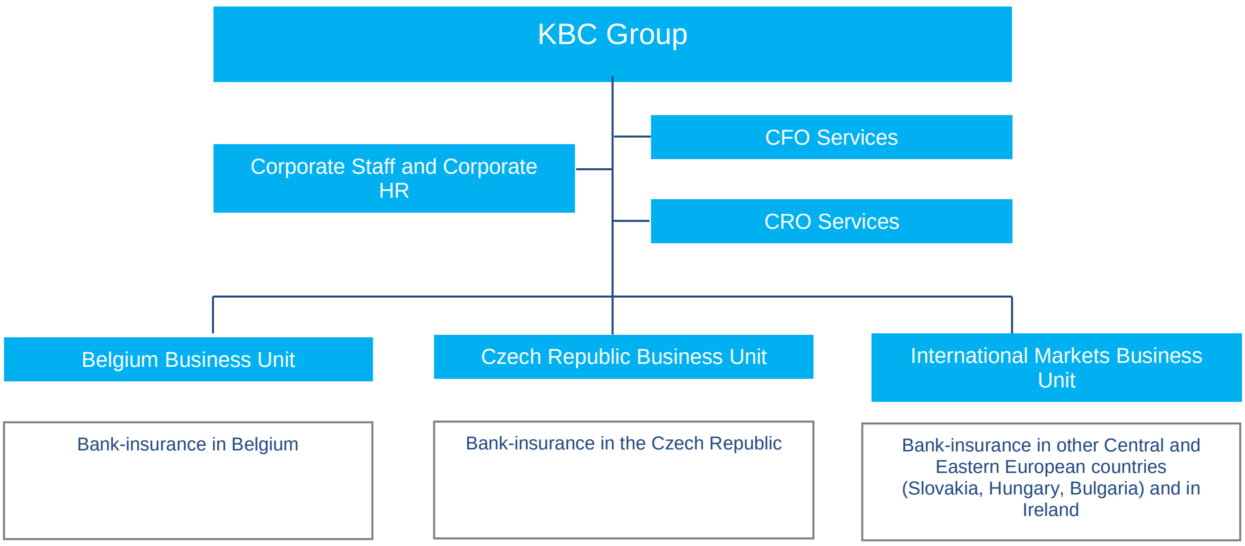
Our challenges

Macroeconomic environment characterised by low interest rates, demographic ageing, increased nervousness and uncertainty, and geopolitical challenges	Stricter regulation in areas like client protection and solvency	Competition, new players in the market, new technologies and changing client behaviour	Cyber crime	Public image of the financial sector

We have structured our group around three business units, which focus on local activities and contribute to sustainable earnings and growth. The units are Belgium, the Czech Republic and International Markets (see diagram). A detailed description is provided in the 'Review of the business units' section.

The Board of Directors is responsible for defining our group's strategy, general policy and risk appetite. It is supported by several specialised committees, namely the Audit Committee, the Risk & Compliance Committee, the Nomination Committee and the Remuneration Committee. These committees are dealt with in the 'Corporate governance statement' section.

Our Executive Committee provides the operational management of the group within the confines of the general strategy approved by the board. Besides the CEO, the Executive Committee includes the Chief Financial Officer (CFO) and Chief Risk Officer (CRO) of the group, as well as the CEOs of the Belgium, Czech Republic and International Markets business units.



In what environment do we operate? (KBC Group)

The main challenges facing us are, of course, the economic situation, intensifying competition and technological change, regulation, and cyber and ICT risks. The way in which we are dealing with them is set out below.

What are our main challenges?	How are we addressing them?
The world economy and geopolitical challenges The world economy, the financial markets and demographic developments can strongly influence our results. This relates to matters like growth, the level and volatility of interest rates, inflation, employment, population structure, bankruptcies, household income, financial market liquidity, exchange rate movements, availability of funding, investor and consumer confidence and credit spreads. The risk of persistently low interest rates has become more important in recent years, exerting significant pressure on the income of banks and insurers. Demographic ageing is also a challenge for our life insurance business, for instance, where it can lead to a changing product offering due to the shift in the structure of the insurance population, and because it drives up demand for rate products with longer maturities. Another specific element relates to the potential consequences of the Brexit vote in 2016 (see the 'Risk management' section).	• We ensure in our long-term planning/scenario that our capital and liquidity positions are capable of withstanding a negative scenario. • We take proactive measures. Examples include adjusting our offering to take account of demographic ageing (more insurance policies relating to health care, investment products linked to financial planning, etc.) and strengthening our own capital position to ensure financial stability. • We calculate the potential impact of changes in key parameters and estimate the impact of material events as effectively as possible.
Competition and technological change We carry out our activities in a highly competitive environment. Our competitors too are being affected by technological change and shifting client behaviour. Examples include the surge in growth of online services. Besides the traditional players, therefore, there is also intensifying competition from online banks and e-commerce in general. Intensifying competition is affecting client expectations, exerting potential pressure on cross-selling opportunities, increasing the importance of digitisation, and creating a need for an organisation that is responsive and resilient. We are both eager and obliged, therefore, to keep up and constantly to challenge our business model with technological developments and the new needs of a changing society.	• The creative input of our employees is highly important when it comes to equipping ourselves to deal with competition and technological change. We do everything we can to attract and motivate talented staff. • As an integrated financial institution, we can draw on an immense volume of data, which enables us to understand more clearly what clients really want. Our integrated model allows us to offer our clients more comprehensive solutions than pure banks or insurers can. • We have a specific process in place to ensure that the business side receives approval quickly and efficiently for new product launches. The process also includes a thorough examination of the potential risks. We regularly review all our existing products as well, so that they can be adapted to take account of evolving client needs or changing market conditions. • We pay particular attention to innovation and digitisation, and are investing significant amounts in that area. We have appointed a Chief Innovation Manager and have set up an Innovation Board, where the Chief Innovation Manager and the CEOs of the different countries can discuss the group's innovation plans, how projects are progressing and joint initiatives. • We have launched numerous successful mobile and other innovative apps (examples can be found in the 'Review of the business units' section).

Regulation

Increasing regulation is an issue for the financial sector as a whole. It includes rules like the Markets in Financial Instruments Directive, the Markets in Financial Instruments Regulation and the Insurance Distribution Directive to protect clients from unfair or inappropriate practices.

There is also the new European market abuse regime, which extends the scope of the regime, fine-tunes existing rules and introduces new rules on ‘market soundings’. The Audit Regulation introduces special rules, including ones on the appointment and mandatory rotation of the auditor, restrictions on the non-audit services that the auditor may provide and the role of the audit committee in this respect. Various initiatives are currently underway in the area of solvency, mainly in relation to the banking business. The main initiatives relate to the method for calculating risk-weighted assets and the further streamlining of legislation to ensure that shareholders and creditors absorb losses at banks rather than the government. As regards the insurance business, the Solvency II Directive was transposed into Belgian law in for application to the status and supervision of (re)insurance companies.

Another factor is the new IFRS that have yet to become effective, including IFRS 17 (applies specifically to the insurance business) and especially IFRS 9 (introduces a number of measures, including a new classification system for financial instruments and new impairment rules).

- We are making thorough preparations for the new regulations. Specialised teams (group legal, capital management, group risk and compliance) keep close track of the rules and propose the necessary responses in terms, for instance, of the group’s capital planning.
- In the case of regulations that will have a major impact on us (such as IFRS 9), internal programmes and working groups have also been set up, in which staff from all the relevant areas can work together.
- A special team focuses on contacts with government and regulators.
- We participate in working groups at sector organisations, where we analyse draft texts.
- We produce memorandums and provide training courses for the business side.

Cyber risk/Information security

Hacking and cyber attacks are a constant threat in an increasingly digital world, with the potential to cause significant financial and reputational harm. Our focus is on the optimum protection of both our clients and our group itself.

- We raise our employees’ awareness of cyber risks by providing training in areas like phishing and vishing, and fraud in general.
- We work to achieve highly secure and reliable ICT systems and robust data protection procedures, and we constantly monitor our systems and the environment.
- We analyse cyber risks from an IT and business perspective, so that we can offer maximum resistance and are able to remedy attacks swiftly and efficiently. We regularly evaluate our action plans and adapt them on the basis of new internal and external information.
- A certified Cyber Expertise & Response Team focuses on cyber crime, informs and assists local entities, tests KBC’s defence mechanisms and provides training and cyber-awareness in the group. A group-wide competence centre for information risk management concentrates on the risks associated with information security and cyber crime, and on operational IT risks.
- We exchange information, both internally and externally, and are members of the *Belgian Cyber Risk Coalition* – a knowledge and consultative platform consisting of around 50 public and private-sector enterprises and academics.
- We also have our entities’ cyber risks and defence mechanisms evaluated on an annual basis by an international team of internal information security experts.

Market conditions in our most important countries in 2016

Belgium

Market environment

- Economic recovery continued in 2016
- Growth supported by domestic demand and net exports, driven by job creation and improved competitiveness
- Further modest recovery in investment
- Home loans continued to grow strongly, due in part to low interest rates. Corporate lending also grew vigorously
- Inflation higher than in the rest of the EMU.
- Forecast real GDP growth of 1.3% in 2017

KBC Group in Belgium

- Main brands: KBC, KBC Brussels and CBC
- 716 bank branches[1], 427 insurance agencies, electronic channels
- 21% share of the market for traditional bank products, 33% for investment funds[2], 13% for life insurance and 9% for non-life insurance
- 3.5 million clients (bank alone: 3.2 million clients)
- 96-billion-euro loan portfolio[3], 130 billion euros in deposits and debt securities

1 Excluding self-service branches.
2 Market share calculated using new BEAMA methodology.
3 Including 10 KBC Bank branches in the US, Asia and Europe (6-billion-euro loan portfolio).

Czech Republic

Market environment

- Czech growth halved in 2016, but still well above the rest of the EU
- Slowdown in growth attributable to positive impact of the European Cohesion Fund wearing out
- Household consumption underpinned by wage increases and job creation
- Robust lending and deposit growth
- Inflation remained low but picked up towards the end of the year
- Forecast real GDP growth of 2.3% in 2017

KBC Group in the Czech Republic

- Main brand: ČSOB
- 287 bank branches, various distribution channels for insurance, electronic channels
- 20% share of the market for traditional bank products, 23% for investment funds, 7% for life insurance and 7% for non-life insurance
- 4 million clients (bank alone: 3 million clients)
- 22-billion-euro loan portfolio and 26 billion euros in deposits and debt securities

Slovakia

Market environment

- Downturn in growth, due to positive impact of the European Cohesion Fund wearing out, remained limited
- Real GDP growth still well above the EU as a whole, thanks in part to dynamic household consumption
- Inflation largely negative throughout 2016
- Robust lending growth, especially home loans
- Forecast real GDP growth of 3% in 2017

KBC Group in Slovakia

- Main brand: ČSOB
- 125 bank branches, various distribution channels for insurance, electronic channels
- 11% share of the market for traditional bank products, 7% for investment funds, 4% for life insurance and 3% for non-life insurance
- 0.5 million clients (bank alone: 0.4 million clients)
- 7-billion-euro loan portfolio and 6 billion euros in deposits and debt securities

The world economy in 2016

We can split the economic climate in 2016 into two periods. The first half of the year was characterised by a deterioration in sentiment indicators, primarily in manufacturing industry. Growing concerns about the emerging economies – and more specifically fear of a hard landing for China – also caused the financial markets to slide at the beginning of the year. A general improvement in the climate for economic growth followed during the second half of the year, with private consumption leading the way. The negative impact of political events ultimately turned out to be less than feared. Having initially responded with panic to the UK's vote to leave the EU, the financial markets staged a swift recovery and the UK economy continued to perform better than anticipated. The election of the new president of the United States proved not to be a threat to the prevailing economic optimism either. Nevertheless, both events constitute a risk to future economic growth.

Hungary

Market environment

- Real GDP growth suffered from severe negative investment growth
- Household consumption remained robust, however, thanks to sharp increase in wages and employment
- Vigorous growth of deposits, but volume of loans outstanding continued to be hit by debt reduction
- Inflation around 0% throughout the year, but exceeded 1% towards year-end
- Continuing expansive monetary policy and further reduction in outstanding loans
- Forecast real GDP growth of 3.4% in 2017

KBC in Hungary

- Main brand: K&H
- 207 bank branches, various distribution channels for insurance, electronic channels
- 10% share of the market for traditional bank products, 15% for investment funds, 4% for life insurance and 6% for non-life insurance
- 1.7 million clients (bank alone: 0.9 million clients)
- 5-billion-euro loan portfolio and 7 billion euros in deposits and debt securities

Bulgaria

Market environment

- Downturn in growth, due to positive impact of the European Cohesion Fund wearing out, remained limited
- Continuing highly dynamic consumer demand, due to wage growth and job creation
- Inflation largely negative throughout the year, but rose to 1% towards year-end
- Outstanding corporate loans flat, but recovery in growth of lending to households
- Forecast real GDP growth of 3.2% in 2017

KBC in Bulgaria

- Main brands: CIBANK and DZI Insurance
- 96 bank branches, various distribution channels for insurance, electronic channels
- 3% share of the market for traditional bank products, 11% for life insurance and 10% for non-life insurance
- 0.6 million clients (bank alone: 0.3 million clients)
- 0.9-billion-euro loan portfolio and 0.8 billion euros in deposits and debt securities
- We signed an agreement at the end of 2016 to acquire United Bulgarian Bank (UBB) and Interlease. We expect this acquisition to be finalised in the second quarter of 2017. UBB has roughly 0.9 million clients, 190 bank branches and an estimated 8% share of the market (based on assets).

Ireland

Market environment

- Growth again among the strongest in the EU
- Domestic demand increased strongly once more
- Outstanding loans continued to decline, but at a slower rate than in previous years
- Inflation below zero more or less throughout the year
- Continuing debt reduction thanks to robust growth
- Forecast real GDP growth of 3% in 2017

KBC in Ireland

- Main brand: KBC Bank Ireland
- 15 bank branches (hubs), electronic channels
- 7% share of the market for retail banking
- 0.2 million clients
- 13-billion-euro loan portfolio and 5 billion euros in deposits and debt securities

The real economy developed against a background of low inflation. Energy and commodity prices bottomed out at the beginning of 2016, before rising gradually and increasing upside pressure on inflation. All the same, underlying core inflation remained weak, especially in the euro area. As a consequence, the ECB took the decision in December to extend its asset purchase programme until the end of 2017, albeit at a slower pace. The US central bank marked time in 2016, only announcing a further rate hike at the end of the year, precisely 12 months since the previous one. Yields on government bonds remained low in this context. An upward trend nevertheless seems to have begun in the final quarter of the year, accelerated by higher inflation forecasts in anticipation of an expansive budgetary policy in the United States.

Our employees, capital, network and relationships (KBC Group)

As a financial group, we draw on many different types of capital, including our employees and our capital base, but also our brands, reputation and capacity to innovate, our relationships with all our stakeholders, our networks – both electronic and bricks-and-mortar – and our ICT infrastructure.

Our HR policy is based on our PEARL business culture and it is our employees who give tangible shape to this policy. We closely monitor how this business culture is applied in all the core countries. We create a stimulating working environment where employees are given the opportunity to develop their talents and skills, not only by learning, but also by communicating their ideas and taking responsibility. We view self-development as the key to career-long employability. With that in mind, we offer our staff a wide range of traditional training courses, e-learning, Skype sessions, workplace coaching, and other development opportunities.

Although employees are primarily responsible for developing their careers, KBC offers a great deal of support. There is also a range of interesting jobs, and plenty of opportunities are offered to change jobs internally and for employees to grow in their current position. At the same time, we pay particular attention to extending careers. For instance, Minerva – our HR plan for older employees in Belgium – has enabled us to move towards a more individualised approach geared to their particular needs. We are responding in this way to demographic developments and preparing people to work for longer.

We realise that good managers are key when it comes to enabling employees to bring out the best in themselves. That's why we have intensive leadership tracks in place at different levels. Managers develop their skills through our 'lead yourself', 'lead your business' and 'lead your people' courses. KBC University is now also up and running. This ambitious development programme is aimed at senior managers from the entire KBC group, with different speakers and modules focusing on bank-insurance, leadership and 'client-centricity'.

We do not make any distinction on the grounds of gender, religion, ethnic background or sexual orientation in our HR, recruitment and promotion policies or remuneration systems. Equal treatment of employees is also enshrined in the KBC Code of Conduct and in the various manifestos and charters we have endorsed. As an employer, we want to give a clear signal to society: we treat our employees in a socially responsible manner and that relationship is grounded in mutual trust and respect.

We closely monitor employee satisfaction and engagement, and consult our staff each year by means of the Group Employee Survey. The 85% response rate in 2016 was up five percentage points on the previous year, with over 30 000 KBC Group employees taking the time to share their opinions. The survey revealed an engagement level for the group as a whole that is in line with the European financial sector average. The engagement index rose in Belgium, Ireland and Slovakia, but was down slightly on its year-earlier level in the Czech Republic, Hungary and Bulgaria. The index in Belgium and Slovakia also exceeded the respective national benchmarks.

The KBC Group annual report contains a table with an overview of the total workforce and a breakdown into various categories.

Our activities are only possible if we have a solid capital base. At year-end 2016, KBC Group's total equity came to 17.4 billion euros and chiefly comprised own share capital, share premiums, reserves and certain additional tier-1 instruments. Its capital was represented by 418 372 082 shares at year-end 2016, a small increase of 285 024 shares on the previous year, due to the customary capital increase reserved for staff in December. At year-end 2016, KBC Bank's total equity was 14.2 billion euros. The KBC Bank share is not traded on the stock market.
KBC Group is the sole shareholder of KBC Bank. KBC Group shares are held by a large number of shareholders in a number of countries. A group of shareholders consisting of MRBB, Cera, KBC Ancora and the Other core shareholders, constitute KBC Group's core shareholders. A shareholder agreement was concluded between these core shareholders in order to ensure shareholder stability and guarantee continuity within the group, as well as to support and co-ordinate its general policy. To this end, the core shareholders act in concert at the General Meeting of KBC Group and are represented on its Board of Directors. The current agreement applies for a ten-year period with effect from 1 December 2014. According to the most recent notifications, the core shareholders own approximately 40% of the KBC Group shares between them. More information on the KBC Group's shareholder structure can be found in the KBC Group annual report.

Alongside staff and capital, our network and relationships are especially important to our activities. An overview of our network can be found under 'Market conditions in our most important countries in 2016'.

Our social and relationship capital comprises all relationships with our clients, shareholders, government, regulators and other stakeholders who enable us to remain socially relevant and to operate as a socially responsible business. This theme is dealt with in depth under 'Our role in society' in the 'Our strategy' section.

Our strategy

The strategy, business model and management structure of KBC Bank is embedded in that of the KBC group. A summary is given below of the strategy of the KBC group, where KBC Bank is essentially responsible for the banking business and KBC Insurance for the insurance business.

For more detailed information, please see the KBC Group annual report for 2016.

The core of our strategy for the future (KBC Group)

Our strategy rests on four principles:
- We place our clients at the centre of everything we do.
- We look to offer our clients a unique bank-insurance experience.
- We focus on our group's long-term development and aim to achieve sustainable and profitable growth.
- We meet our responsibility to society and local economies.

We implement our strategy within a strict risk, capital and liquidity management framework.

Sustainability is embedded in our strategy. To us, this primarily means the ability to live up to the expectations of all our stakeholders and to meet our obligations, not just today but also in the future. Our sustainability strategy has three cornerstones:
- Enhancing our positive impact on society
- Limiting any negative impact we might have
- Encouraging responsible behaviour on the part of all our employees

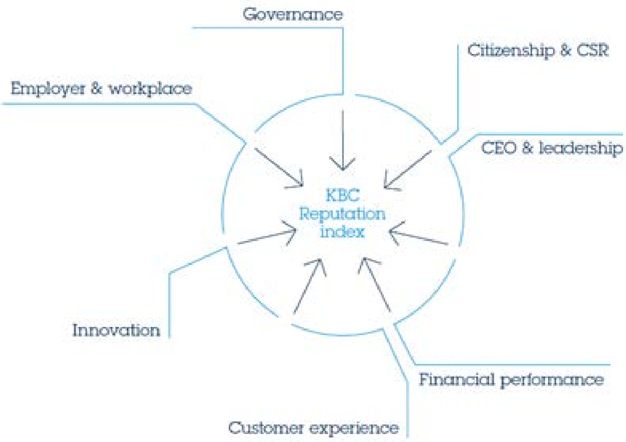
The client is at the centre of our business culture (KBC Group)

We have to earn our clients' trust every day. We work hard to offer them complete, accessible and relevant solutions at a fair price and do our utmost to achieve an optimum client experience. That means taking their needs rather than our banking or insurance products as our starting point.

What our clients want today is actually the same as they wanted in the past: a bank or insurer they can trust, and who offers them the right solutions. The difference today is that they want it through a variety of channels and at the moment that suits them best: mobile payments in the restaurant, online banking from home, advice from an insurance agent or an investment expert in an office or remotely from a regional advisory centre. Each client makes their own choices, while we ensure a pleasant client experience and optimum convenience by enabling our branches, agencies, advisory centres and digital channels to communicate with each other as seamlessly as possible. The aim is to ensure that we recognise clients regardless of the channel they use and don't have to keep asking them for the same details.
What's more, as both a bank and an insurer with a wide range of distribution channels, we know our clients very well. It means we can improve our understanding of their needs and expectations and that we can surprise them with rapid and inventive proposals tailored to their personal requirements.

It goes without saying that clients only accept us analysing their data once they already trust us. We achieve that through an excellent privacy policy, for which the client sets the limits. Because privacy is not only an objective concept, defined by law, it is a highly subjective one too. For that reason, we want to let clients themselves choose what we can do with their data. In the process, we want to communicate in a transparent way and offer our clients a clear privacy overview, in which they can adjust their choices at any moment. We view smart data analysis allied with effective privacy protection as the ideal opportunity to enhance our clients' trust.

Since putting the interests of our clients at the heart of everything we do is the cornerstone of our strategy, we keep a close eye on their situation. We collect their experiences in the various markets in which we are active and use that information to improve our services and products. We also closely monitor our reputation, which can be influenced by a range of factors (see diagram). Not only do we calculate our overall score for reputation, we do so for the underlying elements as well, and communicate this analysis to all the departments and individuals concerned, so they can take appropriate action.



The most important Key Performance Indicators (KPIs) relating to the client being put at the heart of everything we do, are set out in the KBC Group annual report.

We offer our clients a unique bank-insurance experience (KBC Group)

We respond in an integrated way to all of our clients' banking and insurance needs and we also position ourselves as an integrated bank-insurer within our organisation. This integrated model offers the client the benefit of a comprehensive, one-stop service that allows them to choose from a wider, complementary and optimised range of products and services. It offers the group benefits in terms of income and risk diversification, additional sales potential through intensive co-operation between the bank and insurance distribution channels, and significant cost-savings and synergies.

As an integrated bank-insurer, we can put our clients' interests at the heart of what we do by offering them an integrated product range and advising them based on needs that transcend pure banking or insurance, and include family, the home and mobility.

As stated earlier, we do everything we can to integrate our channels (bank branches and insurance agencies, contact centres, self-service terminals, the website, our home banking application and mobile apps). Because we are both a bank and an insurer, we can commit ourselves completely to this integrated approach and seamless service. The best mix of channels is determined locally based on the client's needs and also depends on the degree of maturity of our bank and insurer in each country.

We have developed a unique bank-insurance co-operation concept within our group, the roll-out of which varies from one market to another.
We are furthest advanced in this area in Belgium, where our bank-insurance business already operates as a single unit that is achieving both commercial and non-commercial synergies. An important feature of our model in Belgium is the unique co-operation between our bank branches and insurance agencies in micro markets. The branches sell bank and standard insurance products, and refer clients to the insurance agency in the same micro market for other insurance products. The insurance agencies sell the full range of insurance products and handle all claims, including those relating to policies taken out at a bank branch.
We have not yet gone so far as in Belgium in our other core countries, but we want to create an integrated distribution model as swiftly as possible, which will allow commercial synergies.

Our bank-insurance model also enables us to achieve various commercial synergies. In Belgium, for instance, some seven out of ten clients who agreed home loans with KBC Bank in 2016 also took out mortgage protection cover with KBC Insurance, while eight to nine out of ten purchased home insurance. At ČSOB in the Czech Republic, between six and seven out of ten clients who took out home loans in 2016 also purchased home insurance from the group. To give another example, roughly half of households in Belgium that bank with KBC Bank hold at least one KBC Insurance product. About one in five of these households actually held three banking and three insurance products from KBC.

We took initiatives in all our markets to further optimise our bank-insurance model (relevant examples and more details of our bank-insurance performance in each country can be found in the 'Review of the business units' section).

The most important Key Performance Indicators (KPIs) relating to bank-insurance are set out in the KBC Group annual report.

We focus on sustainable and profitable growth (KBC Group)

To secure our long-term future, we build long-term relationships with our clients. We do not pursue high short-term returns that come with excessive risks but rather focus on sustainable and profitable growth in the long run. We have opted, for instance, not to set a target for return on equity (ROE), because we want to avoid getting caught up in the kind of short-term thinking that means pursuing the highest possible ROE every quarter.

Stringent risk management in everything we do is an absolute precondition in terms of guaranteeing sustainability. For more information on this, see 'We aim to achieve our ambitions within a stringent risk management framework'.

Sustainable and long-term thinking also means concentrating on the local economies of the core markets in which we operate and that we invest only to a very limited extent in projects outside these markets.

We view our presence in our core countries as a long-term commitment. We want to consolidate our presence there by means of organic growth or attractive acquisitions, in line with clear and rigorous strategic and financial criteria. The acquisition of United Bulgarian Bank and Interlease in Bulgaria, which was announced at the end of 2016, is perfectly aligned with this strategy (see also the 'Review of the business units' section). Meanwhile, we decided at the start of 2017 to clarify our position on Ireland and include it as one of our core countries. We will implement a 'Digital First' strategy there to create an outstanding client experience. 'Core country' status also means that we aim to achieve a market share of at least 10% in the retail and micro-SME segments and to develop bank-insurance in the same way as we do in our other core markets. We will offer insurance products through partnerships and co-operation agreements.

Sustainable and long-term thinking means, moreover, that we take specific sustainability initiatives in the communities in which we operate. Fine examples in this regard include the 'Start it' project in Belgium and 'The Gap in the market' campaign in Hungary (further details are provided in the 'Review of the business units' section and in 'Our role in society' below).

The most important Key Performance Indicators (KPIs) relating to sustainable and profitable growth are set out in the KBC Group annual report.

Our role in society: to be responsive to society's expectations (KBC Group)

We can only be truly sustainable if we also retain the trust of society and live up – as a company – to our responsibilities towards it. This is achieved by recognising the impact our operations have on society and by meeting society's needs and expectations in a balanced, meaningful and transparent way.

Focus on responsible and ethical behaviour

If we want to retain and grow our stakeholders' trust, it is extremely important that we behave responsibly in everything we do. It is therefore not enough for KBC employees simply to comply with regulations: our ambition in this area goes further than that. The basis of responsible behaviour is integrity, which requires honesty, fairness, transparency and confidentiality, as well as a healthy awareness of risk.

Responsible behaviour is especially relevant for a bank-insurer when it comes to appropriate advice and sales. We pay particular attention, therefore, to training and awareness. We are developing an internal programme to explore issues such as professional integrity, advising clients appropriately and dealing with dilemmas.

Aiming to enhance our positive impact on society

We want our sustainability policy to go beyond philanthropy and sponsorship. Although these aspects will remain important, we want to focus on a number of social needs in fields where a bank-insurer can make a genuine difference. Bearing in mind the context in our different core markets, we have defined the following focus areas for sustainability: 'financial literacy', 'environmental responsibility', 'entrepreneurship', and 'demographic ageing and health' (examples are provided in the table).

Our focus areas	What?	A few examples:
Financial literacy	• Helping clients make the right choices through good and transparent advice, and clear communication. • Using analysis to understand and respond to clients' behaviour more effectively. • Improving general public knowledge of financial concepts and products.	• ČSOB Education Programme, Education Fund and Blue Life Academy in the Czech Republic. • Promotion of financial education through the national 'K&H Ready, Steady, Money' contest, which tests schoolchildren's financial knowledge in Hungary. • Financial education initiatives in all countries, including seminars, various master's programmes, a range of digital learning packs and internships.
Environmental responsibility	• Reducing our ecological footprint through a diverse range of initiatives and objectives. • Developing products and services that can make a positive contribution to the environment.	• KBC Renovation Loan for Owners' Associations to provide flexible financing solutions for energy saving investments in apartment blocks. • Placing the emphasis on digitisation to reduce paper consumption. • KBC Insurance and KBC Autolease join a sustainable repair network. • Creating KBC Mobility for sustainable and qualitative mobility solutions in Belgium. • CIBANK and DZI in Bulgaria set up a CSR committee, which organises staff workshops on responsible selling of products and is preparing for ISO 14001 environmental certification.
Stimulating entrepreneurship	• Contributing to economic growth by supporting innovative ideas and projects.	• The 'Gap in the Market' campaign in Hungary. • *Start it @KBC*, a major incubator for start-ups in Belgium, and *KBC Match'it*, a digital platform for transferring businesses. • Providing capital for start-ups via the *KBC Start it Fund.* • Supporting local initiatives through the Bolero crowdfunding platform. • Encouraging clients to take the step to e-commerce via *Storesquare*, *Farmcafé* and similar initiatives. • Realising various European programmes to support small and micro businesses and SMEs. • Strengthening our partnership with the Belgian Raiffeisen Foundation to promote microfinance and microinsurance in developing countries.
Demographic ageing and health	• We have opted for 'demographic ageing' as our fourth pillar in Belgium and the Czech Republic. This requires us to adapt our policy and our range of products and services to the fact that people are living longer and to make a positive contribution to the issues surrounding an ageing population by offering specific solutions through our core activities. • We chose 'health' as the fourth pillar in Bulgaria, Slovakia, Hungary and Ireland. These core countries will develop products, services and projects geared towards improving general health, healthcare and quality of life.	• ČSOB is collaborating with the Centre of Health Economics and Management at the Faculty of Social Sciences at the Charles University in Prague. • Launching *Happy@Home*, a joint venture between KBC, the service provider ONS and the software firm CUBIGO to make domestic assistance readily available (home help, odd-job work and other services). • Providing financial and material assistance to sick children through the *K&H MediMagic Programme* in Hungary. • Launching awareness campaigns in various countries in areas such as sports, health and well-being, road safety and child protection, and developing insurance products related to health and personal risks.

Limiting any negative impact we might have on society

We also want to limit as much as possible any unfavourable impact our operations might have on society.

We want to contribute, for instance, to the transition to a low-carbon economy and have launched a group-wide programme to reduce our own ecological footprint. We are committed to reducing our own greenhouse gas emissions by at least 20% (from 2015 levels) by 2020. We have tightened up our policy on lending to the energy sector, and have taken initiatives to promote energy efficiency, renewable energy, sustainable mobility and the circular economy. More information about our ecological footprint can be found on our website under 'Corporate Sustainability'.

We apply strict sustainability rules to our business activities in respect of human rights, the environment, business ethics and sensitive or controversial social themes. New and recently updated KBC sustainability policies are summarised in the table. A complete list of policies and additional guidelines is available at www.kbc.com, under 'Corporate Sustainability'.

We offer a comprehensive range of socially responsible investments. As we place client-centricity at the centre of our corporate strategy, it is ultimately up to clients to choose between SRI and non-SRI investments. However, we also consider it our task to increase the focus on SRI investments, for instance, by means of enhanced SRI training for the relevant relationship managers in the various sales networks.

2016 (KBC Group)

637 thousand GJ of electricity used

354 thousand GJ of gas and heating oil used

321 million km in commuter and business travel

3 857 tonnes of paper used

93 thousand tonnes of CO_2e emissions

Important new and updated KBC sustainability policies	
Blacklist of companies and activities	We place businesses on this list that are involved with controversial weapons systems or which commit serious breaches of UN Global Compact Principles. No entity belonging to our group is permitted to do business with such enterprises.
Human rights	We have updated our human rights policy to bring us in line with the UN Guiding Principles on Business and Human Rights and UN Global Compact Principles.
Controversial regimes	We do not wish to be involved in financial activities with controversial regimes that fundamentally violate human rights and lack any form of good governance, rule of law or economic freedom. We do, however, make an exception for humanitarian goods. Based on reputable external sources, we decide each year what countries are to be included on our list of controversial regimes.
Energy	We want to contribute to a low-carbon society in a number of ways, including by increasing the share of renewable energy sources in our total lending to the energy sector to at least 50% by 2030 at the latest, ceasing to fund new coal-fired power generation and coal mining (except for local coal-fired power generation and coal mining in the Czech Republic, though under strict conditions), and imposing extremely stringent conditions on the funding of nuclear power generation.
Arms-related activities	We are very reluctant to fund any kind of arms-related activities. Even though the arms industry plays a role in security, we only provide funding to companies that meet strict conditions.
Project finance	We do not provide financing or advisory services to projects where the client does not comply with the Equator Principles.
Other socially sensitive sectors	We have imposed restrictions on other socially sensitive sectors such as narcotic crops, gambling, fur, palm oil production, mining, deforestation, land acquisition and involuntarily resettlement of indigenous populations, and prostitution.

The most important Key Performance Indicators (KPIs) relating to our role in society are set out in the KBC Group annual report.

We aim to achieve our ambitions within a stringent risk management framework (KBC Group)

Risk management is an integral part of our strategy and our decision-making process.

- We perform risk scans to identify all key risks.
- We define our risk appetite in a clear manner.
- We translate that into strict limit tracking per activity and business unit.
- We monitor the risk profile of existing and new products via a New and Active Product Process.
- We challenge the results of the periodic planning process via stress tests.
- We have installed independent chief risk officers in all relevant parts of our organisation.

Although the activities of a large financial group are exposed to risks that only become apparent in retrospect, we can currently identify a number of major challenges for our group. These are set out under ‘In what environment do we operate?’ in the ‘Our business model’ section. As a bank-insurer, we are also exposed to the typical risks for the sector associated with these general risks, such as credit risk, country risk, interest rate risk, foreign exchange risk, insurance underwriting risk and operational risk. A list of these risks can be found in the table.

Our ‘Three Lines of Defence’ model	
1	The business operations side is responsible for managing its risks
2	As independent control functions, the Group risk function, Compliance and – for certain matters – Finance, Legal, Tax and Information Risk Security constitute the second line of defence
3	As independent third line of defence, Internal Audit provides support to the Executive Committee, the Audit Committee and the Risk & Compliance Committee in monitoring the effectiveness and efficiency of the internal control and risk management system

Sector-specific risks	How are we addressing them?
Credit risk The potential negative deviation from the expected value of a financial instrument caused by default on the part of a party to a contract, due to the inability or unwillingness of that party to pay or perform, or due to particular situations or measures on the part of political or monetary authorities in a particular country.	• Existence of a robust management framework • Recording impairment charges, taking risk-mitigating measures, optimising the overall credit risk profile, etc.
Market risk in trading activities The potential negative deviation from the expected value of a financial instrument caused by fluctuations in interest rates, exchange rates, and share or commodity prices.	• Existence of a robust management framework • Historical VaR method, duration, ‘greeks’ for products with options, stress tests, etc.
Operational and other non-financial risks Operational risk is the risk of loss resulting from inadequate or failed internal processes and (ICT) systems, human error or sudden external events, whether man-made or natural. Other non-financial risks include reputational risk, business risk and strategic risks.	• Existence of a robust management framework • Group key controls, risk scans, Key Risk Indicators (KRIs), etc.
Market risk in non-trading activities Structural market risks, such as interest risk, equity risk, real estate risk, currency risk and inflation risk. Structural risks are risks inherent to the commercial activity or long-term positions.	• Existence of a robust management framework • Basis Point Value (BPV), nominal amounts, limit tracking for crucial indicators, etc.
Liquidity risk The risk that KBC will be unable to meet its payment obligations as they come due, without incurring unacceptable losses.	• Existence of a robust management framework • Liquidity stress tests, management of funding structure, etc.
Technical insurance risks Risks stemming from uncertainty as to how often insured events will occur and how extensive they will be.	• Existence of a robust management framework • Underwriting, pricing, claims reserving, reinsurance and claims handling policies, etc.
Solvency risk Risk that the capital base will fall below an acceptable level.	• Existence of a robust management framework • Minimum solvency ratios, active capital management, etc.

The most important Key Performance Indicators (KPIs) relating to solvency and liquidity are set out in the KBC Group annual report.

Review of the consolidated financial statements

- We review the consolidated results in this section of the annual report. The non-consolidated financial statements and balance sheet can be found in the 'Company annual accounts' section.
- There were no material acquisitions or material divestments of group companies in 2016. The acquisition of United Bulgarian Bank and Interlease in Bulgaria, which was announced at the end of 2016, is only expected to be finalised in the second quarter of 2017.
- The overall impact on the net result of fluctuations in the exchange rates of the main non-euro currencies was – on balance – negligible.
- Information on financial instruments, hedge accounting and the use thereof is provided in the 'Consolidated financial statements' section (Notes 1.2, 3.3, and 4.1–4.10 among others) and in the 'Risk management' section.
- All KBC Bank shares are owned directly and indirectly by KBC Group. In 2016, KBC Bank paid an interim dividend of 604 million euros to KBC Group, and will pay it a final dividend for 2016 of 531 million euros in 2017.

Consolidated income statement

Consolidated income statement, KBC Bank (in millions of EUR)	2016	2015
Net interest income	3 635	3 675
Interest income	6 147	6 605
Interest expense	-2 512	-2 930
Dividend income	27	19
Net result from financial instruments at fair value through profit or loss	551	224
Net realised result from available-for-sale assets	134	82
Net fee and commission income	1 753	1 945
Fee and commission income	2 175	2 408
Fee and commission expenses	-422	-462
Other net income	140	200
TOTAL INCOME	6 240	6 145
Operating expenses	-3 399	-3 388
Impairment	-145	-650
on loans and receivables	-126	-323
on available-for-sale assets	-1	-11
on goodwill	0	-308
other	-19	-9
Share in results of associated companies	23	21
RESULT BEFORE TAX	2 719	2 128
Income tax expense	-525	291
Net post-tax result from discontinued operations	0	0
RESULT AFTER TAX	2 195	2 419
Result after tax, attributable to minority interests*	169	180
Result after tax, attributable to equity holders of the parent	2 026	2 239
Ratio of 'result before tax' to 'average total assets'	1.19%	1.13%

* Primarily the 48.14% stake that KBC Group holds in KBC Asset Management.

Key consolidated balance sheet and solvency figures

Selected balance-sheet and solvency items, KBC Bank (in millions of EUR)	2016	2015
Total assets	239 333	217 626
Loans and advances to customers	133 481	129 206
Securities (equity and debt instruments)	52 180	51 613
Deposits from customers and debt securities	178 697	170 873
Risk-weighted assets (Basel III, fully loaded)	78 482	79 758
Total equity	14 158	13 490
of which parent shareholders' equity	12 568	11 888
Common equity ratio (Basel III, fully loaded)	14.3%	13.7%
Total capital ratio (Basel III, fully loaded)	20.7%	20.1%
Liquidity coverage ratio (LCR)	139%	127%
Net stable funding ratio (NSFR)	125%	121%

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Analysis of the result

Net interest income

Our net interest income amounted to 3 635 million euros in 2016, down just 1% on its year-earlier level, despite the climate of low interest rates and associated low level of reinvestment income, the reduction in interest income generated by the dealing rooms and a lower amount of early-repayment penalties (due to a lower level of home loan refinancing in Belgium). These negative items were largely offset by factors including the positive effect of lower rates of interest being paid on savings accounts in certain countries, generally lower funding costs and higher interest income on loans generated by increased volumes.
At 132 billion euros, loans and advances to customers (excluding reverse repos) rose on a comparable basis by 4% in 2016 (after eliminating intragroup transactions within the KBC group), increasing by 4% at the Belgium Business Unit, by 9% at the Czech Republic Business Unit and by 2% at the International Markets Business Unit (growth in all countries apart from Ireland), and contracting at the Group Centre. Our total volume of deposits (178 billion euros in deposits from customers and debt securities (excluding repos)) rose by 10% in 2016, with the Belgium Business Unit recording an increase of 13%, the Czech Republic Business Unit 9%, the International Markets Business Unit 7% (with growth in all countries apart from Ireland) and the Group Centre recording a decline.
Consequently, the net interest margin came to 1.92%, 10 basis points lower than in 2015. The interest margin for 2016 came to 1.80% in Belgium, 2.94% in the Czech Republic and 2.55% at the International Markets Business Unit.

Net fee and commission income

Our net fee and commission income came to 1 753 million euros in 2016, down 10% on the year-earlier figure. Most of the decline was accounted for by Belgium and was chiefly attributable to reduced entry and management fees relating to our asset management activities (sale of funds, etc., obviously reflecting the uncertain investment climate) and, to a lesser extent, to lower securities-related fees.
At the end of 2016, our total assets under management came to approximately 213 billion euros, still up 2% on the year-earlier figure, due to a combination of a slightly negative volume effect (-1%) and a positive price performance (+3%). Most of these assets were managed at the Belgium Business Unit (199 billion euros) and the Czech Republic Business Unit (9 billion euros).

Other income

Our net result from financial instruments at fair value through profit or loss (trading and fair value income) came to 551 million euros, 327 million euros more than in 2015, due in part to the liquidation of KBC Financial Holding Inc., which had an impact of -156 million euros in that year. Disregarding this item, trading and fair value income would increase by a further 171 million euros, due primarily to higher dealing room results and the positive impact of various value adjustments (mainly CVA, FVA).
Other income (dividends, gains realised on the sale of securities, and other net income) came to an aggregate 301 million euros in 2016, unchanged on its year-earlier level. The figure for 2016 includes the gain on the sale of Visa Europe shares in the second quarter of that year (99 million euros, before tax).

Operating expenses

Our expenses amounted to 3 399 million euros in 2016, a limited increase of 0.3% on the year-earlier figure. This reflected a number of items, including somewhat higher special bank taxes (417 million euros in total, compared to 398 million euros in 2015).
As a result, the cost/income ratio of our banking activities came to 54%, virtually the same level as in 2015. It was 54% for the Belgium Business Unit, 45% for the Czech Republic Business Unit and 64% for the International Markets Business Unit.

Impairment

Total impairment came to 145 million euros in 2016. Impairment on loans and receivables accounted for 126 million euros of this figure, compared with 323 million euros in 2015. Much of this improvement is attributable to the improved situation in Ireland, where there was actually a 45-million-euro net reversal of impairment charges in 2016 (as opposed to net provisioning of 48 million euros in 2015) and to Belgium (from 177 million euros to 113 million euros). Overall, our credit cost ratio improved further from what was an already low 23 basis points in 2015 to an unsustainably low 9 basis points in 2016. The figures per business unit were 12 basis points for Belgium, 11 basis points for the Czech Republic and -16 basis points for International Markets (Ireland: -33 basis points; Slovakia: 24 basis points; Hungary: -33 basis points; and Bulgaria: 32 basis points). A negative figure signifies a net reversal of impairments and hence a positive impact on the results.
The proportion of impaired loans (see definitions towards the end of this report) in our loan portfolio was 7.2% at year-end 2016, an improvement on the 8.6% for 2015. This breaks down into 3.3% at the Belgium Business Unit, 2.8% at the Czech Republic Business Unit and 25.4% at the International Markets Business Unit (this relatively high figure was chiefly attributable to Ireland, which had a ratio of 43% due to the real estate crisis of recent years). The proportion of impaired loans more than 90 days past due came to 3.9% in 2015, compared to the year-earlier figure of 4.8%. At year-end 2016, 46% of the impaired loans were covered by accumulated impairment charges.
Other impairment charges totalled just 20 million euros in 2016. This item had amounted to 328 million euros in 2015, when it comprised mainly impairment charges on goodwill in respect of a number of group companies.

Income tax expense

Our income tax expense came to 525 million euros in 2016. This item had made a positive contribution of 291 million euros in 2015, due to the impact (921 million euros) of a deferred tax asset relating to the liquidation of a group company (KBC Financial Holding Inc.). Besides paying income tax, we also paid special bank taxes (included under ‘Operating expenses’).

Analysis of the balance sheet

Total assets

At the end of 2016, our consolidated total assets came to 239 billion euros, up 10% year-on-year. However, risk-weighted assets (Basel III, fully loaded) declined by 2% to 78 billion euros, with the increased volumes being comfortably offset by the impact of model-related changes, an improvement in average loan quality, lower risk-weighted assets for deferred tax assets and lower market exposure, and several other items. More information in this regard can be found in the ‘Capital adequacy’ section.

Loans and deposits

The core business of a bank is to attract deposits and use them to provide loans. Indeed, this is reflected in the importance of the figure for loans and advances to customers on the assets side of our balance sheet (132 billion euros (excluding reverse repos) at year-end 2016). On a comparable basis and after eliminating intragroup transactions within the KBC group, loans and advances to customers rose by 4% for the group as a whole, with growth of 4% being recorded at the Belgium Business Unit, 9% at the Czech Republic Business Unit, and 2% at the International Markets Business Unit (with growth in all countries apart from Ireland, where the reduction in corporate lending and impaired mortgage loans – on balance – continues to surpass new production). The main lending products at group level were again term loans (60 billion euros) and mortgage loans (57 billion euros). The latter expanded by 4% in 2016, due primarily to the Czech Republic, Slovakia and Belgium.
On the liabilities side, our customer deposits (deposits from customers and debt securities, excluding repos) grew by 10% to 178 billion euros (after eliminating intragroup transactions within the KBC group). Deposits increased by 13% at the Belgium Business Unit, by 9% at the Czech Republic Business Unit and by 7% at the International Markets Business Unit (with growth in all countries apart from Ireland, where there was increased intra-group use of the TLTRO facility). The main deposit products at group level (including repos) were again time deposits (23 billion euros), demand

deposits (64 billion euros) and savings accounts (53 billion euros, up 6% on their level at the end of 2015, due in part to the parking of funds from matured time deposits, given the volatile investment climate).

Securities

We also hold a portfolio of securities, which totalled roughly 52 billion euros at year-end 2016 and comprised 2% shares and 98% bonds (with bonds increasing by almost 0.7 billion euros in 2016). Just over 85% of these bonds at year-end 2016 consisted of government paper, the most important being Belgian, Czech, French, Spanish, Slovak, Hungarian and Italian. A detailed list of these bonds is provided in the ‘Risk management’ section.

Other assets and other liabilities

Other important items on the assets side of the balance sheet were loans and advances to credit institutions and investment firms (17 billion euros, up 28% year-on-year, due in part to higher reverse repos), derivatives (positive mark-to-market valuation of 9 billion euros mainly for interest rate contracts, virtually unchanged year-on-year) and cash and cash balances with central banks (20 billion euros, 13 billion euros more than at year-end 2015, owing to the placement of excess liquidity with the central bank).
Other significant items on the liabilities side of the balance sheet were derivatives (negative mark-to-market valuation of 9 billion euros mainly for interest rate contracts, down 14% year-on-year) and deposits from credit institutions and investment firms (32 billion euros, up 13 billion euros year-on-year and relating primarily to repos and the TLTRO II facility).

Equity

On 31 December 2016, our total equity came to 14.2 billion euros. This figure included 12.6 billion euros in parent shareholders’ equity, 1.4 billion euros in additional tier-1 instruments and 0.2 billion euros in minority interests. Total equity rose by 0.7 billion euros in 2016, with the most important components in this respect being the inclusion of the annual profit (+2.2 billion euros, including minority interests), the payment of a dividend to KBC Group (-0.8 billion euros), changes in the available-for-sale reserve and cashflow hedge reserve (-0.3 billion euros in total), changes in defined benefit plans (-0.3 billion euros) and several smaller items.
Our solvency position remained strong as a result, with a common equity ratio of 14.3% (fully loaded). Detailed calculations of our solvency indicators are given in the ‘Capital adequacy’ section. The group’s liquidity position also remained excellent, as reflected in an LCR ratio of 139% and an NSFR ratio of 125% at year-end 2016.

Review of the business units

Our group's management structure centres on three business units: 'Belgium', 'Czech Republic' and 'International Markets'. The latter is responsible for the other core countries in Central and Eastern Europe (Slovakia, Hungary and Bulgaria) and Ireland.

- The Belgium Business Unit comprises the activities of KBC Bank NV and its Belgian subsidiaries, the most important of which are CBC Banque, KBC Asset Management, KBC Lease Group and KBC Securities.
- The Czech Republic Business Unit comprises all KBC's activities in the Czech Republic. These consist primarily of the activities of the ČSOB group (under the ČSOB Bank, Era, Postal Savings Bank, Hypoteční banka, ČMSS and Patria brands) and ČSOB Asset Management.
- The International Markets Business Unit comprises the activities conducted by entities in the other Central and Eastern European core countries, namely ČSOB in Slovakia, K&H Bank in Hungary and CIBANK in Bulgaria, plus the activities conducted by KBC Bank Ireland in Ireland, which was defined as one of the group's core countries at the start of 2017.

Besides financial reporting for three business units, we also report on a separate Group Centre. This centre includes the operating results of the group's holding-company activities, certain costs related to capital and liquidity management, costs related to the holding of participating interests and the results of the remaining companies and activities in the process of being run down.

The economic context

Belgium

The modest economic recovery that began in the early months of 2013 continued in 2016. Real GDP growth remained volatile throughout the year, as it did in 2015. A weak first quarter was followed by a strong second. The third quarter was again disappointing, but the economic situation took a turn for the better towards the end of the year. This volatility illustrates the ongoing difficulty that the recovery is having in gaining momentum. Overall, real GDP grew by 1.2% in 2016. This was the second year running that Belgian economic growth fell short of the euro area average. As in 2015, this partly reflected the fact that several former 'problem countries' in the euro area – Spain and Ireland in particular – were experiencing a surge in growth.

The continuing revival of the Belgian economy in 2016 was driven by domestic demand and net exports. However, changes in stockpiling weighed heavily on growth. Exports continued to reap the benefits of the improved competitiveness of Belgian businesses. Household consumption was supported on the domestic front by the sustained improvement of the labour market, which saw some 50 000 new jobs being created in the course of the year. Although further recovery in investment remained sluggish, it did not prevent bank lending to businesses from increasing vigorously. Mortgage lending likewise grew robustly, thanks in part to low interest rates and the improving labour market.

Inflation peaked at 2.3% in July, before falling back to 2% in December. The downturn in inflation after the summer was accounted for primarily by the fact that the increases in VAT on electricity and in registration fees for higher education (both pushed through in autumn 2015) had played out. The spread between Belgian ten-year government bonds and their German counterparts widened briefly to above 50 basis points towards the end of the year. This reflected heightened uncertainty in the euro area in the run-up to the Italian referendum on political reforms. Uncertainties and risks enticed savings mainly in the form of bank deposits, despite extremely low interest rates. Interest in investment funds waned somewhat in 2016, having picked up the year before.

We expect real GDP growth to end up at 1.3% in 2017. A number of uncertainties need to be added to this, which could jeopardise economic activity in Belgium in the coming years. They include Brexit, the anticipated policy changes following the US presidential elections, and the further restructuring of Belgian public-sector finances. On the other hand, growth will be supported by socio-economic reforms that have already gone through.

Czech Republic

Real GDP growth of 2.4% in the Czech Republic remained well above the figure for the EU-28 as a whole (1.9%), even though it barely exceeded half the year-earlier figure. The downturn in economic growth was largely attributable to the positive impact of the European Cohesion Fund petering out, having provided a considerable boost to government investment in 2015. Weaker investment in 2016 reduced imports, enabling net exports to contribute substantially to growth. Growth in household consumption slowed to a limited extent and was again underpinned by real wage increases and job creation. This slowdown was not reflected in lending. Business lending fluctuated at a solid level, while growth in home loans actually picked up a little. Deposits also continued to expand.

Persistently favourable economic growth was accompanied by a further decline in unemployment. The jobless rate was just 3.5% of the labour force at year-end 2016, having fallen from a peak of 7.7% at the beginning of 2010. Inflation remained low, but nevertheless rose at the end of the year towards 1%. Monetary policy remained expansive with a view to bringing inflation back to the 2% target.

We expect real GDP growth to weaken a little more in 2017 to around 2.3%. Underlying domestic demand remains strong. Household consumption will, however, contribute slightly less to growth, because of the somewhat slower increase in employment.

International Markets

As was the case in the Czech Republic, investment growth in most other Central European countries suffered in 2016 from the temporary cessation of funding under the EU's cohesion policy. The decline this caused in real GDP growth was limited in Slovakia and Bulgaria. The economies of both countries expanded by 3.3% in 2016, well above the average for the EU-28 as a whole. At 2.0%, Hungarian growth was only just above that average due to quite severe negative investment growth. Nevertheless, domestic demand remains buoyant, thanks to robust household consumption, supported in turn by a strong increase in wages and employment.

Consumer demand remained very dynamic in Slovakia and Bulgaria too, something that can also be attributed to wage growth and job creation. Although GDP growth in 2016 was accounted for primarily by domestic demand, net exports also made a contribution in the three Central European countries. At year-end 2016, unemployment there was 6.1 (Slovakia), 7.0 (Hungary) and 6.2 (Bulgaria) percentage points, respectively, below the peak recorded during the recent financial and economic crisis. The figure for the EU-28 as a whole was just 2.8 percentage points below the peak.

Inflation in the three countries remained largely negative (Slovakia and Bulgaria) or around 0% (Hungary) in 2016. However, it rose everywhere towards the end of the year, due to a smaller year-on-year decline in fuel prices. In Hungary, it actually rose to around 1% at year-end. With inflation remaining far below the 3% target, Hungary was able to continue with its expansive monetary policy in 2016. The policy rate was cut further and other measures taken.

Lending increased robustly only in Slovakia, particularly for home loans. A new legal restriction on the reinvestment fee charged for home loan refinancing gave a powerful boost to such refinancing operations and caused commercial margins to narrow. Although outstanding corporate loan volumes plateaued in Bulgaria, there were signs of a slight recovery in lending to households. Lending continued to be scaled down in Hungary. Deposits grew at a satisfactory rate of 6–7% in the three countries.

We expect real GDP growth in Slovakia and Bulgaria to slow a little more in 2017, slipping to 3.0% and 3.2%, respectively. Hungary will benefit most from the gradual return of the EU Cohesion Fund. As a result, its economic growth is expected to gain momentum again in 2017 and hit an estimated 3.4%.

Although GDP increased at a slower rate, Ireland's 4% figure meant that it was again one of the countries with the strongest economic growth among the EU-28 in 2016. Domestic demand picked up vigorously once more. The substantial rise in imports meant that net exports continued to contribute negatively to growth. Economic growth underpinned a modest expansion in deposits, but the domestic banks' outstanding loans to households and businesses continued to decline, albeit at a slower rate than in recent years. Irish inflation remained below zero for virtually the whole of 2016. Robust economic growth ensured that Irish public debt declined further to 75% of GDP, or roughly 45 percentage points below the peak during the financial crisis. Although the Irish economy is likely to slow further in 2017, estimated growth of 3% will still be twice that of the euro area as a whole.

The outlook for all countries is based on forecasts made at the start of 2017, and so the actual situation could differ (considerably).

Where do we stand in each of our countries?

Market position in 2016[1]	Belgium	Czech Republic	Slovakia	Hungary	Bulgaria[5]	Ireland
Main brands	KBC CBC KBC Brussels	ČSOB	ČSOB	K&H	CIBANK	KBC Bank Ireland
Network	716 bank branches Various online channels	287 bank branches[2] Various online channels	125 bank branches Various online channels	207 bank branches Various online channels	96 bank branches Various online channels	15 bank branches Various online channels
Clients (millions, estimate)	3.2	3.0	0.4	0.9	0.3	0.2
Loan portfolio (in billions of EUR)	96	22	7	5	0.9	13
Deposits and debt securities (in billions of EUR)	130	26	6	7	0.8	5
Market shares						
- bank products	21%	20%	11%	10%	3%	7%[3]
- investment funds	33%	23%	7%	15%	–	
Macroeconomic indicators for 2016[4]						
- GDP growth (real)	1.2%	2.4%	3.3%	2.0%	3.3%	4.0%
- Inflation (average annual increase in consumer prices)	2.0%	0.6%	-0.5%	0.5%	-1.3%	-0.1%
- Unemployment (% of the labour force at year-end; Eurostat definition)	7.6%	3.5%	8.8%	4.5%	7.1%	7.1%
- Government budget balance (% of GDP)	-2.9%	0.3%	-2.2%	-1.8%	-0.4%	-0.9%
- Public debt (% of GDP)	106.8%	37.8%	52.1%	73.5%	29.0%	75.1%

1 Market shares and client numbers: based on own estimates. For traditional bank products: average estimated market share for loans and deposits. Loan portfolio: see 'Risk management'. Deposits and debt securities: deposits from customers and debt securities (excluding repos). The number of bank branches does not include self-service branches. The Belgium Business Unit also includes the small network of KBC Bank branches established in the rest of Europe, the US and Southeast Asia, which focus on activities and clients with links to KBC's core markets (10 branches with a total loan portfolio of approximately 6 billion euros). The group operates under various brands in the Czech Republic, including ČSOB, Era, PSB, ČMSS and Hypoteční Banka. Market shares are based in most instances on data from the end of September 2016.
2 ČSOB Bank and Era.
3 Retail segment.
4 Data based on estimates made at the start of 2017.
5 At year-end 2016, we announced the acquisition of United Bulgarian Bank (UBB) and Interlease in Bulgaria (deal expected to be finalised in the second quarter of 2017). UBB's estimated share of the market is 8% (based on assets). It has roughly 0.9 million clients and 190 branches. Neither UBB nor Interlease have been included in the data presented in the table.

Belgium

Specific objectives

- To focus on an omnichannel approach and invest in the seamless integration of our different distribution channels (bank branches, regional advisory centres, websites and mobile apps). We are also investing specifically in the further digital development of our banking services. Where necessary, we collaborate with partners through 'eco-systems' that enable us to offer our clients comprehensive solutions.
- To exploit our potential in Brussels more efficiently via the separate new brand, *KBC Brussels*, which reflects the capital's specific cosmopolitan character and is designed to better meet the needs of the people living there.
- To grow bank-insurance further at CBC in specific market segments and to expand our presence and accessibility in Wallonia.
- To work tirelessly on the ongoing optimisation of our bank-insurance model in Belgium.
- To continue our pursuit of becoming the reference bank for SMEs and mid-cap enterprises based on our thorough knowledge of the client and our personal approach.
- Our commitment to Belgian society is reflected in initiatives in areas including environmental protection, financial literacy, entrepreneurship and demographic ageing, as well as in our active participation in the mobility debate.

