2015 Annual Report

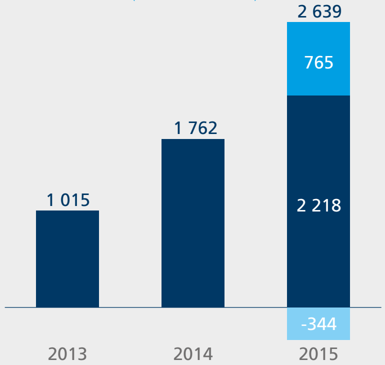
Prepared for the future

KBC

KBC group passport

Net result

(in millions of EUR)

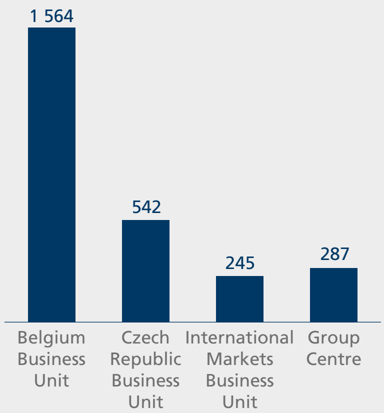


Impact of liquidation of KBC Financial Holding Inc.

Impact of goodwill impairment for a number of participating interests

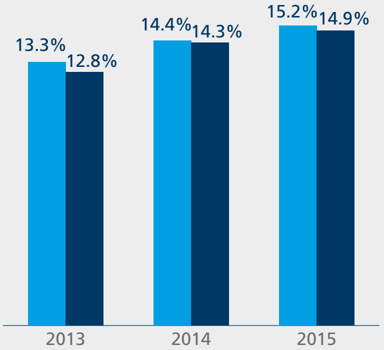
Breakdown of net result by business unit

(2015, in millions of EUR)



Common equity ratio at group level

(Basel III, Danish compromise)



Our area of operation

We are an integrated bank-insurance group, catering mainly for retail, private banking, SME and mid-cap clients. Our core markets are Belgium, the Czech Republic, Slovakia, Hungary and Bulgaria. We are also present in Ireland and, to a limited extent, in several other countries to support corporate clients from our core markets.

Our clients, staff and network

Clients (estimate)	10 million
Staff	38 450 (36 411 FTEs)
Bank branches	1 560
Insurance network	441 agencies in Belgium, various distribution channels in Central and Eastern Europe

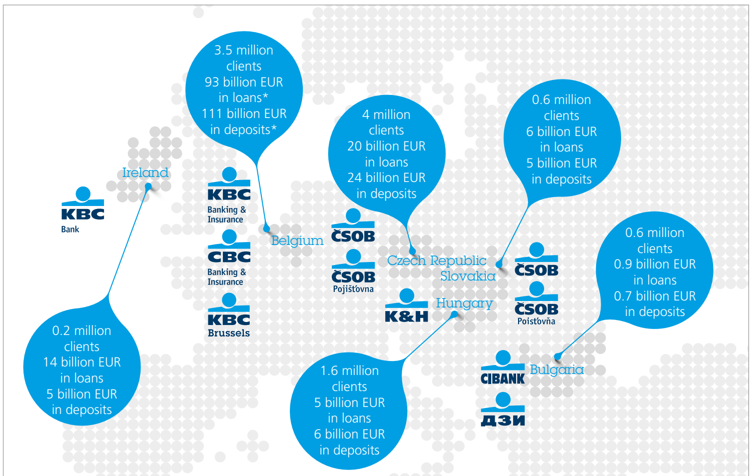
Our long-term credit ratings (17-03-2016)

	Fitch	Moody's	Standard & Poor's
KBC Bank NV	A-	A1	A
KBC Insurance NV	A	–	A-
KBC Group NV	A-	Baa1	BBB+

Our core shareholders

KBC Ancora	18.5%
Cera	2.7%
MRBB	11.5%
Other core shareholders	7.6%

Data relates to year-end 2015, unless otherwise indicated. For definitions, please see the detailed tables and analyses in this report. Outlook/watch/review data for our ratings is given elsewhere in this report. In KBC Insurance's case, it is the financial strength rating.



Clients: estimates.
Loans: see the 'Risk Management' section; deposits: deposits from customers and debt securities (excluding repos).
* Including the limited network of KBC Bank branches abroad.

Our group in figures

	2011	2012	2013	2014	2015
Consolidated balance sheet, end of period (in millions of EUR)					
Total assets	285 382	256 928	238 686	245 174	252 356
Loans and advances to customers	138 284	128 492	120 371	124 551	128 223
Securities	65 036	67 295	64 904	70 359	72 623
Deposits from customers and debt certificates	165 226	159 632	161 135	161 783	170 109
Technical provisions and liabilities under investment contracts, insurance	26 928	30 058	30 488	31 487	31 919
Total equity	16 772	15 879	14 514	16 521	15 811
Risk-weighted assets (Basel II to 2012, Basel III from 2013)	126 333	102 148	91 216	91 236	89 067
Consolidated income statement (in millions of EUR)					
Total income	7 310	7 733	7 448	6 720	7 148
Operating expenses	-4 344	-4 248	-3 843	-3 818	-3 890
Impairment	-2 123	-2 511	-1 927	-506	-747
Net result, group share	13	612	1 015	1 762	2 639
Belgium	–	–	–	1 516	1 564
Czech Republic	–	–	–	528	542
International Markets (Slovakia, Hungary, Bulgaria, Ireland)	–	–	–	-182	245
Group Centre	–	–	–	-100	287
Gender diversity					
Gender diversity in the workforce (percentage of women)	59%	58%	57%	57%	56%
Gender diversity in the Board of Directors (percentage of women)	4%	10%	15%	22%	25%
Environmental efficiency*					
Electricity consumption (in GJ per FTE; Belgium)	22.5	21.8	22.4	22.2	21.0
Gas and heating oil consumption (in GJ per FTE; Belgium)	13.3	13.2	16.8	13.3	14.3
Commuter and business travel (in km per FTE; Belgium)	15 394	15 151	14 334	14 141	13 632
Paper consumption (in tonnes per FTE; Belgium)	0.15	0.13	0.13	0.11	0.12
Water consumption (in m^3 per FTE; Belgium)	8.7	9.0	9.5	9.5	9.8
Greenhouse gas emissions (in tonnes per FTE; Belgium)	2.3	1.9	2.6	2.3	2.1
KBC share					
Number of shares outstanding, end of period (in millions)	358.0	417.0	417.4	417.8	418.1
Parent shareholders' equity per share, end of period (in EUR)	28.7	29.0	28.3	31.4	34.5
Average share price for the financial year (in EUR)	22.3	17.3	32.8	43.1	56.8
Share price at year-end (in EUR)	9.7	26.2	41.3	46.5	57.7
Gross dividend per share (in EUR)	0.01	1.00	0.00	2.00	0.00
Basic earnings per share (in EUR)	-1.93	-1.09	1.03	3.32	3.80
Equity market capitalisation, end of period (in billions of EUR)	3.5	10.9	17.2	19.4	24.1
Financial ratios					
Return on equity	-6%	1%	9%	14%	22%
Cost/income ratio, banking	61%	64%	52%	58%	55%
Combined ratio, non-life insurance	92%	95%	94%	94%	91%
Credit cost ratio, banking	0.82%	0.71%	1.21%	0.42%	0.23%
Common equity ratio (Basel III, Danish compromise method, phased-in/fully loaded)	–	–	13.3%/12.8%	14.4%/14.3%	15.2%/14.9%
Total capital ratio (Basel III, Danish compromise method, phased-in/fully loaded)	–	–	18.4%/17.8%	18.9%/18.3%	19.8%/19.0%
Net stable funding ratio (NSFR)	–	105%	111%	123%	121%
Liquidity coverage ratio (LCR)	–	107%	131%	120%	127%
Minimum requirement for own funds and eligible liabilities (MREL)	–	–	–	12.5%	13.9%

For definitions and comments, please see the analyses and 'Glossary of ratios and terms' in this report. The proposed dividend for 2015 is subject to the approval of the General Meeting of Shareholders.

* We have slightly restated the reference figures for the environmental indicators to reflect the new way in which the number of FTEs is calculated.

Table of contents

Report of the Board of Directors

Consolidated financial statements

Company annual accounts and additional information

Welcome

Statutory annual report: we have incorporated the content of the annual report required by law into the 'Report of the Board of Directors', which also contains additional, non-compulsory information. We have also combined the reports for the company and consolidated financial statements. All other reports and the websites we refer to do not form part of our annual report.

Integrated reporting: we have chosen to present our annual report – more specifically the section dealing with our business model and our strategy – in as integrated a manner as possible, taking the fullest possible account of IIRC guidelines. We view integrated reporting as our ultimate goal, one we get closer to achieving each year.

Company name: 'KBC', 'we', 'the group' or 'the KBC group' refer to the consolidated entity, i.e. KBC Group NV plus all the group companies included in the scope of consolidation. 'KBC Group NV' refers solely to the parent company.

Translation: this annual report is available in Dutch, French and English. The Dutch version is the original; the other language versions are unofficial translations. We have made every reasonable effort to avoid any discrepancies between the different language versions. However, should such discrepancies exist, the Dutch version will take precedence.

Disclaimer: 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.

Report of the Board of Directors

KBC at a glance

Who are we?

Creation: formed in 1998 after the merger of two large Belgian banks (the Kredietbank and CERA Bank) and a large Belgian insurance company (ABB Insurance).

Principal activity: integrated bank-insurance.

Approximately 10 million clients.

Approximately 38 000 employees.

Core markets: Belgium, the Czech Republic, Slovakia, Hungary and Bulgaria. Elsewhere in the world, a presence in Ireland and, to a limited extent, in several other countries.

Principal brands and estimated market share:

- Belgium: KBC and CBC (21% in banking, 13% in life insurance, 9% in non-life insurance).
- Czech Republic: ČSOB (19% in banking, 7% in life insurance, 7% in non-life insurance).
- Slovakia: ČSOB (11% in banking, 4% in life insurance, 3% in non-life insurance).
- Hungary: K&H (10% in banking, 4% in life insurance, 5% in non-life insurance).
- Bulgaria: CIBANK and DZI: (3% in banking, 12% in life insurance, 10% in non-life insurance).
- Ireland: KBC Bank Ireland (6% in retail deposits, 11% in retail home loans).

Approximately 1 560 bank branches, insurance sales via own agents and other channels, together with various electronic channels.

Important events in 2015 and at the beginning of 2016

2015 January

- Launch of 'KBC Brussels', KBC and CBC's commercially autonomous joint brand, which is aimed at people who live and/or work in Brussels.

2015 May

- Publication of first-quarter results (net profit of 510 million euros).

2015 July

- Agreement on the acquisition of Volksbank Leasing Slovakia.

2015 August

- Publication of second-quarter results (net profit of 666 million euros).

2015 October

- Announcement of the sale of our stake in Union KBC Asset Management in India.

Our vision and strategy

Our vision: to be the reference for bank-insurance in all our core markets.

Our strategy rests on four, mutually reinforcing 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 in that way to achieve sustainable and profitable growth.
- We meet our responsibility to society and local economies.

We put our strategy into practice within a stringent risk, capital and liquidity management framework.

2015 – November
- Launch of our new corporate website (www.kbc.com).
- Announcement that KBC would liquidate KBC Financial Holding Inc., triggering *inter alia* the recognition of a deferred tax asset and leading to a net positive impact on the results of 765 million euros.
- Announcement of the ECB's new minimum capital requirements for 2016 (a common equity ratio of at least 9.75%, phased in according to the Danish compromise method). In addition to that is the National Bank of Belgium's new capital buffer for systemically important banks (an additional 0.5% in common equity for 2016 to be built up over three years on a straight-line basis to 1.5% in 2018).
- Publication of third-quarter results (net profit of 600 million euros).

2015 – December
- Repayment of the final outstanding instalment of 2 billion euros of state aid (plus a 50% penalty) to the Flemish Regional Government. Even after this repayment, KBC retains a solid buffer over and above the minimum capital requirements set by the regulators.

2016 – January
- Announcement that KBC Insurance's solvency ratio, calculated according to the new Solvency II framework, was at a solid level.

2016 – February
- Publication of fourth-quarter results (net profit of 862 million euros, including the impact of liquidating KBC Financial Holding Inc.).

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

Johan Thijs Thomas Leysen

Was 2015 a good year for KBC?

Thomas Leysen: It certainly was a good year. In fact, it was the first time in recent years that we were able to concentrate fully on our core activities after having spent a substantial amount of our time previously on the divestment plan agreed with the European Commission. At the same time, we're committed to heeding the lessons learned from the financial crisis. We've slimmed down, we've improved our risk profile considerably over the past few years and, above all, we've returned to the essence of what we do – bank-insurance in a carefully considered selection of European countries. Our results illustrate that it's working. We've taken another step towards realising our objective of becoming the reference for bank-insurance in all our core markets. In other words, we're prepared for the future.

Our net profit came to 2.6 billion euros. What were the most important contributors to that figure?

Johan Thijs: We saw a fine 6% rise in our income, with just about every one of our group's bank-insurance activities contributing to this performance. Despite the climate of low interest rates, net interest income remained around the same level as last year. Our net fee and commission income, on the other hand, grew by an impressive 7%, thanks primarily to our asset management activities. Our insurance business performed strongly too, with premiums going up by 4% and the combined ratio for our non-life business ending the year at an excellent 91%. All the other income items combined were – on balance – up by almost half on their level in 2014. The quality of our loan portfolio continued to improve and the amount of provisioning required was much lower than in 2014, due in part to a significant improvement in Ireland. We also wrote down goodwill on a number of participating interests. Our costs remained well under control and, as a result, the cost/income ratio stood at an excellent 55% at year-end. On top of that, the liquidation of a group company had a net positive impact of 765 million euros, which brought our total net profit for 2015 to 2.6 billion euros – an excellent performance to be proud of and one for which we're genuinely grateful to our clients and employees.

The state aid has now been repaid in full before the originally agreed deadline.

Thomas Leysen: That's right. We repaid the 2 billion euros in outstanding state aid in full at the end of 2015, plus a 50% penalty, to the Flemish Regional Government. That was considerably earlier than originally agreed with Europe. We remain grateful for the support we received when our group was in difficulty and also for the government's belief in our resilience. At the same time, the government – and by extension society – has received an attractive gain from the aid operations. I'd also like to add that our solvency position remains extremely strong, even after the repayment of state aid. At the end of 2015, our common equity capital ratio under Basel III stood at approximately 15%, according to the Danish compromise method. That's still well above the target set by the regulator.

Will we now embark on a fresh round of acquisitions?

Johan Thijs: Our focus is clearly on our current set of core countries and on further optimising our position there. We therefore do not intend to expand our geographical presence as it now stands. We're concentrating instead on organic growth in these countries, with the specific aim of growing our core businesses – banking, insurance, leasing, asset management, *et cetera* – in a profitable way. What that means in Belgium's case, for instance, is that we have launched KBC Brussels and have continued to roll out our growth strategy for CBC in Wallonia. If opportunities to make acquisitions in these core countries present themselves, we will definitely consider them, but only if they fit in with our strategy and satisfy clear and stringent financial criteria. A good example of this is our acquisition of Volksbank Leasing Slovakia, which allowed us to strengthen our position on the Slovakian leasing market.

Will market conditions remain challenging?

Thomas Leysen: Competition is extremely tough and will remain so, not only from the traditional players, but also from online banks and e-commerce businesses in general. We will continue therefore to focus on new products and services, so that we can offer our clients innovative solutions. The climate of low interest rates is also impacting our current and future levels of interest income. We have responded to this, but the possibilities are finite. To reduce our dependence on interest margins, we will continue to diversify our income, including through such sources as our investment funds and investment-type insurance products. We will also ensure that our costs are kept under control and will continue to reduce complexity in all layers of the organisation.

What does corporate sustainability mean to you?

Thomas Leysen: To us, sustainability means focusing on our long-term performance, placing the client's interests at the heart of everything we do, embedding our operations in a framework of stringent risk management, being responsive to society's expectations and maintaining a dialogue with our stakeholders. We also view transparent reporting as an important part of sustainability that takes account of all our stakeholders. In other words, we will continue along the path we started last year, which means working pragmatically towards the integrated reporting of financial and non-financial information, with considerable attention being paid to the principle of brevity. The reason for this is simple: if a report goes into too much detail, hardly anyone will read it, which defeats the whole purpose of publishing it.

Will digitisation continue to grow in importance?

Johan Thijs: We're committed to putting the client at the heart of what we do. Specifically, this means adopting a proactive approach to meet our clients' needs in terms of financial products. What's more, their preferences and behaviour are instrumental in determining how we cater for them. Our various distribution channels, our branches, our call centre, our online applications and our mobile apps are all being seamlessly integrated, which gives clients the freedom to choose how to contact KBC whenever it suits them. Besides having an extensive network of bank branches and insurance agencies, we're fully committed in our strategy to digitisation. Digitisation of our products and processes allows us to make it easier and more convenient for clients to access us 24/7. The world we live in is changing at a very fast pace because of digitisation and the financial sector is no exception to this transformation. We are now busily preparing for this new future.

How did the economy perform in 2015 and what do you expect to see in 2016?

Thomas Leysen: The world economy was split in 2015 between developed economies and emerging markets. Growth in the euro area was driven by consumer spending, thanks primarily to lower energy and commodity prices, and a further improvement in the labour market. Looser budget policy, additional monetary easing by the ECB and the weaker euro were factors that also contributed to this situation. The emerging economies were adversely affected by low commodity prices and the prospect of a first interest-rate hike in the US, which in fact materialised in December.

We expect this trend to continue in 2016 and that, on balance, global economic growth will pick up slightly, as well. So, we are looking ahead with a sense of confidence. We have tightened up our strategy, set our long-term goals and are now fully focused on the further development of our bank-insurance group. Paramount in this regard is putting the client firmly centre stage.

We hope you enjoy our annual report.

Johan Thijs
Chief Executive Officer

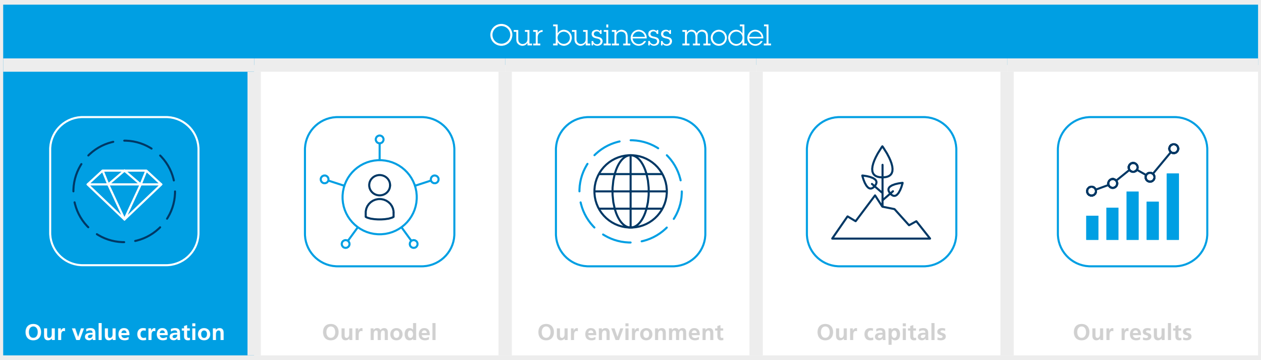
Thomas Leysen
Chairman of the Board of Directors

How do we create value?

Our business model and strategy

The section on our business model describes how we create value, the specific characteristics of our model, the conditions in which we pursue our activities, what types of capital we use for that purpose, and what result we achieve as a consequence. In the section on our strategy, we discuss the principles we apply in order to achieve our goal of becoming the reference for bank-insurance in all our core markets.

How do we create value?



In our capacity as a bank, we provide a range of savings accounts and other savings and investment products to 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 see it as our task to contribute to general financial education and have taken a variety of initiatives in that field.

We use the money acquired through deposits to provide loans to individuals and businesses, 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 invest in the economy indirectly through our investment portfolio. Besides loans to individuals and businesses, we fund specific sectors and target groups, such as the social profit sector. We also provide funding to infrastructure projects that have a major impact on the domestic economy, and we contribute to the development of green energy projects.

The intermediation we provide 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.

Our clients can use our loans, deposit products and asset management services to help them realise their dreams and projects, and take out our insurance to protect those dreams and projects.

The relevance of insurance for the economy and for society as a whole speaks for itself. It is the ideal means of covering the risks associated with activities that are essential in our day-to-day lives. For instance, without car insurance, goods and people would not be transported; without public liability insurance, businesses could not be run; without fire insurance, property would not be protected; without industrial accident insurance, people would not be protected at work; and without income and health insurance, health care would become unaffordable.
What’s more, we have a tradition going back many years of working closely with organisations involved in road safety, welfare and victim assistance, and, as an insurer, we are totally committed to ‘prevention’. Preventing human suffering and focusing on values such as safety, security, health and concern for victims are just some of the social objectives we have set ourselves, which is reflected in initiatives like our awareness-raising campaigns.

We also offer our clients a variety of other financial services that are indispensable in everyday life, 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 contribute significantly 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 the work they do, 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.

We use various types of resource or ‘capital’ to enable us to operate.

- *Financial capital* is the money we receive from different capital providers to support our activities and to invest further in our business strategy. It comprises the capital made available by our shareholders, state aid (already repaid in full at year-end 2015) and accumulated profit generated by our operations.

- *Human capital and intellectual capital* refer to the recruitment, management and development of our employees, to enable them to make the best possible use of their talents and experience in order to keep improving our service and to develop solutions for our clients. Intellectual capital includes the knowledge and creativity of our employees, together with our intellectual property and brand name.

- *Social and relationship capital* comprises all relationships with and our reputation among our clients, stakeholders, government, regulators and other stakeholders who enable us to operate.

- *Manufactured capital* is a generic term for all the forms of infrastructure we use to perform our activities. It includes our office buildings, branches and agencies, our electronic and other networks and our ICT platforms.

- *Natural capital* refers to the raw materials we use in our operations. Although the consumption of raw materials is less significant for a financial institution than it is in most industrial sectors, we are a responsible business that wants to show due respect to our environmental impact and, therefore, we integrate this aspect into our operations, as well.

How do we create value through our activities?

We perform our activities within the economic and social context of each country, taking account of the characteristics of our business model and our values.

Most important capitals

our clients
10 million clients

our employees
38 000

our infrastructure
1 560 bank branches, insurance network, online channels

our financial capital
15.8 billion euros of equity

\+ **Income generation**

Activities (simplified)	Impact on income statement (main items)
We lend money to clients, taking account of our own risk appetite and relevant legislation. We build up the funds for this lending activity chiefly through clients' savings.	Interest income and Interest expense
We offer our clients a broad range of investment products and advise them on managing their assets.	Fee and commission income and Fee and commission expense
We protect our clients from risks via a comprehensive insurance offering and compensate them for insured losses.	Earned premiums and Technical charges (insurance)
We support our clients by offering services in the area of payments, securities, access to the financial markets and derivative products, leasing, real estate activities, etc.	Other income items
We invest a proportion of our funds in securities.	
We set aside provisions to cover loan losses, among other things.	Impairment
We invest in our employees to guarantee seamless service provision to our clients and to further develop our business strategy.	Staff expenses
We invest in our infrastructure and ICT to improve our efficiency and to serve our clients even more effectively.	General administrative and other expenses
We contribute to society by paying income tax and special bank taxes.	Income tax expense

− **Risk hedging and cost payment**

= **Net profit**

− **Dividends** to shareholders

Repayment of state aid (completed year-end 2015)

= **Profit carried forward,** used to bolster capital and to make investments, with a positive long-term effect for all stakeholders.

What makes us who we are?

Our business culture and values define how we work towards our goal of becoming the reference as bank-insurer and contributing positively to society. We have summed up our business culture 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 our culture and values are among our staff. We have appointed a dedicated PEARL manager to ensure that all our employees are thoroughly imbued with these values. The PEARL manager reports on a regular basis to our Group CEO, ensuring that senior management is aware of the extent to which PEARL is known, practised by and embedded within our group.

Besides our culture and our values, our business model is characterised by a number of highly specific elements that set us apart from our competitors, such as our integrated bank-insurance model and our focus on a number of specific countries. The table on page 16 goes into this in greater depth.

pearl

Performance
we strive for excellent results and do what we promise to do

Local Embeddedness
we view the diversity of our teams and of our clients in the different core markets as a strength

Results-driven
we do what we promise, we meet our objectives, we deliver quality, and we do so on time and in a cost-effective manner

Responsive
we anticipate and respond to suggestions and questions spontaneously and positively

Respectful
we treat people as our equals, we are transparent, we trust them and appreciate them for what they do and who they are

Empowerment
we offer every employee the chance to develop their creativity and talent

Accountability
we meet our personal responsibility towards our clients, colleagues, shareholders and society

Responsiveness
we anticipate and respond readily to the questions, suggestions, contributions and efforts of our clients, colleagues and management

Specific characteristics of our business model

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 managed in an integrated style. Our integrated model offers the client 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. 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.

Our strong geographical focus

We focus on our core markets of Belgium, the Czech Republic, Hungary, Slovakia and Bulgaria. 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. Our focus in Ireland is on raising profitability by expanding our retail business there. We have a limited presence elsewhere in the world 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 markets and communities in which we operate.

Our shareholder structure

A special feature of our shareholder structure is the core shareholder syndicate consisting of Cera, KBC Ancora, MRBB and the other core shareholders, which held just over 40% of our shares at the end of 2015. These shareholders act in concert, thereby ensuring shareholder stability and the further development of our group.

Our strengths

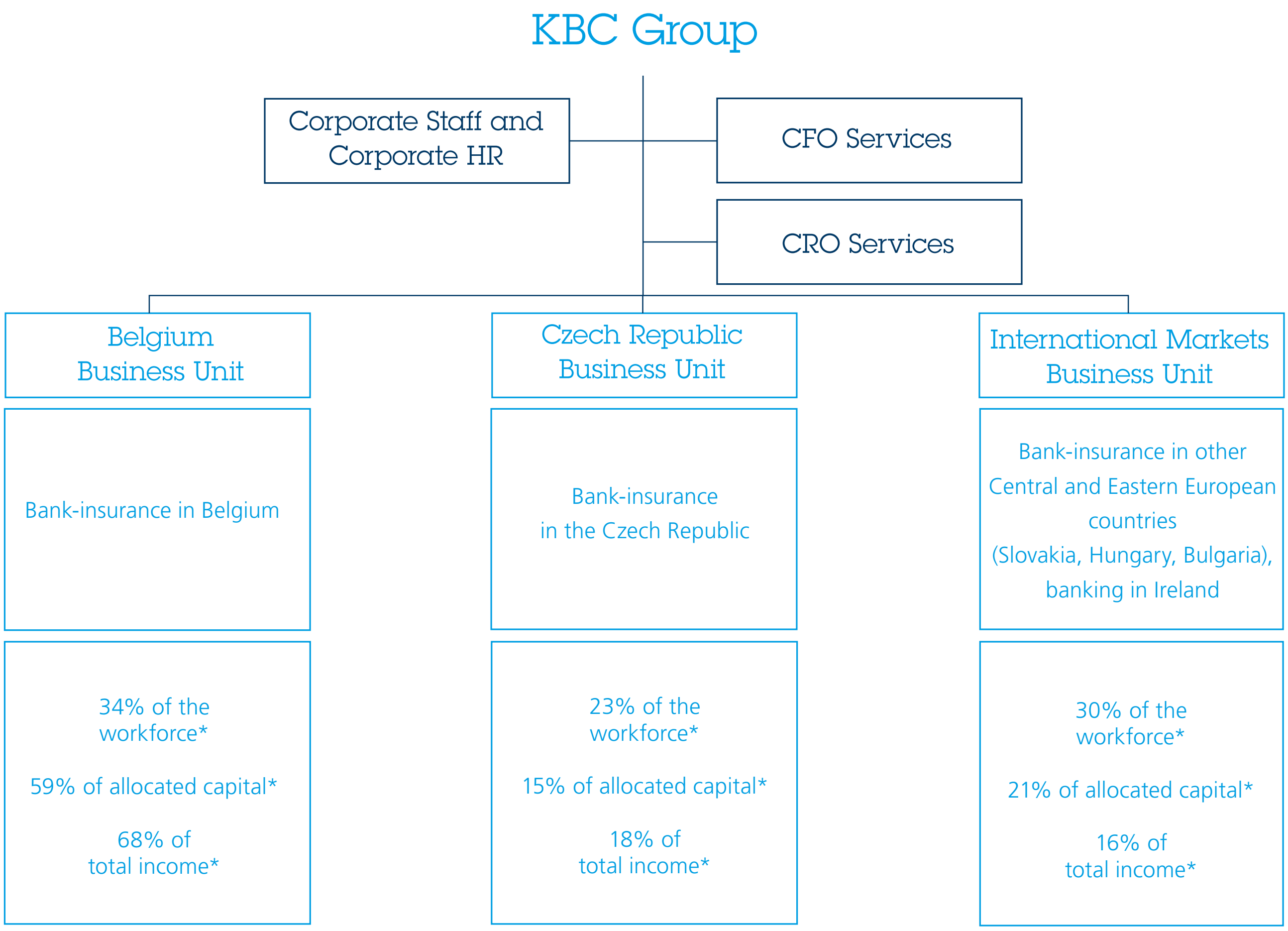
A well-developed bank-insurance strategy, which enables us to respond immediately to our clients' needs	Strong and finely meshed commercial banking and insurance franchises in Belgium and the Czech Republic, with solid returns	Further turnaround potential of the International Markets Business Unit	Successful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

Our challenges

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

Like to know more?

You will find information on each business unit and country in the section 'Our business units'. Information about our culture and values can be found at www.kbc.com/About us.



* A proportion of our employees work in other countries or in group functions. We also allocate part of our capital and income to the Group Centre (see below).

We have aligned the governance of our group with our strategic choices and our business model, and have ensured that our structure supports effective decision-making and individual accountability.

For that reason, our group is structured around three business units, which focus on local activities and are expected to contribute to sustainable earnings and growth. The business units are Belgium, the Czech Republic and International Markets (Slovakia, Hungary, Bulgaria and Ireland). The diagram above illustrates the importance of the different business units. A more detailed description of each business unit (and the Group Centre) can be found in the 'Our business units' section.

I really appreciate empowerment at K&H, which is one of the **key PEARL values**. I see this in the behaviour of my managers, who support us in everything we do and show that they believe in us. Consequently, I treat my team in the same way, and highly value the effort put in by all concerned.

András Árva, Head of Private Individuals Segment Marketing at K&H (Hungary)

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. The role and activities of these committees are dealt with in the 'Corporate governance statement' section.

The *Executive Committee* is responsible for the operational management of the group within the confines of the general strategy approved by the board. In view of its responsibility for financial policy and risk management, the Executive Committee also includes a *chief financial officer* (CFO) and *chief risk officer* (CRO) among its ranks.

The most important matters discussed by the Board of Directors in 2015 are summarised in the 'Corporate governance statement' section.

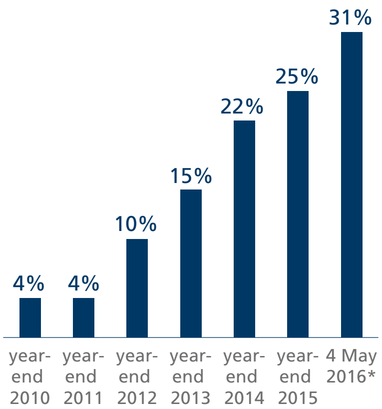
Detailed information on our remuneration policy for senior management can also be found in that section, under 'Remuneration report'. The principle underpinning our remuneration policy for senior management – and indeed for all our staff – is that good performance deserves to be rewarded. It is only fair that every employee who works hard is properly rewarded for their efforts, including by means of (limited) variable remuneration.

Composition of the Board of Directors and Executive Committee (year-end 2015)

Board of Directors	Number of members	16
	Men/Women	12/4
	Principal qualifications*	economics, law, actuarial sciences, mathematics, management, philosophy, literature, etc.
	Nationality	Belgian (14), Hungarian (1), Czech (1)
	Independent directors	3
	Attendance record	See the 'Corporate governance statement' section
Executive Committee	Number of members	6
	Men/Women	5/1
	Principal qualifications*	law, economics, actuarial sciences, mathematics, international relations
	Nationality	Belgian (5), British (1)

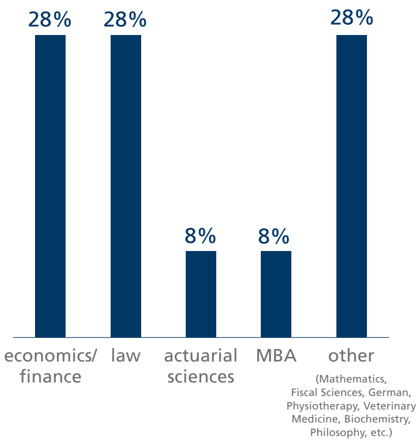
* Based on all qualifications (several individuals have more than one degree).

Percentage of women on the Board of Directors



* Provided the proposed changes are approved by the General Meeting of Shareholders.

Qualifications held by members of the Board of Directors (year-end 2015)

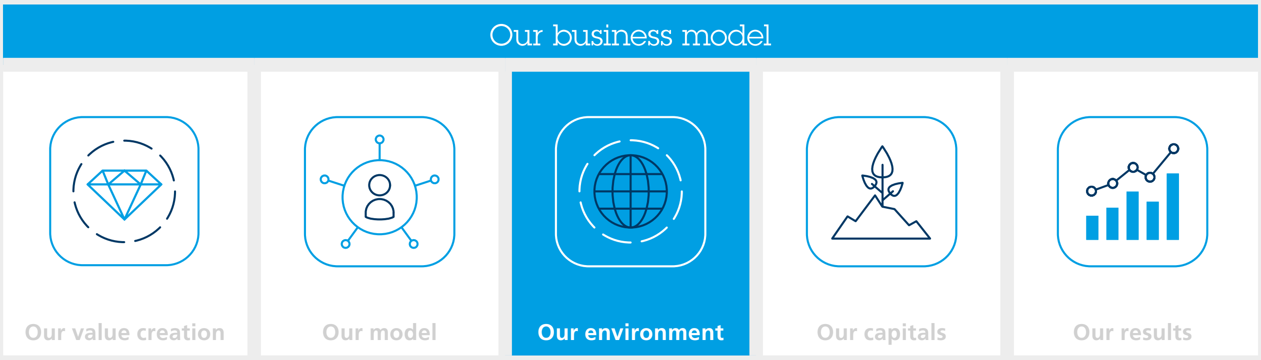


Rough breakdown based on all qualifications (several individuals have more than one degree)

Like to know more?

More information on the business units can be found in the 'Our business units' section. More detailed information on our governance is provided in the 'Corporate governance statement' section and in the group's Corporate Governance Charter at www.kbc.com.

In what environment do we operate?



The world economy, the financial markets and other macroeconomic and demographic developments can strongly influence our results. The same goes for technological changes and intensifying and evolving competition. Regulation, moreover, continues to grow and tighten, which affects our operations and capital management. Cyber threats have also become a major concern in an increasingly more digitised world. Each of these challenges is dealt with in the following overview.

The specific risks associated with our core bank-insurance business – including credit risk, market risk and technical insurance risk – are discussed in brief under 'We aim to achieve our ambitions within a stringent risk management framework' in the 'Our strategy' section, and at greater length in the 'Risk management' and 'Capital adequacy' sections.

The world economy in 2015

The world economy was marked by encouraging growth in developed countries and hesitant growth in emerging markets. Falling oil and commodity prices served to boost purchasing power for developed-world consumers, but resulted in a loss of income for producer nations. Uncertainty as to the sustainability of the Chinese growth model also had a significant impact. Within the euro area, Spain and Ireland experienced a vigorous recovery and there was little threat to financial stability, even during the summer when Greece found itself on the brink of a single currency exit. Generally speaking, weak investment growth in the euro area remained the Achilles heel. Low inflation and jittery financial markets led to shifting expectations in terms of the Fed raising interest rates for the first time in many years, something which eventually happened at the end of the year. With fear of deflation in the euro area in the background, the ECB took a step in the opposite direction in March, when it further eased its policy by announcing a fresh bond-purchasing programme, targeted primarily at government paper. German ten-year government bond yields dipped temporarily to just above zero in anticipation of the move. A correction followed, but yet more easing in December pushed German long-term bond yields back towards the 0.5% mark. The ECB's purchasing programme caused rate spreads on government bonds in the euro area to narrow further.

Main challenges	How are we addressing them?
The economy The world economy (see boxed text on the previous page), the financial markets and demographic developments can strongly influence our results. This relates to matters like the level and volatility of interest rates, inflation, employment, bankruptcies, disposable 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 composition of the insurance population, and because it drives up demand for rate products with longer maturities.	• We ensure that, in our long-term planning, our capital and liquidity position is 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.); strengthening our own capital position to ensure financial stability; and continuing to invest in investment solutions that offer protection against stock market shocks.
Competition and technological change We carry out most of our activities in a highly competitive environment. Besides the traditional players, there is also intensifying competition from smaller banking entities and e-commerce in general. Our competitors too are being affected by technological change and shifting client behaviour. Examples include the surge in growth of online services. We are both eager and obliged to keep up 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 a bank-insurer, 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 – where necessary – to take account of evolving client needs or changing market conditions. • We pay particular attention to digitisation and are investing roughly 0.5 billion euros in this area between 2014 and 2020.

Main challenges	How are we addressing them?
Increasing 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. Other regulation relates to the foundations of the European Banking Union, i.e. harmonised supervision by the European Central Bank of the most important euro area banks (Single Supervisory Mechanism) and the Single Resolution Mechanism in the euro area. The Banking Act came into force in Belgium, transposing the provisions of the Capital Requirements Directive into Belgian law and imposing restrictions on certain activities. Various new initiatives are currently underway in the area of solvency, including recent developments in the Basel regulations for banks and the introduction of the Solvency II Directive for insurers with effect from 2016. The Bank Recovery and Resolution Directive (BRRD), which includes the introduction of resolution instruments such as bail-ins and the associated MREL requirements, is also important. It is designed to ensure that investors rather than governments have to absorb losses incurred by banks. Another factor is the new IFRS that have yet to become effective, including IFRS 4 (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 of the group's capital planning, for instance). • In the case of regulations that will have a major impact on us (such as Solvency II and IFRS 9), internal programmes and working groups are also 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 the working groups of sector organisations like Febelfin and Assuralia, where we analyse draft texts. • Memorandums are produced and training provided for the business side, to raise awareness of the forthcoming regulations.
Cyber risk Hacking and cyber attacks are a constant threat in an increasingly digital world, with the potential to cause significant financial and reputational harm.	• We raise our employees' awareness of cyber risk by providing regular training in areas like phishing and vishing, and fraud in general. • We have reliable ICT systems and robust data protection procedures, and we constantly monitor our systems and the environment (e.g., Security Incident and Event Monitoring). Action is taken whenever necessary. • We also share information about cyber risks and challenge ourselves on a regular basis.

Market conditions in our most important countries in 2015

Belgium

Market environment

- Continued modest recovery, higher inflation
- Limited growth in business lending reflecting modest recovery in investment
- Growth in home loans more dynamic than expected due to low interest rates
- Forecast real GDP growth of 1.4% in 2016

KBC in Belgium[1]

- Main brands: KBC, KBC Brussels and CBC
- 783 bank branches, 441 insurance agencies, electronic channels
- 21% share of the market for traditional bank products, 40% for investment funds, 13%[2] for life insurance and 9% for non-life insurance
- 3.5 million clients
- 93-billion-euro loan portfolio and 111 billion euros in deposits and debt securities
- Net result of 1 564 million euros

1 Including 10 KBC Bank branches in the US, Asia and Europe (5-billion-euro loan portfolio).
2 Or 17% excluding group insurance.

Czech Republic

Market environment

- Best performing economy in the EU after Ireland
- Vigorous growth in business investment gave a powerful boost to business lending
- Significant drop in unemployment rate, inflation just above 0%
- Forecast real GDP growth of 2.5% in 2016

KBC in the Czech Republic

- Main brand: ČSOB
- 316 bank branches, various distribution channels for insurance, electronic channels
- 19% share of the market for traditional bank products, 26% for investment funds, 7% for life insurance and 7% for non-life insurance
- 4 million clients
- 20-billion-euro loan portfolio and 24 billion euros in deposits and debt securities
- Net result of 542 million euros

Slovakia

Market environment

- Economic growth above the EU average
- Robust domestic demand allied with strong lending growth
- Falling energy prices resulted in negative inflation
- Forecast real GDP growth of 3.3% in 2016

KBC 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
- 0.6 million clients
- 6.0-billion-euro loan portfolio and 5.3 billion euros in deposits and debt securities
- Net result of 82 million euros

Like to know more? More information on market conditions and KBC's position in each country is provided in the 'Our business units' section.

Hungary

Market environment

- Economic growth above the EU average
- New Growth Supporting Programme to stimulate lending to SMEs
- Inflation around 0%
- Forecast real GDP growth of 2.4% in 2016

KBC in Hungary

- Main brand: K&H
- 209 bank branches, various distribution channels for insurance, electronic channels
- 10% share of the market for traditional bank products, 18% for investment funds, 4% for life insurance and 5% for non-life insurance
- 1.6 million clients
- 4.5-billion-euro loan portfolio and 5.9 billion euros in deposits and debt securities
- Net result of 131 million euros

Bulgaria

Market environment

- Economic growth well above the EU average
- Growth driven chiefly by net exports
- Lending growth remained very weak
- Forecast real GDP growth of 2.5% in 2016

KBC in Bulgaria

- Main brands: CIBANK and DZI Insurance
- 100 bank branches, various distribution channels for insurance, electronic channels
- 3% share of the market for traditional bank products, 12% for life insurance and 10% for non-life insurance
- 0.6 million clients
- 0.9-billion-euro loan portfolio and 0.7 billion euros in deposits and debt securities
- Net result of 18 million euros

Ireland

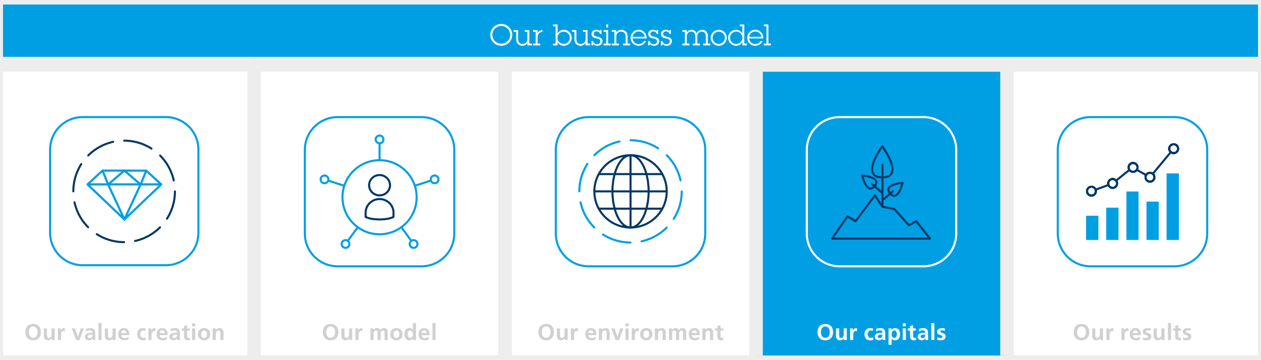
Market environment

- Strongest growth of any developed country
- Growth driven by both domestic demand and exports
- Continuing debt reduction further reduced outstanding loan volumes
- Forecast real GDP growth of 4.5% in 2016

KBC in Ireland

- Main brand: KBC Bank Ireland
- 17 bank branches (hubs), electronic channels
- 11% share of the market for retail home loans, 6% for retail deposits
- 0.2 million clients
- 13.9-billion-euro loan portfolio and 5.3 billion euros in deposits and debt securities
- Net result of 13 million euros

Our employees, capital, network and relationships



Our employees are, without any doubt, our greatest strength. They come into direct contact with our clients and define the way KBC is viewed by them. We are fully aware that it is chiefly due to the commitment and efforts of our employees that we are able to achieve strong results and to fulfil our strategy.

As a financial group, we draw on many different types of capital, most notably our employees and our capital base. 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 are also important elements that enable us to operate. We also make us of a variety of raw materials, although our consumption of these is less significant, certainly compared to industrial companies.

Our HR policy is embedded in our PEARL business culture, where the ideas of Performance, Empowerment, Accountability and Responsiveness are crucial, as is a regional approach to each of our core countries (Local Embeddedness). It is our employees who give tangible shape to this policy, and the manner in which they do so reflects KBC's three core values, i.e. those of being results-driven, respectful and responsive. We closely monitor how the PEARL business culture is understood in all our core countries. It is our belief that the strength of our PEARL culture will ultimately result in more satisfied stakeholders and in a robust economic performance.

To help anchor our business culture, we have also adjusted our HR tools. In 2015, we launched updated career assessments that run in parallel in all our core countries. This will ensure that we recruit the right applicants and that new KBC employees meet the right profile. The new career assessments will also guarantee opportunities for our own staff to progress their career.

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 career-long employability. Minerva, our HR plan for older employees in Belgium, has enabled us to move towards a more individualised approach that is geared more closely to their particular needs. We are responding in this way to demographic developments and preparing people to work for longer.

Leadership is no longer just a question of delegating and overseeing, but more of enthusing, inspiring and motivating people. 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. We also launched KBC University in 2015, an ambitious development programme for senior managers from the entire KBC group, with different speakers and modules focusing on bank-insurance, leadership and 'client-centricity'. The 'leadership@kbc' Intranet portal was set up too as an open forum on which everyone can exchange ideas.

KBC rewards its employees fairly, offering them a competitive pay package that reflects the differing levels of responsibility. We use variable remuneration to differentiate between individual and team performance. In addition to these components, the overall remuneration package incorporates an attractive range of fringe benefits, including a pension scheme and free insurance. Besides financial rewards, we attach a great deal of importance to the recognition of employees who, for instance, have made an exceptional contribution to a project.

We offer our employees the scope to show enterprise and encourage collaboration, we invest in self-directing teams and set up international collaborative projects. In 2015, particular attention was paid to reducing the complexity of our products, processes, tools and specific working methods.

KBC also embarked on the roll-out of a uniform ICT platform for 'soft' HR processes in 2015. To get the very best out of our employees' talents, we have transparent HR processes and intuitive tools that support those processes. The advantage of an integrated ICT platform is that HR data can be compared across the different countries. The new system is already being used in the Czech Republic for performance management and recruitment. Belgium will follow, with an emphasis on the internal job market, recruitment and succession management.

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 in our remuneration systems. Equal treatment of employees is also enshrined in the KBC Code of Conduct and in the various manifestos and charters KBC has endorsed. As an employer, KBC wants 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.

Given the importance of our employees to the group, we attach particular importance to tracking their satisfaction and involvement, and so survey them on a regular basis. We surveyed the entire group for the first time in 2015, with an exceptionally high 80% of staff actually responding. The survey revealed an involvement level higher than the European financial sector average. The engagement index rose in Belgium and Bulgaria. Although the index in the Czech Republic was down on last year's very high level, it remained well above the benchmark. The index remained at its traditionally high level in Hungary too. In Slovakia and Ireland, it was slightly lower than the national benchmark.

Number of staff, KBC group	31-12-2014	31-12-2015
In FTEs	36 187	36 411
In %		
Belgium	45%	44%
Central and Eastern Europe	51%	52%
Rest of the world	4%	4%
Belgium Business Unit	35%	34%
Czech Republic Business Unit	23%	23%
International Markets Business Unit	29%	30%
Group Functions and Group Centre	13%	13%
Men	43%	44%
Women	57%	56%
Full-time	81%	82%
Part-time	19%	18%
Average age	42	42
Average seniority	14	13
Number of training days per FTE	9	7

Like to know more?

More information about our relationship with our employees can be found at www.kbc.com/Working at KBC.

It goes without saying that we need a solid capital base if our employees are to work properly. At year-end 2015, our total equity came to 15.8 billion euros and chiefly comprised own share capital, share premiums, various accumulated reserves and certain additional tier-1 instruments. A detailed breakdown of our equity is provided in the 'Consolidated statement of changes in equity' table in the 'Consolidated financial statements' section. The main changes in equity in 2015 were the inclusion of the annual profit (+2.6 billion euros) and the final repayment of state aid (-3 billion euros). Our capital was represented by 418 087 058 shares at year-end 2015, a small increase of 306 400 shares on the previous year, due to the traditional capital increase reserved for staff in December.

Our share is listed on Euronext Brussels. Its closing price at year-end 2015 was 57.67 euros, up 24% on the year-earlier figure. As a result, the market value of our company was about 24 billion euros at the end of 2015.

Our shares are held by a large number of shareholders spread across a number of countries. A group of shareholders consisting of MRBB, Cera, KBC Ancora and the Other core shareholders, constitute KBC's core shareholders. They have signed a shareholder agreement in order to support and co-ordinate the general policy of our group and to supervise its implementation. The agreement establishes a contractual shareholder syndicate and contains provisions on the transfer of securities and the exercise of voting rights. 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 our shares between them.

The General Meeting of Shareholders decides each year on the dividend to be paid. The group's dividend intentions are set out in the table below.

KBC share	2014	2015
Number of shares outstanding at year-end (in millions)	417.8	418.1
Share price*		
Highest share price for the financial year (in EUR)	46.9	65.3
Lowest share price for the financial year (in EUR)	38.0	44.3
Average share price for the financial year (in EUR)	43.1	56.8
Closing share price for the financial year (in EUR)	46.5	57.7
Difference between closing share price at financial year-end and previous financial year-end	+13%	+24%
Equity market capitalisation at year-end (in billions of EUR)	19.4	24.1
Average daily volume traded on NYSE Euronext Brussels (source: Bloomberg)		
Number of shares (in millions)	1.03	0.86
In millions of EUR	44.2	48.2
Equity per share (in EUR)	31.4	34.5

* Based on closing prices and rounded to one decimal place.

Shareholder structure of KBC Group NV*	Number of shares at the time of disclosure	% of the current number of shares
KBC Ancora	77 516 380	18.5%
Cera	11 127 166	2.7%
MRBB	47 889 864	11.5%
Other core shareholders	31 768 376	7.6%
Subtotal for core shareholders	168 301 786	40.3%
Free float	249 785 272	59.7%
Total	418 087 058	100.0%

* The shareholder structure shown in the table is based on the most recent notifications made under the transparency rules or (if they are more recent) on disclosures made under the Act on public takeover bids or other available information. Details of notifications from shareholders can be found in the 'Company annual accounts and additional information' section.

Intention regarding dividend payment*	
For financial year 2015	No dividend.
For financial year 2016 and beyond	Payment of at least 50% of the consolidated profit available for distribution (in the form of dividends and coupons on the AT1 instruments combined).

* Subject at all times to the approval of the relevant General Meeting of Shareholders and the supervisory authorities.

We received financial support from the Belgian Federal and Flemish Regional governments in 2008 and 2009 to strengthen our capital base. This state aid, which initially amounted to 7 billion euros, was paid back in full at the end of 2015 (when a final repayment of 2 billion euros was made, plus a 50% penalty). In 2009, we also signed an agreement with the Belgian State regarding a guarantee for a substantial part of our structured credit portfolio (CDOs). Since then, our exposure to CDOs has been scaled back to zero and this guarantee agreement also terminated.

Our strong capital base enables us to pursue our business activities, a significant part of which is to transform deposits and other forms of funding into loans. For that reason, funding acquired through deposits and the issue of debt securities are important 'raw materials' for our group, alongside our capital. We have therefore developed a strong retail/mid-cap deposit base in our core markets. We are also a regular issuer of debt instruments and we issue ordinary and subordinated bonds in various currencies in a number of ways, including through issues as part of the wholesale and retail programmes of KBC IFIMA.

The table shows the long-term and short-term credit ratings of KBC Group NV, KBC Bank NV and KBC Insurance NV. KBC Group NV's rating was downgraded from 'A3' to 'Baa2' by Moody's in June 2015, while KBC Insurance's rating was downgraded from 'A' to 'A-' by Standard & Poor's at the beginning of December 2015. In January 2016, Fitch upgraded the financial strength rating of KBC Insurance from 'A-' to 'A', Standard & Poor's downgraded the rating of KBC Group NV from 'A-' to 'BBB+' and Moody's upgraded the rating of KBC Bank from 'A2' to 'A1' and of KBC Group NV from 'Baa2' to 'Baa1'.

Credit ratings* on 17-03-2016	Long-term rating	Outlook/watch/ review	Short-term rating
Fitch			
KBC Bank NV	A-	(Stable outlook)	F1
KBC Insurance NV	A	(Stable outlook)	–
KBC Group NV	A-	(Stable outlook)	F1
Moody's			
KBC Bank NV	A1	(Stable outlook)	P-1
KBC Group NV	Baa1	(Stable outlook)	P-2
Standard & Poor's			
KBC Bank NV	A	(Negative outlook)	A-1
KBC Insurance NV	A-	(Stable outlook)	–
KBC Group NV	BBB+	(Stable outlook)	A-2

* Please refer to the respective credit rating agencies for definitions of the different ratings. In KBC Insurance's case, it is the financial strength rating, which indicates the likelihood of policyholders' claims being met, whereas the ratings given for the bank and the group indicate the likelihood of their financial obligations (debts) being met.

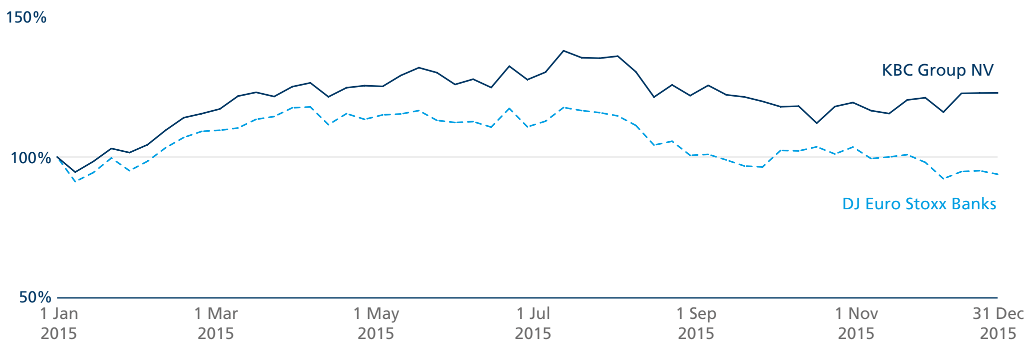
Like to know more?

More information about our shareholder structure is provided in the 'Corporate governance statement' section, under 'Disclosure under Article 34 of the Belgian Royal Decree of 14 November 2007'.
Further details of our credit ratings are available at www.kbc.com/Investor Relations/Credit ratings, and information on our sources of finance is provided under 'Liquidity risk' in the 'Risk management' section.

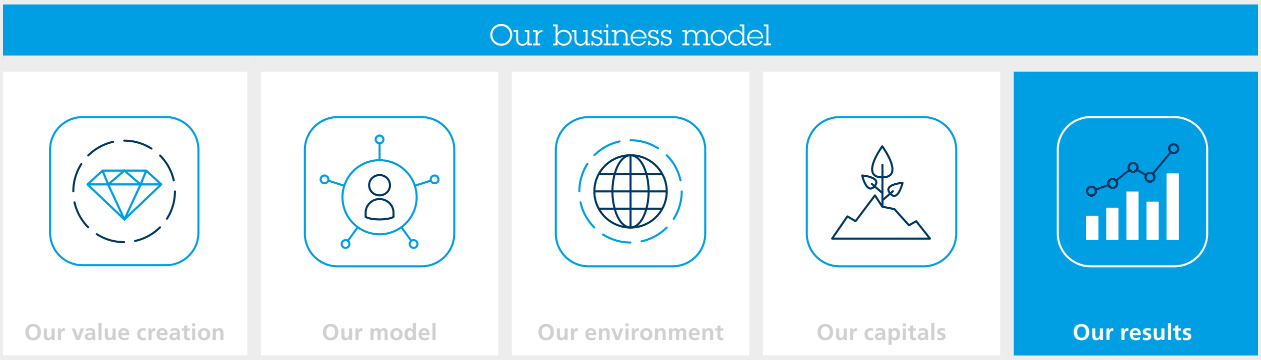
Alongside our staff and capital, our network and relationships are extremely important to our activities. An overview of our network can be found under 'Market conditions in our most important countries in 2015'. Our social and relationship capital comprises all relationships with our clients, shareholders, 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: to be responsive to society's expectations and to maintain a dialogue with our stakeholders' in the 'Our strategy' section.

