KBC INSURANCE

Annual report of the Board of Directors for financial year 2016 to the General Meeting of 26 April 2017

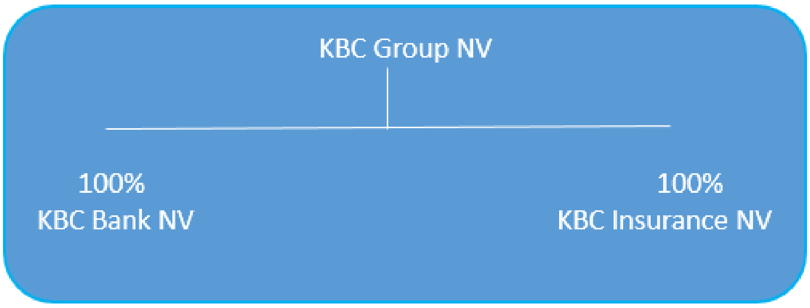
To the reader

Company name

'KBC', 'the group' or 'KBC Insurance' as used in this annual report refer the consolidated insurance entity, i.e. KBC Insurance NV including all its subsidiaries and sub-subsidiaries. 'KBC Insurance NV' refers solely to the non-consolidated entity.

Difference between KBC Insurance and KBC Group

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



Forward-looking statements

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

Translation

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

Ratios used

KBC Insurance reports on several ratios, a number of which are defined as follows:

- Net claims ratio for non-life insurance
- Net expense ratio for non-life insurance
- Net combined ratio for non-life insurance
- Solvency ratio

The net claims ratio for non-life insurance is the ratio between net technical charges for non-life insurance, including internal claims settlement costs, and net earned premiums from non-life insurance. The ratio is net of reinsurance. It indicates the portion of the premiums that covers claims payments.

The net expense ratio for non-life insurance is the ratio between net operating expenses for non-life insurance and net written premiums for non-life insurance. The ratio is net of reinsurance. It indicates the portion of the premiums that covers the costs incurred.

The net combined ratio for non-life insurance is the sum of the net claims ratio and net expense ratio for non-life insurance. It indicates how profitable the insurance contracts are.

The solvency ratio is the ratio of available solvency capital to required solvency capital. Required solvency capital is an amount in addition to the cover assets that is intended to enable a company to meet its liabilities even under stressed conditions. The lower limit set by the regulator is 100%.

Articles 96 and 119 of the Belgian Companies Code

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

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Report of the Board of Directors

Brief presentation of KBC Insurance (31-12-2016)

Our area of operation

KBC Insurance is an insurance group catering mainly for retail, SME and mid-cap clients. It concentrates on its home markets of Belgium and four countries in Central and Eastern Europe, namely the Czech Republic, Slovakia, Hungary and Bulgaria

Main group companies

Belgium	KBC Insurance NV
Czech Republic	ČSOB Pojišt'ovna a.s.
Slovakia	ČSOB Poisťovňa a.s.
Hungary	K&H Biztosító
Bulgaria	DZI Insurance

Our shareholders

All KBC Insurance NV shares are owned (directly and indirectly) by KBC Group NV. KBC Group NV is a listed company.

Our clients, staff and network

Clients (estimate)	3.7 million
Number of staff (2016 average in FTEs)	4 100
Insurance network	427 agencies in Belgium, various distribution channels in Central and Eastern Europe

Our long-term credit ratings (13 March 2017)

	Standard & Poor's
KBC Insurance NV	A-

Management

CEO	Johan Thijs
Chairman of the Board of Directors	Thomas Leysen

More information

Website	www.kbc.com

Data relates to year-end 2016, unless otherwise indicated. For definitions and comments, please see the detailed tables and analyses in this report.

Strategy and business model

KBC Insurance NV's strategy is embedded in the strategy of the KBC group. A summary is given below of the strategy of the KBC group, where KBC Bank is essentially responsible for the banking business and KBC Insurance for the insurance business. For more detailed information, please see the KBC Group annual report for 2016.

How do we create value? (KBC Group)

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

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

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

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

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

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

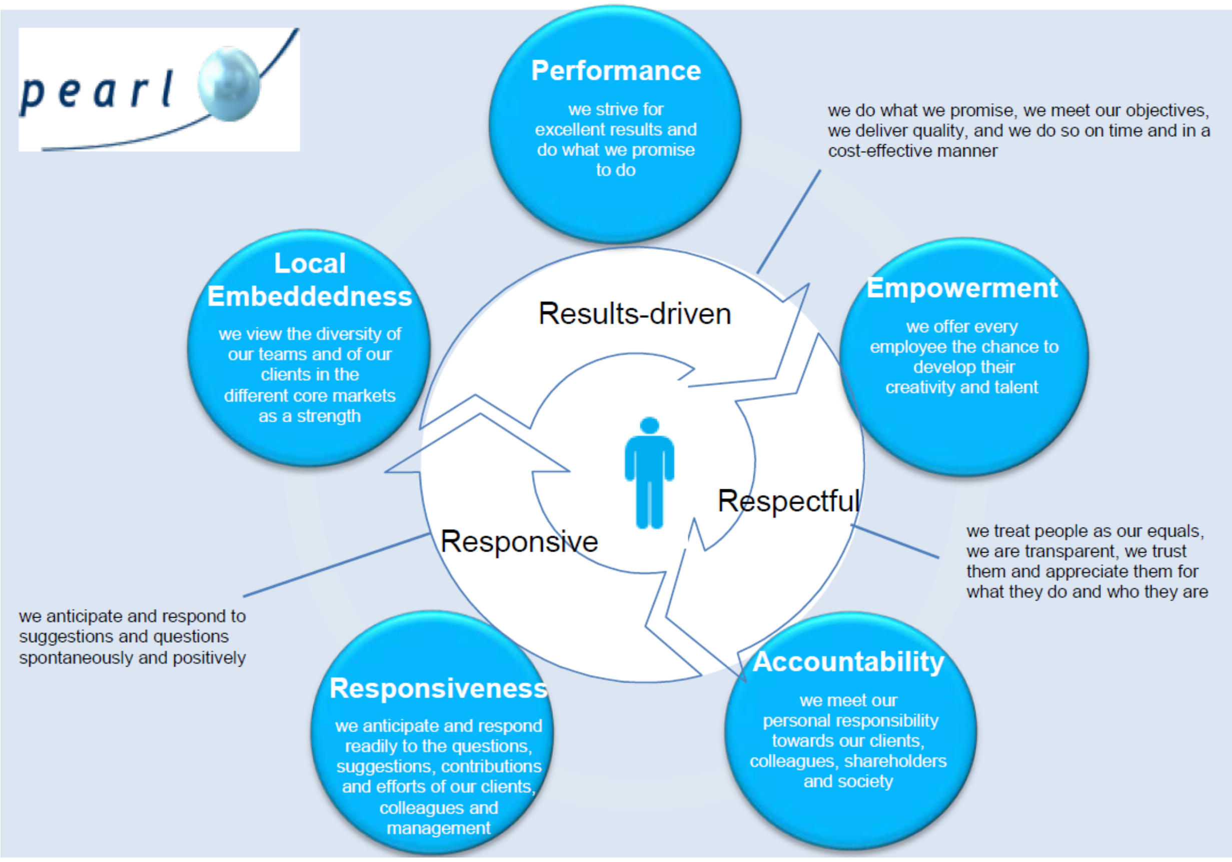
We make an important contribution to employment in all our core markets. We recognise that we have a significant direct impact on the lives of our people. Therefore, we offer them a fair reward for their work, thereby contributing to the welfare of the countries in which we operate. We also offer them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

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

What makes us who we are? (KBC Group)

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

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



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

What differentiates us from our peers?

Our integrated bank-insurance model

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

Our strong geographical focus

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

Our focus on *local responsiveness*

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

Our shareholder structure

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

Our strengths

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

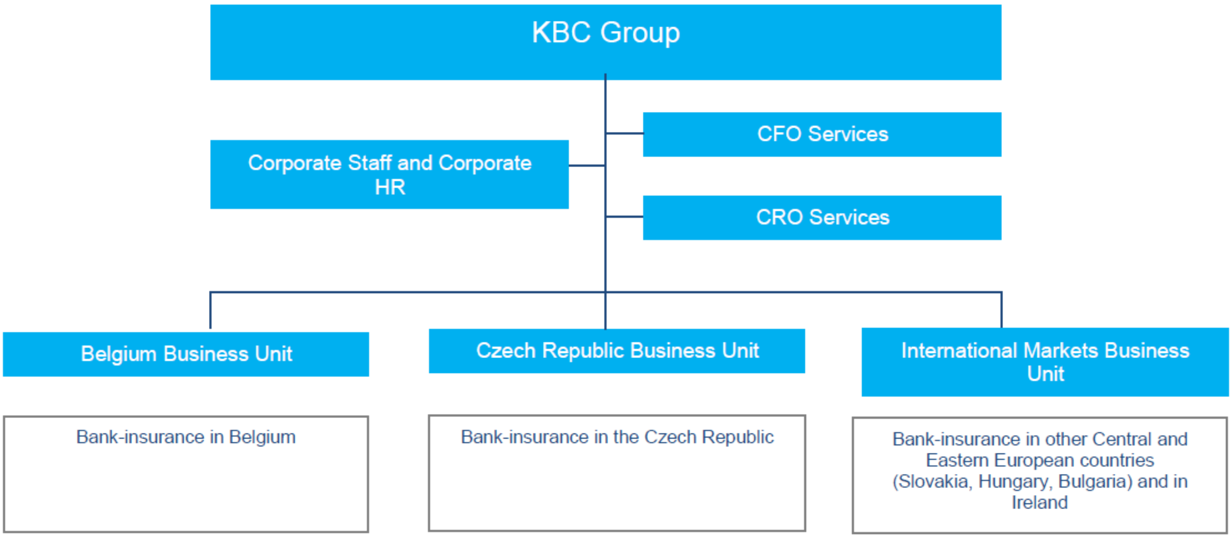
Our challenges

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

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

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

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



In what environment do we operate? (KBC Group)

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

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

Distribution Directive to protect clients from unfair or inappropriate practices. There is also the new European market abuse regime, which extends the scope of the regime, fine-tunes existing rules and introduces new rules on ‘market soundings’. The Audit Regulation introduces special rules, including ones on the appointment and mandatory rotation of the auditor, restrictions on the non-audit services that the auditor may provide and the role of the audit committee in this respect. Various initiatives are currently underway in the area of solvency, mainly in relation to the banking business. The main initiatives relate to the method for calculating risk-weighted assets and the further streamlining of legislation to ensure that shareholders and creditors absorb losses at banks rather than the government. As regards the insurance business, the Solvency II Directive was transposed into Belgian law for application to the status and supervision of (re)insurance companies. Another factor is the new IFRS that have yet to become effective, including IFRS 17 (applies specifically to the insurance business) and especially IFRS 9 (introduces a number of measures, including a new classification system for financial instruments and new impairment rules).	rules and propose the necessary responses in terms, for instance, of the group’s capital planning. • In the case of regulations that will have a major impact on us (such as IFRS 9), internal programmes and working groups have also been set up, in which staff from all the relevant areas can work together. • A special team focuses on contacts with government and regulators. • We participate in working groups at sector organisations, where we analyse draft texts. • We produce memorandums and provide training courses for the business side.
Cyber risk/Information security Hacking and cyber attacks are a constant threat in an increasingly digital world, with the potential to cause significant financial and reputational harm. Our focus is on the optimum protection of both our clients and our group itself.	• We raise our employees’ awareness of cyber risks by providing training in areas like phishing and vishing, and fraud in general. • We work to achieve highly secure and reliable ICT systems and robust data protection procedures, and we constantly monitor our systems and the environment. • We analyse cyber risks from an IT and business perspective, so that we can offer maximum resistance and are able to remedy attacks swiftly and efficiently. We regularly evaluate our action plans and adapt them on the basis of new internal and external information. • A certified Cyber Expertise & Response Team focuses on cyber crime, informs and assists local entities, tests KBC’s defence mechanisms and provides training and cyber-awareness in the group. A group-wide competence centre for information risk management concentrates on the risks associated with information security and cyber crime, and on operational IT risks. • We exchange information, both internally and externally, and are members of the *Belgian Cyber Risk Coalition* – a knowledge and consultative platform consisting of around 50 public and private-sector enterprises and academics. • We also have our entities’ cyber risks and defence mechanisms evaluated on an annual basis by an international team of internal information security experts.

Market conditions in our most important countries in 2016

A summary of our market position and the economic context of our most important countries are given below. KBC Bank also includes Ireland as a most important country.

Belgium

Market environment

- Economic recovery continued in 2016
- Growth supported by domestic demand and net exports, driven by job creation and improved competitiveness
- Further recovery in investment
- Inflation higher than in the rest of the EMU
- Forecast real GDP growth of 1.3% in 2017

KBC Insurance in Belgium

- Main brands: KBC, KBC Brussels and CBC
- 427 insurance agencies, electronic channels, distribution via the bank branches of sister company, KBC Bank
- 13% share of the market for life insurance and 9% for non-life insurance
- 0.8 million clients
- 30.1 billion euros in technical provisions and liabilities under investment contracts

Czech Republic

Market environment

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

KBC Insurance in the Czech Republic

- Main brand: ČSOB
- Various distribution channels for insurance, electronic channels
- 7% share of the market for life insurance and 7% for non-life insurance
- 1.1 million clients
- 1.3 billion euros in technical provisions and liabilities under investment contracts

Slovakia

Market environment

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

KBC Insurance in Slovakia

- Main brand: ČSOB
- Various distribution channels for insurance, electronic channels
- 4% share of the market for life insurance and 3% for non-life insurance
- 0.3 million clients
- 0.3 billion euros in technical provisions and liabilities under investment contracts

Hungary

Market environment

- Real GDP growth suffered from severe negative investment growth
- Household consumption remained robust, however, thanks to sharp increase in wages and employment
- Inflation around 0% throughout the year, but exceeded 1% towards year-end
- Forecast real GDP growth of 3.4% in 2017

KBC Insurance in Hungary

- Main brand: K&H
- Various distribution channels for insurance, electronic channels
- 4% share of the market for life insurance and 6% for non-life insurance
- 1.1 million clients
- 0.4 billion euros in technical provisions and liabilities under investment contracts

Bulgaria

Market environment

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

KBC Insurance in Bulgaria:

- Main brand: DZI Insurance
- Various distribution channels for insurance, electronic channels
- 11% share of the market for life insurance and 10% for non-life insurance
- 0.4 million clients
- 0.2 billion euros in technical provisions and liabilities under investment contracts

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

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

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

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

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

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

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

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

Our activities are only possible if we have a solid capital base. At year-end 2016, KBC Group's total equity came to 17.4 billion euros and chiefly comprised own share capital, share premiums, reserves and certain additional tier-1 instruments. Its capital was represented by 418 372 082 shares at year-end 2016, a small increase of 285 024 shares on the previous year, due to the customary capital increase reserved for staff in December. At year-end 2016, KBC Insurance's total equity was 2.9 billion euros. The KBC Insurance share is not traded on the stock market.
KBC Group is the sole shareholder of KBC Insurance. KBC Group shares are held by a large number of shareholders in a number of countries. A group of shareholders consisting of MRBB, Cera, KBC Ancora and the Other core shareholders, constitute KBC Group's core shareholders. A shareholder agreement was concluded between these core shareholders in order to ensure shareholder stability and guarantee continuity within the group, as well as to support and co-ordinate its general policy. To this end, the core shareholders act in concert at the General Meeting of KBC Group and are represented on its Board of Directors. The current agreement applies for a ten-year period with effect from 1 December 2014. According to the most recent notifications, the core shareholders own approximately 40% of the KBC Group shares between them. More information on the KBC Group's shareholder structure can be found in the KBC Group annual report.

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

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

Our strategy

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

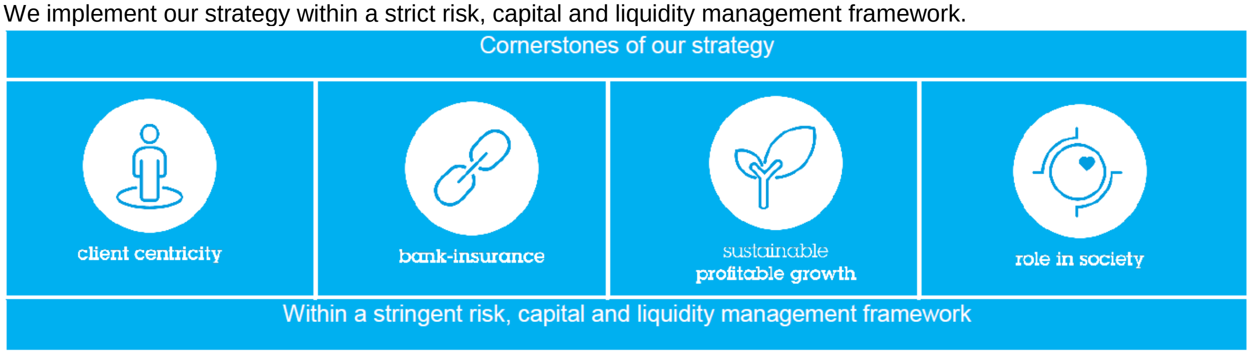
For more detailed information, please see the KBC Group annual report for 2016.

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

Our strategy rests on four principles:

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

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



Sustainability is embedded in our strategy. To us, this primarily means the ability to live up to the expectations of all our stakeholders and to meet our obligations, not just today but also in the future. Our sustainability strategy has three cornerstones:

- Enhancing our positive impact on society
- Limiting any negative impact we might have
- Encouraging responsible behaviour on the part of all our employees

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

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

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

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

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

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

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

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

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

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

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

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

Bank hold at least one KBC Insurance product. About one in five of these households actually held three banking and three insurance products from KBC.

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

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

We focus on sustainable and profitable growth (KBC Group)

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

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

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

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

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

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

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

Focus on responsible and ethical behaviour

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

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

Aiming to enhance our positive impact on society

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

Our focus areas	What?	A few examples:
Financial literacy	• Helping clients make the right choices through good and transparent advice, and clear communication. • Using analysis to understand and respond to clients' behaviour more effectively. • Improving general public knowledge of financial concepts and products.	• ČSOB Education Programme, Education Fund and Blue Life Academy in the Czech Republic. • Promotion of financial education through the national 'K&H Ready, Steady, Money' contest, which tests schoolchildren's financial knowledge in Hungary. • Financial education initiatives in all countries, including seminars, various master's programmes, a range of digital learning packs and internships.
Environmental responsibility	• Reducing our ecological footprint through a diverse range of initiatives and objectives. • Developing products and services that can make a positive contribution to the environment.	• KBC Renovation Loan for Owners' Associations to provide flexible financing solutions for energy saving investments in apartment blocks. • Placing the emphasis on digitisation to reduce paper consumption. • KBC Insurance and KBC Autolease join a sustainable repair network. • Creating KBC Mobility for sustainable and qualitative mobility solutions in Belgium. • CIBANK and DZI in Bulgaria set up a CSR committee, which organises staff workshops on responsible selling of products and is preparing for ISO 14001 environmental certification.

Stimulating entrepreneurship	• Contributing to economic growth by supporting innovative ideas and projects.	• The 'Gap in the Market' campaign in Hungary. • *Start it @KBC*, a major incubator for start-ups in Belgium, and *KBC Match'it*, a digital platform for transferring businesses. • Providing capital for start-ups via the *KBC Start it Fund.* • Supporting local initiatives through the Bolero crowdfunding platform. • Encouraging clients to take the step to e-commerce via *Storesquare*, *Farmcafé* and similar initiatives. • Realising various European programmes to support small and micro businesses and SMEs. • Strengthening our partnership with the Belgian Raiffeisen Foundation to promote microfinance and microinsurance in developing countries.
Demographic ageing and health	• We have opted for 'demographic ageing' as our fourth pillar in Belgium and the Czech Republic. This requires us to adapt our policy and our range of products and services to the fact that people are living longer and to make a positive contribution to the issues surrounding an ageing population by offering specific solutions through our core activities. • We chose 'health' as the fourth pillar in Bulgaria, Slovakia, Hungary and Ireland. These core countries will develop products, services and projects geared towards improving general health, healthcare and quality of life.	• ČSOB is collaborating with the Centre of Health Economics and Management at the Faculty of Social Sciences at the Charles University in Prague. • Launching *Happy@Home*, a joint venture between KBC, the service provider ONS and the software firm CUBIGO to make domestic assistance readily available (home help, odd-job work and other services). • Providing financial and material assistance to sick children through the *K&H MediMagic Programme* in Hungary. • Launching awareness campaigns in various countries in areas such as sports, health and well-being, road safety and child protection, and developing insurance products related to health and personal risks.

Limiting any negative impact we might have on society

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

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

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

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

2016 (KBC Group)

637 thousand GJ of electricity used

354 thousand GJ of gas and heating oil used

321 million km in commuter and business travel

3 857 tonnes of paper used

93 thousand tonnes of CO_2e emissions

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

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

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

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

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

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

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

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

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

Review of the consolidated financial statements under IFRS

- We review the consolidated results in this section of the annual report. The non-consolidated financial statements and balance sheet can be found in the ‘Company annual accounts’ section.
- The overall impact on the net result of fluctuations in the exchange rates of the main non-euro currencies was negligible.
- KBC Insurance and KBC Bank use the same consolidated income statement and balance sheet schedules as their parent company KBC Group. That is a reflection of the KBC group as integrated bank-insurer.