A few achievements in 2016

We look constantly for ways of applying new technologies to enable us to serve our clients even better. Examples include the new features we have added to *KBC Touch*, such as the ability to display a list and details of insurance policies, complete a medical questionnaire for mortgage protection cover and make appointments directly with an adviser. We also launched *KBC Touch for businesses*, *KBC Touch* for blind and partially-sighted clients, and *KBC Sign*, and continued to develop *KBC Mobile* and *KBC Invest.* The latter is an app for tracking investment portfolios and savings schemes. Working closely with IT specialist Cegeka and a number of other partners, we were the first in the market to successfully test *Digital Trade Chain*, a blockchain solution that facilitates secure international trade between SMEs. We are investing jointly with ING and Belfius in the payment solution *Payconiq* – linked with an integrated customer loyalty programme called *joyn* – for cashless and cardless payments. Specially for young people, we launched *KBC K'Ching*, a free smartphone app they can use to carry out financial transactions, combining a high fun factor and attractive new look.

We developed the separate *KBC Brussels* brand, which has a metropolitan, innovative image and a modified network. *KBC Brussels* has its own management team operating out of the European Quarter in Brussels. We are continuing to build our name recognition through promotional campaigns and various local events in Brussels.
We further implemented our growth strategy in Wallonia, opening three new bank branches, with another three scheduled to open in 2017. We decided to move eleven existing branches to better locations, and began work on the new head office in Namur.

Our bank-insurance concept enjoyed continued success. At year-end 2016, half of households that are clients of KBC Bank held at least one KBC insurance product, while roughly a fifth of households held at least three KBC banking products and three KBC insurance products. To give another example, eight to nine of every ten KBC Bank clients with a home loan also took out a KBC Home Insurance policy.

Our omnichannel approach enables us to provide our clients with solutions when they want them, and to offer them a unique bank-insurance experience. Clients can not only speak face-to-face with the staff at our bank branches and insurance agencies – we will continue to invest in new branch concepts that make maximum use of an omnichannel experience – they can also call and text or video chat with our advisers at the regional advisory centres. We offer a whole range of digital apps too.

We give concrete shape to our wider role in the community via initiatives relating to entrepreneurship, the environment, financial literacy and demographic ageing. Solid initiatives concerning entrepreneurship include the further expansion of *Start it @kbc* and *FarmCafe*, the platform that inspires agricultural and horticultural businesses to grow further. On the environmental side, we brought out our renovation loan for owners' associations, which is designed to make it easier to carry out sustainable and energy-efficient improvements to apartment buildings. The *Happy@Home* pilot project is another fine initiative. It is a joint venture between KBC, the service provider ONS and the software firm CUBIGO to make domestic assistance readily available (home help, odd-job work and other services). KBC Securities launched *Match'it* in the autumn, a digital platform where buyers and companies that are looking to be taken over can meet each other. We are the first financial institution in Europe to offer a platform of this kind.
We also pay attention to the other challenges facing today's society. We participate actively in the mobility debate and have created the *KBC Mobility* programme, in which KBC Insurance, KBC Autolease and the breakdown assistance organisation VAB have joined forces to become the reference for sustainable and high-quality mobility solutions in

Belgium. In this regard, we have already launched the *DriveSafe* app to raise road safety awareness among novice drivers.

Czech Republic

Specific objectives

- To move from largely channel-centric solutions to ones that are client-centric, based on an integrated model that brings together clients, third parties and our bank-insurer.
- To also offer new non-financial products and services to add value for our clients and to further enhance client satisfaction.
- To continue to concentrate on simplifying products, IT capabilities, our organisation, our bank distribution network, our head office and branding, to achieve even greater cost efficiency.
- To expand our bank-insurance activities through steps like introducing a progressive and flexible pricing model, developing combined banking and insurance products, and strengthening our insurance sales teams.
- To keep growing in our traditionally strong fields, such as lending to businesses and providing home loans. We will also advance in areas – like SME and consumer loans – where we have yet to tap our full potential.
- Our social commitment is expressed in our focus on environmental awareness, financial literacy, entrepreneurship and demographic ageing.

A few achievements in 2016

As in previous years, we launched a variety of new products and services that respond to our clients' changing needs. In June 2016, for instance, we announced that clients of ČSOB and Era Poštovní spořitelna (Postal Savings Bank) would be able to pay for their shopping by mobile phone, courtesy of a new app called *ČSOB NaNákupy* (*ČSOB ForShopping*). We also launched a new and innovative investor portal (investice.csob.cz). In the area of non-financial services, we unveiled a loyalty programme (*Svět odměn*). We significantly expanded our cashless payment facilities at ATMs and enhanced convenience for our clients by offering them the possibility to digitally sign most documents in our branches. We worked to simplify our business model, with initiatives being taken in the areas of governance, network organisation and process and product simplification, including a much simplified website. To obtain an even better understanding of the client experience and to enhance it further, we now use 'Customer Journey Mapping' alongside traditional client satisfaction surveys. This approach (with direct input from clients) examines each step, starting from thinking about a financial service, through purchase and use, to even ending a contract.

We achieved decent growth in the areas we targeted for growth, such as consumer finance (+19% in 2016, due in part to successful marketing campaigns and new product launches). However, we also made progress in areas where we already have a sound track record, with for instance the volume of home loans expanding by no less than 12% in 2016. Overall, our lending activities increased by 9% in 2016 and clients also placed 9% more deposits with our group.

We took new bank-insurance initiatives, including further increasing the number of insurance specialists in the bank branch network (a threefold increase since 2014) and launching new products, such as travel insurance linked to a payment card. After going up by 18% in 2015, our bank-insurance gross income grew again in 2016, rising by 12%. About two-thirds of ČSOB clients who took out home loans with the bank in 2016 also purchased home insurance from the group, while approximately half of them also took out life insurance.

We took a number of initiatives in terms of our social engagement, focusing on environmental awareness, financial literacy, entrepreneurship and demographic ageing.
For instance, our ongoing attention to the environment was demonstrated by initiatives to reduce our own ecological footprint. We intend, moreover, to develop new products and services that have a positive impact on the environment. We received the ČSN EN ISO 50001:2012 certificate for 'Power Management' and we presented new guidelines for lending to the energy sector. We view stimulating entrepreneurship as an important part of our sustainability strategy and a means of differentiating ourselves from our competitors. For example, we offer financial support, professional counselling and workshops to businesses which we believe are strongly committed to sustainability. We want to support our clients throughout their lives. In this regard, we pay particular attention to senior citizens, as illustrated by the fact that we work with retired people's associations, provide online check lists (what to remember, for instance, when admitted to hospital) and collaborate with the Centre of Health Economics and Management (in the Faculty of Social Sciences) at the Charles University in Prague. Lastly, we also aim to raise financial literacy through local initiatives in the regions where we operate. Examples in this regard include the 'ČSOB Education Programme', the 'Education Fund' and 'Blue Life Academy'.

International Markets

Specific objectives

- To move from a branch-oriented distribution model to an omnichannel one in the Central European countries. We are fully committed to implementing a 'Digital First' strategy in Ireland (see below).
- To target income growth in Hungary through vigorous client acquisition in all banking segments and through more intensive cross-selling, in order to raise our market share and our profitability.
- To maintain our robust growth in strategic products in Slovakia (i.e. home loans, consumer finance, SME funding and leasing), partly through cross-selling to ČSOB group clients. Simplifying products and processes is another key focus.
- To focus – as regards the banking business in Bulgaria – on substantially increasing our share of the lending market in all segments, while applying a strict risk framework. The acquisition of United Bulgarian Bank – announced at year-end 2016 and expected to be finalised in the second quarter of 2017 – fits this strategy perfectly.
- To implement a 'Digital First' strategy and create an outstanding client experience in Ireland, after deciding at the start of 2017 to clarify our position on the country and include it as one of our core countries. 'Core country' status also means that we aim to achieve a market share of at least 10% in the retail and micro-SME segments and to develop bank-insurance in the same way as we do in our other core markets. We will offer insurance products through partnerships and co-operation agreements.
- To implement a socially responsible approach in all countries, with a particular focus on environmental awareness, financial literacy, entrepreneurship and health.

A few achievements in 2016

As in Belgium and the Czech Republic, we look constantly at how we can apply new technologies in order to further align the service we offer to meet the needs of our clients in Slovakia, Hungary, Bulgaria and Ireland. An example is the digital partnership we have entered into in Ireland with *MyHome.ie* to allow house hunters to take virtual tours of properties that are up for sale. This is the first time a bank has given prospective buyers in the Irish property market the chance to 'view' a house up close from their personal device. Clients in Slovakia can now log in to their *ČSOB SmartBanking* app with their fingerprint thanks to the *Touch ID* function, a modern, very convenient and safe way for users to identify themselves. What's more, ČSOB Bank is a pioneer in Slovakia in the online arrangement of mortgage loans. Clients can submit their applications online and receive a loan proposal in the same way. We are committed to simplification, as illustrated by the fact that the entire retail lending process is managed by a single department in each of the business unit's countries.

With the exception of Ireland, our deposits continued to grow in all countries in the business unit. The same goes for lending, which also saw a further improvement in quality. This was reflected, for instance, by a reduction in the proportion of impaired loans in the portfolio. We took a major step forward in Bulgaria with the announced acquisition of United Bulgarian Bank. At the end of 2016, we reached agreement with the National Bank of Greece to acquire 99.9% of United Bulgarian Bank (UBB) and 100% of Interlease. UBB is Bulgaria's fourth largest bank in terms of assets, while Interlease is the third largest provider of leasing services. KBC was already present in Bulgaria via CIBANK and DZI Insurance. The acquisition will make us the largest bank-insurance group in Bulgaria, a country with strong macroeconomic fundamentals and considerable potential in terms of financial services compared with the mature markets of Western Europe. The total cost of the acquisition was 610 million euros, while the impact on our capital position is limited. The deal, which is subject to the approval of the relevant central banks, regulators and anti-trust authorities, is expected to be finalised during the second quarter of 2017 at the latest.

Bank-insurance gross income for our business unit's three Central European countries in 2016 was up 15% in Slovakia, 6% in Hungary and 4% in Bulgaria, demonstrating the growing success of our bank-insurance model among our clients. We observed a sharp increase in the number of clients holding at least two banking and two insurance products. Numerous commercial synergies were also achieved. For instance, group fire insurance was sold in conjunction with around 90% of new home loans taken out in Bulgaria and Slovakia, and with 70% of such loans taken out in Hungary.

We put our social engagement into practice through various initiatives. For instance, K&H in Hungary provides financial and material assistance to sick children through the 'K&H MediMagic Programme' and sponsors the Paralympic Committee. It also promotes financial education through its national 'K&H Ready, Steady, Money' contest, which tests schoolchildren's financial knowledge. K&H launched a 'Gap in the Market' campaign, too, to identify professions, services or shops that were lacking in a particular village or town, with the aim of stimulating entrepreneurship. CIBANK and DZI in Bulgaria set up a CSR committee, the activities of which included organising staff workshops on responsible selling of products, and making preparations to obtain ISO 14001 environmental certification. CIBANK also promoted youth employment through its ‘Jobs for Youth’ initiative.

How do the business units contribute to the group result?

Consolidated income statement, KBC Bank: Result after tax, attributable to equity holders of the parent (in million EUR)	2016	2015
Belgium Business Unit	1 015	1 064
Czech Republic Business Unit	563	517
International Markets Business Unit	406	225
Hungary	120	125
Slovakia	83	74
Bulgaria	18	12
Ireland	184	13
Group Centre (including planned divestments)	41	433
Total net result, KBC Bank	2 026	2 239

Our net result in 2016 breaks down as follows:

- Belgium Business Unit: 1 015 million euros (down 49 million euros on the year-earlier figure, due mainly to the fact that lower net interest income and net fee and commission income, lower levels of other income and higher costs were only partially offset by lower loan losses and higher trading and fair value income).
- the Czech Republic: 563 million euros (an increase of 46 million euros, owing to factors such as higher trading and fair value income and realised gains on securities, and slightly lower costs and impairment).
- the International Markets Business Unit: 406 million euros (an improvement of 181 million euros, owing primarily to lower loan loss provisioning and higher net interest income in Ireland).
- the Group Centre: 41 million euros (a 392-million-euro deterioration that can be attributed to two significant items in 2015 (the recognition of the deferred tax asset related to KBC Financial Holding Inc. and impairment on goodwill for a number of group companies)).

A complete overview of the underlying results and a brief commentary for each business unit is provided under ‘Notes on segment reporting' in the ‘Consolidated financial statements’ section.

Risk Management

Mainly active in banking and asset management, we are exposed to a number of typical industry-specific risks such as credit risk, movements in interest rates and exchange rates, liquidity risk, operational risks, etc.

In this section, we focus on our risk governance model and the most material sector-specific risks we face. The general risks (relating to the macroeconomic situation, competition, regulations, etc.) are described in the ‘Our business model’ section.

Our statutory auditors have audited the information in this section that forms part of the IFRS financial statements, viz.:

- the ‘Risk governance’ section;
- parts of the ‘Credit risk’ section: the introduction, ‘Credit risk management at transactional level’, ‘Credit risk management at portfolio level’, the ‘Loan and investment portfolio' table (audited parts are indicated in the footnote to the table, ‘Forbearance measures’ and the ‘Other credit exposure’ table
- parts of the ‘Market risk in trading activities’ section: the introduction, ‘Managing market risk’ and ‘Risk analysis and quantification’;
- parts of the ‘Market risk in non-trading activities’ section: the introduction, ‘Managing market risk in non-trading activities’, ‘Interest rate risk’ (except for the ‘Impact of a parallel 10-basis-point increase in the swap curve for KBC Bank’ table , the ‘Exposure to sovereign bonds ‘table and ‘Foreign exchange risk’;
- parts of the ‘Liquidity risk’ section: the introduction, ‘Managing liquidity risk’ and ‘Maturity analysis’;

Risk governance

Risk governance in KBC Bank is fully embedded in the risk governance of KBC Group. Below, the risk governance model of KBC Group is highlighted.

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:

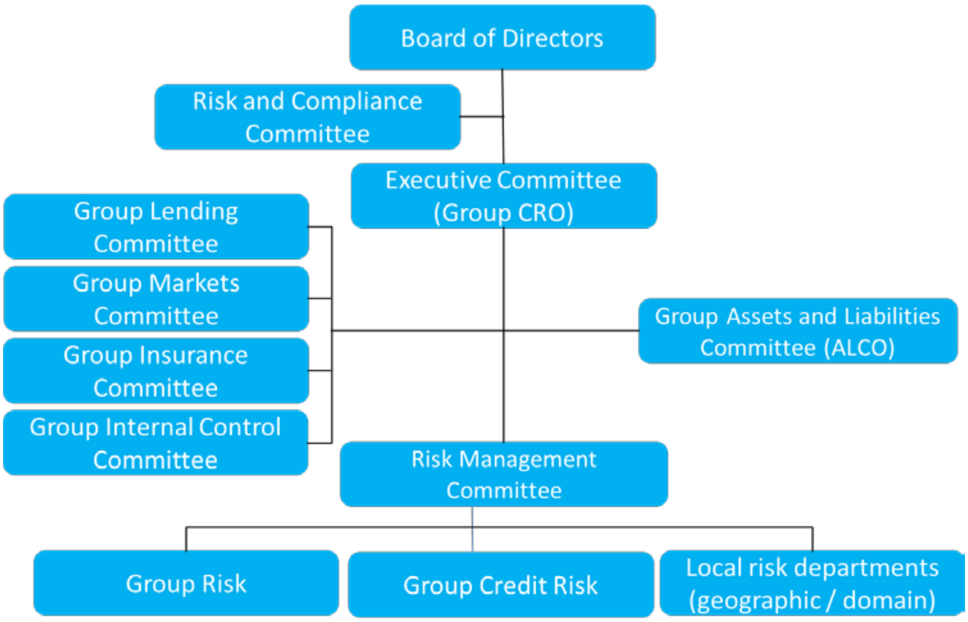
- Executive Committee:
  - makes proposals to the Board of Directors about risk and capital strategy, risk appetite, and the general concept of the risk management framework;
  - decides on the non-strategy-related building blocks of the risk management framework and monitors its implementation throughout 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 (see further).

Group Risk has taken several initiatives to 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.

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.



Want to learn more?
More information on risk management can be found in our Risk Report at www.kbc.com, under 'investor relations', 'reports', 'risk reports'.

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 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.

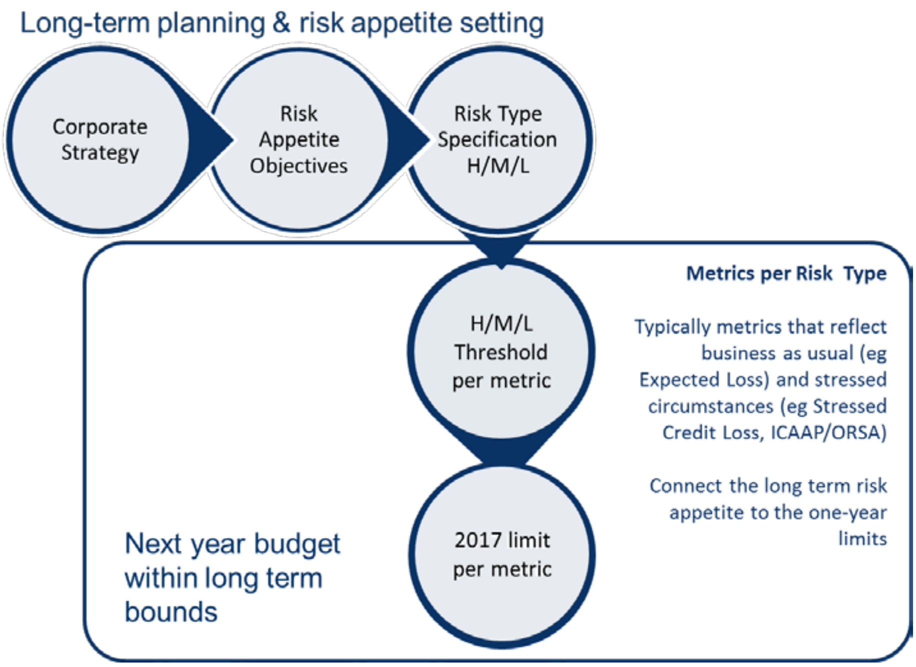
KBC defines risk appetite as the amount and type of risk that it is able and willing to accept in pursuit of its strategic objectives.

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. 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. More information in this regard is available in KBC's Risk Report, which can be obtained from www.kbc.com.

Credit risk

> **What is it?**
> 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.

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.

Managing credit risk at transactional level

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.

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

2016
Outstanding loan portfolio of
148
billion euros
96%
in Europe
7,20%
in impaired loans
Impairment charges account in 2016 for
0,09%
of the outstanding loan portfolio

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.

Risk modelling

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.

Credit risk exposure

In the following sections, we take a closer look at the credit risk exposure of the entities of KBC Bank.

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

The loan and investment portfolio as defined in this section differs significantly from 'Loans and advances to customers' in Note 4.1 of the 'Consolidated financial statements' section. For more information, please refer to the 'Glossary of ratios and terms'.

Loan and investment portfolio	31-12-2016	31-12-2015
Total loan portfolio (in billions of EUR)		
Amount granted	181	174
Amount outstanding	148	143
Loan portfolio breakdown by business unit (as a % of the portfolio of credit outstanding)[1]		
Belgium	65%	65%
Czech Republic	15%	14%
International Markets	17%	18%
Group Centre	3%	3%
Total	100%	100%
Loan portfolio breakdown by counterparty sector (as a % of the portfolio of credit outstanding)[1]		
Private individuals	42%	42%
Finance and insurance	6%	6%
Governments	3%	3%
Corporates	49%	49%
Services	12%	11%
Distribution	8%	8%
Real estate	7%	7%
Building and construction	4%	4%
Agriculture, farming, fishing	3%	3%
Automotive	2%	2%
Other[2]	14%	14%
Total	100%	100%
Loan portfolio breakdown by region (as a % of the portfolio of credit outstanding)[1, 6]		
Western Europe	73%	74%
Central and Eastern Europe	23%	22%
North America	2%	1%
Other	2%	3%
Total	100%	100%

Loan portfolio breakdown by risk class (part of the portfolio, as a % of the portfolio of credit outstanding)[1, 3]		
PD 1 (lowest risk, default probability ranging from 0.00% up to, but not including, 0.10%)	30%	31%
PD 2 (0.10% – 0.20%)	9%	11%
PD 3 (0.20% – 0.40%)	17%	14%
PD 4 (0.40% – 0.80%)	14%	15%
PD 5 (0.80% – 1.60%)	12%	11%
PD 6 (1.60% – 3.20%)	9%	9%
PD 7 (3.20% – 6.40%)	5%	4%
PD 8 (6.40% – 12.80%)	2%	2%
PD 9 (highest risk, ≥ 12.80%)	2%	2%
Total	100%	100%
Impaired loans[4] (PD 10 + 11 + 12; in millions of EUR or %)		
Impaired loans[5]	10 583	12 305
Specific impairment	4 874	5 517
Portfolio-based impairment (i.e. based on PD 1 to 9)	288	229
Credit cost ratio[1]		
Belgium Business Unit	0.12%	0.19%
Czech Republic Business Unit	0.11%	0.18%
International Markets Business Unit	-0.16%	0.32%
Ireland	-0.33%	0.34%
Slovakia	0.24%	0.32%
Hungary	-0.33%	0.12%
Bulgaria	0.32%	1.21%
Group Centre	0.67%	0.54%
Total	0.09%	0.23%
Impaired loans ratio[1]		
Belgium Business Unit	3.3%	3.8%
Czech Republic Business Unit	2.8%	3.4%
International Markets Business Unit	25.4%	29.8%
Group Centre	8.8%	10.0%
Total	7.2%	8.6%
Impaired loans that are more than 90 days past due (PD 11 + 12; in millions of EUR or %)		
Impaired loans that are more than 90 days past due	5 711	6 936
Specific impairment for impaired loans that are more than 90 days past due	3 603	4 183
Ratio of impaired loans that are more than 90 days past due[1]		
Belgium Business Unit	1.7%	2.2%
Czech Republic Business Unit	1.9%	2.5%
International Markets Business Unit	13.4%	16.0%
Group Centre	5.8%	6.1%
Total	3.9%	4.8%
Cover ratio [Specific loan loss impairment]/[impaired loans]		
Total	46%	45%
Total (excluding mortgage loans)	54%	53%

The Belgium Business Unit also includes the small network of 10 KBC Bank branches established in the rest of Europe, the US and Southeast Asia. These branches, which focus on activities and clients with links to KBC's core markets, have a total loan portfolio of approximately 6 billion euros.
1 Unaudited figures.
2 Individual sector shares not exceeding 3%.
3 Internal rating scale.
4 Figures differ from those appearing in Note 4.2 of the 'Consolidated financial statements' section, due to differences in scope.
5 Reconciliation of year-end figures: the difference of 1 722 million euros between the figures for 2016 and 2015 was due to this category of loan decreasing by 438 million euros at the Belgium Business Unit, by 85 million euros at the Czech Republic Business Unit, by 81 million euros at the Group Centre, and by 1 118 million euros at the International Markets Business Unit (899 million euros of which in Ireland).
6 A more detailed breakdown by country is available in KBC's Group's Extended Quarterly Report – 4Q2016 at www.kbc.com.

We have provided the following additional information for the loan and investment portfolio in Ireland, due to the specific situation on this market.

Details for the loan and investment portfolio of KBC Bank Ireland[1]	31-12-2016	31-12-2015
Total portfolio (outstanding, in billions of EUR)	13	14
Breakdown by loan type		
Home loans	86%	84%
SME & corporate loans	7%	8%
Real estate investment and real estate development	7%	8%
Breakdown by risk class		
Normal (PD 1-9)	57%	53%
Impaired (PD 10)	22%	24%
Impaired (PD 11+12)	21%	24%
Credit cost ratio	-0.33%	0.34%
Cover ratio	43%	41%

1 For a definition, see 'Credit risk exposure' (i.e. excluding *inter alia* government bonds).

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 value		Movements					
	Opening balance	Loans which have become forborne	Loans which are no longer considered to be forborne	Repayments	Write-offs	Other[1]	Closing balance
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					
	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]	Closing balance
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[3]					
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[3]					
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).
3 Unaudited figures.

Other credit risks

The main sources of other credit risk are:

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

Trading book securities. These securities carry an issuer risk (potential loss on default by the issuer). We measure exposure to this type of risk on the basis of the market value of the securities. Issuer risk is curtailed through the use of limits both per issuer and per rating category.

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

Other credit exposure, (in billions of EUR)	31-12-2016	31-12-2015
Short-term commercial transactions	3.3	2.9
Issuer risk[1]	0.1	0.1
Counterparty risk in interprofessional transactions[2]	9.6	9.6

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

2 After deduction of collateral received and netting benefits.

Government securities in the investment portfolio. We measure exposure to governments in terms of nominal value and book value. Such exposure relates mainly to EU states (particularly Belgium). We have put in place limiting caps for both non-core and core country sovereign bond exposure. Details on the exposure to government bonds are provided in a separate section below.

Exposure to sovereign bonds

We hold a significant portfolio of government bonds, primarily as a result of our considerable excess liquidity position and for the reinvestment of insurance reserves into fixed instruments. A breakdown per country together with an economic impact of a 100-basis-point upward shift in the spread (by year-end 2016) is provided in the chapter "Market Risk in non-trading activities", credit spread risk.

Structured credit exposure

At 1.4 billion euros, the total net portfolio (i.e. excluding de-risked positions) of structured credit products (consisting primarily of European residential mortgage-backed securities (RMBS)) was down 0.2 billion euros on its level at year-end 2015, as redemptions were higher than new investments. In 2013, KBC decided to lift the strict moratorium on investments in ABS and to allow treasury investments in liquid, high-quality, non-synthetic European ABS, which are also accepted as eligible collateral by the European Central Bank (ECB). This allows for further diversification in the investment portfolios. The moratorium on investments in synthetic securitisations or re-securitisations is still in place.

Regulatory capital

Regulatory capital requirements for credit risk increased from 5 173 million euros at the end of 2015 to 5 202 million euros at the end of 2016, under the phased-in approach.
For the fully loaded approach, regulatory capital requirements decreased from 5 311 million euros at the end of 2015 to 5 275 million euros at the end of 2016. This downward evolution in weighted credit risks in 2016 was largely driven by volume increases, yet more than offset by model changes and an improved quality of the credit portfolio.
For more details, please see the 'Credit risk' section in KBC's Risk Report, which is available at www.kbc.com.

Market risk in trading activities

What is it?

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.

The objective of our market risk management is to measure, report and advise on the market risk of the aggregate trading position at group level, taking into account the main risk factors and specific risk.

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 expire before August 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.

Managing market risk

The principal tool we use for measuring and monitoring market risk exposures in the trading book is the Historical Value-at-Risk (HVaR) method. 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 takes account of the market risk of the current portfolio. We use the historical simulation method, observing the relevant CRD IV standards (99% one-sided confidence interval, ten-day holding period, historical data going back at least 250 working days, for which – after analysis – we choose to use 500 working days of historical data). This means that the HVaR used for managing market exposure uses the same holding period and confidence level as the HVaR used for the three approved internal models referred to in the 'Regulatory capital' sub-section below. The HVaR method does not rely on assumptions regarding the distribution of price fluctuations or correlations, but is based on patterns of experience over the previous two years. The HVaR is calculated and monitored at desk and entity level, as well as at KBC group level.

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 a few minor improvements during 2016, attention was also devoted to preparing for the future regulatory demands and quality standards that will be necessary once the requirements stipulated in the *Fundamental Review of the Trading Book* come into effect.

Certain composite and/or illiquid instruments that cannot be modelled in an HVaR context are subject to nominal and/or scenario limits.

We monitor risk concentrations 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').

In addition to the daily HVaR calculations, we conduct extensive stress tests. Whereas the HVaR model captures potential losses under normal market conditions, stress tests show the impact of exceptional circumstances and events with a low degree of probability. The historical and hypothetical stress-test scenarios incorporate both market risk and the liquidity aspects of disruptions in the market. During 2016, a complete and thorough review of all the scenarios and calculation methodologies for historical and hypothetical stress tests was carried out. The focus of this review was on producing intuitive and usable reports (rather than generating a 'black box' stress test result). When newly calibrated stress tests fully replace old ones and are put into place, they are explained in detail to the Group Markets Committee to allow members to fully understand and interpret the reports, enabling them to appreciate any potential weaknesses in the positions held by the KBC group. For more details about stress testing, please refer to the relevant sub-section of the 'Market risk' section in KBC's Risk Report, which is available at www.kbc.com.

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

In addition to the parameter review, we perform periodic risk controls, including all checks that do not entail parameter or P&L testing as carried out in the parameter review, but that are necessary for sound risk management. Moreover, we set up a business case for every new product or activity in order to analyse the risks and the way in which they will be managed.

Risk analysis and quantification

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.

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 (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

We test the reliability of the VaR model daily via a back-test, which compares the one-day VaR figure to daily P&L figures. This is done both at the top level and at the level of the different entities and desks. For more details about back-testing, please refer to the relevant sub-section of the 'Market risk' section in KBC's Risk Report, which is available at www.kbc.com.

We have provided an overview of the derivative products under Note 4.10 in the 'Consolidated financial statements' section.

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 calculation of an SVaR measure is based on the normal VaR calculations and follows the same methodological assumptions, but is constructed as if the relevant market factors were experiencing a period of stress. The period of stress is calibrated at least once a year by determining which 250-day period between 2006 and the (then) present day produces the severest losses for the relevant positions.

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
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

As can be seen from the table, the total capital requirement at year-end 2016 was 55 million euros lower than a year earlier, 36 million euros of which was due to a decrease in internal model-based capital requirements and 19 million euros to a decrease in capital requirements assessed by the Standardised approach. Almost all of the reduction in the internal model-based capital requirements came about because of a decrease in the regulatory multipliers used for HVaR and SVaR in calculating capital requirements in both the KBC Bank NV and ČSOB (Czech Republic) internal models (from 3.65 and 3.85, respectively, to the floor level, i.e. 3.00 for both models). The reduction in the multipliers was due to the fact that there were fewer overshootings in the regulatory back-tests in 2016 (the plus factor for a multiplier is determined by the number of overshootings). For more details, please see the 'Market risk' section in KBC's Risk Report, which is available at www.kbc.com. The reduction in capital requirements assessed by the Standardised approach was due mainly to the re-securitisation charge falling by 14 million euros, because the small positions remaining in the legacy CDO business have reached maturity or been wound down.

Non-financial risks

Operational risk

What is it?

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.

Managing operational risk

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.

Regulatory capital requirements

We use the Standardised approach for operational risk under Basel III. Operational risk capital at KBC Bank consolidated level totalled 822 million euros at the end of 2015 and 811 million euros at the end of 2016.

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 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

What is it?

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 (such as credit or operational risk, etc.).

Business & strategic risk

What is it?

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 , due to not taking a strategic decision , taking a strategic decision that does not have the intended effect or not adequately implementing strategic decisions.

Business & strategic risk is assessed as part of the strategic planning process starting from a structured risk scan identifying the top financial and non-financial risks.The exposure to the business & strategic risks identified, is monitored on an ongoing basis. Next to the risk scan, business & strategic risks are monitored on an ongoing basis by reporting risk signals to top management. Additionally, business & strategic risks are discussed during the aligned planning process and are quantified as part of 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 on P&L.

Information on legal disputes is provided in Note 5.6 of the 'Consolidated financial statements' section

Market risk in non-trading activities

Managing market risk in non-trading activities

> **What is it?**
> The process of managing our 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. 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);
> - 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)

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 of 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 & sensitivity analysis

Interest rate risk

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 KBC Bank (in millions of EUR)	Impact on value[1] 2016	2015
Total	-83	-30

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,* (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), (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%.

Credit spread risk

We manage the credit spread risk for a.o 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	2 155	13 820	28	0	130	16 134	*17 579*	-730
Czech Rep.	1 963	4 672	0	12	168	6 815	*6 806*	-367
Hungary	618	1 376	0	4	176	2 174	*1 988*	-88
Slovakia	1 109	1 460	0	0	1	2 569	*2 522*	-160
Bulgaria	327	0	0	0	0	327	*233*	-20
Ireland	364	735	0	0	1	1 100	*905*	-60
Southern Europe								
Greece	0	0	0	0	0	0	*0*	0
Portugal	210	36	0	0	0	246	*264*	-15
Spain	2 435	256	0	0	1	2 692	*2 630*	-162
Italy	1 413	80	0	0	3	1 497	*1 970*	-85
Other countries								
France	1 888	2 947	0	0	137	4 972	*3 871*	-382
Poland	936	216	12	0	4	1 168	*777*	-64
Germany	214	70	0	0	2	286	*164*	-7
Austria	188	288	0	0	0	476	*476*	-28
Netherlands	0	265	0	0	1	266	*228*	-7
Rest[2]	1 358	1 788	7	0	88	3 242	*2 790*	-114
Total carrying value	15 180	28 010	47	16	712	43 963	*43 202*	–
Total nominal value	13 159	26 322	43	16	570	40 110	*39 305*	–

1 The carrying amount refers to the amount that the company has on its books for an asset or a liability. This is the fair value amount in case of AFS,FIV and trading exposures and the amount at amortised cost for the HTM exposures. This table is excluding exposure to supranational entities of selected countries. No material impairment on the government bonds in portfolio.
2 Sum of countries whose individual exposure is less than 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 761 million euros, due primarily to the higher exposure to France(+1 101 million euros) , Poland (+391 million euros) and Ireland (+195 million euros), but partly offset by a decrease in exposure to Belgian government bonds (-1 445 million euros) and Italian (-473 million 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 987 million euros, before tax (172 million euros of which at KBC Bank). This includes 239 million euros for Belgium, 161 million euros for Italy, 161 million euros for Spain, 92 million euros for France, and 334 million euros for the other countries combined.

Responsible behaviour on the part of all KBC staff members is key to creating a positive risk culture. In this regard, the Risk function has helped flesh out a newly created Responsible Behaviour project, where dilemmas can be brought to the attention of chief risk officers and business-side partners. The ultimate aim is to increase awareness of responsible behaviour and to create a positive risk culture.

Portfolio of Belgian government bonds:

- Belgian sovereign bonds accounted for 36.7 % 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 in 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').

- 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 in the separate section dealing with Belgium. For more information, please refer to 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’ (13%-,impact only upon realization) and ‘Held To Maturity’ (86%-, no impact on P&L); the impact on IFRS unrealised gains on available-for-sale assets is -84 million euros (after tax), for an increase with 100bps.
  - Impact on liquidity: a widening credit spread affects the liquidity coverage ratio (LCR), but the group has a sufficiently large liquidity buffer.

Equity risk

We have provided more information on total non-trading equity exposures at KBC in the tables below.

Equity portfolio of KBC Bank (breakdown by sector, in %)	31-12-2016	31-12-2015
Financials	60%	71%
Consumer non-cyclical	0%	0%
Communication	0%	1%
Energy	0%	0%
Industrials	26%	25%
Utilities	0%	0%
Consumer cyclical	5%	1%
Materials	0%	0%
Other and not specified	9%	2%
Total	100%	100%
In billions of EUR	0.26	0.25
of which unlisted	0.1	0.1

Impact of a 25% drop in equity prices (in millions of EUR)	Impact on value	
	2016	2015
Total	-64	-61

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
Total	113	31	123	238

Real estate risk

KBC Bank’s real estate businesses hold a limited real estate investment portfolio. 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
Total	-92	-95

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 with a trading book are transferred to the trading book where they are managed within the allocated trading limits. The foreign exchange exposure without a trading book, 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 (of KBC group)

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 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

What is it?

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 CRR/CRD IV.

Managing liquidity risk

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. 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.

Maturity analysis

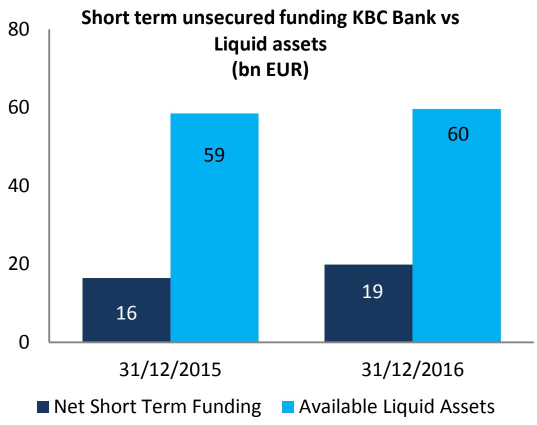
Liquidity risk (excluding intercompany deals)* (in billions of EUR)	<= 1 month	1–3 months	3–12 months	1–5 years	5–10 years	> 10 years	On demand	Not defined	Total
31-12-2016									
Total inflows	22	8	19	56	50	33	19	33	239
Total outflows	39	12	14	31	14	1	103	26	239
Professional funding	17	7	1	6	1	0	0	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). Due to the uncertain nature of the maturity profile of undrawn commitments and financial guarantees, these instruments are reported in the 'Not defined' bucket. The 'Other' category under 'Total outflows' contains own equity, short positions, provisions for risks and charges, tax liabilities and other liabilities.

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

- Funding from customers (circa 146 billion euros, 71% 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 (17 billion euros, 8% of the total figure), mainly comprising IFIMA debt issues (3 billion euros), covered bonds (7 billion euros) and the contingent capital notes issued in January 2013 (0.9 billion euros).
- Net unsecured interbank funding (17 billion euros, 8% of the total figure).
- Net secured funding (-4 billion euros in repo funding, -2% of the total figure) and certificates of deposit (16 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: -4 billion euros).
- Total equity (14 billion euros, 7% of the total figure, including an additional tier-1 issue of 1.4 billion euros).

Besides the exemplary role of 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.

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%.

Brexit

For unexpected events like Brexit, we had a dedicated working group in place comprising both risk and business-side people who dealt with the matter in an integrated way and covered all the potential risks involved. Actions taken prior to and following the Brexit vote revealed that the impact on the KBC group would be minimal in 2016.

- Because the downside risk of a Brexit appeared to be much higher than the upside risk of a Bremain, we partially reduced our equity exposure from an ALM and asset management perspective. In particular, UK and EU equities were sold prior to the vote in order to reduce the overall exposure to those regions perceived as being most sensitive to Brexit.
- Daily follow-up after the Brexit vote resulted in further risk reductions and/or assessments:
  - Our ALM strategy in that period was aligned with expected 'lower for longer' interest rates. We gradually stepped up our equity exposure again after the initial market reaction.
  - Our daily liquidity ratios did not exhibit any significant volatility.
  - Our sovereign exposure to the UK was zero.
  - We monitored our CPPI and other asset management funds on a daily basis No floor breaches took place.
  - The impact on the dealing room result was neutral after the first few weeks.
  - We screened our corporate loan portfolio, which revealed that our exposure to the most Brexit-sensitive companies and sectors was minimal.
  - No specific action was necessary for the real estate files of KBC UK and KBC Ireland, given the conservative loan-to-value ratios, adequate provisioning and/or sufficient repayment capacity.
  - Although no immediate effects surfaced in 2016, longer term effects remain possible for the European economy.

Capital adequacy

Capital adequacy (or solvency) risk is the risk that the capital base of the bank might fall below an acceptable level.

Our statutory auditors have audited the information in this section that forms part of the IFRS financial statements, namely the ‘Solvency at KBC Bank level’ table (the audited parts are indicated in a footnote to the table), ‘ICAAP and ‘Stress testing’.

Solvency at KBC Bank

We report the solvency of the bank based on IFRS data and according to the rules imposed by the regulator. For KBC bank , 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 consolidated level. The objective of a countercyclical buffer is to counteract the effects of the economic cycle on banks’ lending activity. For Belgium, 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 to 10.40% (4,5 % (pillar1) + 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 14.3%, which represented a capital buffer of 3 057 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 for 2017 on a phased-in basis has been reduced, i.e. 8.65% of CET1 (4,5%(pillar1)+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.

Solvency KBC Bank (in millions of EUR) consolidated, CRD IV,/CRR (Basel III), fully loaded	31/12/2016	31/12/2015
Total regulatory capital (after profit appropriation)	16 229	16 045
Tier-1 capital	12 625	12 346
Common equity	11 219	10 941
Parent shareholders' equity (excluding minorities)	12 568	11 880
Intangible fixed assets (including deferred tax impact) (-)	-231	-213
Goodwill on consolidation (including deferred tax impact) (-)	-631	-630
Minority interests	15	15
Hedging reserve (cash flow hedges) (-)	1 356	1 163
Valuation diff. in fin. liabilities at fair value - own credit risk (-)	-18	-20
Value adjustment due to the requirements for prudent valuation (-)	-140	-94
Dividend payout (-)	-531	-165
Renumeration of AT1 instruments (-)	-2	-2
Deduction re. financing provided to shareholders (-)	-91	-91
IRB provision shortfall (-)	-203	-171
Deferred tax assets on losses carried forward (-)	-873	-740
Additional going concern capital	1 406	1 406
CRR compliant AT1 instruments	1 400	1 400
Minority interests to be included in additional going concern capital	6	6
Tier-2 capital	3 604	3 699
IRB provision excess (+)	367	369
Subordinated liabilities	3 228	3 323
Minority interests to be included in tier 2 capital	8	7
Capital requirement		
Total weighted risks	78 482	79 758
Solvency ratios		
Common equity ratio	14.3%	13.7%
Tier-1 ratio	16.1%	15.5%
Total Capital ratio	20.7%	20.1%

(*) Audited figures, except the ‘value adjustment due to requirements for prudent valuation’ and the ‘IRB provision shortfall’

(-203 millions of EUR) in the table above.

Leverage ratio

At year-end 2016, our fully loaded leverage ratio at KBC Bank stood at 5.1% (see table below). Year-on-year, the ratio fell 0.3%, due mainly to the higher total exposure being only partly offset by a higher level of tier-1 capital. More details, including a description of the processes used to manage the risk of excessive leverage, can be found in KBC's Risk Report, which is available at www.kbc.com (the risk report has not been audited by the statutory auditor).

In millions of EUR Leverage ratio KBC Bank (Basel III fully loaded)	31/12/2016	31/12/2015
Tier-1 capital	12 625	12 346
Total exposures	248 760	230 558
Total Assets	239 333	217 626
Adjustment for derivatives	-5 784	-3 279
Adjustment for regulatory corrections in determining Basel III Tier-1 capital	-2 170	- 776
Adjustment for securities financing transaction exposures	1 094	1 057
Off-balance sheet exposures	16 287	15 929
Leverage ratio	5.1%	5.4%

ICAAP

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, underpin and set risk limits and 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.

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.

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

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.

Risk issues that are proactively addressed and policy breaches that receive appropriate attention are also integral to a desired risk culture. In order to support the business, 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 now also in place. In general, the process of internal control management has improved further in the group, triggering new actions on the business side.

Corporate governance statement

Composition of the Board and its committees at year-end 2016*

Name	Position	Period served on the Board in 2016	Expiry date of current term of office	Board meetings attended	Non-executive directors	Core shareholders' representatives	Independent directors	Members of the EC	AC	RCC
Number of meetings in 2016				11					6	10
LEYSEN Thomas	Chairman	Full year	2019	11	●					
THIJS Johan	President of the Executive Committee	Full year	2017	11				● (c)		
FALQUE Daniel	Executive Director	Full year	2020	11				●		
GIJSENS Luc	Executive Director	Full year	2019	10				●		
HOLLOWS John	Executive Director	Full year	2017	9				●		
POPELIER Luc	Executive Director	Full year	2017	9				●		
VAN RIJSSEGHEM Christine	Executive Director	Full year	2018	11				●		
ARISS Nabil	Independent Director	Full year	2018	11	●		●		6	10
CALLEWAERT Katelijn	Non-Executive Director	From 16 December	2017	0	●	●				
DE BECKER Sonja	Non-Executive Director	From 27 April	2020	6	●	●				
DEPICKERE Franky	Non-Executive Director	Full year	2019	11	●	●				10 (c)
MAGNUSSON Bo	Independent Director	From 16 March	2020	9			●		4	8
NONNEMAN Walter	Non-Executive Director	From 16 December	2017	0	●	●				
VANHOVE Matthieu	Non-Executive Director	From 16 December	2017	0	●	●				
WITTEMANS Marc	Non-Executive Director	Full year	2018	11	●	●			3 (c)	6

Statutory auditor: PricewaterhouseCoopers (PWC), represented by Roland Jeanquart and Gregory Joos.
Secretary to the Board of Directors: Johan Tyteca.
Abbreviations: Board of Directors: Board; Executive Committee: EC; Audit Committee: AC; Risk & Compliance Committee: RCC.
(c) Chairman of this committee.
* Luc Discry, Lode Morlion and Ghislaine Van Kerckhove, who were non-executive directors up to and including 15 December 2016, attended 10, 11 and 11 Board meetings, respectively.
Piet Vanthemsche, who was a non-executive director up to and including 27 April 2016, attended four Board meetings.

Changes in the composition of the Board in 2016

Sonja De Becker was appointed as director for a period of four years. She replaced Piet Vanthemsche who resigned with effect on 27 April 2016. The Board deeply appreciates all the work that Mr Vanthemsche did over the years for KBC.

Bo Magnusson was co-opted to the position of independent director – within the meaning of and in line with the criteria set out in Article 526ter of the Belgian Companies Code – with effect from 16 March 2016. The General Meeting confirmed his appointment to this office for a term of four years.

Daniel Falque was re-appointed as director for a period of four years. He sits on the EC and as such has the capacity of executive director.

On 15 December 2016, Katelijn Callewaert, Walter Nonneman and Matthieu Vanhove were co-opted by the Board with effect on 16 December 2016, to replace Luc Discry, Lode Morlion and Ghislaine Van Kerckhove, who resigned with effect on 15 December 2016.

Theo Roussis resigned as director with effect from 18 January 2016.

Changes in the composition of the committees of the Board in 2016

Bo Magnusson (independent director) joined the AC and RCC on 16 March 2016. Marc Wittemans resigned from the RCC with effect on the same date.

Proposed changes in the composition of the Board in 2017

On the advice of the Nomination Committee, the Board will propose that Katelijn Callewaert, Walter Nonneman and Matthieu Vanhove be appointed definitively as directors for a term of four years that will end after the General Meeting of 2021.

On the advice of the Nomination Committee, the Board will propose that Johan Thijs, John Hollows and Luc Popelier be re-appointed for a term of four years that will end after the General Meeting of 2021. They sit on the EC and as such have the capacity of executive director.

Luc Gijsens will resign as director with effect from 5 May 2017.

On the advice of the Nomination Committee, the Board will propose that Hendrik Scheerlinck and Erik Luts be appointed as directors for a period of four years starting on 5 May 2017. Following their appointment as members of the EC, they will become executive directors.

Brief CVs for the proposed new directors

Katelijn Callewaert, who was born in Kortrijk (Belgium) in 1958, holds a Master's Degree in Law from the University of Ghent and a Degree in Fiscal Sciences from the Fiscal College of Higher Education (*Fiscale Hogeschool*) in Brussels. Ms Callewaert worked from 1981 until the end of 2014 at PwC Tax Consultants sccrl-bcvba, where she had been a director since 1991 and Tax Director Global Compliance Services. She also sat on the TLS (Tax and Legal Services) HR Board of PwC Tax Consultants, was a member of the Institute of Accountants and Tax Consultants (IAB-IEC), sat on various IAB-IEC committees and was a member of the International Fiscal Association (IFA) and the Brabant Association of Fiscal and Accounting Professions (BAB Brabant). She also lectured at and was a member of the examination commission of the Fiscal College of Higher Education in Brussels. At present, she is executive director at Cera and KBC Ancora.

Walter Nonneman**,** who was born in Kruibeke (Belgium) in 1948, holds a PhD in Applied Economics (Business Economics) from the University of Antwerp (UFSIA), where he is Professor Emeritus in Economics. Most of his career was connected with the University of Antwerp, but he was also active at a number of universities abroad (including the Harvard Business School and Warwick University). He is also an external director at Cera and an independent director at Fluxys Belgium NV. Mr Nonneman specialises in economic policy, public economics and management in the public and non-profit sector.

Matthieu Vanhove**,** who was born in Bruges (Belgium) in 1954, graduated in chemical and agricultural engineering (bioengineering) from the KU Leuven, where he also gained a Master's Degree in Business Administration and a postgraduate diploma in insurance. He started his career in 1979 as an assistant at KU Leuven (in the Faculty of Business and Economics). He worked as an adviser and auditor for cooperative companies in the food sector from 1982 until 1989, before joining CERA Bank, where he worked between 1989 and 1998, first in the Credit Division and then as Head of Asset/Liability Management. He taught auditing at KU Leuven and was a trainer in microfinance and risk management. Mr Vanhove is a director, senior manager and member of the Management Committee of Cera, an executive director of BRS Microfinance Coop and chairman of the National Council of Cooperatives.

Hendrik Scheerlinck, who was born in Manila (the Philippines) in 1956, graduated in law from the University of Leuven and has a Degree in Economics. He has been working for the Kredietbank/KBC group since 1984. He started at the International Credit Department in Brussels and held various positions in the United States (Senior Credit Adviser in the New York Branch and Regional Manager in Atlanta), Taiwan (Manager of the Kredietbank Representative Office in Taipei), Germany (General Manager of KBC Bank Operations) and back to the United States in 1999 as General Manager of KBC North America. He joined ČSOB in the second half of 2006 and was appointed a member of the Management Board and Chief Financial & Risk Officer there. Since 2010, he has been CEO of K&H Bank, KBC Group's banking subsidiary in Hungary, and Country CEO, Hungary.

Erik Luts, who was born in Tessenderlo (Belgium) in 1960 holds a Master's Degree in Pedagogy from the University of Leuven . Between 1985 and 1988, he held various positions, including with the University of Leuven, teaching at a technical college and working as an after-sales representative for an Apple dealer. He began his career with the Kredietbank/KBC group in 1988 as Computer Literacy & Self-Study Training Manager, and was promoted to Payments & E-Banking Product Manager in 1991. At that time he was also made a member of the Management Committee for Isabel (the main supplier of multi-bank services for business users in Belgium set up in 1995 on the initiative of four large banks, including the Kredietbank/KBC). In 1996, he was appointed ICT Manager for the branch network, then General Manager, ICT Development, and in 2003, General Manager of the ICT Data Centre. From 2004 to 2006, he was a Member of the Management Committee of Nova Ljubljanska banka (NLB), KBC's banking subsidiary in Slovenia, where he was responsible for ICT and preparing NLB for the introduction of the euro. He returned to Belgium in 2006 in the role of General Manager, Training, Education & Recruitment. He was Senior General Manager, HR, Facility Services & Financial Reporting at the Belgium Business Unit of the KBC group from 2008 to 2013. He has been Senior General Manager, Direct Channels & Support at that business unit since 2013 and was additionally appointed Chief Innovation Manager for the KBC group in 2016.

Composition of the EC

The EC has six members, viz. Johan Thijs (President), Luc Popelier, Christine Van Rijsseghem, John Hollows, Luc Gijsens and Daniel Falque.

With effect from 5 May 2017, Luc Gijsens will resign as member of the EC. The Board greatly appreciates the contribution he has made to the KBC group over many years.

On the advice of the Nomination Committee, the Board has appointed Hendrik Scheerlinck and Erik Luts as members of the EC, with effect from 5 May 2016.

As of 5 May 2017, the EC will comprise seven members, with the following changes being made to its composition:

- Hendrik Scheerlinck will become CFO
- Erik Luts will become Chief Innovation Officer
- Luc Popelier will become International Markets Business Unit CEO

Following these appointments and changes, the composition of the EC will be as follows:

- Johan Thijs, Group CEO (Chief Executive Officer)
- Hendrik Scheerlinck, CFO (Chief Financial Officer)
- Christine Van Rijsseghem, CRO (Chief Risk Officer)
- Luc Popelier, International Markets Business Unit CEO
- John Hollows, Czech Republic Business Unit CEO
- Daniel Falque, Belgium Business Unit CEO
- Erik Luts, Chief Innovation Officer

Main features of the internal control and risk management systems

In application of the provisions of the Companies Code, the main features of the internal control and risk management systems at the KBC Group are set out below (Part 1 contains general information, while Part 2 deals specifically with the financial reporting process). These features also apply to KBC Bank as it is a member of the KBC group.

Part 1: Description of the main features of the internal control and risk management systems at KBC

1 A clear strategy, organisational structure and division of responsibilities set the framework for the proper performance of business activities

We examine the strategy and organisational structure of the KBC group in the 'Group profile' section of this annual report.

The KBC group has a dual governance structure based on the Belgian model:
- The Board is responsible for defining general strategy and policy. It exercises all the responsibilities and activities reserved to it under the Companies Code and – based on a proposal by the EC – decides on the overall risk appetite.
- The EC is responsible for the operational management of the company within the confines of the general strategy and policy approved by the Board. To assume its specific responsibility towards financial policy and risk management, the EC appoints a chief financial officer (CFO) and a chief risk officer (CRO) from among its ranks.

The *Corporate Governance Charter* of KBC Bank describes the mutual responsibilities of both management bodies, their composition and activities, as well as the qualification requirements for their members. Their composition and activities are dealt with in more detail elsewhere in this Statement.

2 Corporate culture and integrity policy

Ethical behaviour and integrity are essential components of corporate social responsibility. Honesty, correctness, transparency and confidentiality, together with sound risk management, are part of the high ethical standards that KBC stands for – both in the spirit and the letter of the applicable regulations. Therefore, KBC treats its clients in a fair, reasonable, honest and professional manner.

These principles are set out in the integrity policy, as well as in specific codes, instructions and codes of conduct. They are also incorporated into specific training courses and campaigns for staff. The main guidelines and policy memos on socially responsible business practices can be found under 'Corporate Sustainability' at www.kbc.com.

One of the topics covered by the integrity policy is 'conduct risk', a relatively recent concept that identifies the risk arising from the inappropriate provision of financial services. To address this matter, KBC has drawn up a comprehensive policy that includes prevention, monitoring and reporting. Extensive, group-wide communication campaigns and dilemma training ensure that the necessary awareness of this risk is in place.

KBC's Integrity Policy focuses primarily on the following areas, for which – where appropriate – specific group-wide compliance rules have been issued, i.e. for:
- combating money laundering and the funding of terrorism, and observing embargoes;
- preventing fiscal irregularities including special mechanisms for tax evasion;
- protecting the investor, including preventing conflicts of interest (MiFID);
- respecting codes of conduct for investment services and the distribution of financial instruments;
- preventing market abuse, including insider trading;
- protecting privacy, confidentiality of information and the professional duty of discretion;
- respecting rules on market practices and consumer protection.

The integrity policy also maintains a strong and comprehensive focus on ethics and combating fraud:
- By running focused campaigns and training courses, KBC proactively ensures that this ethical attitude is ingrained in the DNA of each employee. The elements of this policy are firmly embedded in the code of conduct and various other policy guidelines referred to in this section.
- Various departments such as Compliance, Inspection, Internal Audit – as well as KBC's business side – engage in the prevention and detection of fraud. For complex fraud cases and/or incidents with an impact at group level, investigations are conducted and/or co-ordinated by Group Compliance in its capacity as the group competence centre for fraud.
- The Policy for the Protection of Whistleblowers at KBC Group ensures that employees who act in good faith to report fraud and gross malpractice are protected.
- The Anti-Corruption Policy affirms KBC's position in the fight against and its resolve to prevent corruption in its activities and operations, while setting out the measures that have been or will be taken to achieve this. One element of this is the 'policy on gifts, donations and sponsorship' through which KBC endeavours to protect its employees and the other parties involved by means of criteria that have been drawn up to foster transparent and reasonable behaviour.

The *Code of Conduct for KBC Group Employees* is a generalised document based on a set of group values that outlines how all members of staff should conduct themselves. It forms the basis for developing specialised codes of conduct for specific target groups and for drawing up policy guidelines at group level. It is also the source of inspiration for awareness-raising campaigns and training courses.

3 The 'Three Lines of Defence' model arms KBC against risks that could prevent targets from being achieved

To support its strategic mission and to arm itself against the risks that could prevent it from achieving its mission, the EC – under its responsibility and the supervision of the Board – has implemented a multi-layered internal control system. This system is commonly known as the 'Three Lines of Defence' model.

3.1 The business side assumes responsibility for managing its own risks

As the first line of defence, the business operations side has to be aware of the risks in its area of activity and have adapted and effective controls in place. This responsibility extends to all types of risk, including fraud and compliance with regulatory or legal requirements. In this regard, the business side can call upon the services of its own support departments, such as Inspection, Human Resources and Accounting. Besides turning to this first-line expertise, it can also seek advice from independent second-line functions.

3.2 As independent control functions, the Group risk function, Compliance and – for certain matters – Accounting, Legal, Tax and Information Risk Security constitute the second line of defence

Independent of the business side and following specific regulations and advanced industry standards, second-line control functions are tasked with drawing up a group-wide framework for all relevant types of risk. The functions support implementation of this framework in their own particular area of work and monitor how it is used. Besides their support and supervisory tasks, the second-line functions also have an advisory role in assisting business-side management in the use of value, risk and capital management instruments and techniques. More information on value and risk management is provided in the relevant section of this report.

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

3.3 As independent third line of defence, Internal Audit provides support to the EC, AC and RCC in monitoring the effectiveness and efficiency of the internal control and risk management system

Internal Audit provides reasonable assurance to KBC's management bodies about the quality of the risk management systems, internal control and management processes. Its scope covers all legal entities, activities and departments, including the various control functions, within the KBC group.

Responsibilities, features, organisational structure and reporting lines, scope, audit methodology, co-operation between internal audit departments of the KBC group, and outsourcing of internal audit activities are set out in the *Audit Charter* of KBC Group NV. This charter complies with the National Bank of Belgium regulation of 19 May 2015 – approved by the Royal Decree of 5 July 2015 – on the internal control system and the internal audit function, with the Implementation Circular 2015_21 of 13 July 2015, with the Act of 25 April 2014 on the status and supervision of credit institutions and with the Act of 13 March 2016 on the status and supervision of insurance and reinsurance undertakings.

In accordance with international professional audit standards, an external entity screens the audit function on a regular basis (the last time this happened was in 2014). The results of that exercise were reported to the EC and the AC.

4 The AC and RCC play a central role in monitoring the internal control and risk management systems

Each year, the EC evaluates the adaptability of the internal control and risk management system and reports its findings to the AC and RCC.

These committees supervise, on behalf of the Board, the integrity and effectiveness of the internal control measures and the risk management system set up under the EC, paying special attention to correct financial reporting. They also examine the procedures set up by the company to see whether they comply with the law and other regulations.

The role, composition and activities, along with the qualifications of their members, are laid down in their respective charters, which are included under the Corporate Governance Charter. More information on these committees is provided elsewhere in this section.

Part 2: Description of the main features of the internal control and risk management systems in relation to the financial reporting process

It is vitally important that timely, accurate and understandable financial reports are provided to both internal and external stakeholders. To ensure this is the case, the underlying process needs to be sufficiently robust.

