WORKING

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TOWARDS A SUSTAINABLE FUTURE

Annual Report of KBC Group
2016

KBC group passport

Our area of operation

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

Our clients, staff and network

Clients (estimate)	over 10 million
Staff	38 356
Bank branches	1 456
Insurance network	427 agencies in Belgium, various distribution channels in Central and Eastern Europe

Our long-term credit ratings (20-03-2017)

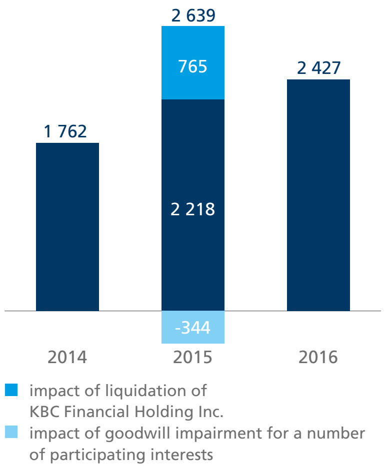
	Fitch	Moody's	Standard & Poor's
KBC Bank NV	A	A1	A
KBC Insurance NV	–	–	A-
KBC Group NV	A	Baa1	BBB+

Our core shareholders

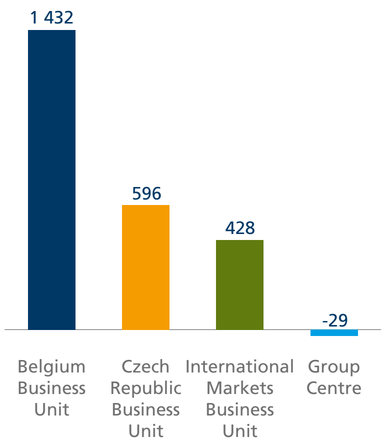
KBC Ancora	18.5%
Cera	2.7%
MRBB	11.4%
Other core shareholders	7.6%

Data relates to year-end 2016, unless otherwise indicated. For definitions, please see the detailed tables and analyses in this report. Outlook/watch/review data for our ratings is given elsewhere in this report.

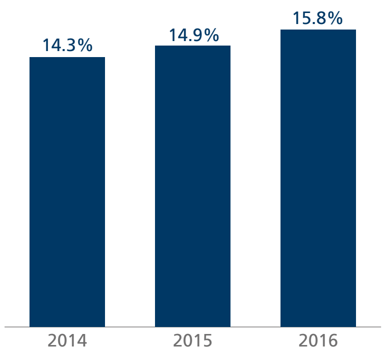
Net result
(in millions of EUR)

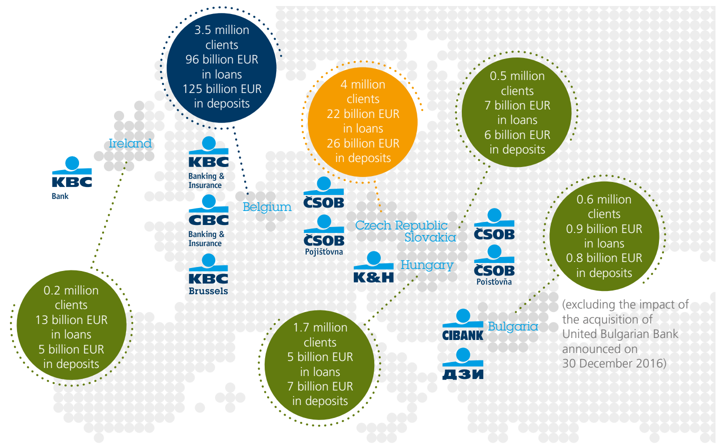


Breakdown of net result by business unit
(2016, in millions of EUR)



Common equity ratio at group level
(Basel III, Danish compromise, fully loaded)





Clients: estimates; loans: see the 'How do we manage our risks?' section; deposits: deposits from customers and debt securities (excluding repos). Data for Belgium includes the limited network of KBC Bank branches abroad.

	2016	2015	2014	2013	2012
Consolidated balance sheet, end of period (in millions of EUR)					
Total assets	275 200	252 356	245 174	238 686	256 928
Loans and advances to customers	133 231	128 223	124 551	120 371	128 492
Securities	73 262	72 623	70 359	64 904	67 295
Deposits from customers and debt securities	177 730	170 109	161 783	161 135	159 632
Technical provisions and liabilities under investment contracts, insurance	32 310	31 919	31 487	30 488	30 058
Total equity	17 357	15 811	16 521	14 514	15 879
Risk-weighted assets (Basel II to 2012, Basel III from 2013, fully loaded)	87 782	89 067	91 236	91 216	102 148
Consolidated income statement (in millions of EUR)					
Total income	7 211	7 148	6 720	7 448	7 733
Operating expenses	-3 948	-3 890	-3 818	-3 843	-4 248
Impairment	-201	-747	-506	-1 927	-2 511
Net result, group share	2 427	2 639	1 762	1 015	612
Belgium	1 432	1 564	1 516	–	–
Czech Republic	596	542	528	–	–
International Markets (Slovakia, Hungary, Bulgaria, Ireland)	428	245	-182	–	–
Group Centre	-29	287	-100	–	–
Gender diversity					
Gender diversity in the workforce (percentage of women)	56%	56%	57%	57%	58%
Gender diversity in the Board of Directors (percentage of women)	31%	25%	22%	15%	10%
Environmental efficiency (per FTE)					
Electricity consumption (in GJ)	17.6	18.5	–	–	–
of which low-carbon electricity (as % of electricity consumption)	66%	48%	–	–	–
Gas and heating oil consumption (in GJ)	9.8	9.9	–	–	–
Other energy consumption (in GJ)	2.6	2.8	–	–	–
Commuter and business travel (in km)	8 839	8 909	–	–	–
Paper consumption (in tonnes)	0.11	0.12	–	–	–
Water consumption (in m^3 of drinking water)	10.5	12.4	–	–	–
Greenhouse gas emissions (in tonnes of CO_2e)	2.6	2.9	–	–	–
KBC share					
Number of shares outstanding, end of period (in millions)	418.4	418.1	417.8	417.4	417.0
Parent shareholders' equity per share, end of period (in EUR)	38.1	34.5	31.4	28.3	29.0
Average share price for the financial year (in EUR)	51.0	56.8	43.1	32.8	17.3
Share price at year-end (in EUR)	58.8	57.7	46.5	41.3	26.2
Gross dividend per share (in EUR)	2.80	0.00	2.00	0.00	1.00
Basic earnings per share (in EUR)	5.68	3.80	3.32	1.03	-1.09
Equity market capitalisation, end of period (in billions of EUR)	24.6	24.1	19.4	17.2	10.9
Financial ratios					
Return on equity	18%	22%	14%	9%	1%
Cost/income ratio, banking	55%	55%	58%	52%	64%
Combined ratio, non-life insurance	93%	91%	94%	94%	95%
Credit cost ratio, banking	0.09%	0.23%	0.42%	1.21%	0.71%
Common equity ratio (Basel III, Danish compromise method, fully loaded)	15.8%	14.9%	14.3%	12.8%	–
Total capital ratio (Basel III, Danish compromise method, fully loaded)	20.0%	19.0%	18.3%	17.8%	–
Net stable funding ratio (NSFR)	125%	121%	123%	111%	105%
Liquidity coverage ratio (LCR)	139%	127%	120%	131%	107%

For definitions and comments, please see the analyses and 'Glossary of ratios and terms' in this report. The proposed dividend for 2016 is subject to the approval of the General Meeting of Shareholders.

Our key performance indicators (KPIs) at group level*

Growth of total income Target: CAGR for 2013–17 ≥ 2.25%	**Growth of gross bank-insurance income** Target: CAGR for 2013–17 ≥ 5%	**Cost/income ratio** Target: in 2017 ≤ 53%	**Combined ratio** Target: in 2017 ≤ 94%	**Dividend** Target: dividend payout ratio ≥ 50%
Common equity ratio Target: fully loaded ≥ 10.4% in 2019	**Total capital ratio** Target: fully loaded ≥ 17% in 2017	**Net stable funding ratio (NSFR)** Target: ≥ 105%	**Liquidity coverage ratio (LCR)** Target: ≥ 105%	**Reputation** Target: higher score and/or more progress than sector average
Client experience Target: higher score and/or more progress than sector average	**Innovation** Target: higher score and/or more progress than sector average	**Governance** Target: higher score and/or more progress than sector average	**Stakeholder interaction** Target: have a formal stakeholder interaction process in place	**Position in SRI funds** Target: market leadership in Belgium

KPI definitions and individual KPI scores achieved to date are provided in the 'Our strategy' section.

* Most of which were defined in 2014.

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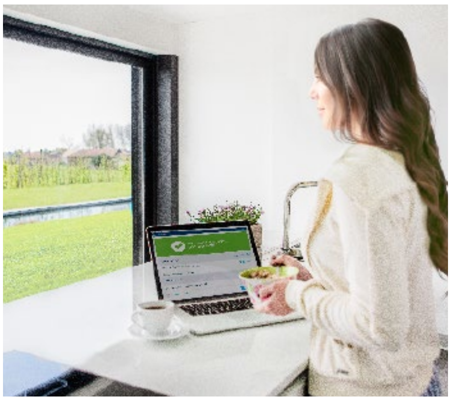
Consolidated financial statements



Company annual accounts and additional information

Welcome

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

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

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

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

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

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

Report of the Board of Directors

KBC at a glance

Who are we?

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

Principal activity: integrated bank-insurance (banking, insurance and asset management)

Over 10 million **clients**

Over 38 000 **employees**

Principal brands and estimated market share:

- Belgium: KBC, KBC Brussels and CBC (21% in banking, 13% in life insurance, 9% in non-life insurance)
- Czech Republic: ČSOB (20% in banking, 7% in life insurance, 7% in non-life insurance)
- Slovakia: ČSOB (11% in banking, 4% in life insurance, 3% in non-life insurance)
- Hungary: K&H (10% in banking, 4% in life insurance, 6% in non-life insurance)
- Bulgaria*: CIBANK and DZI (3% in banking, 11% in life insurance, 10% in non-life insurance)
- Ireland: KBC Bank Ireland (7% in retail banking)

1 456 bank branches, insurance sales via own agents and other channels, various mobile and online channels

* Not including the effect of the acquisition of United Bulgarian Bank (8% share of the banking market) and Interlease in Bulgaria announced at the end of 2016.

Our goal, our ambition and our strategy

Goal

We want to help our clients realise their dreams and projects, and assist them in protecting those dreams and projects.

Ambition

We want to be the reference for bank-insurance in all our core markets.

Strategy

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 sustainable and profitable growth.
- We meet our responsibility to society and local economies.

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

Sustainability

To us, corporate sustainability 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 our employees.

How do we determine what is important enough to mention in our annual report?

We take our cue from relevant legislation and the International Financial Reporting Standards, for instance, and take as much account as possible of the guidelines of the International Integrated Reporting Council. Information regarding the application of GRI Standards is provided in our *Sustainability Report.*

These reporting frameworks emphasise the principle of importance/relevance (also called 'materiality') in reporting. We asked our stakeholders themselves for input on determining which subjects are important to them. The results obtained are discussed elsewhere in this report under 'Our stakeholder survey' (which also includes a reference list showing where we discuss the matters in question in the annual report).

Information on the scope of consolidation used for financial information is provided in Note 6.5 of the 'Consolidated financial statements' section. Our non-financial data is collected through a group-wide process that includes strict hierarchical validation. In 2016, we switched to a group-wide web tool for more efficient data collection and consolidation of non-financial data. As a minimum, all KBC entities with over 100 FTEs report on the various non-financial areas (and for some areas this applies to the entire scope of consolidation).

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

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

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

What other events stood out for you in 2016?

Thomas Leysen: An obvious one is the acquisition of United Bulgarian Bank and Interlease in Bulgaria, which was announced at the end of 2016. It is a logical and important step in our expansion in Central and Eastern Europe, a strategy we embarked on almost twenty years ago. Combining this latest development with our existing presence through CIBANK puts us into third place for banking, and bringing DZI Insurance into the equation means that we also become the reference for bank-insurance in Bulgaria, which is an attractive growth market. We can share our know-how and extensive experience in the field of bank-insurance, leasing, asset management and factoring there, generating all sorts of synergies and so create value for our shareholders. We expect the acquisition to be finalised in the second quarter of 2017. Another event that springs to mind is the EBA stress test at the end of July, which showed that we remain sufficiently capitalised even in an adverse scenario. That's good news for all our stakeholders. We also introduced an interim dividend policy which basically means that in November each year we will now pay an interim dividend of 1 euro in cash as an advance on the final dividend. This will ensure a more evenly distributed cashflow to our shareholders.

Our net profit came to 2.4 billion euros in 2016. What were the most important contributors to that figure?

Johan Thijs: Firstly, it's important to bear in mind when comparing our results with last year's that the numbers for 2015 were enhanced by the liquidation of a group company, which had a net positive impact of 765 million euros, and that we recorded substantial goodwill impairment charges in that year. Disregarding that effect, our net profit was 9% higher than its 2015 level, even though market conditions were challenging. Our net interest income, for instance, fell by just 1%, despite the negative impact of the climate of low interest rates. Our insurance business performed strongly. Premiums were up 14% and the combined ratio of our non-life activities ended the year at a very good 93%. Our net fee and commission income was down 14%, due mainly to the lower level of income generated by our asset management activities, reflecting investor caution that had arisen because of uncertainty on the markets. The quality of our loan portfolio improved further, resulting in exceptionally low loan loss provisioning, thanks in part to Ireland, where we were actually able to reverse impairment charges, on balance. We do not expect, however, to be able to maintain this exceptionally low level of provisioning in the years ahead. We kept our costs well under control too, with the result that our cost/income ratio come to an excellent 55%. This brought our net profit for 2016 to a total of 2.4 billion euros, an excellent performance to be proud of and one for which we're genuinely grateful to our clients and employees.

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

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

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

What do you expect to see in 2017?

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

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

We hope you enjoy our annual report.

Johan Thijs
Chief Executive Officer

Thomas Leysen
Chairman of the Board of Directors

Our business model

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

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

How do we create value?

Our business model

Our value creation | Our model | Our environment | Our capitals

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.

2016

148 billion euros in loans

177 billion euros in customer deposits and debt securities (excl. repos)

213 billion euros of total assets under management

32 billion euros in insurance reserves (incl. unit-linked insurance products)

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.

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

- *Financial capital* is the money we receive from different capital providers to support our activities and to invest further in our business strategy. It comprises the capital made available by our shareholders and accumulated profit generated by our operations.
- *Human capital and intellectual capital (employees and brand)* refer to the recruitment, management and development of our employees, to enable them to make the best possible use of their talents and experience in order to keep improving our service and to develop solutions for our clients. Intellectual capital includes the knowledge and creativity of our employees, together with our intellectual property and brand name.
- *Social and relationship capital (clients and other stakeholders)* comprises all relationships with and our reputation among our clients, shareholders, government, regulators and other stakeholders who enable us to operate.
- *Manufactured capital (infrastructure)* is a generic term for all the forms of infrastructure we use to perform our activities. It includes our office buildings, branches and agencies, our electronic and other networks and our ICT platforms.
- *Natural capital (environment and society)* refers to the raw materials we use in our operations. Although the direct consumption of raw materials is less significant for a financial institution, our indirect impact is substantial on account of our loan and investment portfolios, for instance. As a responsible business, therefore, we want to show due respect to our indirect environmental impact.

Financial capital

- Total equity of 17.4 billion euros

- Net profit of 2.4 billion euros
- Total gross dividend of 2.80 euros per share for 2016
- Maintenance of robust capital and liquidity ratios
- Cost/income ratio of 55% and combined ratio of 93%
- …

Employees and brand

- Over 38 000 employees
- Strong brands in all core countries
- Capacity to innovate

- 2.3 billion euros in remuneration paid to staff
- High level of staff involvement
- KPI for reputation: see elsewhere in this report
- KBC has best reputation of Belgium's big banks in Flanders (Reputation Institute)
- …

Infrastructure

- 1 456 bank branches
- Different distribution channels for insurance
- Various electronic distribution platforms and underlying ICT systems

- Various new electronic applications and new branch concepts
- Successful omnichannel approach
- KPI for innovation: see elsewhere in this report
- …

Clients and other stakeholders

- More than 10 million clients
- Relationships with suppliers, government, regulators and other stakeholders

- KPI for client experience and governance: see elsewhere in this report
- Stakeholder interaction process in each core country
- 148-billion-euro loan portfolio, 177 billion euros in deposits, 213 billion euros' worth of assets under management, 32 billion euros in insurance reserves
- Aggregate 1.1 billion euros paid in income taxes and bank taxes
- …

Environment and society

- Use of electricity, gas, water, paper, etc.
- Indirect impact through lending, investment portfolio, funds, etc.

- New sustainability strategy
- Initiatives targeting four areas
- Strong position in Belgian market for SRI funds
- …

How do we create value through our activities?

Financial capital · **Employees and brand** · **Infrastructure** · **Clients and other stakeholders** · **Environment and society**

+

Income generation

What does our group look like in figures?
See 'Our financial report'.

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

−

Risk hedging and cost payment

What are our main challenges?
See 'In what environment do we operate?' in this section.

=

Net profit

−

Dividends to shareholders

=

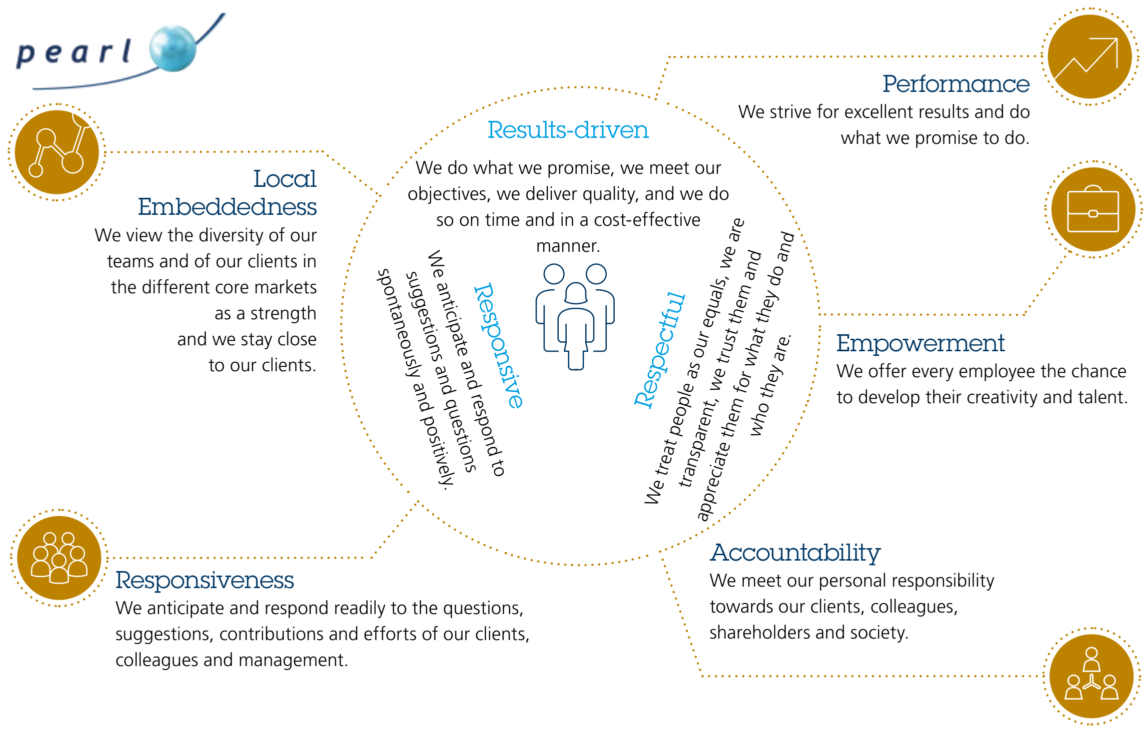
Profit carried forward, used to bolster capital and to make investments, with a positive long-term effect for all stakeholders.

Where do we want to go?
See 'Our strategy'.

What makes us who we are?

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 tables 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 our shareholder structure 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.

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

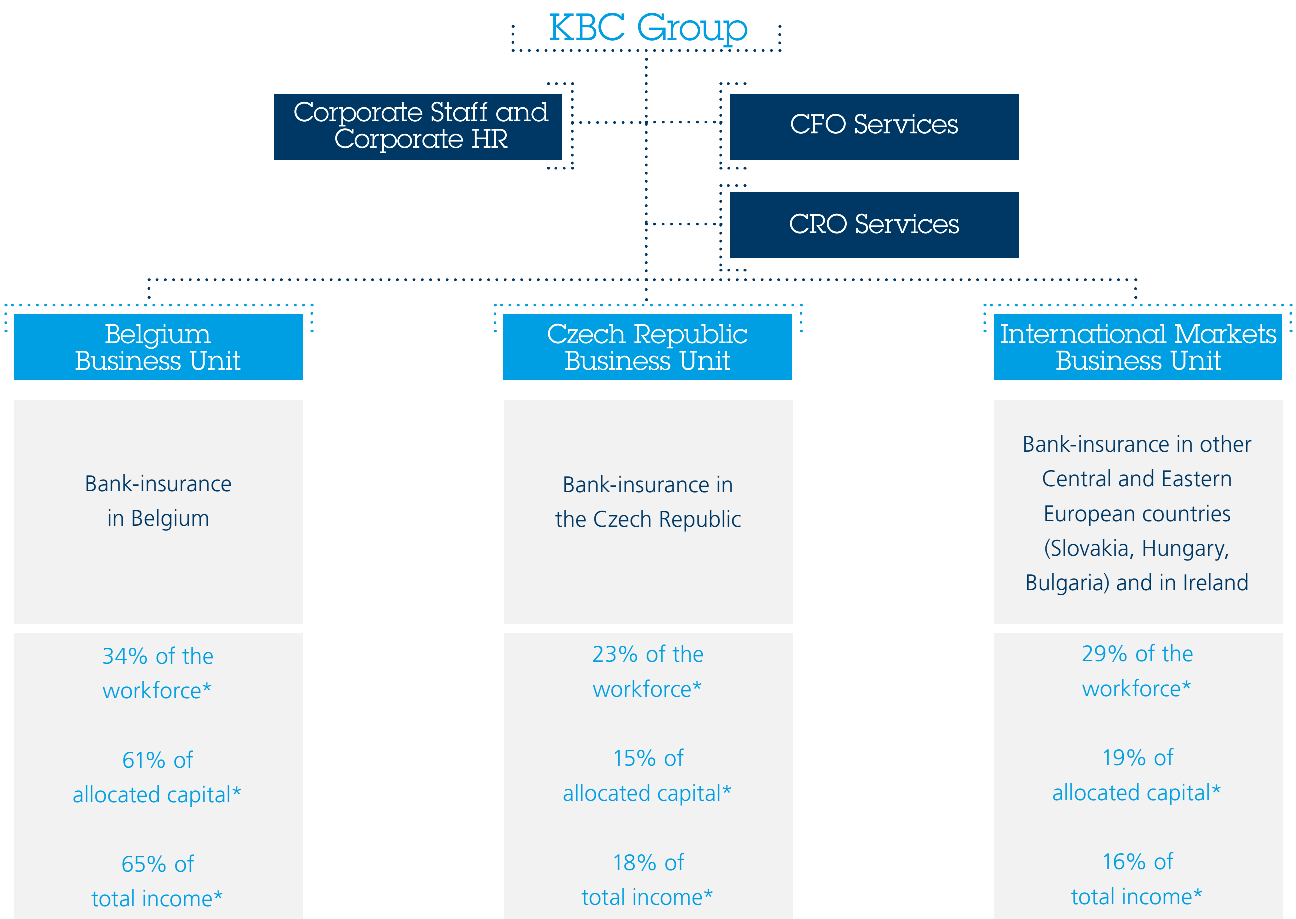
Like to know more? You will find information on each business unit and country in the 'Our business units' section. Information about our culture and values can be found at www.kbc.com > About us.

We have structured our group around three business units, which focus on local activities and contribute to sustainable earnings and growth. These units are Belgium, the Czech Republic and International Markets.
We have illustrated the importance of the different business units in the following diagram. A more detailed description is provided in the ‘Our 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 also 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.

The most important matters discussed by the Board of Directors in 2016 are summarised in the ‘Corporate governance statement’ section.
We also deal with our remuneration policy for senior management in that section. The principle underpinning this policy – and indeed the remuneration of all our staff – is that good performance deserves to be rewarded. It is only fair that every employee who works hard is properly rewarded for their efforts, including by means of (limited) variable remuneration.



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

Composition of the Board of Directors and Executive Committee (year-end 2016)[1]

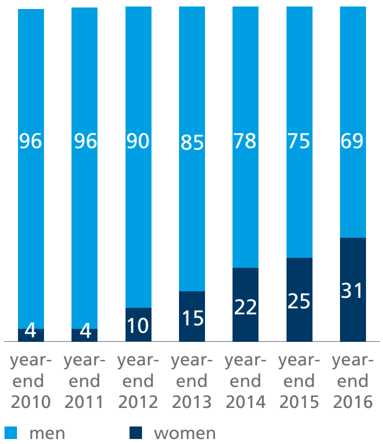
Board of Directors	Members	16
	Men/Women	11/5
	Principal qualifications[2]	economics, law, actuarial sciences, management, mathematics, fiscal sciences, philosophy, etc.
	Nationality	Belgian (14), Hungarian (1), Czech (1)
	Independent directors	3
	Attendance record	See the 'Corporate governance statement'
Executive Committee	Members	6
	Men/Women	5/1
	Principal qualifications[2]	law, economics, actuarial sciences, mathematics, international relations
	Nationality	Belgian (5), British (1)

1 Changes after the General Meeting of May 2017: see the 'Corporate Governance statement' section.
2 Based on all qualifications (several individuals have more than one degree).

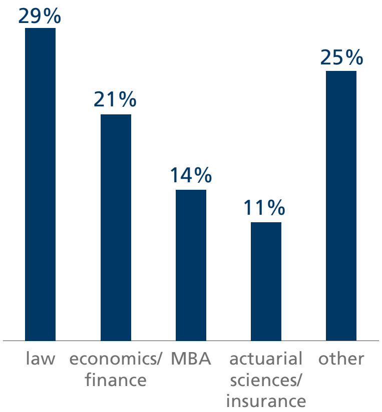
Like to know more?

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

Percentage of men and women on the Board of Directors



Qualifications held by members of the Board of Directors (year-end 2016)



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

In what environment do we operate?

Our business model

Our value creation	Our model	**Our environment**	Our capitals

The main challenges facing us are, of course, the economic situation, intensifying competition and technological change, regulation, and cyber and ICT risks. You can read how we deal with them in the following pages.

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

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

Market conditions in our most important countries in 2016

Belgium

Market environment

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

KBC in Belgium

- Main brands: KBC, KBC Brussels and CBC
- 716 bank branches[1], 427 insurance agencies, electronic channels
- 21% share of the market for traditional bank products, 33% for investment funds[2], 13% for life insurance and 9% for non-life insurance
- 3.5 million clients
- 96-billion-euro loan portfolio[3] and 125 billion euros in deposits and debt securities
- Net result of 1 432 million euros

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

Czech Republic

Market environment

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

KBC in the Czech Republic

- Main brand: ČSOB
- 287 bank branches, various distribution channels for insurance, electronic channels
- 20% share of the market for traditional bank products, 23% for investment funds, 7% for life insurance and 7% for non-life insurance
- 4 million clients
- 22-billion-euro loan portfolio and 26 billion euros in deposits and debt securities
- Net result of 596 million euros

Slovakia

Market environment

- Downturn in growth, due to positive impact of the European Cohesion Fund wearing out, remained limited
- Real GDP growth still well above the EU as a whole, thanks in part to dynamic household consumption
- Inflation largely negative throughout 2016
- Robust lending growth, especially home loans
- Forecast real GDP growth of 3.0% in 2017

KBC in Slovakia

- Main brand: ČSOB
- 125 bank branches, various distribution channels for insurance, electronic channels
- 11% share of the market for traditional bank products, 7% for investment funds, 4% for life insurance and 3% for non-life insurance
- 0.5 million clients
- 7-billion-euro loan portfolio and 6 billion euros in deposits and debt securities
- Net result of 92 million euros

The world economy in 2016

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

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

Hungary

Market environment

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

KBC in Hungary

- Main brand: K&H
- 207 bank branches, various distribution channels for insurance, electronic channels
- 10% share of the market for traditional bank products, 15% for investment funds, 4% for life insurance and 6% for non-life insurance
- 1.7 million clients
- 5-billion-euro loan portfolio and 7 billion euros in deposits and debt securities
- Net result of 130 million euros

Bulgaria

Market environment

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

KBC in Bulgaria*

- Main brands: CIBANK and DZI Insurance
- 96 bank branches, various distribution channels for insurance, electronic channels
- 3% share of the market for traditional bank products, 11% for life insurance and 10% for non-life insurance
- 0.6 million clients
- 0.9-billion-euro loan portfolio and 0.8 billion euros in deposits and debt securities
- Net result of 22 million euros

* We signed an agreement at the end of 2016 to acquire United Bulgarian Bank (UBB) and Interlease. We expect this acquisition to be finalised in the second quarter of 2017. UBB has roughly 0.9 million clients, 190 bank branches and an estimated 8% share of the market (based on assets).

Ireland

Market environment

- Growth again among the strongest in the EU
- Domestic demand increased strongly once more.
- Outstanding loans continued to decline, but at a slower rate than in previous years.
- Inflation below zero more or less throughout the year
- Continuing debt reduction thanks to robust growth
- Forecast real GDP growth of 3.0% in 2017

KBC in Ireland

- Main brand: KBC Bank Ireland
- 15 bank branches (hubs), electronic channels
- 7% share of the market for retail banking
- 0.2 million clients
- 13-billion-euro loan portfolio and 5 billion euros in deposits and debt securities
- Net result of 184 million euros

The world economy in 2016 (continuation)

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

Our employees, capital, network and relationships

Our business model

Our value creation | Our model | Our environment | **Our capitals**

Our employees are our greatest strength. They come into direct contact with our clients and define the way KBC is viewed by them. We are fully aware that it is chiefly due to the commitment and efforts of our employees that we are able to achieve strong results and to fulfil our strategy.

As a financial group, we draw on many different types of capital, 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.

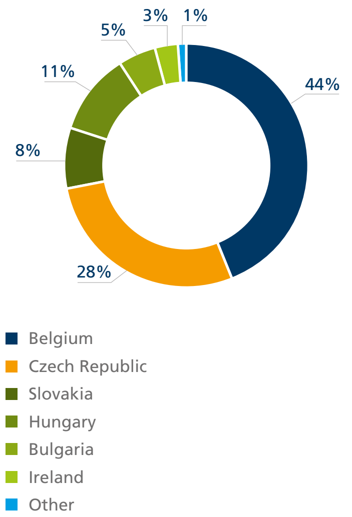
Our HR policy is based on our PEARL business culture and it is our employees who give tangible shape to this policy. We closely monitor how this business culture is applied in all the core countries.

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.

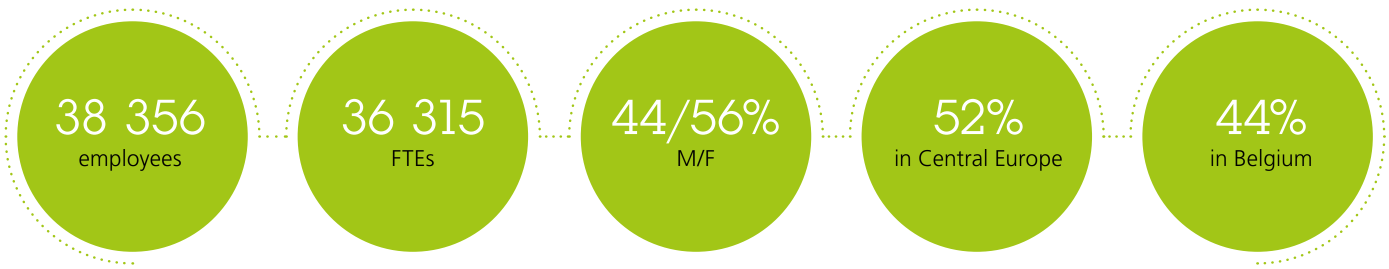
Although employees are primarily responsible for developing their careers, KBC offers a great deal of support. There is also a range of interesting jobs, and plenty of opportunities are offered to change jobs internally and for employees to grow in their current position. At the same time, we pay particular 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'.

Breakdown of workforce by country/region
(year-end 2016)



2016



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 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.

Number of staff, KBC group	31-12-2016	31-12-2015
Absolute number	38 356	38 450
FTEs	36 315	36 411
In % (based on FTEs)		
Belgium	44%	44%
Central and Eastern Europe	52%	52%
Rest of the world	4%	4%
Belgium Business Unit	34%	34%
Czech Republic Business Unit	23%	23%
International Markets Business Unit	29%	30%
Group Functions and Group Centre	14%	13%
Men	44%	44%
Women	56%	56%
Full-time	82%	82%
Part-time	18%	18%
Average age	42	42
Average seniority (years)	13	13
Number of days absent through illness per FTE	8	7

Like to know more?

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

Our activities are only possible if we have a solid capital base. At year-end 2016, our total equity came to 17.4 billion euros and chiefly comprised own share capital, share premiums, reserves and certain additional tier-1 instruments. Our 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.

Our 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'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 NV 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 our shares between them.

It is our intention (subject to the approval of the General Meeting of Shareholders) to pay out at least 50% of the available consolidated profit as dividend (dividends on shares and coupon on the additional tier-1 instruments combined). Starting in 2016, and barring exceptional or unforeseen circumstances, we will pay an interim dividend of 1 euro per share annually in November of the current financial year as an advance on the total dividend, plus a final dividend after the Annual General Meeting of Shareholders.

2016

418 million shares

40% held by core shareholders

Closing price of 58.8 euros

24.6 billion euros in market capitalisation

Dividend of 2.80 euros per share* 1 euro of which already paid as an interim dividend

* Subject to the approval of the General Meeting of Shareholders.

KBC share	2016	2015
Number of shares outstanding at year-end (in millions)	418.4	418.1
Share price for the financial year*		
Highest price (in EUR)	61.3	65.3
Lowest price (in EUR)	39.8	44.3
Average price (in EUR)	51.0	56.8
Closing price (in EUR)	58.8	57.7
Difference between closing price at financial year-end and previous financial year-end	+2%	+24%
Equity market capitalisation at year-end (in billions of EUR)	24.6	24.1
Average daily volume traded on NYSE Euronext Brussels (source: Bloomberg)		
Number of shares (in millions)	1.02	0.86
In millions of EUR	51.2	48.2
Equity per share (in EUR)	38.1	34.5

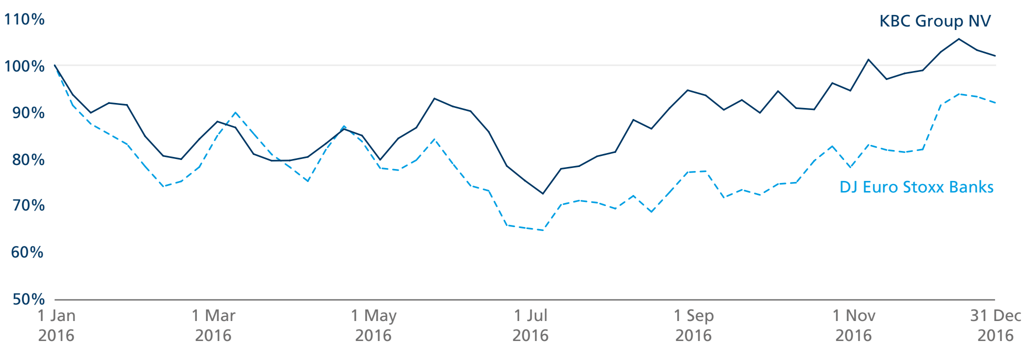
* Based on closing prices and rounded to one decimal place.

Shareholder structure of KBC Group NV (31 December 2016)*	Number of shares at the time of disclosure	% of the current number of shares
KBC Ancora	77 516 380	18.5%
Cera	11 127 166	2.7%
MRBB	47 889 864	11.4%
Other core shareholders	31 675 955	7.6%
Subtotal for core shareholders	168 209 365	40.2%
Free float	250 162 717	59.8%
Total	418 372 082	100.0%

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

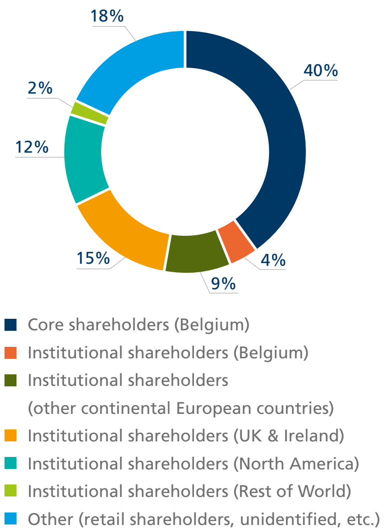
KBC share price over one year

(31 December 2015 = 100%, end-of-week prices)



A major part of our activities involves transforming deposits and other forms of funding into loans. For that reason, funding through deposits and debt securities is an important *raw material* for our group. We have therefore developed a strong retail/mid-cap deposit base in our core markets. We also regularly issue debt instruments, including via KBC IFIMA, KBC Bank and KBC Group NV itself.

Breakdown of shareholder structure by country/region
(year-end 2016, own estimates)



Credit ratings* on 20-03-2017	Long-term rating	Outlook/watch/review	Short-term rating
Fitch			
KBC Bank NV	A	(Stable outlook)	F1
KBC Group NV	A	(Stable outlook)	F1
Moody's			
KBC Bank NV	A1	(Stable outlook)	P-1
KBC Group NV	Baa1	(Stable outlook)	P-2
Standard & Poor's			
KBC Bank NV	A	(Stable outlook)	A-1
KBC Insurance NV	A-	(Stable outlook)	–
KBC Group NV	BBB+	(Stable outlook)	A-2

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

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.

Like to know more?

More information about our shareholder structure is provided in the 'Corporate governance statement' section. Further details of our credit ratings are available at www.kbc.com > Investor Relations > Credit ratings.

Our strategy

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.

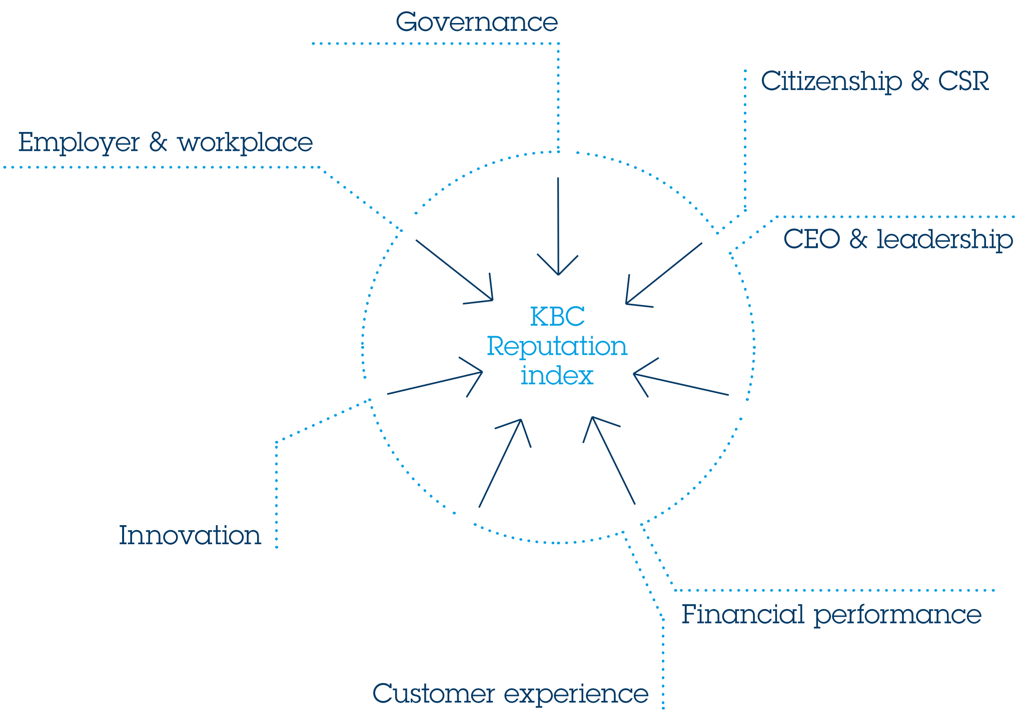
The client is at the centre of our business culture

Cornerstones of our strategy

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

Within a stringent risk, capital and liquidity management framework

We prepare thoroughly for the future. Changes in client behaviour and technological developments are influencing the route we are taking. Our clients decide for themselves when and how they want to be served. That's why KBC has opted for an omnichannel strategy. We want to ensure that all channels and apps are connected with each other interactively and in real time. As a result, we are there for clients whenever and wherever they need their bank-insurer.



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 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 above). 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.

By setting targets for client experience and reputation, we aim to increase the general level of client satisfaction. The targets and results for client experience and reputation are set out in the diagrams below.

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

Reputation – 2016 result

Change relative to peer group (by country)

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

Client experience – 2016 result

Change relative to peer group (by country)

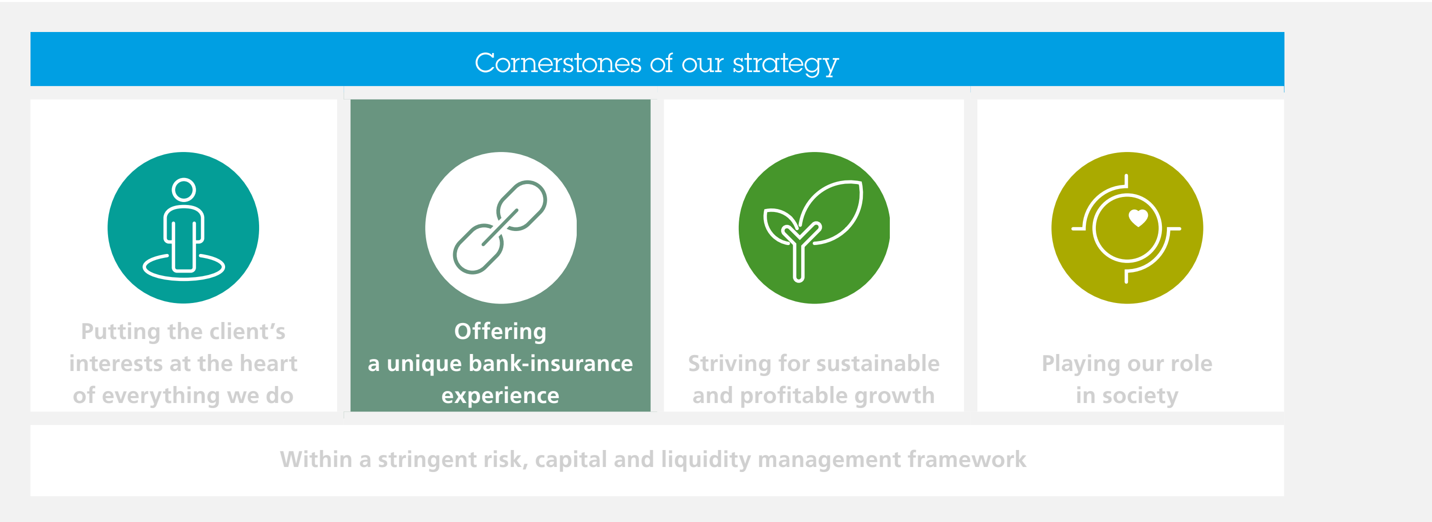
Performance relative to peer group (by country)	Less progress	Same progress	More progress
Better performance		K&H (Hungary)	
Same performance	KBCI (Ireland)	ČSOB (Slovakia) ČSOB (Czech Republic)	KBC (Belgium)
Poorer performance		DZI & CIBANK (Bulgaria)	

* In Belgium, the financial benchmarks are: BNP Paribas Fortis, ING, Argenta, AXA, Ethias, AG Insurance, Belfius, Baloise; in the Czech Republic: Air Bank, GE Money Bank, Česká spořitelna, Komerční banka, Kooperativa pojišťovna, Česká pojišťovna, Fio banka, Česká pošta, UniCredit Bank; in Hungary: OTP Bank, Erste Bank Hungary, Budapest Bank, CIB Bank, Raiffeisen Bank Hungary, UniCredit Bank Hungary; in Slovakia: Slovenská sporiteľňa, VUB Banka, Tatra banka, Prima banka, Sberbank Slovensko, Unicredit Bank, Allianz; in Ireland: Zurich Ireland, Permanent TSB, Bank of Ireland, Ulster Bank, AIB, EBS, Credit Union; in Bulgaria: UniCredit Bulbank, Société Générale Expressbank, Allianz Bank, Central Cooperative Bank, Bulstrad Vienna Insurance, Armeec, Piraeus Bank, Allianz Insurance.
The scores relate to the KBC brand in Belgium, the ČSOB brand in the Czech Republic, the ČSOB brand in Slovakia, the K&H brand in Hungary, the KBC brand in Ireland and the DZI and CIBANK brands in Bulgaria.

