KBC Bank Ireland

Pillar 3 Disclosure Document 2015

Contents

1. Background and Introduction

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

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

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

The framework is based on three pillars;

> **Pillar 1** ('minimum capital requirements') specifies the minimum capital requirement a bank must hold for credit risk, market risk and operational risk.
>
> **Pillar 2** ('supervisory review') requires banks to estimate their own capital through an Internal Capital Adequacy Assessment Process (ICAAP). The ICAAP is subject to supervisory review from the CBI, through the Supervisory Review and Evaluation Process. Pillar 2 also includes liquidity risk, business risk, interest rate risk and concentration risk.
>
> **Pillar 3** ('market discipline') requires banks to disclose a suite of qualitative and quantitative capital and risk management information.

This report represents the Pillar 3 disclosures for KBCI as at 31 December 2015 as required under CRD IV and the Basel III framework.

KBCI is deemed to be a material subsidiary of KBC Bank NV and as such is required to comply with the Pillar 3 disclosure requirements.

This report is produced on an annual basis to coincide with the annual statutory accounts with information as at 31 December 2015. Comparative data has been included where relevant.

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

2. Highlights and Disclosure Policy 2015

2.1 Macro Economic factors

The recovery in the Irish economy accelerated and broadened during 2015. Positive momentum in exports continued to build notwithstanding a mixed external backdrop but as import growth also accelerated, the main development in 2015 was the increased impetus from domestic spending as a recovery in consumer spending and construction activity became established. Overall GDP growth was in the region of 7.8% in 2015 and notably more positive economic progress coupled with sustained and significant progress in relation to the public finances prompted a further improvement in financial market sentiment. Continued increases in numbers at work and some improvement in household spending power are boosting confidence and supporting the trajectory of consumer spending and investment. In turn, this is producing a clearly stronger operating environment for KBCI.

The Bank reported an operating profit of €119m before tax and impairment costs and a profit of €75m after tax and impairment costs for 2015 (FY 2014 loss of €91m). Overall, total loan impairment costs of €48m were reported for the Bank for 2015.

2.2 KBCI 2015 Highlights

Embedding Risk Management - The Risk Management function has continued to develop in 2015. More detail on the structure of the Risk Management function can be found in the risk management governance section of this report.

Lending Portfolio - The overall outstanding portfolio has decreased by €480m (3%) in 2015. This includes repayments from performing customers in addition to a strategic reduction in the corporate portfolio. The Retail portfolio includes growth of new business as well as a level of reduction due to Mortgage Arrears Resolution Strategy (MARS) resolution of the distressed portfolio.

Impaired – Outstanding Impaired loans (Probability of Default (PD) 10-12) decreased €871m (11%) in 2015. Retail impaired loans fell €650m (11%) due to better performance of the retail book, partly fuelled by an improving economy. Defaults in the corporate portfolio decreased by €221m (11%).

Provisions - The provision charge (Specific and Incurred But Not Reported (IBNR)) for 2015 is €48m (excluding Reserved Interest) with €29m and €19m arising from the Retail and Corporate portfolios respectively. Total stock of provisions as at 31 December 2015 is €2,800m (€3,312m including reserved interest).

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

Funding - The Bank continued to experience steady growth in its retail funding base with total retail deposits at the end of 2015 of approximately €3.8bn (reclassified 2014: €3.2bn). Further there was strong growth in corporate and credit union deposits with net inflows of €600m over the year.

Liquidity – Due to the above as well as an increase in the bank's liquid asset portfolio and lengthening of liability maturities, both Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) increased considerably over 2015. As at 31 December 2015 the LCR was 191% (2014: 59.3%) and NSFR was 79.1% (2014: 58.5%).

2.3 Disclosure Policy

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

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

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

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

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

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

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

3. Risk Management Governance

The KBCI Board evaluates and is ultimately responsible for designing, developing and maintaining KBCI's ICAAP and for the development and maintenance of an effective risk management and internal control system. The Executive Directors are responsible for the Bank's internal control environment and for reviewing its effectiveness. Such a system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives, and can only provide reasonable, and not absolute, assurance against material misstatement or loss.

The Board is assisted by designated Risk Committees and KBCI Management in carrying out this role. This Board responsibility includes defining a risk appetite, ensuring the proper working of a risk framework including risk identification and assessment of material risks, risk management governance and risk management control and independent oversight. The Risk Framework notes that KBCI has implemented a clearly defined risk governance structure, divided into a Risk Control framework, Risk Framework and a Risk Reporting Framework, in order to ensure that its risk management is as robust as possible.

The ICAAP Policy in place describes how KBCI implements the ICAAP as required by the CRD IV. The Board reviews and approves this ICAAP policy at least annually. An independent review of KBCI's ICAAP is carried out annually and the KBCI Board currently request the independent Internal Audit function to carry out this requirement.

3.1 Board of Directors

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

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

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

3.2 Risk and Compliance Committee

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

The Risk and Compliance Committee met 6 times during 2015.

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

3.3 Executive Committee

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

KBCI Management act as the first line of defence. They are supported in their role by the CRO, the Compliance Department and the Risk Management department, who together act as the second line of defence. Finally, Internal Audit acts as the third line of defence.

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

3.4 KBCI Management

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

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

3.5 The Chief Risk Officer and the Risk Management Department

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

3.6 Risk Oversight Committee

The ROC assists the ExCo and the Board Risk and Compliance Committee in relation to the matters outlined below:

- Design and implementation of the KBCI ICAAP;

- Design and implementation of the Risk Framework;
- Oversight of an Appropriate Programme of Stress Testing;
- Assessment of Adequacy of Capital;
- Proposal of Updates to Risk Appetite;
- Reporting of Risk Profile;
- Risk Mitigation;
- Consideration of key risk policies and other risk documents;
- (Forward-looking) opinion on emerging risks and sensitivity to stressed conditions;
- Liquidity, funding, material pricing and investment decisions; and
- Other risk related decisions.

The ROC has full authority to review, recommend and/or makes decisions, within its scope, as it deems appropriate.

Items within the scope of the ROC can be submitted to either the ROC or the ExCo for information or approval. Submissions to the ExCo require explicit approval of the Chairman and, where requested by the CRO, must be accompanied with an explicit written Risk advice.

The ROC has established a number of Business / Risk Councils, to leverage its time and provide expert opinion.

These Risk Councils assist it in the management of specific material risks that KBCI faces. Each Risk Council provides a forum for first and second line to discuss ongoing risk management, assist the first line in proposals for decision to be submitted to the ROC, or higher, for approval.

3.7 The Audit Committee

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

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

3.8 Governance surrounding Remuneration and Risk

The objective of KBCI's Remuneration Policy is to ensure transparency in remuneration matters, to support the business goals of the company by efficient remuneration structures and to lay out common basic values and guidelines for remuneration and benefits to align the objectives of management and staff with those of the KBCI Board, its parent, KBC Group, and other relevant stakeholders and regulators. It is KBCI's policy to adhere to the high level principles on remuneration and policies relating thereto as set out by KBC Group, to the requirements of the CBI for appropriate remuneration practices that assess and manage risk through remuneration and to the European Banking Authority guidelines.