Consolidated income statement

The consolidated income statement of the KBC Insurance group is as follows:

In millions of EUR	2016	2015	Change in amount	Change in %
Net interest income	614	636	- 21	-3%
Interest income	654	660	- 6	-1%
Interest expense	- 39	- 24	- 15	65%
Non-life insurance before reinsurance	641	626	16	2%
Earned premiums Non-life	1 428	1 338	90	7%
Technical charges Non-life	- 787	- 713	- 74	10%
Life insurance before reinsurance	- 153	- 202	49	-24%
Earned premiums Life	1 579	1 303	276	21%
Technical charges Life	- 1 731	- 1 505	- 227	15%
Ceded reinsurance result	- 38	- 29	- 9	32%
Dividend income	66	71	- 5	-7%
Net result from financial instruments at fair value through profit or loss	- 10	- 9	- 1	6%
Net realised result from available-for-sale assets	56	108	- 51	-48%
Net fee and commission income	- 301	- 262	- 39	15%
Fee and commission income	126	164	- 38	-23%
Fee and commission expense	- 427	- 426	0	0%
Net other income	101	77	25	32%
TOTAL INCOME	978	1 014	- 37	-4%
Operating expenses	- 457	- 428	- 29	7%
Staff expenses	- 224	- 213	- 12	5%
General administrative expenses	- 217	- 200	- 17	8%
Depreciation and amortisation of fixed assets	- 16	- 16	0	2%
Impairment	- 55	- 69	14	-20%
on loans and receivables	0	0	0	-
on available-for-sale assets	- 55	- 34	- 20	59%
on goodwill	0	- 34	34	-100%
on other	- 1	- 1	0	-12%
Share in results of associated companies and joint ventures	4	3	1	28%
RESULT BEFORE TAX	469	520	- 51	-10%
Income tax expense	- 135	- 148	13	-9%
RESULT AFTER TAX	334	372	- 38	-10%
Attributable to minority interest	0	0	0	-28%
Attributable to equity holders of the parent	**334**	**372**	**- 38**	**-10%**

Net result

The consolidated result of the KBC Insurance group came to 334 million euros in 2016, as opposed to a year-earlier figure of 372 million euros.

This decline of -38 million euros came about primarily because of the lower net realised result from available-for-sale assets, higher operating expenses and lower level of net income, partly offset by higher earned premiums in the non-life segment, and a lower level of impairment:

- Overall, earned premiums in non-life insurance went up by 7%, with all entities recording an increase. Technical charges were 10% higher than in 2015, due mainly to the absence of natural disasters in 2015, whereas 2016 was affected by a number of storms and floods, and by claims following the Brussels terrorist attacks in March. As regards these attacks, KBC Insurance's share of the total market loss (via TRIP) came to 16.5 million euros. The ceded reinsurance result was not enough to offset the higher total level of claims incurred in 2016. This resulted in what is still as very favourable combined ratio of 93.2% (as opposed to 91.0% for financial year 2015).
- Earned premiums in life insurance amounted to 1 579 million euros in 2016. However, in compliance with IFRS, certain types of life insurance (i.e. unit-linked products) have been excluded from this figure. If the premium income from such products is included, premium income from the life insurance business totalled over 2.1 billion euros, 18% higher than in 2015. Interest generated by both guaranteed-rate products and unit-linked products rose, caused in part by commercial campaigns and the relative attractiveness of the interest rate for guaranteed-rate products.
- Investment income fell sharply on its level for 2015, which reflected primarily the decline in realised gains and the lower level of interest income (owing to the general financial climate of low interest rates). Dividend income dropped slightly.
- Operating expenses were up 7% on their 2015 level, due to the increase in staff expenses and general administrative expenses (including a one-off outlay for early retirement in Belgium, higher KBC Group-related charges and higher marketing costs).
- Impairment on available-for-sale assets totalling 55 million euros was recorded in 2016, an increase of 59% on the lower level in 2015.
- During the last quarter of 2015, impairment on goodwill in respect of DZI Insurance in Bulgaria was recognised (-34 million euros), prompted by higher local capital requirements resulting from the transition from Solvency I to Solvency II, and the use of a higher discount rate.
- Group divestments had a positive impact of +15 million euros in 2015 (including the liquidation of PTE Warta).

Review of the technical and non-technical results

In millions of EUR	Life	Non-life	Non-technical account	TOTAL
12M 2016				
Earned premiums, insurance (before reinsurance)	1 579	1 428		3 007
Technical charges, insurance (before reinsurance)	- 1 731	- 787		- 2 519
Net fee and commission income	- 29	- 272		- 301
Ceded reinsurance result	- 1	- 37		- 38
Operating expenses	- 132	- 239	- 3	- 374
Internal costs claim paid	- 8	- 54		- 62
Administration costs related to acquisitions	- 32	- 80		- 112
Administration costs	- 92	- 105		- 197
Management costs investments	0	0	- 3	- 3
Technical result	- 315	94	- 3	- 224
Net interest income			614	614
Dividend income			66	66
Net result from financial instruments at fair value			- 10	- 10
Net realised result from AFS assets			56	56
Net other income			18	18
Impairments			- 55	- 55
Allocation to the technical accounts	578	73	- 651	0
Technical-financial result	263	167	35	465
Share in results of associated companies and joint ventures			4	4
RESULT BEFORE TAX	263	167	39	469
Income tax expense				- 135
RESULT AFTER TAX				334
attributable to minority interest				0
attributable to equity holders of the parent				334
12M 2015				
Earned premiums, insurance (before reinsurance)	1 303	1 338	0	2 642
Technical charges, insurance (before reinsurance)	- 1 505	- 713	0	- 2 218
Net fee and commission income	- 15	- 247	0	- 262
Ceded reinsurance result	- 2	- 27	0	- 29
Operating expenses	- 116	- 227	- 3	- 346
Internal costs claim paid	- 7	- 53	0	- 60
Administration costs related to acquisitions	- 29	- 77	0	- 107
Administration costs	- 80	- 96	0	- 176
Management costs investments	0	0	- 3	- 3
Technical result	- 334	125	- 3	- 212
Net interest income			636	636
Dividend income			71	71
Net result from financial instruments at fair value			- 9	- 9
Net realised result from AFS assets			108	108
Net other income			- 6	- 6
Impairments			- 69	- 69
Allocation to the technical accounts	593	103	- 696	0
Technical-financial result	259	228	31	517
Share in results of associated companies and joint ventures			3	3
RESULT BEFORE TAX	259	228	34	520
Income tax expense				- 148
RESULT AFTER TAX				372
attributable to minority interest				0
attributable to equity holders of the parent				372

Results from the non-life insurance business

At 167 million euros, the results generated by the non-life insurance business were almost 27% lower than those posted for 2015 (a very solid 228 million euros).

In 2016, earned premiums in non-life insurance totalled 1 428 million euros, a (considerable) increase of virtually 7% on the year-earlier figure. They grew by 5% in Belgium, by 8% in the Czech Republic, and by 17% in the three other Central and Eastern European markets combined. The increase was recorded primarily in (both third-party and comprehensive) 'car insurance' and in 'fire insurance' and 'general third-party liability'. These classes of insurance, along with 'accident' and 'health', accounted for 85% of earned non-life premiums.

Technical charges on non-life insurance came to -787 million euros in 2016. The 10% increase was attributable to the insurance group's share of the market loss following the terrorist attacks in Brussels in March 2016 (KBC Insurance's share of claims in TRIP totalled 16.5 million euros), and to the various storms and floods, occurring mainly in Belgium in 2016 (whereas there had been no large natural disasters of note in 2015).

The ceded reinsurance result was negative. In 2016, net sums recouped from reinsurers were lower than in 2015.

General administrative expenses went up by 5%, primarily because of higher administration expenses.
Despite the fact that technical charges were higher than their year-earlier level, the combined ratio at group level came to a favourable 93.2% (compared with an excellent 91.0% in 2015). The combined ratio in all markets was below 100%.

In millions of EUR	2016	2015
Net claim ratio	60,5%	58,2%
Net cost ratio (vs written premium)	32,7%	32,9%
Net combined ratio	93,2%	91,0%

Results from the life insurance business
At 263 million euros, the results generated by the life insurance business were almost 2% higher than those posted for 2015 (259 million euros).

In 2016, earned premiums in life insurance totalled 1 579 million euros, a significant increase of 21% on the year-earlier figure.

Sales of life insurance (including unit-linked products) were up 18% on the previous year, with increases in Belgium (+21%) and the Czech Republic (+12%). Both countries returned higher sales of unit-linked products, and Belgium also sold substantially more single premium, guaranteed-rate products. The other Central and Eastern European markets equalled their volumes of premium income for 2015. Overall, products offering guaranteed rates accounted for just over 60% of premium income from the life insurance business in 2016, and unit-linked products for almost 40%.

The lower financial result (578 million compared to 593 million euros in 2015) was due primarily to the decline in interest income because of the lower return on the fixed-income portfolio (attributable in turn to lower reinvestment yields) and the lower net realised result from available-for-sale assets. This lower financial result was partially offset, however, by higher net income (due mainly to a large, reinsured savings policy being surrendered, the gains from which were transferred to the client via technical charges) and lower impairment (on available-for-sale assets).

Non-technical result
The non-technical result (+39 million euros) in 2016 was up slightly on its year-earlier level and did not include any exceptional items.

Income tax expense
The income tax expense for 2016 totalled -135 million euros, or almost 29%, which is comparable with its level for 2015.

Consolidated balance sheet

ASSETS (in millions of EUR)	31-12-2016	31-12-2015	Change in amount	Change in %
Cash and cash balances with central banks	0	0	0	-
Financial assets	37 373	37 042	331	0,9%
Held for trading	15	25	- 10	-38,8%
Designated at fair value through profit or loss	13 702	13 335	368	2,8%
Available for sale	15 718	15 552	166	1,1%
Loans and receivables	2 510	2 512	- 2	-0,1%
Held to maturity	5 412	5 593	- 180	-3,2%
Hedging derivatives	16	26	- 10	-39,7%
Reinsurers' share in technical provisions	110	127	- 17	-13,1%
Fair value adjustments of hedged items in portfolio hedge of interest rate risk	0	0	0	-
Tax assets	21	20	0	1,8%
Current tax assets	10	10	0	2,8%
Deferred tax assets	11	11	0	0,9%
Non-current assets held for sale and assets associated with disposal groups	0	0	0	0,0%
Investments in associated companies and joint ventures	45	40	6	14,2%
Investment property	210	222	- 12	-5,4%
Property and equipment	48	48	1	1,4%
Goodwill and other intangible assets	124	124	0	0,0%
Other assets	874	847	27	3,2%
TOTAL ASSETS	38 806	38 469	337	0,9%

LIABILITIES AND EQUITY (in millions of EUR)	31-12-2016	31-12-2015	Change in amount	Change in %
Financial liabilities	14 955	14 967	- 13	-0,1%
Held for trading	34	42	- 9	-20,5%
Designated at fair value through profit or loss	12 653	12 387	266	2,1%
Measured at amortised cost	2 196	2 480	- 284	-11,5%
Hedging derivatives	73	58	14	24,8%
Technical provisions, before reinsurance	19 737	19 613	124	0,6%
Fair value adjustments of hedged items in portfolio hedge of interest rate risk	0	0	0	-
Tax liabilities	456	448	8	1,7%
Current tax liabilities	57	13	44	-
Deferred tax liabilies	399	435	- 36	-8,3%
Provisions for risks and charges	10	10	1	7,5%
Other liabilities	711	616	96	15,6%
TOTAL LIABILITIES	35 869	35 654	215	0,6%
Total equity	2 936	2 815	121	4,3%
Parent shareholders' equity	2 937	2 815	121	4,3%
Minority interests	0	0	0	0,0%
TOTAL LIABILITIES AND EQUITY	38 806	38 469	337	0,9%

At the end of 2016, the consolidated total assets of KBC Insurance came to 38 806 million euros, up 0.9% year-on-year. Investments related to unit-linked products and the securities portfolio (bonds and shares) together made up almost 90% of the assets.

Loans and receivables

Mortgage loans rose by 319 million euros year-on-year (because of the purchase of loans granted to private individuals by KBC Bank NV). This movement was largely offset by the lower level of amounts receivable from credit institutions.

Securities portfolio (excluding investments related to unit-linked products)

In millions of EUR	31-12-2016	31-12-2015
Available for sales	15 718	15 552
Held to Maturity	5 412	5 593
Total	21 130	21 145
Shares	6,2%	7,3%
Bonds	93,8%	92,7%

The securities portfolio (excluding investments related to unit-linked products) remained more or less stable, with most of the portfolio continuing to be invested in bonds.

Technical provisions and financial liabilities for unit-linked products

Financial liabilities related to unit-linked products rose by just over 2% (an increase of 266 million euros), primarily because of positive price trends.

Technical provisions for life insurance remained on a par with their year-earlier level.

In millions of EUR	31-12-2016	31-12-2015	Change in amount	Change in %
Liabilities Unit Linked	12 653	12 387	266	2,1%
Technical provisions, before reinsurance (other than Unit Linked)	19 737	19 613	124	0,6%
Provisions Non Life	3 280	3 153	127	4,0%
Provisions Life	16 456	16 460	-4	0,0%
TOTAL	32 390	32 000	390	1,2%

The reinsurers' share in the technical provisions fell by 17 million euros.

Other financial liabilities

The financial liabilities measured at amortised cost concerned liabilities relating to repos with KBC Bank NV and the replacement of shareholder capital with a subordinated loan (in the amount of 500 million euros), issued by KBC Group in 2015, as part of the exercise to further optimise KBC Insurance's capital structure.

Equity

In millions of EUR	31-12-2016	31-12-2015
Total parent shareholders' equity	2 936	2 815

Consolidated equity went up by 121 million euros, with a number of items offsetting each other, as shown in the table below.

In millions of EUR	31-12-2016
Total change in parent shareholders' equity	121
Share of the group in profit for the period	334
Dividends paid	- 271
Unrealized gains and losses	58
Capital reduction	0

These items were:

- a payment of an interim dividend for 2016 in the amount of 200 million euros and a final dividend of 71 million euros in relation to the previous financial year;
- an increase in the revaluation reserve for available-for-sale assets (after tax) of +77 million euros, comprising +53 million euros on shares and +24 million euros on bonds, offset in part by a lower hedging value (-7 million euros) and a change in defined benefit plans (-11 million euros);
- the result of 334 million euros for the financial year.

A detailed overview of changes in equity is provided under 'Consolidated statement of changes in equity' in the 'Consolidated financial statements' section.

Solvency (according to Solvency II)

In millions of EUR	31-12-2016	31-12-2015
Available capital	3 637	3 683
Solvency Capital Requirement (SCR)	1 791	1 592
Solvency II ratio	203%	231%
Solvency surplus	1 846	2 091

The somewhat lower level of available capital, combined with a higher required solvency margin, led to a ratio that, although lower than in the previous year, is still very favourable. The lower ratio is due primarily to an adjustment for deferred taxes being treated differently (following specific rules that were set by the National Bank of Belgium in this regard), a number of legal amendments (including in relation to volatility adjustment), and the impact of the environment of lower interest rates.

Appropriation of the results of KBC Insurance NV for 2016

The result available for appropriation came to +306 million euros for financial year 2016 based on the unconsolidated annual accounts. The Board of Directors will propose to the General Meeting that 303.4 million euros be paid out in dividends and 2.6 million euros in the form of an employee profit-sharing bonus. In this regard, an interim dividend of 200 million euros was already paid in the fourth quarter of 2016.

Circumstances that could significantly affect the company's development

Conducting insurance business involves typical risks such as credit risk, market risk, liquidity risk, insurance technical risks and operating risk. Managing those risks is one of management's key tasks. For more information on managing risk, see the 'Risk management' section.

Research & development

We must continue to respond as a group to the shifting needs of our clients and to constantly changing market conditions. The commercial relationship with our clients is increasingly shaped by a strict legal framework that aims to protect them and defend their interests. Compliance with these rules is naturally the minimum requirement. However, trust in KBC will be determined chiefly by client experience and how they perceive KBC’s service.

Information on branch offices

KBC Insurance does not have any branch offices.

Additional information

Information on financial instruments, hedge accounting and the use thereof is provided in the ‘Consolidated financial statements’ section (Notes 1.2, 3.3, and 4.1–4.10 among others) and in the ‘Risk management’ section.

Risk management and capital adequacy

KBC Insurance is exposed to a number of typical industry-specific risks such as movements in interest rates and exchange rates, insurance underwriting risk, credit risk & operational risks, etc.
In this section, we focus on our risk governance model and the most material sector-specific risks we face. The general risks (relating to the macroeconomic situation, competition, regulations, etc.) are described in the 'Our business model' section.
More detailed information can be found in the Solvency and Financial Condition Report (SFCR), that will be available end of May 2017 and in KBC's Risk Report, which is available at www.kbc.com (the risk report has not been audited by the statutory auditor).

Specific information on the insurance activities can be found in Notes 3.7 and 5.6 in the 'Consolidated financial statements' section.

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

- the 'Risk governance' section;
- the 'Solvency KBC Insurance table (the audited parts are indicated in a footnote to the table), ORSA' and 'Stress testing'
- the 'Technical insurance risk' section.
- parts of the 'Market risk in non-trading activities' section: the introduction, 'Managing market risk in non-trading activities', 'Interest rate risk' (except for the 'Impact of a parallel 10-basis-point increase in the yield curve for the KBC Insurance ' table and the 'Breakdown of the reserves for non-unit-linked life insurance by guaranteed interest rate, insurance activities' table, 'Foreign exchange risk' and Overview of exposure to sovereign Bonds.
- certain parts of the 'Credit risk' section: namely the introduction, the 'Investment portfolio of KBC insurance ' table and the 'Credit exposure to (re)insurance companies by risk class' table.

Risk governance

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

Main elements in our risk governance model:

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

Relevant risk management bodies and control functions:

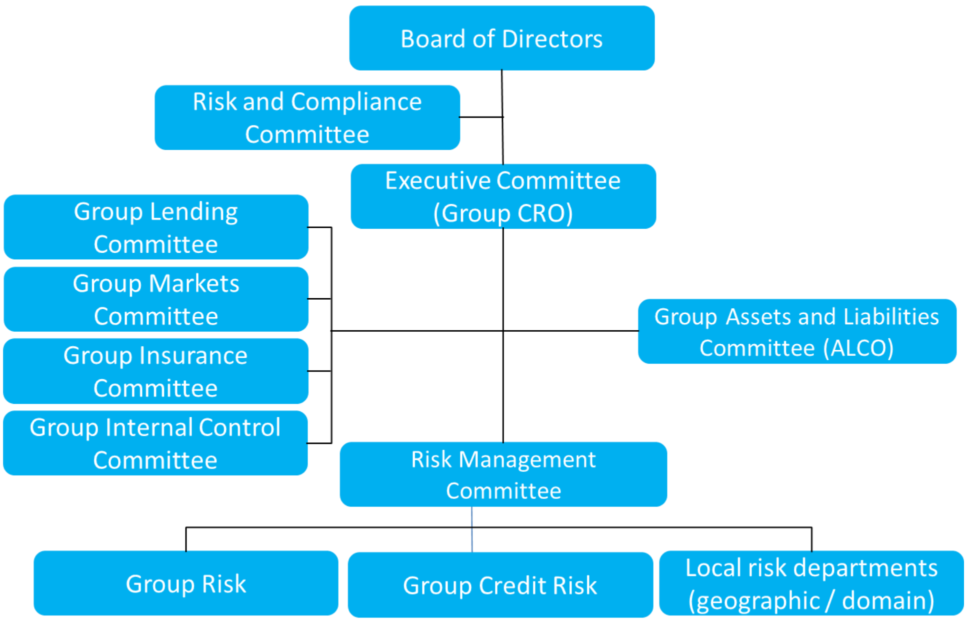
- Executive Committee:
  - makes proposals to the Board of Directors about risk and capital strategy, risk appetite, and the general concept of the risk management framework;
  - decides on the non-strategy-related building blocks of the risk management framework and monitors its implementation throughout the group;
  - allocates capital to activities in order to maximise the risk-adjusted return;

- acts as the leading risk committee, covering material issues that are channelled via the specific risk committees or the Group Assets & Liabilities Committee (Group ALCO);
- monitors the group's major risk exposure to ensure conformity with the risk appetite.

- Group ALCO:
  - is a business committee that assists the Executive Committee in the domain of (integrated) balance sheet management at group level. It handles matters related to ALM and liquidity risk.
- Risk committees:
  - The Risk Management Committee supports the Executive Committee in assessing the adequacy of, and compliance with, the KBC Risk Management Framework and defines and implements the vision, mission and strategy for the CRO Services of the KBC group.
  - The activity-based Group Risk Committees (for lending, markets and insurance, respectively) support the Executive Committee in setting and monitoring limits for these activities at group level. Liquidity and ALM issues related to these activities are addressed by the Group ALCO.
  - The Group Internal Control Committee (GICC) supports the Executive Committee in monitoring and strengthening the quality and effectiveness of KBC's internal control system.
- In order to strengthen the voice of the risk function and to ensure that the decision-making bodies of the business entities are appropriately challenged on matters of risk management and receive expert advice, KBC has deployed independent Chief Risk Officers (CROs) throughout the group according to a logical segmentation based on entity and/or business unit. Close collaboration with the business is assured since they take part in the local decision-making process and, if necessary, can exercise a veto. Independence of the CROs is achieved through a direct reporting line to the Group CRO.
- Group Risk and Group Credit Risk (known collectively as 'the Group risk function') have a number of responsibilities, including monitoring risks at an overarching group-wide level, developing risk and capital models (while business models are developed by business), performing independent validations of all risk and capital models, developing risk frameworks and advising/reporting on issues handled by the Executive Committee and the risk committees. When appropriate, dedicated working groups comprising risk and business-side representatives are set up to deal with emerging risks or unexpected developments in an integrated way (covering all risk types).

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

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



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

Risk appetite

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

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

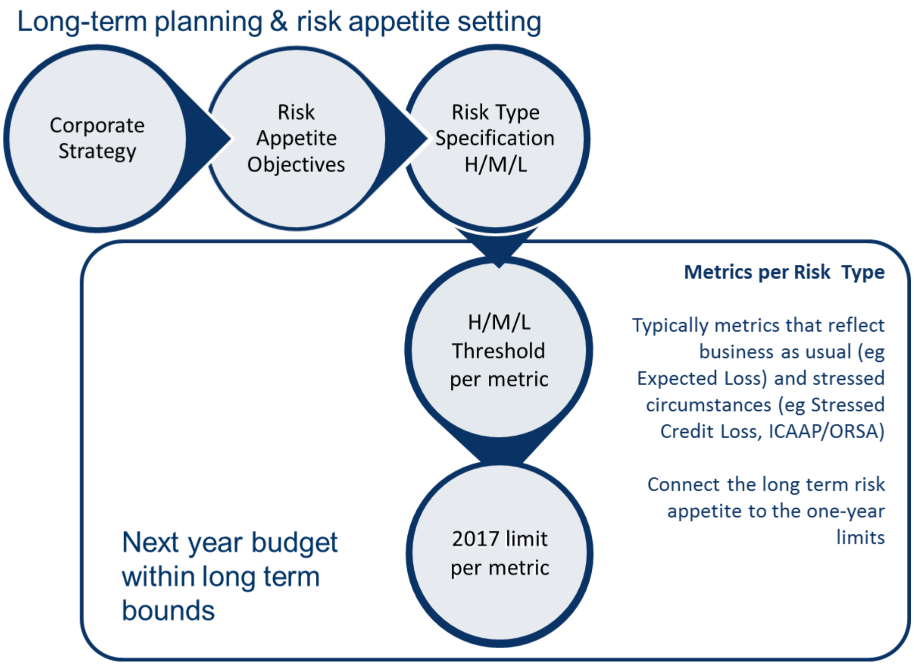
KBC defines risk appetite as the amount and type of risk that it is able and willing to accept in pursuit of its strategic objectives.