KBC share price over one year

(1 January 2015 = 100%, end-of-week prices)



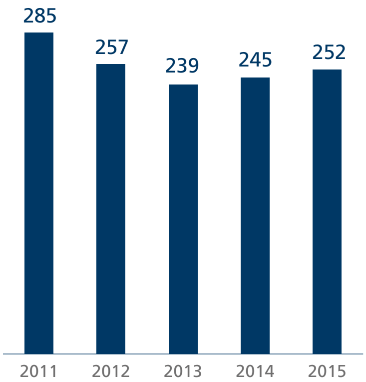
Our financial and social achievements



It goes without saying that profitability – enshrined within a sustainable framework (see below) – is important for any business. We included an overview of our most important financial data and their development over the past five years under 'Our group in figures' at the beginning of this annual report. Because of the state aid received, we carried out an onerous divestment programme during that period, as reflected in the decline in total assets in the initial years. The divestment programme and the repercussions of the financial crisis also naturally

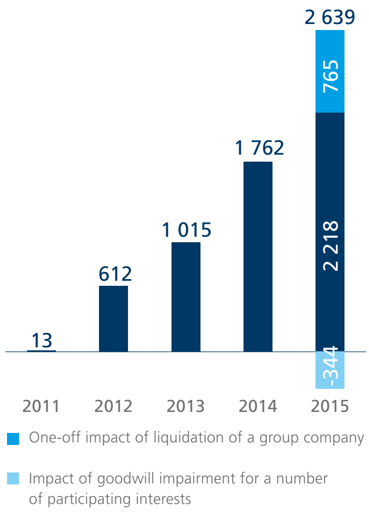
A slimmed-down group …

Total assets
(in billions of EUR)



with strong results again …

Net profit
(in millions of EUR)



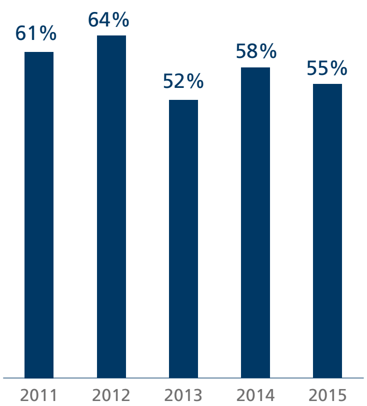
had an impact on our net profit in the years in question. Nevertheless, our business model remained profitable and efficient throughout, as demonstrated for instance by our adjusted net profit figures (i.e. net profit corrected for the impact of divestments and CDOs) and our cost/income ratio (see graph). That period is now behind us, as strikingly illustrated in the graph of our net profit, which shows a steady increase. We are back again, therefore, and totally prepared for the future.

We take a closer look at our financial results in the 'Consolidated results in 2015' section. The most important items were:

- Net profit of 2 639 million euros.
- Virtually unchanged level of net interest income, growth in net fee and commission income.
- Positive impact of the valuation of derivatives used for asset/liability management purposes.
- Increase in most other income items.
- Growth in lending and deposits in virtually all core markets.
- Increased sales of non-life insurance, decline in life insurance.
- Solid combined ratio for non-life insurance of 91%, cost/income ratio for banking activities of 55%.
- Reduction in impairment charges for loans, increase in impairment on goodwill.
- Robust solvency position: common equity ratio of 15.2% (phased-in) or 14.9% (fully loaded) after repayment of outstanding state aid.
- Additional positive impact of 765 million euros (after tax), due primarily to the recognition of a deferred tax asset in respect of the liquidation of a group company.

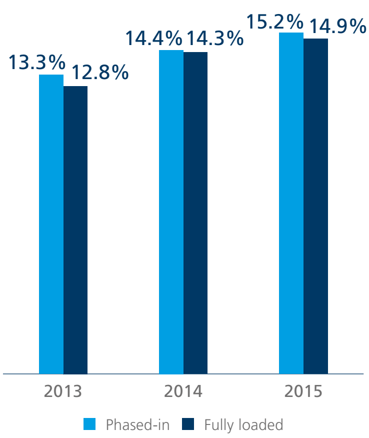
an unflinching focus on efficiency …

Cost/income ratio



and a solid capital base

Common equity ratio
(Basel III, Danish compromise, incl. state aid)



Selection of financial data (KBC group)[1]		2014	2015	change	KPI[3]
Total assets	millions of EUR	245 174	252 356	+3%	
Loans and advances to customers	millions of EUR	124 551	128 223	+3%	
Deposits from customers and debt certificates	millions of EUR	161 783	170 109	+5%	
Technical reserves, insurance (incl. unit-linked)	millions of EUR	31 487	31 919	+1%	
Total equity	millions of EUR	16 521	15 811	-4%	
Risk-weighted assets (Basel III, Danish compromise method, fully loaded)	millions of EUR	91 236	89 067	-2%	
Net result	millions of EUR	1 762	2 639	+50%	
Total income	millions of EUR	6 720	7 148	+6%	■
Gross bank-insurance income	millions of EUR	500	507	+1%	■
Cost/income ratio, banking	%	58%	55%	-3 percentage points	■
Combined ratio, non-life insurance	%	94%	91%	-3 percentage points	■
Liquidity coverage ratio (LCR)	%	120%	127%	–[1]	■
Net stable funding ratio (NSFR)	%	123%	121%	-2 percentage points	■
Common equity ratio[2]	%	14.4%/14.3%	15.2%/14.9%	+0.8% percentage points/ +0.5% percentage points	■
Total capital ratio[2]	%	18.9%/18.3%	19.8%/19.0%	+0.9% percentage points/ +0.7% percentage points	■
Dividend payout ratio	%	59%	–	–	■

1 The change in data has been affected by various one-off factors or changes in definition. For more information, see the 'Consolidated results in 2015' section and the 'Glossary of ratios and terms'.

2 According to Basel III, Danish compromise method, phased-in/fully loaded.

3 See 'Our strategy'.

As stated already, it is important to us that our profitability is enshrined within the pursuit of sustainability.

When Corporate Sustainability and Responsibility or CSR is mentioned, the first thing that usually springs to mind is ecological or social impact. As far as we are concerned, however, sustainability goes a lot further than that.
It means that the client's interests are at the heart of everything we do, that we focus on our long-term performance, that we are responsive to the expectations of society, and that we surround all this with stringent risk management. All these elements are embedded in our strategy for the future, which is discussed at length in the 'Our strategy' section.

This does not mean, of course, that specific ecological or social impact is not important to us. Even though a financial institution's ecological footprint is traditionally much smaller than that of an industrial company, we strive continuously to reduce that footprint further. Ecology has a direct influence on our activities too. To give just one example, climate change (more extreme weather) can have a direct negative impact on our insurance results due to higher claim levels.
Of course, we also remain sensitive to the social impact we have on the communities in which we operate, especially the urban areas where our business is focused, and we play an active role in patronage. Each of our group's business units engages in local community projects, the precise focus of which depends on local priorities and culture.

I am proud to be part of the KBC group and to see the sustainable values in our **PEARL** culture also being reflected in our insurance activities. The role insurance plays in today's society is vitally important and simply being part of this great team is extremely fulfilling, both as a professional and as an individual.

Deyan Avramov, Director of Property Insurance at DZI Insurance (Bulgaria)

We decided in consultation with our Internal Sustainability Board (see below) to define a number of focus areas regarding corporate sustainability and responsibility. At group level, we will focus on the areas of financial literacy, entrepreneurship and environmental responsibility. In addition, each of our entities can choose between health and demographic ageing as the fourth area.

A selection of data relating to our environmental efforts is provided below. We expanded the scope in 2015 to include the entire KBC group. For purposes of comparison, we have also included the relevant figures for Belgium and the Czech Republic in 2014 and 2015.

Selection of non-financial data	2014 Belgium and the Czech Republic	2015 Belgium and the Czech Republic	2015 Group as a whole
Electricity consumption	480 382 GJ	448 479 GJ	558 864 GJ
Water consumption	302 173 m^3	268 266 m^3	402 039 m^3
CO_2 emissions	56 107 tonnes	54 905 tonnes	68 395 tonnes*
Waste	–	–	6 476 tonnes

* Excluding Bulgaria.

CSR is not a separate policy for us, it forms an integral part of our group-wide strategy. We do, however, have a separate CSR department, which reports directly to the CEO, and also have specific CSR committees in all our core countries and in Ireland, which deliver and validate non-financial data and organise and communicate on local initiatives. Sustainable business has to be supported, however, by all the group's employees. To ensure this is the case, we have – alongside our Sustainability Advisory Board of external experts – set up an Internal Sustainability Board, where representatives of the different business units create a platform with the CEO and the CSR General Manager for internal awareness-raising and communication.

Since CSR policy constitutes an integral part of our group's strategy, we report where possible in an integrated manner. We no longer have a separate CSR section, therefore, and have incorporated this information instead into the description of our model and our strategy.

We have developed a number of guidelines to ensure that sustainability is firmly embedded in our everyday activities. The most important of these are listed below. The actual codes of conduct can be found at www.kbc.com.

Key themes for which codes of conduct and guidelines are in place

- Ethics and fraud
- Whistleblowers
- Money laundering
- Corruption
- Bribery
- Controversial weapons
- Investment
- Soft commodities
- Role in society
- Human rights
- Environment
- Investor relations
- Clients
- Suppliers
- Employees
- Tax matters
- Sustainable business
- Global Compact

Our sustainable investment products

We have been a pioneer in our core markets ever since KBC Asset Management launched its first SRI funds in 1992. The first generation of funds worked on an exclusion basis, i.e. the funds in question did not invest in companies belonging to morally questionable sectors. The second generation concentrated on positive criteria, i.e. on companies that have a positive impact on society, mostly with an ecological focus. The current generation of SRI funds takes account not only of ecological criteria, but also of social impact and corporate governance, and of the various stakeholders. The funds only invest in companies that are among the best in their sector in terms of sustainability. 'Impact investing' is the latest trend in SRI. This form of investing bridges the gap between traditional investments, which focus on financial returns, and philanthropy, which does not expect a financial return. By launching the first impact investing fund in Belgium, KBC Asset Management is looking to continue its pioneering role in sustainable investment in its core markets.

More information on our sustainable investments can be found at https://kbcam.kbc.be/en/socially-responsible-investment-products.

Like to know more?

Detailed financial information can be found in our presentations and reports at www.kbc.com. More detailed information on CSR is also available at www.kbc.com/Sustainability & Responsibility and in the 'Our business units' section of this report.

Part 2: Our strategy

The core of our strategy for the future

Our strategy rests on four, mutually reinforcing 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.

Our ultimate goal is to be the reference for bank-insurance in all our core markets. We are convinced that our strategy will help increase trust in us day by day and will thus place us firmly on the road towards that goal.

The client is at the centre of our business culture

Cornerstones of our strategy

Putting the client's interests at the heart of everything we do	Offering a unique bank-insurance experience	Striving for sustainable and profitable growth	Playing our role in society

Within a stringent risk, capital and liquidity management framework

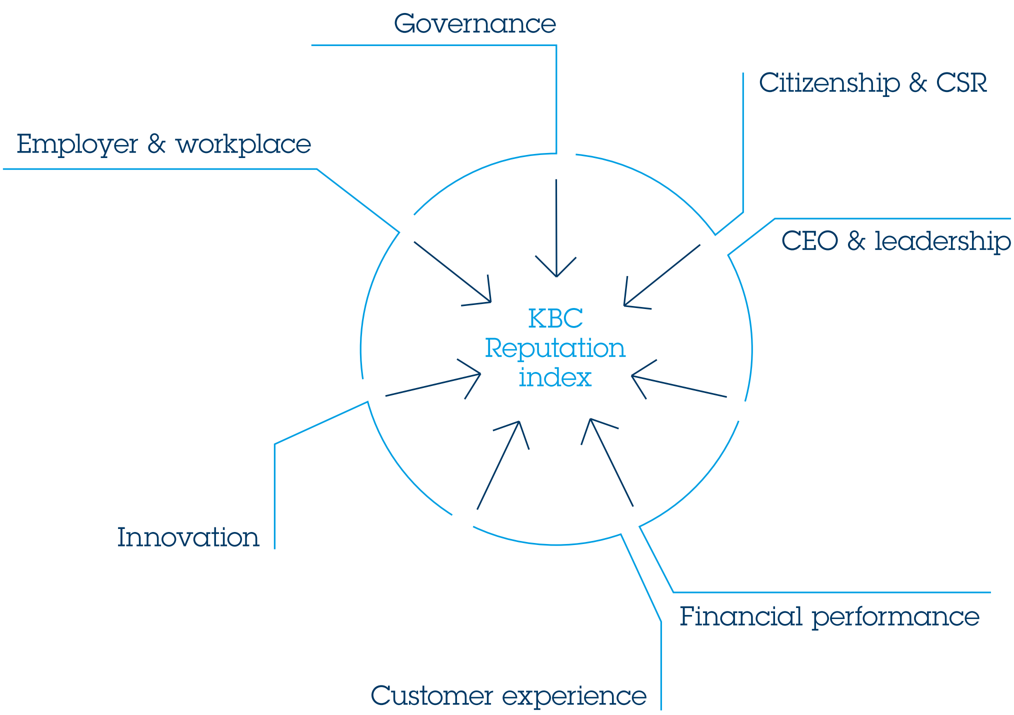
We have to earn and retain our clients' trust day after day if we are to become the reference. To do so, we put our clients at the heart of everything we do. We offer them complete, accessible and relevant solutions and an optimum experience. Trust, convenience and proactivity take the lead in everything we do.

How do we place the client at the heart of everything we do?

- We want to create added value for our clients by accurately meeting their needs in terms of financial products. Therefore, everything at KBC is based on the client's needs and not on our banking or insurance products. It is also the client who chooses how and when these products and services are provided and through which channel. That's why the different channels are accorded equal status at KBC and need to seamlessly complement and reinforce each other.
- As both a bank and an insurer (see next paragraph) with a wide range of distribution channels, we know our clients very well. This means we can improve our insight into their needs and expectations and offer them more complete and relevant solutions. In this way, we help our clients to get more out of their relationship with us.
- We want not only to respond to our clients' needs, but also to shield them from certain risks. As a bank, we are working in each of our core markets, for instance, on solutions for clients who need to get through a difficult financial period. As an insurer, our focus is firmly on prevention, health and safety, with a variety of prevention campaigns being launched throughout the year.
- Since putting the interests of our clients at the heart of all we do is the cornerstone of our strategy, we keep a close eye on their situation. That is why we are collecting their experiences in the various markets in which we are active and using 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 score for reputation in general, we do so for the underlying elements, as well, and communicate this analysis to all the departments and individuals concerned, raising their awareness of it and ensuring they take appropriate action. The emphasis in 2015 was on actions relating to governance, citizenship and client centricity.

- By setting targets for client experience and reputation, we want to ensure that the general level of client satisfaction increases. At the same time, however, we want everyone in the group to become aware in this manner of our client approach. Putting the client at the centre of all we do has to be in our DNA and must be part of our everyday routine.
- The targets and results for client experience and reputation are set out in the table on the following page.



I'm really proud of the way we **interact with our clients**. They choose KBC for expertise, but especially because we see them as more than just a client, and treat them in a warm and genuine manner. To me, that's the essence of putting the client centre stage.

Kristof Claessens, Relationship Manager and Adviser at KBC Belgium

KPI	What	Target and result in 2015*
Reputation index	The index reflects the overall public attitude towards the company and is influenced by the performance of seven manageable reputation drivers, which are also measured in this annual strategic study. The survey is performed by the external firm Ipsos.	Target: To have a higher absolute score and/or make more progress than the sector average in each country.
Client experience	Client experience is measured on the basis of responses to statements such as: 'offers quality products and services', 'offers transparent products and services', 'is easy to interact with', 'offers good value for money' and 'understands client needs'. The survey is performed by the external firm Ipsos.	Target: To have a higher absolute score and/or make more progress than the sector average in each country.

Reputation – 2015 result

Progress relative to peer group (by country); **Performance** relative to peer group (by country)

	Less progress	Same progress	More progress
Better performance		ČSOB (Czech Republic) K&H (Hungary) KBCI (Ireland)	ČSOB (Slovakia)
Same performance			KBC (Belgium)
Poorer performance			

Client experience – 2015 result

Progress relative to peer group (by country); **Performance** relative to peer group (by country)

	Less progress	Same progress	More progress
Better performance		K&H (Hungary) ČSOB (Slovakia)	
Same performance		ČSOB (Czech Republic) KBCI (Ireland)	KBC (Belgium)
Poorer performance			

* In Belgium, the financial benchmarks are: BNP Paribas Fortis, ING, Argenta, AXA, Ethias, AG Insurance, Deutsche Bank, Rabobank, bpost bank, Belfius, BKCP; in the Czech Republic: Air Bank, GE Money Bank, Česká spořitelna, Komerční banka, Kooperativa pojišťovna, Česká pojišťovna, Fio banka, Ceska Posta, Unicredit Bank; in Hungary: OTP Bank, Erste Bank Hungary, Budapest bank, CIB Bank, Raiffeisen Bank Hungary, UniCredit Bank Hungary; in Slovakia: Slovenská sporitel'ňa, VUB Banka, Tatra banka, Prima banka, Sberbank Slovensko, Unicredit Bank; in Ireland: Credit Union, Zurich Ireland, Permanent TSB, Bank of Ireland, Ulster Bank, AIB. The scores for the Czech Republic relate in the first instance to ČSOB Bank. The method of calculation is being fine-tuned for Bulgaria and, therefore, no definitive results are available.

In the diagrams, we compare:
a) the KBC entity's score with the average score in the sector (per country);
b) the KBC entity's progress with average progress in the sector (per country).

If, for example, the score of a KBC entity in a country is *significantly* higher than the sector average and the progress compared to the previous year is *significantly* lower than average progress in the sector, we place the KBC entity in the upper-left segment. For most of the indicators, 'significantly' means 'a difference of 5% or more'.

We offer our clients a unique bank-insurance experience

One of the foundations of our business model is that we engage in bank-insurance activities. It means that we respond in an integrated way to all of our clients' banking and insurance needs and that we also position ourselves as an integrated bank-insurer within our organisation. Our integrated model offers the client 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. 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.

How do we as a bank-insurer offer our clients a unique experience?

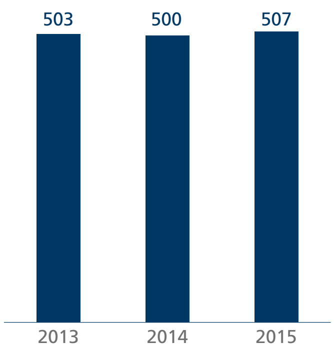
- As an integrated bank-insurer, we can put our clients' interests at the heart of what we do by offering them an integrated product range and advising them based on *grouped needs* that transcend pure banking or insurance, and include payment convenience, for instance, the home, mobility and family.
- Our clients expect a seamless service. We do everything we can, therefore, to integrate our channels (bank branches and insurance agencies, contact centres, ATMs, 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 – for both banking and insurance – is determined locally based on the client's needs and depends on the degree of maturity of the bank and insurer together. For that reason, the pace of the integration effort is determined locally.
- We have developed a unique bank-insurance co-operation concept within our group, the roll-out of which varies from one market to another.

I really believe in **bank-insurance**. We can offer clients solutions that help them live their dreams in any situation. The aim is not to acquire a house or a car, but rather to live, travel and enjoy life. And that's possible thanks to our integrated bank-insurance solutions.

Martin Renner, Bank-Insurance & Direct Sales Department at ČSOB (Slovakia)

- We are furthest advanced in Belgium, where our bank-insurance business already operates as a single company 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.

Bank-insurance gross income
(in millions of EUR)*



* See 'Glossary of ratios and terms' for definition.

- We have not yet gone so far as in Belgium in our other core countries, but we want to create an integrated distribution model by no later than 2017, which will allow commercial synergies.
- We use Key Performance Indicators (KPIs) to track how well our bank-insurance business is performing. The most important one is listed in the table.

KPI	What	Target and result in 2015[1]							
CAGR of bank-insurance gross income	Compound annual growth rate (CAGR) of: [fee and commission income received by the bank from the linked insurer] + [insurance income for insurance products sold by bank branches] + [management fees generated by unit-linked insurance products sold by bank branches and recognised at the asset manager][1]		BEL	CZE	SLO	HUN	BUL	IRE	Group
		Target CAGR for 2013-2017	≥ 5%	≥ 15%	≥ 10%	≥ 20%	≥ 5%	–	≥ 5%
		CAGR for 2013-2015	**0%**	**14%[2]**	**-3%**	**5%[2]**	**11%**	**–**	**0%**

1 We refined the method of calculating the CAGR of gross bank-insurance income in 2015 and restated the figures for 2014 retroactively. See 'Glossary of ratios and terms'.
2 Calculated in local currency for the Czech Republic and Hungary.

- 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 our bank in 2015 also took out mortgage protection cover with our insurer, while eight to nine out of ten purchased home insurance. At ČSOB in the Czech Republic, approximately six out of ten clients who took out home loans in 2015 also purchased home insurance from the group. To give another example, roughly one-fifth of households in Belgium that bank with KBC Bank hold at least three banking and three insurance products from KBC.

We focus on sustainable and profitable growth

Cornerstones of our strategy			
Putting the client's interests at the heart of everything we do	Offering a unique bank-insurance experience	**Striving for sustainable and profitable growth**	Playing our role in society
Within a stringent risk, capital and liquidity management framework			

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.

How do we ensure sustainable and profitable growth?

- Our financial performance is important, but must above all be sustainable. This means not fixating on short-term returns, but focusing on long-term performance that contributes to sustainable growth. We have deliberately opted, for instance, not to set a target for return on equity (ROE), because we want to be profitable on a sustainable basis and avoid getting caught up in the kind of short-term thinking that means pursuing the highest possible ROE every quarter.
- We observe solid risk, capital and liquidity standards. Stringent risk management in everything we do is an absolute precondition in terms of guaranteeing this 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 focusing on the local economies of the core markets in which we operate and that we invest only to a very limited extent in projects far beyond these markets.
- Sustainable and long-term thinking also means that we go beyond pure financial operations and deliver initiatives that offer genuine, long-term support for the local economies in which we operate. The 'Start it' project in Belgium is an excellent example in this regard. We launched *Start it @kbc* a few years ago in response to the fact that start-up costs have been one of the main reasons for the decline in the number of new businesses in Flanders. The aim here is for KBC, together with a number of partners, to help start-ups with various aspects of doing business, such

I am proud that we not only enable clients to address their financial needs, but that we also promote intergenerational cohesion and family education. For instance, our pension plans for children allow us to help parents secure their children's **future** and educate them about long-term commitments and financial matters. That's also part of being a sustainable company.

Patrik Madle, Marketing Communication Specialist at ČSOB (Czech Republic)

as making contacts and developing a network. We have already established five *Start it @kbc* centres in Brussels and the main cities in Flanders, and support 240 start-ups.

- We defined Belgium, the Czech Republic, Slovakia, Hungary and Bulgaria as our core countries and have sold off most of our presence elsewhere in recent years. The announced sale of Union KBC Asset Management in India and the acquisition of Volksbank Leasing Slovakia, both in 2015, further illustrate this strategy. We view our presence in all our core countries as a long-term commitment and are not planning to alter our geographical footprint significantly. We want to further optimise our current geographical presence in order to become a reference in bank-insurance in each core country. We will consolidate our presence in these core countries by means of organic growth or attractive acquisitions, in line with clear strategic and financial criteria, and will seek to be a market leader (top three for banking activities, top four for insurance activities) by 2020. We are continuing to work on profitability in Ireland, after which all options will be considered (growing further organically into a profitable bank; building an attractive bank-insurance group; or selling a profitable bank).
- We monitor our long-term performance and our focus on the real economy and sustainability via a number of Key Performance Indicators (KPIs), the most important of which are listed in the table on the following page.

KPI	What	Target and result in 2015[1]

CAGR of total income

Compound annual growth rate (CAGR) of total income. The calculation is based on the *adjusted* results for 2013, and excludes fluctuations in value of the derivatives used for asset/liability management purposes.

	BEL	CZE	SLO	HUN	BUL	IRE	Group
Target CAGR for 2013-2017	≥ 2%	≥ 3%	≥ 3%	≥ 4%	≥ 3%	≥ 25%	≥ 2,25%
CAGR for 2013-2015	1.6%	1.8%[2]	2.4%	1.0%[2]	5.8%	28.5%	2.6%[3]

Cost/income ratio

[operating expenses of the banking activities] / [total income of the banking activities]

	BEL	CZE	SLO	HUN	BUL	IRE	Group
Target for 2017	≤ 50%	≤ 45%	≤ 58%	≤ 62%	≤ 67%	≤ 50%	≤ 53%
2015 result	50%	48%	60%	65%	65%	75%	55%

Combined ratio

[technical insurance charges, including the internal cost of settling claims / earned insurance premiums] + [operating expenses / written insurance premiums] (for non-life insurance, and data after reinsurance).

	BEL	CZE	SLO	HUN	BUL	IRE	Group
Target for 2017	≤ 94%	≤ 94%	≤ 94%	≤ 96%	≤ 96%	–	≤ 94%
2015 result	90%	94%	88%	97%	97%	–	91%

Innovation

Innovation relates to: 'launches innovative products/services faster than competitors', 'continuously innovates to improve client experience', 'exceeds client expectations', 'uses advanced technologies'. The survey is performed by the external firm Ipsos.

Target: To have a higher absolute score and/or make more progress than the sector average in each country.

2015 result:

Innovation

Performance relative to peer group (by country) \ Progress relative to peer group (by country)	Less progress	Same progress	More progress
Better performance		K&H (Hungary) KBCI (Ireland) ČSOB (Slovakia)	
Same performance		KBC (Belgium)	
Poorer performance		ČSOB (Czech Republic)	

Position in SRI funds

Market share in SRI funds (based on KBC's own calculations)

	BEL
Target	Market leadership
2015 result (September)	52%

1 The list of benchmarks is provided under the table appearing in 'The client is at the centre of our business culture' on page 40, as is a word of explanation on the diagrams in this table.
2 Calculated in local currency for the Czech Republic and Hungary.
3 After eliminating the impact of liquidating KBC Financial Holding Inc.

Summary of the most important strategic initiatives in the years ahead

Belgium

- Seamless integration of the branch network via new, accessible and client-centric technologies.
- More efficient utilisation of the potential of Brussels by launching a separate KBC Brussels brand.
- Growth of CBC in Wallonia in selected market segments.
- Further optimisation of the bank-insurance model by applying digital solutions and specific initiatives.

Czech Republic

- Switch from a channel-centric to a more client-centric approach.
- Extension of offering to include non-financial products.
- Ongoing simplification of processes.
- Increasing bank-insurance activities.
- Growth in selected areas, such as lending to SMEs and consumer finance.

International Markets (Slovakia, Hungary, Bulgaria, Ireland)

- Transition from branch-oriented to hybrid distribution model, focus on growth in key segments, progress on efficiency, and growth in bank-insurance activities in Slovakia, Hungary and Bulgaria.
- Ongoing transition from direct monoliner to fully fledged retail bank in Ireland.

Like to know more?

More information on strategy by business unit and country can be found in the 'Our business units' section.

Our role in society: to be responsive to society's expectations and to maintain a dialogue with our stakeholders

We build trust in us not only by creating financial sustainability, but also by meeting the expectations of our clients, our employees, our shareholders and society. As we have to constantly earn our stakeholders' loyalty and preference, we work persistently on the commitment of our employees and demonstrate day after day how we contribute positively to society: we stimulate the local economy in all our core markets, we work on innovative solutions to present and future problems, and we communicate on social themes as transparently as possible.

How do we respond to society's expectations?

- We recognise that the way society views the financial sector is changing. Consumers are increasingly rewarding those brands that listen to them, judging them on relevant aspects such as delivering good quality, launching innovative products at fair prices, focusing on things which make their lives happier, easier and healthier, and which are beneficial to the economy, environment and community. Value is no longer measured purely in terms of money, but also based on emotional parameters like trust and pride
- At the same time, suspicion of business – in the financial sector certainly – remains strong and companies are also being held to account on issues like fair trade, their impact on the environment and responsible behaviour. The bar for the financial world has been set at a high level, especially after the crisis, and *trust* is now the licence to operate. Being a responsible and respected player in this new world therefore means that we are primarily working further to create or restore trust.

- We also use a number of Key Performance Indicators (KPIs) to see whether we are focusing sufficiently on socially relevant themes and whether we are meeting stakeholder expectations. The most important of these KPIs are listed in the table below.

<table>
<tr><th>KPI</th><th>What</th><th>Target and result in 2015*</th></tr>
<tr><td>Formal stakeholder process</td><td>Does the entity have a formal process to interact with its stakeholders?</td><td>
<table>
<tr><th></th><th>BEL</th><th>CZE</th><th>SLO</th><th>HUN</th><th>BUL</th><th>IRE</th></tr>
<tr><td>Target</td><td colspan="6">Establish a formal stakeholder interaction process</td></tr>
<tr><td>2015 result</td><td>OK</td><td>OK</td><td>OK</td><td>OK</td><td>OK</td><td>OK</td></tr>
</table>
</td></tr>
<tr><td>Governance</td><td>'Governance' refers to the statements: 'behaves ethically', 'is open and transparent', 'acts as an accountable company', 'is a responsive company', 'complies with laws, regulations and industry policies'. The survey is performed by the external firm Ipsos.</td><td>
Target: To have a higher absolute score and/or make more progress than the sector average in each country.
2015 result:
Governance
<table>
<tr><th>Performance relative to peer group (by country) \ Progress relative to peer group (by country)</th><th>Less progress</th><th>Same progress</th><th>More progress</th></tr>
<tr><td>Better perfor-mance</td><td></td><td></td><td>ČSOB (Slovakia)</td></tr>
<tr><td>Same perfor-mance</td><td></td><td>ČSOB (Czech Republic)
K&H (Hungary)
KBCI (Ireland)</td><td></td></tr>
<tr><td>Poorer perfor-mance</td><td></td><td>KBC (Belgium)</td><td></td></tr>
</table>
</td></tr>
<tr><td>Repayment of state aid</td><td>7 billion euros in non-voting core-capital securities was originally sold to the Belgian Federal and Flemish Regional Governments in 2008 and 2009.</td><td>
<table>
<tr><td>Target</td><td>Repayment in full by no later than year-end 2017</td></tr>
<tr><td>2015 result</td><td>Fully repaid at year-end 2015</td></tr>
</table>
</td></tr>
<tr><td>Dividend payout ratio</td><td>[(gross dividend x number of shares entitled to dividend) + (coupon on outstanding AT1 securities (and in respect of remaining state aid to year-end 2015))] / [consolidated net result]</td><td>
<table>
<tr><td>Target</td><td>≥ 50% from financial year 2016</td></tr>
<tr><td>2015 result</td><td>Not yet relevant for 2015</td></tr>
</table>
</td></tr>
</table>

* The list of benchmarks is provided under the table appearing in 'The client is at the centre of our business culture' on page 40, as is a word of explanation on the diagrams in this table.

Empathy is essential to our job. We are driven by the desire to support victims in their hour of need and to make a real difference in society. A healthy amount of experience – and therefore **insight into human nature** – doesn't go amiss in the job either.

Beatrijs Fabry, Claims Handling Adviser at KBC Belgium

- We are keen to know what is important to our stakeholders and so we organise a detailed stakeholder survey each year. We limited last year's survey to Belgium and the Czech Republic; this year, by contrast, we have extended our dialogue to include all our core markets and Ireland. We surveyed both clients and non-clients in different age groups. The survey formed part of our international reputation study. Participating stakeholders were asked to rate 16 items by importance and to evaluate KBC based on these items.
- By way of illustration, we have set out the complete overview for Belgium below. The matrix shows the importance of a sustainability item to stakeholders (vertical axis) and KBC's performance in that regard (horizontal axis). KBC's performance is expressed as the average score that KBC received from all the participating stakeholders for each of the 16 sustainability items. The respondents rated KBC's sustainability performance on a scale of 1 to 5, where 1 equals 'totally disagree' and 5 'totally agree'. The results in the matrix show us that KBC scored well on all these sustainability items, as we had a score above 3 (= neutral) for virtually every item. More information on this survey can be found in our 'Report to Society'.

Results of the survey of stakeholders in 2015

Customer experience
1. Offers quality products & services
2. Offers transparent products & services
3. Understands customer needs
4. Protects customers from unfair or inappropriate practices

Innovation
5. Develops products and services for problems of tomorrow

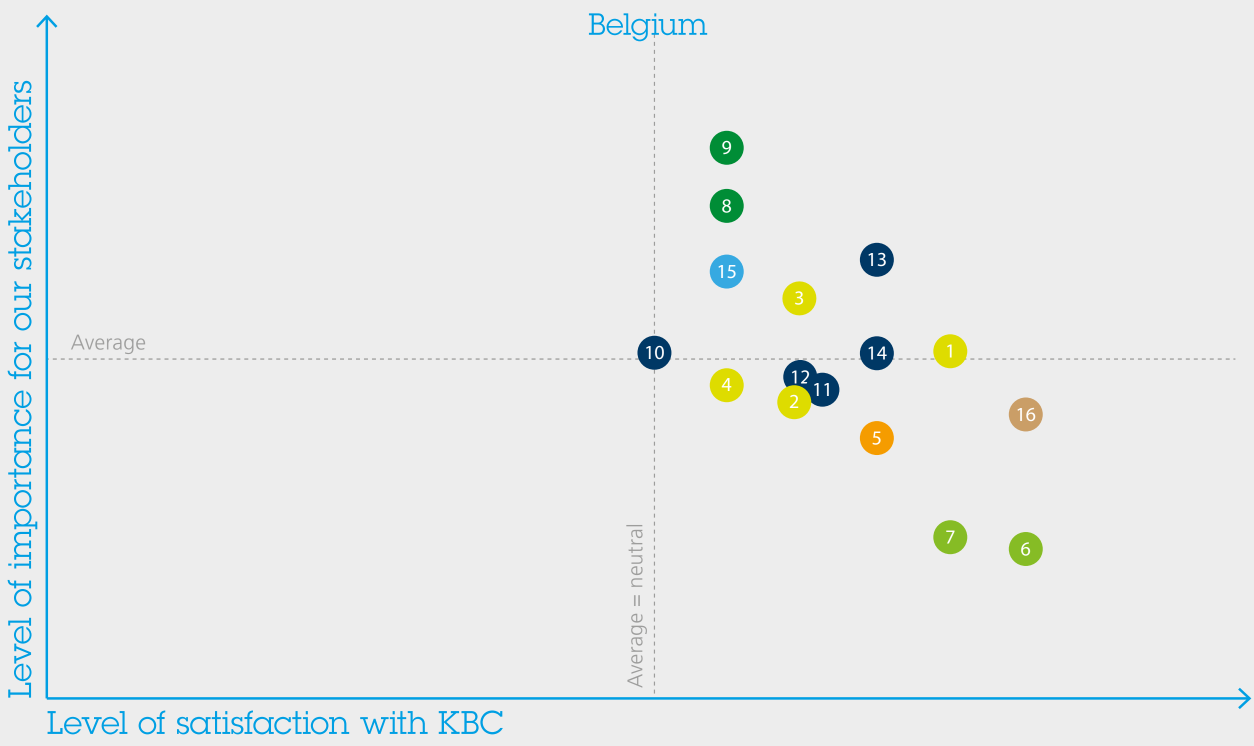
Employer & workplace
6. Treats its employees fairly and ethically
7. Offers job security

Governance
8. Behaves ethically
9. Is open and transparent

Citizenship & CSR
10. Pays attention to the environment, including climate change
11. Supports good causes to make a positive impact in local communities
12. Helps persons or organisations who care about how things turn out in society
13. Is here for a long term purpose to make a positive impact to the local economy
14. Proposes sustainable investment products

CEO & leadership
15. Risk is managed in a responsible way in order to protect the long term interests of all stakeholders

Financial performance
16. Is a solid company with good financial results



We aim to achieve our ambitions within a stringent risk management framework

Our sustainable and profitable performance is achieved through robust risk, capital and liquidity management.

We have already fully embedded risk management in our strategy and our decision-making process, as illustrated by the fact that:

- 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 with a time-out right in all relevant levels of our organisation.

Our risk management is based on a 'Three Lines of Defence model', to shield us against risks that might threaten the achievement of our goals (see table on the following page).

Our 'Three Lines of Defence' model

1 The business itself	The business operations side is fully responsible for all the risks in its area of activity and has to ensure that effective controls are in place. In so doing, it ensures that the right controls are performed in the right way, that self-assessment of the business side is of a sufficiently high standard, that there is adequate awareness of risk and that sufficient priority/capacity is allocated to risk themes.
2 The Risk function, Compliance, and – for certain matters – Finance, Legal and Tax, and Information Risk Security	Independent of the business side, the second-line risk and control functions formulate their own opinion regarding the risks confronting KBC. In this way, they provide an adequate degree of certainty that the first-line control function is keeping these risks under control, without taking over primary responsibility from the first line. In this regard, the second-line functions are tasked to identify, measure and report risks. The risk function has a veto right to ensure that it is respected. The second-line risk and control functions also support the consistent implementation of the risk policy, the risk framework, etc., throughout the group, and supervise how they are applied. Compliance is an independent function that aims to prevent KBC from being exposed to compliance risk or suffering harm through non-compliance with the prevailing laws, regulations or internal rules. It pays particular attention in this regard to compliance with the Integrity Policy.
3 Internal audit	As the independent third-line of control, Internal Audit is responsible for the quality control of the existing business processes. It performs risk-based and general audits to ensure that the internal control and risk management system, including Risk Policy, are effective and efficient, and to ensure that policy measures and processes are in place and consistently applied within the group to guarantee the continuity of operations.

Although the activities of a large financial group are inherently exposed to various risks that only become apparent in retrospect, we can currently identify a number of major challenges and priorities for our group. These are set out under 'In what environment do we operate?' in the 'Our business model' section. They are:

- the global economic situation;
- intensified competition and new technologies (new players, digitisation, etc.) and the associated changes in consumer behaviour;
- increased regulation in areas such as client protection and capital requirements;
- cyber risk.

In addition to these general risks, we are exposed as a bank-insurer to sector-specific risks such as credit risk, country risk, interest rate risk, foreign exchange risk, insurance underwriting risk and operational risk. An overview of these risks can be found in the table, with more detailed information provided in the 'Risk management' and 'Capital adequacy' sections.

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. Any concentrations in the loan portfolio can have a particularly significant impact.	• Existence of a robust management framework • Recording impairment charges, taking risk-mitigating measures, optimising the overall credit risk profile, 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 • ALM VaR limits at group level, for each risk type and entity; supplemented by other risk-measuring methods, such as 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.
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.
Technical insurance risks Risks stemming from uncertainty as to how often insured events will occur and how extensive they will be. Low interest rates are a focus point here, as is demographic ageing.	• Existence of a robust management framework • Underwriting, pricing, claims reserving, reinsurance and claims handling policies, etc. • Developing new products.
Operational and other non-financial risks 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.	• Existence of a robust management framework • Group key controls, Loss Event Databases, Risk Scans (bottom-up and top-down), Case Study Assessments, Key Risk Indicators (KRIs), etc.
Solvency risk Risk that the capital base will fall below an acceptable level.	• Existence of a robust management framework • Statutory and in-house minimum solvency ratios, active capital management, etc.

In addition to the comprehensive monitoring of risk indicators (see the 'Risk management' section), we monitor our solvency and liquidity performance using a number of Key Performance Indicators (KPIs), the most important of which are listed in the table.

KPI	What?	Target and result in 2015	
Common equity ratio	[common equity tier-1 capital] / [total weighted risks]. The calculation shown here is on a phased-in basis and according to the Danish compromise method.	Target	≥ 10.25% (phased-in) from 2016 at group level*
		2015 result	**15.2%**
		* This minimum figure will increase by 0.5 percentage points in 2017 and by another 0.5 percentage points in 2018, in line with the higher buffer for national relevant institutions set by the National Bank of Belgium.	
Total capital ratio	[total regulatory capital] / [total risk-weighted assets]. The calculation shown here is on a fully-loaded basis and according to the Danish compromise method.	Target	≥ 17% (fully loaded) from 2017 at group level
		2015 result	**19.0%**
Net stable funding ratio (NSFR)	[available amount of stable funding] / [required amount of stable funding]	Target	≥ 105% from 2014 at group level
		2015 result	**121%**
Liquidity coverage ratio (LCR)	[stock of high-quality liquid assets] / [total net cash outflows over the next 30 calendar days]	Target	≥ 105% from 2014 at group level
		2015 result	**127%**

* We adjusted the target to take account of the new requirements of the National Bank of Belgium and the European Central Bank in this regard.

Like to know more? Detailed information can be found in the 'Risk management' and 'Capital adequacy' sections in this report.

Our financial report

Consolidated results in 2015

- Net profit of 2 639 million euros.
- Virtually unchanged level of net interest income. Growth in net fee and commission income.
- Positive impact of the valuation of derivatives used for asset/liability management purposes.
- Increase in most other income items.
- Growth in lending and deposits in virtually all core markets.
- Increased sales of non-life insurance, decline in life insurance.
- Solid combined ratio for non-life insurance of 91% and cost/income ratio for banking activities of 55%.
- Reduction in impairment charges for loans, increase in impairment on goodwill.
- Robust solvency with a common equity ratio of 15.2% (phased-in) or 14.9% (fully loaded).
- Additional positive impact of 765 million euros (after tax), due primarily to the recognition of a deferred tax asset in respect of the liquidation of a group company.

Consolidated income statement, KBC group (in millions of EUR)[1]	**2014**	**2015**
Net interest income	4 308	4 311
Interest income	7 893	7 150
Interest expense	-3 586	-2 839
Non-life insurance (before reinsurance)	512	611
Earned premiums	1 266	1 319
Technical charges	-754	-708
Life insurance (before reinsurance)[2]	-216	-201
Earned premiums	1 247	1 301
Technical charges	-1 463	-1 502
Ceded reinsurance result	16	-29
Dividend income	56	75
Net result from financial instruments at fair value through profit or loss	227	214
Net realised result from available-for-sale assets	150	190
Net fee and commission income	1 573	1 678
Fee and commission income	2 245	2 348
Fee and commission expense	-672	-670
Other net income	94	297
Total income	**6 720**	**7 148**
Operating expenses	-3 818	-3 890
Impairment	-506	-747
on loans and receivables	-587	-323
on available-for-sale assets	-29	-45
on goodwill	0	-344
other	109	-34
Share in results of associated companies	25	24
Result before tax	**2 420**	**2 535**
Income tax expense	-657	104
Net post-tax result from discontinued operations	0	0
Result after tax	**1 763**	**2 639**
Result after tax, attributable to minority interests	0	0
Result after tax, attributable to equity holders of the parent (net result)	**1 762**	**2 639**
Net result by business unit		
Belgium	1 516	1 564
Czech Republic	528	542
International Markets	-182	245
Group Centre	-100	287
Return on equity	14%	22%
Cost/income ratio, banking	58%	55%
Combined ratio, non-life insurance	94%	91%
Credit cost ratio, banking	0.42%	0.23%

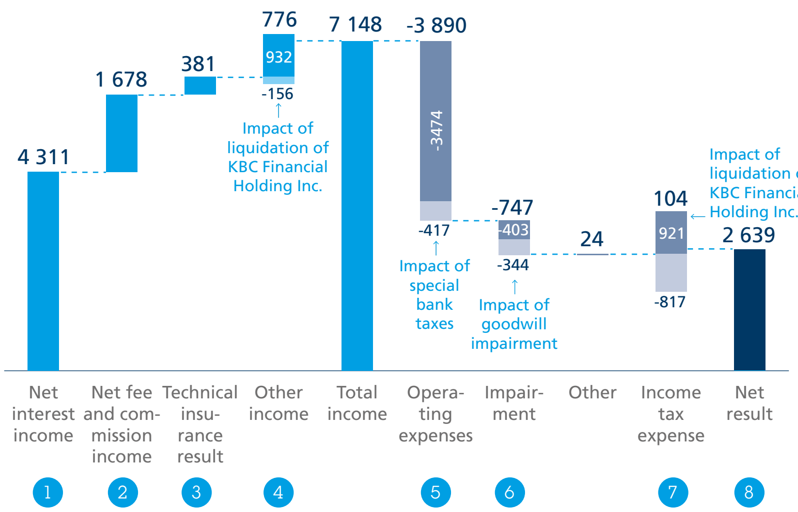
1 For a definition of the ratios, see 'Glossary of ratios and terms'.

2 Figures for earned premiums (and technical charges) do not include investment contracts without DPF, which roughly correspond to unit-linked life insurance contracts (0.8 billion euros in premiums in 2014, 0.7 billion euros in 2015).

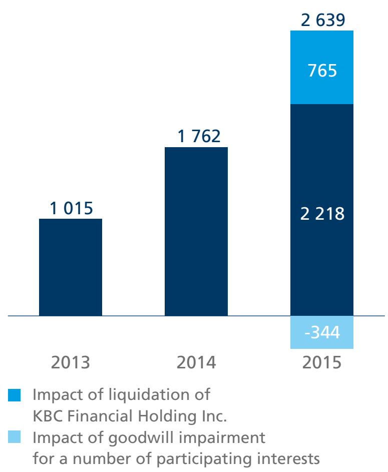
Key consolidated balance sheet, solvency and liquidity figures, KBC group (in millions of EUR)	**2014**	**2015**
Total assets	245 174	252 356
Loans and advances to customers	124 551	128 223
Securities (equity and debt instruments)	70 359	72 623
Deposits from customers and debt securities	161 783	170 109
Technical provisions (before reinsurance) and liabilities under investment contracts, insurance	31 487	31 919
Risk-weighted assets	91 236	89 067
Total equity	16 521	15 811
Common equity ratio (Basel III, Danish compromise method): phased-in/fully loaded	14.4%/14.3%	15.2%/14.9%
Common equity ratio (FICOD method): phased-in/fully loaded	14.6%/14.6%	14.9%/14.6%
Total capital ratio (Basel III, Danish compromise method): phased-in/fully loaded	18.9%/18.3%	19.8%/19.0%
Leverage ratio (Basel III, Danish compromise method): fully loaded	6.4%	6.3%
Minimum requirement for own funds and eligible liabilities (MREL)	12.5%	13.9%
Liquidity coverage ratio (LCR)	120%	127%
Net stable funding ratio (NSFR)	123%	121%

Analysis of the results in 2015

Achievement of net result for 2015
(in millions of EUR)



Net result
(in millions of EUR)



Luc Popelier, CFO of the KBC group

Net interest income 1

Net interest income came to 4 311 million euros in 2015, roughly the same as its year-earlier level (and even up 1% when changes in the scope of consolidation are excluded), despite the climate of low interest rates and the related low level of reinvestment income. The latter was offset by the positive effect of lower rates of interest being paid on savings accounts, for instance, lower funding costs and higher volumes (see below). What's more, the high level of home loan refinancing in Belgium in the first half of 2015 led – as it did in the second half of 2014 – to a large amount of early-repayment penalties, but this was offset by the related negative hedging effect (pro rata funding losses), which will continue to have an impact in the years ahead.
As far as volumes are concerned, loans and advances to customers (excluding reverse repos) (128 billion euros year-end 2015) rose on a comparable basis by 3% in 2015, increasing by 3% at the Belgium Business Unit and by 8% at the Czech Republic Business Unit, remaining unchanged at the International Markets Business Unit (growth in Slovakia and Bulgaria, but a decline in Ireland and Hungary), and contracting at the Group Centre. The total volume of deposits (162 billion euros in deposits from customers and debt securities (excluding repos) at year-end 2015) rose by 5% in 2015, with the Belgium Business Unit recording an increase of 5%, the Czech Republic Business Unit 6%, the International Markets Business Unit 15% (with growth in all countries) and the Group Centre recording a decline.

Consequently, the net interest margin for the banking activities came to 2.02% in 2015, 6 basis points lower than in 2014. The interest margin for 2015 came to 1.91% in Belgium, 3.03% in the Czech Republic and 2.55% at the International Markets Business Unit.

Net fee and commission income 2

Net fee and commission income came to 1 678 million euros in 2015, up 7% on the year-earlier figure. Most of the increase was accounted for by Belgium in the first half of the year and related primarily to growth in assets under management (investment funds, discretionary and advisory asset management, etc.). At the end of 2015, the group's total assets under management came to 209 billion euros, up 12% on the year-earlier figure, due to a positive volume effect (8%) and a price effect that – on balance – was also positive (4%). Most of these assets were managed at the Belgium Business Unit (194 billion euros, up 13%) and the Czech Republic Business Unit (9 billion euros, up 19%).

Insurance premiums and technical charges 3

The technical insurance result (earned premiums less technical charges plus the ceded reinsurance result) amounted to 381 million euros in 2015. Earned premiums in non-life insurance came to 1 319 million euros, up 4% on the year-earlier figure. They grew by 3% in Belgium, by 7% in the Czech Republic, and by 11% in the three other Central and Eastern European markets combined. Technical insurance charges fell 6% in 2015, due primarily to Belgium, where the figure for 2014 had been adversely affected by hailstorms. The combined ratio at group level improved from 94% to 91%.

Earned premiums in life insurance amounted to 1 301 million euros in 2015. However, in compliance with IFRS, certain types of life insurance (i.e. unit-linked products) have been excluded from this figure. If the premium income from such products is included, premium income from the life insurance business totalled around 1.8 billion euros, 5% less than in 2014. There was a decline of 12% in the main market of Belgium for both rate-guaranteed (-4%) and unit-linked products (-26%, due in part to fewer commercial campaigns and a shift towards investment funds). For the group as a whole, products offering guaranteed rates accounted for about 60% of premium income from the life insurance business in 2015, and unit-linked products for 40%. On 31 December 2015, the group's life reserves came to 26.7 billion euros for the Belgium Business Unit, 1 billion euros for the Czech Republic and 0.6 billion euros for the three other Central and Eastern European core markets combined.

Other income 4

The net result from financial instruments at fair value through profit or loss (trading and fair value income) came to 214 million euros in 2015. The figure also includes -156 million euros (before tax) relating to the liquidation of KBC Financial Holding Inc. (i.e. a foreign exchange loss on the capital of KBC

Financial Holding Inc. following its liquidation; see Note 5 and also the impact on the 'Income tax expense' item). Disregarding this item, trading and fair-value income would have come to 370 million euros in 2015, 63% more than in 2014. The increase chiefly reflected the marked-to-market valuation of certain derivatives used for asset/liability management purposes, which had been extremely negative in 2014 (-201 million euros) but positive in 2015 (+101 million euros), and which more than made up for the lower result generated by the dealing room in Belgium and the negative impact of various value adjustments (MVA, CVA, FVA).

Other income (dividends, realised gains and other net income) came to an aggregate 562 million euros in 2015, as opposed to 300 million euros in 2014. The difference is largely attributable to the higher level of other net income, which had been severely impacted in 2014 by provisioning related to legislation on retail loans in Hungary (-231 million euros (before tax); we were able to reverse part of this – 34 million euros – in 2015; see the 'International Markets Business Unit' section for more information).

Operating expenses 5

Operating expenses amounted to 3 890 million euros in 2015, up slightly (by 2%) on their year-earlier level, or an increase of 3% when changes in the scope of consolidation are excluded. This reflected a number of items, including higher special bank taxes (417 million euros in total, up due in part to the contribution to the European Resolution Fund), ICT costs (relating to digitisation, etc.) and pension expenses, offset in part by lower marketing costs and lower costs relating to the operations of the former Antwerp Diamond Bank (cf. restructuring costs in 2014).

As a result, the cost/income ratio for the group's banking activities came to approximately 55% in 2015, compared with 58% a year earlier. This ratio was, of course, also affected by non-operating and exceptional items (including the marked-to-market valuations for ALM derivatives, the effect of the Hungarian act on foreign-currency-denominated consumer loans and the impact of liquidating KBC Financial Holding Inc.). Adjusted for these (and a few less important) specific items, the cost/income ratio also came to 55% in 2015, compared to 54% in 2014. The cost/income ratio was 50% for the Belgium Business Unit (53% excluding specific items), 48% for the Czech Republic Business Unit (also 48% excluding specific items) and 66% for the International Markets Business Unit (also 66% excluding specific items).

Impairment 6

Total impairment came to 747 million euros in 2015. Impairment on loans and receivables (loan loss provisions) amounted to 323 million euros in 2015, compared with 587 million euros in 2014. Much of this significant improvement is attributable to Ireland, where loan loss provisioning fell from 198 million euros to 48 million euros. Loan loss provisioning is expected to be somewhere between 50 and 100 million euros in 2016, and more so at the lower end of that range. Loan loss provisions for the other countries came to 177 million euros in Belgium (28 million euros less than in 2014), 6 million euros in Hungary (41 million euros less than in 2014), 36 million euros in the Czech Republic (2 million euros more than in 2014) and 56 million euros for the remaining countries (46 million euros less than in 2014, due primarily to lower provisioning at the Group Centre). Overall, the group's credit cost ratio subsequently improved from 42 basis points in 2014 to a very favourable 23 basis points in 2015 (19 basis points at the Belgium Business Unit, 18 basis points at the Czech Republic Business Unit and 32 basis points at the International Markets Business Unit (Ireland: 34 basis points; Slovakia: 32 basis points; Hungary: 12 basis points; and Bulgaria: 121 basis points)).

The proportion of impaired loans (see 'Glossary of ratios and terms' for definition) in the total loan portfolio was 8.6% at year-end 2015, compared with 9.9% in 2014. This breaks down into 3.8% at the Belgium Business Unit, 3.4% at the Czech Republic Business Unit, and 30% at the International Markets Business Unit (due primarily to Ireland, with a ratio of 47%). The proportion of impaired loans more than 90 days past due came to 4.8% in 2015, compared to the year-earlier figure of 5.5%. At year-end 2015, 45% of the impaired loans were covered by specific impairment charges. More information on the composition of the loan portfolio is provided in the 'Risk management' section.

Other impairment charges totalled 423 million euros in 2015 and related *inter alia* to available-for-sale securities (45 million euros), goodwill (344 million euros, primarily relating to CIBANK in Bulgaria and to ČSOB in Slovakia (see Note 14 in the 'Consolidated financial statements' section)) and other items (34 million euros).

Income tax expense 7

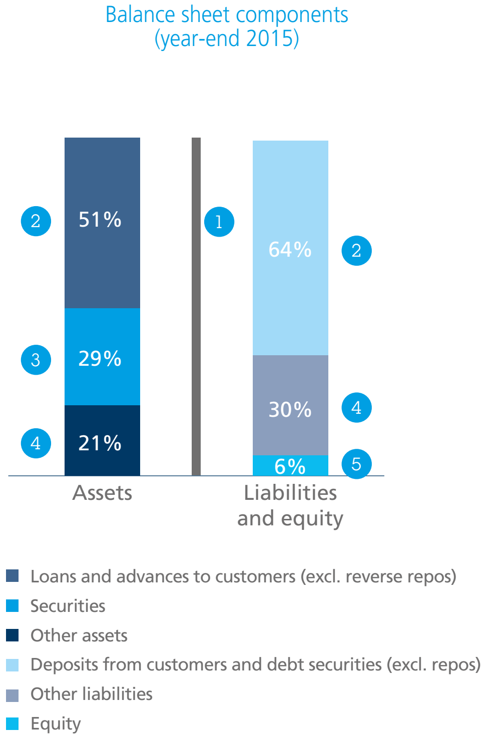
'Income tax expense' made a positive contribution of 104 million euros in 2015, compared with a negative 657 million euros in 2014. This reflects the fact that this item benefited to the tune of 921 million euros in 2015 from the recognition of a deferred tax asset related to the liquidation of KBC Financial Holding Inc. – an offshoot of the divestment programme that KBC had agreed with the European Commission in 2009 (the amount given also incorporates the tax impact of the exchange difference recorded under 'Other income'). More information in this regard can be found in Note 16 of the 'Consolidated financial statements' section.