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

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

We offer our clients a unique bank-insurance experience



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

Our clients don't dream about banking or insurance products, but about a house, a holiday, a car or a business of their own – things for which they need money. And when they have them, they want to be certain they won't lose their investment, so they look for insurance too. Our integrated bank-insurance model means we can proactively offer them a comprehensive range of banking and insurance products.

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 'Our business units' section).

We use a number of Key Performance Indicators (KPIs) to track the success of our bank-insurance performance. The most important one is listed in the table.

KPI	Description	Target and result[1]	BEL	CZE	SLO	HUN	BUL	IRE	Group
CAGR of bank-insurance gross income	Compound annual growth rate (CAGR) of: [fee and commission income received by the bank from the linked insurer] + [insurance income for insurance products sold by bank branches] + [management fees generated by unit-linked insurance products sold by bank branches and recognised at the asset manager]	Target CAGR for 2013–2017	≥ 5%	≥ 15%	≥ 10%	≥ 20%	≥ 5%	–	≥ 5%
		CAGR for 2013–2016	**-0.7%**	**13.2%[2]**	**2.6%**	**5.6%[2]**	**8.5%**	**–**	**0.0%**

1 The CAGR of bank-insurance gross income for 2013–2016 was adversely affected by the climate of low interest rates, which impacted sales of life insurance (especially in Belgium).
2 Calculated in local currency for the Czech Republic and Hungary.

2016

0.5
billion euros in bank-insurance gross income

50%
of households in Belgium that are KBC Bank clients hold at least 1 insurance product from KBC

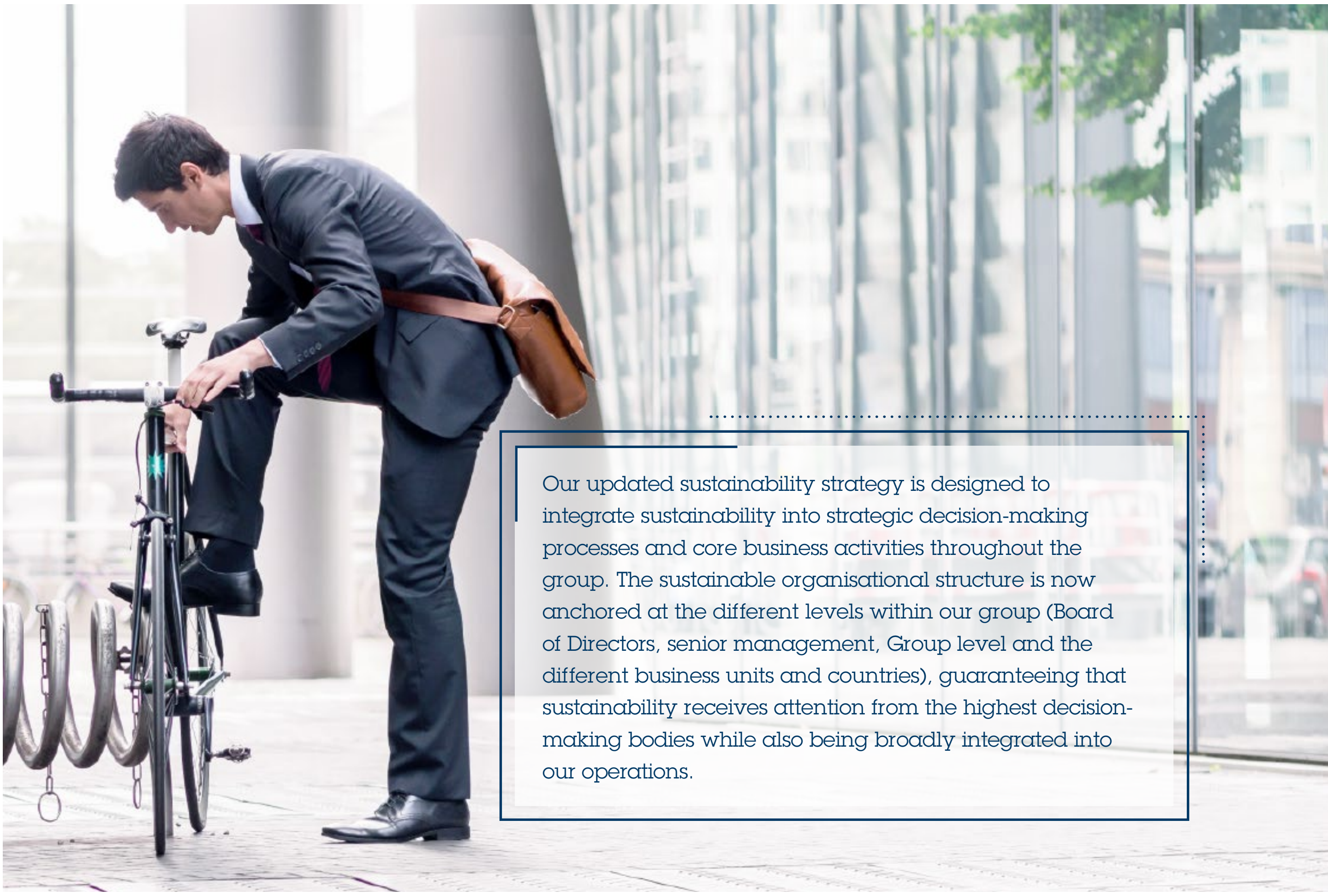
2/3
of ČSOB clients in the Czech Republic who agreed a home loan with the bank also took out home insurance with the group

We focus on sustainable and profitable growth

Cornerstones of our strategy

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

Within a stringent risk, capital and liquidity management framework



Our updated sustainability strategy is designed to integrate sustainability into strategic decision-making processes and core business activities throughout the group. The sustainable organisational structure is now anchored at the different levels within our group (Board of Directors, senior management, Group level and the different business units and countries), guaranteeing that sustainability receives attention from the highest decision-making bodies while also being broadly integrated into our operations.

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 strict 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 'Our 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 'Our business units' section and in 'Our role in society' below).

We monitor our long-term performance and our focus on the real economy and sustainability via a number of Key Performance Indicators (KPIs), the most important of which are listed in the table below.

KPI	Description	Target and result[1]
CAGR of total income	Compound annual growth rate (CAGR) of total income. The calculation is based on the *adjusted* results for 2013, and excludes fluctuations in value of the derivatives used for asset/liability management purposes.	see below
Cost/income ratio	[operating expenses of the banking activities] / [total income of the banking activities]	see below
Combined ratio	[technical insurance charges, including the internal cost of settling claims / earned insurance premiums] + [operating expenses / written insurance premiums] (for non-life insurance, and data after reinsurance).	see below
Innovation	Innovation relates to: 'launches innovative products/services faster than competitors', 'continuously innovates to improve client experience', 'exceeds client expectations', 'uses advanced technologies'. The survey is performed by Ipsos.	see below
Position in SRI funds	Market share in SRI funds	see below

CAGR of total income

	BEL	CZE	SLO	HUN	BUL	IRE	Group
Target CAGR for 2013–2017	≥ 2%	≥ 3%	≥ 3%	≥ 4%	≥ 3%	≥ 25%	≥ 2.25%
CAGR for 2013–2016	**-0.3%**	**2.5%**[2]	**3.1%**	**-0.5%**[2]	**4.3%**	**25.3%**	**1.3%**

Cost/income ratio

	BEL	CZE	SLO	HUN	BUL	IRE	Group
Target for 2017	≤ 50%	≤ 45%	≤ 58%	≤ 62%	≤ 67%	≤ 50%	≤ 53%
2016 result	**54%**	**45%**	**60%**	**67%**	**61%**	**63%**	**55%**

Combined ratio

	BEL	CZE	SLO	HUN	BUL	IRE	Group
Target for 2017	≤ 94%	≤ 94%	≤ 94%	≤ 96%	≤ 96%	–	≤ 94%
2016 result	**92%**	**96%**	**89%**	**93%**	**97%**	**–**	**93%**

Innovation

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

2016 result:

Performance relative to peer group (by country) / **Change** relative to peer group (by country)	Less progress	Same progress	More progress
Better performance		KBCI (Ireland) K&H (Hungary) ČSOB (Slovakia)	KBC (Belgium)
Same performance			
Poorer performance		DZI & CIBANK (Bulgaria) ČSOB (Czech Republic)	

Position in SRI funds

	BEL
Target	Market leadership
2016 result (September)	**32%**

1 The list of benchmarks and an explanation of the diagrams are provided under the table appearing in 'The client is at the centre of our business culture'.
2 Calculated in local currency for the Czech Republic and Hungary.

Like to know more?

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

Our role in society: to be responsive to society's expectations

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

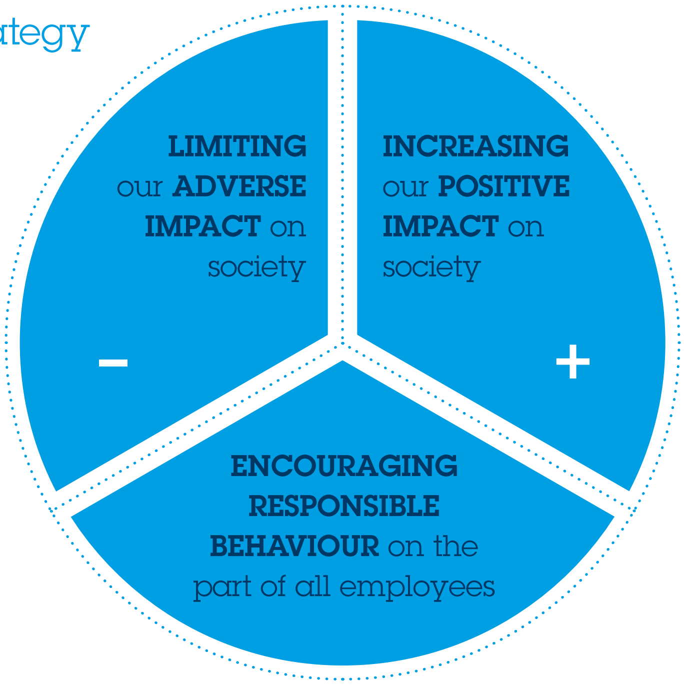
If we want to retain and grow our stakeholders' trust, it is extremely important that we behave responsibly in everything we do. It is therefore not enough for KBC employees simply to comply with regulations: our ambition in this area goes further than that. The basis of responsible behaviour is integrity, 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 have developed 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 below).

The core of our sustainability strategy



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 Products and Responsible Behaviour and is preparing for ISO 14001 environmental certification.

Our focus areas	What?	A few examples:
Stimulating entrepreneur-ship	• 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*, *FarmCafe* 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 our negative impact 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

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, funding is only provided 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, the palm oil production, mining, deforestation, land acquisition and involuntarily resettlement of indigenous populations, and prostitution.

* More information is available at www.kbc.com, under 'Corporate Sustainability'.

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

<table>
<tr><th>KPI</th><th>Description</th><th>Target and result*</th></tr>
<tr><td>Formal stakeholder process</td><td>Does the entity have a formal process to interact with its stakeholders?</td><td>
<table>
<tr><th></th><th>BEL</th><th>CZE</th><th>SLO</th><th>HUN</th><th>BUL</th><th>IRE</th></tr>
<tr><td>Target</td><td colspan="6">To have a formal stakeholder interaction process in place</td></tr>
<tr><td>2016 result</td><td>OK</td><td>OK</td><td>OK</td><td>OK</td><td>OK</td><td>OK</td></tr>
</table>
</td></tr>
<tr><td>Governance</td><td>‘Governance’ refers to the statements: ‘behaves ethically’, ‘is open and transparent’, ‘acts as an accountable company’, ‘is a responsive company’, ‘complies with laws, regulations and industry policies’. The survey is performed by Ipsos.</td><td>
Target: To have a higher absolute score and/or make more progress than the sector average in each country.
2016 result:
<table>
<tr><th>Governance
Performance relative to peer group (by country)</th><th colspan="3">Change
relative to peer group (by country)</th></tr>
<tr><td></td><td>Less progress</td><td>Same progress</td><td>More progress</td></tr>
<tr><td>Better performance</td><td></td><td>K&H (Hungary)</td><td></td></tr>
<tr><td>Same performance</td><td>ČSOB (Slovakia)
KBCI (Ireland)</td><td>ČSOB (Czech Republic)</td><td>KBC (Belgium)</td></tr>
<tr><td>Poorer performance</td><td></td><td>DZI & CIBANK (Bulgaria)</td><td></td></tr>
</table>
</td></tr>
<tr><td>Dividend payout ratio</td><td>[(gross dividend x number of shares entitled to dividend) + (coupon on outstanding AT1 securities)] / [consolidated net result]</td><td>
<table>
<tr><td>Target</td><td>≥ 50% from financial year 2016</td></tr>
<tr><td>2016 result</td><td>50% for 2016</td></tr>
</table>
</td></tr>
</table>

* The list of benchmarks and an explanation of the diagrams are provided under the table appearing in ‘The client is at the centre of our business culture’.

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

Cornerstones of our strategy

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

Within a stringent risk, capital and liquidity management framework

We set the bar high, aiming to be the bank-insurer that puts its clients centre stage, and so become 'the reference'. Sound risk management plays an important role in that regard.

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.

* More detailed information on the Three Lines of Defence model can be found in the 'Corporate governance statement' section.

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.

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

KPI	What?	Target and result	
Common equity ratio	[common equity tier-1 capital] / [total weighted risks]. The calculation shown here is on a fully loaded basis and according to the Danish compromise method. For further details of the adjusted target, please refer to the 'How do we manage our capital?' section.	Target	≥ 10.4% (fully loaded) from 2019 at group level*
		2016 result	**15.8%**
			* With additional guidance of 1% (see the 'How do we manage our capital?' section in this report).
Total capital ratio	[total regulatory capital] / [total risk-weighted assets]. The calculation shown here is on a fully loaded basis and according to the Danish compromise method.	Target	≥ 17% (fully loaded) from 2017 at group level
		2016 result	**20.0%**
Net stable funding ratio (NSFR)	[available amount of stable funding] / [required amount of stable funding]	Target	≥ 105% from 2014 at group level
		2016 result	**125%**
Liquidity coverage ratio (LCR)	[stock of high-quality liquid assets] / [total net cash outflows over the next 30 calendar days]	Target	≥ 105% from 2014 at group level
		2016 result	**139%**

Like to know more?

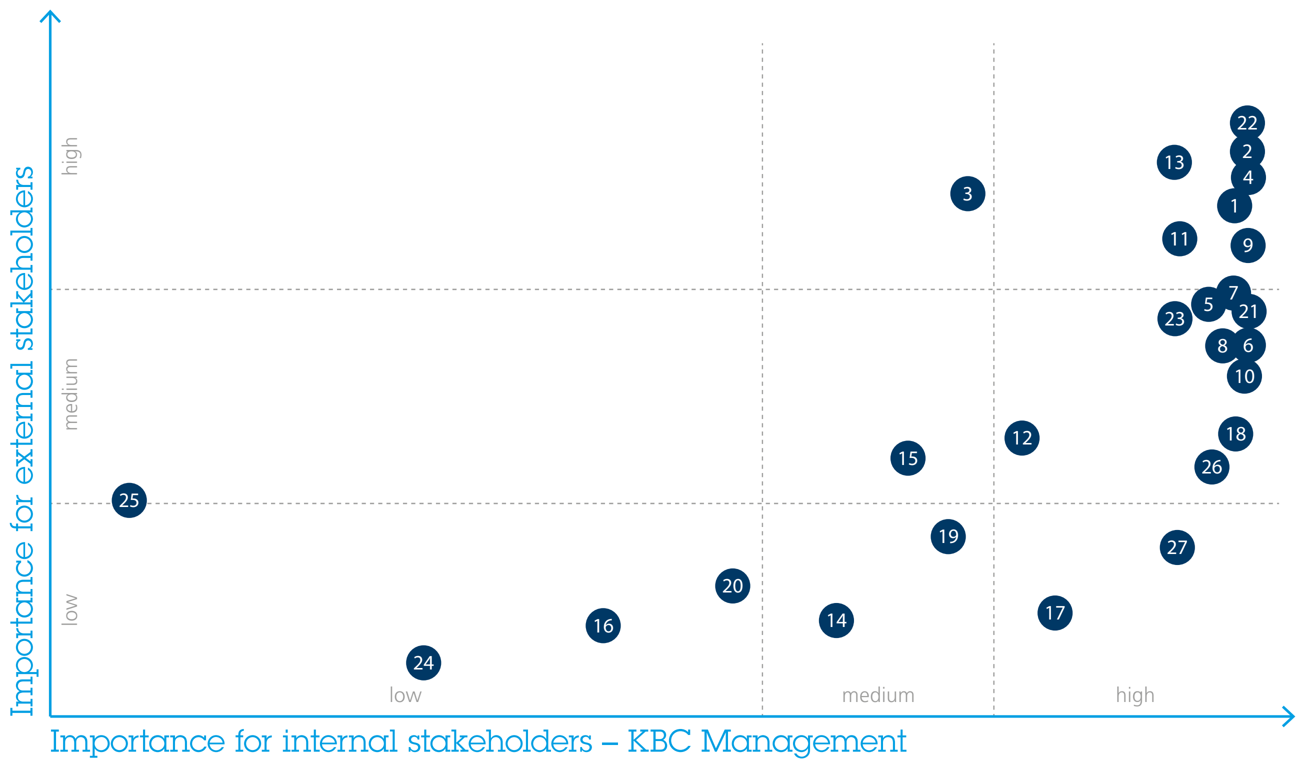
Detailed information can be found in the 'How do we manage our risks?' and 'How do we manage our capital?' sections.

Our stakeholder survey

To help build a sustainable future, we have to be able to align our operations with our stakeholders' interests and needs. That means we need to find out what is important to those stakeholders. In 2016, we carried out an external survey of the general public in all our core countries and an internal survey at KBC itself (Board of Directors, Executive Committee and senior management).

We drew up a list of 27 important topics, based on various dialogues with both internal and external stakeholders and using input from market specialists and sustainability experts, and also taking account of global trends. We asked the external and internal target groups to rate these topics by importance. The survey results are set out in the matrix, the vertical axis of which shows the importance of a topic to the external stakeholders and the horizontal axis the importance according to KBC.

1. Quality of products and services
2. Compliance with laws and regulations
3. Pricing of products and services
4. Financial performance
5. Risk management
6. Long term strategy
7. Customer protection
8. Innovative products and services
9. Enable people to make smart financial decisions
10. Transparent communication
11. User-friendliness of products and services
12. Accessibility of products and services
13. Privacy and data protection
14. Involvement with local communities
15. Assessment of suppliers on environmental and social aspects
16. Our direct footprint
17. Limiting our adverse impact on society via sustainable policies
18. Funding and insuring the local economy and stimulating entrepreneurship
19. Develop and launch business solutions with focus on health and longevity
20. Offering sustainable products and services
21. Responsible selling and advice
22. Integrity
23. Business ethics
24. Develop and launch business solutions with focus on environment
25. Job security
26. Equal opportunities for all employees
27. Remuneration policy



Generally speaking, the scores given by the external stakeholders were broadly in line with KBC's. This was reassuring, as it means we are focusing on areas that are important both to society and to the future of our company.

It is important to us that we use this annual report to communicate on the topics considered most important both internally and externally (in other words, the top row and the right-hand column in the matrix). The table indicates where we discuss these topics in this report.

Important topics	Information in this report and/or relationship with KPIs
Integrity	• See 'Main features of the internal control and risk management systems' in 'Corporate governance statement'. • See 'Our role in society' in 'Our strategy'. • 'Governance' KPI: see 'Our role in society' in 'Our strategy'.
Compliance with laws and regulations	• See 'In what environment do we operate?' in 'Our business model'. • See 'How do we manage our capital?'. • See 'Main features of the internal control and risk management systems' in 'Corporate governance statement'. • 'Governance' KPI: see 'Our role in society' in 'Our strategy'. • KPIs on capital and liquidity: see 'Our strategy'.
Privacy and data protection	• See 'Main features of the internal control and risk management systems' in 'Corporate governance statement'. • Cyber risk: see 'In what environment do we operate?' in 'Our business model'. • See 'The client is at the centre of our business culture' in 'Our strategy'.
Financial performance	• See 'Our financial report'. • See 'How do the business units contribute to the group result?' in 'Our business units'. • See 'Consolidated financial statements'. • Financial KPIs: see 'Our strategy'.
Pricing of products and services	• 'Client experience' KPI: see 'The client is at the centre of our business culture' in 'Our strategy'. • See 'How do we create value?' in 'Our business model'.
Quality of products and services	• See 'The client is at the centre of our business culture' and 'We offer our clients a unique bank-insurance experience' in 'Our strategy'. • New products and services: see 'Our business units'. • 'Client experience' KPI: see 'The client is at the centre of our business culture' in 'Our strategy'.
User-friendliness of products and services	• See 'The client is at the centre of our business culture' and 'We offer our clients a unique bank-insurance experience' in 'Our strategy'. • New products and services: see 'Our business units'. • 'Client experience' KPI: see 'The client is at the centre of our business culture' in 'Our strategy'.
Enable people to make smart financial decisions	• See 'Our role in society' in 'Our strategy'.

Important topics	Information in this report and/or relationship with KPIs
Customer protection	• See 'Main features of the internal control and risk management systems' in 'Corporate governance statement'. • See 'The client is at the centre of our business culture' in 'Our strategy'. • See 'In what environment do we operate?' in 'Our business model'.
Responsible selling and advice	• See 'Main features of the internal control and risk management systems' in 'Corporate governance statement'. • See 'Our role in society' in 'Our strategy'. • 'Client experience' KPI: see 'The client is at the centre of our business culture' in 'Our strategy'.
Risk management	• See 'We aim to achieve our ambitions within a stringent risk management framework' in 'Our strategy'. • See 'Main features of the internal control and risk management systems' in 'Corporate governance statement'. • See 'How do we manage our risks?'.
Business ethics	• PEARL business culture: see 'What makes us who we are?' in 'Our business model'. • See 'Our role in society' in 'Our strategy'. • 'Reputation index' KPI: see 'The client is at the centre of our business culture' in 'Our strategy'.
Long-term strategy	• See 'Our strategy'.
Innovative products and services	• See 'In what environment do we operate?' in 'Our business model'. • New products and services: see 'Our business units'. • 'Innovation' KPI: see 'We focus on sustainable and profitable growth' in 'Our strategy'.
Transparent communication	• See 'Our role in society' in 'Our strategy'. • 'Client experience' KPI: see 'The client is at the centre of our business culture' in 'Our strategy'. • 'Governance' KPI: see 'Our role in society' in 'Our strategy'.
Funding and insuring the local economy and stimulating entrepreneurship	• See 'Our business model'. • See 'Our role in society' in 'Our strategy'.
Accessibility of products and services	• See 'The client is at the centre of our business culture' in 'Our strategy'. • 'Client experience' KPI: see 'The client is at the centre of our business culture' in 'Our strategy'.
Equal opportunities for all employees	• See 'Our employees, capital, network and relationships' in 'Our business model'.
Remuneration policy	• See 'Remuneration report for financial year 2016' in 'Corporate governance statement'.
Limiting our adverse impact on society via sustainable policies	• See 'Our role in society' in 'Our strategy'.

Our financial report

- Consolidated net profit of 2 427 million euros in 2016.
- Net interest income down only slightly, despite climate of low interest rates.
- Stronger decline in net fee and commission income.
- Increase in most other income items.
- Growth in lending and deposits in nearly all core markets.
- Increased sales of both non-life and life insurance products.
- Sound combined ratio for non-life insurance of 93% and cost/income ratio for banking activities of 55%.
- Sharp reduction in impairment charges for loans and in impairment on goodwill.
- Robust solvency with a fully loaded common equity ratio of 15.8%.

Consolidated income statement, KBC group (in millions of EUR)	**2016**	**2015**
Net interest income	4 258	4 311
Interest income	6 642	7 150
Interest expense	-2 384	-2 839
Non-life insurance (before reinsurance)	628	611
Earned premiums	1 410	1 319
Technical charges	-782	-708
Life insurance (before reinsurance)*	-152	-201
Earned premiums	1 577	1 301
Technical charges	-1 728	-1 502
Ceded reinsurance result	-38	-29
Dividend income	77	75
Net result from financial instruments at fair value through profit or loss	540	214
Net realised result from available-for-sale assets	189	190
Net fee and commission income	1 450	1 678
Fee and commission income	2 101	2 348
Fee and commission expense	-651	-670
Other net income	258	297
Total income	**7 211**	**7 148**
Operating expenses	-3 948	-3 890
Impairment	-201	-747
on loans and receivables	-126	-323
on available-for-sale assets	-55	-45
on goodwill	0	-344
other	-20	-34
Share in results of associated companies	27	24
Result before tax	**3 090**	**2 535**
Income tax expense	-662	104
Net post-tax result from discontinued operations	0	0
Result after tax	**2 428**	**2 639**
Result after tax, attributable to minority interests	0	0
Result after tax, attributable to equity holders of the parent (net result)	**2 427**	**2 639**
Return on equity	18%	22%
Cost/income ratio, banking	55%	55%
Combined ratio, non-life insurance	93%	91%
Credit cost ratio, banking	0.09%	0.23%

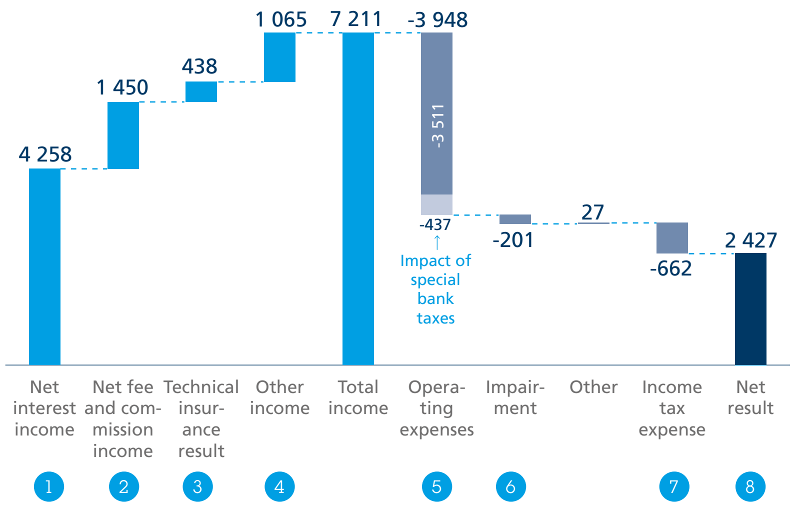
* Does not include investment contracts without DPF, which roughly correspond to unit-linked life insurance contracts (0.8 billion euros in premiums in 2016, 0.7 billion euros in 2015).

Key consolidated balance sheet, solvency and liquidity figures*, KBC group (in millions of EUR)	**2016**	**2015**
Total assets	275 200	252 356
Loans and advances to customers	133 231	128 223
Securities (equity and debt instruments)	73 262	72 623
Deposits from customers and debt securities	177 730	170 109
Technical provisions (before reinsurance) and liabilities under investment contracts, insurance	32 310	31 919
Risk-weighted assets (Basel III, fully loaded)	87 782	89 067
Total equity	17 357	15 811
Common equity ratio (Basel III, Danish compromise method, fully loaded)	15.8%	14.9%
Total capital ratio (Basel III, Danish compromise method, fully loaded)	20.0%	19.0%
Leverage ratio (Basel III, Danish compromise method, fully loaded)	6.1%	6.3%
Minimum requirement for own funds and eligible liabilities (MREL, see 'How do we manage our risks?')	21.0%	18.3%
Liquidity coverage ratio (LCR)	139%	127%
Net stable funding ratio (NSFR)	125%	121%

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

Analysis of the results in 2016

Achievement of net result for 2016
(in millions of EUR)



Net interest income 1

Our net interest income amounted to 4 258 million euros in 2016, down just 1% on its year-earlier level, despite the climate of low interest rates and associated low level of reinvestment income, the reduction in interest income generated by the dealing rooms and a lower amount of early-repayment penalties (due to a lower level of home loan refinancing in Belgium). These negative items were largely offset by factors including the positive effect of lower rates of interest being paid on savings accounts in certain countries, generally lower funding costs and higher interest income on loans generated by increased volumes.

At 133 billion euros, loans and advances to customers (excluding reverse repos) rose on a comparable basis by 4% in 2016, increasing by 4% at the Belgium Business Unit, by 9% at the Czech Republic Business Unit and by 2% at the International Markets Business Unit (growth in all countries apart from Ireland), and contracting at the Group Centre. Our total volume of deposits (177 billion euros in deposits from customers and debt securities (excluding repos)) rose by 10% in 2016, with the Belgium Business Unit recording an increase of 13%, the Czech Republic Business Unit 9%, the International Markets Business Unit 7% (with growth in all countries apart from Ireland) and the Group Centre recording a decline.

Consequently, the net interest margin for our banking activities came to 1.92%, 10 basis points lower than in 2015. The interest margin for 2016 came to 1.80% in Belgium, 2.94% in the Czech Republic and 2.55% at the International Markets Business Unit.

Net fee and commission income 2

Our net fee and commission income came to 1 450 million euros in 2016, down 14% on the year-earlier figure. Most of the decline was accounted for by Belgium and was chiefly attributable to reduced entry and management fees relating to our asset management activities (sale of funds, etc., obviously reflecting the uncertain investment climate) and, to a lesser extent, to lower securities-related fees.

At the end of 2016, our total assets under management came to approximately 213 billion euros, still up 2% on the year-earlier figure, due to a combination of a slightly negative volume effect (-1%) and a positive price performance (+3%). Most of these assets were managed at the Belgium Business Unit (199 billion euros) and the Czech Republic Business Unit (9 billion euros).

Insurance premiums and technical charges 3

Our technical insurance result (earned premiums less technical charges plus the ceded reinsurance result) amounted to 438 million euros, up 15% on its year-earlier level.

Earned premiums in non-life insurance came to 1 410 million euros, 7% more than the figure for 2015. They grew by 2% in Belgium (or 5% excluding a technical item), 8% in the Czech Republic, and 17% in the three other Central and Eastern European markets combined (due primarily to growth in Hungary). However, technical insurance charges also rose by 10% in 2016. They were adversely affected in Belgium by provisioning of 16 million euros in the aftermath of the terrorist attacks in Brussels and increased claims due to severe weather (storms). The combined ratio at group level deteriorated slightly from 91% to 93%.

Earned premiums in life insurance amounted to 1 577 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 around 2.1 billion euros, 18% more than in 2015. There was an increase of as much as 21% in the main market of Belgium for both rate-guaranteed (+24%) and unit-linked products (+14%). For the group as a whole, 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%. On 31 December 2016, the group's accumulated life reserves came to 26.9 billion euros for the Belgium Business Unit, 1 billion euros for the Czech Republic and 0.6 billion euros for the three other Central and Eastern European core markets combined.

Other income 4

Our net result from financial instruments at fair value through profit or loss (trading and fair value income) came to 540 million euros, 326 million euros more than in 2015, due in part to the liquidation of KBC Financial Holding Inc., which had an impact of -156 million euros in that year. Disregarding this item, trading and fair value income would increase by 170 million euros, due primarily to higher dealing room results and the positive impact of various value adjustments (MVA, CVA, FVA).
Other income (dividends, gains realised on the sale of securities, and other net income) came to an aggregate 524 million euros in 2016, as opposed to 562 million euros in 2015. The figure for 2016 includes the gain on the sale of Visa Europe shares in the second quarter of that year (99 million euros, before tax).

Operating expenses 5

Our expenses amounted to 3 948 million euros in 2016, a limited increase of 1% on the year-earlier figure. This reflected the impact of various factors, including somewhat higher special bank taxes (437 million euros in total, compared to 417 million euros in 2015), higher ICT expenses and, to a lesser extent, higher marketing costs, and higher staff expenses (including a one-off cost of 33 million euros to cover a voluntary early retirement scheme), offset somewhat by lower facility services charges and depreciation.

As a result, the cost/income ratio of our banking activities came to 55%, the same level as in 2015. The ratio was affected by a number of non-operating and exceptional items (including the mark-to-market valuations for ALM derivatives and the impact of liquidating KBC Financial Holding Inc. in 2015 – for more details, see the 'Glossary of ratios and terms' at the end of this report). Adjusted for these specific items, the cost/income ratio was 57%, compared with 55% in 2015. The ratio was 54% for the Belgium Business Unit (55% excluding specific items), 45% for the Czech Republic Business Unit (46% excluding specific items) and 64% for the International Markets Business Unit (66% excluding specific items).

Impairment 6

Total impairment came to 201 million euros in 2016. Impairment on loans and receivables accounted for 126 million euros of this figure, compared with 323 million euros in 2015. Much of this improvement is attributable to the improved situation in Ireland, where there was actually a 45-million-euro net reversal of impairment charges in 2016 (as opposed to net provisioning of 48 million euros in 2015) and to Belgium (from 177 million euros to 113 million euros). Overall, our credit cost ratio improved further from what was an already low 23 basis points in 2015 to an unsustainably low 9 basis points in 2016. The figures per business unit were 12 basis points for Belgium, 11 basis points for the Czech Republic and -16 basis points for International Markets (Ireland: -33 basis points; Slovakia: 24

basis points; Hungary: -33 basis points; and Bulgaria: 32 basis points). A negative figure signifies a net reversal of impairments and hence a positive impact on the results.

The proportion of impaired loans (see 'Glossary of ratios and terms' for a definition) in our loan portfolio was 7.2% at year-end 2016, an improvement on the 8.6% for 2015. This breaks down into 3.3% at the Belgium Business Unit, 2.8% at the Czech Republic Business Unit and 25.4% at the International Markets Business Unit (this relatively high figure was chiefly attributable to Ireland, which had a ratio of 43% due to the real estate crisis of recent years). The proportion of impaired loans more than 90 days past due came to 3.9% in 2015, compared to the year-earlier figure of 4.8%. At year-end 2016, 46% of the impaired loans were covered by accumulated impairment charges. More information on the composition of the loan portfolio is provided in the 'How do we manage our risks?' section.

Other impairment charges totalled 75 million euros in 2016 and related primarily to available-for-sale securities (55 million euros). This item had amounted to 423 million euros in 2015, when it comprised mainly impairment charges on goodwill in respect of a number of group companies (344 million euros).

Income tax expense 7

Our income tax expense came to 662 million euros in 2016. This item had made a positive contribution of 104 million euros in 2015, due to the impact (921 million euros) of a deferred tax asset relating to the liquidation of a group company (KBC Financial Holding Inc.). Besides paying income tax, we also pay special bank taxes (437 million euros in 2016, included under 'Operating expenses').

Net results per business unit 8

Our net result in 2016 breaks down as follows: Belgium Business Unit 1 432 million euros (down 132 million euros on the year-earlier figure, as lower net interest income and net fee and commission income, lower realised gains on securities and higher bank taxes were only partially offset by lower loan losses, higher technical insurance income and higher trading and fair value income); the Czech Republic Business Unit 596 million euros (an increase of 54 million euros, due in part to higher trading and fair value income and realised gains on securities, and slightly lower costs and impairment); the International Markets Business Unit 428 million euros (an improvement of 183 million euros, owing primarily to lower loan loss provisioning and higher net interest income in Ireland); and the Group Centre -29 million euros (a 316-million-euro deterioration that can be attributed to two significant items in 2015 (the recognition of the deferred tax asset related to KBC Financial Holding Inc. and impairment on goodwill for a number of group companies).

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

Analysis of the balance sheet in 2016

Total assets 1

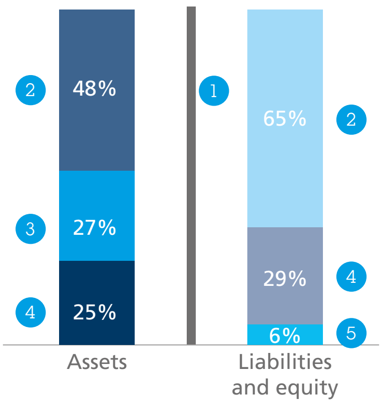
At the end of 2016, our consolidated total assets came to 275 billion euros, up 9% year-on-year. However, risk-weighted assets (Basel III, fully loaded) declined by 1% to 88 billion euros, with the increased volumes being comfortably offset by the impact of model-related changes, an improvement in average loan quality, lower risk-weighted assets for deferred tax assets and lower market exposure, and several other items. More information in this regard can be found in the ‘How do we manage our capital?’ section.

Loans and deposits 2

Our core banking business is to attract deposits and use them to provide loans. Indeed, this is reflected in the importance of the figure for loans and advances to customers on the assets side of our balance sheet (133 billion euros (excluding reverse repos) at year-end 2016). On a comparable basis, loans and advances to customers rose by 4% for the group as a whole, with growth of 4% being recorded at the Belgium Business Unit, 9% at the Czech Republic Business Unit, and 2% at the International Markets Business Unit (with growth in all countries apart from Ireland, where the reduction in corporate lending and impaired mortgage loans – on balance – continue to surpass new production). The main lending products at group level were again term loans (59 billion euros) and mortgage loans (57 billion euros). The latter expanded by 4% in 2016, due primarily to the Czech Republic, Slovakia and Belgium.

On the liabilities side, our customer deposits (deposits from customers and debt securities, excluding repos) grew by 10% to 177 billion euros. Deposits increased by 13% at the Belgium Business Unit, by 9% at the Czech Republic Business Unit and by 7% at the International Markets Business Unit (with growth in all countries apart from Ireland, where there was increased intra-group use of the TLTRO facility). The main deposit products at group level (including repos) were again time deposits (22 billion euros), demand deposits (63 billion euros) and savings accounts (53 billion euros, up 6% on their level at the end of 2015), due in part to the parking of funds from matured time deposits, given the volatile investment climate).

Balance sheet components
(year-end 2016)



- Loans and advances to customers (excl. reverse repos)
- Securities
- Other assets
- Deposits from customers and debt securities (excl. repos)
- Other liabilities
- Equity

Securities 3

We also hold a portfolio of securities at the bank and at the insurer (where it serves primarily as an investment in the insurance context, especially life insurance), which totalled roughly 73 billion euros at year-end 2016. Approximately 30% of the portfolio relates to the insurance activities and some 70% to the banking activities. The total securities portfolio comprised 3% shares and 97% bonds (with bonds increasing by almost 1 billion euros in 2016). Just over three-quarters of these bonds at year-end 2016 consisted of government paper, the most important being Belgian, Czech, French, Spanish, Slovak, Hungarian and Italian. A detailed list of these bonds is provided in the ‘How do we manage our risks?’ section.

Other assets and other liabilities 4

Other important items on the assets side of the balance sheet were loans and advances to credit institutions and investment firms (17 billion euros, up 28% year-on-year, due in part to higher reverse repos), derivatives (positive mark-to-market valuation of 9 billion euros mainly for interest rate contracts, virtually unchanged year-on-year), investment-linked life insurance contracts (14 billion euros, up 3% year-on-year) and cash and cash balances with central banks (20 billion euros, 13 billion euros more than at year-end 2015, owing to the placement of excess liquidity with the central bank).

Other significant items on the liabilities side of the balance sheet were the technical provisions and liabilities under the insurer's investment contracts (an aggregate 32 billion euros, roughly the same year-on-year), derivatives (negative mark-to-market valuation of 9 billion euros mainly for interest rate contracts, down 7% year-on-year) and deposits from credit institutions and investment firms (32 billion euros, up 13 billion euros year-on-year and relating primarily to repos and the TLTRO II facility).

Equity 5

On 31 December 2016, our total equity came to 17.4 billion euros. This figure included 16 billion euros in parent shareholders' equity and 1.4 billion euros in additional tier-1 instruments. Total equity rose by 1.5 billion euros in 2016, with the most important components in this respect being the inclusion of the annual profit (+2.4 billion euros), the payment of an interim dividend in November 2016 (-0.4 billion euros, as an advance on the total dividend for 2016), changes in the cashflow hedge reserve (-0.2 billion euros), changes in defined benefit plans (-0.2 billion euros) and several smaller items.

Our solvency position remained strong as a result, with a common equity ratio of 15.8% (fully loaded) according to the Danish compromise method and 14.5% (fully loaded) according to the FICOD method. Our leverage ratio came to an excellent 6.1%. Detailed calculations of our solvency indicators are given in the 'How do we manage our capital?' section. The group's liquidity position also remained excellent, as reflected in an LCR ratio of 139% and an NSFR ratio of 125% at year-end 2016.

Additional information and guidance

- We review the consolidated results in this section of the annual report. A review of the non-consolidated results and balance sheet is provided in the 'Company annual accounts and additional information' section.
- There were no material acquisitions or material divestments of group companies in 2016. The acquisition of United Bulgarian Bank and Interlease in Bulgaria, which was announced at the end of 2016, is only expected to be finalised in the second quarter of 2017.
- The overall impact on the net result of fluctuations in the exchange rates of the main non-euro currencies was – on balance – negligible.
- Information on financial instruments, hedge accounting and the use thereof is provided in the 'Consolidated financial statements' section (Notes 1.2, 3.3, and 4.1–4.10 among others) and in the 'How do we manage our risks?' section.
- We expect steady economic growth to continue in 2017 in both the euro area and the US. Upcoming elections in several euro area countries and the start of the Brexit negotiations could, however, result in heightened volatility. See the 'Our business units' section for information on forecast economic growth in our core countries.
- We anticipate solid returns for all our business units in 2017. We view the current credit cost ratio as being unsustainably low. For Ireland, in particular, our guidance for loan impairment charges is for a release of 25-75 million euros for the full year.
- As regards our dividend policy, see 'Our employees, capital, network and relationships' in the 'Our business model' section.
- For significant post-balance-sheet events, see Note 6.8 of the 'Consolidated financial statements'.

Our business units

We have structured our group around three business units: 'Belgium', 'Czech Republic' and 'International Markets'. The latter is responsible for our operations in the other countries in Central and Eastern Europe (Slovakia, Hungary and Bulgaria) and in Ireland.

Belgium Business Unit

KBC Bank NV and KBC Insurance NV, and their Belgian subsidiaries, which include CBC Banque, KBC Asset Management, KBC Lease Group (Belgium) and KBC Securities.

Czech Republic Business Unit

The ČSOB group (under the ČSOB Bank, Era, Postal Savings Bank, Hypoteční banka, ČMSS and Patria brands), the insurer ČSOB Pojišťovna and ČSOB Asset Management.

International Markets Business Unit

ČSOB Bank and ČSOB Poist'ovňa in Slovakia, K&H Bank and K&H Insurance in Hungary, CIBANK and DZI Insurance in Bulgaria, and KBC Bank Ireland.

At year-end 2016, we announced the acquisition of United Bulgarian Bank in Bulgaria (deal expected to be finalised in the second quarter of 2017).

The economic context

Belgium

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

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

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

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

Czech Republic

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

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

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

International Markets

As was the case in the Czech Republic, investment growth in most other Central European countries suffered in 2016 from the temporary cessation of funding under the EU's cohesion policy. The decline this caused in real GDP growth was limited in Slovakia and Bulgaria. The economies of both countries expanded by 3.3% in 2016, still well above the average for the EU-28 as a whole. At 2%, Hungarian growth was only just above that average due to quite severe negative investment growth. Nevertheless, domestic demand remains buoyant, thanks to robust household consumption, supported in turn by a strong increase in wages and employment.

Consumer demand remained very dynamic in Slovakia and Bulgaria too, something that can also be attributed to wage growth and job creation. Although GDP growth in 2016 was

accounted for primarily by domestic demand, net exports also made a contribution in the three Central European countries. At year-end 2016, unemployment there was 6.1 (Slovakia), 7.0 (Hungary) and 6.2 (Bulgaria) percentage points, respectively, below the peak recorded during the recent financial and economic crisis. The figure for the EU-28 as a whole was just 2.8 percentage points below the peak level.

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

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

We expect real GDP growth in Slovakia and Bulgaria to slow a little more in 2017, slipping to 3% and 3.2%, respectively. Hungary will benefit most from the gradual return of the EU Cohesion Fund. As a result, its economic growth is expected to gain momentum again in 2017 and hit an estimated 3.4%.

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

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

Where do we stand in each of our countries?