Periodic reporting at company level is based on a documented accounting process. A manual on the accounting procedures and financial reporting process is available. Periodic financial statements are prepared directly from the general ledger. Bookkeeping accounts are linked to underlying inventories. The result of these controls can be demonstrated.

Periodic financial statements are prepared in accordance with local accounting policies and periodic reports on own funds in accordance with the most recent National Bank of Belgium (NBB) resolutions of 15 November 2011.

The main affiliated companies have their own accounting and administrative organisation, as well as a set of procedures for internal financial controls. A descriptive document on the consolidation process is available. The consolidation system and the consolidation process have been operational for some time and have numerous built-in consistency controls.

The consolidated financial statements are prepared in accordance with IFRS accounting policies that apply to all the companies included in the scope of consolidation. The relevant senior financial managers (CFOs) of the subsidiaries certify to the accuracy and completeness of the financial figures reported in accordance with group accounting policies. The Approval Committee – chaired by the general managers of Financial Insight & Communication and Group Finance – monitors compliance with IFRS accounting policies.

Pursuant to the Act of 25 April 2014 on the status and supervision of credit institutions, the EC of KBC Group NV evaluated the internal control system for the financial reporting process and prepared a report on its findings.

The group-wide roll-out of ‘fast close’ procedures, the monitoring of intercompany transactions within the group, and permanent follow-up of a number of indicators relating to risk, performance and quality (Key Risk Indicators and Key Performance Indicators) continually help raise the quality of both the accounting process and the financial reporting process.

The existence and monitoring of Group Key Control Accounting and External Financial Reporting standards (since 2006) is the mainstay in the internal control of the accounting process. These standards are the rules for managing the main risks attached to the accounting process and involve the establishment and maintenance of accounting process architecture, the establishment and maintenance of accounting policies and accounting presentations, compliance with authorisation rules and the separation of responsibilities when transactions are registered in the accounts, and the establishment of appropriate first- and second-line account management.

The Reporting Framework (2011) and Challenger Framework (2012) define a solid governance structure and clearly describe the roles and responsibilities of the various players in the financial reporting process. The aim here is to radically reduce reporting risks by challenging input data and improving the analysis of – and therefore insight into – the reported figures.

Each year (since 2012), when preparing the Internal Control Statement for the supervisory authorities, the legal entities have to assess themselves as to whether they comply with the Group Key Control Accounting and External Financial Reporting standards. The findings of this self-assessment are registered in the risk function’s Group Risk Assessment Tool. Besides a questionnaire to be completed by the CFOs, it also includes drawing up a list of all the responsibilities (Entity Accountability Excel sheets) for accounting and external financial reporting, along with the underlying Departmental Reference Documents that substantiate how these responsibilities are being shouldered. In this way, the CFOs formally confirm by substantiated means that all the defined roles and responsibilities relating to the end-to-end process for external financial reporting have been properly assumed within their entity. The veracity of this confirmation can be checked at any time by all the internal and external stakeholders involved.

KBC Group NV’s Internal Audit function conducts an end-to-end audit of the accounting process and external financial reporting process at both company and consolidated level.

For details of the AC’s supervisory work, see the second paragraph of point 4 in the first part of this text.

Shareholder structure on 31 December 2016

The Act of 2 May 2007 concerning the disclosure of significant participations in issuers whose shares are admitted to trading on a regulated market and containing miscellaneous provisions, does not apply to KBC Bank because the securities it issues that carry voting rights are not included on a regulated market.

At 31 December 2016, the shareholder structure of KBC Bank NV was as follows:

	Number of shares
KBC Group NV	915 228 481
KBC Insurance NV	1
Total	915 228 482

Disclosure under Article 34 of the Belgian Royal Decree of 14 November 2007

Article 34 of the Belgian Royal Decree of 14 November 2007 concerning the obligations of issuers of financial instruments admitted to trading on a regulated market, does not apply to KBC Bank because it has not permitted any securities carrying voting rights to be included on a regulated market for trading.

Additional information

- Acquisition of treasury shares. KBC Bank NV and its subsidiaries do not hold any treasury shares.
- Conflicts of interest that fall within the scope of Articles 523, 524 and 524*ter* of the Belgian Companies Code. There were no such conflicts during financial year 2016.
- The Board worked out an arrangement regarding transactions and other contractual ties between the company (including its affiliated companies) and its directors, not covered by the conflict of interest rule set out in Articles 523 or 524ter of the Companies Code. It has been incorporated into the *Corporate Governance Charter* of KBC Bank NV.
- Discharge to directors and to the statutory auditor. It will be requested at the General Meeting to grant discharge to the directors and auditor for the performance of their mandate in financial year 2016.
- At year-end 2016, the AC comprised the following members:
    - Marc Wittemans (non-executive director), who holds a Master's Degree in Applied Economics, and degrees in Fiscal Sciences and Actuarial Sciences. He is Managing Director of MRBB CVBA, the holding company of the Boerenbond (farmers' union), and is the Chairman of the AC.
    - Nabil Ariss (independent director), who is a graduate from HEC Paris (1983) and holds an MBA from the University of Chicago Booth School of Business (1987). Mr Ariss has been providing advice and performing the office of director in corporates, financial institutions and non-profit organisations since 1987, first at McKinsey, then at J.P. Morgan (from 1992 on), where he developed the corporate finance business with financial institutions. He retired from J.P. Morgan as vice chairman in May 2013.
    - Bo Magnusson (independent director), who is a graduate of the High School Social Science Programme and holds certificates in Accounting, Macroeconomics, Treasury Management and Financial/Risk Management. He held different positions at SEB (1982-2011), including in the areas of accounting and finance. During his career there, he was Head of the Retail Division (2005-2008), Deputy President and CEO (2008-2011) and Head of Group Staff & Business Support (2009-2011). He was Chairman of 4T Sverige AB (2012-2015) and Chairman of Norrporten AB (2013-2016). He is Chairman of the Board of Carnegie Holding AB and of Carnegie Investment Bank AB, Chairman of SBAB Bank AB and Chairman of Rikshem AB.

  These members possess the requisite individual and collective expertise in the activities conducted by the bank and in the areas of accounting and/or auditing, based on their education and extensive business experience.

- At year-end 2016, the RCC comprised the following members:
    - Franky Depickere (non-executive director), who holds Master's Degrees in Trade & Finance (UFSIA Antwerp) and in Financial Management (VLEKHO Business School). He was internal auditor at CERA Bank and has held positions and offices in various financial institutions. He is currently Managing Director at Cera and KBC Ancora. Mr Depickere is the Chairman of the RCC.
    - Nabil Ariss (independent director).
    - Bo Magnusson (independent director).

It can be concluded on the basis of the profiles and competences of the members that each individual member and the RCC as a whole possess the requisite skills and experience.

- The Remuneration Committee of KBC Group NV is also authorised to act in relation to KBC Bank NV. It advises the Board of Directors of KBC Group NV regarding the remuneration policy pursued at both KBC Group NV and KBC Bank NV. At year-end 2016, the Remuneration Committee was made up of Thomas Leysen (Chairman), Júlia Király and Philippe Vlerick.
- On the proposal of the Nomination Committee of KBC Group NV, the Board – in implementation of Article 31, § 2 of the Act of 25 April 2014 on the status and supervision of credit institutions – aims to achieve at least a 15% representation of the under-represented sex within a period of three years. When a number of candidates are nominated to fill an office and they all meet the set requirements, preference will be given to appointing a female candidate.
- In compliance with the laws on the incompatibility of offices held by managers of credit institutions, the following is a list of the external offices held by the executive managers and directors of KBC Bank NV in other companies, with the exception of those offices performed in companies within the meaning of Article 27, §3, para. three of the Act of 22 March 1993.

Annex 1
to the annual report of the Board of Directors for the financial year ending on 31 December 2016

Naamloze vennootschap (company with limited liability): KBC Bank nv
Trade register: Brussels 623 074
VAT number or national number: 462.920.226

Company name	Registered office	Sector	Office held	Listed (N= not)	Share of capital held (N= none)
Nabil Ariss, Independent Director					
Callewaert Katelijn, Director					
Cera Beheersmaatschappij nv	Belgium	Management	Managing Director	N	N
Almancora Beheersmaatschappij NV	Belgium	Management	Managing Director	N	N
Cera cvba	Belgium	Management	Member of the Executive Committee	N	N
Sonja De Becker, Director					
SBB Accountants en Belastingconsulenten BV c\	Belgium	Accountancy & consulting	Chairman of the Board of Directors	N	N
M.R.B.B. cvba	Belgium	Holding company	Chairman of the Board of Directors	N	N
SBB Bedrijfsdiensten BV cvba	Belgium	Accountancy & consulting	Managing Director	N	N
BB-Patrim cvba	Belgium	Holding company	Chairman of the Board of Directors	N	N
Agri Investment Fund cvba	Belgium	Holding company	Director	N	N
Franky Depickere, Director					
Almancora Beheersmaatschappij nv	Belgium	Management	Managing Director	N	N
Cera CVBA	Belgium	Management	Managing Director	N	N
Cera Beheersmaatschappij nv	Belgium	Management	Managing Director	N	N
Euro Pool System International BV	Netherlands	Packaging	Director	N	N
FWR Consult cvba	Belgium	Services	Director	N	N
BRS Microfinance Coop CVBA	Belgium	Finance	Director	N	17.76%
Luc Discry, Director					
Precura Verzekeringen NV	Belgium	Insurance	Director	N	N
Thomas Leysen, Chairman of the Board of Directors					
Umicore nv	Belgium	Non-ferrous metals	Chairman of the Board of Directors	Euronext	N
Corelio nv	Belgium	Media	Chairman of the Board of Directors	N	N
Booischot nv	Belgium	Real estate	Director	N	N
Mediahuis NV	Belgium	Publishing	Director	N	N
Bo Magnusson, Independent Director					
Rikshem AB	Sweden	Real estate	Chairman of the Board of Directors	N	N
Rikshem Intressenter AB	Sweden	Holding company	Chairman of the Board of Directors	N	N
Carnegie Investment Bank AB	Sweden	Investment company	Chairman of the Board of Directors	N	N
SBAB AB	Sweden	Mortgage company	Chairman of the Board of Directors	N	N
Sveriges Sakerstallda obligationer AB	Sweden	Mortgage company	Chairman of the Board of Directors	N	N
Carnegie Holding AB	Sweden	Holding company	Chairman of the Board of Directors	N	N
Walter Nonneman, Director					
Cera Beheersmaatschappij nv	Belgium	Management	Director	N	N
Fluxys Belgium NV	Belgium	Electricity & Gas	Independent Director	Euronext	N
Matthieu Vanhove, Director					
FWR Consult cvba	Belgium	Services	Managing Director	N	N
BRS Microfinance Coop cvba	Belgium	Financing	Managing Director	N	17,76%
Ghislaine Van Kerkchove, Director					
MOB Zorgkas	Belgium	Health insurance fund	Director	N	N
Maatschappij Onderlinge Bijstand	Belgium	Health insurance fund	Director	N	N
Landsbond der Christelijke Mutualiteiten	Belgium	Health insurance fund	Director	N	N
Marc Wittemans, Director					
Aktiefinvest cvba	Belgium	Real estate	Chairman of the Board of Directors	N	N
Arda Immo nv	Belgium	Real estate	Chairman of the Board of Directors	N	19.06%
SBB Accountants en Belastingconsulenten bv cv	Belgium	Accountancy & consulting	Director	N	N
SBB Bedrijfsdiensten bv cvba	Belgium	Accountancy & consulting	Director	N	N
M.R.B.B. cvba	Belgium	Holding company	Managing Director	N	N
Agri Investment Fund cvba	Belgium	Holding company	Director	N	N
Acerta cvba	Belgium	Holding company	Director	N	N
Acerta Consult cvba	Belgium	HR services	Director	N	N
Acerta Public nv	Belgium	IT services & software	Director	N	N
Shéhérazade développement cvba	Belgium	IT services & software	Director	N	N
Greenyard NV	Belgium	Fruit & vegetable industry	Director	Euronext	N
Aveve NV	Belgium	Agricultural and horticultural	Director	N	N

Consolidated financial statements

Consolidated income statement

In millions of EUR	Note	2016	2015
Net interest income	3.1	3 635	3 675
Interest income	3.1	6 147	6 605
Interest expense	3.1	- 2 512	- 2 930
Dividend income	3.2	27	19
Net result from financial instruments at fair value through profit or loss	3.3	551	224
Net realised result from available-for-sale assets	3.4	134	82
Net fee and commission income	3.5	1 753	1 945
Fee and commission income	3.5	2 175	2 408
Fee and commission expense	3.5	- 422	- 462
Net other income	3.6	140	200
TOTAL INCOME		6 240	6 145
Operating expenses	3.7	- 3 399	- 3 388
Staff expenses	3.7	- 1 589	- 1 594
General administrative expenses	3.7	- 1 663	- 1 665
Depreciation and amortisation of fixed assets	3.7	- 146	- 128
Impairment	3.9	- 145	- 650
on loans and receivables	3.9	- 126	- 323
on available-for-sale assets	3.9	- 1	- 11
on goodwill	3.9	0	- 308
on other	3.9	- 19	- 9
Share in results of associated companies and joint ventures	3.10	23	21
RESULT BEFORE TAX		2 719	2 128
Income tax expense	3.11	- 525	291
RESULT AFTER TAX		2 195	2 419
Attributable to minority interest		169	180
Attributable to equity holders of the parent		**2 026**	**2 239**

- We have dealt with the main items in the income statement in the ‘Report of the Board of Directors’ under the ‘Our financial report’ and ‘Our business units’ sections. The statutory auditor has not audited these sections.

Consolidated statement of Comprehensive income

In millions of EUR	2016	2015
RESULT AFTER TAX	2 195	2 419
Attributable to minority interest	169	180
Attributable to equity holders of the parent	2 026	2 239
Other comprehensive income - to be recycled to P&L	- 272	577
Net change in revaluation reserve (AFS assets) - Equity	- 103	117
Fair value adjustments before tax	- 1	129
Deferred tax on fair value changes	- 2	- 12
Transfer from reserve to net profit	- 100	0
Impairment losses	0	0
Net gains/losses on disposal	- 114	0
Deferred income tax	14	0
Net change in revaluation reserve (AFS assets) - Bonds	7	- 41
Fair value adjustments before tax	39	- 12
Deferred tax on fair value changes	- 10	8
Transfer from reserve to net profit	- 22	- 37
Impairment losses	0	0
Net gains/losses on disposal	- 29	- 51
Amortization & impairment re assets transferred to L&R and HTM	- 5	0
Deferred income tax	12	14
Net change in revaluation reserve (AFS assets) - Other	0	0
Fair value adjustments before tax	0	0
Deferred tax on fair value changes	0	0
Transfer from reserve to net profit	0	0
Impairment losses	0	0
Net gains/losses on disposal	0	0
Deferred income tax	0	0
Net change in hedging reserve (cash flow hedge)	- 193	229
Fair value adjustments before tax	- 380	312
Deferred tax on fair value changes	123	- 113
Transfer from reserve to net profit	64	29
Gross amount	92	39
Deferred income tax	- 28	- 9
Net change in translation differences	20	266
Gross amount	- 16	165
Deferred income tax	36	101
Net change related to associated companies & joint ventures	- 1	6
Gross amount	- 2	5
Deferred income tax	0	0
Other movements	0	2
Other comprehensive income - not to be recycled to P&L	- 250	212
Net change in defined benefit plans	- 250	212
Remeasurements (IAS 19)	- 364	305
Deferred tax on remeasurement	114	- 93
Net change related to associated companies & joint ventures	0	0
Remeasurements (IAS 19)	0	0
Deferred tax on remeasurement	0	0
TOTAL COMPREHENSIVE INCOME	1 673	3 208
Attributable to minority interest	170	179
Attributable to equity holders of the parent	1 503	3 029

- See Note 1.1 for changes in the above presentation.

Consolidated balance sheet

ASSETS (in millions of EUR)	Note	31-12-2016	31-12-2015
Cash and cash balances with central banks		20 148	7 038
Financial assets	4.0	212 411	204 051
Held for trading	4.0	9 787	10 497
Designated at fair value through profit or loss	4.0	1 130	5 092
Available for sale	4.0	21 084	20 274
Loans and receivables	4.0	151 702	140 294
Held to maturity	4.0	28 297	27 379
Hedging derivatives	4.0	410	514
Fair value adjustments of hedged items in portfolio hedge of interest rate risk	-	202	105
Tax assets	5.2	2 276	2 285
Current tax assets	5.2	49	96
Deferred tax assets	5.2	2 227	2 189
Non-current assets held for sale and assets associated with disposal groups	5.10	8	15
Investments in associated companies and joint ventures	5.3	180	181
Investment property	5.4	272	275
Property and equipment	5.4	2 249	2 087
Goodwill and other intangible assets	5.5	854	831
Other assets	5.1	732	758
TOTAL ASSETS		239 333	217 626

LIABILITIES AND EQUITY (in millions of EUR)	Note	31-12-2016	31-12-2015
Financial liabilities	4.0	222 646	201 760
Held for trading	4.0	8 586	8 380
Designated at fair value through profit or loss	4.0	3 900	12 039
Measured at amortised cost	4.0	208 455	179 150
Hedging derivatives	4.0	1 704	2 191
Fair value adjustments of hedged items in portfolio hedge of interest rate risk	-	204	171
Tax liabilities	5.2	217	197
Current tax liabilities	5.2	124	88
Deferred tax liabilies	5.2	93	109
Provisions for risks and charges	5.6	207	278
Other liabilities	5.7	1 902	1 730
TOTAL LIABILITIES		225 175	204 135
Total equity	5.9	14 158	13 490
Parent shareholders' equity	5.9	12 568	11 888
Additional Tier-1 instruments included in equity	5.9	1 400	1 400
Minority interests		190	202
TOTAL LIABILITIES AND EQUITY		239 333	217 626

Consolidated statement of changes in equity

In millions of EUR	Issued and paid up share capital	Share premium	Treasury shares	Revaluation reserve (AFS assets)	Hedging reserve (cashflow hedges)	Remea-surement of defined benefit obligations	Retained earnings	Translation differences	Parent share-holders' equity	Non-voting core-capital securities	Additionel Tier-1 instruments included in equity	Minority interests	Total equity
31-12-2016													
Balance at the beginning of the period (01-01-2016)	8 948	895		742	- 1 163	97	2 349	19	11 888		1 400	202	13 490
Net result for the period	0	0	0	0	0	0	2 026	0	2 026	0	0	169	2 195
Other comprehensive income for the period	0	0	0	- 97	- 193	- 250	0	18	- 523	0	0	1	- 522
Total comprehensive income	**0**	**0**	**0**	**- 97**	**- 193**	**- 250**	**2 025**	**18**	**1 503**	**0**	**0**	**170**	**1 673**
Dividends	0	0	0	0	0	0	- 769	0	- 769	0	0	0	- 769
Coupon additional Tier-1 instruments	0	0	0	0	0	0	- 54	0	- 54	0	0	0	- 54
Change in minorities	0	0	0	0	0	0	0	0	0	0	0	- 182	- 182
Total change	**0**	**0**	**0**	**- 97**	**- 193**	**- 250**	**1 203**	**18**	**680**	**0**	**0**	**- 12**	**668**
Balance at the end of the period	**8 948**	**895**	**0**	**645**	**- 1 356**	**- 153**	**3 552**	**37**	**12 568**	**0**	**1 400**	**190**	**14 158**
of which revaluation reserve for shares				120									
of which revaluation reserve for bonds				525									
of which relating to equity method				13	0	0	0	7	20				20
31-12-2015													
Balance at the beginning of the period (01-01-2015)	**8 948**	**895**		**666**	**- 1 391**	**- 116**	**2 927**	**- 253**	**11 676**		**1 400**	**260**	**13 336**
Net result for the period	0	0		0	0	0	2 239	0	2 239		0	180	2 419
Other comprehensive income for the period	0	0		75	229	212	2	272	790		0	0	789
Total comprehensive income	**0**	**0**		**75**	**229**	**212**	**2 241**	**272**	**3 029**		**0**	**179**	**3 208**
Dividends	0	0		0	0	0	- 2 737	0	- 2 737		0	0	- 2 737
Coupon additional Tier-1 instruments	0	0		0	0	0	- 54	0	- 54		0	0	- 54
Impact business combinations	0	0		0	0	0	- 28	0	- 28		0	0	- 28
Change in minorities	0	0		0	0	0	0	0	0		0	- 240	- 240
Change in scope	0	0		1	0	0	0	0	1		0	3	4
Total change	**0**	**0**		**76**	**229**	**212**	**- 577**	**272**	**212**		**0**	**- 58**	**154**
Balance at the end of the period	**8 948**	**895**		**742**	**- 1 163**	**97**	**2 349**	**19**	**11 888**		**1 400**	**202**	**13 490**
of which revaluation reserve for shares				223									
of which revaluation reserve for bonds				519									
of which relating to equity method				14	0	0	0	7	21				21

- For information on additional tier-1 instruments and number of shares, see Note 5.9.
- For information on the shareholder structure, see the ‘Corporate governance statement’ in the ‘Report of the Board of Directors’ section.
- In 2016, KBC Bank paid KBC Group a dividend of 165 million euros for 2015. It also paid KBC Group an interim dividend of 604 million euros and, in 2017, will pay it a final dividend of 531 million euros.
- In 2016, the revaluation reserve (for available-for-sale assets) contracted by 97 million euros, +6 million euros of which was accounted for by bonds (primarily related to the fall in long-term rates, though largely offset by bonds with a positive revaluation reserve reaching maturity) and -103 million euros by shares (partly because of the Visa Europe shares that were sold following the public offering of Visa Inc.). The hedging reserve (cashflow hedges) declined by 193 million euros (due primarily to the fall in long-term rates). In 2016, 'Remeasurement of defined benefit plans' fell by 250 million euros (mainly on account of the decrease in the discount rate). The revaluation reserve for available-for-sale financial assets increased by 76 million euros in 2015, due chiefly to shares (an increase of 117 million euros; the figure included 69 million euros for Visa Europe Limited shares following the public offering of Visa Inc.). On the other hand, there was a decline in relation to bonds (by 42 million euros). The hedging reserve (cashflow hedges) went up by 229 million euros in 2015.
- Translation differences increased by 18 million euros in 2016. They had changed by 272 million euros in 2015, partly on account of the liquidation of KBC Financial Holding Inc. (the foreign exchange loss on the capital of KBC Financial Holding Inc. was transferred from equity to profit or loss; net impact of 145 million euros (after tax), including hedging effects).

Consolidated cashflow statement

In millions of EUR	Note	2016	2015
Operating activities			
Result before tax	Inc.statem.	2 719	2 128
Adjustments for:		15	327
Result before tax related to discontinued operations	Inc.statem.	0	0
Depreciation, impairment and amortisation of property and equipment, intangible assets, investment property and securities	3.9, 4.2, 5.4, 5.5	177	467
Profit/Loss on the disposal of investments		- 10	- 12
Change in impairment on loans and advances	3.9, 4,2	126	323
Change in other provisions	5.6	- 10	- 223
Other non realised gains or losses		- 244	- 206
Income from associated companies and joint ventures	3.10	- 23	- 21
Cashflows from operating profit before tax and before changes in operating assets and liabilities		2 735	2 456
Changes in operating assets (excl. cash & cash equivalents)		- 2 410	- 1 462
Loans and receivables	4.1	- 4 773	- 3 677
Available for sale	4.1	- 773	- 2 121
Held for trading	4.1	716	1 639
Designated at fair value through P&L	4.1	2 290	1 849
Hedging derivatives	4.1	104	590
Operating assets associated with disposal groups & other assets	6.6	26	259
Changes in operating liabilities (excl. cash & cash equivalents)		18 042	8 972
Deposits at amortised cost	4.1	14 460	9 301
Debt certificates at amortised cost	4.1	12 106	- 759
Financial liabilities held for trading	4.1	156	157
Financial liabilities designated at fair value through P&L	4.1	- 7 621	1 392
Liability-derivatives hedge accounting	4.1	- 867	- 988
Operating liabilities associated with disposal groups & other liabilities	-	- 192	- 131
Income taxes paid	3.11	- 295	- 311
Net cash from (used in) operating activities		**18 072**	**9 654**
Investing activities			
Purchase of held-to-maturity securities	4.1	- 2 279	- 3 190
Proceeds from the repayment of held-to-maturity securities at maturity	4.1	1 430	1 758
Acquisition of a subsidiary or a business unit, net of cash acquired (increase in participation intrests included)		0	- 4
Proceeds from the disposal of a subsidiary or business unit, net of cash disposed (decrease in participation intrests included)		0	0
Purchase of shares in associated companies and joint ventures	5.3	0	0
Proceeds from the disposal of shares in associated companies and joint ventures	5.3	0	0
Dividends received from associated companies and joint ventures	5.3	22	23
Purchase of investment property	5.4	- 35	- 5
Proceeds from the sale of investment property	5.4	26	11
Purchase of intangible fixed assets (excl. goodwill)	5.5	- 81	- 61
Proceeds from the sale of intangible fixed assets (excl. goodwill)	5.5	8	7
Purchase of property and equipment	5.4	- 671	- 499
Proceeds from the sale of property and equipment	5.4	243	220
Net cash from (used in) investing activities		**- 1 335**	**- 1 739**
Financing activities			
Purchase or sale of treasury shares	Changes equity	0	0
Issue or repayment of promissory notes and other debt securities	4.1	- 1 234	- 475
Proceeds from or repayment of subordinated liabilities	4.1	1 074	- 279
Principal payments under finance lease obligations		0	0

In millions of EUR	Note	2016	2015
Proceeds from the issuance of share capital	Changes equity	0	0
Proceeds from the issuance or repayment of preference shares	Changes equity	0	0
Dividends paid	Changes equity	- 823	- 2 791
Net cash from (used in) financing activities		**- 983**	**- 3 544**
Change in cash and cash equivalents			
Net increase or decrease in cash and cash equivalents		15 754	4 371
Cash and cash equivalents at the beginning of the period		10 998	6 523
Effects of exchange rate changes on opening cash and cash equivalents		19	104
Cash and cash equivalents at the end of the period		26 771	10 998
Additional information			
Interest paid	3.1	- 2 512	- 2 930
Interest received	3.1	6 147	6 605
Dividends received (including equity method)	3.2, 5.3	49	43
Components of cash and cash equivalents			
Cash and cash balances with central banks	Bal.sheet	20 148	7 038
Loans and advances to banks repayable on demand and term loans to banks < 3 months	4.1	11 646	6 551
Deposits from banks repayable on demand and redeemable at notice	4.1	- 5 023	- 2 591
Cash and cash equivalents included in disposal groups	-	0	0
Total		26 771	10 998
Of which not available		0	0

1 The notes referred to do not always contain the exact same amounts as those included in the cashflow statement, as – among other things – adjustments have been made to take account of acquisitions or disposals of subsidiaries, as set out in IAS 7.
2 ‘Interest paid’ and ‘Interest received’ in this overview are the equivalent of the ‘Interest expense’ and ‘Interest income’ items in the consolidated income statement. Given the large number of underlying contracts that generate interest expense and interest income, it would take an exceptional administrative effort to establish actual cashflows. Moreover, it is reasonable to assume that actual cashflows for a bank-insurance company do not differ much from the accrued interest expense and accrued interest income, as most rate products pay interest regularly within the year.

- KBC uses the indirect method to report on cashflows from operating activities.
- There were no material acquisitions or divestments of group companies or activities in 2015 or 2016.
- On 30 December 2016, KBC reached agreement with the National Bank of Greece at acquire 99.9% of United Bulgarian Bank (UBB) and 100% of Interlease. UBB is Bulgaria’s fourth largest bank in terms of assets, while Interlease is the third largest provider of leasing services. KBC has been present in the Bulgarian banking sector since 2007 through CIBANK. The combination of UBB and CIBANK will create the third-largest banking group by assets in the country. The deal is not expected to be finalised until the second quarter of 2017. With the acquisition being paid for entirely in cash, its impact on cashflows from investing is estimated at minus 0.6 billion euros

1.0 Notes on accounting policies

Note 1.1: Statement of compliance

These consolidated financial statements, including all the notes, were authorised for issue on 16 March 2017 by the Board of Directors. They have been prepared in accordance with the International Financial Reporting Standards as adopted for use in the European Union ('endorsed IFRS') and present one year of comparative information. All amounts are shown in millions of euros and rounded to the million.

The following IFRS (which have an impact on KBC) became effective on 1 January 2016 and have been applied in this report.

- 'Disclosure Initiative' amendments to IAS 1 (Presentation of Financial Statement) provide more details on how financial statements are to be prepared, with a view to identifying what is relevant or material – and, therefore, leaving out redundant information – in order to improve the understandability of these statements (this topic is returned to later in this note). It is required moreover that the aggregate share in 'other comprehensive income' of associated companies and joint ventures be recognised separately. This share also has to be grouped according to whether or not it is recycled to profit or loss. As a consequence, the amounts presented in the other items of 'other comprehensive income' exclude the share in results of associated companies and joint ventures. The reference figures for 2015 have also been restated.

The following IFRS were issued but not yet effective at year-end 2016. KBC will apply these standards when they become mandatory.

- IFRS 9
  - In July 2014, the IASB issued IFRS 9 (Financial Instruments) on the classification and measurement of financial instruments, as a replacement for the relevant requirements of the present IAS 39 (Financial Instruments: Recognition and Measurement). The mandatory effective date for IFRS 9 is 1 January 2018. A project relating to IFRS 9 has been running for some time at KBC. In 2016, it moved from the design phase to the implementation phase, which will continue in 2017. The project is structured around two pillars, namely 'Classification and measurement' and 'Impairment', as well as a common work stream relating to the impact on reporting and disclosures. The project, which has been implemented at both group and local level, is being managed by the Finance function (along with the Credit Risk function for the impairment phase) and involves all the departments and entities that are affected. A detailed groupwide IFRS 9 Operating Model, which was developed as part of the project in 2016, will be put in place in 2017. KBC currently expects to use transition relief as regards disclosing comparative information at the date of initial application, but will probably provide certain pro forma comparative figures for significant items.

  - Classification and measurement: classification and measurement of financial assets under IFRS 9 will depend on the specific business model in place and the assets' contractual cashflow characteristics. The project is at the stage where all the business models have been identified, analysed and documented, as to a large extent have the characteristics of the contractual cashflows. Based on current market conditions, regulations, interpretation, assumptions and policies, the impact of first-time application is currently expected to be limited (subject to an audit review) and would be reflected primarily in a potential rebalancing of the treasury portfolio (reclassification from 'Available-for-sale' to 'Amortised cost'), and the reversal of frozen available-for-sale reserves. These frozen reserves existed under IAS 39 due to historical reclassifications out of the 'Available-for-sale' category to the 'Held-to-maturity' or 'Loans and receivables' categories, but need to be reversed on transition to IFRS 9.
  For financial liabilities, IFRS 9 changes the presentation of gains and losses on own credit risk for financial instruments designated at fair value through profit or loss. KBC will early adopt this aspect of IFRS 9 with effect from 1 January 2017 and the gains and losses on own credit risk will then go through other comprehensive income. The impact of early adoption is expected to be minimal given the current limited effect of own credit risk (see Note 4.8).

  - Impairment of financial assets: in 2016, work continued on fine-tuning IFRS 9-compliant impairment policies and modelling guidelines. Several IFRS 9 models have already been built based on existing Basel models and implementing them into the calculation engine is going according to plan, with a double run scheduled

to start in June 2017. Financial assets that are subject to impairment will be classified into three stages: Stage 1: Performing; Stage 2: Underperforming (where lifetime expected credit losses are required to be measured); Stage 3: Non-performing or impaired.
KBC has established policies and processes to assess whether credit risk has increased significantly at the end of each reporting period and, therefore, whether 'staging' is required (i.e. moving from one stage to another). For the loan portfolio, a multi-tier approach has been adopted to staging, based on internal credit ratings, forbearance measures, collective assessment and days past due as a backstop. A similar multi-tier approach will be used for the investment portfolio, except that KBC intends to use the low-credit-risk exemption, meaning that all bonds in scope with a PD of 1 to 3 are considered to be in 'Stage 1', unless any of the other triggers indicate otherwise.
For 'Stage 1' and 'Stage 2' – under IAS 39 – KBC records incurred-but-not-reported (IBNR) impairment losses, which are influenced by emergence periods. Under IFRS 9, impairment of financial assets is calculated on a 12-month expected credit loss (ECL) basis for 'Stage 1' and on a lifetime ECL basis for 'Stage 2'. As a consequence, impairment levels are generally expected to increase. We do not expect any major impact on 'Stage 3'.
Forward looking information is incorporated into the staging criteria and measurement of ECL. Different macroeconomic factors are taken into consideration and KBC is currently considering three scenarios to evaluate a range of possible outcomes.
KBC expects to announce stable impact assessments when the half-year results for 2017 are released. The impact of first time application depends on the regulatory framework and economic conditions at that time, as well as the composition of the portfolios.
Impairment levels under IFRS 9 will differ from current prudential requirements because of: (i) application of a through-the-cycle estimate for prudential purposes as opposed to a point-in-time estimate under IFRS 9; (ii) application of a 12-month PD for prudential purposes as opposed to a lifetime PD under IFRS 9 (for 'Stage 2' and 'Stage 3'); and (iii) inclusion of prudential floors and downturn adjustments in the EAD and LGD estimates for prudential purposes.

- Hedge accounting: KBC intends to use the option to continue with hedge accounting under IAS 39 and to await further developments at the IASB regarding macro hedging.

- IFRS 15
  - In May 2014, the IASB issued IFRS 15 (Revenue from Contracts with Customers) concerning the recognition of revenue. The new standard will become effective on 1 January 2018 and the analysis of its impact is in the process of being completed. KBC has identified the relevant contracts and assessed them using the new five-step model for revenue recognition. The main focus related to the (i) identification of the performance obligations and (ii) variable consideration in certain asset management contracts. However, as expected, no major impact was identified.

- IFRS 16
  - In January 2016, the IASB issued IFRS 16 (Leases), which will become effective on 1 January 2019. The new standard does not significantly change the accounting treatment of leases for lessors and, therefore, its impact is expected to be limited for KBC. An analysis of its impact is ongoing.

- Other
  - The IASB published several limited amendments to existing IFRSs in the course of 2016. They will be applied when they become mandatory, but their impact is currently estimated to be negligible.

We have also slightly modified the presentation of our financial statements by:

- presenting – for the first time in this annual report – the most recent year in tables first, followed by the reference year (previous reports did the opposite), which is the approach taken by most of our competitors;
- changing the numbering of the notes to make them easier to adjust (1.0, 1.1, 1.2 … 2.0, 2.1, 2.2, etc.) rather than (1, 2, 3, 4, etc.). This will make it easier to insert new notes.

What's more, the 'Disclosure Initiative' amendments to IAS 1 allow information that the company deems to be non-material (insignificant) to be left out of the annual accounts. Based on a number of factors, including the experience of our Investor Relations service (regarding matters that are regularly raised by analysts and investors), we have classified several note tables (or parts of them) as non-material and have either omitted or summarised the relevant information. The main changes to enhance simplification involve:

- removing what was previously Note 15 ('Financial assets and liabilities, breakdown by portfolio and geographic location') and Note 16 ('Financial assets and liabilities, breakdown by portfolio and remaining term to maturity'), since the essence of the relevant information can be found in other parts of the annual report (in segment reporting, for instance, and under 'Liquidity risk' in the 'How do we manage our risks?' section);
- replacing the table in Note 4.7 (previously 'Note 22: Financial assets and liabilities measured at fair value – focus on level 3') with a narrative focusing on the most important elements;
- shortening various other notes, namely Note 3.7 (previously Note 9), Note 4.8 (previously Note 23), Note 4.10 (previously Note 25), Note 5.3 (previously Note 28), Note 5.4 (previously Note 29), Note 5.5 (previously Note 30), Note 5.8 (previously Note 33), Note 5.9 (previously Note 34), Note 6.1 (previously Note 35), Note 6.2 (previously Note 36) and Note 6.3 (previously Note 37);
- replacing the complete list of companies in the scope of consolidation in Note 6.5 (previously Note 39) with a list of the main subsidiaries. The complete list remains available at www.kbc.com.

Note 1.2: Summary of significant accounting policies

a Criteria for consolidation and for inclusion in the consolidated accounts according the equity method

All (material) entities (including structured entities) over which the consolidating entity exercises, directly or indirectly, exclusive control – as defined in IFRS 10 – are consolidated according to the method of full consolidation.

(Material) companies over which joint control is exercised, directly or indirectly, are consolidated according to the equity method (IFRS 11).
(Material) investments in associates, i.e. companies over which KBC has significant influence, are also accounted for using the equity method.
As allowed under IAS 28, investments held by venture capital organisations are classified as 'held for trading' (measured at fair value through profit or loss).
Changes in ownership interests (that do not result in a loss of control) are accounted for as equity transactions. They do not affect goodwill or profit or loss.

b Effects of changes in foreign exchange rates

Monetary assets and liabilities denominated in a foreign currency are translated into the functional currency at the spot rate at balance sheet date.
Negative and positive valuation differences, except for those relating to the funding of shares and investments of consolidated companies in a foreign currency, are recognised in profit or loss.
Non-monetary items measured at historical cost are translated into the functional currency at the historical exchange rate that existed on the transaction date.
Non-monetary items carried at fair value are translated at the spot rate of the date the fair value was determined. Translation differences are reported together with changes in fair value.
Income and expense items in foreign currency are taken to profit or loss at the exchange rate prevailing when they were recognised.
The balance sheets of foreign subsidiaries are translated into the reporting currency (euros) at the spot rate at balance sheet date (with the exception of the capital and reserves, which are translated at the historical rate). The income statement is translated at the average rate for the financial year as best estimate of the exchange rate at transaction date.
Differences arising from the use of one exchange rate for assets and liabilities, and another for net assets (together with the exchange rate differences – net of deferred taxes – on loans concluded to finance participating interests in foreign currency) are recognised in equity, commensurate with KBC's share.

c Financial assets and liabilities (IAS 39)

Financial assets and liabilities are recognised in the balance sheet when KBC becomes a party to the contractual provisions of the instruments. Regular-way purchases or sales of financial assets are recognised using settlement date accounting.

All financial assets and liabilities – including derivatives – must be recognised in the balance sheet according to the IAS 39 classification system. Each classification is subject to specific measurement rules.
The IAS 39 classifications are as follows:

- *Loans and receivables (L&R)*. These include all non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.
- *Held-to-maturity assets (HTM)*. These are all non-derivative financial assets with a fixed maturity and fixed or determinable payments that KBC intends and is able to hold to maturity.
- *Financial assets at fair value through profit or loss* (*abbreviated in various notes to 'Designated at fair value'*). This category includes held-for-trading (HFT) assets and other financial assets designated at fair value through profit or loss (FIFV). Held-for-trading assets are assets held for the purpose of selling them in the short term or assets that are part of a portfolio of assets held for trading purposes. All derivatives with a positive replacement value are considered to be held for trading unless they are designated and effective hedging instruments. Other financial assets designated at fair value through profit or loss are measured in the same way as held-for-trading assets. KBC may use the fair value option when doing so results in more relevant information, because it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. The fair value option may also be used for financial assets with embedded derivatives.
- *Available-for-sale assets (AFS)*. These are all non-derivative financial assets that do not come under one of the above classifications. These assets are measured at fair value, with all fair value changes being recognised in equity until the assets are sold or until there is an impairment in value. In this case, the cumulative revaluation gain or loss will be recognised in income for the financial year.
- *Held-for-trading liabilities*. These are liabilities held with the intention of repurchasing them in the short term. All derivatives with a negative replacement value are also considered to be held for trading unless they are designated and effective hedging instruments. These liabilities are measured at fair value, with any fair value changes reported in profit or loss.
- *Financial liabilities designated at fair value through profit or loss (FIFV)*. These are measured in the same way as held-for-trading liabilities. This fair value option may be used under the same conditions as FIFV assets. Additionally, this classification may be used to account for (unbundled) deposit components (i.e. financial liabilities not including a discretionary participation feature) as defined in IFRS 4.
- *Other financial liabilities*. These are all other non-derivative financial liabilities that are not classified under one of the two liability classifications above. They are measured at amortised cost.
- *Hedging derivatives*. These are derivatives used for hedging purposes.

Financial instruments are reported according to the dirty price convention, i.e. accrued interest is presented under the same heading as the financial instruments for which the interest has accrued.

KBC applies the following general rules:

- *Amounts receivable*. These are classified under 'Loans and receivables' and are measured on acquisition at fair value, including transaction costs. Loans with a fixed maturity are subsequently measured at amortised cost using the effective interest method, i.e. an interest rate is applied that exactly discounts all estimated future cashflows from the loans to the net carrying value. This interest rate takes account of all related fees and transaction costs. Loans with no fixed maturity date are measured at amortised cost.
  Impairment losses are recognised for loans and advances for which there is evidence – either on an individual or portfolio basis – of impairment at balance sheet date. Whether or not evidence exists is determined on the basis of the probability of default (PD). The PD depends on a number of loan-specific characteristics, such

as the type of loan, the borrower's line of business, the geographical location of the borrower and other elements key to a borrower's risk profile. Loans with the same PD therefore have a similar credit risk profile.

- Loans and advances with a PD of 12 (individual problem loans with the highest probability of default) are individually tested for impairment (and written down on an individual basis if necessary). The impairment amount is calculated as the difference between the loans' carrying value and their net present value.
- Loans and advances with a PD of 10 or 11 are also considered to be individual problem loans. Material loans are tested individually. The impairment amount is calculated as the difference between the loans' carrying value and their present value. Non-material loans are tested on a statistical basis. The impairment amount calculated according to the statistical method is based on IRB Advanced models (PD x LGD x EAD).
- Loans and advances with a PD lower than 10 are considered normal loans. Incurred-but-not-reported (IBNR) losses are recognised for loans with a PD of 1 through 9. IBNR losses are based primarily on IRB Advanced models (PD x LGD x EAD), with all parameters being adjusted to reflect the point-in-time nature of these losses. The main adjustment relates to the PD, i.e. the time horizon of the PD is shortened on the basis of the emergence period. This is the period between the time an event occurs that will lead to an impairment and the time KBC identifies this event, and is dependent on the review frequency, the location and degree of involvement with the counterparties. The emergence period is between 1 and 12 months for retail portfolios and between 1 and 11 months for corporate portfolios. On average, emergence periods for corporate portfolios are shorter than for their retail counterparts.

• When impairment is identified, the carrying value of the loan is reduced via an impairment account and the loss recognised in the income statement. If, in a subsequent period, the estimated impairment amount increases or decreases due to an event that occurs after the impairment loss was recognised, the previously recognised impairment will be increased or reduced accordingly through adjustment of the impairment account. Loans and the related amounts included in the impairment accounts are written off when there is no realistic prospect of recovery in future or if the loan is forgiven. A renegotiated loan will continue to be tested for impairment, calculated on the basis of the original effective interest rate applying to the loan.
For off-balance-sheet commitments (commitment credit) classified as uncertain or irrecoverable and doubtful, provisions are recognised if the general IAS 37 criteria are satisfied and the more-likely-than-not criterion met. These provisions are recognised at their net present value.
Interest on loans written down as a result of impairment is recognised using the contractual rate of interest used to measure the impairment loss.

• *Securities*. Depending on whether or not securities are traded on an active market and depending on what the intention is when they are acquired, securities are classified as loans and receivables, held-to-maturity assets, held-for-trading assets, financial assets at fair value through profit or loss, or available-for-sale assets. Securities classified as loans and receivables or held-to-maturity assets are initially measured at fair value, including transaction costs. They are subsequently measured at amortised cost. The difference between the acquisition cost and the redemption value is recognised as interest and recorded in the income statement on an accruals basis over the remaining term to maturity. It is taken to the income statement on an actuarial basis, based on the effective rate of return on acquisition. Individual impairment losses for securities classified as loans and receivables or held-to-maturity are recognised – according to the same method as is used for amounts receivable as described above – if there is evidence of impairment at balance sheet date.
Held-for-trading securities are initially measured at fair value excluding transaction costs and subsequently at fair value, with all fair value changes being recognised in profit or loss for the financial year.
Securities classified initially as 'Financial assets at fair value through profit or loss' that are not held for trading are measured in the same way as held-for-trading assets.
Available-for-sale securities are initially measured at fair value (including transaction costs) and subsequently at fair value, with changes in fair value being recorded separately in equity until the sale or impairment of the securities. In this case, the cumulative fair value changes are transferred from equity to profit or loss for the financial year. Impairment losses are recognised if evidence of impairment exists on the balance sheet date. For listed equity and other variable-yield securities, a significant (more than 30%) or prolonged (more than one year) decline in their fair value below cost is evidence of impairment. For fixed-income securities, impairment is measured on the basis of the recoverable amount of the acquisition cost. Impairment losses are taken to the income statement for the financial year. For equity and other variable-yield securities, impairment is reversed through a separate equity heading. Reversals of impairment on fixed-income securities occur through profit or loss for the financial year. However, if it cannot be demonstrated objectively that the reason for prolonged impairment no longer exists (i.e. the loss event triggering impairment has not completely disappeared), any increases in fair value will be recorded in equity. This continues until there is no longer any evidence of impairment. At that moment, impairment is completely reversed through profit or loss and any difference in fair value recorded in equity.

• *Derivatives*. All derivatives are classified as held-for-trading assets or held-for-trading liabilities unless they are designated and effective hedging instruments. Held-for-trading derivatives are measured at fair value, with fair value changes being recognised in profit or loss for the financial year. Held-for-trading derivatives with a positive replacement value are recorded on the asset side of the balance sheet; those with a negative replacement value on the liabilities side.

- *Amounts owed*. Liabilities arising from advances or cash deposits received are recorded in the balance sheet at amortised cost. The difference between the amount made available and the nominal value is reflected on an accruals basis in the income statement. It is recorded on a discounted basis, based on the effective rate of interest.

- *Embedded derivatives*. Derivatives embedded in contracts that are measured on an accruals basis (held-to-maturity assets, loans and receivables, other financial liabilities) or at fair value, with fair value changes being recorded in equity (available-for-sale assets), are separated from the contract and measured at fair value (with fair value adjustments being taken to the income statement for the financial year), if the risk relating to the embedded derivative is considered not to be closely related to the risk on the host contract. The risk may not be reassessed subsequently, unless the terms of the contract are changed and this has a substantial impact on the contract's cashflows. Contracts with embedded derivatives are however primarily classified as financial instruments at fair value through profit or loss, making it unnecessary to separate the embedded derivative, since the entire financial instrument is measured at fair value, with fair value changes being taken to the income statement.

- *Hedge accounting*. KBC applies hedge accounting when all the requisite conditions (according to the hedge accounting requirements that have not been carved out in the IAS 39 version as approved by the EU) are fulfilled. These conditions are that the hedge relationship must be formally designated and documented on the inception of the hedge, the hedge must be expected to be highly effective and this effectiveness must be able to be measured reliably, and the measurement of hedge effectiveness must take place on a continuous basis during the reporting period in which the hedge can be considered to be effective.
  For fair value hedges, both the derivatives hedging the risks and the hedged positions are measured at fair value, with all fair value changes being taken to the income statement. Accrued interest income from rate swaps is included in net interest income. Hedge accounting is discontinued once the hedge accounting requirements are no longer met or if the hedging instrument expires or is sold. In this case, the gain or loss recorded in equity on the hedged position (for fixed-income financial instruments) will be taken to profit or loss on an accruals basis until maturity.
  KBC uses fair value hedges for a portfolio of interest rate risk to hedge the interest rate risk for a portfolio of loans and savings deposits using interest rate swaps. The interest rate swaps are measured at fair value, with fair value changes reported in profit or loss. Accrued interest income from these swaps is included in net interest income. The hedged amount of loans is measured at fair value as well, with fair value changes reported in profit or loss. The fair value of the hedged amount is presented as a separate line item of the assets on the balance sheet. KBC makes use of the 'carved-out' version of IAS 39, so that no ineffectiveness results from anticipated repayments, as long as underhedging exists. In case of hedge ineffectiveness, the cumulative change in the fair value of the hedged amount will be amortised through profit or loss over the remaining lifetime of the hedged assets or immediately removed from the balance sheet if the ineffectiveness is due to the fact that the corresponding loans have been derecognised.
  For cashflow hedges, derivatives hedging the risks are measured at fair value, with those fair value gains or losses determined to be an effective hedge being recognised separately in equity. Accrued interest income from rate swaps is included in net interest income. The ineffective portion of the hedge is recognised in income for the financial year. Hedge accounting will be discontinued if the hedge accounting criteria are no longer met. In this case, the derivatives will be treated as held-for-trading derivatives and measured accordingly.
  Foreign currency funding of a net investment in a foreign entity is accounted for as a hedge of that net investment. This form of hedge accounting is used for investments not denominated in euros. Translation differences (account taken of deferred taxes) on the funding are recorded in equity, along with translation differences on the net investment.

- *Financial guarantee contracts*. These are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due under the initial or revised terms of a debt instrument. A financial guarantee contract is initially recognised at fair value and subsequently measured at the greater of the following:
  1 the amount determined in accordance with IAS 37: Provisions, Contingent Liabilities and Contingent Assets; and
  2 the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with IAS 18: Revenue.

- *Fair value adjustments (market value adjustments)*. Fair value adjustments are recognised on all financial instruments measured at fair value, with fair value changes being taken to profit or loss or recognised in equity. These fair value adjustments include all close-out costs, adjustments for less liquid instruments or markets, adjustments relating to 'mark-to-model' measurements, adjustments for counterparty exposures and adjustments for funding costs.

d Goodwill and other intangible assets

Goodwill is defined as any excess of the cost of the acquisition over the acquirer's interest in the fair value of the identifiable assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. It is recognised as an intangible asset and is carried at cost less impairment losses. Goodwill is not amortised, but is tested for impairment at least once a year or if there is either internal or external evidence for doing so. An impairment loss is recognised if the carrying value of the cash-generating unit to which the goodwill belongs exceeds its recoverable amount. Impairment losses on goodwill cannot be reversed. For each new business combination, KBC has to choose whether to measure minority interests at fair value or as their proportionate share of the acquiree's net identifiable assets. This choice determines the amount of goodwill recognised.
Software is recognised as an intangible asset if the capitalisation criteria are met. System software is capitalised and amortised at the same rate as hardware, i.e. over three years, from the moment the software is available for use. Standard software and customised software developed by a third party are capitalised and amortised over five years according to the straight-line method from the moment the software is available for use. Internal and external development expenses for internally-generated software for investment projects are capitalised and written off according to the straight-line method over five years, while for core systems with a longer useful life, the period is eight years. Investment projects are large-scale projects that introduce or replace an important business objective or model. Internal and external research expenses for these projects and all expenses for other ICT projects concerning internally-generated software (other than investment projects) are taken to the income statement directly.

e Property and equipment and investment property

All property and equipment is recognised at cost (including directly allocable acquisition costs), less accumulated depreciation and impairment. The rates of depreciation are determined on the basis of the anticipated useful life of the assets and are applied according to the straight-line method from the moment the assets are available for use. Impairment is recognised when there is evidence of impairment and if the carrying value of the asset exceeds its recoverable value (i.e. the higher of the asset's value in use and net selling price). Amounts written down can be reversed through the income statement. When property or equipment is sold, the realised gains or losses are taken directly to the income statement. If property or equipment is destroyed, the remaining amount to be written off is taken directly to the income statement.
The accounting policy outlined for property and equipment also applies to investment property.
External borrowing costs that are directly attributable to the acquisition of an asset are capitalised as part of the cost of that asset. All other borrowing costs are recognised as an expense in the period in which they are incurred. Capitalisation commences when expenses are incurred for the asset, when the borrowing costs are incurred and when activities that are necessary to prepare the asset for its intended use or sale are in progress. When development is interrupted, the *capitalisation* of borrowing costs is suspended. The *capitalisation* of borrowing costs ceases when all the activities necessary to prepare the asset for its intended use or sale are complete.

f Retirement benefit obligations

Retirement benefit obligations are included under the 'Other liabilities' item and relate to obligations for retirement and survivor's pensions, early retirement benefits and similar pensions or annuities.
Defined benefit plans are those under which KBC has a legal or constructive obligation to pay extra contributions to the pension fund if this last has insufficient assets to settle all the obligations to employees resulting from employee service in current and prior periods.
The retirement benefit obligations under these plans for employees are calculated according to IAS 19, based on the projected-unit-credit method, with each period of service granting additional entitlement to pension benefits.
Changes in the net defined benefit liability/asset are recognised in operating expenses (current service cost), in interest expense (net interest costs) and in other comprehensive income (remeasurements).

g Tax liabilities

This heading includes current and deferred tax liabilities.
Current tax for the period is measured at the amount expected to be paid, using the rates of tax in effect for the balance sheet date.
Deferred tax liabilities are recognised for all taxable temporary differences between the carrying value of an asset or liability and its tax base. They are measured using the tax rates in effect on realisation of the assets or settlement of the liabilities to which they relate and which reflect the fiscal consequences of the manner in which the entity expects to recover or to settle the carrying value of the underlying asset or liability at balance sheet date. Deferred tax assets are recognised for all deductible temporary differences between the carrying value of assets and liabilities and their tax base, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

h Provisions

Provisions are recognised in the balance sheet:

- if an obligation (legal or constructive) exists on the balance sheet date that stems from a past event, and
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and
- a reliable estimate can be made of the amount of the obligation.

i Equity

Equity is the residual interest in the net assets after all liabilities have been deducted.
Equity instruments have been differentiated from financial instruments in accordance with the IAS 32 rules.

The revaluation reserve for available-for-sale assets is included in equity until disposal or impairment of the assets. At that time, the cumulative gain or loss is transferred to profit or loss for the period.

Put options on minority interests (and, where applicable, combinations of put and call options resulting in forward contracts) are recognised as financial liabilities at the present value of the exercise prices. The corresponding minority interests are deducted from equity. When the share in equity held by minority interests changes, KBC adjusts the carrying value of the majority and minority interests in order to reflect the changes in their relative interests in the consolidated companies. KBC recognises any difference between the amount by which the minority interests are adjusted and the fair value of the consideration paid or received, directly in equity and attributes it to the majority interest holder.

j Exchange rates used*

	Exchange rate at 31-12-2016		Exchange rate average in 2016	
	1 EUR = … … currency	Change from 31-12-2015 (positive: appreciation relative to EUR) (negative: depreciation relative to EUR)	1 EUR = … … currency	Change relative to average in 2015 Positive: appreciation relative to EUR) Negative: depreciation relative to EUR)
CZK	27,021	0%	27,042	1%
GBP	0,85618	-14%	0,81760	-11%
HUF	309,83	2%	312,17	-1%
USD	1,0541	3%	1,1046	0%

* Afgeronde cijfers.

k Changes made to accounting policies in 2016

No material changes were made to the accounting policies in 2016.

Note 1.3: Critical estimates and significant judgements

When preparing the consolidated financial statements and applying KBC's accounting policies, management is required to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Some degree of uncertainty is inherent in almost all amounts reported. The estimates are based on the experience and assumptions that KBC's management believes are reasonable at the time the financial statements are being prepared.

Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. Significant areas of estimation uncertainty, and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are detailed in, but not limited to, the following notes: 3.3, 3.9, 4.2, 4.4–4.7, 5.4–5.6 and 5.8.

2.0 Notes on segment reporting

Note 2.1: Segment reporting based on the management structure

Detailed information on the group's management structure can be found in the 'Our business units' section (which has not been audited by the statutory auditor). In line with IFRS 8, KBC has identified the Executive Committee and Board of Directors as 'chief operating decision-makers', responsible for allocating the resources and assessing the performance of the different parts of the company. The operating segments are based on the internal financial reporting to these policy bodies and on the location of the company's activities, resulting in geographical segmentation.

The three operating segments are (essentially):
- the Belgium Business Unit (all activities in Belgium);
- the Czech Republic Business Unit (all activities in the Czech Republic);
- the International Markets Business Unit (activities in Ireland, Hungary, Slovakia and Bulgaria, reported together in accordance with IFRS 8.16).

For reporting purposes, there is also a Group Centre (comprising the results of the holding company, items that have not been allocated to the other business units, and the results of companies to be divested).

Segment reporting

- The policy bodies analyse the performance of the segments based on a number of criteria, with the 'Result after tax' being the most important results indicator. The segment data is based entirely on IFRS data (with no adjustments).
- In principle, we assign a group company in its entirety to one specific segment/business unit. Exceptions are only made for those items that cannot clearly be allocated to a specific segment, such as charges attached to the subordination of loans (such items are recognised under Group Centre).
- We allocate the funding cost of participating interests to the Group Centre. Any funding cost in respect of leveraging at KBC Group NV level is also recognised under Group Centre.
- Transactions among the different segments are reported at arm's length.
- We recognise 'Net interest income' in the segment information without dividing it up into 'Interest income' and 'Interest expense'. This is permitted under IFRS because the bulk of the business units' income is in the form of interest, and management assesses and co-ordinates those business units primarily on the basis of net interest income.
- We do not provide any information on income from sales to external clients per group of products or services, since the information is prepared at consolidated level chiefly for each business unit, and not per client group or product group.

We have commented on the results for each business unit in the 'Report of the Board of Directors' section. The statutory auditor has not audited these sections.