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

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

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

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

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

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

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

Figure 1 Remuneration of Persons in Management positions

Remuneration of persons in management positions	2014	2015
Number of persons receiving remuneration	6	6
Fixed remuneration paid*	1,540,513	1,389,235
Total performance based remuneration awarded (upfront & deferred)		
- Of which cash (paid or deferred)	271,020	234,472
- Of which phantom stock (vested or deferred)	184,321	202,624
Payment related to new employment contracts	-	-

*For loss of office please see Financial Statements.

Figure 2 Remuneration of Persons in Management positions - Deferred

Remuneration of persons in management positions	2014	2015
Deferred from previous years and paid (adjusted for performance as applicable)	183,232	193,992
Deferred from previous years (vested or not yet vested)	213,869	308,384

Directorships held by members of the management body

Figure 3 Directorships held by Management Body

Member of Management Body	Number of directorships (as defined in SI No 158 of 2014) at 31 December 2015
Luc Gijsens (Chairman)	1 executive directorship
Wim Verbraeken (CEO)	1 executive directorship and 2 non-executive directorships
Gary Britton	4 non-executive directorships
Luc Cool	1 executive directorship
Dara Deering	1 executive directorship
Martin Jarolim	1 executive directorship
John Malone	4 non-executive directorships
Des McCarthy	1 executive directorship and 2 non-executive directorships
Robert Power	4 non-executive directorships
Christine Van Rijsseghem	1 executive directorship

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

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

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

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

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

In accordance with the CRD IV, KBCI has set a target of 30% for the proportion of the underrepresented gender in the Board. In order to increase the number of the underrepresented gender in the Board to meet that target KBCI has a policy that at least one of three candidates identified for all vacant positions on the Board be of the underrepresented gender on the KBCI Board.

As at 31 December 2015, there were 10 members of the Board of Directors, two of whom are female and eight of whom are male.

4. Capital Adequacy

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

4.1 Risk Appetite

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

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

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

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

4.2 Policy & Processes

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

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

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

Pillar 2 Economic Capital (ECAP) takes into account all material risks, as defined in the ICAAP Policy, which KBCI may face. KBCI uses ECAP in determining the adequacy of each material risk's capital requirement. KBCI's calculation of ECAP is performed using appropriate models.

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

4.3 Regulatory Capital

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

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

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

RWAs are calculated using internal models in relation to the Internal Ratings Based (IRB) processes. The parameters for RWA are outlined in section 4.2 above.

Regulatory Capital for KBCI is displayed in Figure 4. Tier 1 ratio has at all times been above the minimum of 10.5% as set by the CBI and is in line with the KBCI risk appetite.

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

Figure 4 Composition of Regulatory Own Funds

Composition of Regulatory own funds	Note	2014 Phased-In €m	2015 Phased-In €m
Tier 1 capital			
Paid up capital		2,124	2,284
Share premium		27	27
Previous year retained earnings		(1,357)	(1,447)
Profit/(Loss) for the year		(91)	75
Accumulated other comprehensive income		(91)	(63)
Regulatory adjustments and deductions			
Adjustments due to prudential filters - Cash flow hedge reserve		19	19
Intangible assets		(32)	(44)
Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities		(76)	(76)
Other transitional adjustments to CET1		98	61
Common equity Tier 1 capital		**622**	**836**
Additional tier 1 instrument		280	280
Total tier 1 capital		**902**	**1,116**
IRB provision excess	1	37	45
Tier 2 capital		**37**	**45**
Total own funds		**939**	**1,160**
Total risk weighted assets		**7,092**	**8,399**
Common equity tier 1 capital ratio		**8.8%**	**9.9%**
Tier 1 capital ratio (%)		**12.7%**	**13.3%**
Total Capital Ratio		**13.2%**	**13.8%**

Note:
1. IRB provision excess held as Tier 2 is capped at lower of provision excess of €226m or 0.6% of credit RWA,

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

Original Own Funds

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

Common Equity Tier 1

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

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

Additional Tier I

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

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

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

Figure 5 summarises the RWAs for KBCI with the minimum capital requirements as at 31 December 2015.

Figure 5 Exposures, RWA and minimum capital requirements

Capital Requirement		Note	2014 EAD €m	2014 Capital Required €m	2014 RWA Equivalent €m	2015 EAD €m	2015 Capital Required €m	2015 RWA Equivalent €m
Credit risk	IRB advanced							
	Retail		12,191	500	4,758	12,068	664	6,321
	IRB foundation							
	Central governments and central banks		1,104	37	353	1,269	30	290
	Institutions	(1)	4,937	29	275	3,854	20	195
	Corporates		2,846	72	687	2,498	66	633
	IRB other							
	Non-credit obligation assets		89	9	89	82	9	82
	Standardised							
	Retail		19	1	14	24	2	17
	Equity		2	0	2	-	-	-
	Other	(2)	-	48	453	-	46	438
			21,188	**696**	**6,631**	**19,795**	**838**	**7,976**
Market risk	Foreign exchange position risk management		0.2	0.0	0.2	0.2	0.0	0.2
Operational risk	Standardised			46	436		42	403
Other RWA requirements								
	CVA		-	1	5	-	0	3
	RWA for deferred tax assets that rely on future profitability and arise from temporary differences		-	2	20	-	2	17
Total Risk			**21,188**	**745**	**7,092**	**19,795**	**882**	**8,399**

Note:
(1) EAD includes repo exposure
(2) KBCI is required to hold the higher of IRB or standardised approach for it's real estate book leading to an add on of €438m RWA
(3) EAD includes on and off balance sheet and derivative exposure where applicable and is after credit risk mitigation
(4) Under the IRB approach KBCI only has retail exposures secured by immovable property which attract a correlation factor of 0.15

The table below shows credit risk exposure per PD Band in terms of EAD, RWA and exposure weighted average risk weight as at 31st December 2015. Only lending exposure subject to the IRB approach is captured in this table, (non-credit obligation assets are not included). The table shows exposure before the application of guarantees. This means that there is no shift in asset class due to PD substitution. The RWA for the exposure, however, is presented after all credit risk mitigation has been applied. Exposure includes on and off balance sheet exposures, derivatives and Repo exposures.