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

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

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

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



The statement is based on risk appetite objectives that are directly linked to corporate strategy and provide a qualitative description of the KBC group's playing field. These high-level risk appetite objectives are then specified for the different types of risk. For each type, the risk appetite for 2017-2019 is categorised as High (H), Medium (M) or Low (L) based on key metrics and also based on pre-defined thresholds per metric. The risk appetite specification and related thresholds per metric for 2017-2019 define KBC's long-term upper boundary for the full planning cycle. The specific 2017 limits per risk type correspond to the long-term upper limit, but can be set lower. The limits are further cascaded down via (primary) limits imposed on the entities by KBC Group NV. More information in this regard is available in KBC's Risk Report, which can be obtained from www.kbc.com.

Solvency of KBC Insurance

In the table below, we have provided certain solvency information for KBC Insurance.

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

Solvency II, KBC Insurance consolidated *

In millions of EUR	31-12-2016	31-12-2015
Own Funds	3 637	3 683
Tier 1	3 137	3 180
IFRS Parent shareholders equity	2 936	2 815
Dividend payout	- 103	- 71
Deduction intangible assets and goodwill (after tax)	- 123	- 123
Valuation differences (after tax)	349	416
Volatility adjustment	120	195
Other	- 42	- 53
Tier 2	500	503
Subordinated liabilities	500	503
Solvency Capital Requirement (SCR)	1 791	1 592
Market risk	1 589	1 472
Non-life	531	498
Life	608	594
Health	181	173
Counterparty	87	83
Diversification	- 881	- 840
Other	- 323	- 389
Solvency II ratio	203%	231%
Solvency surplus vs 100%	1 846	2 091

*not audited

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

- the adjustment for deferred taxes in the capital requirements being treated differently. In April 2016, the National Bank of Belgium issued specific rules that limit this adjustment to the amount of net deferred tax liabilities on the economic balance sheet. Disregarding these Belgian rules, the Solvency II ratio at year-end 2016 equalled 214%. The Solvency II ratio at 31 December 2015 in the table above also incorporates application of the Belgian rules, the impact of which was negligible at that time
- various (technical) legislative changes that further refine the Solvency II calculation, such as the stricter treatment of loans guaranteed by local authorities (impact of around -10% on the Solvency II ratio) and the updated volatility adjustment imposed by EIOPA (impact of around -5% on the Solvency II ratio).
- decreasing interest rates, which have a negative impact on the Solvency II ratio, given that the average maturity of the assets is lower than that of the liabilities. The available capital in Solvency II is based on the full fair value of balance sheet items. Lower interest rates increase the fair value of technical liabilities, but this is only partly offset on the assets side and, therefore, reduces the available capital. The Belgian rules on the adjustment for deferred taxes reinforce this impact via a higher level of required capital. However, the negative impact of decreasing interest rates is counterbalanced by the annual actuarial update of the liabilities cash flow models.

ORSA

In addition to the integrated approach at group level, KBC Insurance and its insurance and reinsurance subsidiaries have conducted an Own Risk and Solvency Assessment (ORSA) on a regular basis, in accordance with Solvency II requirements. Similar to ICAAP, the aim of the ORSA is to monitor and ensure that business is managed in a sound and prudent way and that the KBC Insurance group is adequately capitalised in view of its risk profile and the quality of its risk management and control environment. The ORSA process draws to a large extent on the same 'core processes' as the

ICAAP and includes APC, risk appetite setting and ongoing business, risk and capital management processes. Where necessary, these processes are enhanced to take account of the specific nature of the (re)insurance activities and to comply with Solvency II requirements.

Stress testing

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

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

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

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

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

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

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

Technical insurance risk

Managing technical insurance risk

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

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

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

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

Risk Modelling

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

Reinsurance

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

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

Adequacy of technical provisions

As part of its mission to independently monitor insurance risks, the Group risk function regularly carries out in-depth studies. These confirm that there is a high degree of probability that the non-life technical provisions at subsidiary level are adequate. In addition, various group companies conduct Liability Adequacy Tests (LAT) that meet local and IFRS requirements for the life technical provisions. We make calculations using prospective methods (cashflow projections that take account of lapse rates and a discount rate that is set for each insurance entity based on local macroeconomic conditions and regulations), and build in extra market-value margins to deal with the factor of uncertainty in a number of parameters. Since no deficiencies were identified by year-end 2016, there was no need for a deficiency reserve to be set aside within the KBC group.

The table below shows claims settlement figures in the non-life business over the past few years and includes KBC Insurance NV, ČSOB Pojišťovna (Czech Republic), ČSOB Poisťovňa (Slovakia), DZI Insurance (from financial year 2008), K&H Insurance, and KBC Group Re. All provisions for claims to be paid at the close of 2016 have been included. The claims-settlement figures incorporate all amounts that can be allocated to individual claims, including the Incurred But Not Reported (IBNR) and Incurred But Not Enough Reserved (IBNER) provisions, and the external claims handling expenses, but do not include internal claims settlement expenses and provisions for amounts expected to be recovered. The provision figures included are before reinsurance and have not been adjusted to eliminate intercompany amounts. The first row in the table shows the total claims burden (claims paid plus provisions) for the claims that occurred during a particular year, as estimated at the end of the year of occurrence. The following rows indicate the situation at the end of the subsequent calendar years. We restated the amounts to reflect exchange rates at year-end 2016.

Loss triangles, KBC Insurance (in millions of EUR)	Year of occurrence 2007	Year of occurrence 2008*	Year of occurrence 2009	Year of occurrence 2010	Year of occurrence 2011	Year of occurrence 2012	Year of occurrence 2013	Year of occurrence 2014	Year of occurrence 2015	Year of occurrence 2016
Estimate at the end of the year of occurrence	687	792	824	871	810	849	916	994	948	1 049
1 year later	621	755	720	774	711	742	770	883	802	–
2 years later	587	726	668	723	655	706	700	828	–	–
3 years later	565	713	650	719	636	682	677	–	–	–
4 years later	561	708	633	714	624	668	–	–	–	–
5 years later	556	701	626	705	617	–	–	–	–	–
6 years later	549	675	619	699	–	–	–	–	–	–
7 years later	549	671	616	–	–	–	–	–	–	–
8 years later	548	664	–	–	–	–	–	–	–	–
9 years later	548	–	–	–	–	–	–	–	–	–
Current estimate	548	664	616	699	617	668	677	828	802	1049
Cumulative payments	480	604	535	612	526	535	552	631	512	381
Current provisions	66	60	81	87	91	132	125	197	291	668

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

Actuarial function

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

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

Concentration of insurance risk

The underwriting risks mainly concern risks geographical located in Belgium and mostly expressed in euro. More information on Life and Non-Life Insurance is provided under notes 3.7 and 5.6 of the Consolidated financial statement section.

Managing ALM risk

Managing market risk in non-trading activities

> ### What is it?
> The process of managing our structural exposure to market risks (including interest rate risk, equity risk, real estate risk, foreign exchange risk and inflation risk) is also known as Asset/Liability Management (ALM).
> 'Structural exposure' encompasses all exposure inherent in our commercial activity or in our long-term positions (banking and insurance). Trading activities are consequently not included. Structural exposure can also be described as a combination of:
> - mismatches in the insurance activities between liabilities in the non-life and life businesses and the cover for these liabilities present in the investment portfolios held for this purpose;
> - the risks associated with holding an investment portfolio for the purpose of reinvesting shareholders' equity (the so-called strategic position);
> - the structural currency exposure stemming from the activities abroad (investments in foreign currency, results posted at branches or subsidiaries abroad, foreign exchange risk linked to the currency mismatch between the insurer's liabilities and its investments).

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

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

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

The main building blocks of KBC's ALM Risk Management Framework are:
- a broad range of risk measurement methods such as Basis-Point-Value (BPV), gap analysis and economic sensitivities;
- net interest income simulations performed under a variety of market scenarios. Simulations over a multi-year period are used in budgeting and risk processes;
- capital sensitivities arising from banking book positions that impact available regulatory capital (e.g., available-for-sale bonds).
- Stress testing and sensitivity analysis

Interest rate risk

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

Impact of a parallel 10-basis-point increase in the swap[2] curve for KBC Insurance (in millions of EUR)	Impact on value[1] 2016	2015
Total	5	10

1 Full market value, regardless of accounting classification or impairment rules.
2 From 2016 – and in accordance with changing market standards – sensitivity figures are based on a risk-free curve (swap curve).

Where the group's insurance activities are concerned, the fixed-income investments for the non-life reserves are invested with the aim of matching the projected payout patterns for claims, based on extensive actuarial analysis.
The non-unit-linked life activities (class 21) combine a guaranteed interest rate with a discretionary participation feature (DPF) fixed by the insurer. The main risks to which the insurer is exposed as a result of such activities are a low-interest-rate risk (the risk that return on investments will drop below the guaranteed level) and a risk that the investment return will not be sufficient to give customers a competitive profit-sharing rate. The risk of low interest rates is managed via a cashflow-

matching policy, which is applied to that portion of the life insurance portfolios covered by fixed-income securities. Unit-linked life insurance investments (class 23) are not dealt with here, since this activity does not entail any market risk for KBC.

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

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

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

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

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

Credit spread risk

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

Exposure to sovereign bonds at year-end 2016, carrying value[1] (in millions of EUR)								
Total (by portfolio)								Economic impact of +100 basis points[3]
	Available for sale	Held to maturity	Designated at fair value through profit or loss	Loans and receivables	Held for trading	Total	*For comparison purposes: total at year-end 2015*	
KBC core countries								
Belgium	3 341	1 411	0	0	0	4 752	*4 694*	-380
Czech Rep.	378	350	0	0	0	728	*690*	-47
Hungary	102	82	0	0	0	185	*173*	-8
Slovakia	253	130	0	0	0	383	*394*	-22
Bulgaria	144	15	0	0	1	161	*158*	-11
Ireland	68	39	0	0	0	107	*133*	-5
Southern Europe								
Greece	0	0	0	0	0	0	*0*	0
Portugal	113	0	0	0	0	113	*120*	-7
Spain	325	0	0	0	0	325	*321*	-19
Italy	718	35	0	0	0	753	*769*	-56
Other countries								
France	1 057	895	0	0	0	1 952	*1 641*	-176
Poland	293	54	0	0	0	347	*291*	-22
Germany	111	453	0	0	0	564	*640*	-34
Austria	120	200	0	0	0	320	*342*	-25
Netherlands	102	134	0	0	0	236	*288*	-15
Rest[2]	677	324	0	0	0	1 001	*937*	-65–
Total carrying value	7 803	4 122	0	0	1	11 926	*11 591*	–
Total nominal value	6 846	4 091	0	0	1	10 938	*10 651*	–

1 The carrying amount refers to the amount at which an asset or liability is recognised in the company's books. i.e. the fair value amount for instruments categorised as available for sale, designated at fair value through profit or loss and held for trading and the amortised cost amount for instruments categorised as held to maturity. The table exludes exposure to supranational entities of selected countries. No material impairment on the government bonds in portfolio.
2 Sum of countries whose individual exposure is less than 0.1 billion euros at year-end 2016.
3 Theoretical economic impact in fair value terms of a parallel 100-basis-point upward shift in the spread over the entire maturity structure (in millions of euros). Only a portion of this impact is reflected in profit or loss and/or equity

Main changes in 2016:
- The carrying value of the total sovereign bond exposure increased by 334 million euros, due primarily to the higher exposure to France (+311 million euros) , Belgium (+57 million euros) and Poland (+56 million euros), but partly offset by a decrease in exposure to German government bonds (-76 million euros).

Revaluation reserve for available-for-sale assets at year-end 2016:
- The carrying value of the total available-for-sale government bond portfolio incorporated a revaluation reserve of 769 million euros before tax.
- This included 391 million euros for Belgium, 111 million euros for France, 52 million euros for Spain, 25 million euros for Slovakia, and 190 million euros for the other countries combined.

Portfolio of Belgian government bonds:
- Belgian sovereign bonds accounted for 39,8% of our total government bond portfolio at the end of 2016, reflecting the importance to KBC of Belgium, the group's primary core market. The importance of Belgium, in general, is also reflected in the 'Loan and investment portfolio' table at the start of the 'Credit risk' section, in the contribution that Belgium makes to group profit and in the various components of the result (see 'Notes on segment reporting' under 'Consolidated financial statements').
- At year-end 2016, the credit ratings assigned to Belgium by the three main international agencies were 'Aa3' from Moody's, 'AA' from Standard & Poor's and 'AA-' from Fitch. More information on Belgium's macroeconomic performance is provided in the separate section dealing with Belgium. For more information, please refer to the rating agencies' websites.
- Apart from interest rate risk, the main risk to our holdings of Belgian sovereign bonds is a widening of the credit spread. The potential impact of a 100-basis-point upward shift in the spread (by year-end 2016) can be broken down as follows:
  - Theoretical full economic impact (see previous table): the impact on IFRS profit or loss is very limited since the lion's share of the portfolio of Belgian sovereign bonds was classified as 'Available For Sale' (64%-,impact only upon realization) and 'Held To Maturity' (36%-,no impact on profit or loss); the impact on IFRS unrealised gains on available-for-sale assets is -134 million euros (after tax), for an increase of 100 basis points .

Equity risk

The main exposure to equity is within our insurance business, where the ALM strategies are based on a risk-return evaluation, account taken of the market risk attached to open equity positions. Please note that a large part of the equity portfolio is held for the DPF of insurance liabilities (especially profit-sharing in the Belgian market).

Equity portfolio of the KBC Insurance Group (breakdown by sector, in %)	31-12-2016	31-12-2015
Financials	21%	19%
Consumer non-cyclical	13%	14%
Communication	2%	3%
Energy	7%	5%
Industrials	34%	36%
Utilities	2%	4%
Consumer cyclical	15%	13%
Materials	6%	5%
Other and not specified	1%	1%
Total	100%	100%
In billions of EUR	1.35	1.6
of which unlisted	0.0	0.0

Impact of a 25% drop in equity prices (in millions of EUR)	Impact on value	
	2016	2015
Total	-329	-397

Non-trading equity exposure (in millions of EUR)	Net realised gains (in income statement)		Net unrealised gains on year-end exposure (in equity)	
	31-12-2016	31-12-2015	31-12-2016	31-12-2015
Total	53	105	375	320

Real estate risk

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

Impact of a 25% drop in real estate prices (in millions of EUR)	Impact on value	
	2016	2015
Total	-55	-60

Foreign exchange risk

We pursue a prudent policy as regards our structural currency exposure, essentially seeking to avoid currency risk. The foreign exchange exposure has to be hedged, if material. Equity holdings in non-euro currencies that are part of the investment portfolio do not need to be hedged. Participating interests in foreign currency are in principle funded by borrowing an amount in the relevant currency equal to the value of the net assets excluding goodwill.

Credit risk

What is it?

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

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

Credit risk exposure in the insurance activities

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

Investment portfolio of KBC group insurance entities (in millions of EUR, market value)[1]	31-12-2016	31-12-2015
Per balance sheet item		
Securities	22 370	22 282
Bonds and other fixed-income securities	21 020	20 677
Held to maturity	6 564	6 629
Available for sale	14 399	13 999
At fair value through profit or loss and held for trading	8	2
As loans and receivables	48	46
Shares and other variable-yield securities	1 323	1 557
Available for sale	1 319	1 553
At fair value through profit or loss and held for trading	3	3
Other	28	49
Property and equipment and investment property	332	341
Investment contracts, unit-linked[2]	13 693	13 330
Other	3 041	3 127
Total	39 437	39 080
Details for bonds and other fixed-income securities		
By external rating[3]		
Investment grade	96%	95%
Non-investment grade	4%	3%
Unrated	0%	2%
By sector[3]		
Governments	61%	59%
Financial[4]	25%	26%
Other	14%	15%
By remaining term to maturity[3]		
Not more than 1 year	12%	12%
Between 1 and 3 years	19%	21%
Between 3 and 5 years	15%	18%
Between 5 and 10 years	31%	26%
More than 10 years	23%	22%

1 The total carrying value amounted to 37 813 million euros at year-end 2016 and to 37 549 million euros at year-end 2015.
2 Representing the assets side of unit-linked (class 23) products and completely balanced on the liabilities side. No credit risk involved for KBC Insurance.
3 Excluding investments for unit-linked life insurance. In certain cases, based on extrapolations and estimates.
4 Including covered bonds and non-bank financial companies.

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

We are also exposed to a credit risk in respect of (re)insurance companies, since they could default on their commitments under (re)insurance contracts concluded with us. We measure this particular type of credit risk by means of a nominal approach (the maximum loss) and expected loss, among other techniques. Name concentration limits apply.

PD – and by extension – expected loss is calculated using internal or external ratings. We determine the exposure at default by adding up the net loss reserves and the premiums, and the loss given default percentage is fixed at 50%.

Credit exposure to (re)insurance companies by risk class[1]: Exposure at Default (EAD) and Expected Loss (EL)[2] (in millions of EUR)	EAD 2016	EL 2016	EAD 2015	EL 2015
AAA up to and including A-	186	0.08	236	0.10
BBB+ up to and including BB-	12	0.02	27	0.03
Below BB-	0	0	0	0
Unrated	2	0.04	4	0.09
Total	200	0.13	267	0.22

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

Exposure to sovereign bonds

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

Non-financial risks

Operational risk

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

Managing operational risk

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

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

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

The main tasks of the Competence Centre for Operational Risk are to:
- plan and perform independent 'in-depth' challenges of internal controls on behalf of senior management
- provide oversight and reasonable assurance on the effectiveness of controls executed to reduce operational risk;
- inform senior management and oversight committees on the operational risk profile;
- define the operational risk management framework and approach for the group;
- create an environment where risk specialists (in various areas, including information risk management, business continuity and disaster recovery, compliance, anti-fraud, legal, tax and accounting matters) can work together (setting priorities, using the same language and tools, uniform reporting, etc.). It is assisted by the local risk management units, which are likewise independent of the business.

The building blocks for managing operational risks

Since 2011, specific attention has been given to the structured set-up of process-based Group Key Controls. These controls are policies containing top-down basic control objectives and are used to mitigate key and killer risks inherent in the processes of KBC entities. As such, they are an essential building block of both the operational risk management framework and the internal control system. Our Group Key Controls now cover the complete process universe of the group (68 KBC Group Processes). Structural risk-based review cycles are installed to manage the process universe, close gaps, eliminate overlap and optimise group-wide risks and controls.

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

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

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

Additional focus on information risk management

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

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

- developing and measuring group-wide information security and IT policies;
- driving risk governance via group-wide risk reporting and oversight;
- conducting independent investigations via group-wide challenges, detailed investigations and observations;
- turning the community of information security officers into an active, strong alliance by offering on-site coaching and support;
- owning the cyber maturity tool and methodology.

Reputational risk

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

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

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

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

Business & strategic risk

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

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

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

Liquidity risk

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

The principal objective of our liquidity management is to be able to fund the group and to enable the core business activities of the group to continue to generate revenue, even under adverse circumstances.

Insurance entities typically have more stable liabilities than banking entities. An insurance entity's liquidity is managed by matching cashflows and ensuring that sufficient investments are made in liquid assets, thereby guaranteeing that unexpectedly high lapses can be covered by selling or 'repoing' liquid assets. As a result, insurance entities are less sensitive for 'real' liquidity risk.

Corporate governance statement

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

Name	Position	Period served on the Board in 2016	Expiry date of current term of office	Board meetings attended	Non-executive directors	Core shareholders' representatives	Independent directors	Members of the EC	AC	RCC
Number of meetings in 2016				11					6	10
LEYSEN Thomas	Chairman	Full year	2019	11	●					
THIJS Johan	President of the Executive Committee/Executive Director	Full year	2017	11				● (c)		
FALQUE Daniel	Executive Director	Full year	2020	11				●		
GIJSENS Luc	Executive Director	Full year	2019	10				●		
HOLLOWS John	Executive Director	Full year	2017	9				●		
POPELIER Luc	Executive Director	Full year	2017	9				●		
VAN RIJSSEGHEM Christine	Executive Director	Full year	2018	11				●		
DEBACKERE Koenraad	Independent Director	Full year	2017	11	●		●		6	10
BOSTOEN Alain	Non-Executive Director	Full year	2020	11	●	●				
CALLEWAERT Katelijn	Non-Executive Director	From 16 December	2017	0	●	●				
DE BECKER Sonja	Non-Executive Director	From 27 April	2020	6	●	●				
DEPICKERE Franky	Non-Executive Director	Full year	2019	11	●	●				10 (c)
DONCK Frank	Non-Executive Director	Full year	2020	10	●	●				
LANGFORD Andrew	Independent Director	Full year	2018	11	●		●		6	10
NONNEMAN Walter	Non-Executive Director	From 16 December	2017	0	●	●				
ROUSSIS Theodoros	Non-Executive Director	Full year	2020	9	●	●				
VANHOVE Matthieu	Non-Executive Director	From December	2017	0	●	●				
VLERICK Philippe	Non-Executive Director	Full year	2020	11	●	●				
WITTEMANS Marc	Non-Executive Director	Full year	2020	11	●	●			6 (c)	

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

Changes in the composition of the Board in 2016

- Alain Bostoen, Frank Donck, Lode Morlion, Theo Roussis, Ghislaine Van Kerckhove, Philippe Vlerick and Marc Wittemans were re-appointed as non-executive directors for a period of four years.
- Sonja De Becker was appointed as director for a period of four years. She replaced Piet Vanthemsche who resigned with effect on 27 April 2016. The Board deeply appreciates all the work that Mr Vanthemsche did over the years for KBC.
- On 15 December 2016, Katelijn Callewaert, Walter Nonneman and Matthieu Vanhove were co-opted by the Board with effect on 16 December 2016, to replace Luc Discry, Lode Morlion and Ghislaine Van Kerckhove, who resigned with effect on 15 December 2016.
- Daniel Falque was re-appointed as director for a period of four years. He sits on the EC and as such has the capacity of executive director.