Note 2.2 : Results by segment

In millions of EUR	Business unit Belgium	Business unit Czech Republic	Business unit Interna-tional Markets	*of which: Hungary*	*of which: Slovakia*	*of which: Bulgaria*	*of which: Ireland*	Group Centre	KBC Bank
Income statement 2016									
Net interest income	2 137	822	720	*224*	*210*	*43*	*244*	- 45	3 635
Dividend income	16	0	0	*0*	*0*	*0*	*0*	10	27
Net result from financial instruments at fair value through profit or loss	341	116	87	*64*	*15*	*2*	*6*	6	551
Net realised result from available-for-sale assets	38	48	35	*17*	*16*	*2*	*0*	13	134
Net fee and commission income	1 275	244	242	*170*	*54*	*15*	*- 1*	- 8	1 753
Net other income	94	17	2	*2*	*6*	*- 2*	*- 4*	27	140
TOTAL INCOME	3 902	1 248	1 087	*477*	*300*	*61*	*246*	4	6 240
Operating expenses	- 2 088	- 560	- 692	*- 318*	*- 181*	*- 37*	*- 154*	- 58	- 3 399
Impairment	- 121	- 26	34	*12*	*- 16*	*- 6*	*44*	- 32	- 145
on loans and receivables	- 113	- 23	42	*15*	*- 15*	*- 3*	*45*	- 32	- 126
on available-for-sale assets	0	0	0	*0*	*0*	*0*	*0*	0	- 1
on goodwill	0	0	0	*0*	*0*	*0*	*0*	0	0
on other	- 8	- 3	- 7	*- 3*	*0*	*- 3*	*- 1*	0	- 19
Share in results of associated companies and joint ventures	0	23	0	*0*	*0*	*0*	*0*	0	23
RESULT BEFORE TAX	1 693	685	429	*171*	*103*	*17*	*136*	- 87	2 719
Income tax expense	- 509	- 121	- 23	*- 51*	*- 21*	*0*	*49*	128	- 525
RESULT AFTER TAX	1 184	564	406	*120*	*83*	*18*	*184*	41	2 195
Attributable to minority interests	169	0	0	*0*	*0*	*0*	*0*	0	169
Attributable to equity holders of the parent	1 015	563	406	*120*	*83*	*18*	*184*	41	2 026
[a] Of which non-cash expenses:	- 47	- 46	- 51	*- 25*	*- 12*	*- 2*	*- 12*	2	- 142
Depreciation and amortisation of fixed assets	- 47	- 47	- 52	*- 25*	*- 12*	*- 2*	*- 12*	- 1	- 146
Other	0	1	0	0	0	0	0	3	4
Acquisitions of non current assets*	438	224	125	34	36	34	21	0	787

* Non current assets held for sale and disposal groups, investment property , property and equipment, investments associated companies and goodwill and other intangible assets

In millions of EUR	Business unit Belgium	Business unit Czech Republic	Business unit Interna-tional Markets	*of which: Hungary*	*of which: Slovakia*	*of which: Bulgaria*	*of which: Ireland*	Group Centre	KBC Bank
Income statement 2015									
Net interest income	2 225	817	689	*239*	*207*	*41*	*202*	- 56	3 675
Dividend income	13	0	0	*0*	*0*	*0*	*0*	6	19
Net result from financial instruments at fair value through profit or loss	174	97	73	*58*	*16*	*1*	*- 2*	- 120	224
Net realised result from available-for-sale assets	49	12	5	*2*	*2*	*0*	*1*	16	82
Net fee and commission income	1 459	248	242	*171*	*55*	*16*	*- 3*	- 4	1 945
Net other income	121	23	52	*43*	*9*	*0*	*0*	5	200
TOTAL INCOME	4 041	1 197	1 060	*512*	*288*	*58*	*198*	- 153	6 145
Operating expenses	- 2 034	- 572	- 696	*- 333*	*- 172*	*- 38*	*- 149*	- 86	- 3 388
Impairment	- 192	- 40	- 85	*- 9*	*- 18*	*- 10*	*- 48*	- 334	- 650
on loans and receivables	- 177	- 36	- 82	*- 6*	*- 18*	*- 10*	*- 48*	- 28	- 323
on available-for-sale assets	- 10	- 1	0	*0*	*0*	*0*	*0*	0	- 11
on goodwill	0	- 2	0	*0*	*0*	*0*	*0*	- 305	- 308
on other	- 5	0	- 3	*- 3*	*0*	*0*	*0*	0	- 9
Share in results of associated companies and joint ventures	- 1	23	0	*0*	*0*	*0*	*0*	0	21
RESULT BEFORE TAX	1 813	608	280	*170*	*98*	*10*	*1*	- 573	2 128
Income tax expense	- 569	- 92	- 54	*- 45*	*- 24*	*2*	*12*	1 007	291
RESULT AFTER TAX	1 244	516	225	*125*	*74*	*12*	*13*	433	2 419
Attributable to minority interests	180	- 1	0	*0*	*0*	*0*	*0*	0	180
Attributable to equity holders of the parent	1 064	517	225	*125*	*74*	*12*	*13*	433	2 239
[a] Of which non-cash expenses:	- 45	- 16	- 53	*- 22*	*- 12*	*- 2*	*- 16*	5	- 108
Depreciation and amortisation of fixed assets	- 47	- 23	- 57	*- 23*	*- 12*	*- 2*	*- 21*	- 2	- 128
Other	2	7	4	0	- 1	0	5	7	20
Acquisitions of non current assets*	396	81	87	26	28	6	28	0	565

* Non current assets held for sale and disposal groups, investment property , property and equipment, investments associated companies and goodwill and other intangible assets

How do the business units contribute to the group result?

Belgium

In 2016, our Belgium Business Unit recorded a net result of 1 015 million euros, compared with 1 064 million euros a year earlier.

At 2 137 million euros, net interest income – the most important income item – declined by just 4%, despite low interest rates (and therefore low level of income generated by reinvestments), less interest income being earned by the dealing rooms, and a reduction in early-repayment penalties due to a smaller number of home loans being paid off early. These negative factors were partially offset by the positive impact of lower funding costs and higher interest income from lending (due in part to volume growth – see below). As a result, our net interest margin in Belgium narrowed further from 1.91% in 2015 to 1.80% in 2016. Our volume of loans and advances to customers (90 billion euros, excluding reverse repos) rose by 4% and deposits from customers and debt securities (130 billion euros, excluding repos) went up by 13%.
Our net fee and commission income (1 275 million euros) declined by 13%, due primarily to the lower level of fee income from our asset management activities (including entry and management fees on funds, which were adversely affected by the volatile stock market climate) and, to a lesser extent, to lower securities-related fees. Our total assets under management in Belgium grew by almost 3% to 199 billion euros, due almost entirely to the rise in value of the assets themselves (+3%).
The other income items chiefly comprised gains realised on the sale of shares and bonds (38 million euros, positively influenced by a gain of 20 million euros on the sale of our Visa Europe shares), the dividends we received on the securities held in our portfolios (16 million euros), our trading and fair value income (341 million euros, significantly better than in 2015 due primarily to a higher result generated by the dealing room and the positive impact of various market value adjustments) and other income (94 million euros). Besides mainly the usual items (results from KBC Autolease, VAB, etc.), 'other income' also included a number of smaller one-off items.

Our costs in Belgium rose by 3% to 2 088 million euros in 2016, with various factors playing their part, the most important of which being the special bank taxes (increasing from 205 million euros to 255 million euros). Excluding such taxes, costs hardly went up at all (increase in ICT costs, facility services costs, early retirement expenses and professional fees, but a reduction in staff, marketing and other costs). Our cost/income ratio for the banking activities came to 54%, compared with 50% in 2015.

As in 2015, loan loss provisioning was limited (113 million euros, which was actually 64 million euros less than the year-earlier level, due primarily to the retail portfolio). In terms of our overall loan portfolio, therefore, loan loss provisions amounted to just 12 basis points, compared with 19 basis points in 2015. Approximately 3.3% of the business unit's loan portfolio was impaired (see 'Glossary of ratios and terms' for definition) at year-end 2016, compared with 3.8% a year earlier. Impaired loans that were more than 90 days past due accounted for 1.7% of the portfolio (2.2% in 2015).

Czech Republic

In 2016, our Czech Republic Business Unit recorded a net profit of 563 million euros, compared with 517 million euros a year earlier.

Net interest income – our most important income item – suffered in the Czech Republic (as it did everywhere else) from the climate of low interest rates and associated lower level of income generated by reinvestments, and a lower contribution made by the dealing room. At 822 million euros, it nevertheless remained at its year-earlier level, thanks mainly to the positive impact of lower interest rates on savings accounts and strong volume growth of loans. As regards the latter, our loans and advances to customers (20 billion euros, excluding reverse repos) rose by 9% in 2016 (due in part to robust growth in home loans), while deposits from customers and debt securities (26 billion euros, excluding repos) also grew by 9% year-on-year. The net interest margin in the Czech Republic narrowed from 3.03% in 2015 to 2.94% in 2016.
Our net fee and commission income (244 million euros) declined by 2%, owing primarily to lower fund entry fees and a net reduction in fees for a variety of banking services. Total assets under management in the Czech Republic fell by 3% to just under 8.5 billion euros.
The other income items chiefly comprised gains realised on the sale of shares and bonds (48 million euros for Visa Europe shares), trading and fair value income (116 million euros in 2016, as opposed to 97 million euros in 2015, due in part to higher dealing room income and a number of market value adjustments) and other income (17 million euros).

Costs fell by 2% to 560 million euros in 2016, owing to a number of factors, including slightly lower bank taxes and various smaller items. Consequently, the cost/income ratio for our banking activities amounted to a very good 45%, compared with 48% in 2015.

As was the case in 2015, loan loss provisioning was limited in 2016 (23 million euros, which was actually 13 million euros less than the year-earlier level, due primarily to the retail portfolio). In terms of our overall loan portfolio, therefore, loan loss provisions amounted to just 11 basis points in 2016, compared with 18 basis points in 2015. Approximately 2.8% of the business unit's loan portfolio was impaired at year-end 2016, compared with 3.4% a year earlier. Impaired loans that were more than 90 days past due accounted for 1.9% of the portfolio (2.5% in 2015).

International Markets

In 2016, the net result at our International Markets Business Unit amounted to 406 million euros, as opposed to 225 million euros a year earlier. Hungary accounted for 120 million euros of this figure, Slovakia for 83 million euros, Bulgaria for 18 million euros and Ireland for 184 million euros.

Net interest income for the business unit as a whole came to 720 million euros in 2016, up 5% year-on-year, due primarily to lower funding and liquidity costs in Ireland. As regards volumes, loans and advances to customers for the business unit as a whole (21 billion euros, excluding reverse repos) rose by 2% in 2016, with the decline in Ireland (-5%, where the further scaling back of corporate lending and matured mortgage loans was not fully offset by new production) being more than compensated for by increases in Slovakia (+12%, due primarily to home loans), Hungary (+5%) and Bulgaria (+15%). Deposits from customers and debt securities (18 billion euros, excluding repos) went up by almost 7%. There was a decline in Ireland (-5%, due to increased intra-group use of the LTRO II facility), but deposits grew in all the other countries (Slovakia +8%, Bulgaria +17% and Hungary +14%). The business unit's average net interest margin was more or less unchanged at 2.55%.
At 242 million euros, net fee and commission income remained at its year-earlier level.
The other income items chiefly comprised gains realised on the sale of shares and bonds (35 million euros, up sharply due to the 31-million-euro gain on the sale of Visa Europe shares), trading and fair value income (87 million euros) and other income (+2 million euros).

Costs in 2016 remained roughly at their year-earlier level (692 million euros), owing to various factors, including lower bank taxes (particularly in Hungary) and slightly higher general expenses in Slovakia and Hungary. Consequently, the cost/income ratio for the banking activities came to 64%, as opposed to 66% in 2015.

There was a 42-million-euro net reversal of loan loss provisions in 2016 (with a positive impact on the results), compared to net provisioning of 82 million euros in 2015. This improvement was largely attributable to Ireland (from a net increase of 48 million euros in 2015 to a net reversal of 45 million euros in 2016, due in part to rising house prices, an improvement in the problem loan portfolio and the generally better macroeconomic situation in the country). In terms of our overall loan portfolio, loan loss provisions for the business unit as a whole amounted to -16 basis points (a negative figure signifies a net reversal of impairment and hence a positive impact on the results) compared with 32 basis points in 2015. The figures per country were -33 basis points for Ireland, -33 basis points for Hungary, 24 basis points for Slovakia and 32 basis points for Bulgaria. Approximately 25% of the business unit's loan portfolio was impaired at year-end 2016, compared with 30% a year earlier. This still relatively high figure related chiefly to the high (but falling) figure in Ireland (where impaired loans stood at 43%, compared with 47% a year earlier). Impaired loans that were more than 90 days past due accounted for 13% of the portfolio (16% in 2015).

Group Centre

Besides financial reporting for three business units, we also report on a separate Group Centre. In 2016, it generated a net result of +41 million euros, compared with +433 million euros a year earlier. Included in the 2016 figure are certain costs related to capital and liquidity management (to achieve liquidity and solvency targets at bank group level, including the subordination charges attached to subordinated loans), costs related to the holding of participating interests (chiefly funding costs) and the results of companies scheduled for run-down (the former Antwerp Diamond Bank, KBC Finance Ireland, etc.).

The result in 2015 had been impacted by the liquidation of KBC Financial Holding Inc. (+765 million euros), partially offest by provisioning for impairment on goodwill relating to CIBANK (117 million euros) and to ČSOB in Slovakia (188 million euros).

Note 2.3 : Balance-sheet information by segment (business unit)

The table below presents some of the main on-balance-sheet products by segment :

In millions of EUR	Business unit Belgium	Business unit Czech Republic	Business unit Interna-tional Markets	*of which: Hungary*	*of which: Slovakia*	*of which: Bulgaria*	*of which: Ireland*	Group Centre	KBC Bank
31-12-2016									
Deposits from customers & debt certificates excl. repos	129 539	26 279	18 475	*6 824*	*5 817*	*836*	*4 999*	4 094	178 388
Loans & advances to customers excluding reverse repos	90 483	19 552	21 489	*3 801*	*6 094*	*829*	*10 765*	4	131 528
Term loans excl. Reverse repos	45 106	7 375	5 197	*1 762*	*2 123*	*268*	*1 043*	0	57 677
Mortgage loans	33 913	9 077	13 993	*1 451*	*2 608*	*234*	*9 700*	0	56 983
Current accounts advances	2 751	995	894	*299*	*411*	*176*	*9*	0	4 640
Finance leases	3 615	570	731	*142*	*589*	*0*	*0*	0	4 916
Consumer credit	1 314	1 260	606	*80*	*362*	*152*	*13*	0	3 180
Other	3 784	275	68	*66*	*1*	*0*	*0*	4	4 131
31-12-2015									
Deposits from customers & debt certificates excl. repos	114 689	24 174	17 241	*5 873*	*5 384*	*712*	*5 272*	6 202	162 307
Loans & advances to customers excluding reverse repos	87 083	18 005	21 029	*3 552*	*5 462*	*719*	*11 295*	664	126 781
Term loans excl. Reverse repos	43 051	7 137	5 100	*1 647*	*1 944*	*198*	*1 311*	649	55 937
Mortgage loans	33 309	8 079	13 657	*1 369*	*2 072*	*242*	*9 975*	0	55 045
Current accounts advances	2 273	954	800	*284*	*374*	*139*	*4*	0	4 027
Finance leases	3 303	527	683	*117*	*566*	*0*	*0*	0	4 512
Consumer credit	1 174	1 067	687	*67*	*474*	*140*	*5*	0	2 928
Other	3 974	241	101	*68*	*33*	*0*	*0*	15	4 331

3.0 Notes to the income statement

Note 3.1 : Net interest income

In millions of EUR	2016	2015
Total	3 635	3 675
Interest income	6 147	6 605
Available-for-sale assets	382	381
Loans and receivables	3 784	4 053
Held-to-maturity investments	772	803
Other assets not at fair value	74	42
Subtotal, interest income from financial assets not measured at fair value through profit or loss	*5 012*	*5 278*
of which : impaired financial assets	64	94
Financial assets held for trading	640	786
Hedging derivatives	287	358
Other financial assets at fair value through profit or loss	208	182
Interest expense	-2 512	-2 930
Financial liabilities measured at amortised cost	-1 015	-1 250
Other	- 30	- 6
Subtotal, interest expense for financial liabilities not measured at fair value through profit or loss	*-1 046*	*-1 256*
Financial liabilities held for trading	- 756	- 918
Hedging derivatives	- 561	- 587
Other financial liabilities at fair value through profit or loss	- 145	- 161
Net interest expense on defined benefit plans	- 5	- 9

Note 3.2 : Dividend income

In millions of EUR	2016	2015
Total	27	19
Breakdown by type	27	19
Held-for-trading shares	12	9
Shares initially recognised at fair value through profit or loss	1	1
Available-for-sale shares	14	9

Note 3.3 : Net result from financial instruments at fair value through profit or loss

In millions of EUR	2016	2015
Total	551	224
Breakdown by type		
Trading instruments (including interest* and fair value changes in trading derivatives)	696	224
Other financial instruments initially recognised at fair value through profit or loss	- 8	68
Of which: gains/losses own credit risk	8	17
Foreign exchange trading	- 93	- 31
Fair value adjustments in hedge accounting	- 44	- 37
Fair value microhedging	- 3	- 1
Changes in the fair value of the hedged item	287	- 32
Changes in the fair value of the hedging derivatives, including discontinuation	- 290	31
Cashflow hedges	- 2	2
Changes in the fair value of the hedging derivatives, ineffective portion	- 2	2
Hedges of net investments in foreign operation, ineffective portion	0	0
Portfolio hedge of interest rate risk	- 2	1
Changes in the fair value of the hedged item	101	- 54
Changes in the fair value of the hedging derivatives, including discontinuation	- 104	55
Discontinuation of hedge accounting in the case of a fair value hedge	0	0
Discontinuation of hedge accounting in the case of a cash flow hedge	- 37	- 39

- Foreign exchange trading results comprise total exchange differences, excluding those recognised on financial instruments at fair value through profit or loss. In 2015, this item also included the foreign exchange loss on the capital of KBC Financial Holding Inc., following that business's liquidation. The loss was transferred from equity to profit or loss (-156 million euros (before tax), including hedging effects).
- For more information on the impact of changes in own credit risk, see Note 4.8.
- The interest component of ALM derivatives is recognised under 'Net interest income'. Fair value changes in ALM derivatives, excluding those for which an effective cashflow hedge relationship exists, are recognised under 'Net result from financial instruments at fair value through profit or loss'. Under fair value hedge accounting, changes in the fair value of hedged assets are also recognised under this heading, and offsetting takes place insofar as the hedge is effective.
- The effectiveness of the hedge is determined according to the following methods:
  - For fair value micro hedging, we use the dollar offset method on a quarterly basis, which requires changes in the fair value of the hedged item to offset changes in the fair value of the hedging instrument within a range of 80%–125%, which is currently the case.
  - For cashflow hedges, we compare the designated hedging instrument with a perfect hedge of the hedged cashflows on a prospective (by BPV measurement) and retrospective basis (by comparing the fair value of the designated hedging instrument with the perfect hedge). The effectiveness of both tests must fall within a range of 80%–125%, which is currently the case.
  - We use the rules set out in the European version of IAS 39 (carve-out) to assess the effectiveness of fair value hedges for a portfolio of interest rate risk. IFRS does not permit net positions to be reported as hedged items, but does allow hedging instruments to be designated as a hedge of a gross asset position (or a gross liabilities position, as the case may be). Specifically, we make sure that the volume of assets (or liabilities) in each maturity bucket is greater than the volume of hedging instruments allocated to the same bucket.
- Day 1 profit: when the transaction price in a non-active market differs from the fair value of other observable market transactions in the same instrument or from the fair value based on a valuation technique whose variables include only data from observable markets, the difference between the transaction price and the fair value (day 1 profit) is taken to profit or loss. If this is not the case (i.e. the variables do not include only data from observable markets), day 1 profit is reserved and is released in profit or loss during the life and until the maturity of the financial instrument. The impact of this is negligible for KBC.

- Fair value changes (due to marked-to-market) of a large proportion of ALM hedging instruments (that are treated as trading instruments) also appear under 'Net result from financial instruments at fair value', whereas most of the related assets are not recognised at fair value (i.e. not marked-to-market).

- Most significant fluctuations between year-end 2015 and year-end 2016: the stronger performance in the dealing room and a more positive impact from various value adjustments (mainly CVA, FVA) were – in addition to the impact of the liquidation of KBC Financial Holding Inc. in 2015 (see above) – the main drivers behind the increase in the 'Net result from financial instruments at fair value through profit or loss'.

Note 3.4 : Net realised result from available-for-sale assets

In millions of EUR	2016	2015
Total	134	82
Breakdown by portfolio		
Fixed-income securities	21	52
Shares	113	31

- In 2016, the net realised result on shares included the capital gain of 99 million euros (84 million euros (after tax)) generated by the sale of Visa Europe shares (following the public offering on Visa Europe).

Note 3.5 : Net fee and commission income

In millions of EUR	2016	2015
Total	1 753	1 945
Fee and commission income	2 175	2 408
Securities and asset management	1 116	1 300
Commitment credit	255	266
Payments	568	537
Other	236	305
Fee and commission expense	- 422	- 462
Commission paid to intermediaries	- 115	- 125
Other	- 307	- 337

- The lion’s share of the fees and commissions related to lending is recognised under ‘Net interest income’ (due to effective interest rate calculations).

Note 3.6 : Other net income

In millions of EUR	2016	2015
Total	140	200
Of which net realised result following		
The sale of loans and receivables	2	3
The sale of held-to-maturity investments	3	3
The repurchase of financial liabilities measured at amortised cost	- 7	- 9
Other: of which:	143	203
Income concerning leasing at the KBC Lease-group	64	68
Realised gains or losses on divestments	4	0
New law on retail loans (Hungary)	0	34
Deconsolidation real estate companies	0	18

Note 3.7 : Operating expenses

In millions of EUR	2016	2015
Total	- 3 399	- 3 388
Breakdown by type		
Staff expenses	- 1 589	- 1 594
General administrative expenses	- 1 663	- 1 665
Of which bank tax	- 417	- 398
Depreciation and amortisation of fixed assets	- 146	- 128

- General administrative expenses include repair and maintenance expenses, advertising costs, rent, professional fees, various (non-income) taxes, utilities and other such expenses. They also include expenses related to the special tax imposed on financial institutions in various countries (totalling 398 million euros in 2015 and 417 million euros in 2016). The latter figure comprises 255 million euros in the Belgium Business Unit, 27 million euros in the Czech Republic Business Unit, 17 million euros in Slovakia, 3 million euros in Bulgaria, 106 million euros in Hungary, 7 million euros in Ireland and 2 million euros in the Group Centre.
- Share-based payments are included under staff expenses.
- The main equity-settled share-based payments are described below.

  Since 2000, KBC Group (parent company of KBC Bank) has launched a number of stock option plans for all or certain members of staff of the company and various subsidiaries. The stock options were granted free to the members of staff, who only had to pay the relevant tax on the benefit when the options were allocated. The stock options have a life of seven to ten years from the date of issue (partially extended to 12 years) and can be exercised in specific years in the months of June, September or December. Not all the options need to be exercised at once. When exercising options, members of staff can either deposit the resulting shares on their custody accounts or sell them immediately on NYSE Euronext Brussels. The remaining number of outstanding options at year-end 2016 was very limited (145 380 options, average exercise price 75.73 euros). Changes in 2016 related to expired options
  (-6 700 options).
- The main cash-settled share-based payment arrangements also include the costs related to a phantom stock plan (included under 'Staff expenses'). These costs were negligible for 2016 and 2015.

Note 3.8 : Personnel

In numbers	2016	2015
Total average number of persons employed (in full-time equivalents)	**27 910**	**27 033**
Breakdown by employee classification		
Blue-collar staff	71	77
White-collar staff	27 666	26 781
Senior management	173	175

Note 3.9 : Impairment (income statement)

In millions of EUR	2016	2015
Total	- 145	- 650
Impairment on loans and receivables	- 126	- 323
Breakdown by type		
Specific impairments for on-balance-sheet lending	- 75	- 322
Provisions for off-balance-sheet credit commitments	8	9
Portfolio-based impairments	- 58	- 10
Breakdown by business unit		
Business unit Belgium	- 113	- 177
Business unit Czech Republic	- 23	- 36
Business unit International Markets	42	- 82
of which: Hungary	*15*	*- 6*
of which: Slovakia	*- 15*	*- 18*
of which: Bulgaria	*- 3*	*- 10*
of which: Ireland	*45*	*- 48*
Group Centre	- 32	- 28
Impairment on available-for-sale assets	- 1	- 11
Breakdown by type		
Shares	- 1	- 11
Other	0	0
Impairment on goodwill	0	- 308
Impairment on other	- 19	- 9
Intangible assets, other than goodwill	- 11	0
Property and equipment and investment property	- 8	- 8
Held-to-maturity assets	0	0
Associated companies and joint ventures	0	0
Other	- 1	- 1

- Impairment on loans and receivables' was accounted for primarily by loans and advances to customers. Impairment charges in the International Markets Business Unit included loan loss provisioning in Ireland (a net reversal of 45 million euros in 2016 as opposed to net provisioning of 48 million euros in 2015 (see next bullet point)), in Hungary (a net reversal of 15 million euros in 2016 as opposed to net provisioning of 6 million euros in 2015), in Slovakia (net provisioning of 15 million euros in 2016 and 18 million euros in 2015) and in Bulgaria (net provisioning of 3 million euros in 2016 and 10 million euros in 2015). Impairment in the Group Centre included 32 million euros at the former Antwerp Diamond Bank (Business Center Diamant following the merger with KBC Bank) in 2016 (21 million euros in 2015).

- At KBC Bank Ireland, the loan portfolio – which contains a relatively large proportion of home loans and mortgages – has suffered as a consequence of the property crisis. The Irish loan portfolio stood at about 13 billion euros at the end of the year, 86% of which relates to mortgage loans. The rest is more or less equally divided across SME and corporate loans, and loans related to real estate investment and development. The group was able to recognise a net impairment reversal of 45 million euros for its Irish portfolio in 2016. In 2015, it had set aside 48 million euros.

- Impairment on available-for-sale assets' in 2016 and 2015 comprised primarily impairment on shares.
- Impairment on goodwill' in 2015 came to 308 million euros (191 million euros of which for ČSOB in Slovakia (relating to the earlier acquisition of Istrobanka) and 117 million euros for CIBANK in Bulgaria). These impairment charges came about primarily as a result of a lower recoverable value (calculated based on discounted cashflow analysis) due chiefly to higher solvency targets (leading to a higher level of required capital, which reduces the free cashflows that can be paid as a dividend in the valuation model) and a higher discount rate (a higher beta and market-risk premium). For information on goodwill, see Note 5.5.
- For information on total impairment recognised in the balance sheet, see Note 4.2.

Note 3.10 : Share in results of associated companies and joint ventures

In millions of EUR	2016	2015
Total	23	21
of which Ceskomoravská stavebni sporitelna a.s.	23	23

- The share in results of associated companies and joint ventures is accounted for primarily by ČMSS, a joint venture of ČSOB in the Czech Republic. More details are provided in Note 5.3.
- Impairment on (goodwill on) associated companies and joint ventures is included in 'Impairment' (see Note 3.9). The share in results of associated companies and joint ventures does not therefore take this impairment into account.

Note 3.11: Taxes and activities by country ('country-by-country reporting')

In millions of EUR	2016	2015
Total	- 525	291
Breakdown by type	- 525	291
Current taxes on income	- 295	- 311
Deferred taxes on income	- 230	602
Tax components		
Profit before tax	2 719	2 128
Income tax at the Belgian statutory rate	33,99%	33,99%
Income tax calculated	- 924	- 723
Plus/minus tax effects attributable to	400	1 014
Differences in tax rates, Belgium - abroad	239	206
Tax-free income	84	89
Adjustments related to prior years	11	- 9
Adjustments, opening balance of deferred taxes due to change in tax rate	- 9	0
Unused tax losses and unused tax credits to reduce current tax expense	31	10
Unused tax losses and unused tax credits to reduce deferred tax expense	110	1
Reversal of previously recognised deferred tax due to tax losses	- 20	0
Liquidation KBC Financial Holding Inc.	0	910
Other (mainly non-deductible expenses)	- 46	- 194
Aggregate amount of temporary differences associated with investments in subsidiaries, branches and associated companies and interests in joint ventures, for which deferred tax liabilities have not been recognized*	196	167

* Reserves of joint or other subsidiaries, associated companies and branches that, at certain entities, will be taxed in full on distribution (recorded in full). For a significant number of entities, the foreign tax credit applies (5% is recorded, since 95% is definitively taxed).

- For information on tax assets and tax liabilities, see Note 5.2.
- 'Liquidation of KBC Financial Holding Inc. (KBCFH)' in 2015 reflects the strategic refocus that KBC agreed with the European Commission in 2009, when KBC undertook to run down or divest the activities of its subsidiary KBCFH (in the US) in order to reduce its own risk profile. That process has since been completed, with KBC collapsing the last two CDOs it held in portfolio in September 2014. As a final step, KBC also liquidated KBCFH. According to Belgian tax law, the loss in paid-up capital that KBC Bank sustained as a result of the liquidation of KBCFH is tax deductible for the parent company on the date of liquidation, rather than at the time the losses were incurred (specifically 2008 and 2009). On balance, the full impact on the results came to 765 million euros in 2015 (910 million euros in the form of a deferred tax asset relating to tax losses carried forward, partially offset by the transfer from equity to profit or loss of -156 million euros (-145 million euros (after tax)) in exchange differences relating to the capital of KBCFH.
- On balance, 'Income tax expense' in 2016 was positively impacted (103 million euros) by deferred tax assets at KBC Credit Investments (+65 million euros), KBC Securities (-20 million euros), KBC Bank Ireland (+66 million euros) and K&H Bank (-8 million euros).

- Breakdown of activities by country in 2016.

The table below provides a better insight into the activities of KBC Bank at the consolidated level, broken down by country, and complies with the Royal Decree of 27 November 2014 (amending the royal decrees concerning the financial statements and consolidated financial statements of credit institutions, investment firms and management companies of undertakings for collective investment).

The names of the different entities and the nature of their activities in each of the countries in this table can be found in the information included in the scope of consolidation (see Note 6.5).

In millions of EUR	2016 Turnover (*)	2016 Average number of employees in FTE	2016 Result before tax	2016 Income tax expense	2016 Current tax on income	2016 Deferred tax	2016 Received govern-ment funding	2015 Turnover (*)	2015 Average number of employees in FTE	2015 Result before tax	2015 Income tax expense	2015 Current tax on income	2015 Deferred tax	2015 Received govern-ment funding
KBC home Countries (incl. Ireland)														
Belgium	3 383	10 585	1 215	- 356	- 100	- 256	0	3 286	10 646	795	523	- 114	638	0
Czech Republic	1 256	8 321	685	- 121	- 124	3	0	1 197	7 556	608	- 92	- 90	- 2	0
Hungary	477	3 658	171	- 51	- 26	- 25	0	511	3 536	170	- 45	- 15	- 29	0
Slovakia	289	2 483	104	- 21	- 23	2	0	286	2 399	99	- 24	- 25	0	0
Bulgaria	61	1 274	17	0	0	0	0	58	1 293	10	2	0	2	0
Ireland[1]	489	1 087	371	25	- 19	44	0	519	1 056	311	- 28	- 31	2	0
Other countries														
Great Britain[1]	61	63	38	10	10	0	0	26	71	1	0	0	0	0
USA[1]	37	61	11	- 2	- 2	0	0	44	62	11	- 7	- 8	1	0
France[1]	19	70	- 6	- 2	- 2	0	0	27	73	8	- 5	- 1	- 4	0
Netherlands[1]	21	26	15	- 4	- 4	0	0	22	26	17	- 4	- 4	0	0
Luxembourg	98	46	89	- 3	0	- 3	0	104	41	97	- 31	- 21	- 10	0
Romania	1	0	1	0	0	0	0	1	18	- 1	0	0	0	0
Germany[1]	12	47	- 2	0	0	0	0	8	16	- 3	1	0	1	0
Hong Kong[1]	17	63	6	0	- 1	0	0	18	49	8	- 1	- 1	0	0
Singapore[1]	0	20	0	0	0	0	0	20	74	6	- 1	- 1	0	0
Polen[1]	16	87	4	1	- 4	5	0	4	68	1	0	0	0	0
China[1]	5	19	0	0	0	0	0	16	49	- 7	2	- 1	2	0
India	0	0	0	0	0	0	0	0	0	- 1	0	0	0	0
Total	6 240	27 910	2 719	- 525	- 295	- 230	0	6 145	27 033	2 128	291	- 311	602	0

(*) Based on 'Total income'

(1) Including branches KBC Bank

4.0 Notes on the financial assets and liabilities on the balance sheet

Note 4.1 : Financial assets and liabilities, breakdown by portfolio and product

In millions of EUR	Held for trading	Designated at fair value [1]	Available for sale	Loans and receivables	Held to maturity	Hedging derivatives	Total
FINANCIAL ASSETS, 31-12-2016							
Loans and advances to credit institutions and investment firms [a,c]	6	1	0	17 445	-	-	17 452
Loans and advances to customers [b]	1	722	0	132 759	-	-	133 481
Excluding reverse repos	*1*	*45*	*0*	*131 483*	-	-	*131 528*
Trade receivables	0	0	0	3 549	-	-	3 549
Consumer credit	0	0	0	3 180	-	-	3 180
Mortgage loans	0	29	0	56 955	-	-	56 983
Term loans	0	693	0	58 938	-	-	59 631
Finance leasing	0	0	0	4 916	-	-	4 916
Current account advances	0	0	0	4 640	-	-	4 640
Securitised loans	0	0	0	0	-	-	0
Other	1	0	0	582	-	-	582
Equity instruments	426	0	392	-	-	-	818
Debt securities issued by	999	408	20 692	966	28 297	-	51 362
Public bodies	712	47	15 177	16	28 010	-	43 961
Credit institutions and investment firms	126	171	3 240	140	215	-	3 893
Corporates	161	189	2 274	811	73	-	3 509
Derivatives	8 355	-	-	-	-	410	8 765
Other [3]	0	0	0	532	0	0	532
Total carrying value	9 787	1 130	21 084	151 702	28 297	410	212 411
a Of which reverse repo's [2]							*11 776*
b Of which reverse repo's [2]							*1 953*
c Of which loans and advances to banks repayable on demand and term loans to banks at not more than three months							*11 646*
FINANCIAL ASSETS, 31-12-2015							
Loans and advances to credit institutions and investment firms [a,c]	0	2 106	0	11 490	-	-	13 596
Loans and advances to customers [b]	0	2 306	0	126 899	-	-	129 206
Excluding reverse repos	*0*	*71*	*0*	*126 710*	-	-	*126 781*
Trade receivables	0	0	0	3 729	-	-	3 729
Consumer credit	0	0	0	2 928	-	-	2 928
Mortgage loans	0	28	0	55 017	-	-	55 045
Term loans	0	2 278	0	56 083	-	-	58 362
Finance leasing	0	0	0	4 512	-	-	4 512
Current account advances	0	0	0	4 027	-	-	4 027
Securitised loans	0	0	0	0	-	-	0
Other	0	0	0	602	-	-	602
Equity instruments	410	0	492	-	-	-	902
Debt securities issued by	1 799	680	19 782	1 070	27 379	-	50 711
Public bodies	1 408	120	14 532	22	27 119	-	43 202
Credit institutions and investment firms	192	104	2 945	155	197	-	3 593
Corporates	199	456	2 305	893	63	-	3 916
Derivatives	8 287	-	-	-	-	514	8 801
Other [3]	1	0	0	834	-	-	835
Total carrying value	10 497	5 092	20 274	140 294	27 379	514	204 051
a Of which reverse repo's [2]							*5 011*
b Of which reverse repo's [2]							*2 425*
c Of which loans and advances to banks repayable on demand and term loans to banks at not more than three months							*6 551*

1 Loans and advances in the 'Designated at fair value' column relate primarily to reverse repo transactions and a small portfolio of home loans. In each case, the carrying value comes close to the maximum credit exposure.
2 The amount of the reverse repos is virtually identical to the amount of the underlying assets (that have been lent out).
3 Financial assets not included under 'Loans and advances to customers' as they are not directly related to commercial lending.

In millions of EUR	Held for trading	Designated at fair value	Hedging derivatives	Measured at amortised cost	Total
FINANCIAL LIABILITIES, 31-12-2016					
Deposits from credit institutions and investment firms [a,c]	5	1 766	-	30 249	32 020
Deposits from customers and debt certificates [b]	541	2 134	-	176 021	178 697
Excluding repos	*536*	*1 869*	-	*175 984*	*178 388*
Deposits from customers	117	1 100	-	141 613	142 831
Demand deposits	0	0	-	63 933	63 933
Time deposits	117	1 100	-	21 663	22 880
Saving accounts	0	0	-	53 328	53 328
Special deposits	0	0	-	2 056	2 056
Other deposits	0	0	-	633	633
Debt certificates	424	1 034	-	34 408	35 866
Certificates of deposit	0	14	-	16 071	16 085
Customer savings certificates	0	0	-	1 959	1 959
Convertible bonds	0	0	-	0	0
Non-convertible bonds	424	744	-	11 519	12 687
Convertible subordinated liabilities	0	0	-	0	0
Non-convertible subordinated liabilities	0	276	-	4 859	5 135
Derivatives	7 362	0	1 704	-	9 065
Short positions	665	0	-	-	665
in equity instruments	36	0	-	-	36
in debt instruments	629	0	-	-	629
Other [(2)]	13	0	-	2 185	2 199
Total carrying value	8 586	3 900	1 704	208 455	222 646
a Of which repos [(1)]					*9 420*
b Of which repos [(1)]					*309*
c Of which deposits from banks repayable on demand					*5 023*
FINANCIAL LIABILITIES, 31-12-2015					
Deposits from credit institutions and investment firms [a,c]	1	1 123	-	17 827	18 952
Deposits from customers and debt certificates [b]	431	10 916	-	159 527	170 873
Excluding repos	*431*	*2 349*	-	*159 527*	*162 307*
Deposits from customers	57	9 360	-	137 143	146 560
Demand deposits	0	0	-	55 682	55 682
Time deposits	57	9 360	-	28 919	38 337
Saving accounts	0	0	-	50 075	50 075
Special deposits	0	0	-	1 983	1 983
Other deposits	0	0	-	484	484
Debt certificates	374	1 555	-	22 384	24 313
Certificates of deposit	0	10	-	5 222	5 231
Customer savings certificates	0	0	-	1 092	1 092
Convertible bonds	0	0	-	0	0
Non-convertible bonds	374	1 253	-	12 301	13 928
Convertible subordinated liabilities	0	0	-	0	0
Non-convertible subordinated liabilities	0	293	-	3 769	4 062
Derivatives	7 533	0	2 191	-	9 723
Short positions	415	0	-	-	415
in equity instruments	58	0	-	-	58
in debt instruments	357	0	-	-	357
Other [(2)]	0	0	-	1 796	1 796
Total carrying value	8 380	12 039	2 191	179 150	201 760
a Of which repos [(1)]					*1 128*
b Of which repos [(1)]					*8 567*
c Of which deposits from banks repayable on demand					*2 591*

1 The amount of the repos is virtually identical to the amount of the underlying assets (that have been lent out).

2 Financial liabilities not included under deposits from customers as they are not directly related to commercial deposit acquisition.

- For reclassifications, see Note 4.9.
- Non-convertible bonds: comprise mainly KBC Bank and KBC IFIMA issues. They are usually recognised under 'Measured at amortised cost'. However, if they contain closely related embedded derivatives, they are recorded under 'Designated at fair value' (see accounting policies).
- Non-convertible subordinated liabilities: include the contingent capital note issued in January 2013 for an amount of 1 billion US dollars. Pursuant to IAS 32, this note was classified as a liability because it has a fixed term and obligatory interest payments.
- Deposits from credit institutions and investment firms: include funding of 4 210 million euros obtained from the ECB's TLTRO II programme announced in March 2016. KBC's management has reasonable assurance that KBC will comply with the conditions attached and hence the interest has accordingly been recognised.
- Transferred financial assets that continue to be recognised in their entirety: KBC regularly lends and/or sells securities with the commitment to buy them back at a later date (repo transactions). Securities lent or sold with such a commitment are transferred to the counterparty, and, in exchange, KBC receives cash or other financial assets. However, KBC retains the main risks and income relating to these securities, and, therefore, continues to recognise them on its balance sheet. In addition, a financial liability is recognised equalling the cash collateral received.
- At year-end 2016, KBC had transferred the following types of financial asset, which continued to be recognised in their entirety: repo transactions and securities lent out with a carrying value of 8 370 million euros (debt instruments classified as 'held for trading' (113 million euros), 'available for sale' (695 million euros), and 'held to maturity' (7 561 million euros)); and an associated financial liability with a carrying value of 8 970 million euros (94 million euros classified as 'held for trading', 649 million euros as 'available for sale', and 8 227 million euros as 'held to maturity'). At year-end 2015, KBC had transferred the following types of financial asset, which continued to be recognised in their entirety: repo transactions and securities lent out with a carrying value of 6 529 million euros (debt instruments classified as 'held for trading' (176 million euros), 'designated at fair value' (17 million euros), 'available for sale' (940 million euros), and 'held to maturity' (5 396 million euros)); and an associated financial liability with a carrying value of 7 008 million euros (178 million euros classified as 'held for trading', 17 million euros as 'designated at fair value', 874 million euros as 'available for sale', and 5 939 million euros as 'held to maturity'). It should be noted that, at year-ends 2015 and 2016, KBC had fewer transferred securities on its balance sheet than outstanding repo transactions, since securities obtained in reverse repo transactions are often used for repo transactions. These securities are not presented on the balance sheet and, therefore, do not qualify for disclosure as stated in this paragraph.

Note 4.2 : Financial assets, breakdown by portfolio and quality

4.2.1 : Financial assets for which impairments have been recorded

in millions of EUR	Held for trading	Designated at fair value	Available for sale	Loans and receiva-bles	Held to maturity	Hedging derivatives	Total
FINANCIAL ASSETS, 31-12-2016							
Unimpaired assets	9 787	1 130	21 019	146 546	28 296	410	207 188
Impaired assets			125	10 250	7		10 383
Impairment			- 61	- 5 094	- 5		- 5 160
Total carrying value	9 787	1 130	21 084	151 702	28 297	410	212 411
FINANCIAL ASSETS, 31-12-2015							
Unimpaired assets	10 497	5 092	20 203	133 895	27 377	514	197 579
Impaired assets			142	12 022	6		12 171
Impairment			- 71	- 5 623	- 5		- 5 700
Total carrying value	10 497	5 092	20 274	140 294	27 379	514	204 051

- Impairment: the concept of 'impairment' is relevant for all financial assets that are not designated at fair value through profit or loss. Fixed-income financial assets are impaired when impairment is identified on an individual basis. In the case of loans, they are impaired when they have a probability of default (or PD, see explanation below) rating of 10, 11 or 12. Impairment is recognised based on an estimate of the net present value of the recoverable amount. In addition, for credit in PD classes 1 to 9, impairment losses are recorded on a portfolio basis (IBNR), using a formula that takes account of the expected loss (EL) calculated using the internal rating based (IRB) advanced models and emergence period (or an alternative method if an IRB advanced model is not yet available).
- PD class: KBC has developed various rating models to determine the PD class. The output generated by these models is used to split the normal loan portfolio into internal rating classes ranging from PD 1 (lowest risk) to PD 9 (highest risk). More information on PD is provided under 'Credit risk' in the 'Risk management' section.

4.2.2 Impairments details

in millions of EUR	Available for sale: Fixed-income securities	Available for sale: Shares	Held to maturity: Fixed-income securities	Loans and receivables: Specific impairment	Loans and receivables: Portfolio-based impairment	Provision, off-balance-sheet credit commit-ments*
Impairments 31-12-2016						
Opening balance	0	71	5	5 410	213	125
Movements with an impact on results						
Impairment recognised	0	1	0	582	106	41
Impairment reversed	0	0	0	- 507	- 55	- 42
Movements without an impact on results						
Write-offs	0	- 2	0	- 635	0	- 11
Change in the scope of consolidation	0	1	0	0	0	0
Transfer to or from non-current assets held for sale and disposal groups	0	0	0	0	0	0
Other	0	- 11	0	- 22	1	- 38
Closing balance	0	61	5	4 829	265	76
Impairments 31-12-2015						
Opening balance	0	58	5	5 600	201	158
Movements with an impact on results						
Impairment recognised	0	11	0	826	86	44
Impairment reversed	0	0	- 1	- 504	- 78	- 52
Movements without an impact on results						
Write-offs	0	- 10	0	- 494	0	0
Change in the scope of consolidation	0	0	0	0	0	0
Transfer to or from non-current assets held for sale and disposal groups	0	0	0	0	0	0
Other	0	12	1	- 18	3	- 25
Closing balance	0	71	5	5 410	213	125

* These impairment losses are recognised on the liabilities side of the balance sheet. Changes in impairment losses of this kind are recorded under 'Impairment on loans and receivables' in the income statement.

- For information regarding the impact of changes in impairment on the income statement, see Note 3.9.
- Additional information on impairment relating to the loan portfolio is provided under 'Credit risk' in the 'Risk Management' section.

Note 4.2.3 : Past due but not impaired

In millions of EUR	Less then 30 days past due	30 days or more, but less then 90 days past due
FINANCIAL ASSETS, 31-12-2016		
Loans & advances	2 208	419
Debt instruments	0	0
Derivatives	0	0
Total	2 208	419
FINANCIAL ASSETS, 31-12-2015		
Loans & advances	2 076	417
Debt instruments	0	0
Derivatives	0	0
Total	2 076	417

- Financial assets are past due if a counterparty fails to make a payment at the time agreed in the contract. The concept of 'past due' applies to a contract, not to a counterparty. For example, if a counterparty fails to make a monthly repayment, the entire loan is considered past due, but that does not mean that other loans to this counterparty are considered past due. Financial assets that are 90 days or more past due are always considered impaired.

Guarantees received

- See Notes 4.3 and 6.1.

Note 4.3 : Maximum credit exposure and offsetting

	31-12-2016			31-12-2015		
Maximum credit exposure	Gross amount	Collateral received to mitigate the maximum exposure to credit risk	Net amount	Gross amount	Collateral received to mitigate the maximum exposure to credit risk	Net amount
Equity	818	0	818	902	0	902
Debt securities	51 362	68	51 295	50 711	61	50 650
Loans & advances	150 933	79 377	71 557	142 802	72 197	70 604
Of which designated at fair value through profit or loss	722	684	38	4 412	2 940	1 471
Derivatives	8 765	3 875	4 890	8 801	3 605	5 196
Other (including accrued interest)	32 555	3 816	28 739	30 003	4 205	25 798
Total	244 434	87 136	157 298	233 219	80 068	153 150

- Maximum credit exposure relating to a financial asset: generally the gross carrying value, net of impairment. Besides the amounts on the balance sheet, maximum credit exposure also includes the undrawn portion of irrevocable credit lines, financial guarantees granted and other irrevocable commitments. These amounts are included in the table under 'Other'.
- The loan portfolio accounts for the largest share of the financial assets. Based on internal management reports, the composition and quality of the loan portfolio are set out in detail under 'Credit risk' in the 'Risk management' section. All parts of that particular section which have been audited by the statutory auditor are listed at the start of the section.
- Collateral received: recognised at market value and limited to the outstanding amount of the relevant loans.

Financial instruments subject to offsetting, enforceable master netting agreements and similar agreements (in millions of EUR)	Gross amounts of recognised financial instruments	Gross amounts of recognised financial instruments set off	Net amounts of financial instruments presented in the balance sheet	Amounts not set off in the balance sheet			Net amount
				Financial instruments	Cash collateral	Securities collateral	
FINANCIAL ASSETS, 31-12-2016							
Derivatives	12 649	3 884	8 765	4 957	2 191	0	1 618
Derivatives *(excluding central clearing houses)*	8 756	0	8 756	4 957	2 191	0	1 609
Derivatives *with central clearing houses* (1)	3 893	3 884	9	0	0	0	9
Reverse repurchase, securities borrowing and lending and similar agreements	19 984	6 255	13 729	31	0	13 631	67
Reverse repurchase	19 984	6 255	13 729	31	0	13 631	67
Securities borrowing	0	0	0	0	0	0	0
Other financial instruments	0	0	0	0	0	0	0
Total	32 633	10 139	22 494	4 988	2 191	13 631	1 685
FINANCIAL ASSETS, 31-12-2015							
Derivatives	11 337	2 536	8 801	4 704	2 213	0	1 885
Derivatives *(excluding central clearing houses)*	8 795	0	8 795	4 704	2 213	0	1 878
Derivatives *with central clearing houses* (1)	2 543	2 536	7	0	0	0	7
Reverse repurchase, securities borrowing and lending and similar agreements	9 957	2 521	7 436	340	0	7 059	37
Reverse repurchase	9 957	2 521	7 436	340	0	7 059	37
Securities borrowing	0	0	0	0	0	0	0
Other financial instruments	0	0	0	0	0	0	0
Total	21 294	5 057	16 237	5 044	2 213	7 059	1 921
FINANCIAL LIABILITIES, 31-12-2016							
Derivatives	12 949	3 884	9 065	4 957	2 543	0	1 565
Derivatives *(excluding central clearing houses)*	9 045	0	9 045	4 957	2 543	0	1 544
Derivatives *with central clearing houses* (1)	3 905	3 884	20	0	0	0	20
Repurchase, securities lending and borrowing and similar agreements	15 984	6 255	9 729	31	0	9 692	6
Repurchase	15 984	6 255	9 729	31	0	9 692	6
Securities lending	0	0	0	0	0	0	0
Other financial instruments	0	0	0	0	0	0	0
Total	28 933	10 139	18 794	4 988	2 543	9 692	1 571
FINANCIAL LIABILITIES, 31-12-2015							
Derivatives (2)	12 259	2 536	9 723	4 704	3 630	0	1 390
Derivatives *(excluding central clearing houses)*	9 712	0	9 712	4 704	3 630	0	1 379
Derivatives *with central clearing houses* (1)	2 547	2 536	11	0	0	0	11
Repurchase, securities lending and borrowing and similar agreements	12 216	2 521	9 694	340	0	9 332	22
Repurchase	12 216	2 521	9 694	340	0	9 332	22
Securities lending	0	0	0	0	0	0	0
Other financial instruments	0	0	0	0	0	0	0
Total	24 475	5 057	19 418	5 044	3 630	9 332	1 412

(1) Cash collateral account with central clearinghouses included in gross amount

(2) 2015 : Adjusted figures

- The criteria for offsetting are met if KBC currently has a legally enforceable right to set off the recognised financial assets and financial liabilities and intends either to settle the transactions on a net basis, or to realise the financial asset and settle the financial liability simultaneously. Financial assets and financial liabilities that are set off relate to financial instruments that were traded on (central) clearing houses.
- The amounts presented in the 'Financial instruments' column under the 'Amounts not set off in the balance sheet' heading are for financial instruments entered into under an enforceable master netting agreement or similar arrangement that does not meet the criteria defined in IAS 32. The amounts stated refer to situations in which offsetting can only be applied if one of the counterparties defaults, becomes insolvent or goes bankrupt. The same principle applies for financial instruments given or received as collateral. The value given in the table for non-cash collateral received (the 'Securities collateral' column under the 'Amounts not set off in the balance sheet' heading) corresponds with the market value. This is the value that is used if one of the counterparties defaults, becomes insolvent or goes bankrupt.

Note 4.4 : Fair value of financial assets and liabilities - general

- In line with the IFRS definition, KBC defines ‘fair value’ as 'the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date'. Fair value is not the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale. An imbalance between supply and demand (e.g., fewer buyers than sellers, thereby forcing prices down) is not the same as a forced transaction or distress sale. Distress sales or forced transactions are transactions that are either carried out on an occasional basis, due to – for example – regulatory changes or transactions that are not market-driven but rather entity or client-driven.
- All internal valuation models used at KBC are validated by an independent Risk Validation Unit. In addition, the Executive Committee has appointed a Group Valuation Committee (GVC) to ensure that KBC and its entities meet all the legal requirements for measuring financial assets and liabilities at fair value. The GVC monitors consistent implementation of the *KBC Valuation Framework*, which consists of various guidelines, including the *CDO Valuation Policy*, the *Group Market Value Adjustments Policy* and the *Group Parameter Review Policy.* The GVC meets at least twice a quarter to approve significant changes in valuation methods (including, but not limited to, models, market data and inputs) or deviations from group policies for financial assets and liabilities measured at fair value. The committee is made up of members from Finance, Risk Management and the Middle Office. Valuation uncertainty measurements are made and reported to the GVC every quarter. Lastly, certain fair values generated by valuation models are challenged by a team set up specifically for this purpose.
- Market value adjustments are recognised on all positions that are measured at fair value, with fair value changes being reported in profit or loss or in equity. They relate to close-out costs, adjustments for less liquid positions or markets, mark-to-model-related valuation adjustments, counterparty risk and funding costs. Credit value adjustments (CVAs) are used when measuring derivatives to ensure that the market value of the derivatives is adjusted to reflect the credit risk of the counterparty. In making this adjustment, both the mark-to-market value of the contract and its expected future fair value are taken into account. These valuations are weighted based on the counterparty credit risk that is determined using a quoted credit default swap (CDS) spread, or, if there is no such spread, on the counterparty credit risk that is derived from bonds whose issuers are similar to the derivative counterparty in terms of rating, sector and geographical location. A debt value adjustment (DVA) is made for contracts where the counterparty is exposed to KBC (as opposed to the other way around). It is similar to a CVA, but the expected future negative fair value of the contracts is taken into consideration. A funding value adjustment (FVA) is a correction made to the market value of uncollateralised derivatives in order to ensure that the (future) funding costs or income attached to entering into and hedging such instruments are factored in when measuring the value of the instruments.
- Account is taken of the effect of changes in own funding spreads when calculating the fair value of financial liabilities measured at fair value.
- The fair value of mortgage and term loans not measured at fair value in the balance sheet (see table) is calculated by discounting contractual cashflows at the risk-free rate. This calculation is then adjusted for credit risk by taking account of margins obtained on similar, but recently issued, loans. The fair value of the main portfolios takes account of prepayment risks and cap options.
- The fair value of demand and savings deposits (both of which are repayable on demand) is presumed to be equal to their carrying value.
- Most of the changes in the market value of loans and advances initially designated at fair value are accounted for by changes in interest rates. The effect of changes in credit risk is negligible.

Fair value of financial instruments which are not recognised at fair value in the balance sheet, in millions of eur	Loans and advances		Financial assets held to maturity		Financial liabilities at amortised cost	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
FINANCIAL ASSETS, 31-12-2016						
Loans and advances to credit institutions and investment firms	17 445	17 438	-	-	-	-
Loans and advances to customers	132 759	133 743	-	-	-	-
Debt securities	966	985	28 297	30 953	-	-
Other	532	537	-	-	-	-
Total	151 702	152 703	28 297	30 953	-	-
Of which level 1		98		30 030		
Of which level 2		27 939		538		
Of which level 3		124 666		384		
FINANCIAL ASSETS, 31-12-2015						
Loans and advances to credit institutions and investment firms	11 490	11 413	-	-	-	-
Loans and advances to customers	126 899	127 538	-	-	-	-
Debt securities	1 070	1 092	27 379	30 086	-	-
Other	834	835				
Total	140 294	140 878	27 379	30 086	-	-
Of which level 1		229		29 105		
Of which level 2		21 225		633		
Of which level 3		119 424		348		
FINANCIAL LIABILITIES, 31-12-2016						
Deposits from credit institutions and investment firms	-	-	-	-	30 249	30 309
Deposits from customers and debt certificates	-	-	-	-	176 021	176 706
Other	-	-	-	-	2 185	2 184
Total	-	-	-	-	208 455	209 199
Of which level 1						70
Of which level 2						108 098
Of which level 3						101 031
FINANCIAL LIABILITIES, 31-12-2015						
Deposits from credit institutions and investment firms	-	-	-	-	17 827	17 842
Deposits from customers and debt certificates	-	-	-	-	159 527	160 643
Other	-	-	-	-	1 796	1 747
Total	-	-	-	-	179 150	180 233
Of which level 1						75
Of which level 2						89 062
Of which level 3						91 096

Note 4.5 : Financial assets and liabilities measured at fair value- fair value hierarchy

Fair value hierarchy				31-12-2016				31-12-2015
In millions of EUR	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value								
Held for trading	1 031	6 692	2 064	9 787	1 524	6 634	2 339	10 497
Loans and advances to credit institutions	0	6	0	6	0	0	0	0
Loans and advances to customers	0	1	0	1	0	0	0	0
Equity instruments	301	125	0	426	255	155	0	410
Debt securities	730	61	208	999	1 269	244	287	1 799
Of which government securities	*651*	*29*	*31*	*712*	*1 157*	*209*	*42*	*1 408*
Derivatives	0	6 499	1 856	8 355	0	6 235	2 052	8 287
Other	0	0	0	0	0	1	0	1
Designated at fair value	44	899	188	1 130	257	4 424	411	5 092
Loans and advances to credit institutions	0	1	0	1	0	2 106	0	2 106
Loans and advances to customers	0	722	0	722	0	2 278	28	2 306
Equity instruments	0	0	0	0	0	0	0	0
Debt securities	44	176	187	408	257	40	383	680
Of which government securities	*42*	*5*	*0*	*47*	*80*	*40*	*0*	*120*
Available for sale	18 672	1 672	739	21 084	17 810	1 724	739	20 274
Equity instruments	133	10	249	392	162	8	322	492
Debt securities	18 539	1 663	490	20 692	17 648	1 716	418	19 782
Of which government securities	*14 709*	*293*	*175*	*15 177*	*14 128*	*256*	*147*	*14 532*
Hedging derivatives	0	410	0	410	0	514	0	514
Derivatives	0	410	0	410	0	514	0	514
Total	19 747	9 673	2 991	32 411	19 591	13 296	3 490	36 377
Financial liabilities measured at fair value								
Held for trading	665	5 686	2 235	8 586	415	5 901	2 064	8 380
Deposits from credit institutions	0	5	0	5	0	1	0	1
Deposits from customers and debt certificates	0	541	0	541	0	429	2	431
Derivatives	0	5 126	2 235	7 362	0	5 470	2 063	7 533
Short positions	665	0	0	665	415	0	0	415
Other	0	13	0	13	0	0	0	0
Designated at fair value	0	3 343	557	3 900	0	11 445	594	12 039
Deposits from credit institutions	0	1 766	0	1 766	0	1 123	0	1 123
Deposits from customers and debt certificates	0	1 577	557	2 134	0	10 321	594	10 916
Liabilities under investment contracts	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0
Hedging derivatives	0	1 704	0	1 704	0	2 191	0	2 191
Derivatives	0	1 704	0	1 704	0	2 191	0	2 191
Total	665	10 733	2 792	14 190	415	19 536	2 659	22 610

- The fair value hierarchy prioritises the valuation techniques and the respective inputs into three levels.
  The fair value hierarchy gives the highest priority to 'level 1 inputs'.
  This means that, when there is an active market, quoted prices have to be used to measure the financial assets or liabilities at fair value. Level 1 inputs are prices that are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency (and that are quoted in active markets accessible to KBC). They represent actual and regularly occurring market transactions on an arm's length basis. The fair value is then based on a mark-to-market valuation derived from currently available transaction prices. No valuation technique (model) is involved.
  If there are no price quotations available, the reporting entity establishes fair value using a model based on observable or unobservable inputs. The use of observable inputs needs to be maximised, whereas the use of unobservable inputs has to be minimised.
  Observable inputs are also referred to as 'level 2 inputs' and reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Examples of observable inputs are the risk-free rate, exchange rates, stock prices and implied volatility. Valuation techniques based on observable inputs include discounted cashflow analysis, or reference to the current or recent fair value of a similar instrument.
  Unobservable inputs are also referred to as 'level 3 inputs' and reflect the reporting entity'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.

- When the inputs used to measure the fair value of an asset or a liability can be categorised into different levels of the fair value hierarchy, the fair value measurement is classified in its entirety into the same level as the lowest level input that is significant to the entire fair value measurement. For example, if a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement.
- The valuation methodology and the corresponding classification in the fair value hierarchy of the most commonly used financial instruments are summarised in the table. This table provides an overview of the level in which the instruments are generally classified, but exceptions are possible. In other words, whereas the majority of instruments of a certain type are within the level indicated in the table, a small portion may actually be classified in another level.
- KBC follows the principle that transfers into and out of levels of the fair value hierarchy are made at the end of the reporting period. Transfers between the various levels are dealt with in more detail in Note 4.6.