Market position in 2016[1]	Belgium	Czech Republic	Slovakia	Hungary	Bulgaria[2]	Ireland
Main brands	KBC CBC KBC Brussels	ČSOB	ČSOB	K&H	CIBANK DZI	KBC Bank Ireland
Network	716 bank branches	287 bank branches[3]	125 bank branches	207 bank branches	96 bank branches	15 bank branches
	427 insurance agencies	Insurance sold through various channels	Insurance sold through various channels	Insurance sold through various channels	Insurance sold through various channels	Insurance sold through partnerships
	Various online channels	Various online channels	Various online channels	Various online channels	Various online channels	Various online channels
Clients (millions, estimate)	3.5	4.0	0.5	1.7	0.6	0.2
Loan portfolio (in billions of EUR)	95.6	21.9	6.8	4.6	0.9	13.1
Deposits and debt securities (in billions of EUR)	125.1	26.2	5.7	6.8	0.8	5.0
Market shares						
- bank products	21%	20%	11%	10%	3%	7%[4]
- investment funds	33%	23%	7%	15%	–	–
- life insurance	13%	7%	4%	4%	11%	–
- non-life insurance	9%	7%	3%	6%	10%	–
Main activities and target groups	We offer a wide range of loan, deposit, asset management, insurance and other financial products in virtually all our countries, where our focus is on private individuals, SMEs and high-net-worth clients. Services for corporate clients additionally include cash management, payments, trade finance, lease, money market activities, capital market products, stockbroking and corporate finance. We have yet to offer any asset management products in Bulgaria.					
Macroeconomic indicators for 2016[5]						
- GDP growth (real)	1.2%	2.4%	3.3%	2.0%	3.3%	4.0%
- Inflation (average annual increase in consumer prices)	2.0%	0.6%	-0.5%	0.5%	-1.3%	-0.1%
- Unemployment (% of the labour force at year-end; Eurostat definition)	7.6%	3.5%	8.8%	4.5%	7.1%	7.1%
- Government budget balance (% of GDP)	-2.9%	0.3%	-2.2%	-1.8%	-0.4%	-0.9%
- Public debt (% of GDP)	106.8%	37.8%	52.1%	73.5%	29.0%	75.1%

1 Market shares and client numbers: based on own estimates (when calculating the figure for client numbers, we took account of the overlap (roughly estimated) between the various companies in the group). For traditional bank products: average estimated market share for loans and deposits. In Belgium, the life insurance market share is based on reserves; for the other countries, it is based on premiums. Loan portfolio: see 'How do we manage our risks?'. Deposits and debt securities: deposits from customers and debt securities (excluding repos). The number of bank branches does not include self-service branches. The Belgium Business Unit also includes the small network of KBC Bank branches established in the rest of Europe, the US and Southeast Asia, which focus on activities and clients with links to KBC's core markets (10 branches with a total loan portfolio of approximately 6 billion euros). The group operates under various brands in the Czech Republic, including ČSOB, Era, PSB, ČMSS and Hypoteční Banka. Market shares are based in most instances on data from the end of September 2016.

2 At year-end 2016, we announced the acquisition of United Bulgarian Bank (UBB) and Interlease in Bulgaria (deal expected to be finalised in the second quarter of 2017). UBB's estimated share of the market is 8% (based on assets). It has roughly 0.9 million clients and 190 branches. Neither UBB nor Interlease have been included in the data presented in the table.

3 ČSOB Bank and Era.

4 Retail segment.

5 Data based on estimates made at the start of 2017.

Belgium

- 'Best bank in Belgium' (Euromoney)
- 'Best permanent information' (Belgian Financial Analysts Association)
- 'Best Private Bank in Belgium' (Private Wealth Magazine)
- 'Best Trade Finance Provider in Belgium in 2017' (Global Finance)
- Best reputation of Belgium's big banks in Flanders (Reputation Institute)
- 'Best Innovation in Retail Banking in Belgium' (International Banker)
- Winner of 'Best New Product or Service' category for Digital Trade Chain by KBC (EFMA & Accenture Innovation Awards)
- Among the best workplaces in Belgium and Europe (Great Place to Work®)
- Bolero: most popular online broker platform (Bankshopper.be)
- KBC Securities voted 'Equity Finance House of the Year 2016' and 'Belgian SME Brokerage House of the Year 2016' (Euronext Brussels)
- etc.

Specific objectives

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

Through *Start it @kbc*, we aim – together with a number of partners – to help start-ups in Flanders with various aspects of doing business. At present, *Start it @kbc* boasts centres in Antwerp, Brussels, Ghent, Hasselt, Leuven and Kortrijk. With almost 450 start-ups, *Start it @kbc* is the largest community of its kind in Belgium. Our large number of partners means that the start-ups in that community can count on extensive expertise and a widespread network, international contacts, office space, mentorship and the most complete Start-up Business Academy in Belgium.

A few achievements in 2016

client centricity

We look constantly for ways of applying new technologies to enable us to serve our clients even better. Examples include the new features we have added to *KBC Touch*, such as the ability to display a list and details of insurance policies, take out certain types of loan online, complete a medical questionnaire for mortgage protection cover and make appointments directly with an adviser. We also launched *KBC Touch* for businesses, *KBC Touch* for blind and partially-sighted clients and *KBC Sign*, and continued to develop *KBC Mobile* and *KBC Invest*. The latter is an app for tracking investment portfolios and savings schemes. The *KBC Assist* app enables clients to digitally report an accident or claim relating to their car or home. In total, around 1.3 million clients already use our digital systems.

Working closely with IT specialist Cegeka and a number of other partners, we were the first in the market to successfully test Digital Trade Chain, a blockchain solution that facilitates secure international trade between SMEs. We are investing jointly with ING and Belfius in the payment solution Payconiq – linked with an integrated customer loyalty programme called 'joyn' – for cashless and cardless payments. Specially for young people, we launched *KBC K'Ching*, a free smartphone app they can use to carry out financial transactions, combining a high fun factor and attractive new look.

sustainable profitable growth

We developed the separate *KBC Brussels* brand, which has a metropolitan, innovative image and a modified network. *KBC Brussels* has its own management team operating out of the European Quarter. We are continuing to build our name recognition through promotional campaigns and various local events in Brussels.

We further implemented our growth strategy in Wallonia, opening three new bank branches, with another three scheduled to open in 2017. We decided to move eleven existing branches to better locations, and began work on the new head office in Namur.

bank-insurance

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

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

role in society

We give concrete shape to our wider role in the community via initiatives relating to entrepreneurship, the environment, financial literacy and demographic ageing. Solid initiatives concerning entrepreneurship include the further expansion of *Start it @kbc* (see boxed text) and *FarmCafe*, the platform that inspires agricultural and horticultural businesses to grow further. On the environmental side, we brought out our renovation loan for owners' associations, which is designed to make it easier to carry out sustainable and energy-efficient improvements to apartment buildings. The *Happy@Home* pilot project is another fine initiative. It is a joint venture between KBC, the service provider ONS and the software firm CUBIGO to make domestic assistance readily available (home help, odd-job work and other services). KBC Securities launched *KBC Match'it* in the autumn, a digital platform where buyers and companies that are looking to be taken over can meet each other. We are the first financial institution in Europe to offer a platform of this kind.

We also pay attention to the other challenges facing today's society. We participate actively in the mobility debate and have created the *KBC Mobility* programme, in which KBC Insurance, KBC Autolease and the breakdown assistance organisation VAB have joined forces to become the reference for sustainable and high-quality mobility solutions in Belgium. In this regard, we have already launched the *DriveSafe* app to raise road safety awareness among novice drivers.

Czech Republic

- ČSOB named as one of the best employers in the Czech Republic (Sodexo)
- ČSOB crowned 'Best Bank in the Czech Republic' (Global Finance Magazine)
- ČSOB named 'Best Private Bank in the Czech Republic' (The Banker/ Private Wealth Magazine and Euromoney)
- Patria voted 'Best M&A Advisory Firm in the Czech Republic' in 2016 (Corporate LiveWire)
- ČSOB's COOL karta wins 'Bank Innovator' category (Hospodářské noviny)
- ČSOB lifts silver at the TOP Responsible Large Company awards (Business for Society)
- ČSOB awarded 'Best Trade Finance Provider in the Czech Republic' in 2017 (Global Finance)
- etc.

Specific objectives

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

With the launch of the *ČSOB NaNákupy* (ČSOB ForShopping) app, we were the first to introduce mobile payments through near field communication (NFC) on the Czech market. The service was well received by the public and was crowned 'Czech Issuing Innovation 2016' by Visa and MasterCard, an award that enhances the innovative image of the bank. The app is a universal tool for shopping. In 2017, it will have e-commerce payment and smart card management capabilities, loyalty card virtualisation, shared shopping lists and much more besides.

A few achievements in 2016

client centricity

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

sustainable profitable growth

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

bank-insurance

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

role in society

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

International Markets

- K&H Bank named 'Best bank in Hungary' (Euromoney), K&H MediMagic programme wins 'Sponsorship Programme with the Greatest Impact' (MAF Social Investment Award)
- ČSOB Poisťovňa crowned 'Best insurance communicator with clients' in Slovakia (Hermes) and 'Most successful insurance company' in Slovakia (Trend)
- KBC Bank Ireland comes out top for 'Best Financial Communications Team' (MoneyMate) and 'Best Corporate Reputation in the Irish Retail Banking Sector' (RepTrak)
- ČSOB in Slovakia and K&H Bank in Hungary named 'Best Trade Finance Provider 2017' in their respective countries (Global Finance)
- DZI Insurance in Bulgaria picks up the 'Insurers for Society' award (Association of Bulgarian Insurers and Bulgarian Association of Insurance Brokers)
- etc.

Specific objectives

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

At the end of 2016, KBC reached agreement with the National Bank of Greece to acquire 99.9% of United Bulgarian Bank (UBB) and 100% of Interlease. UBB is Bulgaria's fourth largest bank in terms of assets, while Interlease is the third largest provider of leasing services. KBC was already present in Bulgaria via CIBANK and DZI Insurance. The acquisition will make us the largest bank-insurance group in Bulgaria, a country with strong macroeconomic fundamentals and considerable potential in terms of financial services compared with the mature markets of Western Europe. The total cost of the acquisition was 610 million euros and the impact on our capital position is limited.
The deal, which is subject to the approval of the relevant central banks, regulators and anti-trust authorities, is expected to be finalised during the second quarter of 2017 at the latest.

A few achievements in 2016

client centricity

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

sustainable profitable growth

With the exception of Ireland, our deposits continued to grow in all countries in the business unit. The same goes for lending, which also saw a further improvement in quality. This was reflected, for instance, by a reduction in the proportion of impaired loans in the portfolio. Our non-life insurance business also expanded nicely, thanks to a variety of initiatives. We took steps, moreover, to concentrate much more in the future on insurance for SMEs. The bank remains the most important channel for life insurance products. We took a major step forward in Bulgaria with the announced acquisition of United Bulgarian Bank (see boxed text).

bank-insurance

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

role in society

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

How do the business units contribute to the group result?

Belgium

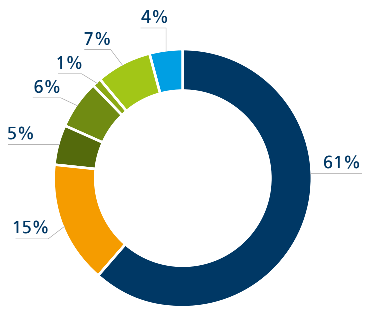
In 2016, our Belgium Business Unit recorded a net result of 1 432 million euros, compared with 1 564 million euros a year earlier.

At 2 701 million euros, net interest income – the most important income item – declined by just 4%, despite low interest rates (and therefore low level of income generated by reinvestments), less interest income being earned by the dealing rooms, a reduction in early-repayment penalties due to a smaller number of home loans being paid off early, and lower interest income on the insurer's bond portfolio. These negative factors were partially offset by the positive impact of lower funding costs and higher interest income from lending (due in part to volume growth – see below). As a result, our net interest margin in Belgium narrowed further from 1.91% in 2015 to 1.80% in 2016. Our volume of loans and advances to customers (92 billion euros, excluding reverse repos) rose by 4% and deposits from customers and debt securities (125 billion euros, excluding repos) went up by 13%.

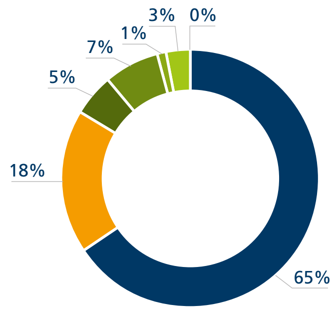
Our net fee and commission income (1 070 million euros) declined by 16%, due primarily to the lower level of fee income from our asset management activities (including entry and management fees on funds, which were adversely affected by the volatile stock market climate) and, to a lesser extent, to lower securities-related fees. Our total assets under management in Belgium grew by almost 3% to 199 billion euros, due almost entirely to the rise in value of the assets themselves (+3%).

Our insurance activities in Belgium generated 2 229 million euros in earned premiums, 1 217 million euros of which came from the life segment and 1 012 million euros from the non-life segment. Non-life premium income grew by 2% (or 5% excluding a technical item; growth primarily in the 'Fire and other damage to property' and 'Motor' classes), but claims incurred also rose by 8%, due to factors including weather conditions (storms) and the impact of the Brussels terrorist attacks in March (16 million euros). As a result, the technical profitability of our non-life insurance business – expressed as the combined ratio – came to 92%, a solid figure though slightly less so than a year earlier (90%). Our life insurance sales – including investment contracts without a discretionary participation feature (roughly equivalent to unit-linked life insurance policies), which are excluded from the IFRS figures – amounted to 1.7 billion euros, up 21% primarily on account of increased sales of guaranteed-rate products (+24%) in 2016 and, to a lesser extent, unit-linked products (+14%). At year-end, our outstanding life reserves totalled 26.9 billion euros, up 1% on the year-earlier figure.

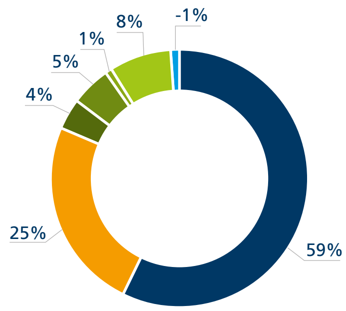
Allocated capital at year-end 2016



Total income for 2016



Net result for 2016



Belgium | Czech Republic | Slovakia | Hungary | Bulgaria | Ireland | Group Centre

The other income items chiefly comprised gains realised on the sale of shares and bonds (90 million euros, positively influenced by a gain of 20 million euros on the sale of our Visa Europe shares), the dividends we received on the securities held in our portfolios (61 million euros), our trading and fair value income (329 million euros, significantly better than in 2015 due primarily to a higher result generated by the dealing room and the positive impact of various market value adjustments) and other income (208 million euros). Besides mainly the usual items (results from KBC Autolease, VAB, etc.), 'other income' also included a number of smaller one-off items.

Our costs in Belgium rose by 3% to 2 432 million euros in 2016, with various factors playing their part, the most important of which being the special bank taxes (increasing from 222 million euros to 273 million euros). Excluding such taxes, costs hardly went up at all (increase in ICT costs, facility services costs, early retirement expenses and professional fees, but a reduction in staff, marketing and other costs). Our cost/income ratio for the banking activities came to 54%, compared with 50% in 2015.

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

Czech Republic

In 2016, our Czech Republic Business Unit recorded a net profit of 596 million euros, compared with 542 million euros a year earlier.

Net interest income – our most important income item – suffered in the Czech Republic (as it did everywhere else) from the climate of low interest rates and associated lower level of income generated by reinvestments, and a lower contribution made by the dealing room. At 849 million euros, it nevertheless remained at its year-earlier level, thanks mainly to the positive impact of lower interest rates on savings accounts and strong volume growth of loans. As regards the latter, our loans and advances to customers (20 billion euros, excluding reverse repos) rose by 9% in 2016 (due in part to robust growth in home loans). Deposits from customers and debt securities (26 billion euros, excluding repos) also grew by 9% year-on-year. The net interest margin in the Czech Republic narrowed from 3.03% in 2015 to 2.94% in 2016.

Our net fee and commission income (191 million euros) declined by 5%, owing primarily to lower fund entry fees and a net reduction in fees for a variety of banking services. Total assets under management in the Czech Republic fell by 3% to just under 8.5 billion euros.

Our insurance activities generated a total of 461 million euros in earned premiums, 271 million euros of which came from the life segment and 190 million euros from the non-life segment. Non-life premium income grew by 8%, but there was also a 16% increase in non-life claims due to several larger cases. As a result, the combined ratio for our Czech non-life insurance business amounted to 96%, compared to 94% a year earlier. Sales of life insurance ended the year at 0.3 billion euros, 12% higher than the figure for 2015 owing to stronger sales of unit-linked products. At year-end, the outstanding life reserves in this business unit totalled 1 billion euros, up approximately 4% on the year-earlier figure.

The other income items chiefly comprised gains realised on the sale of shares and bonds (48 million euros relating to the Visa Europe shares), trading and fair value income (117 million euros in 2016, as opposed to 98 million euros in 2015, due in part to higher dealing room income and a number of market value adjustments) and other income (18 million euros).

Costs fell by 1% to 608 million euros in 2016, owing to a number of factors, including slightly lower bank taxes and various smaller items. Consequently, the cost/income ratio for our banking activities amounted to a very good 45%, compared with 48% in 2015.

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

International Markets

In 2016, the net result at our International Markets Business Unit amounted to 428 million euros, as opposed to 245 million euros a year earlier. Hungary accounted for 130 million euros of this figure, Slovakia for 92 million euros, Bulgaria for 22 million euros and Ireland for 184 million euros.

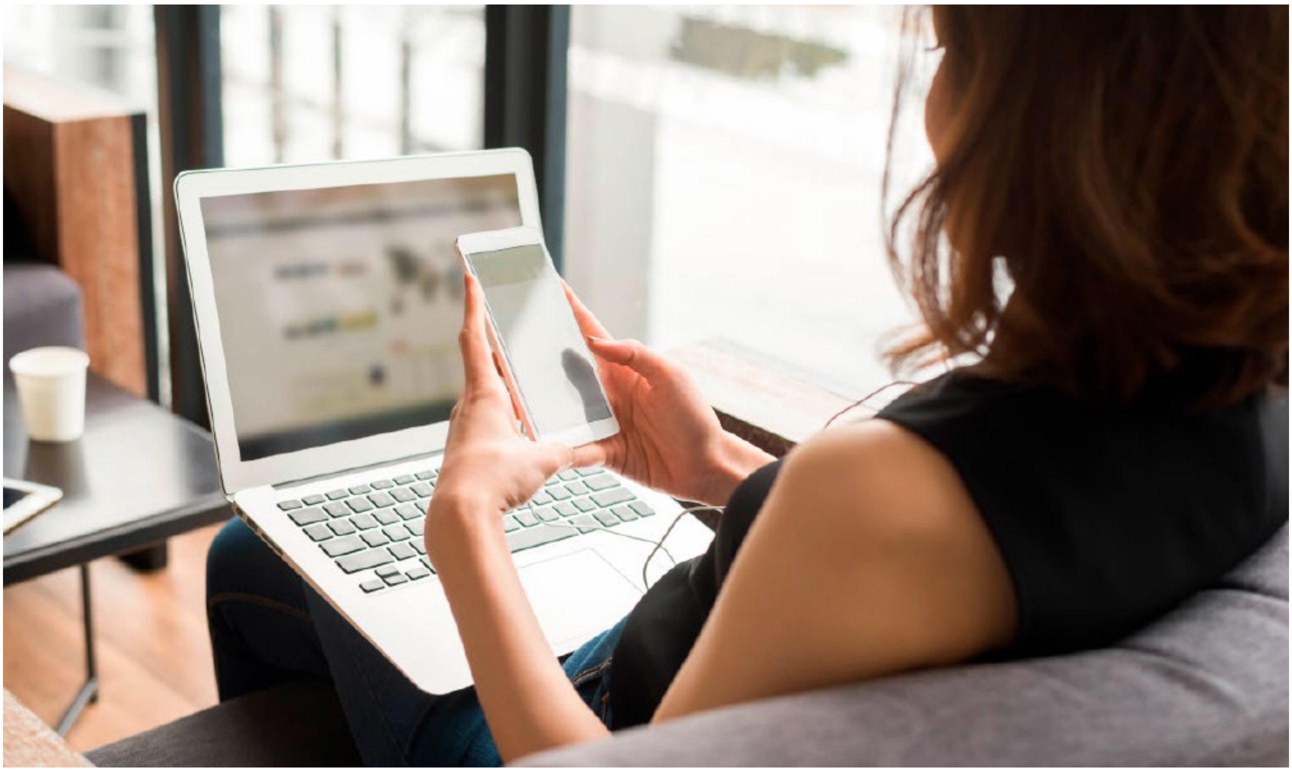
Net interest income for the business unit as a whole came to 740 million euros in 2016, up 4% year-on-year, due primarily to lower funding and liquidity costs in Ireland. As regards volumes, loans and advances to customers for the business unit as a whole (21 billion euros, excluding reverse repos) rose by 2% in 2016, with the decline in Ireland (-5%, where the further scaling back of corporate lending and matured mortgage loans was not fully offset by new production) being more than compensated for by increases in Slovakia (+12%, due primarily to home loans), Hungary (+5%) and Bulgaria (+15%). Deposits from customers and debt securities (18 billion euros, excluding repos) went up by almost 7%. There was a decline in Ireland (-5%, due to increased intra-group use of TLTRO II funding), but deposits grew in all the other countries (Slovakia +9%, Bulgaria +15% and Hungary +14%). The business unit's average net interest margin was more or less unchanged at 2.55%.

Net fee and commission income fell only slightly, slipping by 3% to 201 million euros. The business unit's insurance activities, which are confined to Hungary, Slovakia and Bulgaria, generated a total of 287 million euros in earned premiums, 89 million euros of which came from the life segment and 198 million euros from the non-life segment. Non-life premium income grew robustly by 17% (growth in all countries, but strongest in Hungary), although claims incurred also rose by a substantial 21% (similar pattern to premium income). As a result, the combined ratio for the non-life insurance business amounted to a fine 94%, a slight improvement on its year-earlier level (95%). Sales of life insurance – including investment contracts without a discretionary participation feature (roughly equivalent to unit-linked life insurance policies), which are excluded from the IFRS figures – came to 132 million euros, comparable with the figure for 2015, with sales of unit-linked products growing slightly and guaranteed-rate products falling slightly. At year-end, the outstanding life reserves in this business unit totalled 0.6 billion euros, up 8% on the year-earlier figure.

The other income items chiefly comprised gains realised on the sale of shares and bonds (38 million euros, up sharply due to the 31-million-euro gain on the sale of Visa Europe shares), trading and fair value income (89 million euros) and other income (-1 million euros).

Costs in 2016 remained roughly at their year-earlier level (750 million euros), owing to various factors, including lower bank taxes (particularly in Hungary) and slightly higher general expenses in Slovakia and Hungary. Consequently, the cost/income ratio for the banking activities came to 64%, compared with 66% in 2015.

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



Group Centre

Besides financial reporting for three business units, we also report on a separate Group Centre. In 2016, it generated a net result of -29 million euros, compared with 287 million euros a year earlier. This consisted of:

- the operating expenses of our group's holding-company activities (-85 million euros, compared with -96 million euros in 2015);
- certain costs related to our capital and liquidity management (3 million euros compared with 12 million euros in 2015);
- costs related to the holding of participating interests (chiefly funding costs: -53 million euros, compared with a year-earlier figure of -76 million euros);
- the results of the remaining companies scheduled for run-down (the former Antwerp Diamond Bank, KBC Finance Ireland, etc.: 33 million euros, as opposed to 753 million euros in 2015). The amount for 2015 also included 765 million euros in respect of the liquidation of KBC Financial Holding Inc. More information in this regard can be found in Notes 3.3 and 3.12 of the 'Consolidated financial statements';
- 74 million euros in other items, compared with -306 million euros in 2015. The figure for 2015 was heavily impacted by provisioning for impairment on goodwill relating to CIBANK (117 million euros), to DZI Insurance (34 million euros) and to ČSOB in Slovakia (191 million euros, relating to the earlier acquisition of Istrobanka). For more information, see Note 3.10 of the 'Consolidated financial statements' section.

Results by business unit (in millions of EUR)	**Belgium**		**Czech Republic**		**International Markets**	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
Net interest income	2 701	2 819	849	845	740	711
Non-life insurance (before reinsurance)	440	460	78	80	91	81
Earned premiums	1 012	989	190	177	198	169
Technical charges	-572	-530	-112	-96	-107	-88
Life insurance (before reinsurance)	-208	-243	36	26	20	16
Earned premiums	1 217	969	271	243	89	90
Technical charges	-1 425	-1 212	-234	-216	-69	-73
Ceded reinsurance result	-12	-20	-4	-8	-6	-6
Dividend income	61	65	0	0	0	0
Net result from financial instruments at fair value through profit or loss	329	162	117	98	89	76
Net realised result from available-for-sale assets	90	149	48	12	38	6
Net fee and commission income	1 070	1 280	191	201	201	206
Other net income	208	207	18	23	-1	50
Total income	4 680	4 878	1 333	1 277	1 173	1 141
Operating expenses	-2 432	-2 373	-608	-617	-750	-752
Impairment	-179	-222	-24	-42	34	-84
on loans and receivables	-113	-177	-23	-36	42	-82
on available-for-sale assets	-58	-38	3	-4	0	0
on goodwill	0	0	0	-2	0	0
other	-8	-7	-4	0	-7	-2
Share in results of associated companies	0	-1	23	23	0	0
Result before tax	2 070	2 282	724	640	457	305
Income tax expense	-637	-717	-128	-98	-29	-60
Net post-tax result from discontinued operations	0	0	0	0	0	0
Result after tax	1 433	1 565	596	542	428	245
attributable to minority interests	0	0	0	0	0	0
attributable to equity holders of the parent (net result)	**1 432**	**1 564**	**596**	**542**	**428**	**245**
Banking	1 180	1 230	564	516	406	225
Insurance	252	334	32	26	22	20
Holding-company activities	–	–	–	–	–	–
Risk-weighted assets, banking (Basel III; period-end)	42 566	42 157	13 664	12 919	17 163	19 424
Solvency, insurance (Solvency I in 2015, Solvency II in 2016; period-end)	1 611	891	103	72	95	48
Allocated capital (period-end)	5 974	5 985	1 504	1 482	1 854	2 123
Return on allocated capital	24%	26%	41%	37%	22%	12%
Cost/income ratio, banking	54%	50%	45%	48%	64%	66%
Combined ratio, non-life insurance	92%	90%	96%	94%	94%	95%

Of which:								Group Centre		Total group	
Hungary		Slovakia		Bulgaria		Ireland					
2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
231	248	216	214	48	47	244	202	-32	-63	4 258	4 311
33	27	21	20	37	35	0	0	18	-10	628	611
82	65	32	29	83	76	0	0	10	-16	1 410	1 319
-49	-38	-12	-9	-46	-41	0	0	8	6	-782	-708
4	2	12	10	4	4	0	0	0	0	-152	-201
16	15	51	52	22	23	0	0	0	0	1 577	1 301
-12	-13	-39	-41	-18	-20	0	0	0	0	-1 728	-1 502
-2	-3	-1	-1	-3	-2	0	0	-17	6	-38	-29
0	0	0	0	0	0	0	0	15	10	77	75
66	60	15	16	2	2	6	-2	6	-121	540	214
19	3	16	2	4	0	0	1	13	23	189	190
157	160	45	47	-4	-2	-1	-3	-11	-9	1 450	1 678
2	42	6	9	-5	0	-4	0	33	17	258	297
509	539	330	317	84	83	246	198	25	-148	7 211	7 148
-338	-353	-199	-190	-56	-56	-154	-149	-158	-149	-3 948	-3 890
12	-8	-16	-18	-6	-10	44	-48	-32	-399	-201	-747
15	-6	-15	-18	-3	-10	45	-48	-32	-28	-126	-323
0	0	0	0	0	0	0	0	0	-3	-55	-45
0	0	0	0	0	0	0	0	0	-342	0	-344
-3	-2	0	0	-3	0	-1	0	0	-25	-20	-34
0	0	0	0	0	0	0	0	4	3	27	24
183	179	115	108	22	17	136	1	-161	-693	3 090	2 535
-54	-47	-23	-26	0	2	49	12	132	980	-662	104
0	0	0	0	0	0	0	0	0	0	0	0
130	131	92	82	22	18	184	13	-29	287	2 428	2 639
0	0	0	0	0	0	0	0	0	0	0	0
130	**131**	**92**	**82**	**22**	**18**	**184**	**13**	**-29**	**287**	**2 427**	**2 639**
120	125	83	74	18	12	184	13	17	432	2 167	2 403
9	6	9	8	4	6	0	0	7	-26	314	354
–	–	–	–	–	–	–	–	-53	-119	-53	-119
5 199	6 858	4 635	4 350	839	750	6 477	7 449	4 352	5 433	–	–
33	16	23	15	39	16	–	0	-18	0	–	–
566	749	499	483	125	108	664	782	428	571	–	–
22%	17%	19%	18%	16%	18%	25%	2%	–	–	–	–
67%	65%	60%	60%	61%	65%	63%	75%	–	–	55%	55%
93%	97%	89%	88%	97%	97%	–	–	–	–	93%	91%

How do we manage our risks?

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

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

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

- the 'Risk governance' section;
- parts of the 'Credit risk' section: the introduction, 'Managing credit risk at transactional level', 'Managing credit risk at portfolio level', 'Forbearance measures', the 'Other credit exposure, banking' table, the 'Investment portfolio of KBC group insurance entities' table and the 'Credit exposure to (re)insurance companies by risk class' table;
- parts of the 'Market risk in trading activities' section: the introduction, 'Managing market risk' and 'Risk analysis and quantification';
- parts of the 'Market risk in non-trading activities' section: the introduction, 'Managing market risk in non-trading activities', 'Interest rate risk' (except for the 'Impact of a parallel 10-basis-point increase in the swap curve for the KBC group' table and the 'Breakdown of the reserves for non-unit-linked life insurance by guaranteed interest rate, insurance activities' table), the 'Exposure to sovereign bonds' table and 'Foreign exchange risk';
- parts of the 'Liquidity risk' section: the introduction, 'Managing liquidity risk' and 'Maturity analysis';
- the 'Technical insurance risk' section.

Risk governance

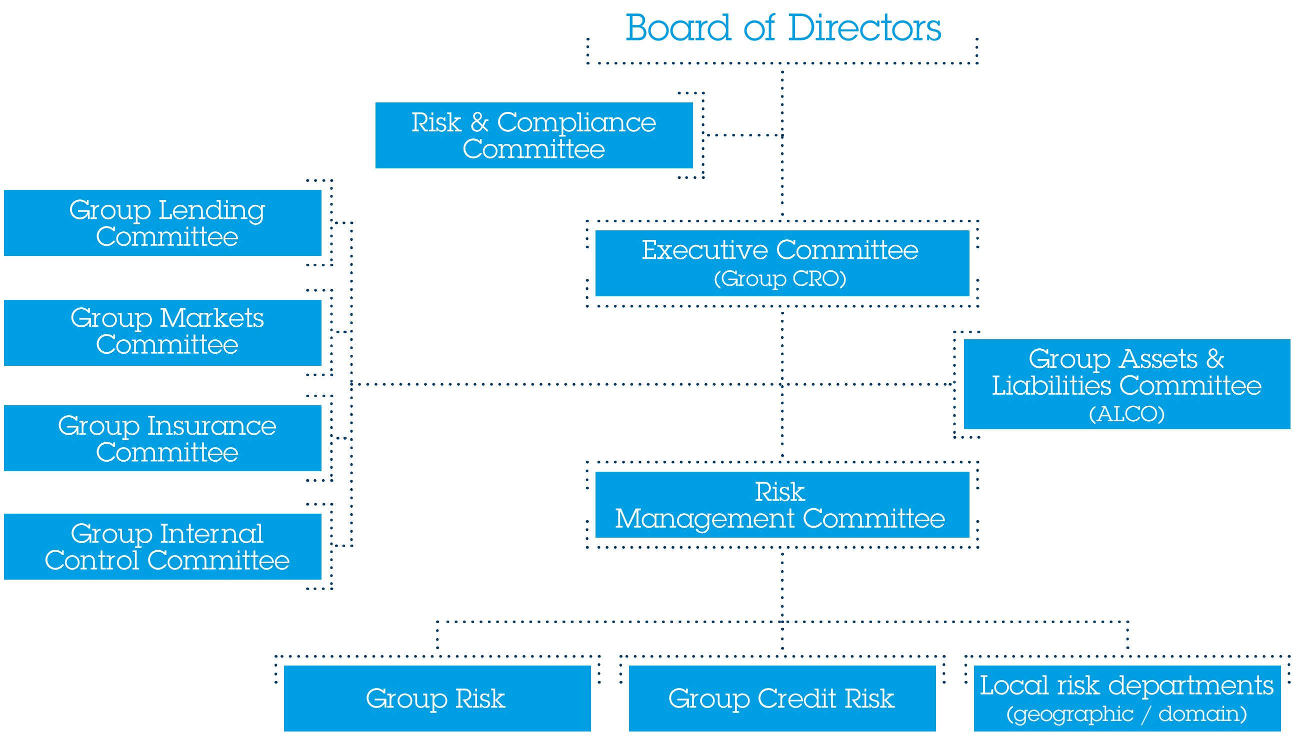
Main elements in our risk governance model:

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

Relevant risk management bodies and control functions:

- Executive Committee:
  - makes proposals to the Board of Directors about risk and capital strategy, risk appetite, and the general concept of the risk management framework;
  - decides on the non-strategy-related building blocks of the risk management framework and monitors its implementation throughout the group;
  - allocates capital to activities in order to maximise the risk-adjusted return;
  - acts as the leading risk committee, covering material issues that are channelled via the specific risk committees or the Group Assets & Liabilities Committee (Group ALCO);
  - monitors the group's major risk exposure to ensure conformity with the risk appetite.
- Group ALCO:
  - is a business committee that assists the Executive Committee in the domain of (integrated) balance sheet management at group level. It handles matters related to ALM and liquidity risk.

> 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 committees:
  - The Risk Management Committee supports the Executive Committee in assessing the adequacy of, and compliance with, the KBC Risk Management Framework and defines and implements the vision, mission and strategy for the CRO Services of the KBC group.
  - The activity-based Group Risk Committees (for lending, markets and insurance, respectively) support the Executive Committee in setting and monitoring limits for these activities at group level. Liquidity and ALM issues related to these activities are addressed by the Group ALCO.
  - The Group Internal Control Committee (GICC) supports the Executive Committee in monitoring and strengthening the quality and effectiveness of KBC's internal control system.
- In order to strengthen the voice of the risk function and to ensure that the decision-making bodies of the business entities are appropriately challenged on matters of risk management and receive expert advice, KBC has deployed independent Chief Risk Officers (CROs) throughout the group according to a logical segmentation based on entity and/or business unit. Close collaboration with the business is assured since they take part in the local decision-making process and, if necessary, can exercise a veto. Independence of the CROs is achieved through a direct reporting line to the Group CRO.
- Group Risk and Group Credit Risk (known collectively as 'the Group risk function') have a number of responsibilities, including monitoring risks at an overarching group-wide level, developing risk and capital models (while business models are developed by business), performing independent validations of all risk and capital models, developing risk frameworks and advising/reporting on issues handled by the Executive Committee and the risk committees. When appropriate, dedicated working groups comprising risk and business-side representatives are set up to deal with emerging risks or unexpected developments in an integrated way (covering all risk types). An example in 2016 was the outcome of the Brexit referendum (see elsewhere in this section).

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

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

Want to learn more?

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

Risk appetite

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

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

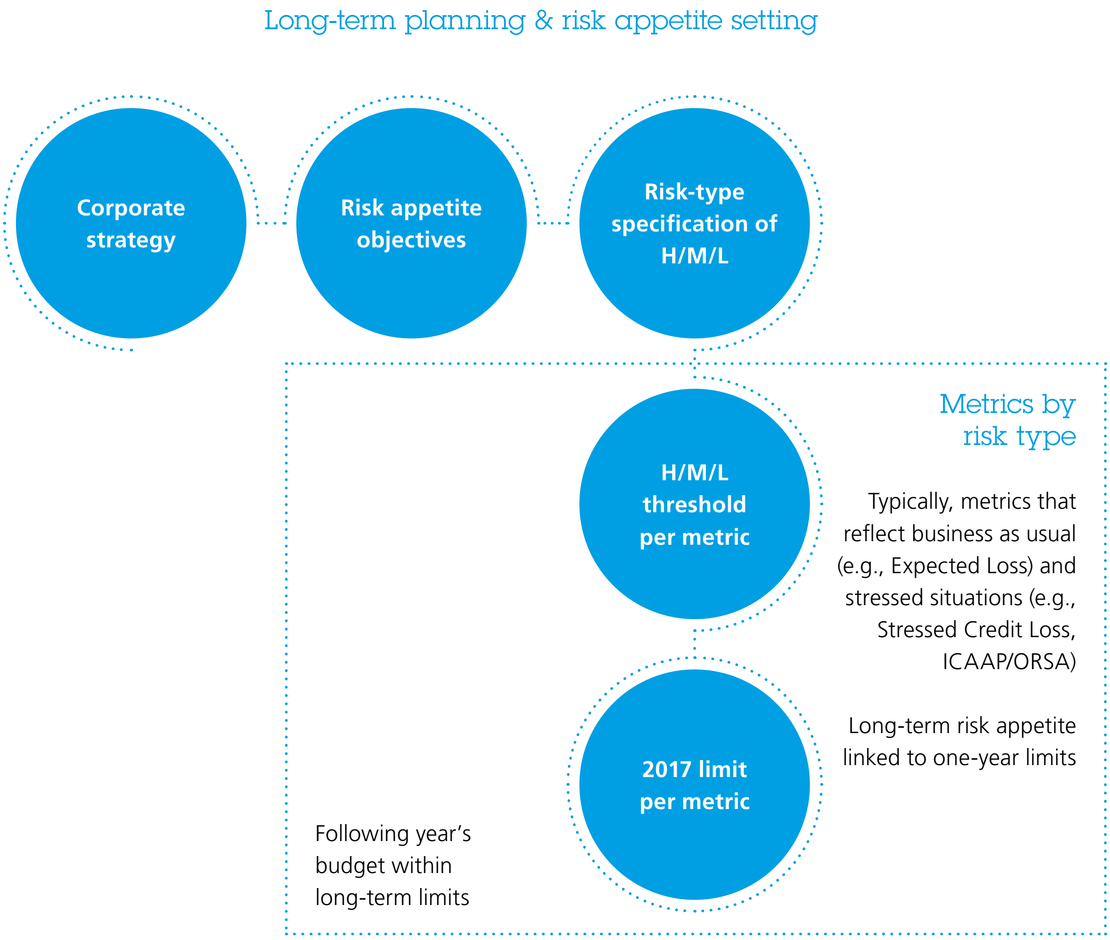
KBC defines risk appetite as the amount and type of risk that it is able and willing to accept in pursuit of its strategic objectives.

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

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

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

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



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

The risk appetite specification and related thresholds per metric for 2017-2019 define KBC's long-term upper boundary for the full planning cycle. The specific 2017 limits per risk type correspond to the long-term upper limit, but can be set lower. The limits are further cascaded down via (primary) limits imposed on the entities by KBC Group NV. More information in this regard is available in KBC's Risk Report, which can be obtained from www.kbc.com.

Credit risk

What is it?

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

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

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

Managing credit risk at transactional level

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

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

Managing credit risk at portfolio level

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

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

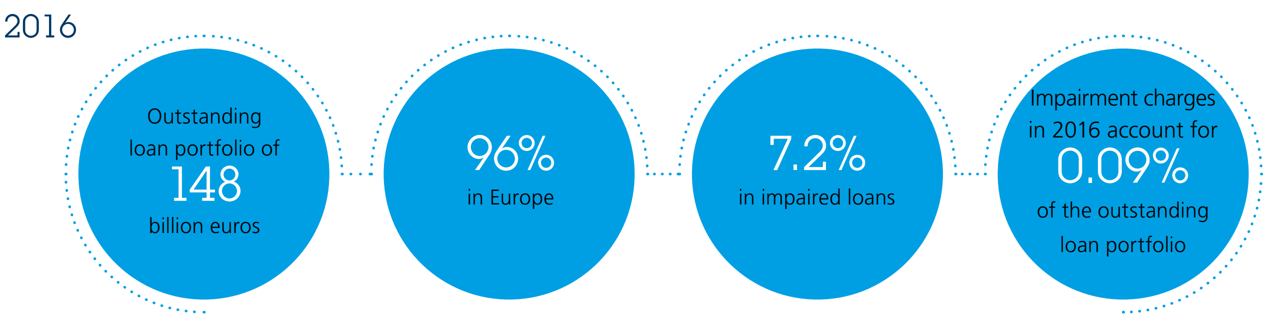
Risk modelling

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

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

We use the output generated by these models to split the non-defaulted loan portfolio into internal rating classes ranging from 1 (lowest risk) to 9 (highest risk) for the PD. We assign an internal rating ranging from PD 10 to PD 12 to a defaulted obligor. PD class 12 is assigned when either one of the obligor's credit facilities is terminated by the bank, or when a court order is passed instructing repossession of the collateral. PD class 11 groups obligors that are more than 90 days past due (in arrears or overdrawn), but that do not meet PD 12 criteria. PD class 10 is assigned to obligors for which there is reason to believe that they are unlikely to pay (on time), but that do not meet the criteria for classification as PD 11 or PD 12. ‘Defaulted’ status is fully aligned with the ‘non-performing’ and ‘impaired’ statuses. Obligors in PD classes 10, 11 and 12 are therefore referred to as ‘defaulted’ and ‘impaired’. Likewise, ‘performing’ status is fully aligned with the ‘non-defaulted’ and ‘non-impaired’ statuses.

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



Credit risk exposure in the banking activities

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

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

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

Loan and investment portfolio, banking	31-12-2016	31-12-2015
Total loan portfolio (in billions of EUR)		
Amount granted	181	174
Amount outstanding	148	143
Loan portfolio breakdown by business unit (as a % of the portfolio of credit outstanding)[1]		
Belgium	65%	65%
Czech Republic	15%	14%
International Markets	17%	18%
Group Centre	3%	3%
Total	100%	100%
Loan portfolio breakdown by counterparty sector (as a % of the portfolio of credit outstanding)[1]		
Private individuals	42%	42%
Finance and insurance	6%	6%
Governments	3%	3%
Corporates	49%	49%
Services	12%	11%
Distribution	8%	8%
Real estate	7%	7%
Building and construction	4%	4%
Agriculture, farming, fishing	3%	3%
Automotive	2%	2%
Other[2]	14%	14%
Total	100%	100%
Loan portfolio breakdown by region (as a % of the portfolio of credit outstanding)[1, 6]		
Western Europe	73%	74%
Central and Eastern Europe	23%	22%
North America	2%	1%
Other	2%	3%
Total	100%	100%
Loan portfolio breakdown by risk class (part of the portfolio, as a % of the portfolio of credit outstanding)[1, 3]		
PD 1 (lowest risk, default probability ranging from 0.00% up to, but not including, 0.10%)	30%	31%
PD 2 (0.10% – 0.20%)	9%	11%
PD 3 (0.20% – 0.40%)	17%	14%
PD 4 (0.40% – 0.80%)	14%	15%
PD 5 (0.80% – 1.60%)	12%	11%
PD 6 (1.60% – 3.20%)	9%	9%
PD 7 (3.20% – 6.40%)	5%	4%
PD 8 (6.40% – 12.80%)	2%	2%
PD 9 (highest risk, ≥ 12.80%)	2%	2%
Total	100%	100%

Loan and investment portfolio, banking	31-12-2016	31-12-2015
Impaired loans (PD 10 + 11 + 12; in millions of EUR or %)[4]		
Impaired loans[5]	10 583	12 305
Specific impairment	4 874	5 517
Portfolio-based impairment (i.e. based on PD 1 to 9)	288	229
Credit cost ratio[1]		
Belgium Business Unit	0.12%	0.19%
Czech Republic Business Unit	0.11%	0.18%
International Markets Business Unit	-0.16%	0.32%
Ireland	-0.33%	0.34%
Slovakia	0.24%	0.32%
Hungary	-0.33%	0.12%
Bulgaria	0.32%	1.21%
Group Centre	0.67%	0.54%
Total	0.09%	0.23%
Impaired loans ratio[1]		
Belgium Business Unit	3.3%	3.8%
Czech Republic Business Unit	2.8%	3.4%
International Markets Business Unit	25.4%	29.8%
Group Centre	8.8%	10.0%
Total	7.2%	8.6%
Impaired loans that are more than 90 days past due (PD 11 + 12; in millions of EUR or %)		
Impaired loans that are more than 90 days past due	5 711	6 936
Specific impairment for impaired loans that are more than 90 days past due	3 603	4 183
Ratio of impaired loans that are more than 90 days past due[1]		
Belgium Business Unit	1.7%	2.2%
Czech Republic Business Unit	1.9%	2.5%
International Markets Business Unit	13.4%	16.0%
Group Centre	5.8%	6.1%
Total	3.9%	4.8%
Cover ratio [Specific loan loss impairment]/[impaired loans]		
Total	46%	45%
Total (excluding mortgage loans)	54%	53%

The Belgium Business Unit also includes the small network of 10 KBC Bank branches established in the rest of Europe, the US and Southeast Asia. These branches, which focus on activities and clients with links to KBC's core markets, have a total loan portfolio of approximately 6 billion euros.