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

The composition of the AC and RCC remained unchanged in 2016.

Proposed changes in the composition of the Board in 2017

- On the advice of the Nomination Committee, the Board will propose that Katelijn Callewaert, Walter Nonneman and Matthieu Vanhove be appointed definitively as directors for a term of four years that will end after the General Meeting of 2021.
- On the advice of the Nomination Committee, the Board will propose that Johan Thijs, John Hollows and Luc Popelier be re-appointed for a term of four years that will end after the General Meeting of 2021. They sit on the EC and as such have the capacity of executive director.
- Luc Gijsens will resign as director with effect from 5 May 2017.
- On the advice of the Nomination Committee, the Board will propose that Hendrik Scheerlinck and Erik Luts be appointed as directors for a period of four years starting on 5 May 2017. Following their appointment as members of the EC, they will become executive directors.
- On the advice of the Nomination Committee, the Board will propose that Morten Hübbe be appointed as independent director within the meaning of and in line with the criteria set out in Article 526*ter* of the Companies Code for a period of four years.

Brief CVs for the proposed new directors

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

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

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

Vanhove is a director, senior manager and member of the Management Committee of Cera, an executive director of BRS Microfinance Coop and chairman of the National Council of Cooperatives.

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

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

Morten Hübbe, who was born in Copenhagen in 1972, graduated from the Copenhagen Business School (1994) and holds a Master's Degree in Finance and Accounting (1996). He has been working in insurance for more than 25 years. He began his career with Zürich Nordic as a Controller (1991-1997). Next, he became a Financial Analyst in Alm. Brand Forsikring AS (1997-1999). In 1999, he returned to Zürich Nordic as the Operations Manager – Nordic Investment Department (1999-2000), became deputy CFO (2000-2001) and then CFO (2001-2002). In 2002, he moved to Tryg, a Danish listed insurance company (present in Denmark, Norway and Sweden) as Group CFO (2002-2011), was present during the IPO in 2005 and played a long lasting role in the Risk Committee and the Audit Committee. Since 2011, he has been the Group CEO. He holds a mandate in KMD, Denmark's largest software company.

Composition of the EC

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

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

On the advice of the Nomination Committee, the Board has appointed Hendrik Scheerlinck and Erik Luts as members of the EC, with effect from 5 May 2017.

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

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

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

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

Additional information

- Following the share acquisition transaction on 23 December 2015, KBC Insurance holds 48 889 treasury shares.

- Conflicts of interest that fall within the scope of Articles 523, 524 and 524*ter* of the Belgian Companies Code. There were no such conflicts in 2016.

- Discharge to directors and to the statutory auditor. It will be requested at the General Meeting to grant discharge to the directors and auditor for the performance of their mandate in financial year 2016.

- At year-end 2016, the AC comprised the following members:

  - Marc Wittemans (non-executive director), who holds a Master's Degree in Applied Economics, and degrees in Fiscal Sciences and Actuarial Sciences, is Managing Director of MRBB CVBA, the holding company of the Boerenbond (farmers' union), and is the Chairman of the AC.

  - Koenraad Debackere (independent director), who holds a Master's Degree in Electrical Engineering and a Doctorate in Management, is a Full Professor at the Faculty of Business and Economics at KU Leuven, Professor at the Vlerick Management School, Executive Director of KU Leuven Research & Development and Managing Director of KU Leuven

  - Andrew Langford (independent director), who is a graduate in Commerce and a qualified Chartered Accountant, was Finance Director of FBD Insurance (2003-2008), Group Chief Executive of FBD Holding plc and Chief Executive of FBD Insurance plc (until 2015).

  They possess the necessary individual and collective expertise in the activities of KBC Insurance and in the fields of accounting and audit, based on their education and extensive business experience.

- At year-end 2016, the AC comprised the following members:

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

  - Andrew Langford (independent director).

  - Koenraad Debackere (independent director).

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

- In compliance with the laws on the incompatibility of offices held by executives and managers of insurance institutions and in accordance with National Bank of Belgium Circular PPB-2006-13-CPB-CPA on external offices held by executives and managers of regulated enterprises, ***Annex 1*** contains a list of the external offices held by the executives and directors of KBC Insurance in other companies.

Annex
to the annual report of the board of directors for the year ended 31.12.2016

Limited company: KBC Verzekeringen NV
Company number : RPR 0403.552.563

Company name	Registered Office	Sector	Office held	Listed (N= not)	Share of capital held (N= not)
Alain Bostoen, Director					
Quatorze Juillet bvba	Belgium	Accountancy & consulting	Executive Director	N	N
Katelijn Callewaert, Director					
Cera Beheersmaatschappij nv	Belgium	Management	Executive Director	N	N
Almancora Beheersmaatschappij NV	Belgium	Management	Executive Director	N	N
Cera cvba	Belgium	Management	Member of the Board of Directors	N	N
Sonja De Becker, Director					
SBB Accountants en Belastingconsulenten BV cvba	Belgium	Accountancy & consulting	Chairman Board of Directors	N	N
M.R.B.B. cvba	Belgium	Holding company	Chairman Board of Directors	N	N
SBB Bedrijfsdiensten BV cvba	Belgium	Accountancy & consulting	Executive Director	N	N
BB-Patrim cvba	Belgium	Holding company	Chairman Board of Directors	N	N
Agri Investment Fund cvba	Belgium	Holding company	Director	N	N
Koenraad Debackere, Independent Director					
BETTER3FRUIT NV	Belgium	Agriculture	Chairman Board of Directors	N	N
Bio-Incubator Leuven nv	Belgium	Services	Chairman Board of Directors	N	N
Group Joos	Belgium	Printing	Chairman Board of Directors	N	N
Gemma Frisiusfonds K.U. Leuven nv	Belgium	Financial sector	Chairman Board of Directors	N	40,00%
I-Propeller nv	Belgium	Services	Chairman Board of Directors	N	N
EIT Health e.V.	Germany	Innovation	Chairman Board of Directors	N	N
METALogic A.I. Technologies en Engineering nv	Belgium	Materials engineering	Chairman Board of Directors	N	N
Leuven Innovatie	Belgium	Technology	Director	N	N
ZB Sports Development	Belgium	Sport clubs	Director	N	N
Franky Depickere, Director					
Almancora Beheersmaatschappij nv	Belgium	Management	Executive Director	N	N
Cera cvba	Belgium	Management	Executive Director	N	N
Cera Beheersmaatschappij nv	Belgium	Management	Executive Director	N	N
Euro Pool System International BV	Netherlands	Packaging	Director	N	N
FWR Consult cvba	Belgium	Services	Business manager	N	N
BRS Microfinance Coop cvba	Belgium	Finance	Director	N	N
Frank Donck, Director					
3D NV	Belgium	Investment company	Executive Director	N	N
3D Private Equity nv	Belgium	Investment company	Executive Director	N	N
3D Real Estate	Belgium	Intermediation in the	Director	N	N
Anchorage nv	Belgium	Investment company	Director	N	N
Atenor Groep NV	Belgium	Real estate	Chairman	Euronext	N
Elia System Operator	Belgium	Electricity & gas, production, sales & transport	Director	Euronext	N
Elia Asset	Belgium	Electricity & gas, production, sales & transport	Director	N	N
Hof Het Lindeken cvba	Belgium	Agriculture	Executive Director	N	N
Huon & Kauri nv	Belgium	Real estate	Executive Director	N	N
Iberanfra bvba	Belgium	Real estate	Director	N	N
Ibervest nv	Belgium	Investment company	Executive Director	N	N
Tele Columbus AG	Germany	Cable provider	Chairman	N	N
Ter Wyndt cvba	Belgium	Golf	Director	N	N
Ter Wyndt nv	Belgium	Golf	Chairman	N	N
Tris nv	Belgium	Real estate	Executive Director	N	N
Winge Golf NV	Belgium	Golf	Chairman	N	N
Barco NV	Belgium	Technology	Director	Euronext	N
3D Private Investeringen NV	Belgium	Investment company	Executive Director	N	N
Andrew Langford, Independent Director					
Thomas Leysen, Chairman of the Board of Directors					
Umicore nv	Belgium	Non-ferrous metals	Chairman Board of Directors	Euronext	N
Corelio nv	Belgium	Media	Chairman Board of Directors	N	N
Booischot nv	Belgium	Real estate	Director	N	N
Mediahuis NV	Belgium	Publishing	Director	N	N
Walter Nonneman, Director					
Cera Beheersmaatschappij nv	Belgium	Management	Director	N	N
Fluxys Belgium NV	Belgium	Electricity & gas	Independant Director	Euronext	N
Theo Roussis, Director					
Asphalia NV	Belgium	Management	Executive Director	N	N
Pentahold	Belgium	Investment company	Director	N	N
Matthieu Vanhove, Director					
FWR Consult cvba	Belgium	Services	Executive Director	N	N
BRS Microfinance Coop cvba	Belgium	Finance	Executive Director	N	N
Philippe Vlerick, Deputy Chairman					
Besix Group nv	Belgium	Construction	Director	N	N
Exmar nv	Belgium	Trade	Director	Euronext	N
Point nv	Belgium	Textiles	Executive Director	N	N
Smartphoto Group nv	Belgium	Photo development	Deputy Chairman Board of Directors	Euronext	N
Batibic nv	Belgium	Real estate	Chairman Board of Directors	N	N
Cecan nv	Belgium	Holding company	Executive Director	N	N
Midelco nv	Belgium	Holding company	Executive Director	N	N
Tessa Lim nv	Belgium	Construction	Director	N	N
VIT NV	Belgium	Holding company	Executive Director	N	N
Vlerick Investeringsmaatschappij cvba	Belgium	Investment company	Executive Director	N	N
Vlerick Vastgoed nv	Belgium	Real estate	Executive Director	N	N
Raymond UCO denim Private Ltd	India	Textiles	Executive Director	N	N
Pentahold nv	Belgium	Holding company	Chairman Board of Directors	N	N
BMT NV	Belgium	Metallurgic industry	Director	N	N
BMT International	Luxembourg	Metallurgic engineering	Director	N	N
ETEX GROUP SA	Belgium	Construction	Director	N	N
Corelio nv	Belgium	Media	Deputy Chairman Board of Directors	N	N
LVD Company nv	Belgium	Metallurgic industry	Director	N	N
Lurick nv	Belgium	Real estate	Executive Director	N	N
Therick nv	Belgium	Real estate	Executive Director	N	N
Vobis Finance nv	Belgium	Holding company	Chairman Board of Directors	N	N
B.I.C. Carpets nv	Belgium	Textiles	Chairman Board of Directors	N	N
Concordia Textiles NV	Belgium	Textiles	Director	N	N
Indus Kamdhenu Fund	India	Investment company	Chairman	N	N
Hamon & Cie (International) SA	Belgium	Holding company	Director	Euronext	N
Durabilis	Belgium	Import-export	Deputy Chairman Board of Directors	N	N
Lutherick NV	Belgium	Holding company	Executive Director	N	N
De Robaertbeek NV	Belgium	Textiles	Director	N	N

Company name	Registered Office	Sector	Office held	Listed (N= not)	Share of capital held (N= not)
Bareldam SA	Luxembourg	Holding company	Executive Director	N	N
Sapient Investment Managers Ltd	Cyprus	Holding company	Chairman Board of Directors	N	N
UCO nv	Belgium	Textiles	Executive Director	N	N
Cecan Invest nv	Belgium	Holding company	Executive Director	N	N
Arteveld bvba	Belgium	Real estate	Business manager	N	N
ThromboGenics NV	Belgium	Biopharma	Director	Euronext	N
Marc Wittemans, Director					
Aktiefinvest cvba	Belgium	Real estate	Chairman Board of Directors	N	N
Arda Immo nv	Belgium	Real estate	Chairman Board of Directors	N	19,06%
SBB Accountants en Belastingconsulenten bv cvba	Belgium	Accountancy & consulting	Director	N	N
SBB Bedrijfsdiensten bv cvba	Belgium	Accountancy & consulting	Director	N	N
M.R.B.B. cvba	Belgium	Holding company	Executive Director	N	N
Agri Investment Fund cvba	Belgium	Holding company	Director	N	N
Acerta cvba	Belgium	Holding company	Director	N	N
Acerta Consult cvba	Belgium	HR-Services	Director	N	N
Acerta Public nv	Belgium	IT services & software	Director	N	N
Shéhérazade développement cvba	Belgium	IT services & software	Director	N	N
Greenyard NV	Belgium	Fruit and vegetable industry	Director	Euronext	N
Aveve NV	Belgium	Agriculture	Director	N	N
Hans Verstraete, Senior General Manager					
Groep VAB nv	Belgium	Driving schools	Chairman Board of Directors	N	95,00%
ADD NV	Belgium	Insurance broker	Chairman Board of Directors	N	100,00%
VAB NV	Belgium	Vehicle assistance	Director	N	95,00%
VAB Fleet Services NV	Belgium	Carpark Management & transport	Director	N	66,50%

Consolidated financial statements

Consolidated income statement

Here below you can find the consolidated income statement according to IFRS. You can find a split of the income statement into technical accounts (life, non-life, non-technical) in note 3.7.

In millions of EUR	Note	2016	2015
Net interest income	3.1	614	636
Interest income	3.1	654	660
Interest expense	3.1	- 39	- 24
Non-life insurance before reinsurance	3.7	641	626
Earned premiums Non-life	3.7	1 428	1 338
Technical charges Non-life	3.7	- 787	- 713
Life insurance before reinsurance	3.7	- 153	- 202
Earned premiums Life	3.7	1 579	1 303
Technical charges Life	3.7	- 1 731	- 1 505
Ceded reinsurance result	3.7	- 38	- 29
Dividend income	3.2	66	71
Net result from financial instruments at fair value through profit or loss	3.3	- 10	- 9
Net realised result from available-for-sale assets	3.4	56	108
Net fee and commission income	3.5	- 301	- 262
Fee and commission income	3.5	126	164
Fee and commission expense	3.5	- 427	- 426
Net other income	3.6	101	77
TOTAL INCOME		978	1 014
Operating expenses	3.8	- 457	- 428
Staff expenses	3.8	- 224	- 213
General administrative expenses	3.8	- 217	- 200
Depreciation and amortisation of fixed assets	3.8	- 16	- 16
Impairment	3.10	- 55	- 69
on loans and receivables	3.10	0	0
on available-for-sale assets	3.10	- 55	- 34
on goodwill	3.10	0	- 34
on other	3.10	- 1	- 1
Share in results of associated companies and joint ventures	3.11	4	3
RESULT BEFORE TAX		469	520
Income tax expense	3.12	- 135	- 148
RESULT AFTER TAX		334	372
Attributable to minority interest		0	0
Attributable to equity holders of the parent		**334**	**372**

Consolidated statement of comprehensive income

In millions of EUR	2016	2015
RESULT AFTER TAX	334	372
attributable to minority interest	0	0
attributable to equity holders of the parent	334	372
Other comprehensive income - to be recycled to P&L	69	- 115
Net change in revaluation reserve (AFS assets) - Equity	53	60
Fair value adjustments before tax	95	132
Deferred tax on fair value changes	0	1
Transfer from reserve to net profit	- 42	- 73
Impairment losses	31	7
Net gains/losses on disposal	- 73	- 79
Deferred income tax	0	0
Net change in revaluation reserve (AFS assets) - Bonds	18	- 168
Fair value adjustments before tax	62	- 245
Deferred tax on fair value changes	- 19	83
Transfer from reserve to net profit	- 24	- 6
Impairment losses	0	0
Net gains/losses on disposal	- 1	- 6
Amortization & impairment re assets transferred to L&R and HTM	- 35	- 3
Deferred income tax	12	3
Net change in revaluation reserve (AFS assets) - Other	0	0
Fair value adjustments before tax	0	0
Deferred tax on fair value changes	0	0
Transfer from reserve to net profit	0	0
Net change in hedging reserve (cash flow hedge)	- 7	- 7
Fair value adjustments before tax	0	- 10
Deferred tax on fair value changes	0	3
Transfer from reserve to net profit	- 8	0
Gross amount	- 12	0
Deferred income tax	4	0
Net change in translation differences	0	1
Gross amount	0	- 1
Deferred income tax	0	2
Net change related to associated companies & joint ventures	5	- 1
Gross amount	6	- 2
Deferred income tax	- 1	0
Other movements	**0**	**0**
Other comprehensive income - not to be recycled to P&L	- 11	12
Net change in defined benefit plans	- 11	12
Remeasurements (IAS 19)	- 17	18
Deferred tax on remeasurement	6	- 6
Net change related to associated companies & joint ventures	0	0
Remeasurements (IAS 19)	0	0
Deferred tax on remeasurement	0	0
TOTAL COMPREHENSIVE INCOME	393	270
attributable to minority interest	0	0
attributable to equity holders of the parent	392	269

- See Note 1.1 for changes in the above presentation.

Consolidated balance sheet

ASSETS (in millions of EUR)	Note	31-12-2016	31-12-2015
Cash and cash balances with central banks		0	0
Financial assets	4.0	37 373	37 042
Held for trading	4.0	15	25
Designated at fair value through profit or loss	4.0	13 702	13 335
Available for sale	4.0	15 718	15 552
Loans and receivables	4.0	2 510	2 512
Held to maturity	4.0	5 412	5 593
Hedging derivatives	4.0	16	26
Reinsurers' share in technical provisions	5.6	110	127
Fair value adjustments of hedged items in portfolio hedge of interest rate risk	-	0	0
Tax assets	5.2	21	20
Current tax assets	5.2	10	10
Deferred tax assets	5.2	11	11
Non-current assets held for sale and assets associated with disposal groups	-	0	0
Investments in associated companies and joint ventures	5.3	45	40
Investment property	5.4	210	222
Property and equipment	5.4	48	48
Goodwill and other intangible assets	5.5	124	124
Other assets	5.1	874	847
TOTAL ASSETS		38 806	38 469

LIABILITIES AND EQUITY (in millions of EUR)	Note	31-12-2016	31-12-2015
Financial liabilities	4.0	14 955	14 967
Held for trading	4.0	34	42
Designated at fair value through profit or loss	4.0	12 653	12 387
Measured at amortised cost	4.0	2 196	2 480
Hedging derivatives	4.0	73	58
Technical provisions, before reinsurance	5.6	19 737	19 613
Fair value adjustments of hedged items in portfolio hedge of interest rate risk	-	0	0
Tax liabilities	5.2	456	448
Current tax liabilities	5.2	57	13
Deferred tax liabilies	5.2	399	435
Provisions for risks and charges	5.7	10	10
Other liabilities	5.8	711	616
TOTAL LIABILITIES		35 869	35 654
Total equity	5.10	2 936	2 815
Parent shareholders' equity	5.10	2 937	2 815
Minority interests		0	0
TOTAL LIABILITIES AND EQUITY		38 806	38 469

Consolidated statement of changes in equity

In millions of EUR	Issued and paid up share capital	Share premium	Revaluation reserve (AFS assets)	Hedging reserve (cashflow hedges)	Remea-surement of defined benefit obligations	Retained earnings	Translation differences	Parent share-holders' equity	Minority interests	Total equity
31-12-2016										
Balance at the beginning of the period (01-01-2016)	**65**	**1 086**	**1 040**	**16**	**- 15**	**822**	**5**	**2 815**	**0**	**2 815**
Net result for the period	0	0	0	0	0	334	0	334	0	334
Other comprehensive income for the period	0	0	77	- 7	- 11	0	0	58	0	58
Total comprehensive income	**0**	**0**	**77**	**- 7**	**- 11**	**334**	**0**	**392**	**0**	**393**
Dividends	0	0	0	0	0	- 271	0	- 271	0	- 271
Total change	**0**	**0**	**77**	**- 7**	**- 11**	**63**	**0**	**121**	**0**	**121**
Balance at the end of the period	**65**	**1 086**	**1 116**	**9**	**- 26**	**885**	**5**	**2 937**	**0**	**2 936**
of which revaluation reserve for shares			367							
of which revaluation reserve for bonds			750							
of which revaluation reserve for other assets than bonds and shares			0							
of which relating to equity method			13	0	0	0	0	13		13
31-12-2015										
Balance at the beginning of the period (01-01-2015)	65	1 586	1 149	23	- 27	700	4	3 296	0	3 296
Net result for the period	0	0	0	0	0	372	0	372	0	372
Other comprehensive income for the period	0	0	- 110	- 7	12	0	1	- 103	0	- 103
Total comprehensive income	**0**	**0**	**- 110**	**- 7**	**12**	**372**	**1**	**269**	**0**	**270**
Dividends	0	0	0	0	0	- 250	0	- 250	0	- 250
Capital increase/decrease	0	- 500	0	0	0	0	0	- 500	0	- 500
Change in minorities	0	0	0	0	0	0	0	0	- 4	- 4
Change in scope	0	0	0	0	0	0	0	0	3	3
Total change	**0**	**- 500**	**- 110**	**- 7**	**12**	**122**	**1**	**- 481**	**0**	**- 481**
Balance at the end of the period	**65**	**1 086**	**1 040**	**16**	**- 15**	**822**	**5**	**2 815**	**0**	**2 815**
of which revaluation reserve for shares			314							
of which revaluation reserve for bonds			726							
of which revaluation reserve for other assets than bonds and shares			0							
of which relating to equity method			7	0	0	0	0	7		7

- KBC Insurance further optimised its capital structure in March 2015 by replacing shareholder capital with a tier-2 loan for an amount of 500 million euros taken out with KBC Group NV.
- During 2016, the revaluation reserve (for available-for-sale assets) expanded by 77 million euros, with 24 million euros of this increase being accounted for by bonds and 53 million euros by shares.
- The 'Dividends' item in 2016 includes the payment of a final dividend for 2015 (71 million euros) and of an interim dividend for 2016 (200 million euros). Subject to the approval of the General Meeting of Shareholders, KBC Insurance plans to pay a final dividend of 103 million euros for financial year 2016.