	Instrument type	Products	Valuation technique
Level 1	Liquid financial instruments for which quoted prices are regularly available	FX spots, exchange traded financial futures, exchange traded options, exchange traded stocks, exchange traded funds, liquid government bonds, other liquid bonds, liquid asset backed securities (ABS) in active markets	Mark-to-market (quoted prices in active markets)
Level 2	Plain vanilla/liquid derivatives	(Cross-currency) interest rate swaps (IRS), FX swaps, FX forwards, forward rate agreements (FRA), inflation swaps, dividend swaps, commodity swaps, reverse floaters, bond future options, interest rate future options, overnight index swaps (OIS), FX resets	Discounted cashflow analysis based on discount and estimation curves (derived from quoted deposit rates, FX swaps and (CC)IRS)
		Caps & floors, interest rate options, European & American stock options, European & American FX options, forward starting options, digital FX options, FX strips of simple options, European swaptions, constant maturity swaps (CMS), European cancellable IRS, compound FX options	Option pricing model based on observable inputs (e.g., volatilities)
		Credit default swaps (CDS)	CDS model based on credit spreads
	Linear financial assets (without optional features) – cash instruments	Deposits, simple cashflows, repo transactions	Discounted cashflow analysis based on discount and estimation curves (derived from quoted deposit rates, FX swaps and (CC)IRS)
	Asset backed securities	Medium liquid asset backed securities	Third-party pricing (e.g., lead manager); prices corroborated by alternative observable market data, or using comparable spread method
	Debt instruments	KBC IFIMA own issues (liabilities), mortgage bonds held by ČSOB	Discounted cashflow analysis and valuation of related derivatives based on observable inputs
	Linear financial liabilities (cash instruments)	Loans, commercial paper	Discounted cashflow analysis based on discount and estimation curves (derived from quoted deposit rates, FX swaps and (CC)IRS)
Level 3	Exotic derivatives	Target profit forwards, target strike forwards, Bermudan swaptions, digital interest rate options, quanto interest rate options, digital stock options, Asian stock options, barrier stock options, quanto digital FX options, FX Asian options, FX European barrier options, FX simple digital barrier options, FX touch rebates, double average rate options, inflation options, cancellable reverse floaters, American and Bermudan cancellable IRS, CMS spread options, CMS interest rate caps/floors, (callable) range accruals, outperformance options, auto-callable options	Option pricing model based on unobservable inputs (e.g., correlation)
	Illiquid credit-linked instruments	Collateralised debt obligations (notes)	Valuation model based on correlation of probability of default of underlying assets
	Private equity investments	Private equity and non-quoted participations	Based on the valuation guidelines of the European Private Equity & Venture Capital Association (EVCA)
	Illiquid bonds/asset backed securities	Illiquid mortgage bonds/asset backed securities that are indicatively priced by a single pricing provider in an inactive market	Third-party pricing (e.g., lead manager), where prices cannot be corroborated due to a lack of available/reliable alternative market data
	Debt instruments	KBC own issues (KBC IFIMA)	Discounted cashflow analysis and valuation of related derivatives based on unobservable inputs (indicative pricing by third parties for derivatives)

Note 4.6 : Financial assets and liabilities measured at fair value – transfers between levels 1 and 2

- In 2016, KBC transferred 52 million euros' worth of debt instruments out of level 1 and into level 2. It also reclassified approximately 93 million euros' worth of bonds from level 2 to level 1 because the market for those instruments became more active in 2016. Most of these reclassifications were carried out due to a change in the liquidity of covered bonds, corporate bonds and bonds issued by regional public authorities.

- In 2015, KBC transferred 209 million euros' worth of instruments (mainly classified as 'available for sale') out of level 1 and into level 2 due to the decline in market activity. KBC also reclassified around 132 million euros' worth of debt instruments from level 2 to level 1 because the market for those instruments became more active in 2015.

Note 4.7: Financial assets and liabilities measured at fair value – focus on level 3

In 2016, significant movements in financial assets and liabilities classified in level 3 of the fair value hierarchy included the following:

- The carrying value of derivatives in the 'financial assets held for trading' category fell by 199 million euros, due primarily to deals reaching maturity (-558 million euros), offset in part by positive changes in fair value (+246 million euros, +140 million euros of which from assets that were still being held at the end of the year) and new acquisitions (+115 million euros). The carrying value of bonds in the 'financial assets held for trading' category also declined, falling by 79 million euros mainly on account of disposals (-111 million euros), deals reaching maturity (-35 million euros) and transfers from level 3 (-30 million euros), partially offset by new acquisitions (+87 million euros).
- The carrying value of bonds in the 'financial assets designated at fair value through profit or loss' category fell by 195 million euros, mainly because a CDO note matured in January 2016.
- In the 'available-for-sale' category, a net 48 million euros' worth of bonds was transferred to level 3, most of which was due to a change in their liquidity. This was boosted by a 24-million-euro increase in carrying value resulting chiefly from the net impact of the acquisition and disposal of positions. The carrying value of unlisted shares in the 'available-for-sale' category also declined, falling by 47 million euros primarily on account of disposals.
- The carrying value of derivatives in the 'financial liabilities held for trading' category went up by 157 million euros, due mainly to new issues (+161 million euros) and positive changes in fair value (+494 million euros, +486 million euros of which from liabilities that were still recognised in the balance sheet at the end of the year), offset in part by deals reaching maturity (-487 million euros).

In 2015 the following material movements are observed with respect to instruments classified in level 3 of the fair value level hierarchy:

- In the assets held for trading category, the fair value of derivatives decreased by 266 million euros, which is mainly due to maturing deals (-446 million euros) and negative fair value movements (-195 million euros), partly compensated by new deals (+372 million euros).
- In the available for sale category, the fair value of debt securities decreased by 272 million euros, which is mainly due to the net amount of about 341 million euros transferred out of level 3, partly compensated by new deals (+68 million euros).
- In the liabilities held for trading category, the fair value (in absolute value) of derivatives decreased by 270 million euros, which is mainly due to maturing deals (-447 million euros) and negative fair value movements (-148 million euros), partly compensated by new deals (+328 million euros).

Some level 3 assets are associated or economically hedged with identical level 3 liabilities, which means that KBC's exposure to unobservable inputs is lower than would appear from the gross figures.

Note 4.8: Changes in own credit risk

Own debt issues designated at fair value ((+) profit (-) loss; amounts before tax) (in millions of EUR)	31-12-2016	31-12-2015
Impact of change in own creditspread on the income statement	8	17
Total cumulated impact on date of balance sheet	- 6	- 14

- The fair value of financial liabilities designated at fair value through profit or loss takes account of own credit risk. A significant portion of the financial liabilities designated at fair value through profit or loss relates to KBC IFIMA issues. The own credit risk of KBC IFIMA issues designated at fair value through profit or loss is measured using KBC's own funding spread. Taking into account this own credit risk, the total fair value of KBC IFIMA issues designated at fair value through profit or loss amounted to some 0.7 billion euros on 31 December 2016.
- If no account is taken of the effect of changes in credit risk, the difference between the carrying value and redemption price of the financial liabilities designated at fair value through profit or loss is limited (less than 0.1 billion euros).

Note 4.9: Reclassification of financial assets and liabilities

Financial assets reclassified out of 'available for sale' to 'loans and receivables' - situation at 31-12-2016
In millions of EUR

Carrying value	570
Fair value	588

	If not reclassifed (available for sale)	After reclassification (loans and receivables)	Impact
Impact on revaluation reserve (available-for-sale assets), before taxes	- 49	- 67	- 18
Impact on income statement, before taxes	0	1	1

- Reclassifications: in October 2008, the International Accounting Standards Board (IASB) issued amendments to IAS 39 and IFRS 7 under 'Reclassification of financial assets'. Following the implementation of these amendments, the KBC group reclassified a number of assets out of the 'available for sale' category to the 'loans and receivables' category because they had become less liquid. On the date of reclassification, the assets in question met the definition of loans and receivables, and the group has the intention and ability to hold these assets for the foreseeable future or until maturity. KBC reclassified these assets on 31 December 2008. On the reclassification date (31 December 2008), the estimated recoverable amount of these assets came to 5 billion euros and the effective interest rate varied between 5.88% and 16.77%. The above reclassifications had a negative impact of 18 million euros on equity and a limited impact on the income statement.
- Other reclassifications (not included in the table):
  - In 2016, 0.1 billion euros' worth of debt instruments were reclassified out of the 'available for sale' category and into the 'held to maturity' category.
  - In 2015, 0.5 billion euros' worth of debt instruments were reclassified out of the 'available for sale' category and into the 'held to maturity' category.
  - As a result, the relevant available-for-sale reserve is no longer exposed to changes in market rates. It has been frozen and is being written down on a *pro rata temporis* basis. As the relevant held-to-maturity security is also being written down, there is no net impact on the results.

Note 4.10 : Derivatives

	Held for trading				Fair value hedge				Cash flow hedge (1)				Portfolio hedge			
	Carrying value		Notional amount (2)		Carrying value		Notional amount (2)		Carrying value		Notional amount (2)		Carrying value		Notional amount (2)	
in millions of EUR	Assets	Liabilities	Bought	Sold	Assets	Liabilities	Bought	Sold	Assets	Liabilities	Bought	Sold	Assets	Liabilities	Bought	Sold
31-12-2016																
Total	8 355	7 362	392 301	396 106	99	528	34 636	34 636	265	1 147	26 046	26 042	46	29	9 143	8 945
Breakdown by type																
Interest rate contracts	4 229	3 707	203 605	206 312	99	528	34 636	34 636	256	1 142	25 940	25 940	46	29	9 143	8 945
Of which Interest rate swaps	3 380	3 319	161 989	162 229	99	528	34 636	34 636	256	1 142	25 940	25 940	38	29	7 397	7 157
Of which Options	849	388	39 563	36 802	0	0	0	0	0	0	0	0	8	0	1 746	1 788
Foreign exchange contracts	2 498	2 013	155 370	156 625	0	0	0	0	9	5	106	102	0	0	0	0
Of which Forward foreign exchange operations/currency forwards	317	326	24 024	24 006	0	0	0	0	0	0	0	0	0	0	0	0
Of which Currency and interest rate swaps	2 020	1 579	122 467	122 060	0	0	0	0	9	5	106	102	0	0	0	0
Of which Options	162	108	8 784	10 464	0	0	0	0	0	0	0	0	0	0	0	0
Equity contracts	1 562	1 614	32 627	32 744	0	0	0	0	0	0	0	0	0	0	0	0
Of which Equity swaps	1 278	1 295	29 731	29 731	0	0	0	0	0	0	0	0	0	0	0	0
Of which Options	285	319	2 868	3 014	0	0	0	0	0	0	0	0	0	0	0	0
Credit contracts	38	0	311	35	0	0	0	0	0	0	0	0	0	0	0	0
Of which Credit default swaps	38	0	311	35	0	0	0	0	0	0	0	0	0	0	0	0
Commodity and other contracts	28	27	389	390	0	0	0	0	0	0	0	0	0	0	0	0
31-12-2015																
Total	8 287	7 533	376 599	378 620	127	469	31 073	31 065	356	1 708	26 724	26 718	31	13	7 809	7 569
Breakdown by type																
Interest rate contracts	4 545	4 323	208 830	208 081	127	469	31 065	31 065	346	1 703	26 607	26 607	31	13	7 809	7 569
Of which Interest rate swaps	3 633	3 895	156 598	156 817	127	469	31 065	31 065	346	1 703	26 607	26 607	31	13	6 765	6 524
Of which Options	912	425	44 637	41 063	0	0	0	0	0	0	0	0	0	0	1 045	1 045
Foreign exchange contracts	1 829	1 341	133 566	136 648	0	0	8	0	10	5	117	111	0	0	0	0
Of which Forward foreign exchange operations/currency forwards	149	192	18 384	18 412	0	0	8	0	0	0	0	0	0	0	0	0
Of which Currency and interest rate swaps	1 449	1 033	104 849	104 612	0	0	0	0	10	5	117	111	0	0	0	0
Of which Options	231	117	10 266	13 557	0	0	0	0	0	0	0	0	0	0	0	0
Equity contracts	1 717	1 726	32 140	32 330	0	0	0	0	0	0	0	0	0	0	0	0
Of which Equity swaps	1 409	1 422	28 961	28 962	0	0	0	0	0	0	0	0	0	0	0	0
Of which Options	308	304	3 153	3 367	0	0	0	0	0	0	0	0	0	0	0	0
Credit contracts	63	8	916	413	0	0	0	0	0	0	0	0	0	0	0	0
Of which Credit default swaps	63	8	916	413	0	0	0	0	0	0	0	0	0	0	0	0
Commodity and other contracts	133	134	1 147	1 148	0	0	0	0	0	0	0	0	0	0	0	0

1/ including hedges of a net investment in a foreign operation

2/ For the notional amounts in this table, both legs of the derivatives are reported.

- The Treasury departments of the various entities manage the interest rate risk. To prevent rate movements from having a negative impact, the maturities of assets and liabilities are adjusted on the balance sheet using interest rate swaps and other derivatives.
- The accounting mismatches due to the valuation of these derivatives and of the hedged assets and liabilities generate volatility in the income statement. This volatility is dealt with using various techniques provided for under IAS 39 rules for hedge accounting. KBC uses the following techniques:
  - Fair value hedges for a portfolio hedge of interest rate risk: used in interest rate risk management to hedge a portfolio of loans (term loans, home loans, instalment loans, straight loans) using interest rate swaps. The hedges are constructed in accordance with the requirements of the EU carve-out version of IAS 39 and allow changes in the fair value of the derivatives to be offset by changes in the fair value of the hedged assets and liabilities.
  - Various micro-hedging techniques in accordance with the principles of IAS 39 to limit volatility:
    - Cashflow hedges: used to swap floating-rate assets and liabilities for a fixed rate. This technique allows changes in the fair value of the derivative to be recognised in equity (in a cashflow hedge reserve).
    - Fair value hedges: used in certain asset-swap constructions. Using this technique, the interest rate risk attached to a bond is hedged for investments that were made purely on account of the credit spread. The technique is also applied when certain fixed-term debt instruments are issued by the bank (senior debt issues).
    - Hedges of net investments in foreign operations: the exchange risk attached to foreign-currency investments is hedged by attracting funding in the currency concerned at the level of the investing entity. This way, the translation differences on the hedge can be recognised in equity.
- As regards the relationship between risk management and hedge accounting policy, 'economic' management takes priority and risks are hedged in accordance with the general ALM framework. Only then is a decision made on which, if any, of these techniques will be used to limit any resulting accounting mismatch.
- For information on fair value adjustments in hedge accounting, see Note 3.3.
- The estimated cashflows from the cashflow hedging derivatives broken down per time bucket are given in the table.

Estimated cashflows from cashflow hedging derivatives

(in millions of EUR)	Inflow	Outflow
Not more than three months	21	- 16
More than three but not more than six months	19	- 46
More than six months but not more than one year	67	- 99
More than one but not more than two years	111	- 288
More than two but not more than five years	261	- 815
More than five years	889	- 1 833

5.0 Notes on other balance sheet items

Note 5.1 : Other assets

In millions of EUR	31-12-2016	31-12-2015
Total	732	758
Income receivable (other than interest income from financial assets)	42	32
Other Assets	690	726

Note 5.2 : Tax assets and tax liabilities

In millions of EUR	31-12-2016	31-12-2015
CURRENT TAXES		
Current tax assets	49	96
Current tax liabilities	124	88
DEFERRED TAXES	2 134	2 080
Tax assets by type of temporary difference	2 573	2 645
Employee benefits	176	148
Losses carried forward	1 049	1 111
Tangible and intangible fixed assets	25	29
Provisions for risks and charges	20	37
Impairment for losses on loans and advances	246	216
Financial instruments at fair value through profit or loss and fair value hedges	85	188
Fair value adjustments, available-for-sale assets, cash flow hedges and hedges of net investments in foreign entities	920	805
Other	52	111
Deferred tax liabilities by type of temporary difference	439	564
Employee benefits	10	91
Losses carried forward	0	0
Tangible and intangible fixed assets	97	97
Provisions for risks and charges	0	0
Impairment for losses on loans and advances	6	8
Financial instruments at fair value through profit or loss and fair value hedges	26	11
Fair value adjustments, available-for-sale assets, cash flow hedges and hedges of net investments in foreign entities	251	272
Other	50	85
Recognised in the balance sheet as follows:		
Deferred tax assets	2 227	2 189
Deferred tax liabilities	93	109
Unused tax losses and unused tax credits	450	492

- Deferred tax assets are recognised to the extent that it is probable that, on the basis of realistic financial projections, taxable profit will be available against which the deductible temporary differences can be utilised in the foreseeable future (limited to a period of eight to ten years).
- Unused tax losses and unused tax credits concern tax losses of group companies which are not capitalised due to insufficient proof of future taxable profit. Most unused tax losses and unused tax credits can be carried forward for 20 years or more.
- The net change in deferred taxes (+54 million euros in 2016) breaks down as follows:
  - a decrease in deferred tax assets: -72 million euros;
  - a decrease in deferred tax liabilities: -125 million euros.
- The change in deferred tax assets was accounted for chiefly by:
  - the decrease in deferred tax assets via the income statement: -236 million euros (owing primarily to financial instruments at fair value through profit or loss (-159 million euros), losses carried forward (-57 million euros), provisions for risks and charges (-17 million euros) and the decrease related to fixed assets (-3 million euros));
  - the increase in deferred tax assets consequent on movements in the market value of cashflow hedges: +88 million euros;
  - the increase in deferred tax assets on account of changes in the revaluation reserve for hedges of net investments in foreign operations: +36 million euros;
  - the increase in deferred tax assets relating to changes in defined benefit plans recognised in other comprehensive income: +28 million euros;
  - other items (including exchange differences): +12 million euros.
- The change in deferred tax liabilities was accounted for chiefly by:
  - the decrease in deferred tax liabilities via the income statement: -34 million euros (owing primarily to the decline in financial instruments at fair value through profit or loss;
  - the decrease in deferred tax liabilities relating to changes in defined benefit plans recognised in other comprehensive income: -83 million euros;
  - other items (including exchange differences): -8 million euros.
- The deferred tax assets presented in the balance sheet are attributable primarily to KBC Bank.

Note 5.3 : Investments in associated companies and joint ventures

In millions of EUR	31-12-2016	31-12-2015
Total	180	181
Overview of investments including goodwill		
Ceskomoravská stavebni sporitelna a.s. (CMSS)	178	179
Other	2	2
Goodwilll on associated companies and joint ventures	0	0
Gross amount	0	0
Accumulated impairment	0	0
Breakdown by type		
Unlisted	180	181
Listed	0	0
Fair value of investments in listed associated companies	0	0

- Associated companies are companies on whose management KBC exerts significant influence, without having direct or indirect full or joint control. In general, KBC has a 20% to 50% shareholding in such companies. Joint ventures are companies over which KBC exercises joint control.

- ‘Investments in associated companies’ is accounted for primarily by ČMSS, a joint venture of ČSOB in the Czech Republic. The following is a summary of financial data for ČMSS (on 55% basis):

Ceskomoravská stavebni sporitelna a.s. (in millions of EUR)	2016	2015
Cash and cash balances with central banks	315	309
Financial assets	2 691	2 773
Non financial assets	33	30
TOTAL ASSETS	3 039	3 112
Financial liabilities	2 818	2 890
Non financial liabilities	42	44
Total equity	178	179
TOTAL LIABILITIES AND EQUITY	3 039	3 112
Total income	62	64
Interest income	99	109
Interest expense	- 49	- 57
Opex	- 28	- 25
Impairments	- 5	- 12
Income tax	- 5	- 5
Total profit	23	23
Other comprehensive income	- 1	0
Total comprehensive income	22	23

- Goodwill paid on associated companies and joint ventures is included in the nominal value of ‘Investments in associated companies and joint ventures’ shown on the balance sheet. An impairment test was performed and the necessary impairment losses on goodwill recognised (see table).

Note 5.4 : Property and equipment and investment property

In millions of EUR	31-12-2016	31-12-2015
Property and equipment	2 249	2 087
Investment property	272	275
Rental income	27	37
Direct operating expenses from investments generating rental income	6	26
Direct operating expenses from investments not generating rental income	1	1

MOVEMENTS TABLE	Land and buildings	IT equipment	Total Other equipment	Total property and equipment	Investment property
2016					
Opening balance	1 041	35	1 010	2 087	275
Acquisitions	80	28	563	671	35
Disposals	- 18	0	- 219	- 237	- 24
Depreciation	- 63	- 16	- 18	- 97	- 11
Other movements	- 4	- 1	- 169	- 174	- 3
Closing balance	1 036	46	1 167	2 249	272
of which accumulated depreciation and impairment	1 125	162	606	1 893	119
Fair value 31-12-2016					399
2015					
Opening balance	1 076	27	927	2 029	397
Acquisitions	107	8	383	499	5
Disposals	- 68	0	- 147	- 216	- 5
Depreciation	- 63	- 15	- 18	- 96	- 12
Other movements	- 10	15	- 135	- 130	- 110
Closing balance	1 041	35	1 010	2 087	275
of which accumulated depreciation and impairment	1 085	157	608	1 851	114
Fair value 31-12-2015					404

- Annual rates of depreciation: mainly 3% for buildings (including investment property), 33% for IT equipment, between 5% and 33% for other equipment. No depreciation is charged for land.
- There was a small amount (around 0.2 billion euros) for commitments for the acquisition of property and equipment. There are no material restrictions on title, or on property and equipment pledged as security for liabilities.
- Most investment property is valued by an independent expert on a regular basis and by in-house specialists on an annual basis, based primarily on the capitalisation of the estimated rental value and on unit prices of similar real property. Account is taken of all the market inputs available on the date of the assessment (including location and market situation, type of building and construction, state of repair, use, etc.).
- Certain other investment property is valued annually by in-house specialists based on the current annual rental per building and expected rental movements and on an individual capitalisation rate per building.

Note 5.5 : Goodwill and other intangible assets

In millions of EUR	Goodwill	Software developed inhouse	Software developed externally	Other	Total
2016					
Opening balance	626	60	139	6	831
Acquisitions	0	41	34	6	81
Disposals	0	- 1	- 3	- 5	- 8
Amortisation	0	- 23	- 26	- 1	- 49
Other movements	3	0	- 2	0	0
Closing balance	628	77	142	7	854
of which accumulated amortisation and impairment	118	70	335	23	546
2015					
Opening balance	927	16	80	4	1 027
Acquisitions	0	11	42	8	61
Disposals	0	0	- 1	- 6	- 7
Amortisation	0	- 9	- 23	0	- 32
Other movements	- 301	43	40	0	- 218
Closing balance	626	60	139	6	831
of which accumulated amortisation and impairment	653	51	304	32	1 040

- Goodwill: includes the goodwill paid on companies included in the scope of consolidation and relating to the acquisition of activities. Goodwill paid on associated companies: included in the nominal value of ‘Investments in associated companies’ shown on the balance sheet.
- Impairment testing: a test was carried out to establish whether impairment on goodwill had to be recognised (see table and Note 3.9). This impairment test is performed at least once a year. We also carry out a high level assessment on a quarterly basis to see whether there is an indication of impairment. In the test, each entity is regarded as a separate cash-generating unit. Each entity has a specific risk profile and it is rare to have different profiles within a single entity.
- Impairment on goodwill under IAS 36: recognised in profit or loss if the recoverable amount of an investment is lower than its carrying value. The recoverable amount is defined as the higher of the value in use (calculated based on discounted cashflow analysis) and the fair value (calculated based on multiple analysis, etc.) less costs to sell.
- The main group companies to which goodwill relates are listed in the table (the consolidated entity in each case, i.e. including subsidiaries). All of these companies have been valued using the discounted cashflow method. This method calculates the recoverable amount of an investment as the present value of all future free cashflows of the business. This method is based on long-term projections about the company’s business and the resulting cashflows (i.e. projections for a number of years ahead (usually 16), and the residual value of the business at the end of the specific projection period). These long-term projections are the result of an assessment of past and present performances combined with external sources of information on future performances in the respective markets and the global macroeconomic environment. The terminal growth rate is determined using a long-term average market growth rate. The present value of these future cashflows is calculated using a compound discount rate which is based on the capital asset pricing model (CAPM). A risk-free rate, a market-risk premium (multiplied by an activity beta), and a country risk premium (to reflect the impact of the economic situation of the country where KBC is active) are also used in the calculation. KBC has developed two distinct discounted cashflow models, viz. a bank model and an insurance model. Free cashflows in both cases are the dividends that can be paid out to the company’s shareholders, account taken of the minimum capital requirements.

Outstanding goodwill (in millions of EUR)			Discount rates throughout the specific period of cashflow projections	
	31-12-2016	31-12-2015	31-12-2016	31-12-2015
K&H Bank	223	220	12,8%-10,5%	13,6%-10,7%
CSOB Bank (Czech Republic)	267	267	10,1%-9,5%	9,9%-9,7%
Rest	138	138	-	-
Totaal	628	626	-	-

- The period to which the cashflow budgets and projections relate is 16 years in most cases. This longer period is used to take account of the expected convergence of the Central and Eastern European economies with their Western European counterparts. This significant assumption is used in the model to reflect the dynamism of the economies in Central and Eastern Europe.
- The growth rate used to extrapolate the cashflow projections after the 16-year period is 2%, which is equal to the expected long-term growth rate of gross domestic product. This rate of growth was the same as in 2015.
- No sensitivity analysis was carried out for entities where the recoverable amount exceeded the carrying value to such a large extent that no reasonably possible change in the key assumptions would result in the recoverable amount being less than or equal to the carrying value. The table gives an indication for K&H Bank of the change in key assumptions that would lead to their recoverable amount equalling their carrying value.

Change in key assumptions[1]	Increase in discount rate[2]	Decrease in terminal growth rate[3]	Increase in targeted solvency ratio[4]	Decrease in annual net profit	Increase in annual impairments
K&H Bank	2,83%	-	3,91%	19,50%	113,50%

[1] Needless to say account should be taken of the fact that a change in these assumptions could affect other assumptions used to calculate the recoverable amount.
[2] Based on a parallel shift and absolute increase in the discount rate curve. Discount rates are in the 15.6%–13.4% bracket.
[3] Not relevant for K&H Bank as it would mean that the terminal growth rate will be negative.
[4] Absolute increase in the tier-1 capital ratio.

Note 5.6 : Provisions for risks and charges

In millions of EUR	Provision for restruc-turing	Provision for taxes and pending legal disputes	Other	Subtotal	Provision, off-balance-sheet credit commit-ments	Total
2016						
Opening balance	9	115	29	153	125	278
Movements with an impact on result						
Amounts allocated	0	20	5	25	41	66
Amounts used	- 2	- 20	- 8	- 30	- 11	- 41
Unused amounts reversed	0	- 11	- 1	- 12	- 42	- 54
Transfer to or from non-current liabilities regarding disposal groups	0	0	0	0	0	0
Change in consolidation scope	- 1	0	0	- 1	0	- 1
Other movements	- 3	- 1	0	- 4	- 38	- 42
Closing balance	3	103	25	131	76	207
2015						
Opening balance	31	225	113	369	158	527
Movements with an impact on result						
Amounts allocated	7	15	10	31	44	75
Amounts used	- 31	- 82	- 79	- 193	0	- 193
Unused amounts reversed	0	- 40	- 17	- 57	- 52	- 109
Transfer to or from non-current liabilities regarding disposal groups	0	0	0	0	0	0
Change in consolidation scope	0	0	- 1	- 1	0	- 1
Other movements	2	- 2	4	4	- 25	- 21
Closing balance	9	115	29	153	125	278

- For most of the provisions recorded, no reasonable estimate can be made of when they will be used.
- Other provisions included those set aside for miscellaneous risks.
- Information relating to the main legal disputes pending: claims filed against KBC group companies are – in keeping with IFRS rules – treated on the basis of an assessment of whether they will lead to an outflow of resources (i.e. ‘probable outflow’, ‘possible outflow’ or ‘remotely probable outflow’). Provisions are set aside for ‘probable outflow’ cases (see ‘Notes on the accounting policies’). No provisions are constituted for ‘possible outflow’ cases, but information is provided in the financial statements if such cases might have a material impact on the balance sheet (i.e. when the claim could lead to a possible outflow of more than 50 million euros). All other claims (‘remotely probable outflow’), of whatever magnitude, that represent a minor or no risk at all do not have to be reported. The most important cases are listed below. The information provided is limited in order not to prejudice the position of the group in ongoing litigation.
- Probable outflow (related to 'Provisions for taxes and pending legal disputes'):
  - From the end of 1995 until the beginning of 1997, KBC Bank and KB Consult were involved in the transfer of cash companies. Cash companies are characterised by the fact that the asset side of their balance sheets comprises primarily amounts receivable and cash, in addition to other liquid assets. On several occasions between 1995 and 1997, KB Consult acted as the intermediary between the sellers and buyers of such companies. There were various ways in which the bank could be involved, but in most cases they concerned payments or lending. KBC Bank and/or KB Consult were joined to proceedings in a number of cases. In addition, KB Consult was placed under suspicion by an investigating judge in 2004, and together with KBC Bank and KBC Group NV, was summoned to appear in the proceedings before a judge in chambers in Bruges. On 9 November 2011, the judge referred KB Consult and KBC Bank to Bruges Criminal Court on charges of uttering, but dismissed the charges against KBC Group NV. The Belgian state appealed the decision of no case to answer against KBC Group NV. On 27 October 2015, the indictments division ruled that proceedings were time-barred and upheld the original decision of no case to answer. The case as referred will now be heard before Bruges Criminal Court in the course of 2017. A suitable provision has been constituted to deal with the potential impact of claims for damages in this respect. The transfer of a cash company is in principle completely legitimate. However, it later transpired that certain purchasers were acting in bad faith since they did not make any investments at all and did not file tax returns for the cash companies they had purchased. KBC Bank and KB Consult immediately took the necessary measures to preclude any further involvement with these parties. Referral to the criminal court does not in any way imply that any KBC entity has been convicted of an offence. KBC is fully defending its position in these cases, based, among other things, on the fact that, during the period in which the events took place, the legal entity was not liable to prosecution and, in particular, KBC was utterly lacking in criminal intent.
  - In March 2000, Rebeo and Trustimmo, two subsidiaries of Almafin (a subsidiary of KBC Bank), together with four former directors of Broeckdal Vastgoedmaatschappij (a real estate company) were summoned by the Ministry of Finance to appear before the civil court in Brussels regarding non-payment of 16.7 million euros in taxes owed by Broeckdal. However, Broeckdal contested this claim and in December 2002 initiated court proceedings against the Ministry of Finance before the civil court in Antwerp. The civil case pending before the Brussels court has been suspended until final judgment has been passed in the tax-related proceedings pending before the Antwerp court. Broeckdal was wound up by court order on 2 November 2010 and was declared properly wound up and dissolved on 13 September 2011. A suitable provision has been set aside to cover potential damages.

- Possible outflow:
  - On 6 October 2011, Irving H. Picard, trustee for the substantively consolidated SIPA (Securities Investor Protection Corporation Act) liquidation of Bernard L. Madoff Investments Securities LLC and Bernard L. Madoff, sued KBC Investments before the bankruptcy court in New York to recover approximately 110 million US dollars' worth of transfers made to KBC entities. The basis for this claim was the subsequent transfers that KBC received from Harley International, a Madoff feeder fund established under the laws of the Cayman Islands. This claim is one of a whole set made by the trustee against several banks, hedge funds, feeder funds and investors. In addition to the issues addressed by the district court, briefings were held on the applicability of the Bankruptcy Code's 'safe harbor' and 'good defenses' rules to subsequent transferees (as is the case for KBC). KBC, together with numerous other defendants, filed motions for dismissal. District court Judge Jed Rakoff has made several intermediate rulings in this matter, the most important of which are the rulings on extraterritoriality and good faith defences. On 27 April 2014, Judge Rakoff issued an opinion and order regarding the 'good faith' standard and pleading burden to be applied in the Picard/SIPA proceeding based on sections 548(b) and 559(b) of the Bankruptcy Code. As such, the burden of proof that KBC should have been aware of the fraud perpetrated by Madoff in this matter is for Picard/SIPA. On 7 July 2014, Judge Rakoff ruled that Picard/SIPA's reliance on section 550(a) does not allow for the recovery of subsequent transfers received abroad by a foreign transferee from a foreign transferor (as is the case for KBC Investments Ltd). Therefore, the trustee's recovery claims were dismissed to the extent that they seek to recover purely foreign transfers. In June 2015, the trustee filed a petition against KBC to overturn the ruling that the claim fails on extraterritoriality grounds. In this petition, the trustee also amended the original claim including the sum sought, which was increased to 196 million US dollars. On 22 November 2016, Judge Bernstein handed down an intermediate ruling dismissing the claims of the trustee in respect of those foreign transfers under the rules of international comity. The final judgment on this matter is expected in the first quarter of 2017. The trustee can then still appeal.
  - In the spring of 2008, KBC issued two bonds, KBC IFIMA 5-5-5 and KBC Group 5-5-5 (totalling 0.66 billion euros – also see Note 8 in the 2011 and 2012 annual reports). These structured bonds had a term of five years, a gross coupon of 5%, and were linked until their maturity to the public debt of five countries (Belgium, France, Spain, Italy and Greece). They allowed for early redemption of the residual value as soon as a credit event occurred with respect to one of these countries. When the 5-5-5 bonds were launched, the sovereign risks were generally regarded as very low. However, the unexpected, far-reaching changes in market conditions early in 2010 (the Greek crisis) changed the original risk profile of these bonds. At the start of 2011, KBC proactively decided to offer additional security to holders of 5-5-5 bonds and informed them of this in writing: if a credit event occurred, investors would still get back the amount they had invested, less the coupons already received and less taxes and charges. On 9 March 2012, a credit event actually occurred in Greece, and KBC honoured the promise it made. On 8 October 2012, a number of parties who had subscribed to the 5-5-5 bonds issued by KBC Group NV and by KBC IFIMA raised proceedings before Brussels Court of First Instance, as they were not satisfied with the proposed settlement. In the case involving the KBC Group NV issue, the court handed down a judgment on 20 January 2016, which found in favour of one of the plaintiffs. KBC Bank and KBC Group NV have appealed the case, with the final submissions being filed on 16 March 2017. No date has been set yet for the court hearing.

Note 5.7 : Other liabilities

In millions of EUR	31-12-2016	31-12-2015
Total	1 902	1 730
Breakdown by type		
Retirement benefit plans or other employee benefits	577	238
Accrued charges (other than from interest expenses on financial liabilities)	244	224
Other	1 080	1 268

- For more information on retirement benefit obligations, see Note 5.8 (note that the amount recognised under 'Retirement benefit obligations or other employee benefits' in Note 5.7 relates to a broader scope than the amounts presented in Note 5.8).

Note 5.8 : Retirement benefit obligations

In millions of EUR	31-12-2016	31-12-2015
DEFINED BENEFIT PLANS		
Reconciliation of defined benefit obligations		
Defined benefit obligations at the beginning of the period	2 230	2 444
Current service cost	77	112
Interest cost	40	43
Plan amendments	0	0
Actuarial gain or loss arising from changes in demographic assumptions	5	- 8
Actuarial gain or loss arising from changes in financial assumptions	266	- 206
Experience adjustments	51	- 46
Past-service cost	- 1	0
Benefits paid	- 67	- 107
Exchange differences	- 9	8
Curtailments	1	- 9
Transfers under IFRS 5	0	0
Changes in the scope of consolidation	0	0
Other	- 466	0
Defined benefit obligation at end of the period	2 126	2 230
Reconciliation of the fair value of plan assets		
Fair value of plan assets at the beginning of the period	1 995	1 939
Actual return on plan assets	124	76
Expected return on plan assets	34	34
Employer contributions	67	56
Plan participant contributions	21	21
Benefits paid	- 67	- 103
Exchange differences	- 8	7
Settlements	0	0
Transfers under IFRS 5	0	0
Changes in the scope of consolidation	0	0
Other	- 532	0
Fair value of plan assets at the end of the period	1 600	1 995
of which financial instruments issued by the group	32	50
of which property occupied by KBC	6	8
Funded Status		
Plan assets in excess of defined benefit obligations	- 526	- 235
Reimbursement rights	54	54
Asset ceiling limit	- 28	- 4
Unfunded accrued/prepaid pension cost	- 500	- 185
Movement in net liabilities or net assets		
Unfunded accrued/prepaid pension cost at the beginning of the period	- 185	- 451
Amounts recognised in the income statement	- 62	- 95
Amounts recognised in other comprehensive income	- 365	305
Employer contributions	67	58
Exchange differences	0	- 1
Transfers under IFRS 5	1	0
Changes in the scope of consolidation	0	0
Other	44	- 2
Unfunded accrued/prepaid pension cost at the end of the period	- 500	- 185
Amounts recognised in the income statement	**62**	**95**
Current service cost	77	112
Past-service cost	- 1	0
Interest cost	6	9
Plan participant contributions	- 21	- 21
Curtailments	0	- 5
Settlements	0	0
Changes in the scope of consolidation	0	0
Changes to the amounts recognised in other comprehensive income	**364**	**- 305**
Actuarial gain or loss arising from changes in demographic assumptions	5	- 8
Actuarial gain or loss arising from changes in financial assumptions	266	- 206
Actuarial result on plan assets	- 90	- 43
Experience adjustments	51	- 46
Adjustments to limits of the asset ceiling	24	0
Other	108	- 2
DEFINED CONTRIBUTION PLANS		
Expenses for defined contribution plans	13	8

- The pension claims of the Belgian-based staff of the various KBC group companies are covered by pension funds and group insurance schemes. Retirement benefits that are actively accrued for the current workforce of KBC Bank and most of their Belgian subsidiaries are accrued exclusively through the KBC pension funds. Retirement benefits accrued through employer contributions are currently accrued primarily through a defined benefit plan, where the benefit is calculated based on the final salary of employees before they retire, the number of years they had been in the plan and a formula that applies a progressive rate scale. A defined contribution plan was introduced on 1 January 2014 for all new employees. In this plan, a contribution is deposited based on the current monthly salary and the amounts deposited are paid out together with the (guaranteed) return on retirement. Both types of pension plan are managed by the OFP Pensioenfonds KBC and the OFP Pensioenfonds Senior Management KBC, which uses the services of KBC Asset Management for the investment strategy. In addition, there are a number of smaller, closed group insurance schemes from the past that will continue to be funded.
- KBC Bank Ireland participated in a fully funded defined benefit plan until 31 August 2012. As of that date, no additional pension rights will be accumulated under that plan for future years of service. Benefits accrued in the plan continue to be linked to future salary increases of the participants (i.e. it will be managed dynamically). The assets of the pension plan have been separated from the assets of the bank. The employees of KBC Finance Ireland and the Dublin branch of KBC Bank are also signed up to this pension plan. The retirement benefits are calculated using a mathematical formula that takes account of age, salary and the length of time the participant was signed up.

Additional information regarding retirement benefit obligations (in millions of EUR)

Changes in main headings in the main table	2016	2015	2014	2013	2012
Defined benefit obligations	2 126	2 230	2 444	1 878	2 046
Fair value of plan assets	1 600	1 995	1 939	1 596	1 552
Unfunded accrued/prepaid pension cost	- 500	- 185	- 451	- 228	- 440
Impact of changes in the assumptions used in the actuarial calculation of plan assets and gross liabilities	2016	2015	2014	2013	2012
Impact on plan assets	0	0	0	0	0
Impact on defined benefit obligations	147	24	- 135	- 85	213

Additional information on retirement benefit obligations: DEFINED BENEFIT PLANS

	KBC pension fund	KBC Bank Ireland pension plan
Composition (31-12-2016)		
Shares	34%	41%
Bonds	49%	35%
Real estate	13%	3%
Cash	4%	0%
Investment funds	0%	21%
Of which illiquid assets	8%	0%
Composition (31-12-2015)		
Shares	38%	41%
Bonds	49%	16%
Real estate	10%	3%
Cash	3%	2%
Investment funds	0%	37%
Of which illiquid assets	4%	0%

Additional information on retirement benefit obligations: DEFINED BENEFIT PLANS

	KBC pension fund	KBC Bank Ireland pension plan
Contributions expected in 2017 (in millions of EUR)	36	4
Regulatory framework	Pension plans are registered in collective labour agreements and incorporated into a set of regulations. Annual reporting of funding levels to supervisory authorities (FSMA/NBB). Any underfunding must be reported immediately to the supervisory authorities.	Regulated by the Irish Pensions. Authority. Funding level calculated every year and certified every three years. Any underfunding must be reported immediately to the Irish Pensions Authority.
Risks for KBC	Investment risk and inflation risk.	Investment risk.
ALM policy	The hedging portfolio hedges against interest rate risk and inflation risk using interest rate swaps. The return portfolio aims to generate an extra return.	Investments in leveraged LDI pooled funds.
Plan amendments	An employer-funded defined contribution plan was introduced on 1 January 2014. All employees joining the company from that date are signed up to this new plan, while all those who were already employed on 31 December 2013 remain signed up to the defined benefit plan unless they chose to switch to the new one.	For a number of members (employees of KBC Finance Ireland) benefits will be linked to inflation rather than salary increases in the future.
Curtailments and settlements	Not applicable	For a number of members (employees of KBC Finance Ireland) benefits will be linked to inflation rather than salary increases in the future.
Discounting method	Based on iBoxx quotes for various time buckets of AA-rated corporate bonds. The resulting yield curve is converted into a zero coupon curve. As of year 14, extrapolation is applied and as of year 18 the curve is extrapolated flat.	The Mercer method starts from a self-composed basket of corporate bonds with AAA, AA and A ratings. A spread is deducted from the bonds with an A rating in order to obtain the equivalent of an AA-rated corporate bond. After conversion to the zero coupon format using extrapolation for long maturities, the equivalent discount rate is determined.
Key actuarial assumptions		
Average discount rate	1,32%	2,10%
Expected rate of salary increase	2,80%	2,60%
Expected inflation rate	1,85%	1,60%
Expected rate of increase in pensions	–	1,60%
Weighted average duration of the obligations	13,23 years	28 years
Impact of changes in the assumptions used in the actuarial calculation of the retirement benefit obligations		
Increase in the retirement benefit obligations on 31-12-2016 consequent on:		
a decrease of 1% in the discount rate	14,76%	32,81%
an increase of 1% in the expected inflation rate	12,33%	32,51%
an increase that is 1% higher than the expected real increase in salary	15,96%	6,76%
the age of retirement being 65 for all active employees	1,56%	–
an increase of one year in life expectancy	–	2,95%
The impact of the following assumptions has not been calculated:	Decreasing mortality rates. Pension benefits are paid out in capital, so longevity risk is immaterial. Staff turnover rates, since the expected rate is very low.	Not applicable

Additional information on retirement benefit obligations – DEFINED CONTRIBUTION PLANS

	KBC pension fund
Contributions expected in 2017 (in millions of EUR)	18
Regulatory framework	Pursuant to the Belgian Supplementary Pensions Act, the employer must guarantee a minimum return of 1.75% on employee and employer contributions.
Risks for KBC	Investment risk.
Valuation	The retirement benefit obligations in the defined contributions plans are valued taken into account the guaranteed reserves at valuation date, a projection of these reserves till the expected retirement age at the legally guaranteed interest rate, and a discounting of the resulting benefit obligations at the same discounting curve as applied for defined benefit plans KBC offers two types of defined contribution plans: one financed by employee contributions and one financed by employer contributions: - The valuation of the defined contribution plan based on employee contributions takes into account the accrued reserves at fund return but does not take into account future contributions as this plan is not considered to be backloaded. - The valuation of the defined contribution plan based on employer contributions does take into account future contributions in the projection as this plan is considered to be backloaded.
Discounting method	Based on iBoxx quotes for various time buckets of AA-rated corporate bonds. The resulting yield curve is converted into a zero coupon curve. As of year 14, extrapolation is applied and as of year 18 the curve is extrapolated flat.
Key actuarial assumptions	
Average discount rate	1,07%
Weighted average duration of the obligations	11,20 jaar
Impact of changes in the assumptions used in the actuarial calculation of the retirement benefit obligations	
Increase in the retirement benefit obligations on 31-12-2016 consequent on:	
a decrease of 1% in the discount rate	9,93%
the age of retirement being 65 for all active employees	0,55%

Note 5.9 : Parent shareholders' equity and AT1 instruments

In number of shares	31-12-2016	31-12-2015
Ordinary shares	**915 228 482**	**915 228 482**
of which ordinary shares that entitle the holder to a dividend payment	915 228 482	915 228 482
of which treasury shares	*0*	*0*
Other information		
Par value per ordinary share (in EUR)	9,78	9,78
Number of shares issued but not fully paid up	0	0

- Ordinary shares: ordinary shares of no nominal value. All ordinary shares carry voting rights and each share represents one vote. No participation certificates or non-voting shares have been issued.
- On 31 December 2016, 915 228 482 ordinary shares were in circulation, of which 915 228 481 shares belonged to KBC Group NV and 1 share belonged to KBC Insurance NV.
- Additional tier-1 instruments: in March 2014, KBC issued 1.4 billion euros in CRD IV-compliant additional tier-1 securities. These securities qualify as additional tier-1 capital under Basel III (as adopted in the CRR) and, therefore, have had a positive impact on KBC's tier-1 capital. They are perpetual and may be called for redemption after five years or on each subsequent coupon date. They also have a loss absorption mechanism (i.e. a temporary write-down trigger should the common equity tier-1 ratio fall below 5.125%). Since they are classified as shares under IAS 32 (because they have fully discretionary non-cumulative coupons and are perpetual), the annualised coupon of 5.825% – which is paid every quarter – is treated as a dividend. This transaction had no impact on the number of ordinary shares.

Note 5.10: Non-current assets held for sale and discontinued operations (IFRS 5)

No principal group companies fell under the scope of IFRS 5 in 2015 and 2016.

6.0 Other notes

Note 6.1 : Commitments and guarantees granted and received

In millions of EUR	31-12-2016	31-12-2015
Credit commitments - undrawn amount		
Given	34 344	36 891
Irrevocable	21 870	19 580
Revocable	12 474	17 311
Received	31	134
Financial guarantees		
Given	9 916	9 368
Guarantees received / collateral	42 492	34 476
For impaired and past due assets	3 795	1 699
For assets that are not impaired or past due assets	38 697	32 777
Other commitments		
Given	238	220
Irrevocable	238	220
Revocable	0	0
Received	6	0
Carrying value of financial assets pledged as collateral for		
Liabilities	35 117	29 826
Contingent liabilities	2 339	3 311

*At year-end 2016 11,2 billion euros worth of residential mortgage loans and cash collections were entered in the cover asset register for the special estate of the covered bond programme (12 billion euros at year-end 2015).

- Fair value of financial guarantees: based on the available market value.
- KBC Group NV irrevocably and unconditionally guarantees all amounts shown as liabilities in the statutory financial statements of the following Irish companies in respect of the financial year ending on 31 December 2016, allowing these companies to be eligible for exemption from certain disclosure requirements, pursuant to Section 357 of the Irish Companies Act 2014:
  - KBC Fund Management Limited.
  Since this company is included in the scope of consolidation, this is an intragroup transaction and the guarantee is not included in the above table.
- There is an obligation to return collateral received (which may be sold or repledged in the absence of default by the owner; see table) in its original form, or possibly in cash. Collateral can be called in if loans are terminated for various reasons such as default or bankruptcy. In the event of bankruptcy, the collateral will be sold by the receiver. In other cases, the bank will organise the foreclosure itself or take possession of the collateral. Collateral received that relates to OTC derivatives is primarily cash, which is recognised by KBC on the balance sheet (and is not included in the table). More details are provided in Note 4.3.

Collateral held (which may be sold or repledged in the absence of default by the owner) (in millions of EUR)	Fair value of collateral held		Fair value of collateral sold or repledged	
	31-12-2016	31-12-2015	31-12-2016	31-12-2015
Financial assets	15 086	12 666	7 859	6 881
Equity instruments	13	1	5	0
Debt instruments	14 867	12 499	7 854	6 881
Loans & advances	206	166	0	0
Cash	0	0	0	0
Non-financial assets	0	0	0	0
Property and equipment	0	0	0	0
Investment property	0	0	0	0
Other	0	0	0	0

- Collateral acquired through foreclosure came to 0.3 billion euros in 2016 (0.2 billion euros in 2015).

Note 6.2 : Leasing

In millions of EUR	31-12-2016	31-12-2015
Finance lease receivables		
Gross investment in finance leases, receivable	5 453	5 114
At not more than one year	1 323	1 229
At more than one but not more than five years	2 836	2 615
At more than five years	1 294	1 270
Unearned future finance income on finance leases	530	593
Net investment in finance leases	4 916	4 512
At not more than one year	1 212	1 100
At more than one but not more than five years	2 601	2 358
At more than five years	1 103	1 054
Of which unguaranteed residual values accruing to the benefit of the lessor	21	38
Accumulated impairment for uncollectable lease payments receivable	67	83
Contingent rents recognised in income	93	95
Operating lease receivables		
Future aggregate minimum rentals receivable under non-cancellable leases	554	434
Contingent rents recognised in income	0	0

- There are no significant cases in which KBC is the lessee in operating or finance leases.
- Pursuant to IFRIC 4, no operating or finance leases contained in other contracts were identified.
- Finance leases: KBC provides most finance leases through separate companies operating mainly in Belgium and Central Europe. It offers finance lease products ranging from equipment and vehicle leasing to real estate leasing. In Belgium, finance leases are typically sold through KBC group’s branch network, and that channel is becoming increasingly important in Central Europe, too.
- Operating leases: involve primarily full service car leases, which are sold through the KBC Bank and CBC Banque branch network and through an internal sales team. Full service car leasing activities are being further developed in Central Europe, too.

Note 6.3 : Related-party transactions

Transactions with related parties, excluding key management personnel (in millions of EUR)

	31-12-2016						31-12-2015					
	Parent enitities with joint control	Subsi-diaries	Associa-ted com-panies	Joint Ventures	Other	Total	Parent enitities with joint control	Subsi-diaries	Associa-ted com-panies	Joint Ventures	Other	Total
Assets	12	292	154	11	1 855	2 324	9	272	112	5	2 173	2 571
Loans and advances	0	104	46	1	1 608	1 759	1	133	55	1	1 955	2 146
Equity instruments	0	187	106	10	0	303	0	122	47	3	0	173
Other receivables	12	1	1	0	247	262	8	18	10	0	218	253
Liabilities	3 492	364	109	289	1 459	5 713	2 128	719	121	315	1 952	5 235
Deposits	27	364	8	289	1 339	2 027	159	581	17	259	1 741	2 757
Other financial liabilities	3 447	0	0	0	27	3 474	1 944	101	0	0	70	2 115
Other liabilities (including accrued expense)	17	0	101	0	94	212	25	37	104	56	141	363
Income statement	- 710	13	1	- 4	- 262	- 962	- 881	14	- 1	- 4	- 42	- 915
Net interest income	- 50	- 2	- 1	- 4	- 147	- 203	- 39	- 1	- 1	- 6	- 111	- 159
Interest income	0	1	1	0	2	4	0	2	1	2	1	6
Interest expense	- 50	- 2	- 2	- 5	- 149	- 208	- 39	- 4	- 2	- 8	- 112	- 165
Dividend income	0	0	9	0	3	13	0	0	0	1	6	8
Net fee and commission income	0	14	- 1	0	81	95	0	14	- 1	0	87	100
Fee and commission income	0	14	0	1	143	158	0	14	0	0	156	171
Fee and commission expense	0	0	- 1	0	- 62	- 63	0	0	- 1	0	- 69	- 71
Net other income	0	0	- 5	0	- 153	- 158	- 1	1	1	0	- 23	- 22
General administrative expenses	- 660	0	- 1	0	- 46	- 708	- 841	0	0	0	0	- 841
Loan commitments, financial guarantees and other commitments												
issued by the group	0	10	6	0	151	167	0	138	6	1	185	329
received by the group	0	0	0	0	0	0	0	0	0	0	0	0

Transactions with key management personnel (members of the Board of Directors and the Executive Committee of KBC Group), in millions of EUR	31-12-2016	31-12-2015
Total[1]	2	1
Breakdown by type of remuneration		
Short-term employee benefits	1	1
Post-employment benefits	0	0
Defined benefit plans	0	0
Defined contribution plans	0	0
Other long-term employee benefits	0	0
Termination benefits	0	0
Share-based payments	0	0
Share options, in units		
At the beginning of the period	0	0
Granted	0	0
Exercised	0	0
Changes in composition of directors	0	0
At the end of the period	0	0
Advances and loans granted to the directors and partners	2	2

[1]Remuneration to directors or partners of the consolidating company on the basis of their activity in that company, its subsidiaries and associated companies, including the amount of retirement pensions granted to former directors or partners on that basis

- Entities in the first table concerns transactions with KBC Group NV
- Subsidiaries in the first table : concerns transactions with subsidiaries that are not consolidated (transactions with consolidated subsidiaries are eliminated in the consolidated financial statements)
- The ‘Other’ heading in the first table includes KBC Insurance, KBC Ancora, Cera and MRBB.
- All related-party transactions occur at arm’s length.
- Key management comprises the members of the Board of Directors and Executive Committee of KBC Bank NV. More detailed information on remuneration paid to key management staff is provided in the ‘Corporate governance statement’ section.
- There were no significant impairment charges vis-à-vis related parties.

Note 6.4 : Statutory auditor’s remuneration

- At the General Meeting of 4 May 2016, PricewaterhouseCoopers (PwC) was appointed as statutory auditor for a period of three years. Until that meeting, Ernst & Young Bedrijfsrevisoren BCVBA had acted as the company's statutory auditor.