Figure 6 Exposures, RWA and Weighted Average Risk Weight by PD band before application of guarantees 31 December 2015

PD Band	EAD in €ms	IRB Foundation Central Governments and Central Banks	IRB Foundation Institutions	IRB Foundation Corporates	IRB Advanced Retail	Total
PD 1	EAD	1,184	3,706	0.30	27	4,918
	RWA	224	167	0.05	2	393
	Weighted Average Risk Weight	19%	5%	17%	7%	8%
PD 2	EAD	3	60	18	70	151
	RWA	1	6	9	7	24
	Weighted Average Risk Weight	50%	11%	49%	10%	16%
PD 3	EAD	72		134	380	585
	RWA	62		81	57	199
	Weighted Average Risk Weight	86%		61%	15%	34%
PD 4	EAD		1	72	2,705	2,778
	RWA		1	58	732	792
	Weighted Average Risk Weight		70%	82%	27%	28%
PD 5	EAD			171	1,987	2,158
	RWA			139	891	1,029
	Weighted Average Risk Weight			81%	45%	48%
PD 6	EAD			72	565	637
	RWA			62	357	419
	Weighted Average Risk Weight			87%	63%	66%
PD 7	EAD		0.3	39	183	223
	RWA		1	43	162	205
	Weighted Average Risk Weight		162%	109%	88%	92%
PD 8	EAD			52	90	142
	RWA			70	75	145
	Weighted Average Risk Weight			134%	84%	102%
PD 9	EAD			45	860	906
	RWA			84	816	899
	Weighted Average Risk Weight			184%	95%	99%
	Total PD 1-9 EAD	1,259	3,768	604	6,868	12,498
	Total PD 1-9 RWA	287	175	545	3,098	4,105
	Total PD 1-9 Weighted Average Risk Weight	23%	5%	90%	45%	33%
	Total PD 10-12 EAD			1,989	5,201	7,190
	Total PD 10-12 RWA			-	3,223	3,223
	Total PD 10-12 Weighted Average Risk Weight			-	62%	45%
Total PD 1-12						
	EAD	1,259	3,768	2,593	12,068	19,688
	RWA	287	175	545	6,321	7,328
	Weighted Average Risk Weight	23%	5%	21%	52%	37%

Note:
1. In reported Retail figures the €3,223m RWA relates to CBI imposed requirement to hold RWA equal to 100% carrying amount of impaired exposures
2. There is €37m RWA not shown in the table above relating to impaired corporate exposures that after credit risk mitigation are rated by a counterparty in the institution exposure class
3. In Corporates there is €74m RWA related to PD model uncertainty and additional add ons not shown in above table
4. Figures above include drawn and undrawn commitments

The table below shows the outstanding amounts (EAD Pre Credit Conversion Factor (CCF)) and exposure value for undrawn commitments as at 31 December 2015. Exposures are before the application of guarantees. This means that there is no shift in asset class due to PD substitution.

Figure 7 Exposures on undrawn commitments by exposure class before application of guarantees 31 December 2015

PD Band	EAD in €ms	IRB Foundation	IRB Advanced
		Corporates	Retail
PD 1	EAD Pre CCF		13
	EAD		3
PD 2	EAD Pre CCF		39
	EAD		7
PD 3	EAD Pre CCF	1	58
	EAD	1	11
PD 4	EAD Pre CCF	0	52
	EAD	-	10
PD 5	EAD Pre CCF	3	18
	EAD	2	3
PD 6	EAD Pre CCF	0	1
	EAD	-	0.1
PD 7	EAD Pre CCF	0	0.15
	EAD	-	0.03
PD 8	EAD Pre CCF	2	
	EAD	-	
PD 9	EAD Pre CCF		
	EAD		
PD 10-12	EAD Pre CCF	2	
	EAD	0	
	Total EAD Pre CCF	**8**	**181**
	Total EAD	**3**	**34**

The table below shows credit risk exposure per PD Band in terms of EAD, RWA and exposure weighted average risk weight as at 31st December 2015. Only lending exposure subject to the IRB approach is captured in this table, (non-credit obligation assets are not included). The table shows exposure before the application of guarantees. This means that there is no shift in asset class due to PD substitution. The RWA for the exposure, however, is presented after all collateral has been applied. Exposure includes on and off balance sheet exposures, derivatives and Repo exposure.

Figure 8 Exposures, RWA and Weighted Average Risk Weight by PD band before application of guarantees

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

Note:

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

The table below shows the outstanding amounts (EAD Pre CCF) and exposure value for undrawn commitments as at 31 December 2015. Exposures are before the application of guarantees. This means that there is no shift in asset class due to PD substitution.

Figure 9 Exposures on undrawn commitments by exposure class before application of guarantees 31 December 2015

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

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

Figure 10 Eligible collateral and guarantees

Eligible collateral	2014		2015		
IRB Foundation	Real Estate Collateral €ms	Guaranteed €ms	Financial Collateral €ms	Real Estate Collateral €ms	Guaranteed €ms
Central Governments and Central Banks	9	-	-	9	0
Institutions	-	-	3,015	-	-
Corporates	384	157	5	339	105
Total	**394**	**157**	**3,020**	**348**	**105**

4.4 Economic Capital

The ECAP distribution as at 31 December 2015 for KBCI on a standalone basis is displayed in the table below.

Figure 11 ECAP for the year ended 31 December

Economic Capital		
Year end 31 December	**2014**	**2015**
ECAP Per Risk Type	**Capital Required %**	**Capital Required %**
Credit Risk	72%	**80%**
Operational Risk	6%	**4%**
ALM Risk	14%	**10%**
Business Risk	8%	**6%**
Total ECAP	**100%**	**100%**

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

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

4.5 Managing the risk of excessive leverage

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

Figure 12 Leverage ratio

Leverage ratio (consolidated; under CRD IV/CRR, end-of-quarter figures) €m	31/12/2014 Phased-in	31/12/2015 Phased-in
Tier-1 capital	902	1,116
Total exposure	13,907	13,490
Total assets	13,713	13,487
Adjustment for derivatives	(59)	(25)
Adjustment for regulatory corrections in determining Basel III tier-1 capital	9	(187)
Adjustment for securities financing transaction exposures	37	-
Off-balance sheet exposures	207	214
Leverage ratio	6.49%	8.27%

5. Credit Risk Management

5.1 Strategy and Processes

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

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

5.2 Scope of Credit Risk Disclosures

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

5.3 Exposure to Credit Risk

There is a presentational difference between Credit Risk Exposure and Financial Statements Exposure of €3.1bn due to different adjustments that Financial Statements include, such as adjustments for provisions of €3.3bn as per table below.

Figure 13 Credit Risk Exposure / Financial Statements exposure reconciliation

Credit Risk Balance €m	14,439
Less: Allowance for Specific	(2,723)
Less: Allowance for Collective	(76)
Less: Interest Reserved after default	(512)
Remove Guarantee's and Risk Participations Received	(18)
Add: Risk Participation Provided	114
Add: Deferred Expenses and Direct Debit Timing	58
Other Adjustments	7
Balance Per Financial Statements €m	**11,289**

Credit Risk is the most material risk facing KBCI given the profile of its book. Figure 14 shows the distribution of credit risk on loans and advances to customers across the different business units of KBCI based on the approach taken in calculating minimum capital requirements. The figure shows the outstanding loan balance at 31 December 2015.