1 Unaudited figures.

2 Individual sector shares not exceeding 3%.

3 Internal rating scale.

4 Figures differ from those appearing in Note 4.2 of the 'Consolidated financial statements' section, due to differences in scope.

5 Reconciliation of year-end figures: the difference of 1 722 million euros between the figures for 2016 and 2015 was due to this category of loan decreasing by 438 million euros at the Belgium Business Unit, by 85 million euros at the Czech Republic Business Unit, by 81 million euros at the Group Centre, and by 1 118 million euros at the International Markets Business Unit (899 million euros of which in Ireland).

6 A more detailed breakdown by country is available in KBC's Extended Quarterly Report – 4Q2016 at www.kbc.com.

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

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

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

Forbearance measures

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

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

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

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

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

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

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

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

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

Gross carrying value	Opening balance	Movements					Closing balance
		Loans which have become forborne	Loans which are no longer considered to be forborne	Repayments	Write-offs	Other[1]	
2016							
Total	7 794	1 379	-1 054	-861	-192	17	7 083
Of which: KBC Bank Ireland	5 383	320	-201	-296	-123	0	5 083
2015							
Total	7 897	2 099	-1 443	-671	-105	16	7 794
Of which: KBC Bank Ireland	5 703	541	-377	-426	-75	17	5 383
Impairment	**Opening balance**	**Movements**					**Closing balance**
		Existing impairment on loans which have become forborne	Decrease in impairment because loans are no longer forborne	Increase in impairment on forborne loans	Decrease in impairment on forborne loans	Other[2]	
2016							
Total	2 203	213	-427	292	-276	-38	1 967
Of which: KBC Bank Ireland	1 607	0	-134	228	-190	0	1 511
2015							
Total	2 108	586	-304	209	-378	-19	2 203
Of which KBC Bank Ireland	1 664	228	-160	176	-300	0	1 607

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

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

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

1 Unaudited

2 99% of the forborne loans total relates to mortgage loans in 2016 (99% in 2015).

3 47% of the forborne loans relates to commercial real estate loans in 2016 (53% in 2015).

Other credit risks in the banking activities

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

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

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

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

Other credit exposure, banking

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

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

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

Credit risk exposure in the insurance activities

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

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

	31-12-2016	31-12-2015
Per balance sheet item		
Securities	22 211	22 048
Bonds and other fixed-income securities	20 890	20 490
Held to maturity	6 550	6 629
Available for sale	14 286	13 813
At fair value through profit or loss and held for trading	5	1
As loans and receivables	48	46
Shares and other variable-yield securities	1 321	1 555
Available for sale	1 317	1 551
At fair value through profit or loss and held for trading	3	3
Other	0	3
Property and equipment and investment property	332	341
Investment contracts, unit-linked[2]	13 693	13 330
Other	1 831	1 485
Total	38 066	37 204
Details for bonds and other fixed-income securities		
By external rating[3]		
Investment grade	96%	95%
Non-investment grade	4%	3%
Unrated	0%	2%
By sector[3]		
Governments	61%	59%
Financial[4]	25%	26%
Other	14%	15%
By remaining term to maturity[3]		
Not more than 1 year	12%	12%
Between 1 and 3 years	19%	21%
Between 3 and 5 years	15%	18%
Between 5 and 10 years	31%	26%
More than 10 years	23%	22%

1 The total carrying value amounted to 36 619 million euros at year-end 2016 and to 35 847 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 (banking and insurance portfolios combined)

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

Structured credit exposure (banking and insurance portfolios)

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

Regulatory capital

Under the phased-in approach, the regulatory capital requirements for credit risk increased from 5 917 million euros at the end of 2015 to 5 944 million euros at the end of 2016. Under the fully loaded approach, these requirements decreased from 6 055 million euros at the end of 2015 to 6 017 million euros at the end of 2016. This reduction in weighted credit risks during 2016 was driven by volume increases, but more than offset by the impact of model-related changes and the improved quality of the loan portfolio. For more details, please see the 'Credit risk' section in KBC's Risk Report, which is available at www.kbc.com.

Market risk in trading activities

What is it?

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

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

We are exposed to market risk via the trading books of our dealing rooms in Belgium, the Czech Republic, Slovakia and Hungary, as well as via a minor presence in the UK and Asia. The traditional dealing rooms, with the dealing room in Belgium accounting for the lion's share of the limits and risks, focus on trading in interest rate instruments, while activity on the FX markets has traditionally been limited. All dealing rooms focus on providing customer service in money and capital market products and on funding the bank activities.

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

Regarding the other legacy business (i.e. the CDO business), the remaining small positions will expire before August 2017. However, these positions (pertaining to the 0.15 billion euros of CDO notes held by investors) are located in the trading books of KBC Investments Limited. Consequently, the market risk regulatory capital charges for this position are recorded under the re-securitisation column in the 'Trading regulatory capital requirements' table (on page 93). Please note that the market risk regulatory capital charges for this legacy position (less than 1 million euros) correspond to the maximum loss that can be incurred.

Managing market risk

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

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

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

We monitor risk concentrations via a series of secondary limits, including equity concentration limits, FX concentration limits and basis-point-value limits for interest rate risk and basis risk. The specific risk associated with a particular issuer or country is also subject to concentration limits. There are also scenario analysis limits, and – where deemed appropriate – stress scenario limits involving multiple shifts of underlying risk factors. In addition, secondary limits are in place to monitor the risks inherent in options (the so-called 'greeks').

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

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

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

Risk analysis and quantification

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

Market risk (VaR) (in millions of EUR)

Holding period: 10 days	**2016**	**2015**
Average for 1Q	16	14
Average for 2Q	15	15
Average for 3Q	15	15
Average for 4Q	14	16
As at 31 December	20	18
Maximum in year	20	21
Minimum in year	11	12

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

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

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

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

Regulatory capital

Both KBC Bank NV and KBC Investments Limited have been authorised by the Belgian regulator to use their respective VaR models to calculate regulatory capital requirements for most of their trading activities. Similarly, ČSOB (Czech Republic) has received approval from the local regulator to use its VaR model for capital requirement purposes. These models (approved internal models) are also used for the calculation of Stressed VaR (SVaR), which is one of the CRD III Regulatory Capital charges that entered into effect at year-end 2011. The calculation of an SVaR measure is based on the normal VaR calculations and follows the same methodological assumptions, but is constructed as if the relevant market factors were experiencing a period of stress. The period of stress is calibrated at least once a year by determining which 250-day period between 2006 and the (then) present day produces the severest losses for the relevant positions.

The resulting capital requirements for trading risk at year-ends 2015 and 2016 are shown in the table below. The regulatory capital requirements for the trading risk of local KBC entities that did not receive approval from their respective regulator to use an internal model for capital calculations, as well as the business lines not included in the HVaR calculations, are measured according to the Standardised approach. This approach sets out general and specific risk weightings per type of market risk (interest risk, equity risk, foreign exchange risk and commodity risk). It should be noted that the trading regulatory capital requirements assessed by the internal model (shown in the table below) are derived from the regulatory capital requirements calculated using the three approved internal models referred to in the previous paragraph. However, as European equity derivatives is KBC Investments Limited's only non-legacy business line (and the only business line in its approved internal model) – and is managed as part of the Brussels dealing room – KBC has been working towards incorporating this business into the KBC Bank NV approved internal model to more closely align management scope with regulatory scope. Given that this would result in two approved internal models instead of three, it would also cut costs and reduce complexity.

Trading regulatory capital requirements by risk type (in millions of EUR)		**Interest rate risk**	**Equity risk**	**FX risk**	**Commodity risk**	**Resecur-itisation**	**Total**
31-12-2016							
Market risks assessed by internal model	HVaR	57	2	7	–	–	156
	SVaR	74	2	14	–		
Market risks assessed by the Standardised approach		18	4	13	0	1	37
Total		150	8	34	0	1	193
31-12-2015							
Market risks assessed by internal model	HVaR	68	3	9	–	–	192
	SVaR	84	2	26	–		
Market risks assessed by the Standardised approach		18	5	16	2	15	56
Total		171	10	50	2	15	248

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

Non-financial risks

Operational risk

What is it?

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

Managing operational risk

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

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

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

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

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

The building blocks for managing operational risks

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

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

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

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

Regulatory capital requirements

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

Additional focus on information risk management

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

At the end of 2015, the decision was taken to make a number of changes relating to information risk management. Firstly, the Group CRO became the CRO responsible for the entities belonging to CFO Services and Corporate Staff Services, including IT (the first line). 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). 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 and strategic risks

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

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

Like to know more? Information on legal disputes is provided in Note 5.7 of the 'Consolidated financial statements' section.

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

Managing market risk in non-trading activities

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 the KBC group
(in millions of EUR)

	Impact on value[1] 2016	2015
Banking	-83	-30
Insurance	5	10
Total	-79	-20

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

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

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

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

	2016	2015
Average for 1Q	-24	-63
Average for 2Q	-35	-46
Average for 3Q	-50	-33
Average for 4Q	-83	-30
As at 31 December	-83	-30
Maximum in year	-83	-63
Minimum in year	-24	-30

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

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

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

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

	≤ 1 month	1–3 months	3–12 months	1–5 years	5–10 years	> 10 years	Non-interest-bearing	Total
31-12-2016	-3 218	-2 698	7 941	6 631	7 421	2 780	-18 856	0
31-12-2015	-20 413	300	13 132	15 847	8 163	-4 006	-13 024	0

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

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

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)

	Available for sale	Held to maturity	Designated at fair value	Loans and receivables	Held for trading	Total	*For comparison purposes: total at year-end 2015*	Economic impact of +100 basis points[3]
KBC core countries								
Belgium	5 496	15 231	28	0	130	20 886	*22 276*	-1 110
Czech Republic	2 341	5 022	0	12	168	7 543	*7 496*	-414
Hungary	721	1 458	0	4	176	2 358	*2 161*	-96
Slovakia	1 362	1 590	0	0	1	2 953	*2 915*	-182
Bulgaria	471	15	0	0	1	487	*390*	-31
Ireland	433	774	0	0	1	1 207	*1 038*	-65
Southern Europe								
Greece	0	0	0	0	0	0	*0*	0
Portugal	323	36	0	0	0	359	*385*	-22
Spain	2 760	256	0	0	1	3 017	*2 951*	-182
Italy	2 132	115	0	0	3	2 250	*2 739*	-141
Other countries								
France	2 944	3 843	0	0	137	6 924	*5 512*	-558
Poland	1 229	270	12	0	4	1 515	*1 068*	-86
Germany	326	523	0	0	2	850	*803*	-41
Austria	308	489	0	0	0	796	*817*	-53
Netherlands	102	399	0	0	1	502	*516*	-31
Rest[2]	2 035	2 112	7	0	88	4 243	*3 727*	-186
Total carrying value	22 982	32 131	47	16	713	55 889	*54 796*	–
Total nominal value	20 005	30 413	43	16	572	51 048	*49 956*	–

1 The carrying amount refers to the amount at which an asset or a 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 excludes exposure to supranational entities of selected countries. No material impairment on the government bonds in portfolio.

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

3 Theoretical economic impact in fair value terms of a parallel 100-basis-point upward shift in the spread over the entire maturity structure (in millions of euros). Only a portion of this impact is reflected in profit or loss and/or equity. Figures relate to banking book exposure only (impact on trading book exposure was very limited and amounted to -8 million euros at year-end 2016).

Main changes in 2016:

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

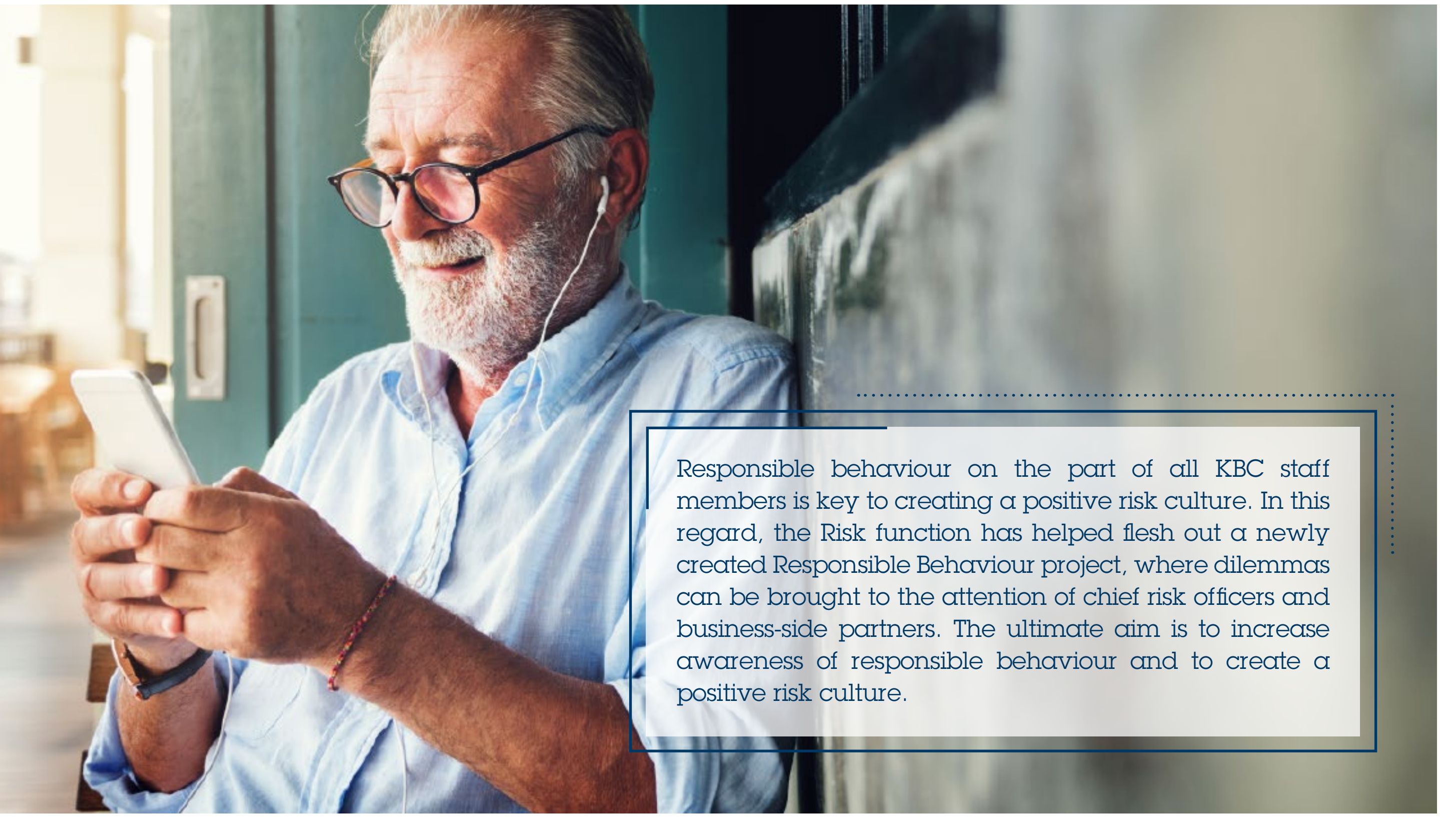
Revaluation reserve for available-for-sale assets at year-end 2016:

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

Portfolio of Belgian government bonds:

- Belgian sovereign bonds accounted for 37% of our total government bond portfolio at the end of 2016, reflecting the importance to KBC of Belgium, the group's primary core market. The importance of Belgium, in general, is also reflected in the 'Loan and investment portfolio' table at the start of the 'Credit risk' section, in the contribution that Belgium makes to group profit and in the various components of the result (see 'Notes on segment reporting' under 'Consolidated financial statements').

- 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' (26% impact only upon realisation) and 'Held To Maturity' (73%, no impact on profit or loss); the impact on IFRS unrealised gains on available-for-sale assets is -218 million euros (after tax) for an increase of 100 basis points.
  - Impact on liquidity: a widening credit spread affects the liquidity coverage ratio (LCR), but the group has a sufficiently large liquidity buffer.



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

Equity risk

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

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

* The main differences between the 1.6 billion euros in this table and the 2.2 billion euros for 'Equity instruments' in the table appearing in Note 4.1 of the 'Consolidated financial statements' section – besides a number of minor differences in the scope of consolidation – are that:
(a) Shares in the trading book (0.4 billion euros) are excluded above, but are included in the table in Note 4.1.
(b) Real estate participations that are not consolidated are classified as 'investments in building' in this table, but classified as 'shares' in the table in Note 4.1 (as they are not consolidated).
(c) Most 'investments in funds' are treated on a 'look-through' basis (according to the underlying asset mix of the fund and therefore also partially classified as 'fixed-income instruments'), whereas they are classified as 'shares' in the table in Note 4.1.

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

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

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

Real estate risk

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

Impact of a 25% drop in real estate prices
(in millions of EUR)

	Impact on value	
	2016	**2015**
Bank portfolios	-92	-95
Insurance portfolios	-55	-60
Total	-146	-155

Foreign exchange risk

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

Capital sensitivity to market movements

The available capital is impacted when the market is stressed. Stress can be triggered by a number of market parameters, including by swap rates or bond spreads that increase or by equity prices that fall. At KBC, we use this capital sensitivity as a common denominator to measure the vulnerability of the banking book to different market risk shocks.
Common equity tier-1 (CET1) capital is most sensitive to a parallel increase in bond spreads. This sensitivity is caused by investments in sovereign and corporate bonds whose spread component has not been hedged. The loss in available capital in the event of a fall in equity prices is caused primarily by positions in pension funds that would be hit by such a shock.

CET1 sensitivity to main market drivers (under Danish compromise), KBC group
(as % of CET1)

IFRS impact caused by	**31-12-2016**	**31-12-2015**
+100-basis-point parallel shift in interest rates	-0.2%	-0.04%
+100-basis-point parallel shift in spread	-0.9%	-0.8%
-25% in equity prices	-0.3%	-0.2%
Joint scenario	-1.3%	-1.1%

Liquidity risk

What is it?

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

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

Managing liquidity risk

A group-wide 'liquidity risk management framework' is in place to define the risk playing field.

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

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

- *Contingency liquidity risk*. This risk is assessed on the basis of liquidity stress tests, which measure how the liquidity buffer of the group's bank entities changes under extreme stressed scenarios. This buffer is based on assumptions regarding liquidity outflows (retail customer behaviour, professional client behaviour, drawing of committed credit lines, etc.) and liquidity inflows resulting from actions to increase liquidity ('repoing' the bond portfolio, reducing unsecured interbank lending, etc.). The liquidity buffer has to be sufficient to cover liquidity needs (net cash and collateral outflows) over (i) a period that is required to restore market confidence in the group following a KBC-specific event, (ii) a period that is required for markets to stabilise after a general market event and (iii) a combined scenario, which takes a KBC-specific event and a general market event into account. The overall aim of the liquidity framework is to remain sufficiently liquid in stress situations, without resorting to liquidity-enhancing actions which would entail significant costs or which would interfere with the core banking business of the group.
- *Structural liquidity risk*. We manage our funding structure so as to maintain substantial diversification, to minimise funding concentrations in time buckets, and to limit the level of reliance on short-term wholesale funding. We manage the structural funding position as part of the integrated strategic planning process, where funding – in addition to capital, profits and risks – is one of the key elements. At present, our strategic aim for the next few years is to build up a sufficient buffer in terms of LCR and NSFR via a funding management framework, which sets clear funding targets for the subsidiaries (own funding, reliance on intra-group funding) and provides further incentives via a system of intra-group pricing to the extent subsidiaries run a funding mismatch.
  In the table below, we have illustrated the structural liquidity risk by grouping the assets and liabilities according to the remaining term to maturity (contractual maturity date). The difference between the cash inflows and outflows is referred to as the 'net funding gap'. At year-end 2016, KBC had attracted 32 billion euros' worth of funding on a gross basis from the professional interbank and repo markets.
- *Operational liquidity risk*. Operational liquidity management is conducted in the treasury departments, based on

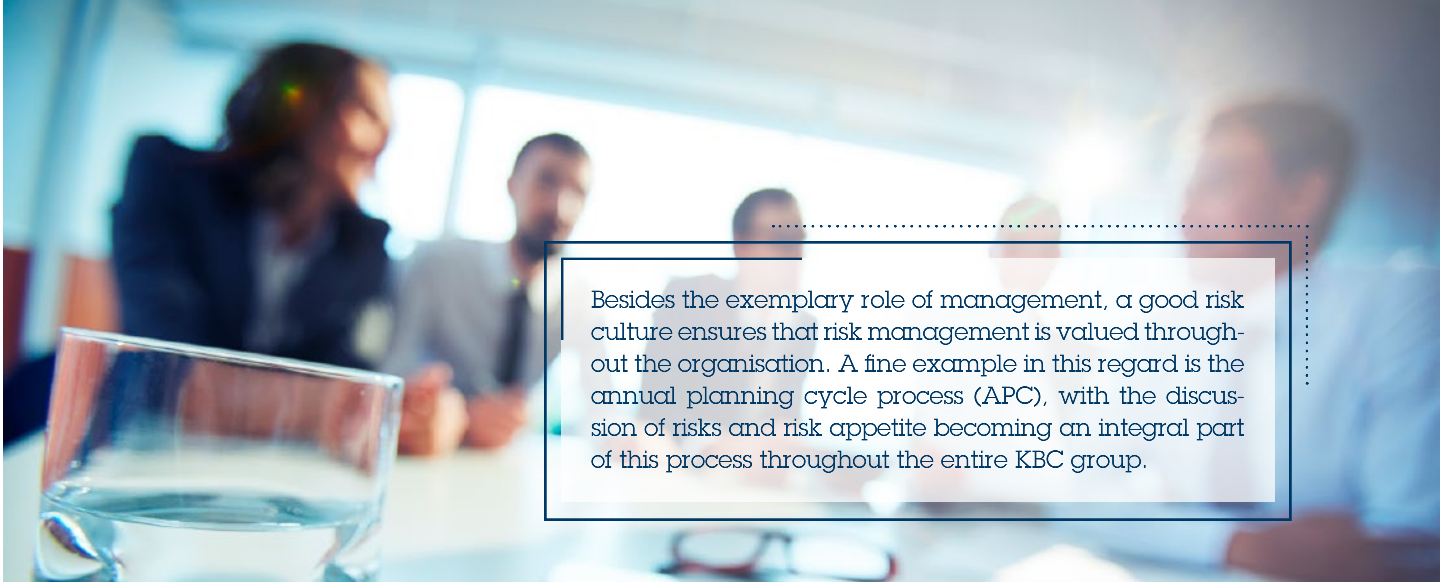
estimated funding requirements. Group-wide trends in funding liquidity and funding needs are monitored on a daily basis by the Group Treasury function, ensuring that a sufficient buffer is available at all times to deal with extreme liquidity events in which no wholesale funding can be rolled over.

Maturity analysis

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

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

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



Liquid asset buffer

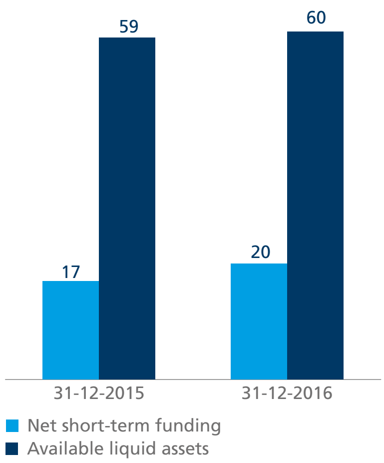
We have a solid liquidity position. At year-end 2016, the KBC group had 60 billion euros' worth of unencumbered central bank eligible assets, 45 billion euros of which in the form of liquid government bonds (75%). The remaining available liquid assets were mainly other ECB/FED eligible bonds (10%) and pledgeable credit claims (4%). Most of the liquid assets are expressed in euros, Czech koruna and Hungarian forint (all home market currencies). Unencumbered liquid assets were three times the net recourse to short-term wholesale funding, while funding from non-wholesale markets was accounted for by stable funding from core customer segments in our core markets.

Funding information

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

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

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



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

Please note that:
- In November 2012, we announced our 10-billion-euro Belgian residential mortgage covered bonds programme. This programme gives KBC access to the covered bond market, allowing it to diversify its funding structure and reduce the cost of long-term funding. At the start of December 2012, we launched a first covered bond issue in the amount of 1.25 billion euros. Since then, we have issued covered bonds each year (including 1.25 billion euros' worth in 2016).
- In 2016, we borrowed 4.2 billion euros from the ECB under the targeted long-term refinancing operations (TLTRO II).

LCR and NSFR

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

Technical insurance risk

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.

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.

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.

Solvency II results

Solvency II results and more detailed information on how all the ratios developed in 2016 are provided under 'Solvency of KBC Bank and KBC Insurance separately' in the 'How do we manage our capital?' section.

Brexit

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

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

Like to know more?

Specific information on the insurance activities of the group can be found in Notes 3.7 and 5.6 in the 'Consolidated financial statements' section. We have provided a breakdown by business unit of earned premiums and technical charges in the notes dealing with segment reporting.

How do we manage our capital?

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

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

Solvency at KBC group level

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

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

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

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

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

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

The capital requirement for KBC is determined not only by the ECB, but also by the decisions of the local competent authorities in its core markets. Indeed, the decision taken by the relevant Czech and Slovak authorities to introduce a countercyclical buffer requirement of 0.5% in the first and third quarters, respectively, of 2017 corresponds with an additional CET1 requirement of 0.15% at KBC group level. The objective of a countercyclical buffer is to counteract the effects of the economic cycle on banks' lending activity. As far as Belgium is concerned, the national bank (NBB) kept this buffer at 0%. For Belgian systemic banks, the NBB had already announced its capital buffers back in 2015. For KBC, it means that an additional capital buffer of 1.0% of CET1 is required for 2017, which is to be built up to 1.5% in 2018.

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

Altogether, this brings the fully loaded CET1 requirement (under the Danish compromise) to 10.40% (4.5% (pillar 1) + 1.75% (P2R) + 2.5% (conservation buffer) + 1.5% (systemic buffer) + 0.15% (countercyclical buffer)), with an additional P2G of 1%. KBC clearly exceeds this requirement: at year-end 2016, the fully loaded CET1 ratio came to 15.8%, which represented a capital buffer of 4 757 million euros relative to the minimum requirement of 10.40%. Furthermore, since part of the capital requirements is to be gradually built up by 2019, the relevant requirement (under the Danish compromise) for 2017 on a phased-in basis has been reduced, i.e. 8.65% of CET1 (4.5% (pillar 1) + 1.75% (P2R) + 1.25% (conservation buffer) + 1% (systemic buffer) + 0.15% (countercyclical buffer)).

The regulatory minimum solvency targets were also amply exceeded throughout the entire financial year.

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

In addition to the solvency ratios under CRD IV, KBC – as a financial conglomerate – also has to disclose its solvency position as calculated in accordance with the Financial Conglomerate Directive (FICOD; 2002/87/EC). This implies that available capital will be calculated on the basis of the consolidated position of the group and the eligible items recognised as such under the prevailing sectoral rules, which are CRD IV for the banking business and Solvency II for the insurance business (Solvency I until the end 2015). The resulting available capital is to be compared with a capital requirement expressed as a risk weighted asset amount. For this latter figure, the capital requirements for the insurance business (based on Solvency I until the end of 2015 and on Solvency II as of 2016) are multiplied by 12.5 to obtain a risk weighted asset equivalent (instead of the 370% risk weighting applied to the participation in the insurance company under the Danish compromise). At year-end 2016, the phased common equity ratio (under FICOD) was 14.8%.

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

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

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

At year-end 2016, our fully loaded leverage ratio at group level stood at 6.1% (see table below). Year-on-year, the ratio fell 0.2 percentage points, due mainly to the higher total exposure being only partly offset by a higher level of tier-1 capital. More details, including a description of the processes used to manage the risk of excessive leverage, can be found in KBC's Risk Report, which is available at www.kbc.com (the risk report has not been audited by the statutory auditor).

Solvency at group level (consolidated; under CRR/CRD IV, Danish compromise method) (in millions of EUR)	**31-12-2016 Phased-in**	**31-12-2016 Fully loaded**	**31-12-2015 Phased-in**	**31-12-2015 Fully loaded**
Total regulatory capital, after profit appropriation	**17 887**	**17 571**	**17 305**	**16 936**
Tier-1 capital	**15 473**	**15 286**	**14 691**	**14 647**
Common equity[1]	**14 033**	**13 886**	**13 242**	**13 247**
Parent shareholders' equity (after deconsolidating KBC Insurance)	15 500	15 500	14 075	14 075
Intangible fixed assets, incl. deferred tax impact (-)	-400	-400	-366	-366
Goodwill on consolidation, incl. deferred tax impact (-)	-483	-483	-482	-482
Minority interests	0	0	0	0
Available-for-sale revaluation reserves (-)[3]	-206	–	-466	–
Hedging reserve, cashflow hedges (-)	1 356	1 356	1 163	1 163
Valuation differences in financial liabilities at fair value – own credit risk (-)	-18	-18	-20	-20
Value adjustment due to requirements for prudent valuation (-)[2]	-109	-140	-53	-94
Dividend payout (-)	-753	-753	0	0
Coupon on AT1 instruments (-)	-2	-2	-2	-2
Deduction with regard to financing provided to shareholders (-)	-91	-91	-91	-91
IRB provision shortfall (-)	-203	-203	-171	-171
Deferred tax assets on losses carried forward (-)	-557	-879	-345	-765
Additional going concern capital	**1 440**	**1 400**	**1 450**	**1 400**
Grandfathered innovative hybrid tier-1 instruments	40	0	50	0
Grandfathered non-innovative hybrid tier-1 instruments	0	0	0	0
CRR-compliant AT1 instruments	1 400	1 400	1 400	1400
Minority interests to be included in additional going concern capital	0	0	0	0
Tier-2 capital	**2 414**	**2 285**	**2 614**	**2 289**
IRB provision excess (+)	362	367	359	369
Subordinated liabilities	2 053	1 918	2 255	1 920
Subordinated loans non-consolidated financial sector entities (-)	0	0	0	0
Minority interests to be included in tier-2 capital	0	0	0	0
Total weighted risk volume	**86 878**	**87 782**	**87 343**	**89 067**
Banking	77 579	78 482	78 034	79 758
Insurance	9 133	9 133	9 133	9 133
Holding-company activities	198	198	208	208
Elimination of intercompany transactions	-32	-32	-33	-33
Solvency ratios				
Common equity ratio	16.2%	15.8%	15.2%	14.9%
Tier-1 ratio	17.8%	17.4%	16.8%	16.4%
Total capital ratio	20.6%	20.0%	19.8%	19.0%

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

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

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

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

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

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

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

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

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

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

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

Solvency of KBC Bank and KBC Insurance separately

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

As is the case for the KBC group, the solvency of KBC Bank is calculated based on CRR/CRD IV.

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

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

Solvency, KBC Insurance (incl. volatility adjustment)*

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

* Unaudited figures.

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

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

ICAAP and ORSA

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

A backbone process in our ICAAP is the Alignment of Planning Cycles (APC). This yearly process aims to create an integrated three-year plan in which the strategy, finance, treasury and risk perspectives are collectively taken into account. In this process, the risk appetite of the group is set and cascaded by setting risk limits at entity level.
The APC is not only about planning, it is also about closely monitoring the execution of the plan in all its aspects (P&L, risk weighted assets, liquidity). Such monitoring is reflected in dedicated reports drawn up by the various Group functions.

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

Stress testing

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

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

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

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

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

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

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

EBA stress test at the end of July 2016

We remained adequately capitalised under the 2016 EU-wide EBA stress test, as announced by the European Banking Authority (EBA) at the end of July 2016. The impact of the stress test on our fully loaded common equity ratio (which was 14.9% at year-end 2015) increased this ratio by 1.3 percentage points to 16.2% under the baseline scenario (+1.0 percentage point on a transitional basis). Under the adverse scenario, our fully loaded common equity ratio would fall by 3.6 percentage points to 11.3% (-3.9 percentage points on a transitional basis, likewise falling to 11.3%). Therefore, we remain adequately capitalised even in an adverse scenario. Our leverage ratio, which stood at 6.3% at the end of 2015, would increase to 7.4% under the baseline scenario and decrease to 5.7% under the adverse scenario.

Risk issues that are proactively addressed and policy breaches that receive appropriate attention are also integral to a desired risk culture. In order to support the business, more rigid policies on sustainable and responsible lending were implemented in the course of 2016. In addition to the initial gap analysis, specific loan files are now regularly monitored to see whether this new policy is being complied. In general, the process of internal control management has improved further in the group, triggering new actions on the business side.

Corporate governance statement

The main aspects of our corporate governance policy are set out in the *Corporate Governance Charter* of KBC Group NV (the 'Charter', which is published at www.kbc.com). We have adopted the 2009 version of the Belgian *Corporate Governance Code* (the 'Code') as our benchmark. This Code can be downloaded at www.corporategovernancecommittee.be.

More factual information regarding corporate governance and on the application of certain statutory provisions is contained in this corporate governance statement.

Unless otherwise indicated, the period dealt with runs from 1 January 2016 to 31 December 2016.

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

Composition of the Board and its committees

The following table shows the members of the Board and its committees on 31 December 2016. A list of the external offices held by all members of the Board is provided at www.kbc.com, as is a brief CV for each director. The number of meetings attended is shown in the columns relating to the committees.

Name*	Primary responsibility	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	EC	AC	RCC	Nomination Committee	Remuneration Committee
Number of meetings in 2016				11					6	10	5	5
Thomas Leysen	Chairman of the Board	Full year	2019	11	■		■				5 (c)	5 (c)
Philippe Vlerick	Deputy Chairman of the Board CEO, Vlerick Group	Full year	2017	11	■	■					5	5
Johan Thijs	President of the EC and Executive Director	Full year	2020	11				■ (c)				
Alain Bostoen	CEO, Christeyns Group	Full year	2019	10	■	■						
Katelijn Callewaert	Managing Director, Cera and KBC Ancora	From 16 December 2016	2017	0	■	■						
Sonja De Becker	Chairperson, Boerenbond	From 4 May 2016	2020	6	■	■					4	
Franky Depickere	Managing Director, Cera and KBC Ancora	Full year	2019	11	■	■				10 (c)	5	
Frank Donck	Managing Director, 3D	Full year	2019	10	■	■			5	9		
Júlia Király	Professor, International Business School of Budapest	Full year	2018	10	■		■		6			5
Walter Nonneman	Professor Emeritus in Economics at the University of Antwerp Director, Cera	From 16 December 2016	2017	0	■	■						
Vladimira Papirnik	Senior Partner, Squire Patton Boggs (US) LLP	Full year	2020	11	■		■		6	10		
Luc Popelier	Executive Director	Full year	2019	9				■				
Theodoros Roussis	CEO, Ravago Group	Full year	2020	9	■	■						
Christine Van Rijsseghem	Executive Director	Full year	2018	11				■				
Matthieu Vanhove	Director and Senior Manager, Cera	From 16 December 2016	2017	0	■	■						
Marc Wittemans	Managing Director, MRBB	Full year	2018	11	■	■			6 (c)	10		

Statutory auditor: PricewaterhouseCoopers (PWC), represented by Roland Jeanquart and Tom Meuleman.

Secretary to the Board of Directors: Johan Tyteca.

(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 4 May 2016, attended 4 Board meetings and 1 Nomination Committee meeting.

Changes in the composition of the Board in 2016

- Vladimira Papirnik (independent director), Johan Thijs (executive director), Theodoros Roussis, Lode Morlion and Ghislaine Van Kerckhove (non-executive directors) were re-appointed as directors for a new four-year term of office.
- Sonja De Becker was appointed as director for a period of four years. She replaced Piet Vanthemsche who resigned with effect on 4 May 2016. The Board deeply appreciates all the work that Mr Vanthemsche has done 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. The Board deeply appreciates all the work that Mr Discry, Mr Morlion and Mrs Van Kerckhove did over the years for KBC.

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

- Sonja De Becker replaced Piet Vanthemsche on the Nomination Committee with effect on 4 May 2016.

Changes in the composition of the Board proposed to the General Meeting on 4 May 2017

- On the advice of the Nomination Committee, the Board will propose that Philippe Vlerick be re-appointed as director for a new four-year term of office.
- On the advice of the Nomination Committee, the Board will propose that Katelijn Callewaert, Walter Nonneman and Matthieu Vanhove be appointed definitively as directors for a period of four years.
- On the advice of the Nomination Committee, the Board will propose that Hendrik Scheerlinck be appointed as director for a period of four years. Consequent on his appointment as member of the EC, he will become an executive director. He will replace Luc Popelier who will resign as director with effect from the close of the General Meeting.

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 a managing 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.

Like to know more?

The corporate governance charter can be found under 'Corporate Governance' at www.kbc.com.
The agenda for the General Meeting of 4 May 2017 is available at www.kbc.com.

The Group Executive Committee (EC)

Johan Thijs

°1965

Belgian

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

Joined company in 1988*

Group CEO (Chief Executive Officer)

Christine Van Rijsseghem

°1962

Belgian

Master's Degree in Law (UGent)

Joined company in 1987*

CRO (Chief Risk Officer)

Daniel Falque

°1963

Belgian

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

Joined company in 2009*

CEO of the Belgium Business Unit

Composition of the EC at the end of 2016

Luc Popelier

°1964

Belgian

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

Joined company in 1988*

CFO (Chief Financial Officer)

Luc Gijsens

°1953

Belgian

Master's Degree in Law (KU Leuven)

Joined company in 1977*

CEO of the International Markets Business Unit

John Hollows

°1956

British

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

Joined company in 1996*

CEO of the Czech Republic Business Unit

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

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

Changes to the Board from 5 May 2017

- 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

CVs of the new members of the EC

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

Report on the activities of the Board and its committees in 2016

Board of Directors (Board)

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

- corporate sustainability;
- the dividend policy for KBC;
- the activities of the Czech Republic Business Unit;
- the acquisition of United Bulgarian Bank (UBB) in Bulgaria;
- the integration of VB Leasing in Slovakia;
- the impact of government measures in Belgium;
- the HR policy;
- the impact of blockchain technology;
- cyber risk;
- Payconiq;
- the Integrated Risk Report;
- the ICAAP-ILAAP Report for 2016;
- the KBC Group Recovery Plan for 2016;
- the Group Compliance Annual Report;
- the Risk Appetite Statement.

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

Audit Committee (AC)

The AC is tasked with a number of responsibilities, including advising the Board on the integrity of financial reporting and the effectiveness of the internal control process and risk management. It provides guidance to the internal audit function and oversees the external auditor.

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

The AC also examined:

- the Statement of effective management with regard to the assessment of internal control systems and the monitoring of the resulting action plans;
- the Risk Appetite Statement;
- intra-group conflicts of interest;
- the statement of assets and liabilities in the context of paying an interim dividend;
- the results of inspections performed by the supervisory authorities and the action plans drawn up by management.

Risk & Compliance Committee (RCC)

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

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

In addition, the following special reports were dealt with:

- the Statement of effective management with regard to the assessment of internal control systems and the monitoring of the resulting action plans;
- the ICAAP-ILAAP Report for 2016;
- the KBC ORSA Report for 2016;
- the KBC Recovery Plan for 2016;
- the Risk Appetite Statement;
- Information Security and Cyber Risk;
- the risk-related elements of remuneration policy and the pricing of products offered to clients;
- the results of inspections performed by the supervisory authorities and the action plans drawn up by management.

Nomination Committee

Please note that the Nomination Committee of KBC Group NV acts in the same capacity for KBC Insurance and KBC Bank.

The main matters dealt with were:

- appointments and re-appointments to the boards of directors;
- the composition of the Board and of the advisory committees;
- the desired profile and the selection of an independent director for the Board of Directors of KBC Insurance;
- succession management.

Remuneration Committee

The Remuneration Committee met each time in the presence of the Chairman of the RCC, with the President of the EC often in attendance too. Please note that the Remuneration Committee of KBC Group NV acts in the same capacity for KBC Insurance and KBC Bank.

The main matters dealt with were:

- the changes to the Remuneration Policy (including implementation of the EBA's guidelines on sound remuneration policies);
- the assessment of the criteria for evaluating the EC in 2015;
- the criteria for evaluating the EC in 2016;
- the annual remuneration review;
- severance payments for members of the EC;
- the remuneration paid to members of the EC;
- the remuneration paid to non-executive directors;
- the remuneration paid to members of the AC and the RCC;
- the remuneration paid to the non-executive directors on the Related Party Lending Committee.

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

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

On 31 December 2016, the AC had two independent directors within the meaning of and in line with the criteria set out in Article 526*ter* of the Companies Code and in the Code.

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

The other members of the AC are:

- Marc Wittemans (non-executive director), who holds a Master’s Degree in Applied Economics, and degrees in Fiscal Sciences and Actuarial Sciences. He is Managing Director of MRBB CVBA, the holding company of the Boerenbond (farmers' union), and is the Chairman of the AC.
- Frank Donck (non-executive director), who holds a Master's Degree in Law (UGent) and a Master’s Degree in Finance (Vlerick Business School). He is Managing Director of 3D NV, Chairman of Atenor Group NV and Tele Columbus AG, and independent director at Barco NV and Elia System Operator NV.

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

RCC: application of section 6.3.6 of the Charter

On 31 December 2016, the RCC of KBC Group NV had one independent director within the meaning of and in line with the criteria set out in Article 526*ter* of the Companies Code and in the Code:

- Vladimira Papirnik (see CV above).

The other members of the RCC are:

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

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

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

The Board worked out an arrangement regarding transactions and other contractual ties between the company (including its affiliated companies) and its directors, not covered by the conflict of interest rule set out in Articles 523 or 524*ter* of the Companies Code. It has been incorporated into the Charter. There were no transactions that required this arrangement to be applied during the 2016 financial year.

Measures regarding insider dealing and market manipulation

The Board has updated the Dealing Code to take account of new applicable regulations. The Code requires a list of key employees to be drawn up, annual blocking periods to be set, and transactions by persons with managerial responsibility and with persons connected with them to be reported to the Belgian Financial Services and Markets Authority (FSMA).

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

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

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

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

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

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

Remuneration report for financial year 2016

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

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

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

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

General framework

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

- variable remuneration must always comprise a profit-related component (at least 10% of which is based on the results of the KBC group – not applicable to ČSOB employees in the Czech Republic on account of this being explicitly prohibited by the Czech National Bank) and a performance-related component;
- at least 40% of variable remuneration awarded to top management, also known as key identified staff (KIS), may not be paid straightaway but its payment is to be spread over a period of three years;
- half of the total amount of variable remuneration for KIS be awarded in the form of equity-related instruments (phantom stocks) so that the longer-term effects of the policy on the value of the KBC group can also be reflected in the variable remuneration component;
- no advance payments may be made in relation to the variable component and clawback/holdback provisions are put in place;
- the variable remuneration component may not exceed half of the fixed component;
- variable remuneration be capped at a nominal 750 000 euros.

With effect on 1 January 2017, the Remuneration Policy was adjusted to take account of the new 'EBA guidelines on sound remuneration policies' and their specific interpretation by the National Bank of Belgium. The main adjustments concern the following:

- At least half of the variable remuneration awarded to the EC and to senior general managers is paid over five years instead of three; for KIS who qualify for variable remuneration of at least 200 000 euros, no less than 60% of that component is paid over the same period.
- The criteria for assessing the performance of the EC member responsible for the risk function do not refer in any way to the results of the KBC group.
- At least one of the criteria used for assessing the performances of top management always relates to risk.
- At least 10% of variable remuneration awarded to top management is also subject to the achievement of targets that have been agreed beforehand in relation to the group's sustainability policy.

Besides the risk gateway, a risk-adjusted measure of company profitability ('Risk-Adjusted Profit or RAP) has been in place to set results-based variable remuneration for performances as from financial year 2012. For certain categories of key identified staff for whom the competent control function has assessed that the RAP is an inadequate risk-adjustment mechanism, this framework will be supplemented by additional performance indicators that are better designed to measure risk.

Clawback provisions

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

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

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

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

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

Remuneration awarded to non-executive directors

- The remuneration paid to non-executive directors consists solely of an annual fixed component (non-performance-related and non-results-based) plus the fee received for each meeting attended. Attendance fees constitute the main element of this remuneration package. If meetings coincide with Board meetings of KBC Bank and/or KBC Insurance, the attendance fee will be paid just once to directors sitting on more than one of these Boards. Given his duties, the Deputy Chairman receives a higher fixed component.
- In light of the considerable time he devotes to the ongoing supervision of KBC group affairs, the Chairman of the Board receives a different remuneration package that comprises solely a fixed component, which is set separately by the Remuneration Committee and approved by the Board.
- The directors sitting on the AC or RCC receive additional remuneration for the work they perform in that regard. With effect from financial year 2016, this is a fixed emolument instead of an attendance fee. As was the case previously with attendance fees, the rule likewise applies

that, if meetings coincide with AC or RCC meetings of KBC Bank and/or KBC Insurance, the emolument will be paid just once to directors sitting on different committees. The chairmen of the AC and RCC receive an additional fixed emolument. Directors sitting on either the Nomination Committee or the Remuneration Committee do not receive additional remuneration for the work they perform in that regard.