Consolidated cashflow statement

In millions of EUR	Note	2016	2015
Operating activities			
Result before tax	Inc.statem.	469	520
Adjustments for:		182	490
Result before tax related to discontinued operations	Inc.statem.	0	0
Depreciation, impairment and amortisation of property and equipment, intangible assets, investment property and securities	3.10 ,4.2, 5.4, 5.5	80	94
Profit/Loss on the disposal of investments		- 1	- 12
Change in impairment on loans and advances	3.10	0	0
Change in gross technical provisions - insurance	5.6	392	427
Change in the reinsurers' share in the technical provisions	5.6	17	69
Change in other provisions	5.7	4	0
Other non realised gains or losses		- 306	- 85
Income from associated companies and joint ventures	3.11	- 4	- 3
Cashflows from operating profit before tax and before changes in operating assets and liabilities		651	1 010
Changes in operating assets (excl. cash & cash equivalents)		- 318	- 1 127
Loans and receivables	4.1	121	- 190
Available for sale	4.1	- 64	- 755
Held for trading	4.1	10	- 2
Designated at fair value through P&L		- 368	99
Hedging derivatives	4.1	11	0
Operating assets associated with disposal groups & other assets		- 27	- 278
Changes in operating liabilities (excl. cash & cash equivalents)		66	- 1
Deposits at amortised cost	4.1	- 294	165
Debt certificates at amortised cost	4.1	10	0
Financial liabilities held for trading	4.1	- 9	- 5
Financial liabilities designated at fair value through P&L	4.1	266	- 166
Liability-derivatives hedge accounting	4.1	14	6
Operating liabilities associated with disposal groups & other liabilities		79	- 1
Income taxes paid	3.12	- 169	- 136
Net cash from (used in) operating activities		230	- 254
Investing activities			
Purchase of held-to-maturity securities	4.1	- 87	- 13
Proceeds from the repayment of held-to-maturity securities at maturity	4.1	255	294
Acquisition of a subsidiary or a business unit, net of cash acquired (increase in participation intrests included)		0	204
Proceeds from the disposal of a subsidiary or business unit, net of cash disposed (decrease in participation intrests included)		0	0
Purchase of shares in associated companies and joint ventures		0	0
Proceeds from the disposal of shares in associated companies and joint ventures		0	0
Dividends received from associated companies and joint ventures		4	0
Purchase of investment property	5.4	0	- 1
Proceeds from the sale of investment property	5.4	6	4
Purchase of intangible fixed assets (excl. goodwill)	5.5	- 4	- 3
Proceeds from the sale of intangible fixed assets (excl. goodwill)	5.5	0	0
Purchase of property and equipment	5.4	- 14	- 12
Proceeds from the sale of property and equipment	5.4	1	12
Net cash from (used in) investing activities		160	486

In millions of EUR	Note	2016	2015
Financing activities			
Purchase or sale of treasury shares	Changes equity	0	0
Issue or repayment of promissory notes and other debt securities	4.1	0	0
Proceeds from or repayment of subordinated liabilities	4.1	0	500
Principal payments under finance lease obligations		0	0
Proceeds from the issuance of share capital	Changes equity	0	- 500
Proceeds from the issuance or repayment of preference shares	Changes equity	0	0
Dividends paid	Changes equity	- 271	- 250
Net cash from (used in) financing activities		- 271	- 250
Change in cash and cash equivalents			
Net increase or decrease in cash and cash equivalents		119	- 17
Cash and cash equivalents at the beginning of the period		223	241
Effects of exchange rate changes on opening cash and cash equivalents		0	0
Cash and cash equivalents at the end of the period		342	223
Additional information			
Interest paid	3.1	- 39	- 24
Interest received	3.1	654	660
Dividends received (including equity method)	3.2, 5.3	69	71
Components of cash and cash equivalents			
Cash and cash balances with central banks	Bal.sheet	0	0
Loans and advances to banks repayable on demand and term loans to banks < 3 months	4.1	342	223
Deposits from banks repayable on demand and redeemable at notice	4.1	0	0
Cash and cash equivalents included in disposal groups		0	0
Total		342	223
Of which not available		0	0

- KBC uses the indirect method to report on cashflows from operating activities.
- Investing activities in 2015 included the acquisition of a life insurance portfolio from another insurance company.
- In 2016 there were no major take-overs and sales of group of companies or activities.

1.0 Notes on the accounting policies

Note 1.1: Statement of compliance

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

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

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

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

- IFRS 9
  - In July 2014, the IASB issued IFRS 9 (Financial Instruments) on the classification and measurement of financial instruments, as a replacement for the relevant requirements of the present IAS 39 (Financial Instruments: Recognition and Measurement). The mandatory effective date for IFRS 9 is 1 January 2018. A project relating to IFRS 9 has been running for some time at KBC. In 2016, it moved from the design phase to the implementation phase, which will continue in 2017. The project is structured around two pillars, namely 'Classification and measurement' and 'Impairment', as well as a common work stream relating to the impact on reporting and disclosures. The project, which has been implemented at both group and local level, is being managed by the Finance function (along with the Credit Risk function for the impairment phase) and involves all the departments and entities that are affected. A detailed group-wide IFRS 9 Operating Model, which was being developed as part of the project in 2016, is nearing completion and will be put in place in 2017. KBC will also apply IFRS 9 to its insurance entities and, therefore, not make use of the possibility offered by the IAS Board (subject to EU endorsement) to temporarily defer implementation of IFRS 9 under certain conditions until 2021 (the tentative date for implementing IFRS 17 (Insurance Contracts)). KBC currently expects to use transition relief as regards disclosing comparative information at the date of initial application, but will probably provide certain pro forma comparative figures for significant items.
  - Classification and measurement: classification and measurement of financial assets under IFRS 9 will depend on the specific business model in place and the assets’ contractual cashflow characteristics. The project is at the stage where all the business models have been identified, analysed and documented, as to a large extent have the characteristics of the contractual cashflows. Based on current market conditions, regulations, interpretation, assumptions and policies, the impact of first-time application is currently expected to be limited (subject to an audit review) and would be reflected primarily in the recognition of unrealised gains and losses on a limited number of investments that have failed the contractual cashflow characteristics test, and the reversal of frozen available-for-sale reserves. These frozen reserves existed under IAS 39 due to historical reclassifications out of the 'Available-for-sale' category to the 'Held-to-maturity' or 'Loans and receivables' categories, but need to be reversed on transition to IFRS 9.
    For equity instruments not held for trading, KBC intends to apply the overlay approach (subject to EU endorsement) to the majority of eligible equity instruments and so continue treating them under IAS 39 in a transparent way. This approach has been provided by the IASB to cover the transition period between the implementation of IFRS 9 and IFRS 17, thus ensuring there is a level playing field with other insurers and bank-insurers.
    For financial liabilities, IFRS 9 changes the presentation of gains and losses on own credit risk for financial instruments designated at fair value through profit or loss. KBC will early adopt this aspect of IFRS 9 with effect from 1 January 2017 and the gains and losses on own credit risk will then go through other comprehensive income. The impact of early adoption will be neutral (see Note 4.8).

  - Impairment of financial assets: in 2016, work continued on fine-tuning IFRS 9-compliant impairment policies. *Financial assets that are subject to impairment will be classified into three stages: Stage 1: Performing; Stage 2: Underperforming (where lifetime expected credit losses are required to be measured); Stage 3: Non-performing or impaired.* KBC has established policies and processes to assess whether credit risk has increased significantly at the end of each reporting period and, therefore, whether 'staging' is required (i.e. moving from one stage to another). For the investment portfolio, which – for an insurance company – contains the most important assets subject to impairment, KBC will where possible use the low-credit-risk exemption included in IFRS 9, meaning that all bonds with an investment grade rating are considered to be in 'Stage 1'. For the loan portfolio, a multi-tier approach has been adopted to staging, based on internal credit ratings, forbearance measures, collective assessment and days past due as a backstop. At present, models for calculating impairment charges are being built, so that the expected credit loss (ECL) over a 12-month period being can be measured for assets in 'Stage 1' and lifetime expected losses measured for assets in 'Stage 2'. Implementing these models into the calculation engine is going according to plan, with a double run scheduled to start in June 2017. As a consequence, impairment levels are generally expected to increase. We do not expect any major impact on 'Stage 3'. Forward looking information is incorporated into the staging criteria and measurement of ECL. Different macroeconomic factors are taken into consideration and KBC is currently considering three scenarios to evaluate a range of possible outcomes. KBC expects to announce impact assessments when the half-year results for 2017 are released. The impact of first time application depends on the regulatory framework and economic conditions at that time, as well as the composition of the portfolios.

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

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

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

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

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

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

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

- removing what was previously Note 17 ('Financial assets and liabilities, breakdown by portfolio and geographic location') and Note 18 ('Financial assets and liabilities, breakdown by portfolio and remaining term to maturity'), since the essence of the relevant information can be found in other parts of the annual report (in segment reporting, for instance, and under 'Liquidity risk' in the 'How do we manage our risks?' section);
- replacing the table in Note 4.7 (previously 'Note 24: Financial assets and liabilities measured at fair value – focus on level 3') with a narrative focusing on the most important elements;
- shortening various other notes, namely Note 3.8 (previously Note 11), Note 4.10 (previously Note 25), Note 5.3 (previously Note 28), Note 5.4 (previously Note 29), Note 5.5 (previously Note 30), Note 5.9 (previously Note 34), Note 5.10 (previously Note 35), Note 6.1 (previously Note 36) and Note 6.3 (previously Note 38);

Note 1. 2: Summary of significant accounting policies

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

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

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

b Effects of changes in foreign exchange rates

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

c Financial assets and liabilities (IAS 39)

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

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

The IAS 39 classifications are as follows:

- *Loans and receivables (L&R)*. These include all non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

- *Held-to-maturity assets (HTM)*. These are all non-derivative financial assets with a fixed maturity and fixed or determinable payments that KBC intends and is able to hold to maturity.

- *Financial assets at fair value through profit or loss* (*abbreviated in various notes to 'Designated at fair value'*). This category includes held-for-trading (HFT) assets and other financial assets designated at fair value through profit or loss (FIFV). Held-for-trading assets are assets held for the purpose of selling them in the short term or assets that are part of a portfolio of assets held for trading purposes. All derivatives with a positive replacement value are considered to be held for trading unless they are designated and effective hedging instruments. Other financial assets designated at fair value through profit or loss are measured in the same way as held-for-trading assets. KBC may use the fair value option when doing so results in more relevant information, because it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. The fair value option may also be used for financial assets with embedded derivatives.

- *Available-for-sale assets (AFS)*. These are all non-derivative financial assets that do not come under one of the above classifications. These assets are measured at fair value, with all fair value changes being recognised in equity until the assets are sold or until there is an impairment in value. In this case, the cumulative revaluation gain or loss will be recognised in income for the financial year.

- *Held-for-trading liabilities*. These are liabilities held with the intention of repurchasing them in the short term. All derivatives with a negative replacement value are also considered to be held for trading unless they are designated and effective hedging instruments. These liabilities are measured at fair value, with any fair value changes reported in profit or loss.

- *Financial liabilities designated at fair value through profit or loss (FIFV)*. These are measured in the same way as held-for-trading liabilities. This fair value option may be used under the same conditions as FIFV assets. Additionally, this classification may be used to account for (unbundled) deposit components (i.e. financial liabilities not including a discretionary participation feature) as defined in IFRS 4.

- *Other financial liabilities*. These are all other non-derivative financial liabilities that are not classified under one of the two liability classifications above. They are measured at amortised cost.

- *Hedging derivatives*. These are derivatives used for hedging purposes.

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

KBC applies the following general rules:

- *Amounts receivable*. These are classified under ‘Loans and receivables’ and are measured on acquisition at fair value, including transaction costs. Loans with a fixed maturity are subsequently measured at amortised cost using the effective interest method, i.e. an interest rate is applied that exactly discounts all estimated future cashflows from the loans to the net carrying value. This interest rate takes account of all related fees and transaction costs. Loans with no fixed maturity date are measured at amortised cost.

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

- *Securities*. Depending on whether or not securities are traded on an active market and depending on what the intention is when they are acquired, securities are classified as loans and receivables, held-to-maturity assets, held-for-trading assets, financial assets at fair value through profit or loss, or available-for-sale assets.
  Securities classified as loans and receivables or held-to-maturity assets are initially measured at fair value, including transaction costs. They are subsequently measured at amortised cost. The difference between the acquisition cost and the redemption value is recognised as interest and recorded in the income statement on an accruals basis over the remaining term to maturity. It is taken to the income statement on an actuarial basis, based on the effective rate of return on acquisition. Individual impairment losses for securities classified as loans and receivables or held-to-maturity are recognised – according to the same method as is used for amounts receivable as described above – if there is evidence of impairment at balance sheet date.
  Held-for-trading securities are initially measured at fair value excluding transaction costs and subsequently at fair value, with all fair value changes being recognised in profit or loss for the financial year.
  Securities classified initially as ‘Financial assets at fair value through profit or loss’ that are not held for trading are measured in the same way as held-for-trading assets.
  Available-for-sale securities are initially measured at fair value (including transaction costs) and subsequently at fair value, with changes in fair value being recorded separately in equity until the sale or impairment of the securities. In this case, the cumulative fair value changes are transferred from equity to profit or loss for the financial year. Impairment losses are recognised if evidence of impairment exists on the balance sheet date. For listed equity and other variable-yield securities, a significant (more than 30%) or prolonged (more than one year) decline in their fair value below cost is evidence of

impairment. For fixed-income securities, impairment is measured on the basis of the recoverable amount of the acquisition cost. Impairment losses are taken to the income statement for the financial year. For equity and other variable-yield securities, impairment is reversed through a separate equity heading. Reversals of impairment on fixed-income securities occur through profit or loss for the financial year. However, if it cannot be demonstrated objectively that the reason for prolonged impairment no longer exists (i.e. the loss event triggering impairment has not completely disappeared), any increases in fair value will be recorded in equity. This continues until there is no longer any evidence of impairment. At that moment, impairment is completely reversed through profit or loss and any difference in fair value recorded in equity.

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

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

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

- *Hedge accounting*. KBC applies hedge accounting when all the requisite conditions (according to the hedge accounting requirements that have not been carved out in the IAS 39 version as approved by the EU) are fulfilled. These conditions are that the hedge relationship must be formally designated and documented on the inception of the hedge, the hedge must be expected to be highly effective and this effectiveness must be able to be measured reliably, and the measurement of hedge effectiveness must take place on a continuous basis during the reporting period in which the hedge can be considered to be effective.

  For fair value hedges, both the derivatives hedging the risks and the hedged positions are measured at fair value, with all fair value changes being taken to the income statement. Accrued interest income from rate swaps is included in net interest income. Hedge accounting is discontinued once the hedge accounting requirements are no longer met or if the hedging instrument expires or is sold. In this case, the gain or loss recorded in equity on the hedged position (for fixed-income financial instruments) will be taken to profit or loss on an accruals basis until maturity.

  KBC uses fair value hedges for a portfolio of interest rate risk to hedge the interest rate risk for a portfolio of loans and savings deposits using interest rate swaps. The interest rate swaps are measured at fair value, with fair value changes reported in profit or loss. Accrued interest income from these swaps is included in net interest income. The hedged amount of loans is measured at fair value as well, with fair value changes reported in profit or loss. The fair value of the hedged amount is presented as a separate line item of the assets on the balance sheet. KBC makes use of the 'carved-out' version of IAS 39, so that no ineffectiveness results from anticipated repayments, as long as underhedging exists. In case of hedge ineffectiveness, the cumulative change in the fair value of the hedged amount will be amortised through profit or loss over the remaining lifetime of the hedged assets or immediately removed from the balance sheet if the ineffectiveness is due to the fact that the corresponding loans have been derecognised.

  For cashflow hedges, derivatives hedging the risks are measured at fair value, with those fair value gains or losses determined to be an effective hedge being recognised separately in equity. Accrued interest income from rate swaps is included in net interest income. The ineffective portion of the hedge is recognised in income for the financial year. Hedge accounting will be discontinued if the hedge accounting criteria are no longer met. In this case, the derivatives will be treated as held-for-trading derivatives and measured accordingly.

  Foreign currency funding of a net investment in a foreign entity is accounted for as a hedge of that net investment. This form of hedge accounting is used for investments not denominated in euros. Translation differences (account taken of deferred taxes) on the funding are recorded in equity, along with translation differences on the net investment.

- *Financial guarantee contracts*. These are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due under the initial or revised terms of a debt instrument. A financial guarantee contract is initially recognised at fair value and subsequently measured at the greater of the following:

  1 the amount determined in accordance with IAS 37: Provisions, Contingent Liabilities and Contingent Assets; and

2 the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with IAS 18: Revenue.

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

d Goodwill and other intangible assets

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

e Property and equipment and investment property

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

f Technical provisions

Provision for unearned premiums and unexpired risk

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

Life insurance provision

Except for unit-linked life insurance products, this provision is calculated according to current actuarial principles, with account being taken of the provision for unearned premiums, the ageing reserve, provision for annuities payable but not yet due, etc.
In principle, this provision is calculated separately for every insurance contract.

For accepted business, a provision is constituted for each individual contract, based on the information supplied by the ceding undertaking and supplemented, where necessary, by the company's own past experience.
Besides the rules set out below, an additional provision is set aside as required by law.

The following rules apply:

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

Provision for claims outstanding

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

Provision for profit sharing and rebates

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

Liability adequacy test

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

Ceded reinsurance and retrocession

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

g Insurance contracts measured in accordance with IFRS 4 – phase 1

Deposit accounting rules apply to financial instruments that do not include a discretionary participation feature (DPF), and to the deposit component of unit-linked insurance contracts. This means that the deposit component and insurance component are measured separately. In deposit accounting, the portion of the premiums relating to the deposit component is not taken to the income statement, nor is the resulting increase in the carrying value of the liability. Management fees and commissions are recognised immediately in the income statement. When the value of unit-linked investments fluctuates subsequently, both the change on the asset side and the resulting change on the liabilities side are taken to the income statement immediately. Therefore, after initial recognition, the deposit component is measured at fair value through profit or loss. This fair value is determined by multiplying the number of units by the value of the unit, which is based upon the fair value of the underlying financial instruments. Settlements relating to the deposit component are not recorded in the income statement, but will result in a decrease in the carrying value of the liability.

Financial instruments with a discretionary participation feature and the insurance component of unit-linked contracts are treated as non-unit-linked insurance contracts (see f Technical provisions), and are not unbundled into a deposit component and an insurance component. On the balance sheet date, the liabilities resulting from these financial instruments or insurance contracts are tested to see if they are adequate, according to the liability adequacy test. If the carrying value of these liabilities is lower than their estimated future discounted cashflows, the deficiency will be recognised in the income statement against an increase in the liability.

h Retirement benefit obligations

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

i Tax liabilities

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

j Provisions

Provisions are recognised in the balance sheet:

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

k Equity

Equity is the residual interest in the net assets after all liabilities have been deducted.
Equity instruments have been differentiated from financial instruments in accordance with the IAS 32 rules. The revaluation reserve for available-for-sale assets is included in equity until disposal or impairment of the assets. At that time, the cumulative gain or loss is transferred to profit or loss for the period.

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

l Exchange rates used*

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

* Rounded figures.

m Changes made to accounting policies in 2016

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

Note 1.3: Critical accounting estimates and significant judgements

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

Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. Significant areas of estimation uncertainty, and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are detailed in, but not limited to, the following notes: 3.3, 3.7, 3.10, 4.2, 4.4 t.e.m. 4.7, 5.4 until 5.7 and 5.9.

2.0 Notes on segment reporting

Applies to KBC Group and KBC Bank, but not to KBC Insurance.

3.0 Notes to the income statement

Note 3.1: Net interest income

In millions of EUR	2016	2015
Total	614	636
Interest income	654	660
Available-for-sale assets	326	343
Loans and receivables	78	80
Held-to-maturity investments	209	212
Other assets not at fair value	17	3
Subtotal, interest income from financial assets not measured at fair value through profit or loss	*631*	*637*
of which : impaired financial assets	0	0
Financial assets held for trading	21	21
Hedging derivatives	2	1
Interest expense	- 39	- 24
Financial liabilities measured at amortised cost	- 9	- 9
Other	- 10	- 2
Subtotal, interest expense for financial liabilities not measured at fair value through profit or loss	*- 19*	*- 11*
Financial liabilities held for trading	- 15	- 9
Hedging derivatives	- 3	- 3
Net interest expense on defined benefit plans	- 1	- 1

Note 3.2: Dividend income

In millions of EUR	2016	2015
Total	66	71
Breakdown by type	66	71
Held-for-trading shares	0	0
Shares initially recognised at fair value through profit or loss	0	0
Available-for-sale shares	65	71

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

In millions of EUR	2016	2015
Total	- 10	- 9
Breakdown by type		
Trading instruments (including interest and fair value changes in trading derivatives)	- 9	- 12
Other financial instruments initially recognised at fair value through profit or loss	2	3
Of which: gains/losses own credit risk	0	0
Foreign exchange trading	0	0
Fair value adjustments in hedge accounting	- 3	0
Fair value hedges (microhedge)	- 3	- 1
Changes in the fair value of the hedged item	8	2
Changes in the fair value of the hedging derivatives, including discontinuation	- 11	- 2
Cashflow hedges	0	0
Changes in the fair value of the hedging derivatives, ineffective portion	0	0
Hedges of net investments in foreign operation, ineffective portion	0	0
Portfolio hedge of interest rate risk	0	0
Changes in the fair value of the hedged item	0	0
Changes in the fair value of the hedging derivatives, including discontinuation	0	0
Discontinuation of hedge accounting in the case of a fair value hedge	0	0
Discontinuation of hedge accounting in the case of a cash flow hedge	0	0

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

In millions of EUR	2016	2015
Total	56	108
Breakdown by portfolio		
Fixed-income securities	3	2
Shares	53	105

Note 3.5: Net fee and commission income

In millions of EUR	2016	2015
Total	- 301	- 262
Fee and commission income	126	164
Securities and asset management	61	65
Margin on deposit accounting (life insurance investment contracts without DPF)	48	81
Commitment credit	0	0
Payments	2	0
Other	16	19
Fee and commission expense	- 427	- 426
Commission paid to intermediaries	- 405	- 392
Other	- 22	- 34

Note 3.6: Other net income

In millions of EUR	2016	2015
Total	101	77
Of which net realised result following		
The sale of loans and receivables	0	0
The sale of held-to-maturity investments	1	4
The repurchase of financial liabilities measured at amortised cost	0	0
Other: of which:	100	73
Income from Group VAB	69	59
Impact surrender reinsured contract	25	0
Net rental income	11	13
Realised gains or losses on divestments	- 2	11

The impact of surrendering a reinsured contract in 2016 concerns the investment gains that were realised (and recognised under 'Other net income') when a large reinsured savings contract was surrendered. The gains were transferred in their entirety to the client through technical charges (life insurance) and, therefore, did not have any impact on KBC's net result.