Statutory auditor's remuneration (PwC, in EUR)

KBC Bank NV and its subsidiaries	2016
Standard audit services	5 751 538
Other services	682 279
Other certifications	230 269
Tax advice	39 340
Other non-audit assignments	412 670
KBC Bank NV (alone)	
Standard audit services	1 726 500
Other services	114 454

Note 6.5 : List of subsidiaries and associated companies, 31-12-2016

Company	Registered office	Company number	Share of capital held at group level (%)	Business unit (**)	Activity
KBC Bank: subsidiaries that are fully consolidated					
KBC Bank NV	Brussels - BE	0462.920.226	100,00	BEL/GRP	credit institution
Almafin Real Estate NV	Brussels - BE	0403.355.494	100,00	BEL	real estate
Almafin Real Estate Services NV	Brussels - BE	0416.030.525	100,00	BEL	real estate
Immo Arenberg NV	Brussels - BE	0471.901.337	100,00	BEL	real estate
Apitri NV	Brussels - BE	0469.889.873	100,00	BEL	real estate
CBC BANQUE SA	Brussels - BE	0403.211.380	100,00	BEL	credit institution
Československá Obchodná Banka a.s.	Bratislava - SK	--	100,00	IMA	credit institution
ČSOB Centrála, s.r.o.	Bratislava - SK	--	100,00	IMA	facilities management and support services
ČSOB Leasing a.s.	Bratislava - SK	--	100,00	IMA	leasing
ČSOB Leasing Poisťovaci Maklér s.r.o.	Bratislava - SK	--	100,00	IMA	leasing support
ČSOB Stavebná Sporiteľna a.s.	Bratislava - SK	--	100,00	IMA	building society
Československá Obchodní Banka a.s.	Prague - CZ	--	100,00	CZR	credit institution
Bankovní Informační Technologie s.r.o.	Prague - CZ	--	100,00	CZR	automatic data processing
Centrum Radlická a.s.	Prague - CZ	--	100,00	CZR	real estate
ČSOB Advisory a.s.	Prague - CZ	--	100,00	CZR	investment administration
ČSOB Factoring a.s.	Prague - CZ	--	100,00	CZR	factoring
ČSOB Leasing a.s.	Prague - CZ	--	100,00	CZR	leasing
ČSOB Leasing Pojisťovaci Maklér s.r.o.	Prague - CZ	--	100,00	CZR	leasing support
ČSOB Penzijní společnost a.s.	Prague - CZ	--	100,00	CZR	pension insurance fund
ČSOB Property Fund a.s.	Prague - CZ	--	62,87	CZR	real estate fund
Merrion Properties a.s.	Prague - CZ	--	62,87	CZR	real estate
Hypoteční Banka a.s.	Prague - CZ	--	100,00	CZR	mortgage credit institution
Patria Online a.s.	Prague - CZ	--	100,00	CZR	online investment data
Patria Finance a.s.	Prague - CZ	--	100,00	CZR	online securities trading
Patria Finance CF a.s.	Prague - CZ	--	100,00	CZR	agent and consulting services
Radlice Rozvojová a.s.	Prague - CZ	--	100,00	CZR	real estate
CIBANK EAD	Sofia - BG	--	100,00	IMA	credit institution
East Golf Properties EAD	Sofia - BG	--	100,00	IMA	real estate
Management of Assets for Sale - 2 EOOD	Sofia - BG	--	100,00	IMA	real estate
Immo-Quinto NV	Brussels - BE	0466.000.470	100,00	BEL	real estate
Immo Senningerberg	Luxembourg - LU		100,00	BEL	real estate
KBC Asset Management NV	Brussels - BE	0469.444.267	51,86	BEL	asset management
KBC Asset Management SA	Luxembourg - LU	--	46,30	BEL	asset management
KBC Fund Management Limited	Dublin - IE	--	51,86	BEL	asset management
KBC Participations Renta B	Luxembourg - LU	--	51,86	BEL	asset management
KBC Participations Renta C	Luxembourg - LU	--	51,86	BEL	asset management
ČSOB Asset Management, a.s., Investiční Společnost	Prague - CZ	--	71,15	CZR	asset management
KBC Participations Renta SA	Luxembourg - LU	--	51,86	BEL	asset management
KBC Towarzystwo Funduszy Inwestycyjnych a.s.	Warszawa - PL	--	51,86	IMA	asset management
KBC Autolease NV	Leuven - BE	0422.562.385	100,00	BEL	leasing
KBC Lease (Luxembourg) SA	Bertrange - LU	--	100,00	BEL	leasing
KBC Bail Immobilier France sas	Paris - FR	--	100,00	BEL	leasing
KBC Bank Ireland Plc.	Dublin - IE	--	100,00	IMA	credit institution
Danube Holdings Limited	Dublin - IE	--	100,00	IMA	real estate
Glare Nominee Limited	Dublin - IE	--	100,00	IMA	*
IIB Finance Limited	Dublin - IE	--	100,00	IMA	commercial and financial services
IIB Homeloans and Finance Limited	Dublin - IE	--	100,00	IMA	holding company
KBC Homeloans and Finance Limited	Dublin - IE	--	100,00	IMA	holding company
Premier Homeloans Limited	London - GB	--	100,00	IMA	home loans
Irish Homeloans and Finance Limited	Dublin - IE	--	100,00	IMA	real estate
KBC ACS Limited	Dublin - IE	--	100,00	IMA	*
KBC Mortgage Finance	Dublin - IE	--	100,00	IMA	mortgage financing
KBC Nominees Limited	Dublin - IE	--	100,00	IMA	*
Fermion Limited	Dublin - IE	--	100,00	IMA	mortgages management
Intercontinental Finance	Dublin - IE	--	100,00	IMA	leasing

Linkway Developments Limited	Dublin - IE	--	100,00	IMA	*
Merrion Commercial Leasing Limited	London - GB	--	100,00	IMA	leasing
Merrion Equipment Finance Limited	London - GB	--	100,00	IMA	*
Merrion Leasing Assets Limited	London - GB	--	100,00	IMA	*
Merrion Leasing Finance Limited	London - GB	--	100,00	IMA	*
Merrion Leasing Industrial Limited	London - GB	--	100,00	IMA	*
Merrion Leasing Limited	London - GB	--	100,00	IMA	*
Merrion Leasing Services Limited	London - GB	--	100,00	IMA	leasing
Monastersky Limited	Dublin - IE	--	100,00	IMA	holding company
Needwood Properties Limited	Dublin - IE	--	100,00	IMA	real estate
Phoenix Funding 2 DAC	Dublin - IE	--	100,00	IMA	securitisation
Phoenix Funding 3 DAC	Dublin - IE	--	100,00	IMA	securitisation
Phoenix Funding 4 DAC	Dublin - IE	--	100,00	IMA	securitisation
Phoenix Funding 5 DAC	Dublin - IE	--	100,00	IMA	securitisation
Phoenix Funding 6 DAC	Dublin - IE	--	100,00	IMA	securitisation
Rolata Limited	Douglas - IM	--	100,00	IMA	investment
KBC Commercial Finance NV	Brussels - BE	0403.278.488	100,00	BEL	factoring
KBC Credit Investments NV	Brussels - BE	0887.849.512	100,00	BEL/GRP	investment firm
KBC Finance Ireland	Dublin - IE	--	100,00	GRP	lending
KBC Financial Services (Ireland) Limited	Dublin - IE	--	100,00	GRP	holding company
KBC Financial Products UK Limited	London - GB	--	100,00	GRP	(derivative) financial products
KBC Ifima SA	Luxembourg - LU	--	100,00	GRP	financing
KBC Immolease NV	Leuven - BE	0444.058.872	100,00	BEL	leasing
KBC Investments Hong Kong Limited	Hong Kong - HK	--	100,00	GRP	stockbroker
KBC Investments Limited	London - GB	--	100,00	GRP	stockbroker
KBC AIM Feeder Fund	George Town - KY	--	100,00	GRP	fund
KBC AIM Master Fund	George Town - KY	--	100,00	GRP	fund
KBC Financial Products (Cayman Islands) Limited "Cayman	George Town - KY	--	100,00	GRP	stockbroker
KBC Investments Cayman Islands V Limited	George Town - KY	--	100,00	GRP	fund
Hanover Street Finance Limited	Jersey - GB	--	100,00	GRP	CDO activities
Dorset Street Finance Limited	Jersey - GB	--	100,00	GRP	CDO activities
Pembridge Square Finance Limited	Jersey - GB	--	100,00	GRP	CDO activities
Regent Street Finance Limited	Jersey - GB	--	100,00	GRP	CDO activities
KBC Lease Belgium NV	Leuven - BE	0426.403.684	100,00	BEL	leasing
KBC Real Estate Luxembourg SA	Luxembourg - LU	--	100,00	BEL	real estate
KBC Vastgoedinvesteringen NV	Brussels - BE	0455.916.925	100,00	BEL	real estate
KBC Vastgoedportefeuille België NV	Brussels - BE	0438.007.854	100,00	BEL	real estate
Apicinq NV	Brussels - BE	0469.891.457	100,00	BEL	real estate
KBC Securities NV	Brussels - BE	0437.060.521	100,00	BEL	stockbroker
K&H Bank Zrt.	Budapest - HU	--	100,00	IMA	credit institution
K&H Alkusz Biztosításközvetítő Kft.	Budapest - HU	--	100,00	IMA	insurance broker
K&H Autópark Bérleti és Szolgáltató Kft	Budapest - HU	--	100,00	IMA	fleet management
K&H Befektetési Alapkezelő Zrt.	Budapest - HU	--	100,00	IMA	securities broking and fund management
K&H Csoportszolgáltató Központ Kft.	Budapest - HU	--	100,00	IMA	accounting and tax collection
K&H Equities Tanácsadó Zrt.	Budapest - HU	--	100,00	IMA	business and management advice
K&H Eszközlizing Gép-és Tehergépjármű Bérleti Kft.	Budapest - HU	--	100,00	IMA	leasing
K&H Faktor Pénzügyi Szolgáltató Zrt.	Budapest - HU	--	100,00	IMA	factoring
K&H Ingatlanlizing Zrt	Budapest - HU	--	100,00	IMA	leasing
K&H Jelzálogbank Zrt.	Budapest - HU	--	100,00	IMA	other credit granting services
Loan Invest NV "Institutionele VBS naar Belgisch recht"	Brussels - BE	0889.054.884	100,00	BEL	securisation
Poelaert Invest NV	Brussels - BE	0478.381.531	100,00	BEL	real estate
RSL Leasing IFN SA	Boekarest - RO	--	100,00	GRP	leasing
KBC Bank: subsidiaries that are not fully consolidated					
2 B Delighted NV (1)	Roeselare - BE	0891.731.886	99,58	GRP	lighting
Asia Pacific Trading & Investment Company Limited (1)	Hong Kong - HK	--	99,58	GRP	lighting
2 B Delighted Italia Srl (1)	Torino - IT	--	99,58	GRP	lighting
Wever & Ducré NV (1)	Roeselare - BE	0412.881.191	99,58	GRP	lighting
ADB Asia Pacific Limited (1)	Singapore - SG	--	100,00	GRP	credit institution
Almaloisir & Immobilier sas (1)	Nice - FR	--	100,00	BEL	real estate
Banque Diamantaire (Suisse) SA (1)	Geneva - CH	--	100,00	GRP	credit institution
Bel Rom Cinci-S.R.L. (1)	Bucharest - RO	--	100,00	BEL	leasing
Bel Rom Sapte-S.R.L. (1)	Bucharest - RO	--	100,00	BEL	leasing
Brussels North Distribution NV (1)	Brussels - BE	0476.212.887	100,00	BEL	real estate
C Plus SAS (1)	Voisins-Le-Bretonneux - FR		83,33	BEL	real estate
ČSOB Nadácia (1)	Bratislava - SK	--	100,00	IMA	real estate
Eurincasso s.r.o. (1)	Prague - CZ	--	100,00	CZR	debt collection
Fitraco NV (1)	Leuven - BE	0425.012.626	100,00	BEL	leasing
Francilia Immobilier SARL (1)	Voisins-Le-Bretonneux - FR		83,33	BEL	real estate
IIB Finance Ireland (1)	Dublin - IE	--	100,00	GRP	holding company

Immo-Antares NV (2)	Brussels - BE	0456.398.361	100,00	BEL	issuance of real estate certificates
Immo-Basilix NV (2)	Brussels - BE	0453.348.801	100,00	BEL	issuance of real estate certificates
Immo-Beaulieu NV (2)	Brussels - BE	0450.193.133	50,00	BEL	issuance of real estate certificates
Immobilière Distri-Land NV (2)	Brussels - BE	0436.440.909	87,52	BEL	issuance of real estate certificates
Immo Genk-Zuid NV (2)	Brussels - BE	0464.358.497	100,00	BEL	issuance of real estate certificates
Immolease-Trust NV (1)	Brussels - BE	0406.403.076	100,00	BEL	real estate
Immo Lux-Airport SA (2)	Luxembourg - LU	--	100,00	BEL	issuance of real estate certificates
Immo NamOtt NV (2)	Brussels - BE	0840.412.849	100,00	BEL	issuance of real estate certificates
Immo NamOtt Tréfonds NV (2)	Brussels - BE	0840.620.014	100,00	BEL	issuance of real estate certificates
Immo-Zénobe Gramme NV (2)	Brussels - BE	0456.572.664	100,00	BEL	issuance of real estate certificates
IP Exit, a.s. (2)	Prague - CZ	--	71,30	CZR	*
Julienne Holdings S.à.r.l. (1)	Luxembourg - LU	--	93,00	BEL	holding company
Julie LH BVBA (1)	Brussels - BE	0890.935.201	93,00	BEL	real estate
Juliette FH BVBA (1)	Zaventem - BE	0890.935.397	93,00	BEL	real estate
KB-Consult NV (1)	Brussels - BE	0437.623.220	99,95	BEL	*
KBC Bail France II sas (1)	Annecy le Vieux - FR	--	100,00	GRP	leasing
KBC Clearing NV (1)	Rotterdam - NL	--	100,00	BEL	clearing house
KBC Lease (UK) Limited	Uxbridge - GB	--	100,00	GRP	leasing
KBC Net Lease Investments LLC (1)	New York - US	--	100,00	GRP	leasing
KBC Securities USA, Inc. (1)	New York - US	--	100,00	GRP	stock broker
KBC Start it Fund NV (1)	Brussels - BE	0647.812.124	100,00	BEL	investment firm
Luxembourg North Distribution SA (2)	Luxembourg - LU	--	100,00	BEL	issuance of real estate certificates
Immo Mechelen City Center NV (2)	Brussels - BE	0635.828.862	100,00	BEL	issuance of real estate certificates
Midas Life Settlements LLC (1)	New York - US	--	100,00	GRP	life settlement service provider
Motokov a.s. (1)	Prague - CZ	--	70,09	CZR	vehicles
MuMaS SASU (1)	Voisins-Le-Bretonneu	--	83,33	BEL	real estate
Net Fund Administration Sp z.o.o. (1)	Warszawa - PL	--	51,86	IMA	asset management
Newcourt Street Finance Limited (1)	Jersey - GB	--	100,00	GRP	CDO activities
NV ACTIEF NV (1)	Brussels - BE	0824.213.750	57,14	BEL	training
Patria investiční společnost, a.s. (1)	Prague - CZ	--	100,00	CZR	asset management
Posselton Limited (1)	Dublin - IE	--	100,00	GRP	energy
Reverse Mortgage Loan Trust 2008-1 (1)	New York - US	--	100,00	GRP	reverse mortgages
RHVG DK NV (2)	Brussels - BE	0539.765.408	100,00	BEL	issuance of real estate certificates
RHVG QT NV (2)	Brussels - BE	0539.764.121	100,00	BEL	issuance of real estate certificates
RHVG RB NV (2)	Brussels - BE	0539.765.012	100,00	BEL	issuance of real estate certificates
RHVG SB NV (2)	Brussels - BE	0539.764.814	100,00	BEL	issuance of real estate certificates
RHVG TB NV (2)	Brussels - BE	0539.764.517	100,00	BEL	issuance of real estate certificates
Setanta Energy Investment Holding Corp. (1)	Delaware - US	--	100,00	GRP	holding company
Setanta Energy LLC (1)	Delaware - US	--	100,00	GRP	energy
SousedeCZ, s.r.o. (1)	Prague - CZ	--	100,00	CZR	real estate
SPINC SASU (1)	Voisins-Le-Bretonneu	--	83,33	BEL	real estate
TBI SAS (1)	Voisins-Le-Bretonneu	--	83,33	BEL	real estate
TEE Square Limited (1)	Road Town - VG	--	100,00	CZR	*
Top-Pojištění.cz s.r.o. (1)	Prague - CZ	--	100,00	CZR	insurance arranging
Transformation fund Stabilita (3)	Prague - CZ	--	100,00	CZR	pension insurance
UBRIK SASU (1)	Voisins-Le-Bretonneu	--	66,67	BEL	real estate
Weyveld Vastgoedmaatschappij NV (2)	Brussels - BE	0425.517.818	100,00	BEL	issuance of real estate certificates
World Alliance Financial LLC (1)	New York - US	--	100,00	GRP	reverse mortgages
KBC Bank: joint ventures accounted for using the equity method					
Českomoravská Stavební Spořitelna (CMSS)	Prague - CZ	--	55,00	CZR	building society
KBC Bank: joint ventures not accounted for using the equity method (1)					
Atrium Development SA	Luxembourg - LU	--	25,00	BEL	real estate
Covent Garden Development NV	Brussels - BE	0892.236.187	25,00	BEL	real estate
Covent Garden Real Estate NV	Zaventem - BE	0872.941.897	50,00	BEL	real estate
Jesmond Amsterdam B.V.	Amsterdam - NL	--	50,00	BEL	holding company
Miedziana Sp z.o.o.	Warszawa - PL	--	40,75	BEL	real estate
Real Estate Participation NV	Zaventem - BE	0473.018.817	50,00	BEL	real estate
Xiongwei Lighting (Guangzhou) Co., Ltd.	Guangzhou - CY	--	49,79	GRP	lighting
KBC Bank: companies accounted for using the equity method					
ČSOB Pojišťovna a.s.	Pardubice - CZ	--	0,24	CZR	insurance company
HAGE Hajdúsági Agráripari Zrt.	Nádudvar - HU	--	25,00	IMA	agriculture

KBC Bank: companies not accounted for using the equity method (1)					
Bancontact Company NV	Brussels - BE	0884.499.250	20,00	BEL	credit cards
Banking Funding Company NV	Brussels - BE	0884.525.182	20,25	BEL	payment transactions
Bedrijvencentrum Regio Roeselare NV	Roeselare - BE	0428.378.724	22,22	BEL	business center
Big Bang Ventures Comm VA	Lochristi - BE	0471.766.725	20,00	GRP	telecommunication
Brussels I3 Fund NV	Brussels - BE	0477.925.433	36,37	BEL	venture capital funds
Czech Banking Credit Bureau a.s.	Prague - CZ	--	20,00	CZR	ICT
ENGIE REN s.r.o.	Prague - CZ	--	42,82	CZR	rental services
Etoiles d'Europe sas	Paris - FR	--	45,00	BEL	hotels
Gasco Group NV	Willebroek - BE	0887.290.177	28,13	GRP	industrial chemical products
Gemma Frisius-Fonds K.U. Leuven	Leuven - BE	0477.960.372	40,00	BEL	venture capital
Isabel NV	Brussels - BE	0455.530.509	25,33	BEL	ICT
Joyn International NV	Hasselt - BE	0578.946.577	42,41	BEL	digital loyalty card
Justinvest NV	Antwerp - BE	0476.658.097	33,33	BEL	real estate
PharmaNeuroBoost NV	Alken - BE	0885.238.529	22,93	GRP	pharmaceutical products
První Certifikačni Autorita a.s.	Prague - CZ	--	23,25	CZR	certification services
Rabot Invest NV	Antwerp - BE	0479.758.733	25,00	BEL	real estate
Rendex NV	Antwerp - BE	0461.785.227	26,05	GRP	holding company
Storesquare NV	Roeselare - BE	0554.814.066	25,00	BEL	web portals
Thanksys NV	Hasselt - BE	0553.877.423	29,08	BEL	IT & Consultancy
Xenarjo cvba	Mechelen - BE	0899.749.531	22,39	BEL	social sector

* Not active

(**) BEL: Belgium Business Unit, CZR: Czech Republic Business Unit, IMA: International Markets Business Unit, GRP: Group Centre

Reason for exclusion : (1) Immaterial.

(2) Issuers of real estate certificates and companies w hereby the group is not exposed to a variable return.

(3) No control based on the criteria of IFRS10.

Companies eligible for consolidation are effectively included in the consolidated accounts if tw o of the follow ing criteria are met:

- the group share in equity exceeds 2.5 million euros;
- the group share in the results exceeds 1 million euros;
- the balance sheet total exceeds 100 miliion euros.

The combined balance sheet total of the companies excluded from consolidation may not amount to more than 1 % of the consolidated balance sheet total.

- All (material) entities (including structured entities (SPVs)) over which the consolidating entity exercises, directly or indirectly, exclusive control are consolidated according the method of full consolidation. To assess whether or not structured entities have to be consolidated, KBC uses the principles set out in IFRS 10, as well as thresholds for inclusion in consolidation (see previous bullet point). A number of structured entities meet only one of these criteria, which means that – as long as the combined balance sheet total of the companies excluded from consolidation is not more than 1% of the consolidated balance sheet total – these entities are not consolidated. This relates chiefly to the structured entities set up for the remaining CDO activities. Please note that these entities only exceed one threshold (balance sheet total) since their equity and net results are always very limited. However, the remaining CDO-related results are recorded under the KBC Financial Products group, which is, of course, consolidated. Consequently, excluding these structured entities from the consolidated accounts only impacts presentation of the consolidated balance sheet, and not equity, the results or solvency.
- Disclosures of interests in other entities (IFRS 12)
  - Significant judgements and assumptions
    - In general, funds managed by KBC are not included in the scope of consolidation, as they do not meet the three criteria of control (power, exposure to a variable return and ability to use such power to affect those returns).
    - Joint subsidiaries in which KBC does not hold 50% of the share capital are classified as joint subsidiaries, since it has joint control over these entities based on shareholder agreements.
  - Interests in subsidiaries
    - For the vast majority of the entities, the voting rights are materially equal to the ownership rights.
    - Certain structured entities that are included in the scope of consolidation are subject to significant restrictions. In the past, KBC Bank initiated a number of CDO and RMBS note issues, in each case through a structured entity established for the sole purpose of entering into the relevant transaction (collectively referred to as the 'vehicles' and the 'transactions'). Each of the vehicles invested the proceeds of its notes issue in order to collateralise its obligations under both the notes and a portfolio credit default swap. All shares in the vehicles are wholly owned by a trust company. Nevertheless, the vehicles are consolidated in KBC Group based on the requirements of IFRS 10. Under the agreements governing the transactions, there are significant restrictions on KBC Bank's ability to access, transfer or use the cash or other assets of the vehicles to settle liabilities of other entities within the KBC group. All the assets of the vehicles are assigned to the security trustee (for itself and as trustee for the holders of the notes) as continuous security for the payment and discharge of the obligations of the vehicles under the notes. Unless explicitly authorised by the agreements or unless the security trustee provides consent in writing beforehand, neither the vehicle nor KBC Bank as administrator can access, transfer or use the cash or other assets of the vehicles to settle liabilities of other KBC-group entities.

- o Pursuant to the joint capital decision, specific pillar-II levels have been set to ensure that certain minimum capital ratios are respected, which impose certain restrictions on the repatriation of capital and distribution of dividends.
  - o With regard to Loan Invest NV, KBC is exposed to loan losses on the mortgage portfolio and, therefore, recognises impairment losses on them where necessary.
- Interests in joint ventures and associated companies
  - o For a summary of the financial information on ČMSS, see Note 5.3.
  - o No summarised financial information is provided for immaterial entities on an aggregate basis, because, even on that basis, the amount is immaterial.
- Interests in unconsolidated structured entities
  - o KBC Bank NV is arranger and dealer of a number of 40-billion-euro medium term notes programmes issued by *19* unconsolidated structured entities established for that purpose. Between 2006 and 2010, these entities were established as Irish public limited companies or Irish private limited companies under the Irish Companies Act 1963 to 2012. Their primary business is to raise money by issuing notes in order to buy financial assets (such as securities, bonds and deposits) and to enter into related derivative and other contracts (like equity-linked swaps, interest-linked swaps, total return swaps and repo transactions). They provide investment opportunities for clients by providing economies of scale, a diversification of credit risk and a high level of granularity. Each structured entity has a prospectus that was approved by the Central Bank of Ireland (available at www.kbc.be/prospectus/spv). However, the structured entities are not consolidated because they fail to meet the three criteria for consolidation (power, exposure to a variable return and ability to use such power to affect those returns). At year-end 2016, the assets under management at these entities amounted to 16.6 billion euros.
  - o Sponsored unconsolidated structured entities are defined as structured entities where KBC Bank or one of its subsidiaries acts as arranger of the issuance programme, but where the decision-making power of the entities does not reside with KBC Bank or one of its subsidiaries. As a result, these entities are not consolidated.
  - o At year-end 2016, KBC Bank had received income from unconsolidated structured entities in the form of management fees (39 million euros), custody fees (1 million euros), administrative agent fees (1 million euros) and accounting fees (1 million euros).
  - o Its liabilities towards the unconsolidated structured entities amounted to 6 billion euros and comprised mainly term deposits (5.5 billion euros).
  - o KBC Asset Management provides approximately 34 million euros as a line of credit for KBC funds to cover (temporary) shortfalls arising at month-end and especially at quarter-end.

• One subsidiary is active in the extractive industry, but is not included in the scope of consolidation for reasons of materiality. Furthermore, this subsidiary did not make any payments to governments that reached the threshold of 100 000 euros. As a result, no consolidated report on such payments has been prepared (see Art. 119/1 of the Companies Code).

The following is a summary of financial information for the KBC Asset Management group of which 51.6% of the shares are detained by KBC Bank. Figures on a 100% level:

KBC Asset Management Group (in millions of EUR)	31/12/2016	31/12/2015
Cash and cash balances with central banks	0	0
Financial assets	538	496
Non financial assets	20	20
TOTAL ASSETS	558	516
Financial liabilities	0	0
Non financial liabilities	178	106
Total equity	380	410
TOTAL LIABILITIES AND EQUITY	558	516
Total income	496	540
Interest income	0	1
Interest expense	0	-1
Opex	-89	-82
Impairments	0	0
Income taxes	-83	-99
Total profit	303	334
Other comprehensive income	0	0
Total comprehensive income	303	334

Note 6.6 : Main changes in the scope of consolidation

Company	Consolidation method	Ownership percentage at group level		Remarks
		31/12/2016	31/12/2015	
Additions				
VB Leasing SK, spol. r. o.	Full	100	100	Acquisition by ČSOB Leasing as from 1/7/2015
VB Leasing Sprostredkovateľská s. r. o.	Full	100	100	Acquisition by ČSOB Leasing as from 1/7/2015
Exclusions				
KBC Financial Holding Inc.	Full	------	------	Liquidated 4Q 2015
IIB Finance Ireland	Full	------	100	Deconsolidated in 2Q 2016
Method Changes				
None				
Name Changes				
None				
Changes in ownership percentage and internal mergers				
KBC Financial Products International S.A.	Full	------	100	Merged with KBC Ifima SA in 3Q 2016

- Expected change in the scope of consolidation in 2017: on 30 December 2016, KBC reached agreement with the National Bank of Greece to acquire 99.9% of United Bulgarian Bank (UBB) and 100% of Interlease. The deal is expected to be finalised in the second quarter of 2017.

Note 6.7 : Risk Management

The information required in relation to risks (in accordance with IFRS 7) and capital (pursuant to IAS 1) is provided in those parts of the Risk management' and Capital requirements' sections that have been audited by the statutory auditor.

Note 6.8: Post-balance-sheet events

Significant non-adjusting events between balance sheet date and the date on which the financial statements were approved by the Board of Directors (17 March 2017):

- None

Note 6.9: General information on the company

Name:	KBC Bank NV
Incorporated:	17 March 1998
Country of incorporation:	Belgium.
Registered office:	Havenlaan 2, 1080 Brussels, Belgium.
VAT:	BE 0462.920.226.
RLP:	Brussels.
Legal form:	naamloze vennootschap (company with limited liability) under Belgian law, which solicits or has solicited savings from the public; the company is a credit institution that is subject to the prudential supervision of the National Bank of Belgium and the European Central Bank.
Life:	undefined.
Object:	In Belgium or abroad, for its own account or for account of third parties, the company has as object the execution of all banking operations in the widest sense, as well as the exercise of all other activities which banks are or shall be permitted to pursue (Article 2 of the Articles of Association).

Documents open to public inspection

The Articles of Association of the company are open to public inspection at the Registry of the Dutch-speaking division of the Brussels Commercial Court. The financial statements are filed with the National Bank of Belgium. Decisions on the appointment, resignation and dismissal of members of the Executive Committee and the Board of Directors are published in the *Appendices to the Belgian Official Gazette*. Financial reports about the company and convening notices of general meetings of shareholders are also published in the financial press and/or on www.kbc.com. Copies of the company's annual reports are available at its registered office and/or can be downloaded from www.kbc.com. They are sent annually to the holders of registered shares and to those who have requested a copy.

General Meeting of Shareholders

A General Meeting is held every year at the company's registered office or at any other place indicated in the convening notice, at 11 a.m. on the Wednesday immediately prior to the last Thursday of April, or, if this day is a statutory public holiday or bank holiday, at 11 a.m. on the business day immediately before it.

Each share gives entitlement to one vote.

Holders of bonds, warrants or certificates issued in co-operation with the company are entitled to attend the General Meeting, but they have only advisory voting capacity.

Holders of registered bonds, warrants or certificates issued in co-operation with the company must also notify the registered office of KBC Bank NV in writing, at least four business days prior to the meeting, of their intention to attend the General Meeting.

Holders of book-entry bonds, warrants or certificates issued in co-operation with the company must, at least four business days prior to the General Meeting, deposit at the registered office or at another place designated in the convening notice, a certificate drawn up by the recognised account holder or by the clearing house, attesting to the non-availability of the bonds, warrants or certificates until the date of the General Meeting.

Holders of bearer bonds, warrants or certificates issued in co-operation with the company must, within the same timeframe, deposit their securities at the registered office or at another location if specified in the convening notice. They will receive a certificate attesting to the fact that their bonds, warrants or certificates were deposited on time. They will be admitted to the General Meeting upon presentation of proof of their identity and this certificate.

Statutory auditors’ report

FREE TRANSLATION FROM DUTCH ORIGINAL

KBC BANK NV

Statutory auditor's report to the general shareholders' meeting on the consolidated accounts for the year ended 31 December 2016

17 March 2017

FREE TRANSLATION FROM DUTCH ORIGINAL

STATUTORY AUDITOR'S REPORT TO THE GENERAL SHAREHOLDERS' MEETING OF THE COMPANY KBC BANK NV ON THE CONSOLIDATED ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2016

In accordance with the legal requirements, we report to you on the performance of our mandate of statutory auditor. This report includes our opinion on the consolidated financial statements, as well as the required additional statement. The consolidated financial statements comprise the consolidated balance sheet as at 31 December 2016, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cashflow statement for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Report on the consolidated financial statements – Unqualified opinion

We have audited the consolidated financial statements of KBC Bank NV ("the Company") and its subsidiaries (jointly "the Group"), for the year ended 31 December 2016 prepared in accordance with International Financial Reporting Standards as adopted by the European Union, and with the legal and regulatory requirements applicable in Belgium. The total of the consolidated balance sheet amounts to EUR 239.333 million and the consolidated income statement shows a profit for the year (share of the Group) of EUR 2.026 million.

Board of directors' responsibility for the preparation of the consolidated financial statements

The board of directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and with the legal and regulatory requirements applicable in Belgium, and for such internal control as the board of directors determines, is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Statutory auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISAs) as endorsed in Belgium. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the statutory auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the statutory auditor considers internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the board of directors, as well as evaluating the overall presentation of the consolidated financial statements.

PwC Bedrijfsrevisoren cvba, burgerlijke vennootschap met handelsvorm - PwC Reviseurs d'Entreprises scrl, société civile à forme commerciale - Financial Assurance Services
Maatschappelijke zetel/Siège social: Woluwe Garden, Woluwedal 18, B-1932 Sint-Stevens-Woluwe
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We have obtained from the board of directors and the Company's officials the explanations and information necessary for performing our audit.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Unqualified Opinion

In our opinion, the consolidated financial statements give a true and fair view of the Group's net equity and consolidated financial position as at 31 December 2016 and of its consolidated income statement and its consolidated cashflow statement for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, and with the legal and regulatory requirements applicable in Belgium.

Other matter

The consolidated financial statements of the Company for the year ended 31 December 2015 were audited by another statutory auditor who expressed an unqualified opinion on these consolidated financial statements on 17 March 2016.

Report on other legal and regulatory requirements

The board of directors is responsible for the preparation and the content of the annual report on the consolidated financial statements.

In the context of our mandate and in accordance with the Belgian standard which is complementary to the International Standards on Auditing (ISAs) as applicable in Belgium, our responsibility is to verify, in all material respects, compliance with certain legal and regulatory requirements. On this basis, we provide the following additional statement which does not impact our opinion on the consolidated financial statements:

- The annual report on the consolidated financial statements, includes the information required by law, is consistent with the consolidated financial statements, and does not present any material inconsistencies with the information that we became aware of during the performance of our mandate.

Sint-Stevens-Woluwe, 17 March 2017

The statutory auditor
PwC Bedrijfsrevisoren bcvba
represented by

Roland Jeanquart
Accredited auditor

Gregory Joos
Accredited auditor

Company annual accounts

10				9	EUR	
NAT.	Date Filed	N°	P.	E.	D.	**C-inst 1.1**

ANNUAL ACCOUNTS IN EUR (2 decimals)

NAME: KBC BANK

Legal Form: NV
Address: Havenlaan N°.: 2 Box:
Postal Code: 1080 Municipality: BRUSSELS
Country: België
Register of Legal Persons (RLP) - Chamber of Commerce: Brussels
Internet address*: http://www.kbc.be

Company Number 0462.920.226

Date 07/05/2015 of the deposition of the partnership deed OR of the most recent document mentioning the date of publication of the partnership deed and the act changing the articles of association.

ANNUAL ACCOUNT approved by the General Meeting of 26/04/2017

concerning the financial year covering the period from 01/01/2016 till 31/12/2016

Previous period from 01/01/2015 till 31/12/2015

The amounts of the previous financial year are / ~~are not~~ ** identical to those which have been previously published.

COMPLETE LIST WITH name, first name, profession, residence-address (address, number, postal code, municipality) and position with the enterprise, OF DIRECTORS, MANAGERS and AUDITORS

	Period on the Board in 2016	End of current term of office
CHAIRMAN OF THE BOARD OF DIRECTORS:		
Mr. Thomas LEYSEN, Rosier 21, 2000 Antwerpen	entire year	2019
CHAIRMAN OF THE EXECUTIVE COMMITTEE		
Mr. Johan THIJS, Moorsemsestraat 260, 3130 Betekom	entire year	2017

Members: see next page

Enclosed to these annual accounts:
- the report of the statutory auditor
- the annual report of the Board of Directors to the ordinary General Meeting of shareholders

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Total number of pages deposited:
Number of the pages of the standard form not deposited for not being of service: -

Signature (name and position)	Signature (name and position)
J. THIJS	T. LEYSEN
Chairman of the Executive Committee	Chairman of the Board of Directors

* Optional Statement
** Delete where appropriate

LIST OF DIRECTORS, MANAGERS AND AUDITORS (continuation from previous page)

Members:

Dhr. Nabil ARISS, 16 Chiddingstone Street, UK London SW6 3TG	entire year	2018
Mevr. Katelijn CALLEWAERT, Beekboshoek 102, 2550 Waarloos	in since 16/12/2016 (cooptation)	2017
Dhr. Franky DEPICKERE, Izegemstraat 203, 8770 Ingelmunster	entire year	2019
Dhr. Luc DISCRY, Bosduifdreef 4, 2970 Schilde	resignation as of 15/12/2016	
Mevr. Sonja DE BECKER, Meerbeekstraat 20, 3071 Erps-Kwerps	in since 27/04/2016	2020
Dhr. Daniel FALQUE, Bovenbosstraat 78, 3053 Haasrode	entire year	2020
Dhr. Lucien GIJSENS, Oudenaardsesteenweg 44, 9000 Gent	entire year	2019
Dhr. John HOLLOWS, V Ulickach 882 164 00, Praha - Nebusice, Tsjechië	entire year	2017
Dhr. Lode MORLION, Weststraat 18, 8647 Lo-Reninge	resignation as of 15/12/2016	
Dhr. Luc POPELIER, Voosdonk 21, 2801 Heffen	entire year	2017
Dhr. Theodoros ROUSSIS, Poederstraat 51, 2370 Arendonk	resignation as of 18/01/2016	
Mevr. Ghislaine VAN KERCKHOVE, Wegvoeringstraat 62, 9230 Wetteren	resignation as of 15/12/2016	
Mevr. Christine VAN RIJSSEGHEM, Avenue du Manoir 59, 1410 Waterloo	entire year	2018
Dhr. Piet VANTHEMSCHE, Tombergstraat 57, 1750 St.-Martens-Lennik	resignation as of 27/04/2016	
Dhr. Marc WITTEMANS, Beatrijslaan 91, 3110 Rotselaar	entire year	2018
Dhr. Bo MAGNUSSON, Toptogatan 6, Stockholm 115 26, Sweden	in since 16/03/2016	2020
Dhr. Walter NONNEMAN, Molenstraat 245, 9150 Kruibeke	in since 16/12/2016 (cooptation)	2017
Dhr. Matthieu VANHOVE, Lindelaan 7, 3001 Heverlee	in since 16/12/2016 (cooptation)	2017

AUDITOR:

PwC Auditors BCVBA 0429.501.944
Woluwedal 18, 1932 Sint-Stevens-Woluwe, Belgium
Function: Commissioner, Member Number: B00009
Mandate : appointed 27/04/2016

Represented by: 2019

Jeanquart Roland (Membership IBR A01313)
Auditor
Woluwedal 18 , 1932 Sint-Stevens-Woluwe, België

Gregory Joos (Membership IBR A02025)
Auditor
Woluwedal 18 , 1932 Sint-Stevens-Woluwe, België

DECLARATION ABOUT SUPPLEMENTARY AUDITING OR ADJUSTMENT MISSION

The managing board declares that the assignment neither regarding auditing nor adjusting has been given to a person who was not authorised by law pursuant to art. 34 and 37 of the Law of 22nd April 1999 concerning the auditing and tax professions.

The annual accounts ~~have~~ / have not* been audited or adjusted by an external accountant or auditor who is not a statutory auditor.

If YES, mention here after: name, first names, profession, residence-address of each external accountant or auditor, the number of membership with the professional Institute ad hoc and the nature of this engagement:

A. Bookkeeping of the undertaking**,
B. Preparing the annual accounts**,
C. Auditing the annual accounts and/or
D. Adjusting the annual accounts.

If the assignment mentioned either under A or B is performed by authorised accountants or authorised accountants-tax consultants, information will be given on: name, first names, profession and residence-address of each authorised accountant or accountant-tax consultant, his number of membership with the Professional Institute of Accountants and Tax consultants and the nature of this engagement.

Name, first name, profession, residence-address	Number of membership	Nature of the engagement (A, B, C and/or D)

* Delete where appropriate.

** Optional disclosure.

BALANCE SHEET AFTER APPROPRIATION

ASSETS	Notes	Code	Current period	Previous period
I. Cash in hand, balances with central banks and post office banks		10100	16.893.847.201,85	1.355.357.346,01
II. Treasury bills eligible for refinancing at central banks		10200	255.137.912,17	291.242.670,70
III. Loans and advances to credit institutions	5.1	10300	16.286.132.198,20	16.769.650.437,54
A. Repayable on demand		10310	235.048.087,82	283.101.551,43
B. Other loans and adv. (with agreed maturity dates)		10320	16.051.084.110,38	16.486.548.886,11
IV. Loans and advances to customers	5.2	10400	92.953.874.004,77	93.764.383.738,77
V. Debt securities and other fixed-income securities	5.3	10500	27.439.028.104,12	24.109.914.758,42
A. Issued by public bodies		10510	14.776.568.785,31	15.627.750.981,33
B. Issued by other borrowers		10520	12.662.459.318,81	8.482.163.777,09
VI. Shares and other variable-yield securities	5.4	10600	137.312.994,03	142.399.487,69
VII. Financial fixed assets	5.5/ 5.6.1	10700	14.039.679.077,41	13.426.160.954,87
A. Participating interests in affiliated enterprises		10710	12.996.713.812,73	12.844.053.234,22
B. Participating interests in other enterprises linked by participating interests		10720	94.011.238,61	76.710.216,95
C. Other shares held as financial fixed assets		10730	25.192.858,38	39.088.000,43
D. Subordinated loans to affiliated enterprises and to other enterprises linked by participating interests		10740	923.761.167,69	466.309.503,27
VIII. Formation expenses and intangible fixed assets	5.7	10800	401.649,44	364.144,78
IX. Tangible fixed assets	5.8	10900	780.917.623,47	785.038.567,07
X. Own shares		11000	0,00	0,00
XI. Other assets	5.9	11100	1.671.157.272,55	1.796.079.899,48
XII. Accrued income	5.10	11200	9.537.134.420,83	9.038.131.441,80
TOTAL ASSETS		19900	179.994.622.458,84	161.478.723.447,13

	Notes	Code	Current Period	Previous Period
LIABILITIES				
THIRDPARTY FUNDS		201/208	169.859.027.229,76	151.398.782.134,19
I. Amounts owed to credit institutions	5.11	20100	30.740.870.128,75	16.307.051.472,54
A. Repayable on demand		20110	3.597.161.359,21	1.545.115.963,86
B. Amounts owed as a result of the rediscounting of trade bills		20120	0,00	0,00
C. Other debts with agreed maturity dates or periods of notice		20130	27.143.708.769,54	14.761.935.508,68
II. Amounts owed to customers	5.12	20200	99.648.166.739,42	108.589.733.737,11
A. Savings deposits		20210	32.916.466.417,19	35.567.300.317,52
B. Other debts		20220	66.731.700.322,23	73.022.433.419,59
1. repayable on demand		20221	39.556.982.654,33	36.137.762.461,04
2. with agreed maturity dates or periods of notice		20222	27.174.717.667,90	36.884.670.958,55
3. as a result of the rediscounting of trade bills		20223	0,00	0,00
III. Debts evidenced by certificates	5.13	20300	24.663.307.165,83	12.506.927.237,14
A. Debt securities and other fixed-income securities in circulation		20310	9.085.794.012,44	7.781.036.577,80
B. Other		20320	15.577.513.153,39	4.725.890.659,34
IV. Other liabilities	5.14	20400	1.424.265.280,27	1.161.024.262,74
V. Accrued charges and deferred income	5.15	20500	6.742.137.229,91	7.305.850.276,17
VI. Provisions and deferred taxes		20600	244.327.497,12	248.195.929,74
A. Provisions for liabilities and charges		20610	219.847.523,76	215.745.959,57
1. Pensions and similar obligations		20611	38.743.693,65	23.912.710,15
2. Taxation		20612	0,00	0,00
3. Other liabilities and charges	5.16	20613	181.103.830,11	191.833.249,42
B. Deferred taxes		20620	24.479.973,36	32.449.970,17
VII. Fund for general banking risks		20700	0,00	0,00
VIII. Subordinated liabilities	5.17	20800	6.395.953.188,46	5.279.999.218,75
OWN FUNDS		209/213	10.135.595.229,08	10.079.941.312,94
IX. CAPITAL	5.18	20900	8.948.439.652,39	8.948.439.652,39
A. Subscribed capital		20910	8.948.439.652,39	8.948.439.652,39
B. Uncalled capital (-)		20920	0,00	0,00
X. Share premium account		21000	895.449.646,51	895.449.646,51
XI. Revaluation surpluses		21100	0,00	0,00
XII. Reserves		21200	291.377.700,17	230.975.500,00
A. Legal reserve		21210	278.404.451,94	218.002.251,77
B. Reserves not available for distribution		21220	0,00	0,00
1. In respect of own shares held		21221	0,00	0,00
2. Other		21222	0,00	0,00
C. Untaxed reserves		21230	12.973.248,23	12.973.248,23
D. Reserves available for distribution		21240	0,00	0,00
XIII. Profits (losses (-)) brought forward (+)/(-)		21300	328.230,01	5.076.514,04
TOTAL LIABILITIES		29900	179.994.622.458,84	161.478.723.447,13

OFF BALANCE SHEET CAPTIONS	Notes	Code	Current period	Previous period
I. Contingent liabilities	5.22	30100	14.369.256.337,08	16.802.741.110,68
A. Non-negotiated acceptances		30110	96.011.170,39	66.018.544,95
B. Guarantees serving as direct credit substitutes		30120	3.111.122.940,88	3.067.748.704,25
C. Other guarantees		30130	9.411.421.621,88	11.967.566.441,08
D. Documentary credits		30140	1.750.700.603,93	1.701.407.420,40
E. Assets charged as collateral security on behalf of third parties		30150	0,00	0,00
II. Commitments which could give rise to a risk	5.22	30200	27.220.414.056,67	35.557.493.774,51
A. Firm credit commitments		30210	420.079.918,89	4.076.872.262,66
B. Commitments as a result of spot purchases of transferable or other securities		30220	332.041.335,22	108.271.242,80
C. Undrawn margin on confirmed credit lines		30230	26.468.292.802,56	31.372.350.269,05
D. Underwriting and placing commitments		30240	0,00	0,00
E. Commitments as a result of open-ended sale and repurchase agreements		30250	0,00	0,00
III. Assets lodged with the credit institution		30300	206.661.656.944,97	206.374.531.802,06
A. Assets held by the credit institution for fiduciary purposes		30310	4.576.453.974,88	4.501.432.620,54
B. Safe custody and equivalent items		30320	202.085.202.970,09	201.873.099.181,52
IV. Uncalled amounts of share capital		30400	16.511.567,73	9.680.386,73

INCOME STATEMENT (presentation in vertical form)

		Notes	Code	Current Period	Previous period
I. Interest receivable and similar income		5.23	40100	2.929.994.113,85	3.032.036.053,93
A. Of which: from fixed-income securities			40110	636.486.763,88	624.498.374,24
II. Interest payable and similar charges			40200	1.498.162.634,77	1.477.400.275,78
III. Income from variable-yield securities		5.23	40300	851.354.729,85	906.886.885,81
A. From shares and other variable-yield securities			40310	3.175.528,63	4.186.210,06
B. From participating interests in affiliated enterprises			40320	834.229.569,49	896.393.187,60
C. From participating interests in other enterprises linked by participating interests			40330	11.362.420,71	4.613.511,66
D. From other shares held as financial fixed assets			40340	2.587.211,02	1.693.976,49
IV. Commissions receivable		5.23	40400	889.934.187,81	979.234.191,45
A. Brokerage and related commissions			40410	512.732.474,09	615.313.229,50
B. Management, consultancy and conservation commissions			40420	34.885.826,92	47.626.093,03
C. Other commissions received			40430	342.315.886,80	316.294.868,92
V. Commissions payable			40500	162.006.644,70	148.059.180,54
VI. Profit (loss) on financial transactions	(+)/(-)	5.23	40600	-451.900,22	135.311.973,52
A. On trading of securities and other financial instruments			40610	-3.834.030,30	20.082.148,86
B. On disposal of investment securities			40620	3.382.130,08	115.229.824,66
VII. General administrative expenses			40700	1.785.505.856,64	1.757.037.231,58
A. Remuneration, social security costs and pensions			40710	801.005.404,82	806.889.249,66
B. Other administrative expenses			40720	984.500.451,82	950.147.981,92
VIII. Depreciation/amortization of and other write-downs on formation expenses, intangible and tangible fixed assets			40800	48.582.748,36	47.826.099,97
IX. Decrease in write downs on receivables and in provisions for off balance sheet captions 'I. Contingent liabilities' and 'II. Commitments which could give rise to a risk'	(+)/(-)		40900	-141.188.517,35	-207.239.689,30
X. Decrease in write-downs on the investment portfolio of debt securities, shares and other fixed-income or variable-yield securities	(+)/(-)		41000	-5.940.041,26	-14.165.891,25
XI. Utilization and write-backs of provisions for liabilities and charges other than those included in the off balance sheet captions	(+)/(-)		41100	27.502.575,12	93.435.923,91
XII. Provisions for liabilities and charges other than those included in the off balance sheet captions			41200	31.615.407,93	13.074.869,94
XIII. Transfer from (Transfer to) the fund for general banking risks	(+)/(-)		41300	0,00	0,00
XIV. Other operating income		5.23	41400	204.753.204,02	228.098.810,84
XV. Other operating charges		5.23	41500	99.116.779,83	115.453.478,09
XVI. Profits (losses) on ordinary activities before taxes	(+)/(-)		41600	1.130.968.279,59	1.594.747.123,01

		Notes	Code	Current period	Previous period
XVII. Extraordinary income			41700	385.079.292,03	2.805.359.538,67
A. Adjustments to depreciation/amortization of and to other write-downs on intangible and and tangible fixed assets			41710	0,00	0,00
B. Adjustments to write-downs on financial fixed assets			41720	351.860.326,25	2.761.457.165,38
C. Adjustments to provisions for extraordinary liabilities and charges			41730	0,00	600,30
D. Gain on disposal of fixed assets			41740	33.136.497,11	40.798.074,53
E. Other extraordinary income		5.25	41750	82.468,67	3.103.698,46
XVIII. Extraordinary charges			41800	312.734.798,54	2.980.085.778,22
A. Extraordinary depreciation/amortization of and extraordinary write-downs on formation expenses and intangible and tangible fixed assets			41810	482.500,00	4.857.314,80
B. Write-downs on financial fixed assets			41820	104.456.418,58	252.389.368,00
C. Provisions for extraordinary liabilities and charges	(+/-)		41830	0,00	0,00
D. Loss on disposal of fixed assets			41840	207.795.261,23	2.722.737.271,33
E. Other extraordinary charges		5.25	41850	618,73	101.824,09
XIX. Profits (Losses) for the period before taxes	(+/-)		41910	1.203.312.773,08	1.420.020.883,46
XIXbis. A. Transfer to deferred taxes			41921	7.973.697,16	5.000.260,33
B. Transfer from deferred taxes			41922	26.468.747,35	17.425.423,34
XX. Income taxes	(+/-)	5.26	42000	13.763.819,85	21.165.853,89
A. Income taxes			42010	18.859.883,07	24.746.663,99
B. Adjustement of income taxes and write-back of tax provisions			42020	5.096.063,22	3.580.810,10
XXI. Profits (Losses) for the period	(+/-)		42100	1.208.044.003,42	1.411.280.192,58
XXII. Transfer to untaxed reserves	(+/-)		42200	0,00	0,00
XXIII. Profit (Losses) for the period available for appropriation	(+/-)		42300	1.208.044.003,42	1.411.280.192,58

APPROPRIATION ACCOUNT

		Code	Current period	Previous period
A. Profit (loss) to be appropriated	(+)/(-)	49100	1.213.120.517,46	1.419.593.739,16
1. Profit (loss) for the period available for appropriation	(+)/(-)	(42300)	1.208.044.003,42	1.411.280.192,58
2. Profit (loss) to be carried forward	(+)/(-)	(21300P)	5.076.514,04	8.313.546,58
B. Transfers from capital and reserves		49200	0,00	0,00
1. From capital and share premium account		49210	0,00	0,00
2. From reserves		49220	0,00	0,00
C. Transfers to capital and reserves		49300	60.402.200,17	70.564.009,63
1. To capital and share premium account		49310	0,00	0,00
2. To the legal reserve		49320	60.402.200,17	70.564.009,63
3. To other reserves		49330	0,00	0,00
D. Profit (loss) to be carried forward	(+)/(-)	49400	328.230,01	5.076.514,04
E. Shareholders' contribution in respect of losses		49500	0,00	0,00
F. Profit to be distributed		49600	1.152.390.087,28	1.343.953.215,49
1. Dividends		49610	1.134.883.317,68	1.327.081.298,90
2. Director's or manager's entitlements		49620	0,00	0,00
3. Other allocations		49630	17.506.769,60	16.871.916,59

NOTES

I. STATEMENT OF LOANS AND ADVANCES TO CREDIT INSTITUTIONS (Assets caption III)

	Code	Current period	Previous period
A. FOR THE CAPTION AS A WHOLE	(10300)	16.286.132.198,20	16.769.650.437,54
1. Loans and advances to affiliated enterprises	50101	8.681.133.565,07	8.099.418.438,45
2. Loans and advances to other enterprises linked by participating interests	50102	0,00	0,00
3. Subordinated loans and advances	50103	0,00	665.344.704,04
B. OTHER LOANS AND ADVANCES TO CREDIT INSTITUTIONS (with agreed maturity dates or periods of notice)	(10320)	16.051.084.110,38	16.486.548.886,11
1. Trade bills eligible for refinancing with the central bank of the country(ies) of establishment of the credit	50104	0,00	
2. Breakdown according to the remaining maturity			
a. Up to 3 months	50105	10.858.136.817,98	
b. Over 3 months up to 1 year	50106	2.730.397.052,73	
c. Over 1 year up to 5 years	50107	2.183.728.869,25	
d. Over 5 years	50108	267.492.699,55	
e. Undated	50109	11.328.671,00	

II. STATEMENT OF LOANS AND ADVANCES TO CUSTOMERS (Assets caption IV)

	Code	Current Period	Previous Period
1. Loans to affiliated enterprises	50201	21.610.455.031,48	21.609.553.522,09
2. Loans to other enterprises linked by participating interests	50202	46.618.562,67	49.923.536,03
3. Subordinated loans	50203	64.941.571,95	1.264.120.425,19
4. Trade bills eligible for refinancing with the central bank of the country or countries where the credit institution is established	50204	0,00	0,00
5. Breakdown according to the remaining maturity :			
a. Up to 3 months	50205	30.508.370.697,38	
b. Over 3 months up to 1 year	50206	6.080.218.832,80	
c. Over 1 year up to 5 years	50207	10.941.242.392,50	
d. Over 5 years	50208	45.115.429.370,95	
e. Undated	50209	308.612.711,14	
6. Breakdown of customer loans based on the type of debtor			
a. Claims on government	50210	4.108.676.438,83	4.278.068.753,17
b. Retail exposures	50211	30.156.599.718,11	33.244.636.412,14
c. Claims on enterprises	50212	58.688.597.847,83	56.241.678.573,46
7. Breakdown by type :			
a. Trade bills (including own acceptance)	50213	48.923.889,76	
b. Loans and advances as a result of leasing and similar agreements	50214	414.625.850,19	
c. Fixed-rate loans	50215	1.141.129.329,63	
d. Mortgage loans	50216	25.695.707.325,21	
e. Other term loans with a maturity over 1 year	50217	35.838.031.453,22	
f. Other loans and advances	50218	29.815.456.156,76	
8. Geographical breakdown			
a. Belgian origin	50219	82.509.986.994,92	
b. Foreign	50220	10.443.887.009,85	
9. Details of mortgage loans with reconstitution of capital or linked to life insurance and capitalization contracts			
a. Principal sums initially lent	50221	0,00	
b. Reconstitution fund and mathematical reserves relating to these loans	50222	0,00	
c. Net amount outstanding (a-b)	50223	0,00	

III. STATEMENT OF DEBT SECURITIES AND OTHER FIXED-INCOME SECURITIES (Assets caption V)

	Code	Current period	Previous period
A. GENERAL	(10500)	27.439.028.104,12	24.109.914.758,42
1. Securities issued by affiliated enterprises	50301	11.165.541.109,06	7.188.281.879,07
2. Securities issued by enterprises linked by participating interests	50302	0,00	0,00
3. Securities representing subordinated loans	50303	80.561.928,82	145.465.304,12
4. Country analysis of the securities issued			
a. By public bodies	50304	11.225.436.570,92	
b. By other borrowers	50305	3.551.132.214,39	
c. Belgian issuers other than public bodies	50306	3.678.458.856,94	
d. Foreign issuers other than public bodies	50307	8.984.000.461,87	
5. Listing			
a. Book value of listed securities	50308	26.998.115.319,27	
b. Market value of listed securities	50309	28.856.228.781,44	
c. Book value of unlisted securities	50310	440.912.784,85	
6. Maturities			
a. Remaining maturity of up to one year	50311	9.778.779.900,22	
b. Remaining maturity of over one year	50312	17.660.248.203,90	
7. Analysis by portfolio			
a. Trading portfolio	50313	300.390.890,25	
b. Investment portfolio	50314	27.138.637.213,87	
8. Trading portfolio			
a. Difference between market value (if higher) and acquisition cost (for securities marked to market)	50315	7.019.003,00	
b. Difference between market value (if higher) and carrying value (for securities valued in accordance with Art. 35ter §2 para. 2)	50316	0,00	
9. Investment portfolio			
a. Difference between redemption value (if higher) and carrying value	50317	35.763.640,68	
b. Difference between redemption value (if lower) and carrying value	50318	767.453.581,51	

	Codes	Current period	Previous period
B. ANALYSIS OF THE CARRYING VALUE OF INVESTMENT SECURITIES			
1. As at end of the preceding period	50323P	xxxxxxxxxxxxxxx	23.415.766.595,52
2. Movements during the the period	50319	3.750.641.325,17	
a . Acquisitions	50320	66.419.849.986,74	
b . Sales	50321	-62.534.630.313,58	
c . Adjustments by application of Article 35ter §4 and 5 (+/-)	50322	-134.578.347,99	
3. Acquisition cost as at end of the period	50323	27.166.407.920,69	
4. Transfers between portfolios			
a . Transfers from the investment portfolio to the trading portfolio	50324		
b . Transfers from the trading portfolio to the investment portfolio	50325		
c . Impact on result	50326		
5. Write-Downs as at end of the period	50332P	xxxxxxxxxxxxxxx	26.715.913,12
6. Movements during the the period	50327	1.054.793,73	
a . Recorded	50328	7.254.845,78	
b . Excess written back	50329	-158.002,30	
c . Cancellations	50330	-6.354.607,51	
d . Transfers from one caption to another (+/-)	50331	312.557,76	
7. Write-downs as at end of the period	50332	27.770.706,86	
8. Carrying value as at end of the period	(50314)	27.138.637.213,83	

IIIBIS THEMATIC VOLKSLENINGEN

		Codes	Boekjaar	Vorig boekjaar
1.	**Total amount drawn**	50340	359.605.887	359.605.887
	a. Bonds	50341	359.605.887	359.605.887
	b. Allowed interbank loans	50342	0	0
2.	**Use of assets**	50350	1.673.243.402	1.709.165.453
	a. Volksleningen	50351	1.673.243.402	1.709.165.453
	b. Investment pursuant to art. 11	50352	0	0
	c. Interbank loans drawn	50353	0	0
3.	**Income from realized investments pursuant to art. 11**	50360	0	0

IV. STATEMENT OF SHARES AND OTHER VARIABLE-YIELD SECURITIES (Assets caption VI)

	Code	Current Period	Previous Period
A. GENERAL REPORT	(10600)	137.312.994,03	142.399.487,69
1. Country analysis of the issuers of securities			
a. Belgian issuers	50401	1.954.920,52	1.954.920,52
b. Foreign issuers	50402	135.358.073,51	140.444.567,17
2. Listing			
a. Carrying value	50403	125.585.234,48	
b. Market value	50404	151.152.820,67	
c. Carrying value of unlisted securities	50405	11.727.759,55	
3. Analysis by portfolio			
a. Trading portfolio	50406	114.452.420,68	
b. Investment portfolio	50407	22.860.573,35	
4. Trading portfolio			
a. Difference between market value (if higher) and acquisition cost (for securities marked to market)	50408	15.979.841,41	
b. Difference between market value (if higher) and carrying value (for securities valued in accordance with Article 35ter §2 paragraph 2)	50409	0,00	

B. ANALYSIS OF THE CARRYING VALUE OF INVESTMENT SECURITIES		Code	Current period	Previous period
1. Acquisition cost as at the end of the period		50414P	xxxxxxxxxxxxxxx	52.314.296,24
2. Movements during the the period		50410	-6.879.185,49	
a. Acquisitions		50411	15.166.643,97	
b. Sales		50412	-22.084.768,07	
c. Other adjustments	(+/-)	50413	38.938,61	
3. Acquisition cost as at end of the period		50414	45.435.110,75	
4. Transfers between portfolios				
a. Transfers from the investment portfolio to the trading portfolio		50415		
b. Transfers from the trading portfolio to the investment portfolio		50416	0,00	
c. Impact on result		50417		
5. Write-downs as per end of the period		50423P	xxxxxxxxxxxxxxx	24.920.339,24
6. Movements during the period		50418	-2.345.801,84	
a. Recorded		50419	11.864,05	
b. Excess written back		50420	-1.168.666,27	
c. Cancellations		50421	-236.873,07	
d. Transfers from one caption to another	(+)/(-)	50422	-952.126,55	
7. Write-downs as at end of the period		50423	22.574.537,40	
8. Carrying value as at end of the period		(50407)	22.860.573,35	

V. STATEMENT OF FINANCIAL FIXED ASSETS (Assets caption VII)

	Codes	Current period	Previous period
A. GENERAL			
1. Breakdown of financial fixed assets by economic sector			
a. Participating interests in enterprises that are credit institutions	50501	6.974.578.094,30	6.694.578.093,39
b. Participating interests in enterprises that are not credit institutions	50502	6.022.135.718,45	6.149.475.140,82
c. Participating interests in enterprises linked by participating interests that are credit institutions	50503	3.728.447,10	5.849,10
d. Participating interests in enterprises linked by participating interests that are not credit institutions	50504	90.282.791,51	76.704.367,85
e. Other shares held as financial fixed assets in enterprises that are credit institutions	50505	0,00	0,00
f. Other shares held as financial fixed assets in enterprises that are not credit institutions	50506	25.192.858,38	39.088.000,43
g. Subordinated loans in linked enterprises that are credit institutions	50507	90.000.000,00	370.000.000,00
h. Subordinated loans in linked enterprises that are not credit institutions	50508	798.061.167,69	57.009.503,27
i. Subordinated loans in enterprises with participation interests that are credit institutions	50509	0,00	0,00
j. Subordinated loans in enterprises with participation interests that are not credit institutions	50510	35.700.000,00	39.300.000,00
2. Listings			
a. Participating interests in affiliated listed enterprises	50511	0,00	
b. Participating interests in affiliated not listed enterprises	50512	12.996.713.812,75	
c. Participating interests in other enterprises linked by participating interests that are listed	50513	13.705.877,56	
d. Participating interests in other enterprises linked by participating interests that are not listed	50514	80.305.361,05	
e. Other shares held as financial fixed assets in enterprises that are listed	50515	16.129.998,70	
f. Other shares held as financial fixed assets in enterprises that are not listed	50516	9.062.859,68	
g. Amount of subordinated loans represented by listed securities	50517	0,00	

	Codes	Current period	Previous period
B. ANALYSIS OF THE CARRYING VALUE OF FINANCIAL FIXED ASSETS IN AFFILIATED ENTERPRISES			
1. Acquisition cost at the end of the period	50522P	xxxxxxxxxxxxxxx	16.355.358.679,64
2. Movements during the period	50518	-75.867.732,85	
a. Acquisitions	50519	494.538.645,00	
b. Sales and disposals	50520	-570.380.204,06	
c. Transfers from one caption to another (+/-)	50521	-26.173,79	
3. Acquisition cost as at the end of the period	50522	16.279.490.946,79	
4. Revaluation surpluses	50528P	xxxxxxxxxxxxxxx	0,00
5. Movements during the period	50523	0,00	
a. Recorded	50524	0,00	
b. Acquisitions from third parties	50525	0,00	
c. Cancellations	50526	0,00	
d. Transfers from one caption to another (+/-)	50527	0,00	
6. Revaluation surpluses as at the end of the period	50528	0,00	
7. Write-downs as at the end of the period	50535P	xxxxxxxxxxxxxxx	3.511.305.445,45
8. Movements during the period	50529	-228.528.310,47	
a. Recorded	50530	4.261.818,19	
b. Excess written back	50531	-37.053.162,66	
c. Acquisitions from third parties	50532	0,00	
d. Cancellations	50533	-195.710.792,21	
e. Transfers from one caption to another (+/-)	50534	-26.173,79	
9. Write-downs as at end of the period	50535	3.282.777.134,98	
10. Net carrying value as at the end of the period	10710	12.996.713.811,81	

C. ANALYSIS OF THE CARRYING VALUE OF FIXED FINANCIAL ASSETS IN ENTERPRISES LINKED BY PARTICIPATING INTERESTS		Codes	Current period	Previous period
1. Acquisition cost as at end of the period		50540P	xxxxxxxxxxxxxxx	138.308.961,90
2. Movements during the period		50536	-1.697.977,34	
a. Acquisitions		50537	17.031.140,66	
b. Sales and disposals		50538	-18.729.118,00	
c. Transfers from one caption to another	(+/-)	50539	0,00	
3. Acquisition cost as at end of the period		50540	136.610.984,56	
4. Revaluation surpluses at the end of the period		50546P	xxxxxxxxxxxxxxx	0,00
5. Movements during the period		50541	0,00	
a. Recorded		50542	0,00	
b. Acquisitions from third parties		50543	0,00	
c. Cancellations		50544	0,00	
d. Transfers from one caption to another	(+/-)	50545	0,00	
6. Revaluation surpluses at the end of the period		50546	0,00	
7. Write-downs as at the end of the period		50553P	xxxxxxxxxxxxxxx	61.598.744,95
8. Movements during the period		50547	-18.998.999,00	
a. Recorded		50548	0,00	
b. Excess written back		50549	0,00	
c. Acquisitions from third parties		50550	0,00	
d. Cancellations		50551	-18.998.999,00	
e. Transfers from one caption to another	(+/-)	50552	0,00	
9. Write-downs as at the end of the period		50553	42.599.745,95	
10. Net carrying value as at end of the period		10720	94.011.238,61	

		Codes	Current period	Previous period
D. ANALYSIS OF THE CARRYING VALUE OF OTHER SHARES HELD AS FINANCIAL FIXED ASSETS				
1. Acquisition cost as at the end of the period		50558P	xxxxxxxxxxxxxxx	40.094.253,15
2. Movements during the period		50554	-13.797.914,05	
a. Acquisitions		50555	117.500,00	
b. Sales and disposals		50556	-13.915.414,05	
c. Transfers from one caption to another	(+/-)	50557	0,00	
3. Acquisition cost as at the end of the period		50558	26.296.339,10	
4. Revaluation surpluses at the end of the period		50564P	xxxxxxxxxxxxxxx	0,00
5. Movements during the period		50559	0,00	
a. Recorded		50560	0,00	
b. Acquisitions from third parties		50561	0,00	
c. Cancellations		50562	0,00	
d. Transfers from one caption to another	(+/-)	50563	0,00	
6. Revaluation surpluses as at end of the period		50564	0,00	
7. Write-downs as at the end of the period		50571P	xxxxxxxxxxxxxxx	1.006.252,72
8. Movements during the period		50565	97.228,00	
a. Recorded		50566	97.228,00	
b. Excess written back		50567	0,00	
c. Acquisitions from third parties		50568	0,00	
d. Cancellations		50569	0,00	
e. Transfers from one caption to another	(+/-)	50570	0,00	
9. Write-downs as at the end of the period		50571	1.103.480,72	
10. Net carrying value as at the end of the period		10730	25.192.858,38	

		Codes	Current period	Previous period
E. ANALYSIS OF THE CARRYING VALUE OF SUBORDINATED LOANS TO AFFILIATED ENTERPRISES				
1. Net carrying value as at end of the period		50579P	xxxxxxxxxxxxxxx	427.009.503,27
2. Movements during the period		50572	461.051.664,42	
a. Additions		50573	742.011.664,42	
b. Reimbursements		50574	-280.960.000,00	
c. Write-downs		50575	0,00	
d. Amounts written back		50576	0,00	
e. Realized exchange gains/losses	(+)/(-)	50577	0,00	
f. Other	(+)/(-)	50578	0,00	
3. Net carrying value as at the end of the period		50579	888.061.167,69	
4. Accumulated write-downs as at the end of the period		50580	0,00	

		Codes	Current period	Previous period
F. ANALYSIS OF THE CARRYING VALUE OF SUBORDINATED LOANS TO ENTERPRISES LINKED BY PARTICIPATING INTERESTS				
1. Net carrying value as at the end of the period		50588P	xxxxxxxxxxxxxxx	39.300.000,00
2. Movements during the period		50581	-3.600.000,00	
a. Additions		50582	0,00	
b. Reimbursements		50583	-3.600.000,00	
c. Write-downs		50584	0,00	
d. Amounts written back		50585	0,00	
e. Realized exchange gains/losses	(+)/(-)	50586	0,00	
f. Other	(+)/(-)	50587	0,00	
3. Net carrying value as at the end of the period		50588	35.700.000,00	
4. Accumulated write-downs as at the end of the period		50589	0,00	

VI LIST OF ENTERPRISES IN WHICH THE INSTITUTION HOLDS A PARTICIPATING INTEREST

A. SHARE IN THE CAPITAL AND OTHER RIGHTS IN OTHER COMPANIES

List enterprises in which the enterprise holds a participating interest within the meaning of the Royal Decree of September 23 rd 1992 and other enterprises in which the institution holds rights in the amount of at least 10% of the capital issued.