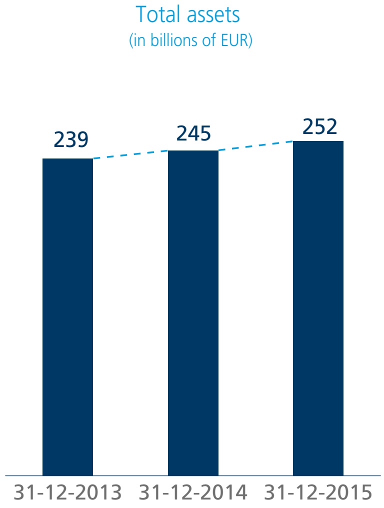
Net results per business unit 8

The group's net result in 2015 breaks down as follows by business unit: Belgium 1 564 million euros (up 48 million euros on the figure for 2014, due primarily to higher net fee and commission income, technical insurance income, and trading and fair-value income, together with lower loan losses, and despite slightly lower net interest income and higher costs and several one-off items); the Czech Republic 542 million euros (up 14 million euros on the figure for 2014, owing to factors such as higher trading and fair-value income and despite slightly higher costs); International Markets 245 million euros (a 427-million-euro improvement on the figure for 2014, due mainly to lower loan loss provisioning in Ireland in 2015, whereas 2014 had been adversely affected by the recognition of a 183-million-euro provision (after tax) related to the Hungarian act on consumer loans); and the Group Centre 287 million euros (improvement of 387 million euros on the figure for 2014, primarily because of the recognition of the deferred tax asset related to KBC Financial Holding Inc.).

A more detailed analysis of the results for each business unit can be found in the relevant sections of this annual report.

Analysis of the balance sheet in 2015





Total assets 1

At the end of 2015, the group's consolidated total assets came to 252 billion euros, up 3% year-on-year. However, risk-weighted assets (Basel III) declined by 2% to 89 billion euros, due in part to certain add-ons no longer being required for our IRB Advanced models, a further reduction in the remaining activities in run-off (at the Group Centre) and several other items. More information in this regard can be found in the 'Capital adequacy' section.

Loans and deposits 2

The group's core banking business is to attract deposits and provide loans. This is naturally reflected in the figure for loans and advances to customers (excluding reverse repos) on the asset side of the balance sheet (128 billion euros at year-end 2015). On a comparable basis, total loans and advances to clients rose by 3% (up 3% at the Belgium Business Unit and 8% at the Czech Republic Business Unit, and more or less the same at the International Markets Business Unit (an increase in Slovakia and Bulgaria, but a decline in Hungary and Ireland)). The main products (including reverse repos) were again term loans (57 billion euros) and mortgage loans (55 billion euros).

On the liabilities side, the group's customer deposits (deposits from customers and debt securities, excluding repos) grew by 5% to 162 billion euros. Deposits increased by 5% at the Belgium Business Unit, by 6% at the Czech Republic Business Unit and by 15% at the International Markets Business Unit (with growth in all countries), but fell by 17% in the Group Centre. As in 2014, the main deposit products (including repos) were time deposits (37 billion euros), demand deposits (55 billion euros) and savings accounts (50 billion euros, up 6% on their level at the end of 2014).

Securities 3

The group also holds a portfolio of securities at the bank and at the insurer (where it serves primarily as an investment in the insurance context, especially life insurance). The group's total securities portfolio was worth roughly 73 billion euros at year-end 2015. Some 30% of this portfolio relates to the group's insurance activities and 70% to the banking activities. The total securities portfolio comprised 3% shares and 97% bonds (with bonds increasing by almost 2 billion euros in 2015). Roughly three-quarters of these bonds at year-end 2015 consisted of government paper, the most important being Belgian, Czech, French, Spanish, Slovak and Italian. A detailed list of these bonds is provided in the 'Risk management' section.

Other assets and other liabilities 4

Other important items on the assets side of the balance sheet were loans and advances to credit institutions and investment firms (14 billion euros, up 8% year-on-year due in part to higher reverse repos), derivatives (positive marked-to-market valuation of 9 billion euros, down 12% year-on-year) and investment-linked life insurance contracts (13 billion euros, virtually unchanged year-on-year).

Other significant items on the liabilities side of the balance sheet were the technical provisions and liabilities under the insurer's investment contracts (an aggregate 32 billion euros, roughly the same year-on-year), derivatives (negative marked-to-market value of 10 billion euros, down 14% year-on-year) and deposits from credit institutions and investment firms (19 billion euros, up 7% year-on-year).

Equity 5

On 31 December 2015, the group's total equity came to 15.8 billion euros. This figure included 14.4 billion euros in parent shareholders' equity and 1.4 billion euros in additional tier-1 instruments. On balance, total equity declined by 0.7 billion euros in 2015. The most important components in this respect were the repayment of the remaining Flemish government aid (-3 billion euros, including the 50% penalty) the inclusion of the annual profit (+2.6 billion euros), the payment of the dividend and the coupon on the government aid for 2014 (-1 billion euros in total) and a number of smaller other items (changes in the available-for-sale reserve and cashflow hedge reserve, changes in defined benefit plans, and changes in translation differences: an aggregate +0.7 billion euros).

At year-end 2015, the common equity ratio came to 15.2% (phased-in) or 14.9% (fully loaded), according to the Danish compromise method, and to 14.9% (phased-in) or 14.6% (fully loaded) according to the FICOD method. Our leverage ratio came to an equally impressive 6.3% at the end of the year, while the MREL finished at 13.9%. Detailed calculations of our solvency indicators are given in the 'Capital adequacy' section.

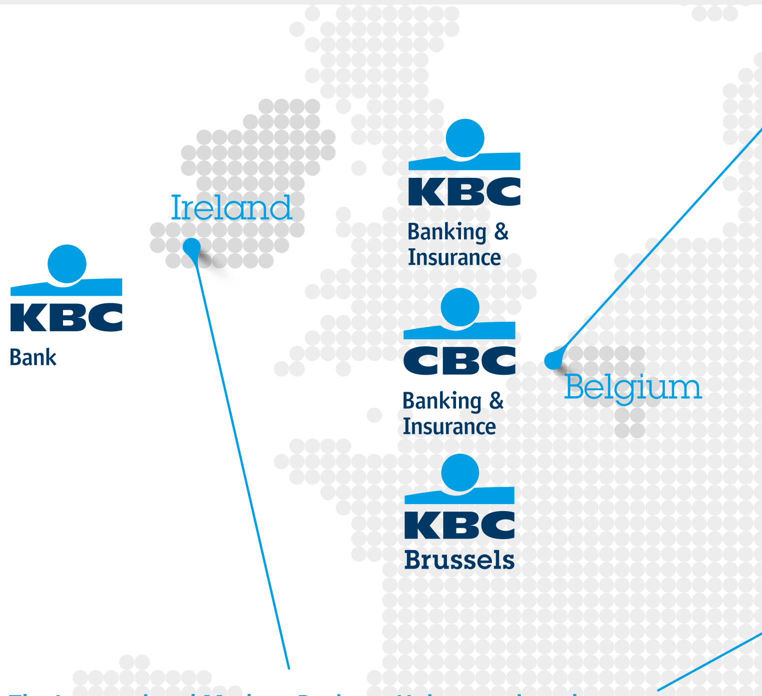
The group's liquidity position also remained excellent, as reflected in an LCR ratio of 127% and an NSFR ratio of 121% at year-end 2015.

Additional information

- We review the consolidated results in this section of the annual report. A review of the non-consolidated results and balance sheet is provided in the 'Company annual accounts and additional information' section.
- Acquisitions (Volksbank Leasing Slovakia) were relatively limited in 2015 and had no material impact on the results, balance sheet or capital position at group level.
- The overall impact on the net result of fluctuations in the exchange rates of the main non-euro currencies was negligible.
- Information on financial instruments, hedge accounting and the use thereof is provided in the 'Consolidated financial statements' section (Notes 1b, 5 and 18–29 among others) and in the 'Risk management' section.
- To provide a clearer insight into the operating results, our previous annual reports included – in addition to the income statement according to IFRS – an 'adjusted' presentation of the income statement, in which we excluded a limited number of non-operating items under the usual headings (impact of legacy business related to divestments and CDOs and effect of the valuation of own credit risk) and also reclassified certain results related to market activities under 'Net result from financial instruments at fair value through profit and loss'. More information in this regard can be found in our previous annual reports. Since the impact of the legacy business has become negligible (after completion of the divestment plan and the scaling back of the CDO portfolio), and in order to simplify our reporting, we have stopped providing these adjusted results and will only review the IFRS results from now on. This also applies to segment reporting (Note 2 in the 'Consolidated financial statements' section), where IFRS figures for 2014 have now also been restated retroactively.

Focus on the business units

Our business units

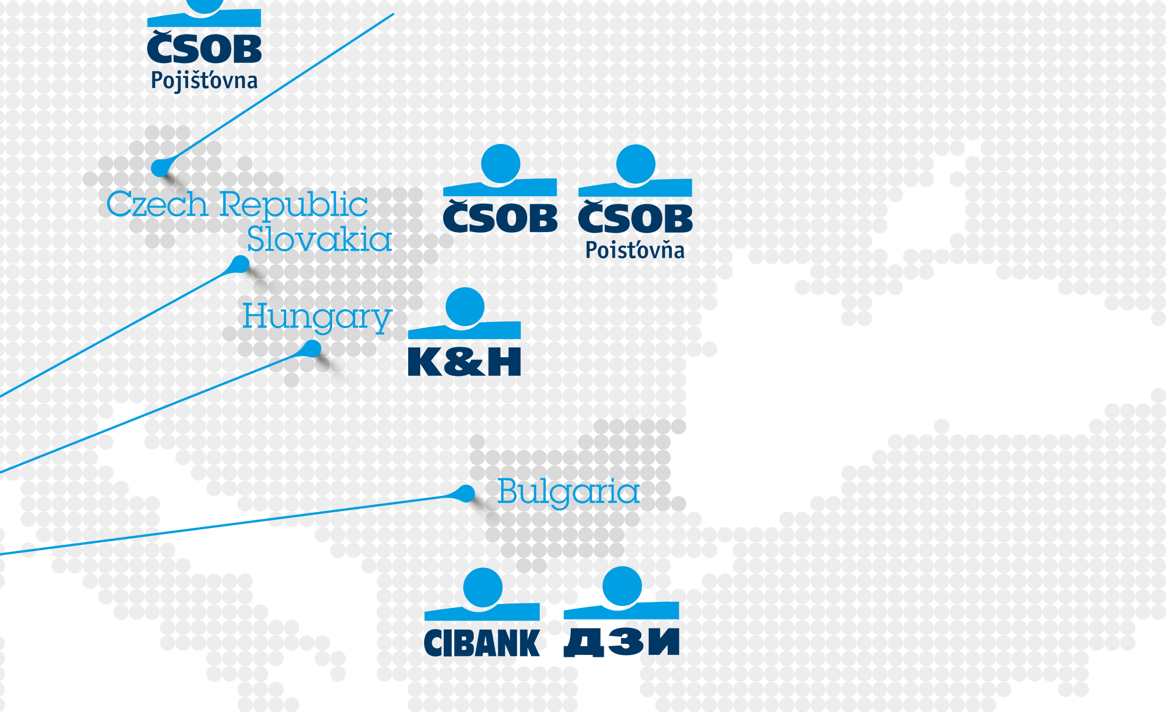


The International Markets Business Unit comprises the activities conducted by entities in the other Central and Eastern European core countries, namely ČSOB Bank and ČSOB Poisťovňa in Slovakia, K&H Bank and K&H Insurance in Hungary and CIBANK and DZI Insurance in Bulgaria, plus KBC Bank Ireland's operations.

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 KBC Insurance NV, and their Belgian subsidiaries, the most important of which are CBC Banque, KBC Asset Management, KBC Lease Group, KBC Securities and KBC Group Re.

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), the insurer ČSOB Pojišťovna and ČSOB Asset Management.



The economic context

Belgium

Following a decent first six months, waning household and business confidence caused growth to dip in the summer, but the economic outlook brightened again towards the end of the year. Growth came in at 1.4% on balance, the first time it was less than the euro area average since 2006. Household consumption made an even greater contribution to growth than in recent years. However, the recovery in business investment remained modest, something that was also reflected in the weak pattern of lending to businesses. A revival in this regard did not become apparent until the second half of the year. Home building was weak and the secondary housing market experienced a soft landing. Nevertheless, mortgage lending increased more dynamically than expected, as many households continued to take advantage of low interest rates, prompting a slowdown in growth in outstanding deposits. Investment funds were also very popular.

Belgium boosted its competitiveness thanks to factors like persistent wage restraint. This development – along with regional government employment measures – also helped to create more jobs. Inflation rose from -0.7% in January to 1.5% in December. This reflected price adjustments on the government's initiative, such as the end of the impact of the April 2014 VAT reduction on electricity, the raising of registration fees in higher education, and a fresh VAT increase on electricity towards the end of the year. Uncertainty regarding a possible 'Grexit' briefly drove up the spread between Belgian ten-year government bonds and their German counterparts to more than 50 basis points at the beginning of July, though for the rest of the time, the spread mostly fluctuated around 30 basis points.

We expect real GDP growth to remain around the 1.4% level in 2016.

Czech Republic

The Czech Republic was second only to Ireland as the European Union's best-performing economy in 2015. Domestic demand caused real GDP growth to double to 4.3%, more than twice as strong as the EU average. Household consumption was boosted by real wage increases and job creation, while a catch-up process in terms of drawing on European cohesion funds was a significant stimulus to government investment. Business investment grew fairly strongly too, although it did not contribute to GDP growth, as it led chiefly to an increase in imports. It did, however, deliver a powerful impulse to business lending. Historically low interest rates and an improving labour market sparked an acceleration in the growth of home loans.

Relatively favourable economic growth was accompanied by a sharp increase in employment and a significant drop in unemployment. The jobless rate was just 4.5% of the labour force at year-end 2015, compared to a peak of 7.8% at the beginning of 2010. Inflation hovered just above 0% throughout the year, well below the central bank's target of 2%. Monetary policy remained expansive as a result. Low interest rates did not prevent deposit growth from remaining robust, but investment funds and shares were also much in demand.
We expect real GDP growth to ease to a projected 2.5% in 2016, as the impulse provided

by European funds for government investment will dissipate. Underlying domestic demand will remain healthy, however, with persistent growth in household consumption.

International Markets

As was the case in the Czech Republic, investment growth in other Central European countries benefited from the catch-up in use of European cohesion funds. As a result, real GDP growth in Slovakia (3.5%), Hungary (2.8%) and Bulgaria (2.7%) was well above the EU average. Growth in Bulgaria was driven primarily by net exports, whereas domestic demand was the chief engine of growth in Slovakia and Hungary. Substantial real wage increases and a sharp fall in unemployment underpinned household consumption. Falling energy prices left inflation moving around the 0% mark in Hungary throughout the year, and even resulted in negative inflation in Slovakia and Bulgaria. As was the case in other countries, rates spreads in Slovakia, Hungary and Bulgaria widened slightly for a time with Germany during the Greek crisis.

Robust domestic demand in Slovakia was accompanied by persistently vigorous growth in lending to households and a recovery in lending to businesses. Lending continued to be weak in Bulgaria, however, and Hungary remained in the grip of debt reduction, despite the central bank's stimulus package. It launched a fresh growth-support programme in November to further encourage lending to SMEs and also announced that its policy rate was likely to remain unchanged until the autumn of 2017, illustrating its concern at the further pattern of economic growth.

We expect real GDP growth in Slovakia, Hungary and Bulgaria to ease somewhat in 2016 to 3.3%, 2.4% and 2.5% respectively, owing to the catch-up in financing from the European cohesion funds coming to an end.

Ireland posted the strongest economic growth of any industrialised country in 2015 (7.2%). Exports continued to grow robustly and domestic demand picked up strongly. The factors stimulating growth were the lower oil price, the improvement in the terms of trade, low inflation, robust job creation, more flexible budget policy and resurgent demand following the deep crisis. Strong economic growth has helped reduce the level of debt, although it still remains high. Continuing debt reduction served to reduce the banks' outstanding loan volumes further, whereas household and business deposits grew rapidly. Economic growth is likely to slow down in 2016, but will remain very robust.

The outlook for all countries is based on forecasts made at the start of 2016, and so the actual situation could differ (considerably).

Macroeconomic indicators*	2014	Belgium 2015	Czech Republic 2014	2015	2014	Hungary 2015	2014	Slovakia 2015	2014	Bulgaria 2015	2014	Ireland 2015
GDP growth (real)	1.3%	1.4%	2.0%	4.3%	3.7%	2.8%	2.5%	3.5%	1.5%	2.7%	5.2%	7.2%
Inflation (average annual increase in consumer prices (%))	0.5%	0.6%	0.4%	0.3%	0.0%	-0.1%	-0.1%	-0.3%	-1.6%	-1.0%	0.3%	-0.1%
Unemployment (% of the labour force at year-end; Eurostat definition)	8.6%	7.9%	5.8%	4.5%	7.3%	6.3%	12.4%	10.6%	10.2%	8.8%	10.2%	9.0%
Government budget balance (% of GDP)	-3.1%	-2.8%	-1.9%	-1.9%	-2.5%	-2.3%	-2.8%	-2.7%	-5.8%	-2.8%	-3.9%	-1.5%
Public debt (% of GDP)	106.7%	106.5%	42.7%	41.0%	76.2%	75.8%	53.5%	52.7%	27.0%	31.8%	107.5%	96.0%

* Data for 2015 based on estimates made at the start of 2016.

Where do we stand in each of our countries?

The following table provides an indication of our presence (brands, network) and our scale (clients, loan portfolio, deposits, market share) per country.

Market position in 2015[1]	Belgium	Czech Republic	Hungary	Slovakia	Bulgaria	Ireland
Main brands	KBC, CBC, KBC Brussels	ČSOB	K&H	ČSOB	CIBANK, DZI	KBC Bank Ireland
Network	783 bank branches	316 bank branches[2]	209 bank branches	125 bank branches	100 bank branches	17 bank branches
	441 insurance agencies	Insurance sold through various channels	Insurance sold through various channels	Insurance sold through various channels	Insurance sold through various channels	–
	Various online channels	Various online channels	Various online channels	Various online channels	Various online channels	Various online channels
Clients (millions, estimate)	3.5	4.0	1.6	0.6	0.6	0.2
Loan portfolio (in billions of EUR)	93	20	4.5	6.0	0.9	13.9
Deposits and debt securities (in billions of EUR)	111	24	5.9	5.3	0.7	5.3
Market shares						
– bank products	21%	19%	10%	11%	3%	–[3]
– investment funds	40%	26%	18%	7%	–	–
– life insurance	13%	7%	4%	4%	12%	–
– non-life insurance	9%	7%	5%	3%	10%	–

1 Market shares and client numbers: based on own estimates; when calculating the figure for client numbers, account was taken of the overlap (roughly estimated) between the various companies in the group. For traditional bank products: average estimated market share for loans and deposits. For life insurance in Belgium, the share of the retail market (i.e. excluding group insurance) was 17%, based on reserves; for the other countries, the life insurance market share is based on premiums. Loan portfolio: see 'Risk management'. Deposits and debt securities: deposits from customers and debt securities (excluding repos). 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 5 billion euros). The group operates under various brands in the Czech Republic, including ČSOB, Era, PSB, ČMSS and Hypoteční Banka.

2 ČSOB Bank and Era.

3 Retail market share: 11% for home loans and 6% for deposits.

We offer a wide range of loan, deposit, asset management, insurance and other financial products in virtually all our countries, where our focus is on private individuals, SMEs and high-net-worth clients. Services for corporate clients additionally include cash management, payments, trade finance, lease, money market activities, capital market products, stockbroking and corporate finance. As yet, we do not offer any asset management products in Bulgaria, and in Ireland, we only have a banking subsidiary.

We position ourselves, moreover, as a bank-insurer in every country apart from Ireland, although the roll-out of our bank-insurance concept varies from market to market.

Our bank-insurance business is already operating as a single company in Belgium, enabling it to achieve both commercial and non-commercial synergies. An important feature of our model in Belgium is the unique cooperation 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 in our other core countries as we have in Belgium, but we want to create an integrated distribution model by no later than 2017, which will allow us to achieve commercial synergies.

Where are we going and what did we achieve in 2015?

We announced our plans for the future and our updated strategy at an Investor Day in 2014. We also unveiled a variety of financial and non-financial targets for each country. More detailed information in this regard is provided in the 'Our strategy' section.

A selection of specific initiatives and achievements is set out below for each business unit.

Belgium

- We continue to focus on our multi-channel strategy, which entails ongoing investment in our branch network, our regional advisory centres, our websites and our mobile apps. To make us even more accessible to our clients, we want their experience in the physical bank branch to dovetail neatly with their online experience. This enables us to stay close to our clients in Belgium, always and everywhere.

- We want to exploit the potential of 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.

- Through CBC, we want to tap potential growth in specific bank-insurance market segments and to expand our presence in Wallonia, along with our accessibility and the services we provide, by opening new insurance agencies and bank branches and by relocating existing ones.

- We are doing all of this while continuing to optimise our bank-insurance model in Belgium. We aim to increase our bank-insurance revenues in the years ahead by an average of at least 5% annually, partly through the provision of digital solutions and specific bank-insurance initiatives for defined target groups.

- Our commitment to Belgian society extends beyond just offering the right products and services. It is also expressed in the range of initiatives we take in various areas, including environmental protection, financial literacy, stimulating entrepreneurship and demographic ageing.

Belgium

KBC Banking & Insurance

CBC Banking & Insurance

KBC Brussels

Daniel Falque, CEO of the Belgium Business Unit

A few achievements in 2015

- We opened five regional advisory centres, spread across the five Flemish provinces. They provide remote tailored advice and have extended opening hours.
- Following intensive consultation with clients, we launched KBC Touch for private individuals and businesses to do their bank-insurance business online. We introduced simple account packages, contactless debit cards, the KBC Invest app, the Bolero app for iPhones, an app for Apple Watch, and more besides.
- We opened FarmCafe, a digital platform for farmers and horticulturists, and appointed 100 relationship managers for independent medical professionals.
- We started up KBC Brussels. We worked on a support team in the European Quarter and organised a variety of client events. The existing KBC/CBC branches in Brussels were repositioned.
- We rolled out our growth strategy in Wallonia: six new bank branches were opened and ten existing ones relocated to better locations, eight insurance agencies were also opened, a first virtual branch launched and work was started on the new head office in Namur.
- We took various initiatives for start-ups and growers, launching the KBC Clickshop (which enables clients to set up their own online stores) and the KBC Paypage (for managing payments in those stores). We further expanded *Start it @kbc* (through which KBC and a number of partners help new businesses in Flanders), unveiled the Bolero crowd-funding platform (which investors can use to provide financial support to new businesses) and launched the 'PopUpWebShop' campaign to support local businesses.
- Our bank-insurance concept enjoyed continued success. At year-end 2015, almost a fifth of households that are clients of KBC Bank held at least three banking and three insurance products from KBC. To give another example, eight to nine of every ten clients who have taken out a home loan have also taken out a KBC Home Insurance policy. Following a slight contraction in 2014, our gross bank-insurance income expanded again in 2015.
- We took a variety of initiatives in the areas of environmental protection, health and safety, combating social deprivation, and developing the local market. For instance, we participated in the 'Mobility Week', supported the cancer charity 'Kom op tegen Kanker', collaborated with 'Close The Gap', and linked the non-recurrent results-based bonus paid to employees to the achievement of sustainability targets. We organised another stakeholder debate, where we presented our Report to Society and responded to the questions of our stakeholders.

Prizes

Named as one of the best employers in Belgium (Great Place to Work®) – Gold for the 'Room for Improvement' campaign in the 'Integrated Communication' category and silver in the 'B2B' category (Best of Activation Awards) – 'Best New Product or Service Innovation' prize for Bolero Crowdfunding (Efma Awards) – 'Best Private Bank in Belgium' (*Private Wealth Magazine* and *Euromoney*) – Social Media Insurance Award and Social Media Insurance Event Award (Financelab) – ...

Czech Republic

- We want to create added value for our clients by moving from largely channel-centric solutions to ones that are more client-centric, based on an integrated model that brings together clients, third parties and our bank-insurer.
- We will also offer new non-financial products and services to add value for our clients and to further enhance client satisfaction.
- Our Czech group companies will concentrate even more on simplifying products, IT, organisation, the bank distribution network, head office and branding, to achieve even greater cost efficiency.
- We also want 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.
- We intend to keep growing in the fields in which we have traditionally been strong, such as lending to business and providing home loans. We want to move forward in fields in which we have yet to tap our full potential, such as the attractive market for lending to SMEs and consumer finance.
- Our commitment to Czech society extends beyond just offering the right products and services. It is also expressed in the various initiatives we take in the areas of corporate responsibility, training, diversity and the environment.

John Hollows, CEO of the Czech Republic Business Unit

A few achievements in 2015

- We launched many new products and services, including a new application for mobile phones (Smart OTP), a prepaid card (COOL karta), several flexible funds (ČSOB Flexibilní portfolio and ČSOB Flexibilní plán) and new life insurance products (ČSOB Kvarteto), a new comprehensive home insurance product (Our Home) and digital client documents and a biometric signature system. We also launched a 'Gap in the Market' campaign, which brought local residents and businesspeople together and informed them about initiatives lacking in their neighbourhood that could add value.
- We worked to simplify our business model, with initiatives being taken in the areas of governance, organisation and process simplification. We also unveiled a new website, offering simple and convenient navigation based on situations from the client's everyday life.
- We launched fresh bank-insurance initiatives, including offering insurance products via smart banking, further expanding the number of insurance specialists in the branch network and at the call centre, and bringing out new non-life insurance products at ČMSS and other entities. After increasing by 10% in 2014, our gross bank-insurance income grew by 18% in 2015.
- We achieved decent growth in the areas we targeted for growth, such as consumer finance (+5% in 2015) and lending to SMEs (+4%).
- We took a number of initiatives in terms of our social engagement. Our ongoing commitment to the environment, for instance, was apparent in the use of renewable energy at our head office. The battle against exclusion continued in the shape of our wheelchair-friendly branches, ATMs adapted for visually impaired clients, the eScribe transcription service for people with hearing difficulties, financial education via the 'ČSOB Education Programme', the 'Education Fund' and 'Blue Life Academy'. ČSOB also organised a wide-ranging debate in 2015 to discuss its sustainability approach with the different stakeholders.

Prizes

ČSOB named among the best employers in the Czech Republic (Sodexo) – ČSOB crowned 'Best Bank in the Czech Republic' (*Euromoney, The Banker, Global Finance, Hospodářské noviny*) – ČSOB named 'Best Private Bank in the Czech Republic' (*Euromoney, Professional Wealth Management/The Banker*) – ČSOB rewarded with a 'Golden Certificate for Responsible Reporting' (TOP Responsible Company 2015) – ...

International Markets

- We want to move from a branch-oriented distribution model in Hungary and Slovakia to a hybrid model. That is also our aim for Bulgaria, though at a slower pace. In Ireland, we are positioning ourselves as leader in the area of hybrid distribution.

- K&H in Hungary will continue to use its surplus liquidity to support the local economy, to grow its market share in important segments, and to further improve its efficiency and profitability. Client acquisition, share-of-wallet campaigns and cost containment are the top priority. Growth in insurance is being targeted primarily through sales at bank branches, while for non-life insurance, it is via (online) brokers and agents.

- We want to see our income in Slovakia increase considerably, especially in retail asset classes (home loans, consumer finance, SME funding and leasing), which – combined with cost containment – should result in an improvement in the cost/income ratio.

- CIBANK is concentrating on specific client segments in Bulgaria within a controlled and robust risk framework. DZI is focused on high-margin products, operational efficiency, simplification and excellent service provision to the client. Collaboration between DZI and CIBANK will be expanded through the further development of products (including unit-linked ones) and distribution channels.

- We are moving towards a retail bank with a full product offering in Ireland. Distribution should increasingly occur through our own channels, including online, mobile and via a contact centre, supported by a flexible physical presence (hubs, mobile banks and advisers) in major urban areas. We want to grow significantly in new retail mortgage loans, to expand the range of retail products and to further increase local deposits. The existing portfolio of loans to large businesses and SMEs will continue to be scaled down.

- KBC is committed to a socially responsible approach in all countries, as illustrated in our policy towards staff and clients, and in our involvement with society.

Luc Gijsens, CEO of the International Markets Business Unit

A few achievements in 2015

- The performance turned in by all the countries of the business unit was much better than in 2014.
- We strengthened our position in Slovakia through the acquisition of Volksbank Leasing Slovakia, a universal leasing firm with a roughly 6% share of the Slovakian leasing market.
- We opened new retail hubs in Ireland and expanded our team of mobile advisers. We launched a new website and an improved mobile app, and also expanded our product offering to include asset management products and car insurance (in partnership). The number of clients and the number of products per client increased.
- The conversion of foreign-currency mortgages to forint loans is now complete in Hungary. We recorded strong growth in the sale of insurance through our banking channel and increased our market shares, achieving a solid position in new mortgage production and rolling stock insurance.
- Our share of the banking market in Bulgaria increased, and the technical performance of insurance activities there improved on a larger market share.
- We put our social engagement into practice through various initiatives. K&H in Hungary, for instance, provides financial and material assistance to sick children through the 'K&H MediMagic Programme', while 'K&H for the Underprivileged' supports the most disadvantaged micro-regions. K&H promotes financial education with its national 'K&H Ready, Steady, Money' contest. Financial education is also the focus of the 'ČSOB Head and Heel' programme in Slovakia, where students are encouraged to find a creative approach to a financial topic. ČSOB in Slovakia also organises the ČSOB Bratislava Marathon, with which a variety of charities are affiliated, and supports a number of NGOs through its 'Employee Grant Programme'. CIBANK in Bulgaria celebrated its 20-year existence by supporting 20 small local communities with sustainability initiatives. KBC Bank Ireland supports the Barretstown and Barnardos projects, which focus on the welfare of children.

Prizes

KBC Bank Ireland selected as the bank with the 'Best Corporate Reputation' (Rep Track) and rewarded with the 'Product Innovation Award' (Temenos Community Forum Istanbul) – ČSOB crowned 'Best Trade Finance Bank in Slovakia' (*Global Finance Magazine*) – ČSOB Poist'ovňa named 'Insurer of the Year' in Slovakia (*Trend*) – K&H named one of the 'National Champions' in the Customer Focus category of the European Business Awards and received the MAF Award for its 'Ready, Steady, Money' initiative – ...

How do the business units contribute to the group result?

Belgium

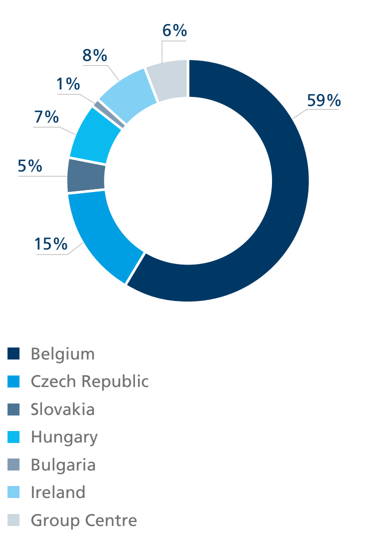
In 2015, the Belgium Business Unit recorded a net result of 1 564 million euros, compared with 1 516 million euros a year earlier.

The most important income item, net interest income, came to 2 819 million euros in 2015. Although down 3%, it remains a decent achievement given the low level of interest rates (and therefore low level of income generated by reinvestments) and came about thanks to lower funding costs, lower rates of interest being paid on savings accounts, and higher lending-related interest income (due in part to home loans). What's more, the high level of home loan refinancing led in the first half of 2015 – as it had in the second half of 2014 – to a large amount of early-repayment penalties, but also to a related negative hedging effect (pro rata funding losses). As far as volumes are concerned, loans and advances to customers, excluding reverse repos (88 billion euros at year-end) went up by 3%, while deposits from customers and debt securities, excluding repos (111 billion euros at year-end) grew by 5%. The average net interest margin narrowed from 2.01% in 2014 to 1.91% in 2015.

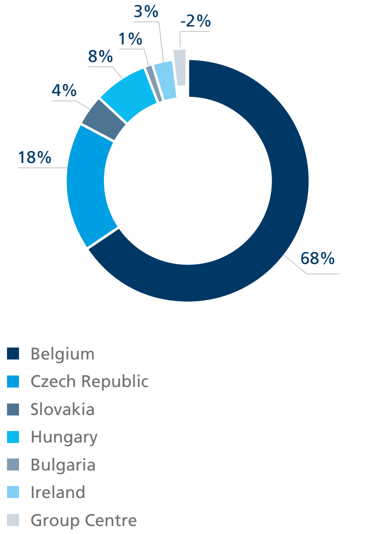
Net fee and commission income (1 280 million euros) rose by a substantial 11%, due primarily to the strong performance of our asset management activities, which resulted in robust growth in income from investment funds (chiefly management fees). Total assets under management in Belgium were up by no less than 13% to 194 billion euros, due to a combination of increased net volume (+8%) and the rise in value of the assets themselves (+4%).

Our insurance activities generated 1 958 million euros in earned premiums, 969 million euros of which came from the life segment and 989 million euros from the non-life segment. Non-life premium income grew by 3% (primarily in the 'Fire and other damage to property' and 'Motor' classes), while claims were down 10% (storms had a sharply negative impact in 2014, although this was largely offset by reinsurance). As a result, the combined ratio for our non-life insurance business amounted to a sound 90%, which was an improvement on the previous year (94%). Sales of life insurance – including investment contracts without a discretionary participation feature (roughly equivalent to unit-linked life insurance

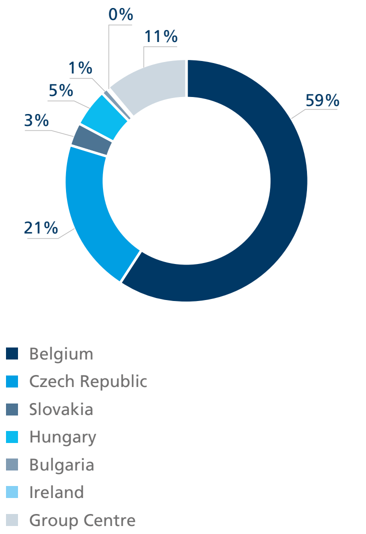
Allocated capital at year-end 2015: breakdown by business unit and country



Total income at year-end 2015: breakdown by business unit and country



Net result at year-end 2015: breakdown by business unit and country



policies), which are excluded from the IFRS figures – ended the year at 1.4 billion euros. This 12% decline was primarily attributable to lower sales of unit-linked products in 2015 (-26%). At year-end, the outstanding life reserves totalled 26.7 billion euros, up 1% on the year-earlier figure.

The other income items chiefly comprised gains realised on the sale of shares and bonds (149 million euros, up slightly on the 2014 figure, and primarily related to sales of shares), dividends received on securities held in our portfolios (65 million euros, also slightly better than in 2014), trading and fair-value income (162 million euros, a significantly better performance than in 2014 due primarily to the positive impact of the increase in the value of derivatives used for asset/liability management purposes, which more than made up for the lower result in the dealing room and various negative fair value adjustments) and other income (207 million euros, down slightly on its 2014 level). Besides the usual items (results from KBC Autolease, VAB, etc.), 'other income' also included a number of one-off items.

Our costs rose by 4% to 2 373 million euros in 2015, with various factors, including higher special bank taxes (due, for instance, to the contribution to the European Resolution Fund), higher pension costs and lower marketing and communication costs, all playing their part. The cost/income ratio for the banking activities remained at an excellent 50%, roughly the same as in 2014. Adjusted for one-off items, it was 53%, as opposed to 49% in 2014.

Loan loss provisioning was relatively limited in 2015, coming to 177 million euros, a decline of 14% on the year-earlier figure. In terms of our overall loan portfolio, therefore, loan loss provisions amounted to just 19 basis points in 2015, compared to 23 basis points in 2014. Approximately 3.8% of the business unit's loan portfolio was impaired (see 'Glossary of ratios and terms' for definition) at year-end 2015, compared with 4.3% a year earlier. Impaired loans that were more than 90 days past due accounted for 2.2% of the portfolio (the same as in 2014).

Czech Republic

In 2015, the Czech Republic Business Unit recorded a net profit of 542 million euros, compared with 528 million euros a year earlier.

Our total income increased despite low interest rates and narrowing rate margins. At 845 million euros, net interest income – the most important income item – was adversely affected by the climate of low interest rates and associated lower level of income generated by reinvestments, but the decline was limited to 2% (and to as little as 1% with an unchanged scope of consolidation and eliminating the effect of exchange rates). The main positive factors in this regard were lower interest rates on savings accounts and strong volume growth of both loans and deposits. As regards the latter, loans and advances to customers, excluding reverse repos (18 billion euros at year-end) rose by 8% in 2015, while deposits from customers and debt securities, excluding repos (24 billion euros at year-end) grew by 6% year-on-year. The average net interest margin narrowed from 3.18% in 2014 to 3.03% in 2015.

Net fee and commission income (201 million euros) held up extremely well in 2015, with further growth of 4% due primarily to the strong performance of the asset management activities, which resulted in a firm increase in management fees for investment funds (due in part to growth in assets under management). Total assets under management in the Czech Republic rose by 19% to almost 9 billion euros, owing to a combination of increased net volume (+12%) and the rise in value of the assets themselves (+7%).

Our insurance activities generated a total of 420 million euros in earned premiums, 243 million euros of which came from the life segment and 177 million euros from the non-life segment. Non-life premium income grew 7% (primarily in the 'Motor' and 'Fire and other damage to property' classes), while claims were up 8%. As a result, the combined ratio for our non-life insurance business amounted to a good 94%, the same level as a year earlier. Sales of life insurance ended the year at 0.2 billion euros, up by half on the figure for 2014 owing to an increase in the number of Maximal Invest products being issued. At year-end, the outstanding life reserves for this business unit totalled 1 billion euros, roughly the same as the year-earlier figure.

The other income items chiefly comprised gains realised on the sale of shares and bonds (12 million euros), trading and fair-value income (98 million euros, as opposed to 62 million euros in 2014, due in part to the positive impact of the increase in the value of derivatives used for asset/liability management purposes, and higher dealing room income) and other income (23 million euros).

Costs rose by 4% to 617 million euros in 2015 (by 3% with an unchanged scope of consolidation and eliminating the effect of exchange rates), with various factors, including higher ICT costs, facility services costs and other administrative costs, which more than offset the slightly lower staff expenses and depreciation, all playing their part. Consequently, the cost/income ratio for the banking activities remained at a solid 48%, roughly the same as in 2014.

Loan loss provisioning remained limited in 2015, coming to 36 million euros, which is just 2 million euros more than the low level of 2014, despite the negative impact of several model adjustments. In terms of our overall loan portfolio, therefore, loan loss provisions amounted to just 18 basis points in 2015, roughly the same level as in 2014. Approximately 3.4% of the business unit's loan portfolio was impaired at year-end 2015, compared with 3.8% a year earlier. Impaired loans that were more than 90 days past due accounted for 2.5% of the portfolio (2.9% in 2014).

International Markets

In 2015, the net result at the International Markets Business Unit amounted to 245 million euros, as opposed to -182 million euros a year earlier. The improvement was largely accounted for by Hungary (we had to set aside significant provisions in 2014 in response to new legislation on retail loans) and by Ireland (a sharp reduction in loan loss provisioning).

The net result per country was 131 million euros for Hungary, 82 million euros for Slovakia, 18 million euros for Bulgaria and 13 million euros for Ireland.

The business unit's net interest income came to 711 million euros in 2015, up 5% year-on-year, due primarily to lower funding and liquidity costs in Ireland and to a lesser extent to volume growth in Slovakia, among other things. As regards the latter, loans and advances to customers for the business unit as a whole, excluding reverse repos (21 billion euros), remained roughly the same in 2015. Increases in Slovakia (+16%, due primarily to home loans), and Bulgaria (+9%) were cancelled out by a decline in Ireland (-4%, due to the scaling back of corporate lending) and in Hungary (-7%). At 17 billion euros, deposits from customers and debt securities (excluding repos) went up by 15% in 2015, attributable largely to the deposit campaign in Ireland (+26%). Deposits also grew in Slovakia (+8%), Bulgaria (+15%) and Hungary (+12%). The average net interest margin rose from 2.41% in 2014 to 2.55% in 2015.

Net fee and commission income (206 million euros) declined slightly by 1%, due mainly to Bulgaria, but remained stable or even improved a little in the other countries.

The business unit's insurance activities, which are confined to Hungary, Slovakia and Bulgaria, generated a total of 259 million euros in earned premiums, 90 million euros of which came from the life segment and 169 million euros from the non-life segment. Non-life premium income grew by 11% (growth in all countries), while claims were up just 3%. As a result, the combined ratio for the non-life insurance business amounted to a fine 95%, a slight improvement on its year-earlier level (96%). Sales of life insurance – including investment contracts without a discretionary participation feature (roughly equivalent to unit-linked life insurance policies), which are excluded from the IFRS figures – ended the year at 0.1 billion euros, up 17% on the figure for 2014, primarily on account of higher sales of unit-linked products in Hungary in 2015. At year-end, the outstanding life reserves for this business unit totalled 0.6 billion euros, up 8% on the year-earlier figure, due chiefly to the increase in Hungary.

The other income items chiefly comprised gains realised on the sale of shares and bonds (6 million euros), trading and fair-value income (76 million euros), and other income (50 million euros). The latter item was much better than in 2014 (a negative 227 million euros), when it was affected by a

231-million-euro provision that had been set aside to deal with the effects of the new Hungarian law on consumer loans (for more information on the 'Curia' provision, see Note 8 in the 'Consolidated financial statements' section). What's more, it was possible to reverse approximately 34 million euros of this provision in 2015.

Costs rose by a modest 2% to 752 million euros in 2015. The lion's share of the increase occurred in Ireland and related primarily to the roll-out of the retail strategy. Consequently, the cost/income ratio for the banking activities came to 66%, compared to 92% in 2014 when it had of course been influenced by 'Curia' provisioning in Hungary.

Loan loss provisions came to 82 million euros in 2015, down 191 million euros on their 2014 level, due primarily to the improvement in Ireland (from 198 to 48 million euros). In terms of our overall loan portfolio, loan loss provisions for the business unit as a whole amounted to 32 basis points in 2015, compared to 106 basis points in 2015. The figures per country were 34 basis points for Ireland (compared to 133 basis points in 2014), 12 basis points for Hungary, 32 basis points for Slovakia and 121 basis points for Bulgaria. Approximately 30% of the business unit's loan portfolio was impaired at year-end 2015, compared with 34% a year earlier. This high figure related chiefly to Ireland (where impaired loans stood at 47% at year-end). Impaired loans that were more than 90 days past due accounted for 16% of the portfolio (19% in 2014).

Group Centre

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 Group Centre also contains the results of legacy business (CDOs and divestments) to year-end 2014 (immaterial thereafter) and the valuation of own credit risk.

In 2015, the Group Centre generated a net result of 287 million euros, compared with -100 million euros a year earlier. This consisted of:

- the operating expenses of the group's holding-company activities (-96 million euros, compared with -74 million euros in 2014);
- certain costs related to capital and liquidity management (to achieve liquidity and solvency targets at group level, including the subordination charges attached to subordinated loans; 12 million euros, compared with -45 million euros in 2014, owing primarily to lower subordination charges);
- costs related to the holding of participating interests (chiefly funding costs; -76 million euros, compared with a year-earlier figure of -99 million euros);
- the results of the remaining companies scheduled for run-down (Antwerp Diamond Bank, KBC Finance Ireland, etc.; 753 million euros, as opposed to 110 million euros in 2014). This was part of the restructuring plan we agreed with the European Commission in 2009, which included a list of activities that had to be divested and which had been fully implemented by year-end 2014 (the list in question can be found in the 2014 Annual Report). It should be noted that:
  - The previously announced sale of Antwerp Diamond Bank (ADB) to Yinren Group was not completed successfully and so we decided to run down ADB's loan portfolio and operations in a gradual and orderly manner. The run-down occurred by means of a merger, through which ADB was absorbed by KBC Bank NV. It was carried out on 1 July 2015, but with retroactive accounting to 1 January 2015.
  - The large amount for 2015 also included 765 million euros in respect of the liquidation of KBC Financial Holding Inc. More information in this regard can be found in Notes 5 and 16 of the 'Consolidated financial statements'.
- -306 million euros in other items, primarily impairment on goodwill relating to CIBANK (117 million euros), to DZI Insurance (34 million euros) and to ČSOB in Slovakia (191 million euros relating to the earlier acquisition of Istrobanka). For more information, see Note 14 of the 'Consolidated financial statements' section.

Results by business unit* (in millions of EUR)

	Belgium		Czech Republic		International Markets	
	2014	**2015**	**2014**	**2015**	**2014**	**2015**
Net interest income	2 917	2 819	860	845	677	711
Non-life insurance (before reinsurance)	374	460	75	80	68	81
Earned premiums	964	989	165	177	153	169
Technical charges	-590	-530	-89	-96	-86	-88
Life insurance (before reinsurance)	-252	-243	24	26	12	16
Earned premiums	1 004	969	160	243	84	90
Technical charges	-1 256	-1 212	-136	-216	-71	-73
Ceded reinsurance result	19	-20	-7	-8	2	-6
Dividend income	49	65	0	0	0	0
Net result from financial instruments at fair value through profit or loss	44	162	62	98	73	76
Net realised result from available-for-sale assets	115	149	9	12	16	6
Net fee and commission income	1 152	1 280	194	201	208	206
Other net income	269	207	18	23	-227	50
Total income	4 688	4 878	1 235	1 277	828	1 141
Operating expenses	-2 282	-2 373	-594	-617	-740	-752
Impairment	-251	-222	-36	-42	-284	-84
on loans and receivables	-205	-177	-34	-36	-273	-82
on available-for-sale assets	-27	-38	0	-4	0	0
on goodwill	0	0	0	-2	0	0
other	-19	-7	-3	0	-11	-2
Share in results of associated companies	-1	-1	23	23	0	0
Result before tax	2 154	2 282	628	640	-196	305
Income tax expense	-638	-717	-100	-98	14	-60
Net post-tax result from discontinued operations	0	0	0	0	0	0
Result after tax	1 517	1 565	528	542	-182	245
attributable to minority interests	0	0	0	0	0	0
attributable to equity holders of the parent (net result)	**1 516**	**1 564**	**528**	**542**	**-182**	**245**
Banking	1 205	1 230	501	516	-204	225
Insurance	311	334	27	26	23	20
Holding-company activities	–	–	–	–	–	–
Risk-weighted assets, banking (Basel III; period-end)	42 919	42 157	12 345	12 919	18 425	19 424
Solvency, insurance (Solvency I; period-end)	868	891	67	72	44	48
Allocated capital (period-end)	6 026	5 985	1 414	1 482	2 011	2 123
Return on allocated capital	26%	26%	37%	37%	-9%	12%
Cost/income ratio, banking	50%	50%	48%	48%	92%	66%
Combined ratio, non-life insurance	94%	90%	94%	94%	96%	95%

* Some reference figures for 2014 have been restated (see 'Consolidated results in 2015').

Of which:											
Hungary		Slovakia		Bulgaria		Ireland		Group Centre		Total group	
2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015
274	248	210	214	43	47	149	202	-146	-63	4 308	4 311
27	27	20	20	21	35	0	0	-6	-10	512	611
55	65	27	29	71	76	0	0	-16	-16	1 266	1 319
-29	-38	-7	-9	-50	-41	0	0	10	6	-754	-708
-1	2	10	10	4	4	0	0	-1	0	-216	-201
15	15	53	52	16	23	0	0	0	0	1 247	1 301
-16	-13	-43	-41	-12	-20	0	0	0	0	-1 463	-1 502
-2	-3	-2	-1	6	-2	0	0	2	6	16	-29
0	0	0	0	0	0	0	0	7	10	56	75
62	60	15	16	2	2	-7	-2	49	-121	227	214
14	3	2	2	0	0	0	1	10	23	150	190
160	160	46	47	1	-2	-3	-3	19	-9	1 573	1 678
-225	42	0	9	0	0	-2	0	34	17	94	297
307	539	301	317	77	83	138	198	-31	-148	6 720	7 148
-368	-353	-185	-190	-52	-56	-132	-149	-203	-149	-3 818	-3 890
-49	-8	-18	-18	-10	-10	-207	-48	65	-399	-506	-747
-47	-6	-17	-18	-10	-10	-198	-48	-75	-28	-587	-323
0	0	0	0	0	0	0	0	-1	-3	-29	-45
0	0	0	0	0	0	0	0	0	-342	0	-344
-1	-2	0	0	0	0	-9	0	142	-25	109	-34
0	0	0	0	0	0	0	0	3	3	25	24
-109	179	98	108	15	17	-202	1	-166	-693	2 420	2 535
15	-47	-24	-26	0	2	23	12	65	980	-657	104
0	0	0	0	0	0	0	0	0	0	0	0
-94	131	75	82	15	18	-179	13	-100	287	1 763	2 639
0	0	0	0	0	0	0	0	0	0	0	0
-94	**131**	**75**	**82**	**15**	**18**	**-179**	**13**	**-100**	**287**	**1 762**	**2 639**
-102	125	65	74	11	12	-179	13	-31	432	1 470	2 403
8	6	10	8	5	6	0	0	30	-26	391	354
–	–	–	–	–	–	–	–	-99	-119	-99	-119
6 996	6 858	3 815	4 350	671	750	6 931	7 449	6 650	5 433	–	–
14	16	15	15	15	16	0	0	1	0	–	–
759	749	426	483	96	108	728	782	701	571	–	–
-12%	17%	18%	18%	16%	18%	-28%	2%	–	–	–	–
125%	65%	62%	60%	63%	65%	96%	75%	–	–	58%	55%
96%	97%	83%	88%	101%	97%	–	–	–	–	94%	91%

How do we manage our risks?

Risk management

Mainly active in banking, insurance and asset management, we are exposed to a number of typical industry-specific risks such as – but not exclusively – credit risk, movements in interest rates and exchange rates, liquidity risk, insurance underwriting risk, operational risks, etc.

This section of our annual report focuses 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 and strategy' 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, banking' table (audited parts are indicated in the footnote to the table), the 'Details for the loans and investment portfolio of KBC Bank Ireland' table, 'Forbearance measures', the 'Other credit exposure, banking' table, the 'Investment portfolio of KBC group insurance entities' table, the 'Credit exposure to (re)insurance companies by risk class' table and the 'Exposure to sovereign bonds' table;
- 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 yield curve for the KBC group' table and the 'Breakdown of the reserves for non-unit-linked life insurance by guaranteed interest rate, insurance activities' table) and 'Foreign exchange risk';
- parts of the 'Liquidity risk' section: the introduction, 'Managing liquidity risk' and 'Maturity analysis';
- parts of the 'Market risk in trading activities' section: the introduction, 'Managing market risk' and 'Risk analysis and quantification';
- the 'Technical insurance risk' section.

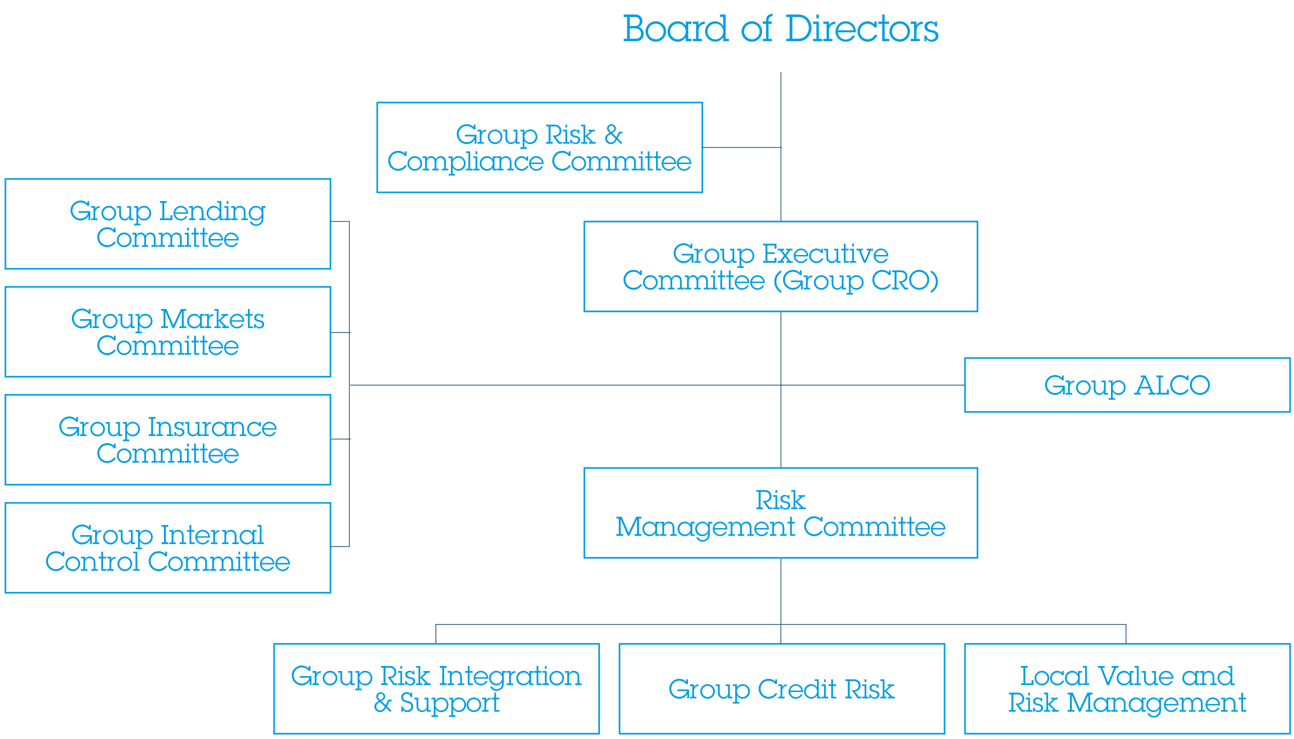
Risk governance

Our risk governance model is characterised primarily by:

- the Board of Directors, assisted by the Group 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 Group 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 (CRO), local CROs, local risk functions and the group risk function. The risk function (together with the compliance function) acts as the second line of defence, while Internal Audit is the third line.

Relevant risk management bodies and control functions:

- Group 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 ALCO;
- monitors the group's major risk exposure to ensure conformity with the risk appetite.

- Group ALCO:
  - is a business committee that assists the Group 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 Group 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 Group Lending Committee (GLC) supports the Group Executive Committee in setting, monitoring and following up limits for lending activities (funding, liquidity and ALM issues related to lending activities remain the responsibility of the Group Executive Committee/Group ALCO).
  - The Group Markets Committee (GMC) supports the Group Executive Committee in setting, monitoring and following up limits for markets activities (trading activity, where there is not only market risk, but also operational and counterparty credit risks).
  - The Group Insurance Committee (GIC) supports the Group Executive Committee in setting, monitoring and following up limits for insurance activities at group level.
  - The Group Internal Control Committee (GICC) supports the Group Executive Committee in monitoring and strengthening the quality and effectiveness of KBC's internal control system.
- Local Chief Risk Officers (LCROs) are situated 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. Independence of the LCROs is achieved through a direct reporting line to the Group CRO.
- Group Risk Integration & Support 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 Group Executive Committee and the risk committees.

Performance is assessed on a yearly basis as part of the Internal Control Statement.
A simplified schematic of our risk governance model is shown above.

Christine Van Rijsseghem, KBC Group CRO

Risk culture

KBC seeks to promote a strong risk culture throughout its organisation. The Risk function's vision is to put risk in the hearts and minds of everyone, with a view to helping the group create sustainable growth and earn client trust. Its mission is to inspire, equip and challenge the business to excel in managing the risk/return balance of its activities, within the playing field defined in the risk appetite.

We consider risk culture as a powerful wheel of effective and efficient risk management. It cultivates a shared perception among employees of the priority given to risk management. This includes perceptions of risk-related practices and behaviours that are expected, valued and supported.
As a basis for evaluating progress, we ask ourselves the following questions:

- Is risk management valued throughout the organisation?
- Are risk issues and events proactively identified and effectively addressed?
- Are risk issues and policy breaches ignored, downplayed or excused?
- Is the immediate manager an effective role model for desirable risk behaviour?

Throughout the group, individual entities and departments made important strides in implementing risk culture throughout their respective organisations. Focusing on the questions above, several local initiatives were launched to enhance risk awareness. Furthermore, the topic has been at the top of the agenda of KBC's CRO Community, which enables insights, best practices and ideas to be shared.