Note 3.7: Insurance results

Note 3.7.1: Breakdown of technical accounts

In millions of EUR	Life	Non-life	Non-technical account	TOTAL
2016				
Earned premiums, insurance (before reinsurance)	1 579	1 428	0	3 007
Technical charges, insurance (before reinsurance)	- 1 731	- 787	0	- 2 519
Net fee and commission income	- 29	- 272	0	- 301
Ceded reinsurance result	- 1	- 37	0	- 38
Operating expenses	- 132	- 239	- 3	- 374
Internal costs claim paid	- 8	- 54	0	- 62
Administration costs related to acquisitions	- 32	- 80	0	- 112
Administration costs	- 92	- 105	0	- 197
Management costs investments	0	0	- 3	- 3
Technical result	- 315	94	- 3	- 224
Net interest income			614	614
Dividend income			66	66
Net result from financial instruments at fair value			- 10	- 10
Net realised result from AFS assets			56	56
Net other income			18	18
Impairments			- 55	- 55
Allocation to the technical accounts	578	73	- 651	0
Technical-financial result	263	167	35	465
Share in results of associated companies and joint ventures			4	4
RESULT BEFORE TAX	263	167	39	469
Income tax expense				- 135
RESULT AFTER TAX				334
attributable to minority interest				0
attributable to equity holders of the parent				334
2015				
Earned premiums, insurance (before reinsurance)	1 303	1 338	0	2 642
Technical charges, insurance (before reinsurance)	- 1 505	- 713	0	- 2 218
Net fee and commission income	- 15	- 247	0	- 262
Ceded reinsurance result	- 2	- 27	0	- 29
Operating expenses	- 116	- 227	- 3	- 346
Internal costs claim paid	- 7	- 53	0	- 60
Administration costs related to acquisitions	- 29	- 77	0	- 107
Administration costs	- 80	- 96	0	- 176
Management costs investments	0	0	- 3	- 3
Technical result	- 334	125	- 3	- 212
Net interest income			636	636
Dividend income			71	71
Net result from financial instruments at fair value			- 9	- 9
Net realised result from AFS assets			108	108
Net other income			- 6	- 6
Impairments			- 69	- 69
Allocation to the technical accounts	593	103	- 696	0
Technical-financial result	259	228	31	517
Share in results of associated companies and joint ventures			3	3
RESULT BEFORE TAX	259	228	34	520
Income tax expense				- 148
RESULT AFTER TAX				372
attributable to minority interest				0
attributable to equity holders of the parent				372

- The figures relating to earned premiums do not include investment contracts without DPF, which largely correspond to unit-linked contracts. The margin on these products is included in the net fee and commission income.
- There was a net negative impact of 16 million euros on the 'Non-life technical result' in 2016, due to the terrorist attacks in Brussels.

Note 3.7.2: Earned premiums, life insurance

In millions of EUR	2016	2015
Total	1 579	1 303
Breakdown by IFRS category		
Insurance contracts	920	897
Investment contracts with discretionary participation	659	406
Breakdown by type		
Accepted reinsurance	5	0
Primary business	1 574	1 303
Breakdown of primary business		
Individual premiums	1 265	1 024
Single	624	393
Periodic	642	631
Premiums under group contracts	309	279
Single	48	49
Periodic	261	230
Sales volume life	2 114	1 793
Unit linked contracts	820	722
Guaranteed interest products	1 295	1 071

- As required under IFRS, we use deposit accounting for certain investment contracts without DPF. This means that the premium income (and technical charges) from these contracts is not recognised under 'Earned premiums, insurance (before reinsurance)' (and 'Technical charges, insurance (before reinsurance)'), but that the margins on them are reported under 'Net fee and commission income'. Investment contracts without DPF are more or less the same as unit-linked contracts, which in 2016 accounted for premium income of 0.8 billion euros and in 2015 for premium income of 0.7 billion euros.
- The premium income of the investment contracts without DPF where deposit accounting is applied, is included in the sales volume life mentioned above. This means that the sales volume life is composed of the earned premiums and the premium income of the investment contracts without DPF where deposit accounting is applied.

Note 3.7.3: Non-life insurance per class of business

In millions of EUR	Earned premiums, before reinsurance	Claims incurred, before reinsurance	Working expenses, before reinsurance	Ceded reinsu-rance	Total
2016					
Total	1 428	- 787	- 510	- 37	94
Accepted reinsurance	36	- 2	- 14	- 15	6
Primary business	1 392	- 785	- 496	- 22	89
Accident & Health (classes 1 & 2, excl.industrial accidents)	110	- 53	- 38	- 1	19
Industrial accidents (class 1)	72	- 79	- 18	- 1	- 26
Motor, third-party liability (class 10)	382	- 243	- 124	- 1	15
Motor, other classes (classes 3, 7)	211	- 121	- 75	0	14
Shipping, aviation, transport (classes 4, 5, 6, 7, 11, 12)	3	- 2	- 1	0	0
Fire and other damage to property (classes 8, 9)	425	- 188	- 162	- 20	55
General third-party liability (class 13)	97	- 64	- 39	1	- 6
Credit and suretyship (classes 14,15)	2	0	0	0	1
Miscellaneous pecuniary losses (class 16)	14	- 9	- 6	0	- 1
Legal assistance (class 17)	51	- 18	- 19	0	14
Assistance (class 18)	25	- 8	- 13	0	4
2015					
Total	1 338	- 713	- 474	- 26	126
Accepted reinsurance	32	- 2	- 8	0	22
Primary business	1 306	- 711	- 466	- 26	103
Accident & Health (classes 1 & 2, excl.industrial accidents)	110	- 50	- 36	0	24
Industrial accidents (class 1)	72	- 42	- 18	- 1	10
Motor, third-party liability (class 10)	359	- 240	- 122	0	- 4
Motor, other classes (classes 3, 7)	193	- 110	- 70	1	15
Shipping, aviation, transport (classes 4, 5, 6, 7, 11, 12)	3	- 1	- 1	- 1	0
Fire and other damage to property (classes 8, 9)	403	- 156	- 149	- 21	77
General third-party liability (class 13)	87	- 67	- 38	- 3	- 20
Credit and suretyship (classes 14,15)	1	- 1	0	0	- 1
Miscellaneous pecuniary losses (class 16)	10	- 5	- 4	0	1
Legal assistance (class 17)	48	- 32	- 19	0	- 3
Assistance (class 18)	20	- 7	- 9	0	4

Note 3.8: Operating expenses

In millions of EUR	2016	2015
Total	- 457	- 428
Breakdown by type		
Staff expenses	- 224	- 213
General administrative expenses	- 217	- 200
Of which levies	- 20	- 19
Depreciation and amortisation of fixed assets	- 16	- 16

- General administrative expenses include repair and maintenance expenses, advertising costs, rent, professional fees, various (non-income) taxes, utilities and other such expenses. It also includes the costs related to the levies imposed on financial institutions in different countries.

Note 3.9: Personnel

	2016	2015
Total average number of persons employed (in full-time equivalents)	**4 100**	**4 074**
Breakdown by employee classification		
Blue-collar staff	296	289
White-collar staff	3.777	3 757
Senior management	27	28

Note 3.10: Impairment (income statement)

In millions of EUR	2016	2015
Total	- 55	- 69
Impairment on loans and receivables	0	0
Breakdown by type		
Specific impairments for on-balance-sheet lending	0	0
Provisions for off-balance-sheet credit commitments	0	0
Portfolio-based impairments	0	0
Impairment on available-for-sale assets	- 55	- 34
Breakdown by type		
Shares	- 57	- 31
Other	3	- 3
Impairment on goodwill	0	- 34
Impairment on other	- 1	- 1
Intangible assets, other than goodwill	0	- 1
Property and equipment and investment property	0	0
Held-to-maturity assets	- 1	0
Associated companies and joint ventures	0	0
Other	0	0

Impairment on goodwill, on associated companies and on other in 2015 included impairment charges of -34 million euros for DZI. These impairment charges came about primarily as a result of a lower recoverable value (calculated based on discounted cashflow analysis) due chiefly to higher solvency targets (leading to a higher level of required capital, which reduces the free cashflows that can be paid as a dividend in the valuation model) and a higher discount rate (market-risk premium).

Note 3.11: Share in results of associated companies and joint ventures

In millions of EUR	2016	2015
Total	4	3

- As a result of the application of IFRS 11, which stipulates that joint ventures must be accounted for using the equity method and no longer by proportionate consolidation, the share in results of associated companies and joint ventures is now accounted for primarily by NLB Vita.
- Impairment on (goodwill on) associated companies and joint ventures is included in ‘Impairment’ (see Note 3.10). The share in results of associated companies and joint ventures does not therefore take this impairment into account.

Note 3.12: Income tax expense

In millions of EUR	2016	2015
Total	- 135	- 148
Breakdown by type	- 135	- 148
Current taxes on income	- 169	- 136
Deferred taxes on income	34	- 12
Tax components		
Profit before tax	469	520
Income tax at the Belgian statutory rate	33,99%	33,99%
Income tax calculated	- 159	- 177
Plus/minus tax effects attributable to	25	29
Differences in tax rates, Belgium - abroad	12	13
Tax-free income	48	60
Adjustments related to prior years	0	0
Adjustments, opening balance of deferred taxes due to change in tax rate	0	0
Unused tax losses and unused tax credits to reduce current tax expense	0	0
Unused tax losses and unused tax credits to reduce deferred tax expense	0	0
Reversal of previously recognised deferred tax due to tax losses	0	0
Other (mainly non-deductible expenses)	- 35	- 43
Aggregate amount of temporary differences associated with investments in subsidiaries, branches and associated companies and interests in joint ventures, for which deferred tax liabilities have not been recognized*	25	25

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

- For information on tax assets and tax liabilities, see Note 5.2.

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

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

In millions of EUR	Held for trading	Designated at fair value	Available for sale	Loans and receivables	Held to maturity	Hedging derivatives	Total
FINANCIAL ASSETS, 31-12-2016							
Loans and advances to credit institutions and investment firms [a c]	0	1	0	1 013	-	-	1 013
Loans and advances to customers [b]	0	0	0	1 440	-	-	1 440
Excluding reverse repos	*0*	*0*	*0*	*1 440*	-	-	*1 440*
Trade receivables	0	0	0	0	-	-	0
Consumer credit	0	0	0	0	-	-	0
Mortgage loans	0	0	0	352	-	-	352
Term loans	0	0	0	1 030	-	-	1 030
Finance leasing	0	0	0	0	-	-	0
Current account advances	0	0	0	0	-	-	0
Securitised loans	0	0	0	0	-	-	0
Other	0	0	0	58	-	-	58
Equity instruments	2	2	1 319	-	-	-	1 323
Investment contracts (insurance)	-	13 693	-	-	-	-	13 693
Debt securities issued by	2	7	14 399	48	5 412	-	19 868
Public bodies	1	0	7 803	0	4 122	-	11 926
Credit institutions and investment firms	0	6	1 905	0	746	-	2 657
Corporates	0	1	4 691	48	545	-	5 285
Derivatives	12	-	-	-	-	16	28
Other	0	0	0	9	0	0	9
Total carrying value	15	13 702	15 718	2 510	5 412	16	37 373
[a] *Of which reverse repos*							*0*
[b] *Of which reverse repos*							*0*
[c] *Of which loans and advances to banks repayable on demand and term loans to banks at not more than three months*							*342*
FINANCIAL ASSETS, 31-12-2015							
Loans and advances to credit institutions and investment firms [a c]	0	1	0	1 460	-	-	1 460
Loans and advances to customers [b]	0	0	0	1 000	-	-	1 000
Excluding reverse repos	*0*	*0*	*0*	*1 000*	-	-	*1 000*
Trade receivables	0	0	0	0	-	-	0
Consumer credit	0	0	0	0	-	-	0
Mortgage loans	0	0	0	33	-	-	33
Term loans	0	0	0	924	-	-	924
Finance leasing	0	0	0	0	-	-	0
Current account advances	0	0	0	0	-	-	0
Securitised loans	0	0	0	0	-	-	0
Other	0	0	0	44	-	-	44
Equity instruments	2	2	1 553	-	-	-	1 557
Investment contracts (insurance)	-	13 330	-	-	-	-	13 330
Debt securities issued by	0	2	13 999	46	5 593	-	19 640
Public bodies	0	0	7 357	0	4 234	-	11 591
Credit institutions and investment firms	0	1	2 091	2	800	-	2 895
Corporates	0	0	4 550	44	559	-	5 153
Derivatives	24	-	-	-	-	26	49
Other	0	0	0	6	-	-	6
Total carrying value	25	13 335	15 552	2 512	5 593	26	37 042
[a] *Of which reverse repos*							*0*
[b] *Of which reverse repos*							*0*
[c] *Of which loans and advances to banks repayable on demand and term loans to banks at not more than three months*							*223*

In millions of EUR	Held for trading	Designated at fair value	Hedging derivatives	Measured at amortised cost	Total
FINANCIAL LIABILITIES, 31-12-2016					
Deposits from credit institutions and investment firms [a c]	0	0	-	1 577	1 577
Deposits from customers and debt certificates [b]	0	0	-	609	609
Excluding repos	*0*	*0*	-	*609*	*609*
Deposits from customers	0	0	-	108	108
Demand deposits	0	0	-	0	0
Time deposits	0	0	-	108	108
Saving accounts	0	0	-	0	0
Special deposits	0	0	-	0	0
Other deposits	0	0	-	0	0
Debt certificates	0	0	-	500	500
Certificates of deposit	0	0	-	0	0
Customer savings certificates	0	0	-	0	0
Convertible bonds	0	0	-	0	0
Non-convertible bonds	0	0	-	0	0
Convertible subordinated liabilities	0	0	-	0	0
Non-convertible subordinated liabilities	0	0	-	500	500
Liabilities under investment contracts	-	12 653	-	0	12 653
Derivatives	34	0	73	-	106
Short positions	0	0	-	-	0
in equity instruments	0	0	-	-	0
in debt instruments	0	0	-	-	0
Other	0	0	-	10	10
Total carrying value	34	12 653	73	2 196	14 955
[a] *Of which repos*					*1 577*
[b] *Of which repos*					*0*
[c] *Of which deposits from banks repayable on demand*					*0*
FINANCIAL LIABILITIES, 31-12-2015					
Deposits from credit institutions and investment firms [a c]	0	0	-	1 922	1 922
Deposits from customers and debt certificates [b]	0	0	-	558	558
Excluding repos	*0*	*0*	-	*558*	*558*
Deposits from customers	0	0	-	58	58
Demand deposits	0	0	-	0	0
Time deposits	0	0	-	58	58
Saving accounts	0	0	-	0	0
Special deposits	0	0	-	0	0
Other deposits	0	0	-	0	0
Debt certificates	0	0	-	500	500
Certificates of deposit	0	0	-	0	0
Customer savings certificates	0	0	-	0	0
Convertible bonds	0	0	-	0	0
Non-convertible bonds	0	0	-	0	0
Convertible subordinated liabilities	0	0	-	0	0
Non-convertible subordinated liabilities	0	0	-	500	500
Liabilities under investment contracts	-	12 387	-	0	12 387
Derivatives	42	-	58	-	101
Short positions	0	0	-	-	0
in equity instruments	0	0	-	-	0
in debt instruments	0	0	-	-	0
Other	0	0	-	0	0
Total carrying value	42	12 387	58	2 480	14 967
[a] *Of which repos*					*1 922*
[b] *Of which repos*					*0*
[c] *Of which deposits from banks repayable on demand*					*0*

The deposits from credit institutions at year end 2016 are all repo transactions towards KBC Bank NV. The non-convertible subordinated liabilities have been provided for by KBC Group NV.

At year-end 2016, KBC had transferred the following types of financial asset, which continued to be recognised in their entirety: repo transactions with a carrying value of 1 401 (2015: 1 876) million euros (debt instruments classified as 'available for sale': 867 million euros (2015: 937 million euros) and 'held to maturity': 534 million euros (2015: 939 million euros)) and an associated financial liability with a carrying value of 1 559 (2015: 1 913) million euros (877 million euros classified as 'available for sale' (2015: 951 million euros) and 683 million euros 'held to maturity' (2015: 961 million euros)). At year-end 2016, KBC had also transferred the following types of financial asset, which continued to be recognised in their entirety: securities lent out with a carrying value of 100 million euros (equity instruments classified as 'available for sale') and an associated financial liability with a carrying value of 108 million euros (classified as 'available for sale').

At year-end 2015, KBC had also transferred the following types of financial asset, which continued to be recognised in their entirety: securities lent out with a carrying value of 51 million euros (equity instruments classified as 'available for sale') and an associated financial liability with a carrying value of 58 million euros (classified as 'available for sale').

Note 4.2: Financial assets and liabilities, breakdown by portfolio and quality

Note 4.2.1: Impaired financial assets

in millions of EUR	Held for trading	Designated at fair value	Available for sale	Loans and receiva-bles	Held to maturity	Hedging derivatives	Total
FINANCIAL ASSETS, 31-12-2016							
Unimpaired assets	15	13 702	15 475	2 510	5 413	16	37 130
Impaired assets			337	0	0		338
Impairment			- 94	0	- 1		- 95
Total carrying value	15	13 702	15 718	2 510	5 412	16	37 373
FINANCIAL ASSETS, 31-12-2015							
Unimpaired assets	25	13 335	15 407	2 511	5 593	26	36 896
Impaired assets			213	1	0		214
Impairment			- 69	0	0		- 69
Total carrying value	25	13 335	15 552	2 512	5 593	26	37 042

- *Impairment*: the concept of 'impairment' is relevant for all financial assets that are not designated at fair value through profit or loss. Fixed-income financial assets are impaired when impairment is identified on an individual basis.

Note 4.2.2: Impairment details

in millions of EUR	Available for sale		Held to maturity	Loans and receivables		Provision, off-balance-sheet credit commit-ments*
	Fixed-income securities	Shares	Fixed-income securities	Specific impairment	Portfolio-based impairment	
Impairments 31-12-2016						
Opening balance	3	66	0	0	0	0
Movements with an impact on results						
Impairment recognised	0	57	1	0	0	0
Impairment reversed	- 3	0	0	0	0	0
Movements without an impact on results						
Write-offs	0	0	0	0	0	0
Change in the scope of consolidation	0	0	0	0	0	0
Transfer to or from non-current assets held for sale and disposal groups	0	0	0	0	0	0
Other	0	- 29	0	0	0	0
Closing balance	0	94	1	0	0	0
Impairments 31-12-2015						
Opening balance	0	66	0	0	0	0
Movements with an impact on results						
Impairment recognised	3	31	0	0	0	0
Impairment reversed	0	0	0	0	0	0
Movements without an impact on results						
Write-offs	0	0	0	0	0	0
Change in the scope of consolidation	0	0	0	0	0	0
Transfer to or from non-current assets held for sale and disposal groups	0	0	0	0	0	0
Other	0	- 32	0	0	0	0
Closing balance	3	66	0	0	0	0

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

- For information regarding the impact of changes in impairment on the income statement, see Note 3.10.

Note 4.2.3: Past due but not impaired

- Applies to KBC Group and KBC Bank, but not to KBC Insurance.

Note 4.2.4: Guarantees received

- See Notes 4.3 and 6.1.

Note 4.3: Maximum credit exposure and offsetting

in millions of EUR	31-12-2016 Gross	Collateral received	Net	31-12-2015 Gross	Collateral received	Net
Equity	1 323	0	1 323	1 557	0	1 557
Debt instruments	19 868	0	19 868	19 640	0	19 640
Loans & advances	2 454	221	2 233	2 461	2 172	289
Of which designated at fair value through profit or loss	1	0	1	1	0	1
Derivatives	28	0	28	49	0	49
Other	56	0	56	8	0	8
Total	23 728	221	23 507	23 714	2 172	21 542

- Maximum credit exposure relating to a financial asset: generally the gross carrying value, net of impairment. Besides the amounts on the balance sheet, maximum credit exposure also includes the undrawn portion of irrevocable credit lines, financial guarantees granted and other irrevocable commitments. These amounts are included in the table under ‘Other’.
- Collateral received: recognised at market value and limited to the outstanding amount of the relevant loans.

