Working together towards a sustainable future

KBC Solvency & Financial Condition Report 2016

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Management summary

1. Management summary

The Solvency & Financial Condition Report (SFCR) has to be published each year by all insurance undertakings and groups. It provides qualitative and quantitative information on the business and performance, the system of governance, the risk profile, the valuation for solvency purposes and capital management of the undertaking.

The report has a harmonised structure that is defined in Annex XX to the Solvency II Delegated Acts Regulation[1] and includes templates defined by the Implementing Regulation[2] that contain quantitative information (Quantitative Reporting Templates (QRTs)).

All amounts quoted in this report and in the tables are in millions of euros, unless otherwise stated. Since this is the first time that this report has been published in its current form, no comparison has been made with previous versions and references to 2015 figures are limited, since not all Solvency II-related data was available at the time.

Highlights in 2016

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

- ✓ The KBC Insurance group has a well-diversified – medium – risk profile, in line with the Risk Appetite Statement (RAS). It benefits from diversified activities that target retail, SME and mid-cap clients across multiple distribution channels.
- ✓ All of the material insurance entities are present in KBC's core markets (except for Ireland) and operate according to an integrated bank-insurance model. KBC Group Re is a captive reinsurer providing services out of Luxembourg. KBC Insurance Belgium accounts for about 90% of the KBC Insurance group's overall risk profile.
- ✓ The KBC Insurance group is strongly capitalised in terms of the level and quality of capital. The Solvency II ratio at 31 December 2016 amounted to 203% (including volatility adjustment).
- ✓ The consolidated result came to 334 million euros in a low interest rate environment.
- ✓ Earned premiums in non-life insurance went up by 7% to 1 428 million euros, with all entities recording an increase.
- ✓ Earned premiums in life insurance increased to 1 579 million euros (up 21%, excluding unit-linked products).
- ✓ The combined ratio came to a very favourable 93.2%.
- ✓ Our reviewed 'Three Lines of Defence' model continued to be implemented in 2016.
- ✓ The risk appetite for the different risk types was underpinned in 2016.

Disclosure policy

In line with its general communication policy, KBC aims to communicate openly with the market about its exposure to risk (see section 4 of this SFCR). Risk management information is therefore provided in a separate section of the 2016 Annual Report of KBC Group NV and – more extensively – in this publication.

The most important regulation governing risk and capital management is the Solvency II capital framework applying to insurance entities. Solvency I has been replaced by the fundamentally reformed Solvency II framework, which officially entered into force in January 2016.

Information is disclosed at the highest consolidated level. For more detailed information, please refer to the local capital disclosures of the entity concerned (for instance, those provided on their websites).

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[1] Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 (CDR EU 2015_35)
[2] Commission Implementing Regulation (EU) 2015/2452 of 2 December 2015 (CIR EU 2015-2452)

KBC ensures that a representative picture is given at all times in its disclosures. The scope of the reported information – which can differ according to the matter being dealt with – is clearly indicated.

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

In addition, the 2016 Solvency & Financial Condition Report was distributed to the Group Executive Committee, the Board of Directors, as well as to the Risk & Compliance Committee to ensure appropriate approval was obtained from the management body, as requested under Solvency II.

One-on-one comparison of figures presented in the annual report and figures presented in this report cannot always be made due to the different risk concepts used under IFRS and Solvency II. In order not to compromise on the readability of this document, relevant parts of the annual report have been reproduced here or, where relevant, clarification is given to explain the differences between the accounting values and the Solvency II values (section 5 of this SFCR).

This Solvency & Financial Condition Report is available in English on the KBC website and is updated on a yearly basis. KBC's next update is scheduled for the beginning of May 2018. Depending on market requirements, KBC may however decide to provide more frequent updates.

Business & performance

2. Business & performance

2.1. Business

2.1.1. Brief presentation of the KBC Insurance group at year-end 2016

Our area of operation

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

Main group companies

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

Our shareholders

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

Our clients, staff and network

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

Our long-term credit ratings (13 March 2017)

	Standard & Poor's
KBC Insurance NV	A-

Management

CEO	Johan Thijs
Chairman of the Board of Directors	Thomas Leysen

More information

Website	www.kbc.com

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

Our address

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Professor Roger van Overstraetenplein 2
3000 Leuven

Our supervisory authority

National Bank of Belgium
De Berlaimontlaan 14
1000 Brussels

Our external auditor

PWC Bedrijfsrevisoren
Woluwedal 18
1932 Sint-Stevens-Woluwe

2.1.2. Strategy & business model

KBC Insurance NV's strategy is embedded in the strategy of the KBC group, given that we are an integrated bank-insurance group. A summary is provided below of the strategy of the KBC group, where KBC Bank is essentially responsible for the banking business and KBC Insurance for the insurance business. For more detailed information, please see the KBC Group Annual Report for 2016.

How do we create value? (KBC Group)

In our capacity as a bank, we ensure that our clients can save and invest in a well-informed manner. In this way, every client can grow their assets in line 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 non-life claims-handling service, because that will always be the true litmus test of any policy. What's more, we use our knowledge of the causes of accidents to develop accident prevention campaigns and we have a long-standing tradition of working with organisations involved in road safety, welfare and victim assistance.

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

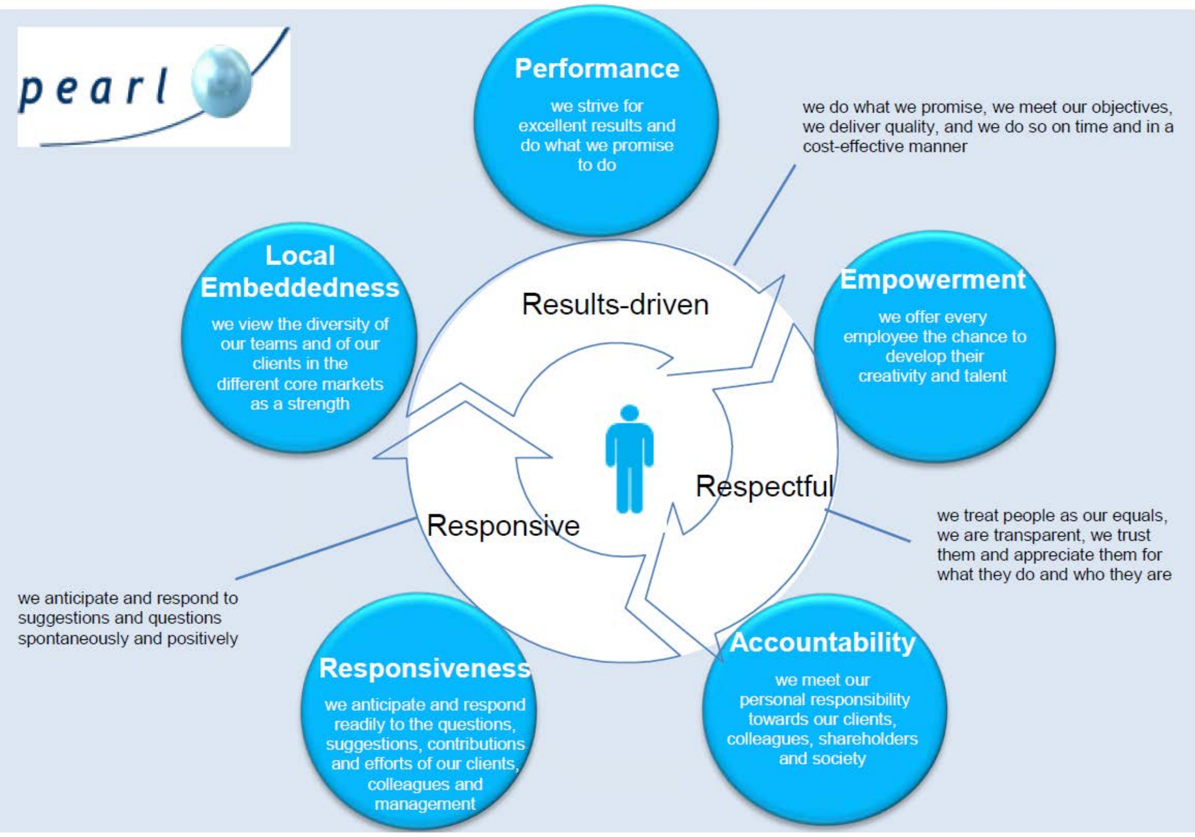
We make an important contribution to employment in all our core markets. We recognise that we have a significant direct impact on the lives of our people. Therefore, we offer them a fair reward for their work, thereby contributing to the welfare of the countries in which we operate. We also offer them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

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

What makes us who we are? (KBC Group)

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

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



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

What differentiates us from our peers?

Our integrated bank-insurance model

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

Our strong geographical focus

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

Our focus on *local responsiveness*

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

Our shareholder structure

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

Our strengths

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

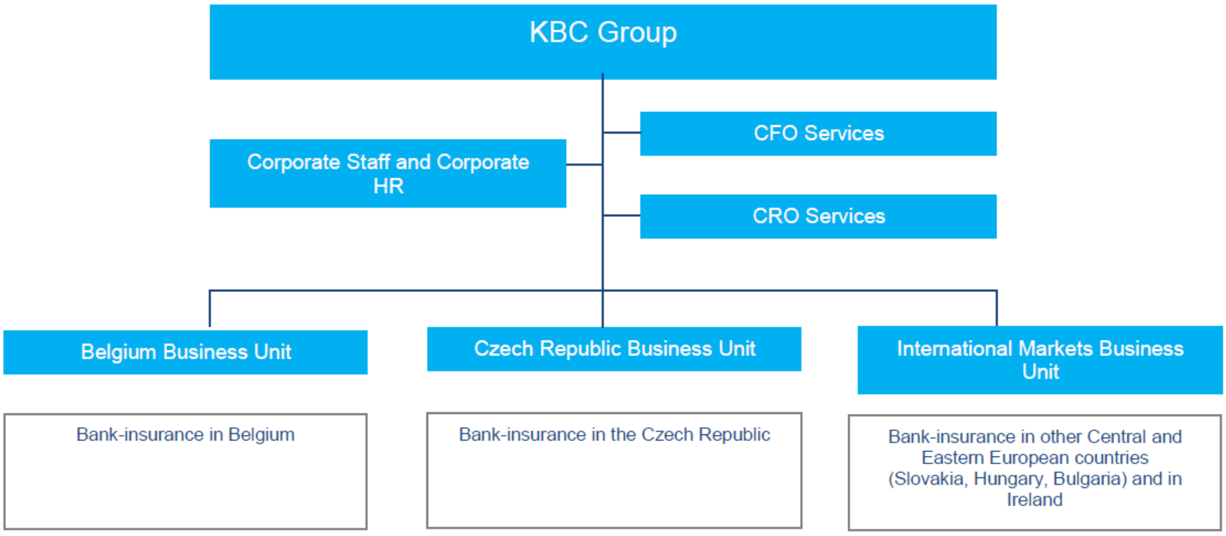
Our challenges

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

We have structured our group around three business units, which focus on local activities and contribute to sustainable earnings and growth. These units are Belgium, the Czech Republic and International Markets (see diagram below).

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.

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



In what environment do we operate? (KBC Group)

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

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

includes a thorough examination of the potential risks. We regularly review all our existing products as well, so that they can be adapted to take account of evolving client needs or changing market conditions.

- We pay particular attention to innovation and digitisation, and are investing significant amounts in that area. We have appointed a Chief Innovation Manager and have set up an Innovation Board, where the Chief Innovation Manager and the CEOs of the different countries can discuss the group's innovation plans, how projects are progressing and joint initiatives.
- We have launched numerous successful mobile and other innovative apps

Regulation

Increasing regulation is an issue for the financial sector as a whole. It includes rules like the Markets in Financial Instruments Directive, the Markets in Financial Instruments Regulation and the Insurance 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 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.

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

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

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

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

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

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

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

Our activities are only possible if we have a solid capital base. At year-end 2016, KBC Group's total equity came to 17.4 billion euros and chiefly comprised own share capital, share premiums, reserves and certain additional tier-1 instruments. Its capital was represented by 418.372.082 shares at year-end 2016, a small increase of 285.024 shares on the previous year, due to the customary capital increase reserved for staff in December. At year-end 2016, KBC Insurance's total equity was 2.9 billion euros. The KBC Insurance share is not traded on the stock market.

KBC Group is the sole shareholder of KBC Insurance. KBC Group shares are held by a large number of shareholders in a number of countries. A group of shareholders consisting of MRBB, Cera, KBC Ancora and the other core shareholders, constitute KBC Group’s core shareholders. A shareholder agreement was concluded between these core shareholders in order to ensure shareholder stability and guarantee continuity within the group, as well as to support and co-ordinate its general policy. To this end, the core shareholders act in concert at the General Meeting of KBC Group and are represented on its Board of Directors. The current agreement applies for a ten-year period with effect from 1 December 2014. According to the most recent notifications, the core shareholders own approximately 40% of the KBC Group shares between them.

Alongside staff and capital, our network and relationships are especially important to our activities. An overview of our network can be found under ‘2.1.3. 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 in the ‘Our role in society’ section.

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

Our strategy rests on four principles:

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

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

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

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

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

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

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

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

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

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

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

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

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

We have developed a unique bank-insurance co-operation concept within our group, the roll-out of which varies from one market to another.

We are furthest advanced in this area in Belgium, where our bank-insurance business already operates as a single unit that is achieving both commercial and non-commercial synergies. An important feature of our model in Belgium is the unique co-operation between our bank branches and insurance agencies in micro markets. The branches sell bank and standard insurance products, and refer clients to the insurance agency in the same micro market for other insurance products. The insurance agencies sell the full range of insurance products and handle all claims, including those relating to policies taken out at a bank branch.

We have not yet gone so far as in Belgium in our other core countries, but we want to create an integrated distribution model as swiftly as possible, which will allow commercial synergies.

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

We took initiatives in all our markets to further optimise our bank-insurance model.

We focus on sustainable and profitable growth (KBC Group)

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

Stringent risk management in everything we do is an absolute precondition in terms of guaranteeing sustainability. Sustainable and long-term thinking also means concentrating on the local economies of the core markets in which we operate and that we invest only to a very limited extent in projects outside these markets.

We view our presence in our core countries as a long-term commitment. We want to consolidate our presence there by means of organic growth or attractive acquisitions, in line with clear and rigorous strategic and financial criteria. The acquisition of United Bulgarian Bank and Interlease in Bulgaria, which was announced at the end of 2016, is perfectly aligned with this strategy. 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.

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

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

Focus on responsible and ethical behaviour

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

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

Aiming to enhance our positive impact on society

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

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

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

Limiting any negative impact we might have on society

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

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

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 below.

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

2016 (KBC Group)

637 thousand GJ
of electricity used

354 thousand GJ
of gas and heating oil used

321 million
km in commuter and business travel

3 857 tonnes
of paper used

93 thousand tonnes
of CO_2e emissions

Important new and updated KBC sustainability policies	
Blacklist of companies and activities	We place businesses on this list that are involved with controversial weapons systems or which commit serious breaches of UN Global Compact Principles. No entity belonging to our group is permitted to do business with such enterprises.
Human rights	We have updated our human rights policy to bring us in line with the UN Guiding Principles on Business and Human Rights and UN Global Compact Principles.
Controversial regimes	We do not wish to be involved in financial activities with controversial regimes that fundamentally violate human rights and lack any form of good governance, rule of law or economic freedom. We do,

	however, make an exception for humanitarian goods. Based on reputable external sources, we decide each year what countries are to be included on our list of controversial regimes.
Energy	We want to contribute to a low-carbon society in a number of ways, including by increasing the share of renewable energy sources in our total lending to the energy sector to at least 50% by 2030 at the latest, ceasing to fund new coal-fired power generation and coal mining (except for local coal-fired power generation and coal mining in the Czech Republic, though under strict conditions), and imposing extremely stringent conditions on the funding of nuclear power generation.
Arms-related activities	We are very reluctant to fund any kind of arms-related activities. Even though the arms industry plays a role in security, we only provide funding to companies that meet strict conditions.
Project finance	We do not provide financing or advisory services to projects where the client does not comply with the Equator Principles.
Other socially sensitive sectors	We have imposed restrictions on other socially sensitive sectors such as narcotic crops, gambling, fur, palm oil production, mining, deforestation, land acquisition and involuntarily resettlement of indigenous populations, and prostitution.

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

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

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

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

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

Sector-specific risks	How are we addressing them?
Credit risk The potential negative deviation from the expected value of a financial instrument caused by default on the part of a party to a contract, due to the inability or unwillingness of that party to pay or perform, or due to particular situations or measures on the part of political or monetary authorities in a particular country.	• Existence of a robust management framework • Recording impairment charges, taking risk-mitigating measures, optimising the overall credit risk profile, etc.
Market risk in trading activities The potential negative deviation from the expected value of a financial instrument caused by fluctuations in interest rates, exchange rates, and share or commodity prices.	• Existence of a robust management framework • Historical VaR method, duration, ‘greeks’ for products with options, stress tests, etc.

Operational and other non-financial risks	
Operational risk is the risk of loss resulting from inadequate or failed internal processes and (ICT) systems, human error or sudden external events, whether man-made or natural. Other non-financial risks include reputational risk, business risk and strategic risks.	• Existence of a robust management framework • Group key controls, risk scans, Key Risk Indicators (KRIs), etc.
Market risk in non-trading activities	
Structural market risks, such as interest risk, equity risk, real estate risk, currency risk and inflation risk. Structural risks are risks inherent to the commercial activity or long-term positions.	• Existence of a robust management framework • Basis Point Value (BPV), nominal amounts, limit tracking for crucial indicators, etc.
Liquidity risk	
The risk that KBC will be unable to meet its payment obligations as they come due, without incurring unacceptable losses.	• Existence of a robust management framework • Liquidity stress tests, management of funding structure, etc.
Technical insurance risks	
Risks stemming from uncertainty as to how often insured events will occur and how extensive they will be.	• Existence of a robust management framework • Underwriting, pricing, claims reserving, reinsurance and claims handling policies, etc.
Solvency risk	
Risk that the capital base will fall below an acceptable level.	• Existence of a robust management framework • Minimum solvency ratios, active capital management, etc.

2.1.3. Market conditions in our most important countries in 2016

A summary of our market position and the economic context of our most important countries are given below. More information on the 'undertakings in scope of the Group' can be found in Quantitative Reporting Template (QRT) S.32.01.22.

Belgium

Market environment

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

KBC Insurance in Belgium

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

Czech Republic

Market environment

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

KBC Insurance in the Czech Republic

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

Slovakia

Market environment

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

KBC Insurance in Slovakia

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

Hungary

Market environment

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

KBC Insurance in Hungary

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

Bulgaria

Market environment

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

KBC Insurance in Bulgaria:

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

2.2. Consolidated income statement

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

in millions of EUR	2016	2015	Change in amount	Change in %
Net interest income	614	636	-21	-3%
Interest income	654	660	-6	-1%
Interest expense	-39	-24	-15	65%
Non-life insurance before reinsurance	641	626	16	2%
Earned premiums Non-life	1.428	1.338	90	7%
Technical charges Non-life	-787	-713	-74	10%
Life insurance before reinsurance	-153	-202	49	-24%
Earned premiums Life	1.579	1.303	276	21%
Technical charges Life	-1.731	-1.505	-227	15%
Ceded reinsurance result	-38	-29	-9	32%
Dividend income	66	71	-5	-7%
Net result from financial instruments at fair value through profit or loss	-10	-9	-1	6%
Net realised result from available-for-sale assets	56	108	-51	-48%
Net fee and commission income	-301	-262	-39	15%
Fee and commission income	126	164	-38	-23%
Fee and commission expense	-427	-426	0	0%
Net other income	101	77	25	32%
TOTAL INCOME	978	1.014	-37	-4%
Operating expenses	-457	-428	-29	7%
Staff expenses	-224	-213	-12	5%
General administrative expenses	-217	-200	-17	8%
Depreciation and amortisation of fixed assets	-16	-16	0	2%
Impairments	-55	-69	14	-20%
on loans and receivables	0	0	0	-
on available-for-sale-assets	-55	-34	-20	59%
on goodwill	0	-34	34	-100%
on other	-1	-1	0	-12%
Share in results of associated companies and joint ventures	4	3	1	28%
RESULT BEFORE TAX	469	520	-51	-10%
Income tax expense	-135	-148	13	-9%
RESULT AFTER TAX	334	372	-38	-10%
Attributable to minority interest	0	0	0	-28%
Attributable to equity holders of the parent	**334**	**372**	**-38**	**-10%**

The consolidated result of the KBC Insurance group came to 334 million euros in 2016, as opposed to a year-earlier figure of 372 million euros. This decline of -38 million euros came about primarily because of the lower net realised result from available-for-sale assets, higher operating expenses and lower level of net income, partly offset by higher earned premiums in the non-life segment, and a lower level of impairment (more details are provided in ‘2.3. Underwriting performance’ and ‘2.4. Investment performance’).