During 2015, a large number of initiatives were taken in other areas to further improve the quality and effectiveness of the internal control environment. We revised and simplified our overarching Risk Management Frameworks (RMFs) in order to achieve better and more focused risk management. Most notably, we thoroughly reviewed the KBC Three Lines of Defence model, taking important steps to promote clear accountability for risk taking, for oversight and for creating opinions that contribute to the requisite degree of certainty.

Credit risk

Credit risk is the potential negative deviation from the expected value of a financial instrument arising from the non-payment or non-performance by a contracting party (for instance a borrower), 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.

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'.

We manage 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, taking risk mitigating measures and optimising the overall credit risk profile.

Credit risk management at transactional level

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

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

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

In order to determine the risk class, we have developed various rating models for measuring how creditworthy borrowers are and for estimating the expected loss of various types of transactions. We use a number of uniform models throughout the group (models for governments, banks, large companies, etc.), 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.

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.

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 IRB Advanced models used internally, or an alternative method if a suitable IRB Advanced model is not yet available.

Credit risk management at portfolio level

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

Whereas some limits are in notional terms, we also use concepts such as 'expected loss' and 'loss given default'. Together with 'probability of default' and 'exposure at default', these concepts form the building blocks for calculating the regulatory capital requirements for credit risk, as KBC has opted to use the Internal Rating Based (IRB) approach. By the end of 2015, the main group entities (apart from CIBANK in Bulgaria and ČSOB in Slovakia) and some smaller entities had adopted the IRB Advanced approach. Others are scheduled to shift to the IRB Advanced approach in the coming years, subject to regulatory approval. 'Non-material' entities will continue to adopt the Standardised approach.

Credit risk exposure in the banking activities

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

Credit risk arises in both the banking and insurance activities of the group.

Looking at the banking activities first, 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 18 of the 'Consolidated financial statements' section.For more information, please refer to the 'Glossary of ratios and terms'.

Loan and investment portfolio, banking	31-12-2014	31-12-2015
Total loan portfolio (in billions of EUR)		
Amount granted	166	174
Amount outstanding	139	143
Loan portfolio breakdown by business unit (as a % of the portfolio of credit outstanding)		
Belgium	64%	65%
Czech Republic	14%	14%
International Markets	18%	18%
Group Centre	4%	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	4%	3%
Corporates	49%	49%
Services	11%	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	75%	74%
Central and Eastern Europe	21%	22%
North America	1%	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%)	11%	11%
PD 3 (0.20% – 0.40%)	13%	14%
PD 4 (0.40% – 0.80%)	15%	15%
PD 5 (0.80% – 1.60%)	11%	11%
PD 6 (1.60% – 3.20%)	10%	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%

Loan and investment portfolio, banking	31-12-2014	31-12-2015
Impaired loans[4] (PD 10 + 11 + 12; in millions of EUR or %)		
Impaired loans[5]	13 692	12 305
Specific impairment	5 709	5 517
Portfolio-based impairment (i.e. based on PD 1 to 9)	215	229
Credit cost ratio		
Belgium Business Unit	0.23%	0.19%
Czech Republic Business Unit	0.18%	0.18%
International Markets Business Unit	1.06%	0.32%
Ireland	1.33%	0.34%
Slovakia	0.36%	0.32%
Hungary	0.94%	0.12%
Bulgaria	1.30%	1.21%
Group Centre	1.17%	0.54%
Total	0.42%	0.23%
Impaired loans ratio		
Belgium Business Unit	4.3%	3.8%
Czech Republic Business Unit	3.8%	3.4%
International Markets Business Unit	34.1%	29.8%
Group Centre	8.6%	10.0%
Total	9.9%	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	7 676	6 936
Specific impairment for impaired loans that are more than 90 days past due	4 384	4 183
Ratio of impaired loans that are more than 90 days past due		
Belgium Business Unit	2.2%	2.2%
Czech Republic Business Unit	2.9%	2.5%
International Markets Business Unit	19.0%	16.0%
Group Centre	6.3%	6.1%
Total	5.5%	4.8%
Cover ratio [Specific loan loss impairment]/[impaired loans]		
Total	42%	45%
Total (excluding mortgage loans)	51%	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 5 billion euros.

1 Audited figures.

2 Individual sector shares not exceeding 3%.

3 Internal rating scale.

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

5 Reconciliation of year-end figures: the difference of 1 386 million euros between the figures for 2014 and 2015 was due to this category of loan decreasing by 277 million euros at the Belgium Business Unit, by 5 million euros at the Czech Republic Business Unit, by 6 million euros at the Group Centre, and by 1 099 million euros at the International Markets Business Unit (962 million euros of which in Ireland).

6 A more detailed breakdown by country is available in KBC's Extended Quarterly Report – 4Q2015 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]	31-12-2014	31-12-2015
Total portfolio (outstanding, in billions of EUR)	14	14
Breakdown by loan type		
Home loans	82%	84%
SME & corporate loans	9%	8%
Real estate investment and real estate development	9%	8%
Breakdown by risk class		
Normal (PD 1-9)	48%	53%
Impaired (PD 10)	25%	24%
Impaired (PD 11+12)	27%	24%
Credit cost ratio[2]	1.33%	0.34%
Cover ratio	37%	41%

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

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.

Forbearance measures 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 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 2015, forborne loans accounted for some 5% of the total loan portfolio. The tables below provide details on the movement in forborne loan exposure, the relevant impairment recorded (between year-end 2014 and year-end 2015), and the breakdown of forborne loans by PD class.

Compared to the end of 2014, the forborne loan exposure decreased by 1.3%, as the slight increase due to the new EBA-based policy on forbearance measures (two-year tagging period) was more than offset by the reduction resulting from repayments, cures and write-offs and – specifically in Hungary following the Curia Act – the impact on mortgage loans of the settlement and conversion of foreign currency loans to forint.

On-balance-sheet exposures with forbearance measures – movements between opening and closing balances in 2015
(in millions of EUR)

Gross carrying value	2015 opening balance	Movements					2015 closing balance
		Loans which have become forborne	Loans which are no longer considered to be forborne	Repayments	Write-offs	Other[1]	
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
K&H Bank	197	91	-3	-138	-24	4	128
Impairment	**2015 opening balance**	**Movements**					**2015 closing 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]	
Total	2 108	586	-304	209	-378	-19	2 203
Of which:							
KBC Bank Ireland	1 664	228	-160	176	-300	0	1 607
K&H Bank	72	19	-1	5	-49	-1	46

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)
31-12-2014					
Total	6%	6%	7%	58%	29%
Of which:					
KBC Bank Ireland	39%	1%	6%	61%	32%
K&H Bank	4%	1%	5%	55%	39%
By client segment					
Private individuals[1]	8%	6%	7%	62%	25%
SMEs	1%	21%	16%	40%	23%
Corporations[2]	5%	4%	5%	54%	37%
31-12-2015					
Total	5%	8%	11%	53%	28%
Of which:					
KBC Bank Ireland	38%	1%	11%	59%	29%
K&H Bank	3%	2%	8%	70%	21%
By client segment					
Private individuals[1]	8%	9%	13%	59%	19%
SMEs	1%	28%	12%	35%	25%
Corporations[2]	5%	3%	6%	46%	45%

1 99% of the forborne loans total relates to mortgage loans in 2015 (99% in 2014).
2 53% of the forborne loans relates to commercial real estate loans in 2015 (55% in 2014).

Other credit risks in the banking activities

The main sources of other credit risk in the banking activities are:

Short-term commercial transactions. This involves export or import finance (documentary credit, pre-export and post-import finance, etc.) and only 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, banking
(in billions of EUR)

	31-12-2014	31-12-2015
Short-term commercial transactions	4.4	2.9
Issuer risk[1]	0.2	0.1
Counterparty risk in interprofessional transactions[2]	10.1	9.6

1 Excluding a nominative list of central governments, and all exposure to EU institutions and multilateral development banks.
2 After deduction of collateral received and netting benefits.

Government securities in the investment portfolio of banking entities. 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 of the combined banking and insurance activities to government bonds are provided in a separate section below.

Credit risk exposure in the insurance activities

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

Investment portfolio of KBC group insurance entities
(in millions of EUR, market value)[1]

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

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

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

Offering great service means we are **actively listening to clients** and also ensuring we follow through on our promises to deliver consistently excellent experiences. Getting it right the first time is one of the key areas I concentrate on to help keep our clients happy.

Colin Rockett, Mortgage Consultant at KBC Bank Ireland

Credit exposure to (re)insurance companies by risk class[1]: Exposure at Default (EAD) and Expected Loss (EL)[2] (in millions of EUR)	**EAD 2014**	**EL 2014**	**EAD 2015**	**EL 2015**
AAA up to and including A-	190	0.06	236	0.10
BBB+ up to and including BB-	123	0.12	27	0.03
Below BB-	0	0	0	0
Unrated	28	0.65	4	0.09
Total	**341**	**0.83**	**267**	**0.22**

1 Based on internal ratings.
2 EAD figures are audited, whereas EL figures are unaudited.

Exposure to sovereign bonds (banking and insurance portfolios combined)

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 is provided in the table on the following page.

Exposure to sovereign bonds at year-end 2015, carrying value[1] (in millions of EUR)
Total (by portfolio)

	Available for sale	Held to maturity	Designated at fair value through profit or loss	Loans and receivables	Held for trading	Total	*For comparison purposes: total at year-end 2014*	Economic impact of +100 basis points[3]
Southern Europe and Ireland								
Greece	0	0	0	0	0	0	*0*	0
Portugal	348	36	0	0	1	385	*83*	-27
Spain	2 685	263	0	0	3	2 951	*1 609*	-195
Italy	2 615	116	0	0	8	2 739	*2 123*	-175
Ireland	489	546	0	0	3	1 038	*775*	-52
KBC core countries								
Belgium	5 845	15 844	77	0	510	22 276	*24 545*	-1 206
Czech Republic	1 841	5 147	0	18	491	7 496	*7 587*	-438
Hungary	578	1 450	0	5	128	2 161	*2 073*	-77
Slovakia	1 533	1 380	0	0	2	2 915	*2 792*	-181
Bulgaria	375	15	0	0	0	390	*279*	-25
Other countries								
France	2 248	3 147	0	0	117	5 512	*4 214*	-471
Poland	902	148	12	0	6	1 068	*624*	-52
Germany	317	482	0	0	4	803	*861*	-47
Austria	312	473	21	0	11	817	*1 182*	-56
Netherlands	102	410	1	0	3	516	*905*	-32
Rest[2]	1 703	1 894	10	0	121	3 727	*3 643*	-233
Total carrying value	**21 892**	**31 353**	**120**	**22**	**1 408**	**54 796**	***53 298***	**–**
Total nominal value	**19 070**	**29 566**	**110**	**22**	**1 187**	**49 956**	***48 646***	**–**

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

Main changes in 2015:

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

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

- At 31 December 2015, the carrying value of the total available-for-sale government bond portfolio incorporated a revaluation reserve of 1.6 billion euros, before tax (0.8 billion euros of which at KBC Bank).
- This included 602 million euros for Belgium, 216 million euros for Italy, 127 million euros for France, 84 million euros for the Czech Republic, and 529 million euros for the other countries combined.

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

Portfolio of Belgian government bonds:

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

Structured credit exposure (banking and insurance portfolios)

At 1.6 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 0.1 billion euros on its level at year-end 2014, as redemptions were slightly higher (by 0.1 billion euros) 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.

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

Market risk in non-trading activities

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

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

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

Managing market risk in non-trading activities

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);
- Value-at-Risk (VaR), which measures the maximum loss that might be sustained over a one-year time horizon with a certain confidence level, as a result of movements in interest rates and other fluctuations in market risk factors.

KBC group non-trading market risk (VaR 99.93%, 1-year time horizon)

(in billions of EUR)*	31-12-2014	31-12-2015
Total	4.89	5.46

* Excluding a number of small group companies. Cyclical prepayment options embedded in mortgage loans have not been captured. VaR is measured using the VaR-CoVaR approach. The increase in 2015 was driven primarily by spread risk, following a volume increase in bonds.

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 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 yield curve for the KBC group

(in millions of EUR)	Impact on value* 2014	2015
Banking	-57	-25
Insurance	16	17
Total	-41	-8

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

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.

BPV (10 basis points) of the ALM book, banking activities*
(in millions of EUR)

	2014	2015
Average for 1Q	-55	-60
Average for 2Q	-61	-40
Average for 3Q	-71	-28
Average for 4Q	-57	-25
As at 31 December	-57	-25
Maximum in year	-71	-60
Minimum in year	-55	-25

* 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 9.5% of total capital and reserves at year-end 2015. This is well below the 20% threshold, which is monitored by the National Bank of Belgium.

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

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

	≤ 1 month	1–3 months	3–12 months	1–5 years	5–10 years	> 10 years	Non-interest-bearing	Total
31-12-2014	-13 126	-2 961	5 099	20 560	9 205	-2 172	-16 606	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 predominantly sensitive to movements at the long-term end of the yield curve.

Where the group's insurance activities are concerned, the fixed-income investments for the non-life reserves are invested with the aim of matching the projected pay-out patterns for claims, based on extensive actuarial analysis.
The non-unit-linked life activities (class 21) combine a guaranteed interest rate with a discretionary participation feature (DPF) fixed by the insurer. The main risks to which the insurer is exposed as a result of such activities are a low-

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

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

Expected cashflows (not discounted), life insurance activities (in millions of EUR)	**0–5 years**	**5–10 years**	**10–15 years**	**15–20 years**	**> 20 years**	**Total**
31-12-2014						
Fixed-income assets backing liabilities, guaranteed component	10 466	4 639	2 332	865	1 050	19 351
Liabilities, guaranteed component	10 282	3 303	1 994	1 402	1 986	18 967
Difference in expected cashflows	184	1 336	338	-537	-936	384
Mean duration of assets						5.85 years
Mean duration of liabilities						6.72 years
31-12-2015						
Fixed-income assets backing liabilities, guaranteed component	10 309	4 368	2 469	1 259	1 264	19 671
Liabilities, guaranteed component	9 860	3 371	2 292	1 769	2 802	20 094
Difference in expected cashflows	449	997	177	-509	-1 538	-423
Mean duration of assets						5.94 years
Mean duration of liabilities						7.29 years

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

Breakdown of the reserves for non-unit-linked life insurance by guaranteed interest rate, insurance activities	**31-12-2014**	**31-12-2015**
5.00% and higher*	3%	3%
More than 4.25% up to and including 4.99%	11%	10%
More than 3.50% up to and including 4.25%	5%	5%
More than 3.00% up to and including 3.50%	22%	21%
More than 2.50% up to and including 3.00%	22%	20%
2.50% and lower	35%	40%
0.00%	2%	2%
Total	100%	100%

* Contracts in Central and Eastern Europe.

Credit spread risk

We manage the credit spread risk for 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. The economic sensitivity of the main sovereign positions to changes in spreads is dealt with in the 'Credit risk' section.

Equity risk

The main exposure to equity is within our insurance business, where the ALM strategies are based on a risk-return evaluation, account taken of the market risk attached to open equity positions. Please note that a large part of the equity portfolio is held for the DPF of insurance liabilities (especially profit-sharing in the Belgian market). Apart from the insurance entities, smaller equity portfolios are also held by other group entities, e.g., KBC Bank and KBC Asset Management. We have provided more information on total non-trading equity exposures at KBC in the tables below. During 2015, a hedging strategy was set up at KBC Insurance to limit the downside equity risk.

Equity portfolio of the KBC group (breakdown by sector, in %)	Banking activities		Insurance activities		Group	
	31-12-2014	31-12-2015	31-12-2014	31-12-2015	31-12-2014	31-12-2015
Financials	68%	71%	18%	19%	23%	24%
Consumer non-cyclical	1%	0%	10%	14%	9%	12%
Communication	0%	1%	2%	3%	2%	3%
Energy	0%	0%	5%	5%	4%	5%
Industrials	17%	25%	40%	36%	37%	35%
Utilities	0%	0%	2%	4%	2%	3%
Consumer cyclical	0%	1%	12%	13%	11%	12%
Materials	0%	0%	8%	5%	7%	5%
Other and not specified	13%	2%[2]	4%	1%	5%	2%
Total	100%	100%	100%	100%	100%	100%
In billions of EUR	0.2	0.25	1.3	1.6	1.5	1.8[1]
of which unlisted	0.1	0,1	0.0	0.0	0.1	0.1

1 The main differences between the 1.8 billion euros in this table and the 2.5 billion euros for 'Equity instruments' in the table appearing in Note 18 of the 'Consolidated financial statements' section – besides a number of minor differences in the scope of consolidation – are that:
(a) Shares in the trading book (0.4 billion euros) are excluded above, but are included in the table in Note 18.
(b) Real estate participations that are not consolidated are classified as 'investments in building' in this table, but classified as 'shares' in the table in Note 18 (as they are not consolidated).
(c) Most 'investments in funds' are treated on a 'look-through' basis (according to the underlying asset mix of the fund and therefore also partially classified as 'fixed-income instruments'), whereas they are classified as 'shares' in the table in Note 18.
2 Reduction due to reclassification.

Impact of a 12.5% drop in equity prices (in millions of EUR)	Impact on value	
	2014	2015
Banking activities	-20	-30
Insurance activities	-166	-199
Total	-186	-229

Non-trading equity exposure (in millions of EUR)	Net realised gains (in income statement)		Net unrealised gains on year-end exposure (in equity)	
	31-12-2014	31-12-2015	31-12-2014	31-12-2015
Banking activities	2	31	108	238
Insurance activities	84	105	261	320
Total*	86	136	385	573

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

Real estate risk

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

Impact of a 12.5% drop in real estate prices (in millions of EUR)	Impact on value	
	2014	2015
Bank portfolios	-51	-48
Insurance portfolios	-30	-30
Total	-81	-77

Foreign exchange risk

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

Liquidity risk

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

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

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

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

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

- *Structural liquidity risk*. We manage our funding structure so as to maintain substantial diversification, to minimise funding concentrations in time buckets, and to limit the level of reliance on short-term wholesale funding. We manage the structural funding position as part of the integrated strategic planning process, where funding – in addition to capital, profits and risks – is one of the key elements. At present, our strategic aim for the next few years is to build up a sufficient buffer in terms of LCR and NSFR via a funding management framework, which sets clear funding targets for the subsidiaries (own funding, reliance on intra-group funding) and provides further incentives via a system of intra-group pricing to the extent subsidiaries run a funding mismatch.
  In the table on the following page, 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 2015, KBC had attracted 28 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 inter-company 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
31-12-2014									
Total inflows	16	8	16	55	45	33	3	35	211
Total outflows	35	9	15	31	8	1	84	27	211
Professional funding	15	3	1	5	0	0	0	0	26
Customer funding	17	5	9	11	4	0	84	0	130
Debt certificates	0	2	4	14	4	1	0	0	26
Other	2	–	–	–	–	–	–	27	30
Liquidity gap (excl. undrawn commitments)	-19	-1	2	24	37	32	-81	7	0
Undrawn commitments	–	–	–	–	–	–	–	-32	–
Financial guarantees	–	–	–	–	–	–	–	-10	–
Net funding gap (incl. undrawn commitments)	-19	-1	2	24	37	32	-81	-34	-42
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 18 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 KBC 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

The KBC group has a solid liquidity position. Historically, it has always had a substantial amount of liquid assets. At year-end 2015, the KBC group had 59 billion euros' worth of unencumbered central bank eligible assets, 43 billion euros of which in the form of liquid government bonds (74%). The remaining available liquid assets were mainly other ECB/FED eligible bonds (10%) and pledgeable credit claims (10%). Most of the liquid assets are expressed in euros, Czech koruna and Hungarian forint (all home market currencies). Unencumbered liquid assets were more than three times the net recourse to short-term wholesale funding, while funding from nonwholesale markets was accounted for by stable funding from core customer segments in our core markets.

Funding information

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

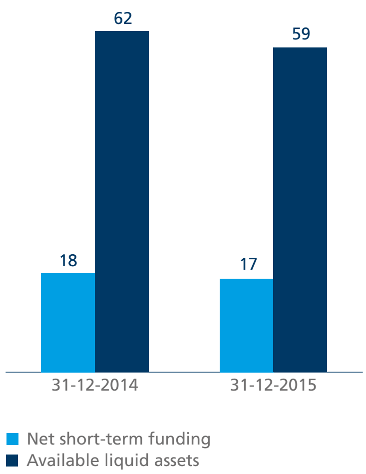
The KBC group's funding mix (31 December 2015) can be broken down as follows:

- Funding from customers (circa 140 billion euros, 73% of the total figure), consisting of demand deposits, time deposits, savings deposits, other deposits, savings certificates and debt issues placed in the network. Some 58% of the funding from customers relates to private individuals and SMEs.
- Debt issues placed with institutional investors (16 billion euros, 8% of the total figure), mainly comprising IFIMA debt issues (5 billion euros), covered bonds (7 billion euros), the contingent capital notes issued in January 2013 (0.75 billion euros) and tier-2 issues (1.65 billion euros).
- Net unsecured interbank funding (9 billion euros, 5% of the total figure).
- Net secured funding (4 billion euros in repo funding, 2% of the total figure) and certificates of deposit (6 billion euros, 3% of the total figure).
- Total equity (16 billion euros, 8% of the total figure, including an additional tier-1 issue of 1.4 billion euros).

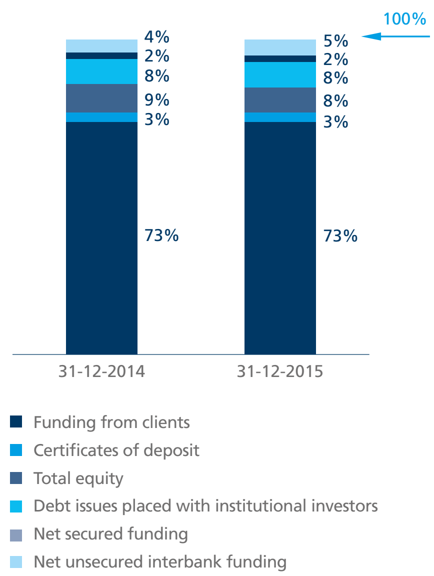
Please note that:

- In November 2012, we announced our 10-billion-euro Belgian residential mortgage covered bonds programme. This programme gives KBC access to the covered bond

Unsecured short-term funding compared to liquid assets
(in billions of EUR)



Funding mix by type



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. More issues followed in 2013 for a total of 2.7 billion euros, in 2014 for a total of 0.9 billion euros and in 2015 for a total of 2 billion euros.
- In 2014, we borrowed 2.8 billion euros from the ECB under the targeted long-term refinancing operations (TLTROs).

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 2015, our NSFR stood at 121% and our LCR at 127%. The LCR for 2015 was calculated based on the Delegated Act definition of LCR, i.e. the binding European definition applying from October 2015 on. Our NSFR and LCR are both well above the minimum regulatory requirements and KBC's internal floors of 105%.

Market risk in trading activities

Market risk is defined as the potential negative deviation from the expected value of a financial instrument (or portfolio of such instruments) due to changes in the level or in the volatility of market prices, e.g., interest rates, exchange rates 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 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 (formerly KBC Financial Products), 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 1% of the total (please note that the reverse mortgages and insurance derivatives businesses were transferred to KBC Bank NV in December 2015 due to the closure of certain subsidiaries). These legacy business lines continue to be monitored and wound down by dedicated teams.

Regarding the CDO business – and as mentioned in other parts of this report – KBC has now fully scaled down its CDO portfolio. However, the position pertaining to the 0.2 billion euros of CDO notes held by investors is located in the trading books of KBC Investments Limited. Consequently, the market risk regulatory capital for this position is recorded under the re-securitisation column (15 million euros) in the 'Trading regulatory capital requirements' table.

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. During 2015, the most important development involved adjusting the model to appropriately capture the risk attached to interest rate derivatives in negative rate environments.

Complex 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 2015, a complete and thorough review of all the scenarios and calculation methodologies for historical and hypothetical stress tests was initiated. As a direct result of this exercise, newly calibrated hypothetical interest rate stress tests were approved by the Group Markets Committee and will be implemented in the first quarter of 2016, with newly calibrated stress tests for the other risk drivers to follow later in the year. 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 the KBC group's Historical Value-at-Risk model (HVaR; 99% confidence interval, ten-day holding period, historical simulation) used for the linear and non-linear exposure of all the dealing rooms of the KBC group (including KBC Securities).

Market risk (VaR) (in millions of EUR) **Holding period: 10 days**	**2014**	**2015**
Average for 1Q	24	14
Average for 2Q	19	15
Average for 3Q	15	15
Average for 4Q	15	16
As at 31 December	15	18
Maximum in year	29	21
Minimum in year	11	12

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

Breakdown by risk factor of trading HVaR for the KBC group (in millions of EUR)	**Average for 2014**	**Average for 2015**
Interest rate risk	18.7	14.7
FX risk	2.3	2.6
FX option risk	1.8	2.2
Equity risk	1.4	1.8
Diversification effect	-6.2	-6.1
Total HVaR	18.1	15.1

We test the reliability of the VaR model daily via a back-test, which compares the one-day VaR figure with the 'no-action P&L' (i.e. positions remain unchanged, but market data changes to the next day's data). This is done both at the top level and at the level of the different entities and desks.

We have provided an overview of the derivative products under Note 29 in the 'Consolidated financial statements' section.

Regulatory capital

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

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

Trading regulatory capital requirements, by risk type (in millions of EUR)		Interest rate risk	Equity risk	FX risk	Commodity risk	Resecur-itisation	Total
31-12-2014							
Market risks assessed by internal model	HVaR	38	2	11	–	–	126
	SVaR	56	3	17	–		
Market risks assessed by the Standardised approach		27	4	14	3	19	68
Total		120	9	43	3	19	194
31-12-2015							
Market risks assessed by internal model	HVaR	68	3	9	–	–	192
	SVaR	84	2	26	–		
Market risks assessed by the Standardised approach		18	5	16	2	15	56
Total		171	10	50	2	15	248

Technical insurance risk

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

Managing technical insurance risk

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

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

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

Risk modelling

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

For me, our **unique bank-insurance model** is the best example of client-centricity. It represents a completely transformed approach to banking and insurance that allows us to offer our clients comprehensive banking and insurance advice in one place and in a modern and convenient way.

Martina Kučerová, Insurance Adviser at ČSOB (Czech Republic)

Reinsurance

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

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

Adequacy of technical provisions

As part of its mission to independently monitor insurance risks, the Group risk function regularly carries out in-depth studies. These confirm that there is a high degree of probability that the non-life technical provisions at subsidiary level are adequate.

In addition, various group companies conduct Liability Adequacy Tests (LAT) that meet local and IFRS requirements for the life technical provisions. We make calculations using prospective methods (cashflow projections that take account of lapse rates and a discount rate that is set for each insurance entity based on local macroeconomic conditions and regulations), and build in extra market-value margins to deal with the factor of uncertainty in a number of parameters. Since no deficiencies were identified by year-end 2015, there was no need for a deficiency reserve to be set aside within the KBC group.

The table below shows claims settlement figures in the non-life business over the past few years and includes KBC Insurance NV, ČSOB Pojišťovna (Czech Republic), ČSOB Poisťovňa (Slovak Republic), DZI Insurance (from financial year 2008), K&H Insurance, and KBC Group Re. All provisions for claims to be paid at the close of 2015 have been included. The claims-settlement figures incorporate all amounts that can be allocated to individual claims, including the Incurred But Not Reported (IBNR) and Incurred But Not Enough Reserved (IBNER) provisions, and the external handling expenses for settling claims, but do not include internal claims settlement expenses and provisions for amounts expected to be recovered. The provision figures included are before reinsurance and have not been adjusted to eliminate intercompany amounts.

The first row in the table shows the total claims burden (claims paid plus provisions) for the claims that occurred during a particular year, as estimated at the end of the year of occurrence. The following rows indicate the situation at the end of the subsequent calendar years. We restated the amounts to reflect exchange rates at year-end 2015.

Loss triangles, KBC Insurance (in millions of EUR)	Year of occurrence 2006	Year of occurrence 2007	Year of occurrence 2008*	Year of occurrence 2009	Year of occurrence 2010	Year of occurrence 2011	Year of occurrence 2012	Year of occurrence 2013	Year of occurrence 2014	Year of occurrence 2015
Estimate at the end of the year of occurrence	631	687	794	825	868	805	845	906	996	949
1 year later	537	620	756	723	769	710	738	760	885	–
2 years later	510	587	726	668	719	654	702	694	–	–
3 years later	499	565	714	651	716	635	677	–	–	–
4 years later	485	561	709	634	710	623	–	–	–	–
5 years later	478	556	701	626	701	–	–	–	–	–
6 years later	463	549	676	619	–	–	–	–	–	–
7 years later	457	549	672	–	–	–	–	–	–	–
8 years later	455	548	–	–	–	–	–	–	–	–
9 years later	453	–	–	–	–	–	–	–	–	–
Current estimate	453	548	672	619	701	623	677	694	885	949
Cumulative payments	405	475	600	530	602	518	521	526	591	349
Current provisions	48	73	72	89	99	105	156	167	293	601

* From financial year 2008, the figures for DZI Insurance (Bulgaria) have been included. If these figures had not been taken into account, the following amounts would have been arrived at for financial year 2008 (amount and year of occurrence): 500 for 2006 and 586 for 2007.

> Understanding our clients and the way they prefer to do their banking and insurance business with us is key to offering the right solutions, providing superior client service and staying ahead of the competition. **Putting clients centre stage** is indeed paying off. We are seeing ever increasing levels of client satisfaction and long-term client retention.

Nina Velikova, Branch Manager at CIBANK (Bulgaria)

Specific information on the insurance activities of the group can be found in Notes 9, 10, 11 and 35 in the 'Consolidated financial statements' section. We have provided a breakdown by business unit of earned premiums and technical charges in the notes dealing with segment reporting.

Operational and other non-financial risks

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

We have provided information on legal disputes in Note 36 of the 'Consolidated financial statements' section.

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

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

The building blocks for managing operational risks

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

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

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

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

- The *Loss Event Database*. All operational losses of 1 000 euros or more have been recorded in a central database since 2004. This database also includes all legal claims filed against group companies. Consolidated loss reports are regularly submitted to the Group Internal Control Committee, the Group Executive Committee and the RCC.
- *Risk Scans (bottom-up and top-down)*. These *self-assessments* focus on the identification of key operational risks at critical points in the process/organisation that are not properly mitigated, and on new or emerging operational risks that are relevant at (sub)group level.
- *Risk Signals and Case-Study Assessments*. These are used to test the effectiveness of the protection afforded by existing controls against major operational risks that have actually occurred elsewhere in the financial sector.
- *Key Risk Indicators*. A limited set of KRIs are used to monitor the exposure to certain operational risks and track the existence and effectiveness of the internal controls.
- The *Maturity Model*. In 2014, the group operational risk function developed a maturity model to support KBC entities in building a mature control environment in which process improvements, control monitoring and remedial actions are embedded even more deeply into day-to-day business practices.

The quality of the internal control environment and related risk exposure as identified, assessed and managed by means of these building blocks is reported to KBC's senior management via a management dashboard and to the National Bank of Belgium and the FSMA via the annual Internal Control Statement. Information on the internal control and risk management systems can be found in the 'Corporate governance statement' section.

Operational risk and regulatory capital requirements

KBC uses the Standard approach to calculate operational risk capital under Basel II. Operational risk capital for KBC Bank at the consolidated level totalled 822 million euros at the end of 2015, compared with 849 million euros at the end of 2014.

Other non-financial risks

Reputation risk

Reputation 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

It's really important for us to **contribute positively to society** for the benefit of our clients, our shareholders, our team and our community. We translate that in providing all our clients with a banking experience that is modern, secure, convenient and responsive to the changing needs and lifestyles of our clients and society in general.

Sarah Ridge, Hub Manager at KBC Bank Ireland

relationships and to have continued access to sources of funding (for instance, through the interbank or securitisation markets). Reputation risk is mostly a secondary or derivative risk since it is usually connected to and will materialise together with another risk.

We refined the Reputation Risk Management Framework in 2015, in line with the KBC Risk Management Framework. The pro-active and re-active management of reputation 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 adequacy, the impact of reputation 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.). It is also covered by the capital reserved for business risk.

Business risk

KBC defines business risk as 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.

Business risk is assessed using structured risk scans, but also on an ongoing basis by reporting 'risk signals' to top management.

How do we manage our capital?

Capital adequacy

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

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

Solvency at KBC group level

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

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

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 miminum 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. On top of this, a number of additional buffers have to be put in place, including a capital conservation buffer of 2.5% (to be phased in between 2016 and 2019), a buffer for systemically important banks (to be determined by the supervisory authority) and a countercyclical buffer in times of credit growth (between 0% and 2.5%, likewise to be determined by the supervisory authority). These buffers need to be met using CET1 capital, the strongest form of capital.

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

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

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

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

Additional information concerning the calculation of solvency according to Basel III (Danish compromise method, fully loaded):

- Parent shareholders' equity: see 'Consolidated statement of changes in equity' in the 'Consolidated financial statements' section.
- CRR-compliant additional tier-1 instruments: includes a CRR-compliant additional tier-1 instrument issued in 2014 for 1.4 billion euros.
- Total weighted risk volume: since its implementation in 2008, the Internal Rating Based (IRB) approach has primarily been used by KBC to calculate its risk weighted assets. Based on a full application of all the CRR/CRD IV rules, it is used for approximately 84% of the weighted credit risks, approximately 78% of which are calculated according to the Advanced approach and roughly 6% according to the Foundation approach. The remaining weighted credit risks (about 16%) are calculated according to the Standardised approach. The decrease in weighted risks in 2015 was largely driven by the abolishment of regulatory add-ons for IRB Advanced models (-3.8 billion euros in risk weighted assets), the 500-million-euro capital decrease carried out at KBC Insurance (-1.85 billion euros in risk weighted assets) and a further reduction in volumes for companies in run-off, which more than offset the increase in risk weighted assets resulting from volume growth in our core markets and a number of model-related adjustments.

Solvency at group level (consolidated; under CRD IV/CRR (Basel III), Danish compromise method) (in millions of EUR)	31-12-2014 Phased-in	31-12-2014 Fully loaded	31-12-2015 Phased-in	31-12-2015 Fully loaded
Total regulatory capital, after profit appropriation	**16 723**	**16 688**	**17 305**	**16 936**
Tier-1 capital	**14 136**	**14 476**	**14 691**	**14 647**
Common equity[1]	**12 684**	**13 076**	**13 242**	**13 247**
Parent shareholders' equity (after deconsolidating KBC Insurance)	12 592	12 592	14 075	14 075
Non-voting core-capital securities	2 000	2 000	0	0
Intangible fixed assets, incl. deferred tax impact (-)	-334	-334	-366	-366
Goodwill on consolidation, incl. deferred tax impact (-)	-769	-769	-482	-482
Minority interests	-3	-3	0	0
Available-for-sale revaluation reserves (-)[3]	-679	–	-466	–
Hedging reserve, cashflow hedges (-)	1 391	1 391	1 163	1 163
Valuation differences in financial liabilities at fair value – own credit risk (-)	-21	-21	-20	-20
Value adjustment due to requirements for prudent valuation (-)[2]	-43	-92	-53	-94
Equalisation reserve (-)	0	0	0	0
Dividend payout (-)	-836	-836	0	0
Coupon on government securities (-)	-171	-171	0	0
Coupon on AT1 instruments (-)	-2	-2	-2	-2
Deduction with regard to financing provided to shareholders (-)	-159	-159	-91	-91
IRB provision shortfall (-)	-225	-225	-171	-171
Deferred tax assets on losses carried forward (-)	-59	-297	-345	-765
Additional going concern capital	**1 452**	**1 400**	**1 450**	**1 400**
Grandfathered innovative hybrid tier-1 instruments	52	0	50	0
Grandfathered non-innovative hybrid tier-1 instruments	0	0	0	0
CRR-compliant AT1 instruments	1 400	1 400	1 400	1400
Minority interests to be included in additional going concern capital	0	0	0	0
Tier-2 capital	**2 587**	**2 212**	**2 614**	**2 289**
IRB provision excess (+)	357	375	359	369
Subordinated liabilities	2 230	1 837	2 255	1 920
Subordinated loans non-consolidated financial sector entities (-)	0	0	0	0
Minority interests to be included in tier-2 capital	0	0	0	0
Total weighted risk volume	**88 382**	**91 236**	**87 343**	**89 067**
Banking	77 379	80 232	78 034	79 758
Insurance	10 897	10 897	9 133	9 133
Holding-company activities	191	191	208	208
Elimination of intercompany transactions	-85	-85	-33	-33
Solvency ratios				
Common equity ratio	14.4%	14.3%	15.2%	14.9%
Tier-1 ratio	16.0%	15.9%	16.8%	16.4%
Total capital ratio	18.9%	18.3%	19.8%	19.0%

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

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

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

Solvency at group level (consolidated; FICOD method) (in millions of EUR or %)*	**31-12-2014 Phased-in**	**31-12-2014 Fully loaded**	**31-12-2015 Phased-in**	**31-12-2015 Fully loaded**
Common equity	13 136	13 528	13 503	13 508
Total weighted risk volume	89 742	92 596	90 841	92 565
Common equity ratio	14.6%	14.6%	14.9%	14.6%

* For more details, please refer to KBC's Extended Quarterly Reports (available at www.kbc.com).

At year-end 2015, the fully loaded Basel III leverage ratio – based on current CRR legislation – stood at 6.3% for the KBC group at the consolidated level (see table). The changes compared to year-end 2014 were limited, with a higher level of tier-1 capital being offset by higher total exposure.

Leverage ratio (consolidated; under CRD IV/CRR (Basel III), Danish compromise method) (in millions of EUR)	**31-12-2014 Fully loaded**	**31-12-2015 Fully loaded**
Tier-1 capital	14 476	14 647
Total exposure	226 669	233 675
Total assets	245 174	252 355
Deconsolidation of KBC Insurance	-27 708	-31 545
Adjustment for derivatives	-3 246	-3 282
Adjustment for regulatory corrections in determining Basel III tier-1 capital	-1 559	-806
Adjustment for securities financing transaction exposures	266	1 057
Off-balance sheet exposures	13 742	15 897
Leverage ratio	6.4%	6.3%

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).

Besides the ECB and NBB, which supervise KBC on a going concern basis, KBC will also be subject to requirements to be set by the Single Resolution Board (SRB). The SRB is developing resolution plans for the major banks in the euro area. Such a plan describes how the resolution authorities will approach the resolution of a bank that is failing (or likely to fail) in a way that protects its critical functions, government funds and financial stability. It takes account of the specific features of the bank and is tailor-made. A major resolution tool is the 'bail-in', which implies a recapitalisation and stabilisation of the bank by writing down certain unsecured liabilities and issuing new shares to former creditors as compensation. Depending on the size of the losses, the bail-in could be sufficient to bring the capital back to a level that is high enough to restore market confidence and to create a stable point from which additional actions could be implemented. The first focus is therefore on the availability of an adequate amount of liabilities that are eligible for bail in. This is measured by the minimum requirement for own funds and eligible liabilities (MREL), which will be set by the SRB. At year-end 2015, the MREL stood at 13.9% for the KBC group.

Solvency of KBC Bank and KBC Insurance separately

As is the case for the KBC group, the solvency of KBC Bank is calculated based on CRR/CRD IV. The solvency of KBC Insurance was calculated on the basis of Solvency I rules until the end of 2015, but will be calculated on the basis of Solvency II rules when they become effective on 1 January 2016.

In the table, we have provided certain solvency information for KBC Bank and KBC Insurance, separately. More detailed information can be found in their consolidated financial statements and in KBC's Risk Report, which is available at www.kbc.com (the risk report has not been audited by the statutory auditor).

Solvency, KBC Bank and KBC Insurance separately (in millions of EUR)	**31-12-2014**	**31-12-2015**
KBC Bank (consolidated, CRR/CRD IV, fully loaded)		
Total regulatory capital, after profit appropriation	14 154	16 045
Tier-1 capital	11 132	12 346
Of which common equity	9 727	10 941
Tier-2 capital	3 021	3 699
Total weighted risks	80 232	79 758
Common equity ratio	12.1%	13.7%
Tier-1 ratio	13.9%	15.5%
Total capital ratio	17.6%	20.1%
KBC Insurance (consolidated, Solvency I)		
Available capital	3 166	2 922
Required solvency margin	981	1 011
Solvency ratio (%)	323%	289%
Solvency surplus	2 185	1 911

Solvency II is the new regulatory framework for insurers in Europe. Whereas Solvency I requirements were volume-based, Solvency II pursues a risk-based approach. It aims to implement solvency requirements that better reflect the risks that companies face and deliver a supervisory system that is consistent across all EU Member States. KBC is subject to the Solvency II regime as regards all its insurance subsidiaries. KBC successfully participated in preparatory regulatory reporting for Solvency II during 2015. As of 2016, the Solvency II results will be reported on a quarterly basis to the regulators and in the financial statements.

On 31 December 2015, the Solvency II ratio for KBC Insurance at group level came to 231% (see table below). This clearly ranks KBC Insurance among the better-capitalised companies in the insurance industry. This robust ratio is the result of a strong own funds base relative to the required capital. For the pillar 1 calculation of required capital, KBC has adopted the Standard Formula Model approach, which is regarded as more conservative, rather than using internal models. Given its solid level of capitalisation, KBC also decided not to use any transitional measures. To prevent excessive fluctuations in the Solvency II ratio, however, it uses volatility adjustment for all its subsidiaries.

Solvency, KBC Insurance under Solvency II

(in millions of EUR)	31-12-2015
Own funds	3 683
Tier-1	3 180
IFRS parent shareholders' equity	2 815
Dividend payout	-71
Deduction of intangible assets and goodwill (after tax)	-123
Valuation differences (after tax)	416
Volatility adjustment	195
Other	-53
Tier-2	503
Subordinated liabilities	503
Solvency capital requirement (SCR)	1 592
Solvency II ratio	231%
Solvency surplus above SCR	2 091

ICAAP and ORSA

KBC's ICAAP (Internal Capital Adequacy Assessment Process) consists of numerous business and risk processes that together contribute to the objective of assessing and ensuring at all times that KBC is adequately capitalised in view of its risk profile and the quality of its risk management and control environment. For this purpose, KBC has an internal capital model in place to complement the existing regulatory capital models. KBC replaced its former economic capital model with a new internal capital measurement model whose approach is not only more aligned with evolving regulatory requirements, but is also more fit for use as regards, for example, measuring risk adjusted performance and underpinning risk limits, in addition to assessing capital adequacy. The new internal capital model is complemented by a framework for assessing earnings that aims to reveal vulnerabilities in terms of the longer term sustainability of KBC's business model.

Final responsibility for the ICAAP lies with the Board of Directors, advised by the RCC.

A backbone process in KBC's 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.

Since 2014, KBC Insurance and its insurance and reinsurance subsidiaries have conducted an Own Risk and Solvency Assessment (ORSA) on a regular basis, in accordance with Solvency II requirements. Similar to ICAAP, the aim of the ORSA is to monitor and ensure that business is managed in a sound and prudent way and that the KBC Insurance group is adequately capitalised in view of its risk profile and the quality of its risk management and control environment. The ORSA process draws to a large extent on the same 'core processes' as the ICAAP and includes APC, risk appetite setting and ongoing business, risk and capital management processes. Where necessary, these processes are enhanced to take account of the specific nature of the (re)insurance activities and to comply with Solvency II requirements.

Stress testing

Stress testing is an important risk management tool that adds value both to strategic processes and to day-to-day risk management (risk identification, risk appetite and limit setting, etc.). As such, stress testing is an integral part of KBC's Risk Management Framework and underlying risk-type specific frameworks, and is an important building block of KBC's ICAAP and ORSA.

KBC defines 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 KBC's capital is adequate enough to cover the risks facing it. That is why the APC also includes views under stressed assumptions. These 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 external capital targets. An assessment is made to see the extent to which potential shortfalls can be mitigated by taking risk management actions.

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 and hence trigger the recovery plan. As such, the scenarios provide another insight into key vulnerabilities of the group. To prevent KBC from ending up in a recovery situation – should the defined stress scenario occur – management needs to consider mitigating action.

Numerous other stress tests are run within KBC that provide valuable information for assessing the capital adequacy of the group. They include regulatory imposed 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.

How do we govern our group?

Corporate governance statement

The main aspects of the company's corporate governance policy are set out in the *Corporate Governance Charter* of KBC Group NV (the 'Charter', which is published at www.kbc.com). KBC Group NV has adopted the 2009 version of the Belgian *Corporate Governance Code* (the 'Code') as its benchmark. This Code can be downloaded at www.corporategovernancecommittee.be. More factual information regarding corporate governance and on the application of certain statutory provisions is contained in this corporate governance statement.

Unless otherwise indicated, the period dealt with runs from 1 January 2015 to 31 December 2015.

A number of terms have been abbreviated as follows in this section of the annual report: Board of Directors: Board; Executive Committee: EC; Audit Committee: AC; Risk & Compliance Committee: RCC.

Composition of the Board and its committees

The following table shows the members of the Board and its committees on 31 December 2015. A list of the external offices held by all members of the Board is provided at www.kbc.com, as is a brief CV for each director. The number of meetings attended is shown in the columns relating to the committees.

Company	Primary responsibility	Period served on the Board in 2015	Expiry date of current term of office	Board meetings attended	Non-executive directors	Core shareholders' representatives	Independent directors	EC	AC	RCC	Nomination Committee	Remuneration Committee
Number of meetings in 2015				11					8	10	5	4
Thomas Leysen	Chairman of the Board	Full year	2019	11	■		■				5 (c)	4 (c)
Philippe Vlerick	Deputy Chairman of the Board CEO, Vlerick Group	Full year	2017	10	■	■					4	4
Johan Thijs	President of the EC and Executive Director	Full year	2016	11				■ (c)				
Alain Bostoen	CEO, Christeyns Group	Full year	2019	11	■	■						
Franky Depickere	Managing Director, Cera and KBC Ancora	Full year	2019	11	■	■				10 (c)	5	
Luc Discry	Managing Director, Cera and KBC Ancora	Full year	2019	11	■	■						
Frank Donck	Managing Director, 3D	Full year	2019	11	■	■			7	9		
Júlia Király	Professor, International Business School of Budapest	Full year	2018	11	■		■		8			4
Lode Morlion	Mayor of Lo-Reninge and Chairman of the Board of Directors of Cera Beheersmaatschappij NV	Full year	2016	11	■	■						
Vladimira Papirnik	Senior Partner, Squire Patton Boggs (US) LLP	Full year	2016	11	■		■		8	10		
Luc Popelier	Executive Director	Full year	2019	11				■				
Theodoros Roussis	CEO, Ravago Group	Full year	2016	11	■	■						
Ghislaine Van Kerckhove	Lawyer and Deputy Chairperson of the Board of Directors of Cera Beheersmaatschappij NV	Full year	2016	10	■	■						
Christine Van Rijsseghem	Executive Director	Full year	2018	11				■				
Piet Vanthemsche	Chairman, Wit-Geel Kruis van Vlaanderen (Chairman of the Boerenbond and MRBB CVBA until 30 November 2015)	Full year	2018	8	■	■					5	
Marc Wittemans	Managing Director, MRBB	Full year	2018	11	■	■			8 (c)	10		

Statutory auditor: Ernst & Young, Bedrijfsrevisoren BCVBA, represented by Christel Weymeersch and/or Jean-François Hubin. Secretary to the Board of Directors: Johan Tyteca.

(c) Chairman of this committee.

Marc De Ceuster attended 11 Board meetings and 10 RCC meetings. Koen Algoed attended 4 Board meetings, 2 AC meetings and 1 Nomination Committee meeting.

Changes in the composition of the Board in 2015

- After reaching the age limit, Jo Cornu (independent director) resigned from the Board following the General Meeting of 7 May 2015.
- At the General Meeting, Thomas Leysen – independent director within the meaning of and in line with the criteria set out in Article 526*ter* of the Companies Code and in the Code – was re-appointed in this capacity for a period of four years.
- At the General Meeting, Alain Bostoen was appointed as non-executive director for a period of four years.
- At the General Meeting, Franky Depickere, Luc Discry, Frank Donck and Luc Popelier were re-appointed for a period of four years.
- At the General Meeting, Koen Algoed was appointed for a period of four years, subject to the approval of the European Central Bank (ECB). After receiving this approval, his term of office started on 2 July 2015. He represented the Flemish Regional Government in his capacity as director.
- Koen Algoed and Marc de Ceuster resigned as directors with effect on 28 December 2015 following repayment of all the aid received from the Flemish Regional Government.

Changes in the composition of the committees of the Board in 2015

- Following his resignation as a director, Jo Cornu resigned from the Remuneration Committee and the Nomination Committee.
- Thomas Leysen (independent director) joined the Remuneration Committee as its chairman.
- Koen Algoed joined the AC and the Nomination Committee on 2 July 2015 and sat on them until his resignation as a director on 28 December 2015.
- Marc De Ceuster's membership of the RCC and his observer status on the Remuneration Committee ended when he resigned as a director on 28 December 2015.

Changes in the composition of the Board proposed to the General Meeting on 4 May 2016

- On the advice of the Nomination Committee, the Board will propose that Vladimira Papirnik – independent director within the meaning of and in line with the criteria set out in Article 526*ter* of the Companies Code and in the Code – be re-appointed in this capacity for a period of four years.
- On the advice of the Nomination Committee, the Board will propose that Theodoros Roussis, Lode Morlion and Ghislaine Van Kerckhove (non-executive directors) be re-appointed as directors for a new four-year term of office.
- On the advice of the Nomination Committee, the Board will propose that Johan Thijs (executive director) be re-appointed as director for a new four-year term of office.
- On the advice of the Nomination Committee, the Board will propose that Sonja De Becker be appointed as director for a period of four years. She will replace Piet Vanthemsche who will resign when her appointment as director is finalised. The Board deeply appreciates all the work that Piet Vanthemsche has done over the years for the KBC group in his capacity as a director.

Proposal to appoint the statutory auditor

On the recommendation of the AC, the Board will propose that PricewaterhouseCoopers ('PwC') be appointed as statutory auditor for a period of three years, subject to the approval of the regulator. The statutory auditor will be represented by Messrs Roland Jeanquart and Tom Meuleman. The fees paid to the statutory auditor will amount to 145 000 euros for financial year 2016 and to 152 000 euros per year for financial years 2017 and 2018, and may be duly indexed or modified (not automatically) should there be any significant change in the company's activities due to acquisitions being made or new product lines being launched.

Brief CV for the proposed new director

Sonja De Becker was born in Erps-Kwerps (Belgium) in 1967. After graduating from the Katholieke Universiteit Leuven (KU Leuven, 1990), she started her career as a legal adviser at the Boerenbond (farmers' union) (1990–1997). She then became head of environmental consulting at SBB Bedrijfsdiensten in Leuven (1997–1999), before returning to the Boerenbond to take up the post of Deputy General Secretary (1999–2001), General Secretary (2001–2013) and Deputy Chairperson (2013–2015). Since 1 December 2015, she has been Chairperson of the Boerenbond.

Like to know more? The corporate governance charter can be found under 'Corporate Governance' at www.kbc.com.

The agenda for the General Meeting of 4 May 2016 is available at www.kbc.com.

Composition of the EC at the end of 2015

Johan Thijs

°1965

Belgian

Master's Degree in Science (Applied Mathematics) and Actuarial Sciences (KU Leuven)

Joined company in 1988*

Group CEO (Chief Executive Officer)

Christine Van Rijsseghem

°1962

Belgian

Master's Degree in Law (UGent)

Joined company in 1987*

CRO (Chief Risk Officer)

Daniel Falque

°1963

Belgian

Master's Degree in International Relations (Université catholique de Louvain)

Joined company in 2009*

CEO of the Belgium Business Unit

Luc Popelier

°1964

Belgian

Master's Degree in Applied Economics, (UFSIA Antwerp)

Joined company in 1988*

CFO (Chief Financial Officer)

Luc Gijsens

°1953

Belgian

Master's Degree in Law (KU Leuven)

Joined company in 1977*

CEO of the International Markets Business Unit

John Hollows

°1956

British

Master's Degree in Law and Economics (Cambridge University)

Joined company in 1996*

CEO of the Czech Republic Business Unit

* 'Joined company in ...' refers to KBC Group NV, group companies or pre-merger entities (Kredietbank, Cera, ABB, etc.).

More information about the members of the EC – including CVs – is provided at www.kbc.com.

Report on the activities of the Board and its committees in 2015

Board of Directors (Board)

Besides carrying out the activities required under the Companies Code, reviewing the quarterly results and the activities of the AC, RCC, Nomination Committee and Remuneration Committee, and handling and taking decisions on the dossiers submitted by these committees, the Board also dealt with the following matters:

- Corporate Sustainability and Responsibility;
- the insurance activities carried out by the KBC group;
- the activities of the Belgium Business Unit (in particular, distribution and lending to SMEs and corporate clients);
- the activities of the International Markets Business Unit (in particular, KBC Asset Management, Consumer Finance and Markets, Hungary, Bulgaria);
- implementation of HR policy;
- the ICT strategy;
- the Integrated Risk Report (monthly);
- the approach to cyber risks;
- the ICAAP-ILAAP Report for 2015;
- the KBC Group Recovery Plan for 2015;
- the Resolution Plan;
- the Group Compliance Annual Report;
- the appointment of the new statutory auditor;
- repayment of state aid to the Flemish Regional Government.

The EC also reported monthly on the trend in the results and the general course of business at the group's various business units. It also paid regular attention to the strategy and specific challenges for the different areas of activity.

Audit Committee (AC)

The AC is tasked *inter alia* with advising the Board on the integrity of financial reporting and the effectiveness of the internal control process and risk management. It provides guidance to the internal audit function and oversees the external auditor.

The AC met in the presence of the President of the EC, the Group CRO, the Group CFO, the internal auditor, the compliance officer and the statutory auditors. Besides reviewing the company and consolidated financial statements, the annual report, the half-year and quarterly figures, approving the relevant press releases and discussing the auditor's findings, it also discussed the quarterly reports drawn up by the internal auditor. The AC also examined:

- the Statement of effective management with regard to the assessment of internal control systems and the monitoring of the resulting action plans;
- the Risk Appetite Statement;
- the Three Lines of Defence model;
- the process and the proposal to appoint the new statutory auditor.

Risk & Compliance Committee (RCC)

The RCC advises the Board on current and future risk tolerance and on risk strategy, and assists it in supervising how the EC implements this strategy. It ensures that the prices of assets and liabilities and of categories of off-balance-sheet products that are offered to clients, factor in the risks run by the institution, with due account taken of its business model and risk strategy, viz. risks – especially reputation risks – that might arise from the types of product offered to clients. The RCC monitors the risk and compliance functions.

The RCC met in the presence of the President of the EC, the Group CRO, the Group CFO, the internal auditor, the compliance officer and the statutory auditors. Besides discussing the periodic reports from the risk function and the compliance officer (including the annual reports), it also examined the reports drawn up by the legal, tax and branch inspection departments. In addition, the following special reports dealt with were:

- the Statement of effective management with regard to the assessment of internal control systems and the monitoring of the resulting action plans;
- the Risk Appetite Statement;
- the ICAAP-ILAAP Report for 2015;
- the KBC Group Recovery Plan for 2015;
- the Resolution Plan;
- Information Security and Cyber Risk;

- the risk-related elements of remuneration policy and the pricing of products offered to clients;
- the results of inspections performed by the supervisory authorities and the action plans drawn up by management.

Nomination Committee

Please note that the Nomination Committee of KBC Group NV acts in the same capacity for KBC Insurance and KBC Bank. The main matters dealt with were:

- the composition of the boards of directors and of the advisory committees;
- appointments and re-appointments to the boards of directors;
- the desired profile of the independent director of KBC Bank;
- the way in which succession management is handled in the KBC group.

Remuneration Committee

The Remuneration Committee usually met in the presence of the Chairman of the Board, the President of the EC and the representative of the Flemish Regional Government. Please note that the Remuneration Committee of KBC Group NV acts in the same capacity for KBC Insurance and KBC Bank.

The main matters dealt with were:

- the changes to the remuneration policy;
- the assessment of the criteria for evaluating the EC in 2014;
- the criteria for evaluating the EC in 2015;
- the annual remuneration review;
- the new pension plan (including disability and death cover) for members of the EC;
- the remuneration paid to the non-executive directors on the Related Party Lending Committee.