NAME, full address of the REGISTERED OFFICE and for the enterprise governed by Belgian law, the COMPANY NUMBER				Shares held				Information from the most recent period for which annual accounts are available			
				directly			by subsidiaries	Annual accounts dated	Currency	Own funds	Net result (+) or (-)
				Type	Number	%	%			(in thousands units)	
1. Affiliated enterprises											
ADB Asia Pacific Limited Singapore, SI	Singapore	SI		Ordinary	33.000.000	100,00	0,00	31-dec-15	USD	27.147	-3.154
BEL ROM CINCI S.R.L. Romania, RO	Romania	RO		Ordinary	10.000.000	100,00	0,00	31-dec-15	RON	107.133	2.049
CBC BANQUE SA Brussels BE 0403.211.380	Brussels	BE	0403.211.380	Ordinary	2.989.624	99,99	0,01	31-dec-15	EUR	557.064	73.922
Ceskoslovenska Obchodná Banka a.s. Bratislava SK,-	Bratislava	SK	-	Ordinary	7.470	100,00	0,00	31-dec-15	EUR	672.170	71.729
Ceskoslovenska Obchodni Banka a.s. Prague CZ-	Prague	CZ	-	Ordinary	146.375.002	100,00	0,00	31-dec-15	CZK	82.709.000	14.781.000
CIBANK AD Sofia, BG -	Sofia,	BG	-	Ordinary	22.793.251	100,00	0,00	31-dec-15	BGN	293.875	26.906
KBC FINANCE IRELAND Dublin IE	Dublin	IE		C-shares D-Shares	350.879.910 25.465.600	100,00	0,00	31-dec-15	EUR	-126.253	-49.162
IIB Finance Ireland Dublin IE-	Dublin	IE	-	Ordinary Ordinary AUD Ordinary EUR Ordinary GBP Ordinary USD	2.166.999 700.000 109.965.541 104.000.000 116.000.000	0,65 0,21 33,04 31,25 34,85	0,00 0,00 0,00 0,00 0,00	31-dec-14	EUR	274.125	20.884
K & H Bank Zrt. Budapest HU-	Budapest	HU	-	Reg. Sh. HUF 2000	140.978.164.412	100,00	0,00	31-dec-15	HUF	211.495.000	32.081.000
KB Consult NV Brussels BE 0437.623.220	Brussels	BE	0437.623.220	Ordinary	364.543	99,95	0,05	31-dec-15	EUR	852	-11
KBC Asset Management NV Brussels BE 0469.444.267	Brussels	BE	0469.444.267	Ordinary	2.730.644	47,35	52,65	31-dec-15	EUR	124.575	352.836
KBC Autolease NV Leuven BE, 0422562385	Leuven	BE		Ordinary	184.987	99,99	0,00	31-dec-15	EUR	37.563	16.341
KBC Bail Immobilier France sas France FR,	Lille	FR		Ordinary	750.000	100,00	0,00	31-dec-15	EUR	6.169	-1.456
KBC Lease Belgium NV Leuven BE, 0426403684	Leuven	BE		Ordinary	267.179	99,99	0,01	31-dec-15	EUR	32.915	19.027
KBC Immolease NV Leuven BE, 0444058872	Leuven	BE		Ordinary	1.000.328	99,99	0,01	31-dec-15	EUR	24.084	939
RSL Leasing IFN SA Romania, RO	BUCURESTI	RO		Ordinary	321.362	99,99	0,01	31-dec-15	EUR	31.630	-1.461
KBC Bank Ireland Plc DublinIE-	Dublin	IE	-	Ordinary	2.050.438.504	100,00	0,00	31-dec-15	EUR	1.146.434	76.047
KBC Clearing NV AmsterdamNL-	Amsterdam	NL	-	Ordinary	615	100,00	0,00	31-dec-15	EUR	379	-153
KBC Commercial Finance NV BrusselsBE 0403.278.488	Brussels	BE	0403.278.488	Ordinary	119.999	99,99	0,00	31-dec-15	EUR	9.459	4.474
KBC Credit Investments NV Brussels, BE 0887.849.512	Brussels,	BE	0887.849.512	Ordinary	4.999.999	99,99	0,00	31-dec-15	EUR	5.090.383	196.152
KBC Financial Products UK Limited LondonGB-	London	GB	-	Ordinary	350.100.000	100,00	0,00	31-dec-14	USD	384.291	-1.580
KBC Ifima SA LuxemburgLU-	Luxemburg	LU	-	Ordinary	22.679	100,00	0,00	31-dec-15	EUR	11.303	2.297
KBC Investments Hong Kong Limited Hong Kong,HK-	Hong Kong,	HK	-	Ordinary	130.000.000	100,00	0,00	31-dec-14	USD	91.619	6.366
KBC Investments Limited London,UK-	London,	UK	-	Ordinary	1.305.000.100	100,00	0,00	31-dec-14	USD	1.623.412	985
KBC Real Estate Luxembourg SA LuxemburgLU -	Luxemburg	LU	-	Ordinary	3.098	99,94	0,06	31-dec-15	EUR	7.995	1.790
KBC Securities NV BrusselsBE 0437.060.521	Brussels	BE	0437.060.521	Ordinary	1.898.517	99,95	0,05	31-dec-15	EUR	96.645	19.558
NV ACTIEF NV BrusselsBE 0824.213.750	Brussels	BE	0824.213.750	Cat "A"	600	57,14	0,00	31-dec-15	EUR	102	-1
Almafin Real Estate NV BrusselsBE 0403 355 494	Brussels	BE	0403 355 494	Ordinary	61.999	99,99	0,00	31-dec-14	EUR	34.399	781
Julienne Holdings SARL LuxemburgLU -	Luxemburg	LU	-	Ordinary	4.500	90,00	0,00	31-dec-15	EUR	-26.812	-1.120
C PLUS SAS France FR	France	FR		Ordinary	50.000	83,33	0,00	31-dec-14	EUR	124	-794
KBC Vastgoedinvesteringen NV BrusselsBE 0455 916 925	Brussels	BE	0455 916 925	Ordinary	57.909	99,90	0,10	31-dec-14	EUR	-4.077	569
KBC Vastgoedportefeuille België Brussels,BE 0438 007 854	Brussels,	BE	0438 007 854	Ordinary	57.763	99,99	0,01	31-dec-14	EUR	16.946	366
Poelaert Invest NV BrusselsBE 0478 381 531	Brussels	BE	0478 381 531	Ordinary	9.950	99,50	0,50	31-dec-14	EUR	14.529	669
Almaloisir & Immobilier SAS Nice,FR 3542 862 0439	Nice,	FR	3542 862 0439	Ordinary	328	100,00	0,00	31-dec-15	EUR	100	-10
Apitri NV BrusselsBE 0469 889 873	Brussels	BE	0469 889 873	Ordinary	98	98,00	2,00	31-dec-14	EUR	4.478	492
Immo Antares NV	Brussels	BE	0456398361	Ordinary	2.375	95,00	5,00	10-nov-15	EUR	-1.867	394

BrusselsBE 0456398361											
Immo Basilix NV BrusselsBE 0453348801	Brussels	BE	0453348801	Ordinary	2.375	95,00	5,00	12-sep-15	EUR	83	1
Immo Lux - Airport SA LuxemburgLU -	Luxemburg	LU	-	Ordinary	1.456	99,93	0,07	31-dec-15	EUR	-1.502	2.453
Immo Namott NV BrusselsBE 0840.412.849	Brussels	BE	0840.412.849	Ordinary	99	99,00	1,00	31-dec-15	EUR	62	0
Immo Namott Tréfonds NV BrusselsBE -	Brussels	BE	-	Ordinary	1	1,00	99,00	31-dec-15	EUR	1.059	8
Immo Senningerberg LuxemburgLU	Luxemburg	LU		Ordinary	96.849	99,95	0,05	31-dec-15	EUR	9.447	1.043
Immo Zenobe Gramme BrusselsBE 0456572664	Brussels	BE	0456572664	Ordinary	99	99,00	1,00	31-dec-15	EUR	77	0
Immobilière Distri-Land NV BrusselsBE 0436440909	Brussels	BE	0436440909	Ordinary	1.093	87,44	0,08	31-dec-15	EUR	332	21
Luxembourg North Distribution SA LuxemburgLU 1945 3469	Luxemburg	LU	1945 3469	Ordinary	11	11,00	89,00	31-dec-15	EUR	96	62
Brussels North Distribution NV BrusselsBE0476212887	Brussels	BE	0476212887	Ordinary	5	5,00	95,00	31-dec-15	EUR	69	23
Immo Quinto NV BrusselsBE 0466000470	Brussels	BE	0466000470	Ordinary	141.935	99,30	0,70	31-dec-15	EUR	5.000	246
Almafin Real Estate Services NV BrusselsBE 0416.030.525	Brussels	BE	0416.030.525	Ordinary	1	0,01	99,99	31-dec-14	EUR	34.399	781
Thanksys NV Hasselt BE,	Hasselt	BE		Cat 'B'	695.220	39,09	0,00	31-dec-15	EUR	1.380	-1.379
MIDAS Life Settlements Delaware US	Delaware	US		Ordinary	100	100,00	0,00		USD	0	0
FITRACO NV Leuven, BE, 0425012626	Leuven	BE	0425012626	Ordinary	199	99,50	0,00	31-dec-15	EUR	2.199	349
KBC BAIL FRANCE II SAS Lyon, FR	Lyon	FR		Ordinary	4.303.000	100,00	0,00	31-dec-15	EUR	8.590	551
BANQUE DIAMANTAIRE SUISSE SA Geneve, CH	Geneve	CH		Ordinary	4.000	100,00	0,00	31-dec-15	CHF	16.277	-82
KBC SECURITIES USA, INC NY, US	New york	US		Ordinary	100	100,00	0,00		USD	3.406	1.374
World Alliance Financial LLC NY, US	New york	US		Ordinary	1	100,00	0,00		USD	-36	-36
KBC Net Lease Investments LLC NY, US	New york	US		Ordinary	1	100,00	0,00		USD	-200	-200
KBC VERZEKERINGEN NV Leuven, BE, 0403552563	Leuven	BE	0403552563	Ordinary	1	99,99	0,01	31-dec-15	EUR	1.367.773	272.951
BEL ROM SAPTE S.R.L. Leuven, BE, 0403552563	Romania	RO		Ordinary	19	95,00	5,00	31-dec-15	EUR	-65.315	1.363
Immo Mechelen City Center NV Leuven, BE, 0403552563	Brussels	BR	403552563	Ordinary	99	99,00	1,00	31-dec-15	EUR	0	0
KBC START IT FUND NV Leuven, BE, 0403552563	Brussels	BR	403552563	Ordinary	99.999	100,00	0,00		EUR	0	0

2. Enterprises linked by participating interests

>=20% en <= 50%

Bedrijvencentrum Regio Roeselare NV RoeselareBE 0428.378.724	Roeselare	BE	0428.378.724	Ordinary	500	22,22	0,00	31-dec-15	EUR	565	3
Bancontact-Mistercash NV BrusselsBE 0884.499.250	Brussels	BE	0884.499.250	Ordinary	5.123	20,00	0,00	31-dec-15	EUR	6.064	429
Isabel NV BrusselsBE 0455.530.509	Brussels	BE	0455.530.509	Ordinary	253.322	25,33	0,00	31-dec-15	EUR	14.534	4.257
Xenarjo cvba MechelenBE 0899.749.531	Mechelen	BE	0899.749.531	Ordinary	1.009	22,39	0,00	31-dec-15	EUR	-808	-591
Etoiles d'Europe SAS ParisFR -	Paris	FR	-	Ordinary	2.250	45,00	0,00	30-jun-15	EUR	171	-19
Immo Beaulieu NV BrusselsBE 0450193133	Brussels	BE	0450193133	Ordinary	1.000	50,00	0,00	16-jun-15	EUR	68	114
Justinvest Antwerpen NV WilrijkBE 0476658097	Wilrijk	BE	0476658097	Ordinary	50	33,33	0,00	31-dec-15	EUR	458	50
Rabot Invest NV WilrijkBE 0479758733	Wilrijk	BE	0479758733	Ordinary	60	25,00	0,00	31-dec-15	EUR	615	19
Brussels I3 Fund NV BrusselsBE 0477925433	Brussels	BE	0477925433	Cat "D"	2.182	36,37	0,00	31-dec-15	EUR	2.885	1.468
Real Estate Participation NV ZaventemBE 0473.018.817	Zaventem	BE	0473.018.817	Ordinary	500	50,00	0,00	31-dec-15	EUR	8.943	2.276
Covent Garden Real Estate NV ZaventemBE 0872.941.897	Zaventem	BE	0872.941.897	Ordinary	750	50,00	0,00	31-dec-15	EUR	1.478	-22
Gemma Frisius-Fonds K.U. Leuven NV LeuvenBE 0477.960.372	Leuven	BE	0477.960.372	Cat "B"	4.000	40,00	0,00	31-dec-15	EUR	15.864	4.002
Banking Funding Company NV BrusselsBE 0884.525.182	Brussels	BE	0884.525.182	Ordinary	12.437	20,25	0,00	31-dec-15	EUR	290	36
Rendex NV AntwerpBE0461.785.227	Antwerp	BE	0461.785.227	Ordinary	33.114	26,05	0,00	31-mrt-15	EUR	-469	-348
PharmaNeuroBoost NV AlkenBE	Alken	BE		Ordinary	17.888	22,93	0,00	31-dec-11	EUR	-5.778	-5.279
Big Bang Ventures Comm VA LochristiBE	Lochristi	BE		Ordinary	200.000	20,00	0,00	31-dec-13	EUR	1.669	-7
Gasco Group NV WillebroekBE887290177	Willebroek	BE	887.290.177	Ordinary	2.531.250	28,13	0,00	31-dec-15	EUR	-18.854	-683

Storesquare NV	Roeselare	BE	554.814.066	Ordinary	153.750	25,00	0,00	31-dec-15	EUR	-123	-184
3. Enterprises linked by participating interests >=10% en <= 20%											
Join International NV Hasselt, BE	Hasselt	BE		Ordinary	2.000.000	12,15	0,00	31-dec-15	EUR	250	-1.750
QBIC Feeder Fund BrusselsBE -	Brussels	BE	-	Ordinary	4.000	14,71	0,00	31-dec-15	EUR	8.390	-446
Antwerps Innovatiecentrum NV Antwerpen, BE,	Antwerpen	BE		Ordinary	3.575	16,25	0,00	30-sep-15	EUR	131	-2
OEM EQUITY PARTICIPATIONS B.V Utrecht NL	Utrecht	NL		Ordinary	720.200	12,25	0,00		EUR	0	0
BRS MICROFINANCE COOP CVBA Leuven BE0508.996.711	Leuven	BE	0508.996.711	Cat. C	2.160	17,76	0,00	31-dec-15	EUR	727	4
Bedrijvencentrum Zaventem NV ZaventemBE 0426.496.726	Zaventem	BE	0426.496.726	Ordinary	350	11,27	0,00	31-dec-15	EUR	575	40
BH-Capital a.s. BrnoCZ -	Brno	CZ	-	Ordinary	717.375	14,06	0,01		CZK	410.459	-543
Designcenter De Winkelhaak AntwerpBE 0470.201.857	Antwerp	BE	0470.201.857	Cat. B	124	19,47	0,00	31-dec-14	EUR	1.312	2
Europay Belgium SCRL BrusselsBE 0434.197.536	Brussels	BE	0434.197.536	Ordinary	4.932	14,49	0,95	31-dec-15	EUR	975	34
Impulse Microfinancieringsfonds WilrijkBE 0870.792.160	Wilrijk	BE	0870.792.160	Ordinary	2.000	17,57	0,00	31-dec-15	EUR	15.163	855
Rural Impulse LuxemburgLU -	Luxemburg	LU	-	Ordinary	15.000	16,67	0,00	31-dec-15	USD	8.886	-482
Visa-Belgium CVBA BrusselsBE 0435.551.972	Brussels	BE	0435.551.972	Ordinary	24	13,56	0,56	30-sep-15	EUR	323	51
Baekeland II NV GentBE 0876.424.296	Gent	BE	0876.424.296	Ordinary	2.000.000	18,02	0,00	31-dec-15	EUR	3.452	482
Vives NV Louvain-La-NeuveBE 0862.398.591	Louvain-La-Neuve	BE	0862.398.591	Ordinary	2.500	14,70	0,00	31-dec-15	EUR	2.003	-1.687
Bedrijvencentra Limburg NV HasseltBE 0425.902.353	Hasselt	BE	0425.902.353	Ordinary	0	12,50	0,00	31-dec-14	EUR	4.182	-64
Bedrijvencentrum Leuven Heverlee BE, 0428.014.676	Heverlee	BE	0428.014.676	Ordinary	40	9,52	4,76	31-dec-15	EUR	1.978	21
Bedrijvencentrum vilvoorde Vilvoorde BE, 0434222577	Vilvoorde	BE	0434.222.577	Ordinary	338	9,31	8,26	31-dec-15	EUR	1.368	-43

B. ENTERPRISES FOR WHICH THE CREDIT INSTITUTION HAS UNLIMITED LIABILITY IN ITS CAPACITY OF FULLY LIABLE PARTNER OR MEMBER

The annual accounts of any enterprise to which the enterprise is unlimited liable will be added to the present accounts and published jointly.
Departure from that requirement will be mentioned in the second column referring to the appropiate code (A or B), explained hereafter.

The annual accounts of the enterprise:

A. are published by filing with the National Bank of Belgium;

B. are effectively published in another Member State of the EEC as laid down in Article 3 of the Directive 2009/101/EEC;

C. are fully consolidated or proportionally consolidated in the reporting institution's accounts which have been prepared audited and published in accordance with the Royal Decree of September 23 rd 1992 on the consolidated accounts of institutions.

Name and full address of registered office and, for enterprises governed by Belgian law, VAT number or national identification number	Code, if any

VII. STATEMENT OF FORMATION EXPENSES AND INTANGIBLE FIXED ASSETS

		Codes	Current period	Previous period
A. Formation expenses				
1. Net carrying value as at the end of the period		50705P	xxxxxxxxxxxxxxx	0,00
2. Movements during the period		50701	0,00	
a. New expenses incurred		50702	0,00	
b. Amortization		50703	0,00	
c. Other	(+)/(-)	50704	0,00	
3. Net carrying value as at the end of the period		50705	0,00	
4. Of which				
a. Expenses of formation or capital increase, loan issue expenses and other formation expenses		50706	0,00	
b. Reorganization costs		50707	0,00	

		Codes	Current period	Previous period
B. GOODWILL				
1. Acquisition cost as at the end of the period		50712P	xxxxxxxxxxxxxxx	1.250.874,68
2. Movements during the period		50708	0,00	
a. Acquisitions, including own construction		50709	0,00	
b. Sales and disposals		50710	0,00	
c. Transfers from one caption to another	(+)/(-)	50711	0,00	
3. Acquisition cost as at the end of the period		50712	1.250.874,68	
4. Amortizations and write-downs as at the end of the period		50719P	xxxxxxxxxxxxxxx	1.250.874,68
5. Movements during the period		50713	0,00	
a. Recorded		50714	0,00	
b. Excess written back		50715	0,00	
c. Acquisitions from third parties		50716	0,00	
d. Cancellations		50717	0,00	
e. Transfers from one caption to another	(+/-)	50718	0,00	
6. Amortizations and write-downs as at the end of the period		50719	1.250.874,68	
7. Net carrying value as at the end of the period		50720	0,00	

		Codes	Current period	Previous period
C. COMMISSIONS FOR ATTRACTING NEW BUSINESS WITH CUSTOMERS				
1. Acquisition cost as at the end of the period		50725P	xxxxxxxxxxxxxxx	0,00
2. Movements during the period		50721	0,00	
a. Acquisitions, including own construction		50722	0,00	
b. Sales and disposals		50723	0,00	
c. Transfers from one caption to another	(+)/(-)	50724	0,00	
3. Acquisition cost as at the end of the period		50725	0,00	
4. Amortizations and write-downs as at the end of the period		50732P	xxxxxxxxxxxxxxx	0,00
5. Movements during the period		50726	0,00	
a. Recorded		50727	0,00	
b. Excess written back		50728	0,00	
c. Acquisitions from third parties		50729	0,00	
d. Cancellations		50730	0,00	
e. Transfers from one caption to another	(+)/(-)	50731	0,00	
6. Amortizations and write-downs as at the end of the period		50732	0,00	
7. Net carrying value as at end of the period		50733	0,00	

		Codes	Current period	Previous period
D. OTHER INTANGIBLE FIXED ASSETS				
1. Acquisition cost as at end of the period		50738P	xxxxxxxxxxxxxxx	972.177,51
2. Movements during the period		50734	407.719,24	
a. Acquisitions, including own construction		50735	407.719,24	
b. Sales and disposals		50736	0,00	
c. Transfers from one caption to another	(+)/(-)	50737	0,00	
3. Acquisition cost as at end of the period		50738	1.379.896,75	
4. Amortizations and write-downs as at end of the period		50745P	xxxxxxxxxxxxxxx	608.032,73
5. Movements during the period		50739	370.214,58	
a. Recorded		50740	172.625,50	
b. Excess written back		50741	0,00	
c. Acquisitions from third parties		50742	0,00	
d. Cancellations		50743	197.589,08	
e. Transfers from one caption to another	(+)/(-)	50744	0,00	
6. Amortizations and write-downs as at the end of the period		50745	978.247,31	
7. Net carrying value as at the end of the period		50746	401.649,44	

VIII. TANGIBLE FIXED ASSETS (Assets caption IX)

		Codes	Current period	Previous period
A. LAND AND BUILDINGS				
1. Acquisition cost as at the end of the period		50805P	xxxxxxxxxxxxxxx	1.262.387.324,34
2. Movements during the period	(+)/(-)	50801	18.967.375,41	
a. Acquisition, including own construction		50802	28.099.034,05	
b. Sales and disposals		50803	-9.131.658,64	
c. Transfers from one caption to another	(+)/(-)	50804	0,00	
3. Acquisition cost as at the end of the period		50805	1.281.354.699,75	
4. Revaluation surpluses as at the end of the period		50811P	xxxxxxxxxxxxxxx	58.957.289,86
5. Movements during the period	(+)/(-)	50806	0,00	
a. Recorded		50807	0,00	
b. Acquisitions from third parties		50808	0,00	
c. Cancellations		50809	0,00	
d. Transfers from one caption to another	(+)/(-)	50810	0,00	
6. Revaluation surpluses as at the end of the period		50811	58.957.289,86	
7. Amortizations and write-downs as at the end of the period		50818P	xxxxxxxxxxxxxxx	747.769.423,24
8. Movements during the period	(+)/(-)	50812	25.662.862,50	
a. Recorded		50813	32.290.491,54	
b. Excess written back		50814	0,00	
c. Acquisitions from third parties		50815	0,00	
d. Cancellations		50816	-6.627.629,04	
e. Transfers from one caption to another	(+)/(-)	50817	0,00	
9. Amortizations and write-downs as at the end of the period		50818	773.432.285,74	
10. Net carrying value as at the end of the period		50819	566.879.703,87	

		Codes	Current period	Previous period
B. PLANT, MACHINERY AND EQUIPMENT				
1. Acquisition cost as at the end of the period		50824P	xxxxxxxxxxxxxxx	12.438.672,46
2. Movements during the period	**(+)/(-)**	50820	-402.412,58	
a. Acquisition, including own construction		50821	0,00	
b. Sales and disposals		50822	-402.412,58	
c. Transfers from one caption to another	(+)/(-)	50823	0,00	
3. Acquisition cost as at the end of the period		50824	12.036.259,88	
4. Revaluation surpluses as at the end of the period		50830P	xxxxxxxxxxxxxxx	0,00
5. Movements during the period	**(+)/(-)**	50825	0,00	
a. Recorded		50826	0,00	
b. Acquisitions from third parties		50827	0,00	
c. Cancellations		50828	0,00	
d. Transfers from one caption to another	(+)/(-)	50829	0,00	
6. Revaluation surpluses as at the end of the period		50830	0,00	
7. Amortization and write-downs as at the end of the period		50837P	xxxxxxxxxxxxxxx	11.316.461,81
8. Movements during the period	**(+)/(-)**	50831	58.712,33	
a. Recorded		50832	631.173,83	
b. Excess written back		50833	0,00	
c. Acquisitions from third parties		50834	0,00	
d. Cancellations		50835	-572.461,50	
e. Transfers from one caption to another	(+)/(-)	50836	0,00	
9. Amortizations and write-downs as at the end of the period		50837	11.375.174,14	
10. Net carrying value as at the end of the period		50838	661.085,74	

		Codes	Current period	Previous period
C. FURNITURE AND VEHICLES				
1. Acquisition cost as at the end of the period		50843P	xxxxxxxxxxxxxxx	33.958.551,69
2. Movements during the period	**(+)/(-)**	50839	25.982,41	
a. Acquisition, including own construction		50840	269.976,34	
b. Sales and disposals		50841	-243.993,93	
c. Transfers from one caption to another	(+)/(-)	50842	0,00	
3. Acquisition cost as at the end of the period		50843	33.984.534,10	
4. Revaluation surpluses as at the end of the period		50849P	xxxxxxxxxxxxxxx	0,00
5. Movements during the period	**(+)/(-)**	50844	0,00	
a. Recorded		50845	0,00	
b. Acquisitions from third parties		50846	0,00	
c. Cancellations		50847	0,00	
d. Transfers from one caption to another	(+)/(-)	50848	0,00	
6. Revaluation surpluses as at the end of the period		50849	0,00	
7. Amortizations and write-downs as at the end of the period		50856P	xxxxxxxxxxxxxxx	17.592.413,81
8. Movements during the period	**(+)/(-)**	50850	457.840,93	
a. Recorded		50851	779.260,08	
b. Excess written back		50852	0,00	
c. Acquisitions from third parties		50853	0,00	
d. Cancellations		50854	-321.419,15	
e. Transfers from one caption to another	(+)/(-)	50855	0,00	
9. Amortizations and write-downs as at the end of the period		50856	18.050.254,74	
10. Net carrying value as at the end of the period		50857	15.934.279,36	

		Codes	Current period	Previous period
D. LEASING AND OTHER SIMILAR RIGHTS				
1. Acquisition cost as at the end of the period		50862P	xxxxxxxxxxxxxxx	113.538.560,42
2. Movements during the period	(+)/(-)	50858	12.125.000,00	
a. Acquisition, including own construction		50859	12.125.000,00	
b. Sales and disposals		50860	0,00	
c. Transfers from one caption to another	(+)/(-)	50861	0,00	
3. Acquisition cost as at the end of the period		50862	125.663.560,42	
4. Revaluation surpluses as at the end of the period		50868P	xxxxxxxxxxxxxxx	0,00
5. Movements during the period	(+)/(-)	50863	0,00	
a. Recorded		50864	0,00	
b. Acquisitions from third parties		50865	0,00	
c. Cancellations		50866	0,00	
d. Transfers from one caption to another	(+)/(-)	50867	0,00	
6. Revaluation surpluses as at the end of the period		50868	0,00	
7. Amortizations and write-downs as at the end of the period		50875P	xxxxxxxxxxxxxxx	15.209.859,89
8. Movements during the period	(+)/(-)	50869	5.617.799,83	
a. Recorded		50870	5.617.799,83	
b. Excess written back		50871	0,00	
c. Acquisitions from third parties		50872	0,00	
d. Cancellations		50873	0,00	
e. Transfers from one caption to another	(+)/(-)	50874	0,00	
9. Amortizations and write-downs as at the end of the period		50875	20.827.659,72	
10. Net carrying value as at the end of the period		50876	104.835.900,70	
11. Of which				
a. Land and buildings		50877	104.835.900,70	
b. Plant, machinery and equipment		50878	0,00	
c. Furniture and vehicles		50879	0,00	

		Codes	Current period	Previous period
E. OTHER TANGIBLE FIXED ASSETS				
1. Acquisition cost as at the end of the period		50884P	xxxxxxxxxxxxxxx	244.608.494,04
2. Movements during the period	(+)/(-)	50880	2.298.734,66	
a. Acquisition, including own construction		50881	9.046.550,74	
b. Sales and disposals		50882	-6.747.816,08	
c. Transfers from one caption to another	(+)/(-)	50883	0,00	
3. Acquisition cost as at the end of the period		50884	246.907.228,70	
4. Revaluation surpluses as at the end of the period		50890P	xxxxxxxxxxxxxxx	0,00
5. Movements during the period	(+)/(-)	50885	0,00	
a. Recorded		50886	0,00	
b. Acquisitions from third parties		50887	0,00	
c. Cancellations		50888	0,00	
d. Transfers from one caption to another	(+)/(-)	50889	0,00	
6. Revaluation surpluses as at the end of the period		50890	0,00	
7. Amortizations and write-downs as at the end of the period		50897P	xxxxxxxxxxxxxxx	148.962.166,94
8. Movements during the period	(+)/(-)	50891	5.338.407,97	
a. Recorded		50892	9.565.929,43	
b. Excess written back		50893	0,00	
c. Acquisitions from third parties		50894	0,00	
d. Cancellations		50895	-4.227.521,46	
e. Transfers from one caption to another	(+)/(-)	50896	0,00	
9. Amortizations and write-downs as at the end of the period		50897	154.300.574,91	
10. Net carrying value as at the end of the period		50898	92.606.653,79	

		Codes	Current period	Previous period
F. ASSETS UNDER CONSTRUCTION AND ADVANCE PAYMENTS				
1. Acquisition cost as at the end of the period		50903P	xxxxxxxxxxxxxxx	0,00
2. Movements during the period	(+)/(-)	50899	0,00	
a. Acquisition, including own construction		50900	0,00	
b. Sales and disposals		50901	0,00	
c. Transfers from one caption to another	(+)/(-)	50902	0,00	
3. Acquisition cost as at the end of the period		50903	0,00	
4. Revaluation surpluses as at the end of the period		50909P	xxxxxxxxxxxxxxx	0,00
5. Movements during the period	(+)/(-)	50904	0,00	
a. Recorded		50905	0,00	
b. Acquisitions from third parties		50906	0,00	
c. Cancellations		50907	0,00	
d. Transfers from one caption to another	(+)/(-)	50908	0,00	
6. Revaluation surpluses as at the end of the period		50909	0,00	
7. Amortization and write-downs as at the end of the period		50916P	xxxxxxxxxxxxxxx	0,00
8. Movements during the period	(+)/(-)	50910	0,00	
a. Recorded		50911	0,00	
b. Excess written back		50912	0,00	
c. Acquisitions from third parties		50913	0,00	
d. Cancellations		50914	0,00	
e. Transfers from one caption to another	(+)/(-)	50915	0,00	
9. Amortizations and write-downs as at the end of the period		50916	0,00	
10. Net carrying value as at the end of the period		50917	0,00	

IX. OTHER ASSETS (Assets caption XI)

	Current period
Breakdown (if the amount in this caption is significant)	
Options	1.170.922.064,29
Other	500.235.208,26

X. DEFERRED CHARGES AND ACCRUED INCOME (Assets caption XII)

	Code	Current period
1. Deferred charges	51001	41.406.080,97
2. Accrued income	51002	9.495.728.339,86

X.bis REINVESTMENT OF SEGREGATED CUSTOMER FUNDS

	Code	Current period
Total	51003	0,00

XI. STATEMENT OF AMOUNTS OWED TO CREDIT INSTITUTIONS (Liabilities caption I)

	Code	Current period	Previous period
1. Amounts due to affiliated enterprises	51101	2.844.132.071,42	904.413.717,07
2. Amounts due to other enterprises linked by participating interests	51102	0,00	0,00
3. Breakdown of debts other than on sight according to their remaining maturity			
a. Up to 3 months	51103	22.252.657.031,35	
b. Over 3 months up to 1 year	51104	542.126.586,72	
c. Over 1 year up to 5 years	51105	4.343.114.249,38	
d. Over 5 years	51106	0,00	
e. Undated	51107	5.810.902,09	

XII. STATEMENT OF AMOUNTS OWED TO CUSTOMERS (Liabilities caption II)

	Code	Current period	Previous period
1. Affiliated enterprises	51201	10.092.044.147,05	12.754.164.369,28
2. Other enterprises linked by participating interests	51202	105.044.486,68	115.558.956,30
3. Breakdown according to the remaining maturity			
a. Repayable on demand	51203	39.556.982.654,33	
b. Up to 3 months	51204	13.495.287.541,69	
c. Over 3 months up to 1 year	51205	3.851.470.323,86	
d. Over 1 year up to 5 years	51206	7.785.514.409,73	
e. Over 5 years	51207	1.881.283.307,20	
f. Undated	51208	33.077.628.502,61	
4. Breakdown of debt owed to customers depending on the nature of the debtors			
a. Debt owed to government	51209	1.891.136.499,03	2.042.462.109,89
b. Debt owed to private persons	51210	48.922.387.539,15	46.045.533.468,77
c. Debt owed to enterprises	51211	48.834.642.701,24	60.501.738.158,45
5. Geographical breakdown of debt owed to customers			
a. Of Belgian origin	51212	77.491.191.614,84	
b. Of foreign origin	51213	22.156.975.124,58	

XIII. STATEMENT OF DEBTS EVIDENCED BY CERTIFICATES (liabilities caption III)

	Codes	Current period	Previous period
1. Debts represented by a certificate that, to the knowledge of the institution, are debts owed to affiliated companies.	51301	0,00	0,00
2. Debts represented by a certificate that, to the knowledge of the institution, are debts owed to companies linked by participating interests.	51302	0,00	0,00
3. Breakdown of debt represented by certificates in accordance to their remaining maturity.			
a. Up to 3 months	51303	16.088.908.960,68	
b. Over 3 months up to 1 year	51304	1.546.466.823,94	
c. Over 1 year up to 5 years	51305	3.757.444.369,23	
d. Over 5 years	51306	3.270.487.011,98	
e. Undated	51307	0,00	

XIV. OTHER LIABILITIES (liabilities caption IV)

	Codes	Current period
1. Taxes, remuneration and social security charges due to the tax authorities	51401	0,00
a. Overdue debts	51402	0,00
b. Unmatured debts	51403	0,00
2. Taxes, remuneration and social security charges due to the National Social Security Office	51404	0,00
a. Overdue debts	51405	0,00
b. Unmatured debts	51406	0,00
3. Taxes		
a. Taxes payable	51407	17.568.198,67
b. Estimated tax liabilities	51408	-706.754,43
4. Other liabilities		
Breakdown if the amount in this caption is significant		
Other amounts payable relating to remuneration and social security		168.793.843,82
Option contracts		645.076.456,95
Dividends still to be paid		530.832.519,56
Other		62.701.015,70

XV. ACCRUED CHARGES AND DEFERRED INCOME (liabilities caption V)

	Codes	Current period
1. Accrued charges	51501	6.583.151.881,46
2. Deferred income	51502	158.985.348,45

XVI. PROVISIONS FOR OTHER LIABILITIES AND CHARGES (liabilities VI.A.3)

	Current period
Breakdown of liabilities (VI.A.3) if the amounts in this caption are significant	
Credit commitments	87.932.985,67
Litigation and operational disputes	67.064.616,78
Provision for other risks and future expenses	1.807.072,20
Provision for disability payments	4.563.516,11
Other	19.735.639,37

XVII. STATEMENT OF SUBORDINATED LIABILITIES (liabilities caption VIII)

	Codes	Current period	Previous period
1. Subordinated debts due to affiliated enterprises	51701	5.237.077.267,36	4.030.214.317,04
2. Subordinated debts due to other enterprises linked by participating interests	51702	0,00	0,00

	Codes	Current period
3. Charges as a result of subordinated liabilities	51703	233.802.316,21

4. For each subordinated loan, the following information: reference number, the ISO code of the currency, the amount of the loan in the currency of the loan, the remuneration arrangements, the due date and, if no due date is determined, the terms of duration, where appropriate the circumstances in which the institution is required to repay in advance, the conditions for the subordination and if appropriate, the conditions for the conversion into capital or into some other form of liability.

Detail of each subordinated loan :

Reference nummer	Currency	Amount	Maturity date or conditions governing the maturity	a) Circumstances in which the entreprise is required to repay this loan. b) Conditions for the subordinataion c) Conditions for conversion into capital
1	EUR	1.400.000.000	19/03/2014 - 19/03/2019 Deposits originated by KBC Group - AT1	a) Unconditional
2	EUR	749.438.401	25/11/2014 - 25/11/2024 Deposits originated by KBC Group - T2	a) Unconditional
3	EUR	9.854.501	06/03/2015 - 06/03/2025 Deposits originated by KBC Group - T2	a) Unconditional
4	EUR	747.187.515	11/03/2015 - 11/03/2027 Deposits originated by KBC Group - T2	a) Unconditional
5	EUR	174.336.280	24/07/2014 - 24/07/2029 Deposits originated by KBC Group - T2	a) Unconditional
6	EUR	746.090.208	26/04/2016 - 26/04/2021 Deposits originated by KBC Group - Tier	a) Unconditional
7	EUR	749.454.005	18/10/2016 - 18/10/2023 Deposits originated by KBC Group - Holdco	a) Unconditional
8	EUR	250.000.021	01/08/2006 - 19/03/2019 Deposits originated by KBC Group - Perpetuele Lening	a) Unconditional
9	EUR	134.794.676	Subordinated certificates Issued by KBC Bank	a) Unconditional
10	EUR	24.600.095	Subordinated Time Deposits Issued by KBC Bank	a) Unconditional
11	GBP	43.497.842	19/12/2003 - perpetual Issued by KBC Bank	a) Fiscal requalification Repayment possible from 19/12/2019 c) Mandat. conv. Into KBC Bank in case of Superv. Event
12	USD	177.207.260	Deposits originated by KBC IFIMA	a) Fiscal requalification
13	EUR	242.603.957	Deposits originated by KBC IFIMA	a) Fiscal requalification
14	USD	1.000.000.000	25/01/2013 – 25/01//2023 USD Contingent Capital Notes	

XVIII. STATEMENT OF CAPITAL

	Codes	Current period	Previous period
A. CAPITAL			
1. Subscribed capital			
a. Subscribed capital as at the end of the preceding period	20910P	xxxxxxxxxxxxxx	8.948.439.652,39
b. Subscribed capital as at the end of the period	(20910)	8.948.439.652,39	

	Codes	Amounts	Number of shares
c. Changes during the period			
d. Structure of the capital			
e. Categories of shares			
Ordinary shares entitled to dividend		8.948.439.652,39	915.228.482
f. Registered shares	51801	xxxxxxxxxxxxxx	915.228.482
g. Bearer and or dematerialized shares	51802	xxxxxxxxxxxxxx	0

	Codes	Uncalled capital	Called but unpaid capital
2. CAPITAL NOT PAID UP			
a. Uncalled capital	(20920)	0,00	xxxxxxxxxxxxxx
b. Called but unpaid capital	51803	xxxxxxxxxxxxxx	0,00
c. Shareholders still owing capital payment			

	Codes	Current period
3. OWN SHARES		
a. Held by the reporting institution itself		
* Amount of capital held	51804	0,00
* Corresponding number of shares	51805	0,00
b. Held by its subsidiaries		
* Amount of capital held	51806	0,00
* Corresponding number of shares	51807	0,00
4. SHARE ISSUANCE COMMITMENTS		
a. Following the exercise of conversion rights		
* Amount of convertible loans outstanding	51808	0,00
* Amount of capital to be subscribed	51809	0,00
* Maximum corresponding number of shares to be issued	51810	0,00
b. Following the exercise of subscription rights		
* Number of subscription rights outstanding	51811	0,00
* Amount of capital to be subscribed	51812	0,00
* Maximum corresponding number of shares to be issued	51813	0,00
5. AUTHORIZED CAPITAL NOT ISSUED	51814	4.000.000.000,00

	Codes	Current period
6. SHARES NOT REPRESENTING CAPITAL		
a. Repartition		
* Number of parts	51815	0,00
* Number of votes	51816	0,00
b. Breakdown by shareholder		
* Number of parts held by the reporting institution itself	51817	0,00
* Number of parts held by its subsidiaries	51818	0,00

B. SHAREHOLDER STRUCTURE OF THE INSTITUTION AT YEAR END, ACCORDING TO THE NOTIFICATIONS RECEIVED BY THE INSTITUTION

KBC Groep NV	Number of shares:	915.228.481
KBC Verzekeringen NV	Number of shares:	1

XIX. BREAKDOWN OF BALANCE SHEET, IF MORE THAN 15 MILLION EUROS, IN EUROS AND IN FOREIGN CURRENCY

	Codes	Current period
1. Total Assets		
a. In Euro	51901	157.427.857.643,22
b. In foreign currency (equivalent in EUR)	51902	22.566.764.815,62
2. Total liabilities		
a. In Euro	51903	148.607.099.200,07
b. In foreign currency (equivalent in EUR)	51904	31.387.523.258,77

XX. FIDUCIARY TRANSACTIONS ACCORDING TO ARTICLE 27TER §1 PARAGRAPH 3

	Current period
Concerned assets and liabilities items	0,00
	0,00
	0,00
	0,00
	0,00

XXI. STATEMENT OF GUARANTEED DEBTS AND OBLIGATIONS

	Current period
A. MORTGAGES (amount of enrollment or carrying amount of the collateralized buildings, if this is less)	
1. Collateral provided by the institution or irrevocably promised on its own assets as security for debts and obligations of the institution	
a. Liabilities	
b. Off balance sheet	
2. Collateral provided by the institution or irrevocably promised on its own assets as security for debts and commitments of third parties	

	Current period
B. PLEDGE OF THE TRADING FUND (total enrollment)	
1. Collateral provided by the institution or irrevocably promised on its own assets as security for debts and obligations of the institution	
a. Liabilities	
b. Off balance sheet	
2. Collateral provided by the institution or irrevocably promised on its own assets as security for debts and obligations of third parties	

	Period
C. PLEDGE OF OTHER ASSETS (book value of pledged assets)	
1. Collateral provided by the institution or irrevocably promised on its own assets as security for debts and obligations of the institution	
a. Liabilities	
Discounting, repurchase agreements and secured advances	17.227.975.669,73
Asset Pledge requirement KBC New York	142.144.957,78
Asset Pledge National Bank of Belgium	5.116.410.411,08
Covered bonds	10.851.964.171,60
b. Off-balance sheet	
Options and futures	5.172.516.782,67
2. Collateral provided by the institution or irrevocably promised on its own assets as security for debts and commitments of third parties	

	Current period
D. COLLATERAL ON FUTURE ASSETS (total assets in question)	
1. Collateral provided by the institution or irrevocably promised on its own assets as security for debts and obligations of the institution	
a. Liabilities	
b. Off-balance sheet	
2. Collateral provided by the institution or irrevocably promised on its own assets as security for debts and obligations of third parties	

XXII. STATEMENT OF CONTINGENT LIABILITIES AND COMMITMENTS WITH POTENTIAL CREDIT RISK (off balance sheet I and II)

	Codes	Current period	Previous period
1. Total contingent liabilities on behalf of affiliated companies	52201	6.930.263.783,05	9.866.649.921,76
2. Total contingent liabilities on behalf of companies linked by participating interests	52202	5.625.762,46	5.404.500,00
3. Total commitments with a potential credit risk to affiliated companies	52203	0,00	0,00
4. Total commitments with a potential risk with regard to companies linked by participating interests	52204	0,00	0,00

XXIII. OPERATING RESULTS (items I to XV of the income statement)

	Codes	Period	Previous period
1. Breakdown of operating income according to origin			
a. Interest and similar income	(40100)	2.929.994.113,85	3.032.036.053,93
* Belgian sites	52301	2.674.945.182,27	2.819.466.796,94
* Foreign offices	52302	255.048.931,58	212.569.256,99
b. Income from fixed-income securities: shares and other variable-yield securities	(40310)	3.175.528,63	4.186.210,06
* Belgian sites	52303	3.174.730,14	4.185.977,06
* Foreign offices	52304	798,49	233,00
c. Income from fixed-income securities: investments in affiliated companies	(40320)	834.229.569,49	896.393.187,60
* Belgian sites	52305	834.229.569,49	896.393.187,60
* Foreign offices	52306	0,00	0,00
d. Income from fixed-income securities: shares in companies linked by participating interests	(40330)	11.362.420,71	4.613.511,66
* Belgian sites	52307	11.362.420,71	4.613.511,66
* Foreign offices	52308	0,00	0,00
e. Income from fixed-income securities: other shares held as fixed financial assets	(40340)	2.587.211,02	1.693.976,49
* Belgian sites	52309	2.587.211,02	1.693.976,49
* Foreign offices	52310	0,00	0,00
f. Commissions received	(40400)	889.934.187,81	979.234.191,45
* Belgian sites	52311	859.723.333,36	943.701.733,72
* Foreign offices	52312	30.210.854,45	35.532.457,73
g. Profit on financial transactions	(40600)	-451.900,22	135.311.973,52
* Belgian sites	52313	-14.294.484,14	110.857.686,05
* Foreign offices	52314	13.842.583,92	24.454.287,47
h. Other operating income	(41400)	204.753.204,02	228.098.810,84
* Belgian sites	52315	193.368.759,28	216.171.679,31
* Foreign offices	52316	11.384.444,75	11.927.131,54
2. Employees on the personnel register			
a. Total number at the closing date	52317	9.841	9.668
b. Average number of employees in full-time equivalents	52318	8.915	8.983
* Management Personnel	52319	87	86
* Employees	52320	8.828	8.897
* Workers	52321	0	0
* Other	52322	0	0
c. Number of actual worked hours	52323	12.633.346	12.797.798
3. Personnel			
a. Remuneration and direct social benefits	52324	564.533.138,84	573.807.107,10
b. Employers' social security	52325	146.786.794,82	155.993.639,90
c. Employers' premiums for extra statutory insurance	52326	45.033.066,32	45.138.196,80
d. Other personnel	52327	29.547.426,58	28.283.890,98
e. Retirement and survivors' pensions	52328	15.104.978,26	3.666.414,88
4. Provisions for pensions and similar obligations			
a. Increase (+)	52329	27.778.553,29	8.374.818,20
b. Decrease (-)	52330	12.922.623,83	16.536.283,70

	Codes	Period	Previous period
5. Breakdown of other operating income if this represents a significant amount			
a. Rent other Group entities		61.967.214,64	59.947.922,36
b. Payment Fees		12.865.226,25	28.542.508,00
c. Operational leasing		18.723.176,07	17.405.533,57
e. Other		111.197.587,06	122.202.846,91
6. Other operating expenses			
a. Corporate taxes	52331	84.484.305,73	87.878.807,53
b. Other	52332	30.969.172,36	34.713.221,14
c. Analysis of other operating expenses if this represents a significant amount			
7. Operating revenue from affiliated companies	52333	2.333.331.739,44	2.063.292.436,16
8. Operating costs relating to affiliated companies	52334	1.667.446.321,10	1.630.193.175,10

XXIV. STATEMENT OF OFF BALANCE SHEET OPERATIONS ON SECURITIES, CURRENCIES AND OTHER FINANCIAL INSTRUMENTS WHICH BRING NO OBLIGATION WITH A POTENTIAL CREDIT RISK ACCORDING TO HEADING II OF THE OFF BALANCE SHEET ITEMS

	Codes	Current period
A. TYPES OF OPERATIONS (amounts on the closing date of the accounts)		
1. Securities transactions		
a. Forward purchases and sales of securities and marketable securities	52401	0,00
* of which: not intended for hedging purposes	52402	0,00
2. Exchange transactions (amounts to be provided)		
a. Forward exchange contracts	52403	112.462.176.079,51
* of which: not intended for hedging purposes	52404	112.462.176.079,51
b. Currency and interest rate swaps	52405	31.379.672.060,15
* of which: not intended for hedging purposes	52406	31.379.672.060,15
c. Currency futures	52407	0,00
* of which: not intended for hedging purposes	52408	0,00
d. Options on currencies	52409	17.768.495.198,64
* of which: not intended for hedging purposes	52410	17.768.495.198,64
e. Forward exchange contracts	52411	0,00
* of which: not intended for hedging purposes	52412	0,00
3. Transactions in other financial instruments		
Forward transactions in interest rate (nominal / notional reference)		
a. Interest rate swap agreements	52413	288.477.683.582,47
* of which: not intended for hedging purposes	52414	285.016.231.523,47
b. Interest futures transactions	52415	6.860.099.383,32
* of which: not intended for hedging purposes	52416	6.860.099.383,32
c. Future Interest rate Agreements	52417	1.238.461.740,80
* of which: not intended for hedging purposes	52418	1.238.461.740,80
d. Interest rate options	52419	80.063.816.260,13
* of which: not intended for hedging purposes	52420	80.063.816.260,13
Other purchase and sales (sale / purchase price agreed between parties)		
e. Other option transactions	52421	2.798.781.983,84
* of which: not intended for hedging purposes	52422	2.798.781.983,84
f. Other futures transactions	52423	0,00
* of which: not intended for hedging purposes	52424	0,00
g. Other forward purchases and sales	52425	17.032.769,29
* of which: not intended for hedging purposes	52426	0,00

B. QUANTIFICATION OF THE IMPACT ON THE RESULTS OF THE DEROGATION OF VALUATION RULE UNDER article 36bis, § 2 RELATING TO THE FORWARD TRANSACTIONS IN INTEREST RATE

		Codes	Current period
1. Forward transactions in interest rate regarding treasury management			
a. Nominal / notional reference amount on the closing date of accounts		52427	0,00
b. Difference between market value and book value	(+)/(-)	52428	0,00
2. Forward transactions in interest rate regarding ALM (*)			
a. Nominal / notional reference amount on the closing date of accounts		52429	39.369.019.771,87
b. Difference between market value and book value	(+)/(-)	52430	-2.141.755.518,03
3. Forward transactions in interest rate without the effect of risk reduction (LOCOM)			
a. Nominal / notional reference amount on the closing date of accounts		52431	107.802.859,04
b. Difference between market value and book value	(+)/(-)	52432	-2.701.103,55

(*) Including forward transactions regarding securitizations of home loans (nominal value 4.055.078.207 EUR). The MtM Value of the deals amount to (-154.457.027 EUR)

XXV. EXTRAORDINARY RESULTS

	Codes	Current period
1. Realised gains on transfer of fixed assets to affiliated companies	52501	0,00
2. Incurred losses on transfer of fixed assets to affiliated companies	52502	0,00
3. Breakdown of the other exceptional income if it comprises significant amounts		0,00
4. Breakdown of the other extraordinary costs if they comprise significant amounts		0,00
0		

XXVI. INCOME TAXES

	Codes	Current period
1. Income taxes for the year	52601	-17.463.562,35
a. Taxes and withholding taxes due or paid	52602	-15.385.097,17
b. Excess of income tax prepayments and of withholding taxes	52603	2.562.534,90
c. Estimated additional charges for income taxes	52604	-4.641.000,08
2. Income taxes for previous years	52605	-1.396.320,66
a. Additional income taxes due or paid	52606	-101.561,66
b. Additional charges for income taxes, estimated (included in liabilities)	52607	-1.294.759,00
3. Main sources of differences between the profit before tax, as stated in the financial statements, and the estimated taxable income		
Movements in taxable reserves and provisions		-48.371.806,31
The specific tax system applicable to gains and losses on shares		-131.992.039,66
The application of the foreign tax credit scheme on dividends received		-1.073.398.887,78
Disallowed expenses (other than write-downs, losses on shares, revenue participation and corporation tax)		24.113.515,83

4. Impact of extraordinary results on the amount of income taxes for the year

Realised gains and incurred losses on shares under financial fixed assets (gains not taxable and losses not deductible)		-115.399.017,84
Write-downs (not deductible) and write-backs (not taxable) on shares under financial fixed assets		247.403.907,63

	Codes	Current period
5. Sources of deferred taxes		
a. Deferred tax assets	52608	2.315.984.669,13
* Accumulated tax losses deductible from future taxable profits	52609	2.315.984.669,13
* Other deferred tax assets		
Taxable impairments		458.331.300,90
Taxable supplies		115.666.283,92
Other taxable reserves		20.314.643,18
Deferred taxes on the taxable amortization, provisions and other tax reserves were booked into BGAAP. The amount of deferred taxes booked per 31.12.2016 amounts to BGAAP 594 312 228 x 33.99% = 202.006.726		
b. Passive deferrals	52610	0,00
* Breakdown of the passive deferrals		

XXVII. VALUE ADDED TAX AND TAXES BORNE BY THIRD PARTIES

	Codes	Current period	Previous period
1. Charged value added tax			
a. To the reporting institution (deductible)	52701	12.370.596,65	9.396.894,94
b. By the reporting institution	52702	30.930.473,37	30.024.430,32
2. Amounts withheld on behalf of third parties as			
a. Payroll tax	52703	144.305.859,69	153.586.113,17
b. Withholding tax	52704	104.905.581,32	163.210.753,50

XXVIII. OFF-BALANCE SHEET RIGHTS AND COMMITMENTS AND TRANSACTIONS WITH RELATED PARTIES

A. OFF BALANCE SHEET RIGHTS AND COMMITMENTS

	Codes	Current period
1. Substantial commitments to acquire fixed assets		
2. Substantial commitments to dispose of fixed assets		

3. Significant litigation and other significant commitments

Significant disputes pending:

Information relating to the main legal disputes pending: claims filed against KBC group companies are – in keeping with IFRS rules – treated on the basis of an assessment of whether they will lead to an outflow of resources (i.e. ‘probable outflow’, ‘possible outflow’ or ‘remotely probable outflow’). Provisions are set aside for ‘probable outflow’ cases (see ‘Notes on the accounting policies’). No provisions are constituted for ‘possible outflow’ cases, but information is provided in the financial statements if such cases might have a material impact on the balance sheet (i.e. when the claim could lead to a possible outflow of more than 50 million euros). All other claims (‘remotely probable outflow’), of whatever magnitude, that represent a minor or no risk at all do not have to be reported. The most important cases are listed below. The information provided is limited in order not to prejudice the position of the group in ongoing litigation.