2.3. Underwriting performance

Although insurance underwriting is not performed at group level, the KBC Group control functions nevertheless play an important role as regards underwriting performance. More specifically, the KBC Group Risk Management function and the Actuarial function closely monitor the underwriting rules and underwriting performance, or the profitability calculations that are performed for all the insurance and reinsurance entities.

Adequate procedures are in place to ensure that the quality of underwriting is high and overall profitability sound, within the prescribed retention limits and in line with the group and local risk appetite:

- ✓ The Risk Appetite Statement describes the level of risk that can be accepted for each risk type, defines the risk limits and how this is to be translated into business operations.
- ✓ A limits framework defines the maximum exposures that can be borne by the group and, based on those limits, more detailed ones are specified for the local entities. This limits framework is reviewed on a yearly basis. Compliance checks are conducted annually to see whether these retention limits are adhered to.
- ✓ A uniform, group-wide 'New and Active Product Process' (NAPP) screens and formally decides on each product before it can be launched in the market.
- ✓ The performance indicators and adequacy of the technical provisions are constantly monitored.

Overall, as seen in the consolidated income statement (see section 2.2.):

- ✓ **Earned premiums in non-life insurance** went up by 7% to 1 428 million euros, with all entities recording an increase:
    - o **Earned premiums** grew by 5% in Belgium, by 8% in the Czech Republic, and by 17% in the three other Central and Eastern European markets combined. The increase was recorded primarily in (both third-party and comprehensive) 'car insurance' and in 'fire insurance' and 'general third-party liability'. These classes of insurance, along with 'accident' and 'health', accounted for 85% of earned non-life premiums.
    - o **Technical charges** were 10% higher than in 2015, due mainly to the absence of natural disasters in 2015, whereas 2016 was affected by a number of storms and floods, and by claims following the Brussels terrorist attacks in March. As regards these attacks, KBC Insurance's share of the total market loss (via TRIP) came to 16.5 million euros.
- ✓ **Earned premiums in life insurance** amounted to 1 579 million euros in 2016, which is a significant increase of 21% on the year-earlier figure. However, in compliance with IFRS, certain types of life insurance (i.e. unit-linked products) have been excluded from this figure. If the premium income from such products is included, premium income from the life insurance business totalled over 2.1 billion euros, 18% higher than in 2015. Interest generated by both guaranteed-rate products and unit-linked products rose, thanks in part to commercial campaigns and the relative attractiveness of the interest rate for guaranteed-rate products.
    - o Sales of life insurance (including unit-linked products) were up 18% year-on-year, with increases in Belgium (+21%) and the Czech Republic (+12%). Both countries returned higher sales of unit-linked products, and Belgium also sold substantially more single premium, guaranteed-rate products. The other Central and Eastern European markets equalled their volumes of premium income for 2015. Overall, products offering guaranteed rates accounted for just over 60% of premium income from the life insurance business in 2016, and unit-linked products for almost 40%.
- ✓ The **ceded reinsurance result** was not enough to offset the higher total level of claims incurred in 2016. This resulted in what is still a very favourable **combined ratio** of 93.2% (as opposed to 91.0% for financial year 2015).
- ✓ **Operating expenses** were up 7% on their 2015 level, due to the increase in staff expenses and general administrative expenses (including a one-off outlay for early retirement in Belgium, higher KBC Group-related charges and higher marketing costs).

More information on the 'underwriting performance of the Group' can be found in the Quantitative Reporting Templates:

- ✓ S.05.01.02 – Premiums, claims and expenses by line of business
- ✓ S.05.02.01 – Premiums, claims and expenses by country

Because of classification differences between IFRS and Solvency II, QRTs S.05.01.02 and S.05.02.01 differ slightly from the figures relating to earned premiums in the table above.

2.4. Investment performance

The table below gives an overview of the technical accounts for 2016 and 2015:

in millions of EUR	Life	Non-life	Non-technical account	TOTAL
2016				
Earned premiums, insurance (before reinsurance)	1.579	1.428	0	3.007
Technical charges, insurance (before reinsurance)	-1.731	-787	0	-2.519
Net fee and commission income	-29	-272	0	-301
Ceded reinsurance result	-1	-37	0	-38
Operating expenses	-132	-239	-3	-374
Internal costs claim paid	-8	-54	0	-62
Administration costs related to acquisitions	-32	-80	0	-112
Administration costs	-92	-105	0	-197
Management costst investments	0	0	-3	-3
Technical result	-315	94	-3	-224
Net interest income			614	614
Dividend income			66	66
Net result from financial instruments at fair value			-10	-10
Net realised result from AFS assets			56	56
Net other income			18	18
Impairments			-55	-55
Allocation to the technical accounts	578	73	-651	0
Technical-financial result	263	167	35	465
Share in results of associated companies and joint ventures			4	4
RESULT BEFORE TAX	263	167	39	469
Income tax expense				-135
RESULT AFTER TAX				334
Attributable to minority interest				0
Attributable to equity holders of the parent				334
2015				
Earned premiums, insurance (before reinsurance)	1.303	1.338	0	2.642
Technical charges, insurance (before reinsurance)	-1.505	-713	0	-2.218
Net fee and commission income	-15	-247	0	-262
Ceded reinsurance result	-2	-27	0	-29
Operating expenses	-116	-227	-3	-346
Internal costs claim paid	-7	-53	0	-60
Administration costs related to acquisitions	-29	-77	0	-107
Administration costs	-80	-96	0	-176
Management costst investments	0	0	-3	-3
Technical result	-334	125	-3	-212
Net interest income			636	636
Dividend income			71	71
Net result from financial instruments at fair value			-9	-9
Net realised result from AFS assets			108	108
Net other income			-6	-6
Impairments			-69	-69
Allocation to the technical accounts	593	103	-696	0
Technical-financial result	259	228	31	517
Share in results of associated companies and joint ventures			3	3
RESULT BEFORE TAX	259	228	34	520
Income tax expense				-148
RESULT AFTER TAX				372
Attributable to minority interest				0
Attributable to equity holders of the parent				372

1. *The figures relating to earned premiums do not include investment contracts without DPF, which largely correspond to unit-linked contracts. The margin on these products is included in the net fee and commission income.*
2. *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.*

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

More information on net interest income and net realised result from available-for-sale assets can be found in the tables below.

Net interest income

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

Net realised result from available-for-sale assets

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

2.5. Performance of other activities

No other activities are material enough to be included in this SFCR Report.

System of governance

3. System of governance

3.1. Governance of the KBC Insurance group

3.1.1. Main insurance companies of the KBC Insurance group

The main entities of the KBC Insurance group are:

- ✓ KBC Insurance NV (Belgium) and
- ✓ Its subsidiaries:
    - o ČSOB Pojišťovna a.s. (Czech Republic)
    - o ČSOB Poisťovňa a.s. (Slovak Republic)
    - o K&H Insurance Zrt. (Hungary)
    - o DZI Life Insurance Jsc (including DZI General Insurance Jsc) (Bulgaria)
    - o KBC Group Re (Luxembourg)

The activities of the main entities of the KBC Insurance group are organised by business units:

- ✓ the Belgian activities of KBC Insurance NV are included under the Belgium Business Unit and organised in the KBC Insurance Products Directorate
- ✓ ČSOB Pojišťovna a.s. is part of the Czech Republic Business Unit
- ✓ ČSOB Poisťovňa a.s., K&H Insurance Zrt., DZI Life Insurance Jsc (including DZI General Insurance Jsc) are part of the International Markets Business Unit

3.1.2. Shareholder structure and corporate bodies of KBC Insurance NV and governance of the Belgian activities of KBC Insurance NV

3.1.2.1. Shareholder structure

The shareholder structure of KBC Insurance NV is:

Shareholders	Number of shares	Percentage
KBC Group	1.002.016	95,3%
KBC Bank	1	0,0%
KBC Insurance	48.889	4,7%
Total	**1.050.906**	**100,0%**

The transactions with these and other related parties can be found in Annexes 9.1. and 9.2.

3.1.2.2. Corporate bodies of KBC Insurance NV

KBC Insurance is managed according to a dual model, which draws a distinction between:

- ✓ The 'Board of Directors' (BoD), which has the task of setting strategy and supervising operational management.
- ✓ The 'Executive Committee' (ExCo), which is responsible for the operational management of the company.

The tasks and functioning of the Board of Directors and the Executive Committee are described in the *Corporate Governance Charter of KBC Insurance NV* (sections 5 and 7). Reference is made several times to this Charter, the full version of which can be found at www.kbc.com.

The Board of Directors is assisted by the following advisory committees:

- ✓ The Audit Committee
- ✓ The Risk & Compliance Committee
- ✓ The Remuneration Committee of KBC Group NV
- ✓ The Nomination Committee of KBC Group NV

The tasks and functioning of Audit Committee and the Risk & Compliance Committee of KBC Insurance NV are described in the *Corporate Governance Charter of KBC Insurance NV* (section 6). It contains the tasks and the rules of procedure for the Remuneration Committee and the Nomination Committee (sections 6.4 and 6.5):

- ✓ While it is legally not recommended for an insurance company to establish a nomination committee, the KBC group decided to establish such a committee at the level of KBC Group NV, which would also operate as a nomination committee for KBC Insurance NV.
- ✓ The Remuneration Committee of KBC Group NV (mixed financial holding company and parent of KBC Insurance NV) operates as the remuneration committee of KBC Insurance NV.

3.1.2.3. Governance of the Belgian activities of KBC Insurance NV (KBC Insurance Products BE)

Management Committees at the level of the Belgium Business Unit

The insurance activities of KBC Insurance NV are included under the Belgium Business Unit. The following management committees have been set up at the level of this business unit:

- ✓ The Belgium Business Unit Management Committee, which is responsible for designing and proposing strategy and for managing its execution in the Belgium Business Unit (BU), implementing the strategy of KBC Group NV and KBC Insurance NV, and, given KBC's bank-insurance strategy, also of KBC Bank NV.
- ✓ The Risk, ALM & Capital Committee, which is dedicated to risk topics (covering all risk types).
- ✓ The Insurance ALM Committee, which supports management in respect of asset/liability insurance matters.

The Senior General Manager responsible for the insurance activities of the Belgium Business Unit is a member of these committees.

The Belgium Business Unit reports on its strategy, activities and results to the Executive Committee and to the Board of Directors of both KBC Group NV and KBC Insurance NV.

Management Committees at the level of Insurance Products Belgium

The activities of KBC Insurance Products BE are part of the Insurance Products BE Directorate, headed up by a Senior General Manager. This directorate has its own management committees to steer the activities, including:

- ✓ The Insurance Products Management Committee, which manages the KBC Insurance Products Directorate as a whole. It develops the overall strategy of KBC Insurance Products, implements the strategy of KBC Group NV, KBC Insurance and the Belgium Business Unit. It monitors the business and is responsible for risk management.
- ✓ The Insurance Products Risk Management Committee, which monitors Solvency II issues.
- ✓ Life insurance activities are managed by following committees: a New & Active Product Process Committee, a Risk Management Committee and an Operational Management Committee.
- ✓ Non-life insurance activities are managed by the following committees: a New & Active Product Process Committee, a Risk Management Committee and an Operational Management Committee.

Reporting by the control functions

The risk function, the compliance function and the actuarial function (known as the second line of defence) and the audit function (known as the third line of defence) report their findings on the activities of KBC Insurance Products BE to:

- ✓ The management of KBC Insurance Products BE
- ✓ The Executive Committee of KBC Insurance NV
- ✓ The Audit Committee, the Risk & Compliance Committee and the Board of Directors of both KBC Group NV and KBC Insurance NV

3.1.3. Governance & corporate bodies of the foreign subsidiaries of the KBC Insurance group

3.1.3.1. Corporate bodies of the foreign subsidiaries

The subsidiaries of the KBC Insurance group – ČSOB Pojišťovna, a.s. (Czech Republic), ČSOB Poisťovňa a.s. (Slovakia), K&H Insurance Zrt. and DZI Life Insurance Jsc (including DZI General Insurance Jsc) – are autonomous legal entities. Each one is:

- ✓ Managed on a day-to-day basis by an executive body.
- ✓ Supervised by a supervisory body and its advisory committees, in particular an Audit, Risk & Compliance Committee and a Remuneration Committee. In the Czech Republic, the Audit Committee is a statutory body.

They develop their strategy and activities within the strategy of the country in which they are active. This country strategy is drawn up in line with the strategy of KBC Group NV and KBC Insurance. They report on their strategy, activities and results to:

- ✓ The CEO of their country and the respective business units.
- ✓ The Executive Committee and Board of Directors of KBC Insurance and KBC Group NV.

Mechanisms are in place to ensure that the insurance companies are integrated within their business unit, the KBC Insurance group and the KBC group, that they cooperate and that their activities are monitored.

3.1.3.2. ČSOB Pojišt'ovna a.s –Czech Republic Business Unit

Representatives of the shareholders in ČSOB Pojišt'ovna, a.s

KBC Insurance NV, the sole shareholder of ČSOB Pojišt'ovna a.s, has one representative on the Supervisory Body and one on the Nomination & Remuneration Committee. This representative, a Senior General Manager, heads up the Insurance Core Communities Division, which manages the transnational insurance communities (Belgium, the Czech Republic and the countries belonging to the International Markets Business Unit).

ČSOB Bank has two representatives on the Supervisory Board, one on the Nomination & Remuneration Committee and one on the Audit Committee. The representatives of ČSOB Bank on the Supervisory Board foster cooperation between ČSOB Bank and the insurance company, in particular by aligning their respective strategies.

Management committees of the insurance company

ČSOB Pojišt'ovna a.s has the following management committees to assist its executive body:

- ✓ New & Active Product Process Committee
- ✓ Investment Committee
- ✓ Local Risk & Capital Oversight Committee
- ✓ Reserving and Parameter Committee

Reporting by the control functions

The local risk function, compliance function and actuarial function (known as the second line of defence), and the local audit function (known as the third line of defence) report their findings on the activities of ČSOB Pojišt'ovna a.s. to:

- ✓ The Board of Directors of the insurance company
- ✓ The Audit Committee of the insurance company

Group Risk, Group Compliance and the Group Actuarial Function Holder (at the level of the KBC insurance group and the KBC group) report their findings to:

- ✓ The Executive Committee of KBC Insurance NV and KBC Group NV
- ✓ The Audit Committee, the Risk & Compliance Committee and the Board of Directors of KBC Insurance NV and KBC Group NV

3.1.3.3. *ČSOB Poist'ovňa a.s. (Slovakia), K&H Insurance Zrt. (Hungary) and DZI Life Insurance Jsc (including DZI General Insurance Jsc) (Bulgaria) – International Markets Business Unit*

Representation of KBC Insurance NV

KBC Insurance NV, the sole shareholder of ČSOB Poist'ovňa a.s., has one representative on the Supervisory Board. This representative, a Senior General Manager, heads up the Insurance Core Communities Division, which manages the transnational insurance communities (Belgium, Czech Republic and the countries belonging to the BU International Markets).

It has two representatives on the Remuneration Committee: the CEO of the International Markets Business Unit and the Senior General Manager in charge of the Insurance Core Communities Division.

It has one representative on the Audit, Risk & Compliance Committee, i.e. the Senior General Manager in charge of the Insurance Core Communities Division.

KBC Insurance NV, the sole shareholder of K&H Insurance Zrt., has two representatives on the Supervisory Board, the Remuneration Committee and the Audit, Risk & Compliance Committee: the CEO of the International Markets Business Unit and the Senior General Manager in charge of the Insurance Core Communities Division. The CEO of K&H Bank is also a member of the Supervisory Board and the Audit, Risk & Compliance Committee.

KBC Insurance NV, the sole shareholder of DZI Life Insurance Jsc, has two representatives on the Supervisory Board, the Remuneration Committee and the Audit, Risk & Compliance Committee: the CEO of the International Markets Business Unit and the Senior General Manager in charge of the Insurance Core Communities Division. The CEO of CIBANK is also a member of the Remuneration Committee. They have the same mandates in DZI General Insurance Jsc (DZI Life Insurance Jsc being sole shareholder of this company).

Management committees of the insurance subsidiaries

The insurance subsidiaries have their own management committees, which assist their respective executive bodies. These committees consist of:

- ✓ New & Active Product Process committees
- ✓ Investment committees
- ✓ Local Risk & Capital Oversight committees. In Hungary, this committee is organised at country level; in Slovakia, this role is performed by the Country Team

Reporting by the control functions

The local risk function, compliance function and actuarial function (known as the second line of defence) and the local audit function (known as the third line of defence) report their findings on the activities to:

- ✓ The management of the insurance subsidiary
- ✓ The Audit, Risk & Compliance Committee (ARCC) of the insurance subsidiary

Group Risk, Group Compliance and the Group Actuarial Function Holder (at the level of the KBC insurance group and the KBC group) report their findings to:

- ✓ The Executive Committee of KBC Insurance NV and KBC Group NV
- ✓ The Audit Committee, the Risk & Compliance Committee and the Board of Directors of KBC Insurance NV and KBC Group NV

Management committees at country level

A Country Team is established in every country to, *inter alia*, foster cooperation between the bank and the insurance companies. Each Country Team operates as an advisory body and discusses strategic topics relevant to the entities in each specific country. In addition, it discusses and challenges financial plans and monitors performance.

The International Markets Management Committee

At the level of the International Markets Business Unit, the International Markets Management Committee (IM MC) fosters and performs knowledge sharing within and outside the International Markets Business Unit, stimulates and engages in strategic thinking, advises on and prepares topics for decision at local or group level and increases risk awareness in order to support local management (in Slovakia, Hungary, Bulgaria and Ireland) in realising and optimising their contribution to the KBC group's results.

Given the bank-insurance strategy of the KBC group, the IM MC covers both the banking and insurance activities. It consists of

- ✓ The CEO of the International Markets Business Unit
- ✓ The Country Managers of Slovakia, Hungary and Bulgaria
- ✓ The CEO of KBC Ireland
- ✓ The Senior General Managers of the Bank and Insurance Core Communities

The decisions and recommendations of the IM MC must be formally approved by the respective executive bodies and – where necessary – by the relevant supervisory bodies.

The Insurance Core Communities Division

Within KBC's operational management structure, the Insurance Core Communities Division falls under the International Markets Business Unit.

Together with the CEO of the International Markets Business Unit, this division represents KBC Insurance on the various Supervisory Bodies and Audit, Risk & Compliance Committees of all insurance entities (except KBC Insurance) (see above). It supports the CEO of the International Markets Business Unit and manages cooperation between KBC's insurance entities via the transnational insurance communities (all countries, including the Czech Republic and Belgium).