Figure 14 Credit Risk Exposures

Credit Risk Exposure €m			
	31-12-2014 Outstanding Loan Balance	31-12-2015 Outstanding Loan Balance	∆ 2015 vs 2014 €m
Standardised	21	27	6
IRB Foundation^	2,814	2,460	(354)
IRB Advanced	12,084	11,952	(132)
Total	**14,919**	**14,439**	**(480)**

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

Figure 15 Retail Portfolio

Retail Portfolio- Additional Information			
Retail Book	**31-12-2014 €m**	**31-12-2015 €m**	**∆ 2015 vs 2014**
Outstanding Balance	12,084	11,952	(132)
Undrawn Amount	164	177	13
Total	12,248	12,129	(119)
PD Profile	**31-12-2014 €m**	**31-12-2015 €m**	**∆ 2015 vs 2014**
PD 1-4	569	491	(78)
PD 5-7	4,723	5,214	491
PD 8-9	1,106	1,223	117
PD 10-12	5,851	5,201	(650)
Total	12,248	12,129	(119)
Weighted Average LGD	**31/12/2014 %**	**31/12/2015 %**	**∆ 2015 vs 2014 €m**
WALGD	**25.19%**	**27.24%**	**2.05%**
Performing (PD 1-9)	16.01%	16.01%	0.00%
Non Performing (PD 10-12)	34.97%	41.81%	6.84%

The maturity profile of the credit portfolio as at 31 December 2015 is shown in the table below.

Figure 16 Residual Maturity for KBCI Outstanding Exposures

Residual Maturity for KBCI Outstading Exposures €m				
Maturity Bands 31-12-2014	**Corporate/SME**	**Real Estate**	**Retail**	**Total**
<1 year	279	941	44	1,264
>=1 to <5 years	273	254	318	845
>=5 to <10 years	273	141	1,254	1,669
>=10 years	522	152	10,467	11,141
Total	**1,348**	**1,487**	**12,084**	**14,919**
Maturity Bands 31-12-2015	**Corporate/SME**	**Real Estate**	**Retail**	**Total**
<1	250	854	53	1,157
>=1 to <5 years	313	199	236	748
>=5 to <10 years	232	139	1,107	1,478
>=10 years	415	85	10,556	11,056
Total	**1,210**	**1,277**	**11,952**	**14,439**

5.4 Impaired & Past Due Not Impaired

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

Figures 17 and 18 show the profile of the book in relation to Impaired, Past Due but not Impaired and neither Past Due nor Impaired as at 31 December 2015. The first table shows the split based on industry class while the second shows the profile based on geographical breakdown.

Figure 17 Past Due and Impaired Outstanding Exposures by Industry

Past Due and Impaired Outstanding Exposures by Industry €m				
Industry Class 31-12-2014	**Neither Past due Nor Impaired**	**Past Due but Not Impaired**	**Impaired**	**Total**
Corporate	714	7	2,114	2,835
Retail	6,166	68	5,851	12,084
Total	**6,879**	**75**	**7,965**	**14,919**
Industry Class 31-12-2015	**Neither Past due Nor Impaired**	**Past Due but Not Impaired**	**Impaired**	**Total**
Corporate	584	10	1,893	2,487
Retail	6,664	87	5,201	11,952
Total	**7,248**	**97**	**7,094**	**14,439**

Figure 18 Past Due and Impaired Outstanding Exposures by Geography

Past Due and Impaired Outstanding Exposures by Geography €m				
Geographic Breakdown 31-12-2014	**Neither Past due Nor Impaired**	**Past Due but Not Impaired**	**Impaired**	**Total**
Ireland	6,693	72	7,516	14,280
UK	179	3	338	521
Other	7	0	111	118
Total	**6,879**	**75**	**7,965**	**14,919**
Geographic Breakdown 31-12-2015	**Neither Past due Nor Impaired**	**Past Due but Not Impaired**	**Impaired**	**Total**
Ireland	7,087	96	6,740	13,924
UK	160	1	305	467
Other	0	0	48	48
Total	**7,248**	**97**	**7,094**	**14,439**

* Specific Provisions are Gross of Reserved Interest

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

The credit impairment allowances of KBCI at 31 December 2015 based on industry class and geographical segment are included in the two tables below. The provision amounts reported include Reserved Interest provisions.

Figure 19 Specific and Portfolio Provisions for Impairment of KBCI loans

Specific & Portfolio Provisions for Impairment of KBCI Loans €m					
Industry Class 31-12-2014	**Outstanding Exposure**	**Performing Outstanding**	**Portfolio Provisions**	**Impaired Outstanding Exposrire**	**Specific Provision Balance***
Corporate	2,835	720	15	2,114	1,334
Retail	12,084	6,234	72	5,851	1,909
Total	**14,919**	**6,954**	**87**	**7,965**	**3,243**
Industry Class 31-12-2015	**Outstanding Exposure**	**Performing Outstanding**	**Portfolio Provisions**	**Impaired Outstanding Exposrire**	**Specific Provision Balance***
Corporate	2,487	594	10	1,893	1,257
Retail	11,952	6,751	66	5,201	1,978
Total	**14,439**	**7,345**	**76**	**7,094**	**3,235**

* Specific Provisions are Gross of Reserved Interest

Figure 20 Specific and Portfolio Provisions for Impairment of KBCI loans

Specific & Portfolio Provisions for Impairment of KBCI Loans €m					
Geographic Breakdown 31-12-2014	**Outstanding Exposure**	**Performing Outstanding**	**Portfolio Provisions**	**Impaired Outstanding Exposrire**	**Specific Provision Balance***
Ireland	14,280	6,765	81	7,516	3,072
UK	521	183	6	338	87
Other	118	7	0	111	84
Total	**14,919**	**6,954**	**87**	**7,965**	**3,243**
Geographic Breakdown 31-12-2015	**Outstanding Exposure**	**Performing Outstanding**	**Portfolio Provisions**	**Impaired Outstanding Exposrire**	**Specific Provision Balance***
Ireland	13,924	7,183	72	6,741	3,093
UK	467	162	4	305	103
Other	48	0	0	48	39
Total	**14,439**	**7,345**	**76**	**7,094**	**3,235**

* Specific Provisions are Gross of Reserved Interest

The movement in impairment provisions for 2015 is outlined in the table below.

Figure 21 Provisions Analysis

Specific & Portfolio Provisions for Impairment of KBCI Loans €m					
Provisions 31-12-2014	**Opening Balance**	**Charge**	**Interest Reserved**	**IFRS Unwind / Write Offs**	**Closing Balance**
Specific	2,857	255	141	10	3,243
Portfolio	144	(57)	0	0	87
Total	**3,001**	**198**	**141**	**10**	**3,330**
Provisions 31-12-2015	**Opening Balance**	**Charge**	**Interest Reserved**	**IFRS Unwind, Write Offs and FX**	**Closing Balance**
Specific	3,243	58	91	157	3,235
Portfolio	87	(10)	0		77
Total	3,330	48	91	157	3,312

5.5 Approaches to Credit Risk

The CRDIV provides two approaches for the calculation of minimum regulatory capital requirements for credit risk:

1. The Standardised Approach.
2. IRB Approach, which can be sub divided into
   a. Foundation IRB; and
   b. Advanced IRB Approach.

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

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

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

- Probability of default;
- Loss given default; and
- Exposure at default.

For non-retail exposures, there are two IRB approaches. Under the Foundation IRB Approach, banks use their own estimate of PD, and regulatory estimates of LGD and EAD. Under the Advanced IRB Approach, banks use their own estimates of all three risk components. For retail exposures, there is no Foundation approach so all three risk measures are internally estimated.