For a general description of how the Board and its committees function, see sections 5 and 6 of the Charter of KBC Group NV (at www.kbc.com).

AC: application of Article 96 § 1 9° of the Companies Code

On 31 December 2015, the AC had two independent directors within the meaning of and in line with the criteria set out in Article 526*ter* of the Companies Code and in the Code.

- Vladimira Papirnik (independent director), who holds a Juris Doctor Degree (Northwestern University (US), 1982). She is a senior partner in the law firm of Squire Patton Boggs and works in both Prague and Chicago, focusing on international banking law, project finance and corporate law (mergers and acquisitions, corporate governance).
- Júlia Király (independent director), who is a graduate of the Budapest University of Economics (1980) and holds a Ph.D in Economics from the Hungarian Academy of Sciences. She was Associate Professor of Finance at the Corvinus University of Budapest for 15 years, specialising in risk management, risk measurement, Basel principles in theory and practice, capital budgeting and bank financial management. She was also responsible for risk management at the Hungarian Central Bank. At present, Ms Király is Head of Department at the International Business School of Budapest and Research Associate at the Centre for Economic and Regional Studies of the Hungarian Academy of Sciences.

The other members of the AC are:

- 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.
- Frank Donck (non-executive director), who holds a Master's Degree in Law (UGent) and a Master’s Degree in Finance (Vlerick Business School). He is Managing Director of 3D NV, Chairman of Atenor Group NV and Tele Columbus AG, and independent director at Barco NV and Elia System Operator NV.

Koen Algoed sat on the AC as a non-executive director from 2 July until 28 December 2015. He holds an MSc in Econometrics & Mathematical Economics (London School of Economics) and a PhD in Economics (KU Leuven). He is Professor of Economics at the KU Leuven, a member of the Centre for Research on Economic Markets and their Environments (KU Leuven, Brussels Campus) and Cabinet Secretary for the Flemish Minister for Work, Economy, Innovation and Sport.

It can be concluded on the basis of the profiles and competences of the members of the AC that the committee is constructed and has the requisite skills and experience in accordance with the requirements of the Charter and of Article 526*bis*, § 2 of the Companies Code.

RCC: application of section 6.3.6 of the Charter

On 31 December 2015, the RCC of KBC Group NV had one independent director within the meaning of and in line with the criteria set out in Article 526*ter* of the Companies Code and in the Code.

The RCC comprises:

- 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.
- Frank Donck (see CV above).
- Marc Wittemans (see CV above).
- Vladimira Papirnik, independent director (see CV above).

Marc De Ceuster sat on the RCC as a non-executive director until 28 December 2015. He holds a PhD in Applied Economics (University of Antwerp, 1992) and a Master's Degree in Law (UFSIA – UIA Antwerp, 1987). He is Professor of Finance (University of Antwerp) and Academic Director of the master's courses in Real Estate Management, Personal Financial Planning and Finance at the Antwerp Management School.

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

Policy regarding transactions between the company and its directors, not covered by the statutory regulations governing conflicts of interest

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 524*ter* of the Companies Code. It has been incorporated into the Charter.

Measures regarding insider dealing and market manipulation

The Board of KBC Group NV has drawn up a Dealing Code which, among other things, requires a list of key employees to be drawn up, annual blocking periods to be set, and transactions by persons with managerial responsibility and with persons connected with them to be reported to the Belgian Financial Services and Markets Authority (FSMA). The principles of this code have been appended to the Charter.

Principal features of the evaluation process for the Board, its committees and its members

With a view to constantly improving its own effectiveness, the Board – led by its Chairman – evaluates a number of elements each year, including the composition of the Board, the selection, appointment and training of its members, practical operations (relating to the agenda, meetings, chairmanship, secretariat), reporting to the Board, the type of culture within the Board, the performance of its duties, remuneration, the working relationship with the EC, the shareholders and other stakeholders, the Board's committees, proposed agenda items and training proposals.

On the initiative of the Chairman of the Board, directors who are nominated for re-appointment are subject to an individual evaluation that focuses on their efforts and effectiveness within the Board and – where appropriate – their performance as chairman or member of a committee of the Board. This evaluation is performed by the Chairman. The Board evaluates the Chairman who must not be present when the evaluation is being performed.

Once a year, non-executive directors assess how they interact with the executive management. To that end, they meet at least once a year without the executive directors.

Each Board committee regularly carries out an evaluation of its own composition and workings, before reporting its findings and, where necessary, making proposals to the Board.

On the initiative of the President of the EC, the full EC discusses its objectives and assesses its performance once a year. Each year, the President of the EC evaluates each member of the EC individually. The individual evaluation of the President is performed by the Chairman of the Board.

Remuneration report for financial year 2015

Procedures for developing the remuneration policy and for determining the remuneration granted to individual directors and members of the EC

General: The remuneration policy for the Board and EC is based on prevailing legislation, the Code and market data. It is monitored and regularly checked by the Remuneration Committee – with the assistance of specialist members of staff – to see whether it complies with changes in the law, the Code, and prevailing market practices and trends. The Chairman of the Remuneration Committee informs the Board of the committee's activities and advises it of any changes to the remuneration policy and its practical implementation. The Board may also act on its own initiative, or on a proposal from the EC, and instruct the Remuneration Committee to examine potential changes to the remuneration policy and to advise it accordingly. If required by law, the Board will submit any policy changes to the General Meeting for approval.

Board: On the basis of advice obtained from the Remuneration Committee, the Board decides on the remuneration package for its members. If required, it may also submit proposals in this regard to the General Meeting for decision.

EC: On the basis of advice obtained from the Remuneration Committee and taking account of the established remuneration policy, the Board determines the remuneration to be granted to members of the EC, and assesses this amount at regular intervals. The amount in question is split into a fixed component and a profit-related/performance-related component.

Declaration regarding the remuneration policy used for members of the Board and the EC during the financial year dealt with in the annual report

The Remuneration Committee declares the following:

Principles of the remuneration policy with due account being taken of the relationship between remuneration and performance

The basic principle applying to non-executive directors, executive directors and other members of the EC is that they are entitled to a fair remuneration that is commensurate with the contribution they have made to the policy and growth of the group.

The following applies to non-executive directors:

- Their remuneration consists solely of an annual fixed component (non-performance-related and non-results-based) plus the fee received for each meeting attended. Attendance fees constitute the main element of this remuneration package. If meetings coincide with Board meetings of KBC Bank and/or KBC Insurance, the attendance fee will be paid just once to directors sitting on more than one of these Boards. Given his duties, the Deputy Chairman receives a higher fixed component.
- In light of the considerable time he devotes to the ongoing supervision of KBC group affairs, the Chairman of the Board receives a different remuneration package that comprises solely a fixed component, which is set separately by the Remuneration Committee and approved by the Board.
- The directors sitting on the AC or RCC receive additional remuneration (attendance fees) for the work they perform in that regard. The rule likewise applies that, if meetings coincide with AC or RCC meetings of KBC Bank and/or KBC Insurance, the attendance fee will be paid just once to directors sitting on different committees. The chairmen of the AC and RCC receive an additional fixed emolument. Directors sitting on either the Nomination Committee or the Remuneration Committee do not receive additional remuneration for the work they perform in that regard.
- In light of the considerable time required for directors residing outside Belgium to attend Board meetings, additional remuneration (attendance fees) is paid to them for each meeting attended.
- KBC Group NV does not grant loans or guarantees to directors. Such loans or guarantees may, however, be granted by KBC Group NV banking subsidiaries pursuant to Article 72 of the Banking Act of 25 April 2014, meaning that loans may be granted at terms applying to clients and approved by the Board.

The following applies to executive directors and other members of the EC:

- The Board determines their remuneration on the basis of advice obtained from the Remuneration Committee and the President of the EC (whose remuneration is set on the basis of the advice of the Remuneration Committee).
- In accordance with the KBC group's remuneration policy, individual remuneration paid to EC members comprises:
  - a fixed monthly emolument;
  - an annual, performance-related variable emolument (the amount of which depends on the performance of the EC as a whole and on the performance of the institution (assessed on the basis of pre-agreed criteria));
  - an annual, individual variable emolument based on the performance by each member of the EC;
  - any emolument for offices performed on behalf of KBC Group NV (exceptional).
- A quantitative risk-adjustment mechanism (called a 'risk gateway') is used to set the variable remuneration. It comprises a number of capital and liquidity parameters that have to be met before the variable remuneration component may be awarded. The parameters are set each year by the Board. If one or more of these parameters are not met, not only will this remuneration component not be awarded, but payment of deferred amounts relating to previous years will also be suspended.
- The Board sets performance-related variable remuneration on the advice of the Remuneration Committee, based on an evaluation of several pre-agreed criteria. For 2016, these include:
  - implementing the strategy;
  - further implementing the CSR policy;
  - dealing with the digital transformation;

- implementing the financial plans (including profitability, capital and liquidity planning);
- strengthening the risk control environment (including risk limits, implementing recommendations made by audit and the regulator);
- further increasing staff, client and other stakeholder satisfaction.

The Remuneration Committee evaluates the extent to which these criteria have been met and, on the basis of its findings and within the limits of the contractually agreed system, makes a proposal regarding the size of the performance-related variable remuneration and duly advises the Board, which takes the final decision. It also advises the Board on the size of the individual variable emolument after assessing the individual performance of each member of the EC and taking due account of the evaluation performed by the President of the EC.

- Members also benefit from a retirement and survivor's pension scheme, which comprises a supplementary retirement pension or – if the insured dies while still in employment and leaves a spouse – a survivor's pension, and also provides cover in the event of disability.

Relative importance of the different components of remuneration

The variable component is split into a performance-related variable emolument and an individual variable emolument. The performance-related variable component for the President of the EC is set between 0 and 300 000 euros and the individual variable component between 0 and 100 000 euros. The limits for these components are 200 000 euros and 70 000 euros, respectively, for the other members of the EC. The final amount is set by the Board on the advice of the Remuneration Committee, based on an assessment of the individual and collective achievements during the previous financial year. In any event, the variable component accounts for less than 30% of the total remuneration package.

Characteristics of performance-related bonuses in the form of shares, options, or any other rights to acquire shares

The total amount of annual variable remuneration (i.e. both the performance-related and individual components) for members of the EC is paid over four years, with 50% being paid in the first year and the rest spread equally over the next three years.

Furthermore, 50% of the total annual variable remuneration is awarded in the form of equity-related instruments called phantom stocks (though not in the Czech Republic where virtual investment certificates are used), whose value is linked to the price of the KBC Group NV share. These stocks must be retained for one year after being allocated. Like the cash component of variable remuneration, they are also allocated over a four-year period. The average price of the KBC share during the first three months of the year is used to calculate the number of phantom stocks to which each member of the EC is entitled. These stocks are then converted into cash a year later on the basis of the average price of the KBC share during the first three months of that year. They are subject to the allocation and acquisition conditions described under 'Clawback provisions' below.

Information regarding the remuneration policy for the next two financial years

It is not the intention to make any changes to the remuneration awarded to non-executive directors. However, the Remuneration Committee will discuss attendance fees for members of the AC and RCC and consider the possibility of replacing these fees with a fixed emolument.

In 2015, a study was carried out in partnership with an external research agency on the supplementary pension for the members and President of the EC. The study found that the pension provided in the current supplementary pension plan was not in line with the market, lying below the median for BEL 20 companies. Although a challenging exercise, a comparison of the supplementary pension scheme for members of the EC was also made with an international peer group of companies operating in the financial sector. The results that emerged were in line with those from the BEL 20 comparison.

It also emerged that most of the benchmark companies no longer run a defined benefit plan. A final significant difference was that the pension benefit in the vast majority of peer group pension plans is linked to the amount of remuneration actually paid (and, therefore, the pension amount paid to the CEO also differs from the amount paid to the other members of the EC). Consequently, a new pension plan was launched on 1 January 2016. It is a defined contribution plan that is funded entirely by KBC. When drawing up this plan, account was taken of the fact that the career as a member (and especially as President) of the EC is shorter than that of an average employee. In the pension formula, therefore, the first ten years that an individual sits on the EC are the ones in which a significant part of the supplementary pension is built up.
The study also revealed that the death cover was relatively lower than the benchmark level and, therefore, the death benefit was increased under the new plan. The plan applies to all new members who join the EC on or after 1 January 2016 (provided they are resident in Belgium). Members already on the EC on 31 December 2015 were offered the choice of continuing with their current pension plan or joining the new one. All but one of the members decided to switch to the new plan. In their case, the vested reserves built up by 31 December 2015 were transferred to that plan.

The policy for remunerating members of senior management is published in the Remuneration Policy. It contains a number of group-wide principles relating primarily to the variable remuneration component. The main principles stipulate that:

- variable remuneration must always comprise a profit-related component (at least 10% of which is based on the results of the KBC group) and a performance-related component;
- at least 40% of variable remuneration awarded to top management, also known as key identified staff (KIS), may not be paid straightaway but its payment is to be spread over a period of three years;
- half of the total amount of variable remuneration for KIS be awarded in the form of equity-related instruments;
- no advance payments may be made in relation to the variable component and clawback/holdback provisions are put in place;
- the ratio of fixed to variable remuneration components be set at a maximum one to one half;
- variable remuneration be capped at a nominal 750 000 euros;
- from 2016 on, 10% of variable remuneration awarded to top management be subject to the achievement of sustainable targets that have been agreed beforehand (which has already been the case for members of the EC since 2015).

Besides the risk gateway, a 'Risk-Adjusted Performance Measurement Framework' has also been introduced to set results-based variable remuneration for performances as from financial year 2012. The basic idea behind this policy used for capital allocation is that neither economic capital nor regulatory capital is suitable as a single driver for capital allocation. Regulatory capital is limited in terms of risk types and only partially reflects the specific characteristics of KBC. Although economic capital comprises more types of risk and reflects KBC's estimation of its own risk profile, it is not available at the same detailed level at the moment. Given these limitations, the decision was taken to allocate capital on the basis of a risk-weighted asset (RWA) coefficient that reflects the aspects of economic capital.
This policy introduces the concept of risk-adjusted profit (RAP) as the (absolute) measure of company profitability, but with an inherent adjustment for capital and risk-related factors. For certain categories of key identified staff for whom the competent control function has assessed that the RAP is an inadequate risk-adjustment mechanism, this framework will be supplemented by additional performance indicators that are better designed to measure risk.

Clawback provisions

As already explained above, payment of the total annual variable remuneration is not only spread over time, half of it is also awarded in the form of phantom stocks that are to be retained for a period of one year.
The variable remuneration component, including the deferred part, is only acquired when this can be reconciled with the financial situation of the entire institution and justified by the performances of the KBC group and the EC.
Action can be taken regarding payment of deferred amounts that have still to be acquired (malus arrangement), when:

- There is evidence of misconduct or serious error on the part of the employee (for example, a violation of the code of conduct or other internal rules, particularly in relation to risks).
- Either the net result excluding non-recurrent profit, or the risk-adjusted (underlying) profit of the KBC group and/or the underlying KBC entity in the year preceding the one in which the amounts are to be acquired, has fallen by at least 50% since the year in which the variable remuneration was awarded. In such a situation, the malus arrangement will be applied to the deferred amounts that have still to be acquired (and that relate to the year they were awarded), unless the Remuneration Committee of KBC Group NV provides well-reasoned advice to the Board not to apply this arrangement. The Remuneration Committee will also provide advice on the percentage that should be applied to the malus arrangement. The Board is responsible for the final decision in this regard.
- Either the net result excluding non-recurrent profit, or the risk-adjusted profit of the KBC group, is negative in the year preceding the one in which the amounts are to be acquired. In that case, all the deferred amounts that have still to be acquired (usually in the year following the one in which the negative result was posted) will not be acquired and will therefore be relinquished.

In this regard, the Board takes a decision on the advice of the Remuneration Committee.

Variable remuneration already acquired will exceptionally be clawed back when there is:

- evidence of fraud;
- (use of) misleading information.

Individual remuneration awarded to non-executive directors of KBC Group NV

In accordance with the remuneration system in force, non-executive directors received a fixed emolument and attendance fees in proportion to the number of meetings they attended of the Board of KBC Group NV and, where relevant, of the other companies of the KBC group in Belgium or abroad. As mentioned above, the Chairman of the Board received solely a special fixed emolument and the chairmen of the AC and RCC an additional fixed emolument. The Deputy Chairman of the Board also received an additional fixed emolument.

Remuneration per individual director (on a consolidated basis, in EUR)

	Remuneration (for FY 2015)	Remuneration for AC and RCC members (for FY 2015)	Attendance fees (for FY 2015)
Thomas Leysen	500 000	0	0
Koen Algoed	10 000	5 000	20 000
Alain Bostoen	33 333	0	55 000
Jo Cornu	6 667	0	20 000
Marc De Ceuster	20 000	30 000	55 000
Franky Depickere	65 000	130 000	60 000
Luc Discry	40 000	0	55 000
Frank Donck	33 333	25 000	55 000
Júlia Király	20 000	30 000	82 500
Lode Morlion	40 000	0	55 000
Vladimira Papirnik	20 000	30 000	82 500
Theodoros Roussis	40 000	0	55 000
Ghislaine Van Kerckhove	40 000	0	50 000
Piet Vanthemsche	40 000	0	40 000
Philippe Vlerick	63 333	0	50 000
Marc Wittemans	40 000	65 000	55 000

Information regarding the amount of remuneration received by members of the EC of KBC Group NV who are also members of the Board

The members of the EC who also sit on the Board as executive directors did not receive either a fixed remuneration or any attendance fees.

Evaluation criteria used for paying variable remuneration, based on the performance of KBC Group NV and/or person(s) involved

For members of the EC, the individual component is set on the basis of an assessment of the performance of the member in question, while the performance-related component is set on the basis of an assessment of a number of pre-agreed criteria relating to the performances of the EC and the company. These assessments generate a percentage between 0% and 100% that is applied to the maximum variable remuneration.

Based on the advice of the Remuneration Committee, the Board decided that the members of the EC should be awarded performance-related variable remuneration for 2015 that equalled 96.88%.

Remuneration paid to the President and the other members of the EC of KBC Group NV

The EC of KBC Group NV is a collective body, whose president is the first among equals and not the sole executive and accountable representative of the company. Nevertheless, in implementation of company law and the Code, the remuneration paid to the President of the EC (the CEO) is shown separately in the following table.

The aggregate remuneration paid by KBC Group NV and its direct and indirect subsidiaries to members of the EC of KBC Group NV other than the President for the 2015 financial year is also shown in the table. The EC comprises six members (including the President).

Remuneration paid to the EC of KBC Group NV (in EUR)	2014	CEO: Johan Thijs 2015	2014	Other members of the EC (combined) 2015
Employment status	Self-employed	Self-employed	Self-employed	Self-employed
Base remuneration (fixed)	1 040 000	1 090 000	3 936 202	3 850 000
Individual remuneration for financial year[1] (variable)	21 667	21 667	75 526	70 292
Performance-related remuneration for financial year[1] (variable)	70 312	72 656	264 965	242 188
Results-based remuneration for previous financial years[2] (variable)	72 447	54 384	341 189	155 781
Performance-related remuneration for previous financial years[2] (variable)	35 743	28 521	140 183	77 242
Total	1 240 169	1 267 228	4 758 065	4 395 503
Pension[3]				
Supplementary defined benefit pension plan (service cost)	116 343	100 297	820 318	778 964
Supplementary defined contribution pension plan (contribution transferred to pension fund)	44 060	39 579	88 120	118 738
Other benefits[4]	14 853	14 298	122 248	87 277

1 Half of the variable remuneration component is awarded in the form of phantom stocks, and variable remuneration is paid over four years (50% in the first year and the rest spread equally over the next three years). Consequently, the amount stated here is solely the portion of total variable remuneration payable in cash in 2016 (25% of the total amount awarded).

2 In each case, 16.66% of the cash component of the variable remuneration for 2012, 2013 and 2014.

3 Until 31 December 2015, the pension scheme for members of the EC (except John Hollows) comprised a small defined contribution pension plan and the main defined benefit pension plan. The defined contribution plan applies to all members of the EC as from the year following the year in which the member in question has sat on the EC for three years. It is funded by KBC via an annual contribution (to the KBC pension fund), the size of which is expressed as a percentage of KBC's consolidated net profit. This percentage depends on the trend in earnings per share. The defined benefit plan applies to members of the EC as soon as they take a seat on the committee. Entitlement to a full supplementary retirement pension is acquired after 25 years' service in the KBC group, at least six of which as a member of the EC. Each supplementary pension (unless built up through personal contributions) – the right to which has been acquired elsewhere in the group in whatever capacity (self-employed or employee) – is taken into account when calculating this retirement pension, i.e. no accumulation is possible. John Hollows participates in a defined contribution pension plan in the Czech Republic.
As explained above, a new *defined contribution*-type pension plan entered into force on 1 January 2016.

4 Each member of the EC receives a representation allowance of 400 euros per month. As this is a flat-rate reimbursement of expenses, the amount has not been included in the table. Each member of the EC also has a company car, the personal use of which is charged on the basis of a fixed 7 500 kilometres per year. Other benefits which members of the EC receive include hospitalisation insurance, assistance insurance and accident insurance.

Long-term cash bonus paid

The remuneration package awarded to members of the EC does not include a long-term cash bonus.

Shares, stock options and other rights to acquire KBC Group NV shares that were allocated during the financial year, on an individual basis

As described above, half of the total annual variable remuneration is awarded in the form of phantom stocks that are to be retained for a period of one year. The following amounts were awarded in the form of phantom stocks for 2015 (the number of phantom stocks is calculated on the basis of the average price of the KBC share during the first three months of the year of vesting).

Amounts awarded in the form of phantom stocks (in EUR)	**Total**	**Vesting in 2016**	**Vesting in 2017**	**Vesting in 2018**	**Vesting in 2019**
Johan Thijs	188 646	94 323	32 070	32 070	30 183
Luc Popelier	125 458	62 729	21 328	21 328	20 073
John Hollows*	126 042	63 021	21 427	21 427	20 167
Luc Gijsens	124 292	62 146	21 130	21 130	19 887
Daniel Falque	123 708	61 854	21 030	21 030	19 793
Christine Van Rijsseghem	125 458	62 729	21 328	21 328	20 073

* Virtual investment certificates instead of phantom stocks.

No other shares, stock options or rights to acquire shares were allocated.

Shares, stock options and other rights to acquire KBC Group NV shares that were exercised or that have lapsed during the financial year, on an individual basis

Some of the phantom stocks awarded both in 2011 for financial year 2010 and in 2013 for financial year 2012 were converted into cash at 51.61 euros per share in April 2015. The following amounts were paid (in euros):

- Johan Thijs 87 117
- Luc Popelier 78 034
- John Hollows 78 034
- Luc Gijsens 30 966
- Daniel Falque 18 218

Provisions concerning individual severance payments for executive directors and members of the EC of KBC Group NV

Given that KBC repaid the remaining instalment of Flemish state aid in December 2015, the special conditions relating to severance payments that had been agreed with the Flemish Regional Government in 2009 no longer apply. Pursuant to the Companies Code and the Banking Act – and based on well-reasoned advice from the Remuneration Committee – the Board decided that severance payments for executive directors and members of the EC should be adjusted with effect on 1 January 2016. For members of the EC who have worked six years or less at KBC Group NV, such payments have been set at 12 months' remuneration, for those who have worked between six and nine years, they are equal to 15 months' remuneration, and for those who have worked more than nine years, they are equal to 18 months' remuneration. In this context, remuneration is taken to be the fixed remuneration component for the current year and the variable component for the last full year preceding termination of office.

Main features of the internal control and risk management systems

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 'Our business model and strategy' 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 Charter 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 section.

2 Corporate culture and integrity policy

Ethical behaviour and integrity are considered as essential components of sound business practice. Honesty and integrity 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. The main guidelines and policy memos on socially responsible business practices can be found under 'Sustainability & Responsibility' 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. An extensive, group-wide communication campaign ensures 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:

- The ethical behaviour of employees is inextricably linked to 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.

KBC's vision on corporate social responsibility is set out in its *Principles for Socially Responsible Business*, which is available at www.kbc.com.

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

To arm itself against the risks that it is exposed to in 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

The business operations side is fully responsible for all the risks in its area of activity and has to ensure that effective controls are in place. In so doing, it ensures that the right controls are performed in the right way, that self-assessment of the business side is of a sufficiently high standard, that there is adequate awareness of risk and that sufficient priority/capacity is allocated to risk themes.

3.2 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

Independent of the business side, the second-line risk and control functions formulate their own opinion regarding the risks confronting KBC. In this way, they provide an adequate degree of certainty that the first-line control function is keeping these risks under control, without taking over primary responsibility from the first line. In this regard, the second-line functions are tasked to identify, measure and report risks. The risk function has a veto right to ensure that it is respected. The second-line risk and control functions also support the consistent implementation of the risk policy, the risk framework, etc., throughout the group, and supervise how they are applied.

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

As the independent third-line of control, Internal Audit is responsible for the quality control of the existing business processes. It performs risk-based and general audits to ensure that the internal control and risk management system, including Risk Policy, are effective and efficient, and to ensure that policy measures and processes are in place and consistently applied within the group to guarantee the continuity of operations.

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 stipulations of 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 and with the Act of 25 April 2014 on the status and supervision of credit institutions.

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 whether the internal control and risk management system is still compliant 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.

Their role, composition and activities, along with the qualifications of their members, are laid down in their respective charters, which are included under the Charter of KBC Group NV. 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 examined to see whether they correspond 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.

The main affiliated companies have their own accounting and administrative organisation, as well as a set of procedures for internal financial controls. The consolidation process is explained in a descriptive document. 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, which is chaired by the general managers of Financial Insight & Communication and of 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 internal control of the accounting process has been based on Group Key Control Accounting and External Financial Reporting standards since 2006. These rules for managing the main risks attached to the accounting process 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.

Non-compliance with the Corporate Governance Code

The corporate governance statement included in the annual report must indicate whether any provisions of the Corporate Governance Code have not been complied with and state the reasons for non-compliance (the 'comply-or-explain' principle). This information is provided below.

Provision 2.1. of the Corporate Governance Code stipulates that one of the factors for deciding the composition of the Board should be gender diversity (see 'Gender diversity' below).

Provision 5.2./1 of Appendix C to the Corporate Governance Code stipulates that the Board should set up an audit committee composed exclusively of non-executive directors. Provision 5.2./4 of the same appendix additionally specifies that at least a majority of its members should be independent. Provision 5.3./1 of Appendix D to the Corporate Governance Code stipulates that the Board should set up a nomination committee composed of a majority of independent non-executive directors.

At year-end 2015, the AC was composed of four non-executive directors, two of whom were independent and two who represented the core shareholders. Independent directors were, therefore, in the minority on this committee. On 31 December 2015, the Nomination Committee was composed of four directors, one of whom was the Chairman of the Board (who is also an independent director) and three who represented the core shareholders. Independent directors were, therefore, in the minority on this committee.

When selecting the members of the AC and Nomination Committee – as is also the case with the Board – the group takes account of the specific shareholder structure and, in particular, of the presence of Cera, KBC Ancora, MRBB and the other core shareholders, who have endorsed the perspective of long-term share ownership. Given this shareholder engagement, the Board considered it appropriate to involve them in a suitable and balanced manner in the activities of the committees via their representatives on the Board.

Up until 28 December 2015, the composition of these committees was such that account was also taken of a government-appointed director's right to participate in meetings.

Gender diversity

At least one-third of the Board's members must be of a different gender than the other members by no later than 1 January 2017.

At year-end 2015, four women and twelve men sat on the Board. Once the appointment of Sonja De Becker is finalised, the Board will comprise five women and eleven men, and thus comply with the Code.

Conflicts of interest that fall within the scope of Article 523, 524 or 524*ter* of the Companies Code

There were no conflicts of interest during the 2015 financial year that required the application of Article 523, 524 or 524*ter* of the Companies Code.

Statutory auditor

Ernst & Young Bedrijfsrevisoren BCVBA – represented by Christel Weymeersch and/or Jean-François Hubin – will continue to act as the company's statutory auditor until the General Meeting. Details of the statutory auditor's remuneration are provided in Note 43 of the 'Consolidated financial statements' section.

As regards the proposal to appoint PwC as statutory auditor with effect from the General Meeting, please refer to 'Proposal to appoint the statutory auditor'.

Disclosure under 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

1 Capital structure on 31 December 2015

The share capital was fully paid up and was represented by 418 087 058 shares of no nominal value. More information on the group's capital can be found in the 'Company annual accounts and additional information' section.

2 Restrictions on transferring securities as laid down by law or the Articles of Association

Each year, KBC Group NV carries out a capital increase reserved for its employees and the employees of certain of its Belgian subsidiaries. If the issue price of the new shares is less than the closing price, these new shares may not be transferred by the employee for two years, starting from the payment date, unless he or she dies. The shares subscribed to by employees under the capital increase decided upon by the Board on 13 November 2015 are blocked until 17 December 2017. The shares issued under the capital increase in 2014 also remain blocked (until 15 December 2016).

The options on KBC Group NV shares held by employees of the various KBC group companies and allocated to them under stock option plans set up at different points in time, may not be transferred *inter vivos*. For an overview of the number of stock options for staff, see Note 12 in the 'Consolidated financial statements' section.

3 Holders of any securities with special control rights

None.

4 Systems of control of any employee share scheme where the control rights are not exercised directly by the employees

None.

5 Restrictions on exercising voting rights as laid down by law or the Articles of Association

The voting rights attached to the shares held by KBC Group NV and its direct and indirect subsidiaries are suspended. At 31 December 2015, these rights were suspended for 2 shares (0.00% of the shares in circulation at that time).

6 Shareholder agreements known to KBC Group NV that could restrict the transfer of securities and/or the exercise of voting rights

A group of legal entities and individuals act in concert and constitute the core shareholders of KBC Group NV. As indicated in their disclosure, the number of voting rights held by these entities and individuals was:

- KBC Ancora Comm.VA: 77 516 380
- Cera CVBA: 11 127 166
- MRBB CVBA: 47 889 864
- Other core shareholders: 31 768 376

That is a total of 168 301 786 shares carrying voting rights, or 40.26% of the total number of such shares on 31 December 2015.

A shareholder agreement was concluded between these parties in order to support and co-ordinate the general policy of KBC Group NV and to supervise its implementation. The agreement provides for a contractual shareholder syndicate. The shareholder agreement includes stipulations on the transfer of securities and the exercise of voting rights within the shareholder syndicate. The agreement was extended for a new ten-year period, with effect from 1 December 2014.

7 Rules governing the appointment and replacement of board members and the amendment of the Articles of Association of KBC Group NV

Appointment and replacement of members of the Board:

Following the approval of or notification to the supervisory authority, proposals to appoint nominated directors or to re-appoint directors are submitted by the Board to the General Meeting for approval. Each proposal is accompanied by a documented recommendation from the Board, based on the advice of the Nomination Committee.
Without prejudice to the applicable legal provisions, nominations are communicated as a separate agenda item for the General Meeting at least thirty days before it is held. When nominating an independent director, the Board will state whether the individual meets the independence criteria of the Companies Code.
The General Meeting appoints directors by a simple majority of votes cast.
From among its non-executive members, the Board elects a chairman and one or more deputy chairmen, if necessary. Outgoing directors are always eligible for re-appointment. If, during the course of a financial year, a directorship falls vacant as a result of decease, resignation, dismissal or for any other reason, the remaining directors may provisionally arrange for a replacement and appoint a new director. In that case, the next General Meeting will proceed to a definitive appointment. A director appointed to replace a director whose term of office had not yet come to an end will complete this term of office, unless the General Meeting decides on a different term of office when making the definitive appointment.

Amendment of the Articles of Association:

Unless stipulated otherwise, the General Meeting is entitled to amend the Articles of Association. Accordingly, the General Meeting may only validly deliberate and take decisions about such amendments if they have been expressly proposed in the convening notice and if those attending the meeting represent at least half the share capital. If the latter condition is not satisfied, a new convening notice is required and the new meeting can validly deliberate and take decisions, regardless of the share of capital represented by the shareholders attending the meeting. An amendment is only adopted if it receives three-quarters of the votes cast (Article 558 of the Companies Code).
If an amendment to the Articles of Association pertains to the object of the company, the Board must justify the proposed amendment in a detailed report that is referred to in the agenda. A statement of assets and liabilities drawn up no longer than three months previously must be included in this report and be reported on separately by the statutory auditors. Copies of the reports in question can be obtained in accordance with Article 535 of the Companies Code. If these reports do not appear, decisions taken at the General Meeting will be null and void. The General Meeting may only deliberate and take decisions validly on changes in the object of the company if those present not only represent half of the share capital (…). If this condition is not satisfied, a second convening notice is required. To ensure that the second meeting can deliberate and take decisions validly, it is sufficient that some of the capital is represented. An amendment will then only be adopted if it receives at least four-fifths of the votes cast. (…) (excerpt from Article 559 of the Companies Code).

8 Powers of the Board with regard to the issue and repurchase of treasury shares

The General Meeting authorised the Board until 20 May 2018 to increase, in one or more steps, the share capital by a total amount of 700 million euros, in cash or in kind, by issuing shares. The Board is also authorised until the same date to decide on one or more occasions to issue convertible bonds (whether subordinated or otherwise) or warrants that may or may not be linked to bonds (whether subordinated or otherwise) that could result in capital being increased within the 700 million euros referred to above. Under this authorisation, the Board can suspend or restrict preferential subscription rights, subject to the limits laid down by law and the Articles of Association.

On 13 November 2015, the Board decided to use its authorisation to increase capital by issuing shares without preferential subscription rights to employees at a price of 46.67 euros per share and with a limit of 74 shares per employee. On 23 December 2015, the issued share capital was increased by 1 066 272 euros (represented by 306 400 new shares).

As a result, the authorised capital amounted to 696 103 433.56 euros at year-end 2015. Consequently, when account is taken of the accounting par value of the share on 31 December 2015, a maximum of 200 029 722 new shares can still be issued, i.e. 47.84% of the number of shares in circulation at that time.

The General Meeting of 2 May 2013 authorised the Board (and also granted it a power of sub-delegation) to acquire maximum 250 000 shares over a five-year period. The shares may be acquired at a price that may not be higher than the last closing price on Euronext Brussels prior to the date of acquisition, plus 10%, and not lower than 1 euro. Within the confines of the law, this authorisation is valid for all acquisitions for a consideration, in the broadest sense of the term, on or off the exchange.

The boards of KBC Group NV and its direct subsidiaries received authorisation to sell their KBC Group NV shares on or off the exchange. In the latter case, the price may not be lower than that prevailing on the exchange at the time of sale, less 10%. On 31 December 2015, KBC Group NV and its *direct* subsidiaries did not hold any KBC Group NV shares.

9 Significant agreements to which KBC Group NV is a party and which take effect, alter or terminate upon a change of control of KBC Group NV following a public takeover bid

None.

10 Agreements between KBC and its directors or employees providing for compensation if the directors resign or are made redundant, or if employees are made redundant, without valid reason following a public takeover bid

None.

Shareholder structure on 31 December 2015

Notifications of shareholdings are provided:
- under the Act of 2 May 2007 (see A below);
- under the Act on public takeover bids (see B below);
- on a voluntary basis.

A summary containing the most recent disclosures is provided under 'Our business model and strategy' in the 'Report of the Board of Directors' section.

It should be noted that the figures provided under A) and B) below may differ from the current number of shares in possession, as a change in the number held does not always give rise to a new notification.

Shareholder structure based on notifications received under the Act of 2 May 2007 concerning the disclosure of significant participations in issuers whose shares are admitted to trading on a regulated market

Article 10bis of the Articles of Association of KBC Group NV stipulates the threshold at which individuals must disclose their shareholdings. KBC publishes these notifications on www.kbc.com. The table provides an overview of the shareholder structure at year-end 2015, based on all the notifications received by 31 December 2015. The 'Company annual accounts and additional information' section also contains an overview of notifications received in 2015 (and the first two months of 2016).

Shareholder structure on 31-12-2015 (based on the most recent notifications received pursuant to the Act of 2 May 2007)	Address	Number of KBC shares/voting rights (as a % of the current number of shares/voting rights)	Notification relating to
KBC Ancora Comm.VA	Mgr. Ladeuzeplein 15, 3000 Leuven, Belgium	77 516 380 (18.54%)	1 December 2014
Cera CVBA	Mgr. Ladeuzeplein 15, 3000 Leuven, Belgium	11 127 166 (2.66%)	1 December 2014
MRBB CVBA	Diestsevest 40, 3000 Leuven, Belgium	47 889 864 (11.45%)	1 December 2014
Other core shareholders	C/o Ph. Vlerick, Ronsevaalstraat 2, 8510 Bellegem, Belgium	32 020 498 (7.66%)	1 December 2014
KBC group companies	Havenlaan 2, 1080 Brussels, Belgium	300 (0.00%)	16 October 2012
Blackrock Inc.	12 Throgmorton Avenue, London EC2N 2DL, United Kingdom	20 934 882 (5.01%)	4 December 2015
FMR LLC (Fidelity)	245 Summer Street, Boston, Massachusetts 02210, United States	12 312 076 (2.94%)	4 May 2015
Parvus Asset Management Europe Ltd.	7 Clifford Street, London W1S 2FT, United Kingdom	12 341 146 (2.95%)	13 February 2015

New notifications were received at the start of 2016 (see the 'Company annual accounts and additional information' section, Note 3).

Disclosures under Article 74 of the Belgian Act on public takeover bids

Within the framework of this law, KBC Group NV received a number of updated disclosures on 20 August 2015. The entities and individuals referred to below act in concert.

A Disclosures by
a legal entities
b individuals holding 3% or more of securities carrying voting rights[1]

Shareholder	Shareholding (quantity)	%[2]	Shareholder	Shareholding (quantity)	%[2]
KBC Ancora Comm. VA	77 516 380	18.54	Bareldam SA	387 544	0.09
MRBB CVBA	47 889 864	11.45	Robor NV	359 606	0.09
Cera CVBA	11 127 166	2.66	Dufinco BVBA	357 002	0.09
SAK AGEV	6 461 885	1.55	Sereno SA	321 408	0.08
Ravago Finance NV	3 855 915	0.92	Rodep Comm. VA	304 181	0.07
VIM CVBA	3 834 500	0.92	Efiga Invest SPRL	230 806	0.06
3D NV	2 491 893	0.60	Gavel Comm. VA	220 024	0.05
Almafin SA	1 285 997	0.31	Ibervest	190 000	0.05
De Berk BVBA	1 138 208	0.27	Promark International NV	189 008	0.05
Algimo NV	1 040 901	0.25	Niramore International SA	150 700	0.04
SAK PULA	981 450	0.23	SAK Iberanfra	120 107	0.03
Rainyve SA	941 958	0.23	Isarick NV	45 056	0.01
Alia SA	937 705	0.22	Agrobos	45 000	0.01
Stichting Amici Almae Matris	912 731	0.22	Filax Stichting	38 529	0.01
Ceco CVA	568 849	0.14	I.B.P Ravaga Pensioenfonds	34 833	0.01
Van Holsbeeck NV	502 822	0.12	Hendrik Van Houtte CVA	25 920	0.01
Nascar Finance SA	485 620	0.12	Asphalia NV	14 241	0.00
Cecan NV	466 002	0.11	Vobis Finance NV	685	0.00
Cecan Invest NV	397 563	0.10			

B Disclosures by individuals holding less than 3% of securities carrying voting rights
(the identity of the individuals concerned does not have to be disclosed)

Shareholding (quantity)	%[2]	Shareholding (quantity)	%[2]	Shareholding (quantity)	%[2]	Shareholding (quantity)	%[2]
861 395	0.21	182 826	0.04	80 500	0.02	20 836	0.00
285 000	0.07	159 100	0.04	46 821	0.01	19 522	0.00
285 000	0.07	107 744	0.03	41 500	0.01	3 431	0.00
193 200	0.05	107 498	0.03	32 554	0.01	2 800	0.00

1 No such disclosures were received.
2 The calculation (%) of the total outstanding number of shares is based on the total number of shares on 31 December 2015.

Consolidated financial statements

Building a better working world

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Free translation from the Dutch original

Statutory auditor's report to the general meeting of the company KBC Group nv for the year ended 31 December 2015

In accordance with the legal requirements, we report to you in the context of our statutory auditor's mandate. This report includes our opinion on the consolidated balance sheet as at 31 December 2015, the consolidated income statement, the statement of comprehensive income, the consolidated statement of changes in equity and consolidated cashflow statement for the year ended 31 December 2015 and the notes (all elements together "the Consolidated Financial Statements"), and includes as well our report on other legal and regulatory requirements.

Report on the Consolidated Financial Statements - Unqualified opinion

We have audited the Consolidated Financial Statements of KBC Group nv ("the Company") and its subsidiaries (together "the Group") as of and for the year ended 31 December 2015, prepared in accordance with the *International Financial Reporting Standards* as adopted by the European Union, which show a consolidated balance sheet total of € 252.356 million and of which the consolidated income statement shows a profit for the year of € 2.639 million.

Responsibility of the Board of Directors for the preparation of the Consolidated Financial Statements

The Board of Directors is responsible for the preparation of Consolidated Financial Statements that give a true and fair view in accordance with the *International Financial Reporting Standards* as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation of Consolidated Financial Statements that give a true and fair view and that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the given circumstances.

Responsibility of the statutory auditor

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"). Those standards require that we comply with the 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 presentation of the Consolidated Financial Statements that give a true and fair view, 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, the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the Consolidated Financial Statements.

We have obtained from the Board of Directors and the Company's officials the explanations and information necessary for performing our audit and 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 of the Group as at 31 December 2015 give a true and fair view of the consolidated net equity and financial position, as well as its consolidated results and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

The Board of Directors is responsible for the preparation and the content of the Board of Director's report on the Consolidated Financial Statements, in accordance with article 119 of the Belgian Company Code.

In the context of our mandate and in accordance with the additional standard issued by the 'Instituut van de Bedrijfsrevisoren/Institut des Réviseurs d'Entreprises' as published in the Belgian Gazette on 28 August 2013 (the "Additional Standard"), it is our responsibility to perform certain procedures to verify, in all material respects, compliance with certain legal and regulatory requirements, as defined in the Additional Standard. On this basis, we make the following additional statement, which does not modify the scope of our opinion on the Consolidated Financial Statements.

- The Board of Director's report to 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.

Brussels, 17 March 2016

Ernst & Young Bedrijfsrevisoren bcvba / Réviseurs d'Entreprises sccrl
Statutory auditor
Represented by

Christel Weymeersch*
Partner
* Acting on behalf of a bvba/sprl

Jean-François Hubin*
Partner
* Acting on behalf of a bvba/sprl

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Consolidated income statement

(in millions of EUR)	Note	2014	2015
Net interest income	3	4 308	4 311
Interest income	3	7 893	7 150
Interest expense	3	-3 586	-2 839
Non-life insurance (before reinsurance)	9, 11	512	611
Earned premiums	9, 11	1 266	1 319
Technical charges	9, 11	-754	-708
Life insurance (before reinsurance)	9, 10	-216	-201
Earned premiums	9, 10	1 247	1 301
Technical charges	9, 10	-1 463	-1 502
Ceded reinsurance result	9	16	-29
Dividend income	4	56	75
Net result from financial instruments at fair value through profit or loss	5	227	214
Net realised result from available-for-sale assets	6	150	190
Net fee and commission income	7	1 573	1 678
Fee and commission income	7	2 245	2 348
Fee and commission expense	7	-672	-670
Other net income	8	94	297
TOTAL INCOME		**6 720**	**7 148**
Operating expenses	12	-3 818	-3 890
Staff expenses	12	-2 248	-2 245
General administrative expenses	12	-1 303	-1 392
Depreciation and amortisation of fixed assets	12	-266	-253
Impairment	14	-506	-747
on loans and receivables	14	-587	-323
on available-for-sale assets	14	-29	-45
on goodwill	14	0	-344
other	14	109	-34
Share in results of associated companies and joint ventures	15	25	24
RESULT BEFORE TAX		**2 420**	**2 535**
Taxes	16	-657	104
Net post-tax result from discontinued operations		0	0
RESULT AFTER TAX		**1 763**	**2 639**
attributable to minority interests		0	0
of which relating to discontinued operations		*0*	*0*
attributable to equity holders of the parent		**1 762**	**2 639**
of which relating to discontinued operations		*0*	*0*
Earnings per share (in EUR)			
Ordinary	17	3.32	3.80
Diluted	17	3.32	3.80

- We have dealt with the main items in the income statement under 'Consolidated results in 2015' in the 'Report of the Board of Directors' and 'Our business units' sections. The statutory auditor has not audited these sections.

Consolidated statement of comprehensive income

(in millions of EUR)	2014	2015
RESULT AFTER TAX	**1 763**	**2 639**
attributable to minority interests	0	0
attributable to equity holders of the parent	1 762	2 639
OTHER COMPREHENSIVE INCOME		
Recycled to profit or loss		
Net change in revaluation reserve for shares	47	176
Fair value adjustments before tax	119	259
Deferred tax on fair value changes	-4	-11
Transfer from reserve to net result	-68	-72
Impairment	8	7
Net gains/losses on disposal	-76	-79
Deferred taxes on income	0	0
Net change in revaluation reserve for bonds	675	-210
Fair value adjustments before tax	1 006	-258
Deferred tax on fair value changes	-334	91
Transfer from reserve to net result	2	-44
Impairment	0	0
Net gains/losses on disposal	-34	-57
Amortisation and impairment of revaluation reserve for available-for-sale financial assets following reclassification to 'loans and receivables' and 'held-to-maturity assets'	38	-3
Deferred taxes on income	-2	16
Net change in revaluation reserve for other assets	0	0
Fair value adjustments before tax	0	0
Deferred tax on fair value changes	0	0
Transfer from reserve to net result	0	0
Impairment	0	0
Net gains/losses on disposal	0	0
Deferred taxes on income	0	0
Net change in hedging reserve (cashflow hedges)	-871	222
Fair value adjustments before tax	-1 287	302
Deferred tax on fair value changes	440	-110
Transfer from reserve to net result	-25	29
Gross amount	-28	39
Deferred taxes on income	3	-9
Net change in translation differences	79	272
Gross amount	9	169
Deferred taxes on income	70	103
Other movements	1	2
Not recycled to profit or loss		
Net change in defined benefit plans	-198	226
Remeasurements (IAS 19)	-281	323
Deferred tax on remeasurements (IAS 19)	83	-97
TOTAL COMPREHENSIVE INCOME	**1 495**	**3 327**
attributable to minority interests	0	0
attributable to equity holders of the parent	1 494	3 326

Consolidated balance sheet

ASSETS (in millions of EUR)	Note	31-12-2014	31-12-2015
Cash and cash balances with central banks	–	5 771	7 038
Financial assets	18–29	231 421	237 346
Held for trading	18–29	12 182	10 385
Designated at fair value through profit or loss	18–29	18 163	16 514
Available for sale	18–29	32 390	35 670
Loans and receivables	18–29	135 784	141 305
Held to maturity	18–29	31 799	32 958
Hedging derivatives	18–29	1 104	514
Reinsurers' share in technical provisions, insurance	35	194	127
Fair value adjustments of the hedged items in portfolio hedge of interest rate risk	–	168	105
Tax assets	31	1 814	2 336
Current tax assets	31	88	107
Deferred tax assets	31	1 726	2 228
Non-current assets held for sale and disposal groups	–	18	15
Investments in associated companies and joint ventures	32	204	207
Investment property	33	568	438
Tangible fixed assets	33	2 278	2 299
Goodwill and other intangible assets	34	1 258	959
Other assets	30	1 480	1 487
TOTAL ASSETS		**245 174**	**252 356**
LIABILITIES AND EQUITY (in millions of EUR)	**Note**	**31-12-2014**	**31-12-2015**
Financial liabilities	18–29	205 644	213 333
Held for trading	18–29	8 449	8 334
Designated at fair value through profit or loss	18–29	23 908	24 426
Measured at amortised cost	18–29	169 796	178 383
Hedging derivatives	18–29	3 491	2 191
Technical provisions (before reinsurance)	35	18 934	19 532
Fair value adjustments of the hedged items in portfolio hedge of interest rate risk	–	189	171
Tax liabilities	31	697	658
Current tax liabilities	31	98	109
Deferred tax liabilities	31	599	549
Liabilities associated with disposal groups	–	0	0
Provisions for risks and charges	36	560	310
Other liabilities	37	2 629	2 541
TOTAL LIABILITIES		**228 652**	**236 545**
Total equity	**39**	**16 521**	**15 811**
Parent shareholders' equity	39	13 125	14 411
Non-voting core-capital securities	39	2 000	0
Additional tier-1 instruments included in equity	39	1 400	1 400
Minority interests	39	-3	0
TOTAL LIABILITIES AND EQUITY		**245 174**	**252 356**

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)	Remeasurement of defined benefit plans	Reserves	Translation differences	Parent shareholders' equity	Non-voting core-capital securities	Additional tier-1 instruments included in equity	Minority interests	Total equity
2014													
Balance at the beginning of the period	1 452	5 404	0	1 094	-497	65	4 648	-340	11 826	2 333	0	354	14 514
Net result for the period	0	0	0	0	0	0	1 762	0	1 762	0	0	0	1763
Other comprehensive income	0	0	0	722	-871	-198	1	79	-268	0	0	0	-268
Subtotal, comprehensive income	0	0	0	722	-871	-198	1 763	79	1 494	0	0	0	1 495
Dividends	0	0	0	0	0	0	0	0	0	0	0	0	0
Coupon on non-voting core-capital securities	0	0	0	0	0	0	0	0	0	0	0	0	0
Coupon on additional tier-1 instruments included in equity	0	0	0	0	0	0	-39	0	-39	0	0	0	-39
Capital increase	1	17	0	0	0	0	0	0	19	0	0	0	19
Redemption of non-voting core-capital securities	0	0	0	0	0	0	-167	0	-167	-333	0	0	-500
Issue of additional tier-1 instruments included in equity	0	0	0	0	0	0	-6	0	-6	0	1 400	0	1 394
Effect of business combinations	0	0	0	0	0	0	-2	0	-2	0	0	0	-2
Change in minority interests	0	0	0	0	0	0	0	0	0	0	0	0	0
Change in scope	0	0	0	0	0	0	0	0	0	0	0	-358	-358
Total change	1	17	0	722	-871	-198	1 548	79	1 298	-333	1 400	-358	2 007
Balance at the end of the period	1 453	5 421	0	1 815	-1 368	-133	6 197	-261	13 125	2 000	1 400	-3	16 521
of which revaluation reserve for shares	–	–	–	370	–	–	–	–	–	–	–	–	–
of which revaluation reserve for bonds	–	–	–	1 445	–	–	–	–	–	–	–	–	–
of which relating to non-current assets held for sale and disposal groups	–	–	–	–	–	–	–	–	–	–	–	–	–
of which relating to application of the equity method	–	–	–	23	0	0	0	0	23	–	–	–	23
2015													
Balance at the beginning of the period	1 453	5 421	0	1 815	-1 368	-133	6 197	-261	13 125	2 000	1 400	-3	16 521
Net result for the period	0	0	0	0	0	0	2 639	0	2 639	0	0	0	2 639
Other comprehensive income	0	0	0	-34	222	226	2	272	688	0	0	0	688
Subtotal, comprehensive income	0	0	0	-34	222	226	2 640	272	3 326	0	0	0	3 327
Dividends	0	0	0	0	0	0	-836	0	-836	0	0	0	-836
Coupon on non-voting core-capital securities	0	0	0	0	0	0	-171	0	-171	0	0	0	-171
Coupon on additional tier-1 instruments included in equity	0	0	0	0	0	0	-52	0	-52	0	0	0	-52
Capital increase	1	16	0	0	0	0	0	0	17	0	0	0	17
Redemption of non-voting core-capital securities	0	0	0	0	0	0	-1 000	0	-1 000	-2 000	0	0	-3 000
Issue of additional tier-1 instruments included in equity	0	0	0	0	0	0	0	0	0	0	0	0	0
Effect of business combinations	0	0	0	0	0	0	0	0	0	0	0	0	0
Change in minority interests	0	0	0	0	0	0	0	0	0	0	0	0	0
Change in scope	0	0	0	1	0	0	0	0	1	0	0	3	4
Total change	1	16	0	-33	222	226	582	272	1 286	-2 000	0	3	-710
Balance at the end of the period	1 454	5 437	0	1 782	-1 146	94	6 779	11	14 411	0	1 400	0	15 811
of which revaluation reserve for shares	–	–	–	547	–	–	–	–	–	–	–	–	–
of which revaluation reserve for bonds	–	–	–	1 235	–	–	–	–	–	–	–	–	–
of which relating to non-current assets held for sale and disposal groups	–	–	–	–	–	–	–	-3	-3	–	–	–	-3
of which relating to application of the equity method	–	–	–	22	0	0	0	7	28	–	–	–	28

- As regards the non-voting core-capital securities (sold to the Belgian Federal and Flemish Regional governments), KBC repaid the outstanding state aid (2 billion euros plus a 50% penalty to the Flemish Regional Government) in full at the end of 2015. For additional information, see Note 39.
- For information on capital increases, additional tier-1 instruments and number of shares, see Note 39.
- For information on the shareholder structure, see Note 3 in the 'Company annual accounts and additional information' section and the 'Corporate governance statement' in the 'Report of the Board of Directors' section.
- The 'Dividends' item in 2015 includes payment of a dividend of 2 euros per share entitled to dividend for financial year 2014 (836 million euros in total). Related to the payment of this dividend, the 'Coupon on non-voting core-capital securities' item contains a 171-million-euro coupon paid in respect of state aid. Subject to the approval of the General Meeting of Shareholders, KBC does not plan to pay a dividend for financial year 2015 (nor a coupon on the state aid).
- In 2015, the revaluation reserve (for available-for-sale assets) contracted by 33 million euros, due primarily to bonds (a decrease of 210 million euros) and to shares (an increase of 177 million euros; the figure included 69 million euros for Visa Europe Limited shares (following the public offering of Visa Inc.)). The hedging reserve (cashflow hedges) went up by 222 million euros in 2015.
- There was a 272-million-euro change in translation differences in 2015 due in part to 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)	Reference[1]	2014	2015
Operating activities			
Result before tax	See consolidated income statement	2 420	2 535
Adjustments for:			
Result before tax from discontinued operations	See consolidated income statement	0	0
Depreciation, impairment and amortisation of property and equipment, intangible fixed assets, investment property and securities	21, 33, 34	213	698
Profit/Loss on the disposal of investments	–	-25	-24
Change in impairment on loans and advances	14	587	323
Change in technical provisions (before reinsurance)	35	143	429
Change in the reinsurers' share in the technical provisions	35	-48	69
Change in other provisions	36	-37	-224
Other unrealised gains or losses	–	967	147
Income from associated companies and joint ventures	15	-25	-24
Cashflows from operating profit before tax and before changes in operating assets and liabilities	–	4 195	3 927
Changes in operating assets (excluding cash and cash equivalents)	–	-11 151	-2 897
Financial assets held for trading	18	-248	1 656
Financial assets at fair value through profit or loss	18	-686	2 066
Available-for-sale assets	18	-4 561	-3 324
Loans and receivables	18	-5 037	-3 866
Hedging derivatives	18	-325	590
Operating assets associated with disposal groups, and other assets	–	-294	-20
Changes in operating liabilities (excluding cash and cash equivalents)	–	11 913	10 032
Deposits measured at amortised cost	18	12 076	9 464
Debts represented by securities measured at amortised cost	18	3 218	255
Financial liabilities held for trading	18	-4 682	172
Financial liabilities at fair value through profit or loss	18	1 112	1 226
Hedging derivatives	18	522	-998
Operating liabilities associated with disposal groups, and other liabilities	–	-333	-88
Income taxes paid	16	-407	-457
Net cash from or used in operating activities		4 550	10 604

Consolidated cashflow statement (continuation)

(in millions of EUR)	Reference[1]	2014	2015
Investing activities			
Purchase of held-to-maturity securities	18	-1 929	-3 202
Proceeds from the repayment of held-to-maturity securities at maturity	18	1 012	2 029
Acquisition of a subsidiary or a business unit, net of cash acquired (including increases in percentage interest held)	–	0	200
Proceeds from the disposal of a subsidiary or business unit, net of cash disposed of (including decreases in percentage interest held)	See next table	559	0
Purchase of shares in associated companies and joint ventures	32	0	0
Proceeds from the disposal of shares in associated companies and joint ventures	32	0	0
Dividends received from associated companies and joint ventures	32	-30	23
Purchase of investment property	33	-19	-5
Proceeds from the sale of investment property	33	53	15
Purchase of intangible fixed assets (excluding goodwill)	34	-153	-158
Proceeds from the sale of intangible fixed assets (excluding goodwill)	34	28	39
Purchase of property and equipment	33	-441	-558
Proceeds from the sale of property and equipment	33	304	233
Net cash from or used in investing activities		-615	-1 385
Financing activities			
Purchase or sale of treasury shares	See consolidated statement of changes in equity	0	0
Issue or repayment of promissory notes and other debt securities	18	-4 148	-537
Proceeds from or repayment of subordinated liabilities	18	-2 396	-277
Principal payments under finance lease obligations	–	0	0
Proceeds from the issuance of share capital	See consolidated statement of changes in equity	19	17
Redemption of non-voting core-capital securities	See consolidated statement of changes in equity	-500	-3 000
Proceeds from the issuance of preference shares	See consolidated statement of changes in equity	1 042	0
Dividends paid	See consolidated statement of changes in equity	-39	-1 058
Net cash from or used in financing activities		-6 023	-4 855
Change in cash and cash equivalents			
Net increase or decrease in cash and cash equivalents	–	-2 088	4 364
Cash and cash equivalents at the beginning of the period	–	8 691	6 518
Effects of exchange rate changes on opening cash and cash equivalents	–	-84	104
Cash and cash equivalents at the end of the period	–	6 518	10 987
Additional information			
Interest paid[2]	3	-3 586	-2 839
Interest received[2]	3	7 893	7 150
Dividends received (including equity method)	4, 32	56	98
Components of cash and cash equivalents			
Cash and cash balances with central banks	See consolidated balance sheet	5 771	7 038
Loans and advances to banks repayable on demand and term loans to banks at not more than three months	18	4 287	6 541
Deposits from banks repayable on demand	18	-3 539	-2 593
Cash and cash equivalents belonging to disposal groups	–	0	0
Total	–	6 518	10 987
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.
- More information on the main acquisitions and divestments of consolidated subsidiaries and activities already completed is provided below. All material acquisitions and divestments of group companies or activities were paid for in cash.
- In 2015, KBC made a number of limited acquisitions that had a net positive impact of 0.2 billion euros on cashflows from investing activities. The acquisitions in question included VB Leasing SK, spol. s.r.o. (together with VB Leasing Sprostredkovatel'ská s.r.o.). Given their limited size, they have not been included in the following table.