Overview of the legal and operational structure

1. KBC Group level

- KBC Insurance Board of Directors
- KBC Insurance Audit Committee
- KBC Insurance Risk & Compliance Committee
- KBC Group Nomination Committee
- KBC Group Remuneration Committee
- KBC Insurance Executive Committee
- Group Insurance Committee
- Group Lending Committee
- Group Internal Control Committee
- Asset Liability Committee (ALCO)

2. Business Unit level

CSOB P CZ	CSOB P SK	K&H Ins	DZI Ins	KBC Ins
CZ BU Management Committee	International Markets BU Management Committee			Belgium BU Management Committee
				Belgium BU Risk, ALM & Capital Committee (RACC)

3. Legal structure

CSOB P CZ	CSOB P SK	K&H Ins	DZI Ins	KBC Ins
General Meeting	General Meeting	Founder	General Meeting / Single Owner of Capital (SOC)	Cf. KBC Group level
Supervisory Board	Supervisory Board	Definitive Supervisory Board	Supervisory Board	
Audit Committee	Audit, Risk & Compliance Committee	Audit, Risk & Compliance Committee	Audit, Risk & Compliance Committee	
Nomination & Remuneration Committee	Nomination & Remuneration Committee	Nomination & Remuneration Committee	Nomination & Remuneration Committee	
Board of Directors	Board of Directors	Board of Directors	Management Board	

4. Management structure

Committees within Insurance entity

CSOB P CZ	CSOB P SK	K&H Ins	DZI Ins	KBC Ins
NAPP	NAPP	NAPP	NAPP	Insurance Products Management Committee
Investment Committee	Investment Committee	Investment Council	Investment Committee	Insurance Products Risk Management Committee
Local Risk & Capital Oversight Committee			Local Risk & Capital Oversight Committee	Insurance ALM Committee
				Non-Life Insurance NAPP Committee
				Non-Life Insurance Risk Management Committee
				Non-Life Insurance Operational Management Committee
				Life Insurance NAPP Committee
				Life Insurance Risk Management Committee
				Life Insurance Operational Management Committee

Committees at Country level

CSOB P CZ	CSOB P SK	K&H Ins	DZI Ins	KBC Ins
	Country team	Country team	Country team	
		Local Risk & Capital Oversight Committee		

5. Insurance Core Communities & Support International Markets BU

- Insurance Core Communities Division

3.1.4. Remuneration

Introduced in 2010, the KBC Remuneration Policy defines general remuneration guidelines for all staff and specific remuneration guidelines for those employees who could have a material impact on the risk profile of the company, also known as 'Key Identified Staff'. Continuously changing legislation for financial institutions means that the KBC Remuneration Policy is amended each year. For additional details and background information on the remuneration policy, please see the 'Remuneration report for financial year 2016' section of the KBC Group Annual Report for 2016, which is available at www.kbc.com.

The Compensation Report, on the other hand, provides information on the principles governing remuneration at KBC group level and discloses remuneration figures for financial year 2016 based on European and national legislation. This report is also available at www.kbc.com.

3.1.5. Fit & proper policy

Separate policies were approved by the Board of Directors of KBC Group NV, KBC Bank NV and KBC Insurance NV for:

- ✓ The Board of Directors
- ✓ The Executive Committee
- ✓ The persons in charge of independent control functions, i.e. 'Key Function Holders'

The Fit & Proper Policy for the non-executive directors of KBC Group NV, KBC Bank and KBC Insurance include the following requirements:

- ✓ The Board of Directors must have sufficient expertise in the banking and insurance activities developed within the KBC group.
- ✓ The directors must have the capability to understand and critically assess the strategy, the strategic planning, the effectiveness of the steps taken to create effective governance, oversight and controls, and the risk reports presented by the Executive Committee.
- ✓ The directors who are appointed to an advisory committee (Audit Committee, Risk & Compliance Committee, Nomination Committee and Remuneration Committee) must have expertise that is relevant to the activities of the committee concerned.
- ✓ All directors, whether executive, independent or otherwise, must have sufficient capacity to make independent judgment.

The Fit & Proper Policy for the members of the Executive Committee of KBC Group NV, KBC Bank and KBC Insurance includes the following requirements:

- ✓ The Executive Committee (ExCo) must have a deep knowledge of the financial industry and of the banking and insurance activities developed within the KBC group.
- ✓ ExCo members must have the knowledge and experience to lead the KBC group and must possess strategic insight and adequate knowledge and experience relating to finance, risk management, internal control, information management, organisation and regulatory issues.
- ✓ ExCo members must have leadership skills in line with the KBC leadership model.
- ✓ ExCo members must have sufficient capacity to make independent judgment.
- ✓ ExCo members practise the values of the KBC group.

The process involves the following steps:

- ✓ The Nomination Committee discusses, assesses and advises the Board of Directors regarding the composition of the Board, its advisory committees and the composition of the Executive Committee.
- ✓ It discusses and proposes to the Board the required profile of new directors.
- ✓ It assesses the candidates.
- ✓ It assesses the fitness and propriety of the directors (in case of re-appointment) or of the candidate directors (in case of appointment) taking into account the regulatory requirements and the requirements referred to in the aforementioned policies. It conducts this assessment based on the files which are prepared for submission to the supervisory body. It presents its advice to the Board of Directors.

The Fit & Proper Policy for the Key Function Holders of KBC Group NV, KBC Bank and KBC Insurance includes the following requirements:

- ✓ The Key Function Holder must have the appropriate knowledge and experience for the corresponding position and with respect to the applicable legal framework and the direction of the institution, through education and training (diploma/on the job) or relevant work experience (in principle, three to five years is advisable).
- ✓ The Key Function Holder must act professionally and have sufficient guarantees to perform the job in a conscientious and independent manner, with specific attention being paid to independence (conflict of interests) and pastimes.
- ✓ The Key Function Holder must have specific competences, such as being client-centric and quality-focused, risk-minded, able to lead, loyal and stress-resistant.
- ✓ The Key Function Holder must be able to perform the job in an honest, dedicated, independent, ethical manner and with integrity.
- ✓ The Key Function Holder may not have been the subject of any of the listed forbidden convictions, or of criminal, civil or administrative convictions / disciplinary actions / penalty procedures / arrangements or settlements inappropriate to the standard of reliability that the person is required to meet.
- ✓ The Actuarial Function Holder should possess the ability to interpret the undertaking's financial and actuarial information, identify key issues, put in place appropriate controls and take necessary measures based on this information.

The process involves the following steps:

- ✓ The Corporate HR department discusses, assesses and gives advice to the Executive Committee regarding the appointment of a Key Function Holder.
- ✓ It discusses and proposes to the Executive Committee the required profile of the Key Function Holder.
- ✓ It assesses the candidates.
- ✓ It assesses the fitness and propriety of the Key Function Holders (in case of re-appointment) or of the candidate Key Function Holders (in case of appointment) taking into account the regulatory requirements and the requirements mentioned in the internal policies. It conducts this assessment based on the files which are prepared for submission to the supervisor.
- ✓ It presents its advice to the Executive Committee for approval.

3.2. Risk Management in the KBC Insurance group

3.2.1. 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 (CRO), local CROs, local risk functions and the group risk function. The risk function (amongst other) acts as the second line of defence, while Internal Audit is the third line.

Relevant risk management bodies and control functions:

1. Executive Committee:
   - ✓ Makes proposals to the Board of Directors about risk and capital strategy, risk appetite, and the general concept of the risk management framework.
   - ✓ Decides on the non-strategy-related building blocks of the risk management framework and monitors its implementation throughout the group.
   - ✓ Allocates capital to activities in order to maximise the risk-adjusted return.
   - ✓ Acts as the leading risk committee, covering material issues that are channelled via the specific risk committees or the Group ALCO.
   - ✓ Monitors the group's major risk exposure to ensure conformity with the risk appetite.

2. Group ALCO (Asset & Liability Committee):
   - ✓ 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.

3. 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 respectively lending, markets and insurance support the Executive Committee in setting and monitoring limits at group level for these activities. Liquidity and ALM issues related to these activities are addressed in the Group ALCO.
     - o *The Group Lending Committee*
       The Group Lending Committee supports the Executive Committee's time in setting, monitoring and following up limits for lending activities (funding, liquidity and ALM issues related to lending activities remain the responsibility of the Group Executive Committee/Group ALCO). With regard to KBC Insurance, the role of the Group Lending Committee relates to credits part of the assets of KBC Insurance and to reinsurance contracts.

- *The Group Markets Committee*
  The Group Markets Committee (GMC) decides upon and periodically reviews a framework of limits and policies on trading activities that is consistent with this Group Risk Appetite.
- *The Group Insurance Committee*
  The Group Insurance Committee supports the Executive Committee in setting, monitoring and following up limits for insurance activities at KBC group level, including the KBC Insurance group. It assists the Executive Committee with risk and capital monitoring regarding the insurance activity in close cooperation with business as first line of defence.
- *The Asset & Liability Committee*
  The Asset & Liability Committee is a business committee that assists the Executive Committee in the domain of (integrated) balance sheet management at KBC group level, including the KBC Insurance group. It handles matters related to ALM and liquidity risk.

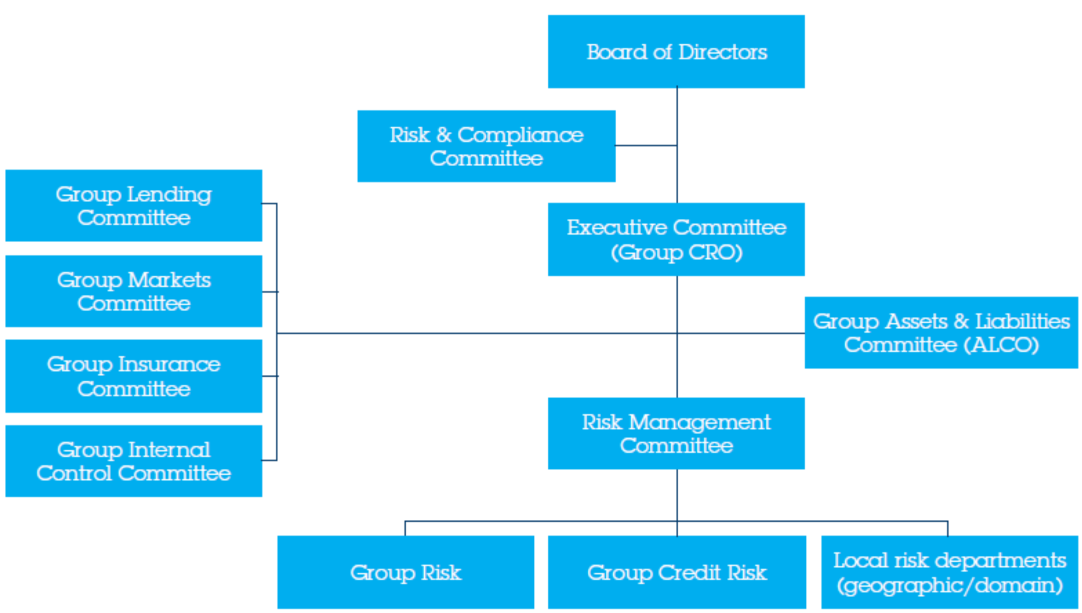
✓ The Group Internal Control Committee (GICC) supports the Executive Committee in monitoring and strengthening the quality and effectiveness of KBC's internal control system.

4. In order to strengthen the voice of the risk function and ensure that the decision-making bodies of the business entities are appropriately challenged on matters of risk management and are given expert advice, KBC has established 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 can exercise a veto if needed. Independence of the CROs is achieved through a direct reporting line to the Group CRO.

5. 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.

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

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



3.2.2. Risk Management Framework & building blocks

Risk management is a key component of the strategic management of KBC Group. It refers to the coordinated set of activities to manage the risks that can affect KBC Group in its ability to achieve its objectives.

The KBC Risk Management Framework (KBC RMF) describes how risk management is performed on a continuous basis throughout the entire KBC group. As such, it is the single point of entry for all documentation on the risk management process within KBC Group.

The KBC risk management framework consists of:

- ✓ A number of generic fundamental risk standards, concepts and tools that are applicable to all risk types.
- ✓ A set of Risk-Type-Specific Risk Management Frameworks.
- ✓ An integrated risk management framework describing how to integrate all risk-type-specific information in order to provide a complete view of the risk profile of KBC Group and its subsidiaries.

The ultimate purpose of the KBC Risk Management Framework is to install an effective risk management process throughout the group. In order to do so, all components of the KBC RMF need to be implemented, thus ensuring that the risk management process functions as it should.

The KBC RMF is based on the Risk Strategy, which specifies the objectives, mandate and ambition level of KBC Group with regard to risk management, as decided on by the Board of Directors.

Risk management within the KBC Group is organised on a risk-type basis. This is reflected in risk-type-specific Risk Management Frameworks, each elaborating the specific measures, methods, tools, etc. that are most suited for the particular risk type. Where relevant, the risk-type-specific frameworks differentiate between minimum standards for banking, insurance and asset management. Generic elements applicable to all risk types are described in the overarching risk management framework. Besides the risk-type-specific frameworks, an integrated risk management framework describes the integrated cross-silo approach.

The overarching risk management framework also introduces a number of fundamental risk concepts and tools, such as:

- ✓ A common risk map, i.e. an overall picture of all the predominant risk types and subtypes which are used within the KBC risk universe, indicating how these are interrelated.
- ✓ Risk measurement standards.
- ✓ Stress-testing standards.

The KBC RMF defines minimum standards that all entities within the group must adhere to. Group frameworks must therefore be endorsed by local entities. At the same time, the implementation of each framework can be adjusted on the basis of local conditions.

As the risk management landscape is in a state of constant flux due to changes in internal and external contextual elements (industry trends, regulatory requirements, expectations of key stakeholders, organisational structure, etc.), the components of the KBC RMF are reviewed on a regular basis to ensure their ongoing effectiveness.

The risk management process consists of the following steps:

- ✓ Risk identification
- ✓ Risk measurement
- ✓ Setting and cascading risk appetite
- ✓ Risk analysis, reporting and follow-up

As the risk management process is a continuous effort, these process steps are not strictly sequential and interact with one another (e.g., the identification of a new risk may warrant the introduction of new risk measurements and/or new risk limits, the risk analysis may lead to the introduction of a new risk type, a risk report may lead to an in-depth study of a particular subject, etc.).

In the context of the risk management process, stress testing is a tool that can be used in any of the process steps mentioned above.

3.2.3. Own risk & solvency assessment

The KBC Insurance group and its insurance and reinsurance subsidiaries regularly conduct an Own Risk and Solvency Assessment (ORSA) to monitor and ensure that business is managed in a sound and prudent way.

KBC's ORSA policy describes the general KBC approach to the ORSA process and its outcome. It defines and describes the components, principles and characteristics of the ORSA process within the KBC Insurance group. The ORSA policy is reviewed on an annual basis.

The ORSA is an integral part of the business strategy and is taken into account on an ongoing basis in the strategic decisions of the KBC Insurance group.

The KBC Insurance group has decided to conduct the ORSA assessments at the level of the KBC Insurance group and at the level of the individual material subsidiaries of the Insurance group in order to achieve high-level processes and reporting.

All insurance and reinsurance entities of the KBC Insurance group are covered by ORSA, but a differentiated approach is applied, based on the materiality of the entity. The following distinction is made:

- ✓ Material entities:
  - o KBC Insurance NV
  - o ČSOB Pojišťovna (Czech Republic)
  - o ČSOB Poisťovňa (Slovak Republic)
  - o K&H Insurance
  - o DZI Insurance
  - o KBC Group Re
- ✓ Non-material entities:
  - o Maatschappij voor Brandherverzekering
  - o NLB Vita

The main processes underlying the regular ORSA are executed on an annual basis and are closely linked to the Strategic Planning Process (Alignment of Planning Cycles or APC) which also follows an annual cycle. The APC streamlines the processes of financial planning, strategy review, risk appetite setting and internal solvency and capital adequacy assessment.

Taking into account the fact that KBC's insurance business is sufficiently mature, this annual periodicity is deemed adequate.

On a quarterly basis, insurance integrated risk reporting reports on: risk signals; the development of the risk profile; results of deep dives, stress & scenario testing. These reports are discussed up to the level of the Executive Committee and the Board of Directors and allow them to manage stress & scenario testing, request (ad-hoc) mid- and long-term risk assessments and review the internal model and underpinning ambition and approach.

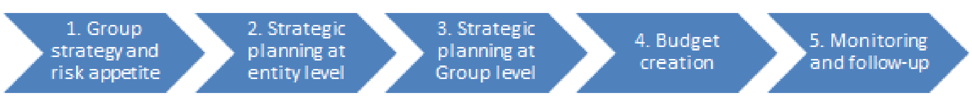
The Executive Committee of KBC Insurance can decide to perform an additional ad-hoc ORSA if:

- ✓ Major deviations from the business plan (APC) are observed and/or
- ✓ Major changes to the group structure or group composition occur.

The annual ORSA process assesses the situation and the data at 31 December and is submitted to the supervisory authority before 30 June of the following year. KBC does not differentiate between the internal and the supervisory ORSA report. Each ORSA report is complemented with an ORSA record which contains all the documents that have been used in the different steps of the ORSA.

The process for setting risk appetite is strongly intertwined with and part of the strategic planning process (or APC process), which streamlines the processes of financial planning, strategy review and internal solvency and the capital adequacy assessment. APC thus constitutes the process for setting and cascading risk appetite.

The figure below shows the five phases of the APC process:



Based on the outcome of the above processes and assessments, a conclusion is included in the ORSA report that will indicate to what extent the available capital is sufficient to cover the capital requirements. It will link this conclusion to the:

- ✓ Changes in the amount and composition of available regulatory capital over a 3-year horizon and under different economic circumstances.
- ✓ Changes in required regulatory capital over the 3-year planning horizon, taking into account expected changes to the risk profile of the entity/group.
- ✓ The impact of scenario analyses and sensitivities on required and available regulatory capital.

KBC relies on the Solvency II standard formula to assess its overall solvency needs. An assessment is performed on an annual basis to check whether the standard formula is appropriate in relation to the risk profile of KBC.

3.3. Other key functions of the KBC Insurance group

3.3.1. 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, 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 the SCR calculations, assisting with the internal model, contributing to the ORSA process).
- ✓ Reporting and giving recommendations to the supervisory body of the entity.

Implementation of the Actuarial Function:

- ✓ The Actuarial Function at KBC Group level is ultimate accountability to the Board of Directors.
- ✓ An 'Actuarial Function Holder' is appointed for every local entity and also at KBC Group level. The Actuarial Function Holder is to be registered on the pay-roll of the entity he/she is representing. Her/his duties cannot be outsourced to a party outside the entity.
- ✓ The Actuarial Function Holder coordinates the activities of the Actuarial Function. In general, 'a function' is the administrative capacity to undertake particular governance tasks and is – as such - not limited to one specific person or one organisational unit, but can be assigned to several persons or departments subject to an adequate segregation of duties.
- ✓ The Actuarial Function's basic task is to provide the independent 'second pair of eyes' required for the Actuarial Function Holder to meet all the assigned obligations. The Actuarial Function provides input to the Actuarial Function Holder, including with regard to forming opinions, proposing recommendations and assisting in writing the Actuarial Function Report.

3.3.2. Compliance Function

With a view to centralisation, consistency and synergy, the Compliance Function of KBC Insurance is exercised by Group Compliance. Group Compliance plays a double role with regard to the domains within the scope of Compliance:

- ✓ An advisory role to support the business entities in implementing and applying requirements, setting up internal procedures and providing necessary training and awareness communication.
- ✓ A monitoring role by performing second-line controls on compliance with requirements.

An Intragroup Service Agreement has been drawn up defining the way this is organised.

Within the Compliance department, there are several technical units, each dealing with specific Compliance domains:

- ✓ Financial Markets including the AssurMiFID rules of conduct applicable to the insurance business and the rules of insurance mediation and distribution in general.
- ✓ Consumer and Data Protection.
- ✓ Embargo Management.
- ✓ Anti-Money Laundering (AML) (including OFAC, the Know Your Customer part of FATCA and the Common Reporting Standard, the EU Regulation on accompanying transfers of funds), financing of terrorism and preventing the funding of the proliferation of weapons of mass destruction.
- ✓ Ethics & Fraud.

The AML and Ethics & Fraud domain are split between a Policy unit and an Investigations unit.

Both the governance of the Compliance function and its policies within scope, as defined by the Circular on the Compliance Function (Circular FSMA-2012-21 of 4/12/2012), satisfy the relevant requirements. In section 5.4 on the Compliance function, *NBB Circular _2016_31 (5/7/2016)* regarding governance of the insurance sector confirms the position reflected in *Article 55 of the Act of 13 March 2016* on the status and supervision of insurance and reinsurance undertakings, i.e. the Compliance function has to focus on integrity and codes of conduct.