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

KBCI calculates its Pillar II ECAP add on for Credit risk using the outputs of an Internal Credit Capital Model (ICCM). ICCM is developed in accordance with the KBC Group Model Management Framework and is subject to the standard KBC Group modelling and validation processes.

5.6 Credit Risk Mitigation Techniques

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

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

In addition to these governance bodies, the KBCI Credit Decision Authorities monitor credit risk at a transaction level for new and existing transactions and the KBCI New and Active Products committee monitors the credit risk involved in new products and processes, or in changes to existing products and processes.

A Credit Policy is in place outlining policies in relation to securing collateral (e.g. Property mortgage and guarantees), establishing credit reserves and risk exposures.

5.7 Internal Modelling

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

These models are used within the credit process for:
- Defining the delegation level for credit approval (e.g. PD models);
- Accepting credit transactions (e.g. application scorecards);
- Setting limits;
- Pricing credit transactions;
- Monitoring the risk of a (client) portfolio;
- Calculating the internal ECAP; and
- Calculating the regulatory capital.

Probability of Default

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

Within KBCI, there are three types of PD models developed:
- Statistical default/non-default models based on objective inputs: Rankings are derived purely mechanically with no subjective input, using regression techniques. At KBCI, this method is only used in the retail segment where objective data is plentiful (e.g. behavioural information).
- Statistical default/non-default models based on objective and subjective input: These are very similar to the purely objective models, but also use subjective input entered by a credit adviser (for instance management quality, market position). At KBCI, this method is used to rank corporate customers.
- Statistical expert-based models: Rankings are based on quantitative and qualitative input, but due to the small number of observed default events, regression is applied to predict expert assessments of the creditworthiness of the clients, rather than their default/non-default behaviour. At KBCI, this method is used to rank financial institutions.

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

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

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

Loss Given Default Models

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

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

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

Exposure At Default Models

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

In most cases, EAD equals the nominal amount of the facility, but for certain facilities (e.g. those with undrawn commitments) it includes an estimate of future drawings prior to default.

All of KBCIs regulatory models are continuously back tested to ensure their performance is satisfactory.

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

Internal Credit Capital Model

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

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

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

The KBCI specific configuration of ICCM includes the following:

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

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

5.8 Counterparty Credit Risk

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

- arising from Treasury sales with corporate and other clients; and
- hedging transactions as part of normal Asset and Liability Management (ALM) risk mitigation.

KBCI's current policy is to transact all hedging derivatives where possible with KBC Bank N.V. and thus the bulk of KBCI's Over The Counter derivatives are with its parent. There remains some legacy derivatives transacted with the external market.

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

The counterparty credit risk exposure at replacement risk (net of collateral) for derivatives is €71m at 31st December 2015.

The tables below reflect KBCI's counterparty credit exposures, including the impact of netting and collateral. Current credit exposures consist of the replacement cost of contracts together with potential future credit exposure.

Figure 22 Minimum capital requirements at 10.5%

		2014	2015
		Basel III	Basel III
Minimum capital requirements at 10.5%	Note	€m	€m
Repo			
Gross positive fair value		3,867	2,964
Volatility Adjustments		328	168
Total current credit exposure		4,196	3,132
Netting benefits		-	-
Netted current credit exposure		4,196	3,132
Cash Collateral		(3,865)	(2,965)
Net credit exposure		**331**	**167**
Derivatives			
Gross positive fair value		214	170
Potential future credit exposure		105	111
Total current credit exposure		319	281
Netting benefits		(145)	(120)
Netted current credit exposure		173	160
Cash Collateral		(32)	(35)
Net credit exposure		**142**	**125**

6. Liquidity Risk Management

Liquidity risk is the risk that an organisation will be unable to meet its liabilities / obligations as they come due, or incurs unacceptable losses in doing so.

6.1 Strategy & Processes

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

Liquidity management for KBCI focuses on the overall balance sheet structure and the control of risk arising from the mismatch of maturities across the balance sheet. Apart from daily cashflow management, the primary metric employed by KBCI in the management of liquidity risk is the LCR, for which a regulatory minimum level is required. A number of other internal and external limits and metrics (e.g. stable funding, asset encumbrance) are utilised to manage and monitor both liquidity and funding risks. Liquidity risk monitoring is complemented by monthly stress testing by applying a variety of different scenarios.

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

KBCI's only source of encumbrance as at 31st December 2015 is secured funding received from KBC Bank NV through bilateral repurchase agreements. This funding is collateralized ultimately by residential mortgages which have been deemed eligible for ECB market operations through retained residential mortgage backed securities (RMBS).

6.2 Liquidity Risk Management

The Treasury function is responsible for operational management of liquidity risk in KBCI. The liquidity strategy, control and limit framework is defined in the Bank's Liquidity Policy which covers liquidity and funding risk management, Liquidity Contingency Planning, monitoring and reporting for KBCI.

6.3 Funding Risk Management

The operational responsibility for the management of Funding Risk resides with KBCI Treasury. KBCI's funding risk is primarily measured using ENSFR as defined in the KBC Group Funding Framework.

6.4 Oversight of Liquidity and Funding Risk

Similar to ALM risk, from a governance perspective, liquidity and funding risk is monitored by the KBCI TRC (an advisory forum) and the ROC (the latter of which functions as the bank's Asset and Liability Committee (ALCO)).

The Board of KBCI sets the risk appetite in respect of liquidity and funding risk and the ROC is responsible for overseeing its implementation, including cascading into various management limits and controls. The management of liquidity and funding risk is governed by the Bank's Liquidity Policy and Risk Appetite, which combined, sets out the limits and responsibilities in respect of liquidity and funding risk.

The Treasury Risk Management function is responsible for independent second line monitoring and challenge with respect to liquidity risk.

7. Securitisations

The objective of securitisations is to turn illiquid mortgage assets into securitised notes / collateral, against which funding can be raised. The credit institution is the loan originator for the mortgage assets. It then sells the assets to the securitisation vehicle in return for the securitised notes. It continues to act as servicer for the assets and as mortgage manager for the securitisation vehicles. It also acts as transaction swap counterparty for some of the securitisations and subordinated loan provider for all issues. KBCI has ownership of all floating rate notes issued by Phoenix Funding 2 Limited, Phoenix Funding 3 Limited, Phoenix Funding 4 Limited and Phoenix Funding 5 Limited[3]. In 2008, the Bank transferred mortgage loans into Phoenix Funding 2 Limited and Phoenix Funding 3 Limited, in 2009 into Phoenix Funding 4 Limited and in 2012 into Phoenix Funding 5 Limited. The share capital of the Phoenix Programme is held in trust by Capita Trust Nominees No. 1 Limited, a company not related to KBCI or any of its subsidiaries.