Financial instruments subject to offsetting, enforceable master netting agreements and similar agreements (in millions of EUR)	Gross amounts of recognised financial instruments	Gross amounts of recognised financial instruments set off	Net amounts of financial instruments presented in the balance sheet	Amounts not set off in the balance sheet: Financial instruments	Amounts not set off in the balance sheet: Cash collateral	Amounts not set off in the balance sheet: Securities collateral	Net amount
FINANCIAL ASSETS, 31-12-2016							
Derivatives	28	0	28	27	0	0	1
Derivatives (excluding central clearing houses)	28	0	28	27	0	0	1
Derivatives with central clearing houses (1)	0	0	0	0	0	0	0
Reverse repurchase, securities borrowing and lending and similar agreements	0	0	0	0	0	0	0
Reverse repurchase	0	0	0	0	0	0	0
Securities borrowing	0	0	0	0	0	0	0
Other financial instruments	0	0	0	0	0	0	0
Total	28	0	28	27	0	0	1
FINANCIAL ASSETS, 31-12-2015							
Derivatives	49	0	49	46	0	0	3
Derivatives (excluding central clearing houses)	49	0	49	46	0	0	3
Derivatives with central clearing houses (1)	0	0	0	0	0	0	0
Reverse repurchase, securities borrowing and lending and similar agreements	0	0	0	0	0	0	0
Reverse repurchase	0	0	0	0	0	0	0
Securities borrowing	0	0	0	0	0	0	0
Other financial instruments	0	0	0	0	0	0	0
Total	49	0	49	46	0	0	3
FINANCIAL LIABILITIES, 31-12-2016							
Derivatives	106	0	106	27	0	0	79
Derivatives (excluding central clearing houses)	106	0	106	27	0	0	79
Derivatives with central clearing houses (1)	0	0	0	0	0	0	0
Repurchase, securities lending and borrowing and similar agreements	1 685	0	1 685	0	108	1 577	0
Repurchase	1 577	0	1 577	0	0	1 577	0
Securities lending	108	0	108	0	108	0	0
Other financial instruments	0	0	0	0	0	0	0
Total	1 792	0	1 792	27	108	1 577	79
FINANCIAL LIABILITIES, 31-12-2015							
Derivatives	101	0	101	46	0	0	54
Derivatives (excluding central clearing houses)	101	0	101	46	0	0	54
Derivatives with central clearing houses (1)	0	0	0	0	0	0	0
Repurchase, securities lending and borrowing and similar agreements	1 979	0	1 979	0	58	1 922	0
Repurchase	1 922	0	1 922	0	0	1 922	0
Securities lending	58	0	58	0	58	0	0
Other financial instruments	0	0	0	0	0	0	0
Total	2 080	0	2 080	46	58	1 922	54

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

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

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

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

Fair value of financial instruments which are not recognised at fair value in the balance sheet, in millions of eur	Loans and advances Carrying value	Loans and advances Fair value	Financial assets held to maturity Carrying value	Financial assets held to maturity Fair value	Financial liabilities at amortised cost Carrying value	Financial liabilities at amortised cost Fair value
FINANCIAL ASSETS, 31-12-2016						
Loans and advances to credit institutions and investment firms	1 013	1 158	-	-	-	-
Loans and advances to customers	1 440	1 588	-	-	-	-
Debt securities	48	48	5 412	6 564	-	-
Other	9	9	-	-	-	-
Total	2 510	2 802	5 412	6 564	-	-
Of which level 1		76		6 002		
Of which level 2		1 483		462		
Of which level 3		1 244		100		
FINANCIAL ASSETS, 31-12-2015						
Loans and advances to credit institutions and investment firms	1 460	1 609	-	-	-	-
Loans and advances to customers	1 000	1 401	-	-	-	-
Debt securities	46	44	5 593	6 623	-	-
Other	6	6				
Total	2 512	3 059	5 593	6 623	-	-
Of which level 1		70		6 363		
Of which level 2		1 651		176		
Of which level 3		1 338		84		
FINANCIAL LIABILITIES, 31-12-2016						
Deposits from credit institutions and investment firms	-	-	-	-	1 577	1 577
Deposits from customers and debt certificates	-	-	-	-	609	608
Liabilities under investment contracts	-	-	-	-	0	0
Other	-	-	-	-	10	10
Total	-	-	-	-	2 196	2 196
Of which level 1						108
Of which level 2						2 087
Of which level 3						0
FINANCIAL LIABILITIES, 31-12-2015						
Deposits from credit institutions and investment firms	-	-	-	-	1 922	1 912
Deposits from customers and debt certificates	-	-	-	-	558	571
Liabilities under investment contracts	-	-	-	-	0	0
Other	-	-	-	-	0	0
Total	-	-	-	-	2 480	2 482
Of which level 1						58
Of which level 2						2 424
Of which level 3						0

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

Fair value hierarchy In millions of EUR	31-12-2016 Level 1	Level 2	Level 3	Total	31-12-2015 Level 1	Level 2	Level 3	Total
Financial assets measured at fair value								
Held for trading	3	11	1	15	2	16	8	25
Loans and advances to credit institutions	0	0	0	0	0	0	0	0
Loans and advances to customers	0	0	0	0	0	0	0	0
Equity instruments	2	0	0	2	2	0	0	2
Debt securities	1	0	0	2	0	0	0	0
Of which government securities	1	0	0	1	0	0	0	0
Derivatives	0	11	1	12	0	16	8	24
Other	0	0	0	0	0	0	0	0
Designated at fair value	13 333	366	3	13 702	13 048	286	0	13 335
Loans and advances to credit institutions	0	1	0	1	0	1	0	1
Loans and advances to customers	0	0	0	0	0	0	0	0
Equity instruments	2	0	0	2	2	0	0	2
Investment contracts	13 331	362	0	13 693	13 046	284	0	13 330
Debt securities	0	4	3	7	0	2	0	2
Of which government securities	0	0	0	0	0	0	0	0
Available for sale	12 764	2 076	877	15 718	12 706	1 804	1 042	15 552
Equity instruments	1 235	8	77	1 319	1 479	11	63	1 553
Debt securities	11 529	2 068	801	14 399	11 227	1 793	979	13 999
Of which government securities	6 536	1 124	142	7 803	6 630	430	297	7 357
Hedging derivatives	0	16	0	16	0	26	0	26
Derivatives	0	16	0	16	0	26	0	26
Total	26 100	2 469	882	29 451	25 756	2 132	1 049	28 937
Financial liabilities measured at fair value								
Held for trading	0	34	0	34	0	42	0	42
Deposits from credit institutions	0	0	0	0	0	0	0	0
Deposits from customers and debt certificates	0	0	0	0	0	0	0	0
Derivatives	0	34	0	34	0	42	0	42
Short positions	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0
Designated at fair value	12 652	0	0	12 653	12 386	0	0	12 387
Deposits from credit institutions	0	0	0	0	0	0	0	0
Deposits from customers and debt certificates	0	0	0	0	0	0	0	0
Liabilities under investment contracts	12 652	0	0	12 653	12 386	0	0	12 387
Other	0	0	0	0	0	0	0	0
Hedging derivatives	0	73	0	73	0	58	0	58
Derivatives	0	73	0	73	0	58	0	58
Total	12 652	107	0	12 759	12 386	101	0	12 487

- The fair value hierarchy prioritises the valuation techniques and the respective inputs into three levels.
  The fair value hierarchy gives the highest priority to ‘level 1 inputs’.
  This means that, when there is an active market, quoted prices have to be used to measure the financial assets or liabilities at fair value. Level 1 inputs are prices that are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency (and that are quoted in active markets accessible to KBC). They represent actual and regularly occurring market transactions on an arm’s length basis. The fair value measurement of financial instruments with quoted prices is based on a mark-to-market valuation derived from currently available transaction prices. No valuation technique (model) is involved.

If there are no price quotations available, the reporting entity establishes fair value using a model based on observable or unobservable inputs. The use of observable inputs needs to be maximised, whereas the use of unobservable inputs has to be minimised.

Observable inputs are also referred to as 'level 2 inputs' and reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Observable inputs reflect an active market. Examples of observable inputs are the risk-free rate, exchange rates, stock prices and implied volatility. Valuation techniques based on observable inputs include discounted cashflow analysis, reference to the current or recent fair value of a similar instrument, or third-party pricing, provided that the third-party price is in line with alternative observable market data.

Unobservable inputs are also referred to as 'level 3 inputs' and reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions regarding the risks involved). Unobservable inputs reflect a market that is not active. For example, proxies and correlation factors can be considered to be unobservable in the market.

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

Overview at the level of KBC Group:

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

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

- In 2016, KBC transferred 47 million euros' worth of debt instruments (mainly classified as 'available for sale') out of level 1 and into level 2. It also reclassified approximately 27 million euros' worth of debt instruments from level 2 to level 1 because the market for those instruments became more active in 2016. Most of these reclassifications were attributable to a change in market activity for primarily corporate bonds and bonds issued by regional public authorities.
- In 2015, KBC transferred 0.1 billion euros' worth of debt instruments (mainly classified as 'available for sale') out of level 1 and into level 2 due to the decline in market activity for certain bonds. KBC also reclassified around 0.2 billion euros' worth of debt instruments from level 2 to level 1 because the market for those instruments became more active in 2015.

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

- In 2016, significant movements in financial assets and liabilities classified in level 3 of the fair value hierarchy included the following:
  - In the 'available-for-sale' category, a net 201 million euros' worth of bonds was transferred out of level 3, most of which was due to a change in the liquidity of those bonds. This was partly offset by a 23-million-euro increase in carrying value resulting chiefly from the net impact of the acquisition, disposal and settlement of positions. The carrying value of unlisted shares in the 'available-for-sale' category also increased, rising by 14 million euros primarily on account of purchases.
- In 2015 the following material movements were observed with respect to instruments classified in level 3 of the fair value level hierarchy:
  - Also in the 'available-for-sale' category, the fair value of equity instruments decreased by 46 million euros, mainly due to the net transfer of instruments out of level 3.
  - In the 'available-for-sale' category, the fair value of debt securities decreased by 12 million euros, which was mainly due to maturing of deals (-449 million euros), selling of positions (-42 million euros) and the net amount of 16 million euros transferred out of level 3, partly compensated by new deals (+461 million euros) en positive fair value movements (+31 million euros).
  - Also in the available for sale category, the fair value of equity instruments decreased by 46 million euros, mainly due to the net transfer of instruments out of level 3.
  - In the available for sale category, the fair value of debt securities decreased by 12 million euros, which is mainly due to maturing of deals (-449 million euros), selling of positions (-42 million euros) and the net amount of 16 million euros transferred out of level 3, partly compensated by new deals (+461 million euros) en positive fair value movements (+31 million euros).

Note 4.8: Changes in own credit risk

- Applies to KBC Group and KBC Bank, but not to KBC Insurance.

Note 4.9: Reclassification of financial assets and liabilities

- In 2015 and 2016, no reclassifications occured between IFRS portfolios.

Note 4.10: Derivatives

in millions of EUR	Held for trading				Fair value hedge				Cash flow hedge				Portfolio hedge			
	Carrying value		Notional amount *		Carrying value		Notional amount *		Carrying value		Notional amount *		Carrying value		Notional amount *	
	Assets	Liabilities	Bought	Sold	Assets	Liabilities	Bought	Sold	Assets	Liabilities	Bought	Sold	Assets	Liabilities	Bought	Sold
31-12-2016																
Total	12	34	624	295	1	68	829	829	15	5	668	669	0	0	0	0
Breakdown by type																
Interest rate contracts	11	33	293	293	0	61	824	824	14	0	300	300	0	0	0	0
Of which Interest rate swaps	11	33	293	293	0	61	824	824	14	0	300	300	0	0	0	0
Of which Options	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Foreign exchange contracts	0	1	2	3	1	7	6	6	1	5	368	369	0	0	0	0
Of which Forward foreign exchange operations/currency forwards	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Of which Currency and interest rate swaps	0	1	2	3	1	7	6	6	1	5	368	369	0	0	0	0
Of which Options																
Equity contracts	1	0	330	0	0	0	0	0	0	0	0	0	0	0	0	0
Of which Equity swaps	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Of which Options	1	0	330	0	0	0	0	0	0	0	0	0	0	0	0	0
Credit contracts	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Of which Credit default swaps	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Commodity and other contracts	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
31-12-2015																
Total	24	42	773	273	0	53	830	819	26	5	502	499	0	0	0	0
Breakdown by type																
Interest rate contracts	16	40	272	272	0	47	824	819	25	0	300	300	0	0	0	0
Of which Interest rate swaps	16	40	272	272	0	47	824	819	25	0	300	300	0	0	0	0
Of which Options	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Foreign exchange contracts	0	2	0	1	0	7	7	0	1	5	202	199	0	0	0	0
Of which Forward foreign exchange operations/currency forwards	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Of which Currency and interest rate swaps	0	2	0	1	0	7	7	0	1	5	202	199	0	0	0	0
Of which Options	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Equity contracts	5	0	501	0	0	0	0	0	0	0	0	0	0	0	0	0
Of which Equity swaps	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Of which Options	5	0	501	0	0	0	0	0	0	0	0	0	0	0	0	0
Credit contracts	3	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Of which Credit default swaps	3	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Commodity and other contracts	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

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

- The accounting mismatches due to the valuation of these derivatives and of the hedged assets and liabilities generate volatility in the income statement. This volatility is dealt with using various techniques provided for under IAS 39 rules for hedge accounting. KBC uses the following techniques:
    - Cashflow hedges: used to swap floating-rate assets and liabilities for a fixed rate. This technique allows changes in the fair value of the derivative to be recognised in equity (in a cashflow hedge reserve).
    - Fair value hedges: used in certain asset-swap constructions. Using this technique, the interest rate risk attached to a bond is hedged for investments that were made purely on account of the credit spread. The technique is also applied when certain fixed-term debt instruments are issued by the insuror (senior debt issues).
    - Hedges of net investments in foreign operations: the exchange risk attached to foreign-currency investments is hedged by attracting funding in the currency concerned at the level of the investing entity. This way, the translation differences on the hedge can be recognised in equity.
- As regards the relationship between risk management and hedge accounting policy, 'economic' management takes priority and risks are hedged in accordance with the general ALM framework. Only then is a decision made on which, if any, of these techniques will be used to limit any resulting accounting mismatch.
- For information on fair value adjustments in hedge accounting, see Note 3.3.

Estimated cashflows from the cashflow hedging derivatives (in millions of EUR)	Inflow	Outflow
Not more than three months	0	0
More than three but not more than six months	4	- 1
More than six months but not more than one year	9	0
More than one but not more than two years	5	- 5
More than two but not more than five years	12	- 11
More than five years	5	- 5

5.0 Notes on other balance sheet items

Note 5.1: Other assets

in millions of EUR	31-12-2016	31-12-2015
Total	874	847
Breakdown by type	874	847
Debtors arising out of direct insurance operations	402	376
Debtors arising out of reinsurance operations	16	17
Deposits with ceding companies	158	216
Income receivable (other than interest income from financial assets)	4	4
Other Assets	294	234

Note 5.2: Tax assets and tax liabilities

in millions of EUR	31-12-2016	31-12-2015
CURRENT TAXES		
Current tax assets	10	10
Current tax liabilities	57	13
DEFERRED TAXES	- 388	- 424
Tax assets by type of temporary difference	150	149
Employee benefits	36	30
Losses carried forward	5	5
Tangible and intangible fixed assets	3	3
Provisions for risks and charges	1	1
Impairment for losses on loans and advances	2	2
Financial instruments at fair value through profit or loss and fair value hedges	60	60
Fair value adjustments, available-for-sale assets, cash flow hedges and hedges of net investments in foreign entities	20	19
Technical provisions	24	29
Other	1	1
Deferred tax liabilities by type of temporary difference	539	574
Employee benefits	0	0
Losses carried forward	0	0
Tangible and intangible fixed assets	5	5
Provisions for risks and charges	0	1
Impairment for losses on loans and advances	0	0
Financial instruments at fair value through profit or loss and fair value hedges	34	34
Fair value adjustments, available-for-sale assets, cash flow hedges and hedges of net investments in foreign entities	392	388
Technical provisions	97	134
Other	10	11
Recognised in the balance sheet as follows:		
Deferred tax assets	11	11
Deferred tax liabilities	399	435
Unused tax losses and unused tax credits	0	0

- Deferred tax assets are recognised to the extent that it is probable that, on the basis of realistic financial projections, taxable profit will be available against which the deductible temporary differences can be utilised in the foreseeable future (limited to a period of eight to ten years).
- The net change in deferred taxes (+36 million euros in 2016) breaks down as follows:
  - an increase in deferred tax assets: +1 million euros;
  - a decrease in deferred tax liabilities: -35 million euros.
- The change in deferred tax assets was accounted for chiefly by:
  - the decrease in deferred tax assets via the income statement: -4 million euros (owing primarily to technical and other provisions);
  - the increase in deferred tax assets relating to changes in defined benefit plans recognised in other comprehensive income: +6 million euros;
  - other items (including exchange differences): -1 million euros.
- The change in deferred tax liabilities was accounted for chiefly by:
  - the decrease in deferred tax liabilities via the income statement: -38 million euros (owing primarily to technical and other provisions (-37 million euros));
  - the decrease in deferred tax liabilities consequent on movements in the market value of cashflow hedges: -4 million euros;
  - the increase in deferred tax liabilities consequent on the rise in the market value of available-for-sale securities: +7 million euros;
  - other items (including exchange differences): -1 million euros.

Note 5.3: Investments in associated companies and joint ventures

in millions of EUR	31-12-2016	31-12-2015
Total	45	40
Overview of investments including goodwill		
Goodwilll on associated companies and joint ventures	0	0
Gross amount	0	0
Accumulated impairment	0	0
Breakdown by type		
Unlisted	45	40
Listed	0	0
Fair value of investments in listed associated companies	0	0

- Associated companies are companies on whose management KBC exerts significant influence, without having direct or indirect full or joint control. In general, KBC has a 20% to 50% shareholding in such companies. Joint ventures are companies over which KBC exercises joint control, the one being NLB Vita.
- Goodwill paid on associated companies and joint ventures is included in the nominal value of ‘Investments in associated companies and joint ventures’ shown on the balance sheet. An impairment test is performed and the necessary impairment losses on goodwill recognised (see table).

Note 5.4: Property and equipment and investment property

in millions of EUR	31-12-2016	31-12-2015
Property and equipment	48	48
Investment property	210	222
Rental income	17	17
Direct operating expenses from investments generating rental income	6	13
Direct operating expenses from investments not generating rental income	0	0

MOVEMENTS TABLE	Land and buildings	IT equipment	Total Other equipment	Total property and equipment	Investment property
2016					
Opening balance	30	1	17	48	222
Acquisitions	0	1	13	14	0
Disposals	0	0	- 4	- 4	0
Depreciation	- 6	- 1	- 6	- 13	- 8
Other movements	4	0	0	4	- 4
Closing balance	28	1	19	48	210
of which accumulated depreciation and impairment	30	8	25	63	165
Fair value 31-12-2016					291
2015					
Opening balance	31	2	15	47	235
Acquisitions	1	1	11	12	1
Disposals	0	0	- 3	- 3	0
Depreciation	- 6	- 1	- 6	- 13	- 9
Other movements	4	0	1	4	- 4
Closing balance	30	1	17	48	222
of which accumulated depreciation and impairment	28	7	24	59	154
Fair value 31-12-2015					285

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

Note 5.5: Goodwill and other intangible assets

in millions of EUR	Goodwill	Software developed inhouse	Software developed externally	Other	Total
2016					
Opening balance	116	0	6	2	124
Acquisitions	0	0	2	2	4
Disposals	0	0	0	0	0
Amortisation	0	0	- 2	- 1	- 3
Other movements	0	0	0	0	0
Closing balance	115	0	5	3	124
of which accumulated amortisation and impairment	199	0	27	22	248
2015					
Opening balance	150	0	6	3	159
Acquisitions	0	0	2	1	3
Disposals	0	0	0	0	0
Amortisation	0	0	- 2	- 1	- 3
Other movements	- 34	0	0	0	- 35
Closing balance	116	0	6	2	124
of which accumulated amortisation and impairment	199	0	23	22	243

- Goodwill: includes the goodwill paid on companies included in the scope of consolidation and relating to the acquisition of activities. Goodwill paid on associated companies: included in the nominal value of 'Investments in associated companies' shown on the balance sheet.
- Impairment testing: a test was carried out to establish whether impairment on goodwill had to be recognised (see table and Note 3.10). This impairment test is performed at least once a year. We also carry out a high level assessment on a quarterly basis to see whether there is an indication of impairment. In the test, each entity is regarded as a separate cash-generating unit. Each entity has a specific risk profile and it is rare to have different profiles within a single entity.
- Impairment on goodwill under IAS 36: recognised in profit or loss if the recoverable amount of an investment is lower than its carrying value. The recoverable amount is defined as the higher of the value in use (calculated based on discounted cashflow analysis) and the fair value (calculated based on multiple analysis, etc.) less costs to sell.
- The main group companies to which goodwill relates are listed in the table (the consolidated entity in each case, i.e. including subsidiaries). All of these companies have been valued using the discounted cashflow method. This method calculates the recoverable amount of an investment as the present value of all future free cashflows of the business. This method is based on long-term projections about the company's business and the resulting cashflows (i.e. projections for a number of years ahead (usually 16), and the residual value of the business at the end of the specific projection period). These long-term projections are the result of an assessment of past and present performances combined with external sources of information on future performances in the respective markets and the global macroeconomic environment. The terminal growth rate is determined using a long-term average market growth rate. The present value of these future cashflows is calculated using a compound discount rate which is based on the capital asset pricing model (CAPM). A risk-free rate, a market-risk premium (multiplied by an activity beta), and a country risk premium (to reflect the impact of the economic situation of the country where KBC is active) are also used in the calculation. KBC has developed two distinct discounted cashflow models, viz. a bank model and an insurance model. Free cashflows in both cases are the dividends that can be paid out to the company's shareholders, account taken of the minimum capital requirements.

Goodwill outstanding (in millions of EUR)			Discount rates throughout the specific period of cashflow projections	
	31-12-2016	31-12-2015	31-12-2016	31-12-2015
DZI Insurance	74	74	9.6%-7.7%	9.2%-7.6%
ČSOB Pojišťovna	18	18	8.3%-7.7%	8.0%-7.8%
Rest	24	24		
Total	115	116		

- The period to which the cashflow budgets and projections relate is 16 years in most cases. This longer period is used to take account of the expected convergence of the Central and Eastern European economies with their Western European counterparts. This significant assumption is used in the model to reflect the dynamism of the economies in Central and Eastern Europe.
- The growth rate used to extrapolate the cashflow projections after the 16-year period is 2%, which is equal to the expected long-term growth rate of gross domestic product. This rate of growth was the same as in 2015.
- No sensitivity analysis was carried out for entities where the recoverable amount exceeded the carrying value to such a large extent that no reasonably possible change in the key assumptions would result in the recoverable amount being less than or equal to the carrying value. A sensitivity analysis was not carried out for DZI Insurance either because the recoverable amount was only just higher than the carrying value and, therefore, any adverse change in the key assumptions would lead to impairment.