Based on the same NBB Governance Circular, two specific additional tasks are included in the Compliance domain. An inventory of the Solvency II-related policies is being drawn up, and the structure of these policies is being put in place to ensure that at least its objectives are included in each policy, the tasks to be performed by the relevant person/function, the applicable reporting processes and the requirement to inform all risk-related and actuarial functions, where relevant. Additionally, Compliance will check consistency of governance topics *sensu stricto* in the main NBB reports (the governance memorandum, the SFCR and the RSR). These governance topics include ownership, management structure, fit & proper policy, incompatibility of mandates, loans and insurance for managers, independent control functions, remuneration, conflicts of interest and outsourcing.

The legal department of KBC is charged with the task of following up laws and regulations and changes to them in the Solvency II context, as well as communicating to the businesses concerned.

It is key to ensure that crucial pieces of legislation, such as the 4th AML Directive, the GDPR, PRIIPS and IDD, falling under the Compliance domains, are adequately implemented by the businesses within the organisation in 2017-2018.

The Key Function Holder for Compliance at KBC Insurance is the CRO of KBC Insurance, who is also a member of the Executive Committee (ExCo). The Head of the Compliance function of KBC Insurance has a direct reporting line to this member and a functional line with the CEO of KBC Insurance. The Compliance reports are formally submitted every quarter to the ExCo and RCC of KBC Insurance.

Within Compliance, there is also a dedicated Coordinating Compliance Officer who is responsible for coordinating, supporting and following up matters in respect of the Insurance Products Directorate. The Head of Compliance ensures sufficient resources are provided by the department to deal with KBC Insurance. The ExCo of KBC Insurance decides on the annual Compliance plans and submits them to the RCC for confirmation. The Head of Compliance reports to and attends the quarterly meetings of the KBC Insurance RCC. A separate and specific Compliance Charter and Integrity Policy have been drawn up for KBC Insurance, describing the scope, tasks and responsibilities of every party involved at several levels of the organisation. There are two Compliance Risk Managers (CORM) at the level of Insurance Products, one for life insurance and one for non-life insurance. They are not part of the second line of defence

(Compliance), but instead are fully incorporated into the business entity. They are facilitators in implementing and following up Compliance issues and, therefore, support the Senior General Manager and General Managers of Insurance Products in their responsibilities with regard to Compliance. The Insurance Products Coordinating Compliance Officer and the CORMs work closely together, have regular meetings and organise reporting to the business entities' management.

3.3.3. Audit Function

The internal audit function of KBC Insurance NV is exercised by KBC Group Corporate Audit. It is regulated by *NBB Circular NBB_2015_11*. The responsibilities of Internal Audit are:

- ✓ To provide independent assurance to the Board of Directors, the Audit Committee and the Executive Committee on the effectiveness and efficiency of the processes of risk management, internal control and corporate governance that are in place.
- ✓ To support the Board of Directors, the Audit Committee and the Executive Committee in taking up their responsibilities in these processes.
- ✓ To report any serious issues or risks which it becomes aware of and to undertake any required investigations into high-risk situations.
- ✓ To make clear and actionable recommendations that address weaknesses noted during its work and to follow up on the implementation status of these recommendations.
- ✓ To carry out any assignment or projects entrusted to it by the Board of Directors, the Audit Committee or the Executive Committee.

To safeguard its independence and objectivity:

- ✓ Internal Audit reports and is accountable to the Audit Committee.
- ✓ The internal audit activity remains free from interference by any part of the organisation, including matters of audit selection, procedures, frequency, timing or report content.
- ✓ The appointment and dismissal of the Head of Internal Audit comes under the authority of the Audit Committee.
- ✓ Internal auditors are, during the exercise of their professional duties, authorised to have direct communication with any member of staff, as well as to access all premises and any records, files or data that are relevant to the performance of an assignment, subject to compliance with local regulations. All members of staff are requested to assist Internal Audit in fulfilling its roles and responsibilities.
- ✓ Internal Audit has the authority to perform assignments on its own initiative in all entities, departments, establishments and functions within its scope, subject to proper reporting to the local Executive and Audit Committees.
- ✓ Internal Audit has the authority to inform directly, and on its own initiative, the Chairman of the Board of Directors or Supervisory Board of the audited entity, the Chairman of its respective Audit Committee, the members of its Executive Committee, its Statutory Auditors or the local Supervisory Authorities.
- ✓ Internal auditors must always be objective and impartial and seek to avoid any conflicts of interest.
- ✓ Internal auditors are not directly involved in the operational organisation of an entity, nor in deciding, developing, introducing or implementing risk management and internal control measures.
- ✓ Internally recruited auditors respect a cooling-off period.
- ✓ Whenever practicable and without jeopardising competence and expertise, internal audit staff will periodically rotate within the internal audit function to boost independence.

The scope of Internal Audit covers all entities, all activities and all divisions, including the various control functions, of KBC Insurance NV. To this end, Internal Audit will periodically – and at least once a year - examine and evaluate the areas within its scope. The audit plan is defined applying a risk-based approach while ensuring adequate coverage of matters of legal or regulatory interest. The audit plan is supplemented with a statement on the necessary resources to execute the plan. The audit plan must be approved by the Audit Committee. Deviations from the audit plan must be reported to the Audit Committee at least once a year.

The approach followed in performing the audit assignments should be described in all resulting audit reports so that their readers can consider the findings against the approach followed. A risk-based approach is used as the primary auditing method. The level of assurance, which may be gained from Internal Audit's work, is relative to the nature and extent of work carried out. It is therefore essential that the auditor involved, when giving a reasoned opinion, documents the nature and the extent of the work undertaken

The implementation of the audit recommendations is the responsibility of line management, that will communicate the status of this follow-up regularly to Internal Audit, for monitoring purposes.

To facilitate a consistent approach to internal audit across all entities within the KBC Insurance group, the heads of local internal audit departments are accountable to their supervising Audit Committee and are steered by the Internal Auditor of KBC Group NV. The co-operation between the different internal audit departments is organised in a matrix structure where the competence-based axis intersects with the geographical responsibility axis.

The independence and objectivity of Internal Audit is by assured the KBC Insurance Internal Audit Charter approved by the Board of Directors. The Charter also described the functioning and organisation of the Internal Audit function.

3.3.4. Internal Control System

3.3.4.1. Three lines of defence concept

In order to promote clear accountability for risk taking, oversight and independent assurance, a 'Three lines of defence' concept is implemented at the KBC group. All the relevant internal stakeholders (and their roles and responsibilities) related to risk management are positioned within this model. The three lines of defence are defined as follows:

- ✓ Business line management, as the first line of defence, is responsible for identifying and managing the risks inherent in the products, activities, processes and systems for which it is accountable. Business line management is also responsible for determining its risk appetite.
- ✓ The second line of defence (of which the Risk Function is part) includes all independent Support & Oversight Functions. The Risk function:
  - o Is responsible for identifying, measuring, monitoring and reporting risk on a group-wide basis, independently from the first line of defence.
  - o Sets the standards via the KBC Risk Management Framework and supports the business in its implementation.
  - o Challenges the business on their risk identification, measurement and response.
  - o Creates oversight over the Group's control environment and risk exposure.
- ✓ The third line of defence is provided by internal and external audit, assuring an independent review and challenge of the Group's risk management processes.

1st LOD: Business Owns the risk	2nd LOD: Risk Provides assurance that risks are under control	3rd LOD: Audit Checks quality and effectiveness of the process
- Performs the right controls in the right manner - Provides qualitative business self assessments - Creates sufficient risk awareness - Allocates priority / capacity to risk topics	- Formulates own, independent opinions on the risks KBC faces and on the way they are mitigated - Identifies, measures and reports on risks - Safeguards that the voice of risk is heard (veto right) - Implements risk policies, frameworks, etc… in a consistent manner throughout the KBC Group	- Conducts risk-based and general audits to provide assurance to the board that the overall internal control system, including the risk governance, is effective and that policies and processes are in place and consistently applied within the Group

This 3 LOD model (as reviewed at the end of 2015) ultimately reinforces the resilience of KBC's risk and control environment and safeguards the sustainability of our business model. Led by CRO Services, the 3 LOD programme and its reviewed model continued to be implemented in 2016, enhancing:

- ✓ The quality and effectiveness of KBC's risk and control environment.
- ✓ The effectiveness of risk management.
- ✓ Risk control.

3.4. Outsourcing

3.4.1. General outsourcing approach at the level of KBC group

KBC group has set the following strategic goals:

- ✓ KBC strives to offer its clients a unique bank-insurance experience.
- ✓ KBC develops the group with a long-term perspective and therefore achieves sustainable and profitable growth and respects solid risk, capital and liquidity boundaries.
- ✓ KBC puts clients' interests at the heart of everything it does and offers them a high-quality service and relevant solutions.
- ✓ KBC takes its responsibility towards society and local economies very seriously and aims to reflect that in its everyday activities.

The outsourcing approach of the KBC group is embedded in the above-mentioned cornerstones:

- ✓ KBC aims to maximise the retention and development of its internal knowledge of all aspects related to the bank-insurance model, as well as the related processes and activities.
- ✓ In particular, functions, processes, activities that include KBC-specific proprietary information, intellectual property rights, trade secrets, know-how creating a competitive market advantage for

KBC over its peers (‘Core KBC Know-How’), can never be outsourced to a third party, i.e. an entity outside the KBC group (‘External outsourcing’) .
- ✓ To the extent that technological or economic developments justify the outsourcing of some activities, the KBC group strives for a maximal retention of knowledge and control of these activities. Therefore, the KBC group initially turns to the shared services centres (SSC) within the group (‘Internal Outsourcing’).
- ✓ In the event of outsourcing, KBC aims for the highest possible quality level in order to ensure and guarantee long-term objectives and clients’ interests.

3.4.2. Outsourcing principles

The KBC group has an extensive policy on regulated outsourcing. This policy is similarly applicable to internal and external outsourcing. The policy describes the definition of outsourcing as applied within the group, a high level process description, group coordination and central notification, and the monitoring principles.

For every outsourcing file, an outsourcing coordinator has to be appointed. This coordinator has an internal notification duty to a group-wide coordinator. This notification is not only required for new files, but also for material changes in existing outsourced activities and for renewals.

The outsourcing entity is accountable for the risk assessment of an outsourcing initiative. The outsourcing entity is required to write a mandatory risk assessment, accompanied by mandatory advice from the control functions, covering *inter alia*:

- ✓ Operational risk (as described in the group-wide key controls and zero tolerances)
- ✓ Legal risk (possible legal showstoppers, provided by the (local) legal department)
- ✓ Compliance risk (provided by the (local) compliance function)
- ✓ (if applicable) The risks controlled by the actuarial function

Within the group strategy, KBC Insurance develops its own approach on outsourcing. Core values in this approach are client centricity (putting the clients' interest first), maximum synergy and efficiency and drawing on external expertise if this expertise excels internal knowledge or capacities.

3.4.3. Intragroup outsourcing

As already stated in sections 3.3. and 3.4., a number of control and key functions of KBC Insurance are exercised at group level with a view to fostering centralisation, independence, consistency and synergy.

KBC Group provides the following functions on behalf of KBC Insurance:

- ✓ Audit
- ✓ Compliance
- ✓ Risk
- ✓ Finance
- ✓ Asset/Liability Management (ALM)
- ✓ ICT

All these activities are considered to be critical or important operational functions or activities for KBC Insurance.

In addition, KBC Insurance relies on other KBC entities for specific insurance-related tasks:

- ✓ The contact centre of VAB, a Belgian-based subsidiary of KBC Insurance, provides services related to insurance obligations, covering assistance to persons who encounter difficulties while traveling (includes their property or motor vehicles). VAB receives and adjusts claims, and also provides assistance on behalf of KBC Insurance.
  The Belgian-based contact centre of VAB registers claims notified by phone for other non-life insurance products. VAB provides primary advice to clients in the name and on behalf of KBC Insurance, and initiates the claims handling process in urgent cases.
- ✓ As regards unit-linked life insurance policies, KBC Asset Management NV (Belgium) and KBC Asset Management SA (Luxembourg) provides services to KBC Insurance for setting up and managing Luxembourg- and Irish-based investment funds.

KBC Insurance also considers these activities to be critical or important operational functions or activities.

3.4.4. Critical or important operational functions or activities outsourced to external parties

KBC Insurance entrusts its own operational tasks to insurance intermediaries as regards acceptance and claims handling for non-life insurance contracts. These activities are only entrusted to Belgian intermediaries, specifically for contracts in which the relationship with the client is maintained.

Outsourcing to tied agents is a standardised process. These agents may perform limited tasks related to the collection of insurance premiums, the settlement of claims (limited in scope) and the provision of green cards. Contracts outsourced to insurance brokers are handled on a case-by-case basis, and may include a wider range of tasks relating to contract management and claims settlement.

KBC Insurance uses the services of a number of Belgian-based, self-employed consulting physicians for specialised medical services (acceptance of certain types of health and life insurance, handling claims with complicated medical aspects).

For second pillar pension products, an external partner processes the annual statement of benefits.

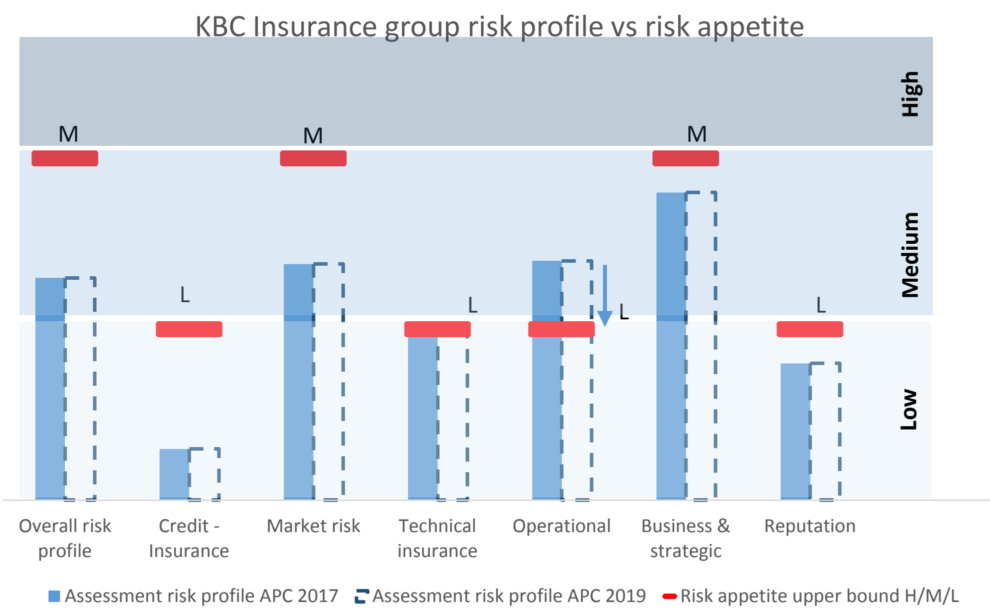
Risk profile

4. Risk profile

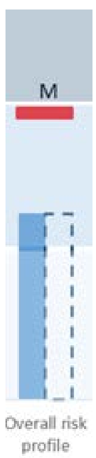
The KBC Insurance group is exposed to a number of typical industry-specific risks such as movements in interest rates and exchange rates, insurance underwriting risk, credit risk, operational risks, etc. In this section, we focus on the most material sector-specific risks we face.

The KBC Insurance group Risk Appetite Statement reflects the view of the Board of Directors and top management on risk-taking in general and on the acceptable level and composition of risks in coherence with the desired return, in particular. This statement includes a specification of the risk profile and the risk appetite for each risk type into Low risk, Medium risk and High risk.

For the KBC Insurance group specifically, this leads to the following risk appetite and risk profile:



KBC Insurance group risk profile vs risk appetite



<u>Overall risk profile</u>: Medium risk profile in line with risk appetite

The overall risk profile and risk appetite is set to ‘medium’ as the most important risk types for KBC Group (market risk, business and strategic risk, and operational risk) are also in that range.

The overview graph of risk appetite and risk profile (see above) shows a relatively stable overall risk profile when comparing APC 2019 with APC 2017 (see section 3.2.3).

4.1. Underwriting risk

The 'underwriting risk' or 'technical insurance risk' stems from uncertainty regarding the frequency of insured losses and how extensive these losses 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.

The management of the technical insurance risk strategy is the responsibility of the Executive Committee of KBC Insurance, assisted by the Group Insurance Committee (GIC), which has representatives from both the business side and the risk function.

Technical insurance

Technical insurance risk: Low risk profile in line with risk appetite

The current assessment of the risk profile and risk appetite for this risk type is based on the objective for the insurance entities to focus mainly on the segments of retail and small enterprises. (i.e. Private Persons, the Self-Employed and Small and Medium-Sized Enterprises (SMEs)). Through the wide range of insurance products that are offered to these clients, an important degree of diversification is reached. Where larger risks are taken in portfolio, or when risks could accumulate to a larger scale, risk mitigation is achieved through the purchase of reinsurance cover.

The material insurance entities are present in five KBC core markets (Belgium, the Czech Republic, Slovakia, Hungary and Bulgaria) and operate according to an integrated bank-insurance model. KBC Group Re is a captive reinsurer providing services out of Luxembourg. KBC Insurance Belgium accounts for about 90% of the overall risk profile of the KBC Insurance group.

Adequate procedures are enforced throughout the KBC group to ensure sound, quality underwriting is provided with good overall profitability, within the prescribed retention limits, and in adherence to the group and local risk appetite (see section '2.3. Underwriting performance').

The Group Risk function develops and rolls out a group-wide framework for managing insurance risks within all insurance entities. Group Risk is responsible for providing support with regard to local implementation and 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. 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 internal required capital calculations.
- ✓ Determination of insurance risk limits and conducting compliance checks, as well as providing advice on reinsurance programs.

The following risk aspects have an important impact on the underwriting risk profile of an insurance company:

- ✓ Concentration risk:
  Main concentration risk that can be observed for the underwriting risk:
  - o Natural catastrophe risks (storms, floods, earthquakes, etc.).

- o Non-natural catastrophe risks or 'man-made' catastrophe risks (e.g., pandemic events, big losses, etc.).
- o Concentration risks linked to specific activities (e.g., nuclear risk, terrorism risks).

The possible concentration risk at KBC Insurance group level is also assessed. Exposure can be aggregated at group level in different ways:

- o Via accumulation exposure across different entities (e.g., a storm hitting several domestic KBC markets).
- o Via internal reinsurance when direct entities cede important parts of their exposure to KBC Group Re, which keeps the risk in own retention or further cedes the pooled risk to the external reinsurance market.
- o Via credit exposure to reinsurance counterparties (see section '4.3. Credit risk').

KBC Group risk management has developed a model for assessing the group-wide exposure to all non-life insurance risks, including natural hazards. This model measures the most material non-life insurance risks (catastrophe and premium & reserve risk) for all group insurance and reinsurance companies, with account being taken of outward reinsurance (external and intra group). The resulting concentration risk exposures are used to check compliance with the limit frameworks (Group and local level) based upon which adequate reinsurance coverage can be bought.

- ✓ Risk mitigation:

Besides strict underwriting guidelines that should guarantee sound underwriting, reinsurance is bought to support the strategic objectives as formulated in the Risk Appetite Statement. In order to achieve the objectives, the reinsurance policy of the KBC Insurance group stipulates that every material insurance entity has to acquire reinsurance protection to ensure that its net exposure remains within the bounds of the risk retention limit framework.

The insurance portfolios are protected against the impact of large claims or the accumulation of losses (risk concentration) by means of reinsurance contracts. 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.

Major reinsurance programmes on the property and liability of KBC direct insurance companies are centralised via KBC Group Re. These reinsurance programmes are re-evaluated and renegotiated every year.

Best estimate valuations of insurance liabilities

As part of its mission to independently monitor insurance risks, the Group risk function regularly carries out in-depth studies. These indicate that the non-life technical provisions at subsidiary level are sufficient. The value of technical provisions must equal the sum of a Best Estimate and a Risk Margin. The Best Estimate corresponds to the discounted future cashflows of the insurance obligations. A Risk Margin is added to ensure that the value of the technical provisions is equivalent to the amount an insurance company would require to take on the obligations of the insurance company. The adequacy of provisions is checked per business line at subsidiary level and the overall adequacy is assessed at subsidiary level for all business lines combined.