- In light of the considerable time required for directors residing outside Belgium to attend Board meetings, additional remuneration (attendance fees) is paid to them for each meeting attended.
- KBC Group NV does not grant loans or guarantees to directors. Such loans or guarantees may, however, be granted by KBC Group NV banking subsidiaries pursuant to Article 72 of the Banking Act of 25 April 2014, meaning that loans may be granted at terms applying to clients and approved by the Board.

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

In accordance with the remuneration system described above, the non-executive directors of KBC Group NV – and, where relevant, of other companies of the KBC group in Belgium or abroad – received the amounts set out in the following table. The members of the EC who also sit on the Board as executive directors did not receive either a fixed remuneration or any attendance fees.

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

	Remuneration (for FY 2016)	Remuneration for AC and RCC members (for FY 2016)	Attendance fees (for FY 2016)
Thomas Leysen	500 000	0	0
Alain Bostoen	30 000	0	50 000
Sonja De Becker	26 667	0	30 000
Franky Depickere	65 000	130 000	61 250
Luc Discry	40 000	0	50 000
Frank Donck	30 000	30 000	50 000
Júlia Király	20 000	30 000	75 000
Lode Morlion	40 000	0	55 000
Vladimira Papirnik	20 000	30 000	82 500
Theodoros Roussis	30 000	0	45 000
Ghislaine Van Kerckhove	40 000	0	55 000
Philippe Vlerick	60 000	0	55 000
Piet Vanthemsche	13 333	0	20 000
Marc Wittemans	40 000	60 000	55 000

Remuneration policy for the next two financial years

It is not the intention to make any changes to the remuneration awarded to non-executive directors. Following the decision to replace the attendance fees paid to members of the AC and RCC with a fixed emolument, a comparison was again made with BEL 20 companies and an extensive sample of continental European financial institutions. The results that emerged indicated that there was no need to adjust the size of this emolument.

Remuneration paid to the President and the other members of the EC

- In accordance with the KBC group's remuneration policy, individual remuneration paid to EC members comprises:
  - a fixed monthly emolument;
  - an annual, performance-related variable emolument (the amount of which depends on the performance of the EC as a whole and on the performance of the institution (assessed on the basis of pre-agreed criteria));
  - an annual, individual variable emolument based on the performance by each member of the EC;
  - any emolument for offices performed on behalf of KBC Group NV (exceptional).
- A quantitative risk-adjustment mechanism (called a 'risk gateway') is used to set the variable remuneration. It comprises a number of capital and liquidity parameters that have to be met before the variable remuneration component may be awarded. The parameters are set each year by the Board. If one or more of these parameters are not met, not only will this remuneration component not be awarded, but payment of deferred amounts relating to previous years will be suspended in that year, too.
- The Board sets performance-related variable remuneration on the advice of the Remuneration Committee, based on an evaluation of several pre-agreed criteria.
- The Remuneration Committee evaluates the extent to which these criteria have been met and, on the basis of its findings and within the limits of the contractually agreed system, makes a proposal regarding the size of the performance-related variable remuneration and duly advises the Board, which takes the final decision. It also advises the Board on the size of the individual variable emolument based on the individual performance of each member of the EC and taking due account of the evaluation performed by the President of the EC.
- The remuneration package awarded to members of the EC does not include a long-term bonus.
- Members also benefit from a retirement and survivor's pension scheme, which comprises a supplementary retirement pension or – if the insured dies while still in employment and leaves a spouse – a survivor's pension, and also provides cover in the event of disability.

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

For members of the EC who have worked six years or less in the KBC group, such payments have been set at 12 months' remuneration, for those who have worked between six and nine years, they are equal to 15 months' remuneration, and for those who have worked more than nine years, they are equal to 18 months' remuneration. In this context, remuneration is taken to be the fixed remuneration component for the current year and the variable component for the last full year preceding termination of office.

Relative importance of the different components of remuneration

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

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

With effect from 1 January 2017, the total amount of annual variable remuneration (i.e. both the performance-related and individual components) for members of the EC will be paid over six years, with 40% being paid in the first year and the rest spread equally over the next five years. Payment of these deferred amounts is subject to the clawback provisions outlined above.

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

Pension arrangements, disability cover and death cover

Up until the start of 2016, a supplementary defined benefit pension plan (as well as a very limited defined contribution plan) had been in place for members of the EC. In that plan, no distinction was made between the CEO and the other members of the EC, and the formula for calculating the pension benefit did not take any account of the remuneration actually paid. What's more, a study carried out in partnership with an external research agency found that the size of both the supplementary retirement pension and death cover was not in line with the market. The same study also revealed that the trend of switching from defined benefits plans to defined contributions plans had continued in relation to pension arrangements for top management.
Based on these findings – and as announced last year – a new pension plan for members of the EC was launched on 1 January 2016. It is a defined contribution plan that – as before – is funded entirely by KBC. When drawing up this plan, account was taken of the fact that the career of a member (and especially the President) of the EC is shorter than that of an average employee. In the pension formula, therefore, the first ten years that an individual sits on the EC are the ones in which a significant part of the supplementary pension is built up. The contribution that KBC makes to the pension plan amounts to 32% of the fixed emolument (40% for the CEO) during those first ten years, 7% for the next five years (3% for the CEO) and 3% starting from the sixteenth year of plan membership. A minimum return of 0% (capped at 8.25%) is guaranteed on the contributions.
Given the specific structure of this new pension plan, funding of the plan is not spread equally over the entire career. During the first ten years, the size of the payment made into the pension fund is rather large, but declines to a fraction of what it had been previously starting from the eleventh year and even more markedly from the sixteenth year.
The plan applies to all new members who join the EC on or after 1 January 2016 (provided they are resident in Belgium). Members already on the EC on 31 December 2015 were offered the choice of continuing with their current pension plan or joining the new one. Apart from Luc Gijsens, all of the members decided to switch to the new plan. In their case, the vested reserves built up by 31 December 2015 were transferred to that plan.
In accordance with the pension regulations, 511 121 euros was paid into the fund for Johan Thijs in 2016, and 1 174 937 euros for the other members of the EC (apart from Luc Gijsens). The service cost of funding the old plan for Luc Gijsens was 147 380 euros. Given that the new type of pension plan differs from the previous one and that the funding curve also has a totally different structure, the contributions referred to above are of an entirely different order than the amounts for the old plan published previously in the annual report and, therefore, are in no way comparable.
The study also revealed that the death cover was relatively lower than the benchmark level and, therefore, the death benefit was increased under the new plan to four times the amount of the fixed emolument (or, if higher, to the reserves that have been built at the time of death). The orphan's pension, where applicable, has been kept at roughly its existing level (a benefit of 185 000 euros and interest of 6 000 euros per year).
The disability benefit has been kept at its old level for all members of the EC (i.e. circa 700 000 euros).

Fixed remuneration for 2016

For 2016, the fixed component awarded to the CEO (Johan Thijs) came to 1 125 000 euros. For the other members of the EC, it came to an aggregate 3 962 500 euros.

Variable remuneration for 2016

For members of the EC, the individual component is set on the basis of an assessment of the performance of the member in question, using the five aspects of our (PEARL) corporate culture and the core value of being 'respectful', while the performance-related component is set on the basis of an assessment of a number of criteria agreed at the start of 2016 that relate to the performances of the EC and the company. These criteria are centred on implementing strategy (including the sustainability policy), realising financial plans, strengthening the risk control environment and increasing the satisfaction of all stakeholders (staff, clients and society). Sustainability is also an important factor in this last aspect. Less than 7% of the total remuneration package, therefore, is related to achieving financial results. When setting the variable remuneration of the CRO, financial planning achievements are not taken into account, but the relative weighting of risk-related criteria is doubled. These assessments generate a percentage between 0% and 100% that is applied to the maximum variable remuneration. Based on the advice of the Remuneration Committee, the Board decided that the members of the EC should be awarded performance-related variable remuneration for 2016 that equalled 98%. The same percentage also applies to the CRO.

Variable remuneration awarded to Johan Thijs: In accordance with the remuneration system described above, a performance-related variable emolument of 294 000 euros and an individual variable emolument of 95 000 euros was awarded to Johan Thijs for 2016. Half of the variable remuneration component is paid in cash and the other half is awarded in the form of phantom stocks. As regards the cash component, 40% (77 800 euros) will be paid in 2017 and the remaining 60% spread equally over the next five years (23 340 euros per year from 2018 to 2022, inclusive).

Variable remuneration awarded to the other members of the EC: In accordance with the remuneration system described above, performance-related variable emoluments totalling 980 000 euros and individual variable emoluments totalling 303 333 euros were awarded to the five members of the EC for 2016. Half of the variable remuneration component is paid in cash and the other half is awarded in the form of phantom stocks. As regards the cash component, 40% (256 667 euros) will be paid in 2017 and the remaining 60% spread equally over the next five years (77 000 euros per year from 2018 to 2022, inclusive).

Phantom stocks for 2016: The number of phantom stocks is calculated on the basis of the average price of the KBC share during the first quarter of 2017. Like the other variable components, 40% will be awarded in 2017 and the remaining 60% spread equally over the next five years. Given that phantom stocks are to be retained for one year, they are paid out in cash one year after being awarded, which means that payment is spread over 2018 to 2023, inclusive. The amounts for which phantom stocks were awarded in this way for 2016 are given in the table below:

Amounts awarded in the form of phantom stocks (in EUR)	**Total**	**Vesting in 2017**	**Vesting in 2018**	**Vesting in 2019**	**Vesting in 2020**	**Vesting in 2021**	**Vesting in 2022**
Johan Thijs	194 500	77 800	23 340	23 340	23 340	23 340	23 340
Luc Popelier	128 333	51 333	15 400	15 400	15 400	15 400	15 400
John Hollows*	128 917	51 567	15 470	15 470	15 470	15 470	15 470
Luc Gijsens	127 750	51 100	15 330	15 330	15 330	15 330	15 330
Daniel Falque	127 750	51 100	15 330	15 330	15 330	15 330	15 330
Christine Van Rijsseghem	128 917	51 567	15 470	15 470	15 470	15 470	15 470

* Virtual Investment Certificates (VICs) instead of phantom stocks.

Variable remuneration in recent years

Of the variable remuneration component awarded to Johan Thijs for 2013, 2014 and 2015, 68 406 euros was paid as a results-based variable emolument and 21 666 euros as an individual variable emolument in 2017. For the other members of the EC, these components came to an aggregate 208 979 euros and 62 611 euros, respectively.

A portion of the phantom stocks awarded in 2013, 2014 and 2015 was converted into cash at 49.68 euros per share in April 2016. The following amounts were paid (in euros):

- Johan Thijs 225 696
- Luc Popelier 157 038
- John Hollows 161 121 (partly VICs)
- Luc Gijsens 148 096
- Daniel Falque 134 136
- Christine Van Rijsseghem 56 635

Other benefits

Each member of the EC has a company car, the personal use of which is charged in accordance with the prevailing regulations. Other benefits which members of the EC receive include hospitalisation insurance, assistance insurance and accident insurance. The value of these benefits are estimated at 15 881 euros for Johan Thijs and at an aggregate 62 393 euros for the other members of the EC. These figures do not include the flat-rate expenses allowance of 400 euros which each member of the EC receives each month.

Remuneration paid to the EC of KBC Group NV (2016)		**CEO: Johan Thijs**		**Other members of the EC (combined)**
	Awarded	**Paid**	**Awarded**	**Paid**
Employment status		Self-employed		Self-employed
Base remuneration (fixed)	1 125 000	1 125 000	3 962 500	3 962 500
Individual variable remuneration for the financial year (cash)	47 500	19 000	151 667	60 667
Individual variable remuneration for the financial year (phantom stocks)	47 500	0	151 667	0
Performance-related variable remuneration for the financial year (cash)	147 000	58 800	490 000	196 000
Performance-related variable remuneration for the financial year (phantom stocks)	147 000	0	490 000	0
Individual variable remuneration for previous financial years	–	21 666	–	62 611
Performance-related variable remuneration for previous financial years	–	68 406	–	208 979
Phantom stocks for previous financial years	–	225 696	–	657 026
Total	1 514 000	1 518 568	5 245 834	5 147 783
Defined contribution pension plan (contribution)	511 121		1 174 937	
Defined benefit pension plan (service cost)	0		147 380	
Other benefits	15 881		62 393	

Remuneration policy for the next two financial years

In 2016, a comparison of the remuneration paid to members of the EC was made with the remuneration awarded to the top management of BEL 20 companies and an extensive selection of continental European financial institutions. It again emerged that the total level of remuneration at KBC was at the lower end of the spectrum in terms of its peers (below the median level) and, therefore, not commensurate with the size and complexity of the KBC group. Based on the advice of the Remuneration Committee, the Board duly decided to raise the fixed component paid to the CEO and the members of the EC by approximately 6% with effect on 1 July 2016 and to increase the maximum variable component by roughly 20% with effect from financial year 2017, which – when aggregated – is an increase in maximum total remuneration of about 10%. Given that the comparative position of the remuneration awarded to the CEO was still much less favourable than that for members of the EC, his maximum variable remuneration was increased by 40%.

Main features of the internal control and risk management systems

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

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

We examine the strategy and organisational structure of the KBC group in the 'Our business model' and 'Our strategy' sections of this annual report.

The KBC group has a dual governance structure based on the Belgian model:

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

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

2 Corporate culture and integrity policy

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

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

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

KBC's *Integrity Policy* focuses primarily on the following areas, for which – where appropriate – specific group-wide compliance rules have been issued, i.e. for:

- combating money laundering and the funding of terrorism, and observing embargoes;
- preventing fiscal irregularities including special mechanisms for tax evasion;
- protecting the investor, including preventing conflicts of interest (MiFID);
- respecting codes of conduct for investment services and the distribution of financial instruments;
- preventing market abuse, including insider trading;
- protecting privacy, confidentiality of information and the professional duty of discretion;
- respecting rules on market practices and consumer protection.

The integrity policy also maintains a strong and comprehensive focus on ethics and combating fraud:

- By running focused campaigns and training courses, KBC proactively ensures that this ethical attitude is ingrained in the DNA of each employee. The elements of this policy are firmly embedded in the code of conduct and various other policy guidelines referred to in this section.
- Various departments such as Compliance, Inspection, Internal Audit – as well as KBC's business side – engage in the prevention and detection of fraud. For complex fraud cases and/or incidents with an impact at group level, investigations are conducted and/or co-ordinated by Group Compliance in its capacity as the group competence centre for fraud.
- The *Policy for the Protection of Whistleblowers in the KBC Group* ensures that employees who act in good faith to report fraud and gross malpractice are protected.
- The *Anti-Corruption Policy* affirms KBC's position in the fight against and its resolve to prevent corruption in its activities and operations, while setting out the measures

that have been or will be taken to achieve this. One element of this is the ‘policy on gifts, donations and sponsorship’ through which KBC endeavours to protect its employees and the other parties involved by means of criteria that have been drawn up to foster transparent and reasonable behaviour.

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

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

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

3.1 The business side assumes responsibility for managing its own risks

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

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

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

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

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

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

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

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

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

Each year, the EC evaluates whether the internal control and risk management system is still compliant and reports its findings to the AC and RCC.

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

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

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

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

Periodic reporting at company level is based on a documented accounting process. A manual on the accounting procedures and financial reporting process is available. Periodic financial statements are prepared directly from the general ledger. Bookkeeping accounts are examined to see whether they correspond to underlying inventories. The result of these controls can be demonstrated. Periodic financial statements are prepared in accordance with local accounting policies and periodic reports on own funds in accordance with the most recent National Bank of Belgium (NBB) resolutions.

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

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

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

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

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

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

Each year, when preparing the Internal Control Statement for the supervisory authorities, the legal entities have to assess themselves as to whether they comply with the Group Key Control Accounting and External Financial Reporting standards. The findings of this self-assessment are registered in the risk function’s Group Risk Assessment Tool. Besides a questionnaire to be completed by the CFOs, it also includes drawing up a list of all the responsibilities (Entity Accountability Excel sheets) for accounting and external financial reporting, along with the underlying Departmental Reference Documents

that substantiate how these responsibilities are being shouldered.
In this way, the CFOs formally confirm by substantiated means that all the defined roles and responsibilities relating to the end-to-end process for external financial reporting have been properly assumed within their entity. The veracity of this confirmation can be checked at any time by all the internal and external stakeholders involved.

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

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

Non-compliance with the Corporate Governance Code

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

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

At year-end 2016, the AC was composed of four non-executive directors, two of whom were independent and two who represented the core shareholders. Independent directors were, therefore, in the minority on this committee. On 31 December 2016, the Nomination Committee was composed of four directors, one of whom was the Chairman of the Board (who is also an independent director) and three who represented the core shareholders. Independent directors were, therefore, in the minority on this committee. Vladimira Papirnik (independent director) was appointed as an additional member of the Nomination Committee with effect on 1 January 2017, as a result of which two independent directors now sit on that committee.

When selecting the members of the AC and Nomination Committee – as is also the case with the Board – the group takes account of the specific shareholder structure and, in particular, of the presence of the core shareholders. Given their engagement, the Board considered it appropriate to involve them in a suitable and balanced manner in the activities of the committees via their representatives on the Board.

Gender diversity

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

On 1 January 2017, the Board comprised five women and eleven men, and thus complied with the Code.

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

There were no conflicts of interest during the 2016 financial year that required the application of Article 523, 524 or 524*ter* of the Companies Code.

Statutory auditor

At the General Meeting of 4 May 2016, PricewaterhouseCoopers (PwC) was appointed as statutory auditor for a period of three years. It will be represented by Messrs Roland Jeanquart and Tom Meuleman. Until that meeting, Ernst & Young Bedrijfsrevisoren BCVBA – represented by Christel Weymeersch and/or Jean-François Hubin – had acted as the company's statutory auditor.

Details of the statutory auditor's remuneration are provided in Note 6.4 of the 'Consolidated financial statements' section.

Disclosure under Article 34 of the Belgian Royal Decree of 14 November 2007 concerning the obligations of issuers of financial instruments admitted to trading on a regulated market

1 Capital structure on 31 December 2016

The share capital was fully paid up and was represented by 418 372 082 shares of no nominal value. More information on the group's capital can be found in the 'Company annual accounts and additional information' section.

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

Each year, KBC Group NV carries out a capital increase reserved for its employees and the employees of certain of its Belgian subsidiaries. If the issue price of the new shares is less than the closing price, these new shares may not be transferred by the employee for two years, starting from the payment date, unless he or she dies. The shares subscribed to by employees under the capital increase decided upon by the Board on 16 November 2016 are blocked until 19 December 2018. The shares issued under the capital increase in 2015 also remain blocked (until 17 December 2017).

The options on KBC Group NV shares held by employees of the various KBC group companies and allocated to them under stock option plans set up at different points in time, may not be transferred *inter vivos*. For information on stock options for staff, see Note 3.8 in the 'Consolidated financial statements' section.

3 Holders of any securities with special control rights

None.

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

None.

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

The voting rights attached to the shares held by KBC Group NV and its direct and indirect subsidiaries are suspended. At 31 December 2016, these rights were suspended for two shares (0.00% of the shares in circulation at that time).

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

The core shareholders of KBC Group NV comprise KBC Ancora Comm.VA, its parent company Cera CVBA, MRBB CVBA, and a group of legal entities and individuals referred to as 'Other core shareholders'.

Based on the most recent notifications provided to KBC, their shareholdings are:

- KBC Ancora Comm.VA: 77 516 380
- Cera CVBA: 11 127 166
- MRBB CVBA: 47 889 864
- Other core shareholders: 31 675 955

That is a total of 168 209 365 KBC Group NV shares, which represents the same number of voting rights, or 40.21% of the total number of such voting rights on 31 December 2016 (418 372 082).

A shareholder agreement was concluded between these core shareholders in order to ensure shareholder stability and guarantee continuity within KBC Group NV, 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 NV and are represented on its Board.

The core shareholder agreement provides for a contractual shareholder syndicate. It sets out the rules for the syndicated shares, management of the syndicate, syndicate meetings, voting rights within the syndicate, preferential subscription rights in the event of the transfer of syndicated shares, withdrawal from the agreement, and duration of the agreement. Apart from a limited number of decisions, the syndicate meeting may – in the absence of a consensus – take decisions by a two-thirds majority vote, on the understanding that none of the shareholder groups can block a decision. The agreement was extended for a new ten-year period, with effect from 1 December 2014.

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

Appointment and replacement of members of the Board:

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

Amendment of the Articles of Association:

Unless stipulated otherwise, the General Meeting is entitled to amend the Articles of Association. Accordingly, the General

Meeting may only validly deliberate and take decisions about such amendments if they have been expressly proposed in the convening notice and if those attending the meeting represent at least half the share capital. If the latter condition is not satisfied, a new convening notice is required and the new meeting can validly deliberate and take decisions, regardless of the share of capital represented by the shareholders attending the meeting. An amendment is only adopted if it receives three-quarters of the votes cast (Article 558 of the Companies Code).

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

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

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

On 16 November 2016, the Board decided to use its authorisation to increase capital by issuing shares without preferential subscription rights to employees at a price of 48.65 euros per share and with a limit of 71 shares per employee. On 23 December 2016, the issued share capital was increased by 991 883.52 euros (represented by 285 024 new shares). For the impact of excluding preferential subscription rights, see 'Notes to the company annual accounts'.

As a result, the authorised capital amounted to 695 111 550.04 euros at year-end 2016. Consequently, when account is taken of the accounting par value of the share on 31 December 2016, a maximum of 199 744 698 new shares can still be issued, i.e. 47.74% of the number of shares in circulation at that time.

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

The boards of KBC Group NV and its direct subsidiaries received authorisation to sell their KBC Group NV shares on or off the exchange. In the latter case, the price may not be lower than that prevailing on the exchange at the time of sale, less 10%. On 31 December 2016, KBC Group NV and its *direct* subsidiaries did not hold any KBC Group NV shares.

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

None.

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

None.

Shareholder structure on 31 December 2016

Notifications of shareholdings are provided:

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

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

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

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

Article 10bis of the Articles of Association of KBC Group NV stipulates the threshold at which individuals must disclose their shareholdings. KBC publishes these notifications on www.kbc.com. The table provides an overview of the shareholder structure at year-end 2016, based on all the notifications received by 31 December 2016. The 'Company annual accounts and additional information' section also contains an overview of notifications received in 2016 (and the first two months of 2017).

Shareholder structure on 31-12-2016 (based on the most recent notifications received pursuant to the Act of 2 May 2007)	**Address**	**Number of KBC shares/voting rights (as a % of the current number of shares/voting rights)**	**Notification relating to**
KBC Ancora Comm.VA	Mgr. Ladeuzeplein 15, 3000 Leuven, Belgium	77 516 380 (18.53%)	1 December 2014
Cera CVBA	Mgr. Ladeuzeplein 15, 3000 Leuven, Belgium	11 127 166 (2.66%)	1 December 2014
MRBB CVBA	Diestsevest 40, 3000 Leuven, Belgium	47 889 864 (11.45%)	1 December 2014
Other core shareholders	C/o Ph. Vlerick, Ronsevaalstraat 2, 8510 Bellegem, Belgium	32 020 498 (7.65%)	1 December 2014
KBC group companies	Havenlaan 2, 1080 Brussels, Belgium	300 (0.00%)	16 October 2012
FMR LLC (Fidelity)	The Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle County, Delaware 19801, United States	12 628 843 (3.02%)	18 November 2016
BlackRock Inc.	55 East 52nd Street, New York, NY 10055, United States	20 650 780 (4.94%)	9 February 2016
Parvus Asset Management Europe Ltd.	7 Clifford Street, London W1S 2FT, United Kingdom	12 341 146 (2.95%)	13 February 2015

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

Within the framework of this law, KBC Group NV received a number of updated disclosures on 30 August 2016. The entities and individuals referred to below act in concert.

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

Shareholder	Shareholding (quantity)	%[2]	Shareholder	Shareholding (quantity)	%[2]
KBC Ancora Comm. VA	77 516 380	18.53	Bareldam SA	387 544	0.09
MRBB CVBA	47 889 864	11.45	Robor NV	359 606	0.09
Cera CVBA	11 127 166	2.66	Dufinco BVBA	357 002	0.09
SAK AGEV	6 461 885	1.54	Sereno SA	321 408	0.08
Ravago Finance NV	3 855 915	0.92	Rodep Comm. VA	304 181	0.07
VIM CVBA	3 834 500	0.92	Efiga Invest SPRL	230 806	0.06
3D NV	2 491 893	0.60	Gavel Comm. VA	220 024	0.05
Almafin SA	1 285 997	0.31	Ibervest	190 000	0.05
De Berk BVBA	1 138 208	0.27	Promark International NV	189 008	0.05
Algimo NV	1 040 901	0.25	Niramore International SA	150 700	0.04
SAK PULA	981 450	0.23	SAK Iberanfra	120 107	0.03
Rainyve SA	941 958	0.23	Isarick NV	45 056	0.01
Alia SA	937 705	0.22	Agrobos	45 000	0.01
Stichting Amici Almae Matris	912 731	0.22	Filax Stichting	38 529	0.01
Ceco CVA	568 849	0.14	I.B.P Ravago Pensioenfonds	34 833	0.01
Van Holsbeeck NV	502 822	0.12	Hendrik Van Houtte CVA	25 920	0.01
Nascar Finance SA	485 620	0.12	Asphalia NV	14 241	0.00
Cecan NV	466 002	0.11	Vobis Finance NV	685	0.00
Cecan Invest NV	397 563	0.10			

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

Shareholding (quantity)	%[2]	Shareholding (quantity)	%[2]	Shareholding (quantity)	%[2]	Shareholding (quantity)	%[2]
861 395	0.21	182 826	0.04	80 500	0.02	19 522	0.00
285 000	0.07	159 100	0.04	41 500	0.01	3 431	0.00
239 400	0.06	107 744	0.03	32 554	0.01	2 800	0.00
193 200	0.05	107 498	0.03	20 836	0.00		

1 No such disclosures were received.

2 The calculation (%) of the total outstanding number of shares is based on the total number of shares on 31 December 2016.

Consolidated financial statements

Consolidated income statement

(in millions of EUR)	Note	2016	2015
Net interest income	3.1	4 258	4 311
Interest income	3.1	6 642	7 150
Interest expense	3.1	-2 384	-2 839
Non-life insurance (before reinsurance)	3.7	628	611
Earned premiums	3.7	1 410	1 319
Technical charges	3.7	-782	-708
Life insurance (before reinsurance)	3.7	-152	-201
Earned premiums	3.7	1 577	1 301
Technical charges	3.7	-1 728	-1 502
Ceded reinsurance result	3.7	-38	-29
Dividend income	3.2	77	75
Net result from financial instruments at fair value through profit or loss	3.3	540	214
Net realised result from available-for-sale assets	3.4	189	190
Net fee and commission income	3.5	1 450	1 678
Fee and commission income	3.5	2 101	2 348
Fee and commission expense	3.5	-651	-670
Other net income	3.6	258	297
TOTAL INCOME		**7 211**	**7 148**
Operating expenses	3.8	-3 948	-3 890
Staff expenses	3.8	-2 252	-2 245
General administrative expenses	3.8	-1 449	-1 392
Depreciation and amortisation of fixed assets	3.8	-246	-253
Impairment	3.10	-201	-747
on loans and receivables	3.10	-126	-323
on available-for-sale assets	3.10	-55	-45
on goodwill	3.10	0	-344
other	3.10	-20	-34
Share in results of associated companies and joint ventures	3.11	27	24
RESULT BEFORE TAX		**3 090**	**2 535**
Income tax expense	3.12	-662	104
Net post-tax result from discontinued operations	–	0	0
RESULT AFTER TAX		**2 428**	**2 639**
attributable to minority interests	–	0	0
of which relating to discontinued operations	–	*0*	*0*
attributable to equity holders of the parent	–	**2 427**	**2 639**
of which relating to discontinued operations	–	*0*	*0*
Earnings per share (in EUR)			
Ordinary	3.13	5.68	3.80
Diluted	3.13	5.68	3.80

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

Consolidated statement of comprehensive income

(in millions of EUR)	2016	2015
RESULT AFTER TAX	**2 428**	**2 639**
attributable to minority interests	0	0
attributable to equity holders of the parent	2 427	2 639
OTHER COMPREHENSIVE INCOME		
Recycled to profit or loss		
Net change in revaluation reserve for shares	-57	176
Fair value adjustments before tax	83	260
Deferred tax on fair value changes	1	-11
Transfer from reserve to net result	-141	-72
Impairment	31	7
Net gains/losses on disposal	-185	-79
Deferred taxes on income	14	0
Net change in revaluation reserve for bonds	26	-209
Fair value adjustments before tax	102	-256
Deferred tax on fair value changes	-30	91
Transfer from reserve to net result	-46	-44
Impairment	0	0
Net gains/losses on disposal	-30	-57
Amortisation and impairment of revaluation reserve for available-for-sale financial assets following reclassification to 'loans and receivables' and 'held-to-maturity assets'	-40	-3
Deferred taxes on income	24	16
Net change in revaluation reserve for other assets	0	0
Fair value adjustments before tax	0	0
Deferred tax on fair value changes	0	0
Transfer from reserve to net result	0	0
Impairment	0	0
Net gains/losses on disposal	0	0
Deferred taxes on income	0	0
Net change in hedging reserve (cashflow hedges)	-201	222
Fair value adjustments before tax	-379	302
Deferred tax on fair value changes	122	-110
Transfer from reserve to net result	56	29
Gross amount	80	39
Deferred taxes on income	-24	-9
Net change in translation differences	20	264
Gross amount	-16	162
Deferred taxes on income	36	103
Net change in respect of associated companies and joint ventures	4	6
Gross amount	5	5
Deferred taxes on income	-1	0
Other movements	11	2
Not recycled to profit or loss		
Net change in defined benefit plans	-231	226
Remeasurements	-336	323
Deferred tax on remeasurements	104	-97
Net change in respect of associated companies and joint ventures	0	0
Remeasurements	0	0
Deferred tax on remeasurements	0	0
TOTAL COMPREHENSIVE INCOME	**2 000**	**3 327**
attributable to minority interests	0	0
attributable to equity holders of the parent	2 000	3 326

- See Note 1.1 for changes in the above presentation.

Consolidated balance sheet

ASSETS (in millions of EUR)	Note	31-12-2016	31-12-2015
Cash and cash balances with central banks	–	20 148	7 038
Financial assets	4.0	246 836	237 346
Held for trading	4.0	9 683	10 385
Designated at fair value through profit or loss	4.0	14 185	16 514
Available for sale	4.0	36 708	35 670
Loans and receivables	4.0	152 152	141 305
Held to maturity	4.0	33 697	32 958
Hedging derivatives	4.0	410	514
Reinsurers' share in technical provisions, insurance	5.6	110	127
Fair value adjustments of the hedged items in portfolio hedge of interest rate risk	–	202	105
Tax assets	5.2	2 312	2 336
Current tax assets	5.2	66	107
Deferred tax assets	5.2	2 246	2 228
Non-current assets held for sale and disposal groups	5.11	8	15
Investments in associated companies and joint ventures	5.3	212	207
Investment property	5.4	426	438
Property and equipment	5.4	2 451	2 299
Goodwill and other intangible assets	5.5	999	959
Other assets	5.1	1 496	1 487
TOTAL ASSETS		**275 200**	**252 356**
LIABILITIES AND EQUITY (in millions of EUR)	**Note**	**31-12-2016**	**31-12-2015**
Financial liabilities	4.0	234 300	213 333
Held for trading	4.0	8 559	8 334
Designated at fair value through profit or loss	4.0	16 553	24 426
Measured at amortised cost	4.0	207 485	178 383
Hedging derivatives	4.0	1 704	2 191
Technical provisions (before reinsurance)	5.6	19 657	19 532
Fair value adjustments of the hedged items in portfolio hedge of interest rate risk	–	204	171
Tax liabilities	5.2	681	658
Current tax liabilities	5.2	188	109
Deferred tax liabilities	5.2	493	549
Liabilities associated with disposal groups	5.11	0	0
Provisions for risks and charges	5.7	238	310
Other liabilities	5.8	2 763	2 541
TOTAL LIABILITIES		**257 843**	**236 545**
Total equity	**5.10**	**17 357**	**15 811**
Parent shareholders' equity	5.10	15 957	14 411
Additional tier-1 instruments included in equity	5.10	1 400	1 400
Minority interests	–	0	0
TOTAL LIABILITIES AND EQUITY		**275 200**	**252 356**

Consolidated statement of changes in equity

(in millions of EUR)	Issued and paid up share capital	Share premium	Treasury shares	Revaluation reserve (AFS assets)	Hedging reserve (cashflow hedges)	Remeasurement of defined benefit plans	Reserves	Translation differences	Parent shareholders' equity	Non-voting core-capital securities	Additional tier-1 instruments included in equity	Minority interests	Total equity
2016													
Balance at the beginning of the period	1 454	5 437	0	1 782	-1 146	94	6 779	11	14 411	0	1 400	0	15 811
Net result for the period	0	0	0	0	0	0	2 427	0	2 427	0	0	0	2 428
Other comprehensive income	0	0	0	-26	-201	-231	11	20	-427	0	0	0	-427
Subtotal, comprehensive income	0	0	0	-26	-201	-231	2 439	20	2 000	0	0	0	2 000
Dividends	0	0	0	0	0	0	-418	0	-418	0	0	0	-418
Coupon on additional tier-1 instruments included in equity	0	0	0	0	0	0	-52	0	-52	0	0	0	-52
Capital increase	1	15	0	0	0	0	0	0	16	0	0	0	16
Effect of business combinations	0	0	0	0	0	0	0	0	0	0	0	0	0
Change in minority interests	0	0	0	0	0	0	0	0	0	0	0	0	0
Change in scope	0	0	0	0	0	0	0	0	0	0	0	0	0
Total change	1	15	0	-26	-201	-231	1 969	20	1 546	0	0	0	1 546
Balance at the end of the period	1 455	5 453	0	1 756	-1 347	-138	8 747	31	15 957	0	1 400	0	17 357
of which revaluation reserve for equity instruments	–	–	–	490	–	–	–	–	–	–	–	–	–
of which revaluation reserve for bonds	–	–	–	1 266	–	–	–	–	–	–	–	–	–
of which relating to non-current assets held for sale and disposal groups	–	–	–	–	–	–	–	–	–	–	–	–	–
of which relating to application of the equity method	–	–	–	26	0	0	0	7	32	–	–	–	32
2015													
Balance at the beginning of the period	1 453	5 421	0	1 815	-1 368	-133	6 197	-261	13 125	2 000	1 400	-3	16 521
Net result for the period	0	0	0	0	0	0	2 639	0	2 639	0	0	0	2 639
Other comprehensive income	0	0	0	-34	222	226	2	272	688	0	0	0	688
Subtotal, comprehensive income	0	0	0	-34	222	226	2 640	272	3 326	0	0	0	3 327
Dividends	0	0	0	0	0	0	-836	0	-836	0	0	0	-836
Coupon on non-voting core-capital securities	0	0	0	0	0	0	-171	0	-171	0	0	0	-171
Coupon on additional tier-1 instruments included in equity	0	0	0	0	0	0	-52	0	-52	0	0	0	-52
Capital increase	1	16	0	0	0	0	0	0	17	0	0	0	17
Redemption of non-voting core-capital securities	0	0	0	0	0	0	-1 000	0	-1 000	-2 000	0	0	-3 000
Effect of business combinations	0	0	0	0	0	0	0	0	0	0	0	0	0
Change in minority interests	0	0	0	0	0	0	0	0	0	0	0	0	0
Change in scope	0	0	0	1	0	0	0	0	1	0	0	3	4
Total change	1	16	0	-33	222	226	582	272	1 286	-2 000	0	3	-710
Balance at the end of the period	1 454	5 437	0	1 782	-1 146	94	6 779	11	14 411	0	1 400	0	15 811
of which revaluation reserve for equity instruments	–	–	–	547	–	–	–	–	–	–	–	–	–
of which revaluation reserve for bonds	–	–	–	1 235	–	–	–	–	–	–	–	–	–
of which relating to non-current assets held for sale and disposal groups	–	–	–	–	–	–	–	-3	-3	–	–	–	-3
of which relating to application of the equity method	–	–	–	22	0	0	0	7	28	–	–	–	28

- For information on non-voting core-capital securities, capital increases, additional tier-1 instruments and number of shares, see Note 5.10.
- For information on the shareholder structure, see Note 3 in the ‘Company annual accounts and additional information’ section and the ‘Corporate governance statement’ in the ‘Report of the Board of Directors’ section.
- The 'Dividends' item in 2016 includes an interim dividend of 1 euro per share (418 million euros in total) as an advance on the final dividend for 2016, which will be paid in 2017. Subject to the approval of the General Meeting of Shareholders, the total dividend for 2016 will amount to 2.80 euros per share (with 1 euro per share already being paid in November 2016), before withholding tax.
- In 2016, the revaluation reserve (for available-for-sale assets) contracted by 26 million euros, +31 million euros of which was accounted for by bonds (primarily related to the fall in long-term rates, though largely offset by bonds with a positive revaluation reserve reaching maturity) and -57 million euros by shares (partly because of the Visa Europe shares that were sold following the public offering of Visa Inc.). The hedging reserve (cashflow hedges) declined by 201 million euros (due primarily to the fall in long-term rates). In 2016, 'Remeasurement of defined benefit plans' fell by 231 million euros (mainly on account of the decrease in the discount rate). The revaluation reserve for available-for-sale financial assets fell by 33 million euros in 2015, due chiefly to bonds (a decrease of 210 million euros) and to shares (an increase of 177 million euros; the figure included 69 million euros for Visa Europe Limited shares following the public offering of Visa Inc.). The hedging reserve (cashflow hedges) went up by 222 million euros in 2015.
- Translation differences increased by 20 million euros in 2016. They had changed by 272 million euros in 2015, partly on account of the liquidation of KBC Financial Holding Inc. (the foreign exchange loss on the capital of KBC Financial Holding Inc. was transferred from equity to profit or loss; net impact of 145 million euros (after tax), including hedging effects).

Consolidated cashflow statement

(in millions of EUR)	Reference[1]	2016	2015
Operating activities			
Result before tax	See consolidated income statement	3 090	2 535
Adjustments for:			
Result before tax from discontinued operations	See consolidated income statement	0	0
Depreciation, impairment and amortisation of property and equipment, intangible fixed assets, investment property and securities	3.10, 4.2, 5.4, 5.5	341	698
Profit/Loss on the disposal of investments	–	-11	-24
Change in impairment on loans and advances	3.10	126	323
Change in technical provisions (before reinsurance)	5.6	391	429
Change in the reinsurers’ share in the technical provisions	5.6	17	69
Change in other provisions	5.7	-7	-224
Other unrealised gains or losses	–	-371	147
Income from associated companies and joint ventures	3.11	-27	-24
Cashflows from operating profit before tax and before changes in operating assets and liabilities	–	3 548	3 927
Changes in operating assets (excluding cash and cash equivalents)	–	-3 676	-2 897
Financial assets held for trading	4.1	707	1 656
Financial assets at fair value through profit or loss	4.1	657	2 066
Available-for-sale assets	4.1	-909	-3 324
Loans and receivables	4.1	-4 226	-3 866
Hedging derivatives	4.1	104	590
Operating assets associated with disposal groups, and other assets	–	-9	-20
Changes in operating liabilities (excluding cash and cash equivalents)	–	18 611	10 032
Deposits measured at amortised cost	4.1	15 044	9 464
Debts represented by securities measured at amortised cost	4.1	11 728	255
Financial liabilities held for trading	4.1	175	172
Financial liabilities at fair value through profit or loss	4.1	-7 355	1 226
Hedging derivatives	4.1	-867	-998
Operating liabilities associated with disposal groups, and other liabilities	–	-114	-88
Income taxes paid	3.12	-470	-457
Net cash from or used in operating activities		18 014	10 604

Consolidated cashflow statement (continuation)

(in millions of EUR)	Reference[1]	2016	2015
Investing activities			
Purchase of held-to-maturity securities	4.1	-2 365	-3 202
Proceeds from the repayment of held-to-maturity securities at maturity	4.1	1 683	2 029
Acquisition of a subsidiary or a business unit, net of cash acquired (including increases in percentage interest held)	–	0	200
Proceeds from the disposal of a subsidiary or business unit, net of cash disposed of (including decreases in percentage interest held)	–	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	–	26	23
Purchase of investment property	5.4	-35	-5
Proceeds from the sale of investment property	5.4	32	15
Purchase of intangible fixed assets (excluding goodwill)	5.5	-158	-158
Proceeds from the sale of intangible fixed assets (excluding goodwill)	5.5	9	39
Purchase of property and equipment	5.4	-713	-558
Proceeds from the sale of property and equipment	5.4	269	233
Net cash from or used in investing activities		-1 252	-1 385
Financing activities			
Purchase or sale of treasury shares	See consolidated statement of changes in equity	0	0
Issue or repayment of promissory notes and other debt securities	4.1	-140	-537
Proceeds from or repayment of subordinated liabilities	4.1	-428	-277
Principal payments under finance lease obligations	–	0	0
Proceeds from the issuance of share capital	See consolidated statement of changes in equity	16	17
Redemption of non-voting core-capital securities	See consolidated statement of changes in equity	0	-3 000
Proceeds from the issuance of preference shares	See consolidated statement of changes in equity	0	0
Dividends paid	See consolidated statement of changes in equity	-470	-1 058
Net cash from or used in financing activities		-1 022	-4 855
Change in cash and cash equivalents			
Net increase or decrease in cash and cash equivalents	–	15 741	4 364
Cash and cash equivalents at the beginning of the period	–	10 987	6 518
Effects of exchange rate changes on opening cash and cash equivalents	–	19	104
Cash and cash equivalents at the end of the period	–	26 747	10 987
Additional information			
Interest paid[2]	3.1	-2 384	-2 839
Interest received[2]	3.1	6 642	7 150
Dividends received (including equity method)	3.2, 5.3	103	98
Components of cash and cash equivalents			
Cash and cash balances with central banks	See consolidated balance sheet	20 148	7 038
Loans and advances to banks repayable on demand and term loans to banks at not more than three months	4.1	11 622	6 541
Deposits from banks repayable on demand	4.1	-5 023	-2 593
Cash and cash equivalents belonging to disposal groups	–	0	0
Total	–	26 747	10 987
of which not available	–	0	0

1 The notes referred to do not always contain the exact same amounts as those included in the cashflow statement, as – among other things – adjustments have been made to take account of acquisitions or disposals of subsidiaries, as set out in IAS 7.

2 'Interest paid' and 'Interest received' in this overview are the equivalent of the 'Interest expense' and 'Interest income' items in the consolidated income statement. Given the large number of underlying contracts that generate interest expense and interest income, it would take an exceptional administrative effort to establish actual cashflows. Moreover, it is reasonable to assume that actual cashflows for a bank-insurance company do not differ much from the accrued interest expense and accrued interest income, as most rate products pay interest regularly within the year.

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

1.0 Notes on the accounting policies

Note 1.1: Statement of compliance

The consolidated financial statements of KBC Group 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 a potential rebalancing of the treasury portfolio (reclassification from 'Available-for-sale' to 'Amortised cost'), 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, which are situated mainly in our insurance activities, 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 is expected to be minimal given the current limited effect of own credit risk (see Note 4.8).
  - Impairment of financial assets: in 2016, work continued on fine-tuning IFRS 9-compliant impairment policies and modelling guidelines. Several IFRS 9 models have already been built based on existing Basel models and implementing them into the calculation engine is going according to plan, with a double run scheduled to start in June 2017.
    Financial assets that are subject to impairment will be classified into three stages:
    - Stage 1: Performing;
    - Stage 2: Underperforming (where lifetime expected credit losses are required to be measured);
    - Stage 3: Non-performing or impaired.

    KBC has established policies and processes to assess whether credit risk has increased significantly at the end of each reporting period and, therefore, whether 'staging' is required (i.e. moving from one stage to another). For the loan portfolio, a multi-tier approach has been adopted to staging, based on internal credit ratings, forbearance measures, collective assessment and days past due as a backstop. A similar multi-tier approach will be used for the investment portfolio, except that KBC intends to use the low-credit-risk exemption, meaning that all bonds in scope with a probability of default (PD) of 1 to 3 are considered to be in 'Stage 1', unless any of the other triggers indicate otherwise. For 'Stage 1' and 'Stage 2' – under IAS 39 – KBC records incurred-but-not-reported (IBNR) impairment losses, which are influenced by emergence periods. Under IFRS 9, impairment of financial assets is calculated on a 12-month expected credit loss (ECL) basis for 'Stage 1' and on a lifetime ECL basis for 'Stage 2'. As a consequence, impairment levels are generally expected to increase. We do not expect any major impact on 'Stage 3'. Forward looking information is incorporated into the staging criteria and measurement of ECL. Different macroeconomic factors are taken into consideration and KBC is currently considering three scenarios to evaluate a range of possible outcomes.