Year	2014
(in millions of EUR)	**KBC Bank Deutschland**
Purchase or sale	Sale
Percentage of shares bought or sold in the relevant year	100%
Total share percentage at the end of the relevant year	0%
For business unit/segment	Group Centre
Deal date (month and year)	September 2014
Results of the relevant company/business recognised in the group result up to and including:	30 September 2014
Purchase price or sale price	90
Cashflow for acquiring or selling companies less cash and cash equivalents acquired or sold	559
Assets and liabilities bought or sold	
Cash and cash balances with central banks	12
Financial assets	2 230
Held for trading	19
Designated at fair value through profit or loss	0
Available for sale	163
Loans and receivables	1 985
Held to maturity	64
Hedging derivatives	0
of which cash and cash equivalents	*14*
Financial liabilities	1 781
Held for trading	9
Designated at fair value through profit or loss	0
Measured at amortised cost	1 772
Hedging derivatives	0
of which cash and cash equivalents	*483*
Technical provisions (before reinsurance)	0

Notes on the accounting policies

Note 1 a: Statement of compliance

The consolidated financial statements, including all the notes, were authorised for issue on 17 March 2016 by the Board of Directors. These financial statements 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 became effective on 1 January 2015 and have been applied by KBC in this report.

- IFRIC 21 (Levies) was approved by the European Union in June 2014. It became effective on 1 January 2015 and needs to be applied retroactively. The main consequence of IFRIC 21 in 2015 was that certain levies had to be recognised in advance, which impacted the quarterly results. However, there was no impact on the annual result.

The following (amendments to) IFRS were issued but not yet mandatory at year-end 2015. KBC has decided to apply these standards with effect from 2016.

- The amendment to IAS 1 (Presentation of Financial Statement) requires the aggregate share in 'other comprehensive income' of associated companies and joint ventures to be recognised separately. It 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 following IFRS were issued but not yet effective at year-end 2015. KBC will apply these standards when they become mandatory.

- 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 the entire IFRS 9 is 1 January 2018. A project relating to IFRS 9 has been running for some time at KBC and it gained momentum in 2015. The project is being managed by the Finance function (along with the Credit Risk function for Phase 2) and involves all the departments and entities that are affected. It comprises a group component as well as a local component relating to implementation at the various group entities. IFRS 9 comprises three phases:
  - Phase 1: Introduction of a new method to classify and measure financial assets and liabilities on the balance sheet;
  - Phase 2: Deals with the impairment of financial assets and the move from an incurred loss model to an expected credit loss model;
  - Phase 3: Introduction of a new model for micro hedging.

  The three phases of IFRS 9 determine the structure of the project. One common aspect relates to the impact on reporting and disclosures. The most complex aspect of implementation and the main workload is situated in Phase 2. In this phase, financial assets that are subject to impairment are 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.

The following aspects are covered specifically in Phase 2:
- designing IFRS 9-compliant credit models that measure losses over the lifetime of the credit and incorporate forecasts of macroeconomic conditions;
- defining IFRS 9-compliant impairment policies, including the criteria for moving between the three stages;
- rolling out software to calculate credit losses and generate corresponding disclosures;
- modifying governance to accommodate IFRS 9 and to be in line with the Basel Committee 'Guidance on credit risk and accounting for expected credit losses'.

The IFRS 9 project is being implemented according to plan. During 2015, KBC performed a high-level impact study for IFRS 9 and developed a number of pilot models to measure impairment. The study was based on information currently available and may change if other detailed analyses or additional information becomes available to KBC in the future. At present, KBC does not anticipate the changes in classification and measurement of financial assets and liabilities to have any significant impact on the balance sheet or equity. As regards the effect of implementing new impairment rules under IFRS 9, KBC currently expects provisioning for impairment losses to increase, which would have a negative impact on equity. Draft IFRS 9-compliant impairment policies were also drawn up in 2015, as were draft guidelines for developing IFRS 9-compliant models. In addition, preparations were started to implement the necessary ICT solutions. KBC will take part in the first EBA impact study in 2016 and currently expects to announce stable impact assessments in the second half of 2017.

- In May 2014, the IASB issued IFRS 15 (Revenue from Contracts with Customers) concerning the recognition of revenue. In 2015, the IASB proposed putting back the effective date to 1 January 2018 and also added a number of clarifications. The potential impact of this is currently being analysed.
- The IASB published several limited amendments to existing IFRSs in the course of 2015. They will be applied when they become mandatory, but their impact is currently estimated to be negligible.

Note 1 b: Summary of significant accounting policies

a Criteria for consolidation and for inclusion in the consolidated accounts according to 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 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 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 is 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 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 Technical provisions

Provision for unearned premiums and unexpired risk

For primary business, the provision for unearned premiums is in principle calculated on a daily basis, based on the gross premiums.
For inward treaties, i.e. reinsurance business received, the provision for unearned premiums is calculated for each contract separately on the basis of the information communicated by the ceding undertaking and, where necessary, supplemented on the basis of the company's own view of how the risk will change over time.
The provision for unearned premiums for the life insurance business is recorded under the provision for the life insurance group of activities.

Life insurance provision

Except for unit-linked life insurance products, this provision is calculated according to current actuarial principles, with account being taken of the provision for unearned premiums, the ageing reserve, provision for annuities payable but not yet due, etc.
In principle, this provision is calculated separately for every insurance contract.
For accepted business, a provision is constituted for each individual contract, based on the information supplied by the ceding undertaking and supplemented, where necessary, by the company's own past experience.
Besides the rules set out below, an additional provision is set aside as required by law.

The following rules apply:

- *Valuation according to the prospective method.* This method is applied for the provisions for conventional non-unit-linked life insurance policies, modern non-unit-linked universal life insurance policies offering a guaranteed rate of interest on future premium payments and for the provision for extra-legal benefits for employees in respect of current annuities. Calculations according to prospective actuarial formulas are based on the technical assumptions made in the contracts.
- *Valuation according to the retrospective method.* This method is applied for the provision for modern non-unit-linked universal life insurance policies and for the provision for extra-legal benefits for employees in respect of new supplementary premium payments. Calculations according to retrospective actuarial formulas are based on the technical assumptions made in the contracts, though no account is taken of future payments.

Provision for claims outstanding

For claims reported, the provision is in principle measured separately in each case, taking into account the known facts in the claims file, on the basis of the amounts still due to the injured parties or beneficiaries, plus external costs of settling claims. Where benefits have to be paid in the

form of an annuity, the amounts to be set aside for that purpose are calculated using recognised actuarial methods.
For 'claims incurred but not reported' at balance sheet date, an IBNR (Incurred But Not Reported) provision is set aside. In the primary business, this IBNR provision is based on a lump sum per class of insurance depending upon past experience and the trend in the insured portfolio. For extraordinary events, additional amounts are added to the IBNR provision.
For 'claims incurred but not enough reserved' at balance sheet date, an IBNER (Incurred But Not Enough Reserved) provision is set aside if the adequacy procedures demonstrate that the other claims provisions are insufficient to meet future liabilities. This provision contains amounts for claims which have already been reported but which, for technical reasons, could not yet be recorded in the claims file. Where appropriate, a provision is set aside on a prudent basis for possible liabilities arising for claims files already closed.
A provision for the internal cost of settling claims is calculated at a percentage that is based on past experience.
Additional provisions are also constituted as required by law, such as supplementary workmen's compensation provisions.

Provision for profit sharing and rebates
This heading includes the provision for the profit share that has been allocated but not yet awarded at the end of the financial year for both the group of life insurance activities and the group of non-life insurance activities.

Liability adequacy test
A liability adequacy test is performed to evaluate current liabilities, detect possible deficiencies and recognise them in profit or loss.

Ceded reinsurance and retrocession
The effect of reinsurance business ceded and retrocession is entered as an asset and calculated for each contract separately, supplemented where necessary by the company's own past experience regarding the evolution of the risk over time.

g Insurance contracts measured in accordance with IFRS 4 – phase 1
Deposit accounting rules apply to financial instruments that do not include a discretionary participation feature (DPF), and to the deposit component of unit-linked insurance contracts. This means that the deposit component and insurance component are measured separately. In deposit accounting, the portion of the premiums relating to the deposit component is not taken to the income statement, nor is the resulting increase in the carrying value of the liability. Management fees and commissions are recognised immediately in the income statement. When the value of unit-linked investments fluctuates subsequently, both the change on the asset side and the resulting change on the liabilities side are taken to the income statement immediately. Therefore, after initial recognition, the deposit component is measured at fair value through profit or loss. This fair value is determined by multiplying the number of units by the value of the unit, which is based upon the fair value of the underlying financial instruments. Settlements relating to the deposit component are not recorded in the income statement, but will result in a decrease in the carrying value of the liability.
Financial instruments with a discretionary participation feature and the insurance component of unit-linked contracts are treated as non-unit-linked insurance contracts (see f Technical provisions), and are not unbundled into a deposit component and an insurance component. On the balance sheet date, the liabilities resulting from these financial instruments or insurance contracts are tested to see if they are adequate, according to the liability adequacy test. If the carrying value of these liabilities is lower than their estimated future discounted cashflows, the deficiency will be recognised in the income statement against an increase in the liability.

h 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 defined benefit liability/asset are recognised in operating expenses (service costs), in interest expense (net interest costs) and in other comprehensive income (remeasurements).

i 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. 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.

j 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.

k 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 non-voting core-capital securities (also referred to as yield-enhanced securities or YES) issued to the governments are considered an equity instrument, with the coupon being accounted for directly in equity. Since payment of the coupon on the YES is conditional upon payment of a dividend on ordinary shares, coupons are recognised at the same time as dividends on ordinary shares (i.e. the coupon is not accrued in equity).

- The acquisition cost of KBC Group NV treasury shares is deducted from equity. On the sale, issuance or cancellation of treasury shares, gains or losses are reported directly in equity.
- Transactions in derivative financial instruments on KBC shares are likewise reported in equity, save in the event of net cash settlement.
- Written stock options on KBC shares subject to IFRS 2 are measured at fair value on the grant date. This fair value is recognised in the income statement as a staff expense over the period of service, against a separate entry under equity.
- 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. The difference is recognised either as an asset (goodwill) or in the income statement (negative goodwill).

l Exchange rates used*

	Exchange rate at 31-12-2015		Exchange rate average in 2015	
	1 EUR = … … currency	Change from 31-12-2014 (positive: appreciation relative to EUR) (negative: depreciation relative to EUR)	1 EUR = … … currency	Change relative to average in 2014 (positive: appreciation relative to EUR) (negative: depreciation relative to EUR)
CZK	27.023	3%	27.299	1%
GBP	0.7340	6%	0.7261	11%
HUF	315.98	0%	309.57	0%
USD	1.0887	12%	1.1098	20%

* Rounded figures.

m Changes made to accounting policies in 2015

No material changes were made to the accounting policies in 2015.

Notes on segment reporting

Note 2: Segment reporting based on the management structure

The group's segments or business units

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). This structure forms the basis for our financial segment reporting presentation.

The 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, Bulgaria);
- the Group Centre (results of the holding company, certain items that are not allocated to the other business units, results of companies to be divested, and the impact of the legacy business and own credit risk (see below)).

A more detailed definition is provided in the 'Our business units' section.

Segment reporting

Prior to year-end 2014, we provided 'adjusted figures' alongside the figures according to IFRS, to give more insight into the ongoing business performance. As a consequence, a number of non-operating items (legacy CDO activities, legacy business of divestment companies and the impact of changes in the fair value of own debt instruments due to own credit risk) were not recognised in the income statement, but were summarised instead in three lines at the bottom of the presentation, and the Belgium Business Unit's trading results were recognised under 'Net result from financial instruments at fair value'. Segment reporting was based entirely on these 'adjusted results'. A detailed definition of 'adjusted results' can be found in our 2014 Annual Report.

We scrapped the adjusted results with effect from 2015 – with retroactive application to the 2014 figures for purposes of comparison – because the non-operating items had become immaterial (divestments completed, CDO exposure fully scaled back) and because it substantially simplified our financial reporting. As of this report, therefore, the segment data is based entirely on IFRS data. Moreover, we no longer split up the Group Centre into 'Group Centre (excl. intersegment eliminations)' and 'Intersegment eliminations', in accordance with internal reporting to management (also with retroactive application for 2014).

It should be noted that:

- In principle, we assign a group company in its entirety to one specific segment (see Note 44). Major 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.

Results by segment (business unit)

(in millions of EUR)	Belgium Business Unit	Czech Republic Business Unit	International Markets Business Unit	*Of which:* *Hungary*	*Slovakia*	*Bulgaria*	*Ireland*	Group Centre	KBC group
INCOME STATEMENT FOR 2014									
Net interest income	2 917	860	677	*274*	*210*	*43*	*149*	-146	4 308
Non-life insurance (before reinsurance)	374	75	68	*27*	*20*	*21*	*0*	-6	512
Earned premiums	964	165	153	*55*	*27*	*71*	*0*	-16	1 266
Technical charges	-590	-89	-86	*-29*	*-7*	*-50*	*0*	10	-754
Life insurance (before reinsurance)	-252	24	12	*-1*	*10*	*4*	*0*	-1	-216
Earned premiums	1 004	160	84	*15*	*53*	*16*	*0*	0	1 247
Technical charges	-1 256	-136	-71	*-16*	*-43*	*-12*	*0*	0	-1 463
Ceded reinsurance result	19	-7	2	*-2*	*-2*	*6*	*0*	2	16
Dividend income	49	0	0	*0*	*0*	*0*	*0*	7	56
Net result from financial instruments at fair value through profit or loss	44	62	73	*62*	*15*	*2*	*-7*	49	227
Net realised result from available-for-sale assets	115	9	16	*14*	*2*	*0*	*0*	10	150
Net fee and commission income	1 152	194	208	*160*	*46*	*1*	*-3*	19	1 573
Other net income	269	18	-227	*-225*	*0*	*0*	*-2*	34	94
TOTAL INCOME	4 688	1 235	828	*307*	*301*	*77*	*138*	-31	6 720
Operating expenses[a]	-2 282	-594	-740	*-368*	*-185*	*-52*	*-132*	-203	-3 818
Impairment	-251	-36	-284	*-49*	*-18*	*-10*	*-207*	65	-506
on loans and receivables	-205	-34	-273	*-47*	*-17*	*-10*	*-198*	-75	-587
on available-for-sale assets	-27	0	0	*0*	*0*	*0*	*0*	-1	-29
on goodwill	0	0	0	*0*	*0*	*0*	*0*	0	0
other	-19	-3	-11	*-1*	*0*	*0*	*-9*	142	109
Share in results of associated companies and joint ventures	-1	23	0	*0*	*0*	*0*	*0*	3	25
RESULT BEFORE TAX	2 154	628	-196	*-109*	*98*	*15*	*-202*	-166	2 420
Taxes	-638	-100	14	*15*	*-24*	*0*	*23*	65	-657
Net post-tax result from discontinued operations	0	0	0	*0*	*0*	*0*	*0*	0	0
RESULT AFTER TAX	1 517	528	-182	*-94*	*75*	*15*	*-179*	-100	1 763
attributable to minority interests	0	0	0	*0*	*0*	*0*	*0*	0	0
attributable to equity holders of the parent	**1 516**	**528**	**-182**	***-94***	***75***	***15***	***-179***	**-100**	**1 762**
a Of which non-cash expenses	-61	-28	-48	*-26*	*-11*	*-3*	*-7*	-124	-260
Depreciation and amortisation of fixed assets	-59	-31	-49	*-27*	*-11*	*-3*	*-7*	-129	-268
Other	-1	4	1	*1*	*0*	*0*	*0*	4	7
Acquisitions of non-current assets*	346	39	89	*21*	*29*	*6*	*33*	121	594

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

(in millions of EUR)	Belgium Business Unit	Czech Republic Business Unit	International Markets Business Unit	*Of which:* *Hungary*	*Slovakia*	*Bulgaria*	*Ireland*	Group Centre	KBC group
INCOME STATEMENT FOR 2015									
Net interest income	2 819	845	711	*248*	*214*	*47*	*202*	-63	4 311
Non-life insurance (before reinsurance)	460	80	81	*27*	*20*	*35*	*0*	-10	611
Earned premiums	989	177	169	*65*	*29*	*76*	*0*	-16	1 319
Technical charges	-530	-96	-88	*-38*	*-9*	*-41*	*0*	6	-708
Life insurance (before reinsurance)	-243	26	16	*2*	*10*	*4*	*0*	0	-201
Earned premiums	969	243	90	*15*	*52*	*23*	*0*	0	1 301
Technical charges	-1 212	-216	-73	*-13*	*-41*	*-20*	*0*	0	-1 502
Ceded reinsurance result	-20	-8	-6	*-3*	*-1*	*-2*	*0*	6	-29
Dividend income	65	0	0	*0*	*0*	*0*	*0*	10	75
Net result from financial instruments at fair value through profit or loss	162	98	76	*60*	*16*	*2*	*-2*	-121	214
Net realised result from available-for-sale assets	149	12	6	*3*	*2*	*0*	*1*	23	190
Net fee and commission income	1 280	201	206	*160*	*47*	*-2*	*-3*	-9	1 678
Other net income	207	23	50	*42*	*9*	*0*	*0*	17	297
TOTAL INCOME	4 878	1 277	1 141	*539*	*317*	*83*	*198*	-148	7 148
Operating expenses[a]	-2 373	-617	-752	*-353*	*-190*	*-56*	*-149*	-149	-3 890
Impairment	-222	-42	-84	*-8*	*-18*	*-10*	*-48*	-399	-747
on loans and receivables	-177	-36	-82	*-6*	*-18*	*-10*	*-48*	-28	-323
on available-for-sale assets	-38	-4	0	*0*	*0*	*0*	*0*	-3	-45
on goodwill	0	-2	0	*0*	*0*	*0*	*0*	-342	-344
other	-7	0	-2	*-2*	*0*	*0*	*0*	-25	-34
Share in results of associated companies and joint ventures	-1	23	0	*0*	*0*	*0*	*0*	3	24
RESULT BEFORE TAX	2 282	640	305	*179*	*108*	*17*	*1*	-693	2 535
Taxes	-717	-98	-60	*-47*	*-26*	*2*	*12*	980	104
Net post-tax result from discontinued operations	0	0	0	*0*	*0*	*0*	*0*	0	0
RESULT AFTER TAX	1 565	542	245	*131*	*82*	*18*	*13*	287	2 639
attributable to minority interests	0	0	0	*0*	*0*	*0*	*0*	0	0
attributable to equity holders of the parent	**1 564**	**542**	**245**	***131***	***82***	***18***	***13***	**287**	**2 639**
a Of which non-cash expenses	-55	-18	-56	*-24*	*-13*	*-3*	*-16*	-102	-231
Depreciation and amortisation of fixed assets	-57	-24	-61	*-25*	*-12*	*-3*	*-21*	-111	-253
Other	2	7	5	*1*	*-1*	*0*	*5*	9	22
Acquisitions of non-current assets*	406	82	93	*27*	*29*	*9*	*28*	142	722

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

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)	Belgium Business Unit	Czech Republic Business Unit	International Markets Business Unit	Of which: Hungary	Slovakia	Bulgaria	Ireland	Group Centre	KBC group
BALANCE SHEET AT 31-12-2014									
Deposits from customers and debt certificates (excluding repos)	105 885	22 047	14 860	*5 220*	*4 856*	*600*	*4 185*	11 187	153 979
Loans and advances to customers (excluding reverse repos)	84 165	16 216	20 790	*3 771*	*4 578*	*666*	*11 776*	1 990	123 161
Term loans (excluding reverse repos)	41 926	6 360	5 289	*1 915*	*1 527*	*284*	*1 562*	1 792	55 366
Mortgage loans	32 318	7 251	13 561	*1 320*	*1 807*	*239*	*10 195*	26	53 156
Current account advances	2 318	922	653	*312*	*329*	*0*	*12*	161	4 054
Finance leases	3 172	442	523	*92*	*425*	*0*	*6*	0	4 138
Consumer credit	1 088	1 028	654	*59*	*452*	*142*	*0*	0	2 770
Other loans and advances	3 343	213	111	*72*	*38*	*0*	*0*	12	3 678
BALANCE SHEET AT 31-12-2015									
Deposits from customers and debt certificates (excluding repos)	111 136	24 075	17 089	*5 862*	*5 263*	*692*	*5 272*	9 241	161 542
Loans and advances to customers (excluding reverse repos)	88 017	18 005	21 035	*3 552*	*5 462*	*725*	*11 295*	664	127 721
Term loans (excluding reverse repos)	43 969	7 137	5 106	*1 647*	*1 944*	*204*	*1 311*	649	56 860
Mortgage loans	33 341	8 079	13 657	*1 369*	*2 072*	*242*	*9 975*	0	55 078
Current account advances	2 271	954	800	*284*	*374*	*139*	*4*	0	4 026
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 loans and advances	3 958	241	102	*69*	*33*	*0*	*0*	15	4 316

Notes to the income statement

Note 3: Net interest income

(in millions of EUR)	2014	2015
Total	**4 308**	**4 311**
Interest income	**7 893**	**7 150**
Available-for-sale assets	763	717
Loans and receivables	4 510	4 085
Held-to-maturity investments	1 006	1 013
Other liabilities not at fair *value*	22	41
Subtotal, interest income from financial assets not measured at fair value through profit or loss	*6 301*	*5 857*
of which impaired financial assets	*119*	*94*
Financial assets held for trading	926	807
Hedging derivatives	459	360
Other financial assets at fair value through profit or loss	208	127
Interest expense	**-3 586**	**-2 839**
Financial liabilities measured at amortised cost	-1 691	-1 202
Other liabilities not at fair value	-4	-8
Subtotal, interest expense for financial liabilities not measured at fair value through profit or loss	*-1 695*	*-1 210*
Financial liabilities held for trading	-1 093	-926
Hedging derivatives	-639	-590
Other financial liabilities at fair value through profit or loss	-151	-103
Net interest expense relating to defined benefit plans	-7	-10

Note 4: Dividend income

(in millions of EUR)	2014	2015
Total	**56**	**75**
Shares held for trading	7	9
Shares initially recognised at fair value through profit or loss	2	2
Available-for-sale shares	46	65

Note 5: Net result from financial instruments at fair value through profit or loss

(in millions of EUR)	2014	2015
Total	**227**	**214**
Trading instruments (including interest and fair value changes in trading derivatives)	144	211
Other financial instruments initially recognised at fair value through profit or loss	-37	71
of which gains/losses on own credit risk	*-2*	*17*
Foreign exchange trading	110	-31
Fair value adjustments in hedge accounting	10	-37
Micro hedge	10	2
Fair value hedges	4	-1
Changes in the fair value of the hedged items	-465	-30
Changes in the fair value of the hedging derivatives, including discontinuation	469	29
Cashflow hedges	6	3
Changes in the fair value of the hedging derivatives, ineffective portion	6	3
Hedges of net investments in foreign operations, ineffective portion	0	0
Portfolio hedge of interest rate risk	0	-1
Fair value hedges of interest rate risk	0	1
Changes in the fair value of the hedged items	18	-54
Changes in the fair value of the hedging derivatives, including discontinuation	-19	55
Cashflow hedges of interest rate risk	0	-1
Changes in the fair value of the hedging derivatives, ineffective portion	0	-1
Discontinuation of hedge accounting in the event of cashflow hedges	0	-38

- 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 27.
- 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 micro 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 marking-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). The net result from these financial instruments came to a negative 201 million euros (before tax) in 2014 and to a positive 101 million euros in 2015.

Note 6: Net realised result from available-for-sale assets

(in millions of EUR)	2014	2015
Total	**150**	**190**
Fixed-income securities	64	54
Shares	86	136

Note 7: Net fee and commission income

(in millions of EUR)	2014	2015
Total	**1 573**	**1 678**
Fee and commission income	**2 245**	**2 348**
Securities and asset management	1 179	1 289
Margin on life insurance investment contracts without DPF (deposit accounting)	89	81
Commitment credit	245	266
Payments	522	535
Other	209	178
Fee and commission expense	**-672**	**-670**
Commission paid to intermediaries	-295	-309
Other	-377	-362

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

Note 8: Other net income

(in millions of EUR)	2014	2015
Total	**94**	**297**
of which gains or losses on		
Sale of loans and receivables	3	3
Sale of held-to-maturity investments	1	6
Repurchase of financial liabilities measured at amortised cost	0	-9
Other, including:	90	297
Income from (mainly operational) leasing activities, KBC Lease Group	87	81
Income from VAB Group	69	59
Gains and losses on divestments	21	11
Moratorium interest	15	0
Provisions for the new Hungarian act on consumer loans	-231	34
Settlement of an old credit file (Bell Group)	31	0
Deconsolidation of real estate companies	0	18

- Provisions for the new Hungarian act on consumer loans' concerns new legislation approved by the Hungarian parliament on 4 July 2014 that applies to the entire banking sector in Hungary (the act on the resolution of certain issues related to the Supreme Court's (Curia) uniformity decision on consumer loan agreements concluded by financial institutions). The scope of the act covers consumer loans denominated in foreign currency and in Hungarian forint. As regards consumer loans denominated in foreign currency, the act prohibits the use of exchange rate margins and the bid-ask spreads that applied to such loans have to be corrected with retroactive effect. As far as all consumer loans are concerned, the act repeals all unilateral changes that banks made to interest rates and fees. As a result of this act, KBC set aside additional, one-off net provisions of 231 million euros (before tax) in the second quarter of 2014 for correcting the bid-ask spreads and the unilateral changes to interest rates. 34 million euros of this amount was reversed in 2015, due to a re-assessment of these provisions.

Note 9: Insurance results

(in millions of EUR)	Life	Non-life	Non-technical account	Total
2014				
Earned premiums, insurance (before reinsurance)	1 249	1 286	–	2 535
Technical charges, insurance (before reinsurance)	-1 463	-755	–	-2 218
Net fee and commission income	-13	-234	–	-247
Ceded reinsurance result	-2	18	–	16
General administrative expenses	-121	-240	–	-362
Internal claims settlement expenses	-7	-58	–	-66
Indirect acquisition costs	-30	-79	–	-109
Administrative expenses	-84	-103	–	-187
Investment management fees	0	0	–	-1
Technical result	-350	74	–	-276
Net interest income	–	–	675	675
Net dividend income	–	–	40	40
Net result from financial instruments at fair value through profit or loss	–	–	42	42
Net realised result from available-for-sale assets	–	–	96	96
Other net income	–	–	2	2
Impairment	–	–	-34	-34
Allocation to the technical accounts	620	101	-721	0
Technical-financial result	270	176	99	544
Share in results of associated companies and joint ventures	–	–	3	3
RESULT BEFORE TAX	**270**	**176**	**102**	**547**
Income tax expense	–	–	–	-156
RESULT AFTER TAX	**–**	**–**	**–**	**392**
attributable to minority interests	–	–	–	0
attributable to equity holders of the parent	**–**	**–**	**–**	**391**
2015				
Earned premiums, insurance (before reinsurance)	1 303	1 338	–	2 642
Technical charges, insurance (before reinsurance)	-1 502	-708	–	-2 210
Net fee and commission income	-15	-247	–	-262
Ceded reinsurance result	-2	-27	–	-29
General administrative expenses	-119	-231	-3	-353
Internal claims settlement expenses	-7	-53	–	-60
Indirect acquisition costs	-29	-77	–	-107
Administrative expenses	-82	-101	–	-183
Investment management fees	0	0	-3	-3
Technical result	-334	125	-3	-212
Net interest income	–	–	636	636
Net dividend income	–	–	53	53
Net result from financial instruments at fair value through profit or loss	–	–	-9	-9
Net realised result from available-for-sale assets	–	–	108	108
Other net income	–	–	-6	-6
Impairment	–	–	-69	-69
Allocation to the technical accounts	574	104	-678	0
Technical-financial result	240	228	31	499
Share in results of associated companies and joint ventures	–	–	3	3
RESULT BEFORE TAX	**240**	**228**	**34**	**502**
Income tax expense	–	–	–	-148
RESULT AFTER TAX	**–**	**–**	**–**	**355**
attributable to minority interests	–	–	–	0
attributable to equity holders of the parent	**–**	**–**	**–**	**354**

- The figures relating to earned premiums do not include investment contracts without DPF, which largely correspond to unit-linked contracts.
- As a bank-insurer, KBC presents its financial information on an integrated basis (i.e. banking and insurance activities combined). More information on the banking and insurance businesses is provided separately in the respective annual reports of KBC Bank and KBC Insurance. For the purpose of Note 9, information is provided on the insurance results alone. The figures include intragroup transactions between bank and insurance entities (the results for insurance contracts concluded between the group's bank and insurance entities, interest that insurance companies receive on their deposits with bank entities, commissions that insurance entities pay to bank branches for sales of insurance, etc.) in order to give a more accurate view of the profitability of the insurance business. Additional information on the insurance business is provided separately in Notes 10, 11, 35 and 44 (KBC Insurance section), in the 'Risk management' section ('Credit risk exposure in the insurance activities', 'Interest rate risk', 'Equity risk' and 'Real estate risk', 'Technical insurance risk'), and in the 'Capital adequacy' section ('Solvency of KBC Bank and KBC Insurance separately').

Note 10: Earned premiums, life insurance

(in millions of EUR)	2014	2015
Total	**1 249**	**1 303**
Breakdown by IFRS category		
Insurance contracts	765	897
Investment contracts with DPF	485	406
Breakdown by type		
Accepted reinsurance	0	0
Primary business	1 249	1 303
Breakdown of primary business		
Individual premiums	984	1 024
Single premiums	364	393
Periodic premiums	619	631
Premiums under group contracts	265	279
Single premiums	50	49
Periodic premiums	215	230
Total sales of life insurance (including investment contracts without DPF)		
Unit-linked	785	722
Guaranteed-rate	1 107	1 071

- As required under IFRS, we use deposit accounting for investment contracts without DPF. This means that the premium income (and technical charges) from these contracts is not recognised under 'Earned premiums, insurance (before reinsurance)' (and 'Technical charges, insurance (before reinsurance)'), but that the margins on them are reported under 'Net fee and commission income'. Investment contracts without DPF are more or less the same as unit-linked contracts, which in 2014 accounted for premium income of 0.8 billion euros and in 2015 for premium income of 0.7 billion euros.
- The figures include intragroup transactions concluded between the insurance and banking businesses.

Note 11: Non-life insurance per class of business

(in millions of EUR)	Earned premiums (before reinsurance)	Claims incurred (before reinsurance)	Operating expenses (before reinsurance)	Ceded reinsurance	Total
2014					
Total	**1 286**	**-755**	**-474**	**18**	**74**
Accepted reinsurance	21	22	-6	-38	-2
Primary business	1 265	-777	-468	56	76
Accident & health (classes 1 & 2, excl. industrial accidents)	115	-64	-38	0	13
Industrial accidents (class 1)	72	-63	-19	-1	-12
Motor, third-party liability (class 10)	342	-211	-122	-2	7
Motor, other classes (classes 3 & 7)	182	-130	-67	25	10
Shipping, aviation, transport (classes 4, 5, 6, 7, 11 & 12)	4	-1	-1	0	0
Fire and other damage to property (classes 8 & 9)	391	-239	-155	37	34
General third-party liability (class 13)	86	-43	-37	-1	5
Credit and suretyship (classes 14 & 15)	1	0	-1	0	0
Miscellaneous pecuniary losses (class 16)	9	-1	-3	-2	4
Legal assistance (class 17)	45	-19	-19	0	8
Assistance (class 18)	17	-4	-6	0	6
2015					
Total	**1 338**	**-708**	**-479**	**-27**	**125**
Accepted reinsurance	32	-2	-8	0	22
Primary business	1 306	-707	-470	-27	102
Accident & health (classes 1 & 2, excl. industrial accidents)	110	-50	-36	0	24
Industrial accidents (class 1)	72	-42	-18	-1	10
Motor, third-party liability (class 10)	359	-240	-122	-1	-5
Motor, other classes (classes 3 & 7)	193	-110	-70	1	15
Shipping, aviation, transport (classes 4, 5, 6, 7, 11 & 12)	3	-1	-1	-1	0
Fire and other damage to property (classes 8 & 9)	403	-152	-153	-21	77
General third-party liability (class 13)	87	-67	-38	-3	-20
Credit and suretyship (classes 14 & 15)	1	-1	0	0	-1
Miscellaneous pecuniary losses (class 16)	10	-5	-4	0	1
Legal assistance (class 17)	48	-32	-19	0	-3
Assistance (class 18)	20	-7	-9	0	4

- The figures include intragroup transactions concluded between the insurance and banking businesses.

Note 12: Operating expenses

(in millions of EUR)	2014	2015
Total	**-3 818**	**-3 890**
Staff expenses	-2 248	-2 245
General administrative expenses	-1 303	-1 392
of which bank taxes	-339	-417
Depreciation and amortisation of fixed assets	-266	-253

- 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 339 million euros in 2014 and 417 million euros in 2015). The latter figure comprises 222 million euros in the Belgium Business Unit, 35 million euros in the Czech Republic Business Unit, 18 million euros in Slovakia, 4 million euros in Bulgaria, 131 million euros in Hungary, 2 million euros in Ireland and 6 million euros in the Group Centre.
- Share-based payments are included under staff expenses.
- Information on the main equity-settled share-based payments: since 2000, KBC 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. We have provided an overview of the number of stock options for staff in the table.

	2014		2015	
Options	**Number of options[1]**	**Average exercise price**	**Number of options[1]**	**Average exercise price**
Outstanding at beginning of period	183 526	72.69	174 660	71.95
Granted during period	0	–	0	–
Exercised during period	-1 566	37.50	-14 200	46.45
Expired during period	-7 300	97.94	-8 380	69.95
Outstanding at end of period[2]	174 660	71.95	152 080	74.44
Exercisable at end of period	174 660	71.95	152 080	74.44

1 In share equivalents.
2 2014: range of exercise prices: 37.50–89.21 euros; weighted average residual term to maturity: 33 months.
2015: range of exercise prices: 46.45–89.21euros; weighted average residual term to maturity: 24 months.

- Information on the capital increase reserved for KBC group employees can be found in the 'Company annual accounts and additional information' section. In 2015, this resulted in the recognition of a limited employee benefit (3 million euros) as the issue price was lower than the market price. Information regarding the (highest, lowest, average) price of the KBC share can be found in the 'Report of the Board of Directors' section.
- The main cash-settled share-based payment arrangements for 2014 included 4 million euros in costs related to a phantom stock plan (included under 'Staff expenses'). This item came to 5 million euros for 2015.

Note 13: Personnel

(number)	2014	2015
Total average number of persons employed (in full-time equivalents)	**36 258**	**36 199**
Breakdown by legal entity		
KBC Bank NV	26 941	27 033
KBC Insurance NV	4 147	4 074
KBC Group NV (holding company)	5 170	5 092
Breakdown by employee classification		
Blue-collar staff	361	366
White-collar staff	35 612	35 560
Senior management	285	273

- The figures in the table are annual averages, which – in terms of scope – may differ from year-end figures provided elsewhere in this annual report.

Note 14: Impairment (income statement)

(in millions of EUR)	2014	2015
Total	**-506**	**-747**
Impairment on loans and receivables	**-587**	**-323**
Breakdown by type		
Specific impairment, on-balance-sheet lending	-676	-322
Provisions for off-balance-sheet credit commitments	19	9
Portfolio-based impairment	70	-10
Breakdown by business unit		
Belgium	-205	-177
Czech Republic	-34	-36
International Markets	-273	-82
Group Centre	-75	-28
Impairment on available-for-sale assets	**-29**	**-45**
Breakdown by type		
Shares	-29	-43
Other	0	-3
Impairment on goodwill	**0**	**-344**
Impairment on other	**109**	**-34**
Intangible fixed assets (other than goodwill)	-23	-7
Property and equipment (including investment property)	-8	-27
Held-to-maturity assets	1	0
Associated companies and joint ventures	0	0
Other	139	0

- '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 (198 million euros in 2014, 48 million euros in 2015 (see separate paragraph)), in Hungary (47 million euros in 2014, 6 million euros in 2015), in Slovakia (17 million euros in 2014, 18 million euros in 2015) and in Bulgaria (10 million euros in 2014, 10 million euros in 2015). Impairment in the Group Centre in 2014 included 30 million euros at Antwerp Diamond Bank, 20 million euros at KBC Finance Ireland and 14 million euros at KBC Bank Deutschland. In 2015, it included 21 million euros at the former Antwerp Diamond Bank (Diamant Corporate Centre following the merger with KBC Bank).
- 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 13.9 billion euros at the end of the year, 84% 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 set aside 198 million euros in loan loss provisions for its Irish portfolio in 2014. In 2015, that figure was 48 million euros.
- 'Impairment on available-for-sale assets' in 2015 was accounted for mainly by impairment on shares (43 million euros) and impairment on bonds (3 million euros). In 2014, this item comprised only impairment on shares.
- 'Impairment on goodwill' and 'Impairment on other' in 2014 included the reversal of the impairment charges previously recognised for Antwerp Diamond Bank, as its planned sale failed to go through and KBC decided to run down that entity's activities in an orderly manner. In 2015, these headings included mainly impairment on goodwill (344 million euros, 191 million euros of which for ČSOB in Slovakia (relating to the earlier acquisition of Istrobanka), 117 million euros for CIBANK and 34 million euros for DZI Insurance, both of which 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). In 2015, impairment on property and equipment included 20 million euros in relation to the group's Hungarian Data Centre, due to structural overcapacity. The impairment reflects the difference between the carrying value before impairment and the value in use.
- For information on goodwill, see Note 34.
- For information on total impairment recognised in the balance sheet, see Note 21.

Note 15: Share in results of associated companies and joint ventures

(in millions of EUR)	2014	2015
Total	**25**	**24**
of which ČMSS	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 32.
- Impairment on (goodwill on) associated companies and joint ventures is included in 'Impairment' (see Note 14). The share in results of associated companies and joint ventures does not therefore take this impairment into account.

Note 16: Income tax expense

(in millions of EUR)	2014	2015
Total	**-657**	**104**
Breakdown by type		
Current taxes on income	-407	-457
Deferred taxes on income	-250	562
Tax components		
Result before tax	2 420	2 535
Income tax at the Belgian statutory rate	33.99%	33.99%
Income tax calculated	-823	-861
Plus/minus tax effects attributable to		
differences in tax rates, Belgium – abroad	126	220
tax-free income	140	143
adjustments related to prior years	17	-10
adjustments, opening balance of deferred taxes due to change in tax rate	0	0
unused tax losses and unused tax credits to reduce current tax expense	3	10
unused tax losses and unused tax credits to reduce deferred tax expense	1	1
reversal of previously recognised deferred tax assets due to tax losses	-14	0
liquidation of KBC Financial Holding Inc.	0	910
other (mainly non-deductible expenses)	-108	-310
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 recognised*	**207**	**314**

* 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 31.
- 'Liquidation of KBC Financial Holding Inc.' reflects the consequences of the liquidation of KBC Financial Holding Inc. (KBCFH). When it agreed its strategic refocus with the European Commission in 2009, 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 (see press release of 1 October 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 (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). The recognition of this deferred tax asset had only a limited positive impact in 2015 of approximately 0.2 percentage points on KBC's solvency (fully loaded CET1 ratio calculated according to the Danish Compromise method).

Note 17: Earnings per share

(in millions of EUR)	2014	2015
Basic earnings per share		
Result after tax, attributable to equity holders of the parent	1 762	2 639
Coupon/penalty on core-capital securities sold to the Belgian Federal and Flemish Regional governments	-337	-1 000
Coupon on AT1 instruments[1]	-41	-52
Net result used to determine basic earnings per share	1 384	1 587
Weighted average number of ordinary shares outstanding (millions of units)	417	418
Basic earnings per share (in EUR)	3.32	3.80
Diluted earnings per share		
Result after tax, attributable to equity holders of the parent	1 762	2 639
Coupon/penalty on core-capital securities sold to the Belgian Federal and Flemish Regional governments	-337	-1 000
Coupon on AT1 instruments[1]	-41	-52
Net result used to determine diluted earnings per share	1 384	1 587
Weighted average number of ordinary shares outstanding (millions of units)	417	418
Dilutive potential ordinary shares (millions of units)[2]	0	0
Weighted average number of ordinary shares for diluted earnings (millions of units)	417	418
Diluted earnings per share (in EUR)	3.32	3.80

1 The 41 million euros in 2014 includes the 39 million euros (as indicated in the 'Consolidated statement of changes in equity' table) and 2 million euros recognised on an accruals basis for the last two weeks of the financial year.

2 Account is only taken of employee stock options which are still outstanding and could have a dilutive impact (where the market price is lower than the exercise price and treasury shares have been purchased for this purpose (486 at year-end 2014 and 0 at year-end 2015)).

Notes on the financial assets and liabilities on the balance sheet

Note 18: 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	Measured at amortised cost	Total
FINANCIAL ASSETS, 31-12-2014								
Loans and advances to credit institutions and investment firms[a]	141	1 636	0	10 812	–	–	–	12 590[c]
Loans and advances to customers[b]	27	1 335	0	123 189	–	–	–	124 551
Trade receivables	0	0	0	3 291	–	–	–	3 291
Consumer credit	0	0	0	2 770	–	–	–	2 770
Mortgage loans	0	33	0	53 123	–	–	–	53 156
Term loans	7	1 303	0	55 446	–	–	–	56 755
Finance leases	0	0	0	4 138	–	–	–	4 138
Current account advances	0	0	0	4 054	–	–	–	4 054
Other[3]	20	0	0	367	–	–	–	387
Equity instruments	303	3	1 826	–	–	–	–	2 132
Investment contracts (insurance)	–	13 425	–	–	–	–	–	13 425
Debt instruments issued by	2 894	1 763	30 564	1 207	31 799	–	–	68 227
Public bodies	2 391	1 063	19 469	31	30 342	–	–	53 296
Credit institutions and investment firms	297	293	4 427	159	859	–	–	6 035
Corporates	206	407	6 667	1 018	598	–	–	8 896
Derivatives	8 814	–	–	–	–	1 104	–	9 918
Other[3]	3	–	–	576	0	0	–	579
Total	12 182	18 163	32 390	135 784	31 799	1 104	–	231 421
a of which reverse repos[2]								*3 319*
b of which reverse repos[2]								*1 389*
c of which loans and advances to banks repayable on demand and term loans to banks at not more than three months								*4 287*
FINANCIAL ASSETS, 31-12-2015								
Loans and advances to credit institutions and investment firms[a]	0	2 107	0	11 524	–	–	–	13 631[c]
Loans and advances to customers[b]	0	394	0	127 829	–	–	–	128 223
Trade receivables	0	0	0	3 729	–	–	–	3 729
Consumer credit	0	0	0	2 928	–	–	–	2 928
Mortgage loans	0	28	0	55 050	–	–	–	55 078
Term loans	0	366	0	56 997	–	–	–	57 363
Finance leases	0	0	0	4 512	–	–	–	4 512
Current account advances	0	0	0	4 026	–	–	–	4 026
Other[3]	0	0	0	587	–	–	–	587
Equity instruments	411	2	2 071	–	–	–	–	2 485
Investment contracts (insurance)	–	13 330	–	–	–	–	–	13 330
Debt instruments issued by	1 785	681	33 598	1 117	32 958	–	–	70 138
Public bodies	1 408	120	21 892	22	31 353	–	–	54 796
Credit institutions and investment firms	192	104	4 893	158	984	–	–	6 330
Corporates	184	456	6 813	937	622	–	–	9 013
Derivatives	8 188	–	–	–	–	514	–	8 702
Other[3]	1	–	–	835	0	0	–	836
Total	10 385	16 514	35 670	141 305	32 958	514	–	237 346
a of which reverse repos[2]								*5 012*
b of which reverse repos[2]								*502*
c of which loans and advances to banks repayable on demand and term loans to banks at not more than three months								*6 541*

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 A 'reverse repo' transaction is a transaction where one party (KBC) buys securities from another party and undertakes to resell these securities at a designated future date at a set price. In most cases, reverse repo transactions are governed by bilateral framework agreements (generally Global Master Repo Agreements) which include a description of the periodic exchanges of collateral. The reverse repo transactions shown in the table are related mainly to the temporary lending of bonds. In this type of lending, the risk and the income from the bonds are for the counterparty. 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	Available for sale	Loans and receivables	Held to maturity	Hedging derivatives	Measured at amortised cost	Total
FINANCIAL LIABILITIES, 31-12-2014								
Deposits from credit institutions and investment firms[a]	60	1 004	–	–	–	–	16 628	17 692[c]
Deposits from customers and debt securities[b]	367	10 352	–	–	–	–	151 064	161 783
Demand deposits	0	35	–	–	–	–	47 011	47 046
Time deposits	69	8 028	–	–	–	–	31 425	39 523
Savings accounts	0	0	–	–	–	–	47 455	47 455
Special deposits	0	0	–	–	–	–	1 715	1 715
Other deposits	0	14	–	–	–	–	485	499
Certificates of deposit	9	3	–	–	–	–	5 922	5 935
Savings certificates	0	0	–	–	–	–	762	762
Convertible bonds	0	0	–	–	–	–	0	0
Non-convertible bonds	289	1 732	–	–	–	–	12 741	14 761
Convertible subordinated liabilities	0	0	–	–	–	–	0	0
Non-convertible subordinated liabilities	0	540	–	–	–	–	3 549	4 088
Liabilities under investment contracts	–	12 553	–	–	–	–	0	12 553
Derivatives	7 697	–	–	–	–	3 491	–	11 188
Short positions	325	–	–	–	–	–	–	325
In equity instruments	71	–	–	–	–	–	–	71
In debt instruments	254	–	–	–	–	–	–	254
Other[2]	–	–	–	–	–	–	2 103	2 104
Total	8 449	23 908	–	–	–	3 491	169 796	205 644
a of which repos[1]								*1 315*
b of which repos[1]								*7 804*
c of which deposits from banks repayable on demand								*3 539*
FINANCIAL LIABILITIES, 31-12-2015								
Deposits from credit institutions and investment firms[a]	1	1 123	–	–	–	–	17 828	18 953[c]
Deposits from customers and debt securities[b]	431	10 916	–	–	–	–	158 762	170 109
Demand deposits	0	0	–	–	–	–	55 148	55 148
Time deposits	57	9 360	–	–	–	–	27 724	37 141
Savings accounts	0	0	–	–	–	–	50 075	50 075
Special deposits	0	0	–	–	–	–	1 983	1 983
Other deposits	0	0	–	–	–	–	484	484
Certificates of deposit	0	10	–	–	–	–	6 159	6 168
Savings certificates	0	0	–	–	–	–	1 092	1 092
Convertible bonds	0	0	–	–	–	–	0	0
Non-convertible bonds	374	1 253	–	–	–	–	12 576	14 203
Convertible subordinated liabilities	0	0	–	–	–	–	0	0
Non-convertible subordinated liabilities	0	293	–	–	–	–	3 522	3 815
Liabilities under investment contracts	–	12 387	–	–	–	–	0	12 387
Derivatives	7 487	0	–	–	–	2 191	–	9 677
Short positions	415	0	–	–	–	–	–	415
In equity instruments	58	0	–	–	–	–	–	58
In debt instruments	357	0	–	–	–	–	–	357
Other[2]	0	0	–	–	–	–	1 792	1 792
Total	8 334	24 426	–	–	–	2 191	178 383	213 333
a of which repos[1]								*1 128*
b of which repos[1]								*8 567*
c of which deposits from banks repayable on demand								*2 593*

1 A 'repo' transaction is a transaction where one party buys securities from another party (KBC) and undertakes to resell these securities at a designated future date at a set price. In most cases, repo transactions are governed by bilateral framework agreements (generally Global Master Repo Agreements) which include a description of the periodic exchanges of collateral. The repo transactions shown in the table are related mainly to the temporary lending of bonds. In this type of lending, the risk and the income from the bonds are for KBC. 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 28.
- New definition: to provide a more transparent breakdown of products, ‘savings deposits’ have been renamed ‘savings accounts’ and the definition has been expanded (to cover not just Belgian regulated savings deposits, but also similar foreign products). The reference figures have also been restated, with around 10.3 billion euros being reclassified (primarily from 'time deposits') to 'saving accounts'.
- 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.
- 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 2015, KBC had transferred the following types of financial asset, which continued to be recognised in their entirety: repo transactions with a carrying value of 8 277 million euros (debt instruments classified as ‘held for trading’ (176 million euros), ‘designated at fair value’ (17 million euros), ‘available for sale’ (1 838 million euros), and ‘held to maturity’ (6 246 million euros)); and an associated financial liability with a carrying value of 8 921 million euros (178 million euros classified as ‘held for trading’, 17 million euros as ‘designated at fair value’, 1 825 million euros as ‘available for sale’, and 6 900 million euros as ‘held to maturity’). At year-end 2014, 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 5 876 million euros (debt instruments classified as ‘held for trading’ (280 million euros), ‘designated at fair value’ (764 million euros), ‘available for sale’ (454 million euros), and ‘held to maturity’ (4 378 million euros)); and an associated financial liability with a carrying value of 5 673 million euros (277 million euros classified as ‘held for trading’, 769 million euros as ‘designated at fair value’, 470 million euros as ‘available for sale’, and 4 157 million euros as ‘held to maturity’). It should be noted that, at year-ends 2014 and 2015, 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 19: Financial assets and liabilities, breakdown by portfolio and geographic location

(in millions of EUR)	Held for trading	Designated at fair value	Available for sale	Loans and receivables	Held to maturity	Hedging derivatives	Measured at amortised cost	Total
FINANCIAL ASSETS, 31-12-2014								
Belgium	2 543	1 104	8 804	78 358	16 744	87	–	107 641
Central and Eastern Europe	2 221	491	5 290	28 286	8 183	112	–	44 584
Rest of the world	7 418	16 567	18 295	29 139	6 872	905	–	79 197
Total	12 182	18 163	32 390	135 784	31 799	1 104	–	231 421
FINANCIAL ASSETS, 31-12-2015								
Belgium	2 119	546	7 000	80 760	16 053	14	–	106 492
Central and Eastern Europe	1 344	474	6 552	33 276	8 348	86	–	50 080
Rest of the world	6 922	15 494	22 118	27 269	8 557	413	–	80 774
Total	10 385	16 514	35 670	141 305	32 958	514	–	237 346
FINANCIAL LIABILITIES, 31-12-2014								
Belgium	1 436	12 635	–	–	–	231	92 010	106 313
Central and Eastern Europe	1 033	838	–	–	–	81	35 597	37 549
Rest of the world	5 979	10 435	–	–	–	3 179	42 189	61 782
Total	8 449	23 908	–	–	–	3 491	169 796	205 644
FINANCIAL LIABILITIES, 31-12-2015								
Belgium	1 293	12 503	–	–	–	95	98 443	112 334
Central and Eastern Europe	1 049	779	–	–	–	135	37 780	39 744
Rest of the world	5 991	11 144	–	–	–	1 960	42 159	61 255
Total	8 334	24 426	–	–	–	2 191	178 383	213 333

Note 20: Financial assets and liabilities, breakdown by portfolio and remaining term to maturity

(in millions of EUR)	Held for trading	Designated at fair value	Available for sale	Loans and receivables	Held to maturity	Hedging derivatives	Measured at amortised cost	Total
FINANCIAL ASSETS, 31-12-2014								
At not more than one year	1 322	3 146	3 647	47 279	2 213	–	–	57 608
At more than one year	1 593	8 760	26 826	81 592	29 586	–	–	148 357
Not specified*	9 267	6 257	1 916	6 912	0	1 104	–	25 456
Total	12 182	18 163	32 390	135 784	31 799	1 104	–	231 421
FINANCIAL ASSETS, 31-12-2015								
At not more than one year	468	3 251	3 434	48 161	1 967	–	–	57 282
At more than one year	1 317	6 625	30 090	89 924	30 991	–	–	158 947
Not specified*	8 600	6 638	2 145	3 220	0	514	–	21 117
Total	10 385	16 514	35 670	141 305	32 958	514	–	237 346
FINANCIAL LIABILITIES, 31-12-2014								
At not more than one year	517	9 480	–	–	–	–	99 643	109 639
At more than one year	158	9 576	–	–	–	–	31 306	41 040
Not specified*	7 774	4 853	–	–	–	3 491	38 847	54 965
Total	8 449	23 908	–	–	–	3 491	169 796	205 644
FINANCIAL LIABILITIES, 31-12-2015								
At not more than one year	571	10 747	–	–	–	–	98 462	109 781
At more than one year	225	8 108	–	–	–	–	28 287	36 620
Not specified*	7 538	5 570	–	–	–	2 191	51 633	66 932
Total	8 334	24 426	–	–	–	2 191	178 383	213 333

* Maturity date has not been specified or there is no point in classifying the financial asset or liability in terms of when it matures. Financial assets that do not have a specified maturity date concern primarily hedging derivatives ('Hedging derivatives' column), derivatives and shares held for trading ('Held-for-trading' column), a large proportion of insurance investment contracts ('Designated at fair value' column), shares available for sale ('Available-for-sale' column) and current account advances and irrecoverable or doubtful receivables ('Loans and receivables' column). Financial liabilities that do not have a specified maturity date relate mainly to savings accounts ('Measured at amortised cost' column), hedging derivatives ('Hedging derivatives' column), derivatives held for trading ('Held-for-trading' column) and a large proportion of the liabilities under insurance investment contracts ('Designated at fair value' column).

- The difference between short-term financial assets and short-term financial liabilities reflects, among other things, the fundamental operation of a bank, i.e. converting short-term deposits into long-term loans. Consequently, the volume of deposits at not more than one year (recognised under financial liabilities) is greater than loans at not more than one year (recorded under financial assets), a ratio that indicates liquidity risk. More information on liquidity risk is provided in the 'Risk management' section.