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.

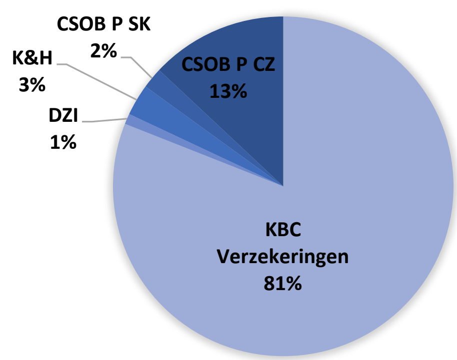
Life risk

In the tables below, an overview is provided of the KBC group's best estimate provisions for the life business at 31 December 2016.

Line of business (in millions of EUR)	Best Estimate *(gross of reinsurance recoverables)*	%
Total Best Estimate Life excluding Health and Unit Linked	16.713,5	54,5%
Total Best Estimate Health similar to Life	453,2	1,5%
Total Unit linked Best Estimate and value as a whole	13.489,9	44,0%
Total Best Estimate provision Life (incl. Health similar to Life and Unit Linked)	**30.656,6**	**100,0%**

Life business – Best Estimates

Compared with last year (total best estimate provision for the life business, including health similar to life and unit-linked: 29 634.1 million euros), we can conclude that the life business' risk exposure has not changed materially at group level. The majority of the premium volume is still written in Belgium (including both the guaranteed-rate and unit-linked businesses).



Gross written premium – split per entity 2016

Premium volume increased further in 2016 both for unit-linked and non-unit-linked products, as shown in the table below. This was mainly driven by KBC Insurance Belgium and ČSOB P CZ.

	2016			2015		
In millions of EUR	Unit-Linked	Non Unit-Linked	Total	Unit-Linked	Non Unit-Linked	Total
KBC Verzekeringen	511,8	1.165,5	1.677,4	453,9	964,4	1.418,3
CSOB P CZ	225,5	45,4	270,8	193,2	49,4	242,6
CSOB P SK	26,1	21,8	47,9	33,5	18,2	51,7
K&H	41,8	12,0	53,7	41,8	14,8	56,6
DZI	0,1	17,4	17,4	0,0	23,7	23,7
Total	**805,2**	**1.262,1**	**2.067,3**	**722,4**	**1.070,5**	**1.792,9**

Premium volumes Life insurance

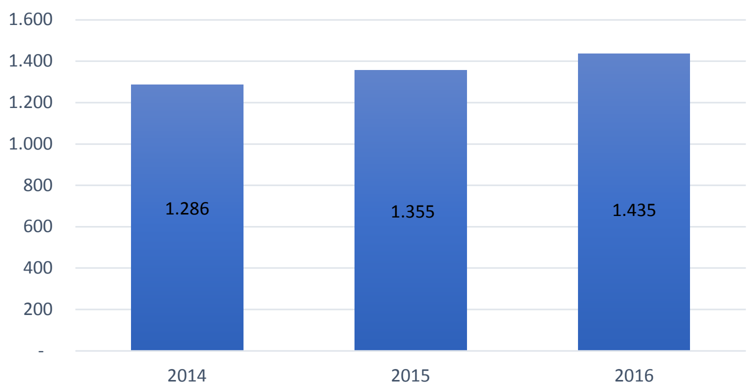
Non-life risk

An overview of the KBC group's best estimate provisions for the non-life business at 31 December 2016 is provided in the tables below.

Line of business (in millions of EUR)	Best Estimate *(gross of reinsurance recoverables)*	%
Total Best estimate excluding Health non similar to Life	1.492,8	87,6%
Total Best estimate Health non similar to Life	210,6	12,4%
Total Best Estimate provision Non-Life (incl. Health non similar to Life)	**1.703,4**	**100,0%**

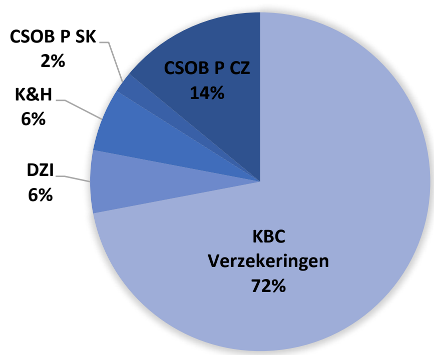
Non-Life business – Best Estimates

The graph below shows how the gross written premium (GWP) volume has developed over the past few years. The steady increase in non-life GWP volumes is in line with expectations, i.e. a stable moderate growth that is expected to continue in the coming years.



Evolution gross written premium

The graph below illustrates the premium split per entity for the non-life portfolio.



Gross written premium Non-life

4.2. Market risk

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 to our commercial activity or to our long-term positions. Trading activities are consequently not included. Structural exposure can also be described as a combination of:

- ✓ Mismatches in the insurance activities between liabilities in the non-life and life businesses and the corresponding covering assets.
- ✓ The risks associated with holding an investment portfolio for the purpose of (re)investing 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 corresponding investments).

The management of the ALM risk strategy at KBC is the responsibility of the GExCo, 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 within the playing field defined by the risk appetite. 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 ALM Risk Management Framework (Non-Trading Market Risk Management Framework), an ALM rulebook and shared group measurement infrastructure ensures that these risks are measured consistently throughout the group. The ALM Risk Management Framework and Rulebook has been drawn up centrally by Group Risk and is applicable for all entities.

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 investment book positions that impact available regulatory capital (e.g., available-for-sale bonds).
- ✓ Stress testing and sensitivity analysis.

Market Risk: Medium risk profile in line with risk appetite

The risk appetite of the KBC Insurance group for market risk is defined based on three primary limits, i.e.

- A primary BPV limit is set both at the solo and insurance group level, based on the risk appetite and taking into account a +10 bps parallel shift in the basic risk-free interest rate curve. There were no BPV limit breaches at the level of the KBC Insurance group during 2016.
- A primary equity limit (nominal) is set both at the solo and insurance group level, based on the risk appetite and taking into account an equity shock of 39%. There were no equity limit breaches at the level of the KBC Insurance group during 2016.
- A primary real estate limit (nominal) is set both at the solo and insurance group level, based on the risk appetite and taking into account a property shock of 25%. There were no property limit breaches at the level of the KBC Insurance group during 2016.

Given that no limit breaches were observed in 2016 and given the materiality of market risk within the Solvency II results, the risk profile has been assessed as 'Medium'.

Interest rate risk

One of the most important risks for insurance companies in the current low yield environment is interest rate risk. The negative impact of low yields on available capital is rather straightforward, given the longer tenor of liabilities compared to assets and the increased impact of the convexity effect[3] following from these persistent low yields.

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 10 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 interest rate 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 Insurance Group (in millions of EUR)	Impact on value[1]	
	2016	2015
Total (incl. convexity effects for 2015 & excl. convexity effects for 2016)	4,6	10,1
Total (incl. convexity effects for 2015 & 2016)	8,3	10,1
Convexity effects (compared to 4Q2015)	3,7	N/A

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).

Impact of a parallel 10-basis-point increase in the swap curve for KBC Insurance group

Where the group's insurance activities are concerned, the fixed-income investments for the non-life reserves are invested with the aim of matching the projected pay-out patterns for claims, based on extensive actuarial analysis.

The non-unit-linked life activities (class 21) combine a guaranteed interest rate with a discretionary participation feature (DPF or profit sharing). 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

[3] Relatively speaking, a parallel 10 base point shock to the interest curve is more significant when interest rates are lower. Therefore, the existing increase in interest rate sensitivity, measured by the BPV, is not necessarily a consequence of actively assuming more interest rate risk.

level) and a risk that the investment return will not be sufficient to give clients 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

Expected cashflows (not discounted), life insurance activities

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%).

Breakdown of the reserves for non-unit-linked life insurance by guaranteed interest rate, insurance activities

In 2016, the trend towards lower guaranteed interest rates continued. Since older contracts with high guaranteed rates are maturing and being replaced with new contracts or additional savings premiums at a lower guaranteed rate, we expect this trend to continue. Due to changed legislation[4] in Belgium the guaranteed interest rate on a large portion of pension-related contracts shifted from the 3.00% to 3.50% range to the 0.00% and 2.5% range. In general, the average guaranteed rate for the entire portfolio decreased in 2016.

[4] Change in the WAP (Supplementary Pensions Act), which linked the minimum guaranteed interest rate to the average 10y OLO, with an absolute minimum of 1.75%. Before, this minimum guaranteed rate had been fixed at 3.25% for pension reserves built up by employer contributions and 3.75% for pension reserves built up by employee contributions.

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 through profit or loss	Loans and receivables	Held for trading	Total	*For comparison purposes: total at year-end 2015*	Economic impact of +100 basis points[3]
KBC core countries								
Belgium	3.341	1.411	0	0	0	4.752	*4.694*	-380
Czech Rep.	378	350	0	0	0	728	*690*	-47
Hungary	102	82	0	0	0	185	*173*	-8
Slovakia	253	130	0	0	0	383	*394*	-22
Bulgaria	144	15	0	0	1	161	*158*	-11
Ireland	68	39	0	0	0	161	*158*	-5
Southern Europe								
Greece	0	0	0	0	0	0	*0*	0
Portugal	113	0	0	0	0	113	*120*	-7
Spain	325	0	0	0	0	325	*321*	-19
Italy	718	35	0	0	0	753	*769*	-56
Other countries								
France	1.057	895	0	0	0	1.952	*1.641*	-176
Poland	293	54	0	0	0	347	*291*	-22
Germany	111	453	0	0	0	564	*640*	-34
Austria	120	200	0	0	0	320	*342*	-25
Netherlands	102	134	0	0	0	236	*288*	-15
Rest2	677	324	0	0	0	1.001	*937*	-65
Total carrying value	7.803	4.122	0	0	1	11.926	*11.591*	–

1 The carrying amount refers to the amount at w hich an asset or liability is recognised in the company's books. i.e. the fair value amount for instruments categorised as available for sale, designated at fair value through profit or loss and held for trading and the amortised cost amount for instruments categorised as held to maturity. The table exludes exposure to supranational entities of selected countries. No material impairment on the government bonds in portfolio.

2 Sum of countries w hose 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 upw ard 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

Exposure to sovereign bonds at year-end 2016, carrying value

Main changes in 2016:

1. The carrying value of the total sovereign bond exposure increased by 334 million euros, due primarily to the higher exposure to France (+ 311 million euros) , Belgium (+ 57 million euros) and Poland (+ 56 million euros), but partly offset by a decrease in exposure to German government bonds (- 76 million euros).
2. Revaluation reserve for available-for-sale assets at year-end 2016:
   - The carrying value of the total available-for-sale government bond portfolio incorporated a revaluation reserve of 769 million euros before tax.
   - This included 391 million euros for Belgium, 111 million euros for France, 52 million euros for Spain, 25 million euros for Slovakia, and 190 million euros for the other countries combined.
3. Portfolio of Belgian government bonds:
   - Belgian sovereign bonds accounted for 39.8% of our total government bond portfolio at the end of 2016, reflecting the importance to KBC of Belgium, the group's primary core market.

Equity risk

The ALM strategies for the insurance business 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 Discretionary Participation Feature (DPF or profit sharing) of insurance liabilities (especially profit-sharing in the Belgian market).

Equity portfolio of the KBC Insurance group (breakdown by sector, in %)	31/12/2016	31/12/2015
Financials	21%	19%
Consumer non-cyclical	13%	14%
Communication	2%	3%
Energy	7%	5%
Industrials	34%	36%
Utilities	2%	4%
Consumer cyclical	15%	13%
Materials	6%	5%
Other and not specified	1%	1%
Total	100%	100%
In billions of EUR	1,35	1.6
of which unlisted	0.0	0.0

Equity portfolio of the KBC Insurance group (breakdown by sector)

In the total equities amount above (1.35 billion euros), 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'). The corresponding IFRS value for equity instruments as reported in section 5 does not include funds. Moreover, the amount of real estate participations (Double U building & Vastgoed Nederland) is included in the above table, while this value is again not included in the IFRS value for equity instruments in section 5.

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

Non-trading equity exposure: net (un)realised gains

Real estate risk

The KBC Insurance group has 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 below provides an overview of the sensitivity of economic value to fluctuations in the property markets. It should be noted that there were no property limit breaches at the level of the KBC Insurance group during 2016.

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

Impact of a 25% drop in real estate prices

Note that the above shock has been calculated based on the IFRS value of property (other than for own use) including real estate certificates. The latter are included as equity instruments in section 5.

Foreign exchange or currency risk

As currency risk is measured against the local reporting currency, it is important to understand that the currency risk at the level of the KBC Insurance group is perceived differently than the currency risk at the level of the solo insurance entities, which are reporting in a non-euro currency, i.e.:

- ✓ DZI Life → BGN
- ✓ DZI Non-Life → BGN
- ✓ CSOB P CZ → CZK
- ✓ K&H Insurance → HUF

We pursue a prudent policy as regards our structural currency exposure, essentially seeking to avoid currency risk through FX hedging.

The current FX hedging strategy makes a distinction between three sources of FX risk, i.e.:

- ✓ FX risk stemming from participations
  The participations are hedged, based on the accounting Net Asset Value (NAV) and realised profits, in line with the Group FX Policy.
- ✓ FX risk stemming from the equity portfolio
  The equity positions (excl. participations) are not hedged, but the FX expected return, risk and volatility is an inherent part of the assessment to invest in non-euro equities. Based on historical analysis, no strong economic reasons were found to systematically hedge FX risk.
- ✓ FX risk stemming from the remaining portfolio (primarily fixed-income securities such as bonds). All of the remaining portfolio is cashflow hedged via cross currency swaps.

Inflation risk

The KBC Insurance group is directly exposed to inflation risk linked to either insurance claim accident years or to insurance claim development years, i.e.:

- ✓ Inflation linked to accident years.
  If a similar claim (e.g., the exact same car and damage) would happen later in time (e.g., five years later), would this impact the claim amount?
- ✓ Inflation linked to development years.
  If claim amounts are not paid out immediately (e.g., delayed or spread over time), would this impact the claim amount?

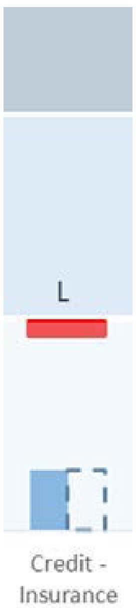
The inflation risk inherently linked to the insurance activities of the KBC Insurance group is regularly assessed and accordingly mitigated through:

- ✓ Correct price setting mechanisms.
- ✓ Investment in inflation-linked assets to hedge the inflation risk on the liability side, i.e.
  - o Short- and mid-term inflation risk is hedged through inflation-linked bonds or inflation-linked swaps.
  - o Long-term inflation risk is hedged through equity and real estate exposure.

4.3. Credit risk

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

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



Credit risk: Low risk profile in line with low risk appetite

From a KBC group perspective, the (re)insurance entities are limited in the amount of credit concentration risk they take in their portfolios by the Portfolio Limit System (PLS). Limits are monitored per asset class. For the following four asset classes, concentrations are limited for the (re)insurance entities within the KBC group:

- *PLS Sovereigns*: limits are set on the nominal amount of credit exposure (direct credit lending, as well as bond investments) to central and federal country authorities, central banks and government-sponsored export credit agencies.
- *PLS Sub-National Governments*: limits are set on the nominal amount of credit exposure (direct credit lending, as well as bond investments) to regional authorities, provincial authorities, cities, municipalities, public welfare bodies, inter-municipal associations and other entities for which the Sub-National Government is financially responsible (e.g., a hospital controlled/managed by a municipality is in scope, while other hospitals are out of scope). A ratings-based approach is followed, i.e. decreasing nominal limits for more risky credit ratings. Besides these single name concentration limits (i.e. PLS), limits on the maximum allowed Sub-National Government exposure per country are also in place.
- *PLS Financial Institutions*: limits are set on the Loss Given Default (LGD) amount of any type of investment in a financial institution by the (re)insurance entities. Again a ratings-based approach is followed, i.e. decreasing LGD limits for lower credit (more risky) ratings. These LGD limits are further translated into nominal limits for operational purposes in the business.
- *PLS Corporates and Non-Bank Financial Institutions*: limits are set on the Loss Given Default irrecoverable (LGD(irr)) amount of all credit-risk-bearing assets (bonds and their equivalent). Here, too, a ratings-based approach is followed, i.e. decreasing LGD(irr) limits for lower external credit ratings (with a zero limit for non-investment grade counterparties).

PLS limit breaches are monitored ex-post on a quarterly basis.

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

In 2016, KBC Insurance bought a 0.3-billion-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 purchase for KBC Insurance, 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.

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.

Credit exposure to (re)insurance companies by risk class

Exposure to sovereign bonds

We hold a significant portfolio of government bonds for the reinvestment of insurance reserves into fixed-income instruments. A breakdown per country together with the economic impact of a 100-basis-point upward shift in the spread (by year-end 2016) is provided in section '4.2. Market Risk – credit spread risk'.

4.4. Liquidity risk

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

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

An insurance entity's liquidity is managed by matching cashflows but is also managed through monitoring the Investment Policy amongst others by ensuring that sufficient investments are made in liquid assets. As a result, insurance entities are less sensitive for 'real' liquidity risk.

The nature of liquidity risk of insurance entities is not comparable to that of banking entities, mainly because of the different structure of the asset/liability profile. Banking activities normally have to cope with assets that have longer tenors than the corresponding liabilities. Insurance activities typically have assets that are shorter and much more liquid than the corresponding liabilities.

KBC has developed a Liquidity Risk Management Framework for Insurance entities (LRMF-I). This allows for an enhanced risk management practice including identification, measurement, reporting and response and follow-up on liquidity risk for Insurance entities. Within liquidity risk for the insurance entities, the distinction is made between liquidity risk of life and non-life insurance activities.

Non-life liquidity risk

Within the non-life insurance business, liquidity risk could arise if a catastrophe (e.g., natural disaster) would take place leading to huge claims and thus large cash demands. The cash outflows will typically take place over a longer time horizon (i.e. assessment of damage, legal procedures, etc.) and certain levels of claims are covered by re-insurance contracts.

KBC's reinsurance policy states that sufficient claims payment clauses have to be negotiated to ensure that the risk related to a timing mismatch between claims' payments and reinsurance recoverable is as much as possible restricted. More specifically, reinsurance contracts should include provisions allowing to make a request for immediate claim payment for large losses outside the usual accounting periods ('cash loss' clauses). In order to follow up on these (remaining) risks the (re)insurance exposure point risk will be assessed in the near future. Furthermore, the worst case exposure to liquidity risk will be analysed including the impact of re-insurance versus the default of re-insurance counterparties under a specific scenario and the quantity and quality of the options to cover outflows in the above scenario (e.g., liquid asset buffer, liquidity lines received, etc.).

Life liquidity risk

The life insurance business could be confronted with liquidity risk as a result of:

- ✓ Changing market circumstances (e.g., movement in rates, competition, etc.) leading to a surge in early redemptions.
- ✓ Changing regulatory environment (e.g., change in beneficial tax regime) leading clients to switch to other non-insurance products (market-wide scenario).
- ✓ An idiosyncratic scenario where clients question the insurance company's creditworthiness and reduce their exposure.
- ✓ A pandemic-like scenario.
- ✓ A combination of the above (combined scenario).

These scenarios could result in a mass lapse of the portfolio. In all of these scenarios, the insurance company should have an adequate liquidity buffer (cash, liquid assets, contingent credit lines, etc.) to cope with these cash outflows. Apart from the idiosyncratic scenario, the time horizon in which the cashflows will take place, is expected to be rather long (i.e. longer than one month), hence reducing the risk of not being able to meet the liabilities at an acceptable cost (e.g., the market value of the assets will be lower than normally expected in the event of idiosyncratic stress situations). The liquidity risk attached to life insurance activities is assessed by an internal stress test ratio, as defined in the LRMF.