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

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

At 31 December, 2015, the notes were rated by a range of external credit assessment institutions (ECAI's) as follows:

Figure 23 External Credit Assessment Institutions

ECAI	Moody's Investor Services	Fitch Ratings	DBRS
Phoenix 2 - Class A	Aa1	A+	A(H)
Phoenix 2 - Class B	Not Rated	Not Rated	Not Rated
Phoenix 3 - Class A	Aa1	A+	Not Rated
Phoenix 3 - Class B	Not Rated	Not Rated	Not Rated
Phoenix 4 - Class A	Aa1	A+	Not Rated
Phoenix 4 - Class B	Not Rated	Not Rated	Not Rated
Phoenix 5 - Class A1	Not Rated	Redeemed 2015	Redeemed 2015
Phoenix 5 - Class A2	Not Rated	A+	AA
Phoenix 5 - Class A3	Not Rated	A+	AA

7.1 Total Outstanding Securitised Exposures

The gross carrying amount of mortgages in the securitised companies recognised in the statement of financial position at 31 December 2015 is:

Figure 24 Outstanding Securitised Exposures

KBCI Securitisations - €m			
Securitised Book	**Outstanding Exposure 2015 ***	**Outstanding Exposure 2014 ***	**Movement Since 30.12.14**
Phoenix 2	5,336	5,798	(462)
Phoenix 3	2,191	2,388	(197)
Phoenix 4	579	628	(49)
Phoenix 5	713	786	(73)
Total	8,819	9,600	(781)

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

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

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

8. ALM Risk

The process of managing KBCI's structural exposure to market risk is also known as ALM. ALM risk is defined by KBCI as the potential negative deviation from the expected net asset value of KBCI's banking book and sovereign bond portfolio due to changes in the level or volatility of market prices. The three main types of ALM risk which KBCI is subject to are general interest rate risk, basis risk and foreign exchange risk. The Treasury function is responsible for operational management of ALM risk in KBCI.

It is the Bank's policy not to take on market risk arising from trading positions.

8.1 Sources of ALM Risk

The primary sources of KBCI ALM risk are:

- The strategic interest rate risk position (sovereign bond portfolio) arising from investment of equity;
- Basis risk arising from the Bank's legacy ECB base rate-linked mortgage portfolio; and
- The residual interest rate risk arising from funding, lending, sales and hedging activities in the banking book.

8.2 Measurement Methodology for ALM Risk

KBCI uses the Basis Point Value (BPV) methodology to measure its exposure to general interest rate movements. KBCI quantifies the gain or loss on interest rate positions for a 0.1% (10 basis points) parallel shift upwards in the yield curve. BPV is used to measure interest rate risk associated with loans, funding, swaps, bonds, and other interest rate derivatives to capture all interest rate risk arising from KBCI activities.

Separate limits are in place for the Bank's strategic interest rate portfolio (arising from the investment of equity) and the general ALM/hedging activity. KBCI uses foreign exchange exposure nominal limits (at both an aggregate Bank and individual currency level) to measure and manage foreign exchange risk. Each of these is monitored and reported daily.

Basis risk in KBCI arises primarily from the Bank's ECB base rate-linked (tracker) mortgage portfolio which is funded via Euribor or administered rate-linked products. KBCI has ceased lending tracker mortgages in 2008 and therefore this risk relates to a legacy portfolio in run-off. Basis risk and Net Interest income (NII) impact is monitored closely using a number of metrics / Early Warning Indicators.

8.3 Oversight of ALM Risk

From a governance perspective, ALM risk is monitored by the KBCI TRC and the ROC (the latter of which functions as the Bank's ALCO).

The Board of KBCI sets the risk appetite in respect of ALM risk and the ROC is responsible for overseeing its implementation, including cascading into various management limits and controls. The management of ALM risk is governed by the Bank's Treasury Policy and Interest Rate Risk Policy, combined with the Risk Appetite clearly sets out the responsibilities and limits in respect of ALM risk for the ALM/hedging portfolio and strategic interest rate portfolio.

The Treasury Risk Management function is responsible for independent second line monitoring and challenge with respect to ALM risk.

8.4 Mitigation of ALM Risk

In addition to limits and the general risk management framework, capital is considered a mitigant for ALM interest rate risk as the crystallisation of such risk involves actual NII losses which impact on the capital base.

9. Operational Risk Management

Operational Risk is defined by KBCI as the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events. Operational risks include *inter alia* fraud risk, legal risk, tax risks and compliance & regulatory risks (including conduct risk and political risk).

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

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

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

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

- Commercial Banking;
- Retail Banking; and
- Trading and Sales.

9.1 Strategy & Processes

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

9.2 Scope of Operational Risk Management

The scope of operational risk management within KBCI incorporates risks associated with internal processes, people, systems and external events.

This scope extends to include all subsidiaries and branches of KBCI.

9.3 Operational Risk Governance

A number of ICCs, representing various areas of the business and chaired by senior managers from the area, manage operational risk matters on a day to day basis. The ICCs report periodically to the ROC and assist the ROC in relation to operational risk matters by reviewing, recommending and/or requesting approvals as required.

Operational risk metrics and analysis is presented to the Risk and Compliance Committee on an ongoing basis.

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

10. Business and Strategy Risk

Business / strategy risk is defined by KBCI as the risk of the potential negative deviation from the expected economic value of the organisation due to changes in the volumes and operational margins resulting from changes in the environment of the organisation and maladjusted or inadequately implemented strategies. Examples of such are due to changes in external factors (macro-economic environment, client behaviour, socio-demographic environment and competitor actions) and due to taking, not taking or taking a strategic decision not to intended effect.

Business strategic risk changes in relation to movements and volatility in interest rates, exchange rates etc. as these are captured within ALM (interest rate) risk.

10.1 Sources of Business/Strategy Risk

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

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

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

10.2 Measurement Methodology for Business/Strategy Risk

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

10.3 Management and Monitoring of Business/Strategy Risk

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

- Strategic management;
- Monitoring developments in key markets; and
- Revenue and cost management.

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

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

10.4 Mitigation of Business/Strategy Risk

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

11. Reputational Risk

Reputational risk is defined by KBCI as the risk arising from the negative perception on the part of stakeholders such as customers, counterparties, shareholders, investors, debt-holders, market analysts, other relevant parties or regulators that can adversely affect a Bank's ability to maintain existing, or establish new, business relationships and continued access to sources of funding (e.g. through the interbank or securitisation markets) KBCI recognises the impact that other risk types, e.g. compliance and regulatory risk, may have on reputation risk.

11.1 Sources of Reputational Risk

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

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

11.2 Measurement Methodology for Reputational Risk

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

11.3 Management and Monitoring of Reputational Risk

The ExCo (with the assistance of the ROC) manages reputational risk through controlled business processes, the Risk Framework, appropriate policies and procedures, the Staff Code of Conduct, market information, New and Active Products Process and operational risk monitoring.

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

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

11.4 Mitigation of Reputational Risk

Capital is not considered a mitigant for reputation risk. KBCI's Sustainability programme (CSR) and Community Involvement programme is an example of a pro-active mitigant in relation to reputational risk. KBCI's outreach into the community recognises that its good name and reputation is earned, managed and optimised based on its behaviour towards all stakeholders.

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

12. Pension Risk

KBCI's Pension risk is defined by KBCI as the risk that a deficit could occur on KBCI's Defined Benefit (DB) pension fund which would impact on KBCI's capital base, as based on Minimum Funding Standard (MFS) Requirement and International Accounting Standard (IAS) 19 accounting requirements.