Note 21: Financial assets, breakdown by portfolio and quality

Impaired financial assets

(in millions of EUR)	Held for trading	Designated at fair value	Available for sale	Loans and receivables	Held to maturity	Hedging derivatives	Total
FINANCIAL ASSETS, 31-12-2014							
Unimpaired assets	12 182	18 163	32 153	128 330	31 798	1 104	223 730
Impaired assets	–	–	361	13 255	6	–	13 621
Impairment	–	–	-124	-5 801	-5	–	-5 930
Total	12 182	18 163	32 390	135 784	31 799	1 104	231 421
FINANCIAL ASSETS, 31-12-2015							
Unimpaired assets	10 385	16 514	35 454	134 905	32 957	514	230 728
Impaired assets	–	–	356	12 023	6	–	12 386
Impairment	–	–	-140	-5 623	-5	–	-5 768
Total	10 385	16 514	35 670	141 305	32 958	514	237 346

- *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.

Impairment details

(in millions of EUR)	Available for sale		Held to maturity	Loans and receivables		Provisions for commitments and financial guarantees*
	Fixed-income assets	Shares	Fixed-income assets	Individual impairment	Portfolio-based impairment	
IMPAIRMENT, 31-12-2014						
Opening balance	0	117	8	5 319	261	114
Movements with an impact on results						
Impairment recognised	0	30	0	1 295	64	32
Impairment reversed	0	-2	-1	-620	-130	-55
Movements without an impact on results						
Write-offs	0	-16	0	-439	0	-3
Changes in the scope of consolidation	0	-5	0	-34	1	9
Transfers to/from non-current assets held for sale and disposal groups	0	0	0	174	5	0
Other	0	-1	-3	-96	0	61
Closing balance	0	124	5	5 600	201	158
IMPAIRMENT, 31-12-2015						
Opening balance	0	124	5	5 600	201	158
Movements with an impact on results						
Impairment recognised	3	43	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
Changes in the scope of consolidation	0	0	0	0	0	0
Transfers to/from non-current assets held for sale and disposal groups	0	0	0	0	0	0
Other	0	-20	1	-18	3	-25
Closing balance	3	137	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 14.
- Additional information on impairment relating to the loan portfolio is provided under 'Credit risk' in the 'Risk management' section.

Past due, but not impaired assets

(in millions of EUR)	Less than 30 days past due	30 days or more, but less than 90 days past due
31-12-2014		
Loans and advances	2 173	603
Debt instruments	0	0
Derivatives	0	0
Total	2 173	603
31-12-2015		
Loans and 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 22 and 40.

Note 22: Maximum credit exposure and offsetting

(in millions of EUR)			31-12-2014			31-12-2015
	Gross	Collateral received	Net	Gross	Collateral received	Net
Maximum credit exposure						
Equity instruments	2 132	0	2 132	2 485	0	2 485
Debt instruments	68 227	59	68 167	70 138	61	70 078
Loans and advances	137 140	69 842	67 298	141 854	70 285	71 570
of which designated at fair value	2 971	2 588	384	2 501	1 028	1 473
Derivatives	9 918	3 253	6 664	8 702	3 605	5 097
Other (including accrued interest)	28 271	4 246	24 025	29 686	4 205	25 481
Total	245 687	77 401	168 286	252 866	78 156	174 710

- 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 loan commitments, 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 arrangements	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
(in millions of EUR)				Financial instruments	Cash collateral	Securities collateral	
FINANCIAL ASSETS, 31-12-2014							
Derivatives	12 390	2 473	9 918	5 190	2 505	0	2 223
Derivatives (excluding central clearing houses)	9 910	0	9 910	5 190	2 505	0	2 215
Derivatives with central clearing houses*	2 481	2 473	8	0	0	0	8
Reverse repos, securities borrowing and similar arrangements	6 415	1 707	4 708	645	0	4 047	15
Reverse repos	6 415	1 707	4 708	645	0	4 047	15
Securities borrowing	0	0	0	0	0	0	0
Other financial instruments	0	0	0	0	0	0	0
Total	18 805	4 180	14 626	5 835	2 505	4 047	2 238
FINANCIAL ASSETS, 31-12-2015							
Derivatives	11 238	2 536	8 702	4 659	2 213	0	1 831
Derivatives (excluding central clearing houses)	8 695	0	8 695	4 659	2 213	0	1 824
Derivatives with central clearing houses*	2 543	2 536	7	0	0	0	7
Reverse repos, securities borrowing and similar arrangements	8 035	2 521	5 514	340	0	5 141	33
Reverse repos	8 035	2 521	5 514	340	0	5 141	33
Securities borrowing	0	0	0	0	0	0	0
Other financial instruments	0	0	0	0	0	0	0
Total	19 273	5 057	14 216	4 999	2 213	5 141	1 863
FINANCIAL LIABILITIES, 31-12-2014							
Derivatives	13 660	2 473	11 188	5 190	3 871	0	2 127
Derivatives (excluding central clearing houses)	11 184	0	11 184	5 190	3 871	0	2 124
Derivatives with central clearing houses*	2 476	2 473	3	0	0	0	3
Repos, securities lending and similar arrangements	10 827	1 707	9 120	645	0	8 470	4
Repos	10 827	1 707	9 120	645	0	8 470	4
Securities lending	0	0	0	0	0	0	0
Other financial instruments	0	0	0	0	0	0	0
Total	24 487	4 180	20 307	5 835	3 871	8 471	2 131
FINANCIAL LIABILITIES, 31-12-2015							
Derivatives	12 231	2 536	9 695	4 659	3 630	0	1 407
Derivatives (excluding central clearing houses)	9 684	0	9 684	4 659	3 630	0	1 396
Derivatives with central clearing houses*	2 547	2 536	11	0	0	0	11
Repos, securities lending and similar arrangements	12 216	2 521	9 694	340	0	9 332	22
Repos	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	24 447	5 057	19 390	4 999	3 630	9 332	1 429

* Cash collateral account at central clearing houses included in the gross amount.

- 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 23: 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.
- Financial assets and liabilities that are measured at fair value are those classified as 'available-for-sale', 'held for trading', 'designated at fair value' and 'hedging derivatives'. The other financial assets and liabilities (loans and receivables, financial assets held to maturity, financial liabilities measured at amortised cost) are not measured in the balance sheet at fair value, but their fair value is stated in the table for information purposes.

Fair value of financial assets and liabilities that are not measured at fair value in the balance sheet
(in millions of EUR)

	Loans and receivables		Financial assets held to maturity		Financial liabilities measured at amortised cost	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
FINANCIAL ASSETS, 31-12-2014						
Loans and advances to credit institutions and investment firms	10 812	10 953	–	–	–	–
Loans and advances to customers	123 189	126 392	–	–	–	–
Debt instruments	1 207	1 400	31 799	36 001	–	–
Other	576	576	–	–	–	–
Total	135 784	139 322	31 799	36 001	–	–
Level 1	–	929	–	34 848	–	–
Level 2	–	19 992	–	984	–	–
Level 3	–	118 401	–	169	–	–
FINANCIAL ASSETS, 31-12-2015						
Loans and advances to credit institutions and investment firms	11 524	11 438	–	–	–	–
Loans and advances to customers	127 829	128 859	–	–	–	–
Debt instruments	1 117	1 136	32 958	36 693	–	–
Other	835	836	–	–	–	–
Total	141 305	142 268	32 958	36 693	–	–
Level 1	–	231	–	35 468	–	–
Level 2	–	21 350	–	794	–	–
Level 3	–	120 687	–	431	–	–
FINANCIAL LIABILITIES, 31-12-2014						
Deposits from credit institutions and investment firms	–	–	–	–	16 628	17 887
Deposits from customers and debt securities	–	–	–	–	151 064	153 732
Liabilities under investment contracts	–	–	–	–	0	0
Other	–	–	–	–	2 103	1 981
Total	–	–	–	–	169 796	173 601
Level 1	–	–	–	–	–	1 052
Level 2	–	–	–	–	–	78 637
Level 3	–	–	–	–	–	93 911
FINANCIAL LIABILITIES, 31-12-2015						
Deposits from credit institutions and investment firms	–	–	–	–	17 828	17 842
Deposits from customers and debt securities	–	–	–	–	158 762	159 367
Liabilities under investment contracts	–	–	–	–	0	0
Other	–	–	–	–	1 792	1 743
Total	–	–	–	–	178 383	178 952
Level 1	–	–	–	–	–	75
Level 2	–	–	–	–	–	83 804
Level 3	–	–	–	–	–	95 073

Note 24: Financial assets and liabilities measured at fair value – fair value hierarchy

(in millions of EUR)				31-12-2014				31-12-2015
Fair value hierarchy	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value								
Held for trading								
Loans and advances to credit institutions and investment firms	0	141	0	141	0	0	0	0
Loans and advances to customers	0	27	0	27	0	0	0	0
Equity instruments	294	8	0	303	256	155	0	411
Debt instruments	1 998	634	262	2 894	1 254	244	287	1 785
of which sovereign bonds	*1 872*	*487*	*32*	*2 391*	*1 157*	*209*	*42*	*1 408*
Derivatives	1	6 492	2 321	8 814	0	6 133	2 055	8 188
Other	0	3	0	3	0	1	0	1
Designated at fair value								
Loans and advances to credit institutions and investment firms	0	1 636	0	1 636	0	2 107	0	2 107
Loans and advances to customers	0	1 309	26	1 335	0	366	28	394
Equity instruments	3	0	0	3	2	0	0	2
Investment contracts (insurance)	13 270	156	0	13 425	13 046	284	0	13 330
Debt instruments	1 278	149	337	1 763	257	41	383	681
of which sovereign bonds	*1 034*	*29*	*0*	*1 063*	*80*	*40*	*0*	*120*
Available for sale								
Equity instruments	1 432	0	393	1 826	1 641	19	411	2 071
Debt instruments	26 349	3 051	1 163	30 564	28 814	3 486	1 298	33 598
of which sovereign bonds	*18 331*	*982*	*156*	*19 469*	*20 761*	*687*	*444*	*21 892*
Hedging derivatives								
Derivatives	0	1 104	0	1 104	0	514	0	514
Total	44 624	14 711	4 503	63 839	45 271	13 348	4 462	63 082
Financial liabilities at fair value								
Held for trading								
Deposits from credit institutions and investment firms	0	60	0	60	0	1	0	1
Deposits from customers and debt securities	0	326	41	367	0	429	2	431
Derivatives	2	5 359	2 335	7 697	0	5 428	2 058	7 487
Short positions	325	0	0	325	415	0	0	415
Other	0	0	0	0	0	0	0	0
Designated at fair value								
Deposits from credit institutions and investment firms	0	1 004	0	1 004	0	1 123	0	1 123
Deposits from customers and debt securities	0	9 928	424	10 352	0	10 321	594	10 916
Liabilities under investment contracts	12 552	1	0	12 553	12 386	0	0	12 387
Other	0	0	0	0	0	0	0	0
Hedging derivatives								
Derivatives	0	3 491	0	3 491	0	2 191	0	2 191
Total	12 879	20 170	2 800	35 848	12 801	19 495	2 654	34 950

- The IAS 39 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 25.

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

- In 2014, KBC transferred 0.3 billion euros' worth of debt instruments (mainly classified as 'available for sale') out of level 1 and into level 2 due to the decline in market activity for various types of debt instruments. KBC also reclassified around 1.6 billion euros' worth of bonds from level 2 to level 1 – most (some 1 billion euros) of which concerned covered bonds – because the market for those instruments became more active in 2014.
- In 2015, KBC transferred 0.3 billion 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 0.3 billion euros' worth of debt instruments from level 2 to level 1 because the market for those instruments became more active in 2015.

Note 26: Financial assets and liabilities measured at fair value – focus on level 3

Movements table of assets and liabilities valued in level 3 of the fair value hierarchy – 2014 (in millions of EUR)

Level 3 financial assets

	Held for trading					Designated at fair value				Available for sale		Hedging derivatives
	Loans and advances	Equity instruments	Investment contracts (insurance)	Debt instruments	Derivatives	Loans and advances	Equity instruments	Investment contracts (insurance)	Debt instruments	Equity instruments	Debt instruments	Derivatives
Opening balance	0	1	0	342	2 141	24	5	0	352	300	1 472	0
Gains or losses	0	0	0	17	253	1	0	0	0	41	-11	0
in profit or loss*	0	0	0	17	253	1	0	0	0	4	-24	0
in other comprehensive income	0	0	0	0	0	0	0	0	0	37	13	0
Acquisitions	0	0	0	2	305	0	0	0	18	23	835	0
Disposals	0	0	0	-20	-77	0	-5	0	-2	-6	-74	0
Settlements	0	0	0	-61	-312	-3	0	0	-16	-1	-464	0
Transfers into level 3	0	0	0	0	0	0	0	0	0	0	110	0
Transfers out of level 3	0	0	0	-31	0	0	0	0	0	0	-687	0
Transfers into/out of non-current assets held for sale	0	0	0	0	0	0	0	0	0	0	0	0
Translation differences	0	0	0	14	11	3	0	0	36	0	1	0
Changes in the scope of consolidation	0	0	0	0	0	0	0	0	-22	-3	-20	0
Other	0	0	0	0	0	0	0	0	-29	39	0	0
Closing balance	0	0	0	263	2 321	26	0	0	337	393	1 163	0
Total gains (positive figures) or losses (negative figures) included in profit or loss for assets held at the end of the reporting period	0	0	0	22	304	1	1	0	10	-1	6	0

Level 3 financial liabilities

	Held for trading						Designated at fair value				Hedging derivatives
	Deposits from credit institutions	Deposits from customers and debt securities	Liabilities under investment contracts	Derivatives	Short positions	Other	Deposits from credit institutions	Deposits from customers and debt securities	Liabilities under investment contracts	Other	Derivatives
Opening balance	0	102	0	2 542	13	0	0	543	0	0	0
Gains or losses	0	1	0	-58	0	0	0	-25	0	0	0
in profit or loss*	0	1	0	-58	0	0	0	-25	0	0	0
in other comprehensive income	0	0	0	0	0	0	0	0	0	0	0
Issues	0	0	0	293	0	0	0	0	0	0	0
Repurchases	0	-5	0	0	0	0	0	-119	0	0	0
Settlements	0	-66	0	-452	-13	0	0	0	0	0	0
Transfers into level 3	0	0	0	0	0	0	0	0	0	0	0
Transfers out of level 3	0	0	0	0	0	0	0	0	0	0	0
Transfers out of/into liabilities associated with disposal groups	0	0	0	0	0	0	0	0	0	0	0
Translation differences	0	7	0	10	0	0	0	23	0	0	0
Changes in the scope of consolidation	0	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0	0
Closing balance	0	41	0	2 335	0	0	0	424	0	0	0
Total gains (negative figures) or losses (positive figures) included in profit or loss for liabilities held at the end of the reporting period	0	0	0	329	0	0	0	-8	0	0	0

* Recognised primarily in 'Net result from financial instruments at fair value', 'Net realised result from available-for-sale assets' and 'Impairment on available-for-sale assets'.

Movements table of assets and liabilities valued in level 3 of the fair value hierarchy – 2015 (in millions of EUR)

Level 3 financial assets

	Held for trading					Designated at fair value				Available for sale		Hedging derivatives
	Loans and advances	Equity instruments	Investment contracts (insurance)	Debt instruments	Derivatives	Loans and advances	Equity instruments	Investment contracts (insurance)	Debt instruments	Equity instruments	Debt instruments	Derivatives
Opening balance	0	0	0	263	2 321	26	0	0	337	393	1 163	0
Gains or losses	0	0	0	2	-195	2	2	0	-42	73	30	0
in profit or loss*	0	0	0	2	-195	2	2	0	-42	-12	0	0
in other comprehensive income	0	0	0	0	0	0	0	0	0	85	30	0
Acquisitions	0	0	0	78	372	0	0	0	70	3	546	0
Disposals	0	0	0	-57	-2	0	-2	0	-18	-20	-58	0
Settlements	0	0	0	-13	-446	0	0	0	0	0	-28	0
Transfers into level 3	0	0	0	0	0	0	0	0	0	14	211	0
Transfers out of level 3	0	0	0	0	0	0	0	0	0	-44	-568	0
Transfers into/out of non-current assets held for sale	0	0	0	0	0	0	0	0	0	0	0	0
Translation differences	0	0	0	15	5	0	0	0	35	-8	1	0
Changes in the scope of consolidation	0	0	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	-1	0	0
Closing balance	0	0	0	287	2 055	28	0	0	383	411	1 298	0
Total gains (positive figures) or losses (negative figures) included in profit or loss for assets held at the end of the reporting period	0	0	0	2	-57	2	0	0	-34	-3	0	0

Level 3 financial liabilities

	Held for trading						Designated at fair value				Hedging derivatives
	Deposits from credit institutions	Deposits from customers and debt securities	Liabilities under investment contracts	Derivatives	Short positions	Other	Deposits from credit institutions	Deposits from customers and debt securities	Liabilities under investment contracts	Other	Derivatives
Opening balance	0	41	0	2 335	0	0	0	424	0	0	0
Gains or losses	0	0	0	-148	0	0	0	-79	0	0	0
in profit or loss*	0	0	0	-148	0	0	0	-79	0	0	0
in other comprehensive income	0	0	0	0	0	0	0	0	0	0	0
Issues	0	0	0	324	0	0	0	0	0	0	0
Repurchases	0	0	0	-4	0	0	0	-165	0	0	0
Settlements	0	-43	0	-449	0	0	0	0	0	0	0
Transfers into level 3	0	0	0	0	0	0	0	0	0	0	0
Transfers out of level 3	0	0	0	0	0	0	0	0	0	0	0
Transfers out of/into liabilities associated with disposal groups	0	0	0	0	0	0	0	0	0	0	0
Translation differences	0	4	0	0	0	0	0	21	0	0	0
Changes in the scope of consolidation	0	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	394	0	0	0
Closing balance	0	2	0	2 058	0	0	0	594	0	0	0
Total gains (negative figures) or losses (positive figures) included in profit or loss for liabilities held at the end of the reporting period	0	0	0	-57	0	0	0	-28	0	0	0

* Recognised primarily in 'Net result from financial instruments at fair value', 'Net realised result from available-for-sale assets' and 'Impairment on available-for-sale assets'.

- 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 given in the table.
- As a result of the further de-risking of the portfolio of legacy CDOs in 2014, that portfolio's sensitivity in profit or loss to credit spreads widening by 50% was reduced from -92 million euros at the close of 2013 to a negligible amount at year-ends 2014 and 2015. The remaining minor fluctuations in value are attributable to the fact that 0.2 billion euros' worth of CDO notes that are held by investors will remain outstanding until 7 October 2017. KBC issued these notes and is counterparty for them. The notes could continue to fluctuate in value, mainly on account of movements in credit spreads on the underlying portfolio.

Note 27: Changes in own credit risk

Own debt issues designated at fair value ((+) profit (-) loss; amounts before tax)
(in millions of EUR)

	31-12-2014	31-12-2015
Impact of change in own credit spreads on the income statement	-2	17
Total cumulative impact at balance sheet date	-31	-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 relate 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 1.3 billion euros on 31 December 2015. The results of sensitivity tests – in which the funding spread is shifted – on the total fair value of KBC IFIMA issues are given in the table below.

Profit/loss sensitivity based on a relative shift in the funding spread
(in billions of EUR)

	Spreads -50%	Spreads -20%	Spreads -10%	Spreads +10%	Spreads +20%	Spreads +50%
31-12-2014	-0.01	-0.00	-0.00	+0.00	+0.00	+0.01
31-12-2015	-0.01	-0.00	-0.00	+0.00	+0.00	+0.01

- 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 0.2 billion euros).

Note 28: Reclassification of financial assets and liabilities

Financial assets reclassified out of 'available for sale' to 'loans and receivables' – situation at 31-12-2015
(in millions of EUR)

Carrying value			711
Fair value			735
	If not reclassified (available for sale)	After reclassification (loans and receivables)	Impact
Impact on the revaluation reserve (available-for-sale assets), before tax	-65	-90	-25
Impact on the income statement, before tax	0	0	0

- 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 25 million euros on equity and no impact on the income statement.
- Other reclassifications (not included in the table):
  - In 2014, no 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.

	Held for trading				Micro hedging: fair value hedge				Micro hedging: cashflow hedge*				Portfolio hedge of interest rate risk			
	Carrying value		Notional amount		Carrying value		Notional amount		Carrying value		Notional amount		Carrying value		Notional amount	
(in millions of EUR)	Assets	Liabilities	Purchased	Sold	Assets	Liabilities	Purchased	Sold	Assets	Liabilities	Purchased	Sold	Assets	Liabilities	Purchased	Sold
31-12-2014																
Total	**8 814**	**7 697**	**380 492**	**377 541**	**426**	**736**	**25 223**	**25 223**	**650**	**2 610**	**25 711**	**25 647**	**28**	**144**	**2 749**	**2 749**
Breakdown by type																
Interest rate contracts	5 304	4 596	217 557	214 711	426	736	25 223	25 223	642	2 600	25 525	25 525	28	144	2 749	2 749
Interest rate swaps	4 120	4 056	148 425	149 039	426	736	25 223	25 223	642	2 600	25 525	25 525	28	144	2 749	2 749
Forward rate agreements	0	3	1 880	2 385	0	0	0	0	0	0	0	0	0	0	0	0
Futures	3	3	12 879	13 727	0	0	0	0	0	0	0	0	0	0	0	0
Options	1 181	534	54 374	49 560	0	0	0	0	0	0	0	0	0	0	0	0
Forwards	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Foreign exchange contracts	1 339	982	125 336	126 203	0	0	0	0	7	10	186	122	0	0	0	0
Forward foreign exchange operations/ currency forwards	189	180	17 419	17 394	0	0	0	0	0	1	31	31	0	0	0	0
Currency and interest rate swaps	1 028	621	95 689	95 268	0	0	0	0	7	9	155	91	0	0	0	0
Futures	0	0	284	284	0	0	0	0	0	0	0	0	0	0	0	0
Options	121	180	11 944	13 257	0	0	0	0	0	0	0	0	0	0	0	0
Equity contracts	2 016	2 022	32 162	31 912	0	0	0	0	0	0	0	0	0	0	0	0
Equity swaps	1 674	1 704	30 120	30 120	0	0	0	0	0	0	0	0	0	0	0	0
Forwards	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Futures	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Options	342	318	2 042	1 793	0	0	0	0	0	0	0	0	0	0	0	0
Warrants	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Credit contracts	105	46	4 826	4 104	0	0	0	0	0	0	0	0	0	0	0	0
Credit default swaps	105	46	4 826	4 104	0	0	0	0	0	0	0	0	0	0	0	0
Credit spread options	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total return swaps	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Commodity and other contracts	51	51	611	611	0	0	0	0	0	0	0	0	0	0	0	0

* Including hedges of net investments in foreign operations.

	Held for trading				Micro hedging: fair value hedge				Micro hedging: cashflow hedge*				Portfolio hedge of interest rate risk			
	Carrying value		Notional amount		Carrying value		Notional amount		Carrying value		Notional amount		Carrying value		Notional amount	
(in millions of EUR)	Assets	Liabilities	Purchased	Sold	Assets	Liabilities	Purchased	Sold	Assets	Liabilities	Purchased	Sold	Assets	Liabilities	Purchased	Sold
31-12-2015																
Total	**8 188**	**7 487**	**374 627**	**376 167**	**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	4 458	4 283	207 334	206 585	127	469	31 065	31 065	346	1 703	26 607	26 607	31	13	7 809	7 569
Interest rate swaps	3 546	3 854	155 102	155 321	127	469	31 065	31 065	346	1 703	26 607	26 607	31	13	6 765	6 524
Forward rate agreements	0	3	1 525	2 062	0	0	0	0	0	0	0	0	0	0	0	0
Futures	0	0	6 066	8 135	0	0	0	0	0	0	0	0	0	0	0	0
Options	912	425	44 637	41 063	0	0	0	0	0	0	0	0	0	0	1 045	1 045
Forwards	0	0	3	3	0	0	0	0	0	0	0	0	0	0	0	0
Foreign exchange contracts	1 814	1 340	133 090	136 179	0	0	8	0	10	5	117	111	0	0	0	0
Forward foreign exchange operations/ currency forwards	149	192	18 381	18 409	0	0	8	0	0	0	0	0	0	0	0	0
Currency and interest rate swaps	1 434	1 032	104 376	104 146	0	0	0	0	10	5	117	111	0	0	0	0
Futures	0	0	67	67	0	0	0	0	0	0	0	0	0	0	0	0
Options	231	117	10 266	13 557	0	0	0	0	0	0	0	0	0	0	0	0
Equity contracts	1 717	1 721	32 141	31 842	0	0	0	0	0	0	0	0	0	0	0	0
Equity swaps	1 409	1 422	28 961	28 962	0	0	0	0	0	0	0	0	0	0	0	0
Forwards	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Futures	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Options	308	299	3 154	2 880	0	0	0	0	0	0	0	0	0	0	0	0
Warrants	0	0	26	0	0	0	0	0	0	0	0	0	0	0	0	0
Credit contracts	66	8	916	413	0	0	0	0	0	0	0	0	0	0	0	0
Credit default swaps	66	8	916	413	0	0	0	0	0	0	0	0	0	0	0	0
Credit spread options	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total return swaps	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	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

* Including hedges of net investments in foreign operations.

- 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 5.
- 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	11	-15
More than three but not more than six months	20	-56
More than six months but not more than one year	44	-115
More than one but not more than two years	102	-338
More than two but not more than five years	340	-932
More than five years	1 409	-2 139

Notes on other balance sheet items

Note 30: Other assets

(in millions of EUR)	31-12-2014	31-12-2015
Total	**1 480**	**1 487**
Debtors arising out of direct insurance operations	349	376
Debtors arising out of reinsurance operations	13	17
Other debtors and called capital as yet unpaid	0	0
Deposits with ceding companies	13	216
Income receivable (other than interest income from financial assets)	281	26
Other	824	852

Note 31: Tax assets and tax liabilities

(in millions of EUR)	31-12-2014	31-12-2015
CURRENT TAXES		
Current tax assets	88	107
Current tax liabilities	98	109
DEFERRED TAXES	**1 127**	**1 680**
Deferred tax assets by type of temporary difference	2 279	2 829
Employee benefits	198	191
Losses carried forward	540	1 146
Tangible and intangible fixed assets	48	32
Provisions for risks and charges	53	38
Impairment for losses on loans and advances	230	218
Financial instruments at fair value through profit or loss and fair value hedges	267	244
Fair value changes, available-for-sale assets, cashflow hedges and hedges of net investments in foreign operations	844	828
Technical provisions	33	29
Other	65	103
Deferred tax liabilities by type of temporary difference	1 152	1 150
Employee benefits	2	91
Losses carried forward	0	0
Tangible and intangible fixed assets	101	103
Provisions for risks and charges	1	1
Impairment for losses on loans and advances	7	8
Financial instruments at fair value through profit or loss and fair value hedges	48	45
Fair value changes, available-for-sale assets, cashflow hedges and hedges of net investments in foreign operations	776	665
Technical provisions	126	134
Other	89	102
Recognised as a net amount in the balance sheet as follows:		
Deferred tax assets	1 726	2 228
Deferred tax liabilities	599	549
Unused tax losses and unused tax credits	1 283	492

- 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.
- Deferred tax assets relating to tax losses carried forward are justified by the fact that – based on macroeconomic forecasts and the use of conservative scenarios – enough taxable profit will be available in the quite near future.
- The net change in deferred taxes (+553 million euros in 2015) breaks down as follows:
  - an increase in deferred tax assets: +550 million euros;
  - a decrease in deferred tax liabilities: -2 million euros.
- The change in deferred tax assets was accounted for chiefly by:
  - the increase in deferred tax assets via the income statement: +596 million euros, due primarily to losses carried forward (+605 million euros: 910 million euros of which following the liquidation of KBC Financial Holding Inc., partially offset by taxable profit generated in 2015) and financial instruments at fair value through profit or loss (-10 million euros);
  - the decrease in deferred tax assets consequent on movements in the market value of cashflow hedges: -126 million euros;
  - the decrease in deferred tax assets relating to changes in defined benefit plans recognised in other comprehensive income: -6 million euros;
  - the increase in deferred tax assets owing to changes in the revaluation reserve for hedges of net investments in foreign operations: +100 million euros;
  - other items (including exchange differences): -14 million euros.
- The change in deferred tax liabilities was accounted for chiefly by:
  - the increase in deferred tax liabilities via the income statement:

+34 million euros, owing primarily to technical and other provisions (+20 million euros), the rise in financial instruments at fair value through profit or loss (+7 million euros), and the increase related to fixed assets (+6 million euros);
- the increase in deferred tax liabilities relating to changes in defined benefit plans recognised in other comprehensive income: +88 million euros;
- the decrease in deferred tax liabilities consequent on the rise in the market value of available-for-sale securities: -94 million euros;
- the decrease in deferred tax liabilities consequent on movements in the market value of cashflow hedges: -8 million euros;
- the decrease in deferred tax liabilities on account of changes in the revaluation reserve for hedges of net investments in foreign operations: -2 million euros;
- other items (including exchange differences): -16 million euros.

- The deferred tax assets presented in the balance sheet are attributable primarily to KBC Bank.
- Unused tax losses and unused tax credits fell by 791 million euros due to the impact of the liquidation of KBC Financial Holding Inc. in 2015 (also see Note 16).

Note 32: Investments in associated companies and joint ventures

(in millions of EUR)	31-12-2014	31-12-2015
Total	**204**	**207**
Overview of investments, including goodwill		
ČMSS	175	179
Other	28	28
Goodwill on associated companies and joint ventures		
Gross amount	0	0
Accumulated impairment	0	0
Breakdown by type		
Unlisted	204	207
Listed	0	0
Fair value of investments in listed associated companies and joint ventures	0	0
MOVEMENTS TABLE	**2014**	**2015**
Opening balance (1 January)	182	204
Acquisitions	0	0
Carrying value, transfers	0	0
Share in the result for the period	25	24
Capital increase	0	0
Dividends paid	-30	-23
Share of gains and losses not recognised in the income statement	11	-2
Translation differences	0	7
Changes in goodwill	0	0
Transfers to or from non-current assets held for sale and disposal groups	0	0
Other movements	16	-4
Closing balance (31 December)	204	207

- 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 and joint ventures' 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 at year-ends 2015 and 2014 (in brackets), in millions of euros):
  - Total assets: 3 112 (3 266)
  - Cash and cash equivalents: 309 (149)
  - Financial assets: 2 773 (3 089)
  - Non-financial assets: 30 (28)
  - Financial liabilities: 2 890 (3 044)
  - Non-financial liabilities: 44 (47)
  - Total equity: 179 (175)
  - Total income: 64 (59)
  - Interest income: 109 (113)
  - Interest expense: -57 (-68)
  - Operating expenses: -25 (-25)
  - Impairment: -12 (-6)
  - Income tax expense: -5 (-5)
  - Result after tax: 23 (23)
  - Other comprehensive income: 0 (7)
  - Total comprehensive income: 23 (31)
- 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 33: Property and equipment and investment property

(in millions of EUR)	31-12-2014	31-12-2015
Property and equipment	**2 278**	**2 299**
Investment property	**568**	**438**
Rental income	66	54
Direct operating expenses from investments generating rental income	18	15
Direct operating expenses from investments not generating rental income	1	0

MOVEMENTS TABLE	Land and buildings	IT equipment	Other equipment	Total property and equipment	Investment property
2014					
Opening balance	1 362	133	962	2 457	598
Acquisitions	78	42	321	441	19
Disposals	-152	-1	-126	-279	-49
Depreciation	-72	-55	-27	-154	-28
Impairment					
Recognised	-1	-6	-1	-8	0
Reversed	0	0	0	1	0
Transfers to or from non-current assets held for sale and disposal groups	-20	0	0	-20	0
Translation differences	-4	-1	-2	-7	0
Changes in the scope of consolidation	8	0	0	8	33
Other movements	2	-1	-163	-162	-5
Closing balance	1 202	111	965	2 278	568
of which accumulated depreciation and impairment	1 142	338	624	2 104	328
of which expenditure on items in the course of construction	31	9	22	62	–
of which finance lease as a lessee	0	0	0	0	–
Fair value 31-12-2014	–	–	–	–	716
2015					
Opening balance	1 202	111	965	2 278	568
Acquisitions	108	53	397	558	5
Disposals	-68	-2	-150	-221	-5
Depreciation	-70	-54	-29	-153	-21
Impairment					
Recognised	-7	-10	-10	-27	0
Reversed	0	0	0	0	0
Transfers to or from non-current assets held for sale and disposal groups	-4	0	-1	-4	-10
Translation differences	12	0	2	14	0
Changes in the scope of consolidation	-1	-57	28	-30	-89
Other movements	-10	55	-162	-117	-10
Closing balance	1 161	96	1 041	2 299	438
of which accumulated depreciation and impairment	1 159	373	653	2 186	229
of which expenditure on items in the course of construction	32	5	17	55	–
of which finance lease as a lessee	0	0	0	0	–
Fair value 31-12-2015	–	–	–	–	609

- 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 0.1 billion euros) recognised 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 34: Goodwill and other intangible assets

(in millions of EUR)	Goodwill	Software developed in-house	Software developed externally	Other	Total
2014					
Opening balance	950	180	138	9	1 276
Acquisitions	0	56	91	6	153
Disposals	0	-16	-5	-7	-28
Adjustment resulting from subsequent identification	0	0	0	0	0
Amortisation	0	-59	-50	-1	-110
Impairment					
Recognised	0	-22	-1	0	-23
Reversed	0	0	0	0	0
Transfers to or from non-current assets held for sale and disposal groups	0	0	0	0	0
Translation differences	-16	0	-2	0	-18
Changes in the scope of consolidation	0	0	-8	0	-8
Other movements	-1	26	-8	0	17
Closing balance	933	165	153	7	1 258
of which accumulated amortisation and impairment	1 202	497	567	52	2 318
2015					
Opening balance	933	165	153	7	1 258
Acquisitions	0	71	78	9	158
Disposals	0	-28	-5	-6	-39
Adjustment resulting from subsequent identification	0	0	0	0	0
Amortisation	0	-53	-48	-1	-103
Impairment					
Recognised	-344	-5	0	0	-350
Reversed	0	0	0	0	0
Transfers to or from non-current assets held for sale and disposal groups	0	0	0	0	0
Translation differences	7	0	1	0	9
Changes in the scope of consolidation	-1	-2	-1	0	-5
Other movements	0	28	3	0	30
Closing balance	594	176	181	9	959
of which accumulated amortisation and impairment	829	495	594	54	1 971

- 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 14). This impairment test is performed at least once a year and on a quarterly basis for investments where 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 17), 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 post-tax 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.

Goodwill outstanding (in millions of EUR)	31-12-2014	31-12-2015	Discount rates throughout the specific period of cashflow projections 31-12-2014	31-12-2015
K&H Bank	219	220	11.6%–8.0%	13.6%–10.7%
ČSOB (Czech Republic)	229	233	8.4%–7.8%	9.9%–9.7%
ČSOB (Slovakia)	191	0	8.9%–8.1%	10.0%–9.0%
CIBANK	117	0	9.3%–7.7%	11.1%–9.5%
DZI Insurance	108	74	9.4%–8.1%	9.2%–7.6%
Rest	69	68	–	–
Total	933	594	–	–

- The period to which the cashflow budgets and projections relate is 17 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 17-year period is 2%, which is equal to the rate of inflation forecast for that time. This rate of growth was the same as in 2014.
- 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. A sensitivity analysis was not carried out for DZI Insurance either because the recoverable amount was equal to the carrying value and, therefore, any adverse change in the key assumptions would lead to impairment. The table gives an indication for K&H Bank of the change in key assumptions that would lead to the recoverable amount equalling the 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
K&H Bank	10.2%	–	1.7%	9.8%

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 The discount rate for the first year was increased by the percentage shown. Pursuant to the way in which discount rates (or changes in discount rates) are modelled, the increase in the discount rate for the first year is gradually and diminishingly carried forward as (higher) discount rates for the years ahead.
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 35: Technical provisions, insurance

(in millions of EUR)	31-12-2014	31-12-2015
Technical provisions (before reinsurance) (i.e. gross figures)	**18 934**	**19 532**
Insurance contracts	9 757	10 297
Provision for unearned premiums and unexpired risk	603	647
Life insurance provision	6 274	6 677
Provision for claims outstanding	2 360	2 436
Provision for profit sharing and rebates	18	18
Other technical provisions	502	519
Investment contracts with DPF	9 176	9 235
Life insurance provision	9 080	9 143
Provision for claims outstanding	0	0
Provision for profit sharing and rebates	96	92
Reinsurers' share	**194**	**127**
Insurance contracts	194	127
Provision for unearned premiums and unexpired risk	2	1
Life insurance provision	1	2
Provision for claims outstanding	192	123
Provision for profit sharing and rebates	0	0
Other technical provisions	0	0
Investment contracts with DPF	0	0
Life insurance provision	0	0
Provision for claims outstanding	0	0
Provision for profit sharing and rebates	0	0

MOVEMENTS TABLE	**Gross 2014**	**Reinsurance 2014**	**Gross 2015**	**Reinsurance 2015**
INSURANCE CONTRACTS, LIFE				
Opening balance	6 261	2	6 754	2
Deposits excluding fees	647	0	788	0
Provisions paid	-547	0	-599	0
Accretion of interest	225	0	234	0
Cost of profit sharing	2	0	3	0
Exchange differences	-27	0	27	0
Transfers out of/into liabilities associated with disposal groups	0	0	0	0
Changes in the scope of consolidation	0	0	0	0
Other movements	193	0	-36	1
Closing balance	6 754	2	7 170	3
INSURANCE CONTRACTS, NON-LIFE				
Opening balance	2 922	144	3 004	192
Changes in the provision for unearned premiums	33	0	35	0
Payments regarding claims of previous years	-216	-9	-204	-7
Surplus/shortfall of claims provision in previous financial years	-131	-22	-129	8
Provision for new claims	370	100	332	13
Exchange differences	-7	0	-5	0
Transfers out of/into liabilities associated with disposal groups	0	0	0	0
Changes in the scope of consolidation	0	0	0	0
Other movements	32	-21	93	-83
Closing balance	3 004	192	3 127	123
INVESTMENT CONTRACTS WITH DPF, LIFE				
Opening balance	9 518	0	9 176	0
Deposits excluding fees	517	0	378	0
Provisions paid	-859	0	-606	0
Accretion of interest	199	0	259	0
Cost of profit sharing	0	0	0	0
Exchange differences	0	0	1	0
Transfers out of/into liabilities associated with disposal groups	0	0	0	0
Changes in the scope of consolidation	0	0	0	0
Other movements	-199	0	27	0
Closing balance	9 176	0	9 235	0

- Technical provisions relate to insurance contracts and investment contracts with a discretionary participation feature (DPF).
- Liabilities under investment contracts without DPF are measured at fair value. These liabilities concern mainly unit-linked contracts, which are recognised under financial liabilities (see Note 18).
- Technical provisions for life insurance are calculated using various assumptions. Judgement is required when making these assumptions and the assumptions used are based on various internal and external sources of information. At present, IFRS 4 refers extensively to local accounting principles for the recognition of technical provisions. These provisions are generally calculated using the technical assumptions that were applicable at the inception of the insurance contract and are subject to liability adequacy tests. The key assumptions are:
  - mortality and morbidity rates, which are based on standard mortality tables and adapted where necessary to reflect the group's own experience;
  - expense assumptions, which are based on current expense levels and expense loadings;
  - the discount rate, which is generally equal to the technical interest rate, remains constant throughout the life of the policy, and in some cases is adjusted to take account of legal requirements and internal policy decisions.
- Assumptions for the technical provisions for claims outstanding are based on past claims experience (including assumptions in respect of claim numbers, claim payments, and claims handling costs), and adjusted to take account of such factors as anticipated market experience, claims inflation and external factors such as court awards and legislation. The technical provision for claims outstanding is generally not discounted except when long-term obligations and/or annuities (industrial accidents, guaranteed income and hospitalisation insurance) are involved.
- In 2015, there were no major changes in assumptions leading to a significant change in the valuation of insurance assets and liabilities.

Note 36: Provisions for risks and charges

(in millions of EUR)	Provisions for restructuring	Provisions for taxes and pending legal disputes	Other	Subtotal	Provisions for commitments and financial guarantees	Total
2014						
Opening balance	19	292	98	409	114	523
Movements with an impact on results				0		
Amounts allocated	24	12	235	271	32	304
Amounts used	-8	-80	-194	-282	-3	-285
Unused amounts reversed	-2	-3	-11	-16	-55	-71
Transfers out of/into liabilities associated with disposal groups	2	0	0	2	0	2
Changes in the scope of consolidation	-1	0	0	0	9	9
Other movements	-2	4	16	18	61	79
Closing balance	32	225	144	402	158	560
2015						
Opening balance	32	225	144	402	158	560
Movements with an impact on results						
Amounts allocated	7	22	11	40	44	84
Amounts used	-31	-82	-80	-194	0	-194
Unused amounts reversed	0	-47	-19	-66	-52	-118
Transfers out of/into liabilities associated with disposal groups	0	0	0	0	0	0
Changes in the scope of consolidation	0	0	-1	-1	0	-1
Other movements	2	0	1	3	-25	-22
Closing balance	9	118	58	184	125	310

- 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 and future expenditure.
- 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:
  - When Lehman Brothers went bankrupt in September 2008, KBC Bank had derivative transactions outstanding under an ISDA Master Agreement with Lehman Brothers Finance AG (LBF). The bankruptcy triggered an event of default and early termination of all outstanding transactions. LBF challenged various aspects, including the valuation method used by KBC Bank and – in a notice of default dated 21 December 2012 – asserted that the net amount payable to LBF under the ISDA agreement was 58.2 million US dollars plus 52.8 million US dollars in interest accruing since September 2008. KBC Bank believed it had various arguments to defend the valuation method used and also strongly disputed the interest rate applied by LBF. On 25 September 2013, KBC was summoned by LBF in London, where LBF filed the claim of 58.2 million US dollars plus interest of 57 million US dollars (calculated to the end of March 2013). On 8 October 2015, a settlement was reached with LBF's liquidators in Zurich. The case is now closed.
  - In 2003, a major case of fraud was uncovered at K&H Equities Hungary. Numerous clients suffered substantial losses on their securities portfolios as a result of unauthorised speculative transactions and possible misappropriations of funds. Instructions and portfolio overviews were falsified. In August 2008, criminal sentences were handed down. Following an order by the court of appeal on 27 May 2010, the case was retried. All claims against K&H Equities were settled either amicably or following an arbitration decision. The largest liability claim, which had been covered by adequate provisioning (with due account taken of the compensation expected from an external insurer), was settled out of court in September 2015. On 29 December 2015, the court of first instance handed down a number of convictions, and some accused were acquitted. The prosecution has since appealed, and so the prosecution will continue at appeal level.
  - 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 2016. 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. Nevertheless, 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 Ltd 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 had received from Harley International, a Madoff feeder fund established under the laws of the Cayman Islands. This claim is one of a whole set made by the trustee against several banks, hedge funds, feeder funds and investors. In addition to the issues addressed by the district court, briefings were held on the applicability of the Bankruptcy Code's 'safe harbor' and 'good defenses' rules to subsequent transferees (as is the case for KBC). KBC, together with numerous other defendants, filed motions for dismissal. District court Judge Jed Rakoff has made several intermediate rulings in this matter, the

most important of which are the rulings on extraterritoriality and good faith defences. On 27 April 2014, Judge Rakoff issued an opinion and order regarding the 'good faith' standard and pleading burden to be applied in the Picard/SIPA proceeding based on sections 548(b) and 559(b) of the Bankruptcy Code. As such the burden of proof that 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 have been dismissed to the extent that they seek to recover purely foreign transfers. In June 2015, the trustee filed a petition against KBC to overturn the ruling that the claim fails on extraterritoriality grounds. In this petition, the trustee also amended the original claim including the sum sought. The amount has now been increased to 196 million US dollars.

- 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 pro-actively decided to offer additional security to holders of 5-5-5 bonds and informed them of this in writing: if a credit event occurred, investors would still 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 examined the judgment in detail and are of the view that there is sufficient ground for appealing the case, and have therefore decided to file a petition to that effect.

Note 37: Other liabilities

(in millions of EUR)	31-12-2014	31-12-2015
Total	**2 629**	**2 541**
Breakdown by type		
Retirement benefit obligations or other employee benefits	657	371
Deposits from reinsurers	67	77
Accrued charges (other than from interest expenses on financial liabilities)	254	244
Other	1 650	1 849

- For more information on retirement benefit obligations, see Note 38 (note that the amount recognised under 'Retirement benefit obligations or other employee benefits' in Note 37 relates to a broader scope than the amounts presented in Note 38).

Note 38: Retirement benefit obligations

(in millions of EUR)	31-12-2014	31-12-2015
DEFINED BENEFIT PLANS		
Reconciliation of defined benefit obligations		
Defined benefit obligations at the beginning of the period	2 034	2 610
Current service cost	98	120
Interest cost	63	45
Plan amendments		
Actuarial gain or loss resulting from changes in demographic assumptions	26	-9
Actuarial gain or loss resulting from changes in financial assumptions	500	-220
Past-service cost	-1	0
Benefits paid	-128	-116
Exchange differences	7	8
Curtailments	-2	-9
Transfers under IFRS 5	16	0
Changes in the scope of consolidation	0	0
Other	-3	-49
Defined benefit obligations at the end of the period	2 610	2 380
Reconciliation of the fair value of plan assets		
Fair value of plan assets at the beginning of the period	1 818	2 103
Actual return on plan assets	283	82
Expected return on plan assets	57	36
Employer contributions	87	65
Plan participant contributions	22	21
Benefits paid	-128	-116
Exchange differences	6	7
Settlements	0	0
Transfers under IFRS 5	14	0
Changes in the scope of consolidation	0	0
Other	1	2
Fair value of plan assets at the end of the period	2 103	2 165
of which financial instruments issued by the group	25	50
of which property occupied by KBC	0	9
Funded status		
Plan assets in excess of defined benefit obligations	-507	-215
Reimbursement rights	0	0
Asset ceiling limit	0	-4
Unfunded accrued/prepaid pension cost	-507	-220
Movement in net liabilities or net assets		
Unfunded accrued/prepaid pension cost at the beginning of the period	-216	-507
Amounts recognised in the income statement	-79	-103
Amounts recognised in other comprehensive income	-281	323
Employer contributions	87	65
Exchange differences	-1	-1
Transfers under IFRS 5	-2	0
Changes in the scope of consolidation	0	0
Other	-14	2
Unfunded accrued/prepaid pension cost at the end of the period	-507	-221
Amounts recognised in the income statement	**79**	**103**
Current service cost	98	120
Past-service cost	-1	0
Interest cost	7	9
Plan participant contributions	-22	-21
Curtailments	-2	-5
Settlements	0	0
Changes in the scope of consolidation	0	0
Changes to the amounts recognised in other comprehensive income	**281**	**-323**
Actuarial gain or loss resulting from changes in demographic assumptions	26	-9
Actuarial gain or loss resulting from changes in financial assumptions	500	-220
Actuarial result on plan assets	-227	-46
Experience adjustments	-5	-50
Other	-14	0

(in millions of EUR)	31-12-2014	31-12-2015
Principal actuarial assumptions used (based on weighted averages)		
Discount rate	1.6%	2.1%
Expected rate of salary increase	3.0%	3.0%
Expected rate of inflation	2.0%	2.0%
DEFINED CONTRIBUTION PLANS		
Expenses for defined contribution plans	5	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, KBC Insurance 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 closed group insurance schemes from the past that will continue to be funded, one of the main ones being the plan for employees of KBC Insurance (a defined benefit plan for the period of employment up to 1 January 2007).
- 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)	2011	2012	2013	2014	2015
Changes in main headings in the main table					
Defined benefit obligations	1 823	2 191	2 034	2 610	2 380
Fair value of plan assets	1 557	1 765	1 818	2 103	2 165
Unfunded accrued/prepaid pension cost	-372	-425	-216	-507	-220
Impact of changes in the assumptions used in the actuarial calculation of plan assets and retirement benefit obligations*					
Impact on plan assets	0	0	0	0	0
Impact on retirement benefit obligations	-76	213	-85	-135	24

* Arising from defined benefit plans. A plus sign signifies a positive impact, a minus sign a negative impact.

Additional information on retirement benefit obligations – DEFINED BENEFIT PLANS

	KBC pension fund	KBC Insurance group insurance scheme	KBC Bank Ireland pension plan
Composition (31-12-2015)			
Shares	38%	11%	41%
Bonds	49%	89%	16%
Real estate	10%	0%	3%
Cash	3%	0%	2%
Investment funds	0%	0%	37%
of which illiquid assets	4%	0%	0%
Composition (31-12-2014)			
Shares	39%	10%	36%
Bonds	51%	89%	42%
Real estate	9%	0%	3%
Cash	1%	1%	1%
Investment funds	0%	0%	18%
of which illiquid assets	3%	0%	0%
Contributions expected in 2016 (in millions of EUR)	48	2	3
Nature of pension plan benefits	Capital at retirement age. Death benefit in case of death during active career. Orphans' benefit in case of death during active career.Monthly annuity payment as from the 13th month of work disability.	Capital at retirement age.	Life-long annuity at retirement age. The pension fund was closed on 30 August 2012. Accrued benefits continue to be linked to future salary increases.
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.
Responsibilities of KBC	To pay adequate contributions in accordance with the plan's funding agreement. To fund the pension plan. To provide annual pension statements to plan participants. To provide information following exit from the plan.	To pay adequate contributions in accordance with the plan's funding agreement. To fund the pension plan. To notify the insurer when participants exit the plan.	To pay adequate contributions in accordance with the plan's funding agreement.
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.		The trustees agreed to reduce participants' benefits for 2015 to account for the payment of the pension levy enacted by the Irish government.
Funding	Contributions to the plan are calculated using the projected unit credit method.		Contributions to the plan are calculated using the projected unit credit method. The pension fund was closed on 30 August 2012. No further accrual of future years of service.
Curtailments and settlements	Not applicable.		The trustees agreed to reduce participants' benefits for 2015 to account for the payment of the pension levy enacted by the Irish government.
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 16, extrapolation is applied to flatten the curve for maturities of 20 years and longer.		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.

Additional information on retirement benefit obligations – DEFINED BENEFIT PLANS

	KBC pension fund	KBC Insurance group insurance scheme	KBC Bank Ireland pension plan
Key actuarial assumptions			
Average discount rate	2.13%	1.95%	2.80%
Expected rate of salary increase	3.00%	2.83%	2.50%
Expected inflation rate	2.00%	2.00%	1.50%
Expected rate of increase in pensions	–	–	1.50%
Average duration of the obligations	13.82 years	11.83 years	17 years
Weighted average duration of the obligations	12.20 years	12.06 years	25 years
Impact of changes in the assumptions used in the actuarial calculation of the retirement benefit obligations			
Increase in the retirement benefit obligations on 31-12-2015 consequent on:			
a decrease of 1% in the discount rate	13.82%	11.88%	28.40%
an increase of 1% in the expected inflation rate	11.03%	11.19%	28.10%
an increase that is 1% higher than the expected real increase in salary	14.17%	23.82%	8.15%
the age of retirement being 65 for all active employees	1.76%	0.67%	–
an increase of one year in life expectancy	–	–	2.71%
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 2016 (in millions of EUR)	18
Nature of pension plan benefits	Capital at retirement age. Vested rights are paid out on death.
Regulatory framework	Pursuant to the Belgian Supplementary Pensions Act, the employer must guarantee a minimum return of 3.75% on employee contributions.
Responsibilities of KBC	To provide information following exit from the plan. To deposit employee contributions at the pension institution.
Risks for KBC	Investment risk.
Funding	Contributions to the plan are calculated using the fixed component liability method.
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 16, extrapolation is applied to flatten the curve for maturities of 20 years and longer.
Key actuarial assumptions	
Average discount rate	2.00%
Expected rate of salary increase	–
Expected inflation rate	–
Expected rate of increase in pensions	–
Weighted average duration of the obligations	11 years
Impact of changes in the assumptions used in the actuarial calculation of the retirement benefit obligations	
Increase in the retirement benefit obligations on 31-12-2015 consequent on:	
a decrease of 1% in the discount rate	4.46%
an increase of 1% in the expected inflation rate	–
an increase that is 1% higher than the expected real increase in salary	–
the age of retirement being 65 for all active employees	-0.04%
an increase of one year in life expectancy	–

Note 39: Parent shareholders' equity, non-voting core-capital securities and additional tier-1 instruments

Quantities	31-12-2014	31-12-2015
Ordinary shares	**417 780 658**	**418 087 058**
of which ordinary shares that entitle the holder to a dividend payment	*417 780 658*	*418 087 058*
of which treasury shares	*488*	*2*
Mandatorily convertible bonds	**0**	**0**
Non-voting core-capital securities	**67 796 608**	**0**
Additional information		
Par value per share (in EUR)	3.48	3.48
Number of shares issued but not fully paid up	0	0
MOVEMENTS TABLE (quantities)	**Ordinary shares**	**Non-voting core-capital securities**
2014		
Opening balance	417 364 358	79 096 044
Issue of shares	416 300	–
Reimbursement of core-capital securities	–	-11 299 436
Closing balance	417 780 658	67 796 608
2015		
Opening balance	417 780 658	67 796 608
Issue of shares	306 400	–
Reimbursement of core-capital securities	–	-67 796 608
Closing balance	418 087 058	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. The shares are listed solely on NYSE Euronext Brussels.
- Capital increases: the group increased its equity by 14 million euros in December 2014 and again in December 2015 by issuing new shares following the capital increase reserved for staff. For more information, see the 'Company annual accounts and additional information' section.
- Treasury shares: at year-end 2015, KBC group companies held two KBC shares in portfolio.
- For information on stock option plans, see Note 12; for information on the authorisation to increase capital, see the 'Company annual accounts and additional information' section.
- Core capital securities: in 2008 and 2009, KBC Group NV issued 7 billion euros in perpetual, non-transferable, non-voting core-capital securities that were subscribed by the Belgian Federal and Flemish Regional governments. On 2 January 2012, KBC repaid 0.5 billion euros (plus a 15% penalty) to the Belgian Federal Government (see balance sheet at year-end 2011). On 17 December 2012, KBC repaid 3 billion euros (plus a 15% penalty) to the Belgian Federal Government (see balance sheet at year-end 2012). On 3 July 2013, KBC repaid 1.17 billion euros (plus a 50% penalty) to the Flemish Regional Government (see balance sheet at year-end 2013). On 8 January 2014, KBC repaid 0.33 billion euros (plus a 50% penalty) to the Flemish Regional Government (see balance sheet at year-end 2014). On 28 December 2015, KBC repaid the remaining 2 billion euros (plus a 50% penalty) to the Flemish Regional Government (see balance sheet at year-end 2015).
- 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 CRD IV) and, therefore, have had a positive impact on KBC's tier-1 capital. They are perpetual and may be called for redemption from year five onwards. Since they are classified as shares under IAS 32 (because interest payments are discretionary and the securities are perpetual), the annualised coupon of 5.625% – which is paid every quarter – is treated as a dividend. This transaction had no impact on the number of ordinary shares.

Note 40: Commitments and guarantees granted and received

(in millions of EUR)	31-12-2014	31-12-2015
Loan commitments – undrawn amount		
Given	31 520	36 575
Irrevocable	17 520	19 266
Revocable	14 000	17 309
Received	33	134
Financial guarantees		
Given	9 985	9 364
Guarantees/collateral received	30 385	34 477
For impaired and past due assets	1 741	1 699
For assets that are not impaired or past due	28 644	32 778
Other commitments		
Given	186	220
Irrevocable	186	220
Revocable	0	0
Received	0	0
Carrying value of financial assets pledged by KBC as collateral		
For liabilities*	30 841	31 723
For contingent liabilities	3 969	3 311

* At year-end 2015, some 12 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 (9.2 billion euros at year-end 2014). More information on covered bonds is provided under 'Liquidity risk' in the 'Risk management' section.

- 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 2015, allowing these companies to be eligible for exemption from certain disclosure requirements, pursuant to Section 357 of the Irish Companies Act 2014:
  - KBC Financial Services (Ireland) Limited;
  - KBC Fund Management Limited.

  Since these companies are 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 22.