Especially in the case of KBC Insurance Belgium, clients will lose their fiscal advantage in case of early surrender. Surrender risk is therefore partially mitigated through fiscal rules.

Contingent liquidity risk

Liquidity risk can also arise from off-balance sheet exposure at the insurance entities. Collateral agreements for derivative and non-derivative transactions could give rise to liquidity risk when it is required to post additional collateral in adverse market circumstances. These contingent outflows will materialise in the portfolios where the transactions are concluded. However, the off-balance sheet exposure that could give rise to liquidity risk in stressed market circumstances, is rather limited for KBC Insurance.

4.5. Operational risk

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.

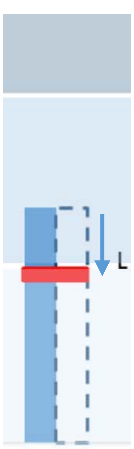
Managing operational risk

We have a single, global framework for managing operational risk across the entire group. The Group risk function is the primary 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, the Competence Centre for Operational Risk was extended 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:

- ✓ Define the operational risk management framework and approach for the group.
- ✓ Plan and perform independent 'in-depth' challenges of internal controls.
- ✓ 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.
- ✓ 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.



Operational

<u>Operational risk</u>: Medium risk profile despite a low risk appetite

Loss statistics are under control and in the last three years even significantly below the threshold for a low risk appetite, reflecting our investments in operational risk management and controls. In addition, the Internal Control Statement generally confirms that the control environment is up to standards. Most of the entities nevertheless assessed their operational risk profile as 'medium' based on forward-looking indicators. This was due mainly to the ongoing economic, legal and regulatory pressure in combination with the speed and amount of change required to keep up with client and market expectations and information security and cyber risk remaining high. To improve the operational risk profile, we are focusing on simplification and cross-silo initiatives. In the 2017 risk appetite process, we will assess whether these efforts should be reflected in a gradual lowering of the operational risk profile over the APC horizon.

4.6. Other material risks

Concentration risk

Concentration risk has traditionally been analysed in relation to lending activities. However, this constitutes an overly strict interpretation of the concept ‘concentration’, seeing that concentration risk refers to all significant interrelated exposures which, in cases of distress in a particular market, industry, country, etc., may negatively impact the financial stability of an institution. It consequently does not only pertain to, for instance, excessive lending to a multinational or a particular sector, but also to relying too much on a single supplier of services or on a specific source of funding (which makes a company vulnerable to a single event or a single factor). Concentration risk also covers the case where we generate too much of our income from a single market segment or have outsourced all of our IT processing to a third party.

Concentration risk has to be looked at from both a ‘risk type’ point of view (concentrations within a single risk type category or intra-risk concentrations) and across risk types (inter-risk concentrations). The latter refers to risk concentrations that can arise from interactions between different risk exposures across different risk categories. The interactions between the different exposures may stem from a common underlying risk factor or from interrelated risk factors. We monitor the largest risk concentrations in the different risk types via periodic and ad hoc reports and by performing stress tests.

Business & strategic risk

Business risk is the risk arising from changes in external factors (the macroeconomic environment, regulations, client behaviour, competitive landscape, socio-demographic environment, etc.) that impact the demand for and/or profitability of our products and services.

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

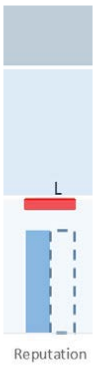
Business and strategic risks are assessed as part of the strategic planning process starting with a structured risk scan that identifies the top financial and non-financial risks. Exposure to the identified business and strategic risks, is monitored on an ongoing basis. Besides the risk scan, business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

To be less vulnerable to changes in the external environment, KBC Group seeks diversity and flexibility in its business mix, client segments, distribution channels and geographies. KBC has a sound and well-diversified business model, which puts it in a better position than many of its competitors to deal with the challenges in terms of business and strategic risk, as also identified in the risk scan. To respond adequately to the regulatory challenges and to further strengthen customer centricity, KBC will further invest in increasing the flexibility and the robustness of its systems and infrastructure.

Reputational risk

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).



KBC Group actively monitors external stakeholders' confidence and expectations. GExCo monitors Net Promoter Scores (NPS), reputation and employee engagement metrics against internal targets.

The assessment of the current risk profile and risk appetite is based on:

- The positive change in the reputation index across countries.
- The recognition of KBC as a top brand in Belgium.
- The fact that a good reputation is a *conditio sine qua non* for our corporate strategy (cf. long-term relationship, sustainable growth).
- Focusing on client centricity.

4.7. Other information

Sensitivity analyses and stress testing

Risk sensitivity and stress-testing exercises are set up to uncover risks that would otherwise remain unidentified and also to allow us to observe how risk measurements change under stressed conditions. These sensitivity exercises are performed on a regular basis.

The sensitivity of group technical provisions is largely dependent on the sensitivity of cashflows at the individual entities, especially the sensitivity of KBC Insurance's Best Estimates. It reveals that the sensitivity of Best Estimates to the interest rate curve is much higher than the sensitivity to the different non-economic parameters (such as mortality, longevity and lapses).

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

Stress tests are performed internally within the insurance group or at local entity level or are initiated on a regular basis by the regulator (EIOPA[5] or local regulators). KBC also performs *ad hoc* integrated stress tests to test its vulnerability for specific risks and potential adverse conditions that may arise.

[5] European Insurance and Occupational Pensions Authority

Valuation for solvency purposes

5. Valuation for solvency purposes

The following table provides both the Solvency II value used in the economic balance sheet and the accounting (IFRS) value for each material class of assets and liabilities. A description of how this value is determined can be found in the sections below.

A more detailed composition of the Solvency II values can be found in the QRT S.02.01.02 regarding the Balance Sheet.

Economic balance sheet (31/12/2016 - in millions of EUR)	Solvency II value	IFRS value	Difference
Goodwill	0	115,6	-115,6
Deferred tax assets	2,9	13,1	-10,2
Equity instruments	1.280,4	1.292,6	-12,2
Bonds	20.987,3	19.845,0	1.142,3
Assets held for index-linked and unit-linked funds	13.644,2	13.645,3	-1,2
Deposits other than cash equivalents	839,5	662,0	177,6
Loans & mortgages	1.561,7	1.389,8	171,9
Own shares	203,2	0	203,2
Other	1.424,7	1.473,3	-48,5
Total assets	**39.943,9**	**38.436,7**	**1.507,2**
Technical provisions - Non-life	1.955,8	2.531,4	-575,6
Technical provisions - Life (excl. index-linked and unit-linked)	17.483,6	15.831,3	1.652,3
Technical provisions - Index-linked and unit-linked	13.566,3	13.692,8	-126,6
Deferred tax liabilities	544,9	402,4	142,4
Other	2.950,2	3.042,2	-92,1
Total liabilities	**36.500,7**	**35.500,2**	**1.000,5**
Excess assets over liabilities	**3.443,1**	**2.936,4**	

The table below gives a clear overview of how the IFRS value for 'excess assets over liabilities' is reconciled with the Solvency II value for 'excess assets over liabilities'. The following parts of this section provide a more detailed view on the underlying methodological differences.

IFRS equity	2.936,4
Valuation differences between IFRS and Solvency II	
of which: deduction intangible assets (after tax)	-123,3
of which: valuation difference real estate at fair value (after tax)	64,6
of which: valuation difference fair value loans & receivables (after tax)	227,4
of which: valuation difference fair value HTM bonds (after tax)	787,2
of which: valuation difference technical liabilities (after tax)	-709,2
of which: valuation difference reinsurance recoverables	-19,6
of which: treasury shares	203,2
of which: other	-43,3
Assets over liabilities Solvency II	**3.323,6**
Volatility Adjustment (VA)	119,6
Assets over liabilities Solvency II, including VA	**3.443,1**

5.1. Assets – material classes of assets

5.1.1. Solvency II value

5.1.1.1. *Goodwill*

Goodwill should be valued at zero *(Delegated Regulation (EU) 2015/35, Art. 12)*.

5.1.1.2. *Deferred taxes*

Deferred taxes, other than deferred tax assets arising from the carry forward of unused tax credits and the carry forward of unused tax losses, are valued on the basis of the difference between the Solvency II values and the values ascribed to assets and liabilities as recognised and valued for tax purposes *(Delegated Regulation (EU) 2015/35, Art. 15).*

5.1.1.3. *Bonds, Equity Instruments and Loans & mortgages*

- ✓ For Solvency II purposes, 'Bonds', 'Equity instruments' and 'Loans & mortgages' are valued at the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction. This definition is in line with the IFRS definition of fair value.
- ✓ 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. A deviation from IFRS is however applicable for the valuation of financial liabilities, as Solvency II explicitly imposes that the fair value may not reflect the own credit risk (Delegated Regulation (EU) 2015/35, Article 14).
- ✓ 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 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 to cover 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 funding value adjustment (FVA) is a correction made to the fair value of uncollaterised derivatives in order to ensure that the (future) funding costs or income attached to entering into and hedging such instruments are factored in when measuring the value of the instruments.

- ✓ The IAS 39 fair value hierarchy prioritises the valuation techniques and the respective inputs into three levels.
- ✓ The fair value hierarchy gives the highest priority to 'level 1 inputs'. This means that, when there is an active market, quoted prices have to be used to measure the financial assets or liabilities at fair value. Level 1 inputs are prices that are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency (and that are quoted in active markets accessible to KBC). They represent actual and regularly occurring market transactions on an arm's length basis. The fair value measurement of financial instruments with quoted prices is based on a mark-to-market valuation derived from currently available transaction prices. No valuation technique (model) is involved.
- ✓ If there are no price quotations available, the reporting entity establishes fair value using a model based on observable or unobservable inputs. The use of observable inputs needs to be maximised, whereas the use of unobservable inputs has to be minimised.
- ✓ Observable inputs are also referred to as 'level 2 inputs' and reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Observable inputs reflect an active market. Examples of observable inputs are the risk-free rate, exchange rates, stock prices and implied volatility. Valuation techniques based on observable inputs include discounted cash flow analysis, reference to the current or recent fair value of a similar instrument, or third-party pricing, provided that the third-party price is in line with alternative observable market data.
- ✓ Unobservable inputs are also referred to as 'level 3 inputs' and reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions regarding the risks involved). Unobservable inputs reflect a market that is not active. For example, proxies and correlation factors can be considered to be unobservable in the market.
- ✓ The valuation methodology and the corresponding classification in the fair value hierarchy of the most commonly used financial instruments are summarised in the table below. 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.

	Instrument type	Products	Valuation technique
Level 1	Liquid financial instruments for which quoted prices are regularly available	FX spots, exchange traded financial futures, exchange traded options, exchange traded stocks, exchange traded funds, liquid government bonds, other liquid bonds, liquid asset backed securities (ABS) in active markets	Mark-to-market (quoted prices in active markets)
Level 2	Plain vanilla/liquid derivatives	(Cross-currency) interest rate swaps (IRS), FX swaps, FX forwards, forward rate agreements (FRA), inflation swaps, dividend swaps, commodity swaps, reverse floaters, bond future options, interest rate future options, overnight index swaps (OIS), FX resets	Discounted cashflow analysis based on discount and estimation curves (derived from quoted deposit rates, FX swaps and (CC)IRS)
		Caps & floors, interest rate options, European & American stock options, European & American FX options, forward starting options, digital FX options, FX strips of simple options, European swaptions, constant maturity swaps (CMS), European cancellable IRS, compound FX options	Option pricing model based on observable inputs (e.g., volatilities)
		Credit default swaps (CDS)	CDS model based on credit spreads

	Linear financial assets (without optional features) – cash instruments	Deposits, simple cashflows, repo transactions	Discounted cashflow analysis based on discount and estimation curves (derived from quoted deposit rates, FX swaps and (CC)IRS)
	Asset backed securities	Medium liquid asset backed securities	Third-party pricing (e.g., lead manager); prices corroborated by alternative observable market data, or using comparable spread method
	Debt instruments	KBC IFIMA own issues (liabilities)	Discounted cashflow analysis and valuation of related derivatives based on observable inputs
	Linear financial liabilities (cash instruments)	Loans, commercial paper	Discounted cashflow analysis based on discount and estimation curves (derived from quoted deposit rates, FX swaps and (CC)IRS)
Level 3	Exotic derivatives	Target profit forwards, target strike forwards, Bermudan swaptions, digital interest rate options, quanto interest rate options, digital stock options, Asian stock options, barrier stock options, quanto digital FX options, FX Asian options, FX European barrier options, FX simple digital barrier options, FX touch rebates, double average rate options, inflation options, cancellable reverse floaters, American and Bermudan cancellable IRS, CMS spread options, CMS interest rate caps/floors, (callable) range accruals, outperformance options, auto-callable options	Option pricing model based on unobservable inputs (e.g., correlation)
	Illiquid credit-linked instruments	Collateralised debt obligations (notes)	Valuation model based on correlation of probability of default of underlying assets
	Private equity investments	Private equity and non-quoted participations	Based on the valuation guidelines of the European Private Equity & Venture Capital Association (EVCA)
	Illiquid bonds/asset backed securities	Illiquid bonds/asset backed securities that are indicatively priced by a single pricing provider in an inactive market	Third-party pricing (e.g., lead manager), where prices cannot be corroborated due to a lack of available/reliable alternative market data
	Debt instruments	KBC own issues (KBC IFIMA)	Discounted cashflow analysis and valuation of related derivatives based on unobservable inputs (indicative pricing by third parties for derivatives)

5.1.1.4. Assets held for index-linked and unit-linked funds

Assets held for index-linked and unit-linked contracts (classified in line of business 31 (class 23) as defined in Annex I of Delegated Regulation (EU) 2015/35), are measured at fair value.

5.1.1.5. Deposits other than cash equivalents

Deposits other than cash equivalents are measured at fair value. The same principles are applied as discussed for ‘Bonds’, ‘Equity instruments’ and ‘Loans & mortgages’.

5.1.1.6. Own shares

This is the total amount of own shares held directly by the group (also referred to as ‘Treasury shares’ under IFRS). The amount of own shares is deducted from the excess of assets over liabilities when determining the available capital as illustrated in section ‘6.3. Basic own funds’.

5.1.2. IFRS value

To determine the IFRS value, reference can be made to the IFRS valuation rules applicable within KBC as included in the Annual Report of KBC Group Consolidated – Notes on the accounting policies – Note 1 b: Summary of significant accounting policies.

5.1.2.1. Goodwill

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 amount 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.

5.1.2.2. Deferred taxes

Deferred tax assets are recognised for all deductible temporary differences between the carrying amount 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.

5.1.2.3. Bonds, Equity Instruments and Loans & Mortgages

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. These financial assets are measured at amortised cost minus impairments.
- ✓ 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. Similar to the L&R category, these assets are also measured at amortised cost minus impairments.
- ✓ Financial assets at fair value through profit or loss. This category includes held-for-trading (HFT) assets and any other financial assets designated at fair value through profit or loss (FIFV). Held-

for-trading assets are assets held for the purpose of selling them in the short term or assets that are part of a portfolio of assets held for trading purposes. All derivatives with a positive replacement value are considered to be held for trading unless they are designated and effective hedging instruments. Other financial assets initially recognised 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.

5.1.2.4. Assets held for index-linked and unit-linked funds

Assets held for index-linked and unit-linked funds are recognised as investment contracts in Financial Assets designated at fair value through profit or loss (FIFV).

5.1.2.5. Deposits other than cash equivalents

Deposits other than cash equivalents are measured at amortised cost.

5.1.2.6. Own shares

If an entity reacquires its own equity instruments, those instruments ('treasury shares') are not recognised as an asset on the balance sheet but should be deducted from equity instead.

5.2. Technical provisions

5.2.1. Solvency II value

In general, the technical provisions on the Solvency II economic balance sheet have to be calculated as the sum of a best estimate and a risk margin:

- ✓ The **best estimate** corresponds to the probability-weighted average of future cashflows, taking into account the time value of money, using the relevant risk-free interest rate term structure.
- ✓ The **risk margin** is calculated by determining the cost of providing an amount of eligible own funds equal to the Solvency Capital Requirement necessary to support the insurance and reinsurance obligations over their lifetime. The cost of capital rate is defined by the regulator, and is set at 6%.

An exception to the requirement to calculate a best estimate and a risk margin is made for insurance obligations for which the value can be replicated reliably using financial instruments for which a reliable market value is observable. The value of the technical provisions associated with these future cash flows shall be determined 'as a whole' (i.e. no separate calculation of best estimate and risk margin), based on the market value of the financial instruments.

In practice, the technical provisions calculated as a whole relate to our portfolio of unit linked contracts.

Technical provisions life in general relate to those insurance liabilities that are 'pursued on similar technical basis to that of life insurance', even if they are not life insurances from a pure legal perspective. In practice the classification into life resp. non-life liabilities is based on the actuarial techniques used for calculating the technical provisions. This split up, specific for the solvency II regulation framework, entails some classification differences with the IFRS balance sheet.

For calculation of the best estimate, within the life respectively non-life obligations, the contracts have to be split up in so called 'homogeneous risk groups'. These are group of contracts with similar characteristics and dynamics, for which the same assumptions can be used when projecting the insurance cash flows in the future.

In order to obtain the best estimate which corresponds to the probability-weighted average of future cashflows, the best estimate calculation must take into account all uncertainties in the cash flows. Note however that an allowance for uncertainty does not mean that additional margins should be included in the best estimate.

Including these uncertainties requires particular cashflow characteristics to be accounted for in the valuation methodology. This gives rise to specific assumptions on the uncertainty surrounding a number of factors, including the following:

- ✓ the timing, frequency and severity of insured events
- ✓ claim amounts and the period needed to settle the claims
- ✓ the amount of expenses
- ✓ policyholder behaviour
- ✓ expected future developments such as future demographic, legal, medical, technological, social, environmental developments including inflation, both entity- and portfolio-specific. For example, in a particular country, this may include changes as a result of legislation, tax measures or the cost of care
- ✓ interdependency between two sources of uncertainty

Note that this list is also applicable to non-life and health obligations.

When calculating the best estimate, a projection of the estimated future cashflows is made.

The cashflows are subsequently discounted using the risk free interest rate term structure, stipulated by the regulator. Depending on the market conditions, a spread (so called 'volatility adjustment', determined by the regulator) can be added to this curve in order to take account of the long-term investment horizon of assets covering insurance liabilities.

5.2.1.1. Technical provisions (life business)

When projecting future cashflows for life obligations, so-called 'similar to life techniques' are used.

In principle, these life obligation cashflow projections are made on a policy-by-policy basis. Only in situations when such a calculation is unpractical can policies be grouped together and the methodology then applied to the group of policies. This grouping is subject to strict conditions (for instance, it must give approximately the same results as a calculation made on a policy-by-policy basis).

The following cashflows should be taken into account when generating the best estimate of life insurance obligations:

The **cash inflows** should at least include the gross premiums (after tax) included in the contract boundaries at the valuation date. It should be noted that contract boundaries may in some cases not be the same for IFRS and Solvency II.

In addition, all cashflows resulting from these premiums are taken into account, e.g., expenses, commissions and guarantees.

Investment returns (interests earned, dividends, etc.) are not taken into account. In the case of unit-linked contracts, only the risk premiums related to the non-hedgeable portion of the liabilities are taken into account.

The **cash outflows** must include at least:

- ✓ Benefit payments to policyholders and beneficiaries. The benefit cash outflows should include (non-exhaustive list):
  - o Maturity benefits
  - o Death benefits
  - o Disability benefits
  - o Surrender benefits
  - o Annuity payments
  - o Profit sharing bonuses (e.g., financial or mortality profit sharing)
  - o Payments with respect to additional riders
- ✓ Claims payments incurred by the insurer in providing contractual benefits that are paid in kind (if they exist).

- ✓ Expenses that are incurred in servicing insurance obligations, such as: administrative expenses, investment management expenses, claims management expenses, acquisition expenses, overhead expenses. The projection of expenses has to include future expected inflation.

The cashflow projection method also includes options and guarantees that are related to the contract.