The source of pension risk is KBCI's staff DB pension scheme. From the 31st August 2012, the DB scheme closed to future accrual of pensionable service and implemented a new Defined Contribution (DC) pension scheme on the 1st September 2012. KBCI's pension risk relates to the DB pension scheme and no material pension risk arises in relation to the new DC pension scheme. (The Bank is limited to the amount it has agreed to contribute to the DC scheme and therefore has placed the mortality and investment risk on the employee.) Whilst the direct risk to KBCI is reduced through the provision of a DC scheme, there remain embedded risks in the offering of the scheme, such as ensuring it is appropriately administered, the funds (especially the Default Fund) are not materially out of line with the market in terms of performance and cost structures and the staff are provided with appropriate 'decision support' to ensure their decisions in relation to the DC scheme are appropriately advised and evidence appropriate levels of decision rather than 'default' behaviour.

12.1 Management and Monitoring of Pension Risk

The ROC monitors pension risk in conjunction with the pension trustees by assessing the pension funding against the MFS requirement and report as required to the Board. IAS 19 requirements are also monitored on an ongoing basis and adjustments are made to Tier 1 capital requirements as required.

A dedicated Pension Committee takes responsibility for reviewing and approving proposals for changes to the existing DB scheme and DC scheme.

12.2 Mitigation of Pension Risk

Risk is mitigated by holding a sufficient pool of diversified assets in the pension scheme.

Capital is also considered a mitigant for pension risk. Capital would be assigned for any gap in pension funding as identified by the MFS requirement. As at 31 December 2015 the scheme met its MFS requirement.

13. Stress Testing

Stress testing is an important constituent of KBCI's Risk Framework and KBCI uses stress testing to assess capital adequacy in relation to its material risks, including credit risk, ALM (interest rate) risk, operational risk, concentration risk and liquidity risk. Stress testing is a means for considering how KBCI's risk profile and capital requirements can be impacted through adverse scenarios. Stress tests inform KBCI on the impact of changing hypothetical internal and external conditions on risk, liquidity and capital needs, any 'buffer' required to regulatory capital and the overall credit-worthiness of the KBCI portfolios.

All material risks, identified in the ICAAP, are subject to stress testing at a minimum annually and stress testing results are reported to the ROC and the Risk and Compliance Committee.

13.1 Scenario Stress Tests

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

KBCI conducts a range of scenario stress testing with appropriate degrees of severity to inform Management of possible KBCI specific vulnerabilities. The exact combinations of mild/severe scenarios are determined by the stress testing requirements of the CRO and challenged by the ROC.

13.2 Sensitivity Stress Tests

Sensitivity stress tests are forward looking stress tests performed on all or a part of KBCI's portfolio, focusing on a single type of risk or a single risk measure and seeking to identify KBCI specific vulnerabilities.

A range of sensitivity stress testing may be conducted with different degrees of severity to inform Management of possible outcomes. The time horizon over which the sensitivity is analysed varies to a greater degree than scenario stress tests, being dependant on the specific risk measure.

13.3 Reverse Stress Tests

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

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

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

13.4 Risk Specific Stress Tests

Credit Risk Stress Testing

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

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

ALM (Interest Rate) Risk Stress Testing

KBCI carries out market risk stress tests on interest rate movements. Scenario analysis is used on a regular basis to analyse possible future events and to capture losses under stress situations as well as normal market conditions. Different scenarios are used to anticipate the impact of different curve.

Operational Risk Stress Testing

KBCI performs stress tests on its operational risk to assess the adequacy of its operational risk capital holding. These tests are informed by past losses and loss data. Additionally, KBCI views the Business Continuity Test as a critical form of stress test for key operational risks, such as staff, technology and processes.

Liquidity Risk Stress Testing

KBCI carries out Liquidity Risk Stress Testing on a monthly basis. The liquidity stress testing covers all products in KBCI, in accordance with Regulatory requirements. Scenarios are conducted on point in time data, with positions being stressed using a number of different scenarios. Time horizons generally range out to 1 month with other stable funding scenarios using a 1yr horizon. The results of the stress tests are used to inform decision making regarding limit and risk appetite setting.

Concentration Risk Stress Testing

KBCI stresses its concentration risk by assessing the sensitivity of its pillar 2 credit risk model to changes in correlations used to quantify the inter and intra segment correlations between obligors and sectors, and the sensitivity of its name risk concentration to downgrades of its largest counterparties.

13.5 ICAAP Stress Testing

On an annual basis KBCI conducts the APC strategic forecasting process as part of its ICAAP. Projections are produced in parallel for both a base and a stressed adverse economic scenario.

Appendix 1 - Transitional own funds disclosure template

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

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

20	Empty set in the EU	0	
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	N/A	N/A
20b	of which: qualifying holdings outside the financial sector (negative amount)	N/A	N/A
20c	of which: securitisation positions (negative amount)	N/A	N/A
20d	of which: free deliveries (negative amount)	N/A	N/A
21	Deferred tax assets arising from temporary difference (amount above 10 % threshold , net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	N/A	N/A
22	Amount exceeding the 15% threshold (negative amount)	N/A	N/A
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	N/A	N/A
24	Empty set in the EU	0	N/A
25	of which: deferred tax assets arising from temporary difference	N/A	N/A
25a	Losses for the current financial year (negative amount)	N/A	N/A
25b	Foreseeable tax charges relating to CET1 items (negative amount)	N/A	N/A
26	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment	N/A	
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	(20)	
	Of which: Unrealised gains on exposures to central governments classified in the "Available for sale" category of EU-endorsed IAS39	(20)	
26b	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR	43	
	Of which : Additional filters - Defined Benefit Pension Liability net of tax	43	
27	Qualifying AT1 deductions that exceeds the AT1 capital of the institution (negative amount)	N/A	
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	9	
29	**Common Equity Tier 1 (CET1) capital**	622	
	Additional Tier 1 (AT1) capital: instruments		
30	Capital instruments and the related share premium accounts	280	
31	of which: classified as equity under applicable accounting standards	280	
32	of which: classified as liabilities under applicable accounting standards	N/A	
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1	N/A	
	Public sector capital injections grandfathered until 1 January 2018	N/A	
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interest not included in row 5) issued by subsidiaries and held by third parties	N/A	N/A
35	of which: instruments issued by subsidiaries subject to phase-out	N/A	
36	Additional Tier 1 (AT1) capital before regulatory adjustments	280	
	Additional Tier 1 (AT1) capital: regulatory adjustments		
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	N/A	N/A
38	Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	N/A	N/A
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	N/A	N/A
40	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	N/A	N/A