KBC expects to announce impact assessments when the half-year results for 2017 are released. The impact of first time application depends on the regulatory framework and economic conditions at that time, as well as the composition of the portfolios.

Impairment levels under IFRS 9 will differ from current prudential requirements because of:

  - application of a through-the-cycle estimate for prudential purposes as opposed to a point-in-time estimate under IFRS 9;
  - application of a 12-month PD for prudential purposes as opposed to a lifetime PD under IFRS 9 (for 'Stage 2' and 'Stage 3');
  - inclusion of prudential floors and downturn adjustments in the PD, EAD and LGD estimates for prudential purposes.
- Hedge accounting: KBC intends to use the option to continue with hedge accounting under IAS 39 and to await further developments at the IASB regarding macro hedging.

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

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

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

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

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

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

The main changes to enhance simplification involve:

- removing what was previously Note 19 ('Financial assets and liabilities, breakdown by portfolio and geographic location') and Note 20 ('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 26: 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 12), Note 3.13 (previously Note 17), Note 4.8 (previously Note 27), Note 4.10 (previously Note 29), Note 5.3 (previously Note 32), Note 5.4 (previously Note 33), Note 5.5 (previously Note 34), Note 5.9 (previously Note 38), Note 5.10 (previously Note 39), Note 6.1 (previously Note 40), Note 6.2 (previously Note 41) and Note 6.3 (previously Note 42);
- replacing the complete list of companies in the scope of consolidation in Note 6.5 (previously Note 44) with a list of the main subsidiaries. The complete list remains available at www.kbc.com.

Note 1.2: Summary of significant accounting policies

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

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

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

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

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

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

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

KBC applies the following general rules:

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

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

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

- When impairment is identified, the carrying value of the loan is reduced via an impairment account and the loss recognised in the income statement. If, in a subsequent period, the estimated impairment amount increases or decreases due to an event that occurs after the impairment loss was recognised, the previously recognised impairment will be increased or reduced accordingly through adjustment of the impairment account. Loans and the related amounts included in the impairment accounts are written off when there is no realistic prospect of recovery in future or if the loan is forgiven. A renegotiated loan will continue to be tested for impairment, calculated on the basis of the original effective interest rate applying to the loan.

  For off-balance-sheet commitments (commitment credit) classified as uncertain or irrecoverable and doubtful, provisions are recognised if the general IAS 37 criteria are satisfied and the more-likely-than-not criterion met. These provisions are recognised at their net present value.
  Interest on loans written down as a result of impairment is recognised using the contractual rate of interest used to measure the impairment loss.

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

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

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

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

- *Hedge accounting*. KBC applies hedge accounting when all the requisite conditions (according to the hedge accounting requirements that have not been carved out in the IAS 39 version as approved by the EU) are fulfilled. These conditions are that the hedge relationship must be formally designated and documented on the inception of the hedge, the hedge must be expected to be highly effective and this effectiveness must be able to be measured reliably, and the measurement of hedge effectiveness must take place on a continuous basis during the reporting period in which the hedge can be considered to be effective.
  For fair value hedges, both the derivatives hedging the risks and the hedged positions are measured at fair value, with all fair value changes being taken to the income statement. Accrued interest income from rate swaps is included in net interest income. Hedge accounting is discontinued once the hedge accounting requirements are no longer met or if the hedging instrument expires or is sold. In this case, the gain or loss recorded in equity on the hedged position (for fixed-income financial instruments) will be taken to profit or loss on an accruals basis until maturity.

  KBC uses fair value hedges for a portfolio of interest rate risk to hedge the interest rate risk for a portfolio of loans and savings deposits using interest rate swaps. The interest rate swaps are measured at fair value, with fair value changes reported in profit or loss. Accrued interest income from these swaps is included in net interest income. The hedged amount of loans is measured at fair value as well, with fair value changes reported in profit or loss. The fair value of the hedged amount is presented as a separate line item of the assets on the balance sheet. KBC makes use of the 'carved-out' version of IAS 39, so that no ineffectiveness results from anticipated repayments, as long as underhedging exists. In case of hedge ineffectiveness, the cumulative change in the fair value of the hedged amount will be amortised through profit or loss over the remaining lifetime of the hedged assets or immediately removed from the balance sheet if the ineffectiveness is due to the fact that the corresponding loans have been derecognised.
  For cashflow hedges, derivatives hedging the risks are measured at fair value, with those fair value gains or losses determined to be an effective hedge being recognised separately in equity. Accrued interest income from rate swaps is included in net interest income. The ineffective portion of the hedge is recognised in income for the financial year. Hedge accounting will be discontinued if the hedge accounting criteria are no longer met. In this case, the derivatives will be treated as held-for-trading derivatives and measured accordingly.

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

- *Financial guarantee contracts*. These are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due under the initial or revised terms of a debt instrument. A financial guarantee contract is initially recognised at fair value and subsequently measured at the greater of the following:
  - the amount determined in accordance with IAS 37: Provisions, Contingent Liabilities and Contingent Assets; and
  - 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 (current 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 non-voting core-capital securities (also referred to as yield-enhanced securities or YES) issued to the governments (and which were fully redeemed at the end of 2015) were considered an equity instrument, with the coupon being accounted for directly in equity. Since payment of the coupon on the YES was conditional upon payment of a dividend on ordinary shares, coupons were recognised at the same time as dividends on ordinary shares (i.e. the coupon was not accrued in equity).
- The acquisition cost of KBC Group NV treasury shares is deducted from equity. On the sale, issuance or cancellation of treasury shares, gains or losses are reported directly in equity.
- Transactions in derivative financial instruments on KBC shares are likewise reported in equity, save in the event of net cash settlement.
- Written stock options on KBC shares subject to IFRS 2 are measured at fair value on the grant date. This fair value is recognised in the income statement as a staff expense over the period of service, against a separate entry under equity.
- The revaluation reserve for available-for-sale assets is included in equity until disposal or impairment of the assets. At that time, the cumulative gain or loss is transferred to profit or loss for the period.

Put options on minority interests (and, where applicable, combinations of put and call options resulting in forward contracts) are recognised as financial liabilities at the present value of the exercise prices. The corresponding minority interests are deducted from equity. 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 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 found in, but not limited to, the following notes: 3.3, 3.7, 3.10, 4.2, 4.4–4.7, 5.4–5.7 and 5.9.

2.0 Notes on segment reporting

Note 2.1: Segment reporting based on the management structure

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

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

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

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

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

Note 2.2: Results by segment

(in millions of EUR)	Belgium Business Unit	Czech Republic Business Unit	International Markets Business Unit	*Of which:* *Hungary*	*Slovakia*	*Bulgaria*	*Ireland*	Group Centre	KBC group
INCOME STATEMENT FOR 2016									
Net interest income	2 701	849	740	*231*	*216*	*48*	*244*	-32	4 258
Non-life insurance (before reinsurance)	440	78	91	*33*	*21*	*37*	*0*	18	628
Earned premiums	1 012	190	198	*82*	*32*	*83*	*0*	10	1 410
Technical charges	-572	-112	-107	*-49*	*-12*	*-46*	*0*	8	-782
Life insurance (before reinsurance)	-208	36	20	*4*	*12*	*4*	*0*	0	-152
Earned premiums	1 217	271	89	*16*	*51*	*22*	*0*	0	1 577
Technical charges	-1 425	-234	-69	*-12*	*-39*	*-18*	*0*	0	-1 728
Ceded reinsurance result	-12	-4	-6	*-2*	*-1*	*-3*	*0*	-17	-38
Dividend income	61	0	0	*0*	*0*	*0*	*0*	15	77
Net result from financial instruments at fair value through profit or loss	329	117	89	*66*	*15*	*2*	*6*	6	540
Net realised result from available-for-sale assets	90	48	38	*19*	*16*	*4*	*0*	13	189
Net fee and commission income	1 070	191	201	*157*	*45*	*-4*	*-1*	-11	1 450
Other net income	208	18	-1	*2*	*6*	*-5*	*-4*	33	258
TOTAL INCOME	4 680	1 333	1 173	*509*	*330*	*84*	*246*	25	7 211
Operating expenses[a]	-2 432	-608	-750	*-338*	*-199*	*-56*	*-154*	-158	-3 948
Impairment	-179	-24	34	*12*	*-16*	*-6*	*44*	-32	-201
on loans and receivables	-113	-23	42	*15*	*-15*	*-3*	*45*	-32	-126
on available-for-sale assets	-58	3	0	*0*	*0*	*0*	*0*	0	-55
on goodwill	0	0	0	*0*	*0*	*0*	*0*	0	0
other	-8	-4	-7	*-3*	*0*	*-3*	*-1*	0	-20
Share in results of associated companies and joint ventures	0	23	0	*0*	*0*	*0*	*0*	4	27
RESULT BEFORE TAX	2 070	724	457	*183*	*115*	*22*	*136*	-161	3 090
Income tax expense	-637	-128	-29	*-54*	*-23*	*0*	*49*	132	-662
Net post-tax result from discontinued operations	0	0	0	*0*	*0*	*0*	*0*	0	0
RESULT AFTER TAX	1 433	596	428	*130*	*92*	*22*	*184*	-29	2 428
attributable to minority interests	0	0	0	*0*	*0*	*0*	*0*	0	0
attributable to equity holders of the parent	**1 432**	**596**	**428**	***130***	***92***	***22***	***184***	**-29**	**2 427**
a Of which non-cash expenses	-62	-48	-55	*-27*	*-12*	*-3*	*-12*	-81	-246
Depreciation and amortisation of fixed assets	-57	-49	-56	*-27*	*-13*	*-3*	*-12*	-85	-246
Other	-5	1	0	*0*	*0*	*0*	*0*	4	1
Acquisitions of non-current assets*	448	260	132	*36*	*37*	*38*	*21*	102	942

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

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

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

Note 2.3: Balance-sheet information by segment

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

(in millions of EUR)	Belgium Business Unit	Czech Republic Business Unit	Interna-tional Markets Business Unit	Of which: Hungary	Slovakia	Bulgaria	Ireland	Group Centre	KBC group
BALANCE SHEET AT 31-12-2016									
Deposits from customers and debt certificates (excluding repos)	125 074	26 183	18 344	*6 814*	*5 739*	*792*	*4 999*	7 820	177 421
Loans and advances to customers (excluding reverse repos)	91 804	19 552	21 496	*3 802*	*6 094*	*835*	*10 765*	4	132 856
Term loans (excluding reverse repos)	46 130	7 375	5 203	*1 762*	*2 124*	*273*	*1 043*	0	58 707
Mortgage loans	34 265	9 077	13 993	*1 451*	*2 608*	*234*	*9 700*	0	57 335
Current accountadvances	2 751	995	894	*299*	*411*	*176*	*9*	0	4 640
Finance leases	3 615	570	731	*142*	*589*	*0*	*0*	0	4 916
Consumer credit	1 314	1 260	606	*80*	*362*	*152*	*13*	0	3 180
Other loans and advances	3 728	275	69	*67*	*1*	*0*	*0*	4	4 076
BALANCE SHEET AT 31-12-2015									
Deposits from customers and debt certificates (excluding repos)	111 136	24 075	17 089	*5 862*	*5 263*	*692*	*5 272*	9 241	161 542
Loans and advances to customers (excluding reverse repos)	88 017	18 005	21 035	*3 552*	*5 462*	*725*	*11 295*	664	127 721
Term loans (excluding reverse repos)	43 969	7 137	5 106	*1 647*	*1 944*	*204*	*1 311*	649	56 860
Mortgage loans	33 341	8 079	13 657	*1 369*	*2 072*	*242*	*9 975*	0	55 078
Current account advances	2 271	954	800	*284*	*374*	*139*	*4*	0	4 026
Finance leases	3 303	527	683	*117*	*566*	*0*	*0*	0	4 512
Consumer credit	1 174	1 067	687	*67*	*474*	*140*	*5*	0	2 928
Other loans and advances	3 958	241	102	*69*	*33*	*0*	*0*	15	4 316

3.0 Notes to the income statement

Note 3.1: Net interest income

(in millions of EUR)	2016	2015
Total	**4 258**	**4 311**
Interest income	**6 642**	**7 150**
Available-for-sale assets	703	717
Loans and receivables	3 805	4 085
Held-to-maturity investments	981	1 013
Other assets not at fair value	79	41
Subtotal, interest income from financial assets not measured at fair value through profit or loss	*5 568*	*5 857*
of which impaired financial assets	*64*	*94*
Financial assets held for trading	661	807
Hedging derivatives	288	360
Other financial assets at fair value through profit or loss	124	127
Interest expense	**-2 384**	**-2 839**
Financial liabilities measured at amortised cost	-870	-1 202
Other liabilities not at fair value	-33	-8
Subtotal, interest expense for financial liabilities not measured at fair value through profit or loss	*-903*	*-1 210*
Financial liabilities held for trading	-771	-926
Hedging derivatives	-564	-590
Other financial liabilities at fair value through profit or loss	-139	-103
Net interest expense relating to defined benefit plans	-6	-10

Note 3.2: Dividend income

(in millions of EUR)	2016	2015
Total	**77**	**75**
Shares held for trading	12	9
Shares initially recognised at fair value through profit or loss	1	2
Available-for-sale shares	63	65

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

(in millions of EUR)	2016	2015
Total	**540**	**214**
Trading instruments (including interest and fair value changes in trading derivatives)	687	211
Other financial instruments initially recognised at fair value through profit or loss	-6	71
of which gains/losses on own credit risk	*8*	*17*
Foreign exchange trading	-94	-31
Fair value adjustments in hedge accounting	-47	-37
Fair value micro hedges	-5	-1
Changes in the fair value of the hedged items	295	-30
Changes in the fair value of the hedging derivatives, including discontinuation	-300	29
Cashflow hedges	-2	2
Changes in the fair value of the hedging derivatives, ineffective portion	-2	2
Hedges of net investments in foreign operations, ineffective portion	0	0
Portfolio hedge of interest rate risk	-2	1
Changes in the fair value of the hedged items	101	-54
Changes in the fair value of the hedging derivatives, including discontinuation	-104	55
Discontinuation of hedge accounting for fair value hedges	0	0
Discontinuation of hedge accounting for cashflow hedges	-37	-38

- Foreign exchange trading results comprise total exchange differences, excluding those recognised on financial instruments at fair value through profit or loss. In 2015, this item also included the foreign exchange loss on the capital of KBC Financial Holding Inc., following that business's liquidation. The loss was transferred from equity to profit or loss (-156 million euros (before tax), including hedging effects).
- For more information on the impact of changes in own credit risk, see Note 4.8.
- The interest component of ALM derivatives is recognised under 'Net interest income'. Fair value changes in ALM derivatives, excluding those for which an effective cashflow hedge relationship exists, are recognised under 'Net result from financial instruments at fair value through profit or loss'. Under fair value hedge accounting, changes in the fair value of hedged assets are also recognised under this heading, and offsetting takes place insofar as the hedge is effective.
- The effectiveness of the hedge is determined according to the following methods:
  - For fair value micro hedging, we use the dollar offset method on a quarterly basis, which requires changes in the fair value of the hedged item to offset changes in the fair value of the hedging instrument within a range of 80%–125%, which is currently the case.
  - For cashflow hedges, we compare the designated hedging instrument with a perfect hedge of the hedged cashflows on a prospective (by BPV measurement) and retrospective basis (by comparing the fair value of the designated hedging instrument with the perfect hedge). The effectiveness of both tests must fall within a range of 80%–125%, which is currently the case.
  - We use the rules set out in the European version of IAS 39 (carve-out) to assess the effectiveness of fair value hedges for a portfolio of interest rate risk. IFRS does not permit net positions to be reported as hedged items, but does allow hedging instruments to be designated as a hedge of a gross asset position (or a gross liabilities position, as the case may be). Specifically, we make sure that the volume of assets (or liabilities) in each maturity bucket is greater than the volume of hedging instruments allocated to the same bucket.
- Day 1 profit: when the transaction price in a non-active market differs from the fair value of other observable market transactions in the same instrument or from the fair value based on a valuation technique whose variables include only data from observable markets, the difference between the transaction price and the fair value (day 1 profit) is taken to profit or loss. If this is not the case (i.e. the variables do not include only data from observable markets), day 1 profit is reserved and is released in profit or loss during the life and until the maturity of the financial instrument. The impact of this is negligible for KBC.
- Fair value changes (due to marking-to-market) of a large proportion of ALM hedging instruments (that are treated as trading instruments) also appear under 'Net result from financial instruments at fair value', whereas most of the related assets are not recognised at fair value (i.e. not marked-to-market).
- Most significant fluctuations between 2015 and 2016: the stronger performance in the dealing room and a more positive impact from various value adjustments (mainly CVA and FVA) were – in addition to the impact of the liquidation of KBC Financial Holding Inc. in 2015 (see above) – the main drivers behind the increase in the 'Net result from financial instruments at fair value through profit or loss'.

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

(in millions of EUR)	2016	2015
Total	**189**	**190**
Fixed-income securities	24	54
Shares	165	136

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

Note 3.5: Net fee and commission income

(in millions of EUR)	2016	2015
Total	**1 450**	**1 678**
Fee and commission income	**2 101**	**2 348**
Securities and asset management	1 107	1 289
Margin on life insurance investment contracts without DPF (deposit accounting)	48	81
Commitment credit	254	266
Payments	566	535
Other	127	178
Fee and commission expense	**-651**	**-670**
Commission paid to intermediaries	-335	-309
Other	-316	-362

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

Note 3.6: Other net income

(in millions of EUR)	2016	2015
Total	**258**	**297**
of which gains or losses on		
Sale of loans and receivables	2	3
Sale of held-to-maturity investments	4	6
Repurchase of financial liabilities measured at amortised cost	-7	-9
Other, including:	259	297
Income from (mainly operational) leasing activities, KBC Lease Group	78	81
Income from VAB Group	69	59
Gains and losses on divestments	3	11
Impact of surrender of a reinsured contract	25	0
Provisions for the Hungarian act on consumer loans	0	34
Deconsolidation of real estate companies	0	18

- 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

- As a bank-insurer, KBC presents its financial information on an integrated basis (i.e. banking and insurance activities combined). More information on the banking and insurance businesses is provided separately in the respective annual reports of KBC Bank and KBC Insurance. This note provides information on the insurance results alone.
- The figures include intragroup transactions between bank and insurance entities (the results for insurance contracts concluded between the group's bank and insurance entities, interest that insurance companies receive on their deposits with bank entities, commissions that insurance entities pay to bank branches for sales of insurance, etc.) in order to give a more accurate view of the profitability of the insurance business.
- Additional information on the insurance business is provided separately in Note 3.7.2, Note 3.7.3, Note 5.6 and Note 6.5 (KBC Insurance section), in the 'How do we manage our risks?' section ('Credit risk exposure in the insurance activities', 'Interest rate risk', 'Equity risk' and 'Real estate risk', 'Technical insurance risk') and in the 'How do we manage our capital?' section ('Solvency of KBC Bank and KBC Insurance separately').

Note 3.7.1: Overview

(in millions of EUR)	Life	Non-life	Non-technical account	Total
2016				
Earned premiums, insurance (before reinsurance)	1 579	1 428	–	3 007
Technical charges, insurance (before reinsurance)	-1 728	-784	–	-2 512
Net fee and commission income	-29	-272	–	-301
Ceded reinsurance result	-1	-37	–	-38
General administrative expenses	-135	-242	-3	-380
Internal claims settlement expenses	-8	-54	–	-62
Indirect acquisition costs	-32	-80	–	-112
Administrative expenses	-95	-108	–	-203
Investment management fees	0	0	-3	3
Technical result	-315	94	-3	-224
Net interest income	–	–	614	614
Net dividend income	–	–	45	45
Net result from financial instruments at fair value through profit or loss	–	–	-10	-10
Net realised result from available-for-sale assets	–	–	56	56
Other net income	–	–	18	18
Impairment	–	–	-55	-55
Allocation to the technical accounts	558	73	-631	0
Technical-financial result	242	167	35	445
Share in results of associated companies and joint ventures	–	–	4	4
RESULT BEFORE TAX	**242**	**167**	**39**	**449**
Income tax expense	–	–	–	-135
RESULT AFTER TAX	**–**	**–**	**–**	**314**
attributable to minority interests	–	–	–	0
attributable to equity holders of the parent	**–**	**–**	**–**	**314**
2015				
Earned premiums, insurance (before reinsurance)	1 303	1 338	–	2 642
Technical charges, insurance (before reinsurance)	-1 502	-708	–	-2 210
Net fee and commission income	-15	-247	–	-262
Ceded reinsurance result	-2	-27	–	-29
General administrative expenses	-119	-231	-3	-353
Internal claims settlement expenses	-7	-53	–	-60
Indirect acquisition costs	-29	-77	–	-107
Administrative expenses	-82	-101	–	-183
Investment management fees	0	0	-3	-3
Technical result	-334	125	-3	-212
Net interest income	–	–	636	636
Net dividend income	–	–	53	53
Net result from financial instruments at fair value through profit or loss	–	–	-9	-9
Net realised result from available-for-sale assets	–	–	108	108
Other net income	–	–	-6	-6
Impairment	–	–	-69	-69
Allocation to the technical accounts	574	104	-678	0
Technical-financial result	240	228	31	499
Share in results of associated companies and joint ventures	–	–	3	3
RESULT BEFORE TAX	**240**	**228**	**34**	**502**
Income tax expense	–	–	–	-148
RESULT AFTER TAX	**–**	**–**	**–**	**355**
attributable to minority interests	–	–	–	0
attributable to equity holders of the parent	**–**	**–**	**–**	**354**

- The figures relating to earned premiums do not include investment contracts without DPF, which largely correspond to unit-linked contracts. The margin on these products is recognised under '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.
- See the table below for a reconciliation of the earned premiums stated in the consolidated income statement and in Note 3.7.1.

(in millions of EUR)	2016	2015
Non-life insurance (before reinsurance) – Earned premiums		
In the consolidated income statement	1 410	1 319
Addition of premiums from intragroup transactions between bank and insurer	19	20
In Note 3.7.1	1 428	1 338
Life insurance (before reinsurance) – Earned premiums		
In the consolidated income statement	1 577	1 301
Addition of premiums from intragroup transactions between bank and insurer	2	2
In Note 3.7.1	1 579	1 303

Note 3.7.2: Life insurance

(in millions of EUR)	2016	2015
Total	**1 579**	**1 303**
Breakdown by IFRS category		
Insurance contracts	920	897
Investment contracts with DPF	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 premiums	624	393
Periodic premiums	642	631
Premiums under group contracts	309	279
Single premiums	48	49
Periodic premiums	261	230
Total sales of life insurance (including investment contracts without DPF)		
Unit-linked	820	722
Guaranteed-rate	1 295	1 071
Total	2 114	1 793

- As required under IFRS, we use deposit accounting for a number of investment contracts without DPF. This means that the premium income and technical charges from these contracts are not recognised under 'Earned premiums' and 'Technical charges', 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.

Note 3.7.3: Non-life insurance

(in millions of EUR)	Earned premiums (before reinsurance)	Claims incurred (before reinsurance)	Operating expenses (before reinsurance)	Ceded reinsurance	Total
2016					
Total	**1 428**	**-784**	**-514**	**-37**	**94**
Accepted reinsurance	36	-2	-14	-15	6
Primary business	1 392	-782	-500	-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	-185	-165	-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**	**-708**	**-479**	**-27**	**125**
Accepted reinsurance	32	-2	-8	0	22
Primary business	1 306	-707	-470	-27	102
Accident & health (classes 1 & 2, excl. industrial accidents)	110	-50	-36	0	24
Industrial accidents (class 1)	72	-42	-18	-1	10
Motor, third-party liability (class 10)	359	-240	-122	-1	-5
Motor, other classes (classes 3 & 7)	193	-110	-70	1	15
Shipping, aviation, transport (classes 4, 5, 6, 7, 11 & 12)	3	-1	-1	-1	0
Fire and other damage to property (classes 8 & 9)	403	-152	-153	-21	77
General third-party liability (class 13)	87	-67	-38	-3	-20
Credit and suretyship (classes 14 & 15)	1	-1	0	0	-1
Miscellaneous pecuniary losses (class 16)	10	-5	-4	0	1
Legal assistance (class 17)	48	-32	-19	0	-3
Assistance (class 18)	20	-7	-9	0	4

Note 3.8: Operating expenses

(in millions of EUR)	2016	2015
Total	**-3 948**	**-3 890**
Staff expenses	-2 252	-2 245
General administrative expenses	-1 449	-1 392
of which bank taxes	-437	-417
Depreciation and amortisation of fixed assets	-246	-253

- General administrative expenses include repair and maintenance expenses, advertising costs, rent, professional fees, various (non-income) taxes, utilities and other such expenses. They also include expenses related to the special tax imposed on financial institutions in various countries (totalling 417 million euros in 2015 and 437 million euros in 2016). The latter figure comprises 273 million euros in the Belgium Business Unit, 27 million euros in the Czech Republic Business Unit, 17 million euros in Slovakia, 3 million euros in Bulgaria, 107 million euros in Hungary, 7 million euros in Ireland and 2 million euros in the Group Centre.
- Share-based payments are included under staff expenses.
- The main equity-settled share-based payments are described below.
- Since 2000, KBC has launched a number of stock option plans for all or certain members of staff of the company and various subsidiaries. The stock options were granted free to the members of staff, who only had to pay the relevant tax on the benefit when the options were allocated. The stock options have a life of seven to ten years from the date of issue (partially extended to 12 years) and can be exercised in specific years in the months of June, September or December. Not all the options need to be exercised at once. When exercising options, members of staff can either deposit the resulting shares on their custody accounts or sell them immediately on NYSE Euronext Brussels. The remaining number of outstanding options at year-end 2016 was very limited (145 380 options, average exercise price 75.73 euros). Changes in 2016 related to expired options (-6 700 options).
- Information on the capital increase reserved for KBC group employees can be found in the 'Company annual accounts and additional information' section. In 2016, this resulted in the recognition of a limited employee benefit (2 million euros) as the issue price was lower than the market price. Information regarding the (highest, lowest, average) price of the KBC share can be found in the 'Report of the Board of Directors' section.
- Cash-settled share-based payment arrangements also include the costs related to a phantom stock plan (included under 'Staff expenses'). These costs were negligible for 2016 and 2015.

Note 3.9: Personnel

(number)	2016	2015
Total average number of persons employed (in full-time equivalents)	**36 030**	**36 199**
Breakdown by legal entity		
KBC Bank NV	27 910	27 033
KBC Insurance NV	4 100	4 074
KBC Group NV (holding company)	4 020	5 092
Breakdown by employee classification		
Blue-collar staff	367	366
White-collar staff	35 393	35 560
Senior management	270	273

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

Note 3.10: Impairment (income statement)

(in millions of EUR)	2016	2015
Total	**-201**	**-747**
Impairment on loans and receivables	**-126**	**-323**
Breakdown by type		
Specific impairment, on-balance-sheet lending	-75	-322
Provisions for off-balance-sheet credit commitments	8	9
Portfolio-based impairment	-58	-10
Breakdown by business unit		
Belgium	-113	-177
Czech Republic	-23	-36
International Markets	42	-82
Group Centre	-32	-28
Impairment on available-for-sale assets	**-55**	**-45**
Shares	-58	-43
Other	3	-3
Impairment on goodwill	**0**	**-344**
Impairment on other	**-20**	**-34**
Intangible fixed assets (other than goodwill)	-11	-7
Property and equipment (including investment property)	-7	-27
Held-to-maturity assets	-1	0
Associated companies and joint ventures	0	0
Other	-1	0

- 'Impairment on loans and receivables' was accounted for primarily by loans and advances to customers. Impairment charges in the International Markets Business Unit included loan loss provisioning in Ireland (a net reversal of 45 million euros in 2016 as opposed to net provisioning of 48 million euros in 2015 (see next bullet point)), in Hungary (a net reversal of 15 million euros in 2016 as opposed to net provisioning of 6 million euros in 2015), in Slovakia (net provisioning of 15 million euros in 2016 and 18 million euros in 2015) and in Bulgaria (net provisioning of 3 million euros in 2016 and 10 million euros in 2015). Impairment in the Group Centre included 32 million euros at the former Antwerp Diamond Bank (Diamant Corporate Centre following the merger with KBC Bank) in 2016 (21 million euros in 2015).
- At KBC Bank Ireland, the loan portfolio – which contains a relatively large proportion of home loans and mortgages – has suffered as a consequence of the property crisis. The Irish loan portfolio stood at about 13 billion euros at the end of the year, 86% of which relates to mortgage loans. The rest is more or less equally divided across SME and corporate loans, and loans related to real estate investment and development. The group was able to recognise a net impairment reversal of 45 million euros for its Irish portfolio in 2016. In 2015, it had set aside 48 million euros.
- 'Impairment on available-for-sale assets' in 2016 and 2015 comprised primarily impairment on shares.
- 'Impairment on goodwill' in 2015 came to 344 million euros (191 million euros of which for ČSOB in Slovakia (relating to the earlier acquisition of Istrobanka), 117 million euros for CIBANK and 34 million euros for DZI Insurance, both of which in Bulgaria). These impairment charges came about primarily as a result of a lower recoverable value (calculated based on discounted cashflow analysis) due chiefly to higher solvency targets (leading to a higher level of required capital, which reduces the free cashflows that can be paid as a dividend in the valuation model) and a higher discount rate (a higher beta and market-risk premium). For information on goodwill, see Note 5.5.
- 'Impairment on other' in 2015 related chiefly to impairment on property and equipment, including 20 million euros in relation to the group's Hungarian data centre, due to structural overcapacity. The impairment reflects the difference between the carrying value before impairment and the value in use.
- For information on total impairment recognised in the balance sheet, see Note 4.2.

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

(in millions of EUR)	2016	2015
Total	**27**	**24**
of which ČMSS	23	23

- The share in results of associated companies and joint ventures is accounted for primarily by ČMSS, a joint venture of ČSOB in the Czech Republic. More details are provided in Note 5.3.
- 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	**-662**	**104**
Breakdown by type		
Current taxes on income	-470	-457
Deferred taxes on income	-192	562
Tax components		
Result before tax	3 090	2 535
Income tax at the Belgian statutory rate	33.99%	33.99%
Income tax calculated	-1 050	-861
Plus/minus tax effects attributable to		
differences in tax rates, Belgium – abroad	251	220
tax-free income	125	143
adjustments related to prior years	11	-10
adjustments, opening balance of deferred taxes due to change in tax rate	-8	0
unused tax losses and unused tax credits to reduce current tax expense	31	10
unused tax losses and unused tax credits to reduce deferred tax expense	110	1
reversal of previously recognised deferred tax assets due to tax losses	-20	0
liquidation of KBC Financial Holding Inc.	0	910
other (mainly non-deductible expenses)	-112	-310
Aggregate amount of temporary differences associated with investments in subsidiaries, branches and associated companies and interests in joint ventures, for which deferred tax liabilities have not been recognised*	**358**	**314**

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

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

Note 3.13: Earnings per share

(in millions of EUR)	2016	2015
Result after tax, attributable to equity holders of the parent	2 427	2 639
Coupon/penalty on core-capital securities sold to the Belgian Federal and Flemish Regional governments	0	-1 000
Coupon on AT1 instruments	-52	-52
Net result used to determine basic earnings per share	2 375	1 587
Weighted average number of ordinary shares outstanding (millions of units)	418	418
Basic earnings per share (in EUR)	5.68	3.80

- Diluted earnings per share are currently equal to basic earnings per share.

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

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

(in millions of EUR)	Held for trading	Designated at fair value[1]	Available for sale	Loans and receivables	Held to maturity	Hedging derivatives	Total
FINANCIAL ASSETS, 31-12-2016							
Loans and advances to credit institutions and investment firms[a]	6	1	0	17 459	–	–	17 466[c]
Loans and advances to customers[b]	1	77	0	133 154	–	–	133 231
Trade receivables	0	0	0	3 549	–	–	3 549
Consumer credit	0	0	0	3 180	–	–	3 180
Mortgage loans	0	29	0	57 307	–	–	57 335
Term loans	0	49	0	59 035	–	–	59 083
Finance leases	0	0	0	4 916	–	–	4 916
Current account advances	0	0	0	4 640	–	–	4 640
Other	1	0	0	527	–	–	528
Equity instruments	427	2	1 723	–	–	–	2 153
Investment contracts (insurance)	–	13 693	–	–	–	–	13 693
Debt instruments issued by	1 001	411	34 985	1 015	33 697	–	71 109
Public bodies	713	47	22 982	16	32 131	–	55 889
Credit institutions and investment firms	127	174	5 032	140	948	–	6 421
Corporates	161	190	6 970	859	618	–	8 799
Derivatives	8 249	–	–	–	–	410	8 659
Other[3]	0	0	0	524	0	0	525
Total	9 683	14 185	36 708	152 152	33 697	410	246 836
a of which reverse repos[2]							*11 776*
b of which reverse repos[2]							*376*
c of which loans and advances to banks repayable on demand and term loans to banks at not more than three months							*11 622*
FINANCIAL ASSETS, 31-12-2015							
Loans and advances to credit institutions and investment firms[a]	0	2 107	0	11 524	–	–	13 631[c]
Loans and advances to customers[b]	0	394	0	127 829	–	–	128 223
Trade receivables	0	0	0	3 729	–	–	3 729
Consumer credit	0	0	0	2 928	–	–	2 928
Mortgage loans	0	28	0	55 050	–	–	55 078
Term loans	0	366	0	56 997	–	–	57 363
Finance leases	0	0	0	4 512	–	–	4 512
Current account advances	0	0	0	4 026	–	–	4 026
Other	0	0	0	587	–	–	587
Equity instruments	411	2	2 071	–	–	–	2 485
Investment contracts (insurance)	–	13 330	–	–	–	–	13 330
Debt instruments issued by	1 785	681	33 598	1 117	32 958	–	70 138
Public bodies	1 408	120	21 892	22	31 353	–	54 796
Credit institutions and investment firms	192	104	4 893	158	984	–	6 330
Corporates	184	456	6 813	937	622	–	9 013
Derivatives	8 188	–	–	–	–	514	8 702
Other[3]	1	–	–	835	0	0	836
Total	10 385	16 514	35 670	141 305	32 958	514	237 346
a of which reverse repos[2]							*5 012*
b of which reverse repos[2]							*502*
c of which loans and advances to banks repayable on demand and term loans to banks at not more than three months							*6 541*

1 Loans and advances in the 'Designated at fair value' column relate primarily to reverse repo transactions and a small portfolio of home loans. In each case, the carrying value comes close to the maximum credit exposure.

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

3 Financial assets not included under 'Loans and advances to customers' as they are not directly related to commercial lending.

(in millions of EUR)	Held for trading	Designated at fair value	Hedging derivatives	Measured at amortised cost	Total
FINANCIAL LIABILITIES, 31-12-2016					
Deposits from credit institutions and investment firms[a]	5	1 766	–	30 248	32 020[c]
Deposits from customers and debt securities[b]	541	2 134	–	175 055	177 730
Demand deposits	0	0	–	63 427	63 427
Time deposits	117	1 100	–	21 027	22 245
Savings accounts	0	0	–	53 328	53 328
Special deposits	0	0	–	2 056	2 056
Other deposits	0	0	–	630	630
Certificates of deposit	0	14	–	16 629	16 643
Savings certificates	0	0	–	1 959	1 959
Convertible bonds	0	0	–	0	0
Non-convertible bonds	424	744	–	12 889	14 057
Convertible subordinated liabilities	0	0	–	0	0
Non-convertible subordinated liabilities	0	276	–	3 109	3 385
Liabilities under investment contracts	–	12 653	–	0	12 653
Derivatives	7 334	0	1 704	–	9 037
Short positions	665	0	–	–	665
In equity instruments	36	0	–	–	36
In debt instruments	629	0	–	–	629
Other[2]	13	0	–	2 182	2 195
Total	8 559	16 553	1 704	207 485	234 300
a of which repos[1]					*9 420*
b of which repos[1]					*309*
c of which deposits from banks repayable on demand					*5 023*
FINANCIAL LIABILITIES, 31-12-2015					
Deposits from credit institutions and investment firms[a]	1	1 123	–	17 828	18 953[c]
Deposits from customers and debt securities[b]	431	10 916	–	158 762	170 109
Demand deposits	0	0	–	55 148	55 148
Time deposits	57	9 360	–	27 724	37 141
Savings accounts	0	0	–	50 075	50 075
Special deposits	0	0	–	1 983	1 983
Other deposits	0	0	–	484	484
Certificates of deposit	0	10	–	6 159	6 168
Savings certificates	0	0	–	1 092	1 092
Convertible bonds	0	0	–	0	0
Non-convertible bonds	374	1 253	–	12 576	14 203
Convertible subordinated liabilities	0	0	–	0	0
Non-convertible subordinated liabilities	0	293	–	3 522	3 815
Liabilities under investment contracts	–	12 387	–	0	12 387
Derivatives	7 487	0	2 191	–	9 677
Short positions	415	0	–	–	415
In equity instruments	58	0	–	–	58
In debt instruments	357	0	–	–	357
Other[2]	0	0	–	1 792	1 792
Total	8 334	24 426	2 191	178 383	213 333
a of which repos[1]					*1 128*
b of which repos[1]					*8 567*
c of which deposits from banks repayable on demand					*2 593*

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

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

- For reclassifications, see Note 4.9.
- Non-convertible bonds: comprise mainly KBC Bank issues and, to a lesser extent, KBC Group and KBC IFIMA issues. They are usually recognised under 'Measured at amortised cost'. However, if they contain closely related embedded derivatives, they are recorded under 'Designated at fair value' (see accounting policies).
- Non-convertible subordinated liabilities: include the contingent capital note issued in January 2013 for an amount of 1 billion US dollars. Pursuant to IAS 32, this note was classified as a liability because it has a fixed term and obligatory interest payments.
- Deposits from credit institutions and investment firms: include funding of 4 210 million euros obtained from the ECB's TLTRO II programme announced in March 2016. KBC's management has reasonable assurance that KBC will comply with the conditions attached and hence the interest has accordingly been recognised.
- Transferred financial assets that continue to be recognised in their entirety: KBC regularly lends and/or sells securities with the commitment to buy them back at a later date (repo transactions). Securities lent or sold with such a commitment are transferred to the counterparty, and, in exchange, KBC receives cash or other financial assets. However, KBC retains the main risks and income relating to these securities, and, therefore, continues to recognise them on its balance sheet. In addition, a financial liability is recognised equalling the cash collateral received.
- At year-end 2016, KBC had transferred the following types of financial asset, which continued to be recognised in their entirety: repo transactions and securities lent out with a carrying value of 9 871 million euros (debt instruments classified as 'held for trading' (113 million euros), 'available for sale' (1 662 million euros), and 'held to maturity' (8 096 million euros)); and an associated financial liability with a carrying value of 10 638 million euros (94 million euros classified as 'held for trading', 1 634 million euros as 'available for sale', and 8 910 million euros as 'held to maturity'). At year-end 2015, KBC had transferred the following types of financial asset, which continued to be recognised in their entirety: repo transactions and securities lent out with a carrying value of 8 457 million euros (debt instruments classified as 'held for trading' (176 million euros), 'designated at fair value' (17 million euros), 'available for sale' (1 928 million euros), and 'held to maturity' (6 336 million euros)); and an associated financial liability with a carrying value of 8 978 million euros (178 million euros classified as 'held for trading', 17 million euros as 'designated at fair value', 1 883 million euros as 'available for sale', and 6 900 million euros as 'held to maturity'). It should be noted that, at year-ends 2015 and 2016, KBC had fewer transferred securities on its balance sheet than outstanding repo transactions, since securities obtained in reverse repo transactions are often used for repo transactions. These securities are not presented on the balance sheet and, therefore, do not qualify for disclosure as stated in this paragraph.

Note 4.2: Financial assets 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 receivables	Held to maturity	Hedging derivatives	Total
FINANCIAL ASSETS, 31-12-2016							
Unimpaired assets	9 683	14 185	36 400	146 995	33 696	410	241 370
Impaired assets	–	–	463	10 251	7	–	10 720
Impairment	–	–	-155	-5 094	-6	–	-5 255
Total	9 683	14 185	36 708	152 152	33 697	410	246 836
FINANCIAL ASSETS, 31-12-2015							
Unimpaired assets	10 385	16 514	35 454	134 905	32 957	514	230 728
Impaired assets	–	–	356	12 023	6	–	12 386
Impairment	–	–	-140	-5 623	-5	–	-5 768
Total	10 385	16 514	35 670	141 305	32 958	514	237 346

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

Note 4.2.2: Impairment details

(in millions of EUR)	Available for sale		Held to maturity	Loans and receivables		Provisions for commitments and financial guarantees*
	Fixed-income assets	Shares	Fixed-income assets	Individual impairment	Portfolio-based impairment	
IMPAIRMENT, 31-12-2016						
Opening balance	3	137	5	5 410	213	125
Movements with an impact on results						
Impairment recognised	0	58	1	582	106	41
Impairment reversed	-3	0	0	-507	-55	-42
Movements without an impact on results						
Write-offs	0	-2	0	-635	0	-11
Changes in the scope of consolidation	0	1	0	0	0	0
Transfers to/from non-current assets held for sale and disposal groups	0	0	0	0	0	0
Other	0	-40	0	-22	1	-38
Closing balance	0	155	6	4 829	265	76
IMPAIRMENT, 31-12-2015						
Opening balance	0	124	5	5 600	201	158
Movements with an impact on results						
Impairment recognised	3	43	0	826	86	44
Impairment reversed	0	0	-1	-504	-78	-52
Movements without an impact on results						
Write-offs	0	-10	0	-494	0	0
Changes in the scope of consolidation	0	0	0	0	0	0
Transfers to/from non-current assets held for sale and disposal groups	0	0	0	0	0	0
Other	0	-20	1	-18	3	-25
Closing balance	3	137	5	5 410	213	125

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

- For information regarding the impact of changes in impairment on the income statement, see Note 3.10.
- Additional information on impairment relating to the loan portfolio is provided under 'Credit risk' in the 'How do we manage our risks?' section.