Note 5.6: Technical provisions, insurance

In millions of EUR	31-12-2016	31-12-2015
Technical provisions, before reinsurance	19 737	19 613
Insurance contracts	10 794	10 378
Provisions for unearned premiums and unexpired risk	692	652
Life insurance provision	7 015	6 731
Provision for claims outstanding	2 544	2 458
Provision for profit sharing and rebates	19	18
Other technical provisions	524	519
Investment contracts with DPF	8 942	9 235
Life insurance provision	8 856	9 143
Provision for claims outstanding	0	0
Provision for profit sharing and rebates	87	92
Reinsurers' share	110	127
Insurance contracts	110	127
Provisions for unearned premiums and unexpired risk	2	1
Life insurance provision	3	2
Provision for claims outstanding	105	123
Provision for profit sharing and rebates	0	0
Other technical provisions	0	0
Investment contracts with DPF	0	0
Life insurance provision	0	0
Provision for claims outstanding	0	0
Provision for profit sharing and rebates	0	0

	2016		2015	
MOVEMENTS TABLE	Before re-insurance	Re-insurance	Before re-insurance	Re-insurance
INSURANCE CONTRACTS, LIFE				
Opening balance	7 225	3	6 807	2
Deposits of the period less fees	774	0	788	0
Provisions paid out	- 550	0	- 599	0
Accretion of interest	185	0	234	0
Cost of profit sharing	3	0	3	0
Exchange differences	6	0	27	0
Change in consolidation scope	0	0	0	0
Other movements [a]	- 128	0	- 35	1
Closing balance	7 514	3	7 225	3
INSURANCE CONTRACTS, NON-LIFE				
Opening balance	3 153	124	3 026	192
Change in provisions for unearned premiums	24	0	35	0
Payments regarding claims of previous years	- 223	- 5	- 204	- 7
Surplus/shortfall of claims provision in previous years	- 135	- 8	- 129	8
Provisions for new claims	406	32	332	13
Exchange differences	2	0	- 5	0
Change in consolidation scope	0	0	0	0
Other movements	54	- 36	96	- 83
Closing balance	3 280	107	3 153	124
INVESTMENT CONTRACTS WITH DPF, LIFE				
Opening balance	9 235	0	9 176	0
Deposits of the period less fees	632	0	378	0
Provisions paid out	- 800	0	- 606	0
Credit of interest	214	0	259	0
Cost of profit sharing	0	0	0	0
Exchange differences	0	0	1	0
Change in consolidation scope	0	0	0	0
Other movements [b]	- 339	0	27	0
Closing balance	8 942	0	9 235	0

a In 2015, the ‘Other movements’ item under ‘Insurance contracts, Life’ included the acquisition of a life insurance portfolio from another insurance company. In 2016, it included the surrender of a large, reinsured savings policy.
b The ‘Other movements’ item under ‘Investment contracts with DPF, Life’ included transfers to unit-linked products.

- Technical provisions relate to insurance contracts and investment contracts with a discretionary participation feature (DPF).
- Liabilities under investment contracts without DPF are measured at fair value. These liabilities concern mainly unit-linked contracts, which are recognised under financial liabilities (see Note 4.1).
- Technical provisions for life insurance are calculated using various assumptions. Judgement is required when making these assumptions and the assumptions used are based on various internal and external sources of information. At present, IFRS 4 refers extensively to local accounting principles for the recognition of technical provisions. These provisions are generally calculated using the technical assumptions that were applicable at the inception of the insurance contract and are subject to liability adequacy tests. The key assumptions are:
  - mortality and morbidity rates, which are based on standard mortality tables and adapted where necessary to reflect the group's own experience;
  - expense assumptions, which are based on current expense levels and expense loadings;
  - the discount rate, which is generally equal to the technical interest rate, remains constant throughout the life of the policy, and in some cases is adjusted to take account of legal requirements and internal policy decisions.
- Assumptions for the technical provisions for claims outstanding are based on past claims experience (including assumptions in respect of claim numbers, claim payments, and claims handling costs), and adjusted to take account of such factors as anticipated market experience, claims inflation and external factors such as court awards and legislation. The technical provision for claims outstanding is generally not discounted except when long-term obligations and/or annuities (industrial accidents, guaranteed income and hospitalisation insurance) are involved.
- In 2016, there were no major changes in assumptions leading to a significant change in the valuation of insurance assets and liabilities.

Note 5.7: Provisions for risks and charges

in millions of EUR	Provision for restructuring	Provision for taxes and pending legal disputes	Other	Subtotal	Provision, off-balance-sheet credit commit-ments	Total
2016						
Opening balance	0	3	7	10	0	10
Movements with an impact on result						
Amounts allocated	0	0	5	5	0	5
Amounts used	0	0	- 5	- 5	0	- 5
Unused amounts reversed	0	0	0	0	0	0
Transfer to or from non-current liabilities regarding disposal groups	0	0	0	0	0	0
Change in consolidation scope	0	0	0	0	0	0
Other movements	0	0	2	1	0	1
Closing balance	0	3	8	10	0	10
2015						
Opening balance	0	1	7	8	0	8
Movements with an impact on result				0		
Amounts allocated	0	8	1	9	0	9
Amounts used	0	0	0	0	0	0
Unused amounts reversed	0	- 8	0	- 8	0	- 8
Transfer to or from non-current liabilities regarding disposal groups	0			0		0
Change in consolidation scope	0	0	0	0	0	0
Other movements	0	2	- 1	1	0	1
Closing balance	0	3	7	10	0	10

- For most of the provisions recorded, no reasonable estimate can be made of when they will be used.
- Other provisions: included those set aside for miscellaneous risks and future expenditure.

Note 5.8: Other liabilities

in millions of EUR	31-12-2016	31-12-2015
Total	711	616
Breakdown by type		
Retirement benefit plans or other employee benefits	92	79
Deposits from reinsurers	73	77
Accrued charges (other than from interest expenses on financial liabilities)	54	52
Other	492	407

- For information on retirement benefit obligations, see Note 5.9. (Note that it has a broader scope than the amounts set out in note 5.9 amount of employee pension or other benefits included in note 5.8).

Note 5.9: Retirement benefit obligations

in millions of EUR	31-12-2016	31-12-2015
DEFINED BENEFIT PLANS		
Reconciliation of defined benefit obligations		
Defined benefit obligations at the beginning of the period	150	166
Current service cost	7	7
Interest cost	3	3
Plan amendments	0	0
Actuarial gain or loss arising from changes in demographic assumptions	0	0
Actuarial gain or loss arising from changes in financial assumptions	24	- 14
Experience adjustments	7	- 4
Past-service cost	0	0
Benefits paid	- 7	- 8
Exchange differences	0	0
Curtailments	0	0
Transfers under IFRS 5	0	0
Changes in the scope of consolidation	0	0
Other	17	0
Defined benefit obligation at end of the period	202	150
Reconciliation of the fair value of plan assets		
Fair value of plan assets at the beginning of the period	115	111
Actual return on plan assets	15	4
Expected return on plan assets	*3*	*2*
Employer contributions	7	6
Plan participant contributions	0	0
Benefits paid	- 7	- 8
Exchange differences	0	0
Settlements	0	0
Transfers under IFRS 5	0	0
Changes in the scope of consolidation	0	0
Other	11	2
Fair value of plan assets at the end of the period	141	115
of which financial instruments issued by the group	0	0
of which property occupied by KBC	1	0
Funded Status		
Plan assets in excess of defined benefit obligations	- 60	- 34
Reimbursement rights	0	0
Asset ceiling limit	0	0
Unfunded accrued/prepaid pension cost	- 60	- 34
Movement in net liabilities or net assets		
Unfunded accrued/prepaid pension cost at the beginning of the period	- 34	- 55
Amounts recognised in the income statement	- 8	- 8
Amounts recognised in other comprehensive income	- 17	18
Employer contributions	7	6
Exchange differences	0	0
Transfers under IFRS 5	0	0
Changes in the scope of consolidation	0	0
Other	- 7	5
Unfunded accrued/prepaid pension cost at the end of the period	- 60	- 34

in millions of EUR	31-12-2016	31-12-2015
DEFINED BENEFIT PLANS		
Amounts recognised in the income statement	**8**	**8**
Current service cost	7	7
Past-service cost	0	0
Interest cost	1	1
Plan participant contributions	0	0
Curtailments	0	0
Settlements	0	0
Changes in the scope of consolidation	0	0
Changes to the amounts recognised in other comprehensive income	**17**	**- 18**
Actuarial gain or loss arising from changes in demographic assumptions	0	0
Actuarial gain or loss arising from changes in financial assumptions	24	- 14
Actuarial result on plan assets	- 13	- 3
Experience adjustments	7	- 4
Adjustments to limits of the asset ceiling	0	0
Other	- 2	2
DEFINED CONTRIBUTION PLANS		
Expenses for defined contribution plans	1	0

- The pension claims of the Belgian-based staff of the various KBC group companies are covered by pension funds and group insurance schemes. Retirement benefits that are actively accrued for the current workforce of KBC Bank, KBC Insurance and most of their Belgian subsidiaries are accrued exclusively through the KBC pension funds. Retirement benefits accrued through employer contributions are currently accrued primarily through a defined benefit plan, where the benefit is calculated based on the final salary of employees before they retire, the number of years they had been in the plan and a formula that applies a progressive rate scale. A defined contribution plan was introduced on 1 January 2014 for all new employees. In this plan, a contribution is deposited based on the current monthly salary and the amounts deposited are paid out together with the (guaranteed) return on retirement. Both types of pension plan are managed by the OFP Pensioenfonds KBC and the OFP Pensioenfonds Senior Management KBC, which uses the services of KBC Asset Management for the investment strategy. In addition, there are a number of smaller, closed group insurance schemes from the past that will continue to be funded, such as the one for employees of KBC Insurance.

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

Changes in main headings in the main table	2016	2015	2014	2013	2012
Defined benefit obligations	202	150	166	131	142
Fair value of plan assets	141	115	111	96	92
Unfunded accrued/prepaid pension cost	- 60	- 34	- 55	- 34	- 49

Note 5.10: Parent shareholders' equity

in number of shares	31-12-2016	31-12-2015
Ordinary shares	**1 050 906**	**1 050 906**
of which ordinary shares that entitle the holder to a dividend payment	*1 050 906*	*1 050 906*
of which treasury shares	*48 889*	*48 889*
Other information		
Par value per ordinary share (in EUR)	62,00	62,00
Number of shares issued but not fully paid up	0	0

- The share capital of KBC Insurance NV consists of ordinary shares of no nominal value.

Note 5.11: Assets held for sale and discontinued operations (IFRS 5)

- In 2015 and 2016 there were no major companies in scope of IFRS 5.

6.0 Other notes

Note 6.1: Commitments and guarantees granted and received

in millions of EUR	31-12-2016	31-12-2015
Credit commitments - undrawn amount		
Given	0	0
Irrevocable	0	0
Revocable	0	0
Received	0	0
Financial guarantees		
Given	2	2
Guarantees received / collateral	503	2 173
For impaired and past due assets	0	0
For assets that are not impaired or past due assets	503	2 173
Other commitments		
Given	46	0
Irrevocable	46	0
Revocable	0	0
Received	0	0
Carrying value of financial assets pledged as collateral for		
Liabilities	1 400	1 897
Contingent liabilities	0	0

- Fair value of financial guarantees: based on the available market value.

Note 6.2: Leasing

Applies to KBC Group and KBC Bank, but not to KBC Insurance.

Note 6.3: Related-party transactions

In millions of EUR						31-12-2016						31-12-2015
	Parent enitities with joint control	Subsi-diaries	Associa-ted com-panies	Joint Ventures	Other	Total	Parent enitities with joint control	Subsi-diaries	Associa-ted com-panies	Joint Ventures	Other	Total
Assets	0	41	34	0	1 200	1 275	0	32	33	8	1 627	1 700
Loans and advances	0	0	0	0	999	999	0	0	0	0	1 422	1 422
Equity instruments	0	41	34	0	4	78	0	32	33	8	4	77
Other receivables	0	0	0	0	198	198	0	0	0	0	200	201
Liabilities	501	1	0	0	1 872	2 374	504	1	0	0	2 142	2 647
Deposits	0	0	0	0	1 685	1 685	0	0	0	0	1 979	1 979
Other financial liabilities	500	0	0	0	0	500	500	0	0	0	0	500
Other liabilities (including accrued expense)	1	1	0	0	186	188	3	1	0	0	163	167
Income statement	- 109	1	0	- 3	30	- 81	- 129	- 1	0	- 2	- 9	- 141
Net interest income	- 9	0	0	0	145	137	- 8	0	0	1	107	100
Interest income	0	0	0	0	153	153	0	0	0	1	107	108
Interest expense	- 9	0	0	0	- 8	- 16	- 8	0	0	0	0	- 8
Earned premiums, insurance (before reinsurance)	0	0	0	0	0	0	0	0	0	0	0	0
Technical charges, insurance (before reinsurance)	0	0	0	0	0	0	0	0	0	0	0	0
Dividend income	0	2	0	0	21	23	0	1	0	0	18	19
Net fee and commission income	0	0	0	- 3	- 123	- 127	0	0	0	- 3	- 139	- 142
Fee and commission income	0	0	0	0	2	2	0	0	0	0	1	1
Fee and commission expense	0	0	0	- 3	- 125	- 129	0	0	0	- 3	- 140	- 143
Net other income	3	- 1	0	0	5	7	2	- 1	0	0	9	10
General administrative expenses	- 103	0	0	0	- 18	- 121	- 123	0	0	0	- 4	- 127
Loan commitments, financial guarantees and other commitments												
issued by the group	0	0	0	0	0	0	0	0	0	0	0	0
received by the group	0	0	0	0	0	0	0	0	0	0	0	0

“Parent entities with joint control” in the first column of this table contain transaction with KBC Group NV.

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

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

- Subsidiaries in the first table: includes transactions with non-consolidated subsidiaries (transactions with consolidated subsidiaries have been eliminated in the consolidated financial statements).
- The 'Other' heading in the first table comprises primarily KBC Bank.
- All related-party transactions occur at arm's length.
- Key management comprises the members of the Board of Directors and Executive Committee of KBC Insurance.
- There were no significant impairment charges vis-à-vis related parties.

Note 6.4: Statutory auditor's remuneration

KBC Insurance NV and its subsidiaries paid PricewaterhouseCoopers fees amounting to a total of 1 035 762 euros for standard audit services in 2016 (486 000 euros of which was paid by KBC Insurance NV). Remuneration paid for other services came to 50 366 euros in 2016 (10 000 euros of which was paid by KBC Insurance NV) and comprised:

- 35 627 euros for other certifications;
- 3 039 euros for tax advice;
- 11 700 euros for other non-audit assignments.

Note 6.5: Subsidiaries and associated companies at year-end 2016

Complete list of companies of KBC Insurance included in or excluded from the scope of consolidation as at 31 December 2016

Company	Registered office	Company number	Share of capital held at group level (in %)	Activity
KBC Insurance: subsidiaries that are fully consolidated				
KBC Insurance NV	Leuven – BE	0403.552.563	100.00	insurance company
ADD NV	Heverlee – BE	0406.080.305	100.00	insurance broker
KBC Group Re SA	Luxembourg – LU	--	100.00	reinsurance company
ČSOB Pojišťovna a.s.	Pardubice – CZ	--	99.76	insurance company
ČSOB Poisťovňa a.s.	Bratislava – SK	--	100.00	insurance company
Double U Building BV	Rotterdam – NL	--	100.00	real estate
DZI Life Insurance Jsc	Sofia – BG	--	100.00	life insurance
DZI – GENERAL INSURANCE JSC	Sofia – BG	--	100.00	non-life insurance
DZI – HEALTH INSURANCE AD	Sofia – BG	--	100.00	health insurance
Groep VAB NV	Zwijndrecht – BE	0456.920.676	95.00	holding company
VAB Rijschool NV	Sint-Niklaas – BE	0448.109.811	95.00	driving school
VAB NV	Zwijndrecht – BE	0436.267.594	95.00	travel assistance
K&H Biztosító Zrt.	Budapest – HU	--	100.00	insurance company
KBC Verzekeringen Vastgoed Nederland I BV	Rotterdam – NL	--	100.00	real estate
KBC Insurance: subsidiaries that are not fully consolidated1				
Almarisk NV	Merelbeke – BE	0420.104.030	100.00	insurance broker
ČSOB Insurance Service Limited	Pardubice – CZ	--	100.00	insurance broker
Depannage 2000 NV	Hoboken – BE	0403.992.429	95.00	vehicles
KBC Zakenkantoor NV	Leuven – BE	0462.315.361	100.00	insurance broker
Maatschappij voor Brandherverzekering CVBA	Leuven – BE	0403.552.761	90.09	reinsurance
Net Fund Administration Sp z.o.o.	Warsaw – PL	--	59.78	asset management
Omnia NV	Leuven – BE	0413.646.305	99.99	travel agency
Probemo Dubbele Bedieningen NV	Sint-Niklaas – BE	0435.357.180	95.00	driving school
Rijscholen Sanderus NV	Mechelen - BE	0413.004.719	95.00	driving school
VAB Banden Peeters NV	Overijse – BE	0459.070.118	80.81	vehicles
VAB Fleet Services NV	Zwijndrecht – BE	0866.583.053	66.50	vehicles
VAB Fleet Services BV	Apeldoorn – NL	--	66.50	vehicles
24+ NV	Zwijndrecht – BE	0895.810.836	47.50	insurance broker
KBC Insurance: joint ventures accounted for using the equity method				
NLB Vita d.d.	Ljubljana – SI	--	50.00	life insurance
KBC Insurance: joint ventures not accounted for using the equity method1				
KBC Insurance: associated companies accounted for using the equity method				
ČSOB Property Fund a.s.	Prague – CZ	--	35.79	real estate fund
KBC Insurance: associated companies not accounted for using the equity method1				
AIA-Pool CVBA	Brussels – BE	0453.634.752	33.47	insurance broker
AssurCard NV	Leuven – BE	0475.433.127	20.00	automated third-party payment system
Olympos Mobility NV	Brussels – BE	0638.809.930	49.76	computer programming activities
Optimobil Belgium NV	Brussels – BE	0471.868.277	24.06	vehicles
Traject NV	Ghent – BE	0448.394.475	47.50	mobility

1: immaterial

Companies eligible for consolidation are effectively included in the consolidated accounts if two of the following criteria are met:

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

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

Interests in unconsolidated structured entities

Sponsored unconsolidated structured entities are defined as structured entities where KBC or one of its subsidiaries acts as arranger of the issuance programme, but where the decision-making power of the entities does not reside with KBC or one of its subsidiaries. As a result, these entities are not consolidated.
At year-end 2016, KBC Insurance had received income from unconsolidated structured entities in the form of management fees (25 million euros).

At year-end 2016, KBC Insurance held 5.7 billion euros' worth of notes issued by the unconsolidated structured entities.

Any potential decrease in the value of the notes is passed on to the end-client, which means it will have no impact on KBC.

Note 6.6: Main changes in the scope of consolidation

In 2015, 'PTE Warta SA', 'Anglesea Financial Products Limited' and 'KBC Financial Indemnity Insurance SA' were all liquidated, while 'Eeman P. BVBA' was merged and 'Sepia NV' was sold.

No material changes were made to the scope of consolidation in 2016.

Note 6.7: Risk management

The information required in relation to risks (in accordance with IFRS 4 and IFRS 7) and capital (pursuant to IAS 1) is provided in those parts of the 'Risk management and capital adequay' section that have been audited by the statutory auditor.

Note 6.8: Post-balance-sheet events

The most significant non-adjusting events between balance sheet date and the date on which the financial statements were approved for publication by the Board of Directors (16 March 2017):

- None.

Note 6.9: General information (IAS 1)

Name	KBC Insurance NV.
Incorporation	24 October 1922.
Country of incorporation	Belgium.
Registered office	Professor Roger Van Overstraetenplein 2, 3000 Leuven, Belgium.
VAT	BE0403.552.563.
RLP	Leuven.
Legal form	*naamloze vennootschap* (company with limited liability) under Belgian law; the company is an insurance company that is subject to the prudential supervision of the National Bank of Belgium.
Life	Undefined.
Object	The company has as object the transaction of all insurance, co-insurance, reinsurance and capitalisation business and the management of group pension funds (Article 2 of the Articles of Association).
Documents open to public inspection	The Articles of Association of the company are open to public inspection at the Registry of the Leuven Commercial Court. The financial statements are filed with the National Bank of Belgium. Decisions on the appointment and the termination of the offices of members of the Executive Committee and of the Board of Directors are published in the *Appendices to the Belgian Official Gazette*. Copies of the company's annual reports are available at its registered office. They are sent annually to the holders of registered shares and to those who have requested a copy.

General Meeting of Shareholders

A General Meeting is held every year at the company's registered office or at any other place indicated in the convening notice, at 2 p.m. on the Wednesday immediately prior to the last Thursday of April, or, if this day is a statutory public holiday or bank holiday, at 2 p.m. on the business day immediately before it.

Each share gives entitlement to one vote.

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

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

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

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

Statutory auditor’s report

FREE TRANSLATION FROM DUTCH ORIGINAL

KBC INSURANCE NV

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

17 March 2017

FREE TRANSLATION FROM DUTCH ORIGINAL

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

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

Report on the consolidated financial statements – Unqualified opinion

We have audited the consolidated financial statements of KBC Insurance NV ("the Company") and its subsidiaries (jointly "the Group"), for the year ended 31 December 2016 prepared in accordance with International Financial Reporting Standards as adopted by the European Union, and with the legal and regulatory requirements applicable in Belgium. The total of the consolidated balance sheet amounts to EUR 38.806 million and the consolidated income statement shows a profit for the year (share of the Group) of EUR 334 million.

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

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

Statutory auditor's responsibility

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

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

PwC Bedrijfsrevisoren cvba, burgerlijke vennootschap met handelsvorm - PwC Reviseurs d'Entreprises scrl, société civile à forme commerciale - Financial Assurance Services
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We have obtained from the board of directors and the Company's officials the explanations and information necessary for performing our audit.

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

Unqualified Opinion

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

Other matter

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

Report on other legal and regulatory requirements

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

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

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

Sint-Stevens-Woluwe, 17 March 2017

The statutory auditor
PwC Bedrijfsrevisoren bcvba
represented by

Yves Vandenplas
Accredited auditor

Tom Meuleman
Accredited auditor

Company annual accounts

Additional information

Management certification

‘I, Luc Popelier, Chief Financial Officer of KBC Insurance, certify on behalf of the Executive Committee of KBC Insurance NV that, to the best of my knowledge, the financial statements, which are based on the relevant standards for annual accounts, fairly present in all material respects the assets, the financial condition and results of KBC Insurance NV and its consolidated subsidiaries, and that the annual report provides a fair overview of the development, results and the situation of KBC Insurance NV and its consolidated subsidiaries, as well as an overview of the main risks and uncertainties to which they are exposed.’