41	Regulatory adjustments applied to Additional Tier 1 capital in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase-out as prescribed in Regulation (EU) No 585/2013 (i.e. CRR residual amounts)	N/A	
41a	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	N/A	
41b	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Tier 2 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	N/A	
41c	Amounts to be deducted from added to Additional Tier 1 capital with regard to additional filters and deductions required pre- CRR	N/A	
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	N/A	
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	N/A	
44	Additional Tier 1 (AT1) capital	280	
45	**Tier 1 capital (T1 = CET1 + AT1)**	902	
Tier 2 (T2) capital: instruments and provisions			
46	Capital instruments and the related share premium accounts	N/A	
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	N/A	
	Public sector capital injections grandfathered until 1 January 2018	N/A	
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interest and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third party	N/A	N/A
49	of which: instruments issued by subsidiaries subject to phase-out	N/A	
50	Credit risk adjustments	37	
51	Tier 2 (T2) capital before regulatory adjustment	37	
Tier 2 (T2) capital: regulatory adjustments			
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	N/A	N/A
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institutions designed to inflate artificially the own funds of the institution (negative amount)	N/A	N/A
54	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10 % threshold and net of eligible short positions) (negative amount)	N/A	N/A
54a	Of which new holdings not subject to transitional arrangements	N/A	N/A
54b	Of which holdings existing before 1 January 2013 and subject to transitional arrangements	N/A	N/A
55	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amounts)	N/A	N/A
56	Regulatory adjustments applied to tier 2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	N/A	
56a	Residual amounts deducted from Tier 2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	N/A	
56b	Residual amounts deducted from Tier 2 capital with regard to deduction from Additional Tier 1 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	N/A	
56c	Amounts to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre- CRR	N/A	
57	**Total regulatory adjustments to Tier 2 (T2) capital**	N/A	
58	**Tier 2 (T2) capital**	37	
59	**Total capital (TC = T1 + T2)**	939	

59a	Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amount)	N/A
	Of which:… items not deducted from CET1 (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Deferred tax assets that rely on future profitability net of related tax liability, indirect holdings of own CET1, etc.)	N/A
	Of which:…items not deducted from AT1 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Reciprocal cross holdings in T2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc.)	N/A
	Items not deducted from T2 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Indirect holdings of own T2 instruments, indirect holdings of non-significant investments in the capital of other financial sector entities, indirect holdings of significant investments in the capital of other financial sector entities etc.)	N/A
60	**Total risk-weighted assets**	7,092
Capital ratios and buffers		
61	**Common Equity Tier 1 (as a percentage of total risk exposure amount**	8.8%
62	**Tier 1 (as a percentage of total risk exposure amount**	12.7%
63	**Total capital (as a percentage of total risk exposure amount**	13.2%
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount)	not yet implemented
65	of which: capital conservation buffer requirement	not yet implemented
66	of which: countercyclical buffer requirement	not yet implemented
67	of which: systemic risk buffer requirement	not yet implemented
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	not yet implemented
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	not yet implemented
69	[non-relevant in EU regulation]	N/A
70	[non-relevant in EU regulation]	N/A
71	[non-relevant in EU regulation]	N/A
Amounts below the thresholds for deduction (before risk-weighting)		
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions	N/A
73	Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions	N/A
74	Empty set in the EU	N/A
75	Deferred tax assets arising from temporary difference (amount below 10 % threshold , net of related tax liability where the conditions in Article 38 (3) are met)	8
Applicable caps on the inclusion of provisions in Tier 2		
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	N/A
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	N/A
78	Credit risk adjustments included in T2 in respect of exposures subject to internal rating-based approach (prior to the application of the cap)	6,182
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	37
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)		
80	- Current cap on CET1 instruments subject to phase-out arrangements	N/A

81	- Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	N/A
82	- Current cap on AT1 instruments subject to phase-out arrangements	N/A
83	- Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	N/A
84	- Current cap on T2 instruments subject to phase-out arrangements	N/A
85	- Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	N/A

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

Appendix 2 - Balance Sheet Reconciliation Methodology

Reconciliation of Equity in Financial Statements to Regulatory own funds		
Reconciliation of Equity in Financial Statements to Regulatory own funds	Financial Statements	Regulatory
Share Capital	2,284	2,284
Share premium	27	27
Retained earnings	(1,372)	(1,372)
Other reserves	(63)	(63)
Regulatory adjustment and filters		
Adjustments due to prudential filters - Cash flow hedge reserve		19
Intangible assets		(44)
Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities		(76)
Other transitional adjustments to CET1		61
Total Common Equity Tier 1	**875**	**836**
Other additonal Tier 1 instruments	280	280
Total Tier 1	1,155	1,116
Tier 2 - IRB provision excess		45
Total Own funds	**1,155**	**1,160**

Appendix 3 - Capital instruments' main features template

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

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

Appendix 4 - Disclosure on asset encumbrance

Assets

		Carrying amount of encumbered assets €m	Fair value of encumbered assets €m	Carrying amount of unencumbered assets €m	Fair value of unencumbered assets €m
		010	040	060	090
010	**Assets of the reporting institution**	4,592		8,971	
030	Equity instruments			0	0
040	Debt securities			1,200	1,277
120	Other assets	2		817	

Collateral received

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

Encumbered assets/collateral received and associated liabilities

		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
		010	030
010	**Carrying amount of selected financial liabilities**	2,966	4,592

Information on importance of encumbrance
KBCI only source of encumbrance as at 31st December 2015 is as a result of funding received from KBC Bank NV through bi-lateral repurchase agreements. This funding is collateralized by residential mortgages which have been deemed eligible for ECB market operations through a retained RMBS.

Only a very small portion of the items in column 060 "carrying amount of unencumbered assets" row 120 "other assets" would be considered available for encumbrance during the normal course of business. This would relate to credit support (cash transfer) provided for derivative transactions with third parties where a Credit Support Annex agreement in in place. At 31st December 2015 this amount was only €2m.

Appendix 5 – Glossary (Key Terms & Abbreviations)

Term	Definition
ALCO	Asset and Liability Committee
ALM	Asset and Liability Management
APC	Alignment of Planning Cycle
BPV	Basis Point Value
CAD	Capital Adequacy ratio
CBI	Central Bank of Ireland
CCF	Credit Conversion Factor
CPM	Credit Portfolio Model
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulations
CRO	Chief Risk Officer
CT	Central Tendency
DB	Defined Benefit
DC	Defined Contribution
EAD	Exposure at Default
ECAI	External Credit Assessment Institutions
ECAP	Economic Capital
ECB	European Central Bank
ExCo	Executive Committee
Financial Statement	The KBC Ireland plc. and subsidiaries Consolidated Financial Statements for the year ended 31st December 2015.
IBNR	Incurred But Not Reported
IAS	International Accounting Standard
ICAAP	Internal Capital Adequacy Assessment Process
ICC	Internal Control Councils
ICCM	Internal Credit Capital Model
IFRS	International Financial Reporting Standards
IRB	Internal Ratings Based
KBCI / Bank	KBC Bank Ireland plc
KBCI Board / Board	KBCI Board of Directors and sub-committees where relevant
KBC Group / Group	KBC Bank NV
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
LRC	Lending Risk Council
MARS	Mortgage Arrears Resolution Strategy
MFS	Minimum Funding Standard (incorporating the Funding Standard and Funding Standard Reserves)
NII	Net Interest Income
NSFR	Net Stable Funding Ratio
PD	Probability of Default
PVAR	Parametric Value At Risk
RAF	Risk Appetite Framework

RMBS	Residential Mortgage Backed Security
ROC	Risk Oversight Committee
RWA	Risk Weighted Asset
TRC	Treasury Risk Council