Note 4.2.3: Past due, but not impaired assets

(in millions of EUR)	Less than 30 days past due	30 days or more, but less than 90 days past due
31-12-2016		
Loans and advances	2 208	419
Debt instruments	0	0
Derivatives	0	0
Total	2 208	419
31-12-2015		
Loans and advances	2 076	417
Debt instruments	0	0
Derivatives	0	0
Total	2 076	417

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

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			31-12-2015
	Gross	Collateral received	Net	Gross	Collateral received	Net
Maximum credit exposure						
Equity instruments	2 153	0	2 153	2 485	0	2 485
Debt instruments	71 109	68	71 041	70 138	61	70 078
Loans and advances	150 698	78 038	72 660	141 854	70 285	71 570
of which designated at fair value	*79*	*39*	*40*	*2 501*	*1 028*	*1 473*
Derivatives	8 659	3 875	4 784	8 702	3 605	5 097
Other	32 586	3 816	28 769	29 686	4 205	25 481
Total	265 204	85 797	179 407	252 866	78 156	174 710

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

Financial instruments subject to offsetting, enforceable master netting agreements and similar arrangements	Gross amounts of recognised financial instruments	Gross amounts of recognised financial instruments set off	Net amounts of financial instruments presented in the balance sheet	Amounts not set off in the balance sheet			Net amount
(in millions of EUR)				Financial instruments	Cash collateral	Securities collateral	
FINANCIAL ASSETS, 31-12-2016							
Derivatives	12 543	3 884	8 659	4 931	2 160	0	1 568
Derivatives (excluding central clearing houses)	8 650	0	8 650	4 931	2 160	0	1 559
Derivatives with central clearing houses*	3 893	3 884	9	0	0	0	9
Reverse repos, securities borrowing and similar arrangements	18 407	6 255	12 152	31	0	12 109	12
Reverse repos	18 407	6 255	12 152	31	0	12 109	12
Securities borrowing	0	0	0	0	0	0	0
Other financial instruments	0	0	0	0	0	0	0
Total	30 950	10 139	20 811	4 962	2 160	12 109	1 580
FINANCIAL ASSETS, 31-12-2015							
Derivatives	11 238	2 536	8 702	4 659	2 213	0	1 831
Derivatives (excluding central clearing houses)	8 695	0	8 695	4 659	2 213	0	1 824
Derivatives with central clearing houses*	2 543	2 536	7	0	0	0	7
Reverse repos, securities borrowing and similar arrangements	8 035	2 521	5 514	340	0	5 141	33
Reverse repos	8 035	2 521	5 514	340	0	5 141	33
Securities borrowing	0	0	0	0	0	0	0
Other financial instruments	0	0	0	0	0	0	0
Total	19 273	5 057	14 216	4 999	2 213	5 141	1 863
FINANCIAL LIABILITIES, 31-12-2016							
Derivatives	12 922	3 884	9 037	4 931	2 543	0	1 563
Derivatives (excluding central clearing houses)	9 017	0	9 017	4 931	2 543	0	1 543
Derivatives with central clearing houses*	3 905	3 884	20	0	0	0	20
Repos, securities lending and similar arrangements	15 984	6 255	9 729	31	0	9 692	6
Repos	15 984	6 255	9 729	31	0	9 692	6
Securities lending	0	0	0	0	0	0	0
Other financial instruments	0	0	0	0	0	0	0
Total	28 905	10 139	18 766	4 962	2 543	9 692	1 569
FINANCIAL LIABILITIES, 31-12-2015							
Derivatives	12 213	2 536	9 677	4 659	3 630	0	1 389
Derivatives (excluding central clearing houses)	9 666	0	9 666	4 659	3 630	0	1 378
Derivatives with central clearing houses*	2 547	2 536	11	0	0	0	11
Repos, securities lending and similar arrangements	12 216	2 521	9 694	340	0	9 332	22
Repos	12 216	2 521	9 694	340	0	9 332	22
Securities lending	0	0	0	0	0	0	0
Other financial instruments	0	0	0	0	0	0	0
Total	24 429	5 057	19 372	4 999	3 630	9 332	1 411

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

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

Note 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.
- Account is taken of the effect of changes in own funding spreads when calculating the fair value of financial liabilities measured at fair value.
- The fair value of mortgage and term loans not measured at fair value in the balance sheet (see table) is calculated by discounting contractual cashflows at the risk-free rate. This calculation is then adjusted for credit risk by taking account of margins obtained on similar, but recently issued, loans. The fair value of the main portfolios takes account of prepayment risks and cap options.
- The fair value of demand and savings deposits (both of which are repayable on demand) is presumed to be equal to their carrying value.
- Most of the changes in the market value of loans and advances initially designated at fair value are accounted for by changes in interest rates. The effect of changes in credit risk is negligible.

Fair value of financial assets and liabilities that are not measured at fair value in the balance sheet (in millions of EUR)	Loans and receivables		Financial assets held to maturity		Financial liabilities measured at amortised cost	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
FINANCIAL ASSETS, 31-12-2016						
Loans and advances to credit institutions and investment firms	17 459	17 447	–	–	–	–
Loans and advances to customers	133 154	134 292	–	–	–	–
Debt instruments	1 015	1 033	33 697	37 502	–	–
Other	524	529	–	–	–	–
Total	152 152	153 301	33 697	37 502	–	–
Level 1	–	110	–	36 032	–	–
Level 2	–	27 403	–	986	–	–
Level 3	–	125 789	–	484	–	–
FINANCIAL ASSETS, 31-12-2015						
Loans and advances to credit institutions and investment firms	11 524	11 438	–	–	–	–
Loans and advances to customers	127 829	128 859	–	–	–	–
Debt instruments	1 117	1 136	32 958	36 693	–	–
Other	835	836	–	–	–	–
Total	141 305	142 268	32 958	36 693	–	–
Level 1	–	231	–	35 468	–	–
Level 2	–	21 350	–	794	–	–
Level 3	–	120 687	–	431	–	–
FINANCIAL LIABILITIES, 31-12-2016						
Deposits from credit institutions and investment firms	–	–	–	–	30 248	30 309
Deposits from customers and debt securities	–	–	–	–	175 055	175 284
Liabilities under investment contracts	–	–	–	–	0	0
Other	–	–	–	–	2 182	2 181
Total	–	–	–	–	207 485	207 774
Level 1	–	–	–	–	–	70
Level 2	–	–	–	–	–	102 028
Level 3	–	–	–	–	–	105 676
FINANCIAL LIABILITIES, 31-12-2015						
Deposits from credit institutions and investment firms	–	–	–	–	17 828	17 842
Deposits from customers and debt securities	–	–	–	–	158 762	159 367
Liabilities under investment contracts	–	–	–	–	0	0
Other	–	–	–	–	1 792	1 743
Total	–	–	–	–	178 383	178 952
Level 1	–	–	–	–	–	75
Level 2	–	–	–	–	–	83 804
Level 3	–	–	–	–	–	95 073

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

(in millions of EUR)				31-12-2016				31-12-2015
Fair value hierarchy	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value								
Held for trading								
Loans and advances to credit institutions and investment firms	0	6	0	6	0	0	0	0
Loans and advances to customers	0	1	0	1	0	0	0	0
Equity instruments	302	125	0	427	256	155	0	411
Debt instruments	731	62	208	1 001	1 254	244	287	1 785
of which sovereign bonds	*653*	*29*	*31*	*713*	*1 157*	*209*	*42*	*1 408*
Derivatives	0	6 392	1 856	8 249	0	6 133	2 055	8 188
Other	0	0	0	0	0	1	0	1
Designated at fair value								
Loans and advances to credit institutions and investment firms	0	1	0	1	0	2 107	0	2 107
Loans and advances to customers	0	77	0	77	0	366	28	394
Equity instruments	2	0	0	2	2	0	0	2
Investment contracts (insurance)	13 331	362	0	13 693	13 046	284	0	13 330
Debt instruments	44	177	190	411	257	41	383	681
of which sovereign bonds	*42*	*5*	*0*	*47*	*80*	*40*	*0*	*120*
Available for sale								
Equity instruments	1 368	18	338	1 723	1 641	19	411	2 071
Debt instruments	30 059	3 699	1 227	34 985	28 814	3 486	1 298	33 598
of which sovereign bonds	*21 248*	*1 417*	*317*	*22 982*	*20 761*	*687*	*444*	*21 892*
Hedging derivatives								
Derivatives	0	410	0	410	0	514	0	514
Total	45 838	11 329	3 820	60 987	45 271	13 348	4 462	63 082
Financial liabilities at fair value								
Held for trading								
Deposits from credit institutions and investment firms	0	5	0	5	0	1	0	1
Deposits from customers and debt securities	0	541	0	541	0	429	2	431
Derivatives	0	5 100	2 234	7 334	0	5 428	2 058	7 487
Short positions	665	0	0	665	415	0	0	415
Other	0	13	0	13	0	0	0	0
Designated at fair value								
Deposits from credit institutions and investment firms	0	1 766	0	1 766	0	1 123	0	1 123
Deposits from customers and debt securities	0	1 577	557	2 134	0	10 321	594	10 916
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								
Derivatives	0	1 704	0	1 704	0	2 191	0	2 191
Total	13 318	10 707	2 791	26 815	12 801	19 495	2 654	34 950

- The fair value hierarchy prioritises the valuation techniques and the respective inputs into three levels.
  - The fair value hierarchy gives the highest priority to 'level 1 inputs'. This means that, when there is an active market, quoted prices have to be used to measure the financial assets or liabilities at fair value. Level 1 inputs are prices that are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency (and that are quoted in active markets accessible to KBC). They represent actual and regularly occurring market transactions on an arm's length basis. The fair value is then based on a mark-to-market valuation derived from currently available transaction prices. No valuation technique (model) is involved.
  - If there are no price quotations available, the reporting entity establishes fair value using a model based on observable or unobservable inputs. The use of observable inputs needs to be maximised, whereas the use of unobservable inputs has to be minimised.

    Observable inputs are also referred to as 'level 2 inputs' and reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Examples of observable inputs are the risk-free rate, exchange rates, stock prices and implied volatility. Valuation techniques based on observable inputs include discounted cashflow analysis, or reference to the current or recent fair value of a similar instrument.
  - Unobservable inputs are also referred to as 'level 3 inputs' and reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions regarding the risks involved). Unobservable inputs reflect a market that is not active. For example, proxies and correlation factors can be considered to be unobservable in the market.
- When the inputs used to measure the fair value of an asset or a liability can be categorised into different levels of the fair value hierarchy, the fair value measurement is classified in its entirety into the same level as the lowest level input that is significant to the entire fair value measurement. For example, if a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement.
- The valuation methodology and the corresponding classification in the fair value hierarchy of the most commonly used financial instruments are summarised in the table. This table provides an overview of the level in which the instruments are generally classified, but exceptions are possible. In other words, whereas the majority of instruments of a certain type are within the level indicated in the table, a small portion may actually be classified in another level.
- KBC follows the principle that transfers into and out of levels of the fair value hierarchy are made at the end of the reporting period. Transfers between the various levels are dealt with in more detail in Note 4.6.

<table>
<tr><th></th><th>Instrument type</th><th>Products</th><th>Valuation technique</th></tr>
<tr><td>Level 1</td><td>Liquid financial instruments for which quoted prices are regularly available</td><td>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</td><td>Mark-to-market (quoted prices in active markets)</td></tr>
<tr><td rowspan="8">Level 2</td><td rowspan="3">Plain vanilla/liquid derivatives</td><td>(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</td><td>Discounted cashflow analysis based on discount and estimation curves (derived from quoted deposit rates, FX swaps and (CC)IRS)</td></tr>
<tr><td>Caps & floors, interest rate options, European & American stock options, European & American FX options, forward starting options, digital FX options, FX strips of simple options, European swaptions, constant maturity swaps (CMS), European cancellable IRS, compound options</td><td>Option pricing model based on observable inputs (e.g., volatilities)</td></tr>
<tr><td>Credit default swaps (CDS)</td><td>CDS model based on credit spreads</td></tr>
<tr><td>Linear financial assets (without optional features) – cash instruments</td><td>Deposits, simple cashflows, repo transactions</td><td>Discounted cashflow analysis based on discount and estimation curves (derived from quoted deposit rates, FX swaps and (CC)IRS)</td></tr>
<tr><td>Asset backed securities</td><td>Medium liquid asset backed securities</td><td>Third-party pricing (e.g., lead manager); prices corroborated by alternative observable market data, or using comparable spread method</td></tr>
<tr><td>Debt instruments</td><td>KBC IFIMA own issues (liabilities), mortgage bonds held by ČSOB</td><td>Discounted cashflow analysis and valuation of related derivatives based on observable inputs</td></tr>
<tr><td>Linear financial liabilities (cash instruments)</td><td>Loans, commercial paper</td><td>Discounted cashflow analysis based on discount and estimation curves (derived from quoted deposit rates, FX swaps and (CC)IRS)</td></tr>
<tr><td colspan="3"></td></tr>
<tr><td rowspan="5">Level 3</td><td>Exotic derivatives</td><td>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</td><td>Option pricing model based on unobservable inputs (e.g., correlation)</td></tr>
<tr><td>Illiquid credit-linked instruments</td><td>Collateralised debt obligations (notes)</td><td>Valuation model based on correlation of probability of default of underlying assets</td></tr>
<tr><td>Private equity investments</td><td>Private equity and non-quoted participations</td><td>Based on the valuation guidelines of the European Private Equity & Venture Capital Association (EVCA)</td></tr>
<tr><td>Illiquid bonds/asset backed securities</td><td>Illiquid (mortgage) bonds/asset backed securities that are indicatively priced by a single pricing provider in an inactive market</td><td>Third-party pricing (e.g., lead manager), where prices cannot be corroborated due to a lack of available/reliable alternative market data</td></tr>
<tr><td>Debt instruments</td><td>KBC own issues (KBC IFIMA)</td><td>Discounted cashflow analysis and valuation of related derivatives based on unobservable inputs (indicative pricing by third parties for derivatives)</td></tr>
</table>

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

- In 2016, KBC reclassified 99 million euros' worth of debt instruments from level 1 to level 2, and approximately 120 million euros' worth of bonds from level 2 to level 1. Most of these reclassifications were carried out due to a change in the liquidity of covered bonds, corporate bonds and bonds issued by regional public authorities.
- In 2015, KBC transferred 273 million euros' worth of instruments (mainly classified as 'available for sale') out of level 1 and into level 2 due to the decline in market activity. KBC also reclassified around 317 million euros' worth of debt instruments from level 2 to level 1 because the market for those instruments became more active in 2015.

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

- In 2016, significant movements in financial assets and liabilities classified in level 3 of the fair value hierarchy included the following:
  - The carrying value of derivatives in the 'financial assets held for trading' category fell by 199 million euros, due primarily to deals reaching maturity (-558 million euros), offset in part by positive changes in fair value (+246 million euros, +140 million euros of which from assets that were still being held at the end of the year) and new acquisitions (+116 million euros). The carrying value of bonds in the 'financial assets held for trading' category also declined, falling by 79 million euros mainly on account of disposals (-111 million euros), deals reaching maturity (-35 million euros) and transfers from level 3 (-30 million euros), partially offset by new acquisitions (+87 million euros).
  - The carrying value of bonds in the 'financial assets designated at fair value through profit or loss' category fell by 192 million euros, mainly because a CDO note matured in January 2016.
  - In the 'available-for-sale' category, a net 153 million euros' worth of bonds was transferred out of level 3, most of which was due to a change in the liquidity of primarily corporate bonds and bonds issued by regional public authorities. This was partly offset by an 82-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 declined, falling by 73 million euros primarily on account of disposals.
  - The carrying value of derivatives in the 'financial liabilities held for trading' category went up by 164 million euros, due mainly to new issues (+160 million euros) and positive changes in fair value (+497 million euros, +485 million euros of which from liabilities that were still recognised in the balance sheet at the end of the year), offset in part by deals reaching maturity (-481 million euros).
- In 2015, significant movements in financial assets and liabilities classified in level 3 of the fair value hierarchy included the following:
  - The carrying value of derivatives in the 'financial assets held for trading' category declined, falling by 266 million euros mainly on account of deals reaching maturity (-446 million euros) and negative changes in fair value (-195 million euros), partially offset by new acquisitions (+372 million euros).
  - The carrying value of debt instruments in the 'available-for-sale' category increased by 135 million euros, due primarily to new deals (+546 million euros), partially offset by a net 357 million euros' worth of bonds being transferred out of level 3 and deals being sold (-58 million euros).
  - The carrying value of derivatives in the 'financial liabilities held for trading' category declined in absolute terms, falling by 277 million euros mainly because of deals reaching maturity (-449 million euros) and negative changes in fair value (-149 million euros), partially offset by new issues (+324 million euros).
- Some level 3 assets are associated or economically hedged with identical level 3 liabilities, which means that KBC's exposure to unobservable inputs is lower than would appear from the gross figures.

Note 4.8: Changes in own credit risk

Own debt issues designated at fair value ((+) profit (-) loss; amounts before tax)

(in millions of EUR)	31-12-2016	31-12-2015
Impact of change in own credit spreads on the income statement	8	17
Total cumulative impact at balance sheet date	-6	-14

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

Note 4.9: Reclassification of financial assets and liabilities

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

Carrying value			570
Fair value			588
	If not reclassified (available for sale)	After reclassification (loans and receivables)	Impact
Impact on the revaluation reserve (available-for-sale assets), before tax	-49	-67	-18
Impact on the income statement, before tax	0	1	1

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

Note 4.10: Derivatives

(in millions of EUR)[1]	Held for trading				Fair value hedge				Cashflow hedge[2]				Portfolio hedge of interest rate risk			
	Carrying value		Notional amount		Carrying value		Notional amount		Carrying value		Notional amount		Carrying value		Notional amount	
	Assets	Liabilities	Purchased	Sold	Assets	Liabilities	Purchased	Sold	Assets	Liabilities	Purchased	Sold	Assets	Liabilities	Purchased	Sold
31-12-2016																
Total	8 249	7 334	390 342	393 830	99	528	34 636	34 636	265	1 147	26 046	26 042	46	29	9 143	8 945
Breakdown by type																
Interest rate contracts	4 135	3 682	202 117	204 823	99	528	34 636	34 636	256	1 142	25 940	25 940	46	29	9 143	8 945
of which interest rate swaps	3 285	3 294	160 501	160 741	99	528	34 636	34 636	256	1 142	25 940	25 940	38	29	7 397	7 157
of which options	849	388	39 563	36 802	0	0	0	0	0	0	0	0	8	0	1 746	1 788
Foreign exchange contracts	2 486	2 012	154 899	156 160	0	0	0	0	9	5	106	102	0	0	0	0
of which forward foreign exchange operations/currency forwards	317	326	24 024	24 006	0	0	0	0	0	0	0	0	0	0	0	0
of which currency and interest rate swaps	2 007	1 578	121 996	121 596	0	0	0	0	9	5	106	102	0	0	0	0
of which options	162	108	8 784	10 464	0	0	0	0	0	0	0	0	0	0	0	0
Equity contracts	1 563	1 613	32 627	32 421	0	0	0	0	0	0	0	0	0	0	0	0
of which equity swaps	1 278	1 295	29 731	29 731	0	0	0	0	0	0	0	0	0	0	0	0
of which options	285	318	2 869	2 690	0	0	0	0	0	0	0	0	0	0	0	0
Credit contracts	38	0	311	35	0	0	0	0	0	0	0	0	0	0	0	0
of which credit default swaps	38	0	311	35	0	0	0	0	0	0	0	0	0	0	0	0
Commodity and other contracts	28	27	389	390	0	0	0	0	0	0	0	0	0	0	0	0
31-12-2015																
Total	8 188	7 487	374 627	376 167	127	469	31 073	31 065	356	1 708	26 724	26 718	31	13	7 809	7 569
Breakdown by type																
Interest rate contracts	4 458	4 283	207 334	206 585	127	469	31 065	31 065	346	1 703	26 607	26 607	31	13	7 809	7 569
of which interest rate swaps	3 546	3 854	155 102	155 321	127	469	31 065	31 065	346	1 703	26 607	26 607	31	13	6 765	6 524
of which options	912	425	44 637	41 063	0	0	0	0	0	0	0	0	0	0	1 045	1 045
Foreign exchange contracts	1 814	1 340	133 090	136 179	0	0	8	0	10	5	117	111	0	0	0	0
of which forward foreign exchange operations/currency forwards	149	192	18 381	18 409	0	0	8	0	0	0	0	0	0	0	0	0
of which currency and interest rate swaps	1 434	1 032	104 376	104 146	0	0	0	0	10	5	117	111	0	0	0	0
of which options	231	117	10 266	13 557	0	0	0	0	0	0	0	0	0	0	0	0
Equity contracts	1 717	1 721	32 141	31 842	0	0	0	0	0	0	0	0	0	0	0	0
of which equity swaps	1 409	1 422	28 961	28 962	0	0	0	0	0	0	0	0	0	0	0	0
of which options	308	299	3 154	2 880	0	0	0	0	0	0	0	0	0	0	0	0
Credit contracts	66	8	916	413	0	0	0	0	0	0	0	0	0	0	0	0
of which credit default swaps	66	8	916	413	0	0	0	0	0	0	0	0	0	0	0	0
Commodity and other contracts	133	134	1 147	1 148	0	0	0	0	0	0	0	0	0	0	0	0

1 In this table, both legs of the derivatives are reported in the notional amounts.
2 Including hedges of net investments in foreign operations.

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

Estimated cashflows from cashflow hedging derivatives per time bucket

(in millions of EUR)	Inflow	Outflow
Not more than three months	21	-16
More than three but not more than six months	23	-47
More than six months but not more than one year	77	-99
More than one but not more than two years	115	-293
More than two but not more than five years	273	-826
More than five years	895	-1 838

5.0 Notes on other balance sheet items

Note 5.1: Other assets

(in millions of EUR)	31-12-2016	31-12-2015
Total	**1 496**	**1 487**
Debtors arising out of direct insurance operations	403	376
Debtors arising out of reinsurance operations	16	17
Deposits with ceding companies	158	216
Income receivable (other than interest income from financial assets)	43	26
Other	877	852

Note 5.2: Tax assets and tax liabilities

(in millions of EUR)	31-12-2016	31-12-2015
CURRENT TAXES		
Current tax assets	66	107
Current tax liabilities	188	109
DEFERRED TAXES	**1 753**	**1 680**
Deferred tax assets by type of temporary difference	2 743	2 829
Employee benefits	219	191
Losses carried forward	1 069	1 146
Tangible and intangible fixed assets	28	32
Provisions for risks and charges	21	38
Impairment for losses on loans and advances	248	218
Financial instruments at fair value through profitor loss and fair value hedges	140	244
Fair value changes, available-for-sale assets, cashflow hedges and hedges of net investments in foreign operations	944	828
Technical provisions	24	29
Other	49	103
Deferred tax liabilities by type of temporary difference	990	1 150
Employee benefits	15	91
Losses carried forward	0	0
Tangible and intangible fixed assets	102	103
Provisions for risks and charges	0	1
Impairment for losses on loans and advances	6	8
Financial instruments at fair value through profitor loss and fair value hedges	60	45
Fair value changes, available-for-sale assets, cashflow hedges and hedges of net investments in foreign operations	644	665
Technical provisions	97	134
Other	65	102
Recognised as a net amount in the balance sheet as follows:		
Deferred tax assets	2 246	2 228
Deferred tax liabilities	493	549
Unused tax losses and unused tax credits	450	492

- Deferred tax assets are recognised to the extent that it is probable that, on the basis of realistic financial projections, taxable profit will be available against which the deductible temporary differences can be utilised in the foreseeable future (limited to a period of eight to ten years).
- Unused tax losses and unused tax credits concern tax losses of group companies which are not capitalised due to insufficient proof of future taxable profit. Most unused tax losses and unused tax credits can be carried forward for 20 years or more.
- The net change in deferred taxes (+73 million euros in 2016) breaks down as follows:
  - a decrease in deferred tax assets: -87 million euros;
  - a decrease in deferred tax liabilities: -159 million euros.
- The change in deferred tax assets was accounted for chiefly by:
  - the decrease in deferred tax assets via the income statement: -243 million euros (owing primarily to financial instruments at fair value through profit or loss (-159 million euros), losses carried forward (-71 million euros), provisions for risks and charges (-15 million euros) and impairment for losses on loans and advances (+30 million euros));
  - the increase in deferred tax assets consequent on movements in the market value of cashflow hedges: +88 million euros;
  - the increase in deferred tax assets on account of changes in the revaluation reserve for hedges of net investments in foreign operations: +36 million euros;
  - the increase in deferred tax assets relating to changes in defined benefit plans recognised in other comprehensive income: +34 million euros;
  - other items (including exchange differences): -2 million euros.
- The change in deferred tax liabilities was accounted for chiefly by:
  - the decrease in deferred tax liabilities via the income statement: -78 million euros (owing primarily to technical and other provisions (-37 million euros), the decline in financial instruments at fair value through profit or loss (-33 million euros), and the decrease related to fixed assets (-8 million euros));

- the decrease in deferred tax liabilities relating to changes in defined benefit plans recognised in other comprehensive income: -67 million euros;
- the decrease in deferred tax liabilities consequent on the rise in the market value of available-for-sale securities: -10 million euros;
- the decrease in deferred tax liabilities consequent on movements in the market value of cashflow hedges: -10 million euros;
- the increase in deferred tax liabilities relating to changes in defined benefit plans recognised in other comprehensive income: +15 million euros;
- other items (including exchange differences): -9 million euros.

- The deferred tax assets presented in the balance sheet are attributable primarily to KBC Bank.

Note 5.3: Investments in associated companies and joint ventures

(in millions of EUR)	31-12-2016	31-12-2015
Total	212	207
Overview of investments, including goodwill		
ČMSS	178	179
Other	34	28
Goodwill on associated companies and joint ventures		
Gross amount	0	0
Accumulated impairment	0	0
Breakdown by type		
Unlisted	212	207
Listed	0	0
Fair value of investments in listed associated companies and joint ventures	0	0

- Associated companies are companies on whose management KBC exerts significant influence, without having direct or indirect full or joint control. In general, KBC has a 20% to 50% shareholding in such companies. Joint ventures are companies over which KBC exercises joint control.
- Investments in associated companies and joint ventures' is accounted for primarily by ČMSS, a joint venture of ČSOB in the Czech Republic. The following is a summary of financial data for ČMSS (on 55% basis at year-ends 2016 and 2015 (in brackets), in millions of euros):
  - Total assets: 3 039 (3 112)
  - Cash and cash equivalents: 315 (309)
  - Financial assets: 2 691 (2 773)
  - Non-financial assets: 33 (30)
  - Financial liabilities: 2 818 (2 890)
  - Non-financial liabilities: 42 (44)
  - Total equity: 178 (179)
  - Total income: 62 (64)
  - Interest income: 99 (109)
  - Interest expense: -49 (-57)
  - Operating expenses: -28 (-25)
  - Impairment: -5 (-12)
  - Income tax expense: -5 (-5)
  - Result after tax: 23 (23)
  - Other comprehensive income: -1 (0)
  - Total comprehensive income: 22 (23)
- Goodwill paid on associated companies and joint ventures is included in the nominal value of 'Investments in associated companies and joint ventures' shown on the balance sheet. An impairment test is performed and, if required, the necessary impairment losses on goodwill recognised (see table).

Note 5.4: Property and equipment and investment property

(in millions of EUR)	31-12-2016	31-12-2015
Property and equipment	2 451	2 299
Investment property	426	438
Rental income	43	54
Direct operating expenses from investments generating rental income	12	15
Direct operating expenses from investments not generating rental income	1	0

MOVEMENTS TABLE	Land and buildings	IT equipment	Other equipment	Total property and equipment	Investment property
2016					
Opening balance	1 161	96	1 041	2 299	438
Acquisitions	81	55	578	713	35
Disposals	-18	-25	-224	-267	-25
Depreciation	-71	-46	-29	-145	-20
Other movements	-4	21	-166	-150	-2
Closing balance	1 149	101	1 200	2 451	426
of which accumulated depreciation and impairment	1 206	385	655	2 247	240
Fair value 31-12-2016	–	–	–	–	610
2015					
Opening balance	1 202	111	965	2 278	568
Acquisitions	108	53	397	558	5
Disposals	-68	-2	-150	-221	-5
Depreciation	-70	-54	-29	-153	-21
Other movements	-10	-12	-142	-165	-110
Closing balance	1 161	96	1 041	2 299	438
of which accumulated depreciation and impairment	1 159	373	653	2 186	229
Fair value 31-12-2015	–	–	–	–	609

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

Note 5.5: Goodwill and other intangible assets

(in millions of EUR)	Goodwill	Software developed in-house	Software developed externally	Other	Total
2016					
Opening balance	594	176	181	9	959
Acquisitions	0	94	56	8	158
Disposals	0	-2	-3	-5	-9
Amortisation	0	-58	-42	-1	-102
Other movements	2	-6	-2	0	-6
Closing balance	597	203	189	10	999
of which accumulated amortisation and impairment	287	555	643	45	1 531
2015					
Opening balance	933	165	153	7	1 258
Acquisitions	0	71	78	9	158
Disposals	0	-28	-5	-6	-39
Amortisation	0	-53	-48	-1	-103
Other movements	-338	21	3	0	-315
Closing balance	594	176	181	9	959
of which accumulated amortisation and impairment	829	495	594	54	1 971

- Goodwill: includes the goodwill paid on companies included in the scope of consolidation and relating to the acquisition of activities. Goodwill paid on associated companies: included in the nominal value of 'Investments in associated companies' shown on the balance sheet.
- Impairment testing: a test was carried out to establish whether impairment on goodwill had to be recognised (see table and Note 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 below (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**
K&H Bank	223	220	12.8%–10.5%	13.6%–10.7%
ČSOB (Czech Republic)	233	233	10.1%–9.5%	9.9%–9.7%
DZI Insurance	74	74	9.6%–7.7%	9.2%–7.6%
Rest	68	68	–	–
Total	597	594	–	–

- 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. The following table gives an indication for K&H Bank of the change in key assumptions that would lead to their recoverable amount equalling their carrying value.

Change in key assumptions[1]	**Increase in discount rate**[2]	**Decrease in terminal growth rate**[3]	**Increase in targeted solvency ratio**[4]	**Decrease in annual net profit**	**Increase in annual impairment charges**
K&H Bank	2.83%	–	3.91%	19.5%	113.3%

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

Note 5.6: Technical provisions, insurance

(in millions of EUR)	31-12-2016	31-12-2015
Technical provisions (before reinsurance) (i.e. gross figures)	**19 657**	**19 532**
Insurance contracts	10 715	10 297
Provision for unearned premiums and unexpired risk	687	647
Life insurance provision	6 961	6 677
Provision for claims outstanding	2 524	2 436
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
Provision 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

MOVEMENTS TABLE	**Gross 2016**	**Reinsurance 2016**	**Gross 2015**	**Reinsurance 2015**
INSURANCE CONTRACTS, LIFE				
Opening balance	7 170	3	6 754	2
Deposits excluding fees	774	0	788	0
Provisions paid	-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
Transfers out of/into liabilities associated with disposal groups	0	0	0	0
Changes in the scope of consolidation	0	0	0	0
Other movements[1]	-128	0	-36	1
Closing balance	7 460	3	7 170	3
INSURANCE CONTRACTS, NON-LIFE				
Opening balance	3 127	123	3 004	192
Changes in the provision for unearned premiums	24	0	35	0
Payments regarding claims of previous years	-223	-5	-204	-7
Surplus/shortfall of claims provision in previous financial years	-135	-8	-129	8
Provision for new claims	406	32	332	13
Exchange differences	2	0	-5	0
Transfers out of/into liabilities associated with disposal groups	0	0	0	0
Changes in the scope of consolidation	0	0	0	0
Other movements	56	-36	93	-83
Closing balance	3 255	107	3 127	123
INVESTMENT CONTRACTS WITH DPF, LIFE				
Opening balance	9 235	0	9 176	0
Deposits excluding fees	632	0	378	0
Provisions paid	-800	0	-606	0
Accretion of interest	214	0	259	0
Cost of profit sharing	0	0	0	0
Exchange differences	0	0	1	0
Transfers out of/into liabilities associated with disposal groups	0	0	0	0
Changes in the scope of consolidation	0	0	0	0
Other movements[2]	-339	0	27	0
Closing balance	8 942	0	9 235	0

1 Includes the acquisition of a life insurance portfolio from another insurance company in 2015 and the surrender of a large, reinsured savings policy in 2016.
2 Includes transfers to unit-linked contracts.

- 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, even though movements in the yield curve had an impact on the 'best estimate' for the life insurance business.

Note 5.7: Provisions for risks and charges

(in millions of EUR)	Provisions for restructuring	Provisions for taxes and pending legal disputes	Other	Subtotal	Provisions for commitments and financial guarantees	Total
2016						
Opening balance	9	118	58	184	125	310
Movements with an impact on results						
Amounts allocated	0	20	10	30	41	71
Amounts used	-2	-21	-13	-36	-11	-46
Unused amounts reversed	0	-11	-2	-14	-42	-56
Transfers out of/into liabilities associated with disposal groups	0	0	0	0	0	0
Changes in the scope of consolidation	-1	0	0	-1	0	-1
Other movements	-3	-1	1	-3	-38	-41
Closing balance	3	105	53	162	76	238
2015						
Opening balance	32	225	144	402	158	560
Movements with an impact on results						
Amounts allocated	7	22	11	40	44	84
Amounts used	-31	-82	-80	-194	0	-194
Unused amounts reversed	0	-47	-19	-66	-52	-118
Transfers out of/into liabilities associated with disposal groups	2	0	0	2	0	2
Changes in the scope of consolidation	0	0	-1	-1	0	-1
Other movements	0	0	1	2	-25	-23
Closing balance	9	118	58	184	125	310

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

- Probable outflow (related to 'Provisions for taxes and pending legal disputes'):
  - From the end of 1995 until the beginning of 1997, KBC Bank and KB Consult were involved in the transfer of cash companies. Cash companies are characterised by the fact that the asset side of their balance sheets comprises primarily amounts receivable and cash, in addition to other liquid assets. On several occasions between 1995 and 1997, KB Consult acted as the intermediary between the sellers and buyers of such companies. There were various ways in which the bank could be involved, but in most cases they concerned payments or lending. KBC Bank and/or KB Consult were joined to proceedings in a number of cases. In addition, KB Consult was placed under suspicion by an investigating judge in 2004, and

together with KBC Bank and KBC Group NV, was summoned to appear in the proceedings before a judge in chambers in Bruges. On 9 November 2011, the judge referred KB Consult and KBC Bank to Bruges Criminal Court on charges of uttering, but dismissed the charges against KBC Group NV. The Belgian state appealed the decision of no case to answer against KBC Group NV. On 27 October 2015, the indictments division ruled that proceedings were time-barred and upheld the original decision of no case to answer. The case as referred will now be heard before Bruges Criminal Court in the course of 2017. A suitable provision has been constituted to deal with the potential impact of claims for damages in this respect. The transfer of a cash company is in principle completely legitimate. However, it later transpired that certain purchasers were acting in bad faith since they did not make any investments at all and did not file tax returns for the cash companies they had purchased. KBC Bank and KB Consult immediately took the necessary measures to preclude any further involvement with these parties. Referral to the criminal court does not in any way imply that any KBC entity has been convicted of an offence. KBC is fully defending its position in these cases, based, among other things, on the fact that, during the period in which the events took place, the legal entity was not liable to prosecution and, in particular, KBC was utterly lacking in criminal intent.
  - In March 2000, Rebeo and Trustimmo, two subsidiaries of Almafin (a subsidiary of KBC Bank), together with four former directors of Broeckdal Vastgoedmaatschappij (a real estate company) were summoned by the Ministry of Finance to appear before the civil court in Brussels regarding non-payment of 16.7 million euros in taxes owed by Broeckdal. However, Broeckdal contested this claim and in December 2002 initiated court proceedings against the Ministry of Finance before the civil court in Antwerp. The civil case pending before the Brussels court has been suspended until final judgment has been passed in the tax-related proceedings pending before the Antwerp court. Broeckdal was wound up by court order on 2 November 2010 and was declared properly wound up and dissolved on 13 September 2011. A suitable provision has been set aside to cover potential damages.

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

Note 5.8: Other liabilities

(in millions of EUR)	31-12-2016	31-12-2015
Total	**2 763**	**2 541**
Breakdown by type		
Retirement benefit obligations or other employee benefits	705	371
Deposits from reinsurers	73	77
Accrued charges (other than from interest expenses on financial liabilities)	289	244
Other	1 696	1 849

- For more information on retirement benefit obligations, see Note 5.9 (note that the amount recognised under 'Retirement benefit obligations or other employee benefits' in Note 5.8 relates to a broader scope than the amounts presented in Note 5.9).

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	2 380	2 610
Current service cost	111	120
Interest cost	54	45
Plan amendments	0	0
Actuarial gain or loss resulting from changes in demographic assumptions	5	-9
Actuarial gain or loss resulting from changes in financial assumptions	357	-220
Experience adjustments	1	-50
Past-service cost	-1	0
Benefits paid	-93	-116
Exchange differences	-9	8
Curtailments	1	-9
Transfers under IFRS 5	0	0
Changes in the scope of consolidation	0	0
Other	45	0
Defined benefit obligations at the end of the period	2 851	2 380
Reconciliation of the fair value of plan assets		
Fair value of plan assets at the beginning of the period	2 165	2 103
Actual return on plan assets	160	82
Expected return on plan assets	48	36
Employer contributions	90	65
Plan participant contributions	21	21
Benefits paid	-93	-116
Exchange differences	-8	7
Settlements	0	0
Transfers under IFRS 5	0	0
Changes in the scope of consolidation	0	0
Other	1	2
Fair value of plan assets at the end of the period	2 336	2 165
of which financial instruments issued by the group	32	50
of which property occupied by KBC	9	9
Funded status		
Plan assets in excess of defined benefit obligations	-515	-215
Reimbursement rights	0	0
Asset ceiling limit	-28	-4
Unfunded accrued/prepaid pension cost	-543	-220

(in millions of EUR)	31-12-2016	31-12-2015
Movement in net liabilities or net assets		
Unfunded accrued/prepaid pension cost at the beginning of the period	-221	-507
Amounts recognised in the income statement	-95	-103
Amounts recognised in other comprehensive income	-336	323
Employer contributions	90	65
Exchange differences	1	-1
Transfers under IFRS 5	0	0
Changes in the scope of consolidation	0	0
Other	17	2
Unfunded accrued/prepaid pension cost at the end of the period	-543	-221
Amounts recognised in the income statement	**95**	**103**
Current service cost	111	120
Past-service cost	-1	0
Interest cost	5	9
Plan participant contributions	-21	-21
Curtailments	0	-5
Settlements	0	0
Changes in the scope of consolidation	0	0
Changes to the amounts recognised in other comprehensive income	**336**	**-323**
Actuarial gain or loss resulting from changes in demographic assumptions	5	-9
Actuarial gain or loss resulting from changes in financial assumptions	357	-220
Actuarial result on plan assets	-112	-46
Experience adjustments	1	-50
Adjustments to asset ceiling limits	24	0
Other	60	0
DEFINED CONTRIBUTION PLANS		
Expenses for defined contribution plans	14	8

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

Additional information regarding retirement benefit obligations

(in millions of EUR)	2016	2015	2014	2013	2012
Changes in main headings in the main table					
Defined benefit obligations	2 851	2 380	2 610	2 034	2 191
Fair value of plan assets	2 336	2 165	2 103	1 818	1 765
Unfunded accrued/prepaid pension cost	-543	-220	-507	-216	-425
Impact of changes in the assumptions used in the actuarial calculation of plan assets and retirement benefit obligations					
Impact on plan assets	0	0	0	0	0
Impact on retirement benefit obligations	147	24	-135	-85	213

Additional information on retirement benefit obligations – DEFINED BENEFIT PLANS

	KBC pension fund	KBC Bank Ireland pension plan
Composition (31-12-2016)		
Shares	34%	41%
Bonds	49%	35%
Real estate	13%	3%
Cash	4%	0%
Investment funds	0%	21%
of which illiquid assets	8%	0%
Composition (31-12-2015)		
Shares	38%	41%
Bonds	49%	16%
Real estate	10%	3%
Cash	3%	2%
Investment funds	0%	37%
of which illiquid assets	4%	0%
Contributions expected in 2017 (in millions of EUR)	49	4
Regulatory framework	Pension plans are registered in collective labour agreements and incorporated into a set of regulations. Annual reporting of funding levels to supervisory authorities (FSMA/NBB). Any underfunding must be reported immediately to the supervisory authorities.	Regulated by the Irish Pensions Authority. Funding level calculated every year and certified every three years. Any underfunding must be reported immediately to the Irish Pensions Authority.
Risks for KBC	Investment risk and inflation risk.	Investment risk.
ALM policy	The hedging portfolio hedges against interest rate risk and inflation risk using interest rate swaps. The return portfolio aims to generate an extra return.	Investments in leveraged LDI pooled funds.
Plan amendments	An employer-funded defined contribution plan was introduced on 1 January 2014. All employees joining the company from that date are signed up to this new plan, while all those who were already employed on 31 December 2013 remain signed up to the defined benefit plan unless they chose to switch to the new one.	For a number of participants (employees of KBC Finance Ireland), the benefits are linked to inflation instead of to future increases in salary.
Curtailments and settlements	Not applicable.	For a number of participants (employees of KBC Finance Ireland), the benefits are linked to inflation instead of to future increases in salary.
Discounting method	Based on iBoxx quotes for various time buckets of AA-rated corporate bonds. The resulting yield curve is converted into a zero coupon curve. As of year 14, extrapolation is applied to flatten the curve for maturities of 18 years and longer.	The Mercer method starts from a proprietary basket of corporate bonds with AAA, AA and A ratings. A spread is deducted from the bonds with an A rating in order to obtain the equivalent of an AA-rated corporate bond. After conversion to the zero coupon format using extrapolation for long maturities, the equivalent discount rate is determined.

Additional information on retirement benefit obligations – DEFINED BENEFIT PLANS

	KBC pension fund	KBC Bank Ireland pension plan
Key actuarial assumptions		
Average discount rate	1.32%	2.10%
Expected rate of salary increase	2.80%	2.60%
Expected inflation rate	1.85%	1.60%
Expected rate of increase in pensions	–	1.60%
Weighted average duration of the obligations	13.23 years	28 years
Impact of changes in the assumptions used in the actuarial calculation of the retirement benefit obligations		
Increase in the retirement benefit obligations on 31-12-2016 consequent on:		
a decrease of 1% in the discount rate	14.76%	32.81%
an increase of 1% in the expected inflation rate	12.33%	32.51%
an increase that is 1% higher than the expected real increase in salary	15.96%	6.76%
the age of retirement being 65 for all active employees	1.56%	–
an increase of one year in life expectancy	–	2.95%
The impact of the following assumptions has not been calculated:	Decreasing mortality rates. Pension benefits are paid out in capital, so longevity risk is immaterial. Staff turnover rates, since the expected rate is very low.	Not applicable.

Additional information on retirement benefit obligations – DEFINED CONTRIBUTION PLANS

	KBC pension fund
Contributions expected in 2017 (in millions of EUR)	18
Regulatory framework	Pursuant to the Belgian Supplementary Pensions Act, the employer must guarantee a minimum return of 1.75% on employee and employer contributions.
Risks for KBC	Investment risk.
Valuation	Retirement benefit obligations are measured on the basis of the accrued benefits on the reporting date, making a projection of these benefits (at the rate of interest guaranteed by law) until the expected age of retirement, and discounting the resulting benefits. KBC offers two types of defined contribution plan: one that is financed through employee contributions and one through employer contributions. The value of the employee-funded defined contribution plan takes account of the accrued interest (at the fund return rate), but not of future contributions since the plan is not deemed to be backloaded. The value of the employer-funded defined contribution plan takes account of future contributions in the projection, due to the fact that the plan is deemed to be backloaded.
Discounting method	Based on iBoxx quotes for various time buckets of AA-rated corporate bonds. The resulting yield curve is converted into a zero coupon curve. As of year 14, extrapolation is applied to flatten the curve for maturities of 18 years and longer.
Key actuarial assumptions	
Average discount rate	1.07%
Weighted average duration of the obligations	11.20 years
Impact of changes in the assumptions used in the actuarial calculation of the retirement benefit obligations	
Increase in the retirement benefit obligations on 31-12-2016 consequent on:	
a decrease of 1% in the discount rate	9.93%
the age of retirement being 65 for all active employees	0.55%

Note 5.10: Parent shareholders' equity, non-voting core-capital securities and additional tier-1 instruments

Quantities	31-12-2016	31-12-2015
Ordinary shares	418 372 082	418 087 058
of which ordinary shares that entitle the holder to a dividend payment	*418 372 082*	*418 087 058*
of which treasury shares	*2*	*2*
Mandatorily convertible bonds	0	0
Non-voting core-capital securities	0	0
Additional information		
Par value per share (in EUR)	3.48	3.48
Number of shares issued but not fully paid up	0	0

- Ordinary shares: ordinary shares of no nominal value. All ordinary shares carry voting rights and each share represents one vote. No participation certificates or non-voting shares have been issued. The shares are listed solely on NYSE Euronext Brussels.
- Main changes in 2015 and 2016: the number of KBC Group NV shares went up by 306 400 in December 2015 and by 285 024 in December 2016, due to new shares being issued following the capital increases reserved for staff. For more information, see the 'Company annual accounts and additional information' section.
- Treasury shares: at year-end 2016, KBC group companies held two KBC shares in portfolio.
- For information on stock option plans, see Note 3.8; for information on the authorisation to increase capital, see the 'Company annual accounts and additional information' section.
- Core capital securities: in 2008 and 2009, KBC Group NV issued 7 billion euros in perpetual, non-transferable, non-voting core-capital securities that were subscribed by the Belgian Federal and Flemish Regional governments. KBC repaid the Belgian Federal Government 0.5 billion euros (plus a 15% penalty) on 2 January 2012 and 3 billion euros (plus a 15% penalty) on 17 December 2012. It repaid the Flemish Regional Government 1.17 billion euros (plus a 50% penalty) on 3 July 2013, 0.33 billion euros (plus a 50% penalty) on 8 January 2014 and the remaining 2 billion euros (plus a 50% penalty) on 28 December 2015.
- Additional tier-1 instruments: in March 2014, KBC issued 1.4 billion euros in CRD IV-compliant additional tier-1 securities. These securities qualify as additional tier-1 capital under Basel III (as adopted in the CRR) and, therefore, have had a positive impact on KBC's tier-1 capital. They are perpetual and may be called for redemption after five years or on each subsequent coupon date. They also have a loss absorption mechanism (i.e. a temporary write-down trigger should the common equity tier-1 ratio fall below 5.125%). Since they are classified as shares under IAS 32 (because they have fully discretionary non-cumulative coupons and are perpetual), the annualised coupon of 5.625% – which is paid every quarter – is treated as a dividend. This transaction had no impact on the number of ordinary shares.