Probable outflow:

- From the end of 1995 until the beginning of 1997, KBC Bank and KB Consult were involved in the transfer of cash companies. Cash companies are characterised by the fact that the asset side of their balance sheets comprises primarily amounts receivable and cash, in addition to other liquid assets. On several occasions between 1995 and 1997, KB Consult acted as the intermediary between the sellers and buyers of such companies. There were various ways in which the bank could be involved, but in most cases they concerned payments or lending. KBC Bank and/or KB Consult were joined to proceedings in a number of cases. In addition, KB Consult was placed under suspicion by an investigating judge in 2004, and together with KBC Bank and KBC Group NV, was summoned to appear in the proceedings before a judge in chambers in Bruges. On 9 November 2011, the judge referred KB Consult and KBC Bank to Bruges Criminal Court on charges of uttering, but dismissed the charges against KBC Group NV. The Belgian state appealed the decision of no case to answer against KBC Group NV. On 27 October 2015, the indictments division ruled that proceedings were time-barred and upheld the original decision of no case to answer. The case as referred will now be heard before Bruges Criminal Court in the course of 2017. A suitable provision has been constituted to deal with the potential impact of claims for damages in this respect. The transfer of a cash company is in principle completely legitimate. However, it later transpired that certain purchasers were acting in bad faith since they did not make any investments at all and did not file tax returns for the cash companies they had purchased. KBC Bank and KB Consult immediately took the necessary measures to preclude any further involvement with these parties. Referral to the criminal court does not in any way imply that any KBC entity has been convicted of an offence. KBC is fully defending its position in these cases, based, among other things, on the fact that, during the period in which the events took place, the legal entity was not liable to prosecution and, in particular, KBC was utterly lacking in criminal intent.

- In March 2000, Rebeo and Trustimmo, two subsidiaries of Almafin (a subsidiary of KBC Bank), together with four former directors of Broeckdal Vastgoedmaatschappij (a real estate company) were summoned by the Ministry of Finance to appear before the civil court in Brussels regarding non-payment of 16.7 million euros in taxes owed by Broeckdal. However, Broeckdal contested this claim and in December 2002 initiated court proceedings against the Ministry of Finance before the civil court in Antwerp. The civil case pending before the Brussels court has been suspended until final judgment has been passed in the tax-related proceedings pending before the Antwerp court. Broeckdal was wound up by court order on 2 November 2010 and was declared properly wound up and dissolved on 13 September 2011. A suitable provision has been set aside to cover potential damages.

Possible outflow:

- On 6 October 2011, Irving H. Picard, trustee for the substantively consolidated SIPA (Securities Investor Protection Corporation Act) liquidation of Bernard L. Madoff Investments Securities LLC and Bernard L. Madoff, sued KBC Investments before the bankruptcy court in New York to recover approximately 110 million US dollars' worth of transfers made to KBC entities. The basis for this claim was the subsequent transfers that KBC received from Harley International, a Madoff feeder fund established under the laws of the Cayman Islands. This claim is one of a whole set made by the trustee against several banks, hedge funds, feeder funds and investors. In addition to the issues addressed by the district court, briefings were held on the applicability of the Bankruptcy Code's 'safe harbor' and 'good defenses' rules to subsequent transferees (as is the case for KBC). KBC, together with numerous other defendants, filed motions for dismissal. District court Judge Jed Rakoff has made several intermediate rulings in this matter, the most important of which are the rulings on extraterritoriality and good faith defences. On 27 April 2014, Judge Rakoff issued an opinion and order regarding the 'good faith' standard and pleading burden to be applied in the Picard/SIPA proceeding based on sections 548(b) and 559(b) of the Bankruptcy Code. As such, the burden of proof that KBC should have been aware of the fraud perpetrated by Madoff in this matter is for Picard/SIPA. On 7 July 2014, Judge Rakoff ruled that Picard/SIPA's reliance on section 550(a) did not allow for the recovery of subsequent transfers received abroad by a foreign transferee from a foreign transferor (as is the case for KBC Investments Ltd). Therefore, the trustee's recovery claims were dismissed to the extent that they seek to recover purely foreign transfers. In June 2015, the trustee filed a petition against KBC to overturn the ruling that the claim fails on extraterritoriality grounds. In this petition, the trustee also amended the original claim including the sum sought, which was increased to 196 million US dollars. On 22 November 2016, Judge Bernstein handed down an intermediate ruling dismissing the claims of the trustee in respect of those foreign transfers under the rules of international comity. The final judgment on this matter is expected in the first quarter of 2017. The trustee can then still appeal

- In the spring of 2008, KBC issued two bonds, KBC IFIMA 5-5-5 and KBC Group 5-5-5 (totalling 0.66 billion euros – also see Note 8 in the 2011 and 2012 annual reports). These structured bonds had a term of five years, a gross coupon of 5%, and were linked until their maturity to the public debt of five countries (Belgium, France, Spain, Italy and Greece). They allowed for early redemption of the residual value as soon as a credit event occurred with respect to one of these countries. When the 5-5-5 bonds were launched, the sovereign risks were generally regarded as very low. However, the unexpected, far-reaching changes in market conditions early in 2010 (the Greek crisis) changed the original risk profile of these bonds. At the start of 2011, KBC proactively decided to offer additional security to holders of 5-5-5 bonds and informed them of this in writing: if a credit event occurred, investors would still get back the amount they had invested, less the coupons already received and less taxes and charges. On 9 March 2012, a credit event actually occurred in Greece, and KBC honoured the promise it made. On 8 October 2012, a number of parties who had subscribed to the 5-5-5 bonds issued by KBC Group NV and by KBC IFIMA raised proceedings before Brussels Court of First Instance, as they were not satisfied with the proposed settlement. In the case involving the KBC Group NV issue, the court handed down a judgment on 20 January 2016, which found in favour of one of the plaintiffs. KBC Bank and KBC Group NV have appealed the case, with the final submissions being filed on 16 March 2017. No date has been set yet for the court hearing.

Other significant liabilities.

The bank irrevocably guarantees all the sums, indebtedness, obligations and liabilities outstanding on 31 December 2016 of the following companies, which are consequently exempt from publication on a consolidated basis.

KBC Asset Management NV
KBC Securities NV

4. Where appropriate, a brief description of the system of supplementary retirement or survivor benefit of the personnel or the executives, stating the measures taken to cover the resulting charges

All members of staff are covered by a supplementary pension scheme that includes an additional death benefit, orphan's annuity and invalidity benefits. The amount covered under these schemes (which are defined benefit schemes) depends on the average final salary, number of years of service and age at the time of retirement.

These pension schemes are financed entirely by the employer through annual contributions that are recognised in the income statement. These contributions, calculated on an actuarial basis using the aggregate cost method, are transferred to the Pensioenfonds KBC OFP (KBC pension fund for employees) and the Pensioenfonds Senior Management KBC OFP (KBC pension fund for senior management), whose specific task is to manage the accrued reserves, to pay out the supplementary pension benefit and to carry out the necessary administration.

With effect from 2014, a defined contribution plan was introduced that is mandatory for all new employees and optional for employees signed up to the aforementioned defined benefit plan. Since 2015, the defined benefit plan is therefore a closed plan (i.e. no new members can sign up to it). The new defined contribution plan is funded entirely by the employer. A statutory minimum return is guaranteed for contribution plans (3.25% in 2015 when the plan is funded by the employer, and 1.75% from 2016 on). The management of the reserves built up in this way, the payout of those reserves and the administration of the plan is also entrusted to the OFP Pensioenfonds KBC and the OFP Pensioenfonds Senior Management KBC.

In addition, staff may contribute to a supplementary pension scheme (defined contribution plan). It is based solely on members' personal contributions which are deducted directly from their salaries. The statutory guaranteed return in 2015 was 3.75% for employee contributions, and will be 1.75 % from 2016 on. Management of the reserves accrued in this way, their payment and associated administration is the responsibility of the Pensioenfonds KBC OFP and Pensioenfonds Senior Management KBC OFP.

	Code	Current period
5. Pensions that are borne by the institution itself: the estimated amount of obligations arising from past services	52801	
Bases and methods of estimation		

6. Nature and business purpose of off balance sheet arrangements

**Provided that the risks or benefits of such arrangements are material and to the extent that disclosure of the risks or benefits is necessary for assessing the financial situation of the institution;
where appropriate, the financial consequences of these operations for the facility must also be mentioned:**

KBC Bank NV is a member of a VAT grouping.

KBC Bank has set up a company for investments in debt securities, called Home Loan Invest, which has acquired mortgage loans of KBC Bank, using funds received from the issuance of securities.
KBC Bank carries almost all of these securities on its balance sheet. The interest risk carried by Loan Invest NV is covered by interest rate swaps concluded between Home Loan Invest and KBC Bank, so that this operation has a limited effect on the ALM management of the bank and on the income statement. The balance sheet shows a decrease of loans for an amount of 4.056 million euros and an increase of investment securities for an amount of 3.478 million euros. KBC Bank NV has a subordinated claim on Loan Invest NV, worth 742 million euros.
The main reason for setting up this operation is to make part of the loans of KBC Bank more liquid, as the securities issued by Home Loan Invest and held by KBC Bank are eligible for refinancing with the ECB. As a consequence the main purpose of this operation is improving the liquidity risk of the bank.

Note that Home Loan Invest is listed as a “Special Purpose Entity”, included in the consolidated reporting of KBC Bank.

The annual accounts of Home Loan Invest are available at the Central Balance Sheet Office.

7. Other off balance sheet rights and commitments

	Period
B. TRANSACTIONS WITH RELATED PARTIES OUTSIDE NORMAL MARKET CONDITIONS	
Indication of such transactions if they are significant, including the amount of these transactions, the nature of the relationship with the related party and any other information on transactions that would be required to obtain a better understanding of the financial situation of the institution:	
Transactions with affiliated companies were all concluded in line with the prevailing market conditions.	
C. Nature and financial impact of the significant events after the balance sheet date which are not taken into account in the income statement or the balance sheet	

XXIX. FINANCIAL RELATIONS WITH

	Codes	Current period
A. DIRECTORS AND MANAGERS, INDIVIDUALS OR CORPORATE BODIES WHO CONTROL THE INSTITUTION DIRECTLY OR INDIRECTLY WITHOUT BEING RELATED TO IT OR OTHER COMPANIES CONTROLLED DIRECTLY OR INDIRECTLY BY THESE PEOPLE		
1. Amounts receivable from these persons	52901	167.169.146,10
a. Conditions on amounts receivable		
b. Possibly refunded amount or amount which is waived		
All related party transactions occur at arm's length.		
2. Guarantees granted on their behalf	52902	0,00
a. Principal terms of the guarantees granted		
3. Other significant commitments undertaken in their favour	52903	0,00
a. Main conditions of these obligations		
4. Direct and indirect remuneration and pensions, included in P&L, provided that such disclosure does not concern exclusively or mainly the situation of a single identifiable person		
a. To directors and managers	52904	508.333,33
b. To former directors and former managers	52905	0,00

	Codes	Current period
B. THE AUDITOR(S) AND THE PEOPLE HE (SHE) IS (ARE) RELATED TO		
1. Remuneration of the auditor(s)	52906	1.495.000,00
2. Fees for exceptional services or special services provided to the company by the auditor(s)		
a. Other audit services	52907	58.994,00
b. Tax advisory services	52908	0,00
c. Other non-audit services	52909	55.460,00
3. Fees for exceptional services or special services provided to the company by persons with whom the auditor(s) is(are) related		
a. Other audit services	52910	231.500,00
b. Tax advisory services	52911	0,00
c. Other non-audit services	52912	0,00

4. Statements in accordance with Article 133, § 6 of the Company Code

XXX. POSITIONS IN FINANCIAL INSTRUMENTS

	Codes	Current period
1. Financial instruments to be received by the institution on behalf of clients	53001	843.769.943,44
2. Financial instruments to be delivered by the institution to clients	53002	50.944.436,37
3. Financial instruments of clients held in custody by the institution	53003	190.964.067.843,37
4. Financial Instruments from clients given in custody by the institution	53004	123.031.324.758,30
5. Financial Instruments from clients held as collateral by the institution	53005	1.600.947.925,59
6. Financial Instruments from clients given as collateral by the institution	53006	0,00

XXXII. DERIVATIVES NOT ESTIMATED AT FAIR VALUE

FOR EACH CATEGORY OF DERIVATIVE FINANCIAL INSTRUMENTS NOT BE VALUED ON THE BASIS OF FAIR VALUE

				Period		Previous Period	
Category of financial derivatives	Hedge risk	Speculation/ hedging	Volume	Book value	Fair value	Book Value	Fair value
Interest rate swaps	Interest rate risk	Hedging	52.188.997.731	-144.858.023	-2.222.724.690	-156.183.893	-2.212.792.464
Cross currency interest rate swaps	Interest- and currency risk	Hedging	2.246.166.094	6.091.477	-12.375.012	4.066.578	-67.833.013
Credit Default Swap	Credit Risk	Hedging	34.194.000	-34.330.479	-7.927.975	-34.213.435	-7.007.478

FINANCIAL FIXED ASSETS CARRIED AT AN AMOUNT IN EXCESS OF FAIR VALUE	Book value	Fair value
Amount of individual assets or appropriate groupings of those assets		
Reasons for not reducing the book value		
Informations that suggest than the book value will be recovered		

XXXII. DECLARATION ON CONSOLIDATED ACCOUNTS

A. TO BE COMPLETED BY ALL CREDIT INSTITUTIONS

The institution has drawn up and has published consolidated annual accounts and a consolidated annual report*

~~**The institution does not draw up consolidated annual accounts nor a consolidated annual report because she is exempted due to following reason(s)***~~

The institution does not, solely nor jointly, control one or more subsidiaries governed by Belgian or foreign law*

The institution is a subsidiary of a parent company that draws up and publishes consolidated accounts, in which the annual accounts are included through consolidation*

Justification of compliance with the conditions set out in Article 4 of the Royal Decree of September 23rd 1992:

Name and full address of the registered office and, for institutions governed by Belgian law, the company number of the parent company publishing the consolidated accounts by virtue of which the exemption is granted

B. TO BE COMPLETED BY INSTITUTIONS WHICH ARE SOLELY OR JOINTLY-HELD SUBSIDIARIES

Name and full address of the registered office and, for companies governed by Belgian law, the company number of the parent company or companies preparing and publishing the consolidated accounts in which the accounts of the reporting institution are consolidated **:

KBC GROEP NV
HAVENLAAN 2, 1080 BRUSSEL
0403.227.515
The parent company draws up consolidated annual accounts and publishes these consolidated annual accounts.

If the parent company or companies are governed by foreign law, state the place where the above-mentioned consolidated accounts may be obtained **:

* Delete where appropriate

** If the accounts are consolidated at several levels, give details of the largest and smallest aggregate to which the reporting institution belongs as a subsidiary and for which consolidated accounts are prepared and published

C. FINANCIAL RELATIONSHIPS OF THE GROUP LED BY THE COMPANY IN BELGIUM WITH THE AUDITOR(S) OR PEOPLE HE (THEY) IS (ARE) RELATED TO: Statement in accordance with article 133, paragraph 6 of the Company Law

	Codes	Current period
D. FINANCIAL RELATIONSHIPS OF THE GROUP LED BY THE COMPANY IN BELGIUM WITH THE AUDITOR(S) OR PEOPLE HE (THEY) IS (ARE) RELATED TO: Statement in accordance with article 134, paragraphs 4 and 5 of the Company Law		
1. Auditor's fees for carrying out an auditor's mandate on the level of the group led by the company that publishes the information	53201	
2. Fees for exceptional services or special services rendered in this group by the auditor(s)		
a. Other audit services	53202	
b. Tax consultancy services	53203	
c. Other non-audit services	53204	
3. Fees for the people who are related to the auditor(s) for carrying out an auditor's mandate on the level of the group led by the company that publishes the information	53205	
4. Fees for exceptional services or special services rendered in this group by the people who are related to the auditor(s)		
a. Other audit services	53206	
b. Tax consultancy services	53207	
c. Other non-audit services	53208	

XXXIII. Relationships with associates (*) :

	Codes	Afgesloten boekjaar
1. Amount of financial assets	**8.18.60.**	**13.114.489,80**
- Holdings	8.18.60.1	13.114.489,80
- Subordinated loans	8.18.60.2	0,00
- Other claims	8.18.60.3	0,00
2. Receivables form associated companies	**8.18.61.**	**130.807.603,93**
- On more than one year	8.18.61.1	130.807.603,93
- within one year	8.18.61.2	0,00
3. Debts to associates	**8.18.62**	**94.921.753,79**
- On more than one year	8.18.62.1	94.904.073,13
- within one year	8.18.62.2	17.680,66
4. Personal and real guarantees :	**8.18.63**	**5.620.146,00**
- made by the company or irrevocably promised as security for debts or liabilities of associates	8.18.63.1	0,00
- Held by associates or irrevocably promised as security for the debts or obligations of the company	8.18.63.2	5.620.146,00
5. Other significant financial commitments :	**8.18.64**	**0,00**

(*) Associates within the meaning of Article 12 of the companies code.

Valuation rules KBC Bank

1. General

The accounting principles and valuation rules are conform to Belgian accounting legislation and the provisions of the Royal Decree of 23 September 1992 on the annual accounts of credit institutions.

The annual accounts are made up as at 31 December after profit appropriation.

In conformity with Article 3 of the above-mentioned Royal Decree, the annual accounts are drawn up according to the principle of a true and fair view. A transparent, clear and consistent financial reporting is important for KBC Bank as a financial institution.

As such, KBC aims to align as much as possible, within the possibilities of the Belgian accounting law and the systems, with the international accounting standards IFRS, as applied for the consolidated annual accounts. According to this practice, deferred tax asset and tax liabilities, in application of article 16 of the Royal Decree mentioned above, are recognized on temporary tax differences (excl. losses carried forward) as also mentioned in the valuation rules (part Receivables) and in the disclosures.

2. Valuation rules

CURRENCY TRANSLATION

All monetary items denominated in foreign currency are translated into their equivalent in euros at the spot rate at balance sheet date. Negative and positive valuation differences, except for those relating to the financing of shares and investments in foreign currency and to dotation capital for foreign branches, are recorded in the profit and loss account.

Non-monetary items are valued on the basis of the historical rate at acquisition or, where appropriate, on the basis of the exchange rate at which the currency used to pay the price was purchased.

For transactions that entailed funding (lending), the rate of the day is used if there is no exchange rate.

Income and charges denominated in foreign currency are stated in the profit and loss account at the rate prevailing when they were recognised. Foreign-currency income and expenditure which is hedged in advance is recorded in euros on the basis of the fixed rate.

Translation of the financial statements of foreign branches outside the euro zone:

balance sheet items are translated at the closing exchange rate prevailing at year-end, profit and loss account items are translated based on average rates. For this purpose, each month’s profit or loss is translated into euros at the rate prevailing at the end of that month.

The translation difference at balance sheet date, resulting from translating the profit and loss account on the basis of average rates, is taken to the profit and loss account as profit on financial transactions.

AMOUNTS RECEIVABLE

Interest collected in advance and similar income (including such additional compensation as fees for foreign loans) for the entire loan period cannot be taken to the profit and loss account immediately, and is therefore posted to an accruals and deferrals heading. At month-end, the amount earned is written to the profit and loss account.

Origination and processing fees charged are taken to profit and loss immediately on the inception of the loans and advances concerned, credit insurance premiums are taken to the profit and loss account annually when paid.

Commissions due (payable in advance) for bank guarantees given are recorded in the profit and loss account immediately. The commissions received by KBC Bank for credit broking are charged to the profit and loss account when the credit is disbursed.

Amounts receivable arising from advances and cash deposits are recorded in the balance sheet for the amount made available. The difference between the amount made available and the nominal value (discount) is recognised on an accruals basis according to the straight- line method as interest receivable via the accruals and deferrals accounts.

Dated commercial credit, consumer credit, home loans and receivables arising from leasing contracts are recorded in the balance sheet in the outstanding principal amount, plus the interest past due and sundry costs to be paid by customers. Interest received but not yet due (interest collected in advance) is recorded in the profit and loss account on an accruals basis via the accruals and deferrals headings.

The other amounts receivable are recognised in the balance sheet at nominal value.

Loans and advances that are transferred through securitisation operations where the transfer qualifies as a sale under NBB/BNB guidelines no longer constitute bank assets and consequently may not appear on the balance sheet of KBC Bank, although the amount is required to be recorded in the contingent accounts. Until the securitisation operation comes to an end, the entry in the contingent accounts is required to be adjusted at the end of each month to reflect customers’ loan repayments. Any gains realised on the sale of securitised assets are taken to the profit and loss account immediately at the time of the sale.

If the sales price is made up entirely or in part of a variable element dependent on the buyer's operating profit, this element will only be taken to the profit and loss account when the operating profit is known and this element is therefore fixed.

In synthetic securitisation operations, the (credit) risk in respect of the underlying (loan) portfolio is all that is transferred to a third party, and this by means of a credit default swap, for example, and not through the effective transfer/sale of the (loan) receivables. In other words, the loans remain on the balance sheet. Transactions used to hedge the company's own loan receivables are recognised as guarantees given or received. Transactions relating to the trading portfolio are recorded as interest rate swaps. Both types of transaction are marked to market and taken to profit and loss, unless carried out on an illiquid market (in this case, positive valuation differences are posted to an accruals and deferrals heading, and negative valuation differences to the profit and loss account).

For loans with an uncertain outcome, general provisions are set aside and specific write-downs are charged. All interest and various other receivables which have remained unpaid for three months after having become payable will not be recognised in the profit and loss account.

Non-specific write-downs are calculated for domestic loans with an uncertain outcome on the basis of the principal amount whose repayment is uncertain, the percentage susceptible to reclassification (that portion of the 'uncertain outcome' portfolio that might become 'doubtful') and the loss percentage.

IBNR losses are recognised to take account of incurred but not yet reported losses on normal loans.

For loans classified as irrecoverable and doubtful, specific write-downs are posted on a case-by-case basis and charged to the assets heading in the annual accounts in which the risks appear, in order to cover the losses which are considered certain or likely to ensue on the outstanding loans. Interest due and charges are written to reserves.

Loans are classified as irrecoverable and doubtful if the loan balance is payable and if debt-recovery procedures have been initiated in or out of court.

The amount of any security is equal to the principal amount registered. Personal security is recorded in the accounts in the amount that can be obtained if execution is levied. Whenever the borrower makes a payment, the current amount of security has to be adjusted. If insufficient security is provided for a loan, a risk premium in the form of a higher rate of interest will be charged. The income this generates will be posted to 'Net interest income' on an accruals basis.

Deferred taxes are recognised for all taxable temporary differences between the carrying value of an asset or liability and its tax base, except for deferred tax assets on tax losses or notional interest deductions carried forward, which are not recognised due to the principle of prudence.

SECURITIES

Securities are recognised at acquisition cost at the time of purchase, excluding costs and less subscription fees. The ancillary costs attendant on acquisition are charged directly to the result.

- *Investment portfolio*

Fixed-income investment securities are recorded at acquisition cost, less or plus the matured portion of the premium or discount. The difference between the acquisition cost and the redemption value is reflected as an interest item in the profit and loss account on an accruals basis over the remaining term to maturity of the securities. It is included in the profit and loss account on a discounted basis, based on the internal rate of return at the time of purchase.

Perpetual debt is valued at the lower of acquisition cost and market value.

If redemption of a security is uncertain or doubtful, an impairment is recorded according to the principles that apply for the valuation of amounts receivable.

If securities are sold, their carrying value is determined on a case-by-case basis. Gains or losses are posted directly to the profit and loss account.

Listed shares and other variable-yield securities are valued each month at the lower of acquisition cost and market value at balance sheet date. Other securities are valued at least once a year, based on the annual accounts for the previous year. File administrators are responsible for ensuring that any significant negative developments during the course of the year are also dealt with.

No value impairments are posted for shares hedged against a decline in price by means of an option.

- *Trading portfolio*

Securities belonging to the trading portfolio are marked to market. The resulting valuation differences are recorded in the profit and loss account under heading VI: 'Profit (Loss) on financial transactions'.

FINANCIAL FIXED ASSETS

Included in KBC Bank's holdings or participating interests are the rights (shares) held in other companies with a view to creating specific, lasting ties with them.

If there are no lasting ties and the shares are acquired for resale, then this investment will not be considered a financial fixed asset, but rather as part of the investment portfolio, regardless of the size of the shareholding and the influence that could be exerted on the management of the company in question through this shareholding.

Participating interests and shares that are considered financial fixed assets are recognised at acquisition cost.
Write-downs are applied only in the event of a lasting impairment in or loss of value, established on the basis of the financial position, the profitability and the prospects of the company concerned.

Participating interests, shares and share certificates classified as financial fixed assets may be revalued if, in light of their usefulness to the company, they exhibit an incontestable and lasting increase in value.

Regardless of whether they are represented by securities, subordinated loans and advances to associated companies and companies linked by participating interests are valued according to the same principles as non-subordinated loans and advances.

FORMATION EXPENSES AND INTANGIBLE FIXED ASSETS

All formation expenses referred to in the Royal Decree on the annual accounts of credit institutions are charged directly to the profit and loss account for the financial year as administrative expenses.

Capitalised goodwill is depreciated according to the straight-line method over a period of five years, unless the Board of Directors decides otherwise.

The following rules apply to software that has been developed in-house: all charges relating to continuity projects, as well as any research expenses for investments, are taken directly to the profit and loss account. However, development expenses (both internal and external) for investments are capitalised as an intangible fixed asset and written off over a period of five years. Investments are large-scale projects that introduce or replace an important business objective or model. Systems software is depreciated at the same rate as hardware, being written off according to the straight-line method over a period of three years.. Software other than systems software is depreciated over five years. Core systems with a longer useful life are depreciated straight line over an eight-year period. Core systems are types of standard software, including back-end data applications, for processing operations during the day and updates of the general ledger balances on the mainframe.

At KBC Bank, intangible fixed assets recorded are capitalised at acquisition cost including ancillary costs, and are written off on an accruals basis during the first year of investment.

TANGIBLE FIXED ASSETS

All tangible fixed assets are recognised at acquisition cost, less accumulated depreciation. They are recorded at acquisition cost, including ancillary, directly allocable costs (acquisition costs, non-deductible VAT, etc.).

The rates of depreciation are determined on the basis of the anticipated useful economic life of the item and are applied according to the straight-line method. All tangible fixed assets are depreciated on an accruals basis from the time they are available for use. The ancillary costs are written off over the life of the asset. A write-down is charged for ancillary costs on the acquisition of land.

When tangible fixed assets are sold, realised gains or losses are taken immediately to the profit and loss account. If these assets are destroyed, the remaining amount to be written off is charged directly to the result.

Tangible fixed assets that exhibit an incontestable and lasting appreciation in value compared to their carrying value may be revalued. This surplus is written off over the average residual useful life of the assets in question.

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Amounts owed as a result of advances or cash deposits received are recorded in the balance sheet in the amount made available, plus or minus any difference between this amount and the redemption price of the portion that has already accrued. The difference between the amount made available and the nominal value is reflected as interest on an accruals basis in the profit and loss account.

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CREDITORS

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PROVISIONS FOR LIABILITIES & CHARGES

Provisions for liabilities and charges are intended to cover losses or charges, the nature of which is clearly defined and which at balance sheet date are either likely or certain to be incurred, but the amount of which is uncertain.

- Pensions

Concerned here are commitments with regard to retirement and survivor’s pensions, benefits paid out on early retirement and other similar pensions or allowances (related mainly to employees’ leaving employment early and end-of-career schemes).

- Taxation

This provision covers the commitments that may arise from a change in the tax base or in the calculation of tax. It is set aside in anticipation of additional tax charges (not yet assessed) for past financial years, for the amount that is disputed.

- Other liabilities and charges

This is a residual heading in respect of the provisions referred to above and includes provisions for legal disputes, commitment credit and indirect taxes.

FINANCIAL INSTRUMENTS

- Valuation rules for trading and non-trading activities

Where trading activities are concerned, the unrealised profit or loss on revaluation is recognised at least at the end of every month. This revaluation takes into account any interest flows that have already been recognised on an accruals basis. In the event of a sale, liquidation or expiration, the profit/loss on the position is recognised immediately. Where illiquid currencies or securities are concerned, no profit on revaluation is recognised.

The existing strategic positions the dealing room takes for its own account via derivatives with a view to generating a profit on the long term by way of capital gains or interest spreads are valued according to the same principles used for illiquid interest rate positions.

For non-trading activities, where interest rate instruments are concerned, the gains or losses realised are only recognised on an accruals basis over the corresponding term. The valuation of non-interest-rate instruments (e.g., share option premiums) matches the valuation of the hedged position. In addition, non-trading activities carried out for the purpose of general, long-term management of interest rate products denominated in a foreign currency (macro-hedging) are also valued according to the ‘lower of cost and market’ principle, along with the associated on-balance-sheet products. Profit or loss on similar transactions carried out for general EUR ALM interest rate management purposes is recognised solely on an accruals basis.

Option premiums that are paid in advance are only taken to the profit and loss account on the due date or on liquidation, with the exception of option premiums for caps, floors and collars that have been concluded for hedging purposes (accruals-basis recognition). In the meantime, they are posted under the ‘Other assets’ or ‘Other liabilities’ items. Option premiums relating to trading activities are revalued at least at the end of every month.

- Valuation of derivatives

All derivatives are always recorded under specific off-balance-sheet headings on the transaction date. Amounts are released from the off- balance-sheet headings once the outcome of the transaction is definitive, even if the underlying term only starts at that time for certain interest rate products (e.g., FRAs).

Trading transactions are marked to market, and the mark-to-market (dirty price) value is recognised in the trading results. Non-trading transactions are included in interest income on an accruals basis, which is the case for interest payable and interest receivable relating to interest rate swaps and foreign currency interest rate swaps. The swap difference arising on FX swaps (and FX outrights) is also released to the results on an accruals basis. The results from interest rate futures and FRAs are included in the profit and loss account spread over the term of the underlying hedged item. Equity swaps are treated in the same way as interest rate swaps. In practice, equity swaps (just like options) are only recorded in the trading book and consequently marked to market. KBC Bank makes use of the derogation allowed by the NBB/BNB to Article 36*bis* of the Royal Decree on the annual accounts of credit institutions. This derogation makes it possible to take interest rate derivatives that do not meet the hedging criteria to the profit and loss account on an accruals basis (interest rate derivatives classified as ALM or treasury management instruments).

- Hedging criteria for forward interest rate transactions:

The general criteria are set out in Article 36*bis* of the Royal Decree on the annual accounts of credit institutions of 23 September 1992:

- the hedged item or the combination of comparable hedged items must expose the credit institution to a risk of interest rate fluctuation;
- the transaction must be recorded in the books as a hedge from its inception;
- there must be a close correlation between fluctuations in the value of the hedged item and fluctuations in the value of the hedge; in the case of hedging options, there must be a correlation between fluctuations in the value of the hedged item and fluctuations in the value of the underlying financial instrument.

In addition, specific company criteria apply. All these criteria must be met: if one criterion is no longer satisfied, the hedge will be considered a trading transaction and be subject to the appropriate accounting treatment.

Hedging combinations that involve derivatives and are terminated before maturity will be considered trading transactions once the underlying position to be hedged no longer exists.

Future interest rate positions can be hedged if it is reasonably certain that the position will actually materialise. Moreover, the amount, term and interest rate conditions must be sufficiently certain.

- Calculation of unrealised profit/loss on revaluation

Derivatives are always valued on a contract basis; positive and negative valuation differences are not netted in the accounting records. Only for calculating capital adequacy requirements relative to market risks is the market risk calculated on a net basis per counterparty.

For forward interest rate and similar products (namely forward foreign exchange products), valuation occurs on the basis of the net present value of future, determinable cash flows using a single yield curve per currency, which is used throughout the bank. Any adjustments for operational and liquidity risks are deducted from the initial revaluation. Options are valued according to the usual valuation models. For interest rate products, calculations are always based on the assumption of a liquid market, provided the underlying currencies are liquid.

If a credit granted to a counterparty is classified as ‘doubtful’ or ‘irrecoverable’, the receivables and commitments stemming from off-balance- sheet products involving the same counterparty will be given the same classification. For loans and advances, write-downs may be recorded; for commitments, provisions will be set aside.

3.Changes in valuation rules

None.

Notes to the annual accounts

The annual accounts have been prepared according to Belgian accounting standards (B-GAAP).

Balance sheet

KBC Bank NV (x1000 EUR)	**31/12/2016**	**31/12/2015**	**change**
Assets	**179.994.622**	**161.478.723**	**18.515.899**
Cash and cash balances with central banks	17.148.985	1.646.600	15.502.385
Amounts receivable from credit institutions	16.286.132	16.769.650	-483.518
Of which reverse repos with credit institutions	*7.294.795*	*6.071.633*	*1.223.163*
Amounts receivable from clients	92.953.874	93.764.384	-810.510
Of which reverse repos with professional counterparties	*7.791.010*	*3.765.939*	*4.025.071*
Bonds and other fixed-income securities	27.439.028	24.109.915	3.329.113
Shares and other variable-yield securities	137.313	142.399	-5.086
Financial fixed assets	14.039.679	13.426.161	613.518
Formation expenses, tangible and intangible fixed assets	781.319	785.403	-4.083
Other assets	1.671.157	1.796.080	-124.923
Deferred charges and accrued income	9.537.134	9.038.131	499.003
Liabilities	**179.994.622**	**161.478.723**	**18.515.899**
Amounts payable to credit institutions	30.740.870	16.307.051	14.433.819
Of which repos with credit institutions	*10.624.723*	*1.112.961*	*9.511.761*
Amounts payable to clients	99.648.167	108.589.734	-8.941.567
Of which repos with professional counterparties	*333.872*	*8.601.754*	*-8.267.882*
Debts represented by securities	24.663.307	12.506.927	12.156.380
Other amounts payable	1.424.265	1.161.024	263.241
Accrued charges and deferred income	6.742.137	7.305.850	-563.713
Provisions for liabilities and charges and deferred taxes	244.327	248.196	-3.868
Subordinated loans	6.395.953	5.279.999	1.115.954
Equity	10.135.595	10.079.941	55.654

Balance sheet total

Total assets went up by 18.5 billion euros to 179.9 billion euros. This increase is mainly driven by an increase in placements with central banks. Foreign branches held 4.80% of the bank's total assets (3.94% at year-end 2015).

Netting on the balance sheet

The criteria for offsetting are met if KBC currently has a legally enforceable right to set off the recognised financial assets and financial liabilities and intends either to settle the transactions on a net basis, or to realise the financial asset and settle the financial liability simultaneously. Financial assets and financial liabilities that are set off relate to financial instruments that were traded on (central) clearing houses

Netting disclosure	**Gross Amounts**		**Netting**	**Net Amounts**	
	Assets	**Liabilities**		**Assets**	**Liabilities**
repo's - reverse repo's	21.340.676.201	17.213.465.652	6.254.870.561	15.085.805.641	10.958.595.091
Derivatives	12.173.017.788	10.064.317.406	3.884.088.000	8.288.929.788	6.180.229.406

Amounts receivable from credit institutions

Net borrowing from credit institutions[1] came to 7 billion euros, as opposed to net borrowing from credit institutions of 4.4 billion euros in 2015. At 16.3 billion euros, amounts receivable from credit institutions fell by 0.5 billion euros (mainly group entities)

Amounts receivable from clients

Amounts receivable from clients decreased with 0.8 billion euros to 92.9 billion euros (mainly with group entities)

Bonds and other fixed-income securities

The portfolio of bonds and other fixed-income securities grew by 3.3 billion euros, bringing it to 27.4 billion euros. Securities issued by public authorities represented 54% of the portfolio.

The increase is composed of following elements:

(1) Repurchasing of certificates, issued by Home Loan Invest: + 2.3 billion euros
(2) Short-term certificates of deposit: + 2.2 billion euros
(3) Government bonds sold: - 1 billion euros

Financial fixed assets

Financial fixed assets increased by 0.6 billion euros to 14 billion euros, due to the reversal of an impairment at the subsidiary KBC Ireland and the issuance of a subordinated loan to Home Loan Invest

Other asset items

'Deferred charges and accrued income' consist primarily of accrued interest and the revaluation of derivatives (such as IRS). This item fell by 0.5 billion euros on account of the lower mark-to-market valuation of derivatives

Amounts payable to credit institutions

The amounts payable to credit institutions grew by 14.4 billion euros to 30.7 billion euros, owing to an increase in repo's with credit institutions (+ 9.5 billion euros), an increase in overnight deposits from other financial institutions (+ 2.8 billion euros) and an increase in short-term deposits (+3 billion euros)

Amounts payable to clients and debts represented by securities

This item went up by 3.2 billion euros to 124.3 billion euros at year-end 2016, which is the net effect of a decrease on repo's with clients (8.3 billion euros) and an increase on debt certificates (10.9 billion euros)

Other liabilities

Other liabilities increased with 0.3 billion euros, due primarily to mark-to-market valuation of derivatives.

Accrued charges and deferred income

'Accrued charges and deferred income' consists primarily of interest payable and the revaluation of derivatives.

Provisions for liabilities and charges and deferred taxes

Provisions for liabilities and charges decreased in 2016 with 3.8 million euros. Mainly because of the drop in deferred taxes.

Subordinated loans

Subordinated loans increased with 1.1 billion euros, which was the net-effect of:

- New tier-3 instruments being issued by KBC Group NV (+ 1.5 billion euros)
- Maturing, subordinated deposits (mainly IFIMA: - 0.3 billion)

Equity

Equity increased slightly to 10.1 billion euros.

Off-balance-sheet items

Under 'contingent liabilities', 'other guarantees' decreased by 2.5 billion euros. These were mainly lower guarantees in relation to KBC IFIMA due to matured bonds.

[1] Amounts receivable from credit institutions + reverse repos with professional counterparties - amounts payable to credit institutions - repos with professional counterparties.

Profit and loss account

KBC Bank NV (x1000 EUR)	31/12/2016	31/12/2015	change
Gross income from ordinary activities	3.215.415	3.656.108	-440.693
Operating charges	-1.933.205	-1.920.317	-12.889
Write-downs and provisions	-151.241	-141.045	-10.197
Profit on ordinary activities	1.130.968	1.594.747	-463.779
Extraordinary result	72.344	-174.726	247.071
Taxes	4.731	-8.741	13.472
Result for the period to be appropriated	**1.208.044**	**1.411.280**	**-203.236**

Notes to the profit and loss account

(x1000 EUR)	31/12/2016	31/12/2015	change
Net interest income	1.431.831	1.554.636	-122.804
Income from variable-yield securities	851.355	906.887	-55.532
Net fee and commission income	727.928	831.175	-103.247
Results from financial transactions	-452	135.312	-135.764
Other operating income	204.753	228.099	-23.346
Gross income from ordinary activities	**3.215.415**	**3.656.108**	**-440.693**

'Gross income from ordinary activities' came to 3.2 billion euros, down 0.4 billion euros on the figure for 2015.

This increase is accounted for as follows:
- Due to a difficult interest-rate climate, net interest income deteriorated with 123 million euros
- Income from variable yield securities decreased with 56 million euros, caused by lower dividends paid by subsidiaries (- 55 million euros)
- Net provisions fell by 103 million euros (lower fee income)
- The results from financial transactions decreased with 135 million euros, which was attributable mainly to specific gains incurred in 2015 that were no longer present in 2016
- Other operating income decreased by 23 million euros, due primarily to the lower level of charges passed on to other group entities.

(x1000 EUR)	31/12/2016	31/12/2015	change
General administrative charges	-1.785.506	-1.757.037	-28.469
Depreciation of and amounts written off tangible and intangible fixed assets	-48.583	-47.826	-757
Other operating charges	-99.117	-115.453	16.337
Operating charges	**-1.933.205**	**-1.920.317**	**-12.889**

Operating charges (including 'depreciation of and amounts written off tangible and intangible fixed assets ' and 'other operating charges') decreased slightly to 1.9 billion euros in 2016. The bank tax (including the amount contributed to the deposit protection scheme) amounted to 237,7 million euros.

(x1000 EUR)	31/12/2016	31/12/2015	change
Write-downs on loans	-141.189	-207.240	66.051
Write-downs on investment portfolio	-5.940	-14.166	8.226
Provisions	-4.113	80.361	-84.474
Write-downs and provisions	**-151.241**	**-141.045**	**-10.197**

‘Write-downs on loans’ decreased with 66 million euros to -141 million euros. Provisioning was higher in 2015 (Legal claim with Lehman Brothers)

The ‘extraordinary result’ amounts to 72 million euros, attributed to realized gains on group entities

KBC Bank has ten branches abroad, more specifically in New York, London, Paris, Rotterdam, Singapore, Hong Kong, Shanghai, Dublin, Düsseldorf and Poland.

The legal information required in accordance with Article 96 of the Belgian Companies Code that has not been provided above appears in the ‘Report of the Board of Directors’ section.

KBC Bank NV

STATUTORY AUDITOR'S REPORT TO THE GENERAL SHAREHOLDERS' MEETING OF THE COMPANY KBC BANK NV ON THE ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2016

As required by law and the articles of association, we report to you in the context of our statutory auditor's mandate. This report includes our opinion on the annual accounts, as well as the required additional statements. The annual accounts include the balance sheet as at 31 December 2016, the income statement for the year then ended, and the disclosures.

Report on the annual accounts – Unqualified opinion

We have audited the annual accounts of KBC Bank NV ("the Company") for the year ended 31 December 2016, prepared in accordance with the financial-reporting framework applicable in Belgium, which show a balance sheet total of EUR 179.995 million and a profit for the year of EUR 1.208 million.

The board of directors' responsibility for the preparation of the annual accounts

The board of directors is responsible for the preparation and fair presentation of annual accounts in accordance with the financial-reporting framework applicable in Belgium, and for such internal control as the board of directors determines is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

Statutory auditor's responsibility

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISAs) as endorsed in Belgium. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the statutory auditor's judgment, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the statutory auditor considers internal control relevant to the Company's preparation and fair presentation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the board of directors, as well as evaluating the overall presentation of the annual accounts.

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We have obtained from the board of directors and the Company's officials the explanations and information necessary for performing our audit.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Unqualified Opinion

In our opinion, the annual accounts give a true and fair view of the Company's net equity and financial position as at 31 December 2016 and of its results for the year then ended in accordance with the financial-reporting framework applicable in Belgium.

Other matter

The annual accounts of the Company for the year ended 31 December 2015 were audited by another statutory auditor who expressed an unqualified opinion on these annual accounts on 17 March 2016.

Report on other legal and regulatory requirements

The board of directors is responsible for the preparation and the content of the directors' report, for the compliance with the applicable legal and regulatory requirements regarding bookkeeping, the Companies' Code and the Company's articles of association.

In the context of our mandate and in accordance with the Belgian standard which is complementary to the International Standards on Auditing (ISAs) as applicable in Belgium, our responsibility is to verify, in all material respects, compliance with certain legal and regulatory requirements. On this basis, we provide the following additional statements which do not impact our opinion on the annual accounts:

- The directors' report, prepared in accordance with articles 95 and 96 of the Companies' Code and to be deposited in accordance with article 100 of the Companies' Code, includes, both in terms of form and content, the information required by the Companies' Code, is consistent with the financial statements, and does not present any material inconsistencies with the information that we became aware of during the performance of our mandate;

- The social balance sheet, to be deposited in accordance with article 100 of the Companies' Code, includes, both in terms of form and content, the legally required information and does not present any significant inconsistencies compared to the information we have at our disposition in our audit file;

- Without prejudice to formal aspects of minor importance, the accounting records were maintained in accordance with the legal and regulatory requirements applicable in Belgium;

- The appropriation of results proposed to the general meeting complies with the legal provisions and the provisions of the articles of association;

- There are no transactions undertaken or decisions taken in breach of the Company's articles of association or the Companies' Code that we have to report to you;

- An interim dividend has been distributed during the year in relation to which we have issued the attached report in accordance with legal requirements.

Sint-Stevens-Woluwe, 17 March 2017

The statutory auditor
PwC Bedrijfsrevisoren bcvba
represented by

Roland Jeanquart Accredited auditor	Gregory Joos Accredited auditor

<u>Appendix:</u> Statutory auditor's report on 15 November 2016 to the board of directors of KBC Bank NV on the statement of assets and liabilities in connection with the distribution of an interim dividend

STATUTORY AUDITOR'S REPORT TO THE BOARD OF DIRECTORS OF KBC BANK NV ON THE STATEMENT OF ASSETS AND LIABILITIES IN CONNECTION WITH THE DISTRIBUTION OF AN INTERIM DIVIDEND

Introduction

We have performed a review of the accompanying statement of assets and liabilities (hereafter the "Statement") of KBC Bank NV as of 30 September 2016, based on which the board of directors of KBC Bank NV (hereafter "Company") proposes to distribute an interim dividend of EUR 604.050.798,12 (i.e. EUR 1 per share), as allowed by article 38 of the articles of association.

The board of directors is responsible for the preparation and fair presentation of this Statement as of 30 September 2016, in accordance with the financial reporting framework applicable in Belgium and the Companies' Code. Our responsibility is to express a conclusion on this Statement based on our review, in accordance with ISRE 2410 and by virtue of article 618 of the Companies' Code.

Scope of Review

We conducted our review of the Statement as of 30 September 2016 in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" (ISRE 2410). A review of the Statement consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The scope of a review is substantially less than that of an audit conducted in accordance with International Standards on Auditing and, consequently, does not enable us to obtain reasonable assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that would cause us to believe that the Statement does not fairly present, in all material respects, the Company's net equity and financial position as of 30 September 2016, in accordance with the financial reporting framework applicable in Belgium and the Companies' Code.

Finally, according to the Statement, the proposed distribution would not lead to a decrease in the Company's net assets, as required by article 617 of the Companies' Code, to an amount lower than the sum of the Company's paid-up capital and those reserves that the Companies' Code or the Company's articles of association do not allow to be distributed.

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This report is prepared solely to address the requirements as set by virtue of article 618 of the Companies' Code, and may not be used for any other purpose.

Sint-Stevens-Woluwe, 15 November 2016

The statutory auditor
PwC Bedrijfsrevisoren bcvba
represented by

Roland Jeanquart
Accredited auditor

Gregory Joos
Accredited auditor

Appendix: Statement of assets and liabilities as of 30 September 2016

ACTIVA in eenheden EURO	september2016
I. Kas, tegoeden bij centrale banken, postcheque- en girodiensten	**11.554.441.861,02**
II. Bij de centrale bank herfinancierbaar overheidspapier	**249.507.256,21**
III. Vorderingen op kredietinstellingen	**16.236.595.236,27**
A Onmiddellijk opvraagbaar	297.613.903,64
B Overige vorderingen (op termijn of met opzegging)	15.938.981.332,63
IV. Vorderingen op cliënten	**91.289.347.483,92**
V. Obligaties en andere vastrentende effecten	**24.096.447.465,97**
A Van publiekrechtelijke emittenten	14.710.218.322,79
B Van andere emittenten	9.386.229.143,18
VI. Aandelen en andere niet-vastrentende effecten	**137.055.761,39**
VII. Financiële vaste activa	**14.004.838.161,48**
A Deelnemingen in verbonden ondernemingen	12.966.019.046,75
B Deelnemingen in ondernemingen waarmee een deelnemingsverhouding bestaat	85.192.814,13
C Andere aandelen die tot de financiële vaste activa behoren	28.069.816,66
D Achtergestelde vorderingen op verbonden ondernemingen en ondernemingen waarmee een deelnemingsverhouding bestaat	925.556.483,94
VIII. Oprichtingskosten en immateriële vaste activa	**383.031,60**
IX. Materiële vaste activa	**787.551.789,17**
X. Eigen aandelen	**0,00**
XI. Overige activa	**1.703.109.737,01**
XII. Overlopende rekeningen	**9.343.593.766,16**
TOTAAL ACTIVA	**169.402.871.550,10**

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PASSIVA	september2016
in eenheden EURO	
I. Schulden aan kredietinstellingen	**26.403.871.517,48**
A. Onmiddellijk opvraagbaar	3.253.448.138,95
B. Mobiliseringsschulden wegens herdisconteringvan handelspapier	0,00
C. Overige schulden op termijn of met opzegging	23.150.423.378,53
II. Schulden aan cliënten	**102.968.444.734,60**
A. Spaargelden / spaardeposito's	37.644.498.176,16
B. Andere schulden	65.323.946.558,44
1) onmiddellijk opvraagbaar	41.549.499.314,94
2) op termijn of met opzegging	21.209.321.375,56
3) wegens herdiscontering van handelspapier	2.565.125.867,94
III. In schuldbewijzen belichaamde schulden	**16.173.828.271,34**
A. Obligaties en andere vastrentende effecten in omloop	8.865.031.273,29
B. Overige schuldbewijzen	7.308.796.998,05
IV. Overige schulden	**890.054.854,45**
V. Overlopende rekeningen	**5.998.344.501,22**
VI. A. Voorzieningen voor risico's en kosten	**204.865.032,82**
1. Pensioen- en soortgelijke verplichtingen	18.706.180,07
2. Belastingen	0,00
3. Overige risico's en kosten	186.158.852,75
B. Uitgestelde belastingen	**21.669.635,14**
VII. Fonds voor algemene bankrisico's	**0,00**
VIII. Achtergestelde schulden	**5.636.366.920,79**
EIGEN VERMOGEN	**11.105.426.082,26**
IX. KAPITAAL	**8.948.439.652,39**
A. Geplaatst kapitaal	8.948.439.652,39
B. Niet opgevraagd kapitaal (-)	
X. Uitgiftepremies	**895.449.646,51**
XI. Herwaarderingsmeerwaarden	**0,00**
XII. Reserves	**230.975.500,00**
A. Wettelijke reserve	218.002.251,77
B. Onbeschikbare reserves	0,00
1. voor eigen aandelen	0,00
2. andere	0,00
C. Belastingvrije reserves	12.973.248,23
D. Beschikbare reserves	0,00
XIII. Overgedragen winst (overgedragen verlies (-))	**5.076.514,04**
XIII. ' Winst van het boekjaar	**1.025.484.769,32**
TOTAAL PASSIVA	**169.402.871.550,10**

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Additional information

Ratios used

Common equity ratio

A risk-weighted measure of solvency, based on common equity tier-1 capital.

Calculation	2016	2015
Method of calculation provided in the 'Capital adequacy' section		
Phased-in	14.6%	14.1%
Fully loaded	14.3%	13.7%

The CRD IV rules are gradually being implemented to allow banks to build up the necessary capital buffers. The capital position of a bank, when account is taken of the transition period, is referred to as the 'phased-in' view. The capital position based on full application of all the rules – as would be the case after this transition period – is referred to as 'fully loaded'.

Cost/income ratio

Gives an impression of relative cost efficiency (costs relative to income).

Calculation (in millions of EUR or %)	Reference	2016	2015
Operating expenses (A)	'Operating expenses' in the consolidated income statement	3 399	3 388
/			
Total income (B)	'Total income' in the consolidated income statement	6 240	6 145
= (A) / (B)		54%	55%

Cover ratio

Indicates the proportion of impaired loans (see 'Impaired loans ratio' for definition) that are covered by impairment charges.

Calculation (in millions of EUR or %)	Reference	2016	2015
Specific impairment on loans	'Loan and investment portfolio' table in the 'Risk management' section	4 874	5 517
/		10 583	12 305
Outstanding impaired loans	'Loan and investment portfolio' table in the 'Risk management' section		
= (A) / (B)		46%	45%

Where appropriate, the numerator and denominator in the formula may be limited to impaired loans that are more than 90 days past due. Relevant data is also given in the same table in the 'Risk management' section.

Credit cost ratio

Gives an idea of loan impairment charges recognised in the income statement for a specific period, relative to the total loan portfolio (see 'Loan portfolio' for definition). In the longer term, this ratio can provide an indication of the credit quality of the portfolio.

Calculation (in millions of EUR or %)	Reference	2016	2015
Net changes in impairment for credit risks (A)	'Consolidated income statement': component of 'Impairment'	126	323
/			
Average outstanding loan portfolio (B)	'Loan and investment portfolio' table in the 'Risk management' section	146 257	141 951
= (A) / (B)		0.09%	0.23%

Impaired loans ratio

Indicates the proportion of impaired loans in the loan portfolio (see 'Loan portfolio' for definition) and, therefore, gives an idea of the creditworthiness of the portfolio. Impaired loans are loans where it is unlikely that the full contractual principal and interest will be repaid/paid. These loans have a KBC default status of PD 10, PD 11 or PD 12 and correspond to the new definition of 'non-performing' used by the European Banking Authority.

Calculation (in millions of EUR or %)	Reference	2016	2015
Amount outstanding of impaired loans (A)	‘Loan and investment portfolio’ table in the ‘Risk management’ section	10 583	12 305
/			
Total outstanding loan portfolio (B)	‘Loan and investment portfolio’ table in the ‘Risk management’ section	147 526	143 400
= (A) / (B)		7.2%	8.6%

Where appropriate, the numerator may be limited to impaired loans that are more than 90 days past due (PD 11 + PD 12). Relevant data is also given in the same table in the ‘Risk management’ section.

Leverage ratio

Gives an idea of the bank's solvency, based on a simple non-risk-weighted ratio.

Calculation (in millions of EUR or %)	Reference	2016	2015
Regulatory available tier-1 capital (A)	'Solvency of KBC Bank' table in the 'Capital adequacy' section	12 625	12 346
/		248 760	230 558
Total exposure measures (total of non-risk-weighted on and off-balance sheet items, with a number of adjustments) (B)	Based on the Capital Requirements Regulation (CRR)		
= (A) / (B)		5.1%	5.4%

Liquidity coverage ratio (LCR)

Gives an idea of the bank's liquidity position in the short term, more specifically the extent to which the group is able to overcome liquidity difficulties over a one-month period.

Calculation (in millions of EUR or %)	Reference	2016	2015
Stock of high-quality liquid assets (A)	Based on the European Commission's Delegated Act on LCR.	65 400	47 300
/			
Total net cash outflows over the next 30 calendar days (B)		47 100	37 150
= (A) / (B)		139%	127%

Loan portfolio

Gives an idea of the magnitude of (what are mainly pure, traditional) lending activities.

Calculation (in millions of EUR)	Reference ('Consolidated financial statements')	2016	2015
Loans and advances to customers (A)	'Loans and advances to customers' in Note 4.1	133 481	129 206
-			
Reverse repos with customers (B)	'Reverse repos' in Note 4.1	-1 953	-2 425
+			
Debt instruments issued by corporates and by credit institutions and investment firms (C)	Note 4.1, component of 'Debt instruments issued by corporates and by credit institutions and investment firms'	7 114	7 118
+			
Loans and advances to credit institutions and investment firms (excluding dealing room activities) (D)	Note 4.1, component of 'Loans and advances to credit institutions and investment firms'	952	1 060
+			
Financial guarantees granted to clients (E)	Note 6.1, component of 'Financial guarantees given'	8 288	7 830
+			
Impairment on loans (F)	Note 3.9, component of 'Impairment'	5 094	5 623
+			
Other (G)	Component of Note 4.1	-5 450	-5 012
= (A)-(B)+(C)+(D)+(E)+(F)+(G)		147 526	143 400

Net interest margin

Gives an idea of net interest income (one of the most important sources of revenue for the group) relative to average total interest-bearing assets.

Calculation (in millions of EUR or %)	Reference	2016	2015
Net interest income* (A)	'Consolidated income statement': component of 'Net interest income'	3 602	3 644
/			
Average interest-bearing assets* (B)	'Consolidated balance sheet': component of 'Total assets'	184 117	177 629
= (A) / (B) X 360/number of calendar days		1.92%	2.02%

* After elimination of all divestments and volatile short-term assets used for liquidity management purposes.

Net stable funding ratio (NSFR)

Gives an idea of the bank's structural liquidity position in the long term, more specifically the extent to which the group is able to overcome liquidity difficulties over a one-year period.

Calculation (in millions of EUR or %)	Reference	2016	2015
Available amount of stable funding (A)	'Basel III: the net stable funding ratio' (Basel Committee on Banking Supervision publication, October 2014).	144 150	135 400
/			
Required amount of stable funding (B)		114 950	111 800
= (A) / (B)		125%	121%

In 2014, we adjusted the method of calculation following our interpretation of the new Basel Committee guidance in October of that year. Therefore, the figures prior to 2014 are not entirely comparable with the figures for 2014 and 2015.

Total assets under management

Total assets under management (AuM) comprise third-party assets and KBC group assets managed by the group's various asset management companies (KBC Asset Management, ČSOB Asset Management, etc.), as well as assets under advisory management at KBC Bank. The assets, therefore, consist mainly of KBC investment funds and unit-linked insurance products, assets under discretionary and advisory management mandates of (mainly retail, private banking and institutional) clients, and certain group assets. The size and development of total AuM are major factors behind net fee and commission income (generating entry and management fees) and hence account for a large part of any change in this income line. In that respect, the AuM of a fund that is not sold directly to clients but is instead invested in by another fund or via a discretionary/advisory management portfolio, are also included in the total AuM figure, in view of the related work and any fee income linked to them.

Calculation (in billions of EUR)	Reference	2016	2015
Belgium Business Unit (A)	-	198.9	193.8
+			
Czech Republic Business Unit (B)		8.5	8.8
+			
International Markets Business Unit (C)		5.7	6.2
= (A)+(B)+(C)		213.1	208.8

Total capital ratio

A risk-weighted measure of the group's solvency, based on total regulatory capital

Calculation	2016	2015
Method of calculation provided in the ‘Capital adequacy’ section		
Phased-in	21.1%	20.6%
Fully loaded	20.7%	20.1%

Management certification

‘I, Luc Popelier, Chief Financial Officer of KBC Bank, certify on behalf of the Executive Committee of KBC Bank NV that, to the best of my knowledge, the financial statements, which are based on the relevant standards for annual accounts, fairly present in all material respects the assets, the financial condition and results of KBC Bank NV and its consolidated subsidiaries, and that the annual report provides a fair overview of the development, results and the situation of KBC Bank NV and its consolidated subsidiaries, as well as an overview of the main risks and uncertainties to which they are exposed.’