A **contractual option** is defined as a right to change the benefits, to be exercised at the discretion of its holder (generally the policyholder), on terms that are established in advance. Thus, in order to trigger an option, a deliberate decision of its holder is necessary. Examples of such options are:

- ✓ Surrender value option: the policyholder has the right to fully or partially surrender the policy and receive a pre-defined lump sum amount.
- ✓ Paid-up policy: the policyholder has the right to stop paying premiums and change the policy status to paid-up. Payments may not be reactivated in the future.
- ✓ Dormancy option: the policyholder has the right to partially or completely stop paying premiums, but with the option to reactivate the payments in the future.
- ✓ Annuity conversion option: the policyholder has the right to convert a lump-sum survival benefit into an annuity at a pre-defined minimum rate of conversion.
- ✓ Policy conversion option: the policyholder has the right to convert from one policy to another at pre-determined terms and conditions.
- ✓ Extended coverage option: the policyholder has the right to extend the coverage period when the original contract expires, without having to produce further evidence of health.

A **financial guarantee** is present when there is the possibility to pass losses to the undertaking or to receive additional benefits as a result of changed financial variables (e.g., investment return of the underlying asset portfolio, performance of indices, etc.). In the case of guarantees, the trigger is generally automatic (the mechanism would be set in the policy's terms and conditions) and thus not dependent on a deliberate decision of the policyholder.

The following is a non-exhaustive list of examples of common financial guarantees embedded in life insurance contracts:

- ✓ Guaranteed invested capital: include a capital guarantee of the initial investment amount, usually up to a set percentage. This can be considered as a 0% interest rate guarantee.
  e.g., a guaranteed return of investment in unit-linked funds.
- ✓ Guaranteed minimum investment return: minimum interest rate is guaranteed.
  e.g., investment insurance with a guaranteed minimum return plus a variable – but not guaranteed – profit sharing amount.
- ✓ Minimum guaranteed benefits: e.g., return of initial investment.

If contracts are expected to benefit from profit sharing, this profit sharing must also be included in the projection of the cashflows.

The table below gives an overview of the best estimate provisions of the life lines of business, gross or ceded reinsurance, measured according to the Solvency II valuation principles above.

Line of business (in millions of EUR)	Best Estimate *(gross of reinsurance recoverables)*	%
Total Best Estimate Life excluding Health and Unit Linked	**16.713,5**	**54,5%**
30 Insurance with profit participation	16.536,0	53,9%
32 Other Life insurance	-17,8	-0,1%
34 Annuities stemming from NL not related to health	16,7	0,1%
36 Life reinsurance	178,5	0,6%
Total Best Estimate Health similar to Life	**453,2**	**1,5%**
29 Health reinsurance	110,9	0,4%
33 Annuities stemming from NL related to health	342,3	1,1%
Total Unit linked Best Estimate and value as a whole	**13.489,9**	**44,0%**
31 Index-linked and unit linked insurance	13.489,9	44,0%
Total Best Estimate provision Life (incl. Health similar to Life and Unit Linked)	**30.656,6**	**100,0%**

Split up in solvency II lines of business of the best estimate provisions Life gross of ceded reinsurance, situation 31.12.2016

5.2.1.2. Technical provisions (non-life business)

The same general principles as outlined in 'Technical provisions (life business)' apply to non-life obligations.

When projecting future cashflows for non-life obligations, so called 'similar to non-life techniques' are used.

Specifically for non-life obligations, Solvency II requires calculations to be performed separately for 'premium provisions' and 'provisions for claims outstanding':

- ✓ The **premium provisions** relate to claim events occurring after the valuation date and during the remaining in-force period (coverage period) of existing policies held by the undertaking.

  The calculation of the gross BE of the premium provision relates to:

  - All expected future premiums for existing policies
  - All future claim payments for existing policies
    - Arising from future events
    - Past the valuation date
    - That will be insured under the insurer's existing policies that have not yet expired
  - Expenses (allocated and unallocated claims expenses, as well as ongoing administration of in-force policies, acquisition costs, overhead expenses, investment management expenses) related to the above

- ✓ The **provisions for claims outstanding** relate to claim events that have already occurred but that are not settled yet, regardless of whether the claims arising from these events have been reported or not.

Both types of provisions are calculated according to different (standard) actuarial techniques.

The premium provision is calculated on the assumption that the portfolio of policies in a certain line of business is stable enough, so that claims experience from the past can be used to make predictions of claims that will occur in the future. In addition, the assumptions regarding the timing of future cashflows are based on past claims experience.

For the claims provisions, different techniques are used depending on the claim sizes (attritional, large and extra-large claims). An estimate is also made for those claims that have already occurred but which have not yet been reported at valuation date. The best estimate for claims outstanding also includes provisions for claim handling costs, both internal and external costs.

It should be noted that provisions for annuities stemming from non-life contracts form part of the life technical provisions.

The table below provides an overview of the best estimate provisions of the non-life lines of business, gross of ceded reinsurance, measured according to the Solvency II valuation principles above.

Lines of business (in millions of EUR)	Best Estimate *(gross of reinsurance recoverables)*	%
Total Best estimate excluding Health non similar to Life	**1.492,8**	**87,6%**
4 Motor vehicle liability insurance	735,1	43,2%
5 Other Motor Insurance	50,0	2,9%
6 Marine, aviation and transport insurance	3,9	0,2%
7 Fire and other damage to property insurance	188,9	11,1%
8 General liability insurance	374,6	22,0%
9 Credit and suretyship insurance	0,4	0,0%
10 Legal Expenses insurance	103,4	6,1%
11 Assistance	5,3	0,3%
12 Miscellaneous financial loss	5,2	0,3%
16 Proportional Motor Vehicle Liability reinsurance	0,1	0,0%
17 Proportional Other Motor insurance reinsurance	0,0	0,0%
18 Proportional Marine, aviation and transport reinsurance	0,2	0,0%
19 Proportional Fire and other damage to property reinsurance	1,8	0,1%
20 Proportional General liability reinsurance	14,1	0,8%
21 Proportional Credit and suretyship reinsurance	-0,2	0,0%
22 Proportional Legal Expenses reinsurance	0,0	0,0%
24 Proportional Miscellaneous financial loss reinsurance	1,7	0,1%
26 Non-Proportional Casualty reinsurance	7,6	0,4%
28 Non-Proportional Property reinsurance	0,0	0,0%
27 Non-Proportional Marine, aviation and transport reinsurance	0,7	0,0%
Total Best estimate Health non similar to Life	**210,6**	**12,4%**
1 Medical Expense insurance	12,9	0,8%
2 Income Protection insurance	0,7	0,0%
3 Workers' Compensation insurance	193,5	11,4%
13 Proportional Medical expense reinsurance	0,0	0,0%
14 Proportional Income Protection reinsurance	0,6	0,0%
15 Proportional Workers' compensation reinsurance	2,0	0,1%
25 Non-Proportional Health Reinsurance	1,0	0,1%
Total Best Estimate provision Non-Life (incl. Health non similar to Life)	**1.703,4**	**100,0%**

Breakdown by Solvency II lines of business of the best estimate Non-Life provisions gross of ceded reinsurance, situation at 31.12.2016.

5.2.1.3. Technical provisions (health lines)

According to the Solvency II regulatory framework, obligations arising from health insurance must be separated according to the actuarial methods used to calculate the cashflow projections. This leads to two sub-levels ‘Health SLT’ (Similar to Life Techniques) and ‘Health NSLT’ (Non Similar to Life Techniques).

Depending on the SLT or NSLT classification for a given Health obligation, the paragraph life or non-life applies.

The following table presents the gross best estimate, the risk margin and the reinsurance recoverables of the KBC Insurance group, consistent with the figures on the Economic Balance Sheet at year-end 2016. These technical provisions are discounted at the EIOPA risk free rate, including the volatility adjustment.

The volatility adjustment (VA) is designed to protect insurers with long-term liabilities from the impact of volatility on the insurers’ solvency position. The VA is based on a risk-corrected spread on the assets in a reference portfolio. It is defined as the spread between the interest rate applying to the assets in the reference portfolio and the corresponding risk-free rate, minus the fundamental spread (which represents default or downgrade risk). The VA is provided and updated by EIOPA and can differ for each major currency and country.

in millions of EUR	Best Estimate (gross of reinsurance)	Risk margin	Reinsurance recoverables
Technical provisions - Non-life	**1.703,5**	**252,3**	**91,7**
Non-life (excl. Health)	1.492,8	210,7	85,6
Health (similar to Non-life)	210,6	41,6	6,1
Technical provisions - Life (incl. Index-Linked & Unit-Linked)	**30.656,6**	**393,3**	**1,5**
Life (excl. Health and Index-Linked & Unit-Linked)	16.713,5	275,0	2,7
Health (similar to Life)	453,2	41,9	-1,3
Index-Linked & Unit-Linked	13.489,9	76,4	0,1
Total technical provisions	**32.360,1**	**645,6**	**93,2**

Technical provisions gross of ceded reinsurance & reinsurance recoverables, situation at 31/12/16

5.2.2. IFRS value

5.2.2.1. Provisions for unearned premiums and unexpired risk

For the 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 experience regarding the evolution of the risk over time. The provision for unearned premiums for the life insurance business is recorded under the provision for the life insurance group of activities.

5.2.2.2. 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, the 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.

5.2.2.3. 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.

5.2.2.4. 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.

5.2.2.5. Liability adequacy test

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

5.2.2.6. 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.

5.3. Other liabilities

5.3.1. Solvency II value

5.3.1.1. Deferred taxes

Deferred taxes, other than deferred tax assets arising from the carry forward of unused tax credits and the carry forward of unused tax losses, are valued on the basis of the difference between the Solvency II values and the values ascribed to assets and liabilities as recognised and valued for tax purposes *(Delegated Regulation (EU) 2015/35, Art. 15).*

5.3.2. IFRS value

To determine the IFRS value reference can be made to the IFRS valuation rules applicable within KBC, as included in the Annual Report of KBC Group Consolidated – Notes on the accounting policies – Note 1 b: Summary of significant accounting policies.

5.3.2.1. Deferred taxes

Deferred tax liabilities are recognised for all taxable temporary differences between the carrying amount 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.

5.4. Alternative methods for valuation

Not applicable to the KBC Insurance group.

Capital management

6. Capital Management

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. To determine solvency at group level, method 1 (the accounting consolidation method) is used. An overview of all undertakings in the scope of the group can be found in QRT 32.01.22.

A solvency ratio of 100% is required as a minimum by the regulator. Within KBC, the capital management process aims at reaching an optimal balance between regulatory requirements, rating agencies views, market expectations and management ambitions. It is a key management process relating to all decisions on the level and composition of the capital, both at group level and towards our subsidiaries.

An important process in this context 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. Such monitoring is reflected in dedicated reports drawn up by the various Group functions.

Besides APC, 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. The ORSA process draws to a large extent on the same 'core processes' 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.

6.1. Own funds

As also stated in the 'Capital adequacy' section of the Annual Report, the Solvency II ratio of KBC Group NV amounted to 203% at the end of 2016, which is a decrease of 28% compared to year-end 2015. KBC Insurance group does not use any of the transitional measures.

Solvency, KBC Insurance including 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

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. 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 update of the 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, hence reduces the available capital. The Belgian rules on the adjustment for deferred taxes reinforce this impact via a higher level of required capital.

6.2. Material differences between equity

In the table below, a reconciliation is made between IFRS equity as shown in the financial statements of KBC Insurance group and the excess of assets over liabilities according to Solvency II.

Reconciliation IFRS equity & assets over liabilities Solvency II (in millions of EUR)	31/12/2016
Share capital	65,2
Share premium	1085,6
Treasury shares	-203,2
Revaluation reserve available for sale (AFS) investments	1116,4
of which: AFS reserve shares (after tax)	366,7
of which: AFS reserve bonds (after tax)	749,7
of which: AFS reserve other (after tax)	0,0
Hedging reserve cash flow hedge (after tax)	8,9
Remeasurement of defined benefit obligations (after tax)	-25,9
Reserves	550,6
Translation differences	4,9
Net profit of the year IFRS	334,1
IFRS parent shareholder's equity	**2936,6**
Minority Interests	-0,2
IFRS equity	**2936,4**

The reason for the valuation differences between IFRS equity according to the financial statements and the excess of assets over Liabilities according to Solvency II as shown in the table, are explained in the section ‘5. Valuation for solvency purposes’.

6.3. Basic own funds

The total available capital of KBC Insurance group amounted to 3 637 million euros at 31 December 2016. This amount comprises solely basic own fund items, which are eligible to cover the Solvency Capital Requirement and the Minimum Capital Requirement.

More information about ‘Own funds’ can be found in QRT S.23.01.22.

Solvency II, in millions of EUR	31/12/2016	31/12/2015
Share capital	65,2	65,2
Share premium	1085,6	1085,6
Reconciliation reserve	1986,2	2029,3
Excess assets over liabilities	3443,1	3453,9
Expected dividend payments	-103,0	-70,7
Own shares	-203,2	-203,2
Other own fund items	-1150,8	-1150,8
Tier 1 capital	**3136,9**	**3180,0**
Tier 2	500,3	502,6
Tier 2 capital	**500,3**	**502,6**
Total available basic own fonds	**3637,2**	**3682,7**

Tier-1 capital amounted to 3 137 million euros at year-end 2016, down 43 million euros on its year-earlier level, due to movements in excess assets over liabilities, caused mainly by the negative impact of decreasing interest rates on the technical provisions, and the difference in dividend payout.

Tier-2 capital consists of a 10-year, subordinated, Solvency II-compliant tier-2 loan granted by KBC Group to KBC Insurance for a nominal amount of 500 million euros on 18 March 2015. The year-on-year changes in tier-2 capital were due to the changes in fair value of this loan.

6.4. Ancillary own funds

No ancillary own funds are taken into account, as these funds are not available.

6.5. Diversification effects

The calculation of the Solvency II capital requirement for the KBC Insurance group is based on method 1 (the accounting-consolidation based method). In this method, the standard formula for the calculation of the Solvency Capital Requirement (SCR) is applied to the consolidated assets and liabilities. The following table shows the total SCR for the KBC Insurance group as the sum of the SCR for its underlying material entities, compared to the result of the group SCR calculated according to the accounting-consolidation based method.

in millions of EUR	31/12/2016
KBC Verzekeringen	1.781
KBC Group Re	54
DZI Life	20
DZI Non-life	32
CSOB P SK	23
CSOB P CZ	103
K&H	33
Stand-alone SCR	**2.047**
KBC Insurance group	**1.791**
Differsification effect	256
of which: consolidation effect	236
of which: real diversification effect	20

Due to the composition of the KBC Insurance group, where KBC Insurance Belgium accounts for most of the overall risk profile and capital requirements , the potential sources for diversification (such as geographical diversification) are limited and do not manifest themselves in a material way in the group calculation. The main reason for the difference is that, in the solo SCR calculation for KBC Insurance Belgium, the participation in the other subsidiaries is taken into account in the 'Equity module' of the SCR.

When performing calculations at the level of the material entities (with KBC Insurance Belgium accounting for the largest part), the value of the participations in other insurance entities is determined in accordance with Solvency II valuation rules, which are used to compile the economic balance sheet for each of the subsidiaries. At year-end 2016, the value of these participations amounts to 1 071 million euros. The shock applied in the SCR equity risk calculation was 22%, which led to a Solvency II capital requirement of 236 million euros before diversification. The remaining gap (20 million euros) was the consequence of a number of items, including geographical diversification effects.

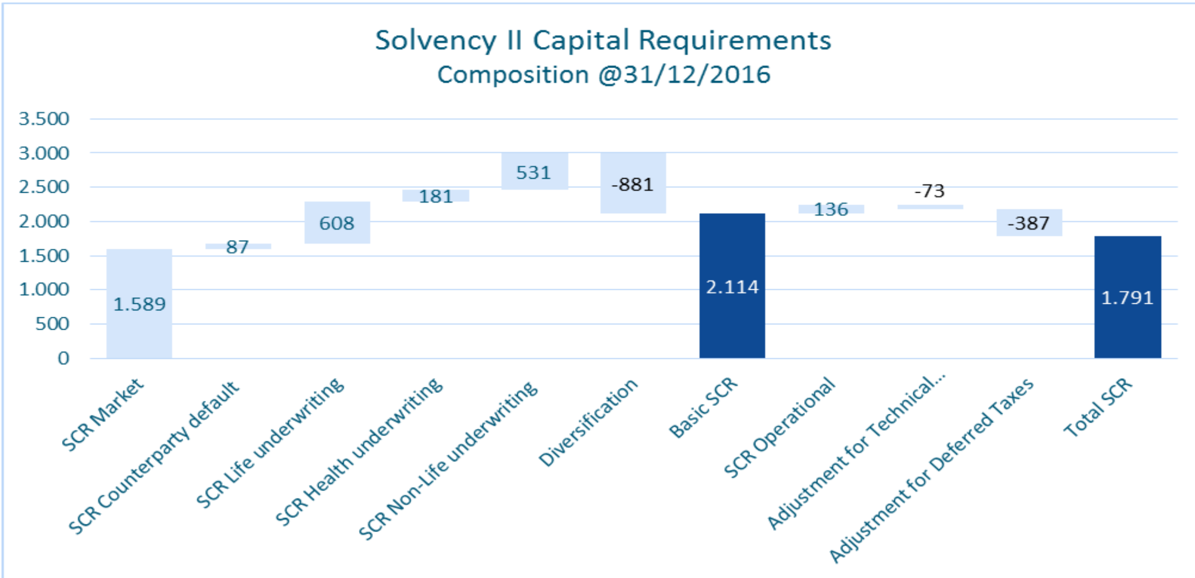
6.6. Solvency Capital Requirement & Minimum Capital Requirement

In the standard formula, the SCR is calculated as the sum of different components. The KBC Insurance group uses the distinguishable components (SCR Market Risk, SCR Counterparty Risk, SCR Life Risk, SCR Health Risk, and SCR Non-Life Risk) to calculate the Basic SCR (BSCR). Because there is some risk of overlap between the different components, diversification reduces the risk involved and the related SCR. After calculating the Basic SCR, three components are added in order to calculate the total SCR. These three elements are the Loss Absorbing Capacity of the Technical Provisions, the Loss Absorbing Capacity of the Deferred Taxes and the SCR Operational Risk.

- ✓ The Loss Absorbing Capacity of the Technical Provisions (LAC TP) is calculated according to Art. 206 of the Delegated Regulations 2015-35 and takes into account any legal, regulatory or contractual restrictions in the distribution of future discretionary benefits.
- ✓ The adjustment for the Loss Absorbing Capacity of the Deferred Taxes (LAC DT) is calculated according to Art. 207 of the Delegated Regulations 2015-35, whereby a decrease in deferred tax liabilities or an increase in deferred tax assets results in a negative adjustment for the loss-absorbing capacity of deferred taxes. If this adjustment is positive, the adjustment is nil.

The waterfall chart below shows the major components of the SCR, which stands at 1 791 million euros. The SCR Market Risk (1 589 million euros) is clearly the biggest contributor to the SCR. SCR Life Underwriting Risk (608 million euros) and SCR Non-Life underwriting Risk (531 million euros) are second and third, respectively. It should be noted that the total SCR for the underwriting risk accounts for 44% of undiversified basic Solvency II Pillar 1 capital.

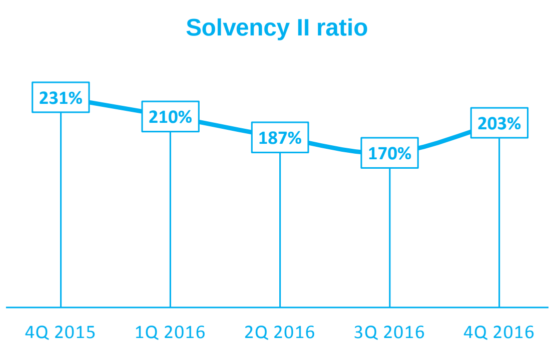
More information on this matter can be found in Quantitative Reporting Template (QRT) S.25.01.22.