Note 5.11: Non-current assets held for sale and discontinued operations (IFRS 5)

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

6.0 Other notes

Note 6.1: Commitments and guarantees granted and received

(in millions of EUR)	31-12-2016	31-12-2015
Loan commitments – undrawn amount		
Given	34 027	36 575
Irrevocable	21 869	19 266
Revocable	12 157	17 309
Received	31	134
Financial guarantees		
Given	9 908	9 364
Guarantees/collateral received	42 494	34 477
For impaired and past due assets	3 795	1 699
For assets that are not impaired or past due	38 699	32 778
Other commitments		
Given	284	220
Irrevocable	284	220
Revocable	0	0
Received	6	0
Carrying value of financial assets pledged by KBC as collateral		
For liabilities*	36 517	31 723
For contingent liabilities	2 339	3 311

* At year-end 2016, some 11.2 billion euros' worth of residential mortgage loans and cash collections were entered in the cover asset register for the special estate of the covered bond programme (12 billion euros at year-end 2015).

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

Collateral received (which may be sold or repledged in the absence of default by the owner) (in millions of EUR)	**Fair value of collateral received**		**Fair value of collateral sold or repledged**	
	31-12-2016	31-12-2015	31-12-2016	31-12-2015
Financial assets	13 529	12 666	7 859	6 881
Equity instruments	13	1	5	0
Debt instruments	13 309	12 499	7 854	6 881
Loans and advances	206	166	0	0
Cash	0	0	0	0
Other	0	0	0	0
Property and equipment	0	0	0	0
Investment property	0	0	0	0
Other	0	0	0	0

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

Note 6.2: Leasing

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

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

Transactions with related parties, excluding key management (in millions of EUR)	2016					2015				
	Subsidiaries	Associated companies	Joint ventures	Other	Total	Subsidiaries	Associated companies	Joint ventures	Other	Total
Assets	333	187	11	40	572	304	146	13	77	540
Loans and advances	104	46	2	31	182	133	55	2	34	223
Equity instruments	228	140	10	4	382	154	81	11	4	251
Other	1	1	0	5	8	18	10	0	38	66
Liabilities	365	109	289	221	983	720	121	315	173	1 329
Deposits	364	8	289	220	881	581	17	259	171	1 027
Other financial liabilities	0	0	0	0	0	101	0	0	0	101
Other	1	101	0	1	102	38	104	56	3	201
Income statement	7	-1	-7	6	4	2	-3	-7	3	-5
Net interest income	-2	-1	-4	0	-6	-1	-1	-5	1	-7
Interest income	1	1	0	0	2	2	1	2	1	6
Interest expense	-2	-2	-5	0	-8	-4	-2	-8	0	-14
Earned premiums, insurance (before reinsurance)	0	0	0	0	0	0	0	0	0	0
Technical insurance charges (before reinsurance)	0	0	0	0	0	0	0	0	0	0
Dividend income	2	9	0	3	15	1	0	1	6	9
Net fee and commission income	14	-1	-3	2	12	14	-1	-3	2	11
Fee and commission income	14	0	1	2	17	14	0	0	2	17
Fee and commission expense	0	-1	-4	0	-5	0	-1	-3	0	-5
Other net income	1	-5	0	4	1	5	3	0	2	10
General administrative expenses	-9	-3	0	-5	-17	-17	-5	0	-6	-28
Undrawn portion of loan commitments, financial guarantees and other commitments										
Given by the group	10	6	0	151	167	138	6	1	185	329
Received by the group	0	0	0	0	0	0	0	0	0	0

Transactions with key management (members of the Board of Directors and Executive Committee of KBC Group NV)

(in millions of EUR)*	2016	2015
Total*	**10**	**9**
Breakdown by type of remuneration		
Short-term employee benefits	9	8
Post-employment benefits	2	1
Defined benefit plans	0	1
Defined contribution plans	2	0
Other long-term employee benefits	0	0
Termination benefits	0	0
Share-based payments	0	0
Stock options (units)		
At the beginning of the period	0	0
Granted	0	0
Exercised	0	0
Composition-related changes	0	0
At the end of the period	0	0
Advances and loans granted to key management and partners	2	2

* Remuneration to key management or partners of the consolidating company on the basis of their activity in that company, its subsidiaries and associated companies, including the amount of retirement pensions granted to former key management staff on that basis.

- The 'Subsidiaries' heading in the first table includes transactions with unconsolidated subsidiaries (transactions with consolidated subsidiaries have already been eliminated from the consolidated financial statements).
- The 'Other' heading in the first table includes KBC Ancora, Cera and MRBB.
- All related-party transactions occur at arm's length.
- Key management comprises the members of the Board of Directors and Executive Committee of KBC Group NV. More detailed information on remuneration paid to key management staff is provided in the 'Corporate governance statement' section.
- There were no significant impairment charges vis-à-vis related parties.

Note 6.4: Statutory auditor's remuneration

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

Statutory auditor's remuneration (PwC, in EUR)	2016
KBC Group NV and its subsidiaries	
Standard audit services	7 020 249
Other services	1 153 589
Other certifications	293 746
Tax advice	42 379
Other non-audit assignments	817 463
KBC Group NV (alone)	
Standard audit services	145 000
Other services	420 944

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

The KBC group's legal structure has one single entity – KBC Group NV – in control of two underlying companies, viz. KBC Bank NV and KBC Insurance NV, each of which has several subsidiaries and sub-subsidiaries.

The main group companies are shown in the following table. A complete list of group companies (included in or excluded from the scope of consolidation) is provided at www.kbc.com > About us > Our structure.

KBC Group NV

100% KBC Bank NV

various subsidiaries, joint ventures and associated companies

100% KBC Insurance NV

various subsidiaries, joint ventures and associated companies

KBC Group: main companies included in the scope of consolidation at year-end 2016

Company	Registered office	Company number	Share of capital held at group level (in %)	Business unit*	Activity
KBC Bank (group)					
KBC Bank NV	Brussels – BE	0462.920.226	100.00	BEL/GRP	credit institution
CBC BANQUE SA	Brussels – BE	0403.211.380	100.00	BEL	credit institution
Československá Obchodná Banka a.s.	Bratislava – SK	--	100.00	IMA	credit institution
Československá Obchodní Banka a.s.	Prague – CZ	--	100.00	CZR	credit institution
CIBANK EAD	Sofia – BG	--	100.00	IMA	credit institution
KBC Asset Management NV	Brussels – BE	0469.444.267	100.00	BEL	asset management
KBC Autolease NV	Leuven – BE	0422.562.385	100.00	BEL	leasing
KBC Bank Ireland Plc.	Dublin – IE	--	100.00	IMA	credit institution
KBC Commercial Finance NV	Brussels – BE	0403.278.488	100.00	BEL	factoring
KBC Credit Investments NV	Brussels – BE	0887.849.512	100.00	BEL/GRP	investment firm
KBC Financial Products (group)	various locations	--	100.00	GRP	(derivative) financial products
KBC IFIMA SA	Luxembourg – LU	--	100.00	GRP	financing
KBC Securities NV	Brussels – BE	0437.060.521	100.00	BEL	stockbroker
K&H Bank Zrt.	Budapest – HU	--	100.00	IMA	credit institution
Loan Invest NV	Brussels – BE	0889.054.884	100.00	IMA	securitisation
KBC Insurance (group)					
KBC Insurance NV	Leuven – BE	0403.552.563	100.00	BEL/GRP	insurance company
ADD NV	Heverlee – BE	0406.080.305	100.00	BEL	insurance broker
KBC Group Re SA	Luxembourg – LU	--	100.00	GRP	reinsurance company
ČSOB Pojišt'ovna a.s.	Pardubice – CZ	--	100.00	CZR	insurance company
ČSOB Poist'ovňa a.s.	Bratislava – SK	--	100.00	IMA	insurance company
DZI (group)	Sofia – BG	--	100.00	IMA	insurance company
Groep VAB NV	Zwijndrecht – BE	0456.920.676	95.00	BEL	driving school/roadside assistance
K&H Biztosító Zrt.	Budapest – HU	--	100.00	IMA	insurance company
NLB Vita d.d. (equity method)	Ljubljana – SI	--	50.00	GRP	life insurance
KBC Group					
KBC Group NV	Brussels – BE	0403.227.515	100.00	GRP	bank-insurance holding company
KBC Bank (group)	various locations	--	100.00	various	credit institution
KBC Insurance (group)	various locations	--	100.00	various	insurance company

* BEL = Belgium Business Unit, CZR = Czech Republic Business Unit, IMA = International Markets Business Unit, GRP = Group Centre.

- Companies eligible for consolidation are effectively included in the consolidated accounts if two of the following criteria are met:
  - The group's share in equity exceeds 2.5 million euros.
  - The group's share in the results exceeds 1 million euros.
  - The balance sheet total exceeds 100 million euros. The combined balance sheet total of the companies excluded from consolidation may not amount to more than 1% of the consolidated balance sheet total.
- All (material) entities (including structured entities (SPVs)) over which the consolidating entity exercises, directly or indirectly, exclusive control are consolidated according the method of full consolidation. To assess whether or not structured entities have to be consolidated, KBC uses the principles set out in IFRS 10, as well as thresholds for inclusion in consolidation (see previous bullet point). A number of structured entities meet only one of these criteria, which means that – as long as the combined balance sheet total of the companies excluded from consolidation is not more than 1% of the consolidated balance sheet total – these entities are not consolidated. This relates chiefly to the structured entities set up for the remaining CDO activities. Please note that these entities only exceed one threshold (balance sheet total) since their equity and net results are always very limited. However, the remaining CDO-related results are recorded under the KBC Financial Products group, which is, of course, consolidated. Consequently, excluding these structured entities from the consolidated accounts only impacts presentation of the consolidated balance sheet, and not equity, the results or solvency.
- Disclosures of interests in other entities (IFRS 12)
  - Significant judgements and assumptions
    - In general, funds managed by KBC are not included in the scope of consolidation, as they do not meet the three criteria of control

(power, exposure to a variable return and ability to use such power to affect those returns).
    - Joint subsidiaries in which KBC does not hold 50% of the share capital are classified as joint subsidiaries, since it has joint control over these entities based on shareholder agreements.
- Interests in subsidiaries
    - For the vast majority of the entities, the voting rights are materially equal to the ownership rights.
    - Certain structured entities that are included in the scope of consolidation are subject to significant restrictions. In the past, KBC initiated a number of CDO and RMBS note issues, in each case through a structured entity established for the sole purpose of entering into the relevant transaction (collectively referred to as the 'vehicles' and the 'transactions'). Each of the vehicles invested the proceeds of its notes issue in order to collateralise its obligations under both the notes and a portfolio credit default swap. All shares in the vehicles are wholly owned by a trust company. Nevertheless, the vehicles are consolidated in KBC based on the requirements of IFRS 10. Under the agreements governing the transactions, there are significant restrictions on KBC's ability to access, transfer or use the cash or other assets of the vehicles to settle liabilities of other entities within the group. All the assets of the vehicles are assigned to the security trustee (for itself and as trustee for the holders of the notes) as continuous security for the payment and discharge of the obligations of the vehicles under the notes. Unless explicitly authorised by the agreements or unless the security trustee provides consent in writing beforehand, neither the vehicle nor KBC Bank as administrator can access, transfer or use the cash or other assets of the vehicles to settle liabilities of other KBC-group entities.
    - Pursuant to the joint capital decision, specific pillar-II levels have been set to ensure that certain minimum capital ratios are respected, which impose certain restrictions on the repatriation of capital and distribution of dividends.
    - With regard to Loan Invest NV, KBC is exposed to loan losses on the mortgage portfolio and, therefore, recognises impairment losses on them where necessary.
- Interests in joint ventures and associated companies
    - For a summary of the financial information on ČMSS, see Note 5.3.
    - No summarised financial information is provided for immaterial entities on an aggregate basis, because, even on that basis, the amount is immaterial.
- Interests in unconsolidated structured entities
    - KBC Bank NV is arranger and dealer of a number of 40-billion-euro medium term notes programmes issued by 19 unconsolidated structured entities established for that purpose. Between 2006 and 2010, these entities were established as Irish public limited companies or Irish private limited companies under the Irish Companies Act 1963 to 2012. Their primary business is to raise money by issuing notes in order to buy financial assets (such as securities, bonds and deposits) and to enter into related derivative and other contracts (like equity-linked swaps, interest-linked swaps, total return swaps and repo transactions). They provide investment opportunities for clients by providing economies of scale, a diversification of credit risk and a high level of granularity. Each structured entity has a prospectus that was approved by the Central Bank of Ireland (available at www.kbc.be/prospectus/spv). However, the structured entities are not consolidated because they fail to meet the three criteria for consolidation (power, exposure to a variable return and ability to use such power to affect those returns). At year-end 2016, the assets under management at these entities amounted to 16.6 billion euros.
    - Sponsored unconsolidated structured entities are defined as structured entities where KBC or one of its subsidiaries acts as arranger of the issuance programme, but where the decision-making power of the entities does not reside with KBC or one of its subsidiaries. As a result, these entities are not consolidated.
    - At year-end 2016, KBC had received income from unconsolidated structured entities in the form of management fees (64 million euros), custody fees (1 million euros), administrative agent fees (1 million euros) and accounting fees (1 million euros).
    - At year-end 2016, KBC held 5.7 billion euros' worth of notes issued by the unconsolidated structured entities. Its liabilities towards the unconsolidated structured entities amounted to 6 billion euros and comprised mainly term deposits (5.5 billion euros).
    - Any potential decrease in the value of the notes is passed on to the end-client, which means it will have no impact on KBC.
    - KBC Asset Management provides approximately 34 million euros as a line of credit for KBC funds to cover (temporary) shortfalls arising at month-end and especially at quarter-end.

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

Note 6.6: Main changes in the scope of consolidation

Company	Consolidation method	Ownership percentage at group level 31-12-2016	31-12-2015	Remarks
Additions				
VB Leasing SK, spol. s.r.o.	Full	100%	100%	Acquisition by ČSOB Leasing as of 1 July 2015
VB Leasing Sprostredkovatel'ská s.r.o.	Full	100%	100%	Acquisition by ČSOB Leasing as of 1 July 2015
Exclusions				
KBC Financial Holding Inc.	Full	–	–	Liquidated in 4Q 2015
IIB Finance Ireland	Full	–	100%	Deconsolidated in 2Q 2016
Name changes				
None	–	–	–	–
Changes in ownership percentage and internal mergers				
KBC Financial Products International SA	Full	–	100%	Merged with KBC IFIMA SA in 3Q 2016

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

Note 6.7: Risk management

The information required in relation to risks (in accordance with IFRS 4 and IFRS 7) and capital (pursuant to IAS 1) is provided in those parts of the 'How do we manage our risks?' and 'How do we manage our capital?' sections that have been audited by the statutory auditor.

Note 6.8: Post-balance-sheet events

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

- None.

Note 6.9: General information on the company

- Name: KBC Group.
- Incorporated: 9 February 1935 as the Kredietbank; the present name dates from 2 March 2005.
- Country of incorporation: Belgium.
- Registered office: Havenlaan 2, 1080 Brussels, Belgium.
- VAT: BE 0403.227.515.
- RLP: Brussels.
- Legal form: *naamloze vennootschap* (company with limited liability) under Belgian law, which seeks to attract or has sought to attract savings from the public. The company is a mixed financial holding company that is subject to the prudential supervision of the National Bank of Belgium and the European Central Bank.
- Life: undefined.
- Object: the company has as its object, the direct or indirect ownership and management of shareholdings in other companies, including but not restricted to credit institutions, insurance companies and other financial institutions. The company also has as object to provide support services for third parties, as mandatary or otherwise, in particular for companies in which the company has an interest – either directly or indirectly. The object of the company is also to acquire in the broadest sense of the word (including by means of purchase, hire and lease), to maintain and to operate resources, and to make these resources available in the broadest sense of the word (including through letting, and granting rights of use) to the beneficiaries referred to in the second sentence above. In addition, the company may function as an 'intellectual property' company responsible for, among other things, the development, acquisition, management, protection and maintenance of intellectual property rights, as well as for making these rights available and/or granting rights of use in respect of these rights to the beneficiaries referred to in the second sentence above. The company may also perform all commercial, financial and industrial transactions that may be useful or expedient for achieving the object of the company and that are directly or indirectly related to this object. The company may also by means of subscription, contribution, participation or in any other form whatsoever participate in all companies, businesses or institutions that have a similar, related or complementary activity. In general, the company may, both in Belgium and abroad, perform all acts which may contribute to the achievement of its object (Article 2 of the Articles of Association, which are available at www.kbc.com).
- Documents open to public inspection: the Articles of Association of the company are open to public inspection at the Registry of the Dutch-speaking division of the Brussels Commercial Court and are published on www.kbc.com. The financial statements and annual report are filed with the National Bank of Belgium and are available at www.kbc.com. The annual report can also be obtained from the company's registered office and will be sent to those requesting it. Extracts of minutes concerning decisions on the appointment and the termination of the offices of members of the Executive Committee and the Board of Directors are published in the appendices to the *Belgian Official Gazette*. Financial reports about the company are published in the financial press and/or on www.kbc.com. Convening notices of general meetings of shareholders are published in the *Belgian Official Gazette*, in at least one national newspaper, in the media and on www.kbc.com.
- For information on the general meeting of shareholders and the right of shareholders to take part in such meetings, see Article 23 *et seq.* of the Articles of Association, which are available at www.kbc.com.

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STATUTORY AUDITOR'S REPORT TO THE GENERAL SHAREHOLDERS' MEETING OF THE COMPANY KBC GROUP 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 Group 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 275.200 million and the consolidated income statement shows a profit for the year (share of the Group) of EUR 2.427 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

Roland Jeanquart
Accredited auditor

Tom Meuleman
Accredited auditor

The company annual accounts of KBC Group NV are presented here in abridged form. A full set of these accounts will be submitted for approval to the General Meeting of Shareholders of 4 May 2017.

The company annual accounts, the report of the Board of Directors and the statutory auditor's report are filed with the National Bank of Belgium. These documents are available free of charge from KBC Group NV, Investor Relations Office – IRO, Havenlaan 2, 1080 Brussels, Belgium. They can also be viewed at www.kbc.com.

The statutory auditor has delivered an unqualified audit opinion on the company annual accounts of KBC Group NV.

The company annual accounts have been prepared according to Belgian accounting standards (B-GAAP) and are, therefore, not comparable with the figures prepared in accordance with IFRS in the other sections of this report.

Company annual accounts and additional information

Company balance sheet, income statement and profit appropriation

Balance sheet after profit appropriation (B-GAAP)

(in millions of EUR)	31-12-2016	31-12-2015
Fixed assets	**19 645**	**18 140**
Intangible fixed assets	176	160
Property and equipment	97	105
Land and buildings	29	31
Plant, machinery and equipment	54	60
Furniture and vehicles	12	13
Other tangible fixed assets	1	0
Assets under construction and advance payments	1	1
Financial fixed assets	19 372	17 875
Affiliated companies	19 370	17 874
Participating interests	14 044	14 044
Amounts receivable	5 327	3 830
Other companies linked by participating interests	1	1
Participating interests	1	1
Amounts receivable	0	0
Current assets	**135**	**261**
Amounts receivable at more than one year	0	0
Trade debtors	0	0
Other amounts receivable	0	0
Stocks and contracts in progress	1	1
Stocks	1	1
Goods purchased for resale	1	1
Amounts receivable within one year	36	10
Trade debtors	22	6
Other amounts receivable	14	5
Current investments	0	0
Own shares	0	0
Other investments	0	0
Cash at bank and in hand	31	163
Deferred charges and accrued income	67	87
Total Assets	**19 780**	**18 401**
Equity	**13 683**	**13 670**
Capital	1 455	1 454
Issued capital	1 455	1 454
Share premium account	5 436	5 423
Reserves	1 466	1 466
Legal reserves	146	145
Reserves not available for distribution	1	1
Untaxed reserves	190	190
Reserves available for distribution	1 129	1 129
Profit (Loss (-)) carried forward	5 326	5 327
Provisions and deferred taxes	**16**	**13**
Provisions for liabilities and charges	16	13
Pensions and similar obligations	16	12
Other liabilities and charges	0	1
Amounts payable	**6 081**	**4 718**
Amounts payable at more than one year	4 576	3 080
Financial debt	4 576	3 080
Subordinated loans	3 081	3 080
Non-subordinated bonds	1 496	0
Credit institutions	0	0
Amounts payable within one year	1 450	1 583
Amounts payable at more than one year falling due within the year	0	480
Financial debt	558	937
Credit institutions	0	0
Other loans	558	937
Trade debt	31	33
Advance payments received on orders	1	0
Taxes, remuneration and social security charges	79	78
Income tax expense	10	7
Remuneration and social security charges	69	71
Other amounts payable	780	55
Accrued charges and deferred income	55	55
Total liabilities	**19 780**	**18 401**

Income statement (B-GAAP)

(in millions of EUR)	31-12-2016	31-12-2015
Operating income	**928**	**1 088**
Turnover	859	971
Increase (decrease (-)) in stocks of finished goods, work and contracts in progress	0	0
Own construction capitalised	53	61
Other operating income	16	28
Non-recurring operating income	0	28
Operating charges	**957**	**1 142**
Services and other goods	487	577
Remuneration, social security charges and pensions	374	430
Depreciation of and amounts written off formation expenses and intangible and tangible fixed assets	84	110
Provisions for liabilities and charges: amounts set aside (amounts reversed (-))	4	-7
Other operating charges	1	5
Non-recurring operating charges	8	27
Operating profit (loss (-))	**-29**	**-55**
Financial income	1 345	3 389
Recurring financial income	1 345	3 366
Income from financial fixed assets	1 204	3 224
Income from current assets	0	0
Other financial income	141	142
Non-recurring financial income	0	23
Financial charges	133	1 144
Recurring financial charges	133	1 144
Debt charges	129	1 128
Amounts written down on current assets: increase (decrease (-))	0	0
Other financial charges	4	16
Non-recurring financial charges	0	0
Profit (Loss (-)) for the period, before tax	**1 184**	**2 191**
Transfers from deferred taxes	2	0
Transfers to deferred taxes	0	4
Income tax	4	6
Profit (Loss (-)) for the period	**1 182**	**2 181**
Profit (Loss (-)) for the period available for appropriation	**1 182**	**2 181**

Profit appropriation (B-GAAP)

(in millions of EUR)	31-12-2016	31-12-2015
Profit (Loss (-)) to be appropriated	**6 508**	**5 338**
Profit (Loss (-)) for the period available for appropriation	1 182	2 181
Profit (Loss (-)) carried forward from the previous period	5 327	3 158
Transfers to equity	**0**	**0**
To the legal reserves	0	0
To other reserves	0	0
Profit (Loss (-)) to be carried forward	**5 326**	**5 327**
Profit to be distributed	**1 182**	**11**
Dividends	1 171	0
Directors' entitlements	0	0
Other beneficiaries, employee profit-sharing	11	11

We will propose to the General Meeting of Shareholders that the profit for appropriation for the 2016 financial year be distributed as shown in the table. If this proposal is approved, the total gross dividend per share entitled to dividend will amount to 2.80 euros, 1 euro of which was already paid as an interim dividend in November 2016, leaving a final dividend of 1.80 euros.

Notes to the company annual accounts

Note 1: Financial fixed assets (B-GAAP)

(in millions of EUR)	Participating interests in affiliated companies	Amounts receivable from affiliated companies	Participating interests in companies linked by participating interests	Amounts receivable from companies linked by participating interests
Carrying value at 31-12-2015	**14 044**	**3 830**	**1**	**0**
Acquisitions in 2016	0	1 496	0	0
Disposals in 2016	0	0	0	0
Other changes in 2016	0	0	0	0
Carrying value at 31-12-2016	**14 044**	**5 327**	**1**	**0**

Participating interests in affiliated companies comprise mainly the shareholdings in KBC Bank NV, KBC Insurance NV en KBC Asset Management NV. The amounts receivable from affiliated companies related to loans to KBC Bank NV in the form of additional tier-capital (1.4 billion euros), tier-2 capital (1.7 billion euros), tier-3 capital (1.5 billion euros), a subordinated perpetual loan of 0.25 billion euros to KBC Bank NV and a subordinated loan of 0.5 billion euros to KBC Insurance NV.

Note 2: Changes in equity (B-GAAP)

(in millions of EUR)	31-12-2015	Capital increase for staff	Appropriation of results	31-12-2016
Capital	1 454	1	0	1 455
Share premium account	5 423	13	0	5 436
Reserves	1 466	0	0	1 466
Profit (Loss) carried forward	5 327	0	-1	5 326
Equity	**13 670**	**14**	**-1**	**13 683**

At year-end 2016, the company's issued share capital amounted to 1 455 289 897.87 euros, represented by 418 372 082 shares of no nominal value, and the share premium account came to 5 435 514 655.77 euros. The share capital is fully paid up.

Changes in 2016:

- A capital increase under the authorisation to increase capital carried out on 23 December 2016 and reserved exclusively for employees of KBC Group NV and its Belgian subsidiaries resulted in 285 024 shares being issued at a price of 48.65 euros per share. These shares are blocked for two years, since the issue price was less than the closing price of the KBC share on 14 November 2016. As a result of this operation, capital was increased by 991 883.52 euros and the share premium account went up by 12 874 534.08 euros. By carrying out this capital increase, the group aims to strengthen ties with its staff and the staff of its Belgian subsidiaries. Given the limited extent of the capital increase, the financial ramifications for existing shareholders are minor. All of the shares issued in 2016 will also be entitled to dividend from the 2016 financial year (but not the interim dividend of 1 euro per share already paid by the company on 18 November 2016).

The authorisation to increase capital may be exercised up to and including 20 May 2018 for an amount of 695 111 550.04 euros. Based on a par value of 3.48 euros a share, a maximum of 199 744 698 new KBC Group NV shares can therefore be issued under this authorisation.

Note 3: Shareholders

The table below gives an overview of the notifications received in 2016 and in the first two months of 2017 pursuant to the Belgian Act of 2 May 2007 concerning the disclosure of significant participations. We publish all such notifications on www.kbc.com. Please note that the number of shares stated in the notifications may differ from the current number in possession, as a change in the number of shares held does not always give rise to a new notification.

The ‘Corporate governance statement’ section contains an overview of the shareholder structure at year-end 2016, based on all the notifications received pursuant to the Belgian Act of 2 May 2007.

Notifications*	Notification relating to	Note	Number of KBC shares (= voting rights) on date concerned	% of total voting rights on date concerned*
BlackRock Inc.	9 February 2016	Size of holding moves below the 5% notification threshold	20 650 780	4.94%
FMR LLC	18 November 2016	Size of holding moves above the 3% notification threshold	12 628 843	3.02%

* More detailed information is available at www.kbc.com.

The following table gives an overview of KBC shares held by KBC group companies. The average par value of the KBC share came to 3.48 euros in 2016.

KBC shares held by KBC group companies	Address	31 December 2016	31 December 2015
KBC Securities NV	Havenlaan 12, 1080 Brussels, Belgium	2	2
As a percentage of the total number of shares		*0.0%*	*0.0%*

Note 4: Balance sheet

- On 31 December 2016, total assets came to 19 780 million euros, compared with 18 401 million euros a year earlier.
- 'Financial fixed assets' are discussed in Note 1.
- 'Current assets' amounted to 135 million euros, whereas the year-earlier figure was 261 million euros. This change was largely attributable to a reduction in funding through commercial paper, the redemption of matured EMTN notes and payment of the interim dividend, offset in part by dividends received from subsidiaries.
- 'Equity' is dealt with in Note 2.
- 'Amounts payable' totalled 6 081 million euros, compared with 4 718 million euros at year-end 2015. The main changes to this item were an increase in 'Non-subordinated bonds at more than one year' (+1 496 million euros), a decline in 'Amounts payable at more than one year falling due within the year' (EMTN notes: -480 million euros) and in 'Other loans payable within one year' (commercial paper: -379 million euros), and an amount payable related to the final dividend for 2016 under 'Other amounts payable within one year' (+753 million euros).

Note 5: Income statement

- KBC Group NV generated a net profit of 1 182 million euros in 2016, as opposed to 2 181 million euros a year earlier.
- 'Operating income' fell by 15% (-159 million euros) and 'Operating charges' by 16% (-185 million euros) year-on-year, due primarily to the activities of certain shared services being transferred to other group companies in 2015 and 2016.
- The main changes in financial income and financial charges were:
  - a decline of 2 018 million euros in dividends received in 2016 (the high level in 2015 was accounted for by the redemption of the remaining core-capital securities sold to the Flemish Regional Government);
  - a penalty paid in 2015 on redemption of core-capital securities sold to the Flemish Regional Government (1 billion euros under 'Debt charges').

Note 6: Statutory auditor's remuneration

See Note 6.4 in the 'Consolidated financial statements' section.

Note 7: Branch offices

KBC Group NV had three branch offices (in the Czech Republic, Slovakia and Hungary) at year-end 2016.

Note 8: Additional information

The information required in accordance with Article 96 of the Belgian Companies Code that has not been provided above appears in the 'Report of the Board of Directors' section.

Glossary of ratios and terms

Bank-insurance (gross) income

Gives an insight into the income generated by insurance products sold through the bank channel and, therefore, into the success of the bank-insurance model.

Calculation (in millions of EUR)	**Reference**	**2016**	**2015**
Fee and commission income received by the bank from the linked insurer (A)	'Consolidated income statement': component of 'Net fee and commission income'	134	146
+			
Insurance income for insurance products sold by bank branches (B)	'Consolidated income statement': component of 'Total income' (various headings)	306	298
+			
Management fees generated by unit-linked insurance products sold by bank branches and recognised at the asset manager (C)	'Consolidated income statement': component of 'Net fee and commission income'	64	63
= (A)+(B)+(C)		504	507

Basic and diluted earnings per share

Gives an idea of the amount of profit over a certain period that is attributable to one share (and, where applicable, including dilutive instruments).

Calculation (in millions of EUR)	**Reference**	**2016**	**2015**
Result after tax, attributable to equity holders of the parent (A)	'Consolidated income statement'	2 427	2 639
-			
Coupon (and/or penalty) on the core-capital securities sold to the government (B)	'Consolidated statement of changes in equity'	–	-1 000
-			
Coupon on the additional tier-1 instruments included in equity (C)	'Consolidated statement of changes in equity'	-52	-52
/			
Average number of ordinary shares less treasury shares (in millions) in the period (D)	Note 5.10	418	418
or			
Average number of ordinary shares plus dilutive options less treasury shares in the period (E)		(idem)	(idem)
Basic = (A-B-C) / (D) (in EUR)		5.68	3.80
Diluted = (A-B-C) / (E) (in EUR)		5.68	3.80

Combined ratio (non-life insurance)

Gives an insight into the technical profitability (i.e. after eliminating investment returns, among other items) of the non-life insurance business, more particularly the extent to which insurance premiums adequately cover claim payments and expenses. The combined ratio takes ceded reinsurance into account.

Calculation (in millions of EUR or %)	**Reference**	**2016**	**2015**
Technical insurance charges, including the internal cost of settling claims (A)	Note 3.7	839	757
/			
Earned insurance premiums (B)	Note 3.7	1 387	1 301
+			
Operating expenses (C)	Note 3.7	460	435
/			
Written insurance premiums (D)	Note 3.7	1 406	1 325
= (A/B)+(C/D)		93%	91%

Common equity ratio

A risk-weighted measure of the group's solvency, based on common equity tier-1 capital (the ratios given here are based on the Danish compromise).

Calculation	2016	2015
Detailed calculation under 'Solvency at group level' in the 'How do we manage our capital?' section		
Phased-in*	16.2%	15.2%
Fully loaded*	15.8%	14.9%

* The CRD IV rules are gradually being implemented to allow banks to build up the necessary capital buffers. The capital position of a bank, when account is taken of the transition period, is referred to as the 'phased-in' view. The capital position based on full application of all the rules – as would be the case after this transition period – is referred to as 'fully loaded'.

Cost/income ratio

Gives an impression of the relative cost efficiency (costs relative to income) of the banking activities.

Calculation (in millions of EUR or %)	Reference	2016	2015
Operating expenses of the banking activities (A)	'Consolidated income statement': component of 'Operating expenses'	3 437	3 391
/			
Total income of the banking activities (B)	'Consolidated income statement': component of 'Total income'	6 238	6 144
= (A) / (B)		55%	55%

Where relevant, we also eliminate exceptional and/or non-operating items when calculating the cost/income ratio, viz. the mark-to-market valuation of ALM derivatives (income equalling 87 and 107 million euros in 2016 and 2015, respectively), the mark-to-market valuation of own credit risk (income equalling 8 and 17 million euros in 2016 and 2015, respectively), the impact of liquidating or deconsolidating group companies (income totalling 16 and -135 million euros in 2016 and 2015, respectively) plus a number of smaller items (income totalling 100 and 38 million euros in 2016 and 2015, respectively, and costs totalling 18 and 17 million euros in 2016 and 2015, respectively). This calculation aims to give a better idea of the relative cost efficiency of the pure business activities.

Cover ratio

Indicates the proportion of impaired loans (see 'Impaired loans ratio' for definition) that are covered by impairment charges.

Calculation (in millions of EUR or %)	Reference	2016	2015
Specific impairment on loans (A)	'Loan and investment portfolio, banking' table in the 'How do we manage our risks?' section	4 874	5 517
/			
Outstanding impaired loans (B)	'Loan and investment portfolio, banking' table in the 'How do we manage our risks?' section	10 583	12 305
= (A) / (B)		46%	45%

The numerator and denominator in the formula may be limited to impaired loans that are more than 90 days past due. Relevant data is also given in the 'Loan and investment portfolio, banking' table in the 'How do we manage our risks?' section.

Credit cost ratio

Gives an idea of loan impairment charges recognised in the income statement for a specific period, relative to the total loan portfolio (see 'Loan portfolio' for definition). In the longer term, this ratio can provide an indication of the credit quality of the portfolio.

Calculation (in millions of EUR or %)	Reference	2016	2015
Net changes in impairment for credit risks (A)	'Consolidated income statement': component of 'Impairment'	126	323
/			
Average outstanding loan portfolio (B)	'Loan and investment portfolio, banking' table in the 'How do we manage our risks?' section	146 257	141 951
= (A) / (B)		0.09%	0.23%

Dividend payout ratio

Gives an idea of the extent to which KBC Group NV distributes its annual profit (and, therefore, also indirectly the extent to which profits are used to strengthen the capital reserves).

Calculation (in millions of EUR or %)	Reference	2016	2015
Amount of dividend to be distributed* (including any interim dividend) (A)	'Consolidated statement of changes in equity'	1 171	–
+			
Coupon to be paid/already paid on the additional tier-1 instruments included in equity (B)	'Consolidated statement of changes in equity'	52	
/			
Net result, group share (C)	'Consolidated income statement'	2 427	
= (A+B) / (C)		50%	–

* Subject to the approval of the General Meeting of Shareholders. Please note that no dividend was paid for 2015.

Impaired loans ratio

Indicates the proportion of impaired loans in the loan portfolio (see 'Loan portfolio' for definition) and, therefore, gives an idea of the creditworthiness of the portfolio. Impaired loans are loans where it is unlikely that the full contractual principal and interest will be repaid/paid. These loans have a KBC default status of PD 10, PD 11 or PD 12 and correspond to the new definition of 'non-performing' used by the European Banking Authority.

Calculation (in millions of EUR or %)	**Reference**	**2016**	**2015**
Amount outstanding of impaired loans (A)	'Loan and investment portfolio, banking' table in the 'How do we manage our risks?' section	10 583	12 305
/			
Total outstanding loan portfolio (B)	'Loan and investment portfolio, banking' table in the 'How do we manage our risks?' section	147 526	143 400
= (A) / (B)		7.2%	8.6%

Where appropriate, the numerator may be limited to impaired loans that are more than 90 days past due (PD 11 + PD 12). Relevant data is also given in the 'Loan and investment portfolio, banking' table in the 'How do we manage our risks?' section.

Leverage ratio

Gives an idea of the group's solvency, based on a simple non-risk-weighted ratio.

Calculation (in millions of EUR or %)	**Reference**	**2016**	**2015**
Regulatory available tier-1 capital (A)	'Solvency at group level' table in the 'How do we manage our capital?' section	15 286	14 647
/			
Total exposure measures (total of non-risk-weighted on and off-balance sheet items, with a number of adjustments) (B)	'Solvency at group level' table in the 'How do we manage our capital?' section	251 891	233 675
= (A) / (B)		6.1%	6.3%

Liquidity coverage ratio (LCR)

Gives an idea of the bank's liquidity position in the short term, more specifically the extent to which the group is able to overcome liquidity difficulties over a one-month period.

Calculation (in millions of EUR or %)	**Reference**	**2016**	**2015**
Stock of high-quality liquid assets (A)	Based on the European Commission's Delegated Act on LCR	65 400	47 300
/			
Total net cash outflows over the next 30 calendar days (B)		47 100	37 150
= (A) / (B)		139%	127%

Loan portfolio

Gives an idea of the magnitude of (what are mainly pure, traditional) lending activities.

Calculation (in millions of EUR)	**Reference**	**2016**	**2015**
Loans and advances to customers (related to the group's banking activities) (A)	Note 4.1, component of 'Loans and advances to customers'	131 415	126 812
-			
Reverse repos with customers (B)	Note 4.1	-376	-502
+			
Debt instruments issued by corporates and by credit institutions and investment firms (related to the group's banking activities) (C)	Note 4.1, component of 'Debt instruments issued by corporates and by credit institutions and investment firms'	7 114	7 118
+			
Loans and advances to credit institutions and investment firms (related to the group's banking activities, excluding dealing room activities) (D)	Note 4.1, component of 'Loans and advances to credit institutions and investment firms'	952	1 060
+			
Financial guarantees granted to clients (E)	Note 6.1, component of 'Financial guarantees given'	8 279	7 823
+			
Impairment on loans (F)	Note 4.2, component of 'Impairment'	5 094	5 623
+			
Other (including accrued interest) (G)	Component of Note 4.1	-4 952	-4 534
= (A)-(B)+(C)+(D)+(E)+(F)+(G)		147 526	143 400

Market capitalisation

Provides an indication of the stock market value of the KBC group.

Calculation (in EUR or quantity)	Reference	2016	2015
Closing price of KBC share (in EUR) (A)	–	58.8	57.7
X			
Number of ordinary shares (in millions) (B)	Note 5.10	418.4	418.1
= (A) X (B) (in billions of EUR)		24.6	24.1

Minimum requirement for own funds and eligible liabilities (MREL)

Indicates the extent to which a bank has sufficient own funds and eligible liabilities available for bail-in. MREL and bail-in are based on the principle that shareholders and debt-holders should bear losses first if a bank fails.

Calculation (in millions of EUR or %)	Reference	2016	2015
Detailed calculation under 'Solvency at group level' in the 'How do we manage our capital?' section		21.0%	18.3%

Net interest margin

Gives an idea of the net interest income of the banking activities (one of the most important sources of revenue for the group) relative to the average total interest-bearing assets of the banking activities.

Calculation (in millions of EUR or %)	Reference	2016	2015
Net interest income of the banking activities* (A)	'Consolidated income statement': component of 'Net interest income'	3 602	3 644
/			
Average interest-bearing assets of the banking activities* (B)	'Consolidated balance sheet': component of 'Total assets'	184 117	177 629
= (A) / (B) X 360/number of calendar days		1.92%	2.02%

* After elimination of all divestments and volatile short-term assets used for liquidity management purposes.

Net stable funding ratio (NSFR)

Gives an idea of the bank's structural liquidity position in the long term, more specifically the extent to which the group is able to overcome liquidity difficulties over a one-year period.

Calculation (in millions of EUR or %)	Reference	2016	2015
Available amount of stable funding (A)	'Basel III: the net stable funding ratio' (Basel Committee on Banking Supervision publication, October 2014)	144 150	135 400
/			
Required amount of stable funding (B)		114 950	111 800
= (A) / (B)		125%	121%

Parent shareholders' equity per share

Gives the carrying value of a KBC share, i.e. the value in euros represented by each share in the parent shareholders' equity of KBC.

Calculation (in millions of EUR or quantity)	Reference	2016	2015
Parent shareholders' equity (A)	'Consolidated balance sheet'	15 957	14 411
/			
Number of ordinary shares less treasury shares (in millions, at period-end) (B)	Note 5.10	418.4	418.1
= (A) / (B) (in EUR)		38.1	34.5

Return on allocated capital (ROAC) for a particular business unit

Gives an idea of the relative profitability of a business unit, more specifically the ratio of the net result to the capital allocated to the business unit.

Calculation (in millions of EUR or %)	**Reference**	**2016**	**2015**
BELGIUM BUSINESS UNIT			
Result after tax (including minority interests) of the business unit (A)	Note 2.2: Results by segment	1 433	1 565
/			
The average amount of capital allocated to the business unit is based on the risk-weighted assets for the banking activities (under Basel III) and risk-weighted asset equivalents for the insurance activities (under Solvency I or II*) (B)	'Our business units' section	6 092	5 955
= (A) / (B)		24%	26%
CZECH REPUBLIC BUSINESS UNIT			
Result after tax (including minority interests) of the business unit (A)	Note 2.2: Results by segment	596	542
/			
The average amount of capital allocated to the business unit is based on the risk-weighted assets for the banking activities (under Basel III) and risk-weighted asset equivalents for the insurance activities (under Solvency I or II*) (B)	'Our business units' section	1 455	1 474
= (A) / (B)		41%	37%
INTERNATIONAL MARKETS BUSINESS UNIT			
Result after tax (including minority interests) of the business unit (A)	Note 2.2: Results by segment	428	245
/			
The average amount of capital allocated to the business unit is based on the risk-weighted assets for the banking activities (under Basel III) and risk-weighted asset equivalents for the insurance activities (under Solvency I or II*) (B)	'Our business units' section	1 959	2 028
= (A) / (B)		22%	12%

* Solvency I for 2015 and Solvency II for 2016.

Return on equity

Gives an idea of the relative profitability of the group, more specifically the ratio of the net result to equity.

Calculation (in millions of EUR or %)	**Reference**	**2016**	**2015**
Result after tax, attributable to equity holders of the parent (A)	'Consolidated income statement'	2 427	2 639
-			
Coupon on the core-capital securities sold to the government (B)	'Consolidated statement of changes in equity'	–	-0
-			
Coupon on the additional tier-1 instruments included in equity (C)	'Consolidated statement of changes in equity'	-52	-52
/			
Average parent shareholders' equity, excluding the revaluation reserve for available-for-sale assets (D)	'Consolidated statement of changes in equity'	13 415	11 969
= (A-B-C) / (D)		18%	22%

Solvency ratio (insurance)

Measures the solvency of the insurance business, calculated under Solvency II (as of 2016).

Calculation	**2016**	**2015**
Detailed calculation under 'Solvency of KBC Bank and KBC Insurance separately' in the 'How do we manage our capital?' section	203%	231%

Total assets under management

Total assets under management (AuM) comprise third-party assets and KBC group assets managed by the group's various asset management companies (KBC Asset Management, ČSOB Asset Management, etc.), as well as assets under advisory management at KBC Bank. The assets, therefore, consist mainly of KBC investment funds and unit-linked insurance products, assets under discretionary and advisory management mandates of (mainly retail, private banking and institutional) clients, and certain group assets. The size and development of total AuM are major factors behind net fee and commission income (generating entry and management fees) and hence account for a large part of any change in this income line. In that respect, the AuM of a fund that is not sold directly to clients but is instead invested in by another fund or via a discretionary/advisory management portfolio, are also included in the total AuM figure, in view of the related work and any fee income linked to them.

Calculation (in billions of EUR)	**2016**	**2015**
Belgium Business Unit (A)	198.9	193.8
+		
Czech Republic Business Unit (B)	8.5	8.8
+		
International Markets Business Unit (C)	5.7	6.2
= (A)+(B)+(C)	213.1	208.8

Total capital ratio

A risk-weighted measure of the group's solvency, based on total regulatory capital (the ratio given here is based on the Danish compromise).

Calculation	**2016**	**2015**
Detailed calculation under 'Solvency at group level' in the 'How do we manage our capital?' section		
Phased-in	20.6%	19.8%
Fully loaded	20.0%	19.0%

Management certification

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

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Financial calendar for 2017

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

Publication of the Annual Report and the Risk Report for 2016	31 March 2017
General Meeting of Shareholders (agenda available at www.kbc.com)	4 May 2017
Earnings release for 1Q 2017	11 May 2017
Earnings release for 2Q 2017	10 August 2017
Earnings release for 3Q 2017	16 November 2017

Editor-in-chief: KBC Investor Relations Office, Havenlaan 2, 1080 Brussels, Belgium
Sub-editing, translation, concept and design: KBC Communication Division, Brusselsesteenweg 100, 3000 Leuven, Belgium
Printer: Van der Poorten, Diestsesteenweg 624, 3010 Leuven, Belgium
Publisher: KBC Group NV, Havenlaan 2, 1080 Brussels, Belgium
This annual report has been printed on paper that is not harmful to the environment.


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