Collateral received (which may be sold or repledged in the absence of default by the owner)	Fair value of collateral received		Fair value of collateral sold or repledged	
	31-12-2014	31-12-2015	31-12-2014	31-12-2015
Financial assets	15 450	12 666	5 208	6 881
Equity instruments	7	1	0	0
Debt instruments	15 297	12 499	5 208	6 881
Loans and advances	146	166	0	0
Cash	0	0	0	0
Other	2	0	0	0
Property and equipment	2	0	0	0
Investment property	0	0	0	0
Other	0	0	0	0

Collateral obtained by taking possession	31-12-2014	31-12-2015
Non-current assets held for sale	1	1
Property and equipment	0	0
Investment property	2	3
Equity instruments and debt securities	0	0
Cash	89	162
Other	26	12
Total	118	177

Note 41: Leasing

(in millions of EUR)	31-12-2014	31-12-2015
Finance lease receivables		
Gross investment in finance leases, receivable	4 774	5 114
At not more than one year	1 133	1 229
At more than one but not more than five years	2 376	2 615
At more than five years	1 265	1 270
Unearned future finance income on finance leases	636	593
Net investment in finance leases	4 138	4 515
At not more than one year	999	1 100
At more than one but not more than five years	2 105	2 361
At more than five years	1 034	1 054
of which unguaranteed residual values accruing to the benefit of the lessor	23	38
Accumulated impairment for uncollectable lease payments receivable	120	83
Contingent rents recognised in the income statement	101	95
Operating lease receivables		
Future aggregate minimum rentals receivable under non-cancellable operating leases	407	434
At not more than one year	148	173
At more than one but not more than five years	250	255
At more than five years	9	6
Contingent rents recognised in the income statement	1	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.

Transactions with related parties, excluding key management (in millions of EUR)	2014						2015				
	Subsidiaries	Associated companies	Joint ventures	Flemish Region	Other	Total	Subsidiaries	Associated companies	Joint ventures	Other	Total
Assets	207	410	106	548	179	1 450	304	325	39	77	745
Loans and advances	70	159	64	0	175	467	133	55	2	34	223
Current account advances	0	0	0	0	145	145	1	0	0	4	4
Term loans	69	158	64	0	30	322	132	55	2	30	219
Finance leases	0	0	0	0	0	0	0	0	0	0	0
Consumer credit	0	0	0	0	0	0	0	0	0	0	0
Mortgage loans	0	0	0	0	0	0	0	0	0	0	0
Equity instruments	136	68	17	0	0	221	154	81	11	4	251
Held for trading	0	0	0	0	0	0	0	0	0	0	0
Investment securities	136	68	17	0	0	221	154	81	11	4	251
Investments in associated companies and joint ventures	0	177	25	0	0	202	0	179	27	0	205
Other amounts receivable	2	6	0	548	4	560	18	10	0	38	66
Liabilities	547	123	782	0	184	1 636	720	121	315	173	1 329
Deposits	543	15	782	0	181	1 522	581	17	259	171	1 027
Deposits	543	15	782	0	181	1 522	581	17	259	171	1 027
Other	0	0	0	0	0	0	0	0	0	0	0
Other financial liabilities	0	0	0	0	0	0	101	0	0	0	101
Debt certificates	0	0	0	0	0	0	101	0	0	0	101
Subordinated liabilities	0	0	0	0	0	0	0	0	0	0	0
Share-based payments (granted)	0	0	0	0	0	0	0	0	0	0	0
Share-based payments (exercised)	0	0	0	0	0	0	0	0	0	0	0
Other liabilities	3	108	0	0	3	114	38	104	56	3	201
Income statement	-3	-1	-10	24	-6	3	2	-3	-7	3	-5
Net interest income	3	0	-8	24	0	20	-1	-1	-5	1	-7
Interest income	4	3	3	24	0	34	2	1	2	1	6
Interest expense	-1	-3	-10	0	0	-14	-4	-2	-8	0	-14
Earned premiums, insurance (before reinsurance)	0	0	0	0	0	0	0	0	0	0	0
Technical insurance charges (before reinsurance)	0	0	0	0	0	0	0	0	0	0	0
Dividend income	1	5	0	0	2	8	1	0	1	6	9
Net fee and commission income	0	-1	-3	0	-2	-6	14	-1	-3	2	11
Fee and commission income	0	0	0	0	1	2	14	0	0	2	17
Fee and commission expense	0	-1	-3	0	-3	-7	0	-1	-3	0	-5
Other net income	3	1	0	0	1	5	5	3	0	2	10
General administrative expenses	-11	-6	0	0	-7	-25	-17	-5	0	-6	-28
Undrawn portion of loan commitments, financial guarantees and other commitments											
Given by the group	35	101	3	0	390	528	138	6	1	185	329
Received by the group	0	0	0	0	0	0	0	0	0	0	0

Transactions with key management (members of the Board of Directors and Executive Committee of KBC Group NV)

(in millions of EUR)*	2014	2015
Total*	**11**	**9**
Breakdown by type of remuneration		
Short-term employee benefits	9	8
Post-employment benefits	2	1
Defined benefit plans	2	1
Defined contribution plans	0	0
Other long-term employee benefits	0	0
Termination benefits	1	0
Share-based payments	0	0
Stock options (units)		
At the beginning of the period	0	0
Granted	0	0
Exercised	0	0
Composition-related changes	0	0
At the end of the period	0	0
Advances and loans granted to key management and partners	3	2

* Remuneration to key management 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 key management staff on that basis.

- The 'Other' heading in the first table includes KBC Ancora, Cera and MRBB.
- All related-party transactions occur at arm's length.
- The Flemish Region ceased to be a related party when the state aid was repaid at the end of December 2015 and is therefore no longer included in the table for 2015.
- There were no significant transactions with associated companies other than those shown in the table.
- Key management comprises the members of the Board of Directors and Executive Committee of KBC Group NV. More detailed information on remuneration paid to key management staff is provided in the 'Corporate governance statement' section.
- Information on the capital transactions and guarantee agreements with the Belgian Federal and Flemish Regional governments is provided under the 'Company annual accounts and additional information' section.
- There were no significant impairment charges vis-à-vis related parties.
- We have extended the list of related-party transactions in 2015 to include investments in associated companies and joint ventures (as presented in the balance sheet) to provide a fuller picture of the situation. For the same reason, we have also extended the off-balance-sheet-transactions (so that they now include the undrawn portion of loan commitments and other commitments, whereas previously only the financial guarantees had been included). The figures for 2014 have been restated retroactively.

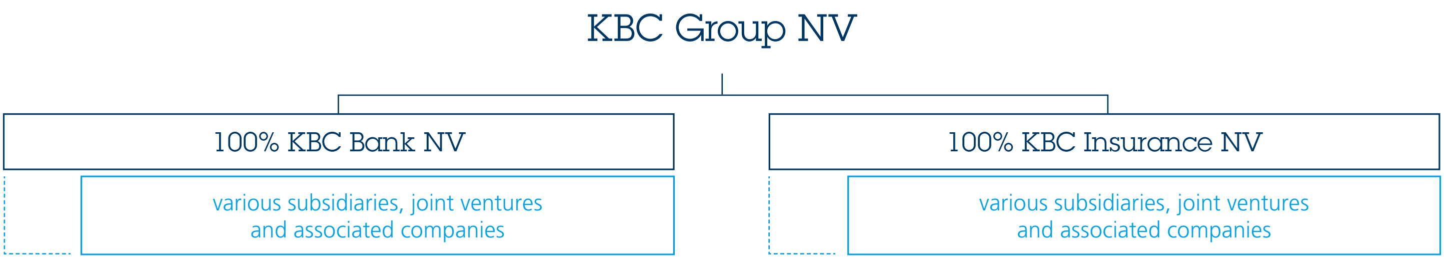
Note 43: Statutory auditor's remuneration

In 2015, KBC Group NV and its subsidiaries paid Ernst & Young Bedrijfsrevisoren BCVBA fees amounting to a total of 8 992 752 euros for standard audit services (9 621 322 euros in 2014). Remuneration paid for other services came to 1 443 353 euros in 2015 (1 628 013 euros in 2014) and comprised 1 060 625 euros for other certifications, 125 667 euros for tax advice and 247 061 euros for other non-audit assignments (979 261, 92 868 and 555 884 euros, respectively, in 2014).

In 2015, KBC Group NV alone paid Ernst & Young Bedrijfsrevisoren BCVBA fees of 148 100 euros for standard audit services (149 124 euros in 2014). Remuneration paid for non-standard audit services came to 58 468 euros (113 144 euros in 2014).

Note 44: Subsidiaries, joint ventures and associated companies at year-end 2015

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, each of which has several subsidiaries and sub-subsidiaries.



Complete list of KBC group companies included in or excluded from the scope of consolidation at year-end 2015

Company	Registered office	Company number	Share of capital held at group level (in %)	Business unit[3]	Activity
KBC Bank: subsidiaries that are fully consolidated					
KBC Bank NV	Brussels – BE	0462.920.226	100.00	BEL/GRP	credit institution
ADB Asia Pacific Limited	Singapore – SG	--	100.00	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 Factoring a.s.	Bratislava – SK	--	100.00	IMA	factoring
ČSOB Leasing a.s.	Bratislava – SK	--	100.00	IMA	leasing
ČSOB Leasing Pojist'ovací Maklér s.r.o.	Bratislava – SK	--	100.00	IMA	leasing support
VB Leasing SK. spol. s.r.o.	Bratislava – SK	--	100.00	IMA	leasing
VB Leasing Sprostredkovatel'ská s.r.o.	Bratislava – SK	--	100.00	IMA	insurance broker
ČSOB Stavebná Sporitel'ňa 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 Pojist'ovací 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	--	100.00	CZR	real estate fund
Merrion Properties a.s.	Prague – CZ	--	100.00	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 Rozvojavá a.s.	Prague – CZ	--	100.00	CZR	real estate
CIBANK EAD	Sofia – BG	--	100.00	IMA	credit institution
Management of Assets for Sale – 2 EOOD	Sofia – BG	--	100.00	IMA	real estate
Katarino Spa Hotel EAD	Sofia – BG	--	100.00	IMA	real estate
IIB Finance Ireland	Dublin – IE	--	100.00	GRP	holding company
KBC Finance Ireland	Dublin – IE	--	100.00	GRP	lending
KBC Financial Services (Ireland) Limited	Dublin – IE	--	100.00	GRP	holding company
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	100.00	BEL	asset management
KBC Asset Management SA	Luxembourg – LU	--	100.00	BEL	asset management
KBC Fund Management Limited	Dublin – IE	--	100.00	BEL	asset management
KBC Participations Renta B	Luxembourg – LU	--	100.00	BEL	asset management
KBC Participations Renta C	Luxembourg – LU	--	100.00	BEL	asset management
ČSOB Asset Management, a.s., Investiční Společnost	Prague – CZ	--	100.00	CZR	asset management
KBC Participations Renta SA	Luxembourg – LU	--	100.00	BEL	asset management
KBC Towarzystwo Funduszy Inwestycyjnych a.s.	Warsaw – PL	--	100.00	IMA	asset management
KBC Autolease NV	Leuven – BE	0422.562.385	100.00	BEL	leasing
KBC Lease (Luxembourg) SA	Betrange – 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
Boar Lane Nominee (Number 1) Limited	Dublin – IE	--	100.00	IMA	*
Boar Lane Nominee (Number 2) Limited	Dublin – IE	--	100.00	IMA	*
Boar Lane Nominee (Number 3) Limited	Dublin – IE	--	100.00	IMA	*
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 Asset Finance Limited	Dublin – IE	--	100.00	IMA	leasing
IIB Commercial Finance Limited	Dublin – IE	--	100.00	IMA	leasing
IIB Leasing Limited	Dublin – IE	--	100.00	IMA	leasing

Lease Services Limited	Dublin – IE	--	100.00	IMA	leasing
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 Limited	Dublin – IE	--	100.00	IMA	securitisation
Phoenix Funding 3 Limited	Dublin – IE	--	100.00	IMA	securitisation
Phoenix Funding 4 Limited	Dublin – IE	--	100.00	IMA	securitisation
Phoenix Funding 5 Limited	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 Financial Products UK Limited	London – GB	--	100.00	GRP	(derivative) financial products
KBC Financial Products International SA	Luxembourg – LU	--	100.00	GRP	stockbroker
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 I'	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
Baker 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 Lease France SA	Lyon – FR	--	100.00	GRP	leasing
KBC Lease (UK) Limited	Uxbridge – GB	--	100.00	GRP	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 Befektetési AlapkezelöZrt.	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 Faktor Pénzügyi Szolgáltató Zrt.	Budapest – HU	--	100.00	IMA	factoring
K&H Alkusz Biztosításközvetítö Kft.	Budapest – HU	--	100.00	IMA	insurance broker
K&H Autópark Bérleti és Szolgáltató Kft.	Budapest – HU	--	100.00	IMA	fleet management
K&H Eszközlizing Gép-és Tehergépjármü Bérleti Kft.	Budapest – HU	--	100.00	IMA	leasing
K&H Ingatlanlizing Zrt.	Budapest – HU	--	100.00	IMA	leasing
Loan Invest NV 'Institutional company for investment in receivables under Belgian law'	Brussels – BE	0889.054.884	100.00	BEL	securitisation
Old Broad Street Invest NV	Brussels – BE	0871.247.565	100.00	GRP	real estate
Poelaert Invest NV	Brussels – BE	0478.381.531	100.00	BEL	real estate
RSL Leasing IFN SA	Bucharest – RO	--	100.00	GRP	leasing

KBC Bank: subsidiaries that are not fully consolidated					
111 OBS (General Partner) Limited[1]	London – GB	--	100.00	GRP	real estate
111 OBS Limited Partnership[1]	London – GB	--	100.00	GRP	real estate
111 OBS (Nominee) Limited[1]	London – GB	--	100.00	BEL	real estate
2 B Delighted Italia Srl[1]	Turin – IT	--	99.58	GRP	lighting
2 B Delighted NV[1]	Roeselare – BE	0891.731.886	99.58	GRP	lighting
Wever & Ducré NV[1]	Roeselare – BE	0412.881.191	99.58	GRP	lighting
Asia Pacific Trading & Investment Company Limited[1]	Hong Kong – HK	--	99.58	GRP	lighting
Dark NV[1]	Roeselare – BE	0472.730.389	99.58	GRP	lighting
Limis Beyond Light NV[1]	Roeselare – BE	0806.059.310	99.58	GRP	lighting
Wever & Ducré BV[1]	The Hague – NL	--	99.58	GRP	lighting
Wever & Ducré GmbH[1]	Herzogenrath – DE	--	99.58	GRP	lighting
Wever & Ducré Iluminación SL[1]	Madrid – ES	--	99.58	GRP	lighting
Almaloisir & Immobilier sas[1]	Nice – FR	--	100.00	BEL	real estate
Banque Diamantaire (Suisse) SA[1]	Geneva – CH	--	100.00	GRP	credit institution
Belrom Cinci SRL[1]	Bucharest – RO	--	100.00	BEL	leasing
Belrom Sapte SRL[1]	Bucharest – RO	--	100.00	BEL	leasing
Brussels North Distribution NV[1]	Brussels – BE	0476.212.887	100.00	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
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	100.00	BEL	*
KBC Bail France II sas[1]	Lyon – FR	--	100.00	GRP	leasing
KBC Clearing NV[1]	Amsterdam – NL	--	100.00	BEL	clearing house
KBC Lease (Nederland) BV[1]	Almere – NL	--	100.00	GRP	leasing
KBC Private Equity NV[1]	Brussels – BE	0403.226.228	100.00	GRP	investment firm
KBC Securities USA, Inc.[1]	New York – US	--	100.00	GRP	stockbroker
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]	Delaware – US	--	100.00	GRP	life settlement service provider
Motokov a.s.[1]	Prague – CZ	--	70.09	CZR	vehicles
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
Oxford Street Finance Limited[1]	Jersey – GB	--	100.00	GRP	CDO activities
Posselton Limited[1]	Dublin – IE	--	100.00	GRP	energy
Property LM s.r.o.[1]	Bratislava – SK	--	100.00	CZR	real estate
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
Securitas sam[1]	Monaco – MC	--	100.00	GRP	leasing
Sisyphus Holding Corporation[1]	Delaware – US	--	100.00	GRP	holding company
Setanta Energy LLC[1]	Delaware – US	--	100.00	GRP	energy
TEE Square Limited[1]	Road Town – VG	--	100.00	CZR	*
Transformation Fund Stabilita[1]	Prague – CZ	--	100.00	CZR	pension insurance
Vastgoed Ruimte Noord NV[1]	Brussels – BE	0863.201.515	100.00	BEL	real estate
Weyveld Vastgoedmaatschappij NV[2]	Brussels – BE	0425.517.818	100.00	BEL	issuance of real estate certificates
World Alliance Financial Corporation[1]	New York – US	--	100.00	GRP	reverse mortgages
KBC Bank: joint ventures accounted for using the equity method					
Českomoravská Stavební Spořitelna (ČMSS)	Prague – CZ	--	55.00	CZR	building society

Union KBC Asset Management Company Private Limited	Mumbai – IN	--	49.00	BEL	asset management
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 BV	Amsterdam – NL	--	50.00	BEL	holding company
Miedziana Sp z.o.o.	Warsaw – PL	--	47.75	BEL	real estate
Real Estate Participation NV	Zaventem – BE	0473.018.817	50.00	BEL	real estate
UNION KBC Trustee Company Private Limited	Mumbai – IN	--	49.00	BEL	trustee
Xiongwei Lighting (Guangzhou) Co. Ltd	Guangzhou – CY	--	49.79	GRP	lighting
KBC Bank: associated companies accounted for using the equity method					
HAGE Hajdúsági Agráripari Zrt.	Nádudvar – HU	--	25.00	IMA	agriculture
KBC Bank: associated companies not accounted for using the equity method[1]					
Bancontact-MisterCash 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 centre
Brussels I3 Fund NV	Brussels – BE	0477.925.433	36.37	BEL	venture capital funds
Citylife Belgium NV	Hasselt – BE	0578.946.577	33.33	BEL	IT and consultancy
Cofely Ren s.r.o.	Prague – CZ	--	42.82	CZR	lease
Czech Banking Credit Bureau a.s.	Prague – CZ	--	20.00	CZR	ICT
Etoiles d'Europe sas	Paris – FR	--	45.00	BEL	hotels
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
Justinvest NV	Antwerp – BE	0476.658.097	33.33	BEL	real estate
První Certifikačni Autorita a.s.	Prague – CZ	--	23.25	CZR	certification services
Qbic Feeder Fund NV	Ghent – BE	0846.493.561	21.02	BEL	venture capital
Rabot Invest NV	Antwerp – BE	0479.758.733	25.00	BEL	real estate
Thanksys NV	Hasselt – BE	0553.877.423	22.22	BEL	IT and consultancy
Xenarjo CVBA	Mechelen – BE	0899.749.531	22.39	BEL	social sector
KBC Insurance: subsidiaries that are fully consolidated					
KBC Insurance NV	Leuven – BE	0403.552.563	100.00	BEL/GRP	insurance company
ADD NV	Heverlee – BE	0406.080.305	100.00	BEL	insurance broker
KBC Group Re SA	Luxembourg – LU	--	100.00	BEL/GRP	reinsurance company
ČSOB Pojišt'ovna a.s.	Pardubice – CZ	--	100.00	CZR	insurance company
ČSOB Poist'ovňa a.s.	Bratislava – SK	--	100.00	IMA	insurance company
Double U Building BV	Rotterdam – NL	--	100.00	BEL	real estate
DZI Life Insurance JSC	Sofia – BG	--	100.00	IMA	life insurance
DZI – GENERAL INSURANCE JSC	Sofia – BG	--	100.00	IMA	non-life insurance
DZI – HEALTH INSURANCE AD	Sofia – BG	--	100.00	IMA	health insurance
Groep VAB NV	Zwijndrecht – BE	0456.920.676	95.00	BEL	holding company
VAB Rijschool NV	Sint-Niklaas – BE	0448.109.811	95.00	BEL	driving school
VAB NV	Zwijndrecht – BE	0436.267.594	95.00	BEL	roadside assistance
K&H Biztosító Zrt.	Budapest – HU	--	100.00	IMA	insurance company
KBC Verzekeringen Vastgoed Nederland I BV	Rotterdam – NL	--	100.00	BEL	real estate
KBC Insurance: subsidiaries that are not fully consolidated[1]					
Algemene Maatschappij voor Risicobeheer NV	Merelbeke – BE	0420.104.030	100.00	BEL	insurance broker
ČSOB Insurance Service Limited	Pardubice – CZ	--	100.00	IMA	insurance broker
Depannage 2000 NV	Hoboken – BE	0403.992.429	95.00	BEL	vehicles
KBC Zakenkantoor NV	Leuven – BE	0462.315.361	100.00	BEL	insurance broker
Maatschappij voor Brandherverzekering CVBA	Leuven – BE	0403.552.761	90.09	BEL	reinsurance
Net Fund Administration Sp z.o.o.	Warsaw – PL	--	100.00	GRP	asset management
Omnia NV	Leuven – BE	0413.646.305	100.00	BEL	travel agency
Probemo Dubbele Bedieningen NV	Sint-Niklaas – BE	0435.357.180	95.00	BEL	driving school
Rijscholen Sanderus NV	Mechelen – BE	0413.004.719	95.00	BEL	driving school
VAB Banden Peeters NV	Overijse – BE	0459.070.118	80.81	BEL	vehicles
VAB Fleet Services NV	Zwijndrecht – BE	0866.583.053	66.50	BEL	vehicles
VAB Fleet Services BV	Apeldoorn – NL	--	66.50	BEL	vehicles
24+ NV	Zwijndrecht – BE	0895.810.836	97.50	BEL	insurance broker
KBC Insurance: joint ventures accounted for using the equity method					
NLB Vita d.d.	Ljubljana – SI	--	50.00	GRP	life insurance
KBC Insurance: joint ventures not accounted for using the equity method[1]					
–					
KBC Insurance: associated companies accounted for using the equity method					
–					
KBC Insurance: associated companies not accounted for using the equity method[1]					
AIA-Pool cvba	Brussels – BE	0453.634.752	33.47	BEL	insurance broker

AssurCard NV	Leuven – BE	0475.433.127	33.33	BEL	automated third-party payment system
Olympus Mobility NV	Brussels – BE	0638.809.930	49.76	BEL	computer programming
Optimobil Belgium NV	Brussels – BE	0471.868.277	24.06	BEL	vehicles
Traject NV	Ghent – BE	0448.394.475	47.50	BEL	mobility
KBC Group: subsidiaries that are fully consolidated					
KBC Group NV	Brussels – BE	0403.227.515	100.00	GRP	bank-insurance holding company
KBC Bank NV	Brussels – BE	0462.920.226	100.00	BEL/GRP	credit institution
KBC Insurance NV	Leuven – BE	0403.552.563	100.00	BEL/GRP	insurance company
Kredietcorp SA	Luxembourg – LU	--	100.00	GRP	investment firm
KBC Group: subsidiaries that are not fully consolidated[1]					
–					
KBC Group: joint ventures accounted for using the equity method					
–					
KBC Group: joint ventures not accounted for using the equity method[1]					
–					
KBC Group: associated companies accounted for using the equity method					
–					
KBC Group: associated companies not accounted for using the equity method[1]					
Experience@work CVBA	Mechelen – BE	0627.819.632	33.00	GRP	consultancy

* Not active.
Reason for exclusion:
1 Immaterial.
2 Issuers of real estate certificates and companies whereby the group is not exposed to a variable return.
3 BEL = Belgium Business Unit, CSR = Czech Republic Business Unit, IMA = International Markets Business Unit, GRP = Group Centre.

Companies eligible for consolidation are effectively included in the consolidated accounts if two of the following 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 million 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 table below). 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 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 based on the requirements of IFRS 10. Under the agreements governing the transactions, there are significant restrictions on KBC’s ability to access, transfer or use the cash or other assets of the vehicles to settle liabilities of other entities within the 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.
    - 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.
  - 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
  - For a summary of the financial information on ČMSS, see Note 32.
  - 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
  - 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 2015, the assets under management at these entities amounted to 16.2 billion euros.
  - Sponsored unconsolidated structured entities are defined as structured entities where KBC 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 or one of its subsidiaries. As a result, these entities are not consolidated.
  - At year-end 2015, KBC Group had received income from unconsolidated structured entities in the form of management fees (64 million euros), custody fees (1 million euros), administrative agent fees (1 million euros) and accounting fees (1 million euros).
  - At year-end 2015, KBC held 5.6 billion euros' worth of notes issued by the unconsolidated structured entities. Its liabilities towards the unconsolidated structured entities amounted to 5.9 billion euros and comprised mainly term deposits (5.3 billion euros).
  - Any potential decrease in the value of the notes is passed on to the end-client, which means it will have no impact on KBC.
  - KBC Asset Management provides approximately 45 million euros as a line of credit for KBC funds to cover any (temporary) shortfalls arising at month-end and especially at quarter-end.

Note 45: Main changes in the scope of consolidation

Company	Direct parent company	Consolidation method	Ownership percentage at group level		Remarks
			31-12-2014	31-12-2015	
Additions					
VB Leasing SK, spol. s.r.o.	ČSOB Leasing	Full	–	100.0%	Acquisition by ČSOB Leasing in 3Q 2015
VB Leasing Sprostredkovatel'ská s.r.o.	ČSOB Leasing	Full	–	100.0%	Acquisition by ČSOB Leasing in 3Q 2015
Exclusions					
KBC Bank Deutschland AG	KBC Bank NV	Full	–	–	Sold in 3Q 2014
Transformation Fund Stabilita	ČSOB	Full	–	–	Deconsolidated in 3Q 2014
KBC Financial Holding Inc.	KBC Bank NV	Full	100.0%	–	Liquidated in 4Q 2015
Name changes					
None					
Changes in ownership percentage and internal mergers					
Antwerp Diamond Bank NV	KBC Bank NV	Full	100.0%	–	Merged with KBC Bank in 3Q 2015
KBC Lease Holding NV	KBC Bank NV	Full	100.0%	–	Merged with KBC Bank in 3Q 2015

Note 46: Non-current assets held for sale and discontinued operations (IFRS 5)

Since no principal companies fell under the scope of IFRS 5 in 2014 and 2015, there is no (longer any) need to provide additional information for this note.

Note 47: Risk management

The information required in relation to risks (in accordance with IFRS 4 and IFRS 7) and capital (pursuant to IAS 1) is provided in those parts of the 'Risk management' and 'Capital adequacy' sections that have been audited by the statutory auditor.

Note 48: 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 2016):

- Please refer to Note 36 as regards the '5-5-5 bonds' issued by KBC Group NV.

Note 49: General information on the company

- Name: KBC Group.
- Incorporated: 9 February 1935 as Kredietbank; the present name dates from 2 March 2005.
- Country of incorporation: Belgium.
- Registered office: Havenlaan 2, 1080 Brussels, Belgium.
- VAT: BE 0403.227.515.
- RLP: Brussels.
- Legal form: *naamloze vennootschap* (company with limited liability) under Belgian law, which seeks to attract or has sought to attract savings from the public. The company is a mixed financial holding company that is subject to the prudential supervision of the National Bank of Belgium and the European Central Bank.
- Life: undefined.
- Object: The company has as its object, the direct or indirect ownership and management of shareholdings in other companies, including but not restricted to credit institutions, insurance companies and other financial institutions. The company also has as object to provide support services for third parties, as mandatary or otherwise, in particular for companies in which the company has an interest – either directly or indirectly. The object of the company is also to acquire in the broadest sense of the word (including by means of purchase, hire and lease), to maintain and to operate resources, and to make these resources available in the broadest sense of the word (including through letting, and granting rights of use) to the beneficiaries referred to in the second sentence above. In addition, the company may function as an 'intellectual property' company responsible for, among other things, the development, acquisition, management, protection and maintenance of intellectual property rights, as well as for making these rights available and/or granting rights of use in respect of these rights to the beneficiaries referred to in the second sentence above. The company may also perform all commercial, financial and industrial transactions that may be useful or expedient for achieving the object of the company and that are directly or indirectly related to this object. The company may also by means of subscription, contribution, participation or in any other form whatsoever participate in all companies, businesses or institutions that have a similar, related or complementary activity. In general, the company may, both in Belgium and abroad, perform all acts which may contribute to the achievement of its object (Article 2 of the Articles of Association, which are available at www.kbc.com).
- 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 and are published on www.kbc.com. The financial statements and annual report are filed with the National Bank of Belgium and are available at www.kbc.com. The annual report can also be obtained from the company's registered office and will be sent to those requesting it. Extracts of minutes concerning decisions on the appointment and the termination of the offices 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 are published in the financial press and/or on www.kbc.com. Convening notices of general meetings of shareholders are published in the *Belgian Official Gazette*, in the financial press, in the media and on www.kbc.com.
- For information on the general meeting of shareholders and the right of shareholders to take part in such meetings, see Article 23 *et seq.* of the Articles of Association, which are available at www.kbc.com.

The company annual accounts of KBC Group NV are presented here in abridged form. A full set of these accounts will be submitted for approval to the General Meeting of Shareholders of 4 May 2016.

The company annual accounts, the report of the Board of Directors and the statutory auditor's report are filed with the National Bank of Belgium. These documents are available free of charge from KBC Group NV, Investor Relations Office, IRO, Havenlaan 2, 1080 Brussels, Belgium. They can also be viewed at www.kbc.com.

The statutory auditor has delivered an unqualified audit opinion on the company annual accounts of KBC Group NV.

The company annual accounts have been prepared according to Belgian accounting standards (B-GAAP) and are, therefore, not comparable with the figures prepared in accordance with IFRS in the other sections of this report.

Company annual accounts and additional information

Company balance sheet, income statement and profit appropriation

Balance sheet after profit appropriation (B-GAAP)

(in millions of EUR)	31-12-2014	31-12-2015
Fixed assets	**17 442**	**18 140**
Intangible fixed assets	226	160
Property and equipment	138	105
Land and buildings	32	31
Plant, machinery and equipment	82	60
Furniture and vehicles	12	13
Other tangible fixed assets	1	0
Assets under construction and advance payments	11	1
Financial fixed assets	17 078	17 875
Affiliated companies	17 077	17 874
Participating interests	14 529	14 044
Amounts receivable	2 547	3 830
Other companies linked by participating interests	1	1
Participating interests	1	1
Amounts receivable	0	0
Current assets	**524**	**261**
Amounts receivable at more than one year	1	0
Trade debtors	0	0
Other amounts receivable	1	0
Stocks and contracts in progress	1	1
Stocks	1	1
Goods purchased for resale	1	1
Amounts receivable within one year	69	10
Trade debtors	33	6
Other amounts receivable	36	5
Current investments	0	0
Own shares	0	0
Other investments	0	0
Cash at bank and in hand	405	163
Deferred charges and accrued income	49	87
Total assets	**17 966**	**18 401**
Equity	**11 486**	**13 670**
Capital	1 453	1 454
Issued capital	1 453	1 454
Share premium account	5 409	5 423
Reserves	1 466	1 466
Legal reserves	145	145
Reserves not available for distribution	1	1
Untaxed reserves	190	190
Reserves available for distribution	1 129	1 129
Profit (Loss (-)) carried forward	3 158	5 327
Provisions and deferred taxes	**20**	**13**
Provisions for liabilities and charges	20	13
Pensions and similar obligations	17	12
Other liabilities and charges	3	1
Amounts payable	**6 459**	**4 718**
Amounts payable at more than one year	4 878	3 080
Financial debt	4 878	3 080
Subordinated loans	4 297	3 080
Non-subordinated bonds	581	0
Credit institutions	0	0
Amounts payable within one year	1 363	1 583
Amounts payable at more than one year falling due within the year	0	480
Financial debt	376	937
Credit institutions	0	0
Other loans	376	937
Trade debt	39	33
Taxes, remuneration and social security charges	80	78
Taxes	3	7
Remuneration and social security charges	77	71
Other amounts payable	868	55
Accrued charges and deferred income	**219**	**55**
Total liabilities	**17 966**	**18 401**

Income statement (B-GAAP)

(in millions of EUR)	31-12-2014	31-12-2015
Operating income	1 082	1 060
Turnover	1 026	971
Increase (decrease (-)) in stocks of finished goods, work and contracts in progress	0	0
Own construction capitalised	49	61
Other operating income	7	28
Operating charges	1 153	1 115
Services and other goods	568	577
Remuneration, social security charges and pensions	435	430
Depreciation of and amounts written off formation expenses and intangible and tangible fixed assets	118	110
Provisions for liabilities and charges: amounts set aside (amounts reversed (-))	1	-7
Other operating charges	31	5
Operating profit (loss (-))	**-71**	**-55**
Financial income	1 441	3 366
Income from financial fixed assets	1 354	3 224
Income from current assets	5	0
Other financial income	82	142
Financial charges	444	1 144
Debt charges	432	1 128
Amounts written down on current assets: increase (decrease (-))	0	0
Other financial charges	12	16
Profit (Loss (-)) on ordinary activities, before tax	**926**	**2 167**
Extraordinary income	158	51
Reversal of provisions for extraordinary liabilities and charges	1	0
Gains on disposal of fixed assets	157	23
Other extraordinary income	0	28
Extraordinary charges	1	27
Extraordinary depreciation of and extraordinary amounts written off formation expenses and intangible and tangible fixed assets	0	26
Provisions for extraordinary liabilities and charges	0	0
Losses on disposal of fixed assets	1	0
Other extraordinary charges	0	1
Profit (Loss (-)) for the period, before tax	**1 083**	**2 191**
Transfers from deferred taxes	1	0
Transfers to deferred taxes	0	4
Income tax	4	6
Profit (Loss (-)) for the period	**1 080**	**2 181**
Profit (Loss (-)) for the period available for appropriation	**1 080**	**2 181**

In this lay-out, charges are also depicted with a plus sign, as opposed to the way they are presented in the consolidated income statement.

Profit appropriation (B-GAAP)

(in millions of EUR)	31-12-2014	31-12-2015
Profit (Loss (-)) to be appropriated	**4 006**	**5 338**
Profit (Loss (-)) for the period available for appropriation	1 080	2 181
Profit (Loss (-)) carried forward from the previous period	2 927	3 158
Transfers to equity	**0**	**0**
To the legal reserves	0	0
To other reserves	0	0
Profit (Loss (-)) to be carried forward	**3 158**	**5 327**
Profit to be distributed	**849**	**11**
Dividends	836	0
Directors' entitlements	0	0
Other beneficiaries, employee profit-sharing	13	11

It will be proposed to the General Meeting of Shareholders that the profit for appropriation for the 2015 financial year be distributed as shown in the table. If this proposal is approved, no dividend will be paid for 2015.

Notes to the company annual accounts

Note 1: Financial fixed assets (B-GAAP)

(in millions of EUR)	Participating interests in affiliated companies	Amounts receivable from affiliated companies	Participating interests in companies linked by participating interests	Amounts receivable from companies linked by participating interests
Carrying value at 31-12-2014	**14 529**	**2 547**	**1**	**0**
Acquisitions in 2015	0	1 283	0	0
Disposals in 2015	-486	0	0	0
Other changes in 2015	0	0	0	0
Carrying value at 31-12-2015	**14 044**	**3 830**	**1**	**0**

KBC Group NV's participating interests in affiliated companies comprise mainly the shareholdings in KBC Bank NV, KBC Insurance NV en KBC Asset Management NV.
The main change in 2015 concerned the 500-million-euro capital reduction at KBC Insurance NV.

The amounts receivable from affiliated companies related to loans to KBC Bank NV in the form of additional tier-capital (1.4 billion euros) and tier-2 capital (1.7 billion euros), a subordinated perpetual loan of 0.25 billion euros to KBC Bank NV and a subordinated loan of 0.5 billion euros to KBC Insurance NV.

Note 2: Changes in equity (B-GAAP)

(in millions of EUR)	31-12-2014	Capital increase for staff	Appropriation of results	31-12-2015
Capital	1 453	1	0	1 454
Share premium account	5 409	13	0	5 423
Reserves	1 466	0	0	1 466
Profit (Loss) carried forward	3 158	0	2 169	5 327
Equity	**11 486**	**14**	**2 169**	**13 670**

At year-end 2015, the company's issued share capital amounted to 1 454 298 014.35 euros, represented by 418 087 058 shares of no nominal value, and the share premium account came to 5 422 640 121.69 euros. The share capital is fully paid up.

Changes in 2015:

- A capital increase under the authorisation to increase capital carried out on 23 December 2015 and reserved exclusively for employees of KBC Group NV and some of its Belgian subsidiaries resulted in 306 400 shares being issued at a price of 46.67 euros per share. These shares are blocked for two years, since the issue price was less than the market price of the KBC share on 11 November 2015. Capital was increased by 1 066 272.00 euros and the share premium account went up by 13 233 416.00 euros. By carrying out this capital increase, KBC Group NV aims to strengthen ties with its staff and the staff of its Belgian subsidiaries. Given the limited extent of the capital increase, the financial ramifications for existing shareholders are minor. All of the shares issued in 2015 will also be entitled to dividend from the 2015 financial year.
- Subject to the approval of the General Meeting, none of the 5 338 million euros' worth of profit to be appropriated will be paid out in dividends, but 11 million euros will be paid out in the form of an employee profit-sharing bonus. The profit carried forward, therefore, is 5 327 million euros.

The authorisation to increase capital may be exercised up to and including 20 May 2018 for an amount of 696 103 433.56 euros. Based on a par value of 3.48 euros a share, a maximum of 200 029 722 new KBC Group NV shares can therefore be issued under this authorisation.

Note 3: Shareholders

Notifications received

The table below gives an overview of the notifications received in 2015 and in the first two months of 2016 pursuant to the Belgian Act of 2 May 2007 concerning the disclosure of significant participations. KBC publishes these notifications on www.kbc.com.

Please note that the number of shares stated in the notifications may differ from the current number in possession, as a change in the number of shares held does not always give rise to a new notification.

Notifications*	Notification relating to	Note	Number of KBC shares (= voting rights) on date concerned	% of total voting rights on date concerned*
FMR LLC (Fidelity)	12 January 2015	Size of holding exceeds the 3% notification threshold	12 687 206	3.04%
Parvus Asset Management Europe Ltd.	13 February 2015	Size of holding moves below the 3% notification threshold	12 341 146	2.95%
FMR LLC (Fidelity)	4 May 2015	Size of holding moves below the 3% notification threshold	12 312 076	2.95%
Blackrock Inc.	17 August 2015	Size of holding moves below the 5% notification threshold	20 886 993	4.9995%
Blackrock Inc.	19 August 2015	Size of holding exceeds the 5% notification threshold	20 907 517	5.0044%
Blackrock Inc.	20 August 2015	Size of holding moves below the 5% notification threshold	20 881 252	4.9981%
Blackrock Inc.	4 December 2015	Size of holding exceeds the 5% notification threshold	20 934 882	5.01%
Blackrock Inc.	9 February 2016	Size of holding moves below the 5% notification threshold	20 650 780	4.94%

* More detailed information can be found in the respective notification forms available at www.kbc.com.

The 'Corporate governance statement' section contains an overview of the shareholder structure at year-end 2015, based on all the notifications received pursuant to the Belgian Act of 2 May 2007.

Own shares held by KBC group companies

KBC shares held by KBC group companies	Address	31 December 2014	31 December 2015
KBC Securities NV	Havenlaan 12, 1080 Brussels, Belgium	2	2
KBC Group NV itself	Havenlaan 2, 1080 Brussels, Belgium	486	0
Total		488	2
As a percentage of the total number of shares		*0.0%*	*0.0%*

The average par value of the KBC share came to 3.48 euros in 2015. At year-end 2014, KBC bought 486 own shares (on the stock market, for 22 524 euros), which were given in 2015 to employees who exercised their options at the end of 2014.

Note 4: Balance sheet

- On 31 December 2015, total assets came to 18 401 million euros, compared with 17 966 million euros a year earlier.
- 'Financial fixed assets' are discussed in Note 1.
- 'Current assets' amounted to 261 million euros, whereas the year-earlier figure was 524 million euros. This change was attributable largely to the decline in 'Cash at bank and in hand'.
- 'Equity' is dealt with in Note 2.
- 'Amounts payable' totalled 4 718 million euros, compared with 6 459 million euros at year-end 2014. The main changes to this item were the repayment of core-capital securities to the Flemish Regional Government (-2 billion euros under 'Subordinated loans'), an increase in tier-2 instruments (+783 million euros under 'Subordinated loans'), an increase in commercial paper (+561 million euros under 'Other loans') and the fact that no dividend would be paid for 2015 (under 'Other amounts payable').

Note 5: Income statement

- KBC Group NV generated a net profit of 2 181 million euros in 2015, as opposed to 1 080 million euros a year earlier.
- 'Operating income' fell by 2% and 'Operating charges' by 3% year-on-year.
- The main changes in financial income and financial charges were:
  - an increase of 1.9 billion euros in dividends received;
  - no coupon payment in respect of the core-capital securities in 2015, as opposed to 171 million euros in 2014 (under 'Debt charges');
  - an increase of 833 million euros in the penalty paid on repayment of core-capital securities (167 million euros in 2014 and 1 billion euros in 2015, under 'Debt charges').
- The main extraordinary income and charges items in 2015 concerned:
  - a gain realised on the sale of the ICT department of the Czech branch office to ČSOB Bank (28 million euros) and an adjustment for gains realised on shares bought back by KBC Insurance in 2014 (23 million euros);
  - an extraordinary depreciation of assets at the Hungarian branch office (20 million euros).

Note 6: Statutory auditor's remuneration

See Note 43 in the ‘Consolidated financial statements’ section.

Note 7: Branch offices

KBC Group NV had three branch offices (in the Czech Republic, Slovakia and Hungary) at year-end 2015.

Note 8: Additional information

The 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.

Capital transactions and guarantee agreements with the government in 2008 and 2009

In 2008 and 2009, KBC Group NV issued 7 billion euros in perpetual, non-transferable, non-voting core-capital securities that have equal ranking (*pari passu*) with ordinary shares upon liquidation. These securities were subscribed by the Belgian State (the Federal Holding and Investment Company) and the Flemish Region, each in the amount of 3.5 billion euros.

KBC repaid that amount as follows:

- in 2012: 3.5 billion euros, plus a penalty of 15% to the Belgian Federal Government;
- in 2013: 1.17 billion euros, plus a penalty of 50% to the Flemish Regional Government;
- in 2014: 0.33 billion euros, plus a penalty of 50% to the Flemish Regional Government;
- in 2015: 2 billion euros, plus a penalty of 50% to the Flemish Regional Government.

In 2009, KBC signed an agreement with the Belgian State regarding a guarantee for a substantial part of its structured credit portfolio. The plan initially related to a notional amount totalling 20 billion euros. More information on the structure of that transaction is provided in previous annual reports. In recent years, KBC rapidly reduced its exposure to CDOs and collapsed the two remaining CDOs in its portfolio in 2014. Over a period of just five years, KBC succeeded in scaling back its entire CDO portfolio, which had exceeded 25 billion euros in 2008, thus releasing it from the guarantee agreement.

Glossary of ratios and terms

Bank-insurance gross income

Gives an insight into the income generated by insurance products sold through the bank channel and, therefore, into the success of the bank-insurance model.

Calculation (in millions of EUR)	**Reference**	**2014**	**2015**
Fee and commission income received by the bank from the linked insurer (A)	'Consolidated income statement': component of 'Net fee and commission income'	151	146
+			
Insurance income for insurance products sold by bank branches (B)	'Consolidated income statement': component of 'Total income' (various headings)	295	298
+			
Management fees generated by unit-linked insurance products sold by bank branches and recognised at the asset manager (C)	'Consolidated income statement': component of 'Net fee and commission income'	54	63
= (A)+(B)+(C)		500	507

We refined the method of calculation in 2015 and restated the figures for 2014 retroactively. The main change concerns the inclusion of all management fees generated by unit-linked products that were sold through bank branches (only a portion of these fees had been included previously) and a few smaller adjustments (total impact on the 2014 figures: an increase of roughly 64 million euros).

Basic and diluted earnings per share

Gives an idea of the amount of profit over a certain period that is attributable to one share (and, where applicable, including dilutive instruments).

Calculation (in millions of EUR)	**Reference**	**2014**	**2015**
Result after tax, attributable to equity holders of the parent (A)	'Consolidated income statement'	1 762	2 639
-			
Coupon (and/or penalty) on the core-capital securities sold to the government (B)	'Consolidated statement of changes in equity'	-337	-1 000
-			
Coupon on the additional tier-1 instruments included in equity (C)	'Consolidated statement of changes in equity'	-41	-52
/			
Average number of ordinary shares less treasury shares (in millions) in the period (D)	Note 39	417	418
or			
Average number of ordinary shares plus dilutive options less treasury shares in the period (E)		(idem)	(idem)
Basic = (A-B-C) / (D) (in EUR)		3.32	3.80
Diluted = (A-B-C) / (E) (in EUR)		3.32	3.80

Combined ratio (non-life insurance)

Gives an insight into the technical profitability (i.e. after eliminating investment returns, among other items) of the non-life insurance business, more particularly the extent to which insurance premiums adequately cover claim payments and expenses. The combined ratio takes ceded reinsurance into account.

Calculation (in millions of EUR or %)	Reference	2014	2015
Technical insurance charges, including the internal cost of settling claims (A)	Note 9	760	757
/			
Earned insurance premiums (B)	Note 9	1 243	1 301
+			
Operating expenses (C)	Note 9	417	435
/			
Written insurance premiums (D)	Note 9	1 258	1 325
= (A/B)+(C/D)		94%	91%

Common equity ratio

A risk-weighted measure of the group's solvency, based on common equity tier-1 capital.

Calculation	2014	2015
Detailed calculation under 'Solvency at group level' in the 'Capital adequacy' section (the ratio given here is based on the Danish compromise)		
Phased-in*	14.4%	15.2%
Fully loaded*	14.3%	14.9%

* 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 the relative cost efficiency (costs relative to income) of the banking activities.

Calculation (in millions of EUR or %)	Reference	2014	2015
Operating expenses of the banking activities (A)	'Consolidated income statement': component of 'Operating expenses'	3 315	3 391
/			
Total income of the banking activities (B)	'Consolidated income statement': component of 'Total income'	5 739	6 144
= (A) / (B)		58%	55%

This ratio is now based entirely on IFRS figures after use of the 'adjusted income statement' was discontinued in 2015 (the reference figures have been restated retroactively).

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	2014	2015
Specific impairment on loans	'Loan and investment portfolio, banking' table in the 'Risk management' section	5 709	5 517
/			
Outstanding impaired loans	'Loan and investment portfolio, banking' table in the 'Risk management' section	13 692	12 305
= (A) / (B)		42%	45%

Where appropriate, the numerator and denominator in the formula may be limited to impaired loans that are more than 90 days past due.

Credit cost ratio

Gives an idea of loan impairment charges recognised in the income statement for a specific period (in this case, a year), 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	2014	2015
Net changes in impairment for credit risks (A)	'Consolidated income statement': component of 'Impairment'	587	323
/			
Average outstanding loan portfolio (B)	'Loan and investment portfolio, banking' table in the 'Risk management' section	139 178	141 951
= (A) / (B)		0.42%	0.23%

Dividend payout ratio

Gives an idea of the extent to which KBC Group NV distributes its annual profit (and, therefore, also indirectly the extent to which profits are used to strengthen the capital reserves).

Calculation (in millions of EUR or %)	**Reference**	**2014**	**2015**
Amount of dividend to be distributed (A)	'Consolidated statement of changes in equity'	836	*
+			
Coupon to be paid in respect of state aid (B)	'Consolidated statement of changes in equity'	171	
+			
Coupon to be paid/already paid on the additional tier-1 instruments included in equity (C)	'Consolidated statement of changes in equity'	41	
/			
Net result, group share (D)	'Consolidated income statement'	1 762	
= (A+B+C) / (D)		59%	–

* Subject to the General Meeting of Shareholders approving non-payment of a dividend for 2015.

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**	**2014**	**2015**
Amount outstanding of impaired loans (A)	'Loan and investment portfolio, banking' table in the 'Risk management' section	13 692	12 305
/			
Total outstanding loan portfolio (B)	'Loan and investment portfolio, banking' table in the 'Risk management' section	138 931	143 400
= (A) / (B)		9.9%	8.6%

Where appropriate, the numerator may be limited to impaired loans that are more than 90 days past due (PD 11 + PD 12).

Leverage ratio

Gives an idea of the group's solvency, based on a simple non-risk-weighted ratio.

Calculation (in millions of EUR or %)	**Reference**	**2014**	**2015**
Regulatory available tier-1 capital (A)	'Solvency at group level' table in the 'Capital adequacy' section	14 476	14 647
/			
Total exposure measures (total of non-risk-weighted on and off-balance sheet items, with a number of adjust-ments) (B)	Based on the Capital Requirements Regulation (CRR)	226 669	233 675
= (A) / (B)		6.4%	6.3%

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**	**2014**	**2015**
Stock of high-quality liquid assets (A)	Based on the European Commission's Delegated Act on LCR for 2015 and on the CRR for 2014 (therefore not entirely comparable)	37 700	47 300
/			
Total net cash outflows over the next 30 calendar days (B)		31 400	37 150
= (A) / (B)		120%	127%

Loan portfolio

Gives an idea of the magnitude of (what are mainly pure, traditional) lending activities.

Calculation (in millions of EUR)	Reference	2014	2015
Loans and advances to customers (related to the group's banking activities) (A)	Note 18, component of 'Loans and advances to customers'	123 275	126 812
-			
Reverse repos with customers (B)	Note 18	-1 389	-502
+			
Debt instruments issued by corporates and by credit institutions and investment firms (related to the group's banking activities) (C)	Note 18, component of 'Debt instruments issued by corporates and by credit institutions and investment firms'	6 860	7 118
+			
Loans and advances to credit institutions and investment firms (related to the group's banking activities, excluding dealing room activities) (D)	Note 18, component of 'Loans and advances to credit institutions and investment firms '	1 443	1 060
+			
Financial guarantees granted to clients (E)	Note 40, component of 'Financial guarantees given'	8 168	7 823
+			
Impairment on loans (F)	Note 21, component of 'Impairment'	5 801	5 623
+			
Other (including accrued interest) (G)	Component of Note 18	-5 227	-4 534
= (A)-(B)+(C)+(D)+(E)+(F)+(G)		138 931	143 400

Market capitalisation

Provides an indication of the stock market value of the KBC group.

Calculation (in EUR or quantity)	Reference	2014	2015
Closing price of KBC share (A) (in EUR)	–	46.5	57.7
X			
Number of ordinary shares (B)	Note 39	417 780 658	418 087 058
= (A) X (B) (in billions of EUR)		19.4	24.1

Minimum requirement for own funds and eligible liabilities (MREL)

Indicates the extent to which a bank has sufficient own funds and eligible liabilities available for bail-in. MREL and bail-in are based on the idea that shareholders and debt-holders should bear losses first if a bank fails.

Calculation (in millions of EUR or %)	Reference	2014	2015
Own funds* and liabilities that satisfy the requirements of the Bank Recovery and Resolution Directive (with the exception of certain excluded liabilities) (A)	Based on BRRD	30 656	30 704
/			
Own funds* and liabilities (B)	'Consolidated balance sheet'	245 174	220 809
= (A) / (B)		12.5%	13.9%

* After deconsolidation of KBC Insurance.

Net interest margin

Gives an idea of the net interest income of the banking activities (one of the most important sources of revenue for the group) relative to the average total interest-bearing assets of the banking activities.

Calculation (in millions of EUR or %)	Reference	2014	2015
Net interest income of the banking activities* (A)	'Consolidated income statement': component of 'Net interest income'	3 539	3 594
/			
Average interest-bearing assets of the banking activities (B)	'Consolidated balance sheet': component of 'Total assets'	170 168	177 629
= (A) / (B)		2.08%	2.02%

* Redefined at the start of 2014 (and the figures restated retroactively) to eliminate 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	2014	2015
Available amount of stable funding (A)	–	134 750	135 400
/			
Required amount of stable funding (B)		109 500	111 800
= (A) / (B)		123%	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.

Parent shareholders' equity per share

Gives the carrying value of a KBC share, i.e. the value in euros represented by each share in the parent shareholders' equity of KBC.

Calculation (in millions of EUR or quantity)	Reference	2014	2015
Parent shareholders' equity (A)	'Consolidated balance sheet'	13 125	14 411
/			
Number of ordinary shares less treasury shares (at period-end) (B)	Note 39	417 780 170	418 087 056
= (A) / (B) (in EUR)		31.4	34.5

Return on allocated capital (ROAC) for a particular business unit

Gives an idea of the relative profitability of a business unit, more specifically the ratio of the net result to the capital allocated to the business unit.

Calculation (in millions of EUR or %)	Reference	2014	2015
BELGIUM BUSINESS UNIT			
Result after tax (including minority interests) of the business unit (A)	Note 2: Segment reporting based on the management structure	1 516	1 564
/			
The average amount of capital allocated to the business unit is based on the risk-weighted assets for the banking activities (under Basel III) and risk-weighted asset equivalents for the insurance activities (under Solvency I) (B)	'Our business units' section	5 878	5 955
= (A) / (B)		26%	26%
CZECH REPUBLIC BUSINESS UNIT			
Result after tax (including minority interests) of the business unit (A)	Note 2: Segment reporting based on the management structure	528	542
/			
The average amount of capital allocated to the business unit is based on the risk-weighted assets for the banking activities (under Basel III) and risk-weighted asset equivalents for the insurance activities (under Solvency I) (B)	'Our business units' section	1 441	1 474
= (A) / (B)		37%	37%
INTERNATIONAL MARKETS BUSINESS UNIT			
Result after tax (including minority interests) of the business unit (A)	Note 2: Segment reporting based on the management structure	-182	245
/			
The average amount of capital allocated to the business unit is based on the risk-weighted assets for the banking activities (under Basel III) and risk-weighted asset equivalents for the insurance activities (under Solvency I) (B)	'Our business units' section	1 949	2 028
= (A) / (B)		-9%	12%

Return on equity

Gives an idea of the relative profitability of the group, more specifically the ratio of the net result to equity.

Calculation (in millions of EUR or %)	Reference	2014	2015
Result after tax, attributable to equity holders of the parent (A)	'Consolidated income statement'	1 762	2 639
-			
Coupon on the core-capital securities sold to the government (B)	'Consolidated statement of changes in equity'	-171	-0
-			
Coupon on the additional tier-1 instruments included in equity (C)	'Consolidated statement of changes in equity'	-41	-52
/			
Average parent shareholders' equity, excluding the revaluation reserve for available-for-sale assets (D)	'Consolidated statement of changes in equity'	11 021	11 969
= (A-B-C) / (D)		14%	22%

Solvency ratio (insurance)

Measures the solvency of the insurance business, calculated under Solvency I (up to and including 2015) or under Solvency II (as of 2016).

Calculation	2014	2015
Detailed calculation under 'Solvency of KBC Bank and KBC Insurance separately' in the 'Capital adequacy' section		
(Solvency I)	323%	289%
(Solvency II)	–	231%

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	2014	2015
Belgium Business Unit (A)	KBC Asset Management Annual Report	172.2	193.8
+			
Czech Republic Business Unit (B)		7.4	8.8
+			
International Markets Business Unit (C)		6.1	6.2
(A)+(B)+(C)		185.7	208.8

Total capital ratio

A risk-weighted measure of the group's solvency, based on total regulatory capital.

Calculation	2014	2015
Detailed calculation under 'Solvency at group level' in the 'Capital adequacy' section (the ratio given here is based on the Danish compromise)		
Phased-in	18.9%	19.8%
Fully loaded	18.3%	19.0%

Management certification

'I, Luc Popelier, Chief Financial Officer of the KBC group, certify on behalf of the Executive Committee of KBC Group 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 Group NV, including its consolidated subsidiaries, and that the annual report provides a fair overview of the development, the results and the situation of KBC Group NV, including its consolidated subsidiaries, as well as an overview of the main risks and uncertainties to which they are exposed.'

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Financial calendar for 2016

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

Earnings release for 4Q 2015 and FY 2015	18 February 2016
Publication of the Annual Report and the Risk Report for 2015	31 March 2016
General Meeting of Shareholders (agenda available at www.kbc.com)	4 May 2016
Earnings release for 1Q 2016	12 May 2016
Earnings release for 2Q 2016	11 August 2016
Earnings release for 3Q 2016	17 November 2016

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