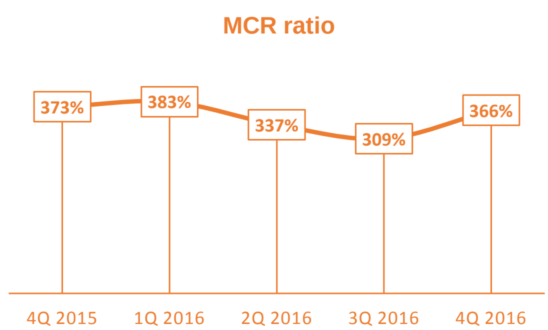


Total eligible own funds to meet the group SCR amounted to about 3 637 million euros, which gives a Solvency II ratio of about 203%. This ratio is well above the minimum 100% required by the Delegated Regulations 2015-35.

The Minimum Capital Requirement (MCR) at group level is equal to the sum of the MCRs of our material entities. As the two largest material entities (KBC Insurance Belgium and ČSOB Pojišťovna (CZ)) calculate the MCR as 45% of the Solvency Capital Required, the composition of Group MCR will also largely reflect the composition of the SCR. Besides this, the main driver of both SCR and MCR is market risk.

At the KBC Insurance group, the focus is more on the SCR than the MCR in follow-up, because it is the most stringent risk measure of the two:



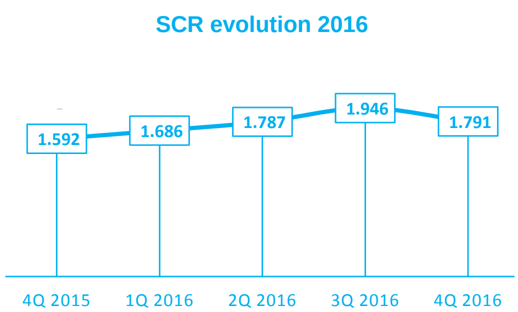


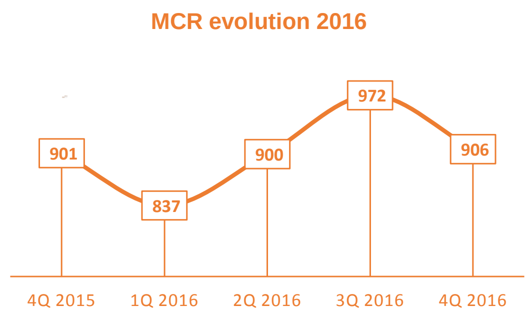
The charts above illustrate the Solvency II and MCR ratios per quarter. As can be seen, there have been material quarter-on quarter changes, with the main reasons for this being;

- ✓ **Q42015-Q12016:** a decrease in the Solvency II ratio to 210% due mainly to lower interest rates.
- ✓ **Q12016-Q22016:** a decrease in the Solvency II ratio to 187% due primarily to a cap being applied to adjustments for deferred taxes.
- ✓ **Q22016-Q32016:** a decrease in the Solvency II ratio to 170% due chiefly to a combination of higher market risk and lower interest rates. The decrease was amplified by the cap impacting more severely on the adjustments for deferred taxes.

- ✓ **Q32016-Q42016:** an increase in the Solvency II ratio to 203% driven mainly by a higher level of available capital due to parameter updates and rising interest rates. The increase was amplified by a less stringent cap on the adjustments for deferred taxes.

The charts below focus on how the Solvency Capital Requirement (SCR) and Minimum Capital Requirement (MCR) change over time. The figures are in millions of euros:





The main reasons for movements in the SCR/MCR were:

- ✓ **Q42015-Q12016:** an increase in SCR (to 1 686 million euros) due to increased SCR Market Risk. MCR fell to 837 million euros because of a change in measurement to ensure that the MCR is calculated more accurately
- ✓ **Q12016-Q22016:** an increase in SCR (to 1 787 million euros) and in MCR (to 900 million euros) due to a decrease in SCR Market Risk and a reduction in SCR Adjustment in Deferred Taxes
- ✓ **Q22016-Q32016:** an increase in SCR (to 1 946 million euros) and in MCR (to 972 million euros) due mainly to a combination of higher market risk and lower interest rates. The decrease was amplified by the cap impacting more severely on the adjustments for deferred taxes.
- ✓ **Q32016-Q42016:** a decrease in SCR to 1 791 million euros and in MCR (to 906 million euros) driven primarily by a higher level of available capital due to parameter updates and rising interest rates. The increase was amplified by a less stringent cap on the adjustments for deferred taxes

6.7. Use of the duration-based equity risk sub-module in the calculation of SCR

Due to the demands of the National Bank of Belgium, and noting that the requisite ring-fenced funds do not exist in Belgium, the Solvency Capital Required calculation method using a duration based equity is not applicable.

6.8. Differences between the standard formula and any internal model used

The KBC Insurance group has opted to calculate the Solvency Capital Requirements based on the standard formula (without any simplifications), rather than calculating them with a self-developed (partial) internal model. Therefore, further information has not been included here.

6.9. Non-compliance with the MCR and non-compliance with the SCR

As the KBC Insurance group has not faced any form of non-compliance with either the Minimum Capital Requirement or the Solvency Capital Requirement during the reporting period, further information has not been included.

List of abbreviations

7. List of abbreviations

(3)LOD	(Three) Line(s) of defence
(A)RCC	(Audit,) risk & compliance committee
(G)ExCo	(Group) Executive committee
(N)SLT	(Non-) similar to life techniques
ABS	Asset-backed security
AFH	Actuarial function holder
AFS	Available for sale
ALCO	Asset liability committee
ALM	Asset-liability management
AML	Anti-money laundering
APC	Alignment of planning cycles
BE	Best estimates
BoD	Board of directors
BPV	Basis point value
CDS	Credit default swap
CEO	Chief executive officer
CFO	Chief financial officer
CMS	Constant maturity swaps
CORM	Compliance risk manager
CRO	Chief risk officer
CVA	Credit value adjustment
DPF	Discretionary participation feature
DTL	Deferred tax liabilities
EBS	Economic balance sheet

EIOPA	European Insurance and Occupational Pensions Authority
EOY	End of year
EPIFP	Expected profits included in future premiums
EU	European Union
FATCA	Foreign account tax compliance act
FIFV	Financial liabilities designated at fair value through profit or loss
FRA	Forward rate agreements
FX	Foreign exchange
GDPR	General data protection regulation
GIC	Group insurance committee
GICC	Group internal control committee
GLC	Group lending committee
GMC	Group markets committee
G-RISK	Group risk
GVC	Group valuation committee
GWP	Gross written premium
HFT	Held for trading
HR	Human resources
HTM	Held to maturity
IAS	International accounting standard
IBNER	Incurred but not enough reserved
IBNR	Incurred but not reported
ICO	Intercompany
ICT	Information & communication technology
IDD	Insurance distribution directive
IFRS	International financial reporting standards

IM MC	International markets management committee
IR(R)	Interest rate (risk)
IT	Information technology
L&R	Loans & receivables
LAC DT	Loss absorbing capacity deferred taxes
LAT	Liability adequacy test
LGD(irr)	Loss given default (irrecoverable)
LoB	Line of business
LRMF(i)	Liquidity risk management framework (insurance)
LTG	Long term guarantee
MCR	Minimum capital requirement
MiFID	Markets in financial instruments directive
MRBB	Maatschappij voor roerend bezit van de boerenbond cvba
NAPP	New and active product process
NBB	National bank of Belgium
NII	Net interest income
NL	Non-Life
NPS	Net promoter scores
NSL	Non similar to Life
OFAC	Office of Foreign Assets Control
OIS	Overnight index swaps
ORSA	Own risk & solvency assessment
P&L	Profit & loss
PD	Probability of default
PLS	Portfolio limit system
PRIIPS	Packaged retail and insurance-based investment products

PWC	PricewaterhouseCoopers
QRT	Quantitative reporting template
Risk ManCo	Risk Management Committee
RM	Risk margin
RMF	Risk management framework
ROE	Return on equity
S&P	Standard & Poor’s
SA	Symmetric adjustment
SCR	Solvency capital requirements
SFCR	Solvency and financial condition report
SII	Solvency II
SII SF	Solvency II standard formula
SME	Small and medium-sized enterprises
SRI	Socially responsible investing
SSC	Shared service centres
T1/T2	Tier 1 / Tier 2
TP	Technical provisions
TRIP	Terrorism reinsurance and insurance pool
VA	Volatility adjustment
VaR	Value at risk

Glossary

8. Glossary

3 LOD (Three Lines of Defence)

The 3 LOD model ensures the resilience of KBC's risk and control environment and safeguards the sustainability of our business model going forward. In this model, Business acts as the first line of defence, Risk as one of the second lines and Internal Audit as the third line. They all work together in order to prevent big impact losses for the KBC group.

Annuity

A contract that provides a series of regular payments (both amount and timing) by the insurer (amount payable / benefit) under specified conditions for a specified period of time.

An annuity may begin at a specified time after the issuing of the contract (deferred annuity), or following a specified trigger such as death or disability, e.g. orphans' benefits or disability annuities. Annuity benefits under an insurance contract typically end upon the death of the insured person, or cease upon recovery of the insured from disability or after a predefined period. Coverage may relate to one or two persons, respectively single-life or joint-life.

The contract can be funded by the policyholder by means of a single premium or through a series of instalments. The amount of regular payments to the beneficiary may be fixed or not, i.e. variable or fixed annuity, certain or temporary. Annuity contracts are sold on an individual and group basis.

Asset-liability management (ALM)

The ongoing process of formulating, implementing, monitoring and revising strategies for both on-balance-sheet and off-balance-sheet items, in order to achieve an organisation's financial objectives, given the organisation's risk tolerance and other constraints.

Best Estimate

The probability-weighted average, also referred to the mean. The estimation process is unbiased and based on all currently available information including information of currently observable trends, but excluding effects from events not yet occurred.

Also referred to as 'central estimate' or 'current estimate'. The concept of best estimate applies to many circumstances, including the valuation of insurance contracts, the valuation of assets or liabilities, a cash flow stream, an individual assumption, or a valuation approach.

Sometimes the term best estimate refers specifically to the current estimation of the mean value, i.e. the probability-weighted average, of cash flows. In other cases, the term best estimate refers specifically to the current estimation of the mean value of risk weighted cash flows, as e.g. IAS 39.42.

BPV (Basis Point Value)

The measure that reflects the change in the net present value of interest rate positions, due to an upward parallel shift of 10 basis points (i.e. 0.10%) in the zero coupon curve.

Business risk

Business risk is the risk arising from changes in external factors that impact the demand for and/or profitability of our products and services. Risk factors that are taken into consideration include the macroeconomic environment, the regulatory framework, client behaviour, the competitive landscape and the socio-demographic environment. Business risk is assessed on the basis of structured risk scans.

Carrying amount

The amount at which an asset or liability is recognised in the balance sheet.

Linked to IAS 36.6 (impairment of assets), IAS 16.6 (property, plant and equipment) and IAS 38.8 (intangible assets).

This value is not necessarily the same as historic cost, e.g. because the carrying amount takes into account depreciation or could be a fair value.

Catastrophe risk

The risk that a single event, or series of events, of major magnitude, usually over a short period (often 72 hours), leads to a significant deviation in actual claims from the total expected claims.

The notion of catastrophe risk is per definition relative to the financial position of the individual insurer and any significance will need to be defined in mathematical terms. The exact definition of what constitutes a catastrophe hence varies per insurer.

Credit risk

Credit risk is the potential negative deviation from the expected value of a financial instrument arising from the non-payment or non-performance by a contracting party (for instance, a borrower, guarantor, insurer or re-insurer, counterparty in a professional transaction or issuer of a debt instrument), 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.

DPF (Discretionary Participation Feature)

Part of the annual profit that is attributed to the policyholders of an insurance contract.

EAD (Exposure At Default)

The amount expected to be outstanding if an obligor defaults. At the time of default, it is equal to the actual amount outstanding, and therefore is no longer an expectation.

EBS (Economic Balance Sheet)

Balance sheet statement based on one of those accounting approaches using market-consistent values for all current assets and current obligations relating to in-force business, including off-balance sheet items.

Depending on the reporting approach different items can be recognised or not recognised in the balance sheet, as well the definition of a current resource or obligation can vary from approach to approach. The economic balance sheet provides the market-consistent value of the shareholder equity.

EIOPA (European Insurance and Occupational Pensions Authority)

The successor to the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS), EIOPA is part of the European System of Financial Supervision consisting of three European Supervisory Authorities and the European Systemic Risk Board. It is an independent advisory body to the European Parliament and the Council of the European Union. EIOPA’s core responsibilities are to support the stability of the financial system, transparency of markets and financial products, as well as the protection of insurance policyholders, pension scheme members and beneficiaries.

EL (Expected Loss)

The expected value of losses due to default over a specified horizon. EL is typically calculated by multiplying the Probability of Default (a percentage) by the Exposure At Default (an amount) and Loss Given Default (a percentage). It is always considered 'an expectation' due to the 'Probability of Default' factor.

Eligible capital

Capital (either on or off-balance sheet) which, under regulatory rules, may be taken into account (fully or partially) in determining the insurer’s available capital for solvency purposes.

Equity risk

The risk of a change in value caused by deviations of the actual market values of equities and/or income from equities from their expected values

Fair value

The amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. Market-consistent value or fair value is based on relative pricing or the ‘no arbitrage' argument.

Foreign exchange risk

The risk of a change in value caused by the fact that actual foreign currency exchange rates differ from those expected.

Foreign exchange risk can arise if the assets and liabilities of an insurer are not in the same currency, or if contracts for administrative and other services are contracted in a currency different to the currency implied in the premium determination.

Guaranteed benefit

Payments or other benefits to which a particular policyholder or investor has an unconditional right that is not subject to the contractual discretion of the issuer.

The unconditional right of the policyholder implies that no condition is subject to the insurer’s discretion, nor to insurer’s performance. Hence, a guaranteed benefit, or its determination, is contractually stipulated without any ability of the insurer to influence that benefit, neither by discretion nor by its performance. Accordingly, a guarantee is a risk bearing feature, since the amount to be paid might deviate from the earnings of the insurer, without the ability of the insurer to avoid that.

G-RISK (Group Risk)

The Group Risk (G-RISK) division supports the CRO of KBC Group NV, KBC Bank and KBC Insurance and business entities at group level. G-RISK designs the KBC Risk Management Framework (RMF) and most of its underlying building blocks.

Health insurance

Generic term applying to all types of insurance indemnifying or reimbursing for losses (e.g. loss of income) caused by illness or disability, or for expenses of medical treatment necessitated by illness or disability.

IBNR (Incurred but not Reported) impairments

IBNR impairments are impairment losses recognised on unimpaired loans and advances, as well as on unimpaired debt securities in a Loans & Receivables book, Available-for-Sale (AFS) book or Held-to-Maturity (HTM) book. They are estimated on a portfolio basis using a model-based (statistical) method. Loans and advances, as well as debt securities in a Loans & Receivables book, Available-for-Sale (AFS) book or Held-to-Maturity (HTM) book, are grouped together based on a default expectation rating that takes several indicators of impairment into account. IBNR impairments are an estimate of the specific provisions to be booked for a credit event (also known as the 'impairment trigger') that has already occurred, but is still unknown, and will only emerge at a later date.

Inflation risk

The risk of a change in value caused by a deviation of the actual market-consistent value of assets and/or liabilities from their expected value, due to inflation, e.g. price inflation, wage inflation, etc., leading to an unanticipated change in insurance cost and/or impact of an insurance contract, e.g. with respect to contract limits.

Insurance contract

A contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or its beneficiary if a specified uncertain future event (the insured event) affects the policyholder.

Insurance risk

The potential negative deviation from the expected value of an insurance contract or pension claim (or a portfolio thereof).

Interest rate risk

The potential negative deviation from the expected value of a financial instrument or portfolio thereof due to changes in the level or in the volatility of interest rates.

Lapse risk

The potential negative deviation from the expected value of an insurance contract or a portfolio thereof due to unexpected changes in policy lapses. Note that the term surrender risk refers specifically to contracts with surrender value.

LGD (Loss Given Default)

The loss a bank expects to experience if an obligor defaults, taking into account the eligible collateral and guarantees provided for the exposure. It can be expressed as an amount or as a percentage of the EAD (Exposure At Default). At the time of default, the loss experienced is a loss of the actual amount outstanding, thus no longer an expectation.

Life insurance

Category of insurance contracts for which the benefit payment is based on the occurrence of death, disability, or critical illness of the insured within the specified coverage term, or on the life status of the insured at maturity.

Life insurance offers life and/or death coverage of the insured in the form of a single or multiple (as well regular in case of an annuity) lump sum payments to a beneficiary.

Health insurance products are often sold as a rider to a (group) life contract. In *sensu stricto* these are not life insurance, because they do not relate to the occurrence of death.

Liquidity risk

Liquidity risk is the risk that an organisation will be unable to meet its payment obligations as they come due because of the inability to liquidate assets or obtain adequate funding (liability liquidity risk) or the risk that it cannot easily unwind or offset specific exposures without significantly lowering market prices because of inadequate market depth or market disruptions (asset liquidity risk).

Market risk

The potential negative deviation from the expected value of a financial instrument (or portfolio thereof) due to changes in the level or volatility of market prices.

Market value

The cost that would be incurred or the gain that would be realised if an outstanding contract was replaced at current market prices (also called replacement value).

Mark-to-Market

The act of assigning a market value to an asset

MCR (Minimum Capital Requirement)

The capital level representing the final threshold that triggers ultimate supervisory measures in the event that it is breached.

Non-life insurance

Generic term used to refer to all types of insurance business other than Life insurance, including for example Property insurance, Liability insurance, Motor insurance, Accident insurance, and Health insurance.

Operational risk

The potential negative deviation from the expected value of the organisation resulting from inadequate or failed internal processes and systems, human error or sudden external events, whether man-made or natural. Operational risk excludes business, strategic and reputational risk.

ORSA (Own Risk and Solvency Assessment)

The Own Risk and Solvency Assessment covers the entirety of the processes and procedures employed for identifying, assessing, monitoring, managing, and reporting on the short- and long-term risks a (re)insurance undertaking faces or may face, and for determining the own funds necessary to ensure that the undertaking's overall solvency needs are met at all times.

PD (Probability of Default)

The probability that an obligor will default within a one-year horizon.

Risk appetite

Risk appetite, as defined by the Board of Directors, is the amount and type of risk that KBC is able and willing to accept in pursuit of its strategic objectives. While the ability to accept risk is limited by financial (e.g., available capital) and non-financial regulatory and legal constraints, the willingness to accept risk depends on the interests of various stakeholders (shareholders, creditors, employees, management, regulators, clients, etc.). Risk appetite aims to find the right balance of satisfaction for all stakeholders.

Risk margin

A generic term, representing the value of the deviation risk of the actual outcome compared with the best estimate, expressed in terms of a defined risk measure

The term 'risk margin' in the context of Solvency II refers to the amount above the best estimate liability.

RWA (Risk-Weighted Asset)

An exposure weighted according to the 'riskiness' of the asset concerned. 'Riskiness' depends on factors such as the probability of default by the obligor, the amount of collateral or guarantees and the maturity of the exposure.

Solvency II

Solvency II is a project, initiated by the European Commission in 2001, which establishes capital requirements and risk management standards that will apply across the EU and will affect all areas of an insurer's operations. Solvency II aims to move away from the idea that 'one approach fits all' and thus encourages companies to manage risk in a way which is appropriate to the size and nature of their business in order to provide protection to policyholders by reducing the risk of insolvency to insurers.

SCR (Solvency Capital Requirement)

The amount of capital to be held by an insurer to meet the Pillar I requirements under the Solvency II regime.

Spread risk

The risk of a change in value due to a deviation of the actual market price of credit risk from the expected price of credit risk.

Underwriting risk

The risk of a change in value due to a deviation of the actual claims payments from the expected amount of claims payments (including expenses).

Total underwriting risk for non-life insurance includes the total of claims risk and expense risk for claims. For life insurance it includes the total of lapse, surrender, and biometric risks, as well as expense risk for claims

VaR (Value At Risk)

The unexpected loss in the fair value (= difference between the expected and worst case fair value), at a certain confidence level and with a certain time horizon.

Annex

9. Annex

9.1. Transactions with related parties

Note 6.3: Related-party transactions

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

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

9.2. Transactions with key management

